

Several commercial rehabs doomed?

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Winn Development hopes to redevelop the former Tent City sporting goods store at the corner of Dewey and Lyell avenues in Northwest Rochester in to 83 apartment units, an estimated \$23 million project.

Financing for several Rochester rehabilitation projects is threatened by the state's decision to defer rehabilitation tax credits.

The state budget, passed Aug. 3, includes deferral of several credit incentives under a variety of programs, including the New York State Rehabilitation Tax Credit. The tax code, as amended, affects credits of more than \$2 million earned from the beginning of the year through 2012. The remaining credits will be deferred until the beginning of 2013, then phased in over three years.

The measure doesn't affect homeowner rehabilitation projects, which are capped at \$50,000.

"The proposal represents the state borrowing from businesses to pay for excessive spending that it is unwilling to trim," Heidi N. Zimmer-Meyer, president of Rochester Downtown Development Corp., wrote in a letter recently to each of the city's state representatives. "This significant and negative action would send a loud and devastating message to investors that they are not wanted in New York State. We are deeply concerned that no business leader will ever be able to rely on any commitment made by New York State in the future."

Her concerns are shared by George Traikos, president and owner of The Traikos Group, which is involved in redevelopment of the Academy Building, 14 S. Fitzhugh St., and the Carriage Factory, 33 Litchfield St.

He said the tax credit deferral definitely will impact his redevelopment plans, but he was unable to be more specific about the precise effects.

"We're talking hundreds of thousands of dollars, but we don't know how many hundreds of thousands of dollars," Traikos said. "We're not going to let it derail the Academy Building, but it will create severe hardships for the project. We'll have to go out and find that money that we're short."

Traikos plans to spend \$6.5 million to renovate the aging building. Current plans call for 21 apartments in the upper three floors and retail space on the street level, including a Yogenfruz, one of Traikos's franchised businesses. He recently opened another last week at Greece Ridge Center and is in talks with two pizzerias and a café owner, he said.

Traikos plans to meet with investors next month to work out financing. He expects \$2.4 to \$2.5 million in credits between the two projects. The \$7.5 million Carriage Factory project also will be converted to mostly residential use. Plans also include a Cunningham museum dedicated to the history of its former tenant, James Cunningham & Sons, which built carriages and other transportation equipment there.

Traikos compared the state's deferral of his credits to working for someone, but only getting half of the wages owed now, and the other half in 2015.

"The state, in its infinite wisdom, decided they want to kill the goose with the golden eggs," he said. "They're killing the investment in our neighborhoods. They're simply preventing that from happening. That's what the ultimate effect is. In my book, that's not wise at all."

One of the biggest projects on a list Zimmer-Meyer compiled is the Gardner Lofts, the former Tent City, estimated to cost \$23 million. Its developer, Cheryl Stulpin of Winn Development, was

unavailable to comment on Friday, but Zimmer-Meyer's June 25 letter notes the loss of credits "will critically impact" that project, which also was planning to use state affordable housing credits, which also are being deferred.

"Without these credits, this project will be infeasible and will not move forward," Zimmer-Meyer said, noting the deferment will have a negative impact on the potential redevelopment of the 1.1 million-sq. ft. Sibley Complex by Winn Development.

"It wouldn't kill the deal, but in a more stressed upstate real estate market, it will reduce the cost effectiveness and create significant impediments to any redevelopment effort," Zimmer-Meyer wrote.

Jim Costanza, president of Costanza Enterprises Inc., is one of several potential developers the Josh Lofton Building rehab, a 54,224-sq. ft. city-owned building at 242 W. Main St., estimated by Rochester Downtown Development Corp. to cost about \$4.5 million.

Costanza said the state credit for the project would be less than \$2 million, but its deferral potentially could jeopardize future funding for other rehabilitation projects.

"A significant problem with this is they're changing something retroactively," he said. The state is "granting a funding source and then they're clawing it back. That basically creates a confidence problem."

Costanza said that even though the Josh Lofton project won't be impacted negatively, the deferral raises another air of uncertainty and mistrust with no guarantee that other credits won't be delayed or eliminated.

"I think that it highlights the dysfunctional people making our laws in this state," Costanza said. "No businessmen would operate in this manner. They would be thrown in jail or go bankrupt. It really raises some red flags about doing business in New York State. They act with impunity and they have the power of the state and it's problematic."

Since the program is tied to the Federal Investment Tax Credit Program, projects may still receive a federal credit of up to 20 percent of the costs of substantial rehabilitation of historic properties. Taxpayers claiming less than \$2 million in state credits per year will not be affected.

According to the amended state tax law, projects will be able to claim the first \$2 million in credit value in the year they are certified for the federal credit, which is required in order to qualify for the state credit.

Beginning Jan. 1, 2013, half of the accumulated deferral over \$2 million will be available. Seventy-five percent of the remaining balance of the credit will be available Jan. 1, 2014 and 100 percent of the remaining balance of the credit will be available Jan. 1, 2015.

The change was one of many measures the state used to help close a multi-billion dollar budget gap.

Daniel Mackay, director of Public Policy for the Preservation League of New York, said the organization will continue to advocate for full funding when the Legislature returns to session in mid-September.

"As the economic recovery continues to make slow progress at the national level, the New York State Rehabilitation Tax Credit Program provided a glimmer of hope for our beleaguered upstate cities," said Jay DiLorenzo, president of the Preservation League of New York State. "Now, many of the projects that could transform our struggling downtowns are effectively put on hold."

He said the Rehabilitation Tax Credit program was expanded in 2009 to adapt to the state's tough financial situation.

"If further changes are imposed upon the program, it will lose all effectiveness as an economic tool," he said. "The tax credits should be allowed to work, unimpeded, in distressed municipalities and neighborhoods across New York State."

Other Rochester projects on Zimmer-Meyer's at-risk list are:

- Cascade District, Main Street Properties (estimated at \$10 million): A group of upstate developers are exploring the residential conversion of several dilapidated properties.
- St. Paul Place (\$3.5 million): A residential loft conversion of this 49,000 square foot historic keystone property in the mixed-use St. Paul Quarter cannot move forward without state Historic Tax Credits.
- 44 Exchange St. (\$6.5 million): The owners of this 55,400-sq. ft. former bank building in the heart of downtown's legal and government district have been working to receive a historic

designation which would allow access to the state Historic Tax Credit program.

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