

The Bank of Holland known as a residential lender



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Multi-family housing is a flourishing but often under-the-radar segment of the local residential real estate market.

The segment recently has grown in the downtown district, developed largely as mixed-use projects by commercial firms rather than by home builders. There are several variations, but in most of these projects, a building's lower level is set aside for a commercial use, such as office or retail, while the remaining floors are built out with apartments. A project usually has to have at least 10 housing units to be considered for a commercial mortgage as a residential development.

Over the past few years, local developers have told the *Business Journal* that certain lenders are more favorable to committing financing to such mixed-use projects than others, and The Bank of Holland has been cited as one that is more open to making such a loan.

"Specifically, the development of downtown housing has really only occurred over the last five years," said Marty Richardson, vice president of business banking at The Bank of Holland.

She pointed to the Icon on Bond apartment complex and to Hopson Flats, a multi-unit residential development where college students and young professionals share space, as somewhat pioneering projects for the district.

"There have also been smaller projects, with 10 to 15 units, that have also been kicking around downtown and, as those have come on the market, they've had some good occupancy. We've seen that — we continue to watch it very closely — and we definitely have been in that market," said Richardson.

The Bank of Holland president Rob Dwartz agreed and said his firm has focused on that type of business the past few years for a number of reasons. Once, he said the bank has recognized as strong demand for downtown living, most often from young people and, to a lesser extent from empty nesters, and largely for apartments rather than condominiums. Dwartz said the bank calls it "bookend demographics," a phrase he noted was coined by others.

A couple of motivating factors are driving the demand downtown from the younger-adult demographic, especially. Richardson said that group, roughly 25 to 35 years old, want mobility. They want value being able to live in a sector that offers entertainment choices they can get to by walking. "They may not necessarily work downtown; at least, that's what we're finding. But, certainly, once they come back home, they want to walk somewhere and they



want to enjoy some type of evening settings," she said.

Another factor is that these young adults don't want the risk that comes with owning a home, unlike their peers who came before them in previous decades, considering the recent collapse of

the single-family housing market.

"I agree with Marty, but I do also believe that the difficult housing market has taken some young former home buyers out of the marketplace because they're not willing to take the risk and be tied down," said Dwartz. "Mobility is very important, not only because the work force is highly mobile, but it's also relatively insecure. So the risk and the mobility kind of go hand-in-hand."

Another aspect to the bank's involvement, Dwartz said, is that it feels uniquely qualified to underwrite the risk that comes with a downtown residential project. "We have people like Marty and others who have spent time in the business of developing multifamily real estate. So we feel we understand the risks and opportunities at the level of our developer customers and therefore can add a fair amount of value to their developments," he said.

Dwartz said a third reason The Bank of Holland has been and continues to stay involved in this type of residential lending is more philosophical in nature, but it also has a practical side to it.

"We want to be involved in the continued development of downtown by promoting or supporting the adaptive reuse of vacant structures, particularly, which is great for the community, great for the density of our downtown, which leads to then further growth and development. It's kind of doing well while doing good," he said.

As for the type of mixed-use projects the bank finances, Dwartz said renovations and new construction are considered equally, and his staff doesn't look at one being more financeable than the other. "They differ in complexity and in financing tools, but we would approach either," he said.

Starting Jan. 1, though, the state tax credits for brownfields and historic renovations become a thing of the past with the elimination of the Michigan Business Tax, which could change the playing field for renovations. Almost all urban, mixed-use residential developers have used both credits as equity in their projects for years to

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leverage private financing. The loss of those credits is expected to make capturing the loans more of a challenge.

"I think the short answer is, 'Yes', simply because that has been a source of equity for these projects, and projects of this nature are, just by definition, more complex and expensive than building in a greenfield," said Dworz. "It will change things a bit. But there are new pieces of legislation in which the goals are to replace, albeit at a lower level, those brownfields and state historic incentives."

At the same time, Dworz pointed out that federal incentives like the historic, new market and low-income housing tax credits are still available for these projects. Richardson said there are a few local incentives out there, too, like tax increment financing and the obsolete property rehabilitation abatement. She also said the Downtown Development Authority's Building Reuse Incentive Program, which awards developers grants, has been a good source of equity.

"They've been a really good supporter. Those BRIP grants have been necessary, too," said Richardson.

"Time will tell to what degree," said Dworz, of the effect the loss of state credits will have. "We may see a slowdown in downtown development. We're hoping that we don't."

Dworz hopes mortgage deals will continue to be made, and there isn't a slowdown because he said it is clear to him that when infill development and adaptive reuse is done in the city, it brings the buildings back to productive use and increases the tax base, which makes for a healthier city. He also said adding to the residential density downtown is good for attracting more retail and commercial businesses.

"But the biggest piece that this does for our region is it helps us retain our young talent. Young people want to live in an urban setting. And this city, as it grows and continues to thrive, will become a place where our young folks will feel like they can have the opportunity, both personally and professionally, to stay here right out of school or to come here after going to school elsewhere, as opposed to fleeing to Chicago," he said.

"That is a big deal to me, personally, and to the bank."