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New Markets Tax Credit Impacts: A Case Study in Durham, North Carolina

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March 2010



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Executive Summary

The New Markets Tax Credit (NMTC) program, created in 2000, provides federal tax credits to investors who fund economic development projects in low income areas. In the first four years of the program, Durham received more NMTC investment on a per capita basis than any other city in the nation. This investment helped revive a downtown that had been waning since the early 1960s.

Durham grew up on the tobacco industry. National demand for Durham's tobacco drew related industry employees and population, and also defined the physical development of the area. Massive brick factories dominated an otherwise rural landscape, and were the focus of activity in town. Downtown Durham declined in the mid-twentieth century as suburbanization took hold across the country. It took a second blow when the American Tobacco Complex shut its doors in 1987, creating a 14 acre industrial wasteland in downtown. The departure of department stores and the shuttering of the American Tobacco Complex and other factories left the area lacking for jobs, businesses, residents and visitors. By the time the NMTC was available, nearly all downtown census tracts met the eligibility criteria for targeted distress, including a poverty rate over 30%, a median family income less than 60% of the area median income and an unemployment rate more than twice the national level. Vacant buildings peppered the sidewalks.

With downtown still situated around the tobacco mill, several experienced developers sought to purchase and revitalize the vacant American Tobacco Complex during the late 1980s and 1990s. None were able to recruit financing for the project. Capitol Broadcasting, the eventual developer, purchased the complex in April 2002. It took more than two years to secure permanent financing. According to Capitol Broadcasting's Michael Goodmon, "We were proposing to double the amount of Class A office space in Downtown Durham. We were just laughed at by the conventional loan market." Reaching the end of the line with traditional lenders, Capitol reached out to Self-Help, a CDFI that had never made a loan over \$10 million. Headquartered just across the train tracks from American Tobacco and a recent NMTC allocatee, Self-Help took an interest and worked with Capitol to recruit investors for the deal. A \$40 million permanent NMTC loan launched Phase I of the American Tobacco complex in November 2004. Several other NMTC allocatees supported Phase II of the redevelopment over the next three years.

Local development professionals agree that the rehabilitation of American Tobacco accelerated the pace of change and opened up the investment landscape in downtown Durham after piecemeal redevelopment during the 1980s and 1990s. The numbers support this. Less than one significant development project was completed downtown each year during the 17 years American Tobacco sat vacant (1987-2003). In the five years following the opening of Phase I (2005-2009), 16 major projects were completed, a pace of more than three per year. Between 2000 and 2003, the average number of development approvals was 3.75 per year downtown; over the five years since the opening of the revitalized complex (2005-2009), the average number jumped to 11.80 per year. The number of property sales increased by 62% from 2005 to 2007, compared to sales between 2002 and 2004; the average sales price increased by 115%.

The development of American Tobacco, and the significant development following, helped dramatically alter the downtown landscape. Increased development has largely been in commercial and mixed-use projects, leading to a more stable and competitive commercial real estate market, and also to increased downtown employment, more business formation and marked increase in the downtown tax base. Beyond the catalytic impact of American Tobacco, Durham benefited from 19 NMTC investments made by eight different financial institutions. These investments totaled more than \$140 million between 2003 and 2006. Downtown alone received more than 90% of this investment, or \$127 million. NMTC program liquidity

supported a range of borrowers critical to equitable revitalization, from small nonprofits impacting individual families to large for profit real estate developers rehabilitating historic structures.

This case study of NMTC impacts in downtown Durham shows that NMTC can create—and has created—catalytic impact in previously disinvested low income communities. In particular, this data argues the importance of federal programs exhibiting the key characteristics of the NMTC program, including a relatively shallow subsidy, a requirement for private investment and project flexibility. Both the shallow subsidy and obligation to leverage private investment self-select for stronger projects with smaller gaps to fill, lessening the cost to the government and increasing the likelihood of long term success. An obligation to lend in low income areas and provide community benefits steer investment toward high impact community lending. The allowance for a variety of project types, sizes and geographic concentration pushes project decisions down to a more local level where allocatees can direct subsidy toward projects most in line with community need and organizational expertise. Downtown Durham is where it is today, in no small part, thanks to this federal economic development subsidy.

Introduction

The New Markets Tax Credit (NMTC) program has provided \$15 billion of investment in low income communities across the country over the past eight years. It is one of the first programs in decades to provide incentives for economic development in low income places. NMTC is a flexible tool that yields diverse impacts, including physical rehabilitation, community facility development, small business development and job creation. While the flexibility of the program has increased its popularity and competitiveness, it also makes program analysis difficult, and somewhat sparse, because it disperses project goals and impacts. One common industry assertion is that NMTC investments are catalysts for additional investment from the private market in given low income areas. At Self-Help, a Community Development Financial Institution (CDFI) and NMTC allocatee, we think we have a story to back up that assertion. We began this paper with a primary goal of quantitatively documenting NMTC impact in one downtown. Due to the scarcity of reliable data at the downtown level, the following analysis also relies significantly on qualitative assessments. Places change for lots of reasons, many of them stemming from economic and political factors outside the boundaries of a finite geographic area. For this reason, our conclusions are qualified. However, the evidence we found clearly indicates that, in the case of downtown Durham, NC, NMTC made a significant difference in the timing, scope and shape of revitalization.

New Markets Tax Credit Program Overview

Congress created the New Markets Tax Credit program in 2000 as a part of the Community Renewal Tax Relief Act. Managed by the CDFI Fund at the US Treasury, the program uses market forces to invest in some of the poorest areas in the country by providing federal tax credits to investors who fund economic development projects in low income areas. Intermediary organizations called Community Development Entities (CDEs)—which can be nonprofit financial institutions, banks, investment groups, etc—receive allocations of tax credit authority. CDEs recruit investors with a 39% tax credit and then use the funds secured to support businesses and commercial development in low income communities. The shallow subsidy is intended to make marginal projects financially feasible. In exchange for cash, investors receive tax credits over a seven year period. The program was initially authorized through 2007 and has since been reauthorized twice by Congress, including an increase in allocation availability from American Recovery and Reinvestment Act in 2009. The NMTC program continues to enjoy significant bipartisan support, and many in the field see it as the most important economic development subsidy for distressed areas in decades.

Reflective of its bipartisan support, the program is a flexible tool that allows for a variety of different project types and goals. The relatively shallow subsidy is designed to make marginal projects feasible. Some allocatees use the program primarily as a business development and job creation device that targets benefits to residents of low income communities (a more people-based approach). Others use the program as a physical revitalization tool (a more place-based approach). Increased investment in physical revitalization projects may also indirectly benefit residents of low income areas by creating additional jobs and services and through increasing tax revenues that can be used to support neighborhood development, local business growth and job creation. The program explicitly allows for NMTC investments in local businesses and in outside real estate developers, although many have argued that program rules are more conducive to the latter.¹

Research Questions and Design

NMTC proponents claim that NMTC investments have substantial impacts in distressed communities, creating project level affects while also ripening the field for additional investment in the areas that most need it. One of the most important ideas behind the program is that it has the ability to change the

investment landscape and spawn additional development. We set out to investigate the range of impacts the NMTC program has had in one downtown that received a significant amount of NMTC investment. We investigate a spectrum of possible impacts in this place: catalytic community impact, direct project impact and the impact the program has had on the way lenders approach revitalization and community development investing.

There has been little research on the impacts of the NMTC program. We are not aware of any research that has looked at ancillary community impacts in addition to the direct impacts of NMTC projects. Even given the limited research that has been done about its impacts, the NMTC program is widely seen as effective. It was honored as one of the public sector's Top 50 Programs in the Harvard University's prestigious Innovations in American Government Award in both 2008 and 2009. The award recognizes and promotes excellence in the public sector.

This study focuses on NMTC investment in downtown Durham, North Carolina. Downtown Durham is an opportune location to investigate the ancillary impacts of focused NMTC investment for a number of reasons. First, downtown Durham is Self-Help's home base. We have a natural interest in how this federal program plays out in our backyard. Although a small city (population less than 200,000), Durham ranked sixth for total NMTC investment in the country as of the end of 2006. On a per capita basis, Durham actually had more NMTC investment than any other city at \$750 per person². This early infusion of NMTC allocation allows us to assess impacts after only a handful of years have passed. From 2003 through 2006, eight different CDEs invested \$140 million in a variety of different projects in Durham. Ninety percent of this investment was focused in a downtown that encompasses less than one square mile. The project level data discussed throughout the paper includes NMTC investments through 2007 as the most recent data available when our research began. Partner organizations were kind enough to share this information with us directly. Durham's national rank relating to investment received per capita was not available after 2006. We also believe this is a particularly opportune location to study because downtown Durham experienced a cycle of disinvestment similar to the experiences of other small cities. Its story is like many others.

This report defines downtown Durham as it has been defined by Downtown Durham Inc (DDI) and the *Downtown Durham Master Plan*. This area includes the center city area, as well as the commercial areas adjacent to the center city and is outlined in Figure 1. The majority of this area qualifies as a New Markets eligible area based on the characteristics of the census tracts³ as shown in Figure 2. Downtown Durham is encompassed by eight census tracts, six of which qualify for NMTC. Nearly all of downtown is made up of just three of these tracts, all of which qualify as "targeted distress" areas based on NMTC eligibility criteria due to their low median income, high poverty and high unemployment rates. The two tracts that do not qualify for the New Markets program extend well beyond downtown.

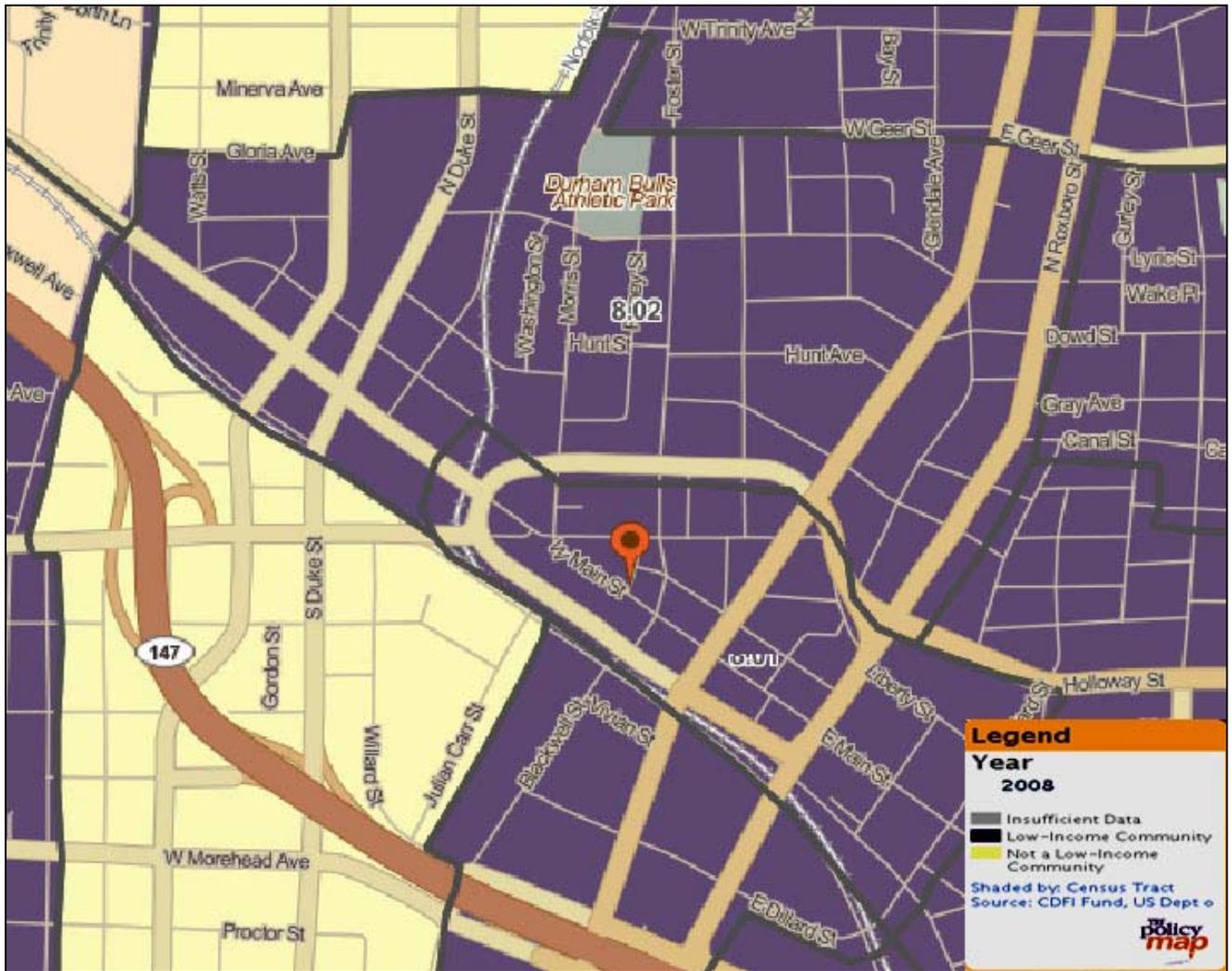
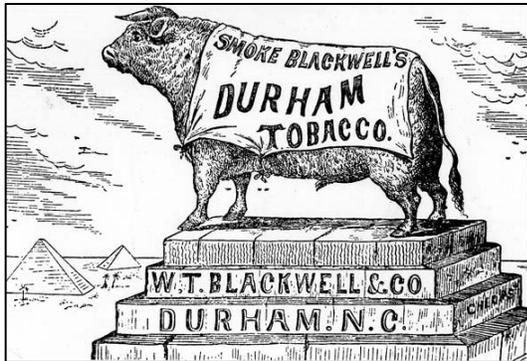


Figure 2: Downtown Durham Census Tracts and New Markets Eligibility
 Source: Policy Map, CDFI Fund

Brief History of Durham

Durham, now North Carolina's fifth largest city, began humbly. Four acres of land spawned a train station and then a tobacco boom town. In the mid 1800s, Dr. Bartlett Durham offered a portion of his land to the North Carolina Railroad Company as a site for a train station. This land was formally incorporated as the town of Durham in 1869. Durham gained notoriety when Confederate and Union soldiers, in Durham for one of the Civil War's largest surrenders, tasted the area's Brightleaf tobacco. This cash crop would shape the town for the next 100 years.

Tobacco turned Durham into a boom town; the population jumped from 200 in 1870 to 2000 in 1880 as



workers filled city mills to accommodate national demand for Durham's tobacco. By 1874, local tobacco growers and tobacco distributors had joined forces to form WT Blackwell Company, business was booming and construction of the first brick tobacco factory in the US began. The catapulting success of Durham tobacco sales became visible through the steady build out of a magnificent one million square foot manufacturing facility in downtown Durham. The build out began with the Old Bull factory, a four-story L-shaped complex situated in what was still a tiny train depot town. Even with its dominant

presence, by 1879, the company had outgrown its space and added a second L-shape structure to make a U-shaped complex twice its original size. In the late 1800s and early 1900s, a series of mergers and acquisitions led to the Consolidated Tobacco Company, or "The Trust," including the Continental Tobacco Company (which had purchased Blackwell's interest), the American Tobacco Company and Liggett & Myers, among others. The Blackwell plant would serve as home base for The Trust. It moved into a rapid phase of expansion in 1902, including enclosing the Old Bull Factory so that it was square and adding a Cigarette Building, a series of warehouses and a power plant by 1913. The complex totaled more than 500,000 square feet by 1913. Warehouse expansion continued in the 1920s and, in 1930, a new power plant and the iconic Lucky Strike smokestack and water tower were added.

The Trust was dissolved in 1911, on order of the Supreme Court and due to the Sherman Anti-Trust Act, but the Blackwell factory became the Durham branch of the American Tobacco Company. American Tobacco Company reenergized the Bull Durham advertising campaign first begun after the Civil War discovery of Brightleaf tobacco. The Bull Durham brand became the most popular in the country, boosted in part by its inclusion in rations to World War I soldiers. In 1918, the US government actually took over plant production for a time so that US soldiers had sole claim on the tobacco produced.

Tobacco manufacturing spurred additional growth in Durham—a textile industry made the cloth bags which held the tobacco and retail services sprung up to serve the workers. In the early 1900s African American residents started the first black owned insurance company in the US, Carolina Mutual Life Insurance, and one of the first black owned banks, Mechanics & Farmers, both located downtown in an area known, locally and nationally, as Black Wall Street. Durham became known for its prosperous African American population in addition to its tobacco, although this image may have belied the race and class struggles that wrangled beneath the surface.

Duke University, at the time called Trinity College, moved to its present location in Durham in 1892 and in 1910 the North Carolina College for Negroes (now North Carolina Central University) was formed, both approximately two miles from downtown.

As in many cities across America, Durham's downtown waned in the mid-twentieth century as suburbanization and the decline of the tobacco industry shifted Durham's growth away from downtown. The American Tobacco Company first took a hit with the transition to pre-rolled cigarettes. While the company did begin producing cigarettes in addition to loose leaf tobacco, it could not keep up in ready-made cigarette production. After per capita cigarette consumption peaked in 1976, demand decreased due to health concerns and Phillip Morris' Marlboro began to overtake the market. The American Tobacco Company closed its doors in Durham in 1987 and moved all remaining production to a plant in Reidsville, North Carolina, 60 miles to the west.

Built around a now vacant factory, downtown became less central in city life, and department stores like Sears, Belk and Baldwin moved to suburban shopping malls or closed all together. City leaders looked to optimize movement around the downtown as a solution. Plans commissioned by the city in the late 1950s and early 1960s recommended the city invest in two transportation projects—the Durham Freeway and the Downtown Loop—which maximized traffic flow around the downtown resulting, intentionally or unintentionally, in choking off downtown. The clearing and demolition required for these projects destroyed much of the African American Hayti community and many of Durham's oldest buildings (including the original Durham train station). The completion of these projects left downtown lacking for jobs, businesses, residents and visitors.

Durham is now better known as the home of Duke University and as part of The Research Triangle—the city has transitioned, over the years, from the "Bull City" to the "City of Medicine." Although the tobacco trade gave way to medicine as the city's dominant industry, buildings from the tobacco era remained. These buildings formed the basis for Durham's downtown revitalization, a process begun in the 1980s and 90s and which has taken off in the new century. As Downtown Durham Inc's director Bill Kalkhof put it, "We were a midsized landlocked city without a river that's not a state capital...What we had was absolutely great buildings."

One of the first to see the potential in Durham's vacant industrial buildings was a private developer, Sehed, who in 1981 converted two large former tobacco warehouses into Brightleaf Square, a mixed use

development just west of the official downtown Durham boundaries.

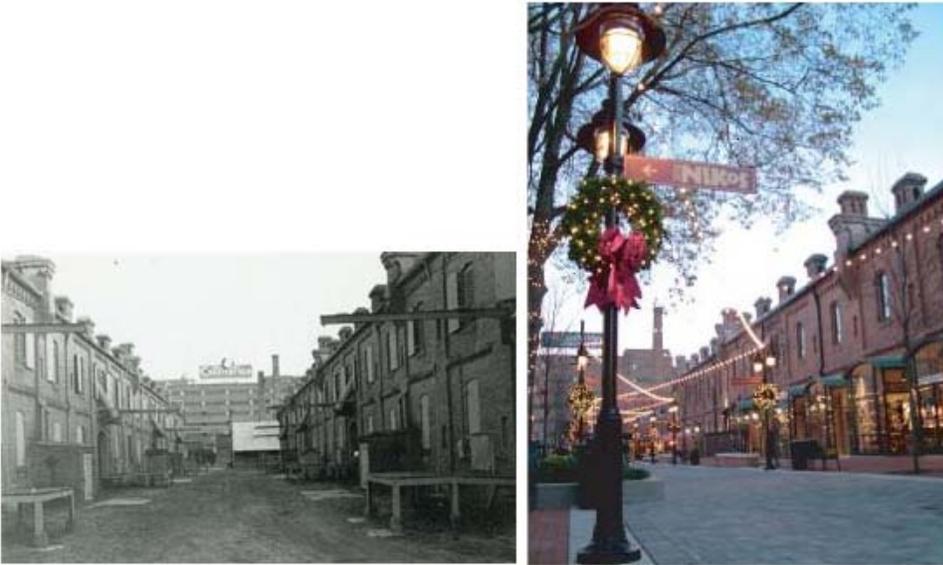


Figure 3: Brightleaf Warehouse Project, images of the site before and after revitalization
Source: www.historicbrightleaf.com

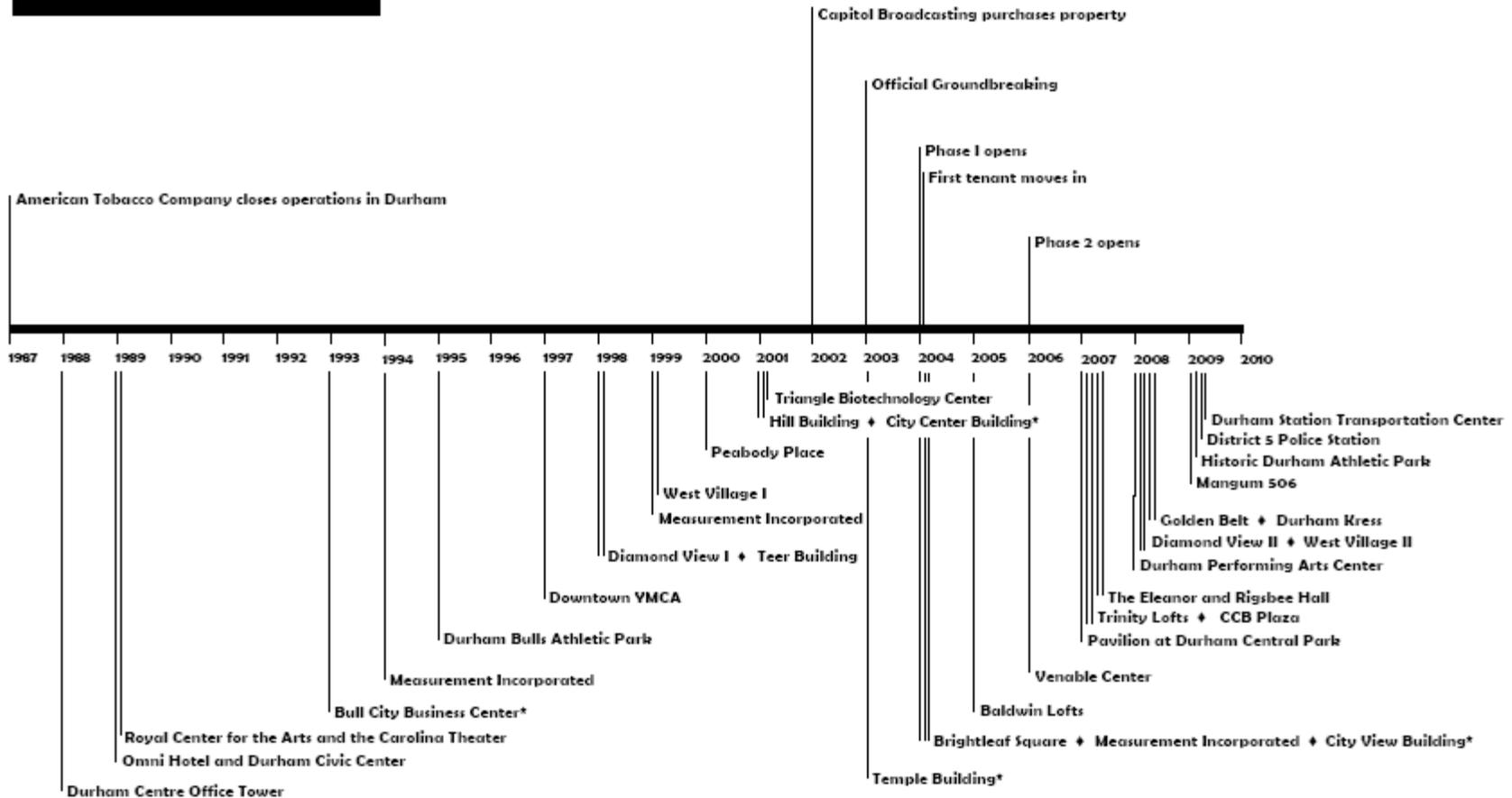
Others slowly began to follow Brightleaf's lead—the Bullington Warehouse project opened as new condos (1982), the city completed a downtown Civic Center (1989), the Carolina Theater was restored and reopened (1989) and a new ballpark for the Durham Bulls minor league team was built (1995). Many of these projects (including the Civic Center, Carolina Theater and ballpark mentioned above) relied heavily on local public investment.

More recent development has, in part, been funded through the New Market Tax Credit program. Between 2003 and 2006, \$140 million in NMTC dollars supported redevelopment projects in Durham. As last tracked at year end 2006, only five other cities in the nation had received more NMTC investment than Durham.⁴ Initial NMTC investment in Durham went toward the redevelopment of the American Tobacco complex, which was the catalyst for a series of similar projects from 2004 to 2009.

The Revitalization of American Tobacco

One of the most often cited transitions in downtown Durham is the American Tobacco redevelopment. It is seen as a true turning point. As written on a popular area blog which follows Durham development, Bull City Rising: "To this observer, there've been two periods of downtown Durham's revitalization in the past decade: American Tobacco, and everything thereafter. ...the debate around American Tobacco was relatively singular, and its impact as a mind-changer unmatched."⁵ The Triangle Business Journal named American Tobacco the Redevelopment Deal of the Decade at the 2010 Space Awards. Indeed, the coinciding revitalization of the American Tobacco complex and downtown Durham is striking. Figure 4 outlines development at the site and downtown from the time American Tobacco abandoned its downtown location to 2010.

American Tobacco



Downtown Durham

Figure 4: Key Developments 1987-2009 American Tobacco and Downtown Durham

* Self-Help-owned development projects

Source: Various, including Downtown Durham Inc and conversations with developers. We included projects that changed or expanded building use and had development costs totaling \$1 million or more.

American Tobacco Company, once at the center of Durham's identity and its primary employer, abandoned its large manufacturing facilities (approximately 1,000,000 sq ft) at the south end of downtown in 1987. The departure left a 14 acre parcel of magnificent brick buildings vacant for years. The City of Durham identified this area as key to downtown revitalization early on. Durham's former Director of Economic and Workforce Development Alan Delisle explained, "It was obvious that we had to ignite American Tobacco—these dormant, vacant, huge downtown spaces." Despite the city's interest, it took more than a decade and a half to put together a successful deal to revitalize the property. "The property was a mess" recalls DDI's Bill Kalkhof, "it cost \$100,000 just to remove the pigeon droppings from the buildings."

For 17 years after the American Tobacco Factory shut its doors, plans for redevelopment came and went as experienced real estate developers failed to find financing partners. J. Adam Abram and his ABD Associates purchased the facility in 1987 with the intention to redevelop the complex of factories and warehouses. The renovation was being considered alongside plans for a major revamp and expansion of the Durham Bulls Athletic Park. While Jim Goodmon of Capitol Broadcasting Company was in negotiations to purchase the Durham Bulls minor league baseball franchise and move its associated athletic park to Raleigh, the City of Durham sought to offer current owner Miles Wolff the chance to move the ballpark to downtown Durham as a part of a major public/private development next door to the American Tobacco complex. The city approved the plan, but the county rejected it, concluding it needed to be put to a public vote. The vote for the new Durham Bulls Athletic Park failed in 1990 and Abram's ABD Associates abandoned plans to redevelop American Tobacco.

In spite of the vote, the City of Durham proceeded with plans to build a ballpark on the east side of American Tobacco. The Durham Bulls Athletic Park was completed in 1995. Goodmon had purchased the minor league baseball franchise in the interim. The American Tobacco complex sat vacant during this time. After the ballpark came online, Blue Devil Ventures, a local real estate developer, acquired an option to purchase the site from Abram for \$6.6 million. They tried to recruit \$50 million in investment to renovate the property, but could not put together a package and let their option expire. They moved on to redevelop a different group of vacant tobacco warehouses on the edge of downtown into West Village in 1999. Jim Goodmon and Capitol Broadcasting (CBC) moved in next, obtaining an option to purchase in 1999. They proposed a redevelopment of the American Tobacco complex that would also include three new Diamond View office buildings to the north and east of the ballpark.

The city and county proposed a joint incentive package of nearly \$40 million, including two new parking decks for \$37 million. During the back and forth of negotiations, many feared the Capitol Broadcasting plan would die out like all the others. But the incentive package eventually became \$43.2 million and plans came together for a purchase in April of 2002. From there, Capitol worked to line up financing for redevelopment. This was a daunting task. According to Michael Goodmon, Vice President for Real Estate, "We were proposing to double the amount of Class A office space in downtown Durham. We were just laughed at by the conventional loan market." Capitol utilized its relationships to recruit anchor tenants and let the tenants help recruit lenders. Even with GlaxoSmithKlein, Compuware and Duke University online as major tenants, conventional lenders showed little interest in a developer planning such a mammoth project in a disinvested downtown. Historic Tax Credits and newly minted New Markets Tax Credits helped the pitch, but Capitol still could not get a bank to commit to permanent financing on the facility. All of the factory buildings (warehouses, cafeteria and a power plant) had been vacant since 1987. Substantial water damage was evident in each of the structures and it was difficult to imagine a Class A complex in the midst of this downtrodden neighborhood. Reaching the end of the line with traditional lenders, Capitol reached out to

Self-Help, a CDFI that had never made a loan over \$10 million. Headquartered just across the train tracks from the American Tobacco complex and a recent NMTC allocatee, Self-Help took an interest in the project and worked with Capitol to recruit investors to support the deal. A \$40 million permanent NMTC loan launched Phase I of the American Tobacco redevelopment. Both Kalkhof and Delisle stressed the importance of NMTC in securing a final deal to make the project happen.

The revitalization of American Tobacco was planned in two phases. During the first phase, Capitol Broadcasting rehabbed half of the historic vacant facility and added two parking decks. Phase I opened in 2004 with 500,000 square feet of primarily Class A office space along with a few restaurants and a large public space. This phase was heavily supported with New Markets financing--an estimated 53% of the total project cost was financed with NMTC investments. Downtown Durham Inc estimates that more than 3,000 employees work at businesses in this space. Phase II continued the historic renovation and included residential units (apartments) in addition to the development of Class A Office space. NMTC financing contributed a third of the total project cost for the second phase.

Although scattered revitalization projects were underway in the late 1990s, local development professionals agree that the American Tobacco project accelerated the pace of revitalization downtown. Kalkhof surmises, "If American Tobacco was still vacant, we'd still be seeing spotty development here and there, but my guess is that downtown would be 10 to 20 years behind where we are today." Delisle agreed, "We'd still be sitting around, not where we want to be, without American Tobacco. American Tobacco was the most important project; it unleashed spin off that has been pretty powerful." Not only did the completion of American Tobacco encourage further development, it sent a message to the community that downtown Durham was an interesting place—a place to "work, play, and live." For the second time, it began to ignite the community.

Development officials in Durham clearly point to the role American Tobacco played in catalyzing other downtown development. We looked to quantitative data in addition to qualitative assessments in investigating this claim. Three key indicators help demonstrate the pace of development downtown: the timing of major development projects, the number of development approvals by the Durham Planning Department and the sale of buildings within the downtown. Each indicator shows that the pace of development in the period after the opening of the first phase of American Tobacco far exceeded the pace of development prior to this event. These quantitative indicators strongly support the assertion of Durham development professionals that American Tobacco catalyzed development downtown.

First, as illustrated in Figure 4, the pace of development in downtown increased substantially following the opening of American Tobacco. A total of 16 significant development projects were completed in the downtown area in the 17 years that American Tobacco sat vacant (1987–2003), amounting to less than one project per year. In the five years following the opening of Phase I (2005–2009) 16 major projects were completed, a pace of more than three per year. This amounts to a threefold increase in the pace of major development downtown.

In addition to these visible changes, the volume of development approvals completed by the Durham Planning Department also points to acceleration in development following American Tobacco's opening. Development approvals are administrative approvals given to projects before construction can begin and include approval for minor building improvements, significant redevelopment and new construction. Between 2000 and 2003 the average number of development approvals was 3.75/year in downtown; over the five years since the opening of the revitalized complex, the average number of development approvals

jumped to 11.8/year. This increase has come as overall approvals throughout Durham remained relatively constant as shown in Table 1.

	Total	2000 - 2003	2005 - 2009	Percent change
<i>Downtown</i>	85	3.8	11.8	215%
Urban	366	32.5	38.4	18%
Suburban	1,998	203.0	188.6	-7%
Compact Neighborhood	130	10.3	14.6	42%
RURAL	90	5.0	13.0	160%
Total	2669	254.5	266.4	5%

Table 1: Development Approvals
 Source: City of Durham Planning Office

Finally, we looked at the pace of property sales within the downtown. Malcolm White, who manages Self-Help’s downtown real estate properties, believes sales to be a good indicator of downtown growth. “A place starts to happen when property starts to change hands.” Volume, total dollar amount and average price of sales each trend upward. We looked at property sales in three important three year periods: 1999–2002 when American Tobacco was vacant without a plan for redevelopment; 2002–2004 when Capitol’s plan for redeveloping the site came together; and 2005–2007 right after Phase I opened. As shown on the graph below, total number and dollar volume as well as average sale price increased in each time period. From 2002-2004 to 2005-2007, the total number of sales increased by 62%, average sales price increased 115% and the total dollar volume of sales increased by 248%. This data confirms White’s memory, “After the American Tobacco development was announced, a dizzying number of properties changed hands” and after its opening, building sales continued.

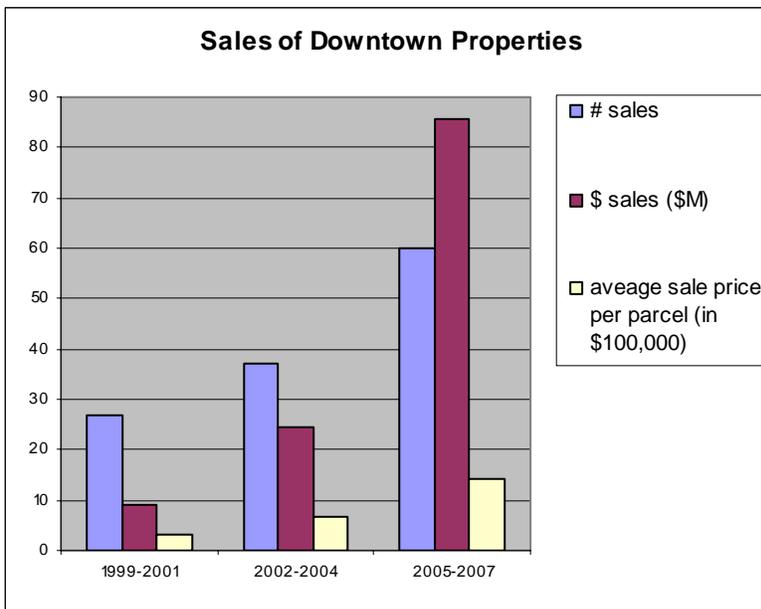


Figure 5: Downtown Property Sales Trends 1999 - 2007
 Source: Durham County Tax Assessor

Viewed another way, looking at the periods of time before and after the opening of Phase I of American Tobacco, the average number of property sales per year nearly doubles, from 11 sales per year from 1997

to 2003 to 20 sales per year from 2005 to 2007. Average annual sales jumped from \$5.25 million to \$28.60 million across these two time periods, showing a nearly 200% increase in sales price per property.

The development of American Tobacco, and the significant development following, has changed the landscape of downtown. Increased development has largely been in commercial and mixed-use projects, leading to a more stable and competitive commercial real estate market, and also to increased downtown employment, more business formation and a marked increase in the downtown tax base.

The total amount of available office space in downtown Durham has increased as new developments add to the city's existing stock. Total leasable space more than doubled between 1996 and 2009. As supply has increased, the occupancy rate has actually improved, showing that demand has been sufficient to absorb the new supply and suggesting a heavy increase in downtown workers over the same time period. Class A space now makes up a greater proportion of Durham's total available space (from 29% to 62% of total space) and has the highest occupancy rate (92% in 2009). The market price for this space has also steadily increased. For each type of office space the lowest price and highest price the space will fetch in the market has increased between 1996 and 2009. Bill Kalkhof, of Downtown Durham Inc, reports that office space in American Tobacco has become the most expensive rental space in the Triangle, competing with Research Triangle Park to host high profile businesses. "Folks are experiencing real sticker shock around here." Even so, downtown Durham's office market has fared much better than the market in the rest of the Triangle over the past few years. While office vacancies have increased in the Triangle area during the recession, from 14.0% in 2007 to 18.7% in 2009, vacancies have declined in downtown Durham, from 16.0% in 2007 to 8.9% in 2009.⁶

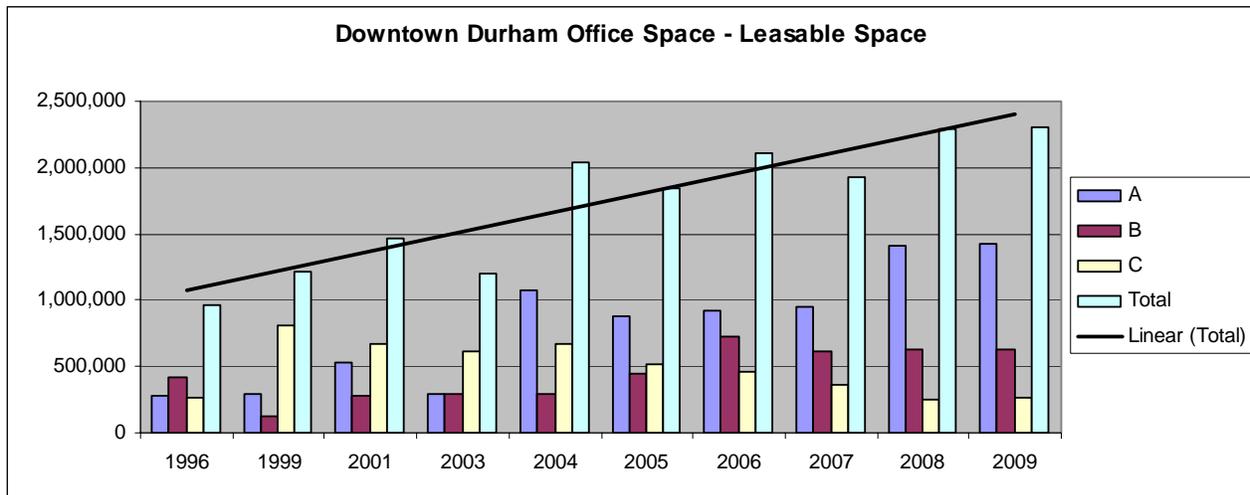


Figure 6: Downtown Durham Office Space Trends 1996 - 2009
 Source: Downtown Durham Inc, based on data from the Triangle Business Journal

New businesses have moved downtown to fill in the new space. Filings for business privilege licenses between 2003 and 2008 increased 250% from 8 licenses to 28 licenses issued.⁷

According to DDI, the total number of employees working in downtown Durham has steadily increased as well.

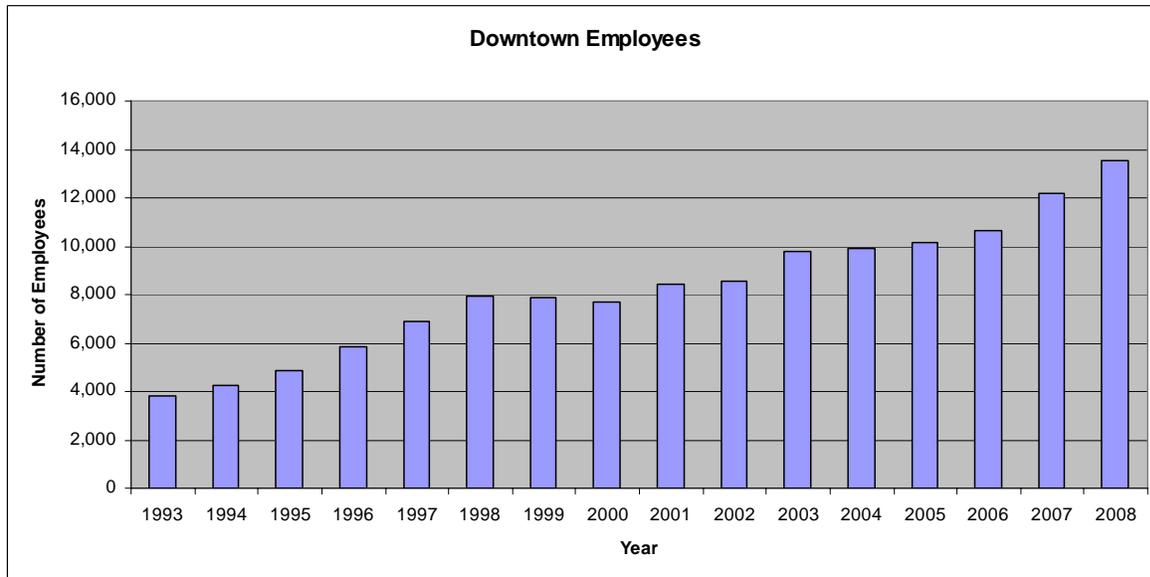


Figure 7: Downtown Employment Trends 1993 - 2008

Source: Downtown Durham Inc. This is an estimate of employment based on the available leasable space, vacancy rate and an industry-established estimate of workers per square foot. The Economic Census, however, shows relatively stable employment in the zip code containing downtown (27701).

Redevelopment and new construction downtown have led to higher tax values and increased city revenues, as is clear based on Durham's 2008 property tax value revaluation. Significantly, growth in total tax value downtown outpaced the value jump elsewhere in the county as shown in Table 2 below. The comparison is even more striking in terms of commercial properties. Commercial property values grew nearly two and half times faster downtown than in the rest of the county, a 30.5% increase for downtown commercial properties compare to a 9.0% increase elsewhere. When we look further back, to 1993, the change is even more dramatic. In 1993 the private tax base downtown was \$124 million. After the 2008 revaluation, this number grew 131%.

	2007 Total Tax Value	2008 Total Tax Value	% Change
Downtown Properties	\$499,960,470	\$646,500,095	29.3%
Commercial	\$323,863,628	\$422,657,205	30.5%
Other	\$175,836,236	\$223,457,919	27.1%
Residential	\$260,606	\$384,971	47.7%
All Other Properties	\$19,819,326,212	\$21,599,083,922	18.0%
Commercial	\$4,862,678,458	\$5,735,924,158	9.0%
Other	\$4,034,428,219	\$4,395,613,858	5.0%
Residential	\$10,922,219,535	\$11,467,545,906	29.3%

Table 2: Tax Value Change from Most Recent Property Revaluation

Source: Durham County Tax Assessor. Durham County revalued all properties in Durham between the 2007 and 2008 tax years. The tax value is based on the County's most recent valuation, done in 2001 and 2008. 2008 dollars adjusted for inflation.

To many locals, the changes downtown Durham has experienced seem even more pronounced than described numerically. “A lot of this is about feel too. You’d have to see the downtown before and after,” says Kalkhof.

NMTC Projects in Downtown Durham Contribute to Revitalization

A significant part of the difference in feel downtown, and a significant contributor to the quantitative change described above, may be due to other projects funded by NMTC. One observer highlighted the intangible benefits of downtown projects like Central Park Charter School. “When you see a bunch of school kids walking through the city on their way to the YMCA, it changes the tone a lot, changes your assumptions about a place. It’s hard to put a value on that kind of thing.” Small dollar NMTC projects like Central Park Charter School can be integral in helping bring to life big dollar projects like the American Tobacco Campus, and the rest of downtown. The same, of course, can be said for non-NMTC projects like the YMCA.

Self-Help gathered project data from six of the nine CDEs that have made investments in downtown Durham.⁸ Between 2003 and 2007, these CDEs made 16 investments totaling \$131 million in downtown Durham. These investments are shown on the map below.

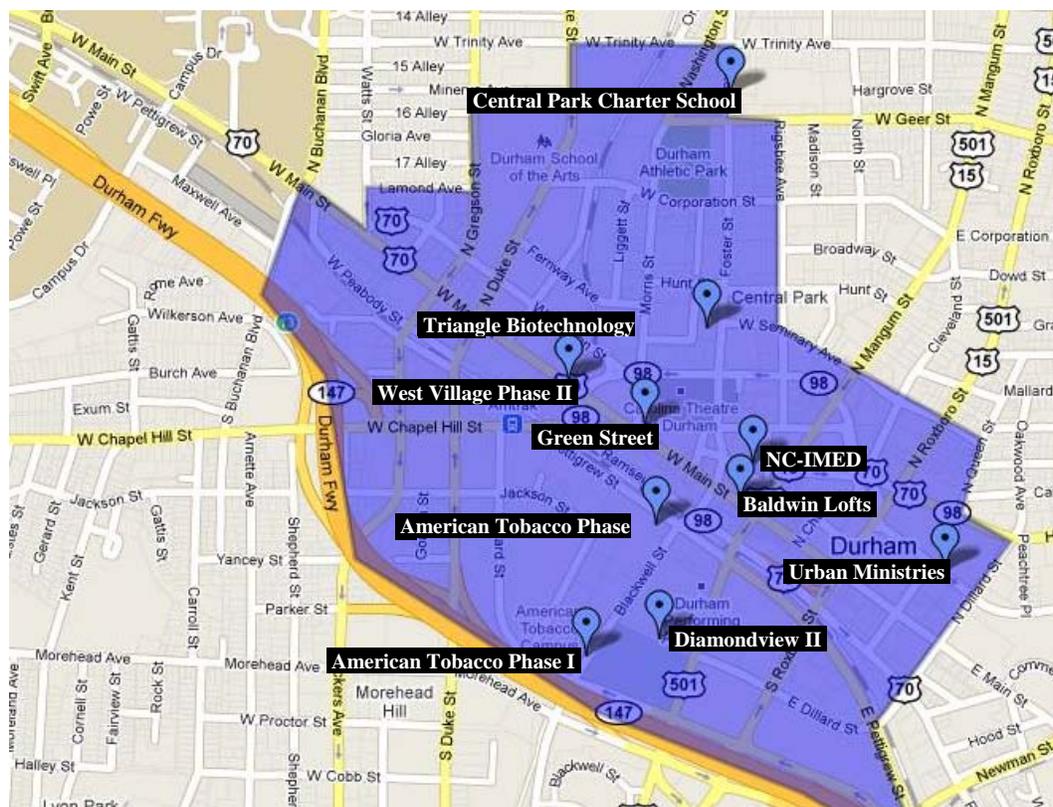


Figure 8: Projects funded with New Markets Tax Credits in Downtown Durham
Source: CIIS Data, Google Earth

New Markets investments in downtown projects ranged from \$330,000 to \$40 million. Most of the investments were made to for-profit businesses for the rehabilitation of mixed-use real estate projects; these projects received a total of \$95,646,384 in NMTC investments. In addition, non-profits received 20%

of the investments. These non-profits—a charter school, homeless shelter, and minority asset development business—all used funds received for building improvement projects.

Project Name	Year of Investment	Total Project Cost (\$)	% Funded by NMTC	Type of Project
American Tobacco Phase I	2004	\$ 94,059,964	53.2%	Mixed Use Rehab
American Tobacco Phase II	2005, 2006, 2007	\$ 167,271,096	32.1%	Mixed Use Rehab
Baldwin Lofts	2005	\$ 2,525,083	55.4%	Mixed Use Rehab
Central Park Charter School	2005	\$ 1,000,000	64.5%	Community Facility
Green Street	2006	\$ 689,352	45.7%	Mixed Use Rehab
NC-IMED	2007	\$ 335,000	100.0%	Community Facility
Triangle Biotechnology Center	2003	\$ 3,510,000	20.7%	Commercial Rehab
Urban Ministries	2006	\$ 428,750	77.0%	Community Facility
West Village Phase II	2006	\$ 40,000,000	4.4%	Mixed Use Rehab
Diamondview II	2006, 2007	\$ 72,037,572	42.6%	Office Development

Table 3: NMTC Funded Projects in Downtown Durham, Project Details
Source: CIIS Data

As shown in Table 4, these projects contributed to the overall change happening throughout downtown. In total, more than 1.5 million square feet of space was developed through NMTC projects. These projects accounted for more than 7,000 jobs (some temporary construction and some long term). The influx of new development resulted in a significant upward shift in market value for downtown property as estimated by the county. County tax data for individual parcels was only available for two years—2007 and 2008—at the time of this study. These two years straddle the county’s most recent property revaluation, and therefore the comparison shows us the increase in market values downtown as perceived by the county. The comparison does not, however, show us value changes based on property improvements occurring prior to 2007. For example, American Tobacco Phase I shows a 32% tax value increase which includes the county market value increase but does not capture the property value increase resulting from the renovation that occurred prior 2007, whereas West Village Phase II shows a 1100% tax value increase between 2007 and 2008 due to the county market value increase and property improvements completed during 2007. If earlier numbers were available at the project level and we could compare the tax value impacts that include property improvements, these numbers would be much more striking. These projects turned vacant eyesores and magnets for crime into new space for offices, stores and restaurants. In addition to commercial and community facility uses, some projects also incorporated housing development, leading to the creation of 292 new housing units in the downtown area.

Project Name	Jobs*	Square Feet Developed	Percentage Change in Tax Value
American Tobacco Phase I	3,450	500,000	32.25%
American Tobacco Phase II	2,218	501,000	37.37%
Baldwin Lofts	-	24,000	-8.22%**
Central Park Charter School	26	2,800	13.07%
Green Street	-	4,600	29.19%
NC-IMED	10	4,800	57.64%
Triangle Biotechnology Center	80	18,407	13.98%
Urban Ministries	25	10,000	32.97%
West Village Phase II	349	446,391	1100.87%
Diamondview II	850	150,000	----
TOTAL	7,008	1,661,998	145.46%

Table 4: NMTC Funded Projects in Downtown Durham, Project Impacts

Source: CIIS Data, Durham County Tax Assessor

* Jobs listed include both construction and permanent jobs

** Due to construction during revaluation

The rehabilitation of a vacant historic downtown department store, for example, was financed with NMTC liquidity. During its heyday in the mid-twentieth century, Baldwin's attracted customers from Durham and surrounding towns. Baldwin's left at the same time the American Tobacco company left town, leaving the building vacant for more than a decade and a half. The NMTC loan allowed a local development group to restore the 24,000 square foot property into a mixed use facility featuring a restaurant and 12 apartments.

New Markets loans in Durham have not only directly changed the physical landscape in Durham, but also the services and opportunities available to the area population, as Self-Help's loan to Urban Ministries of Durham highlights. Urban Ministries is a nonprofit organization that provides a variety of services to the city's working poor and homeless residents. In order to pursue their mission—to provide food, clothing, shelter and supportive services to our neighbors in need—the organization recognized the need to upgrade and expand their facilities.

The building renovation supported by a flexible 2006 NMTC loan allowed Urban Ministries the space to get more organized, present a more professional image and ultimately better convey the respect they have for their clients. It also allowed them to use their resources, and donations of clothing, food and volunteers, more efficiently. Urban Ministries reconfigured their facility space to make room for a receiving area where clients can "check in." This replaced a large line that wound around the halls and makes the process feel more professional for the clients. A previously unused second floor of the building opened up space to properly store out-of-season clothes and provided the opportunity to create "more of a shopping" atmosphere for clients downstairs. They also expanded the kitchen, allowing not only for cooking larger amounts of food but also greater storage capacity which helps them save money, be more efficient and utilize large donations from local farmers. "Now we can have spinach with dinner for months rather than spinach for dinner for a week." Facility improvements also included new offices which gave staff personal space and quiet from a busy operation, and provided a room where Duke student volunteers assist clients in crafting resumes, cover letters and overall job searches. Although painting, arranging and organizing seem like small changes, the staff at Urban Ministries emphasized that the environment is critical to providing good service. "People coming to Urban Ministries are all going through some kind of trauma" said Director of Programs, Peter Donlon. These spatial changes directly impact the overall experience of those who receive services at the facility during a difficult time in their lives.

A new crop of significant developments came on line in 2008, which could be included in the spin off effects of American Tobacco Campus and other downtown development. A large historic renovation on the east side of downtown and a new performing arts center next door to the American Tobacco Campus both opened in 2008. Just down the street from Urban Ministries on the east side of downtown, the Golden Belt Manufacturing complex first produced pouches for Bull Durham loose leaf tobacco and then paper cartons when cigarettes came into vogue. When the tobacco industry closed its operations in Durham, demand for ancillary products disappeared and the Golden Belt complex was donated to the Durham Housing Authority (DHA). By 2000, the area was a designated brownfield redevelopment area. Thirty-five percent of residents in the surrounding neighborhoods lived below the poverty line and 3.19 times more residents were unemployed than are unemployed nationwide. DHA provided space for the Center for Employment Training's operations and sought partners to redevelop the larger facility. After a series of dead ends, DHA put the majority of the facility on the market in 2004. Scientific Properties purchased the facility in 2006 and worked to line up financing to redevelop the facility into what is now a mixed use commercial, arts and residential space. This new development adds to a recent HOPE VI development by bringing essential foot traffic into the area and contributing to other private development efforts in the neighborhood. The NMTC-funded project offers 35 artist studios at below market rents, an art gallery, 37 affordable loft apartments, office space, a live music venue and ground floor retail space. According to Scientific Properties, the construction provided 140 jobs and, once all renovations are complete and retail space is occupied, 400 permanent jobs will result. The Golden Belt project, and its use of NMTC, was recently spotlighted by a visit from Treasury Secretary Timothy Geithner.

In the center of downtown, across the street from the American Tobacco Campus, the Durham Performing Arts Center (DPAC) opened to much celebration in 2008. While DPAC is not a NMTC project, NMTC helped to create the momentum and opportunity for such a development in downtown Durham. From local blog Bull City Rising, "To some extent, last night felt like a coming out party for the Bull City, a celebration of what's been accomplished in the past fifteen years downtown. As one wag pointed out, the controversial Durham Bulls Athletic Park really sparked the whole scene; without it, Jim Goodmon [President & CEO of Capital Broadcasting Company] would likely have never become interested in the vacant American Tobacco factory... And without those two pieces in place, it's hard to imagine the Performing Arts Center taking the shape that it has on the downtown site... I've been intrigued to see the amount of interest I've heard from friends and neighbors in all parts of the Triangle at wanting to come see a show at the DPAC. Some of these folks, I imagine, haven't been to downtown Durham in years; haven't felt they have had a reason to." To highlight the point, a Durham County jail sits on the other side of the DPAC. It opened in 1996. The construction of the jail passed as economic development in downtown Durham in the mid-90s, when American Tobacco sat vacant and most developers and investors were still steering far clear of the Bull City.

There is no question that NMTC-funded developments made significant direct impacts in downtown Durham, restoring properties, creating jobs and broadening services to area populations. It is also apparent that the investor market has heated up. While far more than NMTC has influenced the increasing appeal of the area, the program clearly boosted early interest and appetite. Taking a look at some of the initial NMTC investors helps illuminate how the program facilitated early development.

Organizational Impact

The New Markets Tax Credit impacts not only projects and borrowers, but also the allocatees that implement the program. Allocatees active in Durham range the spectrum of NMTC players, including

traditional banks, investment groups and nonprofit community development financial institutions (CDFIs) like Self-Help. Program impacts vary depending on the type of institution implementing the program.

The liquidity and subsidy have allowed traditional banks to grow their community development focus and impact. A recent GAO Report found that 88% of all NMTC investors would not have invested in low income areas were it not for NMTC.⁹ One prominent bank with NMTC investments in the area said that the program has been on-the-job training in community impact for employees trained as commercial bankers. The NMTC unit created an Impact Committee which combines with the bank's standard Credit Committee to rate loans based on community impact, how distressed the area is and how much financial need the borrower exhibits. The Impact Committee has raised questions about gentrification and tangible benefits for low income people that never before factored into a credit review process.

CDFIs sought NMTC allocations largely because the credits target the areas in which these groups already focus—low income, high poverty areas with limited access to traditional credit. But the program has provided far more than liquidity. For example, the program enabled Self-Help to increase its maximum loan size and thus finance large community development projects, and also to form many new relationships. Banks that capitalize the NMTC program have turned into partners for other programs and projects. Self-Help is now able to negotiate larger transactions and offer better loan terms to borrowers. Other CDFIs that were previously partners on policy issues have become participants on NMTC loans and part of a broader project referral network. NMTC also increased the sophistication and diversity of the Self-Help's underwriting and portfolio management. "We gained much more expertise in construction lending. We started considering longer amortization periods, balloon payments and participations" says Laura Benedict of Self-Help's commercial lending group. Larger, more complex loans demanded more complicated monitoring systems. The new skills, systems and expanded capacity Self-Help developed to manage NMTC lending have crossed over into non-NMTC lending, improving all commercial lending practices.

Conclusions

Downtown Durham has received significant investment through the New Markets Tax Credit program. Projects funded through the program revitalized existing historic buildings, brought in new businesses, employees and residents, and contributed directly and indirectly to the overall changes visible today. New Markets financing supported a variety of project types, including many commercial mixed use rehab projects, but also loans to nonprofit community facilities.

Qualitative assessments and development data both point to American Tobacco, Durham's first NMTC funded project, as a clear tipping point in downtown revitalization, accelerating the pace of recovery and reshaping the local economy. While the City and local developers were intent on rehabilitating this space, all accounts are that it would have taken many more years to bring the right mix of partners to the table were it not for the NMTC. Downtown Durham is no longer a struggling empty area but a place where, to quote one downtown slogan, "Great Things are Happening." The flexibility of the NMTC program allows CDEs to support a range of projects and borrowers critical to equitable revitalization, from small nonprofits impacting individual families to large for profit real estate developers that can further spur investment in downtown Durham and beyond.

New Markets has also impacted the scope and capacity of the banks and CDFIs that use the program. Large financial institutions are making more loans in low income areas, and must consider community impact to comply with program rules. Smaller community-focused CDFIs have diversified and expanded their financial and management capacity in order to successfully manage program funds. These

organizational impacts influence the shape of investing in distressed communities in important and tangible ways.

This case study of NMTC impacts in downtown Durham shows that NMTC can create—and has created—catalytic impact in previously disinvested low income communities. This comes in addition to substantial direct impacts in job creation, services, and physical rehabilitation. A marked increase in development approvals, property sales and completed development projects came on the heels of the successful redevelopment of the one million square foot American Tobacco complex, a project that created 3,000 permanent jobs on its own. This case study is evidence that federal economic development incentive can create substantial local benefit, and act as a catalyst for attracting increased public and private investment in a targeted area.

In particular, this data argues the importance of federal programs exhibiting the key characteristics of the NMTC program. In Durham, the following characteristics of the NMTC program were particularly valuable:

- shallow subsidy
- market-driven decision-making
- project flexibility

NMTC provides a shallow subsidy, a 39% return over the course of seven years, that is triggered by the flow of private investment. Developers completed \$382 million in downtown Durham projects in five years thanks to the \$51 million the federal government will forego in tax revenues over seven years, a 7.5x leverage ratio. The obligation to leverage private investment not only decreases direct expense to the government but also spawns relationships between private actors that may not naturally align. A shallow subsidy that incentivizes private financing self-selects for stronger projects with smaller gaps to fill, projects that but for their location in a high poverty, low income area would likely be done without government subsidy. The program relies on market actors (CDEs) to make financing decisions and, as a result, projects must pass market-based credit and project quality hurdles. The program is flexible, allowing for a variety of project types and sizes and for geographic concentration or dispersion. This passes project decisions down to a more local level, allowing NMTC allocatees like Self-Help to direct the subsidy toward projects they believe will provide the most positive impacts and also toward project types or geographies that are in keeping with their expertise, mission and goals. The ability to focus investment on downtown Durham allowed for an array of project beneficiaries, from community facilities directly benefiting low income residents to large real estate development catalyzing urban revitalization. The NMTC program, a carefully constructed and modest federal subsidy program, has made a measurable difference in the pace and shape of redevelopment in downtown Durham. It is effectively leveraging limited public monies to spur significant private investment. From the perspective of downtown Durham, the NMTC program is making a positive, and catalytic, impact.

Sources

Thanks go to Downtown Durham, Inc. for their tracking of downtown business indicators. Much of the information herein is drawn from their datasets. Thanks also to the Durham City and County Planning Department and the Durham County Tax Assessors Office for providing the data they collect to assist in our investigation. Alan Delisle, Bill Kalkhof, Malcolm White, Chris Sears, Keitt King, Laura Benedict, Julia Webb Bowden and Peter Donlon provided thoughtful opinions about the scope and shape of downtown Durham's recent transformation. Two fantastic interns, Amanda Roberts and Andrea Arnold, provided research support. Finally, thanks to the six CDEs who provided us with their CIIS report data: SunTrust, Enterprise, National Trust, Renaissance and US Bank and to the CDFI Fund's New Markets staff for their assistance in obtaining this information. We consulted the following sources in developing this report in addition to the sources cited throughout the text:

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² CDFI Fund Report, "NMTC Program: Activities Financed through 2006" and US 2000 Census data. Total investment numbers compared to total population by place to calculate per capita investment. Durham's relative ranking for total NMTC investment hit its high in the early years of the program, mostly due to condensed investment in the American Tobacco development.

³ Qualified NMTC borrowers must meet geographic rules requiring real estate and services are primarily located in census tracts with poverty rates over 20% and median incomes less than 80% of area median income. Areas of "targeted distress," like downtown Durham, have poverty rates over 30%, median incomes less than 60% of area median income, unemployment rates at least 1.5x the national unemployment rate, or other targeted distress criteria.

⁴ CDFI Fund report, "NMTC Program: Activities Financed through 2006"

⁵ Bull City Rising, <http://www.bullcityrising.com/2010/01/project-2010-downtown-revitalization-takes-off-7.html>

⁶ Triangle Business Journal Space Reports

⁷ Business License/Collections/False Alarm Division, Finance Department, City of Durham. 2008 numbers only include licenses issued through 6/30/2008. All businesses that are not prohibited by state statute from privilege license taxation must apply for a business privilege license annually.

⁸ We requested data from an annual report CDEs submit to the CDFI Fund, a division of the US Treasury Department. The report lists all projects with an outstanding balance during the year and includes a variety of information about each project (including property information, loan information and project information). The most recent fiscal year available at the time of this project was for FY2007.

⁹ GAO Report. January 2010. "New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified."