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Presented by Michigan
Main Street, a program
of the Michigan
Economic Development
Corporation

HISTORIC PRESERVATION

PART 3: HOW TO ENCOURAGE CATALYTIC REVITALIZATION

Lisa Mullins Thompson, MSARP, HREDFP
Senior Program Officer

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What's a White Elephant?



white elephant

noun

1. An Asian elephant of a pale color that is sometimes venerated in India, Sri Lanka, Thailand, and Myanmar
2. A property requiring much care and expense and yielding little profit
3. An object no longer of value to its owner but of value to others
4. Something of little or no value

PART 2: STOREFRONT DESIGN

Webinar 1: What is preservation?

Webinar 2: How to Encourage Historic Preservation: Storefront Design

Webinar 3: How to Encourage Catalytic Revitalization

1. What's a White Elephant?
2. Making the case for Historic Preservation and understanding the development process
3. Resources
4. Economic Development Toolkit
 1. Pre-development Assistance
 2. Tax Incentives:
 3. Other Incentives
5. Understanding the development process
6. Catalytic Revitalization Project example

Focus on building a stronger district, one project at a time.

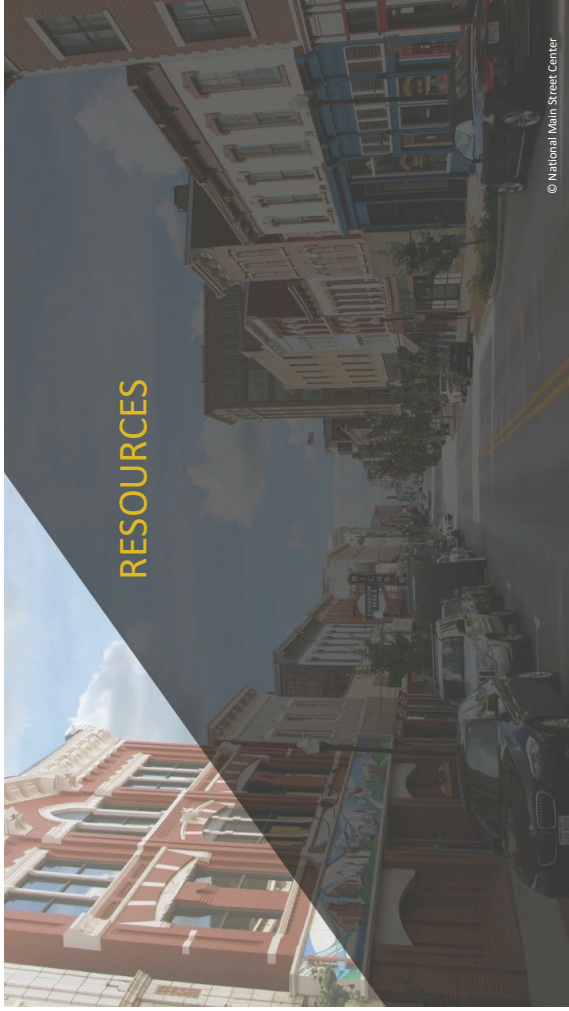
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ECONOMIC BENEFITS OF HISTORIC PRESERVATION

- Neighborhood rehabilitation
- District revitalization
- Real estate market enhancement
- Catalytic tax base growth
- Reuse of infrastructure
- Heritage tourism
- Historic tax credits (HTCs)



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STRONG LOCALS, RESILIENT PLACES

- Families
 - + Leverage building as income source
 - + Provide housing choices
 - + Own buildings that earn income
 - + Provide housing options across life-stages
 - + Build skills and relationships
 - + Stay, return, contribute to the place you love
- Communities
 - + Residents/Households with staying power
 - + Better urban design
 - + Adaptable buildings
 - + Increased Tax base

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NATIONAL REGISTER NOMINATION



900 _____ COMB No. 1024-0018 _____

ates Department of the Interior
 ark Service

National Registry
 Date Listed: 9/13/13
 NRIS No. 13-0000000-0000
 Oregon, SHPO

National Register of Historic Places
itation Form

for use in nominating or requesting determinations for individual properties and districts. See instructions I
 for a complete description of the requirements for this form. For functions, architectural classification, materials, and areas of significance, enter only category
 numbers. Place additional certification comments, entries, and narrative items on continuation sheets if need
 ed.

of Property

me _____
 site number _____
 on _____
 umber 2201 Commercial Street SE, NW corner Hoyt and Commercial Sts
 n _____
 egion _____ code OR _____ county Marion _____ code 047 _____ zip _____

me _____
 site number _____
 on _____
 umber 2201 Commercial Street SE, NW corner Hoyt and Commercial Sts
 n _____
 egion _____ code OR _____ county Marion _____ code 047 _____ zip _____

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Sanborn Fire Insurance Maps

Historic Photos

Telephone Directories

Property Deeds

RESEARCH RESOURCES

City Directories

Arcadia Publishing Books

ECONOMIC DEVELOPMENT TOOLKIT

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ZONING AND LOCAL ORDINANCES

Illustrating the Zoning Ordinance, 1962. From American Planning Association

COMMERCIAL & INDUSTRIAL BUSINESS DISTRICTS

- BUILDING HEIGHTS
- NUMBER OF STORES PERMITTED
- AVERAGE DEPTHS OF EXISTING FRONT YARDS
- EXISTING BUILDINGS
- NEW BUILDING
- EXISTING BUILDINGS
- REQUIRED FRONT YARD SETBACK

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MANAGE BUILDING AND BUSINESS INVENTORY

BOOMS Tracker About Getting Started

BUILDING OPPORTUNITIES ON MAIN STREET

The Building Opportunities on Main Street (BOOMS) Tracker is a tool for gathering, storing, and showcasing information about buildings and lots in local Main Street districts.

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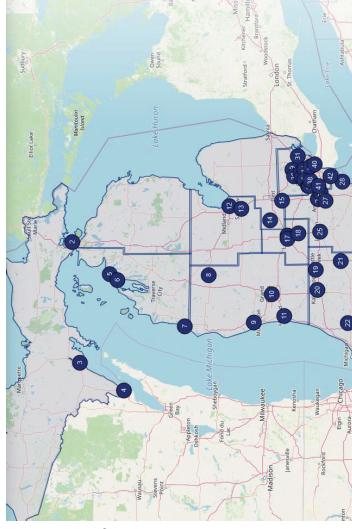
CREATE DEVELOPMENT CONCEPT



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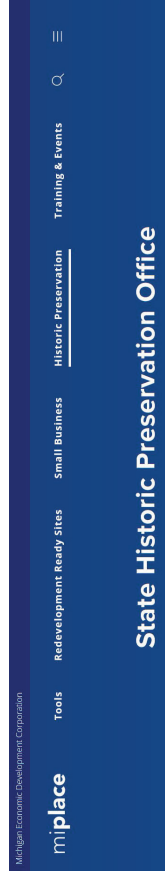
CERTIFIED LOCAL GOVERNMENT (CLG)

- **Certification through SHPO and NPS**
- **Funding:** States receive annual appropriations from the Federal Historic Preservation Fund and must give at least 10% to CLGs as subgrants.
- **Technical Assistance** from SHPO staff

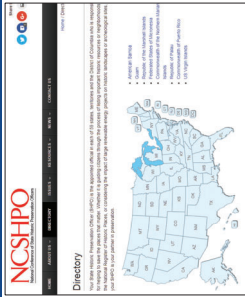


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PARTNERS: STATE HISTORIC PRESERVATION OFFICE



State Historic Preservation Office



The SHPO evaluates, protects, and promotes Michigan's historic built environment and archeological sites.

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PART 1 DETERMINATION

Part 1 presents information about the significance and appearance of the building.

SHPO HISTORIC TAX CREDIT APPLICATION – Part 1

Application questions for Part 1 of the State Historic Tax Credit are listed below. Upon submittal, applicants will receive a subsequent email requesting the following information:

- Map showing location of property
- Photos (historic and current of both exterior and interior)
- Map key for photos
- National Register of Historic Places Preliminary Questionnaire, if property is not currently listed under any of the eligible listings
- Any other pertinent information that should be considered in determining the property's significance
- Application fees

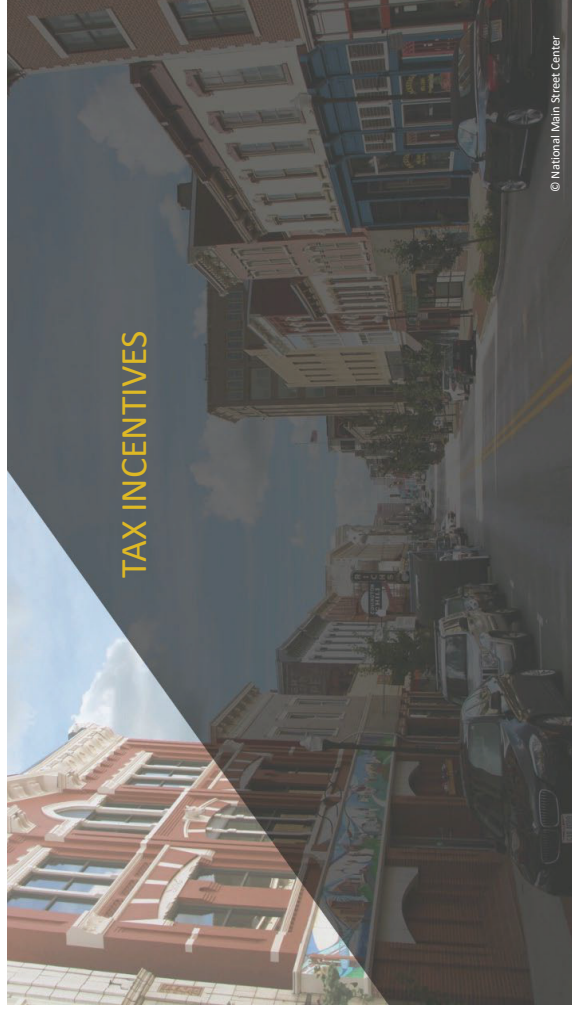
An application is not considered complete until all information, documents and payments are submitted.

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DOCUMENT EXISTING CONDITIONS



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TAX INCENTIVES

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PRO FORMA

A financial model that is used to evaluate the financial feasibility of a real estate development project over time.

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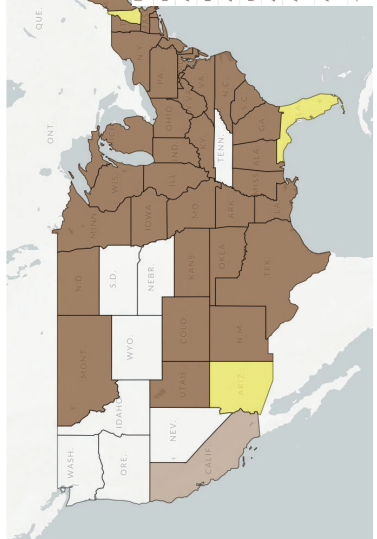
FEDERAL HISTORIC TAX CREDITS

- 20% of the qualifying expenses
- Taken over 5 years
- Only available for income-producing properties
- "Substantial" amount must be spent rehabilitating the historic building
- Building needs to be deemed eligible for or is listed in National Register of Historic Places
- Project adheres to the Secretary of the Interior's standards



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STATE HISTORIC TAX CREDITS



Michigan	Michigan Historic Preservation Tax Credits
Program	Michigan Economic Development Corporation
Administering Agency	SEI, SA
Executive Legislation	
Amending Legislation	
Related Statutes	Michigan State Historic Preservation Rules
Application	Part 1, Part 2, Part 3, Application Amendment
Application Process	Application instructions; only digital submissions to the application portal are accepted
Annual State Cap	\$2 million for public, \$2 million for private, \$2 million for small nonresidential historic resources, \$1 million for residential historic resources.
Transaction Cap	\$2 million limit per taxpayer per year.
Credit Description	25% of QIBL

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DEVELOPMENT PROCESS

To attract equity, you must

- Understand how investors measure return on investment (ROI)
- Learn to adjust the imbalance between cost and revenues

To attract debt, you must

- Understand how lenders evaluate risk
- Learn to reduce risk of default and foreclosure

To utilize development finance tools, you must

- Understand the rules of the program
- Determine if your project is good fit

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TAX ABATEMENT

100P2020-0385

Application for Revitalization Property Tax Abatement

Property Information
 Address: 805 E 7th St
 Parcel Number: 35-77 24E 1/2 Lot 2 B.L.K 151
 Is the completed Revitalization Area Name: Yes No If yes, please attach a letter of support from the Historic Preservation Commission
 In Historic District? Yes No

Property Owner
 Owner: White Horse LLC / James Longley
 Address: 401 E 7th St Apt B
 Phone: 708-600-9728
 Email: jc_wong@whitehorse.com

Project Information
 Description of Improvements: New A/C, New flooring entire house, Kitchen, Electrical, New Shower/Bath/Tilet, Front Hair and Towel Hooks, Front Porch, 8 new windows, Siding repairs. Porch repairs New deck on front of brick.
 Cost of Improvements: \$70,000
 Estimated or Actual Date of Improvements: Feb-Mar 2020

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WHY ARE WE HERE? CONT.

• To learn how public and philanthropic development tools can help to fill the financing gaps in real estate projects that meet community needs

- + These resources are scarce compared with sources of private debt and equity
- + The demand and need for public and philanthropic assistance greatly exceeds supply.
- + Learning to evaluate the need for public assistance and to properly size it when needed.
- Preserves resources for additional projects
- Avoids undue enrichment of developers and investors

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WHY DOES INVESTMENT NOT OCCUR WITHOUT PUBLIC ASSISTANCE?

- + Lenders see unacceptable level of risk
- + Investors see inadequate ROI
 - Project may require higher equity investment because of lender's perception of higher risk



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ECONOMIC DEVELOPMENT PROJECTS MAY SEEM RISKIER

- Pioneering Project**
 - + Past failures
 - + Unproven rental market
 - Questions about rents and vacancy rates
 - + Uncertain property market
 - Foreclosures and little appreciation
 - + Unfamiliar locations – rural, deteriorated neighborhood commercial district
- Weak Markets**
 - + Projected costs > Value as completed
 - Low rents
 - High vacancy rates

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INVESTOR'S PERSPECTIVE

- + Investors are seeking to maximize economic benefits and minimize equity investment
- + Invest in projects yielding the highest ROI
- + Not all investors can utilize RTCs
 - Passive income tax credit
 - Limited use against active income

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LENDER'S PERSPECTIVE

- + Lenders are risk limiters, not profit maximizers
- + Lending is a low-margin, high-volume business
- + No “upside” for lenders, fixed returns
- + May not be familiar with the challenges and opportunities related to historic properties
- + Historic Properties (by their very nature) are not cookie-cutter projects

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LENDER'S CONCERNS WHEN DEALING WITH A HISTORIC (AND RTC) PROJECT

Construction Lenders

- + Adequacy of budget and unknown conditions
 - Sufficient construction contingency (10%+)
- + Financial strengths/capability of the developer
 - Is there a paid developer fee that can be used as a secondary source of contingency?
- + Financial strength of the permanent lender (and the tax credit investor if applicable)
- + Often needed to bridge the RTC equity

Permanent Lenders

- + Ability to foreclose or remedy lack of payment during the recapture period.

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THREE BENEFITS OF OWNING REAL ESTATE

Three benefits of owning and investing in real estate

- Cash Flow
- Tax Benefits
- Appreciation

To most investors, cash flow is the most important because it is the most tangible and most immediate

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REAL ESTATE ANALYSIS PROCESS

1. Three benefits of owning, and investing in real estate
 - Cash Flow
 - Tax Benefits
 - Appreciation
2. The Development Process: key actors and stages
3. Risk, in all its forms, and how it impacts debt and equity attraction

GUIDE:

1. Pro forma statement of annual revenues and expenses (Developers Spreadsheet)
2. Project Cost Summary

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REAL ESTATE ANALYSIS ROAD MAP

- + Developer Spread Sheet (Pro Forma)
- + Project Cost Summary

Both forms capture information gathered and projected in the first four stages of the development process:

- Creating the Development Concept
 - Establishing Site Control
 - Testing the Market
 - Evaluating site and design constraints
- + Costing out construction

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Pro forma DEVELOPER SPREAD SHEET PRE-MAX CASH FLOW ANALYSIS

	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	YR10	REMARKS
REVENUES											
- Gross Residential Rent											
- Gross Commercial Rent											
- Commercial Tenant Contributions											
- Other Income											
- Gross Income											
- Vacancy Residential											
- Vacancy Commercial											
- EFFECTIVE GROSS RENT (EGR)											
- OPERATING EXPENSES											
- Insurance, Maintenance, Utilities, Property Taxes, Management Fees, Repairs and Management Fees											
- RESERVE EXPENDITURES											
- NET OPERATING INCOME (NOI)											
- DEBT SERVICE (Annual Interest and Principal Payments)											
- NOI											
- TOTAL DEBT SERVICE (TDS)											
- CASH ON CASH ROI											
- CASH ON CASH ROI											
- NET											

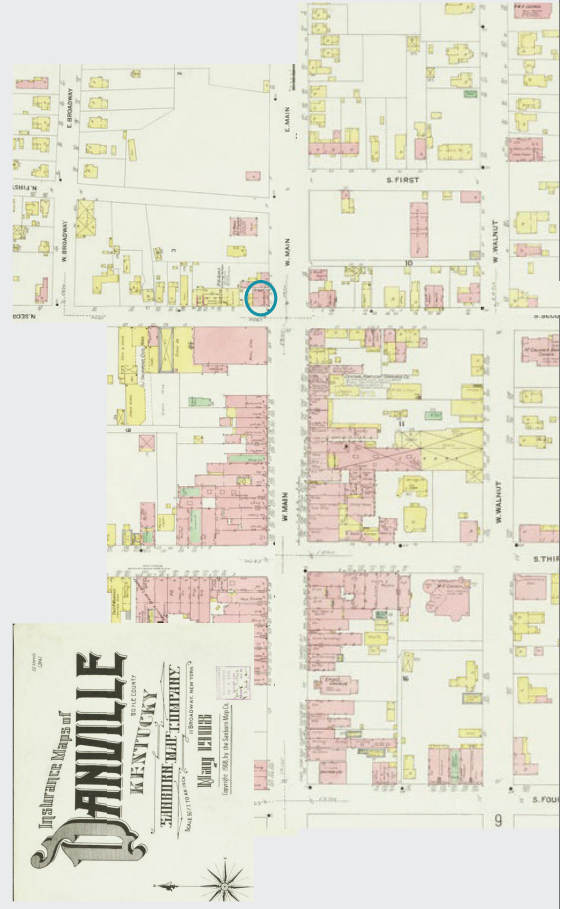
PROJECT COST SUMMARY WORKSHEET

PROJECT COSTS	TAX CREDITS	RENTAL INCOME	RENTAL INCOME	AMOUNT
PROJECT COSTS	TAX CREDITS	TAX CREDITS	TAX CREDITS	PER UNIT
DEVELOPER FEES				
PROFESSIONAL FEES				
PERMITS				
START UP EXPENSES				
FINANCING COSTS				
RESERVE FUNDING				
TOTAL				



Details

- 9,000 square feet
- 3 commercial tenants
- Vacant 2nd and 3rd Floor.
- Former hotel. 28 intact sleeping rooms with sinks and hall bath. 1 resident apartment.
- Owned by daughter of builder. She is 98 years old.



SOURCES AND USE OF FUNDS

TOTAL PROJECT COST	\$1,635,500
SOURCE OF FUNDS	
Equity from Federal RTC	\$323,100
Equity from State RTC	\$323,100
Owner Equity	\$200,000
Deferred Developer Fee	\$135,000
Debt	\$654,300
TOTAL PROJECT FUNDS	\$1,635,500

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QUALIFIED REHABILITATION EXPENSES (QRE'S)

- Disallowed Costs**
- Property acquisition costs
 - New construction (outside the envelope)
 - Site work (landscaping, parking, etc.)
 - Permanent loan fees or interest
 - Tax credit fees from investors/lenders
 - Organizational expense
 - Syndication legal fees
 - Marketing
 - Project reserves (operating, vacancy, maintenance)
 - Furniture, fixtures, equipment
- Allowable Costs**
- Construction & construction-related costs
 - Architectural/engineering fees
 - Permits, builder, contractor, developer fees
 - Property taxes & insurance during construction
 - Construction loan interest, fees
 - Preservation consulting, appraisal, environmental and, market studies
 - Accounting, attorney fees

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PROJECT COST SUMMARY WORKSHEET

PROJECT CATEGORIES	PROJECT COST	TAX CREDITS				MARKET COST
		MARKET TAX CREDIT	LOW-INCOME HOUSING CREDIT	REHABILITATION CREDIT	DEPR.	
PURCHASE LAND AND BUILDINGS						
SITE WORK						
REHABILITATION	1,550,000	1,550,000				
OTHER DEPRECIABLE	67,500	67,500				
PROFESSIONAL FEES	3,000	3,000				
DEVELOPER'S FEE	135,000					
OTHER COSTS	50,000					
RESERVE DEPOSITS	20,000					
START-UP EXPENSES						
SYNDICATION COSTS						
PROJECT RESERVE						
TOTAL	1,635,500	1,617,500				

Version: March 2016
 x 2.0%
 # 313,100 (RTC) (600)



DEVELOPER SPREAD SHEET PRE-TAX CASH FLOW ANALYSIS

	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	YR10
REVENUES										
Gross Residential Rent										
+ Gross Commercial Rent	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
+ Commercial Tenant Contributions	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
+ Other Income										
Gross Income	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000
- Vacancy Residential										
- Vacancy Commercial	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
EFFECTIVE GROSS RENT (EGR)	177,300	177,300	177,300	177,300	177,300	177,300	177,300	177,300	177,300	177,300
OPERATING EXPENSES										
Property Taxes, Misc. Operating Expenses and Management Fees	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
RESERVE DEPOSITS										
NET OPERATING INCOME (NOI)	147,300	147,300	147,300	147,300	147,300	147,300	147,300	147,300	147,300	147,300
DEBT SERVICE										
Annual Interest and Principal Payments	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Loan #1										
Loan #2 (if applicable)										
TOTAL DEBT SERVICE (DBS)	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
CASH FLOW										
(Available for Distribution)										
CASH-ON-CASH ROI										
Stab. Flow Available for Distribution										
Original Equity Investment										

Stabilized Net Operating Income (for lenders)

Version: August 11, 2009



Debt: \$654,300
6%, 20 years, 5-year balloon

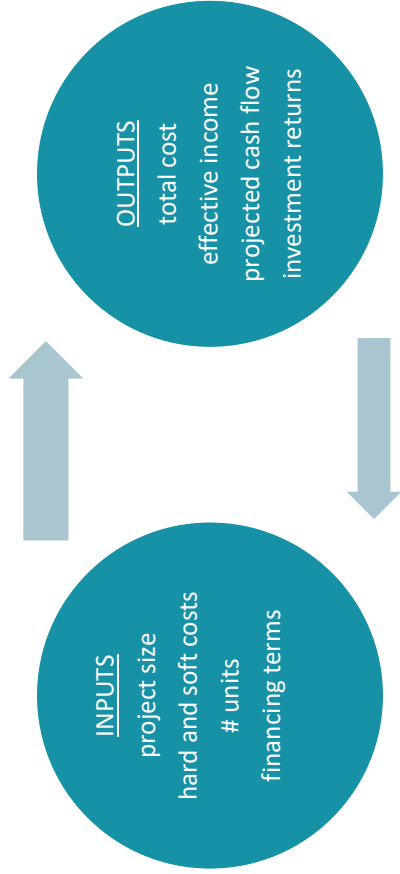
Stabilized Net Operating Income
\$141,000 from Pro Forma

Commercial Loan Payment Summary

Summary	
Principal + Interest Payment	\$4,687.61
Number of Payments	240
Periodic Interest Rate	0.500%
Total Payments	\$1,125,025.70
Total Interest	\$470,725.70

Cities are better when they are built, maintained, and owned by locals.

INPUT WHAT YOU CAN AND ADJUST AS NECESSARY



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Lansburgh, Penn Quarter, WDC



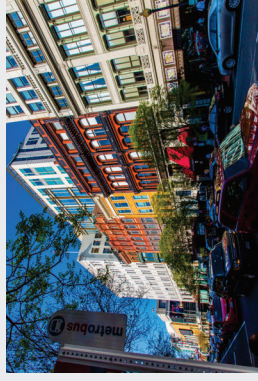
Washington Post, April 2, 1987

"We want to make a neighborhood there that's pleasant to work and live in. We have to make a demonstrable showing to a developer that we're serious about having housing downtown."

"But it's a very risky venture on the part of any developer . . . The {housing} market down there can only be said to be untested and unknown. It's a crapshoot."

"The lending institutions just don't want to give the money for housing there," said one developer. "They're afraid they'll have to foreclose."

"It's not clear it's worth the effort to try to defeat the market," said Doug Diamond, an economist with the National Association of Home Builders. "They're fighting against the natural law of economics."



HELPFUL HINTS

- +Regularly update/ manage building and business inventory
- +Ensure flexibility with grant money and budget appropriations to develop incentives
- +Build relationships with business and property owners first and foremost





Thank you!

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