Special Report

Michigan Historic Preservation Network

November 2006

Above: Grand Rapids residents and new owners Barb and Dave Huyser rehabilitated the Ebling Building in the Fairmont Square Historic District after its roof had partially collapsed and the City began a demolition by neglect action against the former owner.

Below: Rehabilitation Tax Credits were a vital financial resource in the project plan--one that made it feasible. On a prominent corner, the Ebling Building again makes a positive contribution to the historic neighborhood, and to the overall economic redevelopment of the city.

REPORT CARD:

The Economic Impacts of Historic Preservation in Michigan

"The building already has a story; all you do is add the next interesting chapter." Stewart Brand

In 2002, with assistance from the State Historic Preservation Office, the Michigan Historic Preservation Network (MHPN) published an analysis of the fiscal impacts of historic preservation in Michigan: *Investing in Michigan's Future: The Economic Benefits of Historic Preservation.* The analysis reported that between 1971 and 2001, more than $819 million were privately invested in state and federal rehabilitation tax credit projects (RTCs), creating more than 22,250 jobs and a total economic impact of $1.7 billion.

Preservation's economic impacts in Michigan are growing exponentially. In the five years since MHPN issued its 2001 report, private investment spurred over $902 million to Michigan's economy, for a total economic impact of more than $1.93 BILLION and the creation of more than 22,000 jobs. ***That's nearly two billion dollars invested in just five years—far surpassing the cumulative investments of the past thirty years. What's more, assuming the Michigan Treasury processed all credits that qualified in the 2001-2005 period, Michigan's economy benefited from an additional $11.43 in economic impacts for every $1 of credit issued.***

These tax credit projects range from multi-phase corporate investments in single and multiple buildings, such as the Guardian Building in Detroit, to small business investment on Michigan's Main Streets—places like Muskegon and Calumet. As state and federal rehabilitation tax credit projects gain wider acclaim as sound tools for community reinvestment, three important benefits have come to light:

(continued on page 4)

**The Michigan Historic Preservation Network gratefully acknowledges support for this publication from:
The Clannad Foundation, The Michigan Architectural Foundation,
The Michigan State Historic Preservation Office and the City of Kalamazoo.**

FIDELITY BUILDING

BENTON HARBOR

SHPO HISTORIC PRESERVATION TAX CREDITS

The Fidelity Building is one of the few remaining “skyscrapers” built during Benton Harbor’s heyday of the 1920s. The last tenant left the Fidelity Building in 1976 and the building sat vacant with little or no maintenance for nearly 30 years, reducing it to a crumbling shell. Years of neglect resulted in the loss of most of the interior plaster, woodwork, and mechanical systems, and caused serious structural problems. Adding to the complexity of the project was the fact that the building’s plaster was asbestos rich and had been painted with numerous coats of lead based paint. Undaunted, the developer set about creating a supportive environment for seniors that would bring people back to the city’s historic urban core. After painstaking remediation efforts, the building was recast as thirty-one senior apartments. Without the federal historic preservation tax credits, the rehabilitation of the Fidelity Building would not have occurred.

Michigan Historical Center

Michigan Department of History, Arts and Libraries

Location:	162 Pipestone Street
Project Contact:	Finlay Development
Original Use:	Offices / Commercial
Current Use:	Residential / Senior Apartments
SHPO Contact:	Robbert McKay / 517.335.2727

MERCHANT'S ROW

DETROIT

Total Rehab. Investment: $28,550,000
Indirect Impact: $32,547,000
Total Economic Impact: $61,097,000
Jobs Created: 706

The multi-building Lofts of Merchants Row is the largest single residential rehabilitation project in downtown Detroit and exemplifies the loft conversion projects that have occurred in several historic buildings in the downtown area in recent years. The developers took five buildings that had stood vacant for 20 years and rehabilitated them using state and federal historic preservation tax credits. The rehabilitated buildings range from an 1886 elaborate cast iron front building to a ten-story white decorative terra-cotta-clad building built in 1923. The Lofts of Merchants Row project has spurred redevelopment of the surrounding buildings resulting in the transformation of Lower Woodward Avenue.

Location: 1247 Woodward Avenue
Project Contact: Schostak Brothers / Sterling Group
Original Use: Mixed Use
Current Use: Mixed Use
SHPO Contact: Robbert McKay / 517.335.2727

Michigan Historical Center

Michigan Department of History, Arts and Libraries

SHPO HISTORIC PRESERVATION TAX CREDITS

***Preservation** of Michigan's historic resources* enhances the quality of life of its citizens, the beauty of the state, and sustains a sense of place;

***Stewardship** of Michigan's historic resources* is best supported through private investment accompanied by public incentives;

***Adaptive Reuse** of Michigan's historic resources* stimulates state and local economies through investment, job creation, and community revitalization.

> ***Fact:***
>
> Every $250,000 of private Rehabilitation Tax Credit investment leverages:
>
> - an additional $282,500 in indirect investment,
> - $179,575 in household income,
> - 6 new jobs.

Historic Preservation *is* an Economy Builder. *All* rehabilitation work in *local* historic districts, where the work is guided, benefits local and state economies. For property owners, values grow at a noticeably higher rate. For local governments, revenue increases when buildings are sold or reassessed. While we cannot measure these effects statewide, we can evaluate local outcomes, like those reflected in the Kalamazoo example below.

A study carried out in 2004-2005 showed that over 30 years, beginning when Kalamazoo's commercial local historic district was designated, property value growth far outpaced that in a similar, undesignated downtown area. ***While property values in the local historic commercial district grew about 385% over 30 years, those in the non-designated comparison area grew just 72%.***

Michigan's Rehabilitation Tax Credit. In 1999, Michigan created a two-part Rehabilitation Tax Credit (RTC) program: 1) for owner-occupied residences, and 2) for income-producing properties.

For owner-occupied residences, the program provides a 25% credit for approved work expenses. For income-producing buildings, it's a different story. If an owner qualifies for the available 20% *federal* RTC, it must be claimed first. When that happens, the state credit is automatically reduced by 20%, for a total combined incentive of 25%. This process is commonly referred to as "stacking" the credits.

The Case for an "Enhanced" RTC

Through this process of "stacking" credits, Michigan's RTC program awards income-producing property owners just 5% of eligible expenses in addition to the 20% federal credit they must first claim. Those stacked credits are claimed only *after* eligible expenses are incurred, which means that labor, materials, and "soft costs" have already generated significant economic impacts, as well as state and local tax revenue--well before the credits are issued.

A substantial part of all commercial projects, soft costs include: research, architecture and design, engineering, syndication, financing, and contracting fees. Soft costs are more "process" based than square-footage based.

Soft costs for preservation projects on income-producing buildings are often considerably higher than those for projects on owner-occupied residences, which causes financing woes for small-building owners.

Another kind of financial difficulty arises when commercial property owners try to convert their credits into cash for the project. The majority of projects on income-producing property using the combined RTC programs do so by leveraging outside investment through a process called Tax Credit Syndication.

> ***Syndication*:**
>
> the most effective tool for a property developer to convert tax credits into cash

First developed by users of federal Rehabilitation and Low-Income Housing tax credits, "syndication" (through ownership structure) converts tax credits' future values into current capital to fund projects. Syndication is the best tool for converting credits into upfront project capital. However, limitations in Michigan's RTC law actually thwart would-be tax credit users and syndicators, and these limitations restrict both in- and out-of-state investment.

To fix these two problems, MHPN proposes two ways Michigan's RTC can be enhanced to provide a more equitable tax credit incentive for income-producing, commercial projects.

Here's how these limitations can be fixed:

Fix #1: Increase the Michigan RTC for income-producing projects. Increasing Michigan's RTC to the full 25% allowed for income-producing building projects, and then stacking that 25% on to the federal 20% credit would provide a 45% incentive. As a result, the number of all-sized projects would grow, while lending a necessary kick-start to smaller projects. This action would simultaneously boost downtown revitalization, and further sustainably fuel the economy in commercial areas where it is most needed.

Why would the number of small projects grow? While half of Michigan RTC projects since 2001 boasted budgets of over $1 million, only about 25% had budgets of *less* than $250,000. RTCs don't work well for smaller projects because soft costs, as part of an overall project budget do not fluctuate on a cost-per-square-foot basis like bricks and mortar. As a result, small projects usually have a higher soft-to-hard cost ratio. This ratio can become prohibitive in the rehabilitation of small two-, three-, and four-story income-producing buildings that populate downtowns and Main Streets. When these critical downtown places remain un-redeveloped, the small businesses and residential uses they attract is stymied, and downtown's historic character—a chief revitalization asset—is threatened.

Two Simple Steps to "Fix" Michigan's RTC:

- **Increase -** investors' ability to "stack" the state credit on top of the federal credit, bringing it from 5% to the full 25% allowed by code.
- **Unlock -** the single assignment rule, freeing the state credits to follow the federal program's precedent and flow to an Investment Fund.

Fix #2: Unlock the single assignment rule. This single assignment rule restricts the assignability of Michigan's RTC. Current state tax code requires individual credit investors to become partners in the development. This places individual investors at greater risk and limits the "cents on the dollar" syndication value of the Michigan RTC.

The federal RTC program allows "Investment Funds" to pool resources of groups of investors, and then pass RTCs from within the fund to individual development partners. This approach minimizes liability for individual investors and maximizes available capital. By unlocking Michigan's RTC syndication restrictions and mimicking the federal RTC structure instead, cities and the state would enjoy increased rehabilitation activity in core downtown areas, where the majority of historic income-producing properties are found.

Fixing Michigan's RTC could:

- create 2,120 more Michigan jobs each year,
- increase direct private investment in rehabilitation tax credit project to $85,824,000 each year,
- increase indirect private investment to $97,839,360 each year,
- increase combined tax credit investment to $183,663,360 (almost $200 million) each year, and,
- lure significant additional out-of-state investment.

Michigan cities need access to every economic development tool available. An unknown number of rehabilitation projects fail to occur annually simply because many still believe it's cheaper and easier to build "new" outside town. Let's fix Michigan's RTC ***NOW.***

About RTCs and Attracting Out-of-State Investment. Increasing the value of Michigan's credit to the full 25% and unlocking its syndication restrictions will attract greater future investment from out-of state developers, as the credit itself will become more valuable and easier to use.

Heritage Tourism: An underused economic development strategy

In a 2005 report to the Travel Industry Association of America, Paul Serff, President and CEO of the Texas Travel Industry Association said:

"*... Many cities have renovated blighted portions of their community with projects that draw significant numbers of travelers…What is there for the visitor is also there for the residents. It is a wonderfully symbiotic relationship that works well for everyone... [It's] quality of life, preservation, revitalization and sharing the celebration of our sense of place with others...*"

Think Marshall, think downtown Grand Rapids, think Bay City, or think of a revitalized downtown Detroit. Serff is right. The slice of the travel pie known as Heritage Tourism is growing. According to a 2002 study completed by the Travel Industry Association of America, heritage tourists stay in a place an average of one night longer than other tourists, and 66% of ALL Midwestern tourists visited a historic place or museum—and historic downtowns ***are*** historic places.

(continued on back page)

TEMPLE THEATER

SAGINAW

SHPO HISTORIC PRESERVATION TAX CREDITS

Total Rehab. Investment: $5,000,000
Indirect Impact: $5,700,000
Total Economic Impact: $10,700,000
Jobs Created: 267.5

"It is a theater of which any city twice the size of Saginaw might well be proud." Those were the words of theater mogul William S. Butterfield in 1927. Those same words ring true today thanks to the extensive rehabilitation undertaken by the Shaheen family. The restoration of the Temple Theater required painstaking attention to the elaborate detailing, and removing years of over-painting and neglect by previous owners. The Shaheens, however, were equal to the task. Their efforts not only represent nearly $5 million in private investment, but also a commitment to the highest quality rehabilitation possible. The hard work of "Team Shaheen" not only restored the luster to one of Saginaw's gems, but also demonstrates what is possible when you mix passion, imagination, and determination. In recognition of their efforts and commitment to the preservation of Michigan's historic assets, Governor Granholm awarded the Shaheen family a 2005 Governor's Award for Historic Preservation.

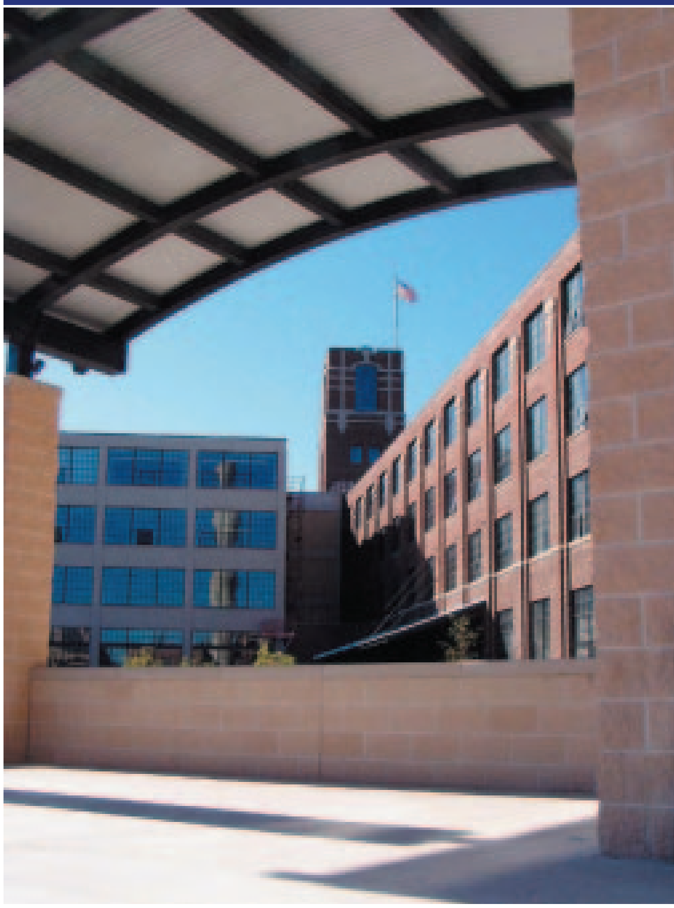
Michigan Historical Center

Michigan Department of History, Arts and Libraries

Location:	201 North Washington Avenue
Project Contact:	Samuel and Peter Shaheen
Original Use:	Performing Arts Complex
Current Use:	Performing Arts Complex
SHPO Contact:	Robbert McKay / 517.335.2727

AMERICAN SEATING FACTORY

GRAND RAPIDS



Taking advantage of both the federal and state historic preservation tax credits, Pioneer Construction Company breathed new life into this former factory while maintaining its historic character. The American Seating Factory Complex, located on the city's near west side, presented unique challenges. Although the buildings were still occupied by the American Seating Company, they were underutilized. Pioneer Construction Company demonstrated vision and leadership by returning nearly 100,000 square feet of underutilized space into attractive useable space with the assistance of the SHPO and historic preservation tax credits.

Location:	801 Broadway Avenue NW
Project Contact:	David Hughes / American Seating Company
Original Use:	Industry
Current Use:	Mixed Use
SHPO Contact:	Robbert McKay / 517.335.2727

SHPO HISTORIC PRESERVATION TAX CREDITS

Consider this example of Heritage Tourism's power. Known as **Castle Farms** for years, Charlevoix's historic Loeb Farm Barn Complex was built by Sears Roebuck & Co. executive Albert Loeb as a model agricultural business where Sears products were showcased. Loeb closed the farm in 1927, and between then and 2001, the property was sold several times as it disintegrated. Following multiple failed attempts to rehabilitate the complex, Linda and Richard Mueller rescued Castle Farms in 2001. Using federal Rehabilitation Tax Credits, the Muellers rehabilitated the complex and converted its 40,000 square feet into an events venue. The facility reopened in May, 2005, and **expects to host 50,000 Heritage Tourists in 2006.**

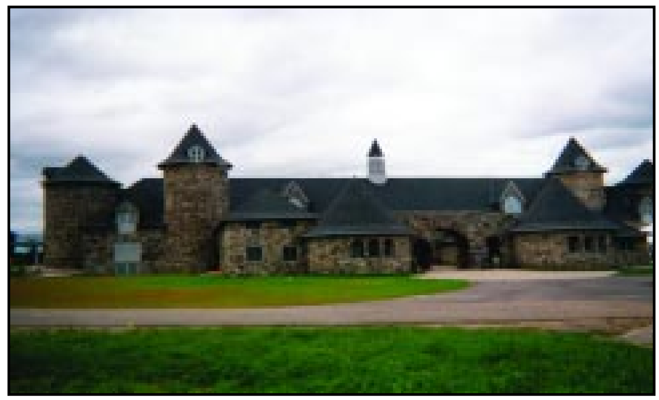
Above: Castle Farms prior to rehabilitation.
Below Right: Following rehabilitation and the use of the tax credits, the property once again conveys its original charm.

Photo Credits: page 1: Rebecca Smith-Hoffman, Past Perfect Inc., Grand Rapids; page 8: Linda Mueller, Castle Farms, Charlevoix; Case Study photos: State Historic Preservation Office, Lansing

Conclusion: Historic preservation's contribution to Michigan's economy continues to grow

Government and nonprofit agencies can act now to support preservation activity in the state and its communities by:

- Enhancing state preservation incentives.
- Creating local historic districts to protect buildings, elevate property values, and create jobs.
- Protecting state-owned historic resources.
- Providing local preservation incentives to attract additional private investment.
- Promoting Heritage Tourism through historic preservation. It's good for tourists and the communities they visit.



FOR FURTHER READING:

Economic Impacts of Historic Preservation in Missouri. Jefferson City: Missouri Department of Natural Resources Outreach and Assistance Center, State Historic Preservation Office, 2002.

Investing in Michigan's Future: The Economic Benefits of Historic Preservation. Full Report and Technical Report. Clarkston: Michigan Historic Preservation Network, 2002.

Rhode Island Historic Preservation Investment Tax Credit: Economic and Fiscal Impact Analysis. Providence: Grow Smart Rhode Island, 2005.

Tax Incentives in Iowa: Property Rehabilitation Tax Credits for Eligible Historic Properties and Pre-1937 Barns. Topeka: Iowa Department of Cultural Affairs, State Historical Society of Iowa, Bureau of Historic Preservation, 2005.

The Economic Benefits of Historic Preservation in Colorado: Technical Report. Denver: Colorado Historical Foundation, 2005.

The Historic/Cultural Traveler, 2003 ed. Travel Industry Association of America. Washington, D.C.: Travel Industry of America, 2003.

Michigan Historic Preservation Network

107 E. Grand River Ave.
Lansing, Michigan 48906
517.371.8080
517.371.9090 fax
www.mhpn.org

Address Correction Requested

Non-Profit Org.
U.S. Postage
PAID
Lansing, MI
Permit #338