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HISTORIC TAX CREDIT TOOL BOX

Uncharted Waters: How a Development Team is Finding Creative Ways to Transform the Charleston Navy Yard

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Perched on the western banks of the Cooper River, the Charleston Navy Yard is a sprawling industrial hub of more than 40 buildings, piers, bulkheads and utility structures in North Charleston, South Carolina.

From 1903 to 1996, the 85-acre complex was home to the United States Navy, playing a crucial role in national defense and military development through the 20th century, with particular significance in military preparation and armament during World Wars I and II and the early years of the Cold War.

Image: Courtesy of Lawson Companies
Looking north along Peters Creek Road in Roanake, Virginia, at the site of the future Smith Ridge Commons property developed by Lawson.

Yet, in its post-naval existence, the massive scale and significance of the complex presented challenges for rehabilitation with historic tax credits (HTCs) for developers set on acquiring multiple buildings. Navy Yard Charleston, a development group that has acquired nearly a dozen buildings on the site, is underway with rehabilitation using HTCs. If not for an experienced development team, which was capable of expertly planning a large, complex project, the Charleston Navy Yard might be rusting away today.

Origins of the Charleston Navy Yard

The United States Navy was not always the dominant force we think of today; in fact, in 1889, the Secretary of the Navy evaluated the fleet as merely the 12th-best in the world, ranking it below Turkey, China and other global powers. Beginning under President Theodore Roosevelt, however, the Navy accelerated its production and power, establishing the Charleston Navy Yard (and other comparable navy yards around the country) to churn out the most technologically advanced ships of their time. By 1910, thanks in part to the facilities in Charleston, the United States ranked second only to Great Britian in terms of capital ships within its naval force.

When a naval board appointed by Congress selected the Charleston site in 1901, the acreage comprised an unfinished city park, a swath of marshland and a portion of a former plantation. By 1903, construction was underway, and in 1909, the first buildings were complete. They included a ship fitter shop, a machine shop, a forge shop, a storehouse, officers' quarters and other administrative buildings. The navy yard continued to expand in the ensuing decades and the Navy dredged a channel in the Cooper River to allow for the scale of their battleships to expand as well. The site became increasingly critical to the nation's defenses as war loomed multiple times in the 20th century. On the eve of World War I, the Navy added a torpedo base at the Charleston facility; as Germany and Japan threatened war in the late 1930s, the Charleston Navy Yard constructed several destroyers.

Throughout these decades of growth, the military might of the navy yard was a boon for the community in Charleston, as the facility relied on hundreds–and at its peak, thousands–of naval and civilian employees to maintain the operations. Even as the workforce ebbed and flowed based on wartime and peacetime conditions, the Charleston Navy Yard remained a major employer and economic force throughout the 20th century. The yard (later renamed Charleston Naval Base) was key to the Navy's Cold War nuclear submarine program, but after the collapse of the Soviet Union, it became less essential and eventually closed in the mid-1990s. The complex was added to the National Register of Historic Places as a historic district in 2006.

The Challenges of Functionally Related Buildings

With such a dense array of vacant older industrial buildings–spanning more than 3 million square feet in 40 buildings–the former navy yard was a prime candidate for rehabilitation and reuse. Yet, what was obviously an asset (the size of the site and the number of buildings) also presented complexities for developers considering using HTCs. When evaluating HTC projects, the National Park Service (NPS) considers the historic use and ownership of the buildings, deeming them "functionally related" if they historically operated together to serve one overall purpose and are now under common or related beneficial ownership. This approach ensures that all aspects of an HTC development project will align with the Secretary of the Interior's *Standards for Rehabilitation*, rather than a piecemeal approach that might result in disparate outcomes for individual historic buildings. In other words, by administering the HTCs according to "functionally related" guidance, the NPS can prevent a scenario in which an owner uses HTCs on one building but makes unsympathetic renovations to another functionally related building under their ownership on the site.

In theory, this "functionally related" guidance makes sense. But in practice, this means that for developers who own or control more than one building, Part 3 certification would not be issued until rehabilitation was complete on the last building. This is obviously not ideal for the developer and presents significant risk to the investor when a project timeline is protracted or market and financing conditions cannot support the rehabilitation of multiple buildings as a single project.

Planning for the Future

The development group known as Navy Yard Charleston began acquiring properties in 2020 with a vision to create a mixed-use campus with residential, commercial and office uses. With such an ambitious program, the developers knew that federal and state HTCs represented critical gap financing. They recognized, however, that this site's functionally related buildings presented hurdles for Part 3 certification, which is why they assembled an experienced project team with just as much urgency as their real estate transactions.

To date, Navy Yard Charleston has acquired nearly a dozen buildings on the site. For some buildings, no work is planned; others require extensive rehabilitation and their construction timelines do not necessarily align, which complicates the timing for the Part 3 certification. Thus, the team was careful to map out the full construction sequencing from the start of the undertaking, rather than taking a disjointed approach to each individual building.

The construction timeline required creative solutions that would dovetail with the NPS' guidance on functionally related buildings. The key proved to be sequencing the timeline based on thematic groupings of buildings, breaking up the overall endeavor into smaller undertakings that would allow for more efficient Part 1/2/3 applications. A plan was forged whereby the shipbuilding-related buildings would be grouped into one HTC project; utility buildings would be addressed separately as a different HTC project; and storehouse and administration buildings would become a third HTC project. Within those projects, opportunities would be realized for additional project breakdowns provided gaps occurred between construction on buildings. Thus, each Part 3 certification need only wait for the completion of a few buildings, not a dozen buildings all at once. The development team presented this solution to the state historic preservation office (SHPO) and the NPS and with state and federal approvals in place, construction could begin.

Testing the Waters

The first HTC project for the Navy Yard Charleston development group centered on Storehouses 8 and 9. Built in 1906 and 1918, respectively, the buildings represent different eras and styles of architecture but were nevertheless grouped together based on their related historic uses and the fact that they were once physically linked by a hyphen. Their proximity was an extra boon to the construction timeline, as the open space between them (where the hyphen once was) could be redesigned as a shared courtyard–reinforcing their physical and historical links.

Storage Building 8, which served as an administration building and storage facility, is one of the oldest extant buildings within the historic district and was part of the first wave of construction on the navy yard in the early years of the 20th century. The two-story, red brick neoclassical building has been converted for commercial and retail space, as well as future opportunities for an event venue, restaurants, design showrooms and office space.

Across the courtyard, Storehouse 9 is visually distinct from its earlier neighbor, with a four-story, flat-roofed reinforced concrete design typical of post-World War I architecture. Historically, the building was an essential addition to the navy yard as it expanded during and immediately after the war; today, it has been put back into use as primarily residential space, with housing for 78 tenants in studio and one-bedroom apartments on the upper three floors. The building also features live-work spaces and retail and design showrooms on the first-floor level.

The scopes of work for both buildings included many of the typical rehabilitation tasks, such as masonry repair, window replacement, appropriate new entrances and storefronts and roof repairs. Their real task, though, was to pilot the approach for subsequent HTC developments in the complex.

In consultation with SC SHPO and NPS, the project team determined that three other storehouse buildings–Storehouses 64, 66, and 67 locally known as the "Three Sisters"–were functionally related and were originally scheduled to be part of the original project. As each of the "Three Sisters" is a single, story metal warehouse of approximately 90,000 square feet, the development team recognized that market and financing conditions did not support the immediate rehabilitation of an additional 270,000 square feet of leasable commercial and retail space.

Before the completion of the storehouses, the project team consulted with South Carolina SHPO and NPS to confirm that Storehouses 8 and 9 would be treated as a separate project for the purposes of HTC certification and would begin after a gap between completion of Storehouses 8 and 9 and the commencement of work on the Three Sisters. Design and development plans and subsequent HTC applications are now under development for the future rehabilitation of the "Three Sisters" as a separate HTC project.

In this, they have succeeded, as they recently received their Part 3 certification and the development group has launched the planning and construction efforts for other groupings of buildings.

Conclusion: Work with SHPO, NPS; Craft Careful Timelines

The Charleston Navy Yard, and other former military sites, are prime opportunities for adaptive reuse–not only as real estate prospects, but also as significant sites worthy of commemoration and preservation. Yet, for projects like this one to succeed, the owners must craft careful and thoughtful construction timelines, with the SHPO's and NPS' input and approval. With these plans in place, developers of such large and complicated sites can ensure that these buildings don't merely have a functionally related past, but can enjoy a shared future as well.

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