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## Historic Post Office Transformed into Mixed-Use Development in St. Paul

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**W**hen the post office in downtown St. Paul, Minn., was recently preserved and repurposed, development owner Exeter Group paid homage to a different aspect of the building when converting the property into a mixed-use development with market-rate apartments, a

*Image: Courtesy of Exeter Group*

**Custom House is a mixed-use development in St. Paul with market-rate apartments, a parking garage, retail space, a self-storage business and a hotel.**



parking garage, retail space, a self-storage business and a hotel.

The development is named Custom House after the old U.S. Customs Service office on the building's sixth floor that issued visas and passports. The 17-story building was built in phases in 1934, 1939 and 1961. The building functioned as the city's main post office for 79 years, until its last postal operations moved out in 2013. The remaining floors were used as office space for various government agencies and the building's annex was used to sort mail.

"St. Paul's historic downtown used to be a commercial office market," said Eric Brubaker, director of acquisitions at Foss & Company, which acted as the historic tax credit (HTC) broker on the development. "Over time, these buildings no longer lent themselves as well to commercial use, but they were fantastic to convert into apartments. There is a lot of that happening in St. Paul."

"It is rewarding to see the transformation of this historic building from one use to another. HTCs were a significant subsidy without which this could not have been done," said Robert Stolpestad, chief

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financial manager at Exeter Group. “This building has been a noteworthy community asset for decades. It was important that we repurposed this to create a new legacy.”

The building has two owners. Exeter Group owns and operates the 202 apartments from floors six through 17, the 65,000-square-foot storage facility in the building’s annex, the three-level parking structure and the 5,500-square-foot retail space. Exeter Group sold off the hotel portion—floors one through five—to Nelson Development, which is building a 149-room Hyatt Place hotel.

The apartments will have ample amenities for residents, including indoor resident parking and bike storage; a lobby lounge; a business center; conference room and office space; and exhibits on the history of the site and building, according to Exeter Group. The sixth floor will have additional common areas for residents, including a lounge incorporating the former U.S. Customs Service teller window area with a large-screen TV, seating and a wine storage room. Other amenities include a courtyard with a pool, a lounge area with a fire pit, an outdoor kitchen and bar; a large club room with a kitchen and bar; a game room with tables for pool, shuffle board and other activities; a large fitness center; a sauna and yoga studio; and much more, according to Exeter Group.

The hotel will also offer guests many common amenities—an indoor pool, a fitness facility, a business lounge and conference rooms, as well as a gallery space for food and beverages and valet parking. One unusual feature for the hotel is the building’s 16- to 18-foot ceilings. While this makes the hotel more aesthetically pleasing, the challenge is that it’s a lot of space for the hotel to have to heat and cool, said Michael Nelson, president of Nelson Development.

“The building was too large for a single purpose,” said Nelson. “The best buildings left in the historic arena are the large ones. Developers are getting very creative in how to use them. ... I think these mammoth historic buildings will be a niche within a niche for us. In these multipurpose buildings, we want to bring the hospitality component.”

Exeter Group bought the property in August 2013 with construction starting in November 2014. At press time, Stolpestad said many of the finishing touches were being done to the apartments, which began leasing in April. Exeter Group received a Partial Certificate of Occupancy for the apartments April 1. The hotel will be completed in July and opens in September.

### Preserving History

In order to preserve many of the historic features of the building, the development partners used both federal and state HTCs. The first floor of the building, which was once the post office, is now a shared lobby for the hotel and the apartments. Exeter Group removed the plaster work on the ceiling to unveil the building’s original ceiling. Many other elements of the Art Deco-style lobby on the first floor were preserved as well, said Stolpestad. Other features that were preserved include the building’s façade and windows. Stolpestad said that the windows, which were replaced in the 1980s, were taken out and larger windows were installed to match the building’s original look. The other major rehabilitation work took place on the sixth floor, where the former U.S. Customs Service teller window area was preserved.

This preservation project had a significant challenge. The development has two separate owners, but only one Part 2 and 3 of the HTC application were filed. “How do you provide assurances to each owner that this can come together under one regime?” asked Stolpestad.

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“What if the hotel or apartments aren’t finished in time?” Stolpestad added that “a lot of legal gymnastics were done to get over that hurdle.” Nelson added, “There was a lot of trust involved that the other developer would complete their project on time.”

### Financing the Apartments

Brubaker’s role was to attract investors for the federal and state HTCs on behalf of Exeter Group. Ultimately, U.S. Bank invested in the federal HTCs and EHCP Minnesota Fund II LLC invested in the state HTCs. U.S. Bank’s appetite for the credits was very attractive, said Brubaker. “There is a strong demand for market-rate apartments in downtown St. Paul,” said Brubaker. He added that St. Paul has a 3 percent vacancy rate for market-rate apartments. Brubaker also said the annex is a perfect space for the self-storage business model. However, he said it gives the owner the opportunity to convert the space into more apartments if the demand for units increases.

U.S. Bank provided approximately \$15.4 million in federal HTC equity. Steve Kramer, senior vice president of U.S. Bancorp Community Development Corporation (USBCDC), said this was an attractive development because “of the scale of the project and its impact on that part of downtown St. Paul.” He said the building takes up an entire city block and called this development a “lynchpin” that would spark other development in the area. He said Custom House was not the typical development that U.S. Bank invests in because it had two developers, general contractors and two different sets of financing.

EHCP Minnesota Fund II LLC provided the \$12.6 million in state HTC equity. Other financing included a \$45.5 million construction loan from TCF Bank, a \$19 million bridge loan from Dougherty Funding, \$10 million in developer equity from Exeter Group, \$2.9

million in the sale of proceeds from selling the hotel portion to Nelson Development, as well as \$1.5 million in environmental grants.

“It truly took a team of people working together to get this done, from the architect to the financing partners to the lawyers and accounting firms,” said Stolpestad. “It was a huge undertaking.”

“Every historic rehabilitation project has tremendous challenges, and Custom House was no exception,” said Annette Stevenson, partner in the Cleveland office of Novogradac & Company LLP. “The Exeter Group did an outstanding job of weathering the storm to make Custom House a reality. It is extremely rewarding to be a part of such a transformational project for the city of St. Paul.”

### Hyatt Place Financing

The development of Hyatt Place also used a number of financial mechanisms. This includes \$12.9 million in managing member equity, which includes \$5.7 million in state HTC equity from EHCP Minnesota Fund II LLC. “Both developers are so knowledgeable and experienced in historic real estate development. They both surrounded themselves with experienced teams. So that eased any concerns with having two developers working on one large redevelopment project,” said Patrick Wolf, vice president of EHCP Manager, which manages EHCP Minnesota Fund II. “I can’t imagine a better location in downtown St. Paul.” Wolf said the development is walking distance to St. Paul’s Union Depot, various restaurants, galleries, sporting events and recreational trails.

U.S. Bank provided \$6.8 million in federal HTC equity to the hotel. Other financing sources include a \$15.7 million loan from the First National Bank of Omaha, a \$9.1 million bridge loan, which was sourced from Cedar

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Rapids Bank & Trust to the managing member and a \$380,000 loan from Hyatt. Hyatt Place also received EB-5 financing to bridge the state HTCs in the amount of \$6.4 million. ❖

**Custom House**

**FINANCING APARTMENTS**

- ◆ \$45.5 million construction loan from TCF Bank
- ◆ \$19 million bridge loan from Dougherty Funding
- ◆ \$15.4 million in federal HTC equity from U.S. Bank
- ◆ \$12.6 million in state HTC equity from EHCP Minnesota Fund II LLC
- ◆ \$10 million in developer equity from Exeter Group
- ◆ \$2.9 million in the sale of proceeds from selling the hotel portion to Nelson Development
- ◆ \$1.5 million in environmental grants

**HOTEL**

- ◆ \$15.7 million loan from the First National Bank of Omaha
- ◆ \$12.9 million in managing member equity, which includes \$5.7 million in state HTC equity from EHCP Minnesota Fund II LLC
- ◆ \$9.1 million bridge loan, which was sourced from Cedar Rapids Bank & Trust to the managing member
- ◆ \$6.8 million in federal HTC equity from U.S. Bank
- ◆ \$6.4 million in EB-5 financing
- ◆ \$380,000 loan from Hyatt

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