



Public Private Partnership Committee of
The Urban Land Institute

Presentation to

Gateway Cities Legislative Caucus

Massachusetts Historic Tax Credits

Project Feasibility and Cost Benefit Analysis

House 2987

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Prepared by:
Concord Square Planning & Development, Inc



New Jobs

A Depressed Economy means

A Need for Expanding the Number of Jobs

Question:

What would really make a difference?



MA Historic Tax Credits

Truly a “Jobs” Program



MA Historic Tax Credits

- \$50,000,000 annual allocation.
- Allocated by MA Historic Commission, and Secretary of State
- Three Application Dates per year
- Projects typically allocated in small \$ increments over long time.



Preservation Mass

- Over 200 projects have applied for funds
- Total Current Demand:
\$455,000,000 in credits
- Produces total project costs, leverage:
\$2.82 billion in development



Timing Problem

- The excess of demand produces a timing problem:
projects waiting for funding

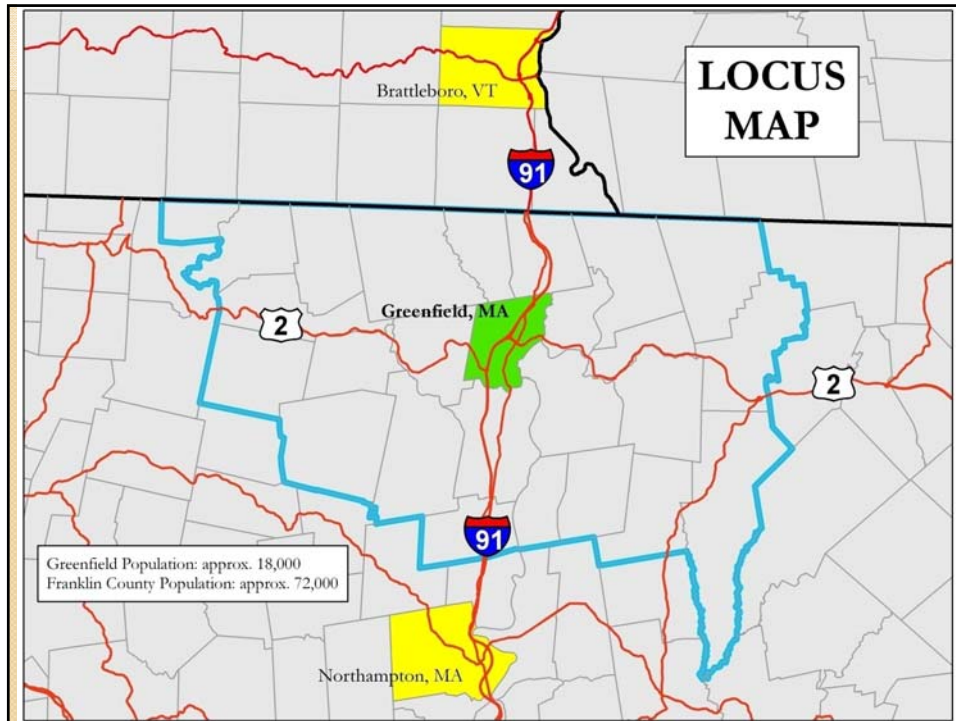
the consequence of which is:
 - Delayed closings
 - Added costs
 - Discouraged new development investment

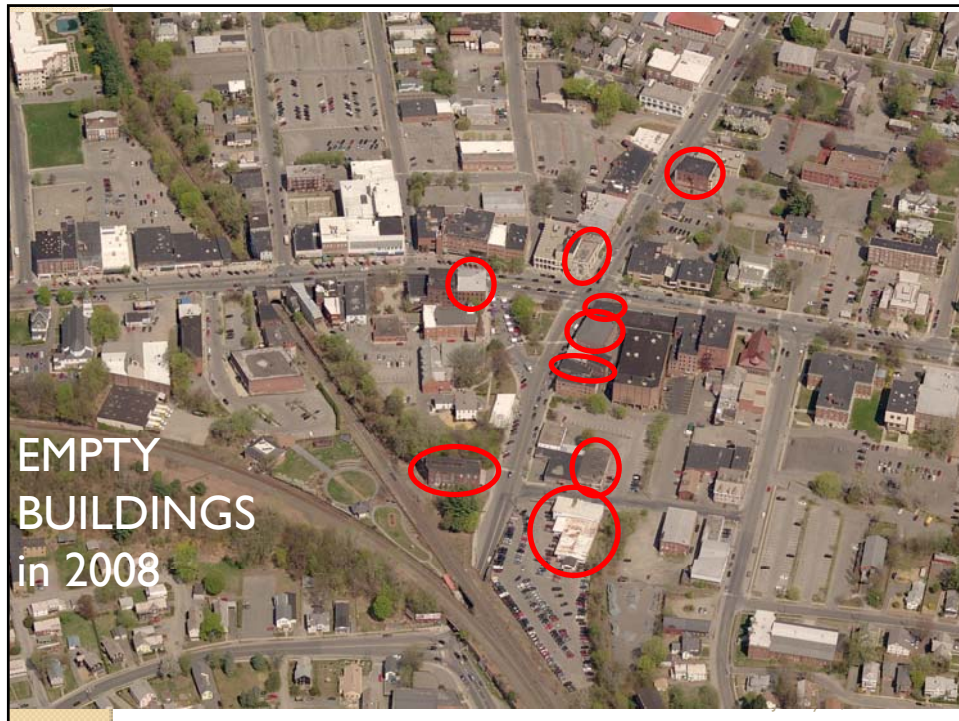
House 2987

- An Act to Promote Economic Development and Job Growth in Gateway Cities
- Presented by Representative Antonio F.D. Cabral
- Increases annual cap to \$100,000,000
- Specifies that 10% of total be “Forward-year Funded” in Gateway Communities

Why is this so important?

- Case Study – Greenfield, MA
 - Five Buildings in Downtown Recently renovated
- With Sufficient Funding – more communities could participate





Essence of the Problem

- Renovation costs are high because of the need to comply with codes, accessibility, etc.
- Systems are antiquated and need major if not full replacement.
- Rents / Values not sufficient to justify the costs.
- Lots of Owners



Widespread Issue

- Similar situation in communities all over Massachusetts.
- Solutions are complex.



What Happens?

- Typically, nothing.
- In Greenfield, some buildings empty for 30 years.

The Problem is Financial Prototype Building

	Sq. Ft.	Leasable Sq. Ft.	Residential	Commercial
Basement	5,000	2,000		2,000
1st	6,000	4,080		4,800
2nd	6,000	4,080	5,100	
3rd	6,000	4,080	5,100	
4th	6,000	4,080	5,100	
	<u>29,000</u>	<u>18,320</u>	<u>15,300</u>	<u>6,800</u>

Market Rents After Renovation

Floor	Use	Market Rents after Renovation			
		# Units	\$ / Unit / Mo	Avg S.F. / Unit	Total \$
Basement	Storage	1	\$833	2,000	10,000
1st	Retail	2	\$3,200	2,400	76,800
2nd	Residential	4	\$1,517	1,084	72,828
3rd	Residential	4	\$1,517	1,084	72,828
4th	Residential	4	\$1,517	1,084	72,828
				<u>7,651</u>	<u>305,284</u>
			Less Vacancy @	8.0%	<u>(24,423)</u>
			Projected Collections		<u>280,861</u>

Operating Costs

Apartment Operating Costs / unit / year	5,200	62,397
First Floor Operating Costs @ \$ / s.f.	\$3.50	<u>21,000</u>
Estimated Operating Costs		83,397

Net Operating Income

Annual Collections	280,861
Operating Costs	<u>(83,397)</u>
Net Operating Income	197,465

Conventional Financing

Maximum Loan

Net Operating Income	\$197,465
Debt Service Coverage	1.25
Available for Debt Service	157,972
Amortization # Years	25
Loan Interest Rate	6.00%
Loan Amount	2,043,191

The Problem

Sources of Funds

Conventional Debt		2,043,191
Developer Equity @	20.0%	510,798
Total Sources of Funds		2,553,989

Cash Flow Return on Equity 7.7% (acceptable)

Uses of Funds

Acquisition		400,000
Soft Costs (discounted by:)	25.0%	360,000
Construction (disc. by:)	10.0%	2,160,000
Construction Contingency	10.0%	216,000
Development Fee	10.0%	348,444
Total Costs		3,484,444

Summary

Total Sources of Funds	2,553,989
Less Total Uses of Funds	(3,484,444)
Surplus (Deficit) of Funds	(930,455)



The Conclusion

- **The Project is not financially feasible**
- **The Project will not be built**



Financing Plan

- Massachusetts(MA) Historic Tax Credits
- Federal(Fed) Historic Tax Credits
- Developer / Owner Equity
- Conventional Financing

Transaction with SHTCs

Sources of Funds

Conventional Debt	49.6%	2,043,191
Federal Historic Tax Credit @	15.4%	635,729
State Historic Tax Credit	14.6%	600,410
Owner Equity	9.7%	400,000
Deferred Developer Fee	10.7%	442,800
Total	100.0%	4,122,130

Uses of Funds

Development Costs	% of Total	Costs
Acquisition	9.7%	400,000
Soft Costs	11.6%	480,000
Construction Costs	58.2%	2,400,000
Construction Contingency @	5.8%	240,000
Developer Fee @ % of Historic:	14.4%	592,800
Misc. (Delta of Sources and Uses)	0.2%	9,330
Total	100.0%	4,122,130

Presentation to A & F - January 25, 2010

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MA HTC's are Critical

- MA HTC Equity is essential for feasibility
- Fed HTC Credits are automatic
- Substantial Leverage
- Powerful financing tool
- Can be Transformational

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Conclusion

- In most cases, the SHTC funds are the difference between:
 - Feasibility, or
 - Not Getting Built at all
- Thus, for most projects the results / benefits are truly “new additions” to the Economy.
- Particularly in Gateway Communities

Benefits to the State & Localities

- New Construction Jobs
- Income Tax Revenue During Construction
- Sales Tax Revenues During Construction
- Increased Municipal Property Taxes
- Annual Salaries from Project Operations
- Multiplier and Spill-over Effects

Let's Quantify the Costs / Benefits

- **Using the Prototype 4 story building**
- **Tax Credits hit the State Budget in the year the Property is Placed in Service.**
- **Here is the Cost to the State:**

Total Qualified Rehab Expenditures		3,537,975
State Historic Tax Credit @	20.0%	\$707,595

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Number of New Jobs Created Direct and Indirect Construction Period

New Jobs

Total Salaries - Planning & Construction	\$2,402,000
Average wages per job	\$45,000
Total New Jobs created - FTEs	53
Total costs of tax credit	\$707,595
Tax Credits cost per job	\$13,256

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Income & Sales Taxes During Construction

Income Taxes During Construction	127,306
Sales Taxes on Construction Materials	66,000
Sales Taxes from Salaries during Const.	60,050
Total State Benefits from Construction	<u>253,356</u>

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Salaries from Operations

Annual Operating Expenses

	Operating Costs	Percent to Salaries	Amount to Salaries
Insurance	7,964	10.0%	796
Common Area Electricity	1,939	10.0%	194
Gas	2,117	10.0%	212
Repairs / Maintenance	3,319	70.0%	2,323
Trash Removal	1,650	50.0%	825
Water & Sewer	3,587	25.0%	897
Tenant Turnover	3,300	70.0%	2,310
Cleaning	2,149	70.0%	1,504
Elevator Maintenance	2,225	60.0%	1,335
Snow Removal	1,939	50.0%	969
Management Fee	10,882	70.0%	7,617
Property Taxes	17,951	50.0%	8,976
Audit	9,075	75.0%	6,806
Accounting	4,536	75.0%	3,402
Leasing Expenses	2,610	80.0%	2,088
Reserves	6,139	50.0%	3,069
Miscellaneous	2,015	50.0%	1,008
Total Estimated Operating Costs:	<u>83,397</u>		<u>44,332</u>

Percentage of Op. Costs to wages 53.2%

Salaries from New Jobs

- In Massachusetts, 30% of new housing units result in a net new “permanent” jobs for the economy:

Number of housing Units in the Prototype:	12
Percent representing new jobs for the state	30.0%
Total new permanent jobs	3.60
Annual Salary per new Job	85,000
Total new permanent wages - annually	306,000

Summary of Permanent New Jobs

Annual Salaries from management ops.	44,332
Annual Salaries from New Permanent Jobs	<u>306,000</u>
Total New Annual Salaries	350,332

Increase in Local Property Taxes

Total increased property taxes	\$17,951
Less costs for general municipal services	(\$8,258)
Less costs for school education	(\$4,800)
Net Benefit to the Local Community:	4,894

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Annual Permanent Benefits

Local property taxes, net of increased costs:	4,894
Plus increase in income Taxes per year	24,295
Plus Increase in sales taxes per year	11,460
Annual Recurring Benefit	40,648

NPV of Annual Benefit **\$957,353**

at a discount rate of	4.0%
for this many years	30
Annual Inflation @	2.5%

Spin-Off Impact

- Fenway Park
 - SHTCs made it feasible to restore the ballpark
 - Generated enormous nearby investment

- Greenfield
 - Five Renovated Buildings Using Credits
 - Generated Confidence - which
 - Resulted in two buildings being fully renovated without Tax Credits or public assistance

- Assume general Spin-off impacts of 25%

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The Cost / Benefit to the State and Localities

Income Taxes During Construction		127,306
Sales Taxes on Construction Materials		66,000
Sales Taxes from Salaries during Const.		60,050
First year of Permanent Benefits		40,648
NPV of the Increase in Recurring Benefits		<u>\$916,705</u>
Total Direct Benefits		1,210,709
Spin off -		
New Const. and upgrades nearby:	25.0%	<u>302,677</u>
Total Benefits		1,513,386

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Total Cost / Benefit

Total Benefits	1,513,386
Total Costs	(706,365)
Net Benefit	807,021
Ratio	2.14

Leverage

Amount of Credit	\$706,365
Total Project Cost	\$4,122,130
Multiple	5.8
New Jobs	53
Cost / Job	13,233

Timing

- Percent of cost received as increased taxes before the State Expenditure is incurred = 42%

Our Communities need an increase in funding of the Massachusetts Historic Tax Credit





Report prepared on Behalf of the Public Private Partnership Committee of the Urban Land Institute

By:

Ted Carman, President
Concord Square Planning & Development
294 Washington Street, Suite 638
Boston, MA 02108
617 482 1997

Carman@ConcordSqDev.com

www.ConcordSqdev.com

With the assistance of Ben Forman, Mass Inc., Jason Korb, Preservation
Mass, and Barry Abramson