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Cleveland

Where Historic Preservation is Driving Downtown Growth

I don't intend to write a piece in these pages that sugar-coats the situation in Cleveland. It's a struggling post-industrial city whose population has declined in every decade since 1950, with a six percent decline since 2020.

But its recent economic development history is still more complicated than the numbers. Much like Detroit—a city with which it will long inevitably be compared—Cleveland is seeing outside neighborhoods empty out, but a repopulating of its core. Since 2015, the downtown population has risen from 13,000 (even then an all-time high) to 20,000, and the Downtown Cleveland Alliances' next goal is 30,000. Now the largest downtown in Ohio, it has been helped in part by Federal Historic Tax Credits (HTCs), and a host of complementing programs.

I was able to see this revival during a recent visit to Cleveland, where I connected with Antonin Robert, principal of GBX Group. Headquartered in Cleveland, the firm specializes in historic rehab and has an estimated 650,000 square feet of old warehouse space in the city. It also has a portfolio in Columbus and projects in 12 other states.

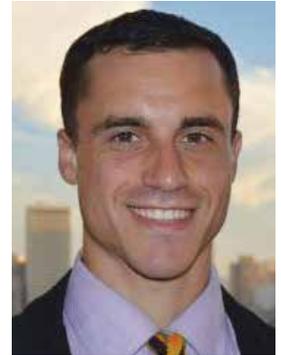
During a driving tour with Robert and the VP of Strategic Messaging, Phil Winton, I saw not only what the company was working on, but other examples of historic rehab by different developers – and how, collectively, it was anchoring new downtown development.

GBX's portfolio is focused on two areas within the central core. One of them, just west of downtown, is called The Flats, and is already largely gentrified. But there are still empty old brick warehouses that GBX has acquired and is refurbishing.

More interesting, though, is what's happening on Cleveland's east side. The Cleveland Clinic saw these last couple decades major expansions of its main campus, which is three miles east of downtown. Reviving the blighted neighborhoods in between has been a long-time focus for the city, and GBX is on the bleeding edge of where it's happening, in an area called the Superior Arts District. It consists of old brick factories that GBX and other investing interests snapped up five to ten years ago and are converting into offices, residential lofts, student housing, hotels and artist studios.

Among the notable buildings GBX has adaptively reused is the Empire Improvement Building, a 56,000-

square-foot former garment factory that now serves as the company's headquarters. And, right next door is a 57-unit so-called "Airbnb hotel;" designed for a growing crop of young vacationers, remote workers and temp workers who need short-term rentals but disdain traditional hotels. It doesn't even have a lobby, but is instead centered on an outdoor courtyard bar. The hotel is being run by Airriva, a Columbus-based firm specializing in running these hotels out of historic warehouses.



Scott Beyer

GBX is far from the only company rehabbing significant old buildings in central Cleveland. The Dan Gilbert-owned Bedrock, a commercial real estate firm that also helped revive downtown Detroit, is remodeling Tower City Center, the Beaux-Arts masterpiece that contains Cleveland's second tallest building. The Rockefeller Building, once owned by Cleveland native John Rockefeller, was purchased last year by a group of developers who plan to use HTCs to convert it into 400 apartments. And after Cleveland's famed Arcade Building hit the auction block in 2017, Ontario-based Skyline Investments bought it and is spending \$6 million to revamp its hotel and stores.

The ability to execute these rehabs comes from various federal, state and local programs. A primary driver for the Empire Improvement Building was to leverage the Federal Historic Preservation Easement program that protects the building's façade in perpetuity. The building used more than ten nontraditional financing sources, including HTCs, an Opportunity Zone Fund, Vacant Property Initiative and others

"You grant the easement to a 501(c)3," says Robert, "that's specifically chartered to protect historic and cultural assets. You get a tax deduction that is based on the value of the façade that you've granted and the development rights that you're forgoing. [This] improves the returns on these projects and allows money to flow into the capital stack."

Additional programs that local historic preservation developers can leverage include:

- Ohio Historic Preservation Tax Credits, which provide a state tax credit of up to 25 percent of qualified rehabilitation expenditures;
- JobsOhio, an initiative by the state's economic development corporation to invest in targeted areas;
- Cleveland's Residential Tax Abatement Program, which encourages rehabilitation of residential properties. According to the city's website, "the length or term of abatement is 15 years at 100 percent of the dollar amount by which the eligible new construction or remodeling activities increased the assessed market value of the property;" and
- The Vacant Property Initiative is another city program, and grants forgivable loans to commercial or industrial buildings that are at least 20 years old and 40 percent or more vacant for at least two years. The loan size can reach up to \$720,000 for projects that exceed \$2 million and create at least 25 new permanent full-time jobs.

Skeptics might read this and question whether Cleveland is really a good place to invest. To reiterate: much of the city is declining, and one part that isn't has enjoyed layers of tax breaks and subsidies, as to suggest artificial

growth. This also raises questions, from an allocation perspective, about whether or not Cleveland is a good place to funnel public resources.

The counterpoint from Robert is that "historic preservation serves as a catalyst to redevelop entire communities" by ultimately spurring new development too. This is largely what is happening in downtown Cleveland. Thousands of new apartment units have been built, and the area is attracting major corporations, like Ernst & Young and Sherwin Williams, which is planning to build its headquarters there. This does not happen, stresses Robert, if the vacant historic properties aren't revived first.

That does not mean that the mix of subsidies will make projects pencil in every part of the city. GBX has still not heavily invested in neighborhoods further east of the Superior Arts District, such as the predominantly residential neighborhoods of Hough and Glenville. When I visited them following the driving tour, it became apparent why, as these otherwise centrally-located neighborhoods were dominated by blight, with some lots listing on Zillow for \$3,000. But for several decades now, downtown Cleveland and surrounding areas are seeing momentum, and they still have lots of old, vacant structures that would make for great historic rehabilitations. **TCA**

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