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Lincoln Hotel Logs New Life, Thanks to NMTC, HTC Equity

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The former Abraham Lincoln Hotel is an economic barometer for Reading, Pa.

“You can almost measure the local economy by how the Abe Lincoln is doing,” said Christian Leinbach, chairman of the Berks County Commission.

If that’s true, there’s good news. After years of uncertainty for the historic property, the Shuman Development Group last year launched an \$11 million renovation of the former hotel into mixed-use apartments and retail that includes new markets tax credit (NMTC) and historic tax credit (HTC) equity. The new Lincoln Towers will open later this year.

“I think the community is better for it,” Leinbach said. “Obviously, the tax credits are a key piece.”

The development comes after several changes, including a significant transformation in the plans. It preserves an important part of Reading’s history during a time when the city faces economic challenges.

History of ‘The Abe’

The 18-story hotel was built in 1930 and for years remained Reading’s only hotel.

“The original Lincoln Hotel has been around for the better part of 100 years,” said Jim Buerger, senior vice president and chief lending officer for Community First Fund, a community development entity (CDE) that allocated \$8.3 million in NMTCs to the property. “Its claim to fame was that John Phillip Sousa died in the hotel (in 1932). It had gone downhill and then was renovated substantially in the 1990s.”

That renovation added complexity as the property was subdivided into four condominiums. One property was a low-income housing tax credit (LIHTC) property that included low-income senior housing. Two properties—including the hotel—were owned by the same estate and the fourth property was the parking garage.

“It was very tired looking,” said Buerger.

Alan Shuman, president of Shuman Development Group, said his company represented another potential buyer of the hotel in about 2011 before that deal fell through. Shuman Development Group decided to pursue the property, located across the street from its headquarters. “It had a city parking garage attached to it, but it hadn’t been maintained

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and the city was looking at closing it down,” Shuman said. “Someone from the parking authority contacted us and asked if we would be interested in buying the parking garage. They said if we bought the hotel, they’d sell the parking garage. The intent was to rehab the whole property into hotel use.”

Changes in Plan

Shuman said his company spent half of 2014 and all of 2015 working to rehabilitate the property as a hotel, but housing became the focus after Reading lured a Doubletree Convention Hotel that opened in 2016. Shuman said the Doubletree took clients from existing hotels.

“So we switched to the backup plan, housing, and moved forward with that,” Shuman said. “We already had plans and it was a permitted use by zoning. It’s the first new housing project in the central business district in probably 10 years and it’s the first conversion of a historic building into residential use in probably 40 years.”

Shuman said tax credits were an option for the hotel piece, but the development proceeded with a plan to participate in a state program that provided new sales taxes could go back to the developer. But that program was shut down by new Pennsylvania Gov. Tom Wolf and the development’s switch to mostly housing—which generates no sales tax—made the need for tax credits obvious. “If it was residential, it had to be new markets tax credits,” Shuman said.

Leinbach said Shuman was creative to go forward without using the property as a hotel.

“I think right now, understanding the economy of hotel rooms, I was thrilled that Alan found a way to make the project work, even though the hotel room side wasn’t a part of it,” Leinbach said. “He kept the restaurant,



Image: Courtesy of Shuman Development Group

The former Abraham Lincoln Hotel in Reading, Pa., is being renovated into a mixed-use property with financing from new markets tax credits (NMTCs) and historic tax credits (HTCs).

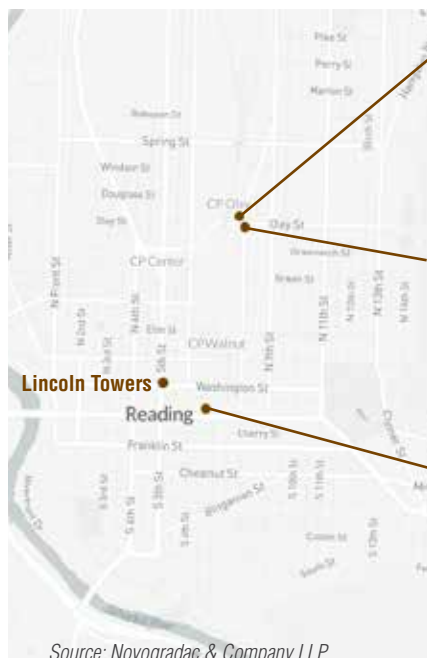
conference and banquet facilities and added the retail space. It fits well in the downtown area. It’s being viewed as a positive project. It’s not just apartments, but the combination of the whole project is what makes the apartments attractive.”

The restaurant, bar and ballroom (10,000 square feet) remained open during the renovation.

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Shuman Active with NMTC in Reading

The Shuman Development Group has redeveloped dozens of properties in Reading, Pa., over the past 25 years, including three new markets tax credit (NMTC) developments before its current renovation of the former Abraham Lincoln Hotel:



Big Mill Apartments: This 122,000-square-foot former shoe factory that later was an outlet building was restored by Shuman Development Group into 69 residential units and 40,000 square feet of commercial space. It suffered a catastrophic fire six weeks before its proposed opening, but was completed in 2016. Budget: \$14.6 million, plus \$10 million in fire damage.

Shops at Roc: Shuman Development Group renovated 70,000 square feet of abandoned buildings and built a new 36,000-square foot building to create a new shopping center anchored by a grocery store, the largest Latino bakery in the county, the largest daycare center in southeastern Pennsylvania. Budget: \$8 million.

645 Penn: The former world headquarters for Exide Battery, this 140,000-square-foot building had been converted into a multi-tenant office building. Shuman Development Group purchased it and launched a NMTC project to replace the major systems so that tenants—many of whom are asocial service support services—wouldn't need to relocate. Budget: \$6.5 million.

Source: Novogradac & Company LLP

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Finished Product

When completed, the building will have 98 one- and two-bedroom apartments, as well as 10 retail spaces and a 310-space parking garage. There will be common area and the amenities include a 2,000-square-foot fitness center.

The bottom three floors are retail and commercial space, including the full-service hotel restaurant and bar, a pharmacy, salon, bakery and other businesses. Floors four through nine (which are finished) are primarily one-bedroom apartments, priced for lower-income residents, although they are not a LIHTC property. The top nine floors will be financed through tax credit equity, with 48 apartments that will be completed in September.

While the apartments get most of the attention, parking is crucial.

“Parking is extremely important,” Shuman said. “We will be the only residential building in the city with secure, covered parking for residents.”

Leinbach is impressed.

“The core historical aspect is all intact and absolutely beautiful,” he said. “It’s very important and well-recognized.”

Development Hurdles

The presence of the HTC brought a level of complexity due to National Park Service (NPS) requirements, but Shuman said it didn’t hurt much.

“Because they did a historic rehabilitation in 1993, it was pretty good,” Shuman said. He said the main difficulty was the need for special permission from the NPS for the cutouts required for installation of new heating systems.

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The only other significant issue was an underground oil tank that was buried next to one of the footers of the building. It necessitated a covenant in the deed that required that if the building is razed to the ground, the tank must be removed.

Financing

Shuman is no newcomer to tax credit developments.

“This is our fourth new markets tax credit and our 12th historic tax credit project,” Shuman said. “We also built an office building across the street that was straight commercial and no credits. I’d like to think there would be no major surprises for us now.”

Buerger said both he and Community First, which allocated the NMTCs, have a long-term relationship with Shuman, including two previous NMTC developments in Reading.

“This is highly impactful,” Buerger said. “Reading has almost 20 percent unemployment and the poverty rate is about 45 percent. It’s about as distressed as you can get. Every year, we’ve put some of our allocation to Reading.”

Buerger said the affordability of the apartments—without using LIHTCs—impressed Community First.

“We liked mixed-use projects,” Buerger said. “[Shuman is] agreeable to the idea that at least 20 percent of the

units should be available to low-income residents. This is going to create a lot of jobs—mostly construction, but it will also keep some businesses open.”

Buerger said the property will create 92 construction jobs and 60 permanent jobs.

Shuman said the tax credits were important. “They were extraordinarily significant,” he said. “We couldn’t have made it without them.”

Developer, Property a Good Marriage

With the historic hotel saved, jobs created and housing being created, Leinbach is pleased that Shuman has made another investment in Reading.

“I really believe Alan Shuman is an individual who makes a difference,” Leinbach said. “Alan has taken a number of properties in Reading, purchased them and rebuilt them. When we heard that Alan Shuman was taking on the Abe Lincoln, we looked at it as a positive.” ♦

Lincoln Towers

FINANCING

- ♦ \$8.3 million new markets tax credit (NMTC) allocation from Community First Fund
- ♦ \$6 million mortgage from The Reinvestment Fund
- ♦ \$3 million NMTC equity investment by Chase
- ♦ \$1.1 million historic tax credit (HTC) equity investment by Fulton Bank
- ♦ \$500,000 equity investment by owner

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