



# MAINSTREET AMERICA FUND

HISTORIC PROPERTY INVESTMENTS

# Historic Tax Credits Overview

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- 20% or 10% tax credit to rehabilitate a certified historic or very old structure (built prior to 1936)
- Must be taxable income producing property and rehabilitation must be 'substantial'
- Tax credit based on Qualified Rehabilitation Expenditures (basically most rehab work less acquisition and site work)
- State of Ohio with 25% competitive credit



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# Credit Monetization

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- Need to monetize the credit so developer can obtain \$\$ to assist with construction
- Unique structures to monetize/syndicate the HTC (single tier or master lease pass through)
- High transaction fees similar to other programs such as NMTCs
- Minimum project size to make monetization 'worth it' – MainStreet America Fund (MAF) has reduced this threshold



# Small Deals: Investor Perspective

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## ‘Small Deal’ Definition:

- QRE's of between \$1MM and \$10MM
- Geographic location, developer experience, strength of guarantor, complexity of capital stack



# Problems Syndicating Small Deals

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- TRANSACTION FEES as percent of the tax credits
  - Legal
  - Accounting
  - IRS
  - Cash Flow
- Benefit to investor of small deal < large deal - same amount of work.  
Sometimes more
- Structuring issues
- Potentially thin cash flow



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# Developer Considerations

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- Should you syndicate?
  - Source gap for construction
  - Bank requirement
  - Appraisal too low
  - Ability/Inability for developer to take credits individually
  - Cost of funds



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# Strategies to Attract an Investor

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- Project ready to go
  - Site control, bank lined up, tenants in place
- Prepared with due diligence and 'investor package'
- Add scale with state credits or multiple properties
- Come with strong guarantor
- Assemble an experienced project team
  - Architect, GC, Lawyer, Accountant
- Use a historic consultant



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# MainStreet America Fund - Eligible Projects

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- MAF can invest in almost ANY project with between \$200K and \$2-3MM of Federal HTC's
- MAF is a national fund and unlike a bank, has no CRA or geographic restrictions
- Can invest in any TYPE of project as well, from mixed-use to multifamily, commercial, hotel...
- Can be a nonprofit sponsor and can layer with other types of credits or financing





# What **We** Look For

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- Underwrite the real estate
  - NOI/Cash Flow
  - Realistic projections
  - Neighborhood
  - End use
- Personal guaranty with some liquidity
- Experienced project team - confident the project will be constructed and will receive the Part III



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# Choosing an Investor: Understand the True 'Net' Benefit

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- **Do not focus on the gross pay-in**
- Manage expectations
- Look at the costs over the entire life of the historic transaction
- Do not discount the intangibles
  - Investor will be partner for at least 5 years - do you like them?
  - How easy is the investor to work with
  - How quickly can the investor close the transaction?



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# Minimize Transaction Costs

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- Preset legal documents
- Capped legal fees
- Capped accounting fees
- Smaller preferred return
- No requirement for a tax opinion, lease or developer fee opinions
- No audited financial statements



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# Net Benefit Calculation Example: Project with \$1MM in Credits

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## MAF

Gross Pay In: \$.80 (\$800,000)

Legal Costs - \$15,000

Accounting Costs - \$30,000

Tax Opinion - \$0

Annual Costs (over 5 years) - \$190,000

Put - \$40,000

NET PAY IN - \$525,000

## Other Investor

Gross Pay In: \$.90 (\$900,000)

Legal Costs - \$80,000

Accounting Costs - \$30,000

Tax Opinion - \$15,000

Annual Costs (over 5 years) - \$315,000

Put - \$45,000

NET PAY IN - \$415,000



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# Choosing MAF: Other Considerations

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- Easy to work with
- Come from the developer perspective
- Fast closer
- Technical assistance
- Aggressive Pay-In Schedule
- Work with developer to minimize costs throughout process



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# MAF Deals

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- Closed Transactions:

- Unity Food Hub, Unity, Maine
- The Hive, Rochester, NY
- The Hurbson, Syracuse, NY

- In Process:

- Hotel in Durham, NC
- Hotel in Edenton, NC
- Mixed Use in Mobile, AL
- Warehouse Conversion in Raleigh, NC
- Brewery in Columbia, SC
- Residential Tower, Elgin, IL
- Neighborhood redevelopment, St. Louis, MO



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# Project Example: Unity Food Hub

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- Project Issues:
  - Non-profit sponsor - Maine Farmland Trust
  - Untested market - rural Maine
  - Tiny project - \$300K in Federal Credits
  - Inexperienced developer
  - Business needed to open in 1 month



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# Project Example: Unity Food Hub

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- Outcome
  - Worked through structuring issues
  - Kept costs low through sharing site visit with other projects
  - ‘Hand-holding’ through the process
  - Closed on time



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