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NMTCs, HTCs Revitalize Historic Market District

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Cincinnati's historic Over-the-Rhine neighborhood made national headlines over the past few years because of its dramatic transformation from blight to renewal. Vacant and underused buildings were repurposed into condominiums and upscale boutiques. Hundreds of millions of dollars were poured into redevelopment, but until recently, investments were concentrated in the southern half of the neighborhood. The northern half was largely untouched by redevelopment efforts, but a recent project by local developer Model Group hopes to change that. "This is a neighborhood that our company has been working in for years," said Jason Chamlee, developer at Model Group. "This area of Over-the-Rhine has, to date, received very little real estate investment. Market Square will be absolutely transformational."

With the help of historic tax credit (HTC) and new markets tax credit (NMTC) financing, Model Group is in the middle of renovating a dozen buildings in northern Over-the-Rhine into Market Square, a mixed-use property with residential, retail and office space. "The historic tax credit and the new markets tax credit have opened new doors of opportunity for this part of Over-the-Rhine by bringing old buildings back into commission and once again making the neighborhood an attractive place to invest," said John Sciarretti, a partner at Novogradac & Company

LLP, whose team provided accounting services to the project. "In other words, the credits allow Market Square to honor the neighborhood's past while laying the groundwork for its future."

In terms of both location and function, the project centers on a local icon: Findlay Market, the oldest remaining market in Cincinnati. "There's a great idea in community development, which is to build on an asset," said Robert Poznanski, senior vice president and chief operating officer of New Markets Support Company, an affiliate of Local Initiatives Support Corporation (LISC)—which provided NMTC allocation to the project. "The one thing that stood out here was the market."

Established in 1855, the thriving open-air Findlay Market draws more than a million visitors a year. However, the buildings surrounding the market were empty and underused for decades.

Partners expect the Market Square development will build on the economic success of Findlay Market by providing housing and retail opportunities that could transform the area into a thriving live-work-play district. Market Square includes 10 condominiums and 23 apartments, with six of the apartments set aside for households earning 80 percent or less of the

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area median income (AMI) or \$56,950 for a family of four.

The ground floor of Market Square will offer 20,000 square feet of retail space. Its anchor tenant is a grocery store that will provide packaged food and products to complement the fresh food available at Findlay Market. “This is helping brand the area as a food destination,” said Laurie Garrett, loan program manager for IFF, one of the project’s NMTC allocatees.

Market Square will also provide about 30,000 square feet of office space, 15,000 of which will be occupied by Model Group. The developer plans to move its headquarters there so that it can manage the property on-site and physically be a part of the neighborhood transformation.

Historic Rehabilitation

All 12 of the buildings were built as mixed-use housing and commercial properties in the late 1800s, but fell into severe disrepair by the mid-20th century. “With the decline of the neighborhood over the past 50 years, they had become tenement-type housing—overcrowded, underinvested, poorly managed squalor,” said Chamlee. “When we got them, they were either vacant or in really rough shape.”

HTCs were instrumental in helping restore the buildings’ historic character, particularly the façade. Many of the buildings’ storefronts were boarded up or blocked, so crews restored the historic shop windows. To bring back the original character of the buildings on the inside, they reversed the effects of poorly executed rehabilitation efforts by previous owners. Workers peeled back dropped ceilings to expose original tin ceilings, restored wooden trusses and tore down plaster walls. The development created 279 construction jobs and is expected to create 167 permanent jobs.

Financing

Financing such a large-scale project required multiple tax credit programs, multiple financing partners and strategic planning. Market Square had two source loans. A \$6.3 million leverage loan was a combination of a \$3.3 million LISC loan and \$3 million participation between Cincinnati Development Fund (CDF), IFF and Partners for the Common Good, with each providing \$1 million. There was also a \$3.2 million HTC bridge loan with \$1.6 million each provided by CDF and LISC. Market Square leveraged federal and state NMTCs and federal and state HTCs.

“The high development costs required for a rehab of this magnitude, combined with the suppressed economic value, created an obvious ‘but-for’ scenario,” said Joe Huber, chief operating officer and chief loan officer for CDF. “Without NMTCs, this project would not have happened.” CDF was one of Market Square’s four NMTC allocatees and has been involved with the project since its inception. CDF provided predevelopment financing, \$4.3 million in federal NMTC allocation and \$2.5 million in Ohio state NMTC allocation.

IFF provided \$7 million of federal NMTC allocation. “We’re confident that it will be a truly transformative project and it’s a great story of how CDFIs can work together,” said Garrett.

“It helped that the different organizations played multiple roles,” agreed Kelsey Hamory, project manager at NMSC. “This was not a cookie-cutter new markets deal.” LISC provided \$4.5 million in federal NMTC allocation. “I was impressed with the teamwork among the professionals—it was a very concerted effort,” said Ruth Sparrow of Future Unlimited Law, which represented LISC.

Capital One contributed \$2 million of its own federal NMTC allocation and provided \$6.6 million in federal and state NMTC equity. “This is going to be the

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cornerstone project for the neighborhood and we'll likely see the area explode with growth like the rest of Over-the-Rhine has done," said Bert Holland, senior vice president of new markets tax credit finance for Capital One.

The Ohio Capital Corporation for Housing (OCCH) provided \$4.6 million in HTC equity. Doug Klingensmith, vice president of development for OCCH, said that Market Square will be an asset to the community. "I think it's contributing positively to the neighborhood and creating a diversity in income that they haven't had in many years," said Klingensmith. "It's been predominantly low-income for a length of time and a mix of incomes across the neighborhood should be beneficial."

"It's a huge project: You're bringing in office space to a neighborhood that has no office space, retail space to a neighborhood that only has the market and you're bringing in condos to a neighborhood that has no condos," said Kathy Schwab, LISC of Greater Cincinnati's

executive director. "I consider this a really pivotal project for the revitalization of the neighborhood."◆

Market Square

FINANCING

- ◆ \$7 million in federal new markets tax credit (NMTC) allocation from IFF
- ◆ \$6.6 million in federal NMTC equity from Capital One
- ◆ \$4.6 million historic tax credit (HTC) equity from Ohio Capital Corporation for Housing (OCCH)
- ◆ \$4.5 million in federal NMTC allocation from LISC
- ◆ \$4.3 million in federal NMTC allocation from Cincinnati Development Fund (CDF)
- ◆ \$3.3 million leverage loan sourced by LISC
- ◆ \$3.2 million HTC bridge loan from CDF and LISC
- ◆ \$3 million leverage loan sourced by CDF, IFF and Partners for the Common Good
- ◆ \$2.5 million in Ohio state NMTC allocation from CDF
- ◆ \$2 million federal NMTC allocation from Capital One
- ◆ \$1.7 million sponsor equity from The Model Group
- ◆ \$600,000 in state NMTC equity from Capital One

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