



Blighted Dayton, Ohio, Block Revitalized by Bevy of Tax Credits

MARK O'MEARA, COPY EDITOR, NOVOGRADAC

Dayton, Ohio's, architectural gem, the Dayton Arcade, is being brought back to life after decades of vacancy.

A key to the redevelopment is the bevy of tax credit incentives used to finance the rehabilitation. Development partners Cross Street Partners, McCormack Baron Salazar (MBS) and The Model Group used low-income housing tax credits (LIHTCs), new markets tax credits (NMTCs), and federal and state historic tax credits (HTCs) to make the rehabilitation possible.

"The emotional center of the city is vacant and blighted," said Bobby Maly, chief operating officer at The Model Group. "This was a part of so many people growing up. It's a significant part of the history of Dayton."

The nine-building, 330,000-square-foot Dayton Arcade was built in the early 1900s and consists of interconnecting buildings in the heart of downtown Dayton, highlighted by a 70-foot-tall, 90-foot-wide, glass-domed rotunda. Last occupied in the 1980s, the Dayton Arcade featured everything from food and beverage vendors to office space and housing.

However, as the retail sector declined, so did the Dayton Arcade. Redevelopment partners anticipate that this rehabilitation will bring the Dayton Arcade, and the entire downtown, back to life.

"We see this as a game-changer for the community," said Frances Kern Mennone, development director at Cross Street Partners. "The Arcade is seen as a bellwether for the health of downtown Dayton. Without the Arcade block on its way to revitalization, some community members discredited the great existing growth downtown. This is huge for the revitalization of downtown."

"We've been looking for momentum to weave the fabric of the rest of downtown back together again," said Trace Shaughnessy, vice president of development at MBS.

Phase 1

Phase 1 of the redevelopment of the Dayton Arcade will be substantial. It includes repurposing seven



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buildings and roughly 200,000 square feet of the Dayton Arcade into a multi-faceted structure.

Phase 1 will include the HUB, a 100,000-square-foot facility that will include a co-working, shared office and incubation space meant to bring together academic and entrepreneurial partners. This joint venture between the University of Dayton and The Entrepreneurs Center is intended to act as a catalyst for Dayton's economy. Kern Mennone said the University of Dayton is the anchor tenant and helped make this entire rehabilitation possible.

The commercial portion of Phase 1 will also include roughly 20,000 square feet of retail and restaurant space, primarily along the street level of the Dayton Arcade. Tenants may include a custom craft

Image: Courtesy of Tom Gilliam
The Dayton Arcade is being rehabilitated after decades of vacancy thanks to NMTC, HTC and LIHTC financing.

brewery, a fresh market and deli, and a local coffee shop.

The rotunda area will be used as a tourist destination and public events space for festivals, pop-up retail, performances, talks, product launches and more. A new theater will be built on the lower level under the rotunda. The commercial portion of Phase 1 will also include a 17,500-square-foot art center with galleries, classrooms and studio space.

“Now, the block is vacant and blighted,” said Maly. “Ultimately, this will be a high-impact retail corridor, bringing life back to the streets.”

The upper levels of four buildings will include The Art Lofts at the Dayton Arcade: 110 apartments, including 103 LIHTC apartments and seven market-rate

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apartments. While the apartments are available to the general public, there is a focus on housing local artists.

The Art Lofts at the Dayton Arcade will include a community room, a property management office, a business center and in-unit washing machines and dryers.

Shaughnessy said the main challenges with the apartments included lead and asbestos abatement and doing structural load tests to make sure the buildings were structurally sound. “With 100-year-old buildings, the construction methods were very different. We did a lot of structural load tests,” said Shaughnessy.

“This project is so significant that it will have an immediate impact on downtown Dayton,” said Maly. “It will increase resident density and bring highly impactful people to work every day.”

“There is a critical need for more affordable housing in Dayton,” said Shaughnessy. “We did an [affordable housing development] 15 years ago in downtown Dayton, but that’s it.”

Construction for Phase 1 began in April 2019 and will be completed at the end of 2020.

Phase 2

Phase 2 of the Dayton Arcade will also be a multifaceted development. It will include a kitchen incubator and fresh foods market. This roughly 10,000-square-foot space will have commercial-grade equipment, storage and preparation areas designed to help food startups scale their businesses.

There will also be 5,000 to 8,000 square feet of retail and restaurant space, additional public events space (between 4,000 and 6,000 square feet), as well as nearly 29,000 square feet of more residential space, including 32 apartments.

The financial closing is expected to be in the second quarter of 2020, with construction starting immediately afterward.

Financing Phase 1 of the Dayton Arcade

Commercial Portion

Four community development entities (CDEs) provided the NMTC allocation for the Dayton Arcade.

The Dayton Region New Markets Fund provided a \$16 million NMTC allocation, a \$24.8 million leverage loan and \$800,000 in loan proceeds.

“This was an attractive investment for us because of the catalytic nature of the development and the potential it has for downtown. We are talking an entire city block,” said Brian Heitkamp, president of the Dayton Region New Markets Fund, a CDE that is located across the street from the Dayton Arcade. “You don’t get many opportunities to do a project of this size and scale. Having this as an anchor, good things will come around it.”

MBS provided a \$7 million NMTC allocation. “Ohio is one of our primary markets and we have invested in Dayton as well,” said Laurel Tinsley, chief executive officer of MBS Urban Initiatives CDE. “There are so many things happening in this space all tackled at once. It is meeting the community’s needs on so many different levels.” Tinsley said MBS also set some money aside for a collaborative space to allow nonprofits to access the Dayton Arcade.

The third CDE was Consortium America, which provided a \$5 million NMTC allocation. “The Dayton Arcade will help revitalize a highly distressed low-income area, create a new center of 24/7 activity and will result in hundreds of jobs being created,” said Adam Weers, vice president, managing member at Consortium America. “The construction of Phase 1 and Phase 2 will create approximately 300 jobs and

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following completion there will be over 1,100 jobs created, 50 percent of which will offer benefits and salaries above the minimum wage. We were especially proud of the level of community participation exhibited in this transaction. The Dayton Arcade is part of a larger plan by the city of Dayton to bring residents, jobs and visitors back to the downtown.”

RBC Tax Credit Equity was the fourth CDE, providing an \$8.5 million NMTC allocation as well as a \$4.6 million state HTC equity investment.

PNC Bank was the NMTC investor, providing \$12.5 million in NMTC equity. “This was a complex transaction involving a development team consisting of multiple partners with varying degrees of responsibility and engagement,” said Kelly Clements, NMTC relationship manager at PNC. “The overall project required layers of complex financing. How, where and when these different sources came into the transaction structure created challenges and plenty of opportunity for creative problem solving. From the beginning, we were eager to find a way to contribute to the revitalization of the Dayton Arcade. We are thrilled to have the opportunity to partner with the very dedicated CDEs involved in the financing.”

Foss and Company provided more than \$8.2 million in federal HTC equity and a \$9.3 million bridge loan. “Strangely, downtown is the last neighborhood to get redeveloped in Dayton,” said Eric Brubaker, director of acquisitions at Foss and Company. “We are used to seeing the opposite. This project will kick off the rebirth of downtown. This project had incredible support behind it. The city made it clear this was the priority for downtown.”

The capital stack for the commercial portion of the Dayton Arcade was rounded out with \$15.9 million in PACE financing from Twain Financial Partners, a \$10 million city of Dayton loan, \$2 million in owner

equity, \$1 million in grants and discretionary funding from Montgomery County and a \$900,000 JobsOhio grant. In addition, the University of Dayton provided \$1 million of grant funds to City Wide to facilitate the leverage loan funding.

Residential Portion

The Art Lofts at the Dayton Arcade was also financed with numerous tax credit incentives.

Fifth Third Community Development Corporation provided a \$21.3 million 9 percent LIHTC equity

Dayton Arcade, Phase 1

FINANCING

COMMERCIAL

- ◆ \$24.8 million leverage loan from Dayton Region New Markets Fund
- ◆ \$16 million new markets tax credit (NMTC) allocation from Dayton Region New Markets Fund
- ◆ \$15.9 million in PACE financing from Twain Financial Partners
- ◆ \$12.5 million in NMTC equity from PNC Bank
- ◆ \$10 million city of Dayton loan
- ◆ \$9.3 million bridge loan from Foss and Company
- ◆ \$8.5 million NMTC allocation from RBC Tax Credit Equity
- ◆ \$8.2 million in federal HTC equity from Foss and Company
- ◆ \$7 million NMTC allocation from McCormack Baron Salazar
- ◆ \$5 million NMTC allocation from Consortium America
- ◆ \$4.6 million state historic tax credit (HTC) equity investment from RBC Tax Credit Equity
- ◆ \$2 million in owner equity
- ◆ \$1 million in grants and discretionary funding from Montgomery County
- ◆ \$1 million of grant funds went from the University of Dayton to City Wide to facilitate the leverage loan funding
- ◆ \$900,000 JobsOhio grant
- ◆ \$800,000 in loan proceeds from Dayton Region New Markets Fund

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investment syndicated by Ohio Capital Corporation for Housing, a \$6 million federal HTC equity investment was syndicated by Ohio Capital Corporation for Housing with Fifth Third Community Development Corporation as the end investor, RBC Tax Credit Equity and Nationwide provided \$2.9 million in state HTC equity, the city of Dayton provided a \$2.5 million loan, there was \$2.3 million in deferred developer fees and construction profits, and Ohio Capital Finance Corporation provided a \$1.4 million permanent first mortgage.

“There were two landlord entities encompassing financing for seven historic buildings. Initially, using two separate landlord entities was not contemplated, but was needed in order to limit exposure to prevailing wage requirements,” said Nick Epifano, manager in

the Cleveland office of Novogradac, which worked on developing the overall financial structure and resolved various NMTC and HTC financing issues by working with attorneys, lenders, investors and the project sponsors, among other things. “This proved challenging for the developers and us as their construction budget needed to be separated and costs allocated appropriately to the various entities.”

“I am proud of the entire development team for getting this project to the finish line,” said Annette Stevenson, CPA, partner in the Cleveland office of Novogradac. “Combining this many tax credit incentives was certainly challenging, but the impact the Dayton Arcade will have on the city of Dayton made it well worth everyone’s efforts.” ❖

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