



# Capital Funding through Historic Rehabilitation Tax Credits



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## INTRODUCTION

In December 2017, Congress passed the Tax Cuts and Jobs Act of 2017, which kept intact the 20% Historic Tax Credit (HTC) program described in this guide, while eliminating the 10% older building tax credit provision. The Act also modified the terms under which owners could realize the tax credit, which previously could be claimed in whole once a project was completed. The tax credit must now be claimed at a rate of 4% annually over a five-year period. Although this change somewhat reduces the value of the tax credit to investors, the HTC program still provides significant financial incentives to investors. This and other changes are described in more detail on the following pages.

In small towns, large cities and other communities across the country, people are standing in front of aging buildings — some beloved local landmarks, some seemingly obsolete, and others simply worn out. Many concerned owners and communities are wondering what to do with these neglected resources — and how to pay for the work involved. Since 1976, more than 40,380 such buildings have been given new life using federal historic tax credits to help with project financing, and in the process are transforming the built environment and instilling a new sense of pride and vitality in communities large and small.

For example, the **Knapp's Centre**, a long-vacant department store in downtown Lansing, Michigan, is now once again an anchor in its community, serving the needs of retail, office and residential users. In Toledo, a Mid-Century Modern 30-story glass office tower has been recast as a multi-use building with retail, office and residential uses. The 27-acre Brewers Hill in Baltimore, an 11-building industrial complex that includes two breweries, is now a mixed-use complex with offices, restaurants and retail uses. These and countless other projects, small and large, are made possible with the help of historic rehabilitation tax credits.

Rehabilitation tax credits have helped fund the reuse of historic buildings, leveraging \$113 billion in private investment to develop a diverse array of income-producing buildings. The program also boosts jobs, enhances property values in older communities, creates affordable housing, and supplements revenue for all levels of government. In fact, at the federal level the program used \$23.1 billion in tax credits to generate \$28.1 billion in federal revenue — so the program more than pays for itself.



Reusing aging buildings, often referred to as adaptive reuse, can be a financially challenging undertaking, but can produce results that are transformative. Fortunately, federal rehabilitation tax credits can help by bridging the gap between available financing and actual project costs. Knowing how the program works can make the difference — and make seemingly unfeasible projects not only possible, but economically compelling.

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### Historic Tax Credits' Measurable Impact

In 2016 alone, the Federal Historic Preservation Tax Incentives Program

- Received 1,299 proposed projects and approved \$7.16 billion in rehabilitation work
- Oversaw 1,039 completed projects and certified \$5.85 billion in rehabilitation work
- Helped create 108,528 jobs

*Source: Federal Tax Incentives for Rehabilitating Historic Buildings, Annual Report for Fiscal Year 2016*

This guide provides an overview of the federal historic tax credit program. It also offers recommendations on determining if your building is eligible for the program, how to apply, and how to ensure you receive the credits. Success requires understanding not only the tax credit program itself, but also how working with design professionals can improve your chances of securing the tax credits. Doing so greatly improves the chances that your next adaptive use project will be successful.







## CHAPTER 1

# Understanding the Tax Credits

Mid-Century Modern buildings are not automatically listed in the National Register of Historic Places. However, an owner may request such a designation based on a building's unique historical, cultural or archaeological factors.

There are two types of tax credits offered through the Federal Historic Preservation Tax Incentives Program. The most widely used is the 20% credit for historic buildings. The 10% credit for non-historic buildings constructed before 1936 has recently been eliminated; see additional details regarding pre-tax reform provisions for this credit in the italicized note below.

### 20% Tax Credit for Historic Buildings

Commonly known as the “historic tax credit,” this program provides a 20% federal income tax credit for qualified rehabilitation expenses (QREs), including most construction and design costs, and certain holding costs such as insurance and property taxes.

In order to qualify for the tax credit, these four criteria must be met:

1. **The structure must be listed in the National Register of Historic Places, or be certified as contributing to the significance of a “registered historic district.”**

To determine whether a building qualifies, contact your local historic district commission, municipal planning office, or State Historic Preservation Office. Even if the property is located in a National Register district or a certified state or local district, it still must be confirmed by the National Park Service (NPS) as a structure that retains historic integrity and contributes to the historic character of the district. Note that not all buildings in a district necessarily contribute in this way. When NPS designates historic districts, they usually associate them with a particular “period of significance,” such as “mid-1800s to 1935.” In that example, a building erected in 1950 would not contribute, and therefore would not be eligible for the 20% credit.

If you find that your building is not listed as a certified historic structure, you can still ask the National Park Service to determine that it is eligible for National Register listing by completing and submitting Part 1 of the [Historic Preservation Certification Application](#).



In general, buildings and districts are eligible for listing in the National Register for any of four reasons:

- **Association with broad patterns of historic development:** They are associated with events that have made a significant contribution to the broad patterns of our history. Many buildings and historic districts fall under this category, and historic downtowns and neighborhoods are the most obvious examples. Less obvious are buildings tied to the development of a particular industry, building types such as apartment buildings from a certain era, or buildings associated with particular inventions, artistic accomplishments or cultural innovations.
- **Association with significant persons:** They are associated with the lives of significant persons in our past. The obvious buildings in this category are those associated with famous persons. Less obvious are buildings that are connected to persons who were significant to the history of a local community. Examples of this category could include the house of a town's first mayor, the home where an inventor of a now-common item lived, or the residence of a leader who left a lasting impression on the community.
- **Quality of architectural design:** They embody the distinctive characteristics of a type, period, or method of construction, represent the work of a master, possess high artistic values, or represent a significant and distinguishable entity whose components may lack individual distinction.

Top-of-mind buildings in this category include the masterpieces designed by celebrated architects. Less obvious are beautiful buildings constructed by master builders. Even less obvious are those buildings that are rare because they show us how our ancestors built, such as log cabins, settlers' houses and early meeting houses. This category also includes local anomalies, such as the Earl Young-designed "mushroom" houses in Charlevoix, Michigan.

- **Archaeological resources:** They have yielded, or may be likely to yield, information important in history or prehistory. This category is probably less significant for the purposes of historic tax credits, but is intended to recognize that historic places may have buried or otherwise hidden resources that should be recognized through listing in the National Register of Historic Places.

A key point to realize is that many aging buildings are eligible for this program, but this fact is not always obvious based on a building's appearance to a casual observer. For example, **71 Garfield** in Detroit was a tired, vacant apartment building that had suffered a major fire and was almost beyond saving. But through the strategic use of historic tax credits, Quinn Evans Architects helped its owner turn it into a green office and residential space with an almost net-zero-energy profile.



71 GARFIELD IN DETROIT, MI.



**2. The project must meet the “substantial rehabilitation test.”**

The cost of rehabilitation must exceed the pre-rehabilitation cost of the building. Generally, this test must be met within two years or within five years for a project completed in multiple phases.

The cost of a project must exceed the greater of \$5,000 or the building’s adjusted basis. The following formula will help you determine if your project will meet the substantial rehabilitation test:

**A - B - C + D = adjusted basis**

A = purchase price of the property (building and land)

B = the cost of the land at the time of purchase

C = depreciation taken for an income-producing property

D = cost of any capital improvements made since purchase

Some expenses associated with a project may not qualify for the tax credit, such as a new addition, new kitchen appliances, or landscaping. To learn more, refer to NPS’ list of [qualified expenses](#).

**3. The work must comply with the Secretary of the Interior’s Standards for Rehabilitation.**

These are 10 principles that, when followed, ensure the historic character of the building has been preserved in the rehabilitation. The [Standards for Rehabilitation](#), which are reprinted on page 9–10 of this document, also take into consideration economic and technical feasibility.

**4. After rehabilitation, the historic building must be used for an income-producing purpose for at least five years.**

The 20% tax credit is available only to properties rehabilitated for income-producing purposes. These include commercial, industrial, agricultural, rental residential or apartment use. The credit cannot be used to rehabilitate a non-income producing property, such as a private residence.

However, if a portion of a personal residence is used for business, such as an office or a rental apartment, in some instances the amount of rehabilitation costs spent on that portion of the residence may be eligible for the credit.

*Note: There are [additional factors](#) that determine if a property is eligible for this program.*



*Note: To qualify under the pre-tax reform provisions, several conditions must be met. First, the building must have been owned by the entity that will benefit from the tax credits as of December 31, 2017. Second, any qualified expenditures must begin by June 20, 2018. Third, work must be completed within 24 months of that date for a non-phased project and within 60 months for a phased project. These requirements also apply to the 10% credit for non-historic buildings built before 1936, which has otherwise been eliminated.*



AMERICAN BREWERY, BALTIMORE, MARYLAND

*Another important consideration is that the substantial rehabilitation test (a 24-month measuring period, or 60-month period for phased projects) must begin no later than 180 days from the enactment of the tax bill, i.e., approximately July 1, 2018. The purpose of this test is to make certain that credits go to projects characterized by significant property investments and rehabilitation costs that exceed the building's pre-rehabilitation cost. The taxpayer generally selects the beginning and end dates for their project's measuring period. Under the transition rule, however, the measuring period's starting date is predetermined. In order for projects that use the 24-month measuring period (the more common approach) to be eligible for tax credits under the old code, the building must be placed into service, and qualified rehabilitation expenditures must be incurred, prior to December 31, 2020.*





CHAPTER 2

## Documentation and Application

Properly documenting building conditions can make or break your chance of securing tax credits.

In order to be eligible, a project must meet the Secretary of the Interior's Standards for Rehabilitation. These guidelines will help you determine what to document in your application.

### The Secretary of the Interior's Standards for Rehabilitation

To be eligible for the 20% tax credit, projects must qualify as "certified rehabilitations" by meeting the following Standards. These requirements apply to both the exterior and interior of historic buildings, and also apply to landscape features, the structure's site and any attached, adjacent, or related new construction.

The following are the Standards, as copied directly from the program's website:

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.

In Jackson, Michigan, historic tax credits were used with Low Income Tax Credits to convert the obsolete Light Guard Armory, Michigan's first federal prison, into Armory Arts, offering affordable housing targeted to artists with supporting galleries and studios.



6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
8. Significant archaeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.



ARMORY ARTS IN JACKSON, MI.

### Applying for the Program

To qualify for the 20% credit, you need to complete a [three-part application](#).

In documenting your application for a tax credit, you should pay attention to the three parts of the application.

- Part 1 documents the building's eligibility as a certified historic structure.
- Part 2 describes the condition of the building and the planned rehabilitation work. The proposed work will be evaluated based upon the Secretary of the Interior's Standards for Rehabilitation (see list above).
- Part 3 of the application is submitted after the project is complete and documents that the work was completed as proposed. National Park Service approval of the Part 3 application certifies that the project as executed meets the Standards.



### What NPS Reviews

For purposes of the 20% tax credit, the project scope includes the entire building, along with any historically associated property under the same ownership. Individual condominiums or commercial spaces within a larger historic building are not considered individual properties apart from the whole.

The scope of review for a project is not limited to the work that qualifies as an eligible expense. The review encompasses the building's site and environment, as well as any buildings that were functionally related historically. Therefore, any new construction and site improvements occurring on the historic property are considered part of the project.

The boundaries associated with the National Register listing may be used to determine which buildings on a property are eligible for the tax credit. These boundaries, however, do not limit the scope of review if part of the historic property lies outside that boundary.

For example, consider a historic property that consists of a school building, a separate gymnasium building, playgrounds, and ball fields. If the National Register boundary only includes the school building, that does not exclude the historically associated gymnasium, playground and ball fields from the scope of review. However, in order for work done on the gymnasium building to be eligible for the tax credit, the National Register nomination may need to be updated.

UNDERSTANDING HOW THE NATIONAL PARK  
SERVICE APPLIES THE SECRETARY OF THE  
INTERIOR'S STANDARDS FOR REHABILITATION  
FACILITATES THE DESIGN AND REVIEW  
PROCESSES, MINIMIZING THE NEED TO ADJUST  
DESIGNS DURING THE REVIEW PROCESS.

### The Review Process

Understanding how the National Park Service applies the Secretary of the Interior's Standards for Rehabilitation facilitates the design and review processes, minimizing the need to adjust designs during the review process.

Your 20% tax credit application must be submitted to the State Historic Preservation Office (SHPO). The application will be assessed, and the SHPO may ask for more information to complete their review. A property visit could be required. Once the SHPO reviews the application, they send it on to the NPS for their review, along with a recommendation about whether or not the project adheres to the Standards for Rehabilitation.

Once the NPS has received the application, they will bill the owner for the review. After you pay the fee, NPS will evaluate the application and notify the owner if it has been approved or denied. By law, all certification decisions are made by the NPS taking into consideration the recommendations of the SHPO.



CHAPTER 3

## Managing Risks

In rehabilitating historic buildings, there are a variety of risks that are inherent in the process, ranging from financial and regulatory matters to the physical features of the structure itself. Taking the steps needed to qualify for and apply for tax credits can help lessen or mitigate some of these risks. However, in order to secure the tax credits, you must also know how to navigate the system.

Experience with use of tax credits is especially helpful where significant changes to a building are necessary to meet project requirements. A major addition to the Ottawa Street Power Station in Lansing, Michigan, increased the usable areas in the building by 50%.



GARDEN THEATER BLOCK IN DETROIT, MI.

Applying for the program under the guidance of a knowledgeable consultant, such as Quinn Evans and others, can make a big difference in a project's chances for approval. A consultant or architect knows the ins and outs of the program, and their in-depth expertise can help you leverage better design to maximize your chances of receiving tax credits. In addition, a consultant who has expertise working with the Standards can literally walk the property with you before you even apply, letting you know which architectural features must remain in order to qualify, and which ones may be modified to meet programmatic or other goals.



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The potential financiers of a project also want to control their own risks, and one way they can do so is by making sure the development team knows what they're doing. Potential funders are far more likely to finance the project if a knowledgeable architect and/tax credit consultant can write a letter assuring them that the work is on track to meet the Standards and be approved for historic tax credits. Such a letter gives the funder the assurance they need to release funds *before* the project is done, so that money flows more smoothly, avoiding delays due to financing.

The **Knapp's Centre** in Lansing, Michigan is a good example of how a knowledgeable architectural firm can help address risks. The former J.W. Knapp's Department Store was an iconic Art Deco structure, built in 1937, that had been listed in the National Register of Historic Places in 1983.

But when Quinn Evans began working as the architectural firm on its redevelopment, the building had been vacant for 10 years, and was significantly dilapidated. The building's iconic façade, comprising blue and yellow Maul Macotta panels and distinctive horizontal bands of glass block, had suffered years of water damage and corrosion. In fact, these conditions represented significant risks to the project's ability to obtain financial backing.

To secure state and federal tax credits, the plan included creative updates that modernized the crumbling exterior while meeting preservation requirements. For example, the plan called for careful detailing to replicate the original character of the façade with a rainscreen system and new glass block windows.

As a result, the building was returned to its original splendor with an energy efficient, state-of-the-art building skin. Equally important was the development of new interior spaces to accommodate retail tenants on the first floor and mezzanine, office tenants on the middle floors, and residential units on the building's top two floors.



KNAPP'S CENTRE IN LANSING, MI, IN A VINTAGE PHOTO FROM THE 1950S (TOP) AND FOLLOWING ITS 2008 REDEVELOPMENT.



Another benefit of working with an architect knowledgeable about historic tax credits comes into play when a project is in trouble. Several years ago, Quinn Evans worked on the **Merchant's Row** project in downtown Detroit, whose developer had run into a roadblock that threatened to derail the project.

The developer was rehabilitating a row of mostly 6-story buildings with a smaller, 4-story building in the middle. That one building, however, was the only place where the builder could effectively stage the project, so they sought permission to tear it down and eventually replace it with a new building. When their plan was turned down, they engaged Quinn Evans Architects to evaluate the impact of different options on the project's compliance with the Standards. Thanks to our deep familiarity with the Standards and the

historic tax credit review process, we were able to negotiate a satisfactory solution that allowed the smaller building to be torn down and replaced and, on a broader scale, allow the entire project to proceed.



HEADQUARTERS OF THE ACCIDENT FUND IN LANSING, MI.

At Quinn Evans, we successfully negotiate approval of complex projects by working closely with the State Historic Preservation Office and the National Park Service. Skillful application of the Rehabilitation Standards permits the transformation of obsolete buildings to meet contemporary needs. A case in point is in Lansing, Michigan, where a

defunct power station was adapted for use as a corporate headquarters including insertion of new floors in the former boiler stack and construction of a major addition. Paired with careful restoration of the iconic exterior and unique interior details, this project illustrates the extent of alteration that can be accomplished by working with an experienced team.



CHAPTER 4

## Other Considerations

The Fiberglas Tower in Toledo, Ohio (built 1969) was rehabbed as a mixed-use building with residential and office uses, and rebranded as the Tower on the Maumee.

One of the most important things to realize about historic tax credits is that they may apply to a broader group of buildings and organizations than one might assume.

A firm with experience in the Standards for historic rehabilitation tax credits is able to assess a building and justify its listing in the National Register, the first step in the process of qualifying the building for tax credits.

For example, we recently completed two projects involving Mid-Century Modern structures built in the late 1960s. The Professional Plaza building in Detroit (built in 1968) was adapted for residential use and rebranded as The Plaza, while the Fiberglas Tower in Toledo, Ohio (built 1969) was rehabbed as a mixed-use building with residential and office uses, and rebranded as the Tower on the Maumee.

To the untrained eye, both of these buildings were “modern,” so they were clearly not “historic.” However, because of our knowledge of the buildings’ architectural and historical context, we were able to get them both listed in the National Register. Doing so was the first step in qualifying them for historic tax credits, which in turn opened up options for the funding needed to move the projects forward. The key takeaway here is that first impressions of a building are not necessarily the final determinant of whether they can be considered historic for the purpose of securing tax credits.

Another surprising and even counterintuitive fact is that *non-profit* organizations can benefit from historic tax credits as well — even though they pay no taxes. The **City Opera House** in Traverse City, Michigan, is an excellent case



THE CITY OPERA HOUSE IN TRAVERSE CITY, MI.



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in point. The grand structure, built in 1892, was added to the National Register in 1972. The structure was donated to the city by descendants of one of its original owners, and the city then granted a 75-year lease of the property to a local non-profit group of arts supporters.

The non-profit then created a for-profit subsidiary to manage the building's redevelopment, and brought in an outside investor that benefited from the tax credits. The arrangement allowed the group to develop the building, including infrastructure and functional upgrades, restoration of the interior's rich décor, and enhancements to the grand entrance. Just as importantly, the reopened structure is now in use more than 200 nights per year for a variety of audiences and functions. Even though the group doesn't pay taxes itself, the strategic use of tax credits allowed it to attract financial backing, which in turn allowed its stewards to restore and transform a neglected cultural resource into a vibrant cultural hub.

Lastly, the importance of using a design team that understands the Rehabilitation Standards is paramount, for several reasons. Working with professionals who have a deep understanding of the Standards, and how they are interpreted by the NPS, provides greater flexibility in design. Just as importantly, an experienced team will help you avoid prolonged review periods that can result if the NPS rejects proposed design features that do not meet the Standards. Finally, a development team skilled in applying the Standards will work to optimize the reuse strategy to meet critical development goals — functionally, aesthetically, and financially.



THE INN ON FERRY STREET IN DETROIT, MI.







## CONCLUSION

There are thousands of historically interesting or significant buildings in our country that are neglected and in disrepair, and that no longer provide value to their communities. Some of these buildings are obvious choices for adaptive reuse, or simply rehabilitation, while others are essentially hiding in plain sight.

The historic rehabilitation tax credit program offers a financial incentive for developers and property owners to take the steps necessary to give these properties a new lease on life, and allow them to play an even greater role in their local communities. However, the nuances and technicalities of the historic tax credit program are numerous, and the stakes are high for organizations that are considering spending the time and effort needed to pursue tax credits.

For these reasons, many organizations find that the most successful way forward is to engage the services of an architecture firm or consultant familiar with historic tax credits. An experienced team is essential in assessing a building's potential, identifying opportunities for enhancing its community value while retaining its key historical elements, obtaining tax credits, and ultimately moving forward with redevelopment plans.

### How Quinn Evans Can Help

Quinn Evans has the experience with Rehabilitation Standards that is crucial to success. Applying the Standards, we have renewed buildings to continue serving their original uses, and also transformed buildings for uses very different from their original purpose. To realize our client's vision, we can create hotels from houses and office buildings, multi-family housing from former industrial buildings, offices from former apartment buildings, and more. With a strong, knowledgeable design team and the effective use of tax credits, the possibilities are nearly endless.

Learn more about our expertise in qualifying buildings for tax credits that make game-changing adaptive reuse projects possible.

### About Quinn Evans

Quinn Evans Architects is the leader in historic preservation and sustainable stewardship. With a focus on the historic, learning, cultural and urban revitalization markets, we have worked on some of the world's most iconic cultural and historic sites. The firm plays an increasingly influential role in defining the future of the field of preservation architecture.

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