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Historic Tax Credits: A Good Incentive for the Times

By John M. Tess, Heritage Consulting Group

With a number of lawmakers looking for tax loopholes to close, many in the historic preservation industry are nervous about the future of the historic tax credit (HTC) program. The Preservation Alliance for Greater Philadelphia warns, "With our nation's fiscal crisis demanding a reassessment of current tax policy, the historic tax credit is certain to come under the scrutiny of lawmakers in the coming months." Other HTC advocates are less vocal, but the concern is palpable.

Thoughts about jettisoning the program are misplaced. The truth is the HTC program works. It is an example of an incentive intended to produce specific results with broad public benefits. It does what it is supposed to do and effectively so. Just as important, HTC property owners only benefit from the incentive if there is substantial property investment.

According to the National Park Service, since 1976 there have been more than 38,700 completed HTC projects, which have generated \$66 billion in rehabilitation work. In the last year alone, there were 1,764 projects proposed or completed, resulting in an investment of \$8.5 billion.

But the numbers do not speak to the full impact of the program. The role of historic architecture in creating a sense of place and heritage is well recognized. Seeing the evolution of a community allows us to know our past, understand our present and have grounding for our future.

This quality is critical for America's main streets. From Rutland, Vt. to Salem, Ore., the economic battle line for small town America lies between main streets, which are typically



Photo: Courtesy of Heritage Consulting Group
The Gray Building in Salem, Ore. is being rehabilitated with support from the 20 percent HTC and Oregon Special Assessment for Historic Properties.

home to small, local institutions, and outlying commercial strips and shopping centers, which are typically home to national chain stores.

This battle is also one of real estate and architecture. Today "Main Street" may mean anything from two to three city blocks or streets surrounding a courthouse square, to a historic neighborhood commercial center, to several dozen blocks in a historic downtown. In all cases, it is the civic and commercial heart of the city.

But these main streets tend to face greater challenges than new suburban construction. New construction can be built to meet tenant-specific needs. Developers can choose a location based on traffic and access algorithms. And quite often, the government can exercise some control over adjacent

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businesses, either by clustering like businesses together or by barring conflicting businesses from locating near one another. There are often fewer regulations for new construction than adaptive reuse. In contrast, main streets can face challenges related to available space, proximate location and increased regulation. Parking and access are often issues. In larger cities, social conditions such as panhandling can be problematic.

The single greatest asset that these main streets possess is their heritage: the true sense of place and history. To support this asset, communities often create a National Register of Historic Places district in the city core. The process informs the community and advances a pride of place. A National Register nomination highlights the neighborhood's uniqueness and character-defining features. The National Register nomination is also the gateway to the 20 percent HTC and to local and state historic preservation incentives. These incentives foster community investment.

Connecting heritage with historic rehabilitation work begins to create that critical mass whereby a main street can leverage its character into economic activity. This critical mass opens the door for people to live, work and play in the central core. And as the tax base grows, funds become more available to further this upward cycle.

Oregon's state capital, Salem, is a good example of this interplay. Salem, still a work in progress, is a comparatively small town of 150,000. In 2001, specifically to encourage investment, the city listed the 10 blocks that make up its downtown core on the National Register. That district included 92 buildings, each typically two or three stories tall with a ground floor storefront. Most buildings' upper floors were vacant.

Aided by the National Register listing, the city has been working with property owners to encourage redevelopment. One current project is the Gray Building. Built in between 1891 and 1895, the Gray Building is a typical building for the area: two stories on an 8,000-square-foot corner lot. The ground floor has a restaurant and a vacant storefront. In the 1970s, the cast iron architecture of the ground floor was covered with brick and large arched awnings to give it a modern look. The second floor, accessible only by a single central stair, was once offices, but is now vacant. Over the years, deferred maintenance accumulated and upgrades in fire codes and the Americans with Disabilities Act made the second floor largely unsuitable for occupancy.

After nudging by the city, the owners decided to redevelop the building. The redevelopment is projected to cost \$2.5 million on a building assessed at \$400,000. What enticed the owners were the two preservation incentives available: the 20 percent HTC and Oregon Special Assessment for Historic Properties. The

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Photo: Courtesy of Heritage Consulting Group
A view of the lobby of The Continental and Commercial Bank building in Chicago, which was architect Daniel Burnham's last work.

20 percent credit would net the owners \$500,000. The special assessment would freeze the property's assessment at the pre-rehabilitation assessment for 10 years, saving roughly \$200,000 in property taxes.

HTC and special assessment applications were approved in early 2013 and construction is underway. The current restaurant has committed to remain, and a new restaurant tenant has been secured for the vacant store. Without the HTC, the owners likely would have accepted the status quo for the building and left the second floor vacant. Instead, the upper floors will be used for office space. The building is projected to be finished within four years. Since work began, the Gray Building's owners have been approached by the owners of neighboring properties with questions about HTCs, and two new HTC applications have been submitted to the state.

At the other end of the scale, the city of Chicago recently completed the West Loop-LaSalle Historic District National Register nomination in an effort to enhance public awareness of the district's significance and to encourage investment in historic rehabilitation projects. Developers can now use the federal HTC and the Cook County property tax incentive for historic

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buildings. The district, an important collection of 19th and early 20th century buildings that formed the city's historic financial, governmental and commercial areas, follows the spine of LaSalle Street from the Chicago River to the Board of Trade Building. It includes 71 buildings, many of which – like the Rookery Building, a historic building at 209 S. LaSalle Street that gained the name in part because of the crows and pigeons that inhabited its exterior walls – are important individually and as part of the historic district.

In recent years, the proposed district had experienced some interest in the historic tax credit HTC program. The Continental and Commercial Bank, architect Daniel Burnham's last work, at 208 S. LaSalle Street, was rehabilitated for \$300 million with the lower 12 floors transformed into a J.W. Marriott Hotel. The HTCs were valued at approximately \$60 million. However, the project almost didn't get off the ground because alterations in the 1950s made the property's National Register potential questionable. At the same time, the Steuben Club on Randolph Street underwent a \$147 million rehabilitation, after an unexpected \$23 million terra cotta repair skyrocketed costs from a 2006 estimate of \$78 million. By creating a National Register district, the path to the HTC is made considerably easier, and frankly cheaper. Since the district was added to the National Register, several projects are starting to move forward as possible redevelopments, including one to adapt a high-rise office to hotel use.

Without HTCs, it is highly unlikely that projects such as the Gray Building, 208 S. LaSalle and the Steuben Club would have been undertaken. Yet, because of the

comparative size of the buildings, it is equally unlikely that they would be been demolished. Rather, they would have continued on the path of disinvestment with ever lowering rents. That in turn would affect the property values and livability of the neighborhood. The sum result would simply be a lack of investment in our historic architecture and decline in our city centers.

These are but three examples of how the HTC program works to transform our main streets. It is an incentive that is only triggered when sizable amounts of private capital are invested in rehabilitating buildings. It is one that facilitates the rehabilitation of historic architecture, those landmarks that create our sense of place and heritage. It is a program that is embraced by local policymakers as a critical, if one of the few, tools available in their efforts to continue reversing the flight of people and business to the suburbs. At the end of the day, it is a program that works and is a key economic driver in both urban and rural America. ❖



John M. Tess is president and founder of Heritage Consulting Group, a national firm that assists property owners seeking local, state and federal historic tax incentives for the rehabilitation of historic properties. Since 1982 Heritage Consulting Group has represented historic projects totaling \$3 billion in tax credits. He can be reached at 503-228-0272 or jmtess@heritageconsulting.com.

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