

**Financing Incentives for
Adaptive Reuse of Historic Properties
*PACKAGING THE DEAL!***

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**Who is on the
Project Team?**

- Sponsor/Developer
- Architect
- General Contractor
- Property Manager
and Leasing Agent
- Tax Accountant
- Tax Counsel

**Obtaining
Certified Historic
Structure Status**



**What is the Project
Status?**

- Site Control
- Zoning &
Regulatory
Approvals
- SHPO and NPS
Part 2 Approval
- Construction Start
- Pre-Leasing
- Project
Completion





What is the Project Cost?

- Development Budget
- Financing
 - Acquisition
 - Construction
 - Permanent
- Timing of loan funds, developer equity and tax credit equity



The Market

What is the Demand?

- Property:
 - Location
 - Neighborhood Amenities
 - Building Design
- Financial Projections
 - Rental Rates
 - Occupancy
 - Absorption and Lease-Up Period
 - Operating Expenses



Investor Partnership

The Equity Investment: Key Terms

- Pricing
 - \$0.92 - \$0.97 per historic tax credit dollar
- Guarantees
 - Construction Completion
 - Part 3
 - Operating Deficits
 - Recapture
- Equity Pay-In
 - 5% - 25% at Admission
 - 40% - 65% at CO
 - 10% - 15% at Part 3
- Reserves
 - Operating
 - Replacement
 - Investor Put

Negotiation and Closing: Business Points and Tax Issues

- **Term Sheet**
- **Operating Agreements**
- **Real Estate Due Diligence**
- **Projections**
 - Allocation of benefits/costs
 - Profit Motive
 - Put and Call
 - Taxes: Annual and Exit Tax Liability

Projections: Tax Issues

- **Allocation of Profits, Losses, Cash Flow**
 - Credits follow Profits Allocation
 - % of Cash Flow = Profits Allocation
- **Profit Motive**
 - Substantial Economic Benefit (Pre-Tax)
- **Exit Strategy**
 - Put Option
 - Call Option
 - Lease Termination - Cancellation of Debt

Project Timeline

- Site Control
- Project Team (Architect, GC, Preservation Consultant)
- Begin Historic Certification Process
 - Determine Historic Status
 - review rehabilitation plans with SHPO
 - Prepare/submit Parts 1 and 2
- Preliminary Source/Uses and Operating Proforma (based on architect's-GC estimates)
- Identify Potential Financing Sources
- Refine Sources/Uses and Operating Proforma
- Obtain User (tenant) Commitments
- Prepare Proposals to Lenders and Tax Credit Investors
- Negotiate Financing Commitments
- Loan Closing(s) and Loan Disbursement
- Tax Credit Equity Closing and Admit Investor to LLC
- Start Construction

New Markets Tax Credits

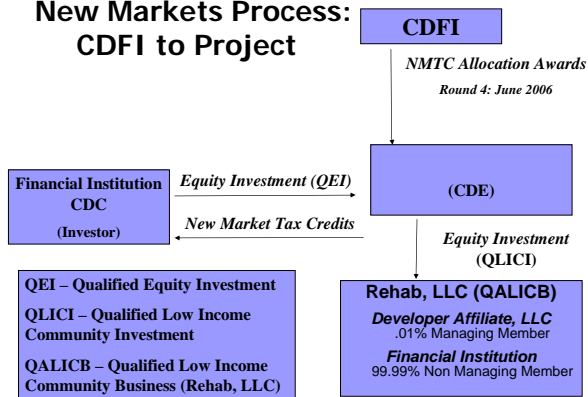
- Designed to encourage investment in businesses and real estate projects in low-income communities.
- Administered by the **Community Development Financial Institutions (CDFI) Fund** and the Internal Revenue Service of the U.S. Treasury Department

Glossary and Reference....

- **CDFI** - Community Development Financial Institution
- **NMTC** - New Markets Tax Credits
- **CDE** - Community Development Entity
- **LIC** - Low-Income Community

- **QEI** – Qualified Equity Investment
- **QLICI** - Qualified Low-Income Community Investment
- **QALICB** - Qualified Low-Income Community Business

New Markets Process: CDFI to Project



Community Benefits Agreement

- Increased interest and competition in NMTC application program
- CDFI Fund standards for additionally distressed criteria
- Job generation, community impact, outreach programs
- Additional requirements for projects

Links

www.cdfifund.gov Community Development Financial Institutions Fund
www.novoco.com Novogradac & Company, LLC, San Francisco
www.reznickgroup.com. The Reznick Group, Sacramento and Baltimore

Fox Tucson Theater January 2006

- **Public-Private Partnership formed to rehabilitate the 1,200-seat building and an adjacent property**
 - Fox Tucson Theatre Foundation
 - Rio Nuevo Multipurpose Facilities District
- **Total Development Cost: \$13,000,000**
 - \$3,090,000 HTC and NMTC
 - \$5,600,000 Loan from Rio Nuevo District
 - \$3,500,000 Grant from Rio Nuevo District

- **Built in 1929 and closed 1974**
- **Cornerstone project of the Rio Nuevo District's Rio Nuevo Revitalization Program**
 - Reinvestment in designated area to deliver shopping, restaurants, office space, infrastructure and residential housing.
 - Public and private investment more than **\$900 million**.
 - **50** projects—new construction and historic property rehabilitation.

Critical Dates and Timeframes

- **24-month or 60-month measuring period**
(to determine whether meet "Substantial Rehabilitation Test")
- **Placed in Service Date - Certificate of Occupancy**
 - Investor must be Admitted by this date (Investor likely admitted not later than 1 month prior to PIS, more typically at the start of construction)
 - If not individually listed, Part 1, must be submitted
 - Triggers ability to claim Historic Tax Credit
 - Triggers Start of Historic Tax Credit Recapture Period
 - Beginning of 30-month period in which to obtain Part 3 (typically investors will not wait 30 months, will require for final pay-in)
- **Tax year** in which credit is claimed
- **5-Year** Recapture Period (historic tax credit)
- **7-year** Recapture Period (NMTC)

Lessons Learned

- Build **in-house** staff capacity with strong business expertise
- Engage project team with historic preservation expertise – architect, general contractor, preservation consultant **and** Tax Counsel with expertise in historic tax credit syndication
- Be realistic about budgets and time frames
- Be determined and creative – whether design alternatives or financing alternatives
- Communicate and Coordinate **early** with all participants
- Considerations when using historic tax credit
 1. Will there be design issues – get with preservation architect and/or consultant before doing anything
 2. Will there be other financial impacts – get with tax credit investor and your tax counsel early
 - Real Estate Property Taxes
 - Disqualified Lease and Tax-Exempt Use Property Rules
 3. Mitigate Investor Risks
 - Construction Contingency
 - **Non-Foreclosable Debt Reserves**

