Technical Preservation Services

Preservation Case Studies

Rehabilitating Historic Office Buildings:

Two Projects Using Federal Tax Incentives

Detail of the Wyandotte Building. (Courtesy of the Urban Land Institute)

U.S. Department
of the Interior

National Park
Service

Technical Preservation
Services

Preservation Case Studies

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Two Projects Using Federal Tax Incentives

THE PHYSICIANS BUILDING
FRESNO, CALIFORNIA

THE WYANDOTTE BUILDING
COLUMBUS, OHIO

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National Park Service
Technical Preservation Services

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As the Nation's principal conservation agency, the Department of the Interior has basic responsibilities to protect and conserve our land and water, energy and minerals, fish and wildlife, parks and recreation areas, and to insure the wise use of all these resources. The Department also has major responsibility for American Indian reservation communities and for people who live in Island Territories under U.S. administration.

Foreword

This publication has been prepared pursuant to section 2124 of the Tax Reform Act of 1976 and Executive Order 11593, "Protection and Enhancement of the Cultural Environment," which directs the Secretary of the Interior to "develop and make available to Federal agencies and State and local governments information concerning professional methods and techniques for preserving, improving, restoring and maintaining historic properties." It is one of a series of Preservation Case Studies published by Technical Preservation Services to illustrate successful projects carried out under Department of the Interior historic preservation programs. Comments and suggestions are welcome and can be sent to Technical Preservation Services, Preservation Assistance Division, National Park Service, U.S. Department of the Interior, Washington, D.C. 20240.

Lee H. Nelson, AIA
Chief, Preservation Assistance Division

1982

Fig. 1. *This row of historic office buildings in Washington, D.C., is conveniently located near the Archives of the United States (right center) and other federal office buildings. (Courtesy of Bill MacRostie, Technical Preservation Services)*

Remember only a few years ago when the most common way to meet the demand for downtown office space was simply to tear down an old building and put up a high-rise tower in its place? Fortunately for historic preservation this trend is changing. Today, more and more developers recognize the special advantages of rehabilitating and marketing historic office buildings instead of demolishing them. While these advantages tend to vary from project to project, three of the most common are:

Convenient Location. Constructed relatively early in a city's development when downtown land prices were low, office buildings were usually situated in very desirable inner-city locations; hence, their current convenience to public buildings, financial buildings, and support services (see fig. 1).

Quality Construction. In addition to offering prime locations, historic office buildings often possess distinctive interior and exterior architectural features difficult to duplicate in modern office buildings--features increasingly sought after in today's real estate market (see fig. 2).

Community Identity. Historic office buildings are an integral part of a community's early growth and development (see fig. 3). This tangible link with the past not only helps developers market rehabilitated spaces, it helps tenants promote products and services.

Perhaps most important in today's economy, rehabilitation of historic office buildings can make financial sense. Until passage of the Tax Reform Act of 1976, it was sometimes unprofitable to develop historic property because the accelerated writeoff of construction expenses, crucial to the successful financing of commercial projects, was available only for new construction. The Tax Reform Act changed that. It extended these tax incentives to the rehabilitation of historic buildings and added an optional 5-year rapid amortization provision that was not available for new construction. This provision has since been replaced with a three-tiered investment tax credit and a new accelerated cost recovery system (see pages 30 and 31 for details).

Fig. 2. *The elevator doors in the Michigan National Bank, Guardian Building in Detroit (left) and the facades of the Old Colony Building and the Manhattan Building in Chicago (right) possess unique architectural features which are desirable in today's real estate market. (Left courtesy of Smith, Hinchman and Grylls, Architects, right courtesy of Commission on Chicago Historical and Architectural Landmarks)*

The rehabilitation of historic office buildings may pose special challenges to developers. Constraints presented by an existing structure, both in terms of available square footage and the limited flexibility in suiting individual tenant needs, sometimes make it difficult to meet the market demand. Moreover, until recently it was hard to obtain mortgage financing for rehabilitation work. In addition, state and local building codes, written with new construction in mind, have often thwarted developers in their efforts to retrofit older buildings. These difficulties have eased considerably in the last few years, however, as more rehabilitations have been successfully undertaken. Mortgage lenders are becoming increasingly comfortable with the concept of rehabilitation, as are growing numbers of local and state code officials.

This case study focuses on the rehabilitation of two historic office buildings: The Physicians Building in Fresno, California, and the Wyandotte Building in Columbus, Ohio. The developers in both cases have successfully used the historic preservation provisions of the Tax Reform Act; and both projects are considered by the U.S. Department of the Interior to be exemplary because the buildings' historic character and architectural details were preserved in the process of rehabilitation.

What's Worth Preserving In Historic Office Buildings

While most older office buildings have undergone renovations over time, many still retain significant features and spaces that contribute to their architectural and historical importance. The retention of these features is not only good preservation practice, but can make the difference between undistinguished office space and a distinctive work environment.

Ground-floor public space. Consider retaining original lobby areas; decorative ceilings; stairways with original balusters and handrails; original or early light fixtures; elevator cabs with architectural merit; mailboxes and mail shoots; significant early terrazzo, marble, or tile floors; and directory boards.

Upper floors. Consider retaining original or early hardware (often this was custom-made for the building); window trim; ornamental wainscoting and baseboards; and original hallway configurations with transom doors and translucent glass panels.

Exteriors. Consider retaining early or original storefronts and entrance canopies; distinctive signage and lighting; original windows and doors; and surface decoration and paint colors.

Fig. 3. *These two views of Main Street, Van Buren, Arkansas, in 1912 and 1979 illustrate the historical continuity and community identity that historic buildings can provide for any community, large or small. (Top courtesy of Ora Smith, bottom courtesy of Bob Dunn)*

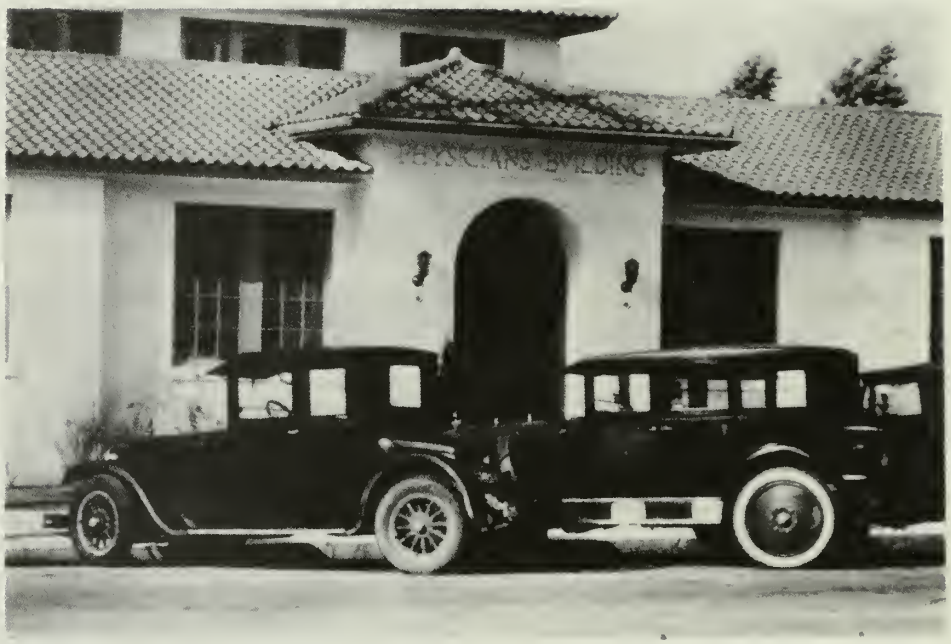


Fig. 4. *Detail of the Physicians Building entrance shortly after construction. (Courtesy of The Klein Group)*

Building History and Architectural Significance

Built in 1926, the Physicians Building was designed by Charles E. Butner, a respected architect who designed a number of other well-known buildings in northern California. Butner was commissioned by a group of six physicians and surgeons from the local community who were interested in constructing a building that would provide functional office and laboratory space as well as a unique waiting area to be shared by all of their patients. Utilizing Italianate and Spanish Revival Style motifs (see figure 4), the building was comprised of a total of 28 rooms grouped around a dramatic central courtyard illuminated by a finely detailed skylight. The courtyard, with a large fountain at its center and simple pilasters on the surrounding walls, provided the architectural focus of the building and gave waiting patients a soothing space accented by natural light and the sound of running water. A single specialty building constructed for a group of medical practitioners was a bold concept in Fresno at the time, the Physicians Building being the first of its kind in California's central San Joaquin Valley. Butner's design, with its extravagantly large common area, further contributed to the building's unique character.

Housing a variety of medical and other office tenants, the Physicians Building survived in its original form until 1968, when it was modernized in a manner insensitive both to the unusual qualities of the central courtyard and to the building's exterior appearance. Suspended acoustical tile ceilings were installed throughout the interior, obscuring even the 18 foot high courtyard space. The fountain was removed, and partitioned office space was constructed in the courtyard area (see figure 5). The exterior walls, originally stuccoed, were partially sheathed in an adobe-colored slump stone. The original small-paned wooden entrance doors were replaced with single-pane, aluminum-framed doors.

PHYSICIANS BUILDING
PROJECT DATA

Date of Construction:
1926

Date of Rehabilitation:
September 1978-July 1979

Old Use:
Doctors' Offices

New Use:
Offices

Type of Construction:
Loadbearing brick walls

Gross Building Area:
5,897 square feet

Net Rentable Area:
5,000 square feet

Total Costs:
$160,000 acquisition
232,986 rehabilitation
(direct & indirect)

$392,986
$66.64 per square foot

Lending Institutions:
United California Mortgage
San Francisco, California

Larsen-Ratto Construction Co.
Fresno, California

Tax Treatments:
60-month amortization of qualified rehabilitation expenses under section 191 of the Internal Revenue Code.

Straight line depreciation of acquisition cost minus land value.

Fig. 5. *The courtyard space with 1968 partitions and lowered ceilings. These non-original features were removed in the rehabilitation. (Courtesy of The Klein Group)*

Developer
Robert N. Klein, II
Milner-Klein Realty Company
2607 Fresno Street
Fresno, CA 93721

Project Architect
Haulman Associates
9886 East Belmont
Sanger, CA 93657

Interior Designer
Alison Golway Designs
16 Yosemite
Fresno, CA 93721

Lighting Consultants
James Lighting Company, Inc.
541 North Palm
Fresno, CA 93728

General Contractor
Larsen-Ratto Construction Company Inc.
1091 East Hedges
Fresno, CA 93703

Historical Consultant and Project Coordinator
John Edward Powell
2881 Huntington Boulevard
Fresno, CA 93721

State Historic Preservation Office
California Department of Parks and Recreation
P. O. Box 2390
Sacramento, CA 95811

Project Overview

Robert N. Klein II, sole general partner in the Milner-Klein Realty Company, came to the Physicians Building project with extensive consulting and development experience in new and rehabilitated housing. The Milner-Klein Realty Company purchased the building in 1978 while in the process of establishing the feasibility of using the preservation provisions of the Tax Reform Act of 1976 for its rehabilitation. Because the project's cash flow was not anticipated to be sufficient to justify investment in anything but a limited remodeling, the tax incentive provided by the Tax Reform Act became the key to Klein's plans for raising the money needed to undertake an extensive rehabilitation project. In December 1977, the possibility of the building's historical significance and eligibility for the National Register of Historic Places was discussed by Klein and his historical consultant, John Edward Powell, but in August of that year the project was still defined simply as a remodeling of the existing structure. A budget of $170,000 was initially anticipated for the remodeling.

Beginning in January 1978, Powell began the process of documenting the building's original appearance. He conducted a search for original architectural drawings; investigated the building itself for physical clues of original paint colors and stylistic details; researched newspaper articles for information about both the building and Charles Butner's practice; and interviewed a number of people familiar with the building in its early days. During the course of this research, more was learned about the significance of the building, including evidence of the original appearance of the courtyard and the exterior. As Powell's work began to reveal the building's full historical restoration potential, the decision was made to plan for and seek both historic preservation certification and financing sufficient for an extensive rehabilitation.

During April, Klein approached Reese Milner, a southern California attorney, about the possibility of forming a limited partnership to raise equity capital for the project. They agreed to commit approximately $50,000 each, with Klein acting as the general partner and Milner the sole limited partner. Milner stipulated that his portion of the equity contribution be maintained in the form of a loan to Klein until such time as the state historic preservation officer (SHPO) forwarded the nomination to the National Register, Department of the Interior, for review and approval. No tax benefits could be given in this case until National Register listing took place.

Throughout the first half of 1978, the developers' efforts to obtain mortgage financing for the project coincided with their search for prospective tenants. During this period of negotiation, tenants who had remained in the building included two optometrists and

FEDERAL TAX ASSISTANCE FOR HISTORIC PRESERVATION

Section 2124 of the Tax Reform Act of 1976 offered important tax incentives for the rehabilitation of historic buildings. Owners of eligible depreciable structures could amortize qualified rehabilitation expenses over a five-year period or take accelerated depreciation on the value of the rehabilitated property. A third incentive, a 10% investment tax credit (ITC) for rehabilitation of commercial buildings at least 20 years old was available under section 315 of the Revenue Act of 1978.

Section 212 of the Economic Recovery Tax Act of 1981 repealed the five-year amortization provision and the accelerated depreciation election for historic structures as well as the 10% ITC effective January 1, 1982. It replaced these provisions with a three-tiered ITC which provides a 15% credit for the substantial rehabilitation of commercial buildings at least 30 years old, a 20% credit for commercial buildings at least 40 years old, and a 25% credit for certified historic structures rehabilitated for commercial or rental-residential uses. These credits can be elected with the new accelerated cost recovery system. A transition rule permits projects on which physical work began before January 1, 1982, to use a combination of the old and new law. The certification process described in this case study remains unchanged under the new law. Application review is now conducted in National Park Service regional offices.

a grant-supported Federal Narcotics Task Force. As the post-rehabilitation lease figures were developed, the task force indicated that the projected rental rates would be too high for them to remain in the building. Similarly, the U.S. General Services Administration, which had been negotiating for space on behalf of the Federal Public Defenders Office, made it clear that such historically based rehabilitation work would create unjustifiably elaborate space for their purposes. The withdrawal of these two tenants caused Robert Klein, in consultation with his architects, Donald Haulman and interior designer, Alison Golway, to totally revise plans for use of the building's leasable space. Although Klein's California Investment Management Company (CIMCO) had originally been anticipated as a major lessee, the revised plan called for CIMCO to occupy all of the space in the building not leased by the two optometrists, both of whom had decided to stay. Although there was initial difficulty in obtaining tenants for the rehabilitated space, it is interesting to note that as the work neared completion, and its high quality became apparent, numerous requests for space by local professional firms had to be turned down.

Both the project's small size relative to many other development projects and the fact that it was a rehabilitation rather than new construction combined to cause Klein considerable difficulty in finding a bank willing to provide mortgage financing. Several banks, both in Fresno and in the Los Angeles area, were approached and declined to participate. Finally, in late June, United California Mortage in San Francisco agreed to finance the project. Escrow was closed in mid-August, and construction began on September 15, 1978.

Powell's request for National Register designation was submitted to the state historic preservation office in May 1978, and the building was placed on the National Register of Historic Places in December 1978. The "Part 2 Historic Preservation Certification Application," requesting approval of proposed rehabilitation plans from the Technical Preservation Services Division, U.S. Department of the Interior, was submitted to the state office in late November 1978. The application was forwarded to Washington with a recommendation for approval in early February 1979. The Technical Preservation Services Division gave preliminary approval later that month. With construction completed in July 1979, final historic preservation certification was given in late August 1979.

Rehabilitation Work

As originally conceived, the remodeling of the Physicians Building was to include both an upgrading of all of the offices in addition to a modest restoration of the courtyard space and exterior stuccoing. The partitions in the courtyard, the lowered ceilings throughout the interior, and the slump stone were all to be removed and corresponding spaces and surfaces returned to their historical appearance. The initial budget, however, would not allow the relatively high cost of replacing and/or restoring many architectural details which had originally given the building its unique character. Through the fall and early winter of 1978--after National Register designation had been recommended by the state historic preservation officer, but before the building had actually been listed on the Register by the Department of the Interior in Washington--rehabilitation plans were prepared based on evidence uncovered during John Powell's research earlier in the year. These plans were to be implemented in the event the budget could be increased. When the building was placed on the National Register in December 1978, historic preservation certification for tax purposes was made more certain.

Syndication of the project, made possible by marketing the tax incentives that certification under the Tax Reform Act of 1976 provided, was anticipated to inject additional equity capital into the project. This capital was initially raised by Klein and Milner, who advanced supplementary funds to the project. (Later, the sale of a portion of their partnership interest to additional limited partners would provide reimbursement for their capital advance as well as a profit for development of the project.) The resulting budget increase enabled Klein to move forward with Powell's total rehabilitation plans.

Before Powell's research proved otherwise, it was thought that both the courtyard and exterior walls originally had been exposed brick surfaces; that the stucco as well as the slump stone had been later additions to the building. When it was established that the building had been stuccoed from the beginning, plans to remove this surface were scrapped. The slump stone alone was removed from the exterior, and the stucco patched and repainted. A fan-shaped transom window above the main entrance had been left intact but painted an inappropriate and nonhistoric color during the 1968 renovation. It was stripped and refinished. The 1968 aluminum-framed entrance doors were replaced with custom-manufactured French-style doors replicating the originals. Window screens with muntin bars mirroring those in the windows they covered (a characteristic of several Butner-designed buildings in Fresno) were installed to match the originals. Five of the original six main elevation awning frames were

found in the attic in good condition, leaving only one to be custom-manufactured. When the newly manufactured canvas awnings, (color coordinated to match the historically accurate trim color), were finally installed on the frames, the exterior work was considered complete (see figure 6).

Although both Klein and Powell had hoped to replace the courtyard fountain, the lack of photographs and detailed first-hand descriptions of its original appearance stood in the way of carrying out this portion of the interior work. This decision was consistent with the Secretary of the Interior's "Standards for Rehabilitation" (see appendix) which state, in part:

> Repair or replacement of missing architectural features should be based on accurate duplications of features, substantiated by historic, physical, or pictorial evidence rather than on conjectural designs or the availability of different architectural elements from other buildings or structures.

While the courtyard floor was originally at ground level, with a step up providing access to the perimeter offices, the 1968 renovation raised the level of the courtyard floor to that of the surrounding offices. Primarily to accommodate access by handicapped persons to the offices, this floor level was maintained in the rehabilitation. Ramps were constructed from the front and rear entrances into the courtyard (see figures 7 and 8). As a result of limited space for the ramps, the normal 15:1 ratio run to rise was changed to 8:1; a variance agreed to by the Fresno County Chapter of the California Association of the Physically Handicapped Incorporated.

The 1968 courtyard partition walls and lowered ceilings were removed, revealing the original pilasters and skylight. Although both were basically sound, newly milled wooden molding needed to be installed to replace deteriorated sections of the skylight. Renovation of the office space surrounding the courtyard, including restoring the ceilings to their original heights (see figure 9), completed the interior work on the building.

While the custom manufacturing and attention to detail involved in the Physicians Building rehabilitation reflects considerably more expense than would have been incurred in a simple remodeling, Klein and Powell both feel the end product was well worth the effort. John Powell, knowing the work was a credit to the high standards set by the original architect, was indeed rewarded for his months of research and construction supervision. Robert Klein and Reese Milner have the added satisfaction of seeing the project succeed financially, attracting rents up to 20 percent above the market rate for nearby office space.

Fig. 6. *The Physicians Building after rehabilitation with new awnings in place replicating the originals. (Courtesy of John Powell, The Klein Group)*

Physicians Building
Project Costs*

Acquisition Cost		$160,000
Construction Costs		
-Direct	203,785	
-Indirect		
Administrative Expenses	15,571	
Loan Commitment Fee	3,550	
Real Estate Commissions	10,080	
	29,201	
Subtotal Construction Costs		232,986
Project Total		392,986

Financing

Construction Loan--United California Mortgage, San Francisco; $220,000; 10 percent.

First Deed of Trust--United California Mortgage, San Francisco; $220,000; 10 percent; 25 years with a balloon payment in the 15th year.

Second Deed of Trust--Larsen-Ratto Construction Company; $65,000; 9 percent; 10 years with three equal balloon payments in the 8th, 9th, and 10th years.

*Source: Milner-Klein Realty Company

Physicians Building

Tax Analysis *

	1979	1980	1981	1982	1983	1984	1985
1. Lease Income	$15,099	$45,803	$46,247	$48,291	$49,838	$50,068	$50,068
2. Estimated Deductions							
a. 60-month Rapid Amortization	(15,532)	(58,825)	(59,937)	(59,937)	(59,937)	(28,994)	(1,112)
b. First Deed of Trust-Interest	(7,308)	(21,779)	(21,548)	(21,292)	(21,009)	(20,696)	(20,349)
c. Second Deed of Trust-Interest	(1,905)	(5,635)	(5,506)	(5,364)	(5,208)	(5,039)	(3,257)
d. Legal Fees-Tax Portion	(5,000)	-0-	-0-	-0-	-0-	-0-	-0-
e. Interim Financing-Interest	(4,983)	(20,150)	(11,440)	-0-	-0-	-0-	-0-
f. Investor Loans-Interest	-0-	-0-	(1,560)	-0-	-0-	-0-	-0-
g. Depreciation of Building Shell	(1,427)	(4,280)	(4,280)	(4,280)	(4,280)	(4,280)	(4,280)
h. Amortization-Organization Expense	(149)	(448)	(448)	(448)	(416)	(267)	-0-
i. Amortization-Construction Period Interest and Carrying Charge	(780)	(2,340)	(2,340)	(2,340)	(2,340)	(1,171)	(1,172)
j. Operating Expenses	(2,400)	(7,321)	(7,392)	(8,085)	(9,319)	(9,748)	(9,748)
k. Roof and Basement Repairs	(2,898)	-0-	-0-	-0-	-0-	-0-	-0-
l. General Partner's Fee	(18,500)	(14,800)	-0-	-0-	-0-	-0-	-0-
3. Sum of Estimated Deductions plus Lease Income (line 1-line 2)	(45,783)	(89,775)	(68,204)	(53,455)	(52,671)	(20,127)	10,150
4. Limited Partners' Deduction (75 percent of line 3)	(34,337)	(67,331)	(51,153)	(40,091)	(39,503)	(15,095)	10,150
5. Add Interest Paid on Deferred Capital Contribution	-0-	(6,750)	(17,250)	(8,250)	-0-	-0-	-0-
6. Less Interest Received on Investor Loans	-0-	-0-	1,560	-0-	-0-	-0-	-0-
7. Total Limited Partners' Deductions (line 4 + line 5 + line 6)	(34,337)	(74,081)	(66,843)	(48,341)	(39,503)	(15,095)	10,150
8. Cumulative Investor before Tax Capital	28,500	66,187	91,726	136,670	107,182	83,085	73,877
9. Cumulative Writeoff	(34,337)	(108,418)	(175,261)	(223,602)	(263,105)	(278,200)	(268,050)
10. Cumulative Percentage Writeoff	120%	164%	191%	164%	245%	335%	363%

* Source: Milner-Klein Realty Company

Notes to Tax Analysis

2(a) The total 60-month rapid amortization available to limited partner investors ($284,274) represents that portion of the rehabilitation construction costs ($232,986) plus the development fee ($66,700) which remained unamortized as of September 1, 1979, the anticipated closing date of the limited partnership.

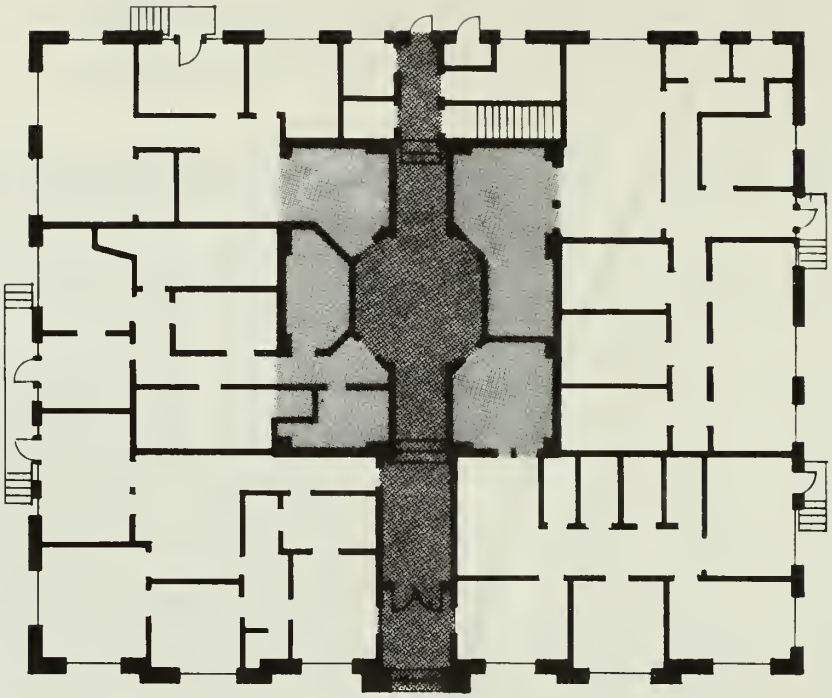
2(e) Interim financing for the limited partners was anticipated that would allow full funding of capital upon capitalization by those partners, but that would permit them to stage their actual capital contributions. The interest on this financing is deductible.

2(f) According to the partnership agreement, each of the limited partners was required to loan the partnership $2,600 in early 1980. The interest paid on these loans is deductible.

2(g) Of the total $160,000 acquisition cost, $107,000 is allocated to the structural shell and is depreciated over the 25-year useful life of the building utilizing straight line depreciation.

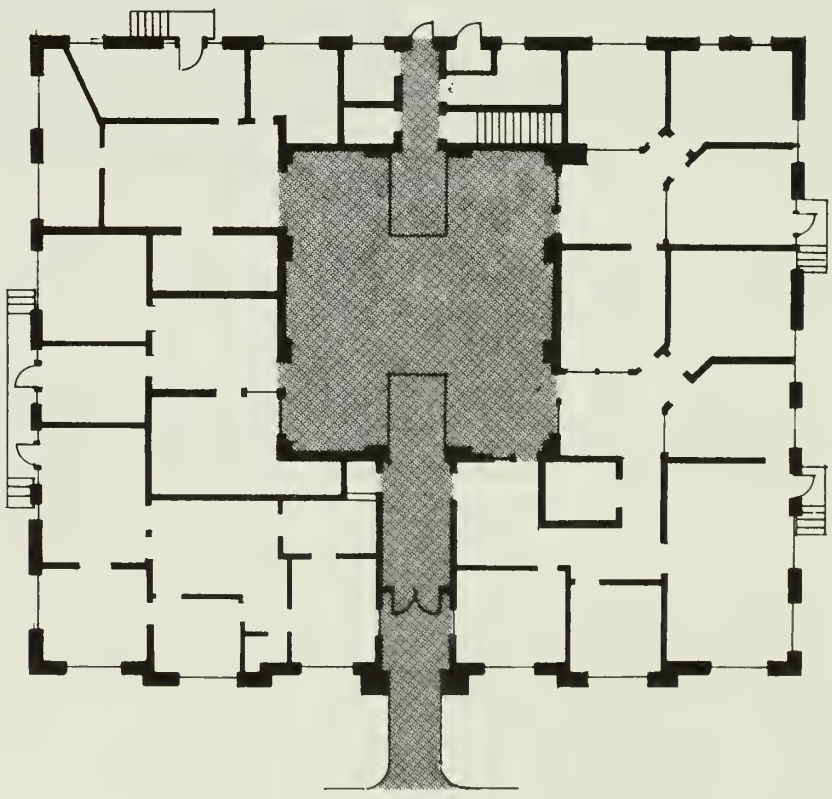
4. The limited partners, who provided 75 percent of the capital contributions, are allocated 75 percent of partnership losses and their pro rata share of distributable cash flow.

5. The limited partners pay the partnership interest on the promissory notes signed to evidence their future contributions.



FRONT ENTRANCE

Fig. 7a. *Before Rehabilitation - The darkly shaded area represents the stairs, hallway, and central reception space. The lightly shaded area shows the original courtyard which had been partitioned in the 1968 remodeling.*



FRONT ENTRANCE

Fig. 7b. *After Rehabilitation - The shaded area represents the handicapped access ramps and central courtyard. Note the pilasters on the courtyard perimeter walls.*

Fig. 8. *The courtyard after rehabilitation. The original pilasters and skylight have been revealed after removal of the suspended acoustical ceiling. The wheelchair access ramp was installed as part of the rehabilitation. (Courtesy of John Powell, The Klein Group)*

Fig. 9. *Lowered ceilings in the perimeter offices were removed in the rehabilitation, restoring the ceilings to their original height. (Courtesy of John Powell, The Klein Group)*

Physicians Building

Pro Forma*

Rental Income	1979 (partial year)	1980	1981	1982	1983	1984	1985
Lease A	$2,374	$7,121	$7,121	$8,901	$9,252	$9,257	$9,257
Lease B	2,040	6,320	6,580	6,844	8,035	8,265	8,265
Lease C	554	1,969	2,153	2,153	2,153	2,153	2,153
Lease D	10,131	30,393	30,393	30,393	30,393	30,393	30,393
Gross Rental Income	15,099	45,803	46,247	48,291	49,838	50,068	50,068
Operating Expenses							
Property Management Fee	700	2,100	2,100	2,100	2,175	2,400	2,400
Janitorial and Exterior Maintenance	1,200	3,600	3,600	3,600	4,500	4,680	4,680
Security System	252	756	756	756	876	900	900
Property Taxes	77	268	290	505	548	548	548
Insurance	43	150	162	282	306	306	306
Utilities	128	447	484	842	914	914	914
Total	2,400	7,321	7,392	8,085	9,319	9,748	9,748
Net Income before Debt Service	12,699	38,482	38,855	40,286	40,519	40,320	40,320
Debt Service (1st and 2nd deeds of trust)	10,341	31,021	31,021	31,021	31,021	31,021	31,227
Net Operating Cash Flow	2,358	7,461	7,834	9,185	9,498	9,299	9,093

*Source: Milner-Klein Realty Company

Project Benefits

Rehabilitation of the Physicians Building has provided several thousand square feet of high-quality office space close to downtown Fresno. It has proven to the community at large, and especially to the northern California financial community, that a development project that focuses upon the craftsmanship and elegance of a historic office building can be financially successful as well. The preservation provisions of the Tax Reform Act of 1976 have helped make this success possible by allowing the developer to attract increased equity investment. Robert Klein maintains that the rehabilitation would not have been economically feasible without the rapid amortization feature of the law. With the property taxes on the building increased by 91 percent from 1978 to 1979, Fresno County is benefiting substantially from the project. The success of the Physicians Building rehabilitation has spurred many similar projects in Fresno, both residential and commercial; a trend that will significantly increase the county's tax base as well as provide a less tangible but equally important source of community pride and identity.

Fig. 10. *The Wyandotte Building about the turn of the century. It was the first steel skelton-frame structure built in Columbus. Note the awnings, an early energy saving device. (Courtesy of the Ohio Historical Society)*

Building History and Architectural Significance

The Wyandotte Building was designed by the nationally renowned architect Daniel Burnham, and was constructed in 1897-1898 for developer John G. Deshler (see figure 10). Located in downtown Columbus at the corner of Broad and High streets and just a half block from the Ohio Statehouse, the Wyandotte originally served as a bank and office building. Because it was the first steel skeleton frame skyscraper built in Columbus, and has such a distinctive appearance, the Wyandotte remains a premier landmark in downtown Columbus.

The building is 11 stories tall, resting on a splayed 2-story base. The upper 9 stories, sheathed with brick curtain walls, are highlighted on each of the north and west elevations with multiple vertical rows of bay windows. The south and east elevations lack bay windows and are devoid of ornamentation. The entrance and cornice are ornamented with terra-cotta detail. The Ohio Historic Preservation Office, in preparing the Wyandotte's nomination to the National Register of Historic Places in 1971, described its significance in the following way:

> The design of this structure is completely American and Midwestern in origin, a fine example of the facade in stages in the manner of a classical column with base, shaft and capital; the typically "Chicago" bay windows articulating the facade and creating an interesting vertical pattern of light, shade and shadow; and the human scale of the individual offices as a result of the bay windows all contribute to the architectural excellence of the Wyandotte Building.

Sold by the Deshler family in 1916 to the state of Ohio, the building housed a variety of state agencies until 1974, when a new 42-story state office building was constructed nearby. During the state's occupancy, a number of minor alterations--combined with the deteriorating effect that time can have on any marginally maintained building--brought about a gradual but steady decline in the structure's attractiveness and served to obscure the Wyandotte's

WYANDOTTE BUILDING
PROJECT DATA

Date of Construction:
1897-1898

Date of Rehabilitation:
1978-1979

Old Use:
Offices

New Use:
Offices

Type of Construction:
Steel skeleton frame with brick curtain walls.

Gross Building Area:
36,362 square feet

Net Rentable Area:
29,259 square feet

Total Costs:
$153,333 acquisition
$1,856,151 rehabilitation (direct and indirect)

$2,009,484
$55.26 per square foot

Lending Institutions:
Continental Illinois National Bank, Chicago, Illinois

Great West Life Assurance Co. Winnipeg, Canada

Tax Treatments:
60-month amortization of qualified rehabilitation expenses under section 191 of the Internal Revenue Code.

Straight line depreciation of acquisition cost minus land value.

architectural distinction. Through-window air conditioning units had been installed in most offices; the interior wrought-iron and marble stairway, one of the building's architectural focuses (see figure 11), was painted; and the original front doors were replaced with single-pane aluminum doors. With few exceptions the building's architectural features remained intact, although a number of details had been insensitively treated.

Having totally vacated the building, the state put it up for auction in 1976. No bids were received.

Fig. 11. *The Wyandotte's original stairway is one of the building's primary architectural features. (Courtesy of the Ohio Historical Society)*

Developer:
K.R.V. Company
42 East Gay Street
Columbus, OH 43215

Project Architect
R. J. Palencar
6085 Olentangy River Road
Columbus, OH 43085

General Contractor:
Dave Work
3479 North High Street
Columbus, OH 43214

State Historic Preservation Office:
Ohio Historical Society
I-71 at 17th Avenue
Columbus, OH 43211

After reducing the asking price by one third, it was auctioned again in 1977. This time the building was purchased by the K.R.V. Company of Columbus for $153,333.

Project Overview

Rehabilitation work on the Wyandotte Building was undertaken by Wyandotte Limited, and Ohio limited partnership whose general partners are James D. Klingbeil, Eugene S. Rosenfeld, and Jerome W. Vogel. Wyandotte Limited grew out of the K.R.V. Company which, in turn, is affiliated with Klingbeil Management Group Co.

After purchasing the Wyandotte in 1977, the developers began making plans with the project architect, R.J. Palencar, for the building's renovation and systems improvements. Partly as a result of the Wyandotte's proximity to the Ohio Historic Preservation Office in Columbus, the developers and architects enjoyed a particularly close working relationship with the state staff during the project planning. Familiarity with the project during the planning phase thus facilitated staff review of the "Part 2 Historic Preservation Certification Application" at both state and federal levels. The part 2 application was submitted in early November 1977. In less than a week, the state forwarded it to Washington with a recommendation for approval of the developers' proposed plans. The Technical Preservation Services Division issued approval in mid-December, although additional information on several items was requested as architectural and engineering studies progressed. This included specifications for the exterior masonry cleaning process; detailing of the new entry doors; treatment of the new and original stairways; proposed changes to walls, floors, or ceilings in public spaces; designs for new elevator doors and cabs; and the general treatment of the building's office spaces. As construction proceeded, the developers continued to work closely with the state office to ensure that all proposed work met the Secretary's "Standards for Rehabilitation."

With construction financing in place, work on the project was begun in June 1978. Permanent financing had also been obtained before construction started, with Great-West Life Assurance Company of Winnipeg, Canada, receiving high marks from K.R.V.'s Jerry Vogel for their foresight in financing the project at a time when mortgages for rehabilitation work were difficult to obtain.

A 10 year lease for floors 7 through 11 was signed with the Ohio Hospital Association (OHA) in July 1977, with OHA being given the right of first refusal for the leasing of floors 1 through 5. Later, OHA agreed to lease the building's lower 5 floors, and eventually sublet floors 3 through 5 to the Ohio

Hospital Insurance Company. The first floor has remained vacant in order to provide space for future OHA expansion. Construction was completed in stages during 1979, and the building was occupied by the 2 organizations at the end of the year.

Norman Spuehler of OHA indicates that his organization's primary interest in leasing space in the Wyandotte, based upon a survey of the Association's member organizations, was the building's convenience to the statehouse. Although not initially of major concern, Spuehler states that the Wyandotte's distinctive architecture has provided OHA employees with a sense of warmth and identity, which he now feels is one the building's primary attributes.

Rehabilitation Work

The rehabilitation of the Wyandotte Building was intended to enhance those features that gave the building its unique character, while providing contemporary and efficient modern office space. Thus, exterior work was primarily directed toward cosmetic and minor maintenance work; interior work, on the other hand, involved the installation and/or repair of major mechanical systems as well as the renovation of all 11 floors of office space.

The most urgent aspect of the rehabilitation, and therefore the first undertaken by the developers, was to rebuild the sidewalks on the north and west sides of the building. With the basement extending to the street line in typical urban fashion, the sidewalk was supported from below by a system of steel framing members and tile arches. Water penetration had caused considerable weakening of the steel frame, creating a condition of only marginal safety for the public right-of-way above. The system was revamped by constructing a replacement steel frame and pouring a new sidewalk over it.

Like many urban structures, the Wyandotte Building had acquired over the years a layer of unsightly dirt on its exterior walls. Mindful of the dangers of sandblasting as a masonry cleaning technique, the developers had the brick and terra-cotta surfaces washed using a mild chemical and water process. This technique is based upon testing and monitoring the effects of the process on the masonry. The ornamental brickwork on the north and west elevations was then selectively tuck-pointed. Because it was in a more deteriorated state, the brickwork on the south elevation received more extensive repointing.

The building's metal double-hung windows, installed by the state of Ohio in 1968 and still in serviceable condition, were retained and refurbished in the rehabilitation. The decision to save the existing windows was based on an assessment of their condition as well as the fact that, although not original, they were similar enough to the original wood sash to appear historically accurate. A small number of original windows on the east elevation were reused or, where necessary due to their deteriorated condition, replaced in kind. The historically inappropriate aluminum-framed entrance doors were replaced during the rehabilitation with doors that were similar to the originals and more in keeping with the building's character.

The most significant change in the exterior appearance of the Wyandotte was the addition of a stairtower at the rear of the building (see figure 12). Although

Fig. 12. *The Wyandotte after rehabilitation. The new stair tower addition is at the left. (Courtesy of Judith Kitchen, Ohio Historic Preservation Office)*

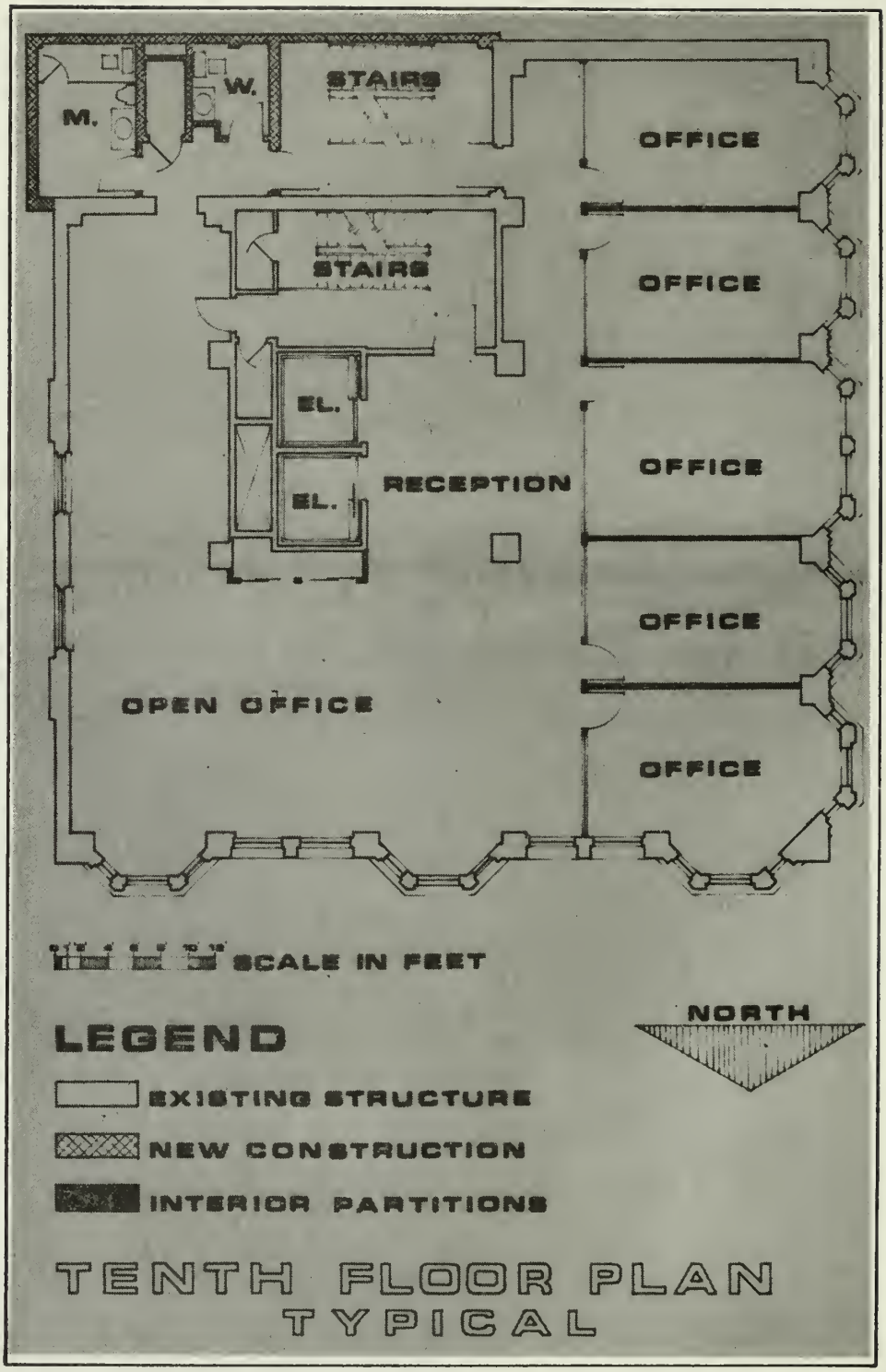


Fig. 13. *The 10th-floor plan after rehabilitation is typical of all upper floors. Office space on the west side of the building has remained partitioned, while space on the north has been opened up. Note the new stair tower with restrooms in the southeast corner. (Courtesy of the Urban Land Institute)*

not meeting local fire code requirements, the original stairway was highly ornamented and was considered one of the building's primary architectural features. In order to retain this significant element, the decision was made to leave the stairway intact and to construct a new adjacent stairtower. This addition solved the code problem and also provided space for restrooms on each floor. The stairtower was determined by the Department of the Interior to meet the Secretary's "Standards for Rehabilitation" because it was built on a secondary elevation and was compatible in materials (brick), color, scale, and character with the original structure.

On the building's interior, nearly all of the ornamental detail that gave the main foyer and elevator lobbies their distinctive character--i.e., marble wall and floor trim, decorative iron trim, marble and brass radiator grilles--were retained and repaired where necessary. In addition, many of the solid oak doors and much of the oak trim throughout the building were saved and refinished.

By rearranging partitions to provide more open and flexible office space, the appearance of the upper floors was changed somewhat. Individually partitioned offices along the west side of the building, which had traditionally taken advantage of the bay windows on that wall, were retained (see figures 13 and 14).

Fig. 14. *A bay-windowed office after rehabilitation. (Courtesy of the Klingbeil Management Group Co.)*

Dropped ceilings were installed throughout the office space using a steel framing system and drywall sheathing. Although generally not recommended by the Department of the Interior because they often obscure architectural detail and change the proportions of interior spaces, dropped ceilings are recognized for their ability to provide energy efficiency and conceal mechanical and heating, ventilating, and air conditioning systems. The Technical Preservation Services Division determined that, because no detailing was lost and because the use of historically inappropriate accoustical tile was kept to a minimum, the treatment was acceptable in this case.

Fig. 15. *The Wyandotte after rehabilitation. (Courtesy of Judith Kitchen, Ohio Historic Preservation Office)*

Wyandotte Building

Project Costs*

Acquisition Cost		$153,333
Site Improvements		72,100
Construction Costs		
-Direct		
Mechanical	331,510	
Electrical	188,186	
Finishes	384,190	
Elevators	127,230	
Structural	196,400	
Overhead	230,654	
Subtotal		1,458,170
-Indirect		
Financing Fees	25,400	
Legal, Title, Accounting	41,145	
Interest, Taxes, Insurance	82,000	
Leasing and Commissions	103,311	
Architectural and Engineering	72,625	
Advertising and Promotion	1,400	
Subtotal		325,881
Project Total		2,009,484

Financing

Construction Loan--Continental Illinois National Bank, Chicago; $1,330,000; 2 percent over floating prime rate.

Permanent Loan--Great-West Life Assurance Company, Winnipeg, Canada; $1,330,000; 9½ percent; 27 years with a balloon payment in the 15th year.

*Source: K.R.V. Company

Wyandotte Building

Pro Forma*

	1979 (partial year)	1980	1981	1982	1983	1984
Gross Rental Income 29,259 sq. ft. net Rental Area @ $8-12 per sq. ft.	$86,065	$252,144	$252,144	$252,144	$252,144	$252,144
Operating Expenses	46,940	80,000	80,000	80,000	80,000	80,000
Net Operating Income before Debt Service	39,125	172,144	172,144	172,144	172,144	172,144
Debt Service	69,222	138,444	138,444	138,444	138,444	138,444
Net Operating Cash Flow (deficit)	(30,097)	33,700	33,700	33,700	33,700	33,700

*Source: K.R.V. Company

Wyandotte Building

Tax Analysis

Using 60-Month Amortization*

	1979 (partial year)	1980	1981	1982	1983	1984
Gross Rental Income	$86,065	$252,144	$252,144	$252,144	$252,144	$252,144
Less						
Operating Expenses	46,940	80,000	80,000	80,000	80,000	80,000
Interest Expenses	82,710	125,838	124,766	123,592	122,307	120,899
Lease Commissions	9,700	19,400	19,400	19,400	19,400	9,700
Advertising and Promotion	10,000					
Organization Expenses	2,000	4,000	4,000	4,000	4,000	2,000
Financing Fees (construction loan)	2,100	2,100	2,100	2,000	2,000	
Financing Fees (permanent mortgage)	2,700	2,700	2,700	2,700	2,700	2,700
Total	156,150	234,038	232,966	231,692	230,407	215,299
Income (loss) before Depreciation and 60-month Amortization	(70,085)	18,106	19,178	20,452	21,737	36,845
Depreciation--Original Shell, Title and Closing	3,098	5,600	5,600	5,600	5,600	5,600
60-Month Amortization of Rehabilitation Expenses	127,300	378,036	378,036	378,036	378,036	216,707
Taxable Income (loss)	(200,483)	(365,530)	(364,458)	(363,184)	(361,899)	(185,462)
Tax Savings For 50% Taxpayer	100,227	182,765	182,229	181,592	180,950	92,731

Wyandotte Building

Tax Analysis

Using 25% ITC

	1980	1981	1982	1983	1984
Gross Rental Income	$252,144	$252,144	$252,144	$252,144	$252,144
Less Expenses & Fees	234,038	232,966	231,692	230,407	215,299
Income (Loss) Before Depreciation	18,106	19,178	20,452	21,737	36,845
15-Year ACRS of Original Shell, Title, Closing & Rehab Expenditure	128,270	128,270	128,270	128,270	128,270
Taxable Income (Loss)	(110,164)	(109,092)	(107,818)	(106,533)	(91,425)
25% ITC	446,013				
Tax Savings For 50% Taxpayer	501,095	54,546	53,909	53,267	45,713

The Gross Rental Income and Operating Expenses figures are constant from 1980 to 1984 based on the assumption that any increases in operating expenses will be offset by comparable increases in rental income.

*Source: K.R.V. Company

Explanation of Tax Analysis Tables

Although the 25% ITC for rehabilitation of certified historic structures was not available until January 1, 1982, the table on the facing page (bottom) provides a hypothetical tax analysis of the Wyandotte Building development had the K.R.V. Company been able to use the new credit. For comparison purposes, it is shown with the tax analysis actually used by the developers (top).

Section 212 of the Economic Recovery Tax Act of 1981 allows a 25% credit against taxes owed, based upon the amount of qualified expenditures incurred in a certified rehabilitation. The law also provides a new 15-year Accelerated Cost Recovery System (ACRS) which replaces useful life depreciation in the old law. In the 25% ITC table at left, the purchase cost of the structure (independent of land value) as well as title and closing costs, are combined with the rehabilitation expenditures to determine the 15-year ACRS depreciation.

To qualify for an ITC, section 212 of the 1981 act contains a requirement that the amount spent on a rehabilitation exceed the greater of $5,000 or the owner's adjusted basis in the property (purchase cost of the structure plus improvements less any depreciation taken). Since the K.R.V. Company's rehabilitation expenditures ($1,784,051) far exceeded its basis in the structure ($110,000), this requirement of the law would have been met.

Project Benefits

The rehabilitation of the Wyandotte Building has saved a familiar landmark in downtown Columbus from an uncertain fate. According to officials of the Real Estate and Canal Lands Section of the State Department of Administrative Services, demolishing the Wyandotte and erecting a taller structure in its place was one of several options being considered by the state in 1976. Had the K.R.V. Company not purchased it, the building may have gone the way of many other historic downtown office buildings--a victim of the wrecking ball. Instead, after 60 years of state ownership, it is back on the county tax rolls, providing more than $20,000 of annual revenue.

One of the K.R.V. Company's reasons for undertaking the Wyandotte rehabilitation was to establish the practicality of the preservation provisions of the Tax Reform Act of 1976. As a financially sound undertaking, the project has shown K.R.V. and other Columbus developers that the law can be used successfully to develop and syndicate historic rehabilitations.

Acknowledgements

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APPENDIX

Secretary of the Interior's "Standards for Rehabilitation"

1. Every reasonable effort shall be made to provide a compatible use for a property which requires minimal alteration of the building, structure, or site and its environment, or to use a property for its originally intended purpose.

2. The distinguishing original qualities or character of a building, structure, or site and its environment shall not be destroyed. The removal or alteration of any historic material or distinctive architectural features should be avoided when possible.

3. All buildings, structures, and sites shall be recognized as products of their own time. Alterations that have no historical basis and which seek to create an earlier appearance shall be discouraged.

4. Changes which may have taken place in the course of time are evidence of the history and development of a building, structure, or site and its environment. These changes may have acquired significance in their own right, and this significance shall be recognized and respected.

5. Distinctive stylistic features or examples of skilled craftsmanship which characterize a building, structure, or site shall be treated with sensitivity.

6. Deteriorated architectural features shall be repaired rather than replaced, wherever possible. In the event replacement is necessary, the new material should match the material being replaced in composition, design, color, texture, and other visual qualities. Repair or replacement of missing architectural features should be based on accurate duplications of features, substantiated by historic, physical, or pictorial evidence rather than on conjectural designs or the availability of different architectural elements from other buildings or structures.

7. The surface cleaning of structures shall be undertaken with gentlest means possible. Sandblasting and other cleaning methods that will damage the historic building materials shall not be undertaken.

8. Every reasonable effort shall be made to protect and preserve archeological resources affected by, or adjacent to any project.

9. Contemporary design for alterations and additions to existing properties shall not be discouraged when such alterations and additions do not destroy significant historical, architectural or cultural material, and such design is compatible with the size, scale, color, material, and character of the property, neighborhood or environment.

10. Wherever possible, new additions or alterations to structures shall be done in such a manner that if such additions or alterations were to be removed in the future, the essential form and integrity of the structure would be unimpaired.

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