



## HISTORIC TAX CREDIT TOOL BOX

# Hotel Branding and the Historic Tax Credit

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Using historic tax credits (HTCs) and successfully completing a hotel rehabilitation project is a logical choice to cater to the growing group of heritage-minded tourists. However, these projects can pose a variety of challenges depending on if the property is a former hotel or an adaptive reuse, or if the final product is for an independent hotel or a chain. In the end, a little creativity goes a long way to meet the Secretary of the Interior's Standards for Rehabilitation (Standards) and achieve a successful rehabilitation.

By way of background, the 1980s saw the beginnings of the historic hotel trend. Kimpton Hotels, one of the companies that kick-started the trend, opened the Clarion Bedford Hotel in San Francisco in 1981. It is considered by many to be the first historic boutique hotel.

According to one report, from 2000 to 2005, historic hotels achieved a slightly higher occupancy rate than the national average while able to charge a premium nightly rate for the rooms on account of the property's character. These statistics validated the historic hotel among the competition of new build hotels. Historic hotels were not antiquated relics as skeptics may have believed, but an opportunity to highlight a neighborhood's history and the glamour

of a past era. The success of these hotels piqued the interest of hotel chains hoping to be a part of this money-making opportunity.

Originally, the notion was to update historic hotels to provide charm. Today, hotels look to rehabilitate historic office buildings or apartments, sometimes even train stations, post offices or canneries, into hotels in order to create a unique experience for their guests. Each building type presents its own challenges for rehabilitation into a hotel, but the final result may be enough to attract guests willing to pay a premium for a unique hotel.

There are several factors to consider that influence the rehabilitation of a historic property for hotel use, namely: What the property was used for before becoming a hotel? Is the hotel being adapted for use by a private boutique owner or for a corporation chain? No matter the answer to these questions, a hotel rehabilitation project is still feasible; these merely help to determine how much creative latitude is necessary and available to the developer and what hurdles may lay ahead.

In any rehabilitation project, there are typically multiple players at the table, though when redeveloping a hotel, there can be a range to the

continued from page 1

number of stakeholders involved. For example, if the developer behind the project is also the owner/operator of the hotel, the whole process is a little more streamlined. An individually owned hotel does not need to meet corporate standards such as interior finishes, floor plans and amenities, which allows for a greater degree of flexibility.

Whether or not a property was previously a hotel or if it is an adaptive reuse results in varying levels of difficulties. For example, if the property was built for use as a hotel, certain amenities and spaces may already exist—such as a lobby, ballroom, guest rooms and back-of-house space. The adaptive reuse of a building into a hotel poses challenges for creating essential hotel spaces while still meeting the Standards. Adaptive reuse often requires creative solutions.

**Renaissance Blackstone Chicago Hotel, Chicago**

An example of a building that used HTCs to continue the use of a former hotel and meet the brand standard of a large corporation is the Renaissance Blackstone Chicago Hotel. Designed by Chicago-based architectural firm Marshall & Fox and completed in 1910, the Blackstone is a 23-story hotel completed in the Second Empire style. Built as a hotel, it is a steel-frame structure and has a strong presence on Michigan Avenue. During the early-20<sup>th</sup> century, the Blackstone was considered one of Chicago’s finest luxury hotels and dubbed “The Hotel of Presidents” in honor of the many political figures who stayed there.

In 1999, the building was closed by Chicago for fire and safety code violations. Two years later, a developer attempted to adapt the building as luxury condominiums. During that time, extensive demolition was completed on the guest room floors. Demolition included removal of select demising walls between guest rooms and between guest rooms and corridors. One floor was gutted in its entirety while the public spaces had a very high degree of integrity. Though some of the spaces were demolished, the spaces for necessary hotel amenities—such as the



*Image: Courtesy of Heritage Consulting Group*  
**Designed by Chicago-based architectural firm Marshall & Fox and completed in 1910, the Blackstone is a 23-story hotel completed in the Second Empire style.**

ballroom, guest room configuration and decorative lobby— already existed, which allowed the project to be comparatively streamlined. In 2008, following Sage Hospitality’s \$94 million rehabilitation, the Blackstone was returned to its former glory, including 332 guest rooms, 12 suites and 13,230 square feet of meeting space. Since this rehabilitation effectively returned the building to its original use, the rehabilitation was more straightforward in nature.

**Hilton Garden Inn, New Orleans**

Meeting a brand standard and completing an adaptive reuse project is typically more challenging. An example of a successful adaptive reuse is HRI’s rehabilitation of the National Bank of Commerce and Addition

continued on page 3

continued from page 2

into a Hilton Garden Inn in New Orleans. Located in the National Register-listed Lower Central Business District, the building is comprised of two parts: a 1926-27 National Bank of Commerce, which is classically styled skyscraper and a 1956 International Style Commerce Building Addition.

When adapting an office building to a hotel, there are challenges beyond economizing on space to achieve a desired room count, but also how to provide brand-standard amenities such as a pool, fitness center and on-site parking. In this particular project, the creative use of space allowed for on-site parking in the lower levels of the 1956 International style addition. The lower five floors were converted to parking and portions of the aluminum and glass curtain wall were removed to provide adequate ventilation. Though windows were

removed, the remaining vertical piers still convey the building's original appearance.

**Conclusion**

Developers looking to create a historic hotel, whether on their own or in partnership with a hotel brand, should feel assured using HTCs. Whether the project is renovating a former hotel or adaptively reusing historic building, there are many creative solutions that will allow for a successful rehabilitation project. ❖

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*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).*

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