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Tobacco Factory Reborn as Biotech Center

By Jennifer Dockery, Assignment Editor, Novogradac & Company LLP

Everyone involved with Wake Forest Biotech Place hopes that one day projects in Winston-Salem, N.C.'s Piedmont Triad Research Park (PTRP) will no longer qualify for new markets tax credit (NMTC) financing. The goal is that Wake Forest Baptist Medical Center's new biotechnology research and innovation center will stimulate more investment in science and technology enterprises and supporting businesses, and that with enough investment, the area will no longer qualify as economically distressed. With infusions of NMTCs and federal and state historic tax credits (HTCs), the medical center has taken the first step in achieving this goal for downtown Winston-Salem.

"As the first building in a revitalization plan that is being put in place in downtown Winston-Salem, it's a huge impact on psychology," said Bill MacRostie, principal at MacRostie Historic Advisors, which served as a consultant to Wexford Science & Technology LLC, the project's developer.

The 242,000-square foot Biotech Place is the sixth building in the PTRP, but it is the first project completed in the research park's expansion into Winston-Salem's eastern downtown. Wexford gutted two former R.J. Reynolds Tobacco Company buildings, built in 1937 and 1962, respectively, and transformed them into a state of the art biotech facility. The buildings contain office space, research laboratories and conference areas. The buildings also feature common areas that showcase the buildings' historic masonry and other details such as a 7,500-square-foot glass atrium in the lobby. The buildings are expected to achieve LEED Gold certification.



Photo: Courtesy of Wexford Science & Technology LLC

Wexford Science & Technology LLC preserved the historic glass brick walls of the former R.J. Reynolds tobacco warehouse, but replaced vents with clear window glass.

Although transforming a warehouse into a biotech research and innovation center may seem daunting, the buildings' open spaces and high ceilings enabled Wexford to install the scientific and safety equipment that modern science requires. The developer replaced the building's HVAC, mechanical, electrical and fire protection systems, and elevators, bringing them to modern commercial code standards. Wexford also installed wet laboratory equipment, including fume hoods, extensive ductwork and safety equipment.

"[The university has] taken a vacant building and put it to use," said Kevin Keyser, Wexford's vice president and director of finance. "[The warehouse] was a good fit for a lab application. You need [the building] to be built well and these buildings were built very well."

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One challenge was that the 1937 building's "windows" that rather than traditional windows were translucent glass blocks arranged around rectangular vents. MacRostie and Wexford worked with the National Park Service to increase the amount of natural light entering the building, without compromising the building's historic façade. The partners eventually agreed on a design that replaced the vents with clear glass and left the glass blocks in place.

Wake Forest University's School of Medicine is the building's master tenant, leasing 100 percent of the building and then subleasing space to private companies. The first floor/basement houses Allegacy Credit Union, the biomedical engineering department and associated research labs, and offices for the Childress Institute of Pediatric Trauma, as well space for a café and business accelerators. The second floor features a main entrance and lobby, and provides space for the biochemistry, microbiology and immunology departments. The centers of excellence laboratories and the physiology/pharmacology department will occupy the third floor. The fourth floor houses Carolina Liquid Chemistries Corporation, a chemical reagent company; it also has private pre-built lab space for private companies. The PTRP marketing center and offices occupy the fifth floor, along with additional build-out space.

"From the standpoint of an investor, it's important to know that the underlying project and its tenants will be sustainable for the long run and that they will contribute to the success of the surrounding community," said Jennifer Westerbeck, assistant vice president at U.S. Bancorp Community Development Corporation (USBCDC), the community investment subsidiary of U.S. Bank. "We're confident that Wake Forest University's School of Medicine and the new facility's other tenants will achieve both."

Funding a Catalyst

Financing for the \$103 million BioTech Place came from a number of public and private sources. Three community development entities (CDEs) provided more than \$28 million in NMTC allocations. Urban Research Park CDE (URP) provided \$15 million in NMTCs, Urban Action Community Development (UACD) provided \$8.2 million and National Trust Community Investment Corporation (NTCIC) provided \$5.25 million. The project also received federal HTCs and North Carolina State Mill Credits. USBCDC provided NMTC equity and \$18.5 million in HTC equity. Foss and Company arranged a \$17.6 million investment from Blue Cross Blue Shield of North Carolina for the state mill credits.

"It's trying to create the most impactful project that we can from our side and really involve the community and get the community goals in line with the project. The success of this project should

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lead to future development. Without that success, I don't know that future development in the park would have happened. Now, it's likely," said URP's Josh Ferguson.

In addition to serving as a catalyst for downtown development, the project includes several community improvement and outreach programs. URP, through the American Communities Trust, provided \$300,000 in grants to Winston-Salem programs. The SciTech Institute, a summer enrichment program for residents, received \$78,000; Downtown Health Plaza received \$122,000 to provide medical services to low-income residents in East Winston-Salem; and the Forsyth Technical Community College Foundation received \$100,000 to purchase nanotechnology equipment for the college's nanotechnology program.

During construction, the Biotech Place employed more than 1,400 people with 75 percent of the workforce from the local area. Minority and female owned companies fulfilled about 12 percent of the contracts. The biotech building is expected to generate 450 jobs within the building and a number of indirect jobs in support industries. A Battelle Memorial Institute economic analysis put the center's annual impact at \$298.3 million for Forsyth County.

"It's going to generate demand for hospitality. It's going to generate demand for restaurants. It's replacing jobs that have been lost downtown due to suburbanization," said Michael Dubansky, NTCIC project manager.

John Leith-Tetrault, NTCIC's president, agreed. "The primary story here is jobs. Bringing those jobs downtown is huge for the surrounding low-income areas," Leith-Tetrault said. He said the biotech center would have a ripple effect on the surrounding communities, increasing demand for services, such as catering and building supplies, repair and maintenance, which area companies could provide. He also said that the center should attract additional biotech companies to the area.

At press time, Wexford was in discussions with the university to develop three additional buildings within the R.J. Reynolds complex. UACD's William Struever said that the goal is for the university, hospital and businesses to collaborate and turn downtown Winston-Salem into a world-class research park. "This building is the kickoff for that. It's the launch pad for making Winston-Salem and Wake Forest a true center of innovation," Struever said. "It's hard to think of anything that's more important in America than urban research parks." ❖

This article first appeared in the May 2012 issue of the Novogradac Journal of Tax Credits.

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