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NYLO Taps Into Tax Credits

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There's been a lot of buzz in the hotel development community about the use of tax credits—both Historic Rehabilitation credits and New Market Credits—to enhance financing packages. In many cases, developers wouldn't be able to consummate deals without the use of these credits.

To capitalize on this trend, NYLO Hotels recently forged an alliance with Campo Architects and Top Ten, a consulting firm, to identify and secure credits for developers looking to adapt existing buildings into the NYLO product.



The captain's table at NYLO Las Colinas.

“Using tax credits for rehabbing historic buildings can offset the equity developers must put up for a project by millions of dollars,” says Don Landry, an industry veteran who owns Top Ten. He says creative deployment of all available credits can reduce required equity from the 40 to 50 percent commonly demanded by lenders today to around 20 or 30 percent, which was the norm before the recession tightened the credit markets.








And, says NYLO Senior Vice President Chick Armstrong, “While some credits can be monetized in the initial stages of the project and used as equity, another option for developers is to secure an interest-only bridge loan to carry them until the credits can be monetized.”

According to John Campo of Campo Architects, while the federal historic rehab credit is widely used (his firm has orchestrated more than \$250 million in credits for clients in the past

25 years), developers applying for the incentives must adhere to some strict guidelines. Buildings must be at least 50 years old, be listed on the National Register of Historic Place or be located in a registered historic district or otherwise deemed by the government as having historic significance. Developers who qualify and spend \$25 million or more rehabilitating a building can get a tax credit of \$5 million. The credits can be “stacked” with other incentives, such as New Market Tax Credits, as part of a project’s financing bundle.

The NYLO brand is a perfect candidate for adaptive reuse projects in which the credits may apply. The brand’s urban loft-style concept is a natural fit for older warehouse or industrial spaces. As NYLO CEO John Russell says, “Each property, even the new-construction ones, looks like an historic building that was converted to an upscale lifestyle hotel. By exploring the opportunities of adaptive reuse and tax credits, developers can create projects at a lower cost but which maintain the product integrity of NYLO.”

This approach, says Russell, works particularly well in high-barrier-to-entry urban markets, a strategy the new alliance intends to explore. Campo and Landry will assist NYLO developers in evaluating potential sites and, where applicable, provide architectural services and help them identify and monetize all possible tax credits. So far, say the executives, three or four possible projects have been scouted for the program.

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