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## HISTORIC TAX CREDIT TOOL BOX

# Historic Tax Credits and the Adaptive Reuse of Churches



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**A**lthough the church-going population in the United States has remained more or less constant since the 1990s, it is estimated that between 6,000 and 10,000 churches die every year in the United States. There are many reasons for this.

Like other building types, churches are impacted by population shifts—from the central city to the suburbs and more general population shifts. Changing demographics, including new immigrant populations as well as changes in specific attitudes toward nontraditional religions and changing attitudes toward the role of the church in the community, have also influenced attendance at specific churches. There is also the reality of ever-increasing maintenance and operational costs for aging structures. It is said that the keys to a congregation's survival are “budgets and butts” and congregations generally are suffering with both metrics.

As part of the community fabric, it is important that these structures be saved and adapted. The architectural or social importance of some churches, such as the 1699 Old Swedes Church in Wilmington,

Del., is such that they are operated as museums. The Old Swede was designated a National Historic Landmark in 1961. It is operated by the Old Swedes Foundation and is part of the First State National Historic Park created by Congress in 2013.

Other churches have been adapted to modern uses. The historic preservation movement came to the forefront of American life in the 1960s, spurring community action that typically resulted in locally iconic church buildings being adapted as event venues with concerts, nondenominational weddings and other large gatherings. This is what was done in Portland, Ore., when an 1882 Carpenter Gothic styled Calvary Presbyterian Church was abandoned and put up for sale in 1965. In the face of demolition, a community group called “The Old Church Society” launched fundraising efforts to buy and operate the building. Nearly five decades later, the property

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continues to thrive as a local and publically accessible icon.

In some instances, congregations have downsized and kept services in the worship building while simultaneously becoming a partner with a private developer to adapt secondary areas for modern secular uses. One such example is the Bethesda United Methodist Church in Ashville, N.C. There, extra space was used to create We-Work-style co-working facilities, a small overnight personal retreat center and a commercial kitchen. The grounds also include a greenhouse, playground and community garden.

Finally, in other instances, the church—or portions thereof—served as the bones for a larger redevelopment project where the most prominent and salient

*Image: Courtesy of Heritage Consulting  
Melrose Baptist Church in Oakland, Calif., was adapted to workforce housing, using historic tax credit equity as a key funding source.*

architectural elements have been retained but lesser buildings demolished, replaced

by new. One example is the 1847 12<sup>th</sup> Street Baptist Church on the Lower East Side of Manhattan. New York University partnered with Hudson Companies to adapt the property into a student dormitory, retaining the steeple and façade, but integrating a high-rise tower into the site. Another similar example, also in Manhattan, is the 1905 Christ Church Presbyterian Church, where the street façade was preserved but a high-rise hotel is being built behind.

### Adapting Churches and Historic Tax Credits

Despite the high architectural values and the growing number of well-located church properties, the number of successful historic tax credit (HTC) applications is surprisingly slim. According to the National Park Service (NPS) project database, while there have been more than 40,000 HTC applications since the 1990s, only 0.7 percent involve churches. Of these, only 0.2 percent, or 82 developments, came to fruition. Fifty developments stopped at the Part 1 approval stage and another 74 stopped or are in process for the Part 2 stage.

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There are many reasons why church rehabilitation projects may not go forward. There may be misconceptions about how the HTCs may bring equity into a project. There may also be issues associated with meeting the basis.

The primary challenge to adapting a historic church however is the need to preserve the sanctuary space. By definition, although often modified over time, a sanctuary (comprised of the narthex, nave, crossing and apse, and any associated balcony) are fundamental and character-defining features. Radically changing the floor plan, either by addition or demolition, is rarely approvable. This extends to treatments that might be approvable in other types of buildings.

*Image: Courtesy of Heritage Consulting*

**Melrose Baptist Church in Oakland, Calif., was not on the National Register, which required guidance to establish the stylistic importance of the church and get it registered.**

While a general industrial space could be subdivided into apartments, the relatively greater significance of a sanctuary

in conjunction with the historic use elevates the particular importance of these elements. And while importantly sanctuaries typically feature high-end finishes, which collectively add significance to the space, the absence of such high-end finishes does not eliminate the importance of the volume to the heritage of the building. While subdividing these spaces may be critical to the economic viability of a project by adding leasable square footage, it is important to remember that the HTCs are an incentive and must meet the NPS standards regardless of economics.

### Melrose Baptist Church

One recent successful church adaptive reuse was the Melrose Baptist Church in the Fruitvale neighborhood of Oakland, Calif. The Melrose complex consisted of four buildings. The church was built in 1930, designed in the Spanish Revival style by Oakland architects Wythe, Blaine and Olson. A wing was added to the east in 1939. In 1940, a two-story school building, also in the Spanish Revival style, was added. Shortly after, a

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two-story preschool building was built and an adjacent 1920 bungalow was added to the complex. By 1956, the Melrose congregation numbered 1,200 and continued to grow. In 1975, the church moved to a newer, larger facility nearby.

The original Melrose Church was then leased to the East Hills Community Church, and then converted to the Masjidul Waritheen Mosque with the Clara Mohammed Elementary School. In 2015, the mosque vacated the property and Riaz Capital purchased the property.

Riaz Capital is a developer and operator of workforce housing, specifically focused on the changing housing needs of the millennial generation. Organizationally, it is a fully integrated project team with in-house development, construction and property management operating in the Bay Area.

*Image: Courtesy of Heritage Consulting*  
**The sanctuary of Melrose Baptist Church in Oakland, Calif., was ultimately developed into a single oversized live-work apartment.**

It has more than 1,300 units and is in development with four more developments. Near the Melrose Church project is the Arthaus Studios, which adapted the abandoned H. G. Prince Cannery for creative professional collaborative workshop space.

While a community landmark at the start of the project, the Melrose Church was not listed on the National Register. Getting the property certified as a historic structure was the first task. Separating church and state, the National Register Criteria Consideration A requires religious properties to be eligible based not on the merits of the religion, but on a purely secular basis. In the case of the Melrose Church, the consistent reliance in the complex on the Spanish Revival style offered the path that the building could be locally significant as an example of architectural style. With assistance and guidance from the Oakland City Historic Preservation staff, Heritage was able to identify notable examples of the style in the areas and

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establish a compelling comparative analysis supporting the stylistic importance of the Melrose Church.

In terms of redevelopment, Riaz Capital envisioned the \$13 million redevelopment exclusively as a market-rate apartment complex. It has 60 apartments, of which 32 are studios, 26 are one-bedroom and two are two-bedroom. From the outset, the sanctuary proved to be a major hurdle. Cumulatively, it represented 10 percent of the square footage of the entire complex. Early concepts explored subdividing the space into four apartments that spanned the width of the building. These efforts proved fruitless and the developer eventually conceded to create a single, oversized apartment that offers a unique setting for a live-work resident.

A lesser but equally challenging problem was the modification of two steel-frame full-height multilight windows into doors. The doors were part of a five-window row that defined the courtyard's south elevation. Heritage was able to document the windows precisely. Attempts at replication in wood and aluminum proved to be unsuccessful; eventually Heritage located the Manhattan Iron Door Company that could provide

a custom door that matched the historic profiles nearly perfectly.

### Conclusion

The adaptive reuse of churches is challenging. It is particularly so when the development relies on the HTC incentive. The primary difficulty lies with preserving and adapting the sanctuary. Fundamental to the interior architecture of the building, the sanctuary, in volume and design, is a character-defining feature that must be preserved. As shown by the Riaz Capital and the Melrose Baptist Church, where a developer approaches a project with creativity and flexibility, preservation of the sanctuary can be made to work within the context of the larger project and result in a successful HTC application. The basic lesson is for the development team to be forewarned, to have quality historic consultants and to start early. ❖

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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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