

Eastern Connecticut Association of Realtors
2nd Annual Commercial Conference

The Challenges of Mill Redevelopment
Ponemah Mills - Norwich, CT
October 27, 2014





Overview

- ❑ 308 SF historic mill in Taftville Village, a national register historic district
- ❑ Part of Last Green Valley, a national heritage corridor
- ❑ 5 historic buildings located in the banks of Shetucket River
- ❑ At one time second largest cotton mill in world
- ❑ Taftville village developed around mill to house workers
- ❑ At height of production, @ 1,500 workers



Aerial of Ponemah Mills



Development History

- OneKey, LLC acquired the complex in 2007
 - ▣ NJ-based Experienced developer w comparable buildings
- Originally purchased it to develop residential condominiums
- Recession of 2008 ended options for condo
- Had to reprogram as rental
- Secured all permit and zoning approvals from City
- Completed all remediation and interior demo
- 100% drawings



- Norwich Community Development Corporation (NCDC)
 - ▣ Bob Mills
 - ▣ Enlist city and state support and coordinate incentives and resources
- National Development Council (NDC)
 - ▣ a national economic development financial advisory company to assist with the structuring of the financing
 - ▣ Widespread experience w tax credits and other innovative finance products



Challenges

- Several million \$ in remediation costs
- Income stream from rental housing is limited
- Cost-Value Differential
 - ▣ Project Cost > As Complete Fair Market Value
\$28 million > \$13 million
- For residential building, most subsidies are tied to affordability
- Size of building
 - ▣ Need to phase development
 - ▣ Need reasonable first phase to “prove market”



THE LOFTS AT PONEMAH MILLS

Ponemah Campus

Shetucket River

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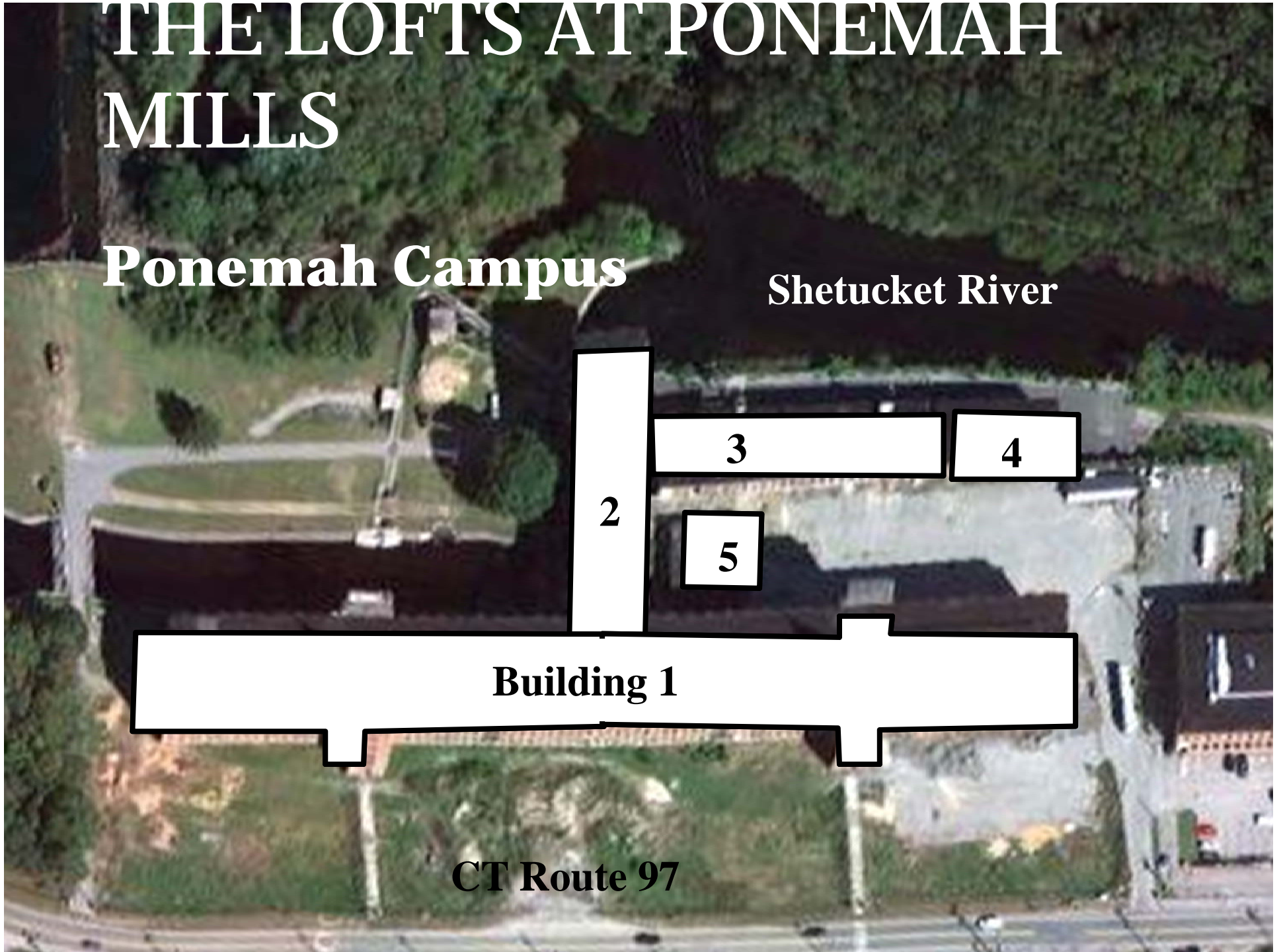
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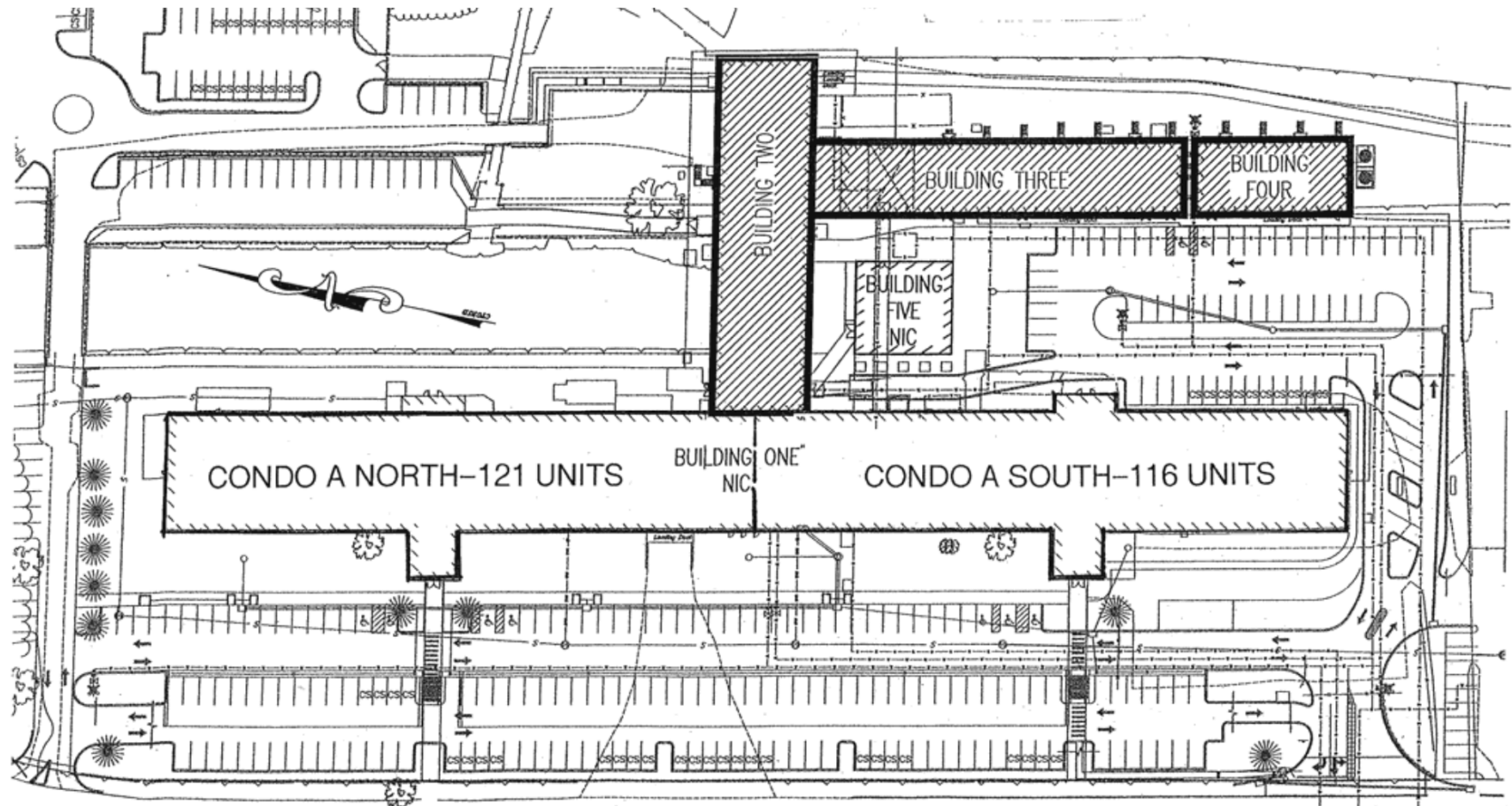
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Building 1

CT Route 97



Phasing Plan



Phasing Plan

- Phase I – 114 units
- Phase II – 121 units
- Phase III – 77 units



Front and Rear Views of Phase I



Challenges Continued

- Need to address entire complex's needs upfront despite the phase approach
 - ▣ Need to do all remediation, not part
 - ▣ Need to stabilize all exterior work so First Phase marketability not impacted by “unfinished” look of balance of building
- Limited market of comparable “market rate” rental buildings
 - ▣ Draws concerns from lenders on marketability and absorption
 - ▣ More stringent lender ratios on LTV and DCR



Financial Structuring

- Need to leverage building's historic significance
 - ▣ National Register
 - ▣ Eligible for both federal and state historic tax credits
- Maximize debt **but**
 - ▣ Lenders looking to mitigate risk
 - ▣ Require higher DCR and lower DCR
 - ▣ Need construction loan sized larger than permanent loan because needs to bridge tax credit equity
- Maximize State Incentives
 - ▣ Besides state tax credit, most residential incentives tied to affordability
 - ▣ City does not want 100% affordability on such a large building



Uses of Funds

USES OF FUNDS		% of Cost	Per Unit
Acquisition	1,604,447	6%	13,831
Rehab Costs	18,366,031	64%	158,328
Contingency	1,189,612	4%	10,255
Architectural and Engineering	835,032	3%	7,199
Finance Fees	1,761,593	6%	15,186
Soft Costs	1,178,448	4%	10,159
Developer Fee	3,443,170	12%	29,683
Reserves	250000	1%	2,155
Syndication Costs	<u>225,000</u>	<u>1%</u>	<u>1,940</u>
TOTAL	28,853,333	100%	248,736



Sources of Funds

SOURCES OF FUNDS		% of Uses		
Commercial Loan	8,300,000	29%		
Developer Equity	3,820,473	13%	54% Equity	
Federal Historic Tax Credit Equity	5,011,275	17%		
State Historic Tax Credit Equity	5,000,000	17%		
Deferred Developer Fee	1,721,585	6%		
State of Connecticut CHAMP	<u>5,000,000</u>	<u>17%</u>		
TOTAL	28,853,333	100%		



Monetizing Federal Tax Credits

EQUITY FROM FEDERAL HISTORIC CREDIT		EQUITY FROM HOUSING TAX CREDIT	
Eligible Basis	27,000,000	Eligible Basis	27,000,000
Federal Historic Tax Credit %	<u>20.00%</u>	Less federal Historic Tax Credit	-5,400,000
Federal Historic Tax Credit	5,400,000	Adjusted Basis	21,600,000
Price/\$ from Investor	<u>93.50%</u>	Low Income Housing Tax Credit (LIHTC) %	<u>3.42%</u>
Equity Raised from federal Historic Tax Credit	5,049,000	Annual Credit	738,720
		Applicable Affordability Fraction	<u>20.00%</u>
		Adjusted Annual Credit	147,744
		LIHTC over 10 years	1,477,440
		Price/\$ from Investor	<u>90.00%</u>
		Equity Raised from LIHTC	1,329,696



State Incentives

- State of Connecticut
 - ▣ **State Historic Tax Credit**
 - Up to \$5 million per project
 - Aimed to supplement federal historic tax Credits
 - ▣ **Comprehensive Housing Assistance for Multifamily Housing (CHAMP)**
 - Competitive program (\$25 million annually)
 - More flexible affordability standard
 - ▣ **Brownfields**
 - Assist w remediation and site clearance
 - Was not available when developer completed in 2008 – 2010
- Above three programs created in last decade



City Incentives through Norwich Community Development Corporation (NCDC)

- Payment in Lieu of Taxes (PILOT) through Mill Building Enhancement Program
 - ▣ 10 year phase-in schedule
 - ▣ City may consider extending to 15 years
- Reduced building permit fees
- Attract additional state funds for exterior improvements of other buildings



Lessons

- Developer Capacity Critical
 - ▣ Liquidity strength to cover upfront predevelopment work and carrying costs
 - ▣ Experience w complicated tax credits
 - ▣ Need tenacity and patience
- Mixed-income often winning formula
 - ▣ 100% affordable not desirable
 - ▣ Difficult to get subsidy on all market rate housing
 - ▣ Present program for Phase I is 70/30 market affordable
- Recreating a marketplace requires cutting edge public – private partnership
 - ▣ Much coordinating between all agencies involved

For more information

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