

Team 16

FIVE
HUNDRED
SENECA



Source: Velux USA

*Colvin Case Study Challenge Submission #16
November 15, 2016*

PROJECT SUMMARY

A well-known adage in real estate development is “the greater the risk, the greater the return.” This is certainly the case for 500 Seneca, a mixed-use project involving the adaptive re-use of a 320,000-square foot, century-old factory building in a blighted neighborhood in Buffalo, NY. In redeveloping 500 Seneca, a partnership of the Savarino Companies and Frontier Development Initiatives took a great number of risks and overcame a variety of obstacles to transform a historically significant, neglected building into an award-winning, fully-occupied one.

At a cost of more than \$44 million, Savarino and Frontier converted the former manufacturing complex into 97 market rate apartments and 130,000 SF of commercial space. Combining the historic with the latest trends and amenities in its plan for the property, the developers transformed a deteriorated building into a vibrant mix of retail, commercial and residential space. The site’s age and condition permitted the use of historic and brownfield rehabilitation tax credit financing, in addition to traditional financing tools. Despite its challenges, 500 Seneca was so well-received that it leased up within eight months of completion.

The success of 500 Seneca has spurred plans for the subsequent redevelopment of other former industrial buildings in the surrounding neighborhood. The developers’ unique use of a Payment In Lieu of Taxes (PILOT) Increment Financing (PIF) tool to finance surrounding streetscape improvements has brought further benefits to the neighborhood and to the city as a whole.



Source: www.buffalorisng.com

PROJECT BACKGROUND

CITY OF BUFFALO

Buffalo, New York, is a dynamic city with 260,000 inhabitants. Approximately 8,300 people live downtown and another 120,000 reside within a 3-mile radius of the core. Buffalo is within a geographic area covering much of the American Midwest, also referred to as the “Industrial Heartland of North America.” At the intersection of the Erie Canal, Lake Erie and various railroad routes to the Midwestern states and the port of New York City, Buffalo experienced significant growth throughout the 19th and 20th centuries. The historic industrial heartland that once functioned as the hub of American industry has today become a region that is largely characterized by the presence of old factory towns, post-industrial skylines and other signs of economic obsolescence.

URBAN REVITALIZATION

Like comparable legacy cities located in the industrial heartland such as Cleveland and Pittsburgh, Buffalo is experiencing a renaissance, primarily Downtown, which has been spreading to other areas of the city.

In 2009, the Urban Design Project of the University at Buffalo produced an award winning set of urban plans for the city of Buffalo. The plans contained detailed comprehensive and regional strategies for the city including plans for Buffalo’s waterfront, transportation improvements, improvements to the city park system and guidance for historic preservation. The stated recommendations in those plans emphasized that in order to meet the needs of city residents it would be necessary to strategically prioritize investment by preserving housing stock through rehabilitation; creating density increasing the population of the city; and contemporaneously working toward the increase of employment opportunities within the city.

Buffalo’s renaissance is not simply due to the efforts of local government comprehensive plans. It is also being made possible in part due to economic development programs and incentives facilitated by city, state and federal governments. The “Buffalo Billion”, Governor Andrew

PROJECT QUICK FACTS

Name: 500 Seneca

Location: Buffalo, NY

Project Type: Mixed use

Site size: 6 acres

Land uses:

Residential: 113,000 SF

Office: 150,000 SF

Retail: 16,000 SF

Parking: 450 spaces

Special features: Adaptive reuse; historic preservation; federal and NY State historic tax credits; brownfield remediation/tax credits, PIF (PILOT Increment Financing)

Website:

www.500seneca.com

Project address: 500 Seneca Street, Buffalo, NY 14204

Developer: 500 Seneca Street, LLC (partnership between Savarino Companies & Frontier Development Initiatives LLC)

Owner: 500 Seneca Street, LLC

Architect: Chantreuil Jensen Stark (CJS) Architects, LLP

General Contractor: Savarino Construction

Construction

Debt Financing: \$24 million, Community Preservation Corporation, with \$9 million Citibank participation

Permanent

Debt Financing: \$22.88 million, Community Preservation Corporation (NYS Common Retirement Fund), with SONYMA guarantee

Historic Tax Credit Syndicator:

US Bancorp Community Development Corporation

Cuomo’s 2012 initiative to promote economic development throughout upstate New York, has committed \$1 billion in grants and tax breaks to parties investing in city development projects, and has been another catalyst for Buffalo’s transformation. Loan programs offered by economic development agencies, like Buffalo Urban Development Corporation, Empire State Development Corporation, Erie County Industrial Development Agency and others, continue to have a positive impact on real estate development in the city. Additional tax credit and incentive programs used to finance development activities throughout Buffalo also motivate developers both within the city and from other regions to explore opportunities for investment.

HYDRAULICS DISTRICT

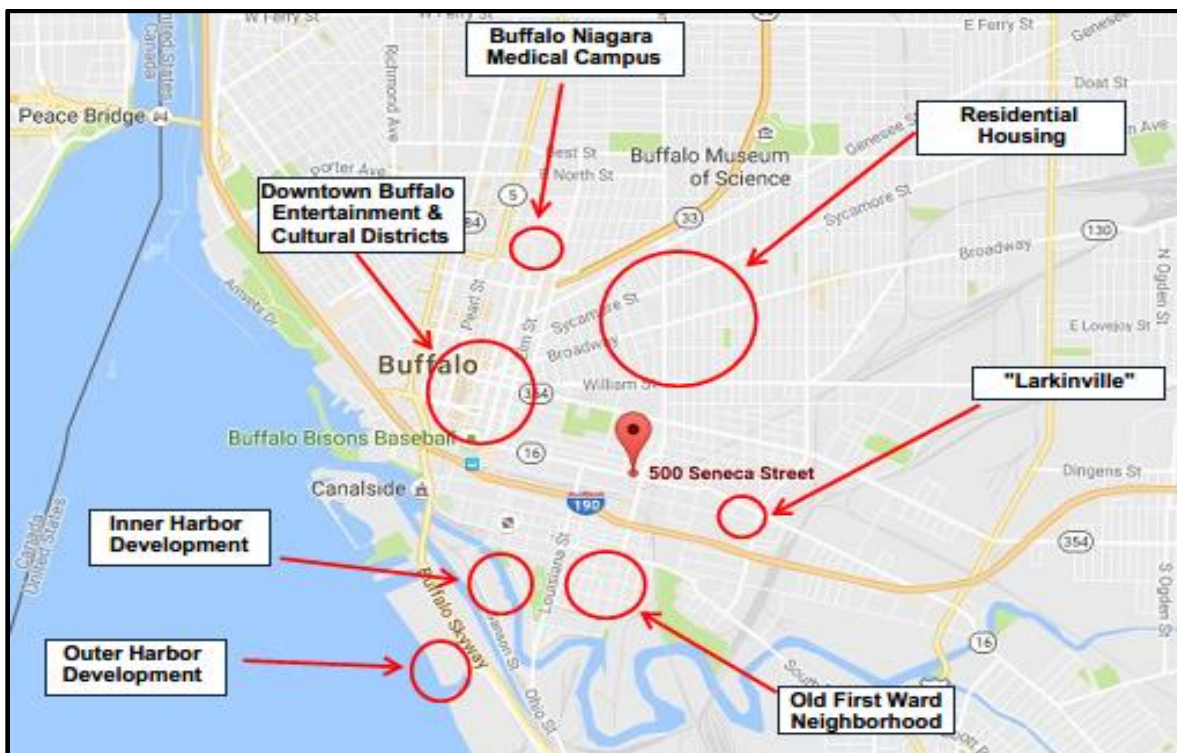


Figure 1: Map – 500 Seneca & Surrounding Area.

500 Seneca is located at the edge of “the Hydraulics,” Buffalo’s oldest manufacturing district. At one time, the Hydraulics was a booming industrial neighborhood, with employee housing interspersed among large manufacturing facilities and commercial buildings.

Due in large part to the efforts of Buffalo’s private sector, the Hydraulics has witnessed a radical transformation over the past several years from a post-industrial no-man’s land to a commercial, retail, and recreational hub. Not far from 500 Seneca, two large buildings which formerly housed the Larkin Soap Company have recently been converted to office space, and many smaller buildings have followed suit. Public amenities, including a gathering space which

opened in 2012 called Larkin Square, have been added to the neighborhood, now also referred to as “Larkinville.” Several restaurants have been attracted to the area as well.

500 Seneca is relatively close to the downtown entertainment and cultural districts of the city as well as the new Buffalo Niagara Medical Campus. North of the development, there are approximately 300 affordable apartments built between 2000 and 2004 and south is an older residential community, the Old First Ward district (See Figure 1).

A crucial issue to be considered by the developers was that the location of the development was not as desirable as the newer products being built in the heart of the city, or to the north, or to the planned residential development on the inner and outer harbor (See Figure 1). Also, the surrounding residential neighborhoods were all categorized as low/affordable income housing. How would the commercial/retail portions of a large office building be supported without the required density and critical mass of tenants and residents? How would the developer entice businesses and individuals to lease office and/or residential units in a less than desirable location?

The location, although it appeared to some to be detrimental to the development, actually proved to be beneficial. Buffalo’s renaissance resulted in a flood of downtown development, and many developers expressed resistance to undertaking projects located outside of the core. 500 Seneca is ideal for those businesses and residents who don’t want the negative impacts of city life, but still desire to be close enough to access the city benefits.



During the 25-year period from 1909 to 1934, the F.N. Burt Company was led by Mary R. Cass. Taking the helm at a time when she could not yet vote, factory girl-turned general manager “Miss Cass” was one of the first female heads of a US corporation. Ms. Cass displayed a keen marketing and business acumen which drove F.N. Burt’s exponential success during this period. In addition, Ms. Cass was one of the founding members of the Zonta Club, a women’s advocacy group that began in Buffalo, and today has more than 30,000 members in 63 countries.

THE PROPERTY

HISTORY



From 1901 to 1959, the building at 500 Seneca was home to the F.N. Burt Company, a manufacturer of paper boxes used as consumer packaging by the pharmaceutical, cosmetic, candy, and tobacco industries. At its economic peak in the mid-20th century, F.N. Burt employed 2,500 people and produced 4 million boxes per day.

Figure 2: The F.N. Burt Building.
Source: www.buffaloah.com.

Constructed in 1900, and altered and expanded nine times in the subsequent three decades, the F.N. Burt Company building embodied both Buffalo's earlier economic vitality and the evolution of American manufacturing design in the first half of the 20th century. The original part of the building, constructed between 1900 and 1910 in the brick and pier style typical of the day, is illustrative of mill type manufacturing facilities of the early 20th century. The major addition of 1926-1927, built of reinforced steel and concrete, was an excellent example of the modern concrete "daylight" factory design of that later period (see Figures 2 and 3).

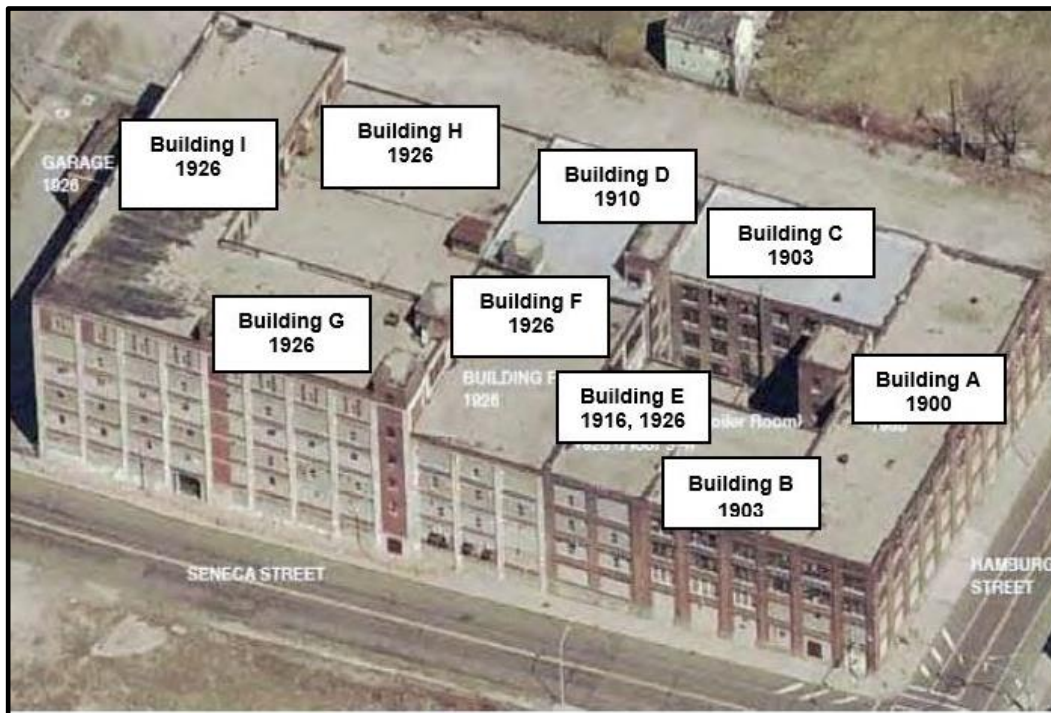


Figure 3: 500 Seneca St. Building Stages. Source: CJS Architects LLP

ACQUISITION

In 2010, when the partnership of Savarino and Frontier purchased 500 Seneca, the 6-story, 320,000 SF building had been vacant for 6 years, and the utilities decommissioned for over a year. New Era Cap Company, the building's owner, had consolidated all its manufacturing operations at its suburban location in 2004. Even from 1986 to 2004, when New Era was actively manufacturing in the building, large sections had been unused. In fact, since as early as 1959, when the F.N. Burt Company decamped to the suburbs, much of the building had been vacant or, at most, utilized for storage.



Figure 4: 500 Seneca St., before redevelopment. Source: CJS Architects LLP

So, at the time of its purchase in 2010, parts of 500 Seneca had been unused for over 50 years. The earliest, brick-and-pier-constructed portion on the building's eastern end was so deteriorated that it appeared it would have to be demolished. Neglect and disuse had taken its toll on the entire building (see Figure 4). In addition, the prior use of industrial solvents in the building had contaminated the underlying soil, rendering it a brownfield.

PROJECT DEVELOPMENT TEAM

SAVARINO COMPANIES

Savarino Companies acted as primary developer and general contractor for the 500 Seneca project.

A lifelong Western New Yorker, Samuel Savarino had been in the construction business for decades when, in 2001, he founded his own construction and development firm. Over the past fifteen years, Savarino Companies has provided general contracting, construction management, and development services for many diverse projects throughout the region, including sports and recreational facilities, educational and institutional buildings, and affordable and senior apartment units. Among his projects in the City of Buffalo are several adaptive reuse projects involving historic commercial buildings. Mr. Savarino is responsible for the redevelopment of a number of buildings in the city's historic Cobblestone District, and, in 2008, he saved a 160-year old West Side livery stable from the wrecking ball and converted it into 14 affordable housing units.

500 Seneca would be the Savarino Companies' largest adaptive reuse project to date. Mr. Savarino was particularly interested in the property because his family had previously lived in the neighborhood, and he had spent time there while growing up. In addition, several relatives had worked in the building when it was an operating manufacturing facility.

FRONTIER GROUP OF COMPANIES

Also founded in 2001 by brothers David and Dennis Franjoine with partner Robert Zuchlewski, The Frontier Group of Companies is in the business of reusing and re-purposing commercial and industrial buildings. Frontier's services include industrial demolition, industrial dismantling, asset recovery, equipment repurposing, industrial clean-up, site remediation, brownfield redevelopment, facility acquisition, real estate development, energy exploration, energy production, and materials recycling.

When approached by a broker about 500 Seneca, Frontier's principals had spent enough time evaluating old industrial buildings to recognize its value. The building's proximity to downtown and its location in the Hydraulics, an up-and-coming mixed use district, reinforced this conviction. Frontier recruited Savarino, a partner on previous projects, to join them as the primary developer of the building.

MARKET RESEARCH & EVOLUTION OF STRATEGIC VISION

INITIAL PROJECT CONCEPT

A mixed-use design was not what Savarino and Frontier originally envisioned for 500 Seneca. The initial concept was to remediate the site's brownfield conditions, demolish the oldest, eastern section of the building and convert the 1927 (concrete and masonry) portion to Class B office space. The site previously occupied by the eastern building portion would provide parking for the office tenants.

OFFICE MARKET

Based on their prior projects in the area and their knowledge of Buffalo's office market, the partners were confident that they could attract tenants to the 150,000 SF of Class B office space they planned to develop in the building. They envisioned lease rates of \$13 to \$15/SF.

Historic market data provided evidence of demand for office space in Buffalo, as illustrated in Figure 5 by the consistent decline in the vacancy rates for all office classes between 2011 and the middle of 2013. It should be noted that the uptick

in office vacancy rates from mid-2013 onward was a direct result of One Seneca Tower, whose previous owners had filed for bankruptcy after 95% of their tenants vacated the building. This brought approximately 900,000 square feet of office space online, which greatly impacted the office statistics for the city. The building remains vacant today, though it was recently purchased by a developer from Washington, D.C.

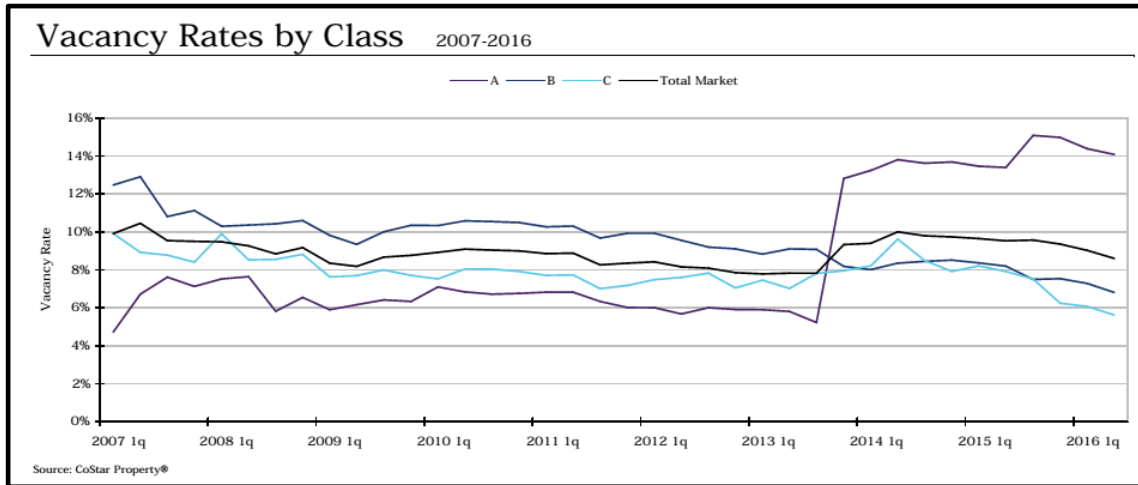


Figure 5: Buffalo Vacancy Rates by Office Class. Source: CoStar Property.

The increase in office vacancy due to One Seneca Tower, however, did not deter Savarino and Frontier from moving forward with plans for the development of class B office space at 500 Seneca.

RESIDENTIAL MARKET

In late 2013, Frontier Development commissioned a residential market study for another, albeit smaller, building it owned in the Hydraulics District which it planned to convert into apartments. That study's findings regarding the demand for residential development in the neighborhood ultimately impacted the plans for 500 Seneca.

The study revealed that the residential rental market could support the addition of new apartments in this area of the city. Critical to the success of a residential development, however, would be the quality of the final product, which must be higher than that of other housing options in the area, in terms of finishes used, apartment design layout and services offered in the apartment building.

Savarino and Frontier further considered other market factors set out in the study during evaluation of the project, relating to both the broader Western New York markets and to the more specific area analysis of the City of Buffalo. Some of these factors included: location, achievable rent levels, physical characteristics, demographics, population trends, employment patterns, product positioning,

competition, market draw area, Canadian influence on the real estate market, government influence and tax rates and residential patterns.

The study further predicted average monthly rents of \$1,150 to \$1,675 and concluded that a significant amount of targeted and strategic marketing would be required to achieve 100% occupancy at these rates.

Though the residential market study was originally commissioned in consideration of an additional 22 new residences, Savarino and Frontier were convinced that the rental market could absorb more residential units. It was risky but the decision to develop 97 units at 500 Seneca was one that they would not regret.

RETAIL MARKET

Recognizing that there existed a market gap in retail supply in the area, the developers initially planned to introduce community-oriented retail, such as a coffee shop or a small market, for use by the tenants and the local community. At the time, given the demographic of the surrounding residential area, there was no specific demand for retail, although restaurants had begun to appear in Larkinville. In order for retail establishments to thrive, it was not only necessary to have adequate demand, but also a high level of density. An isolated location like 500 Seneca needed just enough retail uses to satisfy the limited demand that would materialize based on office and residential tenancies. With this in mind, Savarino and Frontier undertook to provide basic retail amenities that would be successful, regardless if those amenities were used by the tenants of the building alone, or by the local community.



Source: Savarino Companies

**CONCEPT CHANGE:
CLASS B OFFICE TO
MIXED USE**

The evolution of the developers' strategic vision from strictly office to mixed-use was influenced by one more factor, that of parking. Access to this neighborhood via public transit is limited to several bus lines. The great majority -- if not all -- of the building's office tenants would arrive there via automobile. Thus, providing

"Little by little, the building opened itself up to us."

— Sam Savarino

enough secure parking was key to the success of the early office project. The original solution was to demolish the dilapidated eastern building section and replace it with parking. However, over time, the developers were able to purchase alternative parcels close to the

building which could be used for parking. In addition, they entered into a long-term lease with the City of Buffalo for parking just across Seneca Street (See Figure 6).

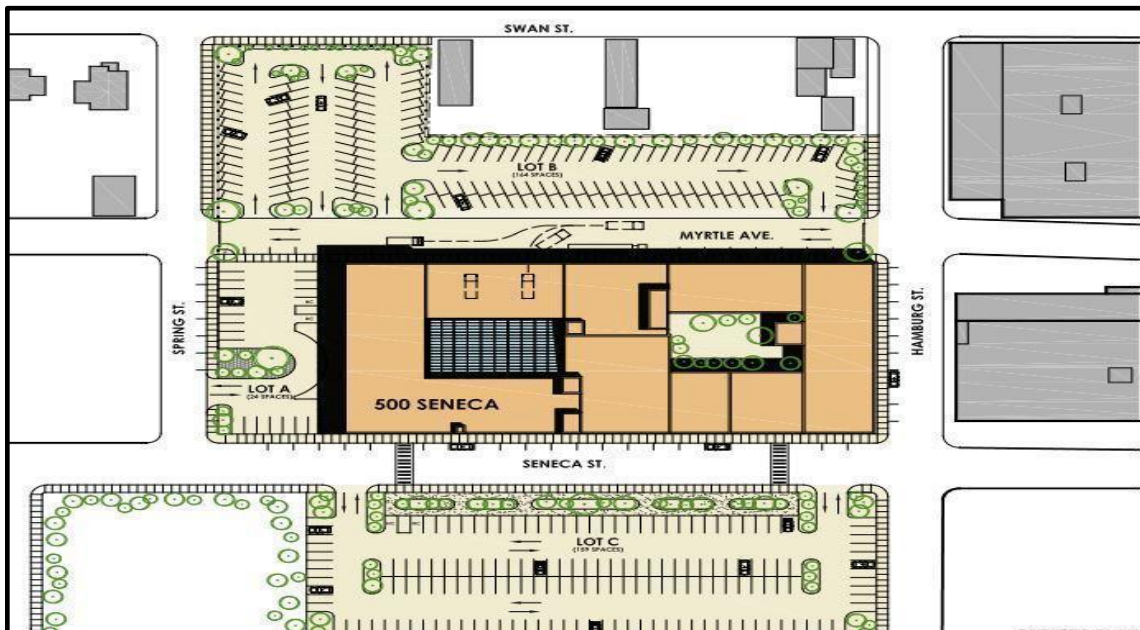


Figure 6: 500 Seneca St. Site Plan (Source: CJS Architects)

Once the issue of parking was resolved, demolition of the eastern section was no longer necessary, and the developers decided to stabilize that part of the building and preserve it as a "relic" of Buffalo's industrial and architectural heritage. However, once the market study commissioned by Frontier demonstrated unmet demand for residential units in the Hydraulics neighborhood, they began to envision apartments in the building. If the class of apartments stipulated in the

market study were to be introduced into the product mix, however, Class A office space would have to replace Class B.

Financing played a critical role in the project strategy as well. Despite their best efforts, the developers were not able to attract a local lender to finance construction of the project. Their best prospect was the Community Preservation Corporation, which was interested in the concept of bringing additional residential units to a blighted neighborhood. In fact, the CPC was willing to underwrite a greater portion of the project when residential units made up at least 50% of project.

In this way, as market information and financing became available to them, the partners' strategy for the building evolved into a mixed-use concept.

PLANNING & COMMUNITY ENGAGEMENT

From the preconstruction phase, Savarino and Frontier strategically and thoughtfully performed outreach to various city officials, stakeholders and community leaders. All stakeholders welcomed this new development in the belief that the building would activate the surrounding area and bring about further positive neighborhood change. Very few variances were required to see the project to fruition, and all necessary approvals, including preliminary design, architectural plans, engineering, landscaping, traffic, noise, and air quality, were granted by the City Planning Board without incident.

More challenging however, were the restrictions placed on the development due to the historic nature of the building and to the need to remediate environmental hazards that existed on the land parcel. For those issues, which often result in excessive cost overruns, approvals were required from the New York State Department of Environmental Conservation (DEC) and the New York State Historic Preservation Office (SHPO).

PROJECT BUILD OUT

ROLE OF BUILDING HISTORY & BUILDING REHABILITATION

Due to its historic and architectural significance, 500 Seneca is listed on the National Register of Historic Places. This status allowed the developers to raise equity through the sale of both state and federal historic tax credits, without which the project could not have been achieved.

For this reason, the redevelopment of 500 Seneca was shaped to a great extent by attention to its architectural history. All alterations to the building had to be

approved by both the Department of the Interior (National Park Service, or NPS) and SHPO. Non-conformance to these standards would have jeopardized the crucial federal and state historic tax credits.

The oldest, eastern section of the building required structural repairs, and the entire exterior of the building underwent masonry restoration. Selective interior systems and walls that were not considered historically significant were demolished. New MEP systems were installed throughout the building. The roof was repaired and sections replaced where necessary. Concrete masonry units (CMU's) were removed from many of the windows, and all windows were replaced with historically appropriate ones. In the building's 3-story atrium, skylights which conformed to NPS regulations were installed. In addition, all tenant build outs were consistent with NPS standards.

In many ways, the building's history made it a natural candidate for conversion to mixed-use. 500 Seneca retains the imprint of the multiple alterations and expansions since its original construction. The fenestrations, circulation pattern, and firewall separation resulting from these expansions create a natural layout for a mixed-use building.

In addition, the design features of these expansions, including substantial daylighting, penthouse office suites (part of the 1926-27 expansion), large floorplates, an exterior courtyard, and 3-story interior atrium, make the building very attractive for commercial and residential tenants alike (see Figure 7 for mixed use floor plans).

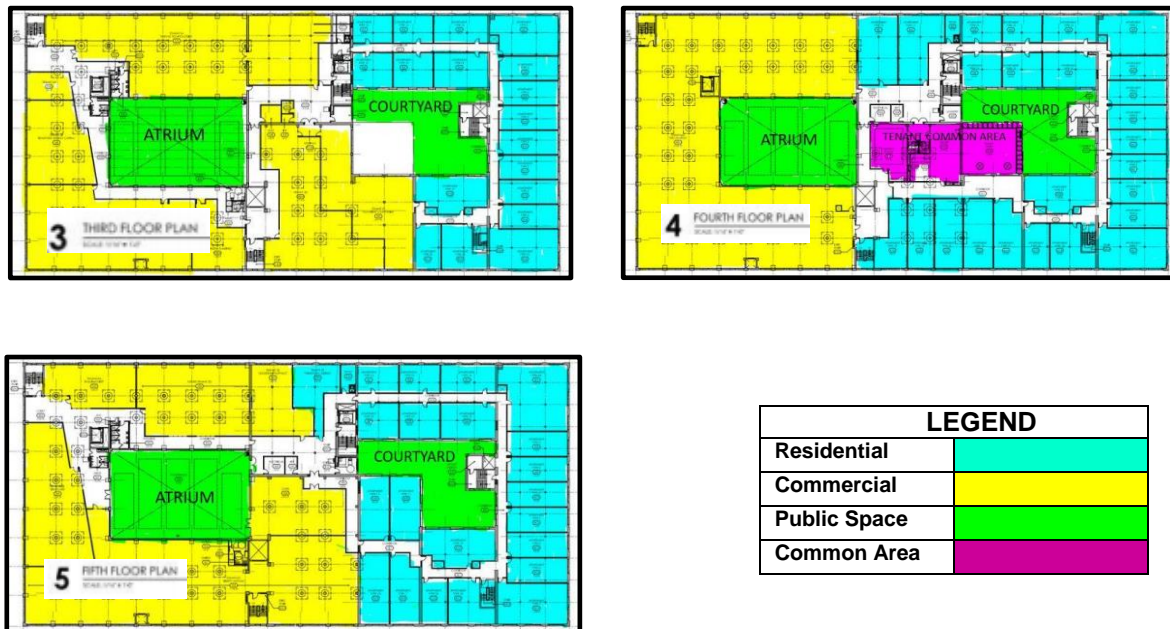


Figure 7: 500 Seneca St. Floor Plans Floors 3, 4 & 5 (Source: Savarino Companies)

The building's unique layout provided a number of challenges for its redevelopment, however. In many sections, the redesign took advantage of the building's natural divisions and firewalls; in others, however, these features made redevelopment especially difficult. In those building locations where F.N. Burt had built 6' thick brick fire barriers which had to be broken through, it was quite difficult indeed. In these areas, construction costs exceeded budget.

During tenant buildout, the developers paid significant attention to the historic nature of the building as well. Many of the commercial offices feature furniture constructed of wood, iron and other materials salvaged from it. Large reproductions of original photographs of the building and its occupants adorn the corridor walls. Signage at doorways to residential units include the logo of the F.N. Burt Company.

**RESIDENTIAL UNITS:
"HYDRAULIC LOFTS"**

The residential portion of the building, re-named the "Hydraulics Lofts", was designed to house 97 units in 22 different layouts (see Appendix 3). The units have been outfitted with upgraded finishes and appliances, and unit rents include access to one parking space. Unit sizes range from 600 to 1,500 square feet for studio, one- and two-bedroom loft space. Rents are competitive and range from \$815 to \$2,000 per month (\$1.20 - \$1.78/SF). The Hydraulic Lofts are currently operating at 100% occupancy.



Source: Don Chochran, Buffalo News

In addition to parking, residential tenant amenities include an interior common area, an exterior landscaped courtyard, fitness center, bicycle storage and repair, and general climate-controlled storage. Tenants may also make use of the retail amenities in the building (see list in commercial tenants below).

OFFICE & COMMERCIAL SPACE

The commercial and office rents for 500 Seneca have far exceeded the developer's expectations. The predicted rate per square foot was \$13 - \$15 per square foot for Class B. Today office space rents for as much as \$24 per square foot, and the commercial and office space in the building is at 93% occupancy. Modified gross leases are for terms ranging from 3 -10 years.



Source: Savarino Companies

COMMERCIAL TENANTS

500 Seneca currently has 17 office tenants. National tenants include Liberty Mutual, Oracle, and KPMG. In addition, both Savarino Companies and Frontier Development Initiatives have offices in the building.

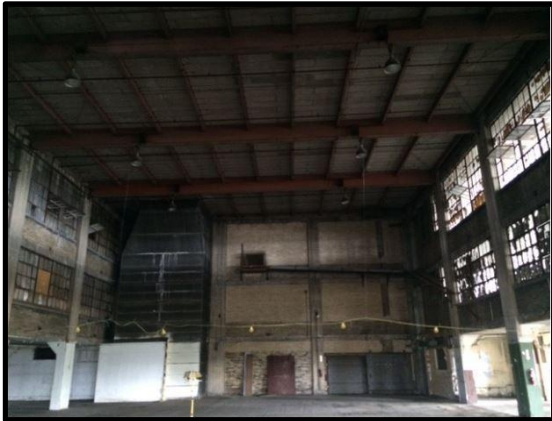
Retail tenants include a lunch and breakfast cafe, therapy spa and chiropractor, vodka and gin distillery, hair salon and barber, canine day care and training center, and a bike repair and storage facility. Additional retail uses currently in the planning stages are a wine cellar and tasting room, a skin care salon and a full service upscale bar and restaurant.

Liberty Mutual

The story behind how 500 Seneca attracted its first commercial tenant is illustrative of the interest generated by the building and its developers. In February 2015, Liberty Mutual was seeking space for a new East Coast Office and had included Buffalo on its search committee's itinerary. 500 Seneca was given a 20-minute time slot for a tour. February is not the best month to visit Buffalo, and the building was an all-out construction site. When the committee arrived late and in need of a restroom, the developers pointed to an unheated Port-a-John out in the parking lot and assumed that the committee would quickly move on to its next appointment. Instead, the 20-minute time slot extended to 2 ½ hours, and Liberty Mutual now occupies 13,645 SF on the 3rd floor under the terms of a 5-year lease.

THE ATRIUM

The developers planned to convert an interior storage and distribution space into a 3-story indoor atrium with skylights as public space for the building's tenants. The atrium has become a key centerpiece of the project, especially since cherry hardwood floors were discovered under a 1 ½" layer of asphalt in the course of construction. Now this space, onto which once-boarded up windows open, is a -- if not **the** -- defining feature in the building, not only as an amenity for tenants, but as a gathering and event space for the general public as well.



Atrium (2010) Source: www.veluxusa.com

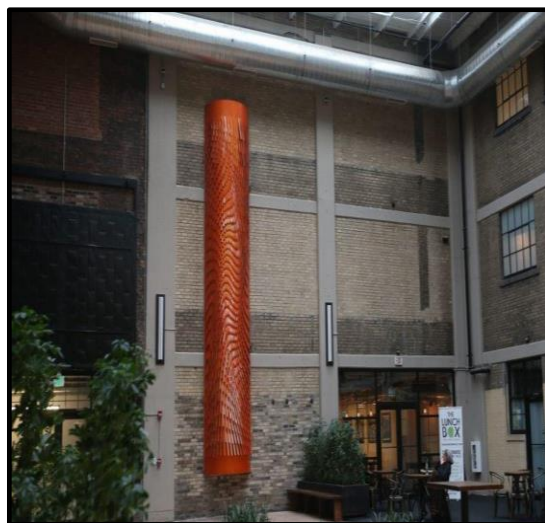


Atrium (2016) Source: Savarino Companies

PUBLIC ART

A beautiful addition to the atrium is the 25-foot "Weeping Wall" public art sculpture commissioned by the developers from artist Shasti O'Leary Soudant (See photo to the right.) In fact, the partners' vision for 500 Seneca is for it to act as a center for the arts of sorts. They have committed to providing a live work artist studio as well as rent free space for art-related projects in other areas throughout the building. Two planned gallery spaces include the main lobby and a former boiler room that, with its high ceilings and preserved relics from the original manufacturing company, is perfect for exhibiting art.

There is little financial benefit to this focus on the arts; however, it demonstrates the developers' dedication to the community and illustrates their



Source: Savarino Companies

belief that development is not just about bringing jobs and residences to a neighborhood, it is also about bringing art to the community.

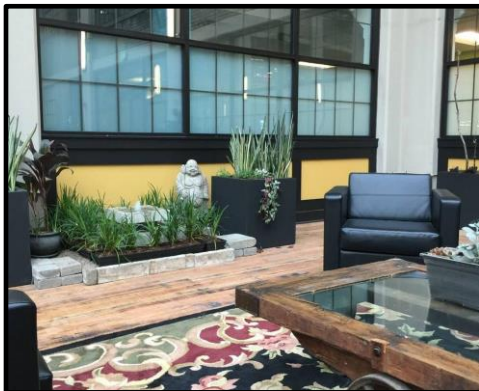
ENVIRONMENTAL DESIGN & SUSTAINABILITY

Many sustainable features were incorporated into the design of 500 Seneca. The redevelopment of the building is a sustainable feature in and of itself, since most materials in the building were treated and reused. The building still contains thousands of square feet of original hardwood floors and many original fire doors. Those that couldn't be reused in the physical structure of the building have been converted into alternative uses.

The most prominent sustainable feature is the variant refrigerant flow heating and ventilating system (VRF HVAC system). This state-of-the-art HVAC system features a modular design which results in superior energy savings and gives tenants the option of air conditioning or heating only those zones in use.

“The sense of integration with the outdoors is significant and makes for a pleasant living and working experience.”

—Luke Cusack



Source: Savarino Companies

The building is designed such that there is an abundance of natural light both in exterior facing and interior office spaces and apartments. The artificial light source throughout the building is energy efficient which not only reduces operating costs for the tenants but also conserves energy.

The landscape architecture also incorporates sustainable features both in the exterior courtyard and surrounding the parking lots.



Source: Savarino Companies

Bioswales and exterior vegetation and trees manage storm water runoff and other contaminants from the parking areas. The exterior courtyard and terraces were built using light colored flooring tiles and roofing cement which mitigates the heat island effect created by large urban structures.

PROJECT MARKETING

500 Seneca is managed by Savarino Development. Property Manager Luke Cusack admitted that only a minimal amount of money was allocated in the original budget for the purpose of marketing the building. In fact, the building garnered so much attention through news articles, press releases and social media that it was not necessary for a marketing strategy or campaign to be implemented.

PROJECT FINANCING

FINANCING & INCENTIVES

Costs for 500 Seneca amounted to over \$44 million. The building's redevelopment was achieved through a combination of debt and equity financing, public incentives and grant funding (See Appendix 1, Sources and Uses).

The partners themselves contributed a significant amount of equity to the project, particularly in the months prior to receiving commitments for both construction and permanent debt financing. Ultimately, they did obtain both, and in addition to traditional debt and partner equity, the project was financed using a healthy influx of historic tax credit equity, as well as brownfield rehabilitation tax credit equity, and a grant from the local electric utility.

CONSTRUCTION LOAN FINANCING

The Community Preservation Corporation (CPC) provided \$24 million in construction debt financing for the project, in which Citibank participated with a \$9 million loan. In addition, Savarino Companies provided a \$2.2 million construction loan.

PERMANENT LOAN FINANCING

The CPC, in conjunction with the New York State Common Retirement Fund, also provided almost \$23 million in permanent financing (30-year term; 4.42% interest rate). This financing was supported by a SONYMA loan guarantee, a critical credit enhancement.

EQUITY FINANCING

HISTORIC TAX CREDITS

In addition to the equity provided by the partners, \$10.8 million in equity was raised through the sale of federal (\$7.6 million) and state (\$3.2 million) historic tax credits to US Bancorp Community Development Corporation (USBCDC). USBDC also purchased 20% of the project's Brownfield Redevelopment Tax Credits valued at \$160,000, for a total equity investment in the project of \$11 million.

Historic tax credits are a particularly powerful vehicle for raising equity in New York State. In addition to the 20% federal historic tax credit (FHTC), 20% of all qualified rehabilitation expenses are eligible for state historic tax credits (SHTC's) as well (subject to a \$5 million cap). This significant source of equity was critical to the redevelopment of 500 Seneca, as it has been for so many other projects in Buffalo in the past 10 years.

BROWNFIELD REHABILITATION TAX CREDITS

Brownfield rehabilitation tax credits also contributed almost \$800,000 in equity to the project. Because a portion of the site evidenced soil contamination from previous industrial uses, the developers were entitled to tax credits totaling 28% of eligible site preparation costs and 18% of eligible tangible property costs (capped at 3x total site preparation costs). 20% of these tax credits were also sold to USBCDC.

NATIONAL GRID

National Grid, the public electric utility, provided a \$300,000 grant through its Commercial District Revitalization Program.

PROJECT IMPACT

STREETSCAPE IMPROVEMENTS

In addition to redeveloping the building, 500 Seneca's owners have made use of a PIF, or Payment In Lieu of Taxes (PILOT) Increment Financing, tool to improve the surrounding area.

Local industrial development agencies (IDA's) and taxing authorities often offer tax incentives to bridge development financing gaps in economically distressed areas. Based on the incentives offered by the Erie County IDA (ECIDA) and the

City of Buffalo, 500 Seneca qualified for a 10-year exemption in real property taxes on the increase in the property’s assessed value upon project completion. The developers entered into a PILOT agreement with the ECIDA, whereby they are required to pay a substantially reduced percentage of taxes owed (payments in lieu of taxes, or PILOT) for the first 10 years.

What Savarino and Frontier ultimately decided to do, however, was to make full tax payments but to dedicate the increment, or portion above what they owed under the PILOT agreement, to funding streetscape improvements in the neighborhood. The Seneca Street Corridor District Improvement Fund was established and is funded by these incremental tax payments. Such an arrangement is termed PILOT Increment Financing (PIF).

In many cases, PIFs are a tax increment financing tool created to incentivize brownfield remediation and the adaptive reuse of older buildings by offsetting the added costs to developers of such projects. The PIF used by 500 Seneca is a variation of a traditional PIF, whereby the incremental payments are used to make municipal improvements rather than offset developer costs. Often, such variations are required by a taxing authority in exchange for other incentives. In 500 Seneca’s case, the development team has initiated the PIF in the absence of such requirements.

The Seneca Street Corridor District Improvement Fund funds, valued at \$2.3 million, are being used to improve the streets around 500 Seneca and along the mile-long stretch of Seneca Street from Larkinville to downtown Buffalo.

The PIF-financed work will facilitate infrastructure and streetscape improvements, including sidewalk and curb improvements, pavement striping, landscaping lighting, trash receptacles and street furniture. Through this project, Seneca Street will be transformed into a “complete street” with the addition of bike lanes and more pedestrian friendly conditions (see Figures 8 and 9).

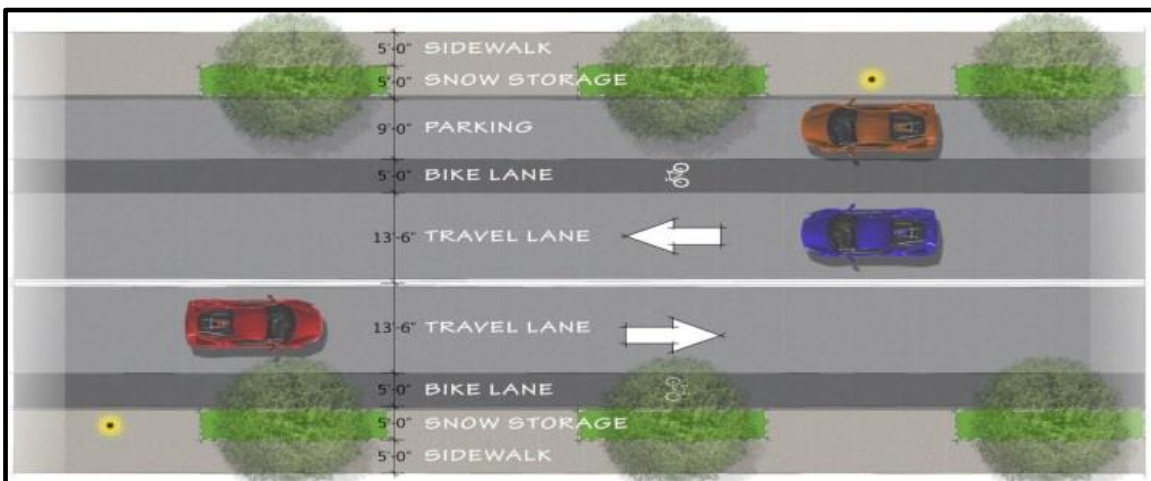


Figure 8: 500 Seneca St. Complete Street. Source: Wendel Companies

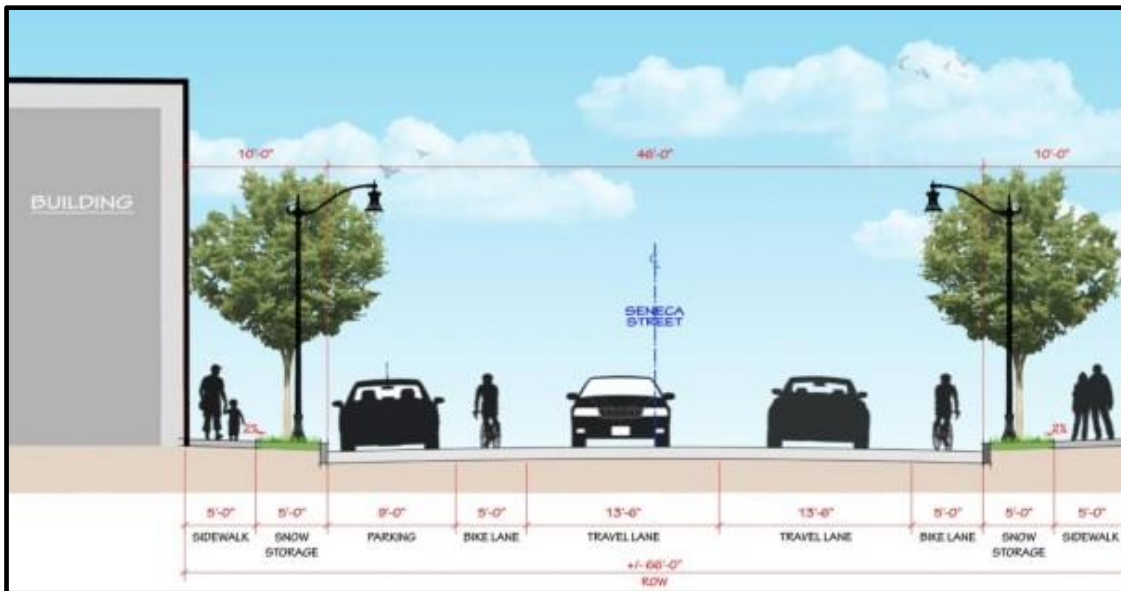


Figure 9: 500 Seneca St. Complete Street. Source: Wendel Companies

NEW DEVELOPMENT IN THE HYDRAULICS

In addition to financing these improvements to the surrounding infrastructure, 500 Seneca has been the catalyst for new development in the Hydraulics neighborhood. The A&P warehouse building, located at 545 Swan Street across from 500 Seneca, is a similarly challenged building that was recently purchased by an Ohio developer with plans to convert it for mixed-use. This purchase is the first in the City of Buffalo by an out-of-town developer in recent memory.

CONCLUSIONS & LESSONS LEARNED

The projected 10-year return on equity for 500 Seneca is a healthy 21%. Given that commercial rent rates have exceeded those used in creating the project pro forma, it is very likely that even greater returns will be realized. It should be noted that while this ROE is calculated based on a sale in year 10, the partnership currently has no such exit strategy. They plan to hold the building for the foreseeable future.

The 500 Seneca project benefitted from its developers' vision, perseverance, flexibility, and community spirit. As with all successful real estate development projects, it also benefitted from a little luck. When asked whether he would do it over again, Sam Savarino is emphatically positive. The project's success more than compensated for the risks he and Frontier undertook. The large amount of equity that he and his partner had into the project at the outset is not something he would like to repeat, however. Between the two of them, Savarino and Frontier spent \$11 million on the project before securing debt or historic tax credit equity financing. Had not all the financing sources come together in the end, his outlook on the project might be considerably different.

APPENDIX 1

SOURCES & USES

SOURCES	
Managing Member Equity	\$ 6,070,995
Federal HTC Equity	7,626,488
State HTC Equity	3,217,500
Brownfield Rehab TC Equity	793,384
National Grid Grant	300,000
Developer's Fee	3,300,000
Permanent Loan (30 yrs @4.42%)	22,880,000
TOTAL SOURCES	\$ 44,188,367
USES	
Building Acquisition	\$ 216,281
Land Acquisition	705,298
TOTAL Acquisition	\$ 921,579
Construction Hard Costs	\$ 35,802,471
Soft Costs	\$ 8,385,896
Total Development Costs	\$ 44,188,367

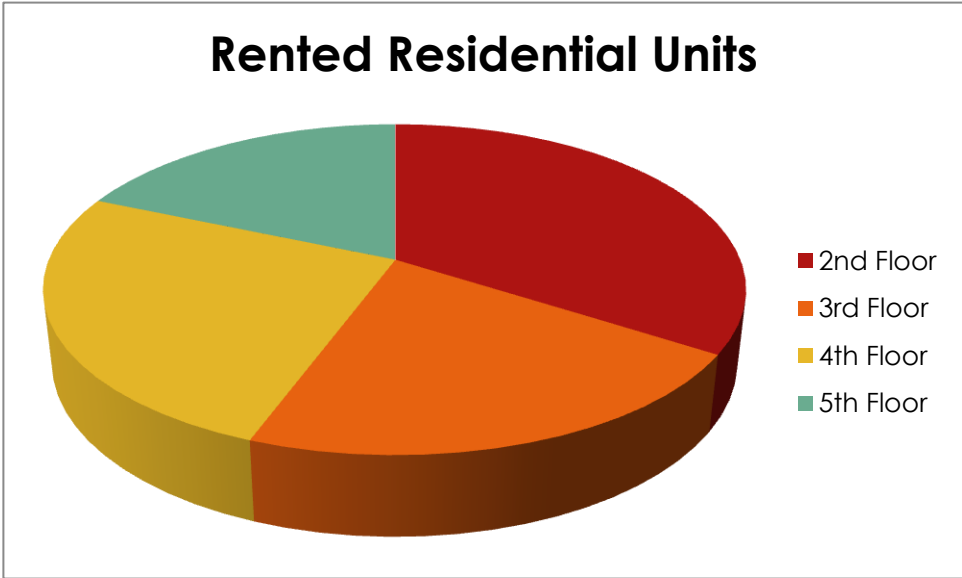
APPENDIX 2



DEVELOPMENT TIMELINE

December 2010	Building acquisition
2011-2014	Planning
4th Q 2014	Construction commences
1st Q 2015	First signed leases
July 2015	First commercial tenants move in
December 2015	First residential tenants move in
March 2016	Residential units completed
4th Q 2016	Commercial space to be completed

RESIDENTIAL APARTMENT TYPES



First Floor	NA
2nd Floor	33
3rd Floor	21
4th Floor	25
5th Floor	18
6th Floor	NA
TOTAL	97

APPENDIX 4



AWARDS & RECOGNITION

Best Adaptive Reuse/Historic Renovation project, New York State Chapter, American Association of Architects, 2016

Best Historic Rehabilitation award, National Association of Industrial and Office Properties (NAIOP) / Upstate New York Chapter, 2016

“Brick by Brick Award” for Best Historic Preservation, Buffalo Business First, 2016

Award for Outstanding Project, Preservation Buffalo Niagara, 2016

Environmental Beautification Awards (2), New York State Nursery & Landscape Association, to Jacrist Gardening Services (design/ installation of rooftop terrace garden, inner courtyard and interior landscaping of lobbies and third-floor atrium), 2016

APPENDIX 5



BIBLIOGRAPHICAL SOURCES

Historic Preservation Certification Application for 500 Seneca, Buffalo, NY 14204, prepared by Chantreuil Jensen Stark (project architects), August 2011.

500 Seneca "Project Summary" document, provided by Savarino Companies.

Nomination Form for 2016 Preservation Awards (Preservation Buffalo Niagara), prepared by Robert Stark of CJS Architects

"Ribbon Officially Cut at 500 Seneca," (Buffalo Rising, February 2016)

www.communityp.com (Community Preservation Corporation website)

<http://www.buffaloah.com> (Buffalo Architecture and History Website)

<http://www.dailypublic.com/articles/07212015/looking-backward-fn-burt-co-500-seneca> (The Public, Local Buffalo News Website)

<http://www.buffalorising.com/2013/12/work-at-500-seneca-street-project-ready-to-kick-into-high-gear/> (Buffalo Rising, December 2013)

CBRE 2015 Buffalo Office Market Report

CoStar 2Q 2016 Buffalo Report

Interviews with the following individuals:

Savarino Companies

Sam Savarino
Luke Cusack
Kevin Hays

Frontier Development Initiatives

Rob Zuchlewski
Chris Wietig