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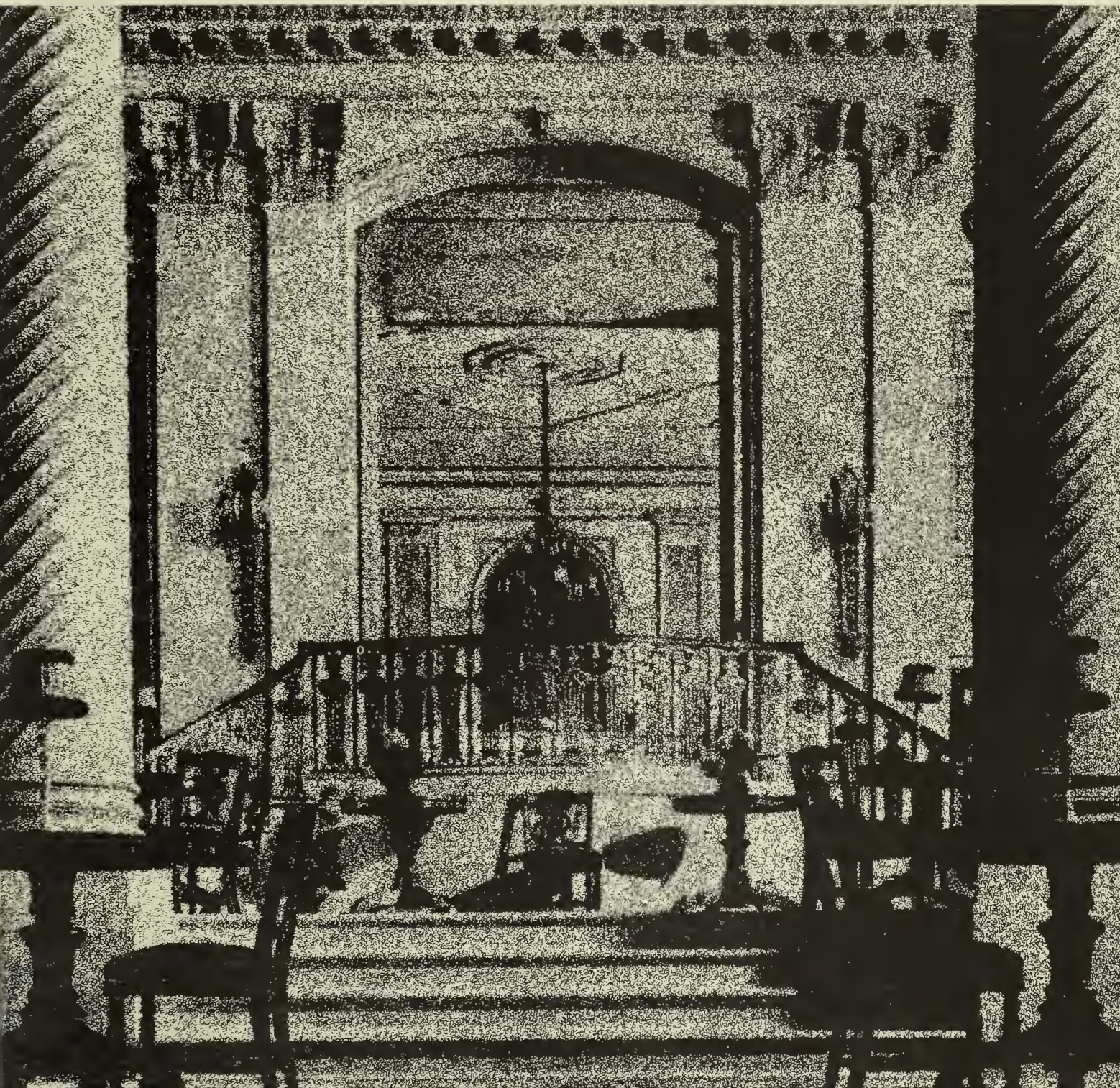
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Rehabilitating Historic Hotels

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Peabody Hotel, Memphis, Tennessee



Peabody Hotel, Venetian Lounge Area, c. 1925

Preservation Case Studies


Rehabilitating Historic Hotels

Peabody Hotel, Memphis, Tennessee

by Floy A. Brown

**U.S. Department of the Interior
Heritage Conservation and Recreation Service
Technical Preservation Services Division
Washington, D.C. 20243**

September 1980

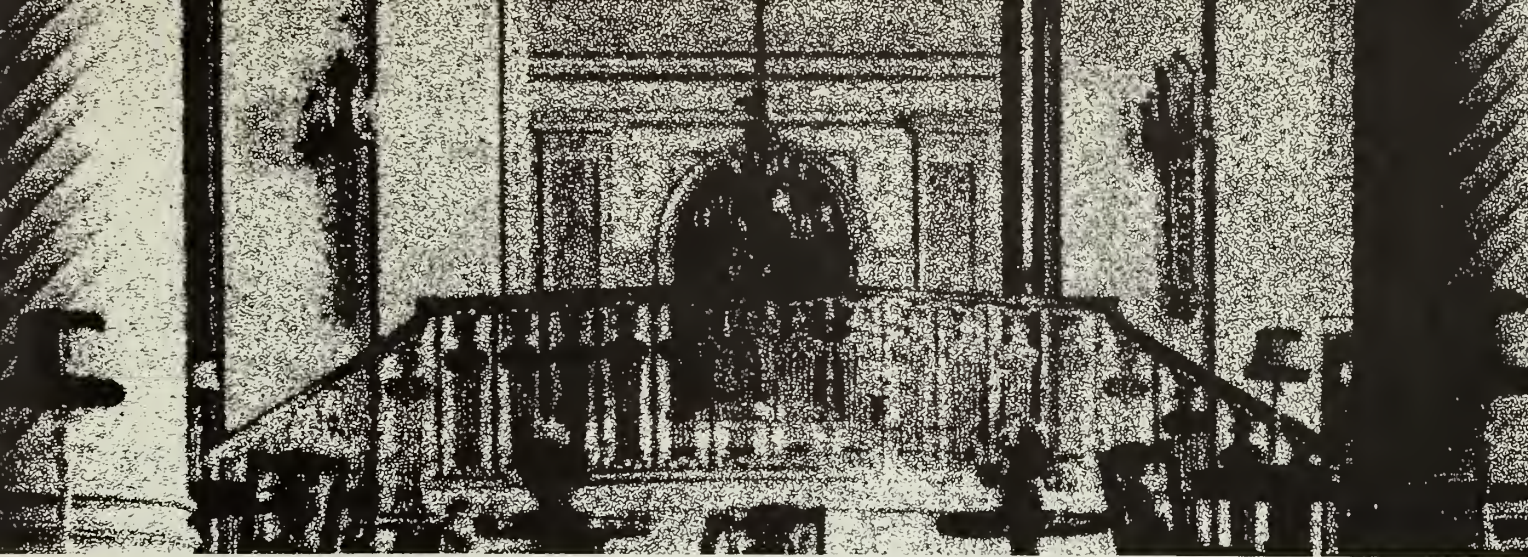


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Introduction

Imagine downtown without a hotel, a New England village without an inn, or the mountains and beaches without nearby resorts. A key building in the American past is the hotel, whether urban, resort, or country inn. Businesspeople, vacationers, and community residents have mingled together over the years in these structures; many hotels have acquired historic and architectural significance, having served as visual and social focal points from the past into the present. In recent years, many older hotels have fallen into decline, sharing the fate of urban centers across the country. Reasons for the decline have included the move of businesses out to suburban areas and the shifting centers of commerce and industry to areas adjoining highways. New hotel and motel chains, geared towards the automobile, created fierce competition through their convenience in location and modern facilities. The notions that "old is bad" and that "cities are dangerous" also discouraged patronage of downtown hotels. Declining profits restricted needed maintenance and services, adding to the deterioration of America's older hotels.

Today, as attitudes change and commercial activity increases in older urban areas, many older hotels are experiencing a renaissance. The glamour, charm, and economic vitality of many historic hotels around the country are being restored, in part through the encouragement of Federal tax incentives for historic preservation. As of June, 1980, over \$200 million in approved rehabilitation work was underway or completed on 42 historic hotels. Rehabilitation work on 80 additional hotels has involved adaptive use to offices, retail space, and residential units.

According to the president of a major hotel corporation, older hotels make good rehabilitation investments--provided the conditions are right. The buildings must be structurally sound, a feature common to the large urban hotels having fireproofed steel or reinforced concrete construc-

Federal Assistance for Rehabilitating Historic Buildings

Section 2124 of the Tax Reform Act of 1976 offers important tax incentives for the rehabilitation of historic buildings. Owners of eligible depreciable structures may amortize qualified rehabilitation expenses over a five year period or take accelerated depreciation on the value of the rehabilitated property. A third incentive, an investment tax credit for rehabilitation, is available under section 315 of the Revenue Act of 1978.

The Heritage Conservation and Recreation Service, U.S. Department of the Interior, issues the necessary certifications to qualify owners of depreciable historic buildings for the incentives provided by the Tax Reform Act of 1976 and the Revenue Act of 1978. The Internal Revenue Service, U.S. Department of the Treasury, makes determinations regarding the tax consequences of these certifications.

Location also is a critical factor: a hotel must be adjacent to activity centers, whether for business or pleasure. In a city, proximity to business activity and the market area can draw an abundance of guests to a nearby hotel. A feasibility study on market conditions within a given location can be a critical tool in helping define the risk and future potential for a renovated older hotel. Finally, as a general rule, distinctive character and service are marketable commodities: an elegant historic hotel with gracious service provides a unique experience for the traveler away from home, one for which he is willing to pay. To a hotel operator, the amenities associated with older hotels can mean substantial profits. The tax deductions for rehabilitation help to relieve the tax burden of a successful hotel, allowing the owner to continue making improvements or to invest his money elsewhere.

According to hotel owners who have taken advantage of the preservation provisions in the Federal tax code, tax incentives also are influential in determining the quality of rehabilitation work. Owners may spend an additional 10-20 percent due to the tax advantages. Guided by the Secretary of the Interior's "Standards for Rehabilitation," owners attempt to achieve the highest quality of work to highlight the historic and architectural character of their older hotels.

The kinds of costs allowable have been defined by the Internal Revenue Service as covering most of the expenses within the four walls of a building. Architectural and engineering fees, real estate commissions, site survey fees, legal expenses, insurance premiums, developer's fees, and other construction-related costs can be figured into the tax deduction. Energy conservation measures--installation of insulation, storm windows, or repair of deteriorated sash--also qualify. Other aspects of work common to hotel renovation projects include installation of new heating, ventilating, and air conditioning systems, replacement of antiquated elevator equipment, and construction of new fire stairs and safety exits.

Hotel owners have upgraded the quality of guest rooms by repairing ornate plasterwork and other architectural detailing, and installing new plumbing and electrical wiring. In certain instances, partitions between existing rooms have been removed to increase the size and luxury

How to Qualify

To qualify for the tax incentives, property owners must complete a two-part Historic Preservation Certification Application and secure certification from the Department of the Interior regarding the historic character of a structure and the quality of the rehabilitation work performed on a structure.

A certified historic structure is any structure subject to depreciation as defined by the Internal Revenue Code, which is listed individually in the National Register of Historic Places, or located in a registered historic district and certified as being of historic significance to the district.

A registered historic district is a National Register district or a state or local district that has been certified by the Department of the Interior.

of guest accommodations. Many projects combine rehabilitation of a historic hotel with adjoining new construction, to expand the number of rooms, meeting, and parking facilities. New construction and non-permanent improvements such as decorating costs ordinarily do not qualify under the historic preservation tax incentives.

The historic hotels undergoing renovation which have been reviewed by the Department of the Interior tend to fall into five general categories:

Palace hotels, splendid vestiges of turn-of-the-century prosperity, can be found in urban centers around the country.

Main street hotels, many of them constructed with the coming of the railroad, can be found in towns and smaller cities from the northeast to the southwest.

Historic resort hotels and country inns cater to the characteristic American delight in the natural environment and are commonly found amidst beautiful locations.

New hotels being created out of recycled historic buildings reflect the ever-growing potential for adaptive reuse.

Finally, hotels of earlier days are being converted to new uses in response to changed circumstances in the world around them.

In each category of building, the Federal tax incentives for historic preservation have proved to be important factors influencing the quality of rehabilitation work and the financial well-being of the project.

Palace Hotels

Located in the old downtown of almost every major city across the country are stately palace hotels. Built in an era of national prosperity at the end of the 19th and beginning of the 20th century, these elaborate constructions often are architectural derivations from the grand resort hotels and palaces of Europe. From the outset they offered the ultimate in luxurious accommodations and services. Their dining rooms, ballrooms, and ornamented

(continued on next page)

A *certified rehabilitation* is any rehabilitation of a *certified historic structure* that the Department of the Interior has determined is consistent with the historic character of the property or the district in which the property is located.

What's Worth Preserving in a Historic Hotel

Many older hotels have undergone alterations over the years in an effort to stay "fully modern." Despite these changes, there are usually distinctive features and spaces that merit retention in an overall hotel rehabilitation. Even when a feature or space is not original to a hotel, it may exhibit fine workmanship or design and be worth saving.

Public spaces. Consider retaining lobbies, ballrooms, restaurants, grand staircases, elevator cabs and hallways where such spaces are original or early to the building. Features worthy of preservation include early hardware, wainscoting, ornamental columns and

lounges figured prominently in the social and economic activities of their communities.

Although many of the grand old hotels declined as urban centers changed and new hotels sprang up, today an increasing number are being restored and returned to their historic role as elegant luxury hotels. In addition to restoring distinctive interior and exterior architectural features, hotel owners are recreating the ambiance and special services of prior years, attracting businessmen and tourists in record numbers. Because many of the palace hotels are listed in the National Register of Historic Places, independent owners and chain corporations alike are finding that the historic preservation tax benefits provide financial relief for high quality rehabilitation work.

A prime example of the palace hotel, the Plaza stands today as a New York City landmark and a world famous luxury hotel. Constructed in 1907 at the southeast corner of Central Park, the distinctive Chateausque Revival style building contains highly decorative interior spaces, including the Palm Court, the Edwardian Room, and the Grand Ballroom. By the 1970s, the Plaza's grandeur was fading and its reputation becoming tarnished due to lack of maintenance and slackened services. In 1975, Western International Hotels, a Seattle-based company that manages such distinctive historic hotels as the St. Francis in San Francisco and the Mayflower in Washington, D.C., purchased the Plaza with the intention of restoring it to its previous glory. Passage of the Tax Reform Act of 1976 and the availability of the rapid writeoff of rehabilitation expenses added impetus to undertaking the improvements; over \$25 million has been spent on cleaning and refurbishing exterior and interior surfaces, installing new elevator equipment and air conditioning, restoring the elaborate public spaces, and upgrading the guest rooms and suites. Today, the 840 units are enjoying a 90-95 per cent occupancy rate, and the Plaza, capitalizing on the grace and elegance of a previous era, is a highly profitable hotel again.

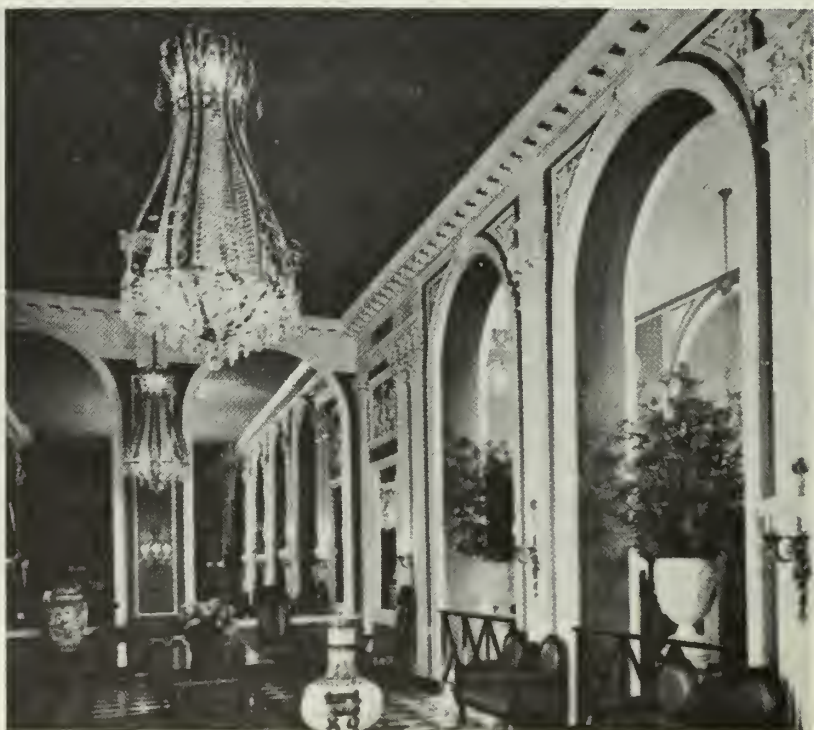
The Hotel Washington, located at the corner of 15th Street and Pennsylvania Avenue, NW, in Washington, D.C., has been a home-away-from-home for Congressmen and Senators since its construction in 1917. Prominently placed between the White House and the Capitol along the Presidential parade



Plaza Hotel, New York City



*Hotel Washington, Washington, D.C.
Photo by Ankers Capitol Photographer*



*Hotel Washington, Lobby
Photo by Mrs. Gerry Peck*

plaster work, coffered ceilings, lighting fixtures, cornices, parquet or mosaic flooring.

Hotel rooms. Consider retaining transom doorways and wood trim, cornices, early bathroom fixtures such as clawfoot tubs and pedestal sinks.

Exteriors. Consider retaining early glass and metal canopies; distinctive painted or neon signage; early storefronts, doors and windows.

route, the nine story Italian Renaissance Revival hotel is included in the Pennsylvania Avenue National Historic Site. The 367 guest rooms, meeting and banquet facilities, formal lobby, and several well-known restaurants have been much used over the years, making the hotel economically viable as well as historically prominent. With the passage of the Tax Reform Act of 1976, Gal-Tex Hotel Corporation, owner and operator since the 1930s, recognized the attractive tax advantages for rehabilitation expenses and began planning a \$1.1 million program of improvements. Rotted window frames have been replaced with compatible new aluminum frames; the exterior brick and stone have been carefully cleaned to reveal unusual graffito panels depicting famous political figures. On the interior, the lobby has been restored and the guest rooms upgraded to meet the highest contemporary standards. The rehabilitated hotel operates at maximum capacity year round. According to Gal-Tex President Eugene Lucas, "We're making just as much profit in our older hotels as in the new; maybe more, where we have no debt service." Lucas believes that the tax incentives encourage the highest quality of rehabilitation work by providing a financial reward to hotel owners who meet the Secretary's "Standards for Rehabilitation." Having also qualified the historic Menger Hotel in San Antonio, Texas, for the rapid write-off of rehabilitation expenses, Lucas exclaimed, "I wish I had some more old hotels to get involved in!"

Main Street Hotels

In a number of towns and smaller cities, historic hotels along Main Street are being rehabilitated as part of a larger revitalization effort. The historic composition of Main Street generally included commercial buildings, storefronts, churches, a town hall, and a hotel; the mixture of building types and uses shaped the distinctive character of towns and smaller cities across the country. Now, as Americans realize the value of preserving that character, rehabilitation projects are springing up along Main Street in an effort to bring new life into the older buildings. Rehabilitated historic hotels are contributing to the momentum of Main Street revitalization by creating attractive lodging and dining facilities downtown.

The St. James Hotel, located on Main Street in Red Wing, Minnesota, was built in 1875, financed by local businessmen who believed the town should have a deluxe hotel



*St. James Hotel, Red Wing, Minnesota
Historic Photo*

catering to Mississippi River traffic. By the 1970s, the neglected building stood in sad repair, a symbol of changing times in downtown Red Wing. Then, in 1975, the Red Wing Hotel Corporation, a subsidiary of Red Wing Shoes, purchased the building and began planning a \$1.5 million rehabilitation project. Rehabilitation work included remodeling the original 65 hotel rooms into 41, retaining the historic character and decor throughout. On the



*St. James Hotel, 1979
After Rehabilitation*

exterior, masonry was cleaned with water and detergent, the fire escape was removed, and modern storefronts replaced by replicas of the originals. New additions included a brick staircase, elevator tower, parking garage, and adjoining office to the rear. Because the hotel is individually listed in the National Register, the rehabilitation expenses were eligible for the preservation tax treatments. The owners received certification of the

*Historic Holly Hotel
Restored Dining Room*



*Historic Holly Hotel, Holly, Michigan
During Rehabilitation, 1979 Photo by Bob Parks, Flint Journal*

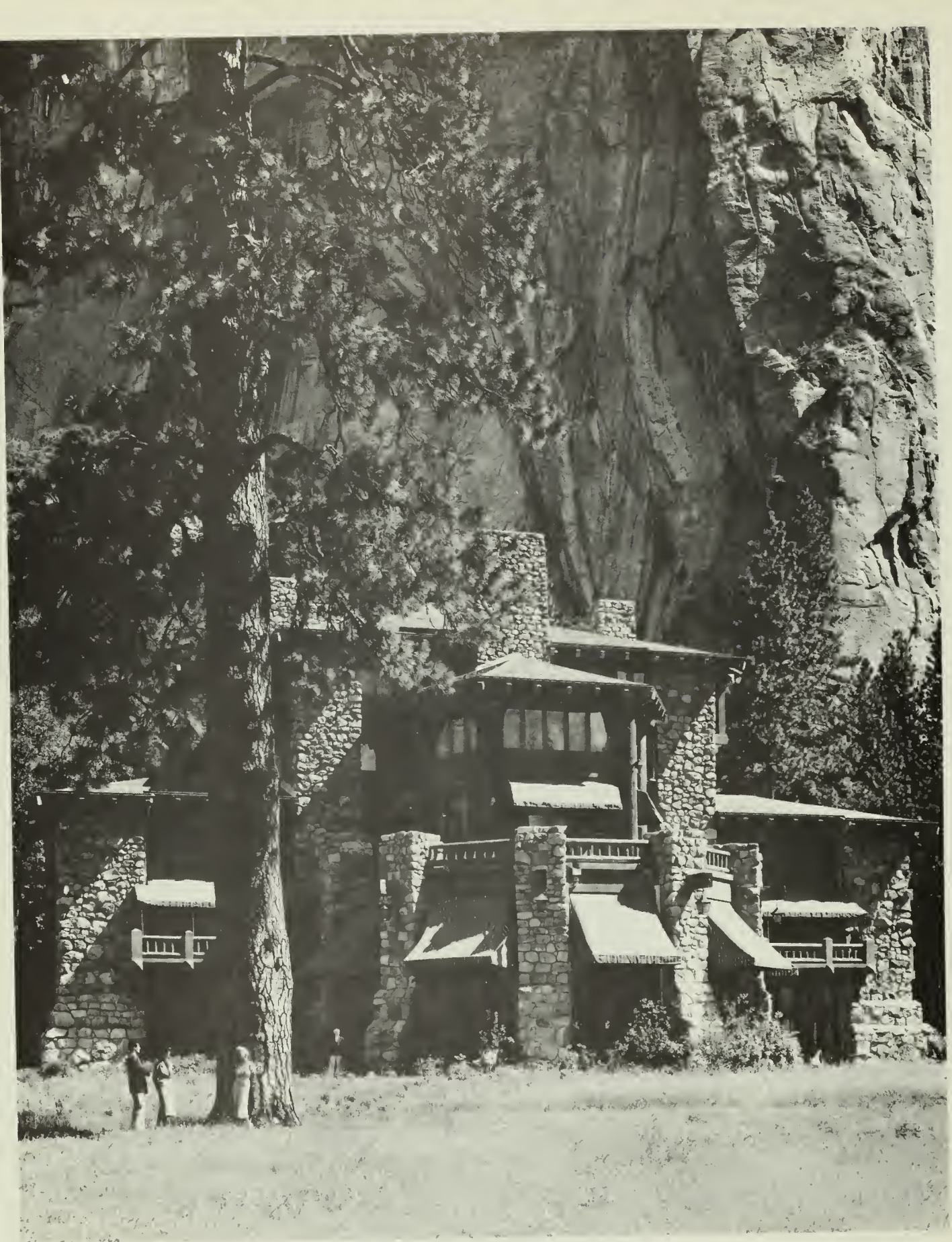
completed project in March of 1979. According to a Vice-President of the Red Wing Hotel Corporation, the 60 month amortization reduced the financial risk of the project considerably. The restored hotel and newly installed restaurant are succeeding in drawing new business and tourism to the historic town of Red Wing.

In the town of Holly, Michigan, renovation of the historic Holly Hotel has re-established its prominent role in the social life of the community. Built in 1891 as a railroad hotel for the nearby passenger train route, the hotel rapidly became the social center of the region, with the finest and largest dining room in the area. The domestically-scaled Queen Anne style building was one of the most architecturally important structures in the town. With the demise of passenger rail service and the stagnation of Holly's growth and prosperity in the 1940s, the hotel drifted into marginal existence as a local restaurant. In 1978, the building suffered a disastrous fire which damaged the second floor and destroyed the roof.

Realizing that the old hotel might be eligible for the National Register if properly restored, and qualify for the Federal tax benefits for rehabilitation, Dr. Leslie Sher, a local resident, bought the fire-damaged building and began planning to restore it to the 1891 form. "The tax incentives were the real reason we got involved in this project; if there weren't incentives, the money we have put into this building would only be a mediocre investment," according to Dr. Sher and his partner. The \$305,000 of rehabilitation work completed to date includes structural reinforcement of the foundation and framing, and installation of a new kitchen facility and Victorian restaurant on the first level. Future plans include refurbishing the upper floors to provide a banquet facility and a dinner theater. A small number of guest rooms are planned as well. The Historic Holly Hotel now is listed in the National Register and has again become a local landmark drawing people from adjacent areas to shop and dine in the town of Holly. The rehabilitated hotel has added momentum to the commercial revitalization of the adjacent State-designated Victorian historic district with specialty shops and boutiques.

Resort Hotels and Country Inns

Recent years have seen a great upsurge in the popularity of historic resort hotels and country inns. Numerous guides



*The Ahwahnee, Yosemite, California
Photo by Ansel Adams, Yosemite Park & Curry Co. Collection*

and directories have been published encouraging vacationers and travelers to seek out the unique environment and customized services such facilities offer. In response to increased patronage and consumer awareness, owners of significant numbers of historic resort hotels and country inns have rehabilitated their properties, highlighting distinctive architectural and historical characteristics. Projects approved by HCRS for the historic preservation tax benefits include smaller hotels located in historic resort communities such as Saratoga Springs, New York; Block Island, Rhode Island; and Atlantic City, New Jersey. Larger individually designated historic resort hotels being rehabilitated include the Mohonk Mountain House in New Paltz, New York and the Grand Hotel on Mackinac Island, Michigan. Historic country inns in New England and the Middle Atlantic states also have qualified for the favorable tax treatments.

A long-standing favorite among resort hotels, the Ahwahnee in Yosemite National Park, California, was renovated over a seven year period for \$1.5 million. Yosemite Park & Curry Company, the original builders and present owners of possessory interest in the 1927 hotel, performed a careful restoration of the distinctive features of the National Register building, which was designed to be compatible with the spectacular rugged environment. Rehabilitation work on the roof rafters, wood brackets, balconies, and exterior lanterns maintained the unique character of the building. On the interior, public areas such as the elegant "Great Lounge" with painted beam ceilings and oversized windows with stained glass panels in an Indian design were restored according to early photographs. The 120 guest rooms (90 in the main hotel and the rest in 12 adjacent cottages) were completely redecorated with new carpets, paint, bedspreads, furniture, and window coverings in an Indian motif. With an occupancy rate of 94 percent in 1979 and an operating profit of \$1.6 million, the five year write-off of rehabilitation expenses helps to shelter the improved income of the restored hotel.

A second western resort hotel in the heart of ski country, the New Sheridan Hotel in Telluride, Colorado, was rehabilitated in 1977 for nearly \$800,000. Without the rehabilitation tax incentives, the building would have received only a cosmetic face lift rather than the thorough rehabilitation it was given, according to the

developer, Walter C. McClennan. The three story brick hotel dates from the 1890s, when silver, gold and copper mines opened in the San Juan mountains. The entire town of Telluride is now designated a National Historic Landmark. Renovation of the hotel included a restorative approach to the lobby and other interior public spaces; the 30 guest rooms were refurbished and a new elevator tower added. The owner syndicated the rehabilitation expenses to a limited partnership, bringing in \$40,000 of equity payments which offset costs in the early years of operation. The percentage-leased bar and restaurant are sufficient to pay debt service on the renovation project. The only full-service hotel in the region, the New Sheridan anticipates increased business in coming years as the area expands to its full resort potential.

A representative example of the village or country inn being rehabilitated is the South Royalton House in South Royalton, Vermont. Built in the 1850s, the former railroad hotel is located on the green in the historic New England village, much of which is a National Register historic district. Although the permanent population of the village numbers no more than 100, the Vermont Law School located there five years ago and the 350 students, faculty, and various guests created a demand for a local inn and restaurant. Several years ago, a group of local investors purchased the building and formed a "subchapter S" corporation to renovate and operate the renewed facility (a subchapter S corporation pays no corporate taxes; all profits and tax deductions pass through to corporate shareholders according to their respective shares).

The investment in rehabilitating the inn appeared a sound one: each shareholder in the corporation deducts part of the \$160,000 rehabilitation over the first five years. The group anticipates the project will be profit-making by that time, at which point they can sell their stock at a capital gain or donate it to the Law School and take a charitable deduction. Rehabilitation work includes mostly interior improvements such as installation of a new kitchen, improvements to guest rooms on the upper floors, and conversion of the basement into a pub. The restored inn will provide a gracious setting for academic functions and community needs such as wedding receptions, banquets, or public meetings. The



South Royalton House, South Royalton, Vermont

investors view the project as both personally profitable and a benefit to the public.

New Hotels Out of Recycled Historic Buildings

Not all hotel renovation projects involve buildings constructed as hostelryes. Large downtown office buildings, former warehouses, and centrally located industrial complexes are being recycled to create distinctive lodging and meeting facilities. In Akron, Ohio, the former Quaker Oats Cereal Plant and grain

silos, listed in the National Register for their historic role in the City's industrial and economic development, are being transformed for \$6 million into a luxury hotel to be managed by the Hilton Corporation. Quaker Square, the contemporary name for the old industrial complex and adjoining train depot, is becoming a popular specialty dining and shopping center in downtown Akron. The new hotel complex will complement and expand the existing attractions, bringing increased tourist dollars and tax revenues to the defunct industrial site.

A small scale project and one of considerable imagination is the recycling of a mid-19th century warehouse building in Charleston, South Carolina, to create a personalized small hotel known as the Vendue Inn. Although prior to rehabilitation the property had always been used for commercial purposes or warehousing, the developer felt that the location within the historic district and the close proximity to the many historic sites visited by tourists made an appropriate new use a small hotel or inn. The \$500,000 rehabilitation retained all interior walls, floors, and ceiling joists of the warehouse; interior partitions were erected to create 18 guest rooms with customized decor and furnishings in a colonial motif. A skylit guest lounge with potted plants provides an attractive setting for the serving of light snacks.

On the exterior of the building, the stucco was repainted and an awning installed over the entrance. The Vendue Inn, developed, owned and operated by Morton Needle, "enjoys an excellent occupancy rate." According to Mr. Needle, who also has sole ownership of a realty service, the historic preservation tax write-off over 60 months "made the project a most attractive venture without which I might not have decided to rehabilitate the building."

New Uses for Old Hotels

Old and historic hotels make good candidates for adaptive reuse: their central locations, solid construction, and uniform layout of rooms around central corridors are characteristics adaptable to a variety of new uses. Nearly 80 former hotels have been rehabilitated using the preservation tax incentives; new uses include



Vendue Inn, Charleston, South Carolina
Photo by Stuart Johnson

housing for the elderly, commercial offices, mixed residential apartments and offices, or offices and a restaurant. While the use changes, the distinctive character of interior spaces can be retained to the advantage of the new occupant: an elegant hotel lobby for example, can serve equally well as an office building foyer. Existing lounges and special dining areas can provide unique communal spaces within a housing project.



The Oakland Hotel, Oakland, California

The Oakland Hotel in Oakland, California, is a prime example of a former palace hotel being converted to housing for the elderly. The eight story Renaissance Revival masonry building, dating from 1912, is constructed of steel and reinforced concrete. The U-shaped plan and central court are ideal for a housing complex; the \$14 million rehabilitation will create 315 units of subsidized housing. The Cafe, Club Room, Dining Room, and Ballroom are being retained for residents' use.

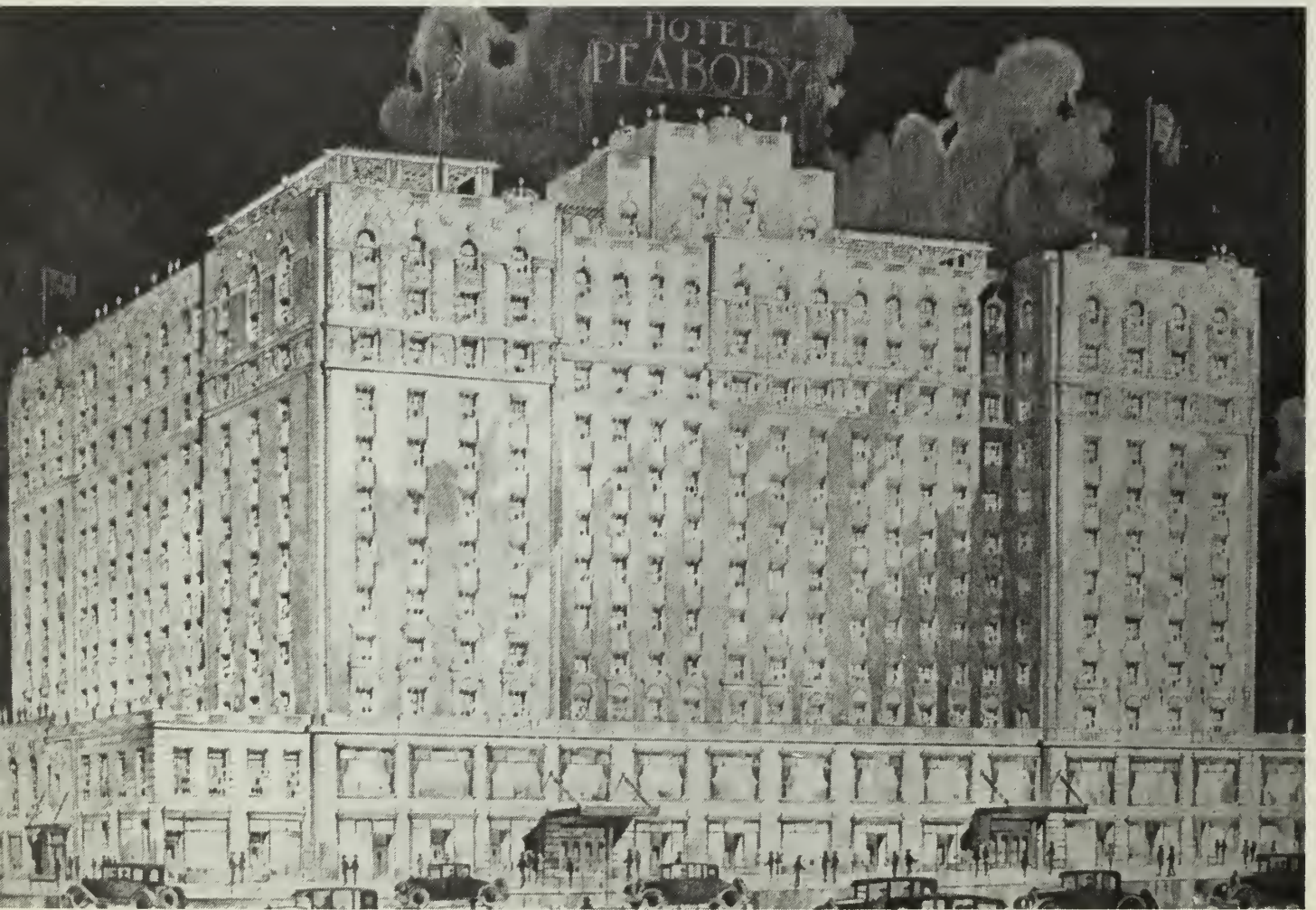
Another successful conversion of a smaller scale building, the Island City House, a three story frame structure dating from 1890 in Key West, Florida, has been converted to 12 luxury rental apartments. The \$250,000 renovation included restoration of the three story gallery across the front of the building, giving residents access to fresh air and a view.



The New York Hotel, Salt Lake City, Utah

A third example, from Salt Lake City, Utah, is the former New York Hotel, a three story brick building dating from 1906. The \$850,000 renovation was accomplished in six months, essentially restoring the historic exterior appearance while converting the interior to offices and a restaurant. Modern mechanical systems were installed to bring the old building up to contemporary code requirements. These and other old hotel buildings are finding new longevity through adaptive reuse. Some day they may even be reconverted to hotels!

The five categories discussed above reflect the broad-ranging potential for this building type using the Federal tax provisions for historic preservation. Although the size and physical characteristics of historic hotels may differ, their renovations share a common approach to rehabilitation--the preservation of historically and architecturally significant features and the upgrading of guest facilities to present day standards. Other shared characteristics of rehabilitated historic hotels are their ability to turn profits and the beneficial effects to the communities in which they are located. New jobs, increased tax revenues, and a bolstered image for downtown can result from a rehabilitated historic hotel.



*Peabody Hotel, Historic Rendering, c. 1925
Walter W. Ahlschlager, AIA*

Peabody Hotel
Project Data

Date of Construction:
1925

Date of Rehabilitation:
1980-1981

New Use: hotel and
retail

A Case Study -- Peabody Hotel, Memphis, Tennessee

Planning and carrying out a historic hotel rehabilitation project can be a complex and challenging undertaking. Particularly when a hotel is located in a large urban center, the participation of public and private entities must be carefully balanced to insure the best results for the owner/developer and for the community. To better understand the process involved in rehabilitating a historic palace hotel and to appreciate the value of the preservation tax incentives in such an endeavor, the historic Peabody Hotel, located in downtown Memphis,



Peabody Hotel, Venetian Dining Room, c. 1925



Peabody Hotel, Lobby, c. 1925

Old Use: hotel and retail

Type of Construction:
Concrete frame, masonry exterior

Gross Building Area:
450,000 square feet in hotel
35,000 square feet in retail

Total Costs:
\$17 million;
\$37,280 per room

Tax Treatments:
10 percent investment tax credit for qualified rehabilitation expenses and accelerated depreciation of the adjusted basis of the rehabilitated building (sections 38, 48, and 167(o) of Internal Revenue Code)

Developer:
Hotel Peabody Associates, a Tennessee Limited Partnership, c/o Gary Belz, 149 Union Avenue, Memphis, Tennessee 38103

Project Architect:
Ron McFarland, A.I.A.
McFarland/Associates
Memphis, Tennessee

Tennessee, has been selected for a case study analysis. The case study includes a historic overview, rehabilitation strategy, public involvement, rehabilitation work, project economics, tax implications and project benefits.

Historic Overview

Designed by Chicago architect Walter W. Ahlschlager and constructed for a cost of \$5 million in 1925, the Peabody Hotel has been known to generations of travelers and local residents as "the South's Finest -- One of America's Best" hotels. Individually listed in the National Register of Historic Places in 1977, the 12 story Italian Renaissance Revival building "represents the finest example in the Mid-South region of the opulence, grandeur, and complexity which characterized the era of the grand hotel." The massive masonry building is ornamented by a terra cotta and limestone base with terra cotta cornices, pilasters, balustrades, and window surrounds on the upper levels. The two story main lobby with marble columns and ornate polychrome beamed ceiling provides a dramatic entrance to a building of superb architectural merit. The Peabody has been well-used and appreciated over the years and, according to the National Register nomination,

With its grand opening ball in 1925, the new hotel quickly established a reputation as the center of social life for the entire region. The Peabody's Night Cap Club, Venetian Dining Room, and open-air Marine Roof (later partially enclosed and known as the Skyway) soon became institutions among the socially elite of both Memphis and the rich Mississippi River delta areas of West Tennessee, eastern Arkansas, and northern Mississippi. The later 1920s, 1930s, and 1940s saw a steady stream of the wealthy and prominent flock to the Peabody to dine and dance to the music of such entertainers as George Hamilton, Les Brown, Benny Goodman, Harry James, Dorothy Lamour, and the Andrews Sisters. Beginning in 1937 the music of the Peabody's bands was broadcast nationwide on CBS radio.

Author David Cohn wrote in 1935, "The Mississippi Delta begins in the lobby of the Peabody Hotel and ends on Catfish Row in Vicksburg. The

Lending Institutions:

First Tennessee Bank
 National Bank of Commerce
 Commercial & Industrial Bank
 Harris Trust & Savings Bank
 Commerce Union Bank
 Tri-State Bank
 City National Bank
 United American Bank
 Union Planters National Bank

Public Assistance:

90 percent loan
 guarantee on construction and permanent financing by EDA;
 \$580,000 second mortgage by EDA; \$1 million third mortgage by City of Memphis through HUD Community Development Block Grant program

State Historic Preservation Office:

Tennessee Historical Commission
 4721 Trousdale Drive
 Nashville, Tennessee
 37220

Peabody is the Paris Ritz, the Cairo Shepheard's, the London Savoy of this section. If you stand near its fountain in the middle of the lobby, where ducks waddle and turtles drowse, ultimately you will see everybody who is anybody in the Delta. . ."

In addition to its significance in the social life of the region, the Peabody performed important commercial and civic functions. From the mid-1930s until the 1960s it was the city's prime convention hotel. The hotel's lower two floors contained forty retail shops and offices, as well as the headquarters of the Chamber of Commerce, and the Rotary, Kiwanis, and Civitan Clubs.

Following World War II, the Peabody began to decline, hastened by a series of fires, changes in ownership and the deteriorating fixtures and services so damaging to a hotel's reputation. In 1965, the Sheraton Hotel Corporation bought the Peabody, invested \$2 million in renovation, and reopened the hotel in 1968.

But the depressed economic and social climate in downtown Memphis and the popularity of the new outlying motel chains thwarted the revival of the Peabody; the Sheraton-Peabody filed for bankruptcy and closed in March of 1975. In early summer of that year, the building was sold in a foreclosure sale to Belz Enterprises, a local corporation active in real estate development.

Rehabilitation Strategy

The decision by Belz Enterprises to renovate the old hotel hinged on its historic character and its prominent location in downtown Memphis. To make the Peabody Hotel a pivotal project in revitalizing the old downtown, the rehabilitation project required a strong cooperative commitment from private lenders, city officials, and the Federal government. According to Gary Belz, spokesman for the developer, "It was our desire at that time to see that the Hotel obtained proper financing, as well as acquisition of contiguous additional land for parking and other considerations from the City Government." An initial feasibility study, the cost of which was shared by the developers and several Memphis banks, showed that



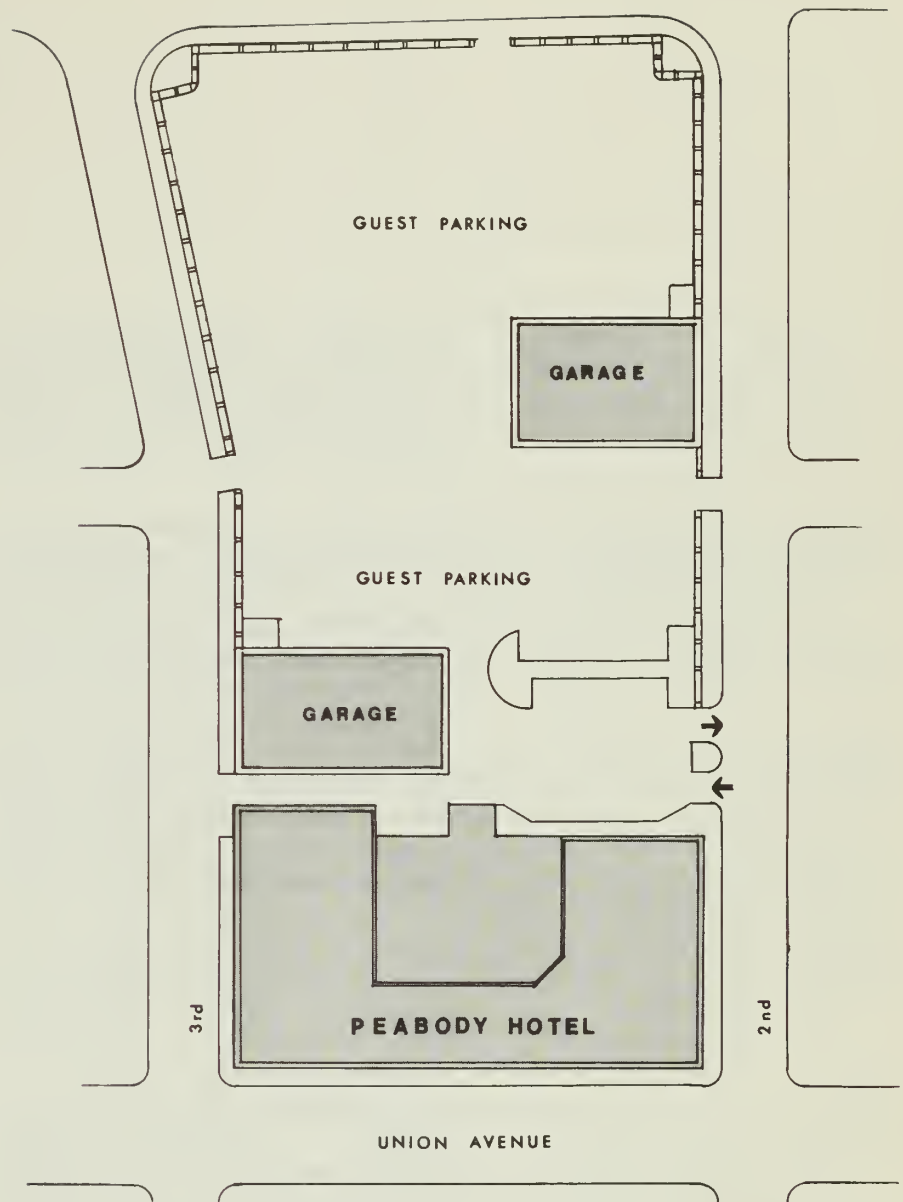
*Sheraton-Peabody Hotel
Post-Card View, c. 1968*

a reopened Peabody could be viable and in keeping with emerging initiatives to revitalize downtown. A new convention center located nearby, for example, was suffering for lack of hotel space for conventioners. Quoting Gary Belz, "It has generally been agreed that the Peabody Hotel is the single property in Downtown Memphis where resurrection will have the greatest beneficial impact on the complete reawakening of the Central Business District with retail activity, restaurants, entertainment, and the exciting atmosphere which such reawakening implies. The re-opening would provide the foundation of encouragement and assurance of success necessary to bring to fruition the other projects that must ultimately be a part of a successful broad-based Central Business District." The renovation proposed by the Belz family, as Hotel Peabody, Ltd. (a limited partnership), was to restore, refurnish, and re-equip the Peabody Hotel as a first class hotel. The estimated cost of refurbishing the guest rooms, dining rooms, ballroom, and other public areas, and of constructing

related facilities, including a parking garage and adjacent street level parking, totaled \$14 million in October of 1975.

From the outset, Belz Enterprises believed that it was critical to have the entire financial community of Memphis demonstrate its commitment to revitalizing the Central Business District through support for the Peabody Hotel project. Belz approached local lenders for first mortgage money for the project. Two banks, First Tennessee Bank and the National Bank of Commerce, took the lead in arranging a cooperative financing package that involved 8 of the 9 local banks. After many rounds of negotiation, the banks agreed to assume a portion of the total first mortgage loan liability equal to their percent of the total assets of all banks involved. This arrangement was seen as an acceptable means of spreading the risk of such a large project over the entire financial community.

Initially, the banks requested that the developers guarantee the entire sum of money for both construction and permanent loans. The developer rejected this as unfeasible and began to search for public assistance from the Federal government. The Department of Commerce's Economic Development Administration (EDA) Atlanta office was impressed with the project's ability to create jobs and to stimulate the local economy; EDA offered a 90 percent loan guarantee on the first mortgage money on the permanent loan. The developers then had to guarantee back to the EDA an additional \$1 million for the first 12 years of the project. Even with this commitment from the EDA, the local banks were not satisfied with the language of the guarantee, nor were they satisfied with not having the guarantee on the construction loan. The developer went back to the EDA and successfully petitioned a guarantee for the construction loan, in addition to the permanent loan. This final commitment by the EDA cleared the way for action. The simultaneous closing on the construction and permanent loans took place in March 1980. Over the five years of negotiating the financing for the Peabody Hotel project, the estimated cost of the rehabilitation had risen to nearly \$17 million. In order to close the gap in financing caused by the delays and rampant inflation, the developer sought a second mortgage from the EDA, totaling \$580,000. The City of Memphis provided a third mortgage through the



Peabody Hotel, Site Plan
Drawing by Sharon Park, AIA, after McFarland/Associates

HUD Community Development Block Grant program of \$1 million.

While negotiating the financing, the developer put into place several other facets of the project essential to success. "In order to overcome the psychological and/or real barriers for attracting people back Downtown, we determined that creating a secure, well-lighted and landscaped parking area was essential," stated Gary Belz. Accordingly, Belz Enterprises purchased the land immediately south of the hotel and a 3/4 block parcel south

of Gayoso Street, bounded by McCall on the south, 3rd Street on the east and 2nd Street on the west. After considerable debate, the City of Memphis agreed to close Gayoso Street, creating adjacent parking for the Peabody Hotel.

During this extended period of planning, the developer became aware of the historic preservation tax incentives included in section 2124 of the Tax Reform Act of 1976. Belz Enterprises contracted with an architectural consultant to prepare the nomination of the Peabody Hotel to the National Register of Historic Places. According to Gary Belz, "The developers wished to have it included in the Register so that they might take accelerated depreciation and perhaps other benefits applicable to those commercial structures listed in the Register." Thus, another piece of the complex puzzle fell into place when the Peabody Hotel was listed in 1977.

A final critical factor in the rehabilitation strategy was to determine who would manage the Peabody Hotel upon completion of the improvements. Belz Enterprises, within its various holdings, owns and operates over 15 Holiday Inns around the country. The Peabody, however, was planned as a premier quality convention and conference hotel, to compete in a national and regional market. After meeting with numerous hotel management companies, Belz Enterprises determined that "it was best for the Peabody Hotel and indeed essential to its success, to be run as an independent hotel, to have the right and proper manager on duty and on call with his able staff." Belz will hold and operate the Peabody upon completion as an independent hotel.

Public Involvement

Planning for the Peabody Hotel rehabilitation coincided with a changing national trend from outward migration to revitalization of inner cities. President Carter's Urban Policy of 1977 gave impetus to downtown revitalization by providing funding through a number of Federal agencies. Within the State of Tennessee and the City of Memphis changes were occurring as well to facilitate center city revitalization. The Center City Commission, a vehicle to encourage private interest in downtown Memphis, was established by the City of Memphis in 1977. Shelby County government became a partner in the

Commission several months later. The CCC was charged with providing private financing assistance, complementary public improvements and providing other forms of incentives to encourage the revitalization of the center city.

In 1978, the state legislature amended the Industrial Development Act to allow the City of Memphis and Shelby County to establish the Center City Revenue Finance Corporation. The CCRFC, an affiliate of the Center City Commission, issues tax free revenue bond financing and also grants property tax freezes.

At the time Belz Enterprises began work on the Peabody, there were no provisions to allow for a real estate tax abatement period. With the creation of the Center City Revenue Finance Corporation, Belz could arrange a sale-leaseback and allow payment in lieu of taxes based on pre-development property taxes. In February 1980 the title to the Peabody was transferred to the Center City Revenue Finance Corporation; the long-term lease payments equal the pre-development tax base plus the mortgage payments.

The Center City Commission provided considerable help to the developers of the Peabody in negotiating with the EDA, in the closing of streets and obtaining public improvements, and in attaining the supplementary HUD Block Grant third mortgage financing. According to Gary Belz, the support and backing by the Commission was essential: "Without this agency, we doubt very seriously that we would have continued to work on the hotel project."

Rehabilitation Work

By August, 1978, preliminary outline specifications had been prepared for the Peabody Hotel renovation by McFarland/Associates, Architects and Planners, of Memphis. According to the statement of general construction requirements:

It is the intent of the renovation program to preserve, protect, and refurbish the significant architectural character of this historic structure. Every effort shall be made to repair and refurbish existing construction and/or detail wherever possible, making changes

and alterations to the original design only where necessary to affect the proposed modifications. These are to be made in a manner as to preserve and amplify the original design character of the structure as much as possible while providing for the functional operation of the improvements, and practical construction of the proposed renovations with currently applicable methods and materials.

Preliminary specifications and plans were submitted to the Tennessee State Historic Preservation Office in November, 1978, the first step in the historic preservation certification process. The State preservation staff determined that the proposed project was in keeping with the Secretary of the Interior's "Standards for Rehabilitation," and forwarded the application materials for further review to the Heritage Conservation and Recreation Service in Washington, D.C. A determination to approve proposed rehabilitation work on the project was issued in December, 1978, to be confirmed by final certification upon the successful completion of the project.

The approved scope of work on the exterior of the building includes cleaning the brick and terra cotta with water and a mild chemical wash. Damaged terra cotta and masonry are being repaired or replaced to blend with adjacent materials. All exterior windows above the second floor are being replaced with dark bronze finished metal sash with double glazing to conserve energy. The window configuration for replacement sash matches the wooden sash being removed. Windows on the first and second floors are being repaired and reworked as required. The roof is being resurfaced with a built-up roof system, complete with all needed flashings, curbs, and other accessory construction to provide a weathertight system. The storefronts, a mixture of original bronze framing and glass elements interspersed with modern aluminium and glass treatments, are not being altered in this phase of the project; future plans may include installation of a canopy above the storefronts and replacement of modern storefronts with replicas of the originals. The stainless steel entrance canopies, added at a later date, are being replaced with ornate cast-metal canopies similar to the originals. An automobile entrance is being created at the rear of the building, adjacent to the parking area.



Peabody Hotel, Venetian Lounge, c. 1925

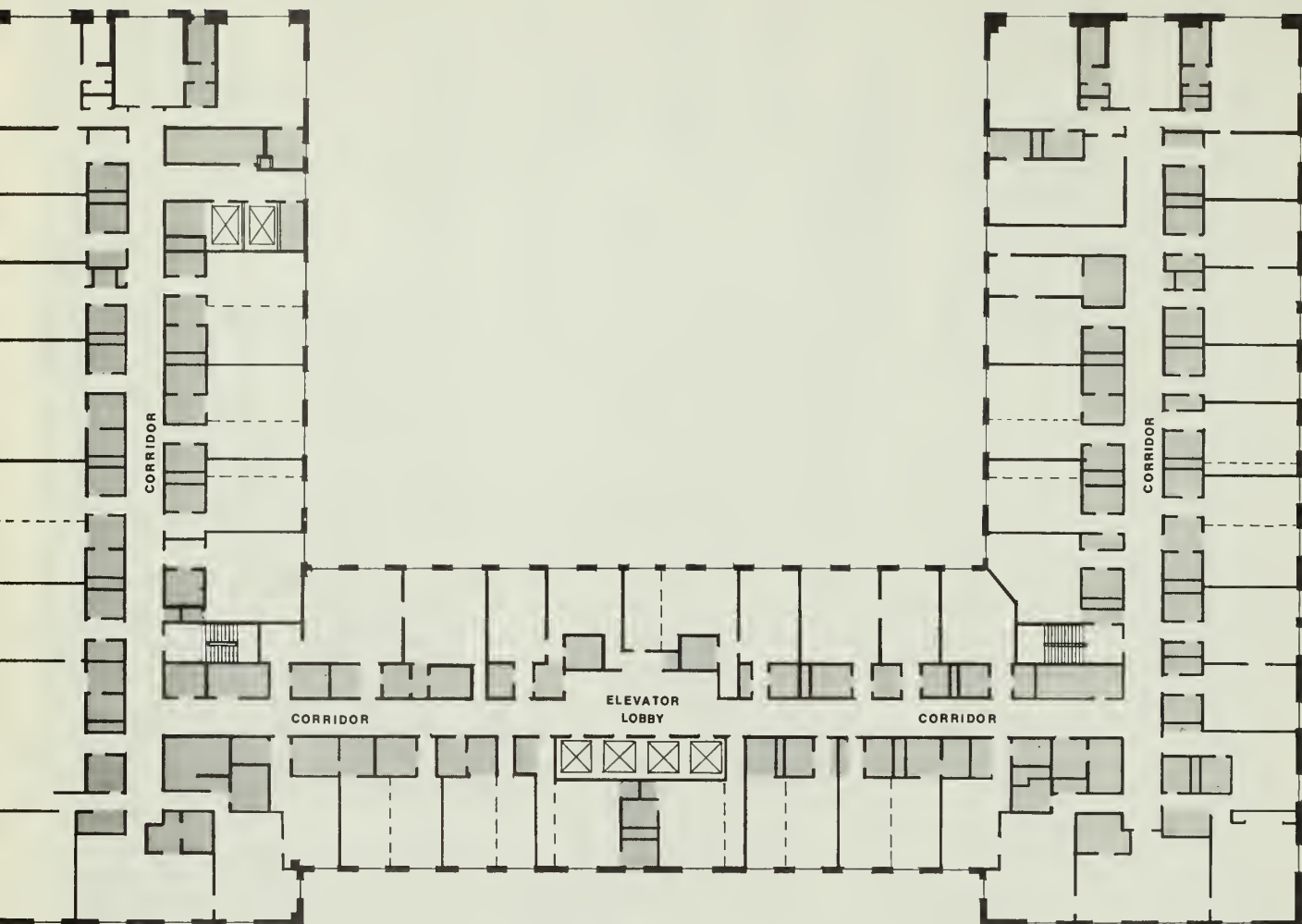


Peabody Hotel, Romeo & Juliet Suites, c. 1957

On the interior, the five entrance foyers, each finished in Italian travertine marble, are being cleaned and repaired. The great two story 85' by 125' main lobby with a mezzanine balcony and ornate polychrome wood beamed ceiling is being restored, along with the famous Peabody marble fountain. The Venetian Dining Room is being restored on the east mezzanine, to become again the hotel's most elegant dining area. The two-story lounge and tea room, the Venetian Lounge, is being reconstructed and decorated similar to its appearance shown in historic photographs. The Continental Ballroom on the mezzanine level is being completely restored with painting, detailing, new hardwood flooring, and decorations to match the originals. A number of ramps are being installed for the convenience of handicapped guests; most public lavatories will be equipped for handicapped patrons. On the upper floors, the number of guest rooms is being reduced from 636 to approximately 500. The original 11 foot width of some rooms is being combined by removal of partitions to adjoining rooms, resulting in an average width of 14 feet upon completion. The only decorative feature in most guest rooms is a plaster cornice which is being carefully preserved and patched in places where rooms are being combined. Although final decorating decisions have not been made, "It (the hotel) has to be an elegant intown mansion," according to Gary Belz. "We are trying to have the rooms reflect the residential flavor of the guests' own homes."

The hotel's four two-story "Romeo and Juliet" suites on the 11th and 12th floors are being refurbished. These distinctive suites with sitting rooms, bedrooms, fireplaces, and built-in bars in a two-level balcony arrangement with a curving metal staircase, have proved popular over the years as honeymoon suites. A new lower level swimming pool and health spa are being installed, built on footings laid at the time of the original construction. Existing mechanical systems are being replaced; the old two pipe radiator system is being converted to a four pipe system with individual fan coil units in each guest room. A computer operated energy management system is being installed to program and control energy consumption in all public areas.

Once completed, the restored hotel will offer at least 23 meeting rooms, with a maximum seating capacity of 700 persons. The developers believe the smaller sizes are workable: "There is so much that is beautiful architec-



PEABODY HOTEL PLAN

*Peabody Hotel, Representative Floor Plan
Drawing by Sharon Park, AIA, after McFarland/Associates*

turally that we would not want to destroy that," in the words of Gary Belz.

The cost of rehabilitating the old hotel will run to \$37,280 per guest room, compared to an industry average of \$70,000-\$100,000 per guest room for new luxury hotels. The rehabilitated structure will contain 485,000 square feet; 450,000 square feet will be in use by the hotel and various restaurants.

Rehabilitation work began in March of 1980 and is expected to be completed by May of 1981. "We are gearing it (the Peabody) to be a premier conference hotel probably the only one like it in this area. I still see it as the most important building in Memphis--it must become once again the city's social center," stated Gary Belz.

Project EconomicsPeabody Hotel
Pro Forma

(000's omitted)

Project Costs

Present Property	2,242
Purchase of Additional Land	255
Construction Costs and Furniture, Fixtures and Equipment	12,427
Soft Costs	1,372
Pre-Opening and Working Capital Reserve	700
	<hr/>
<i>TOTAL COST</i>	<u>16,996</u>

Construction Financing

Loan - Banks

First Tennessee Bank	6,079
National Bank of Commerce	2,509
Commercial & Industrial Bank	696
Harris Trust & Savings Bank	957
Commerce Union Bank	308
Tri-State Bank	118
City National Bank	149
United American Bank	415
	<hr/>
	11,231

Construction Financing Terms

Rate $\frac{1}{2}$ percent over prime of
 First Tennessee Bank; $\frac{1}{2}$ percent
 commitment fee to First Tennessee
 Bank; maximum 30 months construc-
 tion; 90 percent guarantee by EDA;
 \$1 million guarantee by Belz;
 guarantee of completion by Belz;
 secured by first mortgage

Loan - City of Memphis

Community Development Block Grant	1,000
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Loan - Economic Development Administration

580

*SUBTOTAL*12,811Equity

Equity - Present Property	2,242
Equity - Cash	1,943
	<hr/>
<i>TOTAL</i>	<u>16,996</u>

Permanent Financing

(000's omitted)

Loan - Banks

First Tennessee Bank	6,079
National Bank of Commerce	2,509
Commercial & Industrial Bank	348
Union Planters National Bank	1,822
Commerce Union Bank	157
Tri-State Bank	61
City National Bank	73
United American Bank	182
	<hr/>
	11,231

Permanent Financing Terms

Rate 9 percent; repayment over
22 years, interest only during
first 3 years; 90 percent
guarantee by EDA; secured by
first mortgage

Loan - City of Memphis

Community Development Block Grant	1,000
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Loan - Economic Development Administration

580*SUBTOTAL*

12,811Equity

Equity - Present Property

2,242

Equity - Cash

1,943*TOTAL*

16,996Revenue

	1982	1983	1984	1985	1986
Rooms	2,846	3,329	4,097	4,639	5,299
Food & Beverage	2,559	2,918	3,278	3,622	4,041
Telephone	125	147	170	191	218
Rentals	164	198	236	250	264
Other Income	51	59	67	75	84
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>TOTAL</i>	5,754	6,651	7,848	8,777	9,906

Expenses

Departmental	3,044	3,407	3,779	4,128	4,546
Undistributed					
Operating Exps.	1,742	1,864	2,060	2,244	2,455
Taxes & Insurance	87	90	92	94	96
Debt Service	1,099	1,099	1,099	1,337	1,337
Provision -					
Capital Improve-					
ments	91	91	91	91	91
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Cash Flow (deficit)Before Taxes

(318)	100	727	883	1,381
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Peabody Hotel
Comparison of Tax Alternatives

(000's omitted)

50 Percent Tax Rate

<u>Tax and Other Benefits</u> ¹	<u>1982- 1984</u>	<u>1985- 1986</u>
--	-----------------------	-----------------------

A) 60-month Amortization (Net of Minimum Tax)	2,883	1,255
--	-------	-------

B) Accelerated Depreciation & Investment Tax Credit (Net of Minimum Tax)	2,599	448
--	-------	-----

Difference	284	807
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(Total - 1,091) Amount ahead after
using 60 month amor-
tization

Tax Benefits of Additional Depreciation Available Under Method (B)	(1,549)	(1,154)
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Total Differential (1,612*)	<u>1,265</u>	<u>347</u>
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Present Value (9 percent discount rate)
of 1,612==208

Difference between 2
treatments in present
value terms shows ITC
and accelerated depre-
ciation to be worth
\$208,000 more

Explanation of Differential Between Methods A & B

Increase in Minimum Tax	812
Decrease in Investment Credit	800
Total	<u>1,612*</u>

Complete differential
between 2 options over
the useful life; greater
advantage to ITC and
accelerated depreciation

¹Includes estimated cash distribution to
partners of \$754,000 under both alternatives

Tax Implications

Hotel Peabody, Ltd. is a Tennessee Limited Partnership composed of three individual general partners, two corporate limited partners, and two individual limited partners. All partners share in income, expenses and tax credits in proportion to their percentage of ownership. Distribution of ownership within the limited partnership was not made available to Heritage Conservation and Recreation Service.

The partnership has two alternative tax benefits to consider and can only choose one, i.e. A) 60 month amortization of rehabilitation expenditures or B) investment tax credit on rehabilitation expenditures and accelerated depreciation of the adjusted basis of the building. The analysis of the tax alternatives was prepared to compare the resultant tax benefits and tax detriments under these two methods.

This analysis assumes qualified rehabilitation expenditures of \$8 million upon which the 60 month amortization and investment tax credit computations are based. Additional tax benefits computed into options A & B involve \$4 million expended on furniture and fixtures which are eligible for favorable tax treatments separate from the historic preservation provisions.

A major item to be considered in this analysis is the effect of minimum tax. The minimum tax, defined in sections 56 and 57 of the Internal Revenue Code, applies to the excess amount of depreciation taken in a given year beyond straight line depreciation. The straight line depreciation is computed using the full anticipated useful life of the project. Therefore, the 60 month writeoff will create a much larger amount of excess depreciation compared to the regular computation of accelerated depreciation. This dollar amount differential can be taxable at a 15 percent rate. The minimum tax applies to both the 60 month writeoff and the accelerated depreciation provisions; it does not apply to the investment tax credit for rehabilitation expenses. If a taxpayer is in a position of having to pay the full 15 percent minimum tax on the differential between the rapid writeoffs and straight line depreciation, then the 60 month writeoff can become less attractive. By extending the writeoff over the useful life of the building, the

taxpayer reduces the amount of minimum tax and gains the advantage of the investment tax credit. The attached analysis presumes that all partners in Hotel Peabody, Ltd. will be subject to the full 15 percent minimum tax on their respective portions of the writeoff.

The differential (\$1,091,000) between options A & B is the additional benefits allowed the taxpayer using the 60 month amortization at the end of the five years following rehabilitation. At this point, the 60 month writeoff appears more attractive, giving \$1,091,000 in additional tax benefits over option B. However, the tax planner took into account the owners plans to hold the building for the full 25 year useful life. Therefore, his comparative analysis of the tax treatments weighs the financial advantages of the two options over the 25 year period. Tax benefits of additional depreciation available under option B take into account the writeoff to be taken in years after the first five. The total differential (\$1,612,000) that remains consists of the increase in minimum tax and the decrease in investment tax credit if option A is selected. However, this differential is reduced to \$208,000 by computing the present value (using a 9 percent discount rate) of this differential. This means that in the long run, the combined tax treatment of accelerated depreciation and the investment tax credit will benefit the owners \$208,000 above the 60 month writeoff.

Project Benefits

The reopening of the Peabody Hotel in 1981 will be a momentous occasion for downtown Memphis. The rehabilitated historic hotel will once again offer the distinctive tradition of dining and lodging that made it the symbolic center of the entire mid-South region in years past. The services and amenities provided by the restored hotel - entertainment, shopping, health club, meeting space - will draw resident and visitor alike back to the old downtown area. The 500 newly renovated hotel rooms will cater to businessmen and conventioners; revenues from sales tax for food and beverages and bed tax for the hotel will be substantial. Although property tax revenue on the rehabilitated property will remain at the pre-renovation level of \$50,000, the improved condition of the Peabody will serve as a magnet to the downtown, stabilizing the tax base and drawing new investment to underdeveloped parcels. The restored Peabody also will complement and add momentum to the revitalization of

the nearby Beale Street Historic District, an area known for its role in the development of the Memphis blues tradition in American music. Rehabilitation work on the hotel will employ nearly 300 workers during the construction phase; the operating hotel will create nearly 400 new permanent jobs. Most importantly, however, the restored and reopened Peabody Hotel will serve as a long-awaited symbol of downtown Memphis' rebirth, a return to social and economic vitality.



Peabody Hotel, During Rehabilitation, 1980

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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." Comments and suggestions are welcome.

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.

The Heritage Conservation and Recreation Service, a non-land managing agency within the Department, is responsible for assuring the identification, protection, and beneficial use of our important cultural, natural, and recreational resources. The Service offers grant assistance, technical information, and guidance to those in the public and private sectors involved in conservation or recreation projects.

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Cecil D. Andrus, Secretary
Robert L. Herbst, Assistant Secretary

Heritage Conservation and Recreation Service
Chris T. Delaporte, Director

Heritage Conservation and Recreation Service
Publication Number 57

Preservation Case Studies

Rehabilitating Historic Hotels

Peabody Hotel, Memphis, Tennessee

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