



HISTORIC TAX CREDIT TOOL BOX

Opportunities to use Federal Historic Tax Credits on Multi-Tenant Office Buildings

JOHN TESS, HERITAGE CONSULTING GROUP

When undertaking a rehabilitation development using historic tax credits (HTCs), the functional use of the building greatly influences the approach to proposed interior finishes. Reusing historic structures as office buildings requires foresight to understand the needs of future tenants, who may have a specific aesthetic in mind and to balance those needs with the HTC program requirements. We will explore the challenges related to rehabilitating a multi-tenant office building using a case study of the recently renovated Flatiron Building in Atlanta.

The Challenge of Office Use with HTCs

Any developer who has had leasable commercial space as part of a HTC development knows the challenge inherent in negotiating with prospective tenants, given that all tenant fit-out work is subject to review and approval by the State Historic Preservation Office (SHPO) and the National Park Service (NPS). Tenants can be reluctant to move forward as the HTC process dictates that plans must be developed and submitted and the review can take 60 days or longer. This issue is only compounded in multi-tenant office buildings. Consequently, multi-tenant office buildings are less

common for HTC rehabilitation projects than other types such as residential, retail or mixed-use.

While less common, office uses are possible when utilizing HTCs with the proper approach to tenant fit-out. One solution to resolving issues with tenant fit-out on HTC properties is proposing finishing tenant spaces to “white box” condition with prescribed guidelines for final tenant fit-out and finishes. “White box” condition, in general, requires that floors are prepped for the installation of finish flooring and walls and ceilings are finished (usually plaster or gypsum wall board). The individual tenant spaces are then finished following approved guidelines, or if a tenant chooses to deviate from those guidelines, tenant fit-out plans and finish schedules must be submitted to SHPO and NPS for review and approval. This approach was successful in the recently completed Flatiron Building in Atlanta.

Case Study: Flatiron Building, Atlanta

Completed in 1897 and now regarded as Atlanta’s oldest standing skyscraper, the Flatiron Building (recently rebranded Flatiron City) occupies a triangle-shaped or “flatiron” lot at the intersection of Peachtree,



Image: Courtesy of Heritage Consulting Group

Completed in 1897 and now regarded as Atlanta’s oldest standing skyscraper, the Flatiron Building occupies a triangle-shaped or “flatiron” lot at the intersection of Peachtree, Broad and Poplar streets.

continued from page 1

Broad and Poplar streets. The building was designed by Bradford Lee Gilbert, a prolific railroad architect who also designed the Tower Building, New York City’s first skyscraper, in 1889. The Flatiron Building is an 11-story, wedge-shaped, steel-framed, masonry building.

Originally known as the English-American Loan and Trust Company Building, the Flatiron Building was built to house the English-American Loan and Trust Company. Between 1910 and 1916, the Empire Life Company occupied the building and beginning in 1916 the building became known as the Flatiron Building. The Georgia Savings Bank and Trust Company purchased the building in 1920 and owned it until 1974, when it was purchased by the Hamilton Bank and Trust

Company. Before the recent rehabilitation, the last major renovation to the building was in 1996 when the building was upgraded for modern office use, though interior spaces had been subsequently renovated by more recent tenants.

Available Incentives

Atlanta-based developer Lucror Resources recently completed a \$13 million rehabilitation of the Flatiron Building as a multi-tenant office building using city, state and federal incentives. The building was individually listed in the National Register of Historic Places, so it was eligible for the 20 percent federal HTC as well as two important state incentives.

continued on page 3



Image: Courtesy of Heritage Consulting Group

The rehabilitated Flatiron Building features a lobby and restaurant space on the first floor with offices on floors 2-11.

continued from page 2

Georgia has a state income tax credit that was recently revised to provide a 25 percent credit for qualifying rehabilitation expenses capped at \$5 million per transaction for income-producing properties (\$10 million in cases where a project creates 200 or more full-time permanent jobs or \$5 million in annual payroll within two years of placement in service). There is an annual state cap of \$25 million for developments receiving more than \$300,000 in credits. In order to receive the Georgia state HTCs, the applicant must submit state Part A and Part B applications, which are similar to the federal Part 2 and Part 3 applications.

In addition to Georgia's state HTC, Lucror Resources was also able to participate in the Georgia Preferential Property Tax Assessment Program. This program allows eligible participants to apply for an 8½-year property tax assessment freeze. The Georgia Historic Preservation Division must certify the rehabilitation. Like the state HTC, the Preferential Property Tax Assessment Program has Part A and Part B forms that must be submitted.

Project Overview, Challenges

Lucror's redevelopment project rehabilitated the Flatiron Building for lobby and restaurant space on the first floor with offices on floors 2-11. The rehabilitation scope included exterior repainting, window repair, door replacement, roof replacement, upgrades to vertical circulation, new mechanical systems and preparation of the leasable commercial space for individual tenants.

While the proposed rehabilitation was relatively straightforward, the building's use as multi-tenant office space provided a unique set of challenges surrounding tenant fit-out, since the leases were being secured during the renovations and the tenants and their individual spatial needs were largely unknown.

Because the building was not 100 percent pre-leased, the desired tenant fit-out for each of the office spaces was not solidified going into the Part 2 submission. To facilitate the process, it was proposed that the office spaces would be finished to "white box" condition and the eventual tenants would then finish their spaces under prescribed guidelines. Under the proposed guidelines, floors throughout would be refinished wood,

continued on page 4

continued from page 3

where wood flooring existed, or carpet where wood flooring no longer survived or was damaged beyond repair; existing plaster walls would be retained with new gypsum board walls constructed where the plaster was beyond repair; historic baseboard, window and door trim would be retained with new compatible where existing was not historic; and the existing modern suspended ceilings would be removed to allow for the repair of the underlying plaster. Tenants would be restricted in terms of fit-out work that might adversely impact historic features, such as constructing partitions that would intersect with or block windows.

The proposed work on the building outlined in the Part 2 application was approved by SHPO and the NPS with one condition: that all new trim be milled to match the existing; installation of new “compatible” trim as proposed in the Part 2 application was determined to be an inappropriate treatment. An amendment was submitted which provided drawings detailing the existing trim as well as the new matching trim.

By completing the tenant areas to “white box” condition and establishing guidelines for tenant fit-out, the owner was able to secure final certification before all spaces were leased. In order to avoid project denial during the five-year recapture period, tenants will be required

to adhere to the tenant guidelines as spaces turn over. “Prior to entering into a lease agreement, it is emphasized to tenants that the building is on the National Register [and used HTCs] and any tenant improvements must abide by strict preset guidelines which are specified in our lease agreement,” said Arun Nijhawan of Lucror Resources.

Conclusion

As seen in the case of Atlanta’s Flatiron Building, rehabilitating an historic building for multi-tenant office use with HTCs presents challenges related to tenant fit-out. However, there are solutions that can enable an owner to move forward in the leasing process while providing potential tenants reasonable parameters for finishing their respective spaces. Understanding the challenges up front is critical to establish a path that will give an owner some assurance that final certification is possible before the leasing of all tenant spaces. ❖

.....
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 \$3 billion in rehabilitation construction. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.

This article first appeared in the January 2017 issue of the Novogradac Journal of Tax Credits.

© Novogradac & Company LLP 2017 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues October exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.

EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Michael G. Morrison, CPA

James R. Kroger, CPA

Owen P. Gray, CPA

Thomas Boccia, CPA

Daniel J. Smith, CPA

COPY

SENIOR EDITOR

Brad Stanhope

ASSIGNMENT EDITOR

Teresa Garcia

SENIOR WRITER

Mark O'Meara

CONTENT MANAGEMENT SPECIALIST

Elizabeth Orfin

CONTRIBUTING WRITERS

Christian Ayson

Nicole Crites

Tom Fantin

Forrest Milder

Austin Power

Tom Schneider

Thomas Stagg

John M. Tess

ART

CARTOGRAPHER

David R. Grubman

PRODUCTION

Alexandra Louie

James Matuszak

Jesse Barredo

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz

alex.ruiz@novoco.com

415.356.8088

ADVERTISING INQUIRIES

Carol Hough

carol.hough@novoco.com

415.356.8040

EDITORIAL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED OTHERWISE.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX ADVISOR.

ADVISORY BOARD

LOW-INCOME HOUSING TAX CREDITS

Bud Clarke

BOSTON FINANCIAL INVESTMENT MANAGEMENT

Jana Cohen Barbe

DENTONS

Tom Dixon

BOSTON CAPITAL

Rick Edson

HOUSING CAPITAL ADVISORS INC.

Richard Gerwitz

CITI COMMUNITY CAPITAL

Rochelle Lento

DYKEMA GOSSETT PLLC

John Lisella

U.S. BANCORP COMMUNITY DEV. CORP.

Philip Melton

BELLWETHER ENTERPRISE

Thomas Morton

PILLSBURY WINTHROP SHAW PITTMAN LLP

Mary Tingerthal

MINNESOTA HOUSING FINANCE AGENCY

Rob Wasserman

U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Michael Kotin

KAY KAY REALTY

Michael Snowden

HIGHRIDGE COSTA HOUSING PARTNERS

Gianna Solari

SOLARI ENTERPRISES INC.

Kimberly Taylor

HOUSING DEVELOPMENT CENTER

HOUSING AND URBAN DEVELOPMENT

Flynnan Janisse

RAINBOW HOUSING

Ray Landry

DAVIS-PENN MORTGAGE CO.

Denise Muha

NATIONAL LEASED HOUSING ASSOCIATION

Monica Sussman

NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman

COMMUNITY REINVESTMENT FUND

Merrill Hoopengardner

NATIONAL TRUST COMMUNITY INVESTMENT CORP.

Scott Lindquist

DENTONS

Matthew Philpott

U.S. BANCORP COMMUNITY DEV. CORP.

Ruth Sparrow

FUTURES UNLIMITED LAW PC

Elaine DiPietro

ENTERPRISE COMMUNITY INVESTMENT INC.

HISTORIC TAX CREDITS

Jason Korb

CAPSTONE COMMUNITIES

John Leith-Tetrault

NATIONAL TRUST COMM. INVESTMENT CORP.

Bill MacRostie

MACROSTIE HISTORIC ADVISORS LLC

John Tess

HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Bill Bush

BORREGO SOLAR

Ben Cook

SOLARCITY CORPORATION

Jim Howard

DUDLEY VENTURES

Forrest Milder

NIXON PEABODY LLP

© Novogradac & Company LLP

2017 All rights reserved.

ISSN 2152-646X