



Novogradac

Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

January 2019 • Volume X • Issue I

Published by Novogradac & Company LLP

HISTORIC TAX CREDIT TOOL BOX

Main Street Affordable Housing: Capitol Art Lofts in Jackson, Miss.



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Adaptive use—putting old buildings into new uses—is one keystone to the federal rehabilitation tax credit (HTC).

Popular concepts include transforming abandoned industrial buildings to loft housing and vintage office buildings to boutique hotels. One of the more creative yet challenging recent adaptive reuse projects is the Capitol Arts Lofts in Jackson, Miss.

Jackson is Mississippi's state capital with a population of about a half million people. Physically, its arc is similar to most other cities, with growth following World War I and a flight to the suburbs following World War II. Like many cities around the country, Jackson benefited from a surge in historic redevelopment in the past decade or so. Jackson particularly benefits because Mississippi has a 25 percent state HTC, which is automatic if a development qualifies for the federal HTC.

One of Jackson's first modern historic rehabilitation projects was the grand, but long-vacant Hotel King Edward. In 2007-09, New Orleans-based developer HRI Properties LLC transformed the property into a 186-room Hilton Garden Inn that also included 64 luxury apartments. At the same time and on the same block, HRI adapted the art deco Standard Life Building into 76 luxury apartments.

At the time of completion in 1929, Standard Life was the tallest building in Jackson and considered the largest reinforced concrete building in the world. HRI adapted it into the Standard Lofts with 76 luxury one and two bedroom apartments. At the same time, HRI also rehabilitated the nearby 1926 Hines Motor Company Garage to provide parking for the overall development. The combined property represented an investment of an estimated \$123

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million, including federal and state HTC equity, new markets tax credit equity, Gulf Opportunity Zone bonds and Community Development bonds. Other Jackson projects included an award-winning \$20 million renovation of the train station across the street from the King Edward and renovation of the Lamar Life Insurance Building, a gothic revival 11-story office building built in 1925 a few blocks east of the King Edward, located directly across from the governor’s mansion. Including new construction, downtown Jackson has seen \$800 million in development since 2005.

Image: Courtesy of Heritage Consulting Group
Capitol Arts Lofts was a challenging adaptive reuse project in Jackson, Miss.

This significant real estate investment did not, however, migrate to Jackson’s West Capitol Street’s stretch of low-

rise “Main Street”-style commercial buildings that starts at the train station and King Edward and goes east toward the center of town. Listed on the National Register of Historic Places in 1980, the West Capitol Street Historic District has 28 buildings, including the train station, King Edward and Standard Lofts buildings. Located along the 100 and 200 blocks of West Capitol Street, most buildings were two- and three-story commercial block in form with in varying styles. They ranged in age from circa 1885 to the 1940s.

As an ensemble of style, materials and uses, the collection represented the evolution of a key historic commercial street in the capital city. As referenced in the National Register nomination, the district “contains the earliest intact commercial facades in Jackson and some of the finest Art Deco architecture in the state

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of Mississippi ... the district is vitally important as a visual record of the commercial story of Jackson.”

Unfortunately, despite their significance, the buildings were also vacant, dilapidated and nearing the point of self-demolition.

As we have discussed before in this column, small-scale historic preservation adaptive reuse is a challenge. There is a baseline of costs involved for participating in the HTC program that make the program attractive for large-scale developments, but less so for smaller scale. The smaller, the less attractive.

Nonetheless, HRI—with its \$100-plus million investment on Capitol Street—took a proactive approach to finding both a use and a funding mechanism to redevelop the properties along Capitol Street. HRI acquired and redeveloped seven properties on the north side of the 200 block of West Capitol Street as a single development. In determining a use, the company discerned that the greatest need in downtown Jackson was affordable housing, particularly targeting veterans, artists, medical employees and those physically challenged. Gross income levels were set at both 30 percent and 60 percent of area median family income. With a budget of \$10 million, HRI planned to convert the seven buildings into 31 affordable one- and two-bedroom units. Collective amenities in the development included a community art gallery space, a resident business center, fitness center and on-site parking availability. Within month of opening, the units were 100 percent leased.

“HRI’s philosophy along West Capitol Street was to help revitalize a neighborhood and not just a particular set of buildings,” said Josh Collen of HRI. “Following our investments in King Edward and Standard Life with an artist housing development, including a ground-floor gallery space, seemed like a natural fit for these lower-scale buildings. The kind of vibrancy

and creative energy that our affordable, artist housing developments bring to this area of downtown was exactly what was needed in the neighborhood.”

Key to the development were the federal and state HTCs. The availability of the credits were certainly a financial boost to the project and by grouping the buildings into a single project, it was feasible to secure tax credit investors.

At the same time, the HTC was also a challenge in three specific ways:

First, the National Park Service determined that Capitol Arts Lofts was not one project but seven separate projects. While conceptually, this might offer some flexibility in that all the building did not need to be completed at the same time, the reality was that it was a single construction project with a single start and end date. The NPS determination that this was multiple projects meant each required a separate certification, which involved concomitant additional costs of design, administration and management as well as review fees. It also created the potential that problems in one structure could disrupt the timing of the overall completion.

Second, the NPS determination that this was multiple projects also meant that the standard of cumulative impact was assessed with each building independent of the others. In normal circumstances, reviews assess work with an eye to the overall goal, taking into consideration and balancing areas where meeting the Secretary’s Standards might be inherently difficult with the overall success of the development. Clearly, being able to weigh the work on a collection of buildings rather than each individually building would offer some greater flexibility. As such, the potential design issues on each building were magnified.

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Finally, and in the context of issue No. 2, there was simply the design challenge created by the proposed use, installing residential uses into ground-floor historic commercial buildings with traditional storefronts. Here there was an inherent conflict. Historically, a retail enterprise embraced visibility and transparency from the sidewalk. Such transparency is not normally embraced in an apartment.

What made the development work were three particular qualities: First, the development team, including the HTC consultant, had an incredible depth of experience. HRI has been involved in historic rehabilitation since 1982 and is intimately familiar with the HTC program and how it operates. Heritage, which served as HRI's consultant on the project, also started business in 1982. Having completed the King Edward and Standard Life projects, the development team had both credibility and a good working relationship with both state and federal reviewers.

The team then worked with SHPO and NPS to seek preliminary guidance early in the development process. Critical issues—including interior finishes and retention of historic corridors—were resolved through early interaction with the reviewers. The team anticipated the question about single versus multiple projects and it anticipated the critical issue relating to the storefronts. By starting on these issues early in the process, the team avoided unnecessary expenses, delays and missteps—again a particularly challenging problem for a small development. ❖

John M. Tess is president and founder of Heritage Consulting Group, a national firm that assists property owners seeking local, state and federal historic tax incentives for the rehabilitation of historic properties. Since 1982 Heritage Consulting Group has represented historic projects totaling more than \$3 billion in rehabilitation construction. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.

This article first appeared in the January 2019 issue of the Novogradac Journal of Tax Credits.

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