

Financing Rehabilitation of Large Structures

...How to make the numbers work

What makes large structure deals different?

- Community impact
- Opportunity for mixed / multiple uses
- Flexibility in design
- Efficiencies in cost and operations
- Increase in **RISK !!!**

What will your lender be most worried about?

- Scale / concentration of risk
- Experience / track record of the team
- Environmental issues
- Construction risks
- Market concerns – product, pricing, depth
- Operational plans / capacity
- INCOME !!! Empty buildings don't get financed

Big Projects in Small Markets !!

- Industrial shifts have left very large structures in declining communities
- Single use solutions are less likely
- Mixed uses
- Staged development
- **ID anchor tenants; pre-marketing of residential**

Reducing Risk

- Strong tenant / long term lease
- Finding the right financing package
 - In weaker markets – “layer cake”
- Owner Equity
- Investor Equity
- Grants
- Soft Debt
- Hard Debt
- Etc...Etc...Etc

Financing Your Deal: Where to Go

- NPS – Federal Historic Credits
- VDHR – State Historic Credits
- New Market Tax Credit Allocators
- DHCD
 - CDBG / HOME / Industrial Buildings
- Virginia Housing Development Authority
 - LIHTC
 - Mixed Use / Mixed Income

Financing Your Deal: Where to Go

- Virginia Community Capital
- Local Governments / RHA's
- State DHCD – CDBG, HOME, ARC, EZ
- Tobacco Commission
- HUD
- USDA - RD

Historic Tax Credits: Two Types of Rehab Credits

- Older (pre-1936), non-historic and non-residential buildings: **10 percent** of qualified rehabilitated expenditures. (not available for housing projects)
- Historic buildings: **20 percent** of qualified rehabilitation expenditures.

Historic Credit Utilization: Virginia is a Leader

- 1,045 projects approved by NPS in 2008*
- In 2008, roughly 45% of HTC projects were for multi-family housing; 21% for office; 27% for commercial*
- Top states ranked by Part 3 approvals: MO (189), OH (115), VA (89), NC (51)

What Types of Buildings Qualify ?

Certified Historic Structure Req.

- Building is listed in the National Register of Historic Places.
- Building is located in a registered historic district and certified by the Sec. of the Interior as being of historic significance to the district.

What Types of Buildings Qualify?

Depreciable Building Req.

- Must be a “building”. Building is defined as a structure or edifice enclosing a space within its wall and usually covered by a roof.
- Building must be depreciable. Depreciable buildings are generally those used for nonresidential (i.e. commercial) or residential rental purposes – not true for Va. Historic Credit

What Types of Rehabilitations Qualify?

Substantial Rehabilitation Requirement

The QREs incurred during any 24-month period* selected by the taxpayer and ending in the taxable year in which the building is placed in service must exceed the greater of:

- \$5,000, or
- The adjusted basis of the building.

* Up to 60 months may be used under certain conditions (ie. phased construction).

What is a Qualified Rehab Expense “QRE” ?

- QREs are any amounts chargeable to a capital account made in connection with the renovation, restoration or reconstruction of a qualified rehabilitated building (including its structural components).
- Does include most rehab “hard” costs and associated “soft” costs
- Does include a permissible “developer fee”

What's Out ?

- Costs EXCLUDED from QREs:
 - Land and building acquisition;
 - Personal property (furniture and appliances, cabinets and movable partitions, tacked carpeting);
 - New building construction;
 - Sitework (demolition, fencing, parking lots, sidewalks, landscaping)

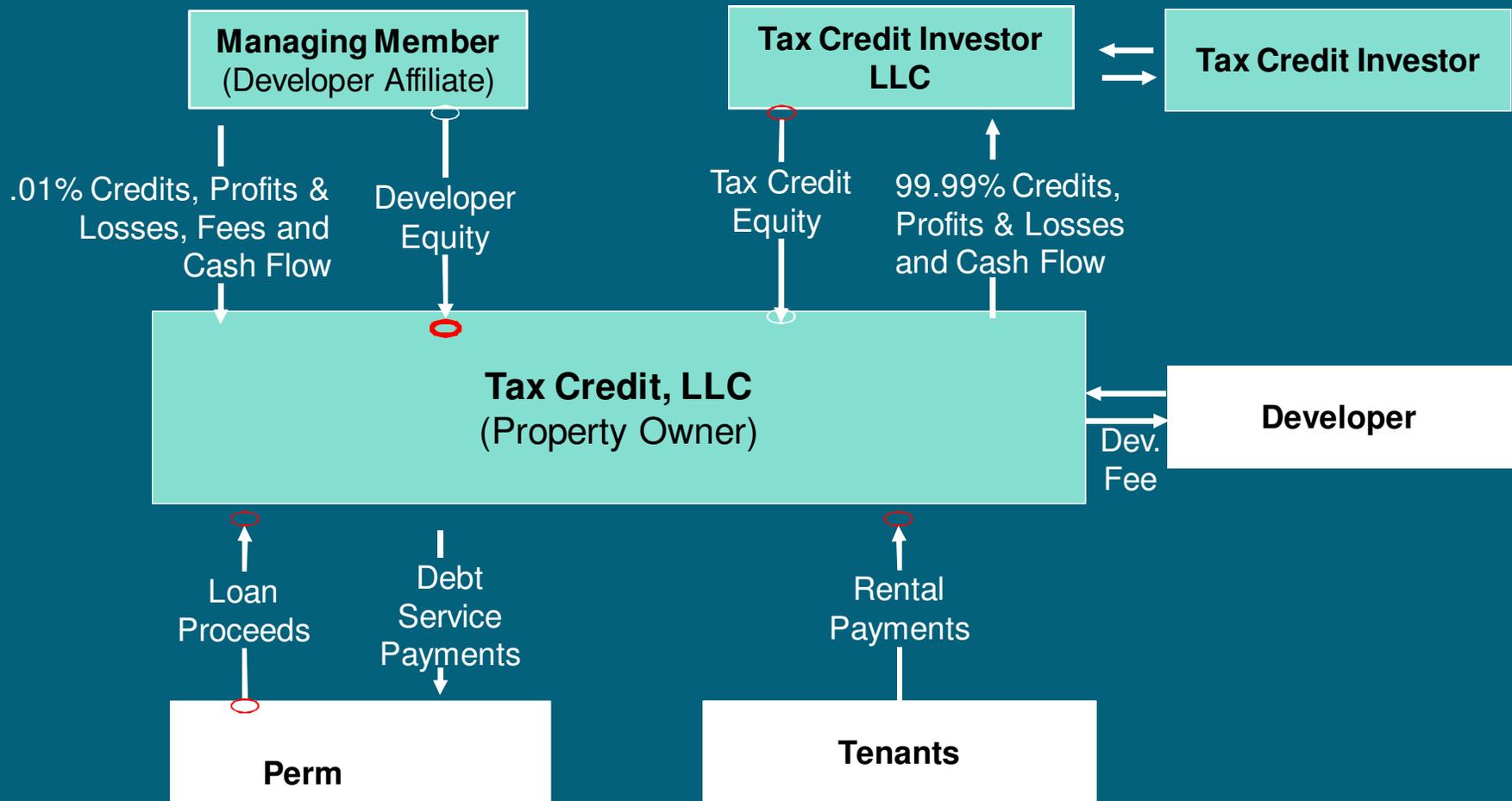
What is the Credit Worth ?

- \$1.5 million Total Development Cost
- \$950,000 Qualified Rehabilitation Expenditures (QREs)
- $\text{HTC} = .2 \times \$950,000 = \$190,000$
- Historic Tax Credit Pricing: \$.90 per \$1 of HTC
- $\text{HTC Investor Equity} = \$171,000$

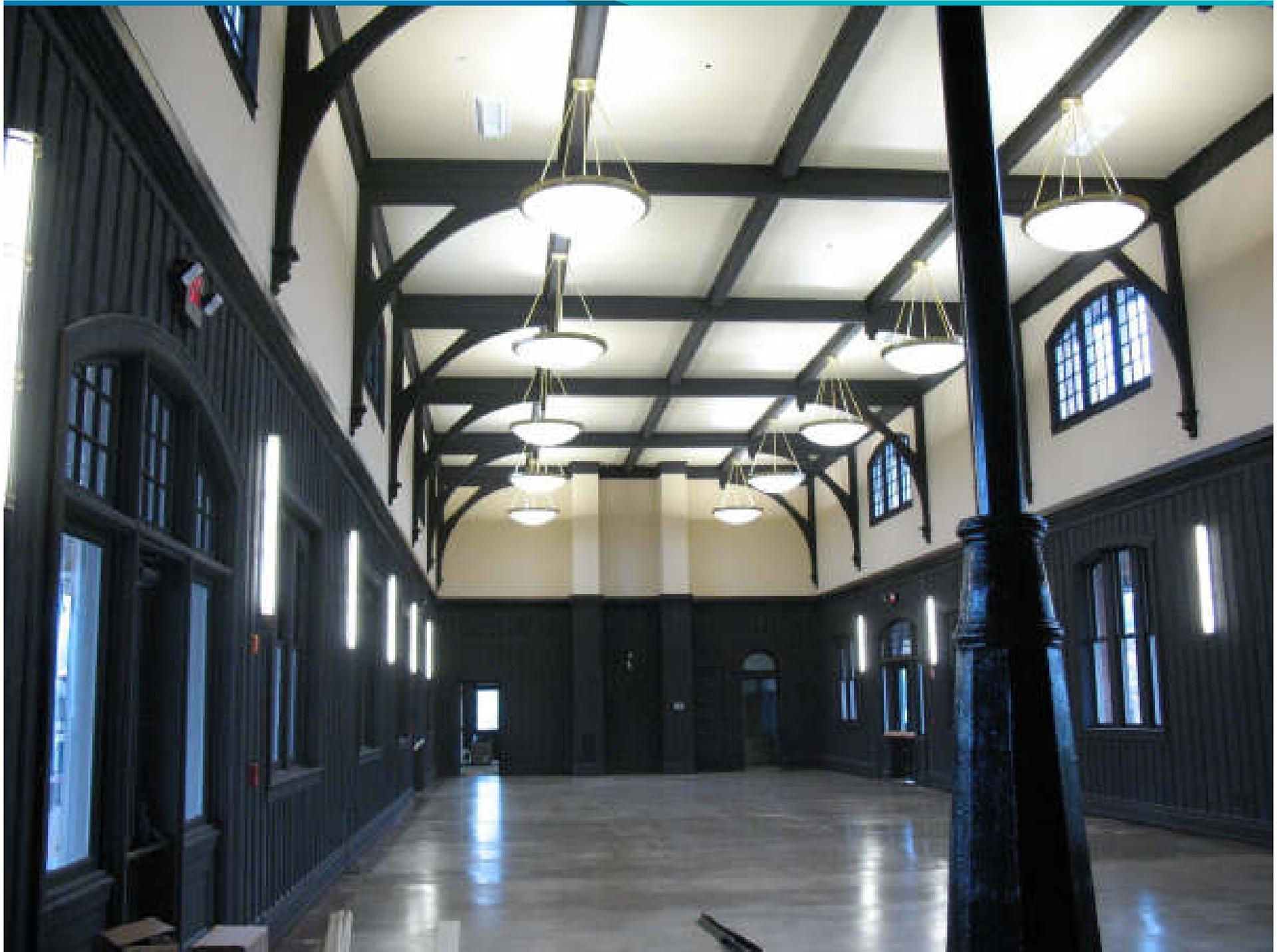
Adding the Virginia Credit...

- The Virginia HTC is 25% of QRE but is taken over 5 years
- $.25 \times \$950,000 = \$237,500$
- Pricing - \$.80 per \$1 of Va. HTC
- Investor Equity = $.8 \times \$237,500 = \$190,000$
- Total HTC Equity - $\$171,000 + \$190,000 = \$361,500$
- Equals 24% of the TDC (38% of QRE)

Single Entity Structure











I Pledge To Be DRUG FREE

Cutting Edge
Gym II
Don't wait
Start now
Build and Tone
For the Summer



Virginia Housing Development Authority

- LIHTC Program – affordable rental
 - Serves renters < 60% of median income
 - Market for LIHTC's is currently disrupted
 - Annual allocation
 - Mixed Income in Large Buildings
- Mixed Use / Mixed Income
 - Long term, fixed rate debt – flexible terms
 - At least 51% residential
 - Flexible income restrictions – includes “market rate”

Virginia Community Capital

Mission

- To offer innovative, flexible financial products designed to support housing and community development ventures, increase jobs and build sustainable communities.
- VCC offers flexible loan capital to projects that have a positive community impact in low-to-moderate income communities or for low-to-moderate income households and reviews deals from \$50,000 to \$10 million.

Virginia Community Capital

- Formed five years ago – to provide credit to underserved areas and projects
- Loans for Community Development projects
 - Flexible lending
 - Projects w/o equity
 - Less experienced sponsors
 - Collateral positions - 2nd and 3rd
 - Multi funding scenarios

Virginia Community Capital

- Debt Products
 - Construction financing
 - Mini-perm financing with rate re-set
 - Housing “preservation” loans – interest only
- New Market Tax Credit Allocation
 - Focus on Health Care related facilities
- Technical Assistance
 - Free assistance to inexperienced sponsors

Other Sources

- Federal Home Loan Bank of Atlanta
 - AHP
 - CIS
- Tobacco Commission
- Appalachian Regional Commission
- HOME
- Community Development Block Grant
 - State DHCD for smaller communities
 - Larger communities receive funds from HUD

New Market Tax Credits

- Federal Credit Enacted in 2000
- Intended to stimulate commercial development – create jobs
- Credits are “allocated” by private entities that compete in an annual cycle
- The credit is 39% over 7 years based on the total “investment” in the “qualified low income business”

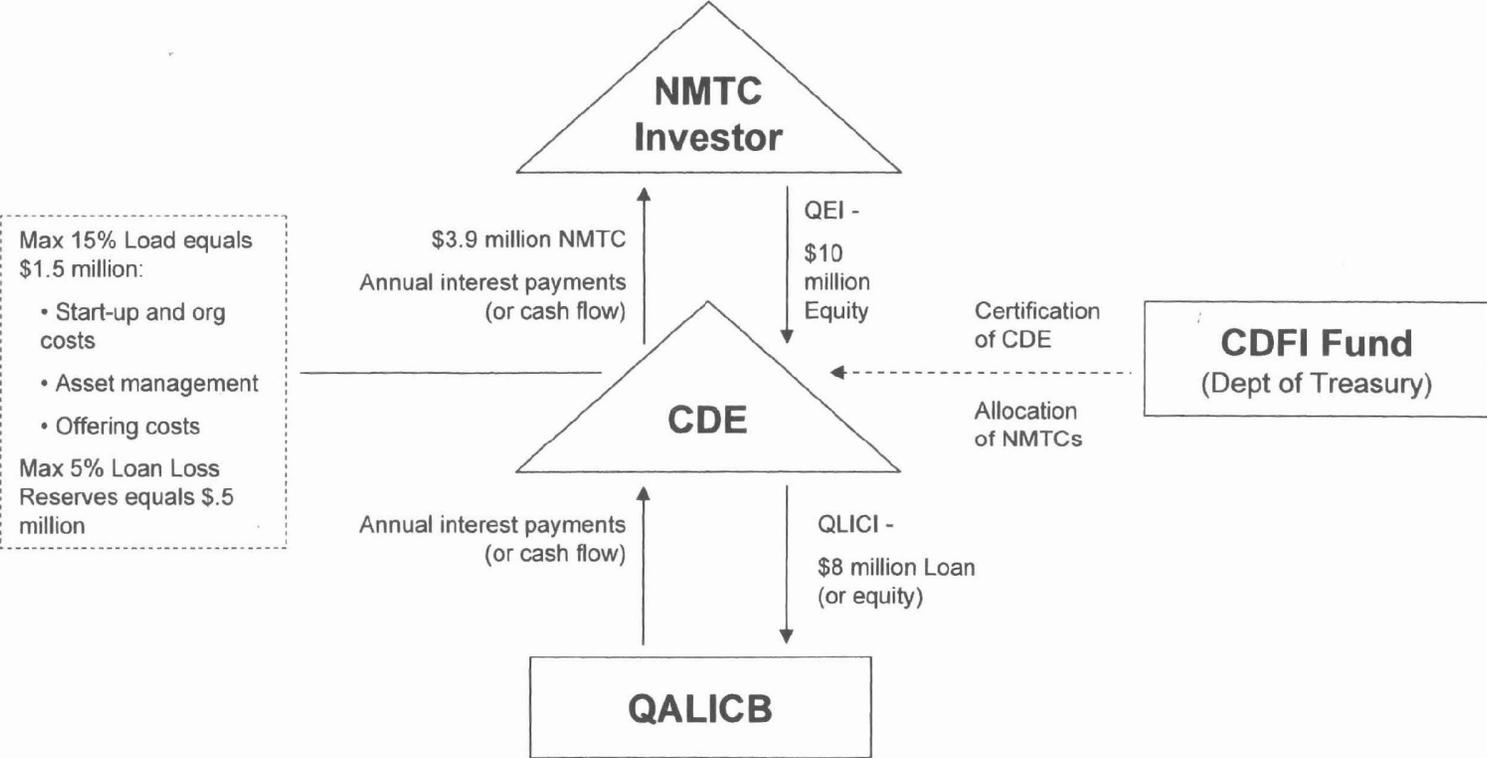
What are NMTC's used for ?

- Historic uses of the Credits are:
 - 25% to finance businesses
 - 59% to finance real estate projects
 - 16% to capitalize loan and investment pools of other CDE's

New Market Tax Credits

- Project must be in a qualified area – see Treasury site for maps
- QEI invested into CDE !!
 - Unlike other TC programs – not about “basis”
- Investment must stay in place for 7 years
- Housing must be < 80% of the project’s income
 - Realistically – probably much less
- Larger projects are favored (over \$5 million)
- High transaction costs

NMTC Sample Structure



New Market Tax Credits: What is the Credit Worth?

- Credit flow from \$10 million investment
 - Years 1-3 - \$500,000 per year
 - Years 4-7 - \$600,000 per year
- Pricing is 65-70 cents on the dollar
- Legal, Accounting, Audit, Allocator fees are high.
- Estimate 18-24% of your QEI

Large Scale Rehab Projects are Ideal for NMTC's

- Scale is right
- Historic Credits can be “leveraged” – enhancing their value
- Mixed Use projects work well
- Housing can be a component of a large project
- Key is locking in a high quality commercial tenant

Pyramid Motors, Lynchburg

- 22,000 SF former Auto Dealership
- Transitional neighborhood
- Local CDC working with neighbors and health organizations
- Tenants
 - Pediatric and OB/GYN Community Health Center Clinic
 - PACE – medically oriented adult day care (Centra Health)

Financing Strategy

- Multiple subsidies needed
- LISC pre-development assistance
- 2 year planning period
- Nomination of the building to Historic Register
- Worked with Centra Health to provide a guarantee for the CHC

Pyramid Uses of Funds

- Acquisition \$ 495,000
- Construction 2,602,685
- Soft Costs 923,000
- Developer Fee 750,000

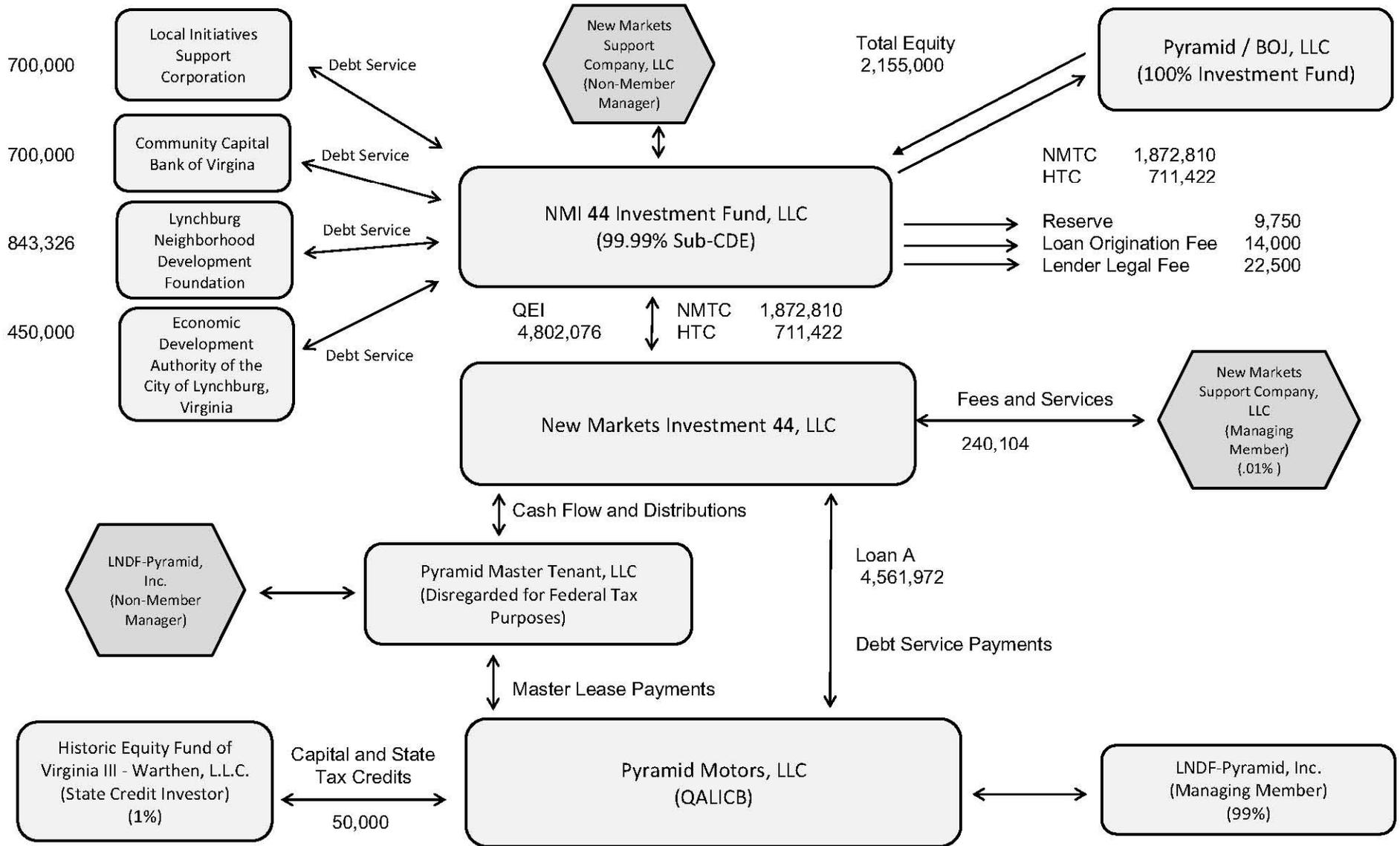
- Total Cost \$ 4,771,180

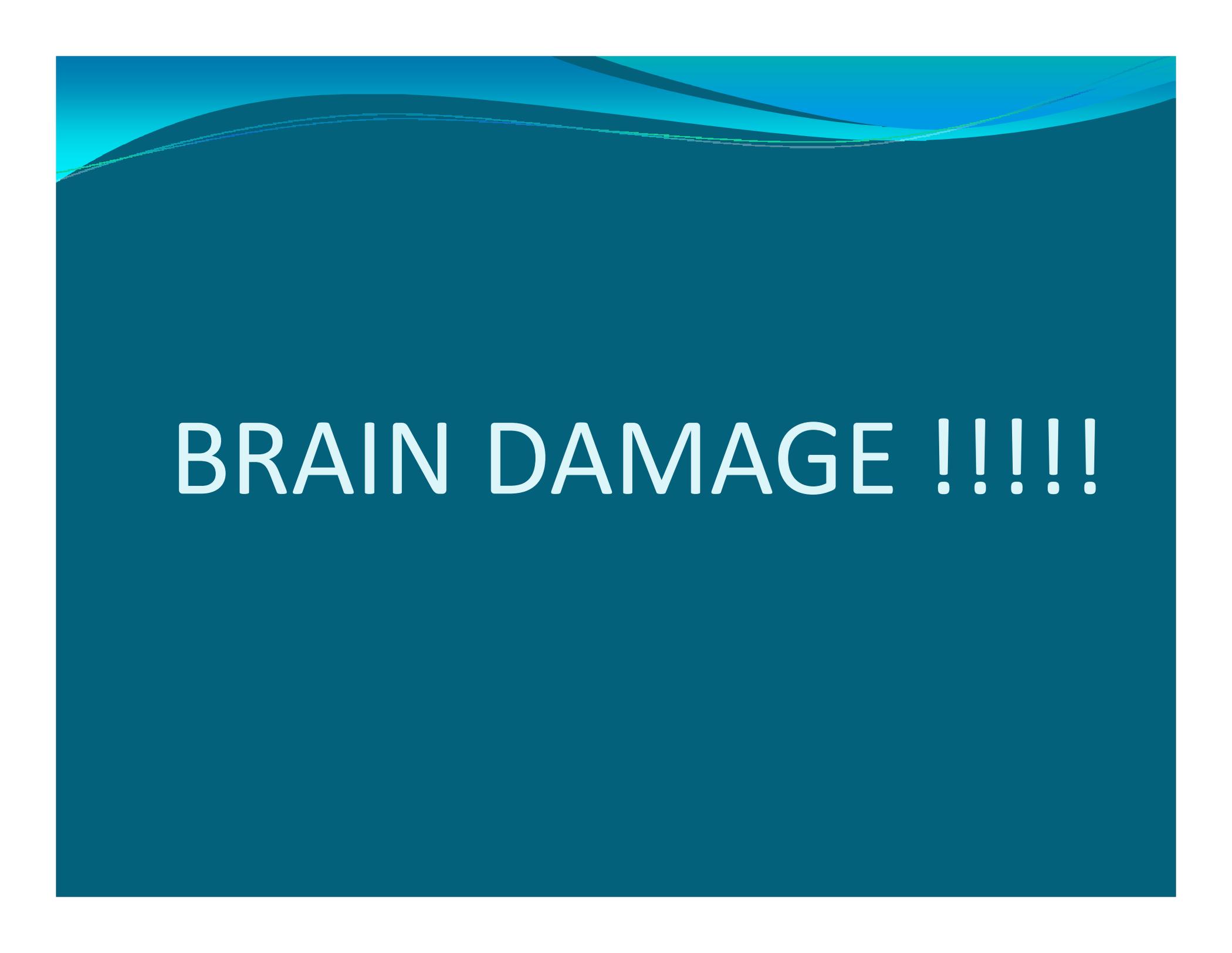
Pyramid Sources of Funds

- NMTC Investment - \$1,100,000
- Federal Historic 622,000
- State Historic 585,000
- LISC Loan 700,000
- VCC Loan 700,000
- Lynchburg IDA loan 450,000
- CDBG 49,500
- EZ Grant 56,000
- Sponsor loan 500,000

Warthen Building

RANSACION DIAGRAM





BRAIN DAMAGE !!!!!





Johnson
Health Center
Johnson
Pediatrics
Johnson
Pre-Natal/OB

CENTRA
PACE
A Program of
Johnson Care
for the County











Thank you !!
Questions?

HDAdvisors

Bob Adams, 804-240-3755, bob@hdadvisors.net

www.hdadvisors.net