

Case Studies in

AFFORDABLE HOUSING Through Historic Preservation



Number 5: Van Allen Apartments, Clinton, Iowa



Howes Building



Van Allen & Son Department Store



Marsh Place Building



Plymouth Block



Mason City YMCA



*T. S. Martin and Co.
Department Store*

Case Study Highlights

- *Combined use of Federal and State Historic Preservation Tax Credits and Low-Income Housing Tax Credit*
- *Repeated successful adaptations of historic buildings*
- *Insertion of apartments and retail into historic spaces*

The combined use of the Federal Historic Rehabilitation Tax Credit and the Low-Income Housing Tax Credit is an integral part of many successful rehabilitation projects. These financial incentives help bring both affordable housing to communities and renewed life to historic buildings. While these disparate tax incentive programs might seem challenging for first-time users, they create unique opportunities by providing a source of funding for projects

with restricted revenue streams. Numerous developers have made the pairing of these two programs a regular component of their development work.

Community Housing Initiatives (CHI) is a statewide nonprofit housing developer in Iowa that has employed these tools repeatedly. They have used the Federal Historic Rehabilitation Tax Credit and Low-Income Housing Tax



National Park Service
U.S. Department of the Interior
Heritage Preservation Services

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Credit and a variety of local, state and national funding sources, including the State Historic Preservation Tax Incentive Program. CHI has paired these with standard loans to complete project financing. Lessons learned in the successful completion of their 1997 rehabilitation of the historic Carnegie Library in Sioux City, Iowa, spurred this group onto a series of projects involving notable local historic buildings. These projects have had a powerful positive impact on the neighborhood and communities where they are located.

CHI's Historic Preservation / Affordable Housing Tax Credit Projects in Iowa:

Carnegie Library (Carnegie Place Apartments),
Sioux City, IA, 1997

T. S. Martin and Co. Department Store (Century Plaza
Apartments), Sioux City, IA, 1999

Marsh Place Building (Marsh Place Apartments),
Waterloo, IA, 2000

Plymouth Block (Call Terminal Apartments),
Sioux City, IA, 2001

Mason City YMCA (River City Apartments),
Mason City, IA, 2004

Van Allen & Son Department Store (Van Allen
Apartments), Clinton, IA, 2003

Howes Building (Clinton Block), Clinton, IA, 2005

Dubuque Casket Company (Washington Court),
Dubuque, IA, 2006

Moeszinger-Marquis Hardware Company (Armstrong
Apartments), Clinton, IA, 2006

Antlers Hotel (The Antlers), Spirit Lake, IA, 2006

In developing historic properties, CHI has found that each project presents its own rehabilitation and financing challenges. The types of historic buildings they have developed vary considerably including a library, light industrial buildings, department stores and a YMCA. In addition to unique structural demands and design challenges, the buildings also had different degrees of historic finishes. In the case of the Mason City YMCA, a high degree of finish existed in the formal meeting spaces, while few historic interior finishes remained at the start of the Marsh Place department store rehabilitation. Another important variable has been the extent and range of hazardous materials abatement required. Such work has included lead

paint abatement, asbestos mitigation, and the management of widespread mold. Each type of mitigation can involve complex regulations and major expense.

The financial structures of the projects are equally diverse, utilizing different combinations of such funding sources as conventional loans, foundation support, municipal funds and tax incentives. Understanding that there is no set formula for undertaking and financing a historic building rehabilitation and that such projects are quite different from new construction has helped CHI to establish a successful program of providing affordable housing in historic buildings.

Locating a property

CHI's choice of a building to develop is driven primarily by demand within the local housing market. Where demand exists, they look for historic buildings appropriate for



Challenges of fire-rating the interior of the Marsh Place Apartments were met in part through innovative drywall applications that left the historic character of the corridors preserved.



The main lounge and stairs of the Mason City YMCA were preserved and reused as a community room for the building's tenants.

adaptive reuse as low-income housing or as combined housing and retail. On a few occasions, CHI was not able to pursue projects in suitable historic buildings because of a lack of demand for housing in the local community. When looking for properties, CHI also takes into account that the historic character of a building would need to be preserved at the same time affordable housing is created.

Costs associated with the acquisition of a property influence the development decision as well. Local officials in Iowa often have earmarked buildings for redevelopment within their community. They, in turn, have approached CHI, offering properties for redevelopment purposes at low or no acquisition cost. The Marsh Place in Waterloo is a good example. The upper floors of the building were vacant for many years when Main Street Waterloo approached CHI in 1997. Main Street Waterloo had acquired the building with the goal of finding a group willing to redevelop it. CHI met with Main Street and the City of Waterloo during the summer of 1997 and by September completed plans for 25 rental units on the upper floors and retail space on the ground floor. To help make the project financing work, Main Street Waterloo sold the building to CHI for \$50,000 and, in turn, put \$40,000 of the proceeds back into the project in the form of a long-term, low-interest, deferred loan.

CHI regularly assesses buildings for potential reuse reviewing their construction needs, the local market for affordable housing and possible sources of additional funding. A number of factors are considered such as the structural condition of the building, environmental issues (asbestos, lead paint, etc), ease of converting the building to housing, projected rehabilitation costs, availability of

parking, and commitments for use of the ground floor. The project architect is consulted continuously during the process of selecting a building in order to identify early on challenges and opportunities in redeveloping the building.

Rehabilitation Goals

CHI targets properties with a significant amount of intact historic fabric. While the nature of the interior may vary, from ornately finished spaces like the main retail floor in the Van Allen & Son Department Store to relatively simple warehouse spaces such as those in the Plymouth Block's upper levels, the extant historic character of the properties is one of their main marketing pulls and its retention is part of CHI's development goals.

One of CHI's projects was the renovation of a 1926 YMCA building. A number of the more distinctive spaces in the building remained largely intact, including the gentlemen's lounge, boys' lounge and the swimming pool. Such character-defining spaces can be retained as community spaces, leased for non-residential purposes or, where appropriate, sensitively incorporated into apartment units. From a historic preservation perspective, where little historic fabric and few significant spaces remain, such as the interior of the Martin Department Store, greater flexibility exists in retrofitting apartment units.

Assembling the financing

Securing financing usually is one of the most challenging parts of development projects. For historic rehabilitations there are a number of financing sources available, of which the federal historic tax credit is but one. At least 25 states



The interior of the Van Allen & Son Department Store is shown during the Christmas shopping season in 1934. Photo: Courtesy of Mr. and Mrs. John B. Van Allen.

provide income tax credits for historic rehabilitation work. In recent years a 25% State Historic Rehabilitation Tax Credit was enacted in Iowa. In addition, Iowa created state-designated enterprise zones that have development areas in which projects can receive a 10% income tax credit.

CHI obtains part of the equity for their projects through syndication of the credits. As a nonprofit developer, CHI's main goal is providing low-income housing. CHI has been able to include a number of market rate units in many of their projects, thus fulfilling a goal of mixed income housing. Some projects have been able to accommodate a commercial element as well.

Procedure

CHI has found that early communication with the State Historic Preservation Office (SHPO) is an important first step when seeking the historic preservation tax credits. Initial discussions with the State occur early in the development process, helping to avoid unforeseen issues later on that may prove costly. With the Van Allen & Son Department Store, the SHPO was contacted within two months of the start of the project's conceptual planning and the National Park Service (NPS) was consulted before construction began. In the case of the Plymouth Block, the SHPO was consulted very early and a determination from NPS that the project met the Secretary of the Interior's

PROJECT DATA

| | |
|--------------------------------|---|
| Current Name: | Van Allen Apartments |
| Historic Name: | Van Allen & Son Department Store |
| Address: | 5th Avenue and South 2nd Street, Clinton, IA |
| Building type: | Department Store |
| Date of construction: | 1913-1915 |
| Date of rehabilitation: | 2002-2003 |
| Old use: | Department Store |
| New use: | Affordable Housing, Apartments and Retail |
| Type of construction: | Brick and steel frame |

Standards for Rehabilitation (Part 2) was received months before construction began. Aided by a clear understanding of historic property development and a good working relationship with the SHPO and NPS, CHI has been able to receive historic tax credits for all projects where they have applied for them.

Another key component of CHI's successful work is having an experienced and reliable development team. They have employed the Iowa architectural firm InVision for all but one of their historic rehabilitation projects. CHI has identified contracting teams in different parts of the state that are experienced with historic rehabilitation. This prior planning helps when development opportunities in a community arise and there is a need to pull a project team together in a short timeframe.

Their experience in working with the Federal and State Historic Rehabilitation Tax Credits and Affordable Housing Tax Credit programs has helped CHI to create a successful development program involving the creation of affordable housing in historic buildings. Besides the financial benefits of these two programs, CHI experiences better tenant retention and occupancy rates in their historic projects than in their new construction. Additionally, the initial lease-up of their historic properties is better than their new construction projects in part because with their historic properties there are usually additional amenities.

The Van Allen & Son Department Store

Project Overview

The Van Allen & Son Department Store in Clinton, Iowa, is one of the state's 23 National Historic Landmarks. The four-story department store was designed by Louis Sullivan and completed in 1915. This steel frame structure is distinguished by exceptional terra cotta ornamentation on the facade. The design of the department store interior was based on an open plan punctuated by a limited number of columns. Sullivan and John Van Allen planned the interior spaces before designing the exterior; the latter included elaborate terra cotta ornaments which served both to distinguish the building and conceal irregularities in the facade resulting from first fulfilling the interior design requirements.

Though important to Clinton's downtown retail life, the department store went out of business in 1991, at which time the City of Clinton purchased the property to insure its survival. The city maintained the building for a decade while an appropriate new use was sought. In 2000 Clinton approached CHI with a proposal for the building's development, offering the building at no cost.

The Rehabilitation

Due to its long history as a department store, the Van Allen & Son Department Store retained a great deal of its original layout and historic detail. The central challenges in developing the property included devising a way to subdivide the upper floors into apartment units while retaining a sense

DEVELOPMENT SCHEDULE

| <u>Event</u> | <u>Date</u> |
|---|-------------|
| Project initiated: | Feb. 2000 |
| Architect hired: | Feb. 2000 |
| Initial contact with SHPO: | April 2000 |
| Ownership structure organized: | Oct. 2000 |
| Part 1 (HRTC): not needed since building is listed on the National Register | |
| LITC approval: | Aug. 2001 |
| Part 2 approval (HRTC): | Nov. 2002 |
| Financing approved: | June 2002 |
| Construction initiated: | July 2002 |
| Construction completed: | May 2003 |
| Building placed in service: | May 2003 |
| Leasing begun: | June 2003 |
| Part 3 (HRTC) State review: | June 2003 |
| Part 3 (HRTC) NPS approval: | Aug. 2003 |

Notes:

SHPO: State Historic Preservation Officer

HRTC: Federal Historic Rehabilitation Tax Credit

of the open space; finding a suitable use for the distinctive first floor retail space, and preserving the ornate, character-defining facade. The rehabilitation plans prepared by CHI included creating 17 one-and-two-bedroom affordable housing units and two market rate units on the upper floors. The first floor was to be retained as retail space.



The main retail floor of the Van Allen & Son Department Store is viewed prior to and after the current rehabilitation. Retaining a retail use and incorporating partial height dividers with glass-panels above permitted CHI to keep the volume of the space as well as distinctive features, such as light fixtures and columns.

TAX CREDIT ANALYSIS

Historic Rehabilitation Tax Credit

| | |
|--|-------------|
| Total development costs | \$3,180,706 |
| Total qualifying expenditures | \$2,927,306 |
| Rehabilitation Tax Credit percentage | 20% |
| Total Rehabilitation Tax Credit | \$ 585,461 |
| Equity yield for Rehabilitation Credit | \$.90 |
| Equity raised from Rehabilitation Credit | \$ 526,915 |

Low-Income Housing Tax Credit

| | |
|--|-------------|
| Total development costs | \$2,808,135 |
| Total qualifying expenditures | \$2,661,769 |
| Less Historic Rehabilitation Tax Credit (historic on housing costs only) | \$519,462 |
| Eligible basis | \$2,124,307 |
| Low-income proportion | 86.17% |
| Qualifying basis | \$1,846,039 |
| Annual credit percentage | 8.05% |
| Annual credit amount (amount awarded at application; costs support more) | \$ 114,375 |
| Annual acquisition credit amount | \$5,572 |
| Total Low-Income Housing Tax Credit | \$1,143,750 |
| Equity yield for Low-Income Credit | \$.80 |
| Total equity raised from Low-Income Credit | \$ 915,000 |

Total Combined Equity **\$1,441,915**

Early consultation with the State Historic Preservation Office and the National Park Service identified several potential problems, including the addition of a light well, the treatment of the historic elevators, and the subdivision of the first floor retail space. Identifying a suitable space for the required number of parking spaces was also a challenge for this central downtown location.

The primary ground floor retail space was characterized by high ceilings and majestic columns topped with floriated capitals, a handsome staircase with glass display cases, historic light fixtures, and other features. The challenge was to divide this space for retail while retaining its sense of openness and grandeur. This was achieved by using demising walls topped with large glass transoms, allowing the distinctive columns and high ceiling to remain visible. The majority of the first floor space was leased by a local retail pharmacy. The first floor also accommodated a

computer-learning center for tenants and a history center.

In converting the upper three floors to residential use, it was possible to align all apartments with exterior walls in order to provide natural light and air. Additional windows were added on a secondary elevation to help achieve this. To bring more light into the central lobbies on the upper floors, a light well was introduced. The columns in the upper floors were integrated into the units and original hardwood floors were restored in many areas. The elevator and stair circulation was retained as well.

During the Van Allen building rehabilitation, lead paint abatement was a notable hurdle to overcome. It was difficult to find a contractor able to complete the work in accordance with new lead abatement regulations. Though expensive and time consuming, the lead paint abatement did not impede the completion of the project or its financial success.

PROJECT FINANCING

Total Cost of Project

| | |
|-----------------|-------------|
| Acquisition | 0 |
| Rehabilitation* | \$3,180,706 |
| Total | \$3,180,706 |

*represents total costs—not just qualifying rehabilitation costs

SOURCES OF FUNDS

| | |
|---------------|-------------|
| Total amount: | \$3,180,706 |
|---------------|-------------|

Grants/Subsidies:

| | |
|--|-----------|
| Total amount: | \$846,983 |
| Sources: Federal Home Loan Bank (\$70,000), Save America's Treasures Grant (\$200,000), Iowa Department of Economic Development (\$474,983), and City of Clinton (\$102,000) | |

Debt Financing:

| | |
|-------------------------------|-----------|
| Source: Clinton National Bank | \$200,000 |
|-------------------------------|-----------|

Equity:

| | |
|-------------------------------------|-------------|
| Sources: Iowa Equity Fund | \$1,960,887 |
| general partner equity contribution | \$151,836 |

TAX CREDITS

| | |
|-------------------------------|----------------|
| Federal Historic Tax Credit | \$585,461 |
| State Historic Tax Credit | \$548,047 |
| Low Income Housing Tax Credit | \$114,375/year |
| State Enterprise Zone | \$37,500 |

Located at the corner of intersecting streets, the building has two significant street facades. Because it was a National Historic Landmark, CHI took efforts to restore its grandeur, including repairing the modified Chicago-style windows, carefully treating the decorative polychrome terra cotta, repairing the storefront awnings to full working condition, and rebuilding a damaged entrance canopy.

Project Financing

Financing for the Van Allen building was derived from a number of sources. Equity from syndication of the Federal Historic Rehabilitation Tax Credit and the Federal Low

Income Housing Credit along with a credit from the Iowa State Historic Tax Incentive Program met 57% of the total development costs. The Historic Rehabilitation Tax Credit, offering a five-year recapture with the entire credit earned up front, yielded \$0.90 for every dollar of credit. The Low-Income Housing Tax Credit, with a 15-year recapture and the credit earned in equal installments over 10 years, yielded a lower value of \$0.80 for every dollar of credit.

The City of Clinton not only provided the building at no cost but also awarded a \$102,000 grant to the project. To assist with the cost of restoring the building's street facades, a \$200,000 Federal Save America's Treasures grant was obtained. Further grants or subsidies came from the Iowa



The sensitive rehabilitation of the Van Allen & Son Department Store for a new use as retail and affordable housing helped insured that this National Historic Landmark will be preserved for generations to come.

Department of Economic Development and the Federal Home Loan Bank.

Summary

The notable Van Allen & Sons Department Store was transformed from an unoccupied store to one of the cornerstones of a re-energized downtown in Clinton, Iowa. The sensitive rehabilitation of this building into affordable housing units and fully leased retail space acted as a catalyst for other new businesses to open in the area. Furthermore, the city has made numerous infrastructure improvements such as new sidewalks and lighting in order to help attract/retain downtown businesses.

The success of the rehabilitation of the Van Allen building and the quick leasing of the residential units was a clear sign that additional housing was needed in Clinton. Since then, CHI has worked with the City of Clinton and the Clinton Downtown Partners to rehabilitate two additional buildings, one across the street from the Van Allen Apartments and one just blocks away.

This Case Study in Affordable Housing was prepared by Claire Kelly, formerly of the Technical Preservation Services Branch, Heritage Preservation Services, National Park Service, with the assistance of Douglas LaBounty and Sam Erikson of Community Housing Initiatives, Inc. Thanks go to Jack C. Porter, Preservation Consultant, Iowa State Historic Preservation Office, for his assistance as well as to Sharon Park FAIA and Michael Auer of the National Park Service for their review and comments. Charles Fisher serves as the Editor of the Case Study in Affordable Housing series.

Ownership Structure

Van Allen Limited Partnership

General Partners

Community Housing Initiatives, Inc.
14 West 21st Street, Suite 3
PO Box 473
Spencer, IA 51301

Limited Partner

Van Allen, L.P.

Developer

Community Housing Initiatives, Inc.
14 West 21st Street, Suite 3
PO Box 473
Spencer, IA 51301

Architect

InVision Architecture
117 Pierce Street
Sioux City, IA 51101

General Contractor

Ringland-Johnson Inc.
1517 So. Bluff Boulevard
Clinton, IA 52732

State Historic Preservation Office

State Historical Society of Iowa
600 East Locust Street
Des Moines, IA 50319

State Housing Authority

Iowa Finance Authority
100 East Grand
Des Moines, IA 50309

Case Studies in Affordable Housing are designed to provide practical information on methods and techniques for successfully preserving historic structures while creating affordable housing. This case study was prepared pursuant to the National Historic Preservation Act, as amended, which directs the Secretary of the Interior to develop and make available to government agencies and individuals information concerning professional methods and techniques for the preservation of historic properties. Other case studies in this series can be found on our website at <http://www.cr.nps.gov/hps/tps/>

Comments on the usefulness of this information are welcomed and should be addressed to Charles Fisher, Technical Publications Manager, Technical Preservation Services-2255, National Park Service, 1849 C Street NW, Washington, DC 20240.

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