The Challenges of Historic Tax Credit Projects with Multiple Small Buildings

JOHN TESS, HERITAGE CONSULTING GROUP

When embarking on a historic tax credit (HTC) project, it is easy to assume that small developments will be easier than larger developments, the assumption being that smaller buildings have fewer issues or require less vigorous HTC applications.

The counterintuitive notion that small developments may present bigger challenges than a large project can come as a surprise. Add in multiple small buildings and the process becomes even more challenging.

While from the developer’s perspective, multiple-building or scattered-site developments are one project, the state historic preservation office (SHPO) and National Park Service (NPS) view those developments as multiple projects. In these cases, it is easy to assume that in developing a scope of work, there can be a “template” approach, where the scope of work and treatments are the same. However, that is not necessarily the case.

Even two similar buildings are evaluated separately with the understanding that each development is evaluated on the individual facts and circumstances. Furthermore, in the case of smaller buildings, individual features in each building can have more impact when evaluating the cumulative effect of a project. Since there are fewer features to review, each feature (no matter how seemingly small) will be reviewed at a higher level.

One such project that faced these challenges is a scattered-site development in Newburgh, N.Y., which involved the rehabilitation of 15 buildings and used HTC and low-income housing tax credit (LIHTC) funding.

continued on page 2
Case Study: Scattered Sites LIHTC/HTC Project, Newburgh, N.Y.

The Rural Ulster Preservation Company (RUPCO) is completing the rehabilitation of 15 scattered-site historic homes in Newburgh, N.Y., in the East End Historic District. Located in the scenic Hudson River Valley, the town was in decline for decades. However, several developments, including RUPCO’s, are revitalizing the city’s historic neighborhoods and providing economic opportunity.

Newburgh’s long-distressed East End neighborhood was full of underused historic homes that fell into disrepair in recent years. By the 2000s, high vacancy rates and tax delinquent properties plagued Newburgh. In 2012, in an effort to resolve this crisis, the Newburgh Community Land Bank (NCLB) was established. The NCLB, a nonprofit group, worked with the city of Newburgh to take control of roughly 82 properties in the city and marketed them to developers and prospective homeowners.

RUPCO obtained 15 of these properties in 2016 for a scattered-site HTC and LIHTC development. The rehabilitation of these properties in a distressed neighborhood aligns with RUPCO’s mission to create homes, support people and improve communities.

Based in Kingston, N.Y., the nonprofit developer RUPCO is a leader in housing and community revitalization and has an extensive portfolio that includes several successfully completed projects that twinned the HTC and LIHTC. The Newburgh scattered-sites development includes non-contiguous residential buildings that have been converted for multifamily affordable housing. Several challenges arose during the development involving documentation, timing, scope of work and navigating government agency reviews.

Changes in Conditions
First, early in the development process, documenting conditions was a challenge, owing in part to the timing of the project and the condition of many of the buildings. The Part 1 applications were completed by the NCLB to lay the path to use HTCs. At the start of the project, the buildings were in extremely poor condition, suffering from years of vacancy, fires, water infiltration and vandalism. By the time that the development was ready for the Part 2 applications detailing the scope of work, many of the properties had further deteriorated or had been vandalized.

Because the buildings were in such poor condition at the start of the project, deterioration occurred at an accelerated rate. This meant that the conditions did not necessarily match what was shown in the Part 1 applications.
1 applications. Updated documentation was needed for the Part 2 applications. Even after some Part 2 applications were submitted and approved, building conditions continued to change, due to the poor condition of the buildings. This became a challenge when items shown in fair condition in the Part 1—including pieces of millwork and windows—became heavily deteriorated or were missing. Due to the prior documentation on the project, which showed the deteriorated items as character-defining features, the SHPO and NPS had an expectation that some of the items would be retained, but they were beyond repair.

Fortunately, the project team was able to communicate effectively, stay on top of the changing building conditions and convey those changes to the SHPO and the NPS in the Part 2 applications and in amendments in order to obtain the necessary approvals.

Separate Character-Defining Features

Second, while the buildings were similar in size, date of construction, architectural style and in the proposed scope of work, each specific building had its own character-defining features. Some buildings had been substantially renovated in the past by prior unrelated owners and contained little historic fabric with extensive water or fire damage. Others had some relatively intact features. This meant that a one-size-fits-all or template approach in terms of building documentation and scope identification would not be possible.

While for the 15 buildings were considered one project for the developer, the SHPO and NPS viewed each as a stand-alone project. This meant that for the reasons outlined above regarding the changing conditions of the buildings and unique characteristics of each building, substantial documentation of each property was needed for the Part 2 applications. Each Part 2 had to document and describe the scope of work specific to each building. Because this required extensive work and had the potential to affect the timing of reviews, the 15 buildings were placed into three groups for the purposes of the design and HTC submissions.

Individual Developments

Perhaps the biggest challenge for the Newburgh scattered-site project was the idea that the project was viewed as 15 individual projects by the SHPO and NPS. While the development was 15 HTC developments, it was still one project for RUPCO.

In general, scattered-site projects are viewed by the developer for the purposes of funding and construction as one project, and thus, view the scope of work in terms of the whole development rather than the individual building. A single development of 15 HTC projects is a challenge not only due to a larger amount of work on the individual applications as outlined above, but also because the SHPO and NPS will evaluate the design based on character-defining features in each building. Individual buildings are not viewed as one out of 15; rather, they are viewed as stand-alone buildings. Because the individual buildings are not viewed as parts of a whole, there is no benefit of viewing the entire project holistically.

For instance, removing a hallway door on a larger project would not likely be defined as particularly problematic, but in a hallway with only two door openings, the removal of the door could be viewed as exceptionally problematic. Due to vacancy and past alterations there were simply few remaining features to review, so the SHPO and NPS to some extent assigned a higher level of importance to each of the remaining features. Therefore, there was less latitude for changes to the character-defining features.

Challenge of Various Agencies

The final challenge involved navigating the various conflicting agency reviews, each with its own set of priorities. Because the project used LIHTC funding
in addition to HTC funding, RUPCO was required to submit the design to the New York State Division of Homes and Community Renewal Agency (HCR) for review in addition to the SHPO and NPS reviews necessary for the HTC.

HCR and the SHPO/NPS have different priorities and missions, which means they prioritized aspects of the project differently. HCR has standard requirements when it comes to items such as ADA access, square footage, energy efficiency and finishes, which do not necessarily assess the rehabilitation of historic features as required by the SHPO and NPS. Sometimes this difference in priorities can require additional consultation with the agencies to achieve all of the approvals. Where the SHPO and NPS may require retention of certain features, HCR may require their removal or replacement for the LIHTC.

In order to resolve differing reviews from the two funding sources, additional coordination was necessary to meet the requirements of each agency. Items including door-opening size, ADA requirements, millwork retention, sound attenuation, insulation and windows needed resolution throughout the process. As the design progressed and construction began following Part 2 approvals, any design scope items had to be addressed with each agency. The key throughout this process was open communication and ensuring that both the SHPO and NPS requirements and HCR’s requirements were satisfied.

Conclusion
As seen in the case of RUPCO’s Newburgh development, it is important to remember that in a scattered-site HTC/LIHTC development, each building stands alone, which is not necessarily the case for non-HTC LIHTC developments. Multiple building HTC projects may require intensive documentation, coordination and management. A project team must be able to adapt to changing conditions, manage and comply with reviews, and provide a high level of documentation for each of the properties for a successful HTC and LIHTC development.

RUPCO’s Newburgh project is a success story, providing affordable housing with historic character throughout the East End neighborhood. This substantial investment in the neighborhood has spurred several other developments close by. In addition, homeowners and property owners are reinvesting in their homes.

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 October 2018 issue of the Novogradac Journal of Tax Credits.

© Novogradac & Company LLP 2018 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

continued on page 5
This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.