

## The Fine Print: How Dominion overcame \$6M setback for Schmidt project

by Mark Anderson

Published: November 28th, 2012

When Dominion Development and Acquisition [closed this month](#) on financing for its \$6.2 million Schmidt Brewery acquisition, it was a welcome turnaround. Just five months ago, the Plymouth-based developer's 5-year-old quest to redevelop the historic site hit a wall.

Even a year ago, [Dominium](#) appeared ready to close on the project after signing agreements with a tax credit investor that secured the major financing piece in its planned \$122 million redevelopment in St. Paul.

The developer expected to start converting the former Schmidt brew house and bottling house in spring 2012 into 260 affordable apartments and townhomes designed as work-live space for artists. The development will go up on a 7.5-acre site at 882 Seventh St. W.

But in July, Plymouth-based Dominion learned that it had lost an authorization from the U.S. Department of Housing and Urban Development, which would have increased the value of the low-income housing tax credits that anchored the financing package. Despite several failed attempts to develop the site over the last two decades, HUD concluded that it didn't qualify as "difficult to develop" and didn't earn the higher-value tax credits.

HUD's decision erased about \$6 million in equity.

"That may not sound like a lot when you're looking at a \$122 million total cost, but to keep the equity in line with the costs we needed to go back and recast the whole deal," said Mark Moorhouse, a senior vice president with Dominion.

Moorhouse and his team weren't about to give up on a project that they'd been laboring on since 2007.

"It's such a landmark in St. Paul," said Owen Metz, senior development associate at Dominion. "We've felt all along like we could get something done that would work here and contribute to that neighborhood. We didn't give up partly out of stubbornness, too."

The major part of the financing package comes from state and federal historic tax credits and federal low-income housing tax credits. Together, those will deliver about \$70.4 million to the project, and California-based syndicator [Alliant Capital](#) lined up commitments last year from an unnamed investor to buy the entire tax credit package.

But after this summer's HUD disappointment, Dominion developers decided to shop the Minnesota historic tax credits one more time on the hunch they could find a higher bidder.

It paid off. U.S. Bank's St. Louis affiliate, U.S. Bank Community Development Corp., agreed to pay 96 cents for each dollar of credit, seven cents more than the previous bidder, Metz said. That contributed \$1.2 million to fill the gap.

The more aggressive bid was probably the result of the long relationship between the developer and bank, said John Nolde, a Minneapolis-based Winthrop and Weinstine lawyer who worked for Dominion on the project. "But U.S. Bank is also very efficient in the way they run things, and that enables them to operate at lower margins," he said.

Dominium filled a little more of the gap by convincing Ramsey County assessors that the amenities in



Construction will start soon on the conversion of the Schmidt Brewery's brew house and bottling house in St. Paul into 247 affordable artists' apartments and 13 townhomes. (Staff photo: Bill Klotz)

the [Schmidt Lofts](#) would push the project's value higher than the assessor's previous estimates. That added another \$500,000 in equity from St. Paul's tax increment financing commitment, pushing St. Paul's total TIF commitment to \$2.95 million.

Dominium wrote off another \$2.5 million of the shortfall by reducing its developer fees by that amount to \$16 million. Metz said those fees always act as a contingency fund for a project.

And it filled much of the remaining hole by increasing its permanent loan from life insurance company MassMutual Financial by \$1 million, pushing out the amortization period from 30 to 35 years.

Ramsey County and the Minnesota Department of Employment and Economic Development also donated a combined \$972,000 to the project to help pay environmental clean-up costs on the site.

Minneapolis-based U.S. Bank played several key roles in the financing package. In addition to the tax credit investments, the bank is providing a \$48.2 million construction loan.

It also structured a novel lending tool with MassMutual, which joined the project at U.S. Bank's request and provided a \$21.9 million permanent mortgage.

In order for Dominion to lock in the current low interest rates with MassMutual, U.S. Bank agreed to provide a \$24.3 million letter of credit, transferring the construction period risk from Mass Mutual to the bank.

That fixed Dominion's interest rate at 4.45 percent on the 18-year term and enables the developer to avoid an interest rate risk charge that could have pushed its rate above 5 percent, Metz said.

The bank declined to disclose interest rates on its two loans.

"This is definitely a challenging project," said John Nolan, senior relationship manager at U.S. Bank who worked on the transaction.

The physical complexity of converting a century-old brewery to housing, the long construction and lease-up phases, and the relatively new Minnesota historic tax credits, all added complexity and risk.

That risk was mitigated by the bank's 18-year relationship with Dominion, and by the fact that they worked together on four recent historic artists' housing projects in the Twin Cities and St. Louis, Nolan said.

"Our specialty is not underwriting artists' housing. What we try to understand is our client's vision and what they're able to accomplish," Nolan said. "We know how long they've been working on this project with their designer and builder, and we know that they can do this. That all gives us comfort."

### **Paying the bill at Schmidt**

Tax credit investors: \$70.4M

(U.S. Bank's Community Development Corp; Alliant Capital)

MassMutual: \$21.9M

Dominium: \$18.6M (deferred fees)

City of St. Paul: \$4.5M

Metropolitan Council: \$3.6M

Deferred seller note\*: \$2.5M

Minnesota DEED: \$669,000

Ramsey County: \$303,000

*\*The Schmidt property owner BHGDN LLC deferred \$2.5 million of its sale price until the project is completed.*

*Source: city of St. Paul*

**for-schmidt-project/**