

# PSFS adaptive reuse illustrates preservation tax credits at work

## Practice Matters

By Charles Linn, AIA

Although the U.S. Department of the Interior's Federal Historic Tax Incentives are not as generous as they once were, they can still play a key role in financing the kinds of extensive preservation efforts required of buildings, such as the Philadelphia Savings Fund Society (PSFS) [see page 136]. The credit, which equals 20 percent of the money spent on the certified rehabilitation of a certified historic structure, can equal millions of dollars when applied to a large building. The expenditures covered by the credit include construction costs, architectural and engineering fees, legal and development fees, and other construction-related expenses. It is worth noting that tax credits differ from tax deductions. A tax deduction lowers the building owner's taxable income; a tax credit is applied directly to the amount of income tax owed. For example, one dollar of tax credit reduces the amount of income tax owed by one dollar. The tax credits do not include new work; for example, in the case of PSFS, the tax credit did not apply to a new four-story addition.

The first step toward making any building eligible for the tax credit is listing it on the National Register of Historic Places. Arthur Jones, AIA, of Bower Lewis Thrower Architects, interior designer Karen Daroff of Daroff Design, and historic preservation consultant Robert Powers were in for a pleasant surprise when, in the course of doing research on PSFS, they learned that it was already on the

register. "Apparently the Society put the building on the register years ago in order to take advantage of the tax credits when they were making repairs to the sign," says Jones, referring to the famous 27-foot-tall PSFS letters on top of the building, which have marked the Philadelphia skyline since 1932. This being the case, the designers were actually applying for a second round of credits, this time, to do rehabilitation work while converting the building from an office to a hotel. Buildings that are not on the register but are located within historic districts may be eligible for a tax credit, provided the historic significance of the building can be proved.

The second part of the certification process involves approval of plans for the rehabilitation, first by the State Historic Preservation Officer (SHPO) serving the state where the project is located, then by the National Park Service, which administers the program for the U.S. Department of the Interior.

In this phase, the architects and SHPO begin by establishing which areas and components of the building will be renovated and restored, supported by a complex application that includes photographs and drawings of the proposed work. Using these plans, officials can verify that the most important spaces in a building will be preserved and rehabilitated and that the proposed work will follow the Department of the Interior's Standards for Rehabilitation.

At PSFS, the most crucial spaces included the stair and

escalator lobby at the building's Market Street entrance, which once led to the banking hall; the banking hall itself; and the elevator lobby off 12th Street, which formerly led to the office tower. Also included were the elevator lobbies on each of the former office floors, which are now guest-room floors,



**A new canopy was one of the alterations allowed by the National Park Service so that the PSFS building could function as a hotel.**

and the 33rd floor, which was once home to PSFS's boardroom and meeting rooms.

Changing the entire program of a building isn't easy. "The key was fitting the needs of the hotel around a building that used to be a bank and office building. And there were many spaces that had such a high degree of original historic integrity that we felt we had to preserve them," says Powell. Fortunately, the Park Service is

realistic about this issue: if they don't permit certain alterations to the building fabric, a project might not proceed at all. For example, the stainless-steel canopy on Market Street is a new addition to the facade. Jones feels that it was allowed by the SHPO and Park Service because it was essential to the operation of the hotel. "They knew that a radical change of occupancy like this could not be made without some changes, and I think they respected that we were taking a responsible attitude toward the project and doing an elaborate restoration."

Another example of a significant alteration approved by the SHPO and Park Service for a space that had been deemed worthy of preservation was the lowering of the ceiling in the 12th Street elevator lobby. Originally, elevators did not stop on the second floor, where the banking hall was located. However, in transforming the building from bank to hotel, it was necessary to provide direct access from the guest rooms to the second-floor banking hall, which Daroff Design was changing into a ballroom.

To provide this access, the original ceiling of the elevator lobby had to be removed so a new floor could be installed there. The original coved ceiling was re-created in every detail beneath this new floor. Karen Daroff explains the importance of the Park Service's decision to allow this alternation: "If they had refused to permit us to do it, it would have killed the project.

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I don't know any way we could have worked it out."

But there are some issues the Park Service is particularly concerned about. For example, windows in historic structures often need to be replaced, and the Park Service is particularly con-

cerned that the replacements look exactly like the originals. The banking hall windows were refitted in stainless steel, and although the storefront windows are now an aluminum system, stainless-steel snap-on covers were used to match what was once there. Even window glass, which was changed from single to double glazing, still appears as it did in period photographs. The third and final phase of the tax-credit certification process

### **PRESERVATION TAX CREDITS DO NOT PROTECT BUILDINGS PERMANENTLY. AFTER FIVE YEARS, ALTERATIONS CAN BE MADE.**

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"The Park Service established years ago that inappropriate windows are the biggest bad actor in low-quality preservation work because of the temptation to use a standard window that doesn't match," notes Jones. In fact, he says the strictness of the Park Service's requirements often helps resolve pressure from the project

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occurs after construction is completed. The designers document that they have done everything described in the original application, and the Park Service inspects the building. If the plans have been followed, it is unlikely that the building would be rejected for tax-credit status at this point.

Next, the Park Service issues the owner a certificate of completed work, which is filed with the owner's income-tax return in the same year that the building is placed in service. To collect the tax credit, an owner files a copy of the certificate with his tax return. In accepting the tax credit, the owner must hold the building for five years or repay the tax credit. The certificate can also be revoked if the Park Service or state historic preservation officer inspects the building and finds that unauthorized alterations have been made to the rehabilitated areas.

Unfortunately, the tax-credit program does not provide perma-

nent protection for historic buildings. After five years, owners are free to make any alternations they wish.

The Internal Revenue Service has a number of other rules that may affect whether an application for the historic preservation tax credit should even be attempted. For example, if a building cannot be depreciated, that is, if it cannot be used for the production of income, it would not be eligible. Other rules address whether a building will be altered in phases, as well as whether the amount of money invested in the building exceeds either \$5,000 or the adjusted basis of the building.

This may sound complicated, but Department of the Interior guidelines, which are available at [www2.cr.nps.gov/tps/tax/brochure2.htm](http://www2.cr.nps.gov/tps/tax/brochure2.htm), explain the requirements in a clear, straightforward manner. A good accountant and preservation consultant will help make looking at the options even easier. ■