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Historic Department Store Gets Mixed-Use Makeover

TERESA GARCIA, SENIOR WRITER

NOVOGRADAC & COMPANY LLP

After being vacant for nearly 30 years, a former department store building is poised to help make downtown Birmingham, Ala., a thriving economic hub. The historic building was constructed in 1923 during the city's golden age of commerce and continued to serve as the Pizitz flagship store until the company vacated the property in the 1980s. Thanks to new markets tax credit (NMTC) and historic tax credit (HTC) financing, it's now in the middle of a \$66 million renovation that project partners say will not only preserve the structure's history, but will also ensure its relevance in Birmingham's present and future.

"It's a well-known building in our community," said David Silverstein, principal of Bayer Properties, the project's developer. "It was vacant and my partner, Jeffrey Bayer, and I recognized that it could be a truly transformative location in downtown Birmingham. We believed the Pizitz Building could be positioned for the future while preserving its historical significance."

Scheduled for completion in October 2016, the adaptive reuse includes developing six floors of the seven-story building into 143 units of multifamily housing, 20 percent of which are income-restricted. Silverstein said the former department store was "built almost like a fortress" in size, so the space will allow the apartments to have large windows and lofted ceilings. Silverstein expects the building's downtown location will make it highly marketable to renters. "All of the market research reflects that it will be well received because as soon as quality units are brought online, they get absorbed," said Silverstein. "Throughout the country, there's a movement toward

urban living. What was suburban flight 30 years ago has been slowed and now there's a major movement toward urban living, most certainly among millennials."

In addition to meeting downtown's housing demand, the Pizitz Building will also address two other neighborhood needs: office space and fresh food. On its mezzanine level, the Pizitz Building will offer 11,000 square feet of office incubator space with cubicles, conference rooms, work stations, shared common areas and kitchen space. The project's architect, Wisznia Architecture + Development, based the design on a "beta" shared workspace office it built in New Orleans. "[The beta concept] has helped us redefine live-work spaces that allow you to be more productive and share what you do with others," said Marcel Wisznia, president of Wisznia Architecture + Development.

On its ground floor, Pizitz will house restaurants and other retail space, including a public urban market—a move to convert the neighborhood from a "food desert" into a fresh food oasis. Moreover, the urban market will also help local vendors and entrepreneurs grow their businesses by renting out stalls to them with favorable lease terms.

Preparing the vacant landmark for contemporary use wasn't easy. The Pizitz is a low, horizontal building with nearly 30,000 square feet of space on each floor, so it was a challenge to bring more natural light into the building, while protecting its historic character, said Wisznia. The solution was to insert a light well that runs from the roof down through the second floor, allowing interior apartments to have window access to natural daylight.

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Image: Courtesy of KPS Group

The Pizitz Building in downtown Birmingham, Ala., will have ground-floor commercial retail space.

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In addition, Bayer consulted a preservation expert who determined that the building's historic ivory terra cotta façade could be restored to pristine condition. Some interior features will also be restored, such as ceiling details, elevator cabs and salvageable portions of the hardwood floors. Bayer is working with the Department of the Interior to replace the original windows with reproductions that are more energy efficient.

"The beauty of this renovation is that it will transform a blighted, underutilized property into one that provides housing, creates jobs, fosters small business growth, generates revenue and brings healthy food options into an economically underserved community," said John Sciarretti, a CPA and partner at Novogradac & Company

LLP, who worked on the transaction. "This is a prime example of how public and private partners can make great strides in transforming communities, one key building at a time."

Financing

The Pizitz Building renovation uses several funding sources, NMTCs and federal and state HTCs. "The unfortunate reality is that the cost to bring historic buildings back to life is very high—often requiring a multitude of public and nonprofit sources in order to make them financially viable," said Deborah La Franchi, president of National New Markets Fund. "But for the complex public-private partnership involved in this project, the Pizitz building would likely remain vacant another 30 years."

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National New Markets Fund acted as the sole NMTC allocattee in the transaction, providing \$23 million. "For us, the hook that pulled us in was not just the revitalization of such a critical historic building, we see the food marketplace and the business incubator as very innovative additions to this project," said La Franchi. "We're very interested in seeing how these two activities within the Pizitz building develop and whether they might be replicable for other historic buildings across the country."

U.S. Bancorp Community Development Corporation (USBCDC) provided about \$7.7 million in NMTC equity and nearly \$11.9 million in federal HTC equity. "It was critical for Birmingham and this project to get the allocation and tax credits," said Jennifer Westerbeck, vice president of USBCDC. She said that although smaller redevelopment and new construction projects are being undertaken in the area, downtown Birmingham's renewal would have been incomplete if the large Pizitz Building continued to sit in blight. "I would almost compare it to a huge hole in the doughnut," said Westerbeck.

Pizitz generated more than \$13 million in Alabama's state HTCs but could only claim \$5 million because of the program's per project cap, said Thomas Adamek of Stonehenge Capital, the development's tax credit adviser, state HTC investor and development team partner. "The renovation will not only help restore and preserve the historic fabric of the Birmingham's downtown, but also increase the city's tax revenue," said Adamek. "We hope it [will] be catalytic in the redevelopment of downtown Birmingham and see it lead continued development and investment activity in Birmingham's historic downtown."

Others agreed. "It's a very important redevelopment and we wanted to be part of revitalizing the downtown community," said Joe Medori, senior vice president and commercial banking manager at IBERIABANK, which provided \$10 million in bridge financing for the federal and state HTCs. "We think this is going to be a game changer."

Pizitz's other funding sources included a \$27.4 million first mortgage loan from Highland Commercial Mortgage, insured by the U.S. Department of Housing and Urban Development's (HUD's) Section 220 program. It also included a \$3.2 million HUD Section 108 loan through the city of Birmingham's Community Development Block Grant (CDBG) program, and a \$1.9 million streetscape grant and a \$1 million construction materials sales tax abatement through the downtown redevelopment authority in conjunction with the city of Birmingham. Servis1st Bank served as a predevelopment lender on the project.

Although the development required partners to coordinate a variety of funding sources, they say the benefit to the larger community will be well worth the effort. "The project is strategically located and our belief is that further redevelopment of surrounding properties will occur as a result of our project," said Silverstein. "We're certainly pleased with what it represents for the company, but even more excited for what it represents for the revitalization of downtown Birmingham." ♦

Pizitz Building FINANCING

- \$27.4 million first mortgage loan from Highland Commercial Mortgage, insured by the U.S. Department of Housing and Urban Development's (HUD's) Section 220 program
- \$23 million in new markets tax credit (NMTC) allocation from National New Markets Fund
- \$11.9 million in federal historic tax credit equity from U.S. Bancorp Community Development Corporation (USBCDC)
- \$7.7 million in new markets tax credit equity from USBCDC
- \$3.2 million HUD Section 108 loan through the city of Birmingham's Community Development Block Grant program
- \$1.9 million StreetScape grant
- \$1 million construction materials sales tax abatement
- State HTC equity from Stonehenge Capital

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alex.ruiz@novoco.com

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carol.hough@novoco.com

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