Preservation for Profit!

How to make money saving historic buildings – a guide for investors.

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Preservation for Profit

Contents

Why does it make sense to rehabilitate historic buildings?

Better construction ................................................................. 1
Less costly than new ............................................................ 1
More desirable properties ..................................................... 2
Substantial tax incentives ..................................................... 3
Below market financing ....................................................... 3

How to make money saving a historic building

Let Historic Augusta help ..................................................... 4
Know the market ................................................................. 4
Select a good building ........................................................ 5
Don’t overpay ....................................................................... 6
Estimate costs ...................................................................... 6
Forecast rents and expenses ............................................... 7
Work with Historic Augusta ............................................... 7
Use experienced architects and contractors ....................... 7
Hazardous materials .......................................................... 7
Investing with others .......................................................... 8
Borrowing money ............................................................... 8

Federal and state preservation tax incentives

Federal 20% rehabilitation credit ......................................... 10
Georgia 25% rehabilitation tax credit .................................. 10
Georgia 25% credit for historic occupied homes .................. 11
Comparison of credits ......................................................... 12
What is a “certified structure”? .......................................... 12
What if my building is not qualified? ................................... 13
What is a certified rehabilitation? ....................................... 13
What expenditures qualify? ............................................... 14
Practical considerations ..................................................... 14
The fine print ....................................................................... 15
Credits for condominiums ............................................... 16
The application process ..................................................... 16
Historic Augusta can help ................................................ 17
Other incentives
Federal 10% credit for non-historic buildings ........................................... 12
Preservation easements ........................................................................ 18
Façade grants .......................................................................................... 20
Property tax abatement ....................................................................... 20
Funding opportunities ........................................................................... 20

Rehabilitation standards
Make minimal changes ........................................................................ 21
Retain historic character ..................................................................... 22
No false elements ................................................................................ 22
Some newer elements become significant .......................................... 23
Preserve distinctive features .............................................................. 24
Repair, don’t replace ........................................................................... 24
Paint removal ....................................................................................... 25
New work can’t imitate old ................................................................. 26
Additions shouldn’t do damage ......................................................... 26
Hot button issues ............................................................................... 28
The real world ..................................................................................... 28

Case study
The building ........................................................................................ 29
Location ................................................................................................ 29
Market for apartments ....................................................................... 29
Cost estimates .................................................................................... 30
Historic certification .......................................................................... 30
Security ............................................................................................... 30
Architecture and Engineering ............................................................ 30
Permits ................................................................................................. 31
Selective demolition ............................................................................ 31
Hazardous materials .......................................................................... 31
Construction ........................................................................................ 31
Costs ................................................................................................... 32
Tax incentives ..................................................................................... 32
Net cost .............................................................................................. 33
Lease up ............................................................................................. 33
Rental income ................................................................................... 33
Rental expenses ............................................................................... 33
Returns .............................................................................................. 34
Real world considerations ................................................................ 34

Appendices .......................................................................................... 35
Why does it make sense to rehabilitate historic buildings?

For almost fifty years, Historic Augusta has been in the business of saving significant buildings. In recent years it has become clear to us that we can save large numbers of buildings only if private investors can make money in the process. Therefore, we have made it our goal to help people profit from historic preservation!

Fortunately, many trends have converged to benefit this process. Governments have enacted tax incentives for rehabilitation, a new generation has developed a taste for urban lifestyles and the public has come to love and appreciate historic neighborhoods and buildings. Augusta’s, downtown and other historic neighborhoods are now enjoying an economic renaissance, and preservation has become more profitable than ever.

Better construction

Many historic buildings were erected in times when builders expected their work to be enjoyed forever. Their materials and craftsmanship such as heart pine framing and flooring, solid brass hardware and masonry walls can only be found today only at very high prices, if at all. These structures will last long beyond our lifetimes if properly maintained, and operating and maintenance costs may be substantially less than those of less well built modern structures.

Less costly than new

There is a widely accepted myth that it is cheaper to build a new building than to rehabilitate an old structure. This is absolutely false. Actually, a well planned rehabilitation project using professionals who are experienced in preservation will usually cost substantially less than new construction. Recent studies have found
that the cost of rehabilitating older structures generally runs 25-33 percent *less* than comparable new construction.

This advantage is even more pronounced when an investor takes advantage of the various governmental tax incentives and funding programs that exist to encourage preservation. *These incentives can cut rehab costs in half!*

A recent conversion of a historic residence on Greene Street in downtown Augusta was accomplished for $82 per square foot, including acquisition, construction and all associated costs. The net cost after taking advantage of incentives was only $46 per square foot!

**More desirable properties**

In recent years a fresh breeze has been blowing through Augusta’s historic neighborhoods. The upper floors of downtown’s venerable buildings are filled with young loft dwellers and the streets hum with activity. Corporate offices are opening on Broad Street, the White’s Building has been converted to condos and plans for more preservation projects have been announced. It is cool to live and work in our historic neighborhoods, and more and more owners and renters are paying higher and higher prices and rents to do so.
Substantial tax incentives

Our federal and state governments have also concluded that historic buildings are an important national resource and have instituted valuable programs to encourage preservation. The federal government provides for a 20% credit against taxes for qualified rehabilitation expenditures, and Georgia recently instituted a similar program providing a 25% tax credit. If preservation guidelines are followed, these credits can reduce the cost of rehabilitation up to 45% for qualified buildings!

Also, preservation easements can provide additional tax advantages while city façade grants can even further reduce the cost of construction. Furthermore, Augusta – Richmond County reduces property taxes for qualified rehabilitations, reducing on going operating costs.

Below market financing

Low rate financing programs also exist for preservation. The Downtown Development Authority can help investors in qualified projects gain access to funds at below market interest rates and with favorable repayment terms.
How to make money saving a historic building

The process of rehabilitating and then renting or selling a building for profit is not a terribly complicated process. An investor with a reasonable level of real estate experience, adequate access to capital and the assistance of experienced professionals should find success in rehabilitation. Potential investors who do not have development experience can partner with more experienced developers in order to participate. Below are suggested steps for a successful project.

Let Historic Augusta help

Like all government programs, the valuable tax incentives available for preservation are available through complicated programs. Simply reading the pertinent regulations can be confusing and perhaps even discouraging. However, the requirements for qualification for the credits are actually not nearly so onerous as they may seem at first blush. Historic Augusta is very familiar with these programs and the various agencies involved. Contact us early and we will help make sure your project qualifies.

Know the market

Ultimately, no project will be successful unless there is a good market for the eventual rental or sale of the building. We know of cases when investors from out of town have bought beautiful old buildings in Augusta because their prices seemed to make them "steals" when compared to buildings in their home towns. But later some found that the rents they could expect to attain were also much lower here, and the acquisition price was really no bargain at all.
An investor must study the market to determine estimate expected rent and occupancy levels and sales prices. One can do this by simply visiting similar properties, calling local rental agencies or engaging local real estate firms to conduct a formal market survey. Historic Augusta can help you analyze the market for your project.

Select a good building

Augusta is blessed with many buildings suitable for rehabilitation. There are several attributes to consider.

Location - The old saying “the three most important things in real estate are location, location and location” remains as true today as ever. But with historic properties you often must use a bit of imagination to envision opportunities. Remember, you will be looking for diamonds in the rough. We have found that it is often difficult for long time Augusta residents to recognize opportunities because of preconceived notions about various neighborhoods - “Nobody would want to live there!” In fact, some of our most prolific renovators are not Augusta natives.

Suitability – A building must be physically suitable for its intended use. For example, a long, narrow building in a row of such buildings may be of limited use for apartments because of a lack of windows and light, while a house will generally convert well into apartments because it was originally built as a residential structure, and its back yard may well provide necessary parking.

Condition - An investor must carefully examine a building before purchase in order to avoid costly surprises. Older buildings often must be “stabilized” before work can even begin. Termite damage, lead paint, structural defects and roof failure can add significantly
to cost. Professional building inspectors, architects and engineers can help with the inspection. But don’t be discouraged by an older building in poor repair - we have found that these common issues can usually be managed economically.

*Eligibility for tax incentives* - Federal and state rehabilitation tax credits dramatically reduce the cost renovating qualified buildings. Eligible buildings are those that are listed individually in the National Register of Historic Places, or are, most commonly, located in a registered historic district and are certified as contributing to the historic significance of that district. Augusta is home to eight such districts, which include most of the central city. As a result the majority of the older buildings in our central city are eligible for these incentives. Historic Augusta can help you determine eligibility for a specific building.

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**Don’t overpay**

Experienced real estate investors often will tell you that the profit on many ventures is “made the day you buy the property” and therefore one must not overpay for the property. While this is good advice, in most historic rehabilitation projects the cost of rehabilitation will be two, three or even four times the price of the building itself. A good estimate of rehabilitation costs is essential in order to determine if a given sales price for the building is reasonable and a project is likely to be successful.

**Estimate costs**

Get estimates, or even better, bids, from contractors for the work you expect to undertake, including clean up of debris, structural repairs, lead paint abatement, architectural and engineering fees,
permits, construction interest and other less than obvious cost. Unfortunately, this is easier said than done for rehabilitation projects, since the condition of many components cannot be determined until work begins. As we often hear in this business, “We just won’t know until we get in there.” Include an adequate “contingency” amount in your totals, generally at least 20% of expected costs. The case study included in these materials will give you an idea of expenses you may encounter.

Forecast rents and expenses

Know what kind of rents and operating expenses to expect.
Forecast cash flows and returns before committing to the project.
If you are unfamiliar with the development process, Historic Augusta can put you in touch with some of its members who have experience in this area. Property management companies can provide detailed information on rents and expenses for comparable properties.

Work with Historic Augusta

Apply for historic significance certification before beginning work. Consult with the Historic Augusta early so your work does not jeopardize the building’s significance. We have seen owners apply for certification only after they are well into the project, only to find that they have completed work that has already disqualified the project. In many cases they could have easily approached the project in a different manner, qualified for credits and produced an even more marketable product.

Use experienced architects and contractors

The preservation of older structures is not particularly difficult, but it does require more thought, creativity and craftsmanship than some builders are willing or able to provide and the value of experience cannot be overstated. It is best to work with professionals who have done historically sensitive rehabs before. They will not be afraid of preservation, will already have solutions for problems they may encounter and will be able to give much more accurate cost and time estimates before the project begins.

Hazardous materials

Many potential investors are very concerned about the possible presence of hazardous or toxic materials, such as lead or asbestos, in older buildings. Their fear is usually not so much of dangerous physical contamination, as of legal contamination. We have all heard horror stories of tremendous costs incurred to remove
hazardous materials in order to comply with government regulation or to avoid the possibility of law suits. Fortunately this concern is largely overblown. Most hazardous materials in residential and commercial buildings in Augusta can be removed or abated at a manageable cost. (Industrial sites or buildings that contain large amounts of hazardous materials can be much more costly to abate.)

**Investing with others**

There will be circumstances when a potential investor prefers not to undertake a rehab project alone. The project’s cost may exceed the amount one is willing to invest, or the investor may not have sufficient experience to undertake the project unaided or the investor may simply not want to commit the time required to deal with the demands of a rehab project.

In such cases the investor may seek suitable partners. An experienced developer may seek a capital partner, or an investor may seek a partner with rehab expertise, or a group of friends may invest together. Such arrangements are common and may be accomplished through various forms of joint ownership of the property, including partnerships and other structures.

*Limited Liability Companies* – Recently, the most common form of joint investment has been the Limited Liability Company, or LLC. An LLC is a business entity owned by shareholders called “members” who contribute capital or personal services to the company in exchange for ownership interests. The members adopt an operating agreement which describes how the company will operate, how decisions will be made, how profits will be divided and how tax benefits will be apportioned. Like a partnership the LLC pays no income taxes, but passes earnings and losses to the members. Like a corporation, personal liability does not pass through to the members. This form of ownership is very flexible and can be set up by an experienced attorney for as little as several hundred dollars.

Caution: Do not enter into any joint ownership arrangement lightly. Being partners is a lot like getting married – it can be very painful if it doesn’t work out. Know your partners, understand what each will contribute and have a good attorney help draft a good agreement.

**Borrowing money**

Most rehab projects are funded with a combination of equity (cash contributed by the owners) and debt provided by a bank. In
Augusta, a number of banks have been willing to lend to qualified projects. The following characteristics prevail:

- **Personal guarantees required** – If the project does not produce enough cash to make interest payments or repay the note, the bank will require the borrowers to make upon any shortfall.
- **Loan amount** – Typically, banks will lend 75% of the expected value of the completed project, as determined by a qualified appraiser.
- **Interest rates** – Interest rates are generally “floating” and tied to an index like “prime” or “LIBOR”.
- **Term** – The principal amount is usually amortized assuming a long period of time, but the note usually comes due (balloons) after a shorter period of time – five to ten years.
- **Documentation** – Banks will require various legal documents, including title policies, appropriate LLC agreements, as well as personal financial information, estimated project costs and income and expense forecasts.

Historic Augusta can put you in contact with individuals who are familiar with these issues and are willing to give you the benefit of their experience.
Federal and State Preservation Tax Incentives

The various government incentive programs created to encourage preservation have become extremely generous, and in many cases make the cost of renovated buildings substantially less than newly constructed buildings. Nevertheless, many owners do not take advantage of these incentives, either because they are not aware of them, don’t understand them, or are afraid they may unduly restrict the owner’s flexibility in construction. We have found that in most cases these fears are unfounded and the benefits of the programs far outweigh any drawbacks.

Federal 20% rehabilitation credit

The 20% rehabilitation tax credit applies to any certified rehabilitation of a certified historic structure. The 20% credit is available for properties rehabilitated for commercial, industrial, or rental residential purposes. It is not available for properties used exclusively as the owner's private residence. In Augusta, most credits go to apartments, office or retail projects.

A tax credit is better than an income tax deduction. While an income tax deduction simply lowers the amount of income subject to taxation, a tax credit actually reduces the amount of tax owed - dollar for dollar. In other words, the 20% credit can effectively reduce the cost of preservation by 20%! There is no cap on the size of the rehab or the associated credit through the federal program.

Georgia 25% rehabilitation credit

The State of Georgia has enacted a very generous 25% credit for qualified preservation expenditures which applies to commercial buildings and apartments. The requirements for
qualification are the same as for the federal credit and similar applications are used for each.

There is a cap on the credit of $300,000. This means all expenditures up to $1,200,000 for a qualified project are eligible for the credit.

Georgia 25% credit for historic occupied homes

Georgia also provides a 25% credits of up to $100,000 for the rehabilitation of historic owner occupied homes, so up to $400,000 of rehab costs will be eligible for the credit.

Please be aware that eligible rehabs do not include additions to the structure, or work on the grounds of the property, and must exceed the adjusted basis (adjusted basis = cost of property – value of land) of the building before renovation. Since the cost of rehab must exceed the acquisition cost of the house, the credits usually are available only to buildings that were in considerable disrepair at the time of purchase, and not to updates or renovations of homes otherwise in good condition.
Comparison of credits

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</tr>
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<td>Condos</td>
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</tr>
<tr>
<td>Owner occ. home</td>
<td>no</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
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What is a "certified structure?"

A certified historic structure is a building that is listed individually in the National Register of Historic Places or, more often, a building that is located in a National Register Historic District and which contributes to the historic significance of that district.

Most older buildings in Augusta’s historic districts are eligible for the federal and state credits (remember that only the state credit is available for owner occupied homes). Buildings located within these areas that would not be eligible would include those built after the end of the “period of significance” (indicated below) and those that have been altered in such a manner that their historic significance has been destroyed.
Augusta contains ten National Register historic districts. Buildings built before the year shown below are eligible for preservation credits.

- Broad Street – superseded by Downtown
- Greene Street - superseded by Downtown
- Downtown (including the two above) - 1967
- Pinch Gut (Old Town) - 1930
- Harrisburg – West End - 1941
- Summerville - 1930
- Laney-Walker - 1935
- Bethlehem - 1947
- Sand Hills - 1947
- Augusta Canal – “late nineteenth century”

Contact Historic Augusta to determine if a particular building is eligible for the credits.

**What if my building is not qualified?**

Buildings that are not listed individually in the National Register of Historic Places and are not located in areas that are registered historic districts may still be certified as significant if they are subsequently listed on the National Register. Historic Augusta can help you with this process also. Be aware, however, that *it is not a simple matter to list an individual building* and can take a substantial amount of time.

**What is a certified rehabilitation?**

A “certified rehabilitation” is the rehabilitation of a certified structure in a manner that is approved *in advance* by the National Park Service as being consistent with the historic character of the property and the district in which it is located. Acceptable methods are described in the Secretary of the Interior’s Standards for Rehabilitation.

It is understood that some alteration of the historic building will be necessary to provide for an efficient use – doors may need to be cut in existing walls, new walls may be added, for example. However, the project must be completed in a manner that does not unduly damage the building's historic character. This topic is covered in more detail later in this publication.
What expenditures qualify?

The owner can take the federal and state credits for costs of renovating the building. This includes architectural and engineering fees, survey fees, legal expenses, development fees, construction period property taxes and insurance, and other construction-related costs.

Qualified expenditures do not include the costs of acquiring or furnishing the building, new additions that expand the existing building or parking lots, sidewalks and landscaping.

Practical considerations

Many owners have been dissuaded from undertaking historic rehabs after reading the official literature regarding certified
rehabilitation, because it makes the process seem unacceptably difficult. But, as a matter of fact, the regulations actually require that an owner do little that does not actually contribute to the marketability of the project. After all, it is the historic nature of the structure that will appeal to renters.

**The fine print**

To be eligible for rehabilitation tax credits, a project must meet these basic requirements of the Internal Revenue Code:

The building must be *depreciable*. That is, it must be used in a trade or business or held for the production of income. It may be used for offices, for commercial, industrial or agricultural enterprises, or for rental housing. The federal credit is not available for buildings that serve exclusively as the owner's private residence. (The Georgia 25% credit *is* available to owner occupied historic homes.)

The rehabilitation must be *substantial*. That is, during a 24-month period, rehabilitation expenditures must exceed the greater of $5,000 or the adjusted basis of the building. The adjusted basis is generally the purchase price of the property, minus the cost of land, plus improvements already made, minus depreciation already taken.

*Recapture of the Credit* - The owner must hold the building for five full years after completing the rehabilitation, or pay back a portion of the credit. If the owner disposes of the building within a year after it is placed in service, 100% of the credit is recaptured. This means that buildings sold immediately after rehab provide no tax advantage to the investor. For properties held between one and five years, the tax credit recapture amount is reduced by 20% per year.

*Ability to use the credit* - Since the credit reduces federal and state income taxes, the owner must have adequate income tax liability in order to benefit. Most investors will also be subject to “passive loss” limitations which can significantly limit the amount of the credit that can be used in any one year. Other limitations on use of the credit may apply to some investors. Please consult your tax advisor for specific information. The good news is that if an owner can not use all the credit in the first year he may carry forward unused amounts to future years.

*Sale of credits* - There are circumstances in which an owner who does not have sufficient income to use his credits may sell them for
This is a complex and costly procedure and the rule of thumb is that it is only feasible for projects with a cost in excess of $1 million.

**Depreciation** - Rehabilitated property is depreciated using the straight-line method over 27.5 years for residential property and over 39 years for nonresidential property. The depreciable basis of the rehabilitated building must be reduced by the amount of the preservation tax credit claimed.

**Credits for condominiums** Because of the five year earn out of the credits, renovating a building for sale as condominiums will not qualify for the federal 20% credit unless the property is held (and perhaps rented as apartments or offices) for five years.

**Application Process** Owners seeking certification of rehabilitation work must complete and file the three part Historic Preservation Certification Application with the Historic Preservation Division of the Georgia Department of Natural Resources. The application is reviewed and forwarded for final approval to the National Park Service of the US Department of the Interior:

- Part 1 of the application is used to establish that a building is significant and that it contributes to the character and history of its district.
- Part 2 describes the planned rehabilitation in detail and demonstrates that the proposed work complies with the Secretary of the Interior’s Standards for Rehabilitation.
- Part 3 certifies that the completed work complied with the plan.

The state Historic Preservation Office reviews the plans, visits the site if necessary and may request revisions as appropriate. When the project receives final approval the owner is entitled to the rehabilitation tax credits.

The National Park Service's fee for review of rehabilitation projects ranges from $500 to $2,500 for projects with rehabilitation construction costs ranging from $20,000 to $1,000,000 plus.
Historic Augusta can help! As you can probably imagine, getting government approval can be an intimidating and frustrating experience. After all, who enjoys filling out the IRS “Form 1040 and Supporting Schedules” each year? Just as many people use professional tax preparers, we suggest you employ a qualified preservationist to help you through this process.

Historic Augusta is happy to help owners navigate this process. We will provide advice early in the process at no charge, and will help prepare the actual application for a reasonable price. We can help establish that your building qualifies, help you plan a rehab that meets guidelines, complete all necessary paperwork, document the completed work and represent the owner in dealings with the Preservation Office. We strongly encourage owners to apply before they start work.
Other incentives

In addition to rehabilitation tax credits, other incentives can substantially reduce the cost of a project:

**Federal 10% credit for Non-historic buildings**

A federal 10% rehabilitation tax credit is available for the rehabilitation of non-historic buildings built before 1936. The 10% credit applies only to buildings rehabilitated for non-residential uses. Rental housing and owner occupied homes would thus not qualify.

The rehabilitation must be substantial, exceeding either $5,000 or the adjusted basis of the property, whichever is greater and the property must be depreciable. At least 50% of the building's external walls existing at the time the rehabilitation began must remain in place as external walls, at least 75% of the building's existing external walls must remain in place as either external or internal walls, and at least 75% of the building's internal structural framework must remain in place.

Note that the owner does not have a choice as to whether to utilize either the 20% preservation credit or the 10% non-historic credit. Buildings either qualify to be certified historic structures or they do not.

Owners of buildings in historic districts may claim the 10% credit only if they file Part 1 of the Historic Preservation Certification Application with the National Park Service and receive a determination that the building does not contribute to the district and is not a certified historic structure.

Once certified as non-historic there is no design review required from the state or federal governments agencies.

**Preservation easements**

A building owner, including those of owner occupied homes, may receive tax benefits by granting preservation easements or protective covenants on a qualified property.

*What is an easement?* - A preservation easement is a voluntary legal agreement that protects a significant building. A property owner grants an interest in her property rights to a preservation organization, such as Historic Augusta. Once recorded, an easement becomes part of the property's chain of title and usually "runs with the land" in perpetuity, binding not only the owner who
grants the easement but all future owners as well. Just like the preservation tax credits, an easement must preserve a certified historic structure and requires submission and approval of a Historic Preservation Certification Application.

**Tax benefit** - When an owner donates a preservation easement, he may be eligible to claim a charitable deduction on Federal income tax equal to the value of the rights given away. This assumes that the easement limits future development possibilities, thereby reducing the value of the property. The value of the easement is calculated as the difference between the appraised fair market value of the property prior to conveying an easement and its value with the easement restrictions in place. The owner may then take a tax deduction (not a tax credit) of an amount equal to the value of the easement. Typically, such easements, which must be valued by appraisal, are valued at between 10% and 30% of the market value of the completed structure.

Additional financial benefits may be available in the form of reduced estate, gift, and local property taxes.

**Preservation easement restrictions** - An easement gives the organization to which it is conveyed the legal authority and responsibility to enforce its terms, including the right to inspect the property. Historic preservation easements typically prohibit the owner from demolishing or making alterations to the property without prior approval by the easement holder. For example, an easement might prohibit facade alterations or construction of a building addition without first obtaining approval from the easement holder. Some easements may also require the owner to make specified improvements to the property or to maintain it in a certain physical condition. For example, an owner might be required to repair a deteriorated porch within a specific period after the easement is conveyed.

If upon inspection the easement holding organization finds that the terms of the easement have not been upheld, the owner may be held responsible for covering the costs of reversing an unacceptable treatment or face other penalties.

**Abuse** - The IRS is very sensitive to abuse of this deduction and has generated specific guidelines for preservation easements. Qualified appraisers must be engaged to determine the value of the easement and the owner and appraiser are subject to severe sanctions for inappropriate valuations.
Façade grants

Augusta’s Façade Rehabilitation Grant Program is designed to improve the appearance of historic buildings and stimulate private investment in these structures. Buildings in the Central Business District, the Laney-Walker Multiple Resource Area and Old Town may qualify for grants of up to $15,000 ($30,000 for a corner building) to rehabilitate or restore the facades of qualifying historic structures. In return, property owners are required to spend a matching amount on correcting code deficiencies and making interior rehabs. The structure must be at least 40 years old. Unfortunately, this program has not turned out to be as useful in practice as it might have been. Because the city actually does the work using its own architects and contractors, the owner has little control over the process, the timing, the quality or the cost of the work.

Property tax abatement

Augusta does not tax the value of improvements made to qualified buildings for eight years after they are put in service, and taxes only 50% of the improvements in the ninth year. Property owners must make proper application to the Augusta Richmond County Tax Commissioner to enjoy this incentive.

Funding opportunities

There are a number of financial incentives in place to support downtown investment. The following are the most commonly used.

_Economic Development and Recaptured UDAG Loan Fund Programs_ - The Economic Development and Recaptured UDAG Loan Fund Programs were created to finance development projects, establish new businesses and/or expansion of existing businesses, and create employment opportunities for low and moderate-income persons. Loans range between $5,000 and $25,000, with repayment periods of up to 7 years. Recaptured UDAG Loans range between $25,000 and $150,000, with repayment periods of up to 10 years. Eligible uses include business acquisition and construction, land acquisition, purchase of equipment and machinery, working capital, and pollution control and abatement. The program is administered by Augusta’s Housing and Economic Development Department.
In order for a project to qualify for the preservation tax credit, work must comply with the Secretary of the Interior’s Standards for Rehabilitation. These are spelled out in detail in various publications we recommend that a prospective applicant familiarize himself with these standards, we find that they can seem very intimidating. In practice, however, they are by no means unduly restrictive or complicated. The following is an attempt to explain the requirements in simple terms.

The Department of the Interior does not provide hard and fast rules for every situation, but will work with property owners to interpret the standards to address specific situations. While the standards below are only guidelines, it is critical that work be done in an approved manner.

In general the Park Service, which administers the program, is most sensitive to parts of the structure visible from public spaces and becomes progressively less sensitive to work done to the sides and back of a building. Interior rehabs must also comply with these stipulations, but lobbies and hallways are most important while scrutiny progressively diminishes with respect to living rooms, dining rooms, bedrooms and baths.

The following is an attempt to explain the requirements in simple terms:

Make minimal changes Rehabilitation must make minimal changes to the defining characteristics of the building and its site and environment.

For example, balconies should not be added to the façade of a building that did not originally have balconies; aluminum or vinyl siding should not cover or replace wood.
Retain historic character

The historic character of a property must be retained - the removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.

Keep and repair original materials if possible. In general, a metal roof should not be replaced with asphalt shingles, cylindrical columns may not be replaced with square posts and original masonry steps should not be replaced with treated wood.

No false elements

Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.

This can often be a tricky area. For example, if an exterior porch is missing and must be rebuilt, it should suggest, but not imitate the original (unless documentation can be found that allows duplication of the original structure). It should be of similar mass and design, but should be simple and readily seen as a new addition. Plain fireplace mantles may not be replaced with ornate mantles. If lighting or plumbing fixtures must be added, new fixtures should be used rather than old fixtures from another structure.
Some newer elements

Most properties change over time; those changes that have become significant acquired historic significance in their own right shall be retained and preserved.

Changes or additions made to the original building over the years may become significant themselves. For example, a Victorian porch added many years ago to a Federal building should not be replaced with a new Federal porch.
Preserve distinctive features

Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.

Traditional picture molding should not be replaced with crown molding, and plaster should not be replaced with dry wall unless the plaster is documented as unusable.

Repair, don’t replace

Deteriorated historic features shall be repaired rather than replaced. Where severe deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials.

For example, original windows and doors must generally be repaired rather than replaced. If they cannot be repaired they must generally be of the same size frame, with the same configuration of panes. Mullions should actually separate each pane, not simply be glued to a single large pane of glass.
Paint removal

Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.

Never sandblast surfaces. Exterior brick should be cleaned using chemicals that do not damage the brick. Excellent products exist for this purpose, but many painters and contractors are unfamiliar with them. As always, it pays to find vendors experienced in rehabs.

New work can’t imitate old

New work shall not imitate the original structure. It must be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.

Preservation principles prescribe that the historic structure remain clearly discernable. If additions are made, they must complement
but not imitate the old style to the extent that one has difficulty telling where the old ends and the new begins (I know, it sounds dumb to me, too.) The addition should complement the old structure architecturally, but should be distinctly an addition.

Additions shouldn’t do damage

New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

In the future it is possible that a complete restoration may be desirable. Rehabilitation should leave that as a possibility.
**Hot button issues**

The following are some issues we often encounter:
- Never sandblast exterior brick or siding.
- Don’t cover historic wood siding with aluminum or vinyl siding.
- Repair, don’t replace doors and windows with modern varieties.
- Don’t plan to add new balconies and porches
- Don’t remove existing plaster without advance approval
- Do not remove plaster to expose an existing brick wall
- Use attic insulation, caulking, weather stripping and storm windows and doors to achieve energy efficiency

**The real world**

The preceding stipulations may seem daunting. But we have found that most can be accommodated at reasonable cost and will actually enhance the value of the completed building. The key to success is to work cooperatively with the State Historic Preservation Office in solving problems. Historic Augusta enjoys a good working relationship with their staff and will be glad to help with your project.
The following is a description of a recently completed rehabilitation project in downtown Augusta.

The building

Recently, a group of local investors bought the 6,000 square foot Levy House located on the eleven hundred block of Greene Street in downtown Augusta for $95,000, or about $16 per square foot. It had been built in about 1890 as a stately private home. As the neighborhood endured a period of decline in the second half of the twentieth century, the building was divided into nine apartments which were rented on a daily basis to transient residents, and the building fell into disrepair. Parking was available in the former back yard area.

Location

Greene Street is one of Augusta’s most beautiful and historic streets and its decline seemed to have bottomed out. The investors felt that the neighborhood was ripe for the redevelopment that Broad Street has enjoyed in recent years.

Market for apartments

The downtown apartment rental market was robust, with occupancy of about 95% and rents for market rate apartments averaging $500-$600 per month for one bedroom units, $600-$800 for two bedroom units and $900-$1,000 for three bedroom units. Since the size of units can vary widely, monthly rent per foot also
ranged widely from $.50 for a large unit to $1.00 per foot for a smaller floor plan.

### Cost estimates
Before buying the property the investors inspected it and with the help of engineers, architects and contractors, and developed an estimate of the cost of repairs. Some costs, such as plumbing and HVAC could be estimated with accuracy, while other costs, such as carpentry and masonry, where the scope of work is difficult to judge before the project begins, were more difficult to estimate.

### Historic certification
Before closing the purchase the investors asked Historic Augusta to help verify that the contemplated project would qualify for historic rehabilitation tax credits. The area of greatest concern was the exterior of the building. Upon closing, the investors engaged Historic Augusta to begin the certification process, completing Part 1 of the application, and helping develop a plan for preservation that met government standards.

### Security
Unfortunately, during the early stages of demolition, thieves broke into the building and stole seven fireplace mantles, prying them from the walls and hauling them off. They were never recovered and had to be replaced. After this incident the investors fenced the project and retained a security service until the building itself could be secured with burglar bars and an alarm system.

### Architecture and engineering
A construction plan was developed with experienced architects and engineers. Several areas were key to this process:

*Seeking cost effective solutions* – the obvious solution is not always the best. The experienced architect helped to get the best use out of spaces.

*Compliance with codes and ordinances* – Many a project has been halted for failure to comply with city building codes. Compliance with fire codes added significant time and cost to this project, partly because more than two stories were to be inhabited.

*Designing apartments that rent* - An owner will not be successful by designing units that appeal to himself – they must appeal to prospective renters. The owner may prefer an enclosed dining room, but renters may prefer open floor plans. He may prefer
inexpensive vinyl flooring in baths, while renters demand tile. Both the architect and prospective rental agent helped identify current tastes.

The owner learned that some features that renters currently prefer include refinished wood flooring, high ceilings, large windows, bright spaces, architectural details, fireplaces, modern lighting and large bath rooms.

Permits

One of the first stops was the city Planning and Zoning office to determine whether the anticipated use for the property was allowed and that adequate parking existed. Later, when preliminary plans have been prepared, the owner consulted the License and Inspections department and the Fire Inspection department to ensure that the planned work complies with appropriate codes.

Selective demolition

Soon after closing the purchase, selective demolition began, removing accumulated trash and unusable materials like carpet, old appliances, plumbing fixtures and inappropriate additions. These items were removed not only for preservation purposes, but because their quality and condition would have been unacceptable to prospective residents.

At the completion of demolition the entire interior of the structure was pressure washed to remove accumulated filth and prepare all surfaces for work. Almost all doors, windows, trim and plaster walls were saved, substantially reducing costs.

Hazardous materials

The owners were fortunate to encounter only limited hazardous materials, including asbestos containing floor tiles which were removed by an approved contractor. Since there were no outstanding complaints to the Richmond County Health Department of lead based paint hazard, existing lead based paint, if there was any, was sealed in place by painting over with latex paint.

Construction

All original walls, floors and ceilings were retained and no new door openings were made in existing walls. Extensive plaster repair was required. Framing of new walls began, subdividing some of the old rooms into more usable spaces. The life – safety code required adding fire walls, fire rated windows and other
components. Electrical, plumbing, HVAC, cable and phone services were run, generally using newly boxed in chases in order to avoid unnecessary demolition.

Exterior repairs were conducted simultaneously. Masonry was rebuilt or repointed, and portions of porch trim and columns had to be replaced to match the original work. The rear porch could not be salvaged and had to be completely rebuilt in order to meet fire codes. Fortunately the roof was in good condition and did not require extensive repair.

Despite using experienced contractors, the investors encountered some unexpected costs and delays. They were not surprised – this is common in rehabilitating historic structures. Well into the project a new fire inspector ordered that additional fire separation work be done and a building wide fire alarm be added.

## Costs

Total acquisition cost for the building was $95,752, less than one fifth of total cost of the project.

<table>
<thead>
<tr>
<th></th>
<th>Per unit</th>
<th>Per foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>$95,000</td>
<td>$13,571</td>
</tr>
<tr>
<td>Closing costs</td>
<td>752</td>
<td>107</td>
</tr>
<tr>
<td>Soft costs*</td>
<td>17,812</td>
<td>2,545</td>
</tr>
<tr>
<td>Construction costs</td>
<td>376,797</td>
<td>53,828</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td><strong>$489,609</strong></td>
<td><strong>$69,944</strong></td>
</tr>
</tbody>
</table>

* Soft costs include permits, fees, consultant costs, interest, taxes, etc.

## Tax incentives

Potential tax incentives available to the investors totaled $211,847 reducing the cost of the project by 43%! (Actually, the Georgia credit was not available for apartment rehabs at the time, but has been included in this analysis since it is now available.)

<table>
<thead>
<tr>
<th></th>
<th>Per unit</th>
<th>Per foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal credit</td>
<td>$78,922</td>
<td>$11,275</td>
</tr>
<tr>
<td>State credit</td>
<td>98,652</td>
<td>14,093</td>
</tr>
<tr>
<td>Façade easement</td>
<td>34,273</td>
<td>4,896</td>
</tr>
<tr>
<td><strong>Tax benefits</strong></td>
<td><strong>$211,847</strong></td>
<td><strong>$30,264</strong></td>
</tr>
</tbody>
</table>

The federal credit was 20% of rehab costs, the state credit was 25% of rehab costs and the benefit of the façade easement was calculated as 20% of the total project cost multiplied an assumed 35% marginal income tax rate. Because of various limitations on the use of the credit the investors were not able to use the entire credit immediately, but will benefit from it over a period of years.
Net cost

The after tax cost of the project to the investors was $277,762 (assuming full use of the credits).

<table>
<thead>
<tr>
<th></th>
<th>Total costs</th>
<th>Per unit</th>
<th>Per foot</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$489,609</td>
<td>$69,994</td>
<td>$81.60</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>(211,847)</td>
<td>(30,264)</td>
<td>(35.31)</td>
</tr>
<tr>
<td>After tax cost</td>
<td>$277,762</td>
<td>$39,680</td>
<td>$46.29</td>
</tr>
</tbody>
</table>

Lease up

The owners were pleasantly surprised to find that the building rented up quickly and at rates higher than they had expected.

Rental income

Lease rents for the apartments at a recent date averaged as follows:

<table>
<thead>
<tr>
<th>Unit type</th>
<th>Avg rent</th>
<th>Per month</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$425</td>
<td>$850</td>
<td>$10,200</td>
</tr>
<tr>
<td>One bedroom</td>
<td>565</td>
<td>1,695</td>
<td>20,340</td>
</tr>
<tr>
<td>Two bedroom</td>
<td>795</td>
<td>795</td>
<td>9,540</td>
</tr>
<tr>
<td>Three bedroom</td>
<td>$995</td>
<td>$995</td>
<td>$11,940</td>
</tr>
<tr>
<td>Gross potential annual rent</td>
<td>$52,020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rental expenses

During the first year of operating a newly renovated property one should expect a number an unusually high level of expenses. Such items include advertising and marketing costs, touch up repairs and cleaning as residents move in, higher heating and cooling costs since the utilities in unoccupied units are paid by the owner, costs to repair items not properly completed by contractors (they should cover these costs, but in order to get residents moved in as quickly as possible the owner may have to bear these expenses). Once the initial lease up and shake out period is over, cost should stabilize.

The following are expenses incurred by the property in the most recent twelve month period:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy loss</td>
<td>$2,601</td>
</tr>
<tr>
<td>Leasing and management commission</td>
<td>$4,448</td>
</tr>
<tr>
<td>Legal and accounting</td>
<td>1,270</td>
</tr>
<tr>
<td>Advertising</td>
<td>194</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>5,231</td>
</tr>
<tr>
<td>Common area utilities</td>
<td>2,536</td>
</tr>
<tr>
<td>Other expenses</td>
<td>836</td>
</tr>
<tr>
<td>Property taxes</td>
<td>1,437</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,979</td>
</tr>
<tr>
<td>Expenses</td>
<td>18,931</td>
</tr>
</tbody>
</table>
Returns  
With operating income of $30,488 and a net cost after tax credits of $277,762, the project returns 10.98% on investment.

Real world considerations  
While the rehabilitation credits are very real, it must be remembered that an investor must have adequate income from other sources to utilize them. It can require carrying forward unused credits for several years. Also note that since the credits are not available until the project is completed the investor will have to pay for all costs of the project before benefiting from the incentives.

As this example demonstrates, suitable returns are very much attainable for historic rehabilitation projects!
Appendices

Organizations

The Georgia Trust for Historic Preservation - 1516 Peachtree Street, NW, Atlanta, GA 30309, Phone 404-881-9980

Georgia Historic Preservation Division, Department of Natural Resources - 34 Peachtree Street, NW; Suite 1600; Atlanta, GA 30303-2316 - hpd.dnr.state.ga.us/

Historic Augusta, Inc. - 415 Seventh Street, P.O. Box 37, Augusta, Georgia 30903-0037, Phone 706.724.0436 - www.historicaugusta.org/

Publications


State Tax Incentives Programs – (Georgia) - hpd.dnr.state.ga.us/content/displaycontent.asp?txtDocument=430
Augusta Historic Districts