

FINANCING OPTIONS FOR HISTORIC BUILDINGS

WHY IS FINANCING AN OLDER BUILDING DIFFERENT FROM FINANCING A NEWER BUILDING?

Most loan underwriting guidelines today are designed for newer buildings or new construction. This leaves out the majority of older buildings and reduces the number of lenders who will fund this property type. In some cases lenders charge a higher interest rate and fees or require a larger equity position because of the perceived risk of the transaction, making it more difficult to achieve a reasonable rate of return for the developer. To offset the additional construction and financing cost, several financial incentives have been designed to provide solutions for various gap-funding needs. This makes it all the more important to have experienced financing professionals on your team who understand these alternative solutions and can integrate them into one comprehensive package to benefit the project. One of the keys to success is the timely and harmonious integration of these incentives with the construction financing and construction schedule of the project. Professional assistance is highly recommended in order to achieve maximum results with minimal risk.

WHAT IS THE DIFFERENCE BETWEEN AN OLD AND A HISTORIC BUILDING?



A building is not automatically considered historic just because it is old. Historic buildings are old buildings that are architecturally significant or have an association with a specific architect, event or pattern of history, and can be listed on a local or national register of historic places.

HOW DOES HISTORIC REHABILITATION BENEFIT THE DEVELOPER?

Diverse financial incentives are available for the rehabilitation of historic buildings that can significantly boost the developer's bottom line. The time savings that are achieved through the reduced construction period and a shorter approval process for rehabilitation projects may further increase the profit. Working with the preservation authorities assures smooth movement through the regulatory process.

20% FEDERAL HISTORIC REHABILITATION TAX CREDIT

The Historic Rehabilitation Tax Credit is a dollar-for-dollar reduction of income tax liability for the certified rehabilitation of a historic building. In order to qualify, a building must be listed individually in the National Register of Historic Places or located in a registered historic district and certified by the National Park Service as contributing to the historic significance of that district. The tax credit is available for properties rehabilitated for commercial, industrial, agricultural, or rental residential purposes.

The National Park Service (NPS) must approve all rehabilitation projects seeking the 20% rehabilitation tax credit. A certified rehabilitation is a certified historic structure that is approved by the NPS as being consistent with the historic character of the building. The NPS assumes that some alteration of the historic building will occur to provide for an efficient use. However, the project must not damage, destroy, or cover materials or features that help define the building's historic character.

The rehabilitation tax credit cannot be bought or sold. The tax credit is only available to the person or entity holding title to the property. Syndication through limited partnerships is allowed and is a common tool used to bring investors into rehabilitation projects. Since there is a 5-year recapture provision on the tax credits, these partnerships last for at least that 5-year period and may require additional provisions per IRS regulations.

Qualified Rehab Expenditures	\$20,000,000
20% Tax Credit	<u>\$4,000,000</u>
x .95 cents Equity to Project	\$3,800,000

NEW MARKETS TAX CREDIT (NMTC)

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). The credit provided to the investor totals 39% of the amount of the investment and is claimed over a seven-year credit allowance period. The first three years the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. In addition to the tax credit, some CDEs offer the investor a rate of return on their capital contributions. The qualified equity investment must in turn be used by the CDE to provide loans & investments to low-income communities that are qualified NMTC census tracts. These investments will be lent out in the form of construction and permanent loans for real estate transactions, equity investments and business loans. To qualify for NMTC program, the project must create jobs, provide community impact, and demonstrate the need for the subsidy. Each CDE has an investment mission and territory pre-designated and allocations are awarded on a competitive basis annually.

TAX CREDIT EQUITY EXAMPLE

Initial Investment In CDE	\$10,000,000
39% Total Credit	<u>\$3,900,000</u>
x .83 cents Equity to Project	\$3,237,000

LOAN EXAMPLE

75% LTV, 4% interest only, 7-year term
construction and permanent loan



PROPERTY TAX ABATEMENT PROGRAMS

Various property tax abatement programs are being used in cities throughout the country. Availability depends on location. These programs aim at providing a financial benefit to owners of historic properties in the form of property tax breaks in exchange for the continued preservation of the historic structure. Usually a property must be designated historic on a local level to qualify for these programs.

LOW INCOME HOUSING TAX CREDIT (LIHTC)

The Investment Tax Credit for low-income housing rewards property owners for providing affordable housing to the community. While not explicitly a preservation incentive, it can be used in conjunction with the 20% Federal Historic Rehabilitation Tax Credit to generate additional capital for the project.

HOW CAN HISTORIC CONSULTANTS HELP?

We can help make your project a reality by guiding you through the maze of regulations and capital sources. Historic Consultants maintains relationships with attorney's, accountants, construction professionals, historians, government officials and brings together the appropriate team for your unique project. Historic Consultants will assist with streamlining the approval process so you can build your project faster. Everything the project needs from deal structuring, historic applications and approvals, investor and lender relations, to construction techniques and professionals who get the job done.

PUT HISTORIC CONSULTANTS ON YOUR TEAM TODAY.

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