MASTER OF SUSTAINABLE REAL ESTATE DEVELOPMENT

Bringing the Magic Back to the Magic City:

An Examination of the Factors Responsible for Birmingham's Downtown Revitalization

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Abbreviations

BJCC	Birmingham Jefferson Convention Complex
CBD	Central Business District
FHTC	Federal Historic Tax Credit
LIHTC	Low Income Housing Tax Credit
MSA	Metropolitan Statistical Area
NMTC	New Market Tax Credit
NPS	National Park Service
QRE	Qualified Rehabilitation Expenditures
SHTC	State Historic Tax Credit
ULI	Urban Land Institute
UAB	University of Alabama at Birmingham

Introduction

Birmingham, Alabama is known for its pivotal role in the iron and steel industry as well as its part in the Civil Rights Movement. The city's history is soiled, literally and figuratively. Its history continues to pervade the city's self-image, even in a time of reinvention and revitalization. Although shrouded by a turbulent past, Birmingham has the unique opportunity to build on the industry and natural resources responsible for its creation.[1] In 1871, a group of Alabama businessman from the Elyton Land Company purchased acreage in Jefferson County to build a city in a cornfield.[2] Originally intended to be the crossroads for the South & North Railroad and the Alabama Chattanooga Railroad, the city's population boomed, quickly earning the nickname "Magic City."[3] Birmingham's growth as an industrial center can be attributed to the region's access to mineral deposits, which provided the base for Alabama's steel and iron industry.[4] The city's upward trajectory continued with the introduction of the lock system and U.S. Steel's purchase of the Tennessee Coal and Iron Company.[5] Birmingham's industrial ties laid the foundation for the city's future. The success of the steel and iron industry cemented Birmingham's position as a southern hub bringing capital and business to the Magic City. The city's early success was tempered by the arrival of the Civil Rights Movement in the 1950s. Since then the city has struggled to reinvent itself, each time building returning to the groundwork laid by Birmingham's founders.

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[1] Will French, "Playing Along the Railroad Tracks," *Urban Land: The Magazine of the Urban Land Institute,* May 8, 2012. http://urbanland.uli.org/sustainability/playing-along-the-railroad-tracks/ [accessed March 12, 2015].
[2] Alabama Department of Archives and History, *The Founding of Birmingham,* ADAH: Alabama Moments in American History, http://www.alabamamoments.alabama.gov/sec29det.html [accessed April 11, 2015]
[3] Alabama Department of Archives and History, *The Founding of Birmingham,* ADAH: Alabama Moments in American History.
[4] Ibid.
[5] Herbert J. Lewis, "Birmingham," Encyclopedia of Alabama, http://www.encyclopediaofalabama.org/article/h-1421 [accessed April 11, 2015].

Nicknaming it "the City of Perpetual Promise," George Leighton wrote that Birmingham was "always promising, never fulfilling."[6] In many respects, Leighton was right. Birmingham's swift rise from cornfield to industrial hub set the standard for future development impossibly high. The arrival of the Civil Rights Movement added a new layer of complexity to the city, which was already struggling to sustain its central business district (CBD). 1954 is a pivotal year in the creation of today's Birmingham. In 1954, the city's largest employer, the University of Alabama at Birmingham, began construction of its medical center and the United States Supreme Court passed *Brown v. Board of Education* ending school segregation.[7] The passage of *Brown* signaled the long journey to school desegregation and the beginning of a particularly dark time in Alabama's history. Almost simultaneously, the city established itself as a leader in healthcare and a barrier to racial equality. Birmingham's size, location and hostile leadership forced the city to play a role in the Civil Rights Movement that still haunts the city. Events like Sixteenth Street Baptist Church bombing, the arrest of Martin Luther King, Jr. and the 1961 attacks on the Freedom Riders are an inseparable part of Birmingham's history. [8] In 2013, Rick Davis, senior vice president of the Birmingham Business Alliance, remarked, "Birmingham has the worst self-image of any place."[9] The events of the fifties and sixties shaped this image, which Birmingham struggles to outgrow. What faced leaders then and now remains. Leaders needed to reinvent the city's center in a way that respects history and promotes growth.

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[6] Pamela Sterne King, "The City of Perpetual Promise," *Weld: Birmingham,* August 14, 2013, http://weldbham.com/blog/2013/08/14/the-city-of-perpetual-promise/ [accessed 18 February 2015].
[7] Ibid.
[8] Herbert J. Lewis, "Birmingham," Encyclopedia of Alabama.
[9] Eric White, "Growing Fast," *Weld: Birmingham,* April 2, 2013 http://weldbham.com/blog/2013/04/02/growing-fast/ [accessed 18 February 2015].

The physical manifestation of racial inequality came with white flight to the suburbs, aided by the construction of the Elton B. Stephens Expressway. Today, the Expressway is one of the primary arteries into downtown. The Expressway was the brainchild of a group of downtown businessmen called the Birmingham Downtown Improvement Association (BDIA). Established in 1957, the BDIA promised to "pump new blood into Birmingham's ailing downtown business section" with the creation of the city's first Master Plan.[10] The Master Plan included recommendations for "the civic center, and entertainment complex, expressways and interstates, construction of office and public buildings, beautification of 20th Street and revitalization of Morris Avenue."[11] For the most part, the Plan's original recommendations have come to fruition. The work of the BDIA during the fifties and sixties created the agencies and direction that have become essential to the redevelopment of downtown Birmingham today. The BDIA gave way to Operation New Birmingham (ONB) and later REV Birmingham. Each successive organization built on the triumphs of its predecessor, slowly reshaping the city center into a desirable place to live, work and play.

In 2013, *Forbes* listed Birmingham as one of fifteen United States cities with emerging downtowns.[12] Urban Land Institute (ULI) put the city on its list of markets to watch in 2015. Birmingham is garnering positive national recognition for the first time in decades, but why? In 2013, the *New York Times* wrote "long scarred as the site of brutal civil rights struggles and decades of industrial collapse, Birmingham, Ala, has struggled

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[10] Pamela Sterne King, "The City of Perpetual Promise," *Weld: Birmingham,* August 14, 2013.
[11] Ibid.
[12] Morgan Brennan, "Downtowns: What's Behind America's Most Surprising Real Estate Booms," *Forbes,* March 25, 2013, http://www.forbes.com/sites/morganbrennan/2013/03/25/emerging-downtowns-u-s-cities-revitalizing-business-districts-to-lure-young-professionals/ [accessed 18 February 2015].

to attract new business or visitors…but some recent efforts give the city…hope."[13] These "recent efforts" caused a thirty two percent increase in the number of downtown residents since 2002 as well as positive trends in office space absorption.[14] The downtown is shifting from a nine to five market towards an eighteen-hour market. Eighteen-hour markets are characterized by their quieter but no less active nightlife that features a mix of shops, restaurants, and entertainment as well as a variety of "walk to work housing."[15] Downtown Birmingham is undeniably a city on the rise but it cannot survive on the good faith efforts and passion of the local real estate development community and city government.

To sustain its existing trajectory, Birmingham city center needs a competitive edge that attracts a critical mass of employers and residents. City government has done its part with the construction of Railroad Park and Regions Field. It managed to attract and maintain major employers like University of Alabama at Birmingham (UAB), Honda, and American Steel Pipe. Additionally, the city is becoming attractive to technology start-ups thanks to Innovation Depot.[16] Real estate development received another boost with the passage of the state historic rehabilitation tax credit in 2013. The critical elements are in place to support a massive renovation of historic stock for housing, retail and office space in order to accommodate the boom in economic growth.

For decades, Birmingham struggled against a dark past and a failing industrial complex to reinvent itself. Today, the city is on the verge of succeeding. The

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[13] Joe Gose, "A Return to Downtown Birmingham," *The New York Times,* August 6, 2013, under "Square Feet," http://www.nytimes.com/2013/08/07/realestate/commercial/a-return-to-downtown-birmingham.html?_r=0 [accessed 2 May 2015].

[14] Morgan Brennan, "Downtowns: What's Behind America's Most Surprising Real Estate Booms," *Forbes.*

[15] PwC and the Urban Land Institute, *Emerging Trends in Real Estate® 2015* [Washington, D.C.: PwC and the Urban Land Institute, 2014], 5.

[16] Karsten Strauss, "Tech Hotspot Alert: Alabama?," *Forbes,* September 9, 2013, http://www.forbes.com/sites/karstenstrauss/2013/09/09/tech-hotspot-alert-alabama/ [accessed April 13, 2015].

development community believes the historic rehabilitation tax credit is responsible for downtown's future development. A close examination of the factors contributing to downtown's upward trajectory will illustrate how historic tax credits are an invaluable tool for promoting growth.

Market Trends

Real estate is cyclical, dependent on a conglomeration of economic and political factors for success. Understanding the peaks and valleys of the market is essential when determining how cities and their individual market sectors react to economic volatility. Market knowledge consists of human elements like "demographics, labor force characteristics, location preferences" in addition to statistical analysis.[17] This information paired with a comparison of national and local trends is a strong predictor of a city's standing today and its trajectory. For the purposes of this paper, an overview of national and local vacancy rates is given for the years between 2006-2015 to illustrate the market conditions prior to the 2008 housing crash and Birmingham's recovery following the crash.

National Market Trends

This overview focuses on the dominant downtown markets: multifamily residential, office and retail. From 2006-2008, multifamily residential vacancy rates climbed from 5.4% to 6.1%.[18] Vacancy rates rose two points to 8% in 2009 only to see a

[17] PwC and the Urban Land Institute. *Emerging Trends in Real Estate® 2015*, 3.
[18] RERC-CCIM, *Investment Trends Quarterly, First Quarter 2007 Report Vol.3, No.1* [Chicago: RERC-CCIM, 2007], 7.

positive drop to 6.6% in 2010.[19] Residential rates continued to decline remaining below 5% from 2011 through early 2015.[20]

Unlike the multifamily markets, office and retail are typically hit harder, sooner in an economic downturn as evidenced by the oscillation of vacancy rates between 2006 and 2015. From 2006 to 2008, vacancy rates for the office market remained steady between 12.2% and 13.9%.[21] Rates spiked dramatically in 2009 at 16% and continued rising until 2011 when rates peaked at 17.3%.[22] From 2012 to the first quarter of 2015, office rates bounced between 15.7% and 13.6%.[23] Retail vacancy rates followed similar patterns at lower rates. From 2006 to 2008, vacancy rates rose two points from 8% to 10.8%.[24] 2009 to 2012 experienced vacancy rates ranging from 10.9% to 13%.[25] 2013 witnessed a small drop in vacancy rates to 10.5%. 2014 and the first quarter of 2015 are the truest markers of recovery for retail with rates as low as 6.1% and 9.6% respectively.[26]

Increased unemployment rates and the resounding effects of the housing crash caused fluctuation across the board between 2008 and 2010. Although the effects of this trend are not restricted to the residential market, it is particularly telling when a typically strong market like multifamily falters. Urban Land Institute's (ULI) *2010 Emerging Trends in Real Estate Report* continued reiterating earlier concerns over "a jobless recovery---interest rates go up and the economy can't pick up fast enough to produce jobs that fill buildings."[27] Tighter regulations limited the flow of capital to owners and

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19 RERC-CCIM, *Investment Trends Quarterly, First Quarter 2010 Report Vol.7, No.1* [Chicago: RERC-CCIM, 2011], 7.
20 CCIM, *Quarterly Market Trends and Transaction Analysis, First Quarter 2014,* [Chicago: CCIM, 2014], 12.
21 RERC-CCIM, *Investment Trends Quarterly, First Quarter 2007 Report Vol.3, No.1*, 7.
22 RERC-CCIM, *Investment Trends Quarterly, First Quarter 2010 Report Vol.7, No.1*, 7.
23 CCIM, *Quarterly Market Trends and Transaction Analysis, First Quarter 2014*, 12.
24 RERC-CCIM, *Investment Trends Quarterly, First Quarter 2007 Report Vol.3, No.1*, 7.
25 RERC-CCIM, *Investment Trends Quarterly, First Quarter 2010 Report Vol.7, No.1*, 7.
26 CCIM, *Quarterly Market Trends and Transaction Analysis, First Quarter 2014*, 12.
27 ULI–the Urban Land Institute and PricewaterhouseCoopers LLP, *Emerging Trends in Real Estate® 2010* [Washington, D.C.: ULI–the Urban Land Institute, 2009], 5.

investors. Owners witnessed the tenant pool shrink as young renters saddled with student debt and poor job prospects moved back in with their parents.

The upside of restricted consumer spending sparked a return to the city center. Individuals "[sought] greater convenience by locating closer to urban cores and infill locations--not only because of mounting suburban congestion…but also because the cost equation is changing in favor of less car-dependent lifestyles."[28] In 2009, the financial constraints created by long commutes and rising gas prices favored the expansion of live work scenarios in urban centers. Initially popular in major markets, like New York, Boston and Washington, D.C., live work scenarios gained traction later in tertiary cities in tandem with improved investor outlooks in early 2013. In 2014, the rise of the city center paralleled the recognition of millennials as a market driver. Two camps emerged to debate the impact of millenials on the real estate market. Some investors believe millennials will "revert to the mean and want private offices and will move to the suburbs to raise families."[29] While others believe millienials will drive growth in the urban core. Regardless of the speculation, millenials are driving growth in Birmingham.

Local Trends

Generally, office, multifamily residential and retail trends in Birmingham's Central Business District (CBD) and Midtown markets parallel national trends in these sectors. Until recently, local vacancy rates were several points higher than national rates. Presently, vacancy rates in all sectors are below national averages. In 2006, multifamily vacancy rates were high at 8.5% were high in comparison to national trends sitting at 5%.

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[28] ULI–the Urban Land Institute and PricewaterhouseCooper LLP. *Emerging Trends in Real Estate® 2009*. [Washington, D.C.: ULI–the Urban Land Institute, 2008], 27.

[29] PwC and the Urban Land Institute. *Emerging Trends in Real Estate® 2015*, 5.

From 2007 to 2010, vacancy rates aligned more closely with national trends.[30] Rates rose to 9.38% in 2007, peaked in 2009 at 11.75% and began a steady decline to 8.77% in 2010.[31] Multifamily vacancies continued dropping from 8.6% in 2011 to 4.3% in 2014.[32] In the first quarter of 2015, rates mimic national projections at 4%.[33]

Office vacancy rates experienced limited variability from 2006 to 2015. Starting in 2006, office vacancy rates declined from 9.6% to 8.4% in 2008.[34] Rates continued to decline from 9.3% in 2009 to 7.1% in 2010.[35] In 2011, rates rose to 12.6%. Around the time development picked up nationally in 2012, rates steadily decreased from 11.2% to 9.4% in 2015.[36]

Of the three sectors, retail vacancies have yet to return to pre-crash lows. From 2006 to 2009, vacancy rates rose incrementally from 5.2% to 12%.[37] 2010 hit peak vacancy rates at 11% with a slow decline to 9.7% in the first quarter of 2015.[38] Nationally and locally, the rebound of retail markets is a strong indicator of a rebound in consumer spending and declining unemployment rates.

The financial crash caused investors to steer away from tertiary cities like Birmingham due to limited availability of financing and a general quash on development. Tertiary markets cover all markets not considered major markets (New York, Washington D.C.), secondary markets (Atlanta, Seattle) or cyclical markets, a subset focusing on

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[30] Ben Engebreth, "Birmingham Alabama Residential and Rental Statistics," The Department of Numbers, http://www.deptofnumbers.com/rent/alabama/birmingham/ [accessed May 1, 2015].
[31] Ibid.
[32] Ibid.
[33]Bryan Davis, "Multifamily Rents on the Rise," *Birmingham Business Journal* [July 29,2014] http://www.bizjournals.com/birmingham/news/2014/07/29/multifamily-rents-on-the-rise.html [accessed April 24, 2015]
[34] Cushman & Wakefield-EGS, *Annual Market Report | 2011* [Birmingham: Cushman & Wakefield, 2011], 8.
[35] Ibid., 7.
[36] Cushman & Wakefield, *Marketbeat Office Snapshot: Birmingham, AL, Q4 2014* [Birmingham: Cushman & Wakefield, Inc., 2014], 1.
[37] Cushman & Wakefield-EGS, *Annual Market Report | 2009* [Birmingham: Cushman & Wakefield, 2009], 6-7
[38] Cushman & Wakefield, *Marketbeat Retail Snapshot: Birmingham, AL, Q4 2014* [Birmingham: Cushman & Wakefield, Inc., 2014], 1.

cities where capital can be deployed quickly.[39] Following the crash, investors felt comfortable investing in major markets due to their ability to "provide […] shelter and long-term returns" based on their proven track records.[40] As demonstrated earlier by declining national vacancy rates post 2009, major markets rebounded along with employment and consumer spending allowing banks to loosen lending restrictions in turn expanding the investment pool to urban centers nationwide.

To reiterate the importance of statistical analysis coupled with human factors, people across the nation are choosing where to live based on amenities and convenience not specific geographic locations. Individuals want to live in urban centers that "combine the key ingredients of housing, retail, dining, and walk-to-work offices."[41] According to ULI's 2015 *Emerging Trends in Real Estate Report,* "investing [now] requires a deep knowledge of these local markets. Buyers have more markets to consider now that the 18-hour centers are putting the elements in place to ratchet up their investment cash flows."[42] Capitalizing on the sentiments of ULI's recent report, Birmingham has found its sweet spot with a combination of local developers and investors. Local trends reflect the ripeness of a market that is already building a live, work, play environment in the urban core.

Growth Factors

According to local developers, Birmingham's downtown has been slowly transitioning for over a decade.[43] National recognition of Birmingham's burgeoning real estate scene from *Forbes*, Urban Land Institute, and *The New York Times* only confirms

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[39] PwC and the Urban Land Institute. *Emerging Trends in Real Estate® 2015*, 33.
[40] ULI–the Urban Land Institute and PricewaterhouseCoopers LLP., *Emerging Trends in Real Estate® 2009*, 27.
[41] PwC and the Urban Land Institute. *Emerging Trends in Real Estate® 2015*, 4.
[42] Ibid., 4.
[43] Ben Erdreich, interview by author, Birmingham, AL, February 23, 2015; Robert Simon, interview by author, Birmingham, AL, February 24, 2015.

that the hard work is paying off. Trends in vacancy rates suggest Birmingham's commercial real estate scene parallels nicely with national markets. It is important to note that outside of this statistical analysis there are a bevy of factors responsible for downtown's to rebound. To reiterate ULI's 2015 *Emerging Trends in Real Estate,* successful development is about local knowledge. While the major markets are strong, they no longer hold the monopoly on real estate. The alignment of local and national trends is an illustration of other forces at work: legislation, catalytic development and local culture.

Economic Development

The real estate market does not operate independently of demographics, labor trends, and geographic location. The Birmingham-Hoover Metropolitan Statistical Area (MSA) has a population of 1,145,862. The average household income is $66,150 and the median household income is $47,544.[44] According to the United States Bureau of Labor Statistics, the Birmingham-Hoover MSA accounts for twenty six percent of Alabama's total employment. [45] Of that twenty six percent, the primary industries are medicine, education, finance and technology. The same industries named by Urban Land Institute as leaders in employment growth.[46] With the exception of the technology, the city's historic business sectors include finance, education and medicine. The CBD houses the city's largest employer and downtown's largest landowner, University of Alabama at Birmingham (UAB). UAB employs twenty three thousand of the sixty three thousand

[44] Birmingham Business Alliance, "Birmingham Hoover-Metropolitan Area," Birmingham Business Alliance, http://birminghambusinessalliance.com/economic-development/economic-development-data/birmingham-hoover-metropolitan-area/ [accessed 1 May 2015].
[45] Birmingham Business Alliance, *2014 Annual Employment by Industry* [Birmingham: Birmingham Business Alliance, 2014].
[46] ULI–the Urban Land Institute and PricewaterhouseCoopers LLP, *Emerging Trends in Real Estate® 2010*, 5.

individuals employed by the metropolitan area's healthcare industry. The finance and insurance sector employs thirty five thousand.[47] The city itself is home to twenty hospitals and eight hundred technology based companies.[48] A newer but equally important driver of economic growth is Innovation Depot. Innovation Depot is a private-public partnership dedicated to fostering "emerging biotechnology/life science, information technology, engineering, and service businesses."[49] The impact of these industries is demonstrated by decreasing unemployment rates. Unemployment rates dropped from 8% in 2011 to 5.1% in 2015 placing Birmingham in line with national averages and below state averages.[50] Birmingham employers received a boost from young professionals ages twenty-five to thirty four. With almost fifty one thousand young professionals, Birmingham has the largest YP population in Alabama.[51] The key document in this upward trajectory is the City of Birmingham's Comprehensive Plan. The plan recognizes the city's position as a "center of medical, technology, and financial and professional services—as well as increasing prominence as a regional sport center and "food scene."[52]

Cultural Impacts

In 2021, Birmingham hosts the World Games. It is a contender for the 2016 Presidential Debates and it is home to a dearth of cultural experiences ranging from

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47 Birmingham Business Alliance, "Industry," Birmingham Business Alliance, http://birminghambusinessalliance.com/economic-development/economic-development-data/industry/ [accessed May 2, 2015].
48 Birmingham Business Alliance, "Innovation and Technology," Birmingham Business Alliance, http://birminghambusinessalliance.com/economic-development/technology-and-innovation/ [accessed May 2, 2015].
49 Innovation Depot, "About Us," Innovation Depot, http://innovationdepot.net/information/ [accessed May 2, 2015].
50 PolicyMap, "Community Profile Report of Custom Region: CBD," PolicyMap, http://www.policymap.com/reports [accessed May 2, 2015].
51 Birmingham Business Alliance, "2013 Metropolitan YP Accolades," Birmingham Business Alliance, http://birminghambusinessalliance.com/wp-content/uploads/2012/04/2010-to-2013-Young-Professional-Workforce-Trends-Analysis-Using-Census-ACS-Data.pdf [accessed May 2, 2015].
52 Goody Clancy, *The Plan: Using Our Past to Build Our Future,* Birmingham: Birmingham Planning Commission, 2014, 3.4.

minor league baseball to James' Beard award winning restaurants. Outsiders say Birmingham's rebirth is the result of the "perfect storm." In reality, it is a culmination of decades worth of careful planning, relationship building, and political strategy. For some the journey began with renowned chefs like Frank Stitt whose kitchens spawned seven of Birmingham's top chefs.[53] Stitt "has delivered happiness on a plate for more than thirty years, elevating Birmingham dining scene to nationally recognized heights."[54] In the course of thirty years, Birmingham became more than just an icon for southern food. It boasts nationally recognized artists and musicians like St. Paul and The Broken Bones, the Alabama Shakes and a bevy of local makers. Others point to companies like Bayer Properties and Corporate Realty who are responsible for three of the metro area's most impactful real estate developments: The Summit, Regions' Field and Uptown Entertainment District.[55]

Catalytic Development

In 2010, the City of Birmingham and the Railroad Park Foundation celebrated the opening of Railroad Park. The park was the first of a string of catalytic developments responsible for downtown's revival. The $17.5 million, 19-acre park is part of a larger park system aimed at reconnecting downtown Birmingham to the rest of the city and adding green space.[56] Simply put, "Birmingham is using its past build its future."[57] Typically, city waterfronts are catalysts for redevelopment. Birmingham chose an alternate approach. City officials looked to the city's historic rail system for inspiration. Railroad Park "borders historic railroad lines, uniting the two sides of downtown

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[53] Jeff Book, "How Frank Stitt Changed Birmingham's Dining Scene," *Birmingham Magazine,* May 5, 2014.
[54] Ibid.
[55] Jill Deer, interviewed by author, New Orleans, LA, March 24, 2015.
[56] Will French, "Playing Along the Railroad Tracks," *Urban Land: The Magazine of the Urban Land Institute,* 2012.
[57] Ibid.

physically and, more important, socioeconomically."[58] Not only has the park's redevelopment exceeded one billion dollars in residential and commercial real estate development, it is a gathering place for a varied demographic ranging from college students to professionals. This influx in activity in spaces like the park expanded the audience for downtown residential and commercial development. Corporate Realty saw their opportunity to capitalize on the growth spurred by Railroad Park to develop Regions Field. Regions Field is the home of Birmingham's minor league baseball team, the Birmingham Barons. After twenty-five years, the barons returned to the city center thanks to a public private partnership that made the $64 million stadium, 8,500 seat stadium possible.[59] The combined impact of Railroad Park and Regions Field is enormous. Since the passage of Free the Hops Legislation in 2011, two breweries, Good People Brewing and Beer Engineers, established residency around the ballpark further activating the area even during the stadium's off-season. A survey of one hundred thirty four downtown properties showed an increase of forty seven million dollars in property values largely attributable to Railroad Park and Regions Field.[60]

Further away but equally as important is The Summit Birmingham, Bayer Properties' flagship development. The Summit is a mixed-use shopping center located at the intersection of Interstate 459 and Highway 280. It is the largest generator of sales tax revenue for the City of Birmingham contributing almost twenty percent of sales tax revenue.[61] The shopping center's success established Bayer's track record with the city, paving the way for the Uptown Entertainment District and the Pizitz Building renovation

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58 Will French, "Playing Along the Railroad Tracks," *Urban Land: The Magazine of the Urban Land Institute,* 2012.
59 Jon Solomon, "Regions Field View," Corporate Realty, http://www.corporaterealty1.com/regions-field-review-a-place-for-everyone-thats-going-to-be-transformative.php [accessed May 2, 2015].
60 Bryan Davis, "Property values skyrocket near Railroad Park, Regions Field," *Birmingham Business Journal,* October 27, 2014.
61 Jill Deer, Interview by the author, March 24, 2015.

in downtown Birmingham. Uptown is a 256,397 square foot mixed use entertainment district anchored by the Birmingham Jefferson Convention Complex (BJCC).[62] The district is the result of sixty five million dollar partnership between Bayer Properties, the City of Birmingham and the BJCC. Public bonds funded a portion of the development costs with BJCC providing the remaining funding.[63] Officials hope the district's two hotels and seven restaurants will attract tourists and locals becoming another prime source of income for the city. Bayer Properties' other downtown contribution is the Pizitz Building. Pizitz is a 251,210 square foot building with one hundred forty three residential units, office space and a public market.[64] The project is expected to produce the critical mass needed to draw retail development to the city center.

Regions Field, Railroad Park, and Uptown acted as catalysts for development, activating vacant sectors of town on the southern and northern edges of the city center. Smaller scale developments closer to downtown's core have pulled activity from the outskirts into the heart of the business district. Metropolitan, LLC started this transformation in early 2000 by capitalizing on the interest in the newly constructed McWane Science Center.[65] Metropolitan, LLC constructed the Phoenix Lofts, which led to redevelopment of two loft developments and the creation of Second Row Development in 2005.[66] With residential and commercial ventures firmly in place, Metropolitan's projects weathered the 2008 downturn and culminated in the renovation of the Cain Furniture Building, a small residential complex. Branching off the strength of these original investments, the Theater District and the Fourth Avenue North Business District

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62 Bayer Properties, "Uptown Entertainment District," Bayer Properties, http://bayerproperties.com/property/birmingham-entertainment-district/ [accessed May 2, 2015].
63 Cody Owens, "A Piece of the Downtown Puzzle?" *Weld Birmingham,* July 22, 2014.
64 Bayer Properties, "Pizitz Building," Bayer Properties http://bayerproperties.com/property/the-pizitz-building/ [accessed May 2, 2015].
65 Ben Erdreich, interview by author, Birmingham, AL, February 23, 2015;
66 Bryan Davis, "How Second Avenue Became Downtown's Mainstreet," *Birmingham Business Journal,* March 6 2015.

are expanding upon the initial investments made on Second Avenue. Larger projects like the Pizitz Building and Thomas Jefferson Towers are now under construction furthering the buzz about Second Avenue. Although projects differ, a common theme exists: reinvestment in historic stock. The cultural undercurrent, stabilization of downtown's economic base and implementation of four catalytic projects generated investment and activity in downtown Birmingham. The next phase is sustaining this growth.

State Historic Tax Credits

In 2014, *Weld Birmingham* reported approximately four thousand blighted structures in downtown Birmingham.[67] The National Park Service listed one hundred sixty nine historic properties in Jefferson County on the National Register of Historic Places in 2015.[68] Of these one hundred sixty three historic properties, the critical mass is located in downtown Birmingham. As of 2013, the New York Times noted among this critical mass was nearly one million six hundred thousand in vacant square footage.[69] The bulk of historic stock and the recognition that a large portion of this stock is vacant or blighted is an opportunity for the real estate development community. Not only is it a chance to reverse the city's negative self-image but it is a chance to follow Railroad Park and build on the city's troubled past to build a brighter future. Developers and legislators across Alabama recognized this opportunity and proposed a way to make it a reality. In May 2013, Alabama joined the ranks of thirty-four states with state historic tax credit

[67] Cody Owens, "Birmingham's Fight Against Blight," *Weld for Birmingham,* June 4, 2014.
[68] National Register of Historic Places, "National Register Documentation on Listed Properties, " National Park Services, May 2015.
[69] Joe Gose, "A Return to Downtown Birmingham," *The New York Times,* August 6, 2013.

programs. Among its southern competitors, Alabama is one of the last states to ratify a State Historic Rehabilitation Tax Credit.

As of December 20, 2013, qualified structures across Alabama became eligible for tax credits from the State Historic Rehabilitation Tax Credit Program (SHTC). The program is capped annually at twenty million dollars with a five million dollar per project cap for commercial structures and a fifty thousand dollar per project cap for residential projects.[70] The overall cap for the program is sixty million dollars, which is reinforced thanks to a provision for the program's sunset in 2016.[71] Typically, sunset provisions act as safe guards in case the program fails to achieve its projected economic impact. The bill's sunset and the unpredictable nature of Alabama's legislature is concerning for urban centers, like Birmingham, who's burgeoning development scene depends the SHTC for redevelopment. Many owners like Ben Erdreich of Metropolitan, LLC. and Ken Effinger believe the SHTC is the lynchpin for downtown development.[72] "Costs associated with preserving history made ventures like Pizitz and Powell School less attractive or financially feasible to developers."[73] Since the program's ratification in 2013, Birmingham used state and federal historic tax credits to revitalize sixteen projects.[74] These sixteen projects are more than financially feasible historic renovations. They generate jobs, long-term investment, reduce blight, and foster community development. The program is in its final year before it sunsets in 2016. At this time, no changes have been made to the bill. The legislature will vote to extend the program as it is presently. The program encountered limited resistance throughout the course of its

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[70] *Act 2013-241*, HB 140, Regular Session 2013 [5 Feb 13], 11, http://alisondb.legislature.state.al.us/ALISON/SearchableInstruments/2013RS/PrintFiles/HB140-enr.pdf [accessed 1 April 2015].
[71] Ibid., 11.
[72] Bryan Davis, "Downtown's Uncapped Potential," *Birmingham Business Journal*, January 30,2015.
[73] Ibid.
[74] Birmingham Business Alliance, "Historic Tax Credit Extension Bill," (Birmingham, AL: 2014).

existence which demands the questions why change the program? Altering the SHTC means anything from higher program and project caps to altered restrictions on credit transferability and sales, which translates to a stronger tax credit program. These strengths incentivize investors and expand on the number and scale of project, which benefits the state and the city.

Alabama State Historic Rehabilitation Tax Credit

For comparison purposes, this paper outlines Alabama's SHTC program in addition to the SHTC programs in neighboring states, specifically, Louisiana, Georgia, Mississippi, and Tennessee. In general, SHTC programs mimic the structure of the National Park Service (NPS) federal historic tax credit (FHTC) program. Terms used by state programs are normally the same and tend to follow the definition given by NPS.

In Alabama, tax credit eligible buildings or qualified structures fall into three categories. The building's classification determines the amount of its tax credit allocation. Qualified structures include certified historic structures, certified historic residential structures or qualified non-historic structures. Certified historic structures are buildings certified for listing or eligible for listing on the National Register of Historic Places by the Alabama Historical Commission or buildings certified as contributing to the significance of a Registered Historic District.[75] Downtown Birmingham's historic stock falls into this category with a few exceptions. Certified historic residential structures utilize the same criteria as certified historic structures except this designation applies to owner occupied single-family residences.[76] The final designation, qualified non-historic structures, are buildings constructed prior to 1936 that do not meet the standards for a

[75] Alabama Historical Commission, *Chapter 460-X-23: Alabama Rehabilitation Tax Credit,* 23:2.
[76] Ibid., 23:2-23:3.

certified historic structure but are certified by the Alabama Historic Commission to meet requirements specified by Section 47 (c) (1) (a) and (b) of the Internal Revenue Code. This qualification excludes residential buildings.[77] Certified historic structures and certified historic residential structures receive a tax credit of twenty five percent of qualified rehabilitation expenditures (QRE). QREs are the "reasonable expenses and costs expended in the Certified Rehabilitation of a Qualified Structure."[78] QREs exclude the property's acquisition cost, personal labor, physical additions to the existing structure and costs affiliated with uncertified outbuildings on the property.[79] Qualified non-historic structures receive a tax credit for ten percent of QRE. The ten percent credit is only applicable to non-residential income producing buildings.

After identifying the type of qualified structure and the scope of rehabilitation, building owners begin the three-part application process. Tax credits are dispersed after construction is complete and has been certified by the Historical Commission.[80] In 2014, the state amended HB 140 to loosen restrictions associated with ownership and transferability of credits. This amendment is especially important when competing with other states for investors. After certifying the structure, the Commission awards a tax credit certificate equaling "the amount of the [original] tax credit reservation" or "25 percent of the actual qualified rehabilitation expenditures…and 10 percent of the actual qualified rehabilitation expenditures for…non-historic structures."[81] The program requires tax credits be filed and applied against "any state tax credit due" by the

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[77] Alabama Historical Commission, *Chapter 460-X-23: Alabama Rehabilitation Tax Credit*, 23:5.
[78] Ibid., 23:8.
[79] Ibid., 23:5.
[80] Ibid., 23:11.
[81] *Act 2014-452*, HB 509, Regular Session 2014 [18 Feb 14], 6-7 http://alisondb.legislature.state.al.us/ALISON/SearchableInstruments/2014RS/PrintFiles/HB509-enr.pdf [accessed 1 May 2015].

individual, partnership or transferee.[82] If the tax credit amount exceeds the owner's tax burden, credits can by carried forward for 10 years. Few southern states allow recipients to file for a tax refund should the credit exceed the tax burden which is why it is advantageous to sell the credits to a third party. The state requires partnerships, LLCs or other forms of multiple ownership to create a pass through entity to funnel credits to members. The use of a pass through entity is typical in comparison to other states. In addition to ownership regulations, "all or any portion of the tax credits…shall be transferable and assignable…without the requirement of transferring ownership interest in the qualified structure or in the entity which owns the qualified structure."[83] However, the credit is only transferrable once. The recapture and compliance periods for the credits are five years. Recapture occurs upon sale of the building or if the property ceases business operations within five years of receiving the credit.[84] While some regulations carry more weight, projects caps, transferability and compliance caps are important in attracting and maintaining long-term investment post completion.

Since its ratification in 2013, the Alabama's program authorized sixty million dollars in historic credits with returns totaling over three hundred million dollars.[85] Statewide, the program financed forty redevelopment projects. Sixteen of these projects are in Birmingham, placing Birmingham above large Alabama cities like Huntsville and Mobile.[86] In comparison to neighboring states' programs, Alabama has yet to realize the full benefits of the program especially since only three projects utilizing state historic tax credits achieved certificates of occupancy prior to the program's sunset in 2016.

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[82] *Act 2014-452,* HB 509, Regular Session 2014 [18 Feb 14], 7.
[83] *Act 2014-452,* HB 509, Regular Session 2014 [18 Feb 14], 10.
[84] Mark Primoli, "Rehabilitation Tax Credit Recapture," Internal Revenue Service http://www.irs.gov/pub/irs-utl/tax_credit_recapture_brief.pdf [accessed May 2 2015].
[85] Birmingham Business Alliance, "Historic Tax Credit Extension Bill," (Birmingham, AL: 2014).
[86] Ibid.

Currently, this program is the only Alabama incentive able to provide this amount of funding to projects with such a wide range of uses.

Typically, tax credit programs like New Markets (NMTC) and Low Income Housing (LIHTC) maintain strict guidelines about the type of project, the number of units or square footage. Regulations related to the SHTC and FHTC programs are not nearly as restrictive. Additionally, both programs can be combined with incentives like NMTC or LIHTC. When combined with the twenty percent of QRE offered by the federal state historic program, Alabama's historic rehabilitation tax credit equals forty five percent of QRE. The tax credits' flexibility and ability to leverage other sources is a highly effective tool for revitalization.

As of 2014, the National Trust for Historic Preservation reported thirty-five states including Alabama with state historic tax credit programs. When Alabama enacted its program in 2013, it was one of the last southern states without a program. Louisiana and Georgia introduced their respective programs in 2002 with Mississippi following in 2006. Tennessee followed Alabama proposing a program in 2014. As more states adopt programs, the mere existence of a program is not enough. The SHTC must be structured in a way that promotes not deflects investment to another state with more flexible laws.

Comparative Analysis of Nearby Historic Tax Credit Legislation

With thirty-five active SHTC programs across the United States, it is important to recognize that not all programs are created equal. Harry Schwartz of the National Trust for Historic Preservation. Schwartz writes that most programs share a few basic characteristics. These shared criteria are as follows:

1. Criteria for qualifying buildings.

2. Rehabilitation standards that maintain the building's architectural and historical character.
3. A requirement for a minimum amount to be invested in the building's rehabilitation.
4. Establish an administrative body for the program.
5. A formula to determine the value of the tax credit awarded. Typically, the credit is based on qualified rehabilitation expenditures or QREs. [87]

In order to gain a competitive edge over neighboring programs, a state needs to diversify their program in order to attract outside investors. Schwartz points to transferability and the per project and aggregate caps as the primary culprits for program's failure or limited success.[88] With the sunset of Alabama's HTC program approaching, it is important to understand how other state programs function in order to improve and compete with neighboring states.

Louisiana

Louisiana introduced their state commercial tax credit program in 2002 with the goal of rehabilitating income-producing buildings over fifty years old in Downtown Development Districts (DDD). The state amended the program in 2007 to include historic structures in certified Cultural Districts.[89] Buildings in both districts must be certified by NPS or the state historic preservation office (SHPO). Cultural Districts are defined by the state of Louisiana as an area dedicated to community revitalization by "creating a hub of cultural activity, including [but not limited to] affordable artist housing, and

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[87] Harry K. Schwartz, *State Tax Credits for Historic Preservation: A Policy Report* [NPS: February 2014], 1.
[88] Ibid, 1.
[89] Division of Historic Preservation, "Tax Incentives: State Commercial Tax Credit," State of Louisiana, http://www.crt.louisiana.gov/cultural-development/historic-preservation/tax-incentives/state-commercial-tax-credit/index [accessed April 3, 2015].

workspace."[90] Presently, Louisiana has twenty-four DDDs and seventy-five Cultural Districts in forty-seven towns. Although the guidelines appear restrictive, Louisiana is making an effort to direct investment in a way that best benefits the tax base of state and local governments.

The bill grants a credit towards corporate franchise and income tax. Like Alabama, the credit is twenty-five percent of QRE but expenses must exceed ten thousand dollars, which is less than Alabama's twenty five thousand dollar minimum.[91] The difference is how the state applies their cap. Instead of a per project cap, the state places an annual five million dollar cap on the taxpaying entity or individual.[92] There is no aggregate cap for the program. Credits can be transferred an unlimited amount of times within a five year carry forward period.[93] The carry forward period does not restart with each transfer. [94] Unlike Alabama, the credit is applicable to both state and federal taxes. The program sunsets January 1, 2018.[95]

Georgia

Georgia also uses a twenty-five percent credit but the twenty five percent applies to both income producing and owner occupied certified historic structures.[96] The program offers a bonus of five percent for projects located in HUD target areas. [97] None of the neighboring states enacted provisions related to HUD target areas but it is similar to Louisiana's provisions driving development to specific zones. In 2015, the legislature

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90 *State Historic Rehabilitation Tax Credit,* HB 630, Louisiana House of Representatives, Regular Session [2013], 2.
91 Ibid.,1.
92 Ibid., 1.
93 Ibid., 2.
94 Ibid.
95 Ibid.,3.
96 Georgia Department of Natural Resources, *Georgia State Income Tax Credit for Rehabilitated Historic Property Report* [Atlanta: Georgia Department of Natural Resources, 2014], 1..
97 *Georgia State Income Tax Credit,* HB 308, Georgia House of Representative, Regular Session 2015, 1.

proposed an amendment to raise the per project cap from three hundred thousand to five million on income producing properties with a sixty million dollar annual program cap.[98] For projects in target areas, the per project cap escalates to twenty five million. The twenty five million dollar cap is higher than either Louisiana or Alabama's per project caps. The credit's carry forward is ten years and can be "transferred or sold in whole or in part…to another Georgia taxpayer."[99] Unlike Alabama, there are no limits on the number of times a credit can be sold or transferred. Similarly, the recipient is not required to purchase an ownership stake in the property. December 2021 is the proposed sunset for the program. With the recent amendments, Georgia's HTC program sharpened its competitive edge while funneling development to distressed areas. The five percent bonus allows developers to expand their project scope therefore expanding its projected impact. Should the legislature fail to pass these changes Georgia will suffer in the long run. In fiscal year 2014, Georgia reported the completion of twenty one income producing projects totaling forty three million in investment and three million in potential state tax credits.[100]

Mississippi

Mississippi instituted its state historic tax credit program in 2006. The program was reauthorized in 2014 after its sunset was extended to December 31, 2017. In Mississippi, the bill offers a twenty five percent tax credit for both commercial and owner occupied properties.[101] The program requires owners of commercial projects to invest a

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98 *Georgia State Income Tax Credit,* HB 308, Georgia House of Representative, Regular Session 2015, 4.
99 *Georgia State Income Tax Credit,* HB 308, Georgia House of Representative, Regular Session 2015, 7.
100 Georgia Department of Natural Resources, *Georgia State Income Tax Credit for Rehabilitated Historic Property Report*, 2.
101 HB 787, Mississippi House of Representative, Regular Session 2014, 260.

minimum of fifty percent of the total basis in the property to qualify for the credit.[102] The program caps annual state investment at sixty million dollars with no per project limit.[103] Mississippi offers a seventy five percent tax refund "in lieu of the ten year carry-forward" to individuals whose credit exceeds two hundred and fifty thousand dollars.[104] Although certain entities are excluded from this option, the ability to file for tax refund related SHTCs is rare among Mississippi's southern neighbors. Mississippi also provides a looser structure in regards to project costs and tax credit related restrictions in comparison to neighboring states.

Tennessee

Tennessee and Florida are part of a group of fifteen states that have not enacted an SHTC program. As of January 2014, Tennessee is poised to become the thirty-sixth state to introduce a state historic tax credit program. Similarly to its southern competitors, Tennessee's proposed credit equals twenty five percent of a certified structure's QREs exceeding five thousand dollars.[105] The credit is disbursed to the owner in three installments and cannot "exceed the claimant's state premium tax liability due."[106] State premium tax liability is defined as "any liability incurred by an insurance company."[107] Much like Alabama and Mississippi, the allocation is distributed to individuals or a pass through entity with the ability to carry the remaining credit forward for five years.[108] The proposed bill has not addressed per project or annual caps on the program. Far more important is one state's recognition of a program that is an effective tool for job creation,

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[102] HB 787, Mississippi House of Representative, Regular Session 2014, 260.
[103] Ibid., 263.
[104] Ibid., 261.
[105] *Historic Rehabilitation Tax Credit Act,* HB 1474, Tennessee State Legislature, 108th General Assembly [January, 1,2014], 3.
[106] Ibid., 3.
[107] Ibid.,2.
[108] *Historic Rehabilitation Tax Credit Act,* HB 1474, Tennessee State Legislature, 108th General Assembly [January, 1,2014], 3.

community redevelopment, and economic growth. In a recent survey, Economic Impact Group projected that for every dollar invested in the Tennessee Rehabilitation Tax Credit, "it will collect $2.24 in new taxes."[109] This quantification of the SHTC's impacts is especially important legislators like Alabama Senator Tripp Pittman question the effectiveness of all state tax credit programs.

Tennessee's Historic Rehabilitation Tax Credit comes at an important time. Investment is moving from big gateway cities like New York into tertiary cities like Birmingham, Chattanooga and Nashville. It is imperative that state governments embrace these initiatives in order to maintain existing investment and attract new business. In a time when budgets are tight, the concern among legislators is whether the credit is an efficient use of state funds. Opposition leaders like Alabama State Senator Tripp Pittman say they're "trying to rein in credits and eliminate credits" by pushing for legislation that makes short-term gains more apparent.[110] "Lawmakers will be looking for more starts and completions over the next 12 months to better measure the success of the program."[111] In Alabama, the state program funded forty projects but only three have reached completion. The program is only beginning to prove its worth. With the future of several state tax credit programs in question, how can these programs change to accommodate taxpayers, legislators and the real estate industry?

Alterations to Alabama's State Historic Rehabilitation Program

An important consideration in the evolution of the state rehabilitation tax credit program is measuring the vitality of this particular program. Can other programs provide

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[109] Alfred B. Meek, *Impacts of a Tennessee Historic Rehabilitation Investment Incentive* [Economic Impact Group, LLC, 2014], 1.
[110] Bryan Davis, "Downtown's Uncapped Potential," *Birmingham Business Journal,* January 30, 2015.
[111] Bryan Davis, "Downtown's Uncapped Potential," *Birmingham Business Journal,* January 30, 2015.

the same impact and financial leverage that the state HTC does? Will development in Alabama cities like Birmingham, Mobile and Huntsville continue at the same speed? In Birmingham, the answer is a resounding no.

According to Brian Beshara of Beshara Investment Group, "you would not have seen the level of interest in these historic building downtown (without the program)."[112] As development continues to shift towards urban centers like downtown Birmingham, it is likely more of the historic and often vacant building stock will be rehabilitated utilizing the federal and state programs. The Pizitz building is a prime example of the type of projects that utilize SHTCs and why legislators need to increase the program's annual cap and per project cap.

In 1999, Bayer Properties, a local company, purchased the Pizitz Building. The building was constructed in two parts between 1923 and 1925 on the corner of Second Avenue North and Nineteenth Street.[113] For almost ninety years, the building acted as the flagship for the Pizitz Department Store. After the store's closure in the late eighties, the building fell into disrepair. Since Bayer's acquisition, the Pizitz project endured many false starts ranging from financing to tenant withdrawals to an economic downturn. In early 2015, ownership closed on closed on financing for the project.

Due to its size and condition, the Pizitz redevelopment is tricky but not unusual when compared to other vacant buildings in downtown Birmingham. In its latest incarnation, the building will be 251,210 square feet with six floors of apartments, one

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[112] Bryan Davis, "Incentives Programs Driving Downtown Development," *Birmingham Business Journal* [March 6 2015], http://www.bizjournals.com/birmingham/morning_call/2015/03/incentives-programs-driving-downtown-development.html [accessed 2 April 2015].
[113] Tim Hollis, *Pizitz: Your Store* [Charleston: The History Press, 2010], 16-18.

floor of offices, a ground floor public market and a seven level parking deck.[114] The project is a massive undertaking but the question remains. After all the planning and waiting, what made it possible? The project is the result of a dynamic development team utilizing SHTCs to leverage a myriad of federal tax incentives. Pizitz is not the first or the last project to use credits in this way but the project's success will be a testament to the program's potential impact.

Since its authorization three years ago, Alabama reserved sixty million dollars in rehabilitation tax credits for forty redevelopment projects.[115] Of these forty projects, the City of Birmingham is home to sixteen generating two hundred and seven million in investment.[116] In three years, the state tripled its initial investment. Sixty million dollars in state tax credits produced $322,230,548 in investment.[117] Not included in the aforementioned numbers is fifty six million dollars in federal tax credits used in tandem with the sixty million dollar state tax credit.[118] The ability of the state program to leverage federal money in this way is imperative to the capital stacks of projects like the Pizitz Building and Thomas Jefferson Tower.

Of the sixteen projects under construction, seven total over ten million dollars. [119] The success of these larger projects is dependent on the ability to layer a number of state and federal incentives with limited complication. As more projects achieve certification and developers recognize the value and flexibility of SHTCs, competition for the credit is likely to increase making the case to extend the program and up the cap. Mayor William Bell remarked, "if we raise that cap, we can have more projects that we can get involved

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114 Bayer Properties, *The Pizitz Building*, http://bayerproperties.com/property/the-pizitz-building/ [accessed 8 April 2015].
115 Birmingham Business Alliance, "Historic Tax Credit Extension Bill," (Birmingham, AL: 2014).
116 Ibid.
117 Ibid.
118 Ibid.
119 REV Birmingham, *Birmingham Development Totals* [Birmingham: REV Birmingham, 2014], 1.

throughout the city."[120] Developers Ken Effinger and Ben Erdreich echoed these sentiments, saying costs would have been too high without the credit.[121] Raising the cap to sixty million annually and eliminating or increasing the per project cap allows a wider variety of projects to reap the rewards of the program. From a broader standpoint, access to more capital means developers are likely to take on larger blighted buildings like Powell School or the Empire Building, which in turn produces jobs, improves property values, and generates investment. To quantify the advantages the National Trust for Historic Preservation expressed it this way.

> Every $1 in tax credits leverages $4 dollars in private investment. For every $1 million in historic property investment, 16 jobs are created and $2.1 in economic activity is catalyzed.[122]

Downtown's location in a qualified census tract further widens developer's access to funding incentives like NMTC or LIHTC.

State HTCs are one of the most efficient methods for leveraging federal economic development resources, which include but are not limited to Federal Historic Tax Credits (FHTCs), Community Development Block Grants (CDBG), Low Income Housing Tax Credits (LIHTC) and New Markets Tax Credits (NMTC).[123] HTCs can be successfully combined with a myriad of incentives due to the programs relatively loose structure. Across the board, there are few restrictions placed on the building's programming and potential base making both federal and state programs prime candidates for gap financing in a variety of projects. Jeffrey Oakman and Marvin Ward argue that while the existence of HTCs in a state is important, the program's structure may curve its leveraging

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120 Bryan Davis, "Downtown's Uncapped Potential," *Birmingham Business Journal*.
121 Bryan Davis, "Downtown's Uncapped Potential," *Birmingham Business Journal*.
122 REV Birmingham, "AL HRTC Talking Points," [Birmingham: REV Birmingham, 2015], 1.
123 Jeffrey Oakman and Marvin Ward, "Leveraging Economic Development Resources with the State Historic Rehab Tax Credits,"(paper presented at the 105th Annual Conference on Taxation, Providence, RI Nov 15-17, 2012),3.

capacity. They point to the following as important elements in diversifying a program's structures.

> The level of subsidy of offered by the state program…the ease with which a developer can monetize the credits be whether claiming them directly or transferring them to a third party is very important as well and per project caps, geographic limitations, and use restrictions are also notable determining factors of program success.[124]

Right now, Alabama's program restricts transferability of credits and requires certain ownership entities to claim the credits. Creating flexibility around transferability and syndication of credits is especially important when considering potential tax credit investors. Every incentive has its downside whether it's reporting procedures or limiting your tenant pool to accommodate LIHTC requirements.

While the full effects of Alabama's program may be unrealized, Rutgers University showed that

> a one million dollar investment in historic rehabilitation yields markedly better effects on employment, income, GSP, and state and local taxes than an equal investment in new construction or many other economic activities…These findings demonstrate that historic rehabilitation, combined holistically with the many activities of the broader economy delivers a commendably strong "bang for the buck."[125]

Alabama's existing program has its drawbacks but in comparison to neighboring states' HTC programs and alternative incentives, Alabama's relatively young program can hold its own. "The program is financially autonomous because of the fees generated by application review." The Alabama Historical Commission has not used its appropriation from the General Fund thanks to this source of income.[126] This program is responsible

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124 Jeffrey Oakman and Marvin Ward, "Leveraging Economic Development Resources with the State Historic Rehab Tax Credits,"3.
125 U.S. Department of the Interior, National Park Service Technical Preservation Services, *Federal Tax Incentives for Rehabilitating Historic Buildings: Statistical Report and Analysis for Fiscal Year 2014* [Washington: National Park Service Technical Preservation Services, 2015], 5.
126 REV Birmingham, "AL HRTC Talking Points," [Birmingham: REV Birmingham, 2015], 1.

for gap financing on many projects in downtown Birmingham that could not fill their financing gap without the SHTC.

Conclusion

As Alabama approaches the sunset of the state HTC program, legislators and developers need to consider what changes best support the state and its major cities in their quest to expand. What investment incentives encourage outside investors and employers to locate in Birmingham not Mississippi or Georgia? The majority of interviewees for this paper agreed that development is moving in an upward trajectory but job growth is stagnant. A vibrant downtown with access to medical, financial and technology sectors, situated within miles of an international airport makes Birmingham a strong candidate for business investors. The city's existing framework is only accentuated by the possibilities available through the SHTC. It is an attractive program for outside investors, local developers and city officials.

In 2016, HB 214 returns to the Alabama State Legislature for reauthorization. Politicians have the opportunity to shape the program into a more effective vehicle for community redevelopment. Alterations are difficult to introduce when the program is still in its infancy and only three projects are complete. While the statistics may be available on a limited basis in Alabama, there is a dearth of information available from other SHTCs. Comparison with other state programs is also important in recognizing how legislators can test the program's limits. Presently, the legislature would benefit from raising annual and per project caps, altering transferability rules and extending the program's sunset clause from three to seven years. Due to the existing budget constraints and the unpredictability of the Alabama legislature, no one can guarantee the program's reauthorization. The availability of vacant historic stock in Alabama when coupled with the existing SHTC impact studies should be ample justification for reauthorization. Birmingham, Alabama is on the rise but it can only continue at this pace if the development community can continue to rely on the SHTC.

Appendix

Attached in a separate document

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