



# The Opportunity Zones Issue

**Working Capital Safe Harbor Rules Clearer, Still Complicated**  
*Current understanding of WCSH is coherent, but complicated transactions are common.*  
Page 13

**OZ Market Leaders Look for Extension of Incentive**  
*Bullish end to 2021 paves way for optimism in 2022 among OZ stakeholders.*  
Page 10

**How OZ Incentive Works with Renewable Energy**  
*Ten things to know about pairing OZ incentive with renewable energy ITCs.*  
Page 71

**How One QOF is Addressing the Housing Shortage**  
*Accessory dwelling units in OZs are target of San Diego-based fund.*  
Page 16



## HISTORIC TAX CREDIT TOOL BOX 🌿

# Historic Tax Credits—A 40-Year Reflection



CINDY HAMILTON, HERITAGE CONSULTING GROUP

The federal historic tax credit (HTC) incentive was established in 1979 and replaced a former incentive program that was in the form of an accelerated depreciation. The program as it is known now was largely the result of two subsequent acts of Congress in the 1980s.

Since that time, HTCs have been used on more than 47,000 projects with more than \$116 billion in total investment put into municipalities large and small in all 50 states, as well as the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

This year marks Heritage Consulting Group's 40<sup>th</sup> anniversary, which largely aligns with the establishment and growth of the HTC incentive. In

honor of this milestone, we sat down with John Tess, the founder of Heritage, to look back on the past 40 years in the industry and the program's potential impact in the future.

**Q: What was state of the HTC industry when you founded Heritage Consulting Group in 1982 and how did it grow from that point?**

**A:** Prior to founding Heritage, I was working as the grants manager at the Oregon state historic

*Image: Courtesy of Heritage Consulting Group*  
 Built in 1914, the Beaux-Arts Union Station in Denver was converted into a hotel as part of a larger transit-oriented development.

preservation office (SHPO) while also reviewing special assessment applications and serving as a staff historian. The special assessment program was one of the nation's earliest state-level incentives intended to encourage the rehabilitation of historic buildings and it gave me an early perspective on how historic preservation and economic development can go hand in hand.

In 1982, when Heritage was founded, the HTC as we know it today was coming into being. It was in 1979 that the first HTC program was enacted, which allowed an owner to claim a 10% credit for the rehabilitation of a building 20 years old or older. Two years later, in 1981, legislation was enacted that created a tiered credit, awarding a certain percentage of credits to buildings a certain age and a 25% credit for building's designated in the National Register of Historic Places.



*Image: Courtesy of Heritage Consulting Group*  
**John Tess launched Heritage Consulting Group in 1982 to meet the needs of developers of historic tax credit properties.**

I started Heritage specifically to meet the needs of a new group of developers that came into play as a result of the 1981 federal HTC program changes. In fact, the company was initially a subsidiary to a development company, the Dant Development Corporation. Heritage provided consultation to new developers, advising them through the historic tax credit process. Similar preservation consulting firms were developed at that time, but they were largely localized, servicing a specific city or region. Many of these early consultants were former SHPO employees, such as me.

In 1986, the program changed again with federal tax reform and the credit was changed to a two-tier credit with a 10% credit for buildings that were old but not historic and a 20% credit for the rehabilitation of historic buildings. This version of the program remained in place until 2017, when the 10% credit was

eliminated. The industry grew as the HTC program became established.

**Q: How would you characterize the early years of the industry versus the industry today?**

**A:** In the early days, many people associated “historic buildings” with the East Coast and the Colonial and Industrial Revolution Era buildings in New England and the Mid-Atlantic region. Cities throughout the west and Pacific Northwest, however, such as Denver, Portland and Seattle, offered opportunities to use of HTCs, though often the buildings were not as old and it took some creativity to make the case that they were historic.

The perception of what qualifies as a historic building has also evolved. An early example that comes to mind is the National Register listing of the Northwest 13<sup>th</sup> Avenue Historic District in Portland, Oregon, which was listed in the National Register of Historic Places at a time when the industry was not considering warehouse buildings historically significant. HTC projects often have to stretch the mindset of what qualifies as historic, much as we have to today with more contemporary buildings.

As the historic tax credit program became established, the industry became much more sophisticated. Accountants and attorneys began to specialize in historic tax credits and the syndication and investor market grew. Projects overall became much larger and more complicated and today we see developers looking to take on multiple building and functionally related projects and projects with new construction components.

As the market became more sophisticated, investors became more risk averse. In response, a decade ago investor due diligence began in an effort to evaluate and help mitigate that risk. Large banks, as well as syndicators and smaller investors, routinely require due diligence review as part of their investment process. With the continued growth of the industry, preservation-oriented university programs—both undergraduate and graduate levels—became more

established. Subsequently, the field has become more academic and additional programs have been started at universities around the country, which speaks to the widespread acceptance of preservation serving as an economic anchor.

**Q: What are some defining and monumental projects that come to mind as you think back on the past 40 years of the industry?**

**A:** There are so many great examples of HTC projects throughout the country, many of which we were fortunate enough to have been involved in. In every city and town, you can point to a local landmark building that was rehabilitated through the HTC program.

Among the most noteworthy project that comes to mind is the rehabilitation of Washington, D.C.'s General Post Office and Tariff Commission Building into the Kimpton Hotel Monaco, which was the first HTC project undertaken under Section 111 of the National Historic Preservation Act. Section 111 allows federal agencies to lease historic properties to private entities for new uses. Other noteworthy projects include: Chicago's IBM Building, which was less than 50 years old when it was listed in the National Register of Historic Places; Macy's Herald Square in New York City; Denver Union Station, which was a nationally recognized HTC project when completed in 2015; and, more regional landmarks, such as the Pabst Brewing Company Complex in Milwaukee, Wisconsin, and the Montgomery Ward & Company Building in Portland, Oregon.

The advantage of being in business since the advent of the program is that we have been able to see numerous trends in the industry. Perhaps none more important than the current trend in rehabilitating Modern architecture from the 1960s and 1970s. This has opened the door to numerous building types and the increased ability to pair the HTC with other redevelopment incentives, such as the low-income housing tax credit (LIHTC).

Additionally, this has led to a greater diversity in projects by region and sections of the country that grew during the midcentury period are now represented in completed HTC projects. Among these projects completed on Modern-style buildings are Philadelphia's Rohm and Haas Building, which was only 42 years old at the time of the project and highlighted the potential for the rehabilitation of midcentury office towers; Bell Laboratories in Holmdel, New Jersey, which effectively illustrated how a large corporate campus could successfully be transformed, while embracing the original design; and Coffelt-Lamoreaux in Phoenix, Arizona, which identified the potential to utilize HTCs on public housing, a trend that was continued in cities and towns across the country, including Little Rock, Arkansas; Gary, Indiana; Yazoo City, Mississippi; Great Bend, Kansas; and New York City.

As we've entered into the 21<sup>st</sup> century, we have realized more than ever that the history of these buildings and complexes is just as important, if not more so in some instances, than their architecture.

**Q: What has been the most significant change that you've witnessed in the industry?**

**A:** Beyond the evolving appreciation of architectural styles and historical significance that has developed over the past decades, what is arguably the most significant development in the industry is the enactment of the state HTC programs. In states such as Massachusetts, New York, Ohio, Texas and Wisconsin (among many others) that have enacted state HTC programs, the total number of rehabilitation projects increased exponentially.

The ability to layer in state HTC has transformed secondary and tertiary cities. These markets now have a powerful economic incentive available to adaptively reuse historic buildings that serve as true landmarks for both the past and future. The rebirth of Buffalo, New York, for example, is largely attributed to the introduction of the state HTC. It is important that as an industry we continue to advocate for the state HTC



programs as they are an important counterpart to the federal program.



*Image: Courtesy of Heritage Consulting Group*  
The rehabilitation of Denver Union Station was a centerpiece of a mixed-use development.

What has the potential to be as impactful is the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program, which allows for HTCs to be used on the rehabilitation of public housing. With approximately 3,300 housing authorities across the country, most with building stock that is more than 50 years old, there is significant opportunity ahead to provide an additional equity source to address critical capital needs.

**Q: Where do you think the opportunities for growth in the HTC program will come in the next decade?**

**A:** The HTC program has proven to be a primary contributor to the revitalization of inner cities and Main Streets across the United States. With the

equity provided by the program, historic landmarks in cities of all sizes and locations have been given the opportunity to breathe new life. The 2017 tax reform came close to shutting down the HTC program, and it is critical that we continue to advocate for the federal HTC. The Historic Tax Credit Coalition is our industry's voice on the Hill, and we need to continue to grow the organization to provide the resources necessary to promote the program and its importance as an economic development tool.

The pandemic has shown us that individuals are willing to live in geographically diverse areas not specifically tied to their employment. This trend opens the door for increased redevelopment efforts on Main Streets, along with continued investment within larger cities. Post-pandemic, it is anticipated that the tourism market will reopen with new opportunities for hotels and retail spaces. Rehabilitation efforts through the HTC program can ensure that historic resources maintain the picturesque nature of these locales, while also aiding in their rebirth.

The sky truly is the limit for this program as both a tool for economic development and preservation of our country's historic buildings. Preservation is one of the few inherently bipartisan issues, in which both sides of the aisle agree that this country's history is worthy of maintaining and celebrating. Preservationists and rehabilitation developers have a great opportunity in front of them to lead development well into this millennia. I am excited to see the next 40 years and what new uses can be applied to historic buildings. ❖

.....  
*Cindy Hamilton is president of Heritage Consulting Group*

---

© Novogradac 2022 - All Rights Reserved.

*This article first appeared in the April 2022 issue of the Novogradac Journal of Tax Credits. Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.*

*Notice pursuant to IRS regulations: Any discussion of U.S. federal or state tax issues 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 discussion on tax issues reflected in the article are not intended to be construed as tax advice or to create an accountant-client relationship between the reader and Novogradac & Company LLP and/or the author(s) of the article, and should not be relied upon by readers since tax results depend on the particular circumstances of each taxpayer. Readers should consult a competent tax advisor before pursuing*

*any tax savings strategies. Any opinions or conclusions expressed by the author(s) should not be construed as opinions or conclusions of Novogradac & Company LLP.*

*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](http://www.novoco.com).*

## EDITORIAL BOARD

PUBLISHER

**Michael J. Novogradac, CPA**

EDITORIAL DIRECTOR

**Alex Ruiz**

TECHNICAL EDITORS

**Thomas Boccia, CPA**  
**Chris Key, CPA**  
**Diana Letsinger, CPA**

**Matt Meeker, CPA**  
**John Sciarretti, CPA**  
**Stacey Stewart, CPA**

## COPY

SENIOR EDITOR

**Brad Stanhope**

SENIOR MARKETING MANAGER

**Teresa Garcia**

SENIOR COPY EDITOR

**Mark O'Meara**

SENIOR WRITER

**Nick DeCicco**

CONTRIBUTING WRITERS

**Joseph B. Darby III**  
**John DeJovine**  
**Cindy Hamilton**  
**Bianca Holliman**  
**Jill Homan**

**Dan Kowalski**  
**Peter Lawrence**  
**Forrest Milder**  
**Coni S. Rathbone**  
**Amanda Read**

## ART

CREATIVE DIRECTOR

**Alexandra Louie**

GRAPHIC DESIGNER

**Brandon Yoder**

## CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

**Teresa Garcia**  
**teresa.garcia@novoco.com**  
**925.949.4232**

ADVERTISING INQUIRIES

**Christianna Cohen**  
**christianna.cohen@novoco.com**  
**925.949.4216**

ALL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS PROFESSIONAL ADVICE OFFERED BY NOVOGRADAC OR BY ANY CONTRIBUTORS TO THIS PUBLICATION.

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 AND/OR LEGAL ADVISOR.

## ADVISORY BOARD

### OPPORTUNITY ZONES

<b>Dan Altman</b>	SIDLEY AUSTIN LLP
<b>Glenn A. Graff</b>	APPLGATE & THORNE-THOMSEN
<b>Jill Homan</b>	JAVELIN 19 INVESTMENTS
<b>Martin Muoto</b>	SOLA IMPACT

### LOW-INCOME HOUSING TAX CREDITS

<b>Jim Campbell</b>	SOMERSET DEVELOPMENT COMPANY LLC
<b>Tom Dixon</b>	LUMENT
<b>Richard Gerwitz</b>	CITI COMMUNITY CAPITAL
<b>Elizabeth Bland Glynn</b>	TRAVOIS INC.
<b>Rochelle Lento</b>	DYKEMA GOSSETT PLLC
<b>John Lisella III</b>	U.S. BANCORP COMMUNITY DEV. CORP.
<b>Derrick Lovett</b>	MBD COMMUNITY HOUSING CORP.
<b>Rob Wasserman</b>	U.S. BANCORP COMMUNITY DEV. CORP.

### PROPERTY COMPLIANCE

<b>Jen Brewerton</b>	DOMINIUM
<b>Kristen Han</b>	WNC
<b>Michael Kotin</b>	KAY KAY REALTY CORP.

### HOUSING AND URBAN DEVELOPMENT

<b>Victor Cirilo</b>	NEWARK HOUSING AUTHORITY
<b>Flynann Janisse</b>	RAINBOW HOUSING
<b>Ray Landry</b>	DAVIS-PENN MORTGAGE CO.
<b>Denise Muha</b>	NATIONAL LEASED HOUSING ASSOCIATION
<b>Monica Sussman</b>	NIXON PEABODY LLP

### NEW MARKETS TAX CREDITS

<b>Frank Altman</b>	COMMUNITY REINVESTMENT FUND
<b>Maria Bustria-Glickman</b>	US BANK
<b>Elaine DiPietro</b>	BLOOMING VENTURES LLC
<b>Chimeka Gladney</b>	ENTERPRISE COMMUNITY INVESTMENT INC.
<b>Tracey Gunn Lowell</b>	U.S. BANCORP COMMUNITY DEV. CORP.
<b>Ruth Sparrow</b>	FUTURES UNLIMITED LAW PC
<b>William Turner</b>	WELLS FARGO

### HISTORIC TAX CREDITS

<b>Irvin Henderson</b>	HENDERSON & COMPANY
<b>Merrill Hoopengardner</b>	NATIONAL TRUST COMMUNITY INVESTMENT CORP.
<b>Bill MacRostie</b>	MACROSTIE HISTORIC ADVISORS LLC
<b>Marty Richardson</b>	OLD NATIONAL BANK
<b>Claudia Robinson</b>	BANK OF AMERICA
<b>Donna Rodney</b>	MILES & STOCKBRIDGE
<b>John Tess</b>	HERITAGE CONSULTING GROUP

### RENEWABLE ENERGY TAX CREDITS

<b>Jim Howard</b>	DUDLEY VENTURES
<b>Elizabeth Kaiga</b>	DNV GL
<b>Forrest Milder</b>	NIXON PEABODY LLP