

## Financing piece in place for Schmidt brewery project



All 261 apartments in the redeveloped Schmidt brewery property will be affordable units. (Submitted rendering)

### Close to \$50M raised in tax credit deal

**BY MARK ANDERSON**

Staff Writer

Dominium passed a milestone recently in its long-running effort to redevelop St. Paul's Schmidt brewery when it signed a term sheet for the sale of the project's affordable housing and historic tax credits.

Alliance Capital Management in California agreed to buy the credits, which Dominium expects to contribute close to \$50 million to the roughly \$95 million proj-

ect. All 261 apartments in the project, which is slated to begin construction next spring, will be affordable to people with incomes at 60 percent of the area median.

Dominium officials wouldn't disclose the specific price that Alliance agreed to pay, but the combined credit package will deliver more than 90 cents for each dollar of credit, said Owen Metz, a senior developer associate for Plymouth-based Dominium.

That figure highlights the continuing recovery in the tax credit market that collapsed in 2008 and 2009, when the market's major investors, Fannie Mae and Freddie Mac, stopped buying credits. Deals ground to a halt, and those that were completed priced in the 50-60 cents range, cutting the

equity available to developers almost in half, said Angela Christy, a real estate finance specialist with Faegre & Benson. Credits had sold for \$1 or more before the slump.

Investors started returning to the market in early 2010, and their slowly growing demand pushed prices steadily higher — increasing the equity available to developers again. In the last several months investors started to pay \$1 or more for credits in the West Coast markets that have been traditional investor favorites, Metz said.

Prices pushed higher in the Midwest, too, Christy said, "but there's a greater

# Brewery

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range here in pricing.” Small-market projects have less appeal and don’t match the market’s top prices, but larger Twin Cities deals are regularly pricing in the 80 cents range, she said.

The 90 cents-plus deal that Dominion announced is at the top of price range for local markets, Christy said. “That wouldn’t be a surprise for California, but it’s a pretty darn good price for the Midwest.”

That pricing strength reflects the relative safety investors see in the projects, she said. “Dominium is a big company with lots of resources and a long track record and that gives investors confidence,” she said.

But investors also like the scale of the project, said John Nolde, an attorney with Winthrop and Weinstine who worked on the project with Dominion.

“It costs the investors the same amount to underwrite a small deal as a large one, or to monitor compliance, so they can increase their returns by making larger investments,” and that makes the Schmidt project attractive, Nolde said.

The recovery in tax credit pricing has been a key to funding every affordable housing project that gets into the ground.

“Those better prices are incredibly important to developers,” who rely on housing tax credits as the primary source of equity of affordable housing projects, said Andriana Abariotes, executive director at the Local Initiatives Support Corp. in St. Paul, which advises community development projects in the upper Midwest.

The market also delivered value to investors, especially when prices were depressed over the last three years. “It’s a safe investment, returns are good, and it’s a social good — why not do it?” Christy said.

Those arguments brought in new investors like Google and brought back former investors like Berkshire Hathaway, which had left the

market when prices climbed so high before the slump.

But the upward price trend may turn around soon, Abariotes said. As prices climb, the returns to investors shrink, and that will probably push some credit buyers back to the sidelines.

“That might have the effect of cooling the market again,” which could slow affordable housing development, too, Abariotes said.



John Nolde (right)



Dominium plans to start construction next spring on its redevelopment of the Schmidt brewery in St. Paul, a project that relies on a package of low-income housing and state and federal historic tax credits. (File photo: Bill Klotz)