

Central YMCA to Kelly Cullen Community

California Preservation Foundation Webinar
Preservation Financing: Funding Projects

March 4, 2014

Presented by Katie Lamont, TNDC







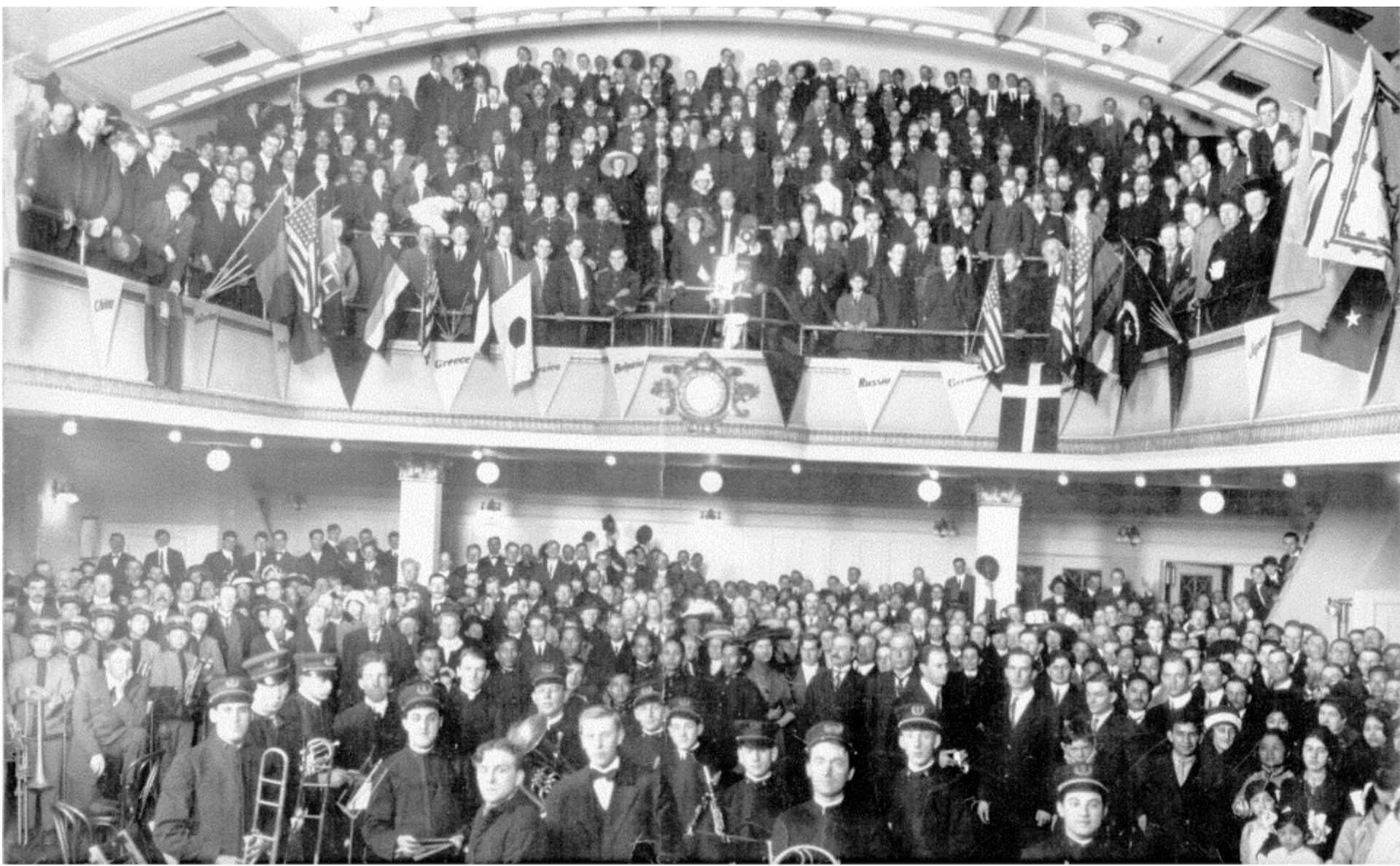




















Kelly Cullen Community

- 174 apartments with full bathrooms & kitchenettes
- Amenities including
 - Entrance lobby & atrium
 - Common laundry room
 - Landscaped roof deck
 - Lounges
- Historic event spaces available to the public
 - Auditorium
 - (Former) Pool
 - Gym
- Offices for property management, tenant services, and medical staff
- Clinic operated by Department of Public Health

220 Golden Gate Avenue Team & Timeline

- Developer: TNDC
- Contractor: Cahill
- Architects:
 - Gelfand Partners Architects (record)
 - Frederic Knapp Architect (historic)
- Acquisition – 2007
- Exploratory demotion – early 2010
- Principal construction – Sep 2010 to Nov 2012



Total Development Cost: \$91 million

Construction Contract: \$56 million

City of San Francisco, Mayor's Office of Housing (CDBG, HOME, Hotel Tax) & Mayor's Office of Community Development	20,000,000
ARRA funds in lieu of	
- Low Income Housing Tax Credit Equity	24,000,000
- CA Dept of Housing & Community Development Multifamily Housing Program and Transit Oriented Development Program	10,000,000 17,000,000
PNC Bank – Historic Tax Credit Equity	16,200,000
CA Housing Finance Agency – Mental Health Services Act	1,700,000
Federal Home Loan Bank – Affordable Housing Program	1,500,000
<i>Additional Financing during acquisition, construction, and operations</i>	
Acquisition Financing by US Bank	13,000,000
Construction Financing by Citibank	8,300,000
City of San Francisco Local Operating Subsidy Program (over 15 years)	18,500,000
Corp. for Supportive Housing – Social Innovation Fund (over 2 years)	850,000

Historic Tax Credits

- Requirements
 - Building may be a national historic landmark, listed in the National Register, contribute to a National Register Historic District or certain local historic districts
 - Property must be income-producing
 - Property must be rehabilitated according to the standards set by the Secretary of the Interior
 - Final approval of plans and specs with respect to historic items is by the federal National Parks Service, not by the state Historic Preservation Office

Historic Tax Credits

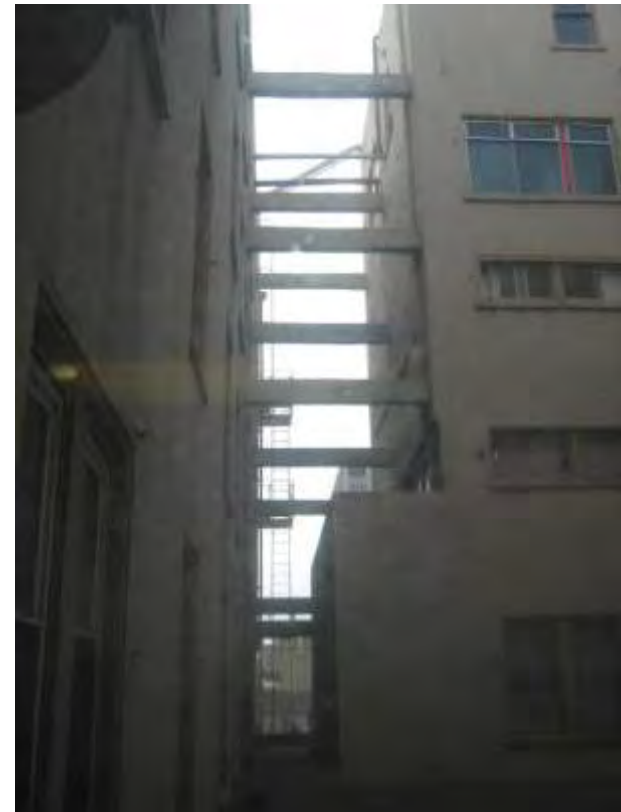
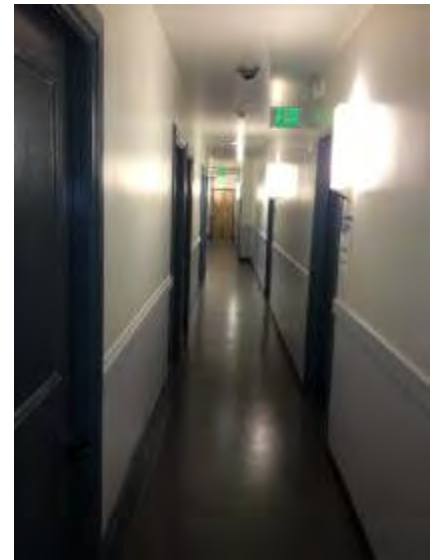
- Terms of Investment
 - \$1.29 per dollar of Federal historic tax credit (FHTC) based on Qualified Rehabilitation Expenditures (QRE) under Sec 50 (d) of the Internal Revenue Code
 - 20% of QRE, works out to 12-14% of QRE after syndication costs
 - First funding of \$10,000
 - Receipt of NPS Part 1 and Part 2 approvals
 - Construction loan closing
 - Second funding of 20% of total
 - Certificates of occupancy*
 - * condition revised due to adverse ruling on another project
 - Receipt of proof that historic standards continue to be met by inspection and approval of investor historic consultant (Part 2 Amendments)

Historic Tax Credits

- Terms of Investment
 - Third funding of 80% of total
 - Cost Certification of the QRE
 - Stabilized Operations & Permanent Conversion
 - Reserves funded, including \$3,700,00 Put Reserve
 - Final funding of \$700,000
 - Receipt of final NPS Part 3 approval
 - Exit Options
 - PNC Option to put its interest between the 67th and 70th month after Placed in Service
 - Payment of put option obligation is required to be guaranteed
 - Upon expiration of put period and continuing for 6 months, Managing Member option to purchase for higher of exit taxes and FMV of PNC's interest

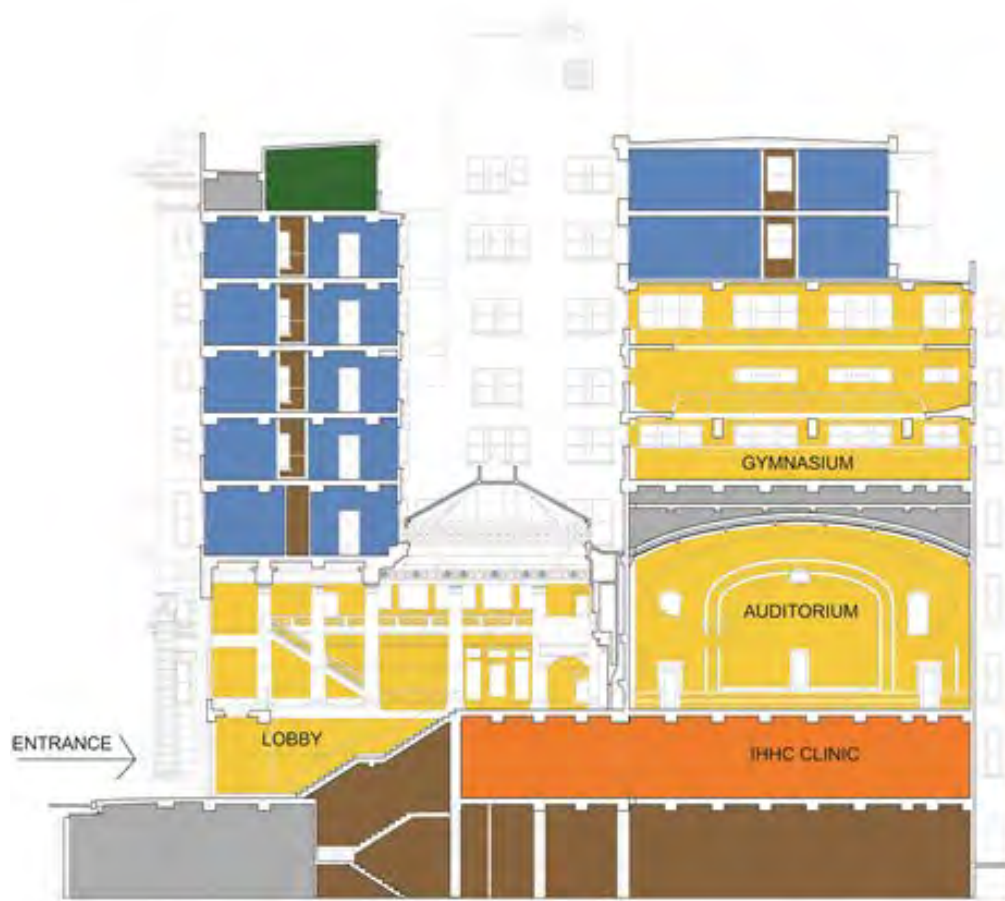
Development Challenges

- Design and construction
 - Historic preservation requirements
 - Structural
 - Energy efficiency
 - Accessibility for the
 - Circulation
 - Special needs user groups
 - Unforeseen conditions
- Size and complexity – 9 stories, basement, 140,000sf
 - 174 units + common areas = 128,000 sf
 - Retail = 1,500 sf
 - Clinic = 12,000 sf
 - Programming Common Space



Kelly Cullen Community

PROGRAM



BUILDING SECTION

- | | |
|---|--|
|  RESIDENTIAL |  COMMON SPACE |
|  RETAIL |  OFFICES |
|  DEPARTMENT OF PUBLIC HEALTH |  CIRCULATION |
|  BUILDING SERVICES | |

220 GOLDEN GATE AVENUE

LEAVENWORTH STREET

GOLDEN GATE AVENUE













For more information

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Public-Private Opportunities for Financing Historic Preservation Projects

Adam Engelskirchen, The Capterra
Group, Inc.

Overview

- Historic Buildings in the Public Sector
- Preservation Strategies in the Public Sector
- Preservation Tools in the Public Sector
- Examples from the Presidio of San Francisco
- Questions, Discussion

Historic Buildings in the Public Sector

- Of GSA's 1600 owned buildings, more than $\frac{1}{4}$ are listed/eligible for listing on National Register, and about $\frac{1}{2}$ are more than 50 years old.
- NPS: more than 8,000 historic buildings
- Military
- State, county, local
- Educational institutions

Preservation Strategies in the Public Sector

- NHPA applies to all projects receiving Federal funding or permits
- Section 106 consultation
- Section 110 Federal agency preservation programs
- NPS/DOI – deferred maintenance

Preservation Tools in the Public Sector

- Ground leases
 - Adjusted basis issue
 - Recurring revenue stream
 - Flexible structuring
 - Control, reversion
- Historic tax credits
- Earmarked transportation funds
- Nonprofit use of tax credits

Examples from the Presidio of San Francisco



Examples from the Presidio of San Francisco



Presidio Examples – Public Health Service Hospital



Presidio Examples – Public Health Service Hospital



Presidio Examples – Public Health Service Hospital



Presidio Examples – Public Health Service Hospital



Presidio Examples – Bay School



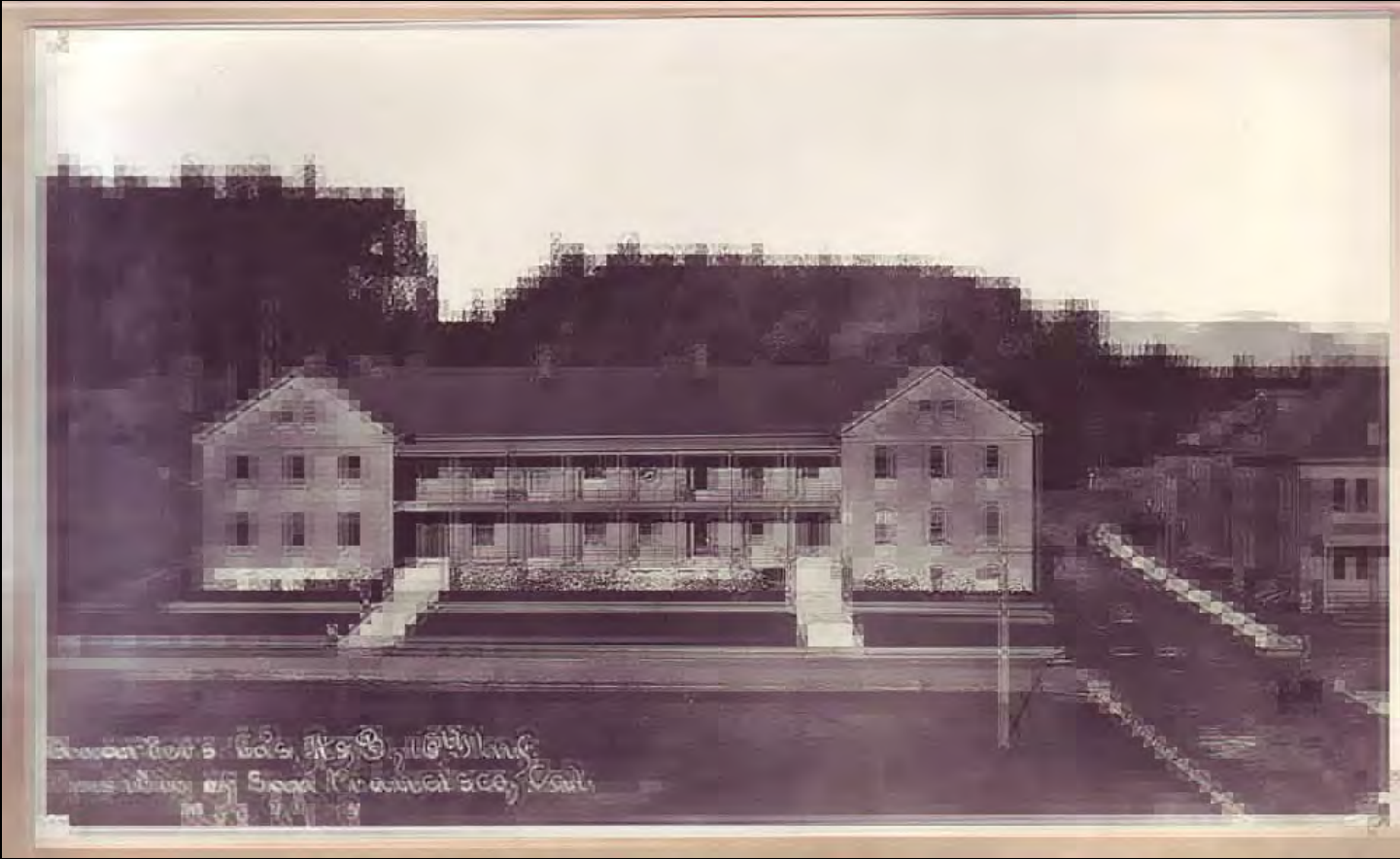
Presidio Examples – Bay School



Presidio Examples – Bay School



Presidio Examples – International Center to End Violence





Presidio Examples – International Center to End Violence



Conclusions

- Public agencies control significant historic resources
- Agencies are uniquely positioned to facilitate historic rehabilitation projects through public-private partnerships
- It is critical to have a clear understanding of the available tools

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***PRESERVATION FINANCING:
FUNDING PRESERVATION
PROJECTS***

***The Historic Tax Credit Investor
Partnership***

**California Preservation Foundation
Webinar
*March 4, 2014***

CFC

FINANCING STRATEGIES FOR URBAN INFILL AND HISTORIC PROPERTIES

Historic Tax Credit - Economic Overview

- Credit is equal to 20% of QREs
- Credit is earned in the year the building is placed in service
- Credit is earned by the taxpayer(s) that own the building (must have owned prior to placement in service and building must be depreciable)
 - Credit can be carried forward 20 years and back 1
 - Taxpayer must own the building for at least 5 years
 - Recapture – 20% per year if sold within 5 years from placement in service

The Historic Tax Credit Investor Partnership

Investor contributes equity in exchange for share of HTC, profits, losses, cashflow and capital gains/losses

Project Size:

<\$1,000,000 - little investor interest; best option may be to keep the credits yourself

\$1MM to \$10MM - modest investor interest; may have several (2 – 4) investors to choose from

>\$10MM – more competitive market place with multiple investors

The Historic Tax Credit Investor Partnership



Finding an Investor:

- Small deals: ask locally – local accountants, lawyers, business colleagues, local banks
- Medium-sized deals: regional accounting firms, law firms with tax and real estate practice, regional banks, internet
- Large deals: national accounting firms, law firms with tax and real estate practice, larger regional and national banks, internet

The Historic Tax Credit Investor Partnership



“Pitching” the Investor

1. The Real Estate Project and **You**.
 - Development and Management Team
2. The “Numbers”
 - Construction
 - Operations
3. The Market
4. Preservation

Responsibilities

Project Developer

- **Construction and Management:**
 - Site control & entitlements;
 - Project financing (including grants and contributions)
 - NPS Approvals
 - Complete Construction
 - Lease and Operate Property

- **Tax Credit Syndication**
 - Form For-Profit affiliates
 - Manager LLC
 - Rehab LLC
 - MT LLC
 - Guarantee (Limited) *****
 - Operating Deficits (12 months)
 - Construction Completion
 - Part 3 NPS approval

Tax Credit Investor

- **Construction and Property Management:**
 - None

- **Tax Credit Syndication**
 - Underwrite investment, obtain approvals;
 - Make equity contribution in exchange for
 - member interest in Rehab, LLC and MT, LLC;
 - Tax Credits; and
 - Annual return on equity investment;
 - Share of Profits, Losses, Cash Flow
 - Put proceeds

Funding Sources

Project Developer

- **Grants and Charitable Contributions:**
 - Government
 - Foundations and Corporations
 - Individuals
- **Conventional Market-Rate Loans:**
 - National, Regional or Community banks;
 - Federal, State or Local governmental agencies.

Tax Credit Investor

- **Bank Holding Company**
 - 12 CFR part 24 (“part 24”) allows investment in bank-owned **community development corporations (CDCs)** that benefit:
 - **low- and moderate-income** individuals and neighborhoods; or
 - **government-targeted** areas for revitalization.
 - Banks invest in CDCs to support:
 - **Community Reinvestment Act (“CRA”)** compliance;
 - Corporate-level specific economic development strategies.
 - CDC Investments must satisfy the “Part 24” **public welfare** investment requirements.

Property Ownership – Single Entity

Project Sponsor

Historic Building, Inc.

Project Sponsor



Manager LLC

*Sole Member or Multiple Members:
History Building, Inc.*

Tax Credit Investor

Community Development Corporation

Project Investor



Historic Ventures LLC

*Member:
Community Development Corporation (CDC*



Historic Building Rehab LLC
Property Owner

Members:
99% Manager: **Manager LLC**
1% Member: **Historic Ventures LLC**

“Plain Vanilla” Single Entity

Property Seller
(Private or Governmental Entity)

Rehab, LLC
1%: **Manager Member**
99%: **Investor Member**

Manager Member, LLC

- * Contribute Cash &/or Bldg
- * 1% Tax Credits, Profits, Losses, Cash Flow
- * Manage Property Operation
- * Guarantee Loans & Investor Returns

Investor Member, LLC

- * Contribute HTC Equity
- * 99% Credits, Profits, Losses, & Cash Flow
- * 3% Annual Return

Lender (s)

Tenants

Property Seller
(Private or Governmental Entity)

Manager LLC

- * Contributes Cash & Bldg
- * 90% Tax Credits, Profits, Losses, Cash Flow
- * Manages Operations
- * Guarantee Returns & Loans

Rehab LLC
90% Manager
10% Master Tenant

- * Purchases & Owns property
- * Completes Construction
- * Earns & Pass Through HTC
- * Enters into 32-yr lease
- * Collects Rents
- * Pays Debt Service

Master Tenant LLC

- * Contributes HTC Equity
- * 10% Credits, Profits, Losses, & Cash Flow
- * 3% Annual Return

Manager LLC

- 1% Tax Credits, Profits, Losses, Cash Flow
- * Manage Operations
- * Guarantee tax credits and Investor returns

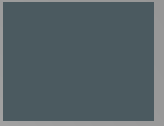
Master Tenant LLC
1% Manager LLC
99% Investor Member LLC

- * Contributes Equity to Rehab LLC
- * Claims Tax Credit (IRC 50(d))
- * Collect Rents from subtenants
- * Makes Lease payment to Rehab LLC

Investor Member LLC

- * Contributes equity
- * 99% Credits, Profits, Losses, & Cash Flow
- * 3% Annual return

Getting Started



1. Set Project Goal.
 - Owner – looking for tenant(s)?
 - Business or Tenant – looking for a building?
 - City – Land Use and Economic Development Strategy?
2. Understand what HTC can and can't do.
3. Understand what other sources can and can't do.
4. Put together development and finance team.

Sources and Uses of Funds

Gross SF: 7,000
 Number of Stories: 2

Without Historic Preservation Financing

Sources	\$	%	% of Total
Owner Equity	218,753	20.00%	20.00%
Construction / Permanent Loan	875,010	80.00%	80.00%
<i>Façade Grant</i>	0	0.00%	0.00%
<i>City Seismic Loan</i>	0	0.00%	0.00%
<i>Historic Tax Credit Equity Investment</i>	0	0.00%	0.00%
<i>Deferred Developer Fee</i>	0	0.00%	0.00%
Total	\$ 1,093,763	100.00%	100.00%

Uses	\$	%	Cost PSF
Soft Costs			
Architecture and Engineering	73,500	10.50%	10.50
Structural	17,325	2.48%	2.48
Mechanical, Electrical and Plumbing	8,925	1.28%	1.28
General Contractor - Contingency	23,205	3.32%	3.32
Legal (zoning, entitlements, financing)	32,495	4.64%	4.64
Owner's Title Insurance Policy	15,000	2.14%	2.14
Syndication Costs	<u>0</u>	<u>-</u>	<u>-</u>
Sub-Total	\$ 170,450	24.35%	24.35

Hard Costs			
Demolition and site work	114,900	16.41%	16.41
Seismic Work	219,030	31.29%	31.29
Interior Construction -Contingency	299,250	42.75%	42.75
Mechanical and Electrical Work	129,125	18.45%	18.45
General Conditions and Builder's Risk	<u>112,445</u>	<u>16.06%</u>	<u>16.06</u>
Sub-Total	\$ 874,750	124.96%	124.96

Financing Costs			
Origination Fee	8,750	1.25%	1.25
Construction period Interest	<u>39,813</u>	<u>5.69%</u>	<u>5.69</u>
Sub Total	\$ 48,563	6.94%	6.94

Sub- Total Hard and Soft Costs \$ 1,093,763 156.25

Developer Fee \$ -

Total Development Cost \$ 1,093,763 156.25

With Historic Preservation Financing Incentives

Sources	\$	%	% of Total	Difference
Owner Equity	218,753	19.73%	19.73%	0
Construction / Permanent Loan	545,987	49.24%	49.24%	(329,024)
<i>Façade Grant</i>	50,000	4.51%	4.51%	50,000
<i>City Seismic Loan</i>	100,000	9.02%	9.02%	100,000
<i>Historic Tax Credit Equity Investment</i>	244,024	22.01%	22.01%	244,024
<i>Deferred Developer Fee</i>	<u>196,924</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total	1,355,687	N/A	N/A	N/A

Uses	\$	%	Eligible	Non-Eligible
Soft Costs				
Architecture and Engineering	73,500	10.50%	73,500	0
Structural	17,325	2.48%	17,325	0
Mechanical, Electrical and Plumbing	8,925	1.28%	8,925	0
General Contractor - Contingency	23,205	3.32%	23,205	0
Legal (zoning, entitlements, financing)	12,000	17.14%	12,000	20,495
Owner's Title Insurance Policy	15,000	2.14%	15,000	0
Syndication Costs	<u>0</u>	<u>-</u>	<u>0</u>	<u>65,000</u>
Sub-Total	\$ 149,955	21.43%	149,955	85,495

Hard Costs				
Demolition and site work	35,000	4.00%	35,000	79,900
Seismic Work	219,030	25.00%	219,030	0
Interior Construction -Contingency	299,250	34.00%	299,250	0
Mechanical and Electrical Work	129,125	15.00%	129,125	0
General Conditions and Builder's Risk	<u>112,445</u>	<u>13.00%</u>	<u>112,445</u>	<u>0</u>
Sub-Total	794,850	92.00%	794,850	79,900

Financing Costs				
Origination Fee	0	0.00%	0	8,750
Construction period Interest	<u>39,813</u>	<u>4.64%</u>	<u>39,813</u>	<u>0</u>
Sub Total	39,813	4.64%	\$ 39,813	\$ 8,750

Sub- Total Hard and Soft Costs \$ 984,618 174,145

Developer Fee \$ 196,924 -

Total Development Cost 1,355,687 \$ 174,145

Historic Tax Credit Calculations

Developer Fee

Qualified Rehabilitation Expenditures	984,618
x 20%	<u>0.20</u>
	196,924

Historic Tax Credit Amount

Qualified Rehabilitation Expenditures	1,355,687
x 20%	<u>0.2</u>
	271,137

Historic Tax Credit Equity Investment

Tax Credit Amount	\$271,137
Amount Paid per Credit	<u>\$0.90</u>
	244,024

Historic Tax Credit Price

\$0.90

Operating Proforma

Gross Revenue	\$	120,600	\$	120,600
Vacancy		<u>12,060</u>		<u>12,060</u>
Effective Gross Revenue		108,540		108,540
Operating Expenses		17,366		17,366
Property Taxes		<u>15,075</u>		<u>7,538</u>
Net Operating Income	\$	76,099	\$	83,636
Annual Debt Service		<u>(70,514)</u>		<u>(43,999)</u>
Cash Flow	\$	5,585	\$	39,637
Tax Credit Investor Return		0		7,321
Net Cash Flow		5,585		32,316

Assumptions

Rental Rate	\$18.00	\$18.00
Vacancy	10.00%	10.00%
Operating Expense Ratio	16.00%	16.00%
Interest Rate	7.00%	7.00%
Amortization	30	30
Net Rental Square Feet	6,700	6,700
Investor Return	0.00%	3.00%

Benefit/Cost Summary

	"New"	Rehab
Construction Costs		
Owner's Equity	218,753	218,753
Tax Credit Equity	-	244,024
Façade Grant	-	50,000
Construction Loan	875,010	545,987
Rehab/Syndication Costs	-	65,000
Operations		
Annual Debt Service	(70,514)	(43,999)
Cash Flow	5,585	32,316







More Information?

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