



# VIEW*S* & VISIONS

A publication of Bowles Rice LLP

Summer 2018



## Historic Tax Credits: A Vital Tool for Economic Development

Brooks F. McCabe, Jr., Managing Member and Broker  
West Virginia Commercial, LLC

Brooks F. McCabe, Jr. is the Managing Member and Broker of West Virginia Commercial, LLC. He has been involved in commercial and investment real estate for over 35 years. He also currently serves as a Commissioner of the West Virginia Public Service Commission.

From 1998 to 2014, McCabe served four terms as a West Virginia State Senator representing Kanawha County, where he served on the Finance, Economic Development, Pensions, Banking and Insurance, Labor, Natural Resources and Transportation and Infrastructure Committees.

McCabe is a graduate of the University of Vermont, where he earned a bachelor's degree in management engineering and a master's degree in education administration. He earned his doctorate of education with a concentration in planning and community development from West Virginia University.

McCabe has served on the boards of several organizations, including the Charleston Renaissance Corporation, Chemical Alliance Zone and the West Virginia Chapter of The Nature Conservancy. His professional designations include the American Institute of Certified Planners and the REALTORS National Marketing Institute, for which he is a Certified Commercial Investment Member.

The West Virginia Legislature recently expanded the state's Rehabilitation Investment Tax Credit from 10 percent to a 25 percent credit. Coupled with the reauthorization of the federal 20 percent Historic Rehabilitation Tax Credit program, West Virginia is in a good position to take advantage of numerous economic development opportunities that would not be possible without these credits.

This past year was a challenging time for the historic rehabilitation tax credit programs in that the federal program came very close to being eliminated altogether, and increasing the West Virginia credit to a competitive level was anything but a sure thing. In West Virginia, organizations such as the Preservation Alliance of West Virginia, the Abandoned Property Coalition and the West Virginia Economic Development Council worked hard with state and federal policy makers to ensure the message

about the importance of the tax credits was heard loud and clear. In West Virginia alone, since 2002, the historic rehabilitation tax credits have caused approximately \$175 million in investment and created over \$35 million in local, state and federal taxes. The proof can be seen in Morgantown's Wharf District, the Wheeling National Heritage Area, Charleston's Village District and Huntington's Downtown Historic District.

West Virginia has 92 registered historic districts spread throughout the state. In addition, there are hundreds of stand-alone properties that are certified historic buildings on the National Register of Historic Places. To claim the available tax credits, a building must be a contributing building in an historic district or be individually listed on the National Register. The West Virginia State Historic Preservation Office manages the process of complying with



*The historic Goff Building in Clarksburg, West Virginia*



*The Kanawha Banking & Trust Company Building in Charleston, West Virginia's historic Village District*

Clarksburg has the Waldo Hotel and the Goff building.

As an example, the Goff building is a nine story, 66,000-square-foot, 1911 office building that was recently sold at auction for \$412,500. Historic tax credits are the only way this building can be redeveloped into a multimillion dollar property that could jump-start the renaissance of Clarksburg's downtown.

To illustrate an order of magnitude, if the rehabilitation costs would be \$150 dollars per square foot, the capital investment with soft costs and depreciated building value would be well over \$10 million. Using this amount for illustrative purposes, the state tax credit would be \$2.5 million and the federal credit would be \$2 million. If the credits were sold at ninety cents on the dollar and the federal credit was discounted 30 percent for time value of money, the value of the credit to the developer would exceed \$3.5 million. Given the complexity of historic preservation and the related increased costs associated with an historic renovation, this is the only way this property can be redeveloped. In the end, the developer will have turned a functionally obsolete, worn out building into a competitive property worth 25 to 30 times more than the auction sale price.

This is what economic development is all about. This is the power of leverage through the use of Rehabilitation Investment Tax Credits. This is why historic tax credits are a vital tool for economic development. ▽

the Secretary of the Interior's Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings.

The tax credits are calculated based on the applicable percentage of the eligible redevelopment expenditures. This does not include the price of the land or the cost of new additions to the existing property. But it does include the adjusted basis of the historic building and approved renovation and restoration expenditures to the structure plus eligible soft costs. There is a five-year ownership requirement to avoid any recapture. The state tax credit can be claimed against taxable income in the first year after certification of the completed project. The federal tax credit, under the new reauthorization language, is spread over five years at four percent of eligible expenses taken each year for a total of 20 percent. This has had the practical effect of reducing the value of the tax

credits by approximately a third due to the discounted time value of money. This makes the expansion of the West Virginia Historic Rehabilitation Tax Credit even more vital to the state's economic development future as it provides the needed backfill to the reduction in value of the federal credit following the 2017 Tax Cuts and Jobs Act.

The importance of the historic tax credit can be seen in the immediate availability of some of the state's most iconic properties. These historic monuments of the past need to be saved, renovated and repurposed for the next 50 years. Historic tax credits offer the clearest path forward in renovating Charleston's main Library building, the Stone & Thomas department store building and the Union building. Huntington has the Chafin building, the Coal Exchange building, the Frederick Hotel and the Pritchard Hotel.