

Financing the \$156 million redevelopment of the historic Pillsbury A-Mill into affordable apartments for artists nearly fell apart when a major investor dropped out in May, leaving developer Dominion scrambling to find a replacement. But the deal finally came together.

## The Fine Print: 'Dialing for dollars' for A-Mill project

By: Nancy Crotti November 27, 2013 0

Editor's note: The Fine Print feature looks at how financing for a deal came together.

Talk about a big deal. Financing the \$156 million conversion of the [Pillsbury A-Mill](#) into affordable apartments included the largest use of federal and state historic tax credits in the history of Minnesota. The deal also came dangerously close to collapsing 90 days before closing.

Plymouth-based developer [Dominium](#) is converting what was once the nation's largest flour mill into 251 affordable apartments for artists at 301 Main St. SE in Minneapolis. A-Mill Artist Lofts, just across the Mississippi River from downtown, will include studios to three-bedroom units, a fitness center, art studios and performance space. Completion is expected in 2015.

Built in 1881 and closed in 2003, the mill used the power of the river plunging over St. Anthony Falls to fuel its operation and drove the development of the city itself.

The redevelopment of this U.S. National Historic Landmark nearly fell apart in May when a major investor dropped out and Dominion had to scramble to find a replacement. Project manager Owen Metz likened it to "dialing for dollars."

Luckily for Dominion, its reputation as a national affordable-housing developer, the majesty of the Mississippi and the mill's status as one of the nation's 11 most endangered buildings drew the attention of some of the deepest



The A-Mill Artist Lofts at 301 Main St. SE in Minneapolis will include 251 units of affordable rentals ranging from studios to three-bedroom units. (Submitted rendering)

pockets in the nation.

Affordable Housing Partners, a subsidiary of Warren Buffet's [Berkshire Hathaway Co.](#), swooped in and pledged nearly \$75 million in exchange for a federal tax credit on its investment.

"We'd been talking about different transactions, and we knew they were a large investor and didn't have limits on investment size," Metz said. "It was as quick of a turnaround as we've had on any transaction."

Los Angeles-based Affordable Housing Partners is happy to be part of the adaptive reuse of such a large, historic property into something that benefits so many, company President Mike Fowler said at the groundbreaking in mid-October.

"What's not to like about it?" he said. "It's a gorgeous location, a trophy property."

The pool of investors capable of putting in nearly \$75 million to earn the federal tax credits is quite shallow, according to Dan Smith, market manager for U.S. Bank's community lending division. Affordable Housing Partners agreed in July to come up with the money.

The company contributed \$8 million at closing in October and will add \$13 million during construction, Smith noted. It will complete its investment when the project clears performance hurdles such as finishing construction and leasing up, he added.

Tax credits typically start flowing for the investor when the project is completed for historic purposes, and in the case of affordable housing, when tenants move in, according to Metz.

"You have to build it and fill it up, too," he said.

Minneapolis-based [U.S. Bank](#) provided \$92 million in construction and bridge financing. [US Bancorp Community Development Corp.](#), a subsidiary, made a state Historic Tax Credit equity commitment of more than \$26 million.

That combination of historic tax credits nudged the A-Mill deal slightly ahead of the amount committed to Dominion's \$125 million conversion of St. Paul's iconic [Schmidt Brewery](#) into affordable rental housing, according to Natascha Wiener, senior design reviewer for the [Minnesota State Historic Preservation](#) office.

Metz likened the pieces of the A-Mill's funding package to the legs of a stool. They include environmental and redevelopment grants from the state [Department of Employment and Economic Development](#), the [Metropolitan Council](#), Hennepin County and the [Minnesota Historical Society](#). The city of Minneapolis enlisted the county's support to fund \$26 million in housing revenue bonds.

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The city would not have come through if Dominion were unwilling to sink some of its own money into the project, according to Minneapolis housing director Tom Streitz. Dominion decided to put the 12 percent (or \$23 million) it will collect as the city's developer fee into the venture, Streitz noted.

[Cornerstone Real Estate Advisers](#) provided \$26 million for the first mortgage, citing the same reasons as Affordable Housing Partners for its interest in the property. The Hartford, Conn.-based company was already working with Dominion on the Schmidt Brewery project and on Dominion's rehabilitation of a 15-year-old apartment complex in Orlando, Fla., according to Cornerstone Vice President Rob Biddleman.

"The market for apartments in Minneapolis is really strong and we've got a great developer," Biddleman said. The company also liked the apartments' design and the fact that residents will be able to walk across a bridge into downtown.

U.S. Bank has been working on the project for more than a year. It also helped finance the Schmidt Brewery project and counts Dominion as a longtime customer, Smith said.

"Blending all of these financing sources together is probably the second-most difficult thing —behind just the sheer size of it," he said of the A-Mill project's total funding.

"The permanent money that's going to be in the project over the long term is the tax credit equity, the \$2.5 million in subsidies and the loan from Cornerstone," he added. "As construction lender, what we do is we look and make sure those sources are there and they're dependable."

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### **Permanent Funding for A-Mill Artist Lofts**

U.S. Bank letter of credit-enhanced first mortgage from [Cornerstone Real Estate Advisers](#): \$26.65 million

U.S. Bank investment for Minnesota Historic Tax Credit: \$24.92 million

Affordable Housing Partners Inc. equity investment (Federal Low-Income Housing Tax Credit and Historic Tax Credit): \$74.15 million

Environmental and development grants (DEED, Metropolitan Council, Hennepin County, Minnesota Historical Society): \$2.46 million

Dominium contribution: \$28.78 million

Total: \$156 million

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