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HISTORIC TAX CREDIT TOOL BOX



Can You Rehab a Rehab?

JOHN M. TESS

HERITAGE CONSULTING GROUP

As the 40th anniversary of the federal historic tax credit (HTC) program approaches, the early days of the program come to mind: typewriter applications, carbon paper copies and 35mm photograph prints. While application procedures and technology have advanced significantly from those early days, it is also important to realize that those early tax credit projects are now at least 30 years old. As the original HTC processes have aged, so have the projects themselves. What were once modern floor plans, finishes, fixtures, windows and systems, are now often tired, out-of-date and sometimes even obsolete. While retro may be in, inefficient and inoperable are not marketable features when selling a building.

The late 1970s and 1980s were a period of evolution for the redevelopment of aging buildings. These were the dark days for cities, following on the heels of two decades of redevelopment and urban renewal programs. After more than 20 years of social unrest and suburban relocation, downtowns and their building stock were in a sorry state. Buildings were dirty, storefronts and windows were unsympathetically “modernized,” walls and windows were pocked with air conditioning units—and these were the “good” buildings. To compete with suburban office parks, buildings—and sometimes entire blocks—

were demolished to provide parking for the commuting populations and the ever-decreasing tenant count.

While historic preservation incentives were first included in the Tax Reform Act of 1976, the first federal HTC was enacted as part of the Revenue Act of 1978. Prior to this, federal law actually encouraged the demolition of older buildings. The HTC was introduced as an economic development program to level the playing field against suburban flight. The HTC was designed and implemented with the intention of stimulating reinvestment in downtown cores through the rehabilitation of historic buildings.

Based on the number of buildings rehabilitated and the total amount of dollars invested (and returned on investment), it’s clear that the program has been successful. Those early years were critical to the program’s long-term success and demonstrated its viability.

It is important to realize that, as with any program, the HTC has evolved in both administration and design review. Standards have been developed, implementation has changed. Treatments that may have been approved in 1985 may no longer be considered appropriate under the program’s guidelines. The early days of the HTC were

continued on page 2

continued from page 1

successful in keeping historic buildings from the scrap pile, but as the success of adaptive reuse has grown, the program has evolved to move beyond merely saving a building to maintaining higher standards of design, materials and compatibility. Success can be both a blessing and a burden.

Those early HTC projects were ideal at the time, and many utilized modern fixtures, finishes and materials. But by current standards, those features are dated and past their useful life span. While many of the buildings have been upgraded over the years, others of this vintage have become nearly as outdated as they were at the time of the first tax credit project. After all, real estate isn't static. As these buildings near the end of their useful life in their current state, it's time for them to be rehabilitated once more.

Can you undertake an HTC project on a building that was previously rehabilitated as a HTC project? Yes! Windows, storefronts and masonry work may be necessary. On the interior, it is likely that systems will need to be updated or replaced completely, energy and accessibility codes will have to be met and floor plans will likely be updated to meet the needs of modern tenants. A rehab of a rehab is not all that dissimilar from utilizing the HTC the first time around for the rehabilitation of a vacant building.

However, while the process is the same, one thing that should be kept in mind is that there is no guarantee that work that was approved on an earlier tax credit will be approved today. Under earlier versions of the program's guidelines, significant change may have been approved in order to allow for the retention of a building. Today, however, the fear of demolition has subsided significantly, and the program has evolved beyond the baseline of "keep the building." In earlier years of the program, windows may have been approvable if they were similar, but not exact, matches to the existing or historic windows. Under the evolving standards of compatibility and design for historic buildings, window replacements need to closely match the historic window configuration, profile and dimensions. On the interior, floor plans (and specifically, corridors) may have been changed significantly in earlier years of the program. Today, that level of wholesale change is less likely to be approved. Finally, while energy efficiency has become a paramount concern in building

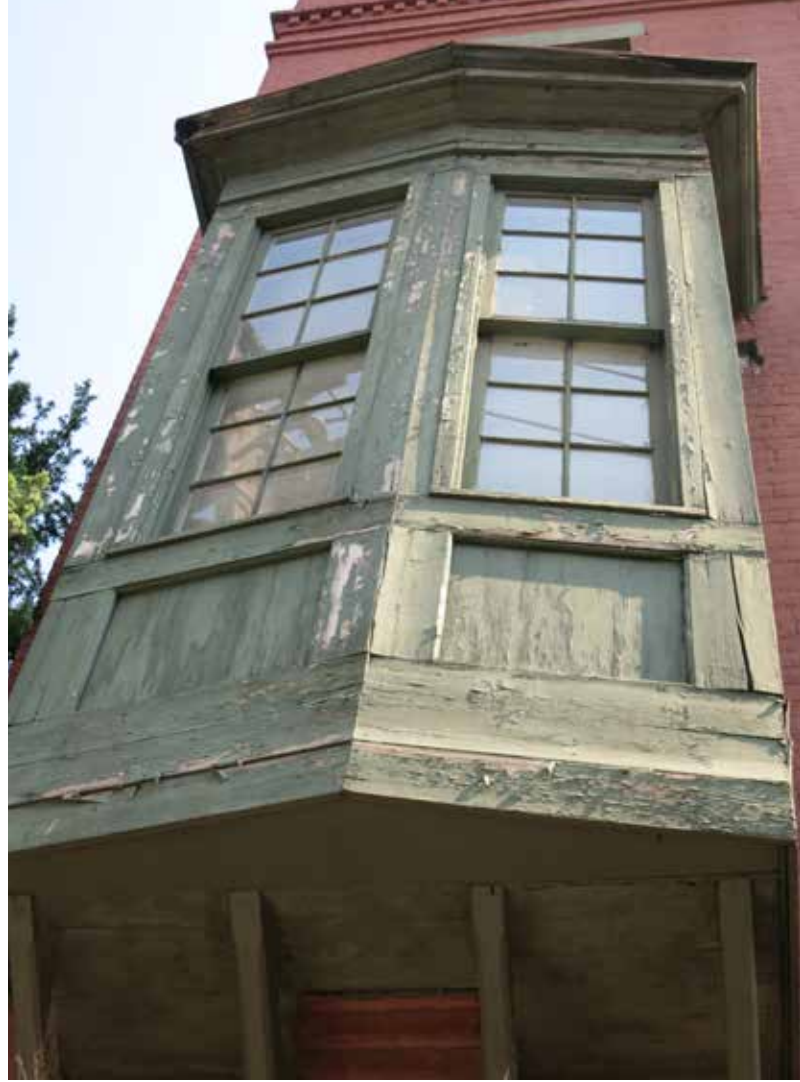


Photo: Courtesy of Heritage Consulting Group

A window repaired in a 1980s rehabilitation is again in need of repair.

design and use, features such as wall insulation have increased in importance and scrutiny as reviewers consider the effect of those interventions on the building's historic fabric and design.

Although design review has evolved and the nuances of the program's guidelines should be considered, a building that was previously rehabilitated will nevertheless still likely provide a solid base for a successful HTC project. Changes made as part of an earlier project may earn leeway for additional changes, as fewer remaining historic features may remain intact. Moreover, the modern replacement windows, suspended ceilings and gypsum board walls installed within an earlier project are more easily modified and replaced than original wood windows, plaster ceilings and marble corridor walls. Further, these buildings may provide an opportunity for a higher level of historic compatibility, as more appropriate treatments are utilized and insensitive modern finishes and 1980s features (such as signage) are redressed.

continued on page 3

continued from page 2

As we move further into this decade and the depth of the program, we will see a significant number of these second cycle HTC projects. Thirty years is a long time, especially in an industry where trends and preferences evolve every few years. These early projects should provide an opportunity to bring new products and treatment standards online within buildings that have become tired. While program guidelines have evolved and work that was previously approved may no longer be considered appropriate, previous alterations may present new opportunities for change. It is exciting to see that the HTC has survived and thrived long enough to complete

another full life cycle for these historic buildings. The opportunity for the next rehabilitation should not be missed. ❖

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 more than \$3 billion in rehabilitation construction. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.

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