

Philadelphia Hotel Redevelopment: Headline Risk for Almanac's Limited Partners?

Executive Summary

- Almanac Realty Investors was featured in an article in the Philadelphia Inquirer headlined “U.S. Rep. Brady Slams Tax Credit for Philly Hotel in Letter to Treasury”
- HRI Properties, a portfolio investment of Almanac, is using \$15 million in New Markets Tax Credits (NMTC), a federal anti-poverty program designed to help low income communities which lack access to capital, to develop the Aloft Hotel in downtown Philadelphia.
- In a letter to U.S Secretary of Treasury Steve Mnuchin, Pennsylvania Congressman Bob Brady wrote that he was “deeply troubled” by HRI’s use of NMTCs to finance the Aloft.
- The NMTC program is intended to encourage investment in poor neighborhoods, but according to Congressman Brady “this project is neither located in a low-income community, nor will its benefits accrue to the residents of the surrounding neighborhood.”
- Community members have raised questions about what, if any, positive impact the hotel will have on residents, and the controversy surrounding the hotel has been the subject of multiple news articles.
- The use of New Markets Tax Credits to develop the Blackstone Hotel in Chicago in 2011 created a scandal after it was exposed on the CBS evening news. A former Treasury Department senior policy advisor said at the time that “things like luxury hotels are entirely contrary to what we set out to do” with the New Markets Tax Credit Program.

Overview of Almanac and HRI

New Orleans-based HRI Properties is a full service real estate development firm with a focus on the adaptive reuse of historic structures.¹ Property holdings include hotels, apartments, and office buildings. The firm has completed at least 81 real estate developments and currently manages 66 properties.²

In April 2014, the private equity firm Almanac committed \$100 million in growth capital to HRI through Almanac Realty Securities VI.³ Almanac subsequently expanded their initial investment to \$150 million in July of 2015.⁴ In March 2016, HRI received an additional \$50 million in growth

capital from Almanac, bringing the total investment to \$200 million.⁵ Almanac Realty Securities VI closed in November 2012 with \$819 million in commitments.⁶ HRI also received a growth capital investment of \$87.5 million from the StepStone Real Estate in March of 2017.⁷

New Market Tax Credits

In 2000, The U.S Treasury department created the New Markets Tax Credit (NMTC) program to stimulate economic growth in low-income communities lacking access to capital. The tax credits are awarded to intermediaries called community development entities (CDEs) to offset development costs. CDEs then sell the credits to interested investors. These investors are reimbursed 39% of the total costs of the investment over a seven-year period.¹⁰ Only certain types of businesses qualify for NMTCs; casinos and golf courses, for example, are excluded.¹¹

What are the Qualifying Criteria for a NMTC-funded Project?

Investors in the NMTC Program must adhere to certain guidelines established by The Treasury Department. The census tract in which the project is located must meet at least one of the following criteria:

- A poverty rate of 20% or higher
- A median family income that is 80% or less of the median family income in the city, state or metropolitan statistical area¹²

The Aloft Hotel Project

In 2016, HRI Properties announced that it was partnering with Realen Properties to develop the Aloft Hotel.¹³ The project has secured preliminary approval for federal and state Historic Tax Credits, a Redevelopment Capital Assistance Program Grant from the state, and financing from the Reinvestment Fund. The project also received \$15 million of New Market Tax Credit financing through two community development entities controlled by Capital One and HRI, individually.¹⁴

HRI's investment in The Aloft Hotel has drawn criticism for its use of New Markets Tax Credit financing for hotel development. In a community meeting organized by CCORD, Center City

Glance at the Neighborhood

The community surrounding the Aloft Hotel appears to differ from the resource starved communities often associated with the New Markets Tax Credit Program. Located in Philadelphia's Center City Business Improvement District, the hotel neighbors the Philadelphia Convention Center and is in close proximity to a number of the city's large scale developments. In 2016, seventeen large scale real estate developments were completed in Center City, and there were 42 more projects under construction, representing \$5.4 billion in investment, as of the end of December 2016.⁸

The incomes of the area's residents also outpace the city's averages. In Philadelphia's census tract 2, the per capita income is \$41,597, nearly double that of the City (\$22,919). Similarly, the median household income is \$59,891 or 1.5 times the amount of the City (\$38,253).⁹

Organized for Responsible Development, residents of the city questioned the use of the tax credits in the Center City District. Reverend Robin Hynicka, the President of CCORD and senior pastor at the Arch Street United Methodist Church, which is located across the street from the hotel, stated, “This should truly be community economic development, not just gain for one segment of our city.”¹⁵

After this meeting, Congressman Bob Brady of Pennsylvania’s first congressional district, wrote to Treasury Secretary Mnuchin expressing his reservations about the project’s financing. “I am, however, deeply troubled by one particular project in my district. Almanac Realty Investors, through their subsidiary, HRI, is developing an Aloft Hotel in Center City Philadelphia, using \$15 million of New Markets Tax Credit supported financing. This project is neither located in a low-income community, nor will its benefits accrue to the residents of the surrounding neighborhood.”¹⁶ In the letter, the Congressman also requested a list from the Treasury Department of other businesses in his district which sought out NMTC financing but did not receive it.

“... Almanac Realty Investors, through their subsidiary, HRI, is developing an Aloft Hotel in Center City Philadelphia, using \$15 million of New Markets Tax Credit supported financing. This project is neither located in a low-income community, nor will its benefits accrue to the residents of the surrounding neighborhood.”

— Congressman Bob Brady

Almanac Realty Investors was featured in an article in the Philadelphia Inquirer headlined “U.S. Rep. Brady slams tax credit for Philly hotel in letter to Treasury.” The article reports, “It is not uncommon for credits to be allocated to projects with strong job-creating potential in areas of moderate income, said [John] Grady, whose agency has invested credits for work at the University City Science Center and the West Philadelphia Ronald McDonald House, among other projects throughout the city.” However, Congressman Brady’s letter said “To my knowledge, there are no agreements in place at this hotel to ensure a hiring pipeline from low-income neighborhoods, or to ensure that good jobs are created to lift people out of poverty.”¹⁷

In an article titled “Activists question public subsidies used for North Broad hotel project,” journalist Jake Blumgart concludes that the Aloft Hotel project qualifies because, “... the criteria for eligibility are very broad. Although the tract containing the Aloft property doesn’t qualify due to its unemployment or poverty rate, the median family income is apparently low enough to meet the program’s criteria.”¹⁸

The use of New Markets Tax Credits to develop downtown hotels is not entirely without precedent. In 2006, Prudential Financial used \$15.6 million in New Market Tax Credits to renovate the Blackstone Hotel in Downtown Chicago and it became the subject of public outcry.

A 2011 CBS News article entitled, “Fancy Hotel Renovated with Your Tax Dollars,” featured the Blackstone Hotel in Chicago and explored how investors “game the system” in order to take advantage of hefty tax subsidies. The article posed the following question, “So how does a swank hotel qualify as a project to help the poor? It boils down to how you define poor in this pricey area near popular tourist attractions.”¹⁹

A 2011 Bloomberg Markets article also questioned the use of funds for hotel development. “What’s surprising isn’t the opulent makeover: It’s how the project was financed. The work was subsidized by a federal development program intended to help poor communities.”²⁰ Community members and government officials criticized the hotel’s use of the NMTC program. “It’s be hard to say that a luxury hotel in downtown Chicago is in an impoverished community,” said U.S. Representative Jan Schakowsky, an Illinois Democrat. “Lots and lots of public dollars have gone into a project that I’m assuming can make companies a lot of money.”²¹ Cliff Kellogg, former senior policy adviser at the Treasury Department said, “Things like luxury hotels are entirely contrary to what we set out to do.”²²

Questions for Limited Partners

1. How does Almanac intend to mitigate the headline risk for LPs associated with HRI’s use of New Markets Tax Credits to finance the Aloft Hotel in Philadelphia?
2. Is Almanac using New Markets Tax Credits in similar ways in other developments throughout the country, and if so will those projects be subject to the same types of criticism?

Endnotes

- 1 HRI Properties, "Overview," HRI Properties website, <https://www.hriproperties.com/overview>, accessed July 13, 2017.
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- 3 Almanac Realty Investors, "Overview of Almanac Realty Investors & ARS Series of Funds," Pitchbook prepared for the Omaha School Employees Retirement System, July 2014, p.15, <http://bit.ly/2u9G9Wc>.
- 4 Almanac Realty Investors, "Investment Portfolio," Almanac Realty Investors website, <http://almanacrealty.com/investment-portfolio/>, accessed July 13, 2017.
- 5 Adelman, Jacob, "Developer of Aloft Hotel on N. Broad St. gets \$50M more from investor," Philadelphia Inquirer, March 17, 2016, <http://bit.ly/2tNKSKR>, accessed on July 13, 2017.
- 6 Almanac Realty Investors, "Almanac Realty Investors Closes Almanac Realty Securities VI With \$819 Million Raised," Almanac Realty Investors website, <http://almanacrealty.com/almanac-realty-investors-closes-almanac-realty-securities-vi-with-819-million-raised/>, accessed July 13, 2017.
- 7 "StepStone Real Estate Partners Closes Investment to Fund HRI's Growth," Businesswire, March 7, 2017, <http://bit.ly/2tNjyfB>, accessed on July 13, 2017.
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- 9 US Census, American Community Survey 2015, Census Tract 2: <http://bit.ly/2o4ZkwN>, Philadelphia County: <http://bit.ly/2o4ZkwN>
- 10 "NMTC Program: 2017 Application FAQs," U.S. Dept. of the Treasury CDFI Fund, pp.12, 23, 59, <https://www.cdfifund.gov/Documents/2017%20NMTC%20Application%20FAQs%20-%20Updated%205.24.2017-508%20Compliant.pdf>
- 11 "New Market Tax Credit," Department of the Treasury: Internal Revenue Service, p.21, <https://www.cdfifund.gov/Documents/atgnmtc.pdf>
- 12 CDFI's NMTC Census Data Transition FAQs 7/17/15 p. 3 <http://bit.ly/2urpsWk>
- 13 Adelman, Jacob, "New Orleans firm to team with Realen on hotel conversion of 101 N. Broad landmark," Philadelphia Inquirer, February 4, 2016, <http://bit.ly/2u8UAtv>, accessed on July 13, 2017.
- 14 Construction and Permanent Loan Agreement Between Capital One and Urban Philadelphia Liberty Building LLC, received in response to a Right to Know Request, the "Financial Forecast," including all sources of financing, is described on p. 143, on file with UNITE HERE.
- 15 Blumgart, Jake, "Activists question public subsidies used for North Broad hotel project," Plan Philly, June 12, 2017, <http://planphilly.com/articles/2017/06/12/activists-question-public-subsidies-used-for-north-broad-hotel-project>, accessed July 13, 2017.
- 16 Letter from Congressman Brady to Secretary Mnuchin, 6/12/17, on file with UNITE HERE.
- 17 Adelman, Jacob, "U.S. Rep. Brady slams tax credit for Philly hotel in letter Treasury," Philadelphia Inquirer, June 20, 2017
- 18 Blumgart, Jake, "Activists question public subsidies used for North Broad hotel project," Plan Philly, June 12, 2017
- 19 Attkisson, Sharly, "Fancy Hotel Renovated with Your Tax Dollars," CBS News, February 8, 2011, <http://www.cbsnews.com/news/fancy-hotel-renovated-with-your-tax-dollars/>, accessed July 13, 2017.
- 20 Bloomberg Markets Magazine, March 2011 p. 82
- 21 Ibid, p. 85
- 22 Ibid, p. 82