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Historic Buffalo Landmark Renovated Into Office Tower Using Multiple Tax Credits

In a complex transaction, a developer is transforming an historic landmark building in downtown Buffalo, NY, into a unique office property, utilizing the federal new markets and historic rehabilitation tax credits.

The project, called The Electric Tower, is the first by developer Paul Iskalo using these two tax credits, and utilized allocations of new markets tax credit (NMTC) authority from two separate community development entities.

The historic rehabilitation of the property, the part qualifying for the federal historic tax credit, has already been placed in service, Iskalo, president and CEO of Iskalo Development Corp., Williamsville, NY, told the *Tax Credit Advisor* in a recent interview. The project was also described, in interviews with *TCA* and/or during a panel session at the National Housing and Rehabilitation Association's 2007 Summer Institute conference, by: Ira Weinstein, Reznick Group, Bethesda, MD; Claudia Robinson, Bank of America, N.A., Washington, DC; David Cohan, Coastal Enterprises, Inc., Wiscasset, ME; and attorneys Carolyn Rowland and Donna Marie Rodney, partners in Powell Goldstein LLP in Washington, DC.

Located in this western New York State city of some 285,000 residents, The Electric Tower has a rich history. Completed in 1912, the building was patterned after The Tower of Light, a highlight at the 1901 Pan-Am Exposition in Buffalo. At the time, the building was one of the world's first fully electrified buildings, and

illustrated the importance of Buffalo and the area – proximate to Niagara Falls – hub of the nation's burgeoning electric power industry.

The 290-foot tall Electric Tower has 14 stories and is topped by a multi-story octagonal tower clad in white terra cotta. The building, which had a grand re-opening ceremony in August 2007, is traditionally illuminated by colored lights on holidays and special occasions.



Venture into Downtown

Iskalo said most projects he has developed to date have been adaptive re-use, in which his firm has acquired “well-located” existing buildings, invested significant capital for improvements, and “repositioned” them in the marketplace. Iskalo, who develops in western New York State, started by developing office-type warehouse space, then moved to purchasing and renovating older rundown buildings, and finally evolved to more office and medical-office space, primarily in the Buffalo suburbs.

Iskalo said he’d always wanted to do a project downtown, and several years ago felt the timing was right. “We thought the market was ready for some higher quality office space,” he said, but “we recognized that to enter the downtown market we needed to have a project that met some critical criteria.” These included finding a building that: was large enough to justify the risk of entering the downtown market; had lots of natural light and sufficient parking; and had large floor plates – tenant spaces exceeding 10,000 square feet – to accommodate major tenants. In addition, Iskalo said he ideally wanted to do a project with “some identity” that would create excitement and trigger redevelopment in the neighborhood.

Iskalo looked for a suitable building for several years before finding the then-named Niagara Mohawk Building. He purchased it in 2004 from National Grid, a utility firm that a few years earlier had acquired electric utility Niagara Mohawk Power Corp. The building was big and had large floor plates, windows on all sides, a 200-space parking garage, and unique architectural features.

National Grid vacated the building except for a Niagara Mohawk customer service center, which remained until mid-2006 under a new two-year lease with Iskalo. When the lease expired, and the building became fully vacant, substantial renovations had been underway for six months.

Today, Iskalo said the lobby is finished, and improvements to the building shell and other common areas are nearly complete. The property, which contains 122,400 square feet of “Class A” office space, is about 30% occupied.

A majority of the signed tenants are New York State agencies, and there is a private environmental firm. Iskalo said the project has met with a warm reception from the real estate community and local firms.

Myriad of Challenges

Iskalo had to overcome a number of challenges to successfully develop The Electric Tower (<http://www.electrictower.com>). One was the physical renovation of the building itself: taking an historic structure and rehabilitating and upgrading it to meet the current requirements of modern office tenants.

A second challenge was to figure out a way to renovate the building that would work financially while also satisfy the requirements to qualify for the federal historic tax credit.

A major challenge, Iskalo said, was timing: trying to sign up tenants for the project before the start of substantial renovations, when tenant move-ins couldn’t occur for another 18 months, while simultaneously trying to interest lenders, who were reluctant to commit to an \$18 million project without there being any signed tenants. Iskalo said he successfully navigated this period by tenaciousness, selling his vision of the project to tenants and lenders, and aided by Niagara Mohawk’s presence in the building during the start of major renovations. During this period, he said, his firm began to sign leases for space with some state agencies.

Iskalo said another challenge was trying to secure new markets tax credit (NMTC) authority, because of the project’s large size. “Getting an allocation of \$15 million in new market tax credits seems like an awfully big ask,” he noted. Iskalo began his search for an NMTC commitment, suspended it for 6-9 months, obtained a private bridge loan to keep the project moving, and then renewed his search, eventually succeeding.

Iskalo said a team of outside legal and accounting experts helped educate him about the Federal historic and new markets tax credits, put together a funding plan for the project and strategy for securing tax credits, and guided him through the process. An integral part of this team, he indicated, was Ira Weinstein, a principal in the Reznick Group.

Complex Funding Package

According to Iskalo's firm, totaling funding for the project was \$18.89 million, consisting of: \$4,270,000 in historic tax credit equity; \$3,430,000 in NMTC equity; \$8,500,000 in loaned funds (NMTC debt); \$1,390,000 in developer equity; and \$1,300,000 as a deferred developer fee. Fund uses included \$2,550,000 for land and building acquisition; \$12,210,000 for renovation and tenant improvements; \$1,610,000 for financing and soft costs; \$1,220,000 for paid developer fees; and \$1,300,000 for deferred developer fees.

A community development entity (CDE) subsidiary of Coastal Enterprises, Inc., and Bank of America CDE, each committed portions of their allocations of NMTC authority for the project.

Claudia Robinson, Senior Vice President, Historic and New Markets Tax Credit Originations, with Bank of America, N.A., said Bank of America – through the parent bank, its

CDE, and Bank of America Community Development Corporation – provided equity and debt financing for the project – about \$12 million total. BofA made both historic and new markets tax credit equity investments, and also provided an NMTC-enhanced leveraged loan. Robinson told TCA that senior vice president Richard Hosey structured the tax credit financing for Bank of America in the deal.

Robinson said Bank of America was attracted to the project for several reasons. "We were interested because it was green [The Electric Tower project incorporated a number of environmentally sustainable features]; we were interested because it was in Buffalo; and we were interested because Coastal Enterprises was interested in the deal, and we were trying to set up a relationship with Coastal Enterprises." Robinson added that the "spectacular" nature of the building and the development's projected economic impact (e.g., creation of 185 construction and 555 permanent jobs were forecast) also were appealing.

The project is located, for NMTC program purposes, in an area of high economic distress. Iskalo said the property is also in a New York State "Empire Zone," benefits of which include property tax abatement, exemption of building tenants from sales tax on purchased items (e.g., office equipment) used on-site, and exemption from sales tax on purchased construction materials.

Iskalo and others indicated the legal structure for the project had to be carefully crafted and was complex to maintain eligibility for the historic and new markets tax credits. Much of this, Rodney indicated, involved structuring the terms of the leases with the tenant public agencies in a way that they wouldn't be classified as disqualified leases and thereby potentially cause the project to be treated as tax-exempt use property, which isn't eligible for the historic credit. 🙏