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Renovated Landmark Hotel Brings Economic, Environmental and Social Benefits

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

With its renovations and significant renewable energy upgrades completed late last year, a hotel in San Diego, Calif. that once catered to Hollywood's A-list is ready to relive its heyday with a more inclusive clientele. A blend of federal programs including renewable energy, historic and new markets tax credits (NMTCs) has helped developers modernize The Lafayette Hotel & Suites, while at the same time restoring it to the glory it once enjoyed under the name Imig Manor. Today, guests of the mid-priced hotel can lounge by the Olympic-sized pool designed by "Tarzan" actor Johnny Weissmuller, host meetings in a room where filmmakers shot a scene from the movie "Top Gun," and generally experience the nostalgia of this 1940s Hollywood-celebrity retreat – no wealth or fame required.

Photo: Courtesy of Historic Consultants Inc.

The rehabilitation of downtown San Diego, Calif.'s Lafayette Hotel & Suites, built in 1946, was partially financed with historic, new markets and renewable energy tax credit equity.

Restoring the Old, Installing the New

"It will be like stepping back into the 1940s," said Jay Wentz, managing partner of Hampstead Lafayette Hotel LLC, the partnership that owns the hotel. "We wanted to take the Hollywood history embodied in this hotel from the '40s and '50s and combine that with an urban chic, boutique hotel." The seven-building hotel remained open during the rehabilitation, which included fully remodeling its 131 guestrooms, replacing the signature red-shingled roof, exposing the original 1946 terrazzo lobby floor, restoring the historic ballroom and refurbishing the hotel's centerpiece and main attraction – the swimming pool.

As part of the building-by-building renovations, developer JCG Development also implemented an energy efficiency plan that could save the hotel as much as $70,000 a year in utility costs. The plan's renewable energy component, a 40-kilowatt fuel cell system in the basement of the main building, will generate a sizable percentage of the hotel's electricity while radiating enough heat as a byproduct to keep the pool's temperature between 76 and 79 degrees, according to ClearEdge Power, which designed and installed the fuel cells.

One of the advantages of incorporating fuel cell technology into a historic rehabilitation project is that unlike solar panels, fuel cell units do not affect a building's exterior surfaces,

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Photo: Courtesy of Historic Consultants Inc.
The Lafayette Hotel draws a substantial amount of electricity from its 40-kilowatt fuel cell system, which releases heat as a byproduct and keeps the outdoor pool between 76 and 79 degrees.

said Nicole Elovitz, director of marketing at ClearEdge Power. "We didn't have to disturb any of the historic fabric of the building to incorporate this into the project, and it makes a big dent in the hotel's energy needs," said Tara J. Hamacher, president and owner of Historic Consultants Inc.

Piecing it Together

Undertaking a historic rehabilitation of the entire 2.3-acre hotel complex wasn't what Hampstead Partners had in mind when it acquired the site in 2004. The original plan was straightforward – preserve the hotel's historic main building and pool, and convert the other half of the site to new construction condominium buildings with an affordable housing component. But roughly three years into the project, the recession threw the real estate and hospitality markets into decline, forcing Hampstead Partners and JCG Development to re-examine their plans.

"There was a point in time where handing the keys back seemed to be where it was headed after we wore ourselves out trying to save it," Wentz said. During the developer's search for non-conventional financing, the company came across the NMTC program and also delved deeper into the property's historic value. Although only the main hotel building was listed on the National Register of Historic Places at that time, an evaluation revealed that the entire property had the potential to be listed on the registry and, therefore, would increase the project's eligible basis for federal historic tax credits (HTCs), said Hamacher, who helped structure the financing.

After the site received approval for a larger federal HTC allocation, Hamacher approached Clearinghouse CDFI to see if the community development entity (CDE) would consider using part

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Novogradac Journal of Tax Credits Information

Correspondence and editorial submissions:
Alex Ruiz/ 415.356.8088

Inquiries regarding advertising opportunities:
Emil Bagalso / 415.356.8037

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of its NMTC allocation to help finance the hotel. At $25 million, the amount of NMTC allocation the hotel needed proved to be more than Clearinghouse could provide to a single project, so the CDE helped bring to the table another allocatee, Borders Community Capital Company.

Clearinghouse also invested in the project's entire HTC allocation, providing more than $1.3 million in equity. U.S. Bancorp Community Development Corporation served as the equity investor for the NMTC allocation. "This project wouldn't have happened without both of those pieces. It was not conventionally financeable by any stretch of the imagination," said Jay Harrison, Clearinghouse's chief investment officer. Other financing sources included a Section 1603 cash grant and rebates for the fuel cells, a forgivable loan from the San Diego Redevelopment Agency and deferred developer fees.

Achieving the Triple Bottom Line

Many CDEs think twice about allocating NMTCs to a hotel, Harrison said, but "this particular hotel is a significant community asset in a blighted area of San Diego with unique community benefits."

For instance, the city recently had to close community facilities in response to budget cuts, in particular the public pool. Recognizing a community need, JCG Development provides residents access to hotel amenities, such as the pool, and also hosts community events like movie nights. The hotel is also the only facility in the neighborhood with adequate meeting space for many groups, and offers free and reduced-rate meeting space to more than 30 different community organizations.

In addition, the hotel is partnering with nearby San Diego State University to offer an internship program for students interested in ecotourism. With the fuel cells, an ozone laundry system, energy-efficiency upgrades and a recycling program, Lafayette Hotel has already been recognized with several hospitality industry energy efficiency awards; its fuel cells alone will reduce nearly 100 tons of greenhouse gas emissions per year. In terms of measured community impact, the project produced 60 construction jobs, retained 54 jobs and created 32 full-time positions. The newly renovated hotel is also expected to generate within the next 10 years approximately $4.7 million in hotel tax revenue for the city.

"Now that we've completed it and have the knowledge base in terms of adding energy components to the hotel infrastructure and operations, we're already looking at other hotel opportunities that could benefit from these programs," Wentz said.

This month, the hotel is offering tours of the fuel cell systems, and the owners will host a grand opening sometime this spring.

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