

# Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

April 2011, Volume II, Issue IV

Published by Novogradac & Company LLP

## Repurposing Historic Buildings for Hotel Use: Balancing Modern Hotel Requirements with Historic Standards

By John M. Tess, Heritage Consulting Group

The hospitality industry thrives on three basic tenets: location, service and cost, and it has developed a full range of products to capture a diverse range of customers in which emphasis on these three factors fluctuates greatly. From budget to five-star, the hospitality industry tailors its product to capture the market.

Within the country's urban centers, the hospitality industry has embraced the repurposing of historic buildings as an attractive product for guests. In general, historic buildings that are repurposed for use as hotels are well situated within cities, often in locations where new construction is not possible or is prohibitively expensive. Frequently, historic buildings provide challenges to hotel operators when spatial and architectural realities of the existing building conflict with the design requirements of the hotel. In certain instances, the historic fabric of the existing building may provide an operator with a unique architectural design that works well with its program, while other operators must adapt their hotel design to work around the limitations of the historic fabric.

In many cases, hotel operators that repurpose historic buildings use the federal government's historic tax credit (HTC) program, administered by the National Park Service (NPS), which provides a 20 percent tax credit on qualified rehabilitation expenditures (QREs) for historic buildings and a 10 percent investment tax credit for non-historic buildings placed in service prior to 1936.

Also, many states offer their own historic tax credit programs, which are administered by each state's historic preservation office (SHPO). When an operator chooses to use the HTC, all

work proposed, including exterior, interior, demolition, new construction and site work, is reviewed by the SHPO and NPS to confirm that it complies with the Secretary of the Interior's Standards for Rehabilitation. In addition, local design review by the municipality may be required. The Secretary's Standards are used to preserve the character-defining features of the building while allowing flexibility in its rehabilitation.

At the same time, there are design standards driven by the hotel use. Generally, hotel chains each have specific room mixes and interior design standards. "Hotel star" ratings from groups such as AAA, Mobile and Michelin—critical to marketing and room rates—compel operators to feature amenities such as on-site restaurants, swimming pools and bathtubs with showers. Almost universally, the hotel stan-

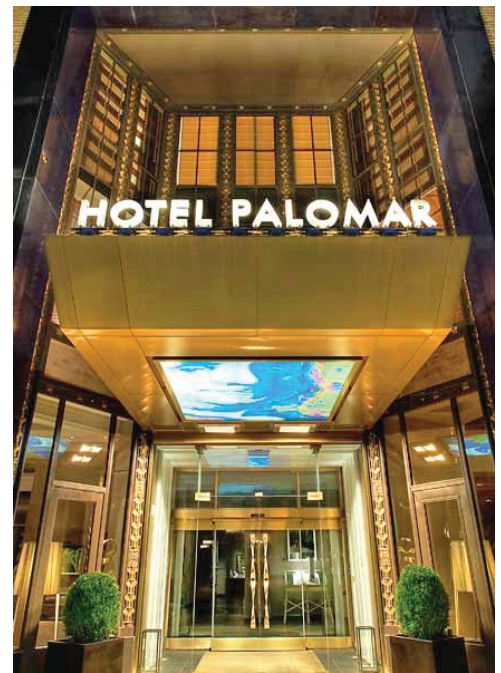


Photo: Courtesy of Heritage Consulting Group  
The Hotel Palomar in Philadelphia.

continued on page 2

*continued from page 1*

dards and the Secretary's Standards come into some conflict. Further complicating hotel design challenges is the overlay of LEED standards.

When historic buildings are rehabilitated for use as hotels there are a number of issues that commonly arise during the historic review process. First and foremost, the Secretary's Standards require that: "A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment." During its historic review, the NPS will ask, "Does the new use fit the building?" In general, most building types can accommodate hotel use, though some will require innovative design and flexibility from the typical hotel program.



*Photo: Courtesy of HRI Properties*  
**The King Edward Hotel in Jackson, Miss.**

Other common issues in hotel rehabilitations include: repurposing historic spaces for reuse, vertical access, Americans with Disabilities Act (ADA) access, code requirements, compatible windows and storefronts, entrances and awnings, floor plan limitations and parking. While this list of common issues may appear daunting, each can generally be remedied through creative design that allows the product to meet both the demands of the hotel operator and the Secretary's Standards.

Although certain design issues are common to historic hotel projects, each type of historic building has its own challenges and opportunities.

Seemingly the most obvious building to be rehabilitated for use as a modern hotel would be an existing or former historic hotel. However, it is quite common for these buildings to present historic design challenges when proposed for rehabilitation. Common issues on historic hotel rehabilitations include code requirements, windows, storefronts, corridors, installation of mechanicals, vertical access and public spaces. Often, historic hotels retain significant amounts of historic fabric that present difficulties when upgrading the building to meet modern hotel standards.

*continued on page 3*

## Novogradac Journal of Tax Credits Editorial Board

### PUBLISHER

Michael J. Novogradac, CPA

### MANAGING EDITOR

Alex Ruiz

### EDITOR

Jane Bowar Zastrow

### TECHNICAL EDITORS

Robert S. Thesman, CPA  
James R. Kroger, CPA  
Owen P. Gray, CPA  
Thomas Boccia, CPA  
Daniel J. Smith, CPA

### ASSIGNMENT EDITOR

Jennifer Dockery

### STAFF WRITER

Jennifer Hill

### CONTRIBUTING WRITERS

Ashley Ashleman	Peter Lawrence
Kelly L. Beigle	Forrest Milder
Brad Elphick, CPA	Charles A. Rhuda III, CPA
Glenn Graff	Gerald Salzman
Owen P. Gray, CPA	Shel Schreiber
Don Holm	Daniel J. Smith, CPA
Jon Kelly	Amanda Talbot
Neil D. Kimmelfield	John M. Tess

### PRODUCTION

Jesse Barredo  
James Matuszak

## Novogradac Journal of Tax Credits Information

Address all correspondence and  
editorial submissions to:  
Alex Ruiz / 415.356.8088

Address inquiries regarding  
advertising opportunities to:  
Emil Bagalso / 415.356.8037

Editorial material in this publication is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding the low-income housing tax credit or any other material covered in this publication can only be obtained from your tax advisor.



**NOVOGRADAC  
& COMPANY** LLP

CERTIFIED PUBLIC ACCOUNTANTS

© Novogradac & Company LLP  
2011 All rights reserved.  
ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.

## Novogradac Journal of Tax Credits Advisory Board

### LOW-INCOME HOUSING TAX CREDITS

Bud Clarke	BOSTON FINANCIAL INVESTMENT MANAGEMENT
Jana Cohen Barbe	SNR DENTON
Tom Dixon	BOSTON CAPITAL
Valerie White	STANDARD & POOR'S CORPORATION
Rick Edson	HOUSING CAPITAL ADVISORS INC.
Richard Gerwitz	CITI COMMUNITY CAPITAL
Rochelle Lento	DYKEMA GOSSETT PLLC
John Lisella	U.S. BANCORP COMMUNITY DEV. CORP.
Phillip Melton	GRANDBRIDGE REAL ESTATE CAPITAL
Thomas Morton	PILLSBURY WINTHROP SHAW PITTMAN LLP
Stephen Ryan	COX, CASTLE & NICHOLSON LLP
Arnold Schuster	SNR DENTON
Rob Wasserman	U.S. BANCORP COMMUNITY DEV. CORP.

### PROPERTY COMPLIANCE

Rose Guerrero	CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Sharon Jackman	SIG SERVICES LLC
Michael Kotin	KAY KAY REALTY
Michael Snowdon	MCA HOUSING PARTNERS
Gianna Solari	SOLARI ENTERPRISES
Ruth Theobald Probst	THEOPRO COMPLIANCE & CONSULT. INC.
Kimberly Taylor	HOUSING DEVELOPMENT CENTER

### HOUSING AND URBAN DEVELOPMENT

Sheldon Schreberg	PEPPER HAMILTON LLP
Monica Sussman	NIXON PEABODY LLP

### NEW MARKETS TAX CREDITS

Frank Altman	COMMUNITY REINVESTMENT FUND
Bruce Bonjour	PERKINS COIE LLC
Neil Kimmelfield	LANE POWELL
Marc Hirshman	U.S. BANCORP COMMUNITY DEV. CORP.
Scott Lindquist	SNR DENTON
Ruth Sparrow	FUTURES UNLIMITED LAW PC
Herb Stevens	NIXON PEABODY LLP
Mary Tingerthal	HOUSING PARTNERSHIP NETWORK
Tom Tracy	HUNTER CHASE & COMPANY
Joseph Wesolowski	ENTERPRISE COMMUNITY INVESTMENT INC.

### HISTORIC TAX CREDITS

Don Holm	FARRIS BOBANGO BRANAN PLC
John Leith-Tetrault	NATIONAL TRUST COMM. INVESTMENT CORP.
Bill MacRostie	MACROSTIE HISTORIC ADVISORS LLC
Donna Rodney	BRYAN CAVE LLP
John Tess	HERITAGE CONSULTING GROUP

### RENEWABLE ENERGY TAX CREDITS

Ed Feo	USRG RENEWABLE FINANCE
Michael Hall	BORREGO SOLAR SYSTEMS
Jim Howard	DUDLEY VENTURES
Forrest Milder	NIXON PEABODY LLP
Darren Van't Hof	U.S. BANCORP COMMUNITY DEV. CORP.

*continued from page 2*

Existing floor plans generally considered character defining, including original corridor and room configurations, often do not meet modern hotel requirements and often do not meet code. Historic public spaces including lobbies may need to be altered in order to fit the hotel program. On the exterior, new storefronts and windows may be essential to the reuse of the building but must be historically compatible, or closely match historic storefronts and windows should they remain.

For developer HRI Properties, the rehabilitation of the historic 1923 King Edward Hotel in Jackson, Miss. into a Hilton Garden Inn exemplified the problems inherent with the rehabilitation of an historic hotel into a modern hotel. Unusable existing floor plates, inefficient public spaces and deteriorated windows were challenges that HRI was able to remedy through creative design solutions and embracement of a unique spatial arrangement while still meeting the Hilton Garden Inn design program.

For example, in order to rectify sound transmission issues, HRI installed custom dual-frame acoustical windows that also satisfied historic requirements. On projects where the existing windows are in good condition and are retained, developers such as Kimpton Hotels have been successful in using interior storm windows to meet sound requirements.

Generally suitable for hotel conversions, historic office buildings often have smaller floor plates that are no longer suitable for office use but are ideal for hotel repurposing. Common issues that arise when converting historic office buildings into hotels include: the aforementioned floor plates, deck-to-deck height, creation of public spaces and vertical access. Historic office buildings generally have a main lobby and elevator lobby surrounded by retail spaces. Where these features are intact, it may be difficult to create the large and spacious public spaces generally preferred by hotel operators. Where possible, these historic spaces can be used as part of the hotel's public spaces to create unique spaces that blend the building's historic features with the spatial needs of the hotel. On upper floors, vertical access issues that include non-code compliant stairs and limited deck-to-deck heights may require new stairs be constructed and creative solutions to mechanical installation found.

For Kimpton Hotels, adaptive reuse of the former Architect's Building to the Hotel Palomar Philadelphia required creative reuse of a 1929 high-rise. The first floor of the building, although substantially altered prior to rehabilitation, retained its elevator lobby and entrance corridor, which was surrounded by retail. Kimpton was able to create a spacious first floor with a living room, check-in area and restaurant while retaining the historic elevator lobby and location of the interior corridor.

*continued on page 4*

*continued from page 3*

Former bank buildings have also been transformed into hotels. These buildings generally combine traditional office towers with ground floor banking halls and often have a significant number of historic spaces that are challenging to reuse. Generally, the guest room floors can be reconfigured to meet the spatial requirements of the hotel, though corridor issues and the potential for remaining historic fabric such as offices and boardrooms may present challenges to reuse. Spaces of this nature are either successfully reused as meeting rooms or the historic features are reused within a new hotel room. Often the primary challenge with a former bank building is addressing the first-floor ornamental spaces. These spaces may include the building lobby, hotel lobby and a monumental banking hall. Primary spaces such as these may seem difficult to reuse, but creative design can make them spaces that provide a unique and enjoyable experience to the guest.



*Photo: Courtesy of Heritage Consulting Group*  
The Hotel Monaco Salt Lake City.

At Kimpton Hotel's Hotel Monaco Salt Lake City, the former grand banking hall of the 1923-24 Continental Bank Building was successfully rehabilitated for use as the Bambara Restaurant, which embraces the banking hall's monumental space and luxurious finishes.

Often the most difficult type of historic building to rehabilitate for use as a hotel is one that was designed for a single, specific use such as a Masonic Temple. These buildings usually have a spatial arrangement that is less adaptable than historic office and hotel buildings as rooms often had a specific, historic function. In buildings with multiple historic spaces, the ability to make changes is limited and certain spaces may not be usable. As with the previous examples, creative design options may reuse certain monumental spaces as restaurants, lobbies, and other public function rooms, though changes will be limited due to the historic review.

An example of a Masonic Temple conversion would be the 1926 Masonic Temple in downtown New Orleans. Now operated as a Hilton Hotel, the building was originally developed by Kimpton Hotels in 2000. Major issues in this rehabilitation included windows, which had interior storms installed, and circulation patterns that required some alteration at the ground floor level to provide an adequate lobby space and upper floor corridors, which in some cases had to be adjusted. Most interesting, however, was the use or non-use of a majority of the lodge halls. Of the some 10 lodge halls and large auditorium and ballrooms, only three of these spaces were used in the rehabilitation and the remaining spaces were mothballed.

It's true that historic buildings conversions can provide challenges to hotel operators, but creative design and efficient use of spaces can overcome limitations and create hotels that meet programmatic requirements while providing a unique guest experience. Centralized location, modern hotel features and historic character are the critical elements that enable a historic building to be repurposed as a successful hotel.

In general, historic building rehabilitations make unique hotels that embrace modern design and hotel amenities while incorporating the ambiance of a historic building. While historic features such ornamental public spaces and offices, stairs, windows, storefronts and exterior finishes must generally be maintained, repurposing historic spaces for hotel use can be accomplished within the Secretary of the Interiors Standards with early planning and direction from the right team of professionals. ❖

*This article first appeared in the April 2011 issue of the Novogradac Journal of Tax Credits.*

© Novogradac & Company LLP 2011 - All Rights Reserved

*continued on page 5*

continued from page 4

*Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.*

*This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit [www.novoco.com](http://www.novoco.com).*