

# Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

February 2010, Volume I, Issue II

Published by Novogradac & Company LLP

## Crystal Manor Preserved as Affordable Housing

By Rochelle Lento, Dykema Gossett PLLC

**D**espite chilly weather and a chill in the equity market, a preservation project that closed late last year is expected to help heat up a local economy in Northern Michigan.

Built by architect David Lockwood in 1882, Crystal Inn was originally occupied by the Lockwood Hotel and was the first known hotel in Crystal Falls, Mich. Located on Michigan's Upper Peninsula, Crystal Falls is home to fewer than 5,000 residents and had an estimated median household income of \$30,054 in 2007. Approximately 10 percent of the city's population lived below the poverty level in 2007. This small city sits in Iron County, which averages 30 inches of snow in the coldest winter months.

Crystal Inn has had many names and varied uses since its construction in 1882. Known as Crystal Manor, Lockwood Hotel and Crystal Falls Hotel, this large, U-shaped, three-story, Georgian Revival-style structure has withstood time and history. A hotel from 1882 until 1918, the building was partially destroyed by a fire. After the fire, the Crystal Falls Hotel Company, in collaboration with the American Legion, purchased the property and renovated the structure in 1922 to create the Crystal Inn, which operated as a hotel until 1963. At that point, the Lutheran Hospitals and Homes Society of America Inc. remodeled the structure to create a home for the aged. The historic building had been vacant and close to abandonment for the past 12 years.

The structure remains intact and has significant, historic and architectural features. Sheathed in bichrome brick, it



*Image Courtesy: Barry Polzin, Barry J. Polzin Architects*  
This rendering shows the architects plans for the property, including restoring awnings on the exterior.

has symmetrical massing and balanced fenestration. A wooden, mollified cornice and arcade-like first floor face Superior Avenue. There are Tuscan-style columns on the first floor, a roofline parapet of sandstone, and a metal entrance canopy with a frieze of stained glass. Much of the building's original design and characteristics are intact, and by virtue of the historic tax credits committed to the development, the building's historic features will remain untouched, but enhanced. The building sits one block from the Crystal Theater, a recently renovated 500-seat performance venue.

As developer, Crystal View Development Co. LLC, an affiliate of The Hovey Companies LLC based in DeWitt, Mich., worked closely with and received support from the city of Crystal Falls to develop a plan to restore and renovate the building. The city will actually develop the on-site park-

*continued on page 2*

continued from page 1

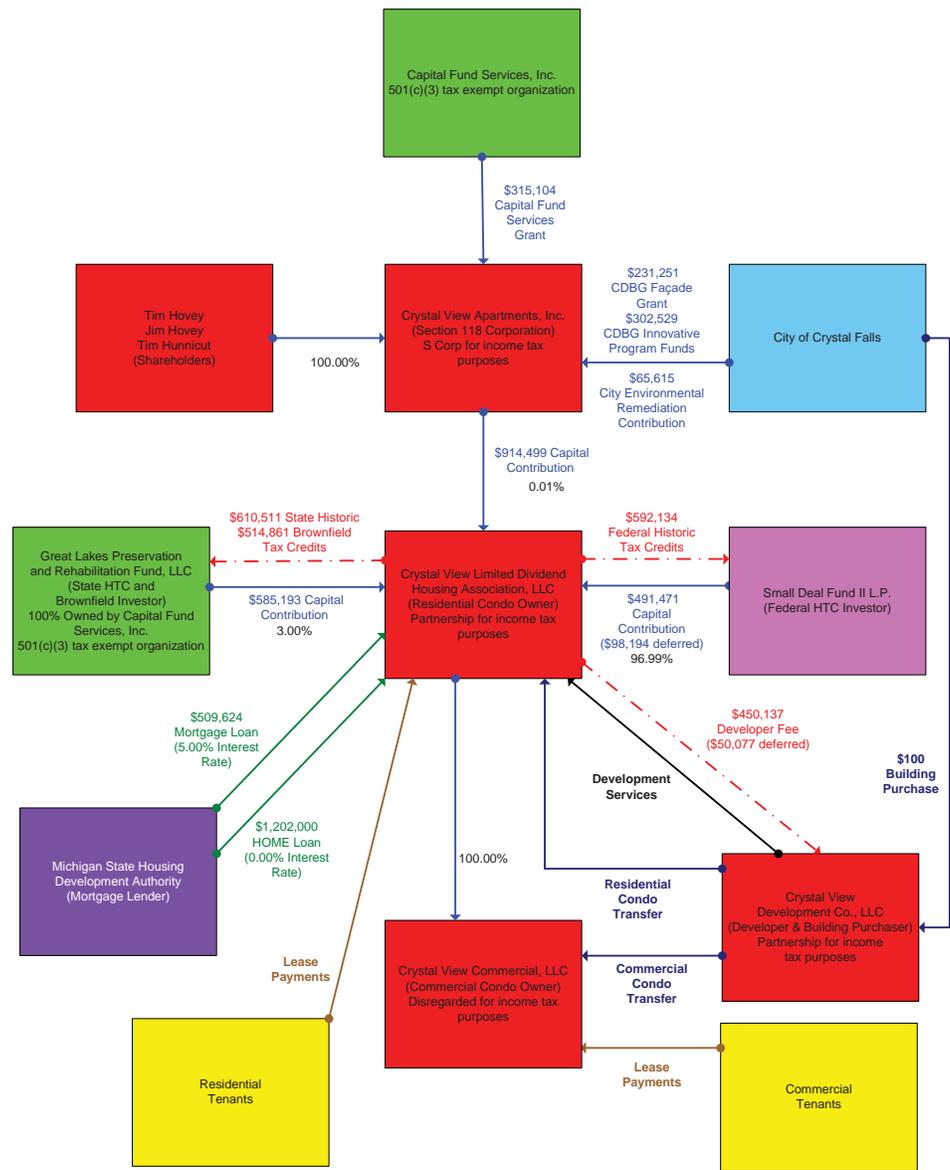
ing areas, as well as dedicate some street parking spaces to meet certain funder requirements. The future Crystal View Apartments will provide affordable housing for 25 low-income families and two units of commercial space. Given the mixed-use nature of the development, the developer had to create a condominium association to establish separate ownership units for the residential and commercial portions of the building. The twenty-five units within the residential portion are owned by Crystal View Limited Dividend Housing Association LLC, which has two members, Great Lakes Preservation and Rehabilitation Fund LLC and Small Deal Fund II LP; while the commercial units are owned by Crystal View Commercial LLC. (See the accompanying organizational chart on page 64.)

Given the dearth of investors for Michigan’s traditional low-income housing tax credits (LIHTCs), the developer cobbled together other sources of financing to achieve the approximately \$3.6 million of total development costs. “Given the inability to sell low-income housing tax credits, our development team had to take a more creative approach to structuring Crystal View,” said Tim Hovey, a Hovey Companies LLC principal. “Knowing that we could market the historic and brownfield credits, we maximized the credit potential by applying for and securing 20 percent federal historic, 20 percent state historic and 20 percent brownfield credits—the first time that has occurred in the state of Michigan.”

Additionally, the community granted a 4 percent payment in lieu of taxes (PILOT), sold the building for \$100, is providing parking and worked to find secure grant dollars to fill the remaining gap. “Looking back, Crystal View is one of the more complex endeavors that we have undertaken and [it] would not have happened without a community committed to redeveloping this landmark building, a creative development team, patient and flexible equity partners and multiple state agencies working in unison,” Hovey said.

Financing for the project used both state and federal historic tax credits — \$317,465 and \$393,277 in equity respectively — as well as \$267,728 in Michigan Business Tax (MBT) Brownfield Tax Credits, direct lending from tax

### Crystal View Apartments Organization Flowchart – Single Entity Structure



Source: Benard Dorer, Plante & Moran PLLC

continued on page 3

## Novogradac Journal of Tax Credits Editorial Board

### PUBLISHER

Michael J. Novogradac, CPA

### EDITOR

Jane Bowar Zastrow

### MANAGING EDITOR

Alex Ruiz

### STAFF WRITERS

Jennifer Dockery

Jennifer Hill

### TECHNICAL EDITORS

Robert S. Thesman, CPA

James R. Kroger, CPA

Owen P. Gray, CPA

Thomas Boccia, CPA

Daniel J. Smith, CPA

### CONTRIBUTING WRITERS

Brandi Day

Deborah DeMasi

Brad Elphick, CPA

Jenny Ho

John Leith-Tetrault

Rochelle Lento

Diana Letsinger, CPA

Charles A. Rhuda III, CPA

Matthew M. Ryan

Craig Staswick

Robert Stroh

John M. Tess

Laurel Tinsley

Stephen B. Tracy, CPA

### PRODUCTION

Jesse Barredo

James Matuszak

## Novogradac Journal of Tax Credits Information

Address all correspondence and  
editorial submissions to:  
Jane Bowar Zastrow / 415.356.8034

Address inquiries regarding  
advertising opportunities to:  
Emil Bagalso / 415.356.8037

Editorial material in this publication is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding the low-income housing tax credit or any other material covered in this publication can only be obtained from your tax advisor.



**NOVOGRADAC  
& COMPANY** LLP

CERTIFIED PUBLIC ACCOUNTANTS

© Novogradac & Company LLP  
2010 All rights reserved.  
ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.

*continued from page 2*

exempt bond funds and HOME funds from the Michigan State Housing Development Authority (MSHDA). The latter provided \$1.2 million as a construction loan and \$509,624 in permanent financing. Community Development Block Grant funds of \$530,000 were specifically earmarked for façade improvements and other local dollars were provided for environmental remediation and infrastructure improvements. The federal historic tax credit will be purchased by the Small Deal Fund II LP, a Virginia limited partnership, that entered the Michigan market with this deal. The state historic tax credits and MBT Brownfield Credits will be purchased by the Great Lakes Capital Preservation and Rehabilitation Fund LLC, an affiliate of Great Lakes Capital Fund, a stalwart investor in Michigan developments. In addition to the state historic tax credit equity contribution, the state investor will provide a grant of \$315,104 in exchange for the equity from the state tax credits. Because MSHDA tax-exempt bonds were used, the state required the developer to form a condominium to bifurcate the ownership of the residential and commercial units.

Closing on all sources of construction financing occurred in December 2009, and rehabilitation has begun. Most of the initial work will be on the building's interior, which is fortunate because at the time of this writing the city of Crystal Falls already had 6.6 inches of snow and average daily temperatures hovering at 27°F.

"After the many years this building has been un-occupied, the restoration will be a major factor in the revitalization of the downtown Crystal Falls business district," said Crystal Falls Mayor Janet Hendrickson.

By the time the snow melts and the city thaws, Crystal View Apartments will be opening its doors to 25 residents and two businesses. Considered a keystone structure in downtown Crystal Falls, preservation of this landmark is monumental for this small town.❖

*Rochelle E. Lento is Of Counsel at Dykema Gossett PLLC, a national law firm. She is based in Detroit and as part of the Real Estate Group is responsible for the firm's affordable housing practice area in Michigan. She is co-editor of The Legal Guide to Affordable Housing Development. She was the developer's counsel for Crystal View Apartments. Ms. Lento can be reached at [rlento@dykema.com](mailto:rlento@dykema.com).*

*continued on page 4*

continued from page 3

This article first appeared in the February 2010 issue of the *Novogradac Journal of Tax Credits*.

© Novogradac & Company LLP 2010 - All Rights Reserved

*Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.*

*This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit [www.novoco.com](http://www.novoco.com).*