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# Unique Opportunities and Small LIHTC Deals

## By John Tess, Heritage Consulting Group

The 20 percent federal historic tax credit (HTC) is a critical tool for affordable housing development. This tax credit can be combined with low-income housing tax credits (LIHTCs) and, depending upon location, urban renewal funding and state historic incentives. This is particularly true for single room occupancy (SRO) housing, which is often located in former hotels in downtowns and Main Streets around the country. Many of these properties were adapted in the 1960s and 1970s and today are being rehabilitated again to create improved living conditions.

*Photo: Courtesy of Wright-Ryan Construction*
**The Knox Hotel, a historic building located in Thomaston, Maine, was rehabilitated in 2009.**

One challenge in using the HTC is that the deals are often too small to attract tax credit buyers. Given the costs of structuring a deal to sell the tax credits, industry practitioners typically have a threshold of $10 million in qualified rehabilitation expenditures (QREs). Major affordable housing projects in larger cities can easily meet this threshold, but smaller sized projects or projects located in smaller towns where costs of rehabilitation are lower often find it challenging to meet the threshold.

Even when the rehabilitation project has QREs of less than $10 million, HTCs should not be dismissed as a source of project funding. Assembling the right project team with experienced professionals who can work efficiently and effectively and who are creative and motivated in their approach is the key to making a small deal work. Syndication of credits on small deals can be a challenge, but an experienced developer with strong relationships in the investment community can lead to success.

The Knox Hotel is one example of a small deal that worked. This project is evidence that small deals combined with a committed project team utilizing historic tax incentives and LIHTCs can generate successful results. The historic hotel building is located in Thomaston, Maine, a town founded in the 17th century that today has just under 4,000 residents. The hotel is a three-story Greek Revival wood-framed building constructed in 1915. It is prominently located at the center of Thomaston's Main Street. As early as 1828, the site had been home to a Knox Hotel; the predecessor building burned in 1912. The "new" Knox, with 32,000 square feet, had a restaurant and retail on the first floor and lodging on

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the upper floors. By the late 1970s, the hotel was on the verge of being torn down. Instead, the building was renovated in 1978 and converted to senior affordable housing with a leased commercial space that houses a bank. That renovation updated the interior and added a four-story structure at the rear. In total, the building has 29 senior low-income housing units.

*Photo: Courtesy of Heritage Consulting Group*
**The Clifford Hotel, built in 1911 in East Portland, Ore. was rehabilitated with a combination of affordable housing and historic tax credits.**

In 2009, Cathedral Development Group, owners of the Knox Hotel, discovered water infiltration and resulting exterior and interior damage. Cathedral retained David Twombly of Twombly Consulting, who consults with financial investors on affordable and historic projects, to assemble the project team and identify investors. Repair costs were significant and ownership decided to expand the scope of the work and capture available tax credits. Renovation work was extensive. It included undoing many of the 1970s renovations, such as removing the exterior wall cladding and replacing the vinyl windows. The apartment units received new kitchens and the interiors were freshly painted, and new carpet and energy efficient water heaters were installed. Other work included repair, replacement and replication of missing and deteriorated porch features, and roof repairs to ensure the building was weather-tight. Finally, the building's fire and life safety systems were updated, as were the elevators.

Funding for this project came from the LIHTC allocated competitively through the Maine State Housing Authority (MaineHousing) as well as the 20 percent federal HTC and the 25 percent Maine Substantial Rehabilitation Credit. Northern New England Housing Investment Fund, a private not-for-profit corporation that promotes housing and community development in Maine and New Hampshire, syndicated the credits and brought in TD

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Bank, which purchased the LIHTC, federal HTCs and provided construction financing. In total, the project cost was just above $5 million. Collectively, the tax credits will generate 45 cents for every dollar of qualifying expense.

Although the building had been significantly modified in the 1970s, the property was eligible for HTCs as a contributing structure to the Thomaston Historic District. That district included 20 buildings in the town's historic center and was listed on the National Register of Historic Places in 1974. To ensure that it qualified as a "certified historic structure" for purposes of the historic tax credit, a Part 1 – Evaluation of Significance was prepared and submitted to the Maine State Historic Preservation Office (SHPO) and the National Park Service (NPS) in 2009.

The critical measure of a contributing structure in a National Register district is whether the property "adds to the historic associations, historic architectural qualities, or archaeological values for which a property is significant." In the Part 1 process, SHPO and NPS staffs reviewed and evaluated the building to ensure that it continues to retain the qualities that made it a contributing structure at the time of listing. In this case, the primary quality was the prominent north façade facing Main Street.

As with all HTC projects, the National Park Service had exterior and interior design review authority over the project. Given the hotel's location in the National Register district, rehabilitation of the street façade, particularly the porch, which required extensive work, was important to the SHPO and NPS staff. The 1978 renovation left little historic fabric in the 1915 building. Because of this, any original remaining fabric was considered highly important to the building's historic character. Where the original fabric was damaged, staff required the owner to repair rather than replace in-kind whenever possible.

Within this stipulation, the owner commissioned the services of a wood restoration and preservation professional to conduct a conditions assessment of the original features, including an extensive survey of the exterior clapboards, porch, portico and window features. The conditions assessment found damage to the clapboard, windows, window trim, surrounds and porch. After successful negotiation, a solution was reached where the clapboard could be replaced, which allowed for a moisture barrier to be installed, mitigating water infiltration. Replacement of window sashes and certain porch features also was permitted. However, the window surrounds, portico and other porch features had to be retained and repaired. Not surprisingly, this requirement added to the construction budget and caused delays in the construction schedule.

Another small deal example can be found west of Thomaston,

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by about 3,300 miles. This project is in Portland, Ore. The property, the Clifford Hotel, was built in 1911 as a four-story unreinforced masonry hotel in the central business district of East Portland. As with the Knox, the building was a contributing resource in a historic district, the East Portland/Grand Avenue Historic District, listed on the National Register in 1991. The property gradually fell into disrepair in post-war years and by the 1980s was used as "work-release housing" by the Oregon Corrections Division. Later in the decade, it was transitioned to SRO affordable housing.

In 2007, Innovative Housing Inc. (IHI), a Portland-based not-for-profit affordable housing provider, acquired an ownership interest and operating control of the building. For the next two years, IHI worked to assemble acquisition and construction financing. One particular challenge, given the economic times, is that IHI lost its tax credit investor twice; this challenge delayed the project for nearly two years. Rising costs forced IHI to refine the budget further and concentrate renovations on building systems and living conditions.

Financing for the project came from a creative and broad spectrum of sources. The project qualified for tax increment financing through the Portland Development Commission and Portland Housing Bureau. Additional funding came in the form of four grants from the Oregon Department of Housing and Community Services as well as a grant from the city's Bureau of Housing and Community Development and the county's Strategic Investment Partnership Fund. The Federal Home Loan Bank of Seattle awarded the Clifford a $791,000 grant from its competitive Affordable Housing Program. Finally, the project benefited from both the Oregon Affordable Housing Tax Credit and federal HTCs.

The need for affordable housing is greater than ever – especially in these trying economic times. Yet, these trying economic times also challenge funding sources. One source that always should be considered for renovations is the federal HTC. One of its great benefits is that it is not competitive; if the project meets the parameters of the program, then the project qualifies for the 20 percent credit. A second great benefit is that it often can be combined with a state HTC. Where they exist, state HTCs usually are also not competitive. By exploring these options, HTCs lay the foundation for an affordable housing project financing package. ❖

*John M. Tess is president and founder of Heritage Consulting Group, a national firm that assists property owners seeking local, state and federal historic tax incentives for the rehabilitation of historic properties. Since 1982 Heritage Consulting Group has represented historic projects totaling more than $1 billion in tax credits. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.*

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