Square Feet

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Luring Business Developers Into Low-Income Areas

Housing Tax Credits Successfully Created Homes; a Commercial Version Is Doing the Same for Jobs

Adam Bird for The New York Times

JoAnna Hicks is the director of real estate for the nonprofit organization that spearheaded Plaza Verde in Minneapolis. Below, an area of Grand Rapids, Mich., that had been largely abandoned since the 50's, was redeveloped for art-related mixed use.

By LISA CHAMBERLAIN

When the low-income housing tax credit was created in 1986, it took years for developers, investors and advocates to understand the program and to learn how to make the most use of it. Now it is one of the most important tools for low-income residential real estate, responsible for creating approximately 1.5 million units of affordable housing to date.

Advocates of a little-known development tool called new-market tax credits, the only federal tax credit program for commercial projects in low-income areas, believe the same thing is beginning to happen with commercial real estate. Efforts are already under way to reauthorize the program, which expires next year.

Enacted in December 2000, the new-market tax credit program is helping to create jobs and revitalize streets and even entire downtowns. Projects large and small that most financial specialists agree would never come to fruition otherwise are taking shape because of tax credits worth $500,000 to $150 million and even more.

For instance, the tax credits are currently financing the rebuilding of a butter manufacturing cooperative in New Ulm, Minn., that was damaged in a fire. The loss of the cooperative put 130 people out of work, caused economic hardship for 400 family farms and indirectly affected hundreds more jobs in the low-income rural area.

Just south of the central business district in Grand Rapids, Mich., is a nearly completed arts-related mixed-use redevelopment project in an area largely abandoned since the 1950's. Called Martineau Division-Oakes, the 12,000-square-foot commercial space is occupied by the art department of Calvin College and a cafe. There are also 23 spaces for artists to live and work in. Once the project got off the ground, the city committed $2 million to landscaping, repaving, new lighting, signage and sidewalk improvements in the development's neighborhood.

"It's a very flexible and powerful program," said Robert Poznanski, president of the New Markets Support Company, one of the main recipients of credits from the Treasury Department, which administers the program.

"It's driven by market forces. The federal government doesn't say, 'Use it for this type of business.' It can be used for commercial real estate, a charter school or a community center, as long as the application is competitive and the project is in a low-income area as identified by census tract data."

Tax credits make riskier projects more viable by reducing the debt associated with development costs. Private investors pay less in taxes and the developer passes the savings on to the community by, for example, lowering rent per square foot.

The federal program will allocate up to $15 billion in tax credits to community development groups over seven years to make businesses or commercial real estate projects in

low-income areas more attractive to private investors. Applicants vie for the credits, and so far the process has been highly competitive. In the first three rounds of allocation, beginning in 2003, demand for the credits has outpaced supply by 10 times, according to figures provided by the Treasury Department. Though the tax credits can be used for business development, the majority are used for commercial real estate because of the way the program is structured.

The most recent allocation was completed last fall, bringing the total disbursement to $8 billion to date. Recipients have five years to use the tax credits to attract private investment, or they are withdrawn and can be reissued elsewhere through 2014.

Dennis Sturtevant, president of Dwelling Place, a nonprofit community development organization, spearheaded the Martineau Division-Oakes project in Grand Rapids. The project used historic tax credits and other grants, in addition to new-market tax credits, to generate $2.2 million in equity from National City Bank.

"When you're talking about tough neighborhoods and all the costs associated with renovating dilapidated, obsolete buildings with lead and everything else," Mr. Sturtevant said, "you need to combine all these resources to make it work."

Sean P. Welsh, regional president of National City Bank, said: "It required a lot of creativity. It's complicated, but it's really driving a lot of the urban redevelopment in this and other areas around the country."

One deal that most everyone agrees would have never happened were it not for the tax credits is Plaza Verde in South Minneapolis. Formerly an abandoned building in a low-income Hispanic neighborhood, it is now a 43,000-square-foot business incubator, with locally owned retailing on the ground floor, office space on the second level and a theater company on the top floor.

JoAnna Hicks is the director of real estate for the Neighborhood Development Center, the nonprofit organization that spearheaded Plaza Verde. Even after expenses were deducted, including legal fees, new-market tax credits created almost $1 million in equity for a project that cost $4.2 million total.

"Because it's such a complicated financial tool, it's hard for small nonprofits to use," Ms. Hicks said. "But now that we understand it better, we're able to apply it to other projects as well."

Using another allocation of the tax credits, Ms. Hicks's organization has also undertaken the development of a nearly completed public market, called Midtown Global Market, a $17 million project that will be home to more than 60 vendors selling fresh and prepared foods, as well as handmade arts and crafts.

As the program has only begun to mature, larger projects are just getting under way. Bridgeport, Conn., is undertaking a major redevelopment of its downtown, with approximately 25 percent of the financing coming from new-market tax credits. The total project is estimated to cost up to $150 million.

"If structured properly, it makes a real difference between a scary development and the deal not being done at all," said Kevin Gremse, director of the National Development Council, which provides financial advice and services to municipalities.

Mr. Gremse used his organization's new-market tax credit allocation to attract a New York City-based private developer, Eric Anderson of Urban Green Builders, to take on the task of reviving downtown Bridgeport, which has suffered years of decline.

Advocates are cautiously optimistic that the program will be reauthorized in 2007. Congress recently passed a bill to assist Gulf Coast states with rebuilding efforts after Hurricanes Rita and Katrina, which included $1 billion more for the new-market tax credit program geared toward that region.

"The fact that Congress expanded the program is a good sign," said Robert Rapoza, who manages the New Market Tax Credit Coalition, an advocacy organization pushing for the program's reauthorization. "But we have work to do. This is a new tool and government-sponsored finance is relatively uncommon. We're continuing to put together data to strengthen our case."

Of course, it helps to have banks advocating for the tax credit as well. As one of the more active players in the tax credit industry, Zachary Boyers, a senior vice president of US Bank in St. Louis, closed more than 50 deals involving new-market tax credits in 2005 alone.

"The banking community is behind this," Mr. Boyers said. "We are deeply involved in spreading the word. We are working on ways to quantify its impact, which is not easy to do. But other investors, including banks and large corporations, would confirm that they would never be investing in these projects without it."