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HISTORIC TAX CREDIT TOOL BOX 🌿

A Story of Resiliency in Detroit’s Jefferson Chalmers Neighborhood



CINDY HAMILTON, HERITAGE CONSULTING GROUP

Historic tax credits (HTCs) provide significant benefit to projects, but come with challenges. Architectural review, increased costs in labor and materials, and scheduling delays can often impact a development.

Each of these challenges, however, are forgiven by the financial incentive of the credit, be it any combination of state and federal credits. As is the case with any construction or development project though, additional

hurdles can test the patience and resiliency of the project team.

One particular HTC project in Detroit was put to the ultimate test as it pushed toward its completion in late 2023. The East Jefferson Development Corporation (EJDevCo), a subsidiary of Jefferson East Inc., began

Image: Courtesy of East Jefferson Development Corporation
The former IDAO Apartments in Detroit overcame significant challenges while being renovated in a transaction that included historic tax credit equity.

the rehabilitation of two historic apartment buildings in Detroit's Jefferson Chalmers neighborhood in 2017, with other acquisition and preconstruction-related development tasks extending back additional years. In the seven years since project initiation, EJDevCo dealt with several unforeseen roadblocks that extended the project schedule and brought distinct challenges as described by Joshua Elling, chief executive officer of Jefferson East. Ultimately, the rehabilitations resulted in a marked transformation of the formerly blighted properties.

Jefferson-Chalmers Business District

Located along Lake St. Clair at the mouth of the Detroit River, the Jefferson Chalmers neighborhood of Detroit developed in the 1910s and 1920s while the surrounding area, and Detroit as a whole, expanded with increased manufacturing. During that time, East Jefferson Avenue developed as a primary commercial thoroughfare for those living on the east side of the city, bifurcating residential areas to the north and south.

By the mid- and late-20th century, however, Detroit and the Jefferson Chalmers neighborhood saw significant deterioration. Suburbanization, the development of the federal highway system and loss of industry had profound impacts on the community. By the later stages of the century, foreclosures and demolition were commonplace. Since that time, many buildings, including the two apartment buildings rehabilitated by EJDevCo, were left vacant, open to vandalism and, ultimately, the elements.

Despite vacancies and deterioration within the area, the Jefferson-Chalmers Historic Business District, which is centered on East Jefferson Avenue, was listed on the National Register of Historic Places in 2004.

Unexpected Challenges

EJDevCo's HTC development encompassed two buildings in Detroit's historic Jefferson Chalmers neighborhood, the former IDAO Apartments at 910 Marlborough St.

and Marlboro Apartments at 1031 Marlborough St. The two buildings were not historically related and, in fact, are separated by East Jefferson Avenue—Marlboro to the north and IDAO to the south.

For HTC purposes, this meant that the two would be considered separate projects by the National Park Service. Internally, however, the two rehabilitations were intertwined financially and in design development. This fact proved to be very beneficial.

According to Elling, Jefferson East and EJDevCo were founded to spur economic development in the Jefferson Chalmers neighborhood. With the rehabilitation of the two historic apartment buildings, the organizations set out to continue their efforts in the area and provide a significant need for its residents—additional housing. Elling noted that the two companies, “take very seriously our engagement with the community and listening to their needs. The residents have always expressed a deep need for *truly* affordable housing. Considering the housing issues not only in Detroit, but throughout the country, the success of this project was absolutely critical.”

At development initiation, the two buildings had been vacant for decades and were largely stripped of all interior features and finishes. Despite this, the buildings retained excellent structure and lent themselves well to the introduction of new apartments. The proposed work called for the restoration of existing historic fabric, largely tied to brick and stone at the exterior, and the construction of 23 affordable housing apartments across the two buildings.

In addition to the normal challenges a developer must navigate while undertaking an HTC project, a variety of unexpected challenges developed over the course of the development. Included among these challenges were unfortunate incidents of theft and break-ins, where approximately \$39,000 in windows were stolen from

one of the sites, and as part of an unprecedented rain event in 2021, the basements flooded, further delaying the project and increasing costs.

As development was getting underway, a partner buyout took place in 2019. This was shortly followed by the onset of the COVID-19 pandemic, which brought on a number of new hurdles to both construction and financing, i.e., scheduling challenges, supply shortages and cost increases in both labor and material. As a result, Elling and the development team were forced to seek additional equity, including a bridge loan, and request additional funding through HOME and Community Development Block Grant (CDBG) funds.

Among the most significant hurdles, however, was the establishment of a new federally designated flood plain along the Detroit River. In 2021, the Federal Emergency Management Agency and the city of Detroit finalized the new flood plain, which included the area south of East Jefferson Avenue, where the IDAO Apartments are located.

According to Elling, “in a flood plain, no federal money can be invested into development projects. No HOME funds. No CDBG funding, both of which we relied on for this project. And in Michigan, this also includes low-income housing tax credits.” With this added, unforeseen twist, Jefferson East and EJDevCo were forced to work with the city and their lenders to find a solution.

Fortunately for the project, Marlboro Apartments were located outside the flood plain on the north side of East Jefferson Avenue. Elling noted that it was, “a stroke of luck and topography that the flood plain was drawn the way it was.” With Marlboro Apartments outside the designated zone, the team was able to move funding between the two projects to ensure that both were properly financed. Elling furthered this point.

“If the second building in the project was south of Jefferson, there would have been a significant risk of not getting this project done,” he said.

Ultimately, Jefferson East and EJDevCo reopened the two buildings in late 2023. With the new flood plain, however, it is unlikely that any major development will take place in this section of the city again.

“Jefferson Chalmers is the only residential neighborhood in the flood plain in the city of Detroit,” Elling said. “With that being the case, the city can no longer provide financing for home repair, economic development or other activities if they are federally funded. We will likely not see any large-scale development in this neighborhood until a solution that removes the neighborhood from the flood plain is put in place.”

Importance of HTCs and Collaborative Solutions

By the time residents moved into the building at the end of 2023, the transformation of these once-barren shells was truly significant in its own right. Elling noted that the highlight of the whole endeavor came at the end, when one of the tenants thanked him for turning this blighted property into a beauty. As Elling noted, “that made it all worthwhile.”

For Jefferson East and EJDevCo, completion of the project would not have been possible without the assistance and guidance of Twain Financial Partners, which invested in the project; Enterprise Community Loan Fund, which served as the construction lenders; Invest Detroit, which provided bridge financing; and the city of Detroit. Through their collaborative efforts, the team was able to navigate the financial challenges that arose with COVID-19 and the new flood guidance.

“HTCs were vital,” Elling said. “Without them, we would not have been able to complete the project.”

Despite everything that happened during this project, Elling emphatically noted how he, Jefferson East and EJDevCo will continue to look for projects that will use

HTCs, though those, “will be out of the flood plain for the time being.” ♦

Cindy Hamilton is president of Heritage Consulting Group.

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