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SPECIAL FEATURE

NSO Bell Building – Finally a Reality Part One of Two

By Rochelle Lento, Dykema Gossett PLLC

Formerly known as the Michigan Yellow Pages Building, the historic NSO Bell Building greets commuters as they drive into downtown Detroit, Mich. Built in 1929 and 1930, this 253,000-square-foot building a few miles north of downtown is being renovated and developed by the Neighborhood Service Organization (NSO). For more than 50 years, NSO has been providing human services, mental health services, drug and gambling addiction treatment, and temporary shelter in Wayne and Oakland counties. Recognizing the magnitude of Detroit's homeless population, NSO, which currently occupies leased space in downtown Detroit, embarked on a three-year effort to secure financing to convert this historic building into 155 units of permanent supportive housing for homeless individuals and office space for 200 of its 300 workers.

Affordable Housing: The First Phase of the Development

When NSO submitted its first low-income housing tax credit (LIHTC) application to the Michigan State Housing Development Authority (MSHDA) in 2008, NSO began a journey to raise \$50 million for the adaptive reuse of the massive former office/warehouse building. NSO joined key partner and building owner FOCUS: Hope, a long-standing not-for-profit organization that provides employment and job training programs near the NSO Bell.

For the next two years, NSO submitted LIHTC applications to MSHDA, and finally achieved a reservation in the 2009/2010



Photo: Courtesy of Neighborhood Service Organization
Formerly known as the Michigan Yellow Pages Building, the historic NSO Bell Building is being redeveloped in downtown Detroit, Mich.

round. Some less committed developers would have given up, but NSO's President and CEO Sheilah Clay and Vice President for Real Estate Development Joe Heaphy, never gave up hope and inspired their development team to persevere. For more than two years, accountants, architects, attorneys, consultants, contractors, government representatives and NSO staff met monthly to shape the project and its development financing.

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“The development is an example of the kind of ‘high-impact’ project that NSO President and CEO Sheilah Clay has wanted the nonprofit to do. Fortunately, the opportunity was brought to us by another large local nonprofit, FOCUS: Hope,” Heaphy said.

Because the building is listed on the National Register of Historic Places, it was eligible for state and federal historic rehabilitation tax credits. Originally constructed as a warehouse, garage and office space for then Western Electric, the building had a rail line running through its cavernous basement. Western used the building until 1958. Then, the Yellow Pages moved in and utilized the structure until 1999. It installed its iconic Michigan Yellow Pages sign, which used to change colors depending on the forecast.

The new development embodies this history by including “Bell” in its name. “The Bell Building project demonstrates that a large, landmark historic building that is located outside of a traditional downtown area can be successfully rehabilitated for a new, innovative use that will serve as an anchor to an upcoming neighborhood. This anchor of investment and activity is especially important in Detroit, a case study in shrinking cities,” said Kristine Kidorf, the project’s historic consultant. “This project shows that not all buildings need to be demolished just because the original use has ended. New uses in historic buildings, especially those that help solve social issues, such as homelessness, are good for neighborhoods, the economy and historic preservation.”

The NSO Bell’s first stage of redevelopment is the residential portion of the building. It will house 155 formerly homeless individuals on the building’s top five floors and will provide supportive services on the first level. The residential phase has a complex lasagna-layered financing structure. For the residential rental portion of the building, the following table summarizes the financing sources:

NSO Bell Building – Residential Sources

Source	Amount	Status
LIHTC	\$21,893,430	NTCIC – agreed to purchase
Brownfield Tax Credits	\$5,539,967	Michigan Housing Preservation Network
Historic Tax Credits - Federal	\$1,990,314	NTCIC – agreed to purchase
HOME/CDBG	\$5,150,000	City of Detroit
County HOME	\$1,100,000	Wayne County
Deferred Fee	\$786,168	NSO/Developer
Supportive Housing Grant	\$400,000	HUD
TOTAL	\$36,073,711	

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NSO received a reservation of 9 percent LIHTCs in 2009 from MSHDA. Unfortunately, this award coincided with the equity market crash that hit the nation and had a double impact on the state of Michigan and perhaps a triple impact on the city of Detroit. NSO's Heaphy courted dozens of investors and equity providers in 2009 and 2010 and held information sessions to attract private businesses or individuals to this investment. In late 2010, the National Trust Community Investment Corporation (NTCIC), the tax credit syndication arm of the National Trust for Historic Preservation, agreed to purchase the federal LIHTCs and historic tax credits (HTCs). NTCIC, attracted a prime investor for the credits. "We were fortunate to be able to syndicate the Bell Building at a time when so many investors were turning their backs on Detroit," said John Leith-Tetrault, NTCIC president.

Heaphy said, "If it was not for the interest and stepping up of NTCIC and their investor, we might not have survived the economic downturn in the equity market and the Bell Building would not be under construction."

Identifying the federal LIHTC and HTC investor provided the impetus for other funders to step up. Approximately \$30 million in total equity was generated from the federal housing, federal historic, state historic and state brownfield tax credits. The project also received awards of federal HOME and Community Development Block Grant dollars totaling \$3.7 million from the City of Detroit and Wayne County. (The Development Corporation of Wayne County also provided a portion of the county's support.) Given NSO's strength as a developer and the importance of its mission to serve the homeless, private foundations, including The Kresge Foundation and the McGregor Fund, provided key unrestricted funding for the development. The Corporation for Supportive Housing (CSH), a national not-for-profit organization specializing in loans to permanent supportive housing developments, provided pre-development funding for the residential rental portion of the building and will be a major player in the commercial/administrative development. The Opportunity Resource Fund, a Michigan-based housing and economic development financier and the Local Initiatives Support Corporation (LISC) also provided some pre-development and bridge financing. Finally, Bank of America Merrill Lynch is the construction lender providing a loan facility of \$18 million to the development, which will be paid down with the proceeds of the federal and state credits at the close of construction. MSHDA provided project-based vouchers for 100 percent of the units, which are critical to the operational phase of the development. With the level of equity and grant funding for the project, there is little or no debt service.

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Edwin Harlin, director of the southeast Michigan division at MSHDA lauded the development team's persistence. "The Bell Building development went on life support three Decembers in a row, however, the team never lost faith and today, the project is alive and well. The Bell Building is growing up and starting to take shape," Harlin said.

Clearly, a complex financing package comes with its own unique set of challenges. Next month, part two of this article will discuss how the development team dealt

with those challenges, as well as how new markets tax credit financing was stirred into the mix. ❖

Rochelle E. Lento's practice at Dykema Gossett PLLC focuses on affordable housing development and economic development representing developers in transactions involving low-income housing tax credits, federal and state historic tax credits, federal HOME and other HUD financing tools, and new market tax credits; and general real estate. She can be reached at 313-568-5322 or via email at rlento@dykema.com.

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