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## TAX, AUDIT AND CONSULTING SERVICES FOR TAX INCENTIVE TRANSACTIONS ISSUE

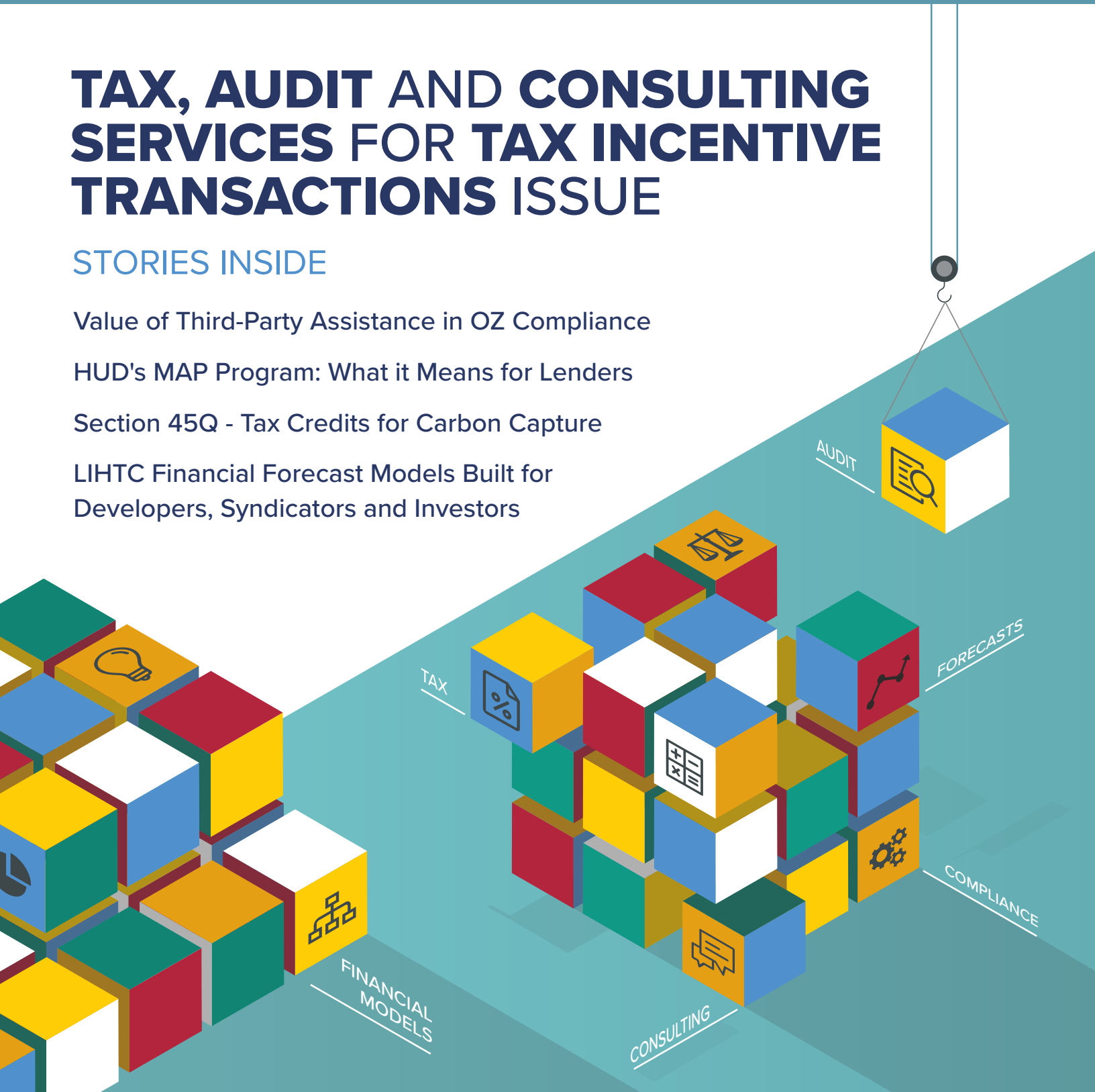
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## HISTORIC TAX CREDIT TOOL BOX 🌿

# HTC Toolbox: The Phase Advisory Option and the Rehabilitation of Bell Laboratories



CINDY HAMILTON, HERITAGE CONSULTING GROUP

In early 2021, the finishing touches were put on the rehabilitated Bell Laboratories building in Holmdel, New Jersey. Completed using historic tax credit (HTC) equity, the project, which focused on adapting the former research and development facility into a mixed-use complex, took approximately seven years to complete and encompassed the entirety of the nearly 2-million-square-foot building, as well as its significant landscape design.

Now complete, the building houses more than 100 tenants, including retail stores, restaurants and office space.

Navigating the HTC on a project of this size, however, required strategic planning. Through the use of project phasing and a phase advisory determination, the rehabilitation successfully accounted for the various needs of the individual tenants, while also retaining the historic features and finishes that define

*Image: Courtesy of Somerset Development*  
Bell Laboratories in Holmdel, New Jersey, was rehabilitated using historic tax credit equity.

the significant work of Modern architecture. As a result, the rehabilitated Bell Laboratories building displays the potential reuse of similar mid-20<sup>th</sup> century corporate campuses across the country.

### **Bell Laboratories–Holmdel**

The Bell Telephone Company enjoys an unparalleled place as a pioneer in the history of telegraph and telephone service in the United States. A large portion of the company's success throughout much of the 20<sup>th</sup> century is due to its investment in research and development. This resulted in the construction of Bell laboratories in various cities around the country. The northern New Jersey campus, however, stood out among the group upon completion of its initial building section in 1966.

Designed by the famed firm of Eero Saarinen and Associates, the Bell Laboratories-Holmdel campus was completed in a highly sophisticated Modern design that befitted a “modern,” in 1960s terms, corporate campus. The building was not officially complete, however, until its final building section was constructed in 1985. Accompanying the building was an equally impressive landscape design completed by Hideo Sasaki of the firm Sasaki, Walker and Associates. As part of the HTC project, the Bell Laboratories-Holmdel building was listed in the National Register of Historic Places in 2017 for its architectural significance.

### **Phased HTC Developments**

The concept of completing phased HTC developments is not new to the program. Its implementation serves as a significant opportunity for developers and investors alike in the rehabilitation of historic buildings. This is particularly true for larger projects or ones that involve multiple tenants. In the eyes of the National Park Service (NPS), phased HTC projects are those in which the rehabilitation is expected to be completed in two or more distinct stages of development. A developer must elect the 24-month single-phase or 60-month multiphase option at the start of the project. For phased projects, the general scope of each phase documented in the application and supported by architectural drawings.

Perhaps the most significant reason to submit as a phased project is to open the possibility to submit for a phase advisory determination(s). While a single HTC project will only receive one Part 3 certification, a phase advisory determination provides the project a midway point of sorts, though some projects include multiple phases, where the NPS reviews the work completed as part of a phase and provides an advisory determination whether the completed work meets the Secretary of Interior's Standards for Rehabilitation (Standards).

Phase advisory determinations alleviate many concerns on the part of the project team and investors, as projects may carry on with construction over a multiyear period. While the NPS is clear that work completed in a later phase that does not meet the Standards can result in a denial of certification of the entire project, there is reasonable assurance of an eventual Part 3 certification so long as the developer completes the later work in accordance with the scope approved in the Part 2 application and subsequent amendments. It is the phase advisory determination, in particular, that helps to facilitate the review process of projects, particularly those that include multiple buildings or multiple tenants.



*Image: Courtesy of Somerset Development*  
Bell Laboratories, with its interior shown here, was redeveloped using project phasing and a phase advisory determination.

The assurances afforded by phase advisory determinations have resulted in many investors and accountants advocating for their use. Thomas Boccia, a partner at Novogradac, echoed this sentiment.

“From both the developer and tax credit investor perspective, obtaining a phased advisory determination from the NPS is something I generally recommend,” Boccia said. “Getting these determinations during the rehabilitation provides additional assurance that the rehabilitation is being done in accordance with the Standards. Waiting to the end of the project can be a risky proposition. Finding out early about an issue with the proposed work that might have been repeated throughout the balance of the rehab can potentially save a lot of time and money down the road.”

**Bell Laboratories Project Phasing**

Bell Laboratories consists of 2 million square feet of space throughout a six-story building. Its rehabilitation began in 2014 and sought to repurpose the building as a mixed-use facility, containing retail, restaurant, hotel and office spaces.

The complexities of the Bell Laboratories project necessitated careful planning to ensure that the needs of each tenant were met, while allowing for the overall project to meet the Standards. As a result, project phasing was sequenced to include site work, exterior work, the massive central atrium and tenant fit-out throughout the building. In these phases, general parameters were set to ensure tenant fit-out work would meet the Standards. If a tenant’s proposed fit-out did not follow those parameters, work for their individual space was submitted in an amendment submission. Additionally, the foresight of the phased approach gave reasonable assurance that the project would be fully approved when completed. It was through the use of project phasing that the scope of work was simplified to offer guidance to tenants on how they could design their space.

Looking specifically at the Bell Laboratories project, “the phased advisory determination was useful for PNC, as the project’s HTC investor, as it enabled us to work with the developer and their consultants proactively throughout construction,” said Marc Scafidi, senior vice president and HTC originator for PNC’s Tax Credit Solutions Group, a PNC Real Estate business. “The phased approach provided a level of assurance that provisions within the Part 2 certification were being adhered to, while maintaining the ability to quickly and more easily address potential issues, which was particularly important given the size and complexity of the rehabilitation. The result was a more efficient Part 3 approval process for all involved.”

The rehabilitation of Bell Laboratories-Holmdel illustrates the opportunity to use HTCs on midcentury corporate campuses. The importance of this potential was highlighted by Ralph Zucker, president of Somerset Development, the company responsible for the rehabilitation. In discussing the completed project, Zucker noted, “The innovative redevelopment of the former Bell Labs represents previously unrecognized opportunities for the use of historic tax credits for large-scale adaptive reuse projects like the Bell Works Metroburb and other midcentury corporate campuses.”

With tools, such as project phasing, available to developers, large corporate campuses designed with prominent landscaped spaces, such as that of Bell Laboratories, have an opportunity to become an increasingly significant portion of HTC projects in the years to come. ❖

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*Cindy Hamilton is president of Heritage Consulting Group*

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