



Sunset tax credits for historic rehab draw final push by developers

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The future of a popular tax credit for historic mill preservation may come down to how much it is missed by developers, companies and communities – and most importantly, legislators – after it expires Dec. 31.

The fear among supporters, who include Gov. Pat McCrory and Susan Kluttz, secretary of N.C. Department of Cultural Resources, is that the longer it takes for the resurrection initiative to be accomplished in the General Assembly, the more discouraged developers may become and opt to abandon potential viable projects.

State legislative leaders chose not to include an extension in the state budget for 2014-15.

U.S. Sen.-elect Thom Tillis, R-N.C, said in July while serving as House Speaker that the Republican-controlled legislature was more focused on preserving its “principles of tax reform.” The principles have at their core the premise that lowering the overall tax rate is more beneficial to businesses and the economy than tax credits.

Two tax credits for historic structures are set to expire in North Carolina.

One is an overall 30 percent state tax credit for rehabilitating income-producing historic structures in a county such as Forsyth. A local example is the former Forsyth County Courthouse that’s been converted into a 58-unit apartment building by Clachan Properties LLC of Richmond, Va.

A 30 percent state tax credit for rehabilitating historic mill structures also is expiring, but with a grandfather clause if applicants qualify for an eligibility certification. The N.C. State Historic Preservation Office must receive a written request for eligibility certification by Dec. 31.

“We’ve been very, very busy with groups rushing to get their projects in because there is no guarantee after Dec. 31,” Kluttz said last week.

Eligibility hurdles are: the property had been used as a manufacturing facility or for purposes ancillary to manufacturing, as a warehouse for selling agricultural products, or as a public or private utility; the property is a certified historic structure or a state-certified historic structure; and the property has been at least 80 percent vacant for at least two years immediately preceding the date the eligibility certification is made.

What puzzles proponents is that the expirations are being allowed by legislators who profess that their top economic priority “is jobs, jobs, jobs.” They also ponder why McCrory signed the bill that abolished the tax credits while being a vocal supporter of their extension.

Kluttz said that since 1976, historic preservation incentives provided by state and federal governments have “helped bring in more than \$1.7 billion in private investment to the state.”

According to the historic preservation office, there have been 2,146 completed rehabilitation projects related to the tax credits just since 1998. The agency said there have been 23,100 full-time jobs created, spread among 90 of the state’s 100 counties.

“My No. 1 priority is getting the legislation restored,” Kluttz said.

According to a report on the tax credit program by Preservation North Carolina, 94 percent of the developers surveyed said their mill renovation projects would not have been possible without the program.

“Developers have made it clear to me that the numbers will not work for restoring these historic buildings without an incentive,” Kluttz said. “There is no way these projects will be self-sustaining. We just can’t afford to let this buildings sit empty or be destroyed, taking away parts of our architectural heritage.”

Local hotbed

Forsyth County, in particular downtown Winston-Salem, has served as a hotbed for rehabilitation projects, as has Durham County.

“People in Winston-Salem are very well aware of the value of the historic tax credits given the number of projects that have benefited,” Kluttz said.

More than \$600 million has been spent by private investors on local projects, including at least \$250 million associated with Wake Forest Innovation Quarter.

Another \$100 million will be spent on a project announced last week to move the educational component of Wake Forest Baptist Medical Center’s medical school to the park in July 2016 as part of renovating the former R.J. Reynolds Tobacco Co. Plant 60 facility. Half of the cost is projected to be paid through tax credits.

“We could not, and they could not, do these projects without these historic tax credits” to help offset the costs, said Dan Cramer, a senior vice president for development for Wexford Science & Technology LLC. Wexford is the primary developer of the latest phases in the research park.

For example, for Wexford’s \$100 million Wake Forest BioTech Place project, US Bancorp invested up to \$18 million and Blue Cross Blue Shield of N.C. invested up to \$16 million to receive historic preservation tax credits. Cramer confirmed both groups are investing in the Plant 60 project.

“BCBSNC has made use of the N.C. mill rehabilitation tax credit program as a way of supporting North Carolina communities and being a good corporate citizen,” the insurer said. “This program is an effective method of preserving historic buildings, creating jobs through redevelopment and achieving tax credits from the investments.”

PMC Property Group may qualify for between \$18 million and \$30 million in overall historic tax credits to offset the \$60 million project cost of renovating the former R.J. Reynolds Tobacco Co. headquarters into a luxury hotel, apartment and mixed-use complex.

In contrast, unless a developer is secured by year’s end, the odds will grow much slimmer that the neighboring Bailey Power Plant will get to run on a different kind of energy – entertainment and a mixed-use clientele rather than coal. Wake Forest Innovation Quarter has spent at least \$2.5 million on remediation costs.

Eric Tomlinson, president of the research park, says availability of historic tax credits “has been a huge driver” for the major developments. He acknowledges their expirations will make it more challenging to get developers on board considering the complexity of renovating the 103,100-square-foot facility.

Latest proposal

Kluttz expects a bill to restore the tax credits will be submitted by the early part of the long session that begins Jan. 14. McCrory backs restoration of tax credits , but at a lower cost to the state.

The most recent proposal was submitted in July by Rep. David Lewis, R-Harnett.

It would provide a 15 percent tax credit for up to \$10 million in qualified expenditures, and a 10 percent tax credit for between \$10 million and \$20 million in qualified expenditures. They require the applicant to also qualify for a federal tax credit.

Kluttz said legislators and advocates are fine-tuning the language and the percentages in hopes that the bill and tax credits may gain broader support. "I think the (new bill) is very close to having enough support to move forward," Kluttz said.

Kluttz said she will launch in January a statewide tour to raise awareness of the historic tax credit restoration effort and to help identify potential projects.

On Thursday, McCrory made his third visit to a century-old Pickett Cotton Mill in High Point, which has been revived as a manufacturing plant by BuzziSpace, a Belgian company that specializes in contract furnishings. The company has pledged to create up to 113 jobs over five years and spend \$1.75 million on upgrading the mill. Production began in the fall.

"Each time I visit, I see the mill and surrounding areas starting to rebound because of the impressive investment from BuzziSpace," McCrory said in a statement.

" This area was once booming with a flurry of activity, but has sat idle for decades until now. Secretary Susan Kluttz and I want to mimic what we see here across the state, and that's exactly why the historic tax credit is so important to North Carolina."

However, McCrory spokesman Ryan Tronovitch said BuzziSpace is not getting historic tax credits as part of the project.

Development tool

John H. Boyd, principal with site-selection consultant The Boyd Co. of Princeton, N.J., said the expiration of the tax credits "is a legitimate and highly timely economic development concern, especially in a state like North Carolina with its many small towns, rural communities and downtowns ripe for redevelopment."

"It is a time of increased interest on the part of young, highly educated workers preferring to live and work in a downtown settings.

"Many times the benefits of these preservation tax credits are measured by the improvement of the livability quotient of a downtown through redeveloped and refurbished hotels, restaurants, retail establishments and the city's cultural bill of fare."

It is a perspective shared by Ron Caplan, president and founder of PMC, that inspired his group to take on the project.

Boyd said the preservation tax credits "have a rightful place in the state's economic development arsenal."

"I know they play a pivotal role in the investment decisions of our New York, Boston and Philadelphia-based developer clients as they assess redevelopment opportunities in lower-cost and more business-friendly states in the Southeast, including North Carolina."

Kluttz said McCrory "instructed me to use my department to provide economic development and jobs in North Carolina."

“There is not a community in North Carolina that cannot benefit from the program, both rural and urban.”

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