



Historic Vaudeville Theater Ready for Revival

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The show must go on. For the historic NorShor Theatre in Duluth, Minn., the old show business adage is now a community-driven mission. With the help of historic tax credits (HTCs) and new markets tax credits (NMTCs), developer Sherman Associates launched a long-awaited restoration that will revive the theater as a local and regional performing arts hub.

“Assembling the financing for the project took years of effort,” said George Sherman, president of Sherman Associates. “Once the financing was assembled, the various types—state and federal historic credits, new markets tax credits, tax increment financing, grants, loans—created multiple structuring challenges, including from a tax perspective. The construction team worked tirelessly to keep the project on budget while ensuring that the theater would meet the needs of the Duluth Playhouse and other users.”

Financing closed in June and renovation work is underway. Set to reopen in early 2018, the theater has already been given top billing by city officials as a catalyst for transforming downtown Duluth. “We’re in a major revitalization of our old downtown—that’s our theater district, our restaurant district, our arts district,” said David Montgomery, chief administrative officer of the city of Duluth. “We see the NorShor in a huge way contributing to that.”

From Beacon to Blight and Back Again

The historic building opened in 1910 as the Orpheum Theatre and attracted national headliners such as Charlie Chaplin, the Marx Brothers, Jack Benny, Al Jolson, Mary Pickford and W.C. Fields. The theater experienced decades of success before the decline of vaudeville forced its doors to close in 1934. In 1940, the old theater and an adjacent service garage were combined and converted into an opulent, Art Deco movie house. The rechristened NorShor Theatre had 1,100 floor seats and another 300 in the balcony. The grand lobby featured a Hall of Mirrors, while the theater’s famous Milk Bar served dairy treats, such as malted drinks and ice cream. NorShor’s Arrowhead Lounge catered to smoking patrons, offering individually air-conditioned seats. At its height, the NorShor was the jewel of the downtown district.

However, the theater’s condition declined with age and multiple changes in ownership over the years. NorShor evolved from a first-run movie theater to a live music and performing arts venue. The theater’s most recent use was as a strip club from 2006 to 2010, a period that locals say tarnished the reputation of the theater and ushered in crime for the neighborhood. Families began to avoid the area and surrounding businesses suffered.



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To save both the theater and the neighborhood from further decline, the Duluth Economic Development Authority (DEDA) purchased the NorShor Theatre in 2010. “Our goal was twofold. Simply securing it would’ve enhanced the downtown experience by shutting it down and stopping the [illegal] activity there,” said Montgomery. “Our second goal was to bring the theater back to life in the classic sense, as a performing arts venue.” He said the city envisioned the new NorShor as a home for the arts—a stage for local theater groups and performers, as well regional and national touring acts.

Casting the Right Players

Mounting the revival of an old theater takes time and the right partners. For the NorShor renovation, it took about six years between shutting down the strip club and finally breaking ground on a new beginning. In the meantime, the theater sat vacant, aside from occasional special events. The first step was to find a developer with experience working in historic renovation and who was willing to undertake a project of this scale. The city issued a request for qualification (RFQ) in 2011 and found a partner in Sherman Associates. The Minneapolis-based developer had several Duluth

projects already under its belt, including conversion of a historic hotel next door to NorShor into Greysolon Plaza senior housing and construction of the Sheraton Duluth hotel less than a block away.

The role of primary occupant and theater manager fell upon Duluth Playhouse, a 102-year-old, community-based theater company. Christine Seitz, executive and artistic director of Duluth Playhouse, said the playhouse was interested in the NorShor Theatre even before the DEDA purchased it. “The playhouse was looking at NorShor as a possibility for our expansion, but 2008 wasn’t a very good year to raise money and renovate,” said Seitz. “The playhouse alone simply couldn’t do it, so in 2010 when [DEDA] purchased NorShor, we were immediately brought into the project as a partner.”

Financing

The NorShor had a new developer and a new theater manager, but still needed the financial backing to make renovation plans a reality. Sue Fauver, Sherman’s president and counsel, has worked on many complicated tax credit developments but said that the structuring for the NorShor project presented obstacles that even

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the most seasoned tax credit professionals had never encountered. She credits the cooperation and shared vision of all parties involved with making the project possible.

Partners put together a financing stack that included a nearly \$7 million grant from the state of Minnesota, a \$2.3 million seller note from DEDA, \$1.5 million from Sherman Associates, nearly \$146,000 in tax increment financing for the construction period and a nearly \$990,000 master tenant equipment acquisition. For its part, Duluth Playhouse launched a \$4.5 million capital campaign.

Longtime tax credit players teamed up with Sherman Associates to provide gap financing. “We saw the historic NorShor Theatre building as a key component to revitalizing downtown,” said Pam Kramer, executive director of Duluth LISC, which provided \$7 million of NMTC allocation and a \$750,000 predevelopment loan that was repaid at closing and replaced by other sources of capital. “Its blighted condition hindered the downtown district. Duluth LISC was an early investor, realizing the NorShor’s restoration would strengthen the entire community by attracting new audiences and businesses, as well as expanding community access to the arts.” Kramer said the restored theater will be a mainstay to Duluth’s Historic Arts and Theater (HART) District, drawing new customers, jobs, local arts productions, traveling shows and visitors to the community.

Robert Poznanski, senior vice president and chief operating officer of LISC affiliate New Markets Support Company, said that each tax credit participant contributed as much as they could to the NorShor renovation because they knew the project had needs that only tax credit financing could fulfill. “We started at \$5 million or \$6 million and boosted our allocation

because the project needed every penny,” said Poznanski. “It couldn’t afford to have much long-term debt.”

Chase New Markets Tax Credit Group Corporation provided \$1 million of its own NMTC allocation. “It’s a good fit for the new markets program because of the strong benefits that the facility is going to provide the community,” said Courtney Nolan, portfolio associate from Chase. “It takes single steps in the right direction to turn around that downtown area.” Chase Bank also provided \$5.5 million in NMTC equity and \$3.7 million in HTC equity.

BMO Harris Bank affiliate, M&I New Markets Fund, provided \$8.5 million of NMTC allocation. “NorShor is a good fit for the NMTC program because it creates jobs, provides cultural opportunities for lower income households and reduces blight,” said Devon Osborn, managing director of BMO Harris Bank’s community development lending and M&I New Markets Tax Credit Fund.

BMO also provided a \$13 million loan to bridge the state of Minnesota grant and the federal and state HTCs. “I personally think that even though [the project] had other things lined up, this was an important gap-filler for the project,” said Tania Kadakia, vice president and relationship manager for BMO Harris Bank’s Community Development Lending. “It’s an important facility in dire need of redevelopment and repair.”

Preparing for an Encore

With financing finally in place, renovation work began in summer 2016. Some of the building’s iconic features are being restored, including its marquee, brick façade, windows and some of the salvageable ornamental plaster art pieces inside the theater. In partnership with Sherman Associates, Duluth Playhouse interviewed local artists and arts groups to learn what they want and need from the theater renovation. Sherman considered

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artist input on everything from the size, material and position of the stage to dressing room designs that would meet the professional standards of regional and national tour groups. Other upgrades include a new lighting system, sound system, mechanical system, elevators, seating, orchestra pit and piano.

Two updated lounges can be used for private parties, meet-and-greet sessions and more. A new street-front cultural kiosk will be free and open to the public for events and exhibits, such as book signings and art demonstrations. “The NorShor is a landmark and it’s beloved and people want to see this happen,” said Seitz. “It was once a centerpiece in our downtown and its restoration will once again shine a light on this area.”

Once completed, the NorShor Theatre will be exactly what the Duluth Playhouse needs. The Duluth Playhouse is in a historic depot that is much too small for its current needs. The playhouse puts on about 20 productions a year by adults’ and children’s groups, each performance typically sold out long before opening night. With limited seating and overwhelming demand for tickets, the playhouse sometimes schedules up to 22 performances of one show. Even then, Seitz said hundreds more who can’t get tickets are turned away.

Although Duluth Playhouse will retain its current facility for children’s productions and smaller programs, all main stage productions will be moved to the 650-seat NorShor Theatre. The move will allow Duluth

Playhouse to reach a much wider audience than at their current facility, which only accommodates up to 286 audience members for its main stage and 150 for its secondary stage.

Beyond the benefit to the theater itself, partners expect the renovation will stand as an example of what can be achieved through perseverance and the right partnerships. As Sherman put it, NorShor proves that it takes a village to renovate a theater.❖

NorShor Theatre

FINANCING

- ◆ \$13 million bridge loan from BMO Harris
- ◆ \$8.5 million new markets tax credit allocation (NMTC) from BMO Harris Bank affiliate, M&I New Markets Fund
- ◆ \$7 million grant from the state of Minnesota
- ◆ \$7 million NMTC allocation from LISC
- ◆ \$5.5 million NMTC equity from Chase
- ◆ \$4.5 million capital campaign contribution pledged through the Duluth Playhouse
- ◆ \$3.7 million historic tax credit (HTC) equity from Chase
- ◆ \$2.3 million seller note
- ◆ \$1.5 million from Sherman Associates
- ◆ \$1 million NMTC allocation from Chase New Markets Corporation
- ◆ \$990,000 master tenant equipment acquisition
- ◆ \$750,000 predevelopment loan from LISC
- ◆ \$146,000 in tax increment financing

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