Historic Development Brings Workforce Housing to ‘Camel City’

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A site where blankets, submarine batteries and telecommunications equipment all were once manufactured will soon provide workforce housing in Winston-Salem, N.C.

Thanks to federal historic tax credits (HTCs) and North Carolina’s state mill rehabilitation tax credit, Ken Reiter’s company is building 166 apartments in a 250,000-square-foot property at the site of the historic Chatham Mill. “One of our missions and visions is workforce housing,” said Reiter, co-owner with Jerry Deakle of Chatham Mill Ventures. “That’s a very important part of the real estate portfolio. There is plenty of market-rate housing and there’s the low-income housing tax credit [LIHTC] to help with low-income housing, but nothing really serves the workforce—housing that represents 60 percent to 120 percent of the area median income [AMI]. We like to serve that slice of the market. Our price per unit is going to be less than the market and that’s purposeful. We want to be able to serve the workforce and restabilize the neighborhood.”

In Winston-Salem, there’s a need. “Since Wake Forest University is going to develop offices and research [nearby], we know there’s a certain percentage of the 2,000 to 3,000 jobs that will be filled by people who want to live in an urban setting,” Reiter said.

The result is Chatham Mill. The first phase will include the 166 apartments with rents ranging from about $700 to $1,200 per month. The second phase—which will begin after the apartments are finished—will be approximately 50,000 square feet of commercial space.

“This is very significant,” said Allen Joines, mayor of Winston-Salem. “There is a lot of housing downtown, but because of the real estate prices, most of it is market-rate. To use the historic tax credit on this allows the developer to give a [rent] price point that’s more affordable.”

It’s another step in the redevelopment of Winston-Salem, a town that was so identified with the R.J. Reynolds Tobacco Co. that its nickname was “Camel City.” Chatham Mill is in the city’s northwest corridor, near Wake Forest University, Wake Forest Baptist Medical Center, the central business district, the Wake Forest Innovation Quarter and the West End historic district.

“This is another in the ripple effect [in Winston-Salem],” said Ramona Bartos, the administrator and deputy state

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Image: Courtesy of Chatham Mill Ventures LLC

When complete, Chatham Mill in Winston-Salem, N.C., will have 166 units, ranging from one to three bedrooms.
historic preservation officer at the North Carolina state preservation office. “There is largely an industrial heritage in Winston-Salem and the residential opportunities have been fueled by the tax credit developments. This creates a new node for development.”

More than $313.5 million has already been spent on development related to mill rehabilitation tax credits in Winston-Salem and there are an additional five developments worth $265.7 million under construction. Insiders see Chatham Mill as key. “We believe [Chatham Mill] is a great catalyst for the area,” said Joines. “The city is going to join in and do some public infrastructure. It definitely should lead to further development.”

**History**

The Chatham Manufacturing Company constructed the main buildings at the complex in 1907. Over several decades, more buildings and structures were built as the company became one of the world’s leading blanket manufacturers, earning contracts to provide blankets for the U.S. military during World War I and for the Civilian Conservation Corps during the Depression.

After the blanket manufacturing moved to another facility, the building was sold to the U.S. Navy, which then sold it to Cleveland-based National Carbon Company in 1943 to produce submarine batteries and underwater detonators. After the war, the company closed and Western Electric leased the plant to manufacture telecommunications equipment. That lasted until 1966, when it closed and a series of smaller manufacturing and warehouse businesses inhabited the large facility for nearly four decades.

After a stretch in which most of the tenants moved out, the site and adjacent property was acquired by Chatham Mill Ventures in 2012. Reiter said he became interested in the property while working as the lead developer on the nearby American Tobacco Campus. When Reiter and Deakle got their financing together, they took over and launched the ambitious workforce-housing development.

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Financing

Oppenheimer Multifamily Housing Finance provided a $17 million first mortgage on the development, while Community Affordable Housing Equity Corporation (CAHEC) was the federal HTC investor and Foss & Company was the state HTC investor, combining for $13 million of tax credit equity.

Brian Oxford, senior new markets manager at CAHEC, said the location of Chatham Mill made it an attractive property. “There has been a lot of redevelopment in downtown Winston-Salem and Chatham Mill will spur additional investment in a neighborhood adjacent to the downtown core,” he said. “The addition of high-quality workforce housing will allow workers in downtown and surrounding employment centers to have an affordable option in an area where they may have previously been priced out of the rental market.”

The owners added $4 million in equity, while the city of Winston-Salem and the Brownfield Revolving Loan Fund of the Environmental Protection Agency each contributed $1 million to the $36 million development.

Chatham Mill Plans

Reiter said former textile mills often work well as apartments. In this case, the 166 units will be mainly one- and two-bedroom units, with a few three-bedroom apartments, ranging from 830 square feet to 1,552 square feet. The apartments will be spread over 12 buildings of different construction and size from steel and concrete to heavy timber. The first phase should be done by the end of this year, with pre-leasing starting this summer. The second phase, which is 50,000 square feet of commercial space–mostly office with some retail–will follow.

“It’s adjacent to the West End Historic District of Winston-Salem,” Reiter said. “There are a lot of shops and retail adjacent to it. It’s also close to the Wake Forest Innovation Quarter and it’s within walking distance of downtown … In one sense, it’s the center of a new district.”

Mitch Wilds, a branch supervisor at the state preservation office, said location is key. “What’s most beneficial is that it’s not smack dab in the middle of downtown,” he said. “It’s a major project that’s between downtown and some other areas.”

Hurdles

Reiter said this was a complex transaction, due to it being a brownfield site and also having to follow National Park Service (NPS) requirements as a historic development and using Department of Housing and Urban Development (HUD) debt financing.

“There was no lack of due diligence items,” he said. Complicating the development was a problem that occasionally pops up in industrial rehabilitation: During World War II and the Korean War, the federal government built buildings and leased them to the Navy. At Chatham Mills one portion of a building was located in the right of way for the railroad. Reiter and his team had to come up with a way to cut off the part of the building that was on railroad land while retaining the historic flavor in a way suitable to the NPS and all the other stakeholders.

Dottie Troxler, the director of the Greensboro, N.C., HUD hub, said the involvement of multiple governmental agencies–HUD, the Environmental Protection Agency (EPA), Internal Revenue Service (IRS), Department of the Interior–made it a challenge. “But I love doing those kinds of deals,” she said. “You have to really think it through.”

The next challenge is reading the market. As it gets closer to opening, Reiter’s company will have to determine the correct rents and marketing strategy.

“I would say the challenge and the strength is that it’s a new market,” said Oxford. “The apartments in downtown have done well, but in the immediate area there are not a lot of comparable properties, which makes it a little harder to determine where to set the rents. But there is demand for workforce housing. Through the redevelopment of the vacant mill complex, Chatham Mill will create new supply to meet that demand and positively transform the neighborhood.”

Positive Reaction

Reiter said the amount of help from the governmental entities has been huge. “This has been an extremely positive experience,” he said. “There has been a lot of support from the local and state levels–they put their money where their mouth was.”

Troxler said HUD was pleased with the possibility to make a difference in Winston-Salem. “You can see that it was a

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prosperous community at one time,” she said. “This can help bring it back to life and we wanted to be a part of it.”

Reiter said that the HTCs—the state credits in North Carolina expired at the end of 2014 and are the subject of intense lobbying to return—were crucial.

“There is absolutely no way we could do this project without the historic tax credit—both federal and state,” Reiter said. “If the sellers couldn’t sell it, they were going to knock it down. And it’s too risky to have a dilapidated asset sitting there and falling down on itself. The property would have fallen into further decay.”

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**Chatham Mill Financing**

- $17 million first mortgage from Oppenheimer Multifamily Finance, insured by HUD under the 221(d)(4) substantial rehabilitation program.
- $6.5 million federal and state HTC investment from CAHEC
- $6.5 million federal and state HTC investment from Foss & Company
- $4 million in owner equity
- $1 million in Brownfield Revolving Loan Fund from the Environmental Protection Agency
- $1 million in Housing Financial Assistance Fund from city of Winston-Salem, N.C.

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