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Transit-Oriented Historic Rehab Provides Affordable Housing in Minneapolis

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In a Minneapolis neighborhood where affordable housing needs are unmet and many historic buildings are demolished in favor of new construction, Dominion found a solution to address both issues. The Minnesota-based developer leveraged low-income housing tax credits (LIHTCs) and federal and state historic tax credits (HTCs) for its recently completed adaptive reuse of a 1920s factory and warehouse into Millworks Lofts.

Millworks Lofts re-opened Aug. 1 and achieved 100 percent occupancy of its 78 apartments within

a month. The speedy lease-up indicated a pent-up demand for more affordable housing in Minneapolis, said Eric Omdahl, development associate for Dominion.

Peter McLaughlin, Hennepin County's District 4 commissioner, agreed. "We're growing fast in Hennepin County and there's a huge need for affordable housing," said McLaughlin.

All Millworks Lofts apartments are income-restricted at 60 percent of the area median income

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Image: Courtesy of MacRostie Historic Advisors

The historic shed's exterior (shown here after renovation) was restored at Millworks Lofts in Minneapolis.





Image: Courtesy of Dominion

Millworks Lofts in Minneapolis includes a community room.

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(AMI), which is about \$43,000 per year for a two-person household. Every unit comes with large walk-in closets, an in-unit washer and dryer, stainless steel kitchen appliances and quartz countertops. The loft-style units have ceiling heights ranging from 12 to 14 feet. Community amenities include a fitness center, yoga studio, community room with a fireplace and a rooftop deck with downtown views.

Millworks Lofts benefits a neighborhood that has seen a lack of investment for about a half-century since plans to build an interstate highway through it in the 1960s led to the razing of many homes and businesses. By 1985, the freeway still wasn't built and an alternate plan was approved to build what is today a multiple-lane roadway and a light rail line.

Advocates of the community say that building more housing next to public transit is the key to revitalizing the neighborhood. "This was a 50-year struggle as a community, but now we're seeing investment," said McLaughlin. "Every time we get new development on the east side [of Hiawatha Avenue], it further advances the transformation of this corridor from industrial in the 19th and 20th century into a residential, transit-oriented corridor."

As a transit-oriented development, Millworks Lofts allows its residents to access the city's amenities and employment opportunities. "It's located near a light rail stop with access to the Mall of America, the airport and downtown," said Omdahl. "There's a great connection between the property and living-wage jobs."

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Image: Courtesy of Dominion

Millworks Lofts in Minneapolis is an adaptive reuse of an old window and door sash company.

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History

The Millworks Lofts property was built in 1926 by the Lake Street Sash and Door Company, a local window and door sash business that occupied the site until 1964. The property consists of a three-story brick-and-timber factory building, a lumber shed and a two-story warehouse. Aside from the addition of modern-day cladding to the lumber shed in 1986, the structures have maintained their historic appearance, design and materials.

Several entities were interested in purchasing the property and demolishing it to make room for new-construction housing, but Dominion wanted to keep the historic structures intact. After Dominion bought the property in April 2016, it worked with MacRostie Historic Advisors to get the building listed on the

National Register of Historic Places to make it eligible for the HTC. The property was listed in the National Register in July 2016 for its historic value as the only remaining millwork complex in a neighborhood historically known for its dominance of the sash and door industry through the early 20th century.

Renovation

“When we originally looked at the building, it was in a state of disrepair with a lot of boarded- and barred-up windows, but the historic character of the building was still evident,” said Omdahl. All of the existing windows in the building were installed by Lake Street Sash and Door Company. About one-third of the windows were restored to their original condition, with the rest damaged beyond repair. The exterior of the building was painted several times since the 1960s. Dominion used

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a paint stripper approved by the Minnesota Historic Preservation Office and National Park Service to expose the original brick façade.

The lumber shed was converted into 19 parking stalls, a common area, office space, two apartments and storage. Historic wooden beams were restored to their original condition.

One of the most expensive challenges was the nearly half-million dollars needed to address the property's remediation issues. Omdahl said the brownfield site had serious contamination problems with lead-based paint, soil contamination, soil vapor issues and asbestos.

A modern update was the addition of a geothermal system to handle the building's heating and cooling.

Financing

Greystone provided an \$8.5 million permanent first mortgage. "We ultimately decided to use a Freddie Mac Forward TEL (tax-exempt loan) commitment that locks the interest rate for 24 to 36 months and provides a credit enhancement of the tax-exempt loan," said Jeff Englund, senior managing director for Greystone.

U.S. Bank provided a construction and bridge loan of nearly \$25 million. Subsidiary U.S. Bancorp Community Development Corporation (USBCDC) provided nearly \$11 million in equity for LIHTCs allocated by Minneapolis Community Planning & Economic Development. USBCDC also provided \$7.3 million in federal HTC equity and an additional \$5.3 million in state HTC equity through Enhanced Historic Credit Partners' EHCP Minnesota Fund III LLC.

"U.S. Bank is headquartered in downtown Minneapolis and is committed and proud to invest and lend in its home city," said Suzanne Furay, vice president and senior project manager of LIHTC operations for U.S. Bank. "Millwork Lofts represents one of dozens of investments and loans U.S. Bank has made in South Minneapolis."

Enhanced Historic Credit Partners has been Dominion's partner on seven other historic redevelopment projects in the past six years. "Millworks Lofts is a great example of preserving history outside of the city center, where the temptation to tear down and build new is greater," said Patrick Wolf, EHCP's vice president of business development. "With redeveloping historic structures comes greater risk. The state historic tax credit program played a vital role in the financing of this project and without it, the building would still likely be vacant."

Additional assistance came from the Metropolitan Council, Hennepin County and the Minnesota Department of Employment and Economic Development.

To partners of Millwork Lofts, the development represents an investment in the entire neighborhood. "It's important to preserve the unique elements and histories of the Hiawatha Corridor," said Omdahl. "In the last 20 years, we've seen a lot of older, properties removed in exchange for new development. It's nice to give back to that area by preserving and repurposing a cool historic building that will stand for another 100 years." ❖

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Millworks Lofts

FINANCING

- ◆ \$25 million construction/bridge loan from U.S. Bank NA
- ◆ \$10.9 million in low-income housing tax credit equity from U.S. Bancorp Community Development Corporation (USBCDC)
- ◆ \$8.5 million permanent first mortgage from Greystone Servicing Co./Freddie Mac
- ◆ \$7.3 million in federal historic tax credit (HTC) equity from USBCDC
- ◆ \$5.3 million in state HTC equity from USBCDC through Enhanced Historic Credit Partners
- ◆ \$188,900 in tax base revitalization account (TBRA) environmental grants from Metropolitan Council
- ◆ \$130,135 environmental response fund (ERF) grant from Hennepin County
- ◆ \$103,099 Department of Employment and Economic Development (DEED) environmental grant from Minnesota DEED
- ◆ Tax-exempt bonds issued by Hennepin County

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