

# Novogradac Journal of Tax Credits

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# Preservation Advocates Seek Mills Tax Credit Extension

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

In May, historic preservation advocates will push for a five-year extension of the North Carolina mill rehabilitation tax credit (MRTC), which sunsets at the end of 2010. Since its creation in 2007, the program has revitalized dozens of vacant mills throughout the state and encouraged economic development in some of the state's most distressed areas.

"I'm under the impression that we will be able to get this extended. This is a positive thing in terms of the state for employment and sales revenue. It's taken the remnants of the industrial economy and put them into new uses," said J. Myrick Howard, president of Preservation North Carolina (PNC), a statewide, not-for-profit historic preservation organization.

## Targeted Assistance

As North Carolina moved away from a production economy in the 1980s, a great number of factories closed, abandoning large industrial complexes. To encourage redevelopment of the vacant industrial, agricultural and utilities buildings, PNC drafted the MRTC legislation, which the state's General Assembly passed in 2006. Awarded in lieu of North Carolina state historic tax credits (HTCs), the MRTC provides an additional source of capital that can be used to renovate the large, often contaminated, industrial buildings that once played a prominent role in North Carolina's cities and towns. An estimated 300 properties qualify for the tax credit.

"This is a niche incentive to take care of seriously problematic properties," Howard said. "What it does is turn major liabilities into huge assets." He described it as a boon to the state's economy.

The program operates on a tiered system that favors mills in the state's most distressed counties. In the state's 80 most distressed counties, developers receive a 40 percent state tax credit for certified rehabilitation of qualifying historic structures. In the remaining 20 counties, the credit drops to 30 percent of the certified rehabilitation costs for income-producing properties only.



Photo Courtesy: Jeremy Lange

Scientific Properties used the North Carolina mill rehabilitation tax credit to renovate Golden Belt in Durham.

Developers can sell the credit to investors that have state tax liability. Equity investors can claim all of the MRTCs in a single tax year, increasing the benefit to investors and attracting additional equity to mill projects.

## Golden Belt

In the last three years, that additional equity has enabled developers to repurpose mills, producing apartments, office and retail space, and schools. Scientific Properties LLC's redevelopment of a downtown Durham mill has revitalized that section of the city.

Howard said the mill is in a neighborhood that people  
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had written off for years. "To have this kind of facility spring forth in this neighborhood has been a huge assistance to this part of Durham," he said.

Scientific Properties used the credits for a \$27 million renovation of a former tobacco pouch factory. It now houses artists' studios and galleries, lofts, restaurants, offices, and retail and entertainment space. In December, the Golden Belt mill, once a brownfield site, became the largest mill campus in the southeastern United States to earn Leadership in Energy and Environmental Design (LEED) Gold certification.

Tucker Bartlett, Scientific Properties' chief operating officer, said the Golden Belt area was a part of town that had been neglected by the business community for years. "This was stepping up and creating a vision for it and getting everyone to buy into that vision," he said. Renovation of the mill began in 2007 and it opened its doors in July 2008.

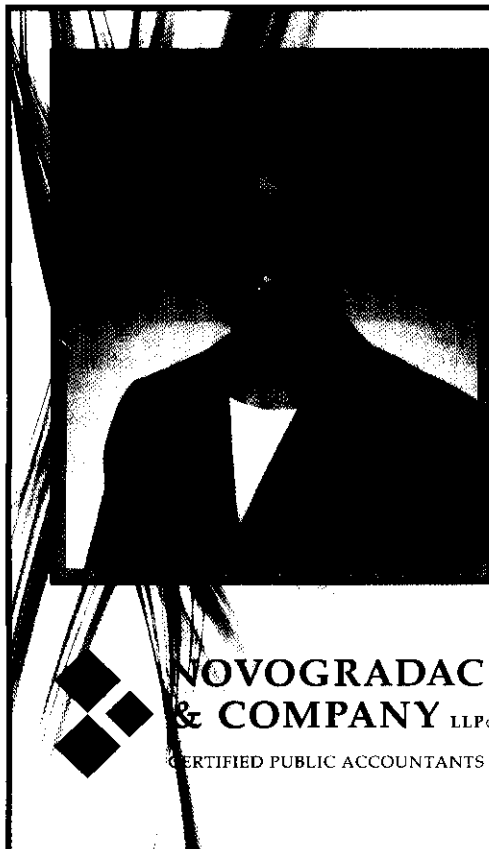
North Carolina's state historic tax credit would have provided a 20 percent credit spread over five years, not enough equity for the mill renovation, Bartlett said. The MRTC credit provided a 30 percent credit claimed in one year and brought \$3.7 million into the property; Bartlett estimates that the state HTC would have provided only \$1.7 million. Ultimately, the MRTC made the challeng-

ing project viable. "The numbers didn't add up without the tax credits," Bartlett said.

Additional Golden Belt financing sources were federal historic tax credits and new markets tax credits (NMTCs). On February 18, Treasury Secretary Tim Geithner visited Golden Belt and announced the President's proposal to extend the NMTC.

Since opening the building in 2008, Scientific Properties has continued to lease space in the six-building, seven-acre campus. Seventy-five percent of the project is leased and just last month Scientific Properties and the University of North Carolina (UNC) School of Journalism and Mass Communication said that the Northeast Central Durham Community VOICE, a community news project staffed in part by local youth mentored by the journalism programs at UNC and North Carolina Central University, will open a newsroom on site.

In the next few months, PNC and others will draft the legislation they plan to present to lawmakers. Most likely, the legislation will simply change the sunset date for the program. Howard said at press time that the only change PNC was considering was a provision that would make the credits more favorable to investors. ♦



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