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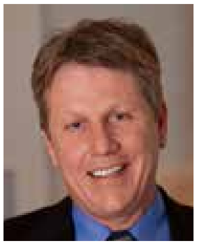
HISTORIC TAX CREDIT TOOL BOX

Historic Tax Credits: Opportunities and Challenges for 2020



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The Historic Tax Credit (HTC) program has been incredibly successful. One only needs to take a look at the most recent Annual Report on the Economic Impact of the Historic Tax Credit.

In fiscal year 2017, there were 1,035 completed projects with an estimated $6.5 billion in rehabilitation investment and another 1,501 projects are in the pipeline. Since the program started in 1976, the National Park Service (NPS) has certified more than 43,000 historic properties with the HTC leveraging more than $144 billion in private investment.

Technically, the HTC is based on the certified rehabilitation of certified historic structures, a concept that targets vacant and underperforming vintage buildings and returns them to viable contemporary economic uses. However, the program is constantly evolving and every few years, new opportunities appear. In looking toward 2020 and beyond, there are four particular areas ripe for HTC investment.

Downtown Mid-Century Modern: Following World War II and extending through the 1960s, most downtowns experienced the sudden rise of a new generation of skyscrapers. By the mid-1950s, most communities faced a quarter-century gap in real estate investment. The 1910s and 1920s produced a prototypical office building: commercial style, 12-15 stories, masonry or terra cotta-clad, with ground-floor retail and usually multiple offices on each upper floor. By the 1950s, this aesthetic was tired, the buildings were technologically old and the marketplace no longer deemed them "Class A."

The skyscrapers of the 1920s were replaced by new, taller products in the International, New Formalist, Meisian and Brutalist styles. The scale shifted from quarter-block to full-block parcels typically with a hardscaped and fountained plaza. This new era of

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building is epitomized by Midtown Manhattan icons such as Skidmore Owings & Merrill's Lever House, completed in 1952, or Mies van der Rohe's Seagram Building, completed in 1958.

As they relate to the HTC program, there are three particularly notable aspects to this class of buildings: First, the rise of the modern skyscraper was not limited to New York or to select major metropolitan areas. It was widespread and fairly exhaustive. In my hometown of Portland, Ore., although the population stagnated at 375,000 between 1950 and 1980, the city's downtown saw the addition of a dozen new office skyscrapers.

Second, while the boom of construction began in the 1950s, that boom carried forward for decades. Skyscrapers built as late as 1970 now meet the National Register's 50-year window. While it is challenging to demonstrate the exceptional significance required by the National Register Criteria Consideration G (buildings less than 50 years old), the scale and economic impacts of these buildings, particularly in light of the urban flight to the suburbia, offers a legitimate path for a Criteria Consideration G discussion.

Third, as these buildings reach their fifth decade, most are in need of substantial investment to upgrade systems to current code and marketplace standards. As a class of buildings, they are ripe for developers. By design, the interiors are largely modular, intended to be flexible and easily adaptable. One recent successful HTC development example is Mies van der Rohe's IBM Building in Chicago, which wasupdated as an office while also segmented to create "The Langham Hotel," often recognized as one of the best hotel properties in the country. Unfortunately, during this same time, much as the 1920s era Commercial-style buildings were modernized in the 1950s, many of the skyscrapers are being appropriately modernized to new stylistic definition. This is particularly true of Brutalism buildings, but also extends to more standard International and even Miesian styles.

Suburban Mid-Century Modern: A second group of buildings that is coming of age within an HTC context are those structures built at the perimeter of central cities during the post-World War II years. Many, if not most, of these buildings are automobile friendly and built for a specific use. Examples include shopping malls, motels, suburban stores, restaurants, bank branches and automobile dealerships. Some of the architecture in these properties is outstanding and distinctive, often embracing "Googie" styling. One additional group of Mid-Century suburban buildings, often overlooked, are the light industrial distribution centers built to serve a truck-based distribution system. In comparison to the central city skyscrapers, these properties lend themselves to smaller scale development and developers.

As a group, however, these buildings are a bit challenging in that most were typically built for a specific use and adapting within the Secretary of Interior's Standards may require enormous creativity. A second challenge lies with the geography. While many downtown communities are experiencing rebirth, early suburbs often lack the cohesion of place that creates a critical mass necessary to foster a suburban locale as destination. These suburban properties are more likely to be successful as a singular destination enterprise such as a restaurant or specialty retailer.

Mid-century public housing: A third opportunity lies in modern public housing. Affordable housing developers have often combined the federal HTC with the low-income housing tax credit. One of the particular challenges in this arena is that, until recently, public housing agencies were unable to partner with private developers in the rehabilitation of publicly owned complexes. To address the issue, Congress authorized

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the Rental Assistance Demonstration (RAD) program in 2012. Administered by the U.S. Department of Housing and Urban Development (HUD), RAD seeks to preserve public housing by providing local public housing authorities with the ability to leverage private capital to finance improvements and invest in the existing housing stock.

RAD is particularly relevant here because during the Lyndon Johnson Administration (1963-69) and until President Richard Nixon shifted to a voucher program in 1974, there was surge in public housing construction. One particularly prominent building type was senior housing. Here, development largely followed a proscribed design with a couple of hundred senior units built in a reinforced concrete tower, placed in a centrally located park like setting. It was common for nearly every city to have two or three such high-rise, high-density developments. Like the mid-century skyscrapers, these properties are now coming of age in terms of historic designations. While the buildings remain solid, the living units are tired and the operating systems generally have passed their functional life. There are already a handful of properties that have combined HTC and RAD and the numbers are growing. To further encourage the use of HTC with RAD, HUD is developing a sequel to its multiple property historic context statement "Public Housing in the United States, 1933-49" that should provide the pathway for public housing complexes to be designated to the National Register of Historic Places.

Functionally related complexes: Not all opportunities on the horizon relate to recent building stock. Real estate development generally, and historic real estate development specifically, has evolved in the past decade with larger, regional, and national developers tackling physically larger complexes.

This issue became apparent a decade ago. Most publicly with the Base Realignment and Closure process, large complexes with historic resources–many in public ownership–were abandoned. Before that time, there were industrial complexes that came up for development: American Tobacco in Durham, N.C., and Pabst Brewery in Milwaukee are both good examples. The issue in addressing large functionally related complexes was that they were often too large to be tackled by a single developer and even then, the nature of the resource meant that final certification (Part 3 approval) might only be possible when all the buildings in the complex were rehabilitated. This proved to be a daunting and discouraging prospect.

In the case of American Tobacco and Pabst (and others), NPS reviewed the complexes on a case- by-case basis. As more complexes were submitted for HTC, it became evident that additional guidance would be useful. This was identified as a critical issue in the discussions during Ken Salazar's time as Secretary of the Interior in the document "How to Make a Good Program Better." One of the specific outcomes of that initiative was updated and revised guidance issued by the NPS on this issue. This new guidance provided a fairly clear and generally consistent path forward for addressing large complexes that were functionally related and by so doing now encourages developers to tackle these important yet enormous facilities that have outlived their useful life, be they industrial complex, college campuses, medical facilities, suburban office headquarters, etc. Particularly as more and more colleges are closing, this guidance is very timely.

Conclusion

The near-term promises to continue the heady use of HTC in the redevelopment of historic resources. There is no reason to believe that the ongoing traditional historic rehabilitation projects will slow. While a great number of available pre-World War II properties

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have been modernized in recent years, the supply of buildings available for HTC work is being restocked by the mid-century modern resources just now becoming eligible for the National Register. HTC demand is also facilitated by the increasing familiarity of HUD's RAD program and HUD's efforts to create a modern public housing historic context. Finally, NPS has provided guidance on functionally related building, which will facilitate the use of HTCs in the redevelopment of larger complexes. All in all, 2020 looks to be busy. ❖

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