



# Novogradac Journal of Tax Credits

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

September 2014 • Volume V • Issue IX

Published by Novogradac & Company LLP

## HISTORIC TAX CREDIT TOOL BOX



### Subdividing Significant Interior Spaces

JOHN TESS

HERITAGE CONSULTING GROUP

Certain building types inherently contain significant interior spaces, the character of which can be defined by their volume as well as their architectural distinction. School buildings contain cafeterias, gymnasiums and auditoriums; armories contain drill halls; hotels contain ballrooms; fraternal lodges contain ceremonial spaces; office buildings contain lobbies; and bank buildings contain monumental banking halls. The adaptive reuse of such spaces often hinges on the ability to subdivide the space, either horizontally or vertically. This article addresses the opportunities and challenges of subdividing significant interior spaces in historic tax credit (HTC) projects.

#### Assessing the Significance of Interior Spaces

The Secretary of the Interior's Standards for Rehabilitation (Standards), which serve as the guidelines for the HTC program, contain 10 general standards that are applied to ensure that the distinctive or "character-defining" features of a building are retained. For some projects, these character-defining features can be the spaces themselves; spaces that define the historic use of the building. The Standards require that properties be reused in a manner that minimally changes the defining characteristics of the building thereby retaining the historic character of the building. Any new work should be differentiated from the historic, yet compatible in order to protect the historic integrity of the building. These are factors that

the National Park Service (NPS) considers in making determinations on whether proposed work is appropriate and ultimately approvable for HTC certification.

It is not uncommon in an HTC project to have large public or assembly spaces for which there is no feasible reuse without subdividing the space. The economics of the project may not support the retention of a large volume of space or there may not be a programmatic need for an assembly room. Often, such spaces are mothballed, but subdivision may be possible. Methods of subdivision might include vertical subdivision (insertion of walls), horizontal subdivision (insertion of a floor level) or mezzanine creation. These are options that can be explored in any HTC project containing a significant interior space. Some recent projects involve programmatic requirements that necessitate subdivision of lobbies because there are multiple users within a building and the need for separate tenant entrances.

In assessing the significance of interior spaces, the NPS examines the floor plan, arrangement of spaces, and the inherent hierarchy of interior spaces. Public and circulation spaces are typically recognized as more important than spaces that were not historically seen by the public. These spaces are often architecturally distinguished and typically assigned a higher level of significance than more mundane or utilitarian spaces. Most commonly, there will

continued on page 2

continued from page 1

be greater opportunity for change in less significant and less architecturally distinguished areas of the building than in primary public spaces.

When reviewing an HTC project containing a significant interior space, the NPS will also evaluate the role of a space in defining the overall character of a building. A theater building is defined by its primary interior public space—the auditorium—and subdividing such a monumental and often ornate space is difficult without affecting the overall character of the building. Church sanctuaries present similar challenges, which is why this building type is not commonly a candidate for HTC projects.

Another challenge can arise when interior monumental spaces are expressed on the exterior of a building, such as a multi-story banking hall with large, double-height exterior windows. In evaluating whether the subdivision of a large banking hall is approvable, the NPS will consider the effect of the change on the perimeter wall, as well as, the exterior of the building, and the visibility of such a

change from the street will be evaluated and assessed.

In determining whether there is an opportunity for subdivision, the NPS typically takes into consideration the level of integrity of the space. Public spaces that are original in form and finish may not be approved for subdivision—whereas spaces that have previously been altered—or the character or integrity of the space has been compromised by the removal of original features, may present a greater opportunity for such change.

In planning a successful rehabilitation, an owner will have a more straightforward path toward approval if the hierarchy of spaces is recognized and maintained in the rehabilitation. In the rehabilitation of a school, for example, retaining an original auditorium as a community or performance space is an easier path than a proposed subdivision of what is generally regarded as a significant and architecturally detailed space. By contrast, that school’s gymnasium, which might be less architecturally sophisticated, may be a better candidate for subdivision.

continued on page 3

*Photo: Courtesy of Heritage Consulting Group*  
**The Rohm and Haas Corporate Headquarters Building in Philadelphia was constructed in 1963-65.**





Photo: Courtesy of Heritage Consulting Group

PMC Properties rehabilitated the Bell Telephone Company of Pennsylvania Western Headquarters Building in Pittsburgh, Pa.

continued from page 2

A creative design team can often arrive at approvable solutions to permit the subdivision of significant interior spaces.

### Subdivided Interior Spaces in HTC Projects

There are a variety of means to subdivide a voluminous space. Partitions could be installed to create rooms within the larger space; floor levels can be added to create horizontal subdivision; or mezzanines could be installed to partially subdivide the space. In any of these scenarios, the NPS will inevitably assess the locations of any new walls or floors, as well as, the method of attachment to the historic floor, wall and ceiling surfaces to ensure that the most sensitive approach is pursued.

In proposing the subdivision of a significant interior space, there are a number of design issues that should be contemplated to maximize opportunities for a successful outcome. These include transparency, reversibility, retention of volume, materials and the overall feeling of space.

Undertaken by developer, PMC Properties, the rehabilitation of the Bell Telephone Company of Pennsylvania Western Headquarters Building in Pittsburgh presented a challenge as it was necessary to subdivide the main lobby to serve two separate uses. Constructed in 1956 as the administrative offices for the western region of the Bell Telephone Company of Pennsylvania, the building was designed by a prominent local architect in the Modern Movement style of architecture. The interior contained a historic main lobby with marble wall cladding and flooring, and polished aluminum doors and ornamentation. The rehabilitation program for the building required separate entrances for the two building tenant groups and, thus, subdivision of the lobby was essential to the success of the project. A solution was approved whereby an aluminum-framed, full height, glazed partition wall was designed that would complement the existing architecture and allow for the retention of views through the lobby. This solution provided controlled tenant access, while retaining the volume and feeling of the elevator lobby.

continued on page 4

continued from page 3

The Rohm and Haas Corporate Headquarters Building in Philadelphia was designed by an internationally renowned architect and constructed in 1963-65 as the headquarters of Rohm and Haas, a specialty materials company perhaps best known for their development of Plexiglas. The building was rehabilitated for continued office use using HTCs. The first floor contains two pavilions separated by an open air galleria. The south pavilion, which originally housed a bank branch, was converted to the company cafeteria as part of the HTC rehabilitation. The pavilion contained a monumental one-story uninterrupted volume of space with perimeter walls made of large anodized aluminum-framed windows set between concrete piers. The ceiling throughout was exposed concrete designed with a smooth finish using innovative technologies for the period. Insertion of a kitchen within the pavilion proved a challenge as the NPS was not likely to approve a design that impacted the perimeter walls or concrete ceilings. Ultimately, a kitchen was approved for insertion near the center of the space, with freestanding walls that did not continue to the ceiling, and allowed for an unobstructed view of the ceiling throughout the pavilion. This solution maintained the volume of the space and allowed for the character-

defining concrete ceiling to remain exposed.

## Conclusion

Subdividing significant interior spaces presents both opportunities and challenges. Early consultation with the SHPO and NPS is critical to avoid delays in the process. The most successful approach will maintain the public nature of the space to minimize the need for change. Greater opportunities for such change can be realized in spaces that are less significant, less architecturally distinguished, or in spaces that were previously altered. The solutions presented demonstrate that a creative design team that understands the parameters of the HTC program can often obtain approval for subdivision of significant interior spaces. ♦

---

*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](mailto:jmtess@heritage-consulting.com).*

---

*This article first appeared in the September 2014 issue of the Novogradac Journal of Tax Credits.*

© Novogradac & Company LLP 2014 - All Rights Reserved

*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).*

## EDITORIAL BOARD

PUBLISHER

**Michael J. Novogradac, CPA**

EDITORIAL DIRECTOR

**Alex Ruiz**

TECHNICAL EDITORS

**Michael G. Morrison, CPA**

**James R. Kroger, CPA**

**Owen P. Gray, CPA**

**Thomas Boccia, CPA**

**Daniel J. Smith, CPA**

## COPY

ASSOCIATE EDITOR

**Jennifer Dockery**

STAFF WRITERS

**Teresa Garcia**

**Mark O'Meara**

EDITORIAL ASSISTANT

**Elizabeth Orfin**

CONTRIBUTING WRITERS

**Scott Michael Dunn**

**Kyle Zochert**

**Thomas Stagg**

**Michael Reardon**

**Ryan Rieger**

**Cyle Reissig**

**John M. Tess**

**Forrest Milder**

## ART

CARTOGRAPHER

**David R. Grubman**

PRODUCTION

**Alexandra Louie**

**Jesse Barredo**

## CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

**Alex Ruiz**

**alex.ruiz@novoco.com**

**415.356.8088**

ADVERTISING INQUIRIES

**Tyler Perrotta**

**tyler.perrotta@novoco.com**

**415.356.8062**

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.

## ADVISORY BOARD

### LOW-INCOME HOUSING TAX CREDITS

**Bud Clarke**

BOSTON FINANCIAL INVESTMENT MANAGEMENT

**Jana Cohen Barbe**

DENTONS

**Tom Dixon**

BOSTON CAPITAL

**Rick Edson**

HOUSING CAPITAL ADVISORS INC.

**Richard Gerwitz**

CITI COMMUNITY CAPITAL

**Rochelle Lento**

DYKEMA GOSSETT PLLC

**John Lisella**

U.S. BANCORP COMMUNITY DEV. CORP.

**Philip Melton**

CENTERLINE CAPITAL GROUP

**Thomas Morton**

PILLSBURY WINTHROP SHAW PITTMAN LLP

**Mary Tingerthal**

MINNESOTA HOUSING FINANCE AGENCY

**Rob Wasserman**

U.S. BANCORP COMMUNITY DEV. CORP.

### PROPERTY COMPLIANCE

**Michael Kotin**

KAY KAY REALTY

**Michael Snowdon**

HIGHRIDGE COSTA HOUSING PARTNERS

**Gianna Solari**

SOLARI ENTERPRISES INC.

**Kimberly Taylor**

HOUSING DEVELOPMENT CENTER

### HOUSING AND URBAN DEVELOPMENT

**Flynann Janisse**

RAINBOW HOUSING

**Ray Landry**

DAVIS-PENN MORTGAGE CO.

**Denise Muha**

NATIONAL LEASED HOUSING ASSOCIATION

**Monica Sussman**

NIXON PEABODY LLP

### NEW MARKETS TAX CREDITS

**Frank Altman**

COMMUNITY REINVESTMENT FUND

**Merrill Hoopengardner**

ADVANTAGE CAPITAL

**Scott Lindquist**

DENTONS

**Matthew Philpott**

U.S. BANCORP COMMUNITY DEV. CORP.

**Matthew Reilein**

JPMORGAN CHASE BANK NA

**Ruth Sparrow**

FUTURES UNLIMITED LAW PC

**Elaine DiPietro**

ENTERPRISE COMMUNITY INVESTMENT INC.

### HISTORIC TAX CREDITS

**Jason Korb**

CAPSTONE COMMUNITIES

**John Leith-Tetrault**

NATIONAL TRUST COMM. INVESTMENT CORP.

**Bill MacRostie**

MACROSTIE HISTORIC ADVISORS LLC

**John Tess**

HERITAGE CONSULTING GROUP

### RENEWABLE ENERGY TAX CREDITS

**Bill Bush**

BORREGO SOLAR

**Ben Cook**

SOLARCITY CORPORATION

**Jim Howard**

DUDLEY VENTURES

**Forrest Milder**

NIXON PEABODY LLP

© Novogradac & Company LLP

2014 All rights reserved.

ISSN 2152-646X