

Developers hail credit renewal

BY JACKIE FARWELL

Nathan Szanton, one of the most recognizable names in southern Maine development circles, has spent more than a decade building hundreds of housing units in the state. But a project restoring an aging textile mill in Biddeford has set Szanton on a new professional course, one based solely on rehabilitating historic buildings to their former glory.

Szanton has reasons both philosophical and practical for narrowing his efforts, all of them hinging on a decision by legislators in the last session to extend the state's three-year-old historic preservation tax credit program for another decade. "It was because of the extension of the credit that I'm changing my focus," he says. Lawmakers pushed the program's expiration date, originally scheduled for 2013, back 10 years, delighting real estate professionals and preservation advocates who say the credit spurred development and created jobs during the economic downturn.

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Szanton used the income tax credit to create 66 housing units at the former Laconia Mill building in Biddeford, which he bought in 2009 and opened in November. The \$14.6 million development, called the Mill at Saco Falls, benefited from \$3 million in state historic tax credits, as well as \$2.1 million from

opened. Looking at the state and local fiscal impacts combined, the program becomes net positive in 2018 and remains so every year thereafter, according to the study, whose financial contributors include real estate interests, Szanton's company among them.

Value of the first 10 projects certified under Maine's historic preservation tax credit program

Project	Municipality	Original assessed value	Assessed value after rehabilitation
Hathaway Mill	Waterville	\$0	\$12,000,000
Mill at Saco Falls	Biddeford	\$389,000	\$6,034,000
Squire Perley Building	Hallowell	\$210,000	\$6,811,000
North Berwick Woolen Mill	North Berwick	\$606,000	\$4,180,000
Baxter Library	Portland	\$0	\$2,500,000
Chestnut Street Church	Portland	\$675,000	\$1,162,400
Samuel T. Pickard House	Portland	\$374,400	\$374,400
Shepherd Block	Rockport	\$843,700	\$1,325,400
Union Hall	Rockport	\$505,300	\$505,300
Bessey School	Scarborough	\$0	\$1,534,400
TOTAL		\$3,604,000	\$36,426,900

Source: April 21, 2011 Planning Decisions report

the federal government's companion historic tax credit program. "The state historic tax credit was absolutely pivotal," he says. "We couldn't have done it without it." All of the units, a mix of affordable and market-rate apartments, have been filled, Szanton says.

More recently, he's embarked on a project to rehab Bates Mill No. 2 in Lewiston into 48 apartments. The \$9.6 million project, which will garner \$2.1 million in state credits and \$1.4 million in federal credits, would have been Szanton's last historic redevelopment had the credits expired, he says. "It's so satisfying to save these buildings," he says. "They end up being landmarks in their communities."

From a state revenue standpoint, the historic tax credit program will cost Maine millions in the coming years, but much of that will be offset by property tax revenue gains for local governments, as well as indirect economic activity fueled by the development projects, according to an April study of the program by Planning Decisions. In extending the credit, Maine will give up more in uncollected tax revenues annually than it will gain from the new income and sales taxes the projects generate — shaking out to a cost of \$6.5 million versus \$2 million in new revenues for most years of the decade-long extension.

Local governments, on the other hand, will reap the property tax benefits of seeing often neglected, vacant buildings redeveloped.

Tougher to measure, however, are the economic impacts of the state's 25 completed historic rehabilitation projects and the 13 now under way.

Credit where it's due

A version of Maine's historic preservation tax credit was on the books for almost a decade before a 2008 bill made the program much more attractive to developers. Formerly capped at \$100,000, the credit was overhauled in 2007 to accommodate the rehabilitation of one project, the Hathaway Creative Complex in Waterville. A year later, legislators extended a similar credit to all historic properties in the state, bumping the cap to \$5 million per project, a figure much more appealing to developers spending big money to renovate old mills.

Under the old program, about four projects a year on average, valued at a total \$3.5 million, took advantage of the credits, according to the Planning Decisions report. Under the amended program, those figures have jumped to 6.3 average projects per year and their value has grown eightfold, to \$27.4 million. In just the last two years, the number of projects totals 10.5 annually, valued at \$32.7 million.

The historic tax credit program offers a 25% state credit for a project that also qualifies for the 20% federal credit, and a 25% credit for smaller projects that don't qualify

for federal incentives. The credit is boosted to 30% if the project creates a certain amount of affordable housing. So, a developer can get up to a 50% credit by combining the programs. A quarter of the credit must be claimed in the year in which the building opens its doors, followed by a quarter during each of the following three years.

"At a point when the construction industry's unemployment rate is 14%, this program has created 2,700 jobs in Maine," says Greg Paxton, executive director of Maine Preservation. Historic rehabilitation is more labor intensive than new construction and requires skilled workers, meaning developers' construction dollars tend to fund labor more than materials, he says.

Projects that qualify for the credits often require plenty of dollars up front. Developers don't get the money until after work is completed and approved, and the process can require hefty architectural, engineering, legal and other expenses. Restoring historic structures to meet preservation standards, as well as navigating the tax credit program itself, requires a certain level of expertise.

Doug Sanford, who's been rehabilitating old construction in the Biddeford area since the 1980s, recently rehabbed the North Dam Mill, which overlooks the same river as Szanton's project. He didn't use the state or federal credits, partially because the three-building complex was in such good shape, but also because of the costs involved. "We couldn't afford to get to it," he says. "It is a sophisticated program that requires a lot of soft costs up front."

Paxton cites another benefit of historic projects, that they catalyze new construction around them. Of the \$135 million that completed projects have added to Maine's property tax base, \$25 million resulted from new construction ineligible for but spurred by the credits, according to Planning Decisions. While offering the program costs the state money, the credits spur activity that results in more tax revenue over time, Paxton says. "The community not only gains one building, they really gain momentum in their downtown areas."

Additionally, historic redevelopment projects leverage existing water, sewer, electrical and other systems, he says. "It's reusing facilities that are, first of all, community landmarks in many cases, but also located where they're already served by existing infrastructure."

Szanton presents the same smart-growth argument. "It's a smart strategy for the state to be involved in its older buildings," he says. "We've already spent the money to bring people to those areas." Using the historic tax credit program to keep bringing them for another 10 years will no doubt boost Maine's economy, he says. "It's so clear that it spurs economic development." ■