Tax Credit Programs to Rehabilitate Real Estate

In recent years, we have begun to realize the importance of saving older buildings in our region which can be historically significant bridges to our community's past. Not only do these buildings add character and diversity to our surroundings, they provide significant tangible and intangible benefits to building owners, developers and our community.

Bryce Hunter is an attorney with Gentry Locke (540) 983-9325

Recognizing the positive impact revitalization can have on communities, the federal government and Virginia have implemented programs to encourage rehabilitation and preservation of historic structures which can be modernized and returned to service as economically and historically useful structures. The federal and state Rehabilitation Tax Credit programs, also known as the Historic Tax Credit or HTC, are both administered through the Virginia Department of Historic Resources (DHR) and both may be used in the same building rehabilitation project.

The investment generated by these projects represents costs paid to architects, contractors, suppliers and others in the construction industry with corresponding job creation. The capital improvements to the structures lead to increased commercial activity (increased commercial space), tourism, and enhanced revenues for localities, among many other benefits intrinsic to the preservation of historically significant structures.

How does the HTC work?

The HTC subsidizes rehabilitation of qualified buildings by providing owners with a tax credit (a dollar for dollar reduction in tax liability) equal to 20 percent (federal HTC) and 25 percent (state HTC) of the qualified rehabilitation expenditures for a certified historic structure (any building either listed on the National Register of Historic Places, or located in a registered historic district and certified as being of historic significance to the district). In some cases, a lesser amount of the HTC may be available for non-certified historic structures placed into service before 1936.

If rehabilitation of a building will cost $5 million in construction and qualified rehabilitation expenditures, it will generate $1 million (federal HTC) and $1.25 million (state HTC). These tax credits generated can be allotted to investors who will pay market rates (historically between 90 to 95 cents on the dollar (federal HTC) and 75 cents on the dollar (state HTC). The project will benefit from $900,000-$950,000 (federal HTC) and $937,500 (state HTC) in equity which translates into a much lower debt burden than if only traditional financing were used.

The mechanics of the HTC process can be intimidating, but, in a standard HTC transaction, the building is transferred to a limited partnership in which the project sponsor, or an affiliate, is general partner, and the investors are limited partners. This entity structure permits the project to receive its equity from the investors in the form of capital contributions while allowing tax credits to flow out of the partnership to the investors after the project has been completed. This ownership structure must remain in place for five years, at which time the partnership is unwound with the building transferred back to the project sponsor.

We are proud to have been involved in the structuring of the HTC aspects of the Jefferson Center Performance Hall, the Roanoke Higher Education Center, the Dumas Hotel, Warehouse Row, the Grandin Theatre, the Lynchburg Courthouse Museum and the Carter Glass Building (in Lynchburg), among a number of other HTC projects in Virginia and North Carolina.

Before undertaking a building rehabilitation, we recommend you meet with qualified professionals to explore options in using the HTC programs, along with other tax credit and grant opportunities which will bring your building back to life and preserve a historic jewel in our region's crown.

P.O. Box 40013
Roanoke, VA 24022
540.983.9300
www.gentrylocke.com

GENTRY LOCKE
RAKES & MOORE LLP
Attorneys