Economics drive projects that rehabilitate historic buildings, but environmental and social factors are just as important in the balancing act of benefits that a successful project can provide. The premise of this study is that a project can be successful in achieving the goals of the owner and developer, as well as helping local governments and communities in which the projects are located manage change and maintain a sense of place. Moreover, this study demonstrates that the examination of quantitative and qualitative success factors for the adaptive reuse of historic buildings, as well as dedication to a Triple Bottom Line analysis, will achieve a balanced set of common goals for all parties involved. This study is intended to prepare all entities involved to understand and manage expectations through awareness of economic, environmental, and social aspects of adaptive reuse of historic buildings to hotels.
A developer always completes an analysis of some form of quantitative and qualitative factors when considering adaptive reuse of historic buildings. This study explored the quantitative factors that are measurable and will influence the project economics, including the Historic Rehabilitation Tax Credit (HRTC) program as a critical factor that attracts and incentivizes developers to undertake adaptive reuse projects. Research revealed that hotel operators can command a room rate premium by utilizing adaptive reuse of historic buildings to hotels due to their architectural character, history, and stories used in branding and marketing that contrasts non-historic and standardized offerings. This study highlights how adaptive reuse hotel projects provide social-economic benefits through long-term job creation, business opportunities, tax revenues, and promoting a sense of place and community. Given the location of their buildings, governments can also benefit from out leasing their historic buildings to private tenants, including hotel companies.

Adaptive reuse of historic buildings to hotels provides qualitative values that reinforce a community’s character and sense of place. My study found hotel operators are good stewards of adapted buildings and are aware of the goodwill entailed in establishing relationships within the neighborhood. These projects help maintain the architectural character and history of the historic building and reinforce how the structure and its stories are embedded in the neighborhood. Hotels in historic buildings provide third place in a community where both locals and visitors can meet and socialize.
This study found that attention to quantitative and qualitative factors in adaptive reuse of historic buildings to hotels works, and that using Triple Bottom Line analysis can be a good model for the consideration of and balancing the goals and expectations among the developer, hotel operator, local government, and community as consultation on the project takes place.

Keywords: Historic Preservation, adaptive reuse, Triple Bottom Line, historic buildings to hotels, sense of place, third place, Historic Rehabilitation Tax Credits, hotel premium room rate, weighted decision matrix, Gross National Happiness Index.
HISTORIC BUILDINGS CHECK IN TO HOTELS:
QUANTITATIVE AND QUALITATIVE SUCCESS FACTORS
FOR ADAPTIVE REUSE OF HISTORIC BUILDINGS TO HOTELS

Harvey R. Maruya

Thesis submitted to the Faculty of Goucher College in partial
Fulfillment of the requirements for the degree of
Master of Arts in Historic Preservation
2019

Advisory Committee:

Betsy Bradley, Ph.D., Director
Kennedy Smith
Gary Porter
To Tiffany
# TABLE OF CONTENTS

List of Tables iv  
List of Figures v  

## Chapter 1: A New Life: Adaptive Reuse  
**Introduction**  1  
**Why Adaptive Reuse?**  4  
**Analytical Methods**  8  
**Study Scope and Contents**  10  

## Chapter 2: Change Management: Adaptive Reuse of Historic Buildings  
**Local Government and Adaptive Reuse**  16  
**State Historic Preservation Office, NHPA, Adaptive Reuse**  20  
**Secretary of Interior Standards for Rehabilitation**  24  
**Hotel Real Estate and Program Requirements**  26  
**Historic Building Location and Functional Considerations**  32  
**Conclusion**  41  

## Chapter 3: The Numbers Count: Quantitative Factors  
**Comparison of Building Uses for Re-development**  43  
**Historic Rehabilitation Tax Credits**  45  
**Other Tax Credit Programs**  49  
**Government and Community Benefits**  55  
**Hotel Revenue Premium**  57  
**Development and Business Plans**  60  
**Conclusion**  64  

## Chapter 4: Overlooked Contributions: Qualitative Factors  
**Community and Public Support and Goodwill**  78  
**Branding and Marketing**  79  
**Sense of Place**  84  
**Assessing Qualitative Factors**  87  
**Conclusion**  91  

## Chapter 5: Project Profiles  
**Kimpton Hotel Monaco, Washington D.C.**  101  
**Ledges Hotel, Hawley, Pennsylvania**  113  

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 6: Historic Buildings Does Check-In to Hotels:</td>
<td>121</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td>121</td>
</tr>
<tr>
<td>Supporting Adaptive Reuse</td>
<td>121</td>
</tr>
<tr>
<td>Quantitative Success</td>
<td>123</td>
</tr>
<tr>
<td>Qualitative Success</td>
<td>126</td>
</tr>
<tr>
<td>Opportunities for Further Research</td>
<td>129</td>
</tr>
<tr>
<td>Triple Bottom Line: Summary</td>
<td>130</td>
</tr>
<tr>
<td>Appendices</td>
<td>132</td>
</tr>
<tr>
<td>Glossary</td>
<td>140</td>
</tr>
<tr>
<td>Bibliography</td>
<td>143</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

1. Comparison of Building Uses for Re-development .................................................. 48
2. HRTC Nationwide Economic Positive Impact Data ................................................. 57
3. The Eight Stages of Project Development ............................................................. 67
4. Building Types – First, Second, and Third Place .................................................... 89
5. Qualitative Factors – Weighted Decision Matrix ..................................................... 95
LIST OF FIGURES

1. The 21c Museum Hotel Cincinnati – Historic Façade  63
2. The 21c Museum Hotel Cincinnati – Contemporary Art Museum  63
3. Kimpton Hotel Monaco D.C. - Historic Façade  64
4. Kimpton Hotel Monaco D.C. – Paris Ballroom  64
5. Historic General Post Office Building  103
6. Kimpton Hotel Monaco D.C. - Front Restored Façade  105
8. Hotel Monaco D.C. Lobby  110
9. Ledges Hotel, Hawley, PA.  111
10. Ledges Hotel next to Wallenpaupack Creek  112
11. Historic Hawley Silk and Textile Mill  113
12. Ledges Hotel Lobby  115
13. Ledges Hotel at the Wallenpaupack Creek  120
CHAPTER 1
A NEW LIFE: ADAPTIVE REUSE

Economics drive decisions on preservation projects of historic properties. Strict adherence to the preservation of a historic building for its historic use limits the ability for an owner to consider various uses and adaptations for the building and operate it as an economic asset. Alternatives, such as adaptive reuse to another building type and function, can provide property owners with alternatives and business options to maximize their property value. But taking this approach further, what other values can be uncovered from a project that is beneficial to a local government and community?

The larger issue is motivating people to save historic buildings. This study asks and answers several questions important for adaptive reuse projects. Can adaptive reuse of historic properties to hotels be a good model for both business and public benefits? What quantitative and qualitative success factors are key in assessing a project? Can qualitative and intangible factors contribute to the overall value of an adaptive reuse project? Are hotel owners and operators good stewards of historic buildings?

Adaptive reuse provides property owners with flexibility and new opportunities for use of their properties. In many cities, historic buildings and prime real estate locations are in historic districts or areas with older buildings that retain the architectural characteristics and charm of the city – a sense of place. These areas are often in and near the commercial business districts, historic districts, and tourist attractions. Hotel companies and developers are interested in these areas because the prime real estate location is in a critical mass area for both business and leisure travelers.
This study will examine the quantitative and qualitative success factors that promotes adaptive reuse of historic properties to new use as a hotel. Its underlying premise is that preservation of historic buildings must extend the message of saving places by encouraging flexible alternative methods with adaptive reuse and working with local governments and communities for social and economic development and benefits. The approach to adaptive reuse projects should be balanced in order to convince the larger audience of private developers, public officials, and specifically, the decision makers with financial stake in the property and project, that such projects are worth pursuing. The quantitative factors can be the measurable test of project success; the qualitative factors can be the intangible benefits that support and complement the quantitative elements. These additional benefits contribute to a sense of place that owners, developers, locals, and visitors all want to be an active part of the community.

Like many projects, adaptive reuse work requires economic considerations to motivate decision makers that preservation and the project is financially viable. Robert Stipe, author of the book, “A Richer Heritage – Historic Preservation in the Twentieth First Century,” states, “Money – Our principal problem centers on money. Preservation, vis-à-vis new construction, is expensive and almost always requires subsidies in one form or another.”

The Historic Rehabilitation Tax Credit (HRTC) is a major financial tool and key quantitative factor, and a form of subsidy, for a developer’s building rehabilitation. I believe there are also other forms of subsidies that may not relate to the direct definition of subsidy but provide important quantitative and qualitative value that offsets the direct cost and

---

contributes to the financial success of the project. Qualitative factors can be beneficial to both the owner and developer, local government, and the community. The hotel benefits from the adaptive reuse of a historic building in identity, branding, marketing, and storytelling as part of its strategy to differentiate itself from the competition. I also believe that hotel operators are good stewards of historic buildings based on these qualitative factors. In order to maintain their image and reputation, the hotel must be maintained to be operational and presentable for branding and marketing purposes. Being in a central location with local amenities, such as restaurants, entertainment, public transportation, and a sense of place all within walking distance are major contributing benefits to the project success.

Taking these qualitative factors seriously leads to exploring whether both the quantitative and qualitative success factors can be modeled to demonstrate multiple benefits for an owner or developer and other parties such as the local government and community. Each party’s interest in the project’s economic, environmental, and social benefits for everyone is captured by the “triple bottom line,” a phrase coined in 1994 by John Elkington, the founder of a British consultancy called SustainAbility.\textsuperscript{2} Triple Bottom Line (TBL) analysis can help translate the measurement and assessment of the mutual benefits for the of owner/developer, local government, and community, while staying true the core beliefs of economic, social, and environmental well-being.

The intent of this study is to provide participants with the knowledge and understanding of different goals and perspectives to foster a spirit of cooperation and collaboration between

developers, local governments, and communities with an outlook for achieving a balanced outcome that is mutually beneficial for economic, environmental, social needs, and sustainability.

**Why Adaptive Reuse?**

Today, the reasons for adaptive reuse are the same as in previous times even as there are different property ownership goals, business or organizational needs, and changing economic and social needs. In previous generations, adaptive reuse occurred because of the limited availability of building materials, economic frugality, and logistics challenges. Although today we have a greater availability of building materials and many transportation logistics, adaptive reuse is an environmentally conscious effort to save our resources and energy.

Historic preservation is one reason for adaptive reuse. Adaptive reuse and preservation are one in the same. Adaptive reuse is a different mindset or assumption that historic preservation as restoration or preservation in kind as a “house museum.” Amanda Hurley, writing in *Architect*, and suggesting “How to Reinvent Historic Preservation,” states that although the preservation movement that started 50 years ago is still relevant, changes in approach with adaptive reuse and inclusive of diverse cultures are needed.\(^3\) Hurley notes that Stephanie Meeks, former president of the National Trust for Historic Preservation (NTHP), “champions the adaptive reuse of historic buildings, which traditionally was seen as a less

---

desirable outcome than strict restoration.”⁴ On the contrary, she asserts, adaptive reuse is “the very warp and woof of preservation,” and notes that Meeks “urges governments to ease their permitting processes to make adaptive reuse easier.”⁵

Conventional American zoning often segregated buildings and neighborhoods by land use, such as houses for residential, factories and warehouses for industrial, and stores for commercial retail.⁶ After the early 20th century, such segregation of uses in an urban environment limited the existence of the vibrant mixed-use cities often seen in European cities that combine multiple uses with office spaces, residential, hotels, restaurants, and retail. More flexibility with government planning and zoning regulations would help to make adaptive reuse possible for historic buildings and support to the diverse community needs of economics, environmental, and social well-being.

A NTHP Preservation Green Lab and Urban Land Institute (ULI) report from October 2013 on “The Partnership for Building Reuse-Learning from Los Angeles” found several regulatory barriers for adaptive reuse were: a time-consuming and unpredictable entitlement and permitting process, a need for more experienced and knowledgeable city review staff, outdated city zoning codes, parking requirements, and a need to improve review time for permitting and inspections. The study revealed complaints from developers on the length of time, costs, and risks for getting approvals, and pointed to challenges with delays and possible

⁵ Ibid.
rejection or significant and unanticipated decisions that may impact project budgets and schedules.

Adaptive reuse of historic buildings is sustainable and good for the environment. Adaptive reuse is recycling, and it gives historic buildings new life. It also extends the life cycle of buildings, conserves building materials, reduces building demolition waste, and reduces energy and resources for generating and transporting new building materials. Buildings require significant amounts of building material resources and energy to build and operate. The NHTP presented ten principles for ReUrbanism: Reuse and Reinvestment in the 21st Century in 2016 and several of the principles support the adaptive reuse approach. One principle, “The greenest building is the one that’s already built. It takes energy to construct a new building—it saves energy to preserve an old one. It simply does not make sense to recycle cans and newspapers and not recycle buildings.” This principle encapsulates the environmental reasons for reuse of buildings.

According to the Environmental Protection Agency (EPA), the total construction and demolition (C&D) debris generation in 2014 for buildings in the U.S. was 165,591,000 tons. Of this total, 48 percent came from building demolition, which is 79,483,680 tons of waste.

Adaptive reuse will not completely eliminate demolition and building material waste, but it will

---


significantly reduce the amount of debris generated and save historic and older buildings. This is savings for both the environment and construction materials that otherwise would be needed to construct the building.

In addition, adaptive reuse of historic buildings will improve safety and help reduce energy use by updating the building to current and modern building codes and energy efficient standards. The rehabilitation of the historic building will ensure current egress, and fire and life safety standards are designed and constructed into the adaptive reuse project. Energy efficiency will improve the building performance and reduce energy use by incorporating dual glazed insulated windows, better insulated building envelope, and energy efficient heating ventilation and air-condition (HVAC) equipment.

The U.S. Green Building Council (USGBC) Leadership in Energy and Environmental Design (LEED) is the nation’s leading organization and advocate for green and sustainable design and construction. The LEED program is supportive of historic resource preservation and adaptive reuse, as many of their rating criteria either have direct or implied applications. The LEED program categories include a smart location, neighborhood pattern and design, green infrastructure and buildings, innovation, and regional priority.

Historic resource preservation and adaptive reuse are within the LEED green infrastructure and building category, but there are also other sub-categories that are implied and supportive for preservation. Sub-categories that are supportive are preferred location, walkable streets, mixed-use neighborhoods, visitability and universal design, and certified green buildings. Meeting the various LEED certification ratings can enhance a project by using sustainable building materials and practices, achieving energy efficiency, lowering operating
cost, providing better indoor quality for worker productivity and morale, demonstrating a commitment to the environment, and adding social visibility to the business goodwill.

Projects that adaptively reuse historic buildings as hotels are prime candidates in cities where land or space for new development is either not available, regulated by zoning restrictions, or economically unfeasible for demolition and new development. Prime locations for hotels are usually in commercial business districts (CBD), entertainment, historic districts, or areas with older neighborhoods and buildings with business and tourist attractions. Adaptive reuse of historic buildings in prime locations provides opportunities for hotel developers from a real estate standpoint. Besides real estate location, adaptive reuse of historic buildings also provides hotel operators with qualitative factors for identity, branding, and marketing opportunity with a unique storyline about the building and differentiating their property from the competition.

**Analytical Methods**

This study focuses on adaptive reuse of historic properties or older properties to hotels. If the property was originally designed and built for a hotel, then the property was not considered for this study. My research methods were a combination of literature review, interviews, email correspondence, personal research, and drawing from my personal experience as an architect in senior leadership roles working on hotel design projects for the past twenty years.

From these methods and sources, I analyzed the contents and findings as they relate to keywords with historic preservation, adaptive reuse, building types, hotel programming and operations, the quantitative factors with HRTC, and government and community benefits, and
qualitative factors with the planning and zoning departments, community support, branding and marketing, sense of place and third place. Each topic was brought into the study under the organizing principles of quantitative and qualitative success factors and Triple Bottom Line analysis.

I present two project profiles to explore how adaptive reuse to hotels has been accomplished in two different locations by city population, hotel size, visitor destination goals, local government, and community support. I present the project profiles in terms of the analytical framework of the study and as a means to determine if there are common findings, differences, unique challenges, and determination of success by which factors.

Drawing from my personal experience as an architect managing and designing hotels and hospitality projects for the past 20 years has been an important part of my research and ability to analyze the intentions and results of the adaptive reuse of historic buildings to hotels. This experience was important to the understanding of feasibility studies, hotel programs, design of building infrastructures, operations, functional requirements, and creation of the sense of place and expectations of the guest experience in design. In addition, I have been an advisor to the Taiwan Tourism Bureau on resort and hotel development with Mr. Chuck Gee, former dean of the University of Hawaii School of Travel Industry Management, and participated in a week-long country tour with focus on several locations to observe, analyze, and advise on planning and regulations to improve hotel and tourism infrastructure and community development. I also have lectured at the University of Hawaii School of Architecture and Chung Hua University School of Tourism in Taiwan on architectural practice and resort and hotel development fundamental concepts.
Study Scope and Contents

This study of adapting historic buildings to hotels is organized in six chapters and presents supporting background information on government, historic preservation, hotels, quantitative factors, qualitative factors, project profiles, and findings and recommendations.

Chapter two will cover the background and supporting elements for adaptive reuse of historic buildings to hotels. The goal of this chapter is to provide an understanding and considerations with influences and impacts by the local government planning and zoning, State Historic Preservation Office (SHPO) involvement, the application of the Secretary of Interior (SOI) Standards for Rehabilitation, the National Historic Preservation Act of 1966 (NHPA), hotel real estate and program, and building infrastructure considerations for adaptive reuse.

Chapter two will also cover the basic requirements for a hotel real estate location and program to provide an understanding of the planning and infrastructure aspects of the property. This study will present standard hotel benchmarks and requirements that makes a hotel financially and operationally successful. These will include hotel programming, quality levels, and general understanding of the hotel operations and business.

Although adaptive reuse of historic buildings is good for preservation, there are building infrastructure and technical considerations that require due diligence and planning prior to starting the project. Older buildings require modernization to current building and energy efficiency code requirements, seismic updates, environmental hazardous material abatement, compliance with accessibility codes covered by the Americans with Disability Act (ADA), and Architectural Barriers Act Accessibility Standards (ABAAS) for federal government buildings.
Chapter three will cover the measurable aspects of the quantitative and tangible factors such as, building types for adaptive reuse, the Historic Rehabilitation Tax Credits (HRTC), hotel room-rate premium, government and community benefits, and the development and business plan and pro forma. The goal of chapter three is to describe the measurable and quantitative factors with a convincing rationale that adaptive reuse of historic properties to a hotel is a financially viable option for the project.

Adaptive reuse of historic buildings can be done for a variety of building types and uses. Common types of adaptive reuse are offices, residential, mixed-use retail, and hotels. They are done either independently or as combination of two or more uses to enhance marketability and attraction for multiple business and community uses. Current and future potential market conditions and demand will influence the adaptive reuse building type. All building types have valid use and contribute to the Triple Bottom Line of economics, environment, and social.

The Historic Rehabilitation Tax Credit (HRTC) is one of the nation’s most successful and cost-effective community revitalization programs. The HRTC is financial tool and an incentive program that encourages private sector investment and effort in the reuse and rehabilitation of historic buildings.9 Although the HRTC is the most commonly used tax incentive for development of historic buildings, recently there are other federal government incentive programs for projects in low-income areas.

The New Market Tax Credits Program (NMTC) and the Opportunity Zone Tax (OZ) were developed by the U.S. Department of the Treasury to incentivize developers and investors for

---

projects in qualified distressed neighborhoods. If the project location qualifies, then these programs can be added or “stacked” with the HRTC as additional incentives to make the project financially viable.

This study presents evidence that hotels in historic buildings can have a significant hotel room rate premium over non-historic buildings. Hotel room-rate premium is a quantitative factor that is measurable and an economic benefit for the hotel operator where historic preservation can add to their bottom-line revenue and profits. This quantitative factor is also interrelated with the qualitative factor of branding and marketing that is tied to the success for room-rate premium.

Chapter three will also cover the quantitative benefits that the local government and community receive with new jobs, new business opportunities that support the hotel, increased tax revenue, and preserving a historic building that enhances the sense of place for the neighborhood. Hotels also bring visitors and “outside” dollar spending with local restaurants, retail, and businesses. Hotels can also add to the local tourism industry as described with visitor spending, but also for the tourism infrastructure that provides lodging and accommodations. A hotel in an adaptive reuse historic building can add to the guest experience and having a positive impression and sense of place to the hotel property and adjacent community, which is good for the overall social and economic sustainment.

This chapter will briefly describe requirements for federal historic buildings where federal agencies must also comply with Sections 110 and 111 of the NHPA of 1966. This study will also show opportunities with Section 111 that allows federal agencies to develop and implement alternatives for historic properties to include adaptive use and may lease out a
federal historic property to have revenue and defray costs of ownership. These sections provide federal agencies with guidance and alternatives on the use of federal historic properties.

Chapter three will also provide description of the development and business plans and pro forma, which plans, organizes, executes the project, and frames the overall project strategy. This study will show how an organized plan can have quantitative contributions to the project success with a defined road map identifying opportunities.

Chapter four will cover the qualitative factors that are subjective and intangible, which are often difficult to measure and understand. The goal of chapter four is to demonstrate that qualitative factors add value, complement, and support the quantitative factors for adaptive reuse of historic properties to a hotel. A hotel in a historic building can provide qualitative benefits to the hotel operator with branding, identity, marketing, and storytelling opportunities.

This study will show qualitative benefits for the community by fostering a sense of place, which is beneficial for local social and economic benefits with community, heritage, and pride – as well as tourism. Preservation of a building or place can have positive impacts to adjacent buildings and neighborhoods serving a community historic landmark, which sets the tone and atmosphere of a town or neighborhood.

“Third place” is a concept that contributes to and ties in with sense of place. These places where people socialize, interact with people, and foster relationships between the home (“first place”) and work (“second place”) are a quality of life factor. Both third place and sense of place support social well-being among people. Hotels can be a social connection between
locals and visitors. This study will show how hotel public spaces can serve as the community third place by having the exterior site, lobby, and restaurant accessible to the public.

Chapter four will discuss methods for assessing qualitative factors and the means to quantify the intangible factors that could be compared with quantitative factors. This study will explore the weighted decision matrix, analytical hierarchy process, and Bhutan’s Gross National Happiness Index as possible methods.

Chapter five will profile two adaptive reuses of historic properties to hotels. The two project profiles are located in different environments: urban and rural. Each location type has its own advantages and disadvantages that will test the quantitative and qualitative success factors.

Chapter six will present findings and recommendations for further studies. The goal of this chapter is to summarize the quantitative and qualitative success factors and conclude that adaptive reuse of historic buildings to hotels can be successful and that is mutually beneficial to owners, developers, preservationists, local governments, and community and its relationship with the Triple Bottom Line analysis of economics, environment, and social.

The conclusion will summarize and bring together common themes that all parties can understand and realize that there is shared interest for adaptive reuse of historic buildings for hotels. Additionally, the conclusion will tie the Triple Bottom Line concept addressing economics, environment, and social aspects with the quantitative and qualitative success factors. The conclusion also intends to identify further study opportunities that extend or relate to this thesis for focused and detailed studies that could represent new trends or subjects briefly covered in this thesis.
CHAPTER 2
CHANGE MANAGEMENT:
ADAPTIVE REUSE OF HISTORIC BUILDINGS

“Preservation is about managing change. Healthy, dynamic neighborhoods are always in the process of change. Historic preservation is about managing change: unleashing the enormous potential of older buildings to improve health, affordability, prosperity, and well-being.”

The National Trust for Historic Preservation

The National Trust for Historic Preservation’s ReUrbanism program is related to adaptive reuse, as it promotes giving new life to older buildings and contributing to the vitality of our communities. This statement addresses a fundamental challenge with preservation and sets the tone of this study about managing change and expectations by awareness and education on the economic, environment, and social aspects of adaptive reuse of historic buildings to hotels.

Another NTHP ReUrbanism key principle is, “Preservation is adaptive reuse. Adaptive reuse is preservation. Historic preservation is not just about keeping old buildings around. It is about keeping them alive, in active use, and relevant to the needs of the people who surround them.” Adaptive reuse is a way to save historic buildings and support preservation by encouraging property owners to use alternative ways of achieving the best economic use and

\[\text{10} \text{ Forum Online, Ten Principles for ReUrbanism: Reuse and Reinvestment in the 21st Century, (National Trust for Historic Preservation – Preservation Leadership Forum, September 7, 2016), https://forum.savingplaces.org/blogs/forum-online/2016/09/07/ten-principles-for-reurbanism-reuse-and-reinvestment-in-the-21st-century?_ga=2.250129350.1567920807.1538965969-561383252.1513530779&_gac=1.45215504.1538965969.EAIaIQobChMI3sHQSeb13QIVz0oNCh2tDwVUEAMYSAAEgKw1fd_BwE.} \]

\[\text{11} \text{ Ibid} \]
value on their property while supporting preservation, the environment, and social well-being of their community.

Chapter one presented some of the many reasons for undertaking adaptive reuse projects. This chapter will cover the background and fundamentals for adaptive reuse of historic buildings to hotels to include: reasons for adaptive reuse; the roles of city planning and zoning departments, and State Historic Preservation Office; the Secretary of Interior Standards for Rehabilitation of historic buildings, historic preservation and the consultation process with stakeholders; hotel real estate and program; and considerations for adaptive reuse of historic buildings. In describing these elements, there will be both quantitative and qualitative factors associated, which will be briefly described, and the details will be covered in chapters three and four. This chapter will begin to introduce these factors and the Triple Bottom Line (TBL) with economic, environmental, and social aspects of a business as it relates to the general description of adaptive reuse of historic buildings to hotels.

**Local Government and Adaptive Reuse**

The local government, through planning and zoning departments, is, in many ways, the “broker” between business development and the community. It seeks to balance the fine line between development and growth with regulating and sustaining livable and vibrant cities. The local government directs and manages these departments through policies and legislation. Like the Triple Bottom Line analysis of economics, environmental, and social, local governments strive to balance many key qualitative factors, including maintaining a sense of place through historic preservation programs.
Land use zoning may inhibit adaptive reuse projects if the proposed new use is not allowed. Local governments should consider having flexibility with land-use zoning regulations to make adaptive reuse possible as they recognize that such projects contribute to diverse and vibrant communities. Another common goal noted in a Brookings Institute article, “Many city planning efforts to reinvigorate metropolitan neighborhoods now include specific steps to create third places, especially public spaces, to try and break down social siloes.”

City planning and zoning regulations need to be flexible and accommodating to adjust to new ideas and demands to revitalize our urban core for higher density and improvements with mixed-use for diverse, walkable, and livable neighborhoods.

The NTHP ULI October 2013 report on “The Partnership for Building Reuse-Learning from Los Angeles” study revealed complaints from developers on adaptive reuse project time, costs, and risks for approvals due to regulatory barriers for adaptive reuse, unpredictable entitlement and permitting process, and lack of city staff experience and knowledge. Some of the recommendations from the study include: reduced and adjusted parking requirements, experienced and knowledgeable staff, adjusting city zoning codes to reflect current requirements and trends while also cautious of future changes, and assigning case managers as part of the project team for continuity and timely responses.

The local planning and zoning department codes and regulations, staff experience and expertise, and the city general plan are all factors that must be considered in the development

---

13 Ibid.
planning and project expectations. These factors – often obstacles and challenges can have an impact on a project’s schedule, resources, contingencies, and risk of uncertainties that could derail a project. Having an experienced and supportive planning and zoning department is instrumental in the review and approval process and working together with owners and developers. Also, having an experienced and supportive Certified Local Government (CLG) Preservation Board and staff, as well as Main Street program, help with working through an adaptive reuse of historic building to hotel project.

CLGs work in the communities in a formal role in the identification, evaluation, and protection of its heritage resources. They have the right to comment on the eligibility of properties nominated for listing in the National Register of Historic Places within their jurisdiction, receive technical assistance from SHPO and the National Park Service, and are granted the right to be a consulting party in a project requiring Section 106 review. CLGs are a qualitative factor in support to both the SHPO and local government in historic preservation services, in assistance to developers with consultation, and in their desire to manage change in the local community. The national CLG program encourages municipalities of all sizes to have an historic preservation ordinance and active Historic Preservation Board.

The planning and zoning department and municipal historic preservation program can work together at the local level with developers, government, and community. The City of Alexandria, Virginia, is a good example of an organized and coordinated planning and zoning department with an integrated historic preservation department. The City of Alexandria Planning and Zoning Department has a comprehensive team with a planning commission and
four major divisions: Development Review, Land Use Regulation, Historic Preservation, and Neighborhood Planning and Community Development.

An adaptive reuse of an historic building for hotel project in Alexandria might require the review by most of these divisions. The Development Review Division has staff planners with expertise in development, and reviews requests and submissions to ensure the proposed development is consistent with the City’s master plan and zoning ordinance. The Zoning Administration Group provides zoning services that include conducting zoning reviews, zoning enforcement, and special use permits (SUP). It might become involved if the zoning for the proposed project is not straight-forward.

The Historic Preservation Division ensures compliance with historic district rules and historic preservation through the Board of Architectural Review (BAR) process of reviews and approvals of architectural proposals for new and improvement projects. Its involvement would be determined by the location and status of the property, but might also include some unofficial review and consultation.

The Neighborhood Planning and Community Development Division (NPCD) with expertise in small area planning, works closely with the communities in developing the Small Area Planning (SAP) in their area. This builds consensus with their long-term planning, which is a chapter of the overall City Master Plan. The process ensures the needs of the communities are heard and addressed among the different groups within the Planning and Zoning Departments.

The City of Alexandria Planning and Zoning Department is a good example of providing leadership and management while balancing the overall economic, social, cultural and historic
preservation and coordinating, implementing, and regulating the city’s policies and regulations. Having a historic preservation division within the planning and zoning department helps the city retain and manage its historic buildings and historic districts. This proactive approach has been successful in Alexandria, and many other municipalities provide the same oversight with a different structure.

In many rural areas, towns and counties may have outdated planning and zoning regulations that pre-date the newer emphasis on mixed-use areas, and perhaps, staff may have little or no experience or expertise with addressing adaptive reuse of historic buildings in general. In these situations, a developer will need to plan for and anticipate additional time in the review and approval process. The developer may need to enlist the help of his architect and preservation architect team in presenting the project design, goals, and process of adaptive reuse of historic buildings. The developer’s team may also need to provide case studies as examples, demonstrating similar type projects that can be done successfully without impacts to the historic building and community. Local community groups and Main Street Program coordinators could also be extended team members that support the project, especially if the adaptive reuse project will provide social and economic benefits to the community.

**State Historic Preservation Office, NHPA, and Adaptive Reuse**

Several of the foundational aspects of the United States historic preservation program provide support and a framework for review of adaptive reuse projects. The National Historic Preservation Act of 1966 (NHPA) is legislation that formally recognizes historic preservation as a
national policy. The Act was signed by President Lyndon B. Johnson on October 15, 1966.\textsuperscript{14} The NHPA provides the legal framework, incentives, and regulation to preserve historic buildings, landscapes, and archaeology. Section 1 and Chapter 3001 Policy, 54 U.S.C. § 300101, Policy, summarizes the overall goals and intentions of the Act (see Appendix 1).

The State Historic Preservation Office (SHPO) can be instrumental in adaptive reuse of historic building projects in providing leadership, support, advice, and recommendations in the review and approval process for historic preservation projects. SHPOs also have major roles with the Section 106 consultation and with Historic Rehabilitation Tax Credit program projects with both federal and private sector projects.

The organization and experience of the SHPO staff members, especially with adaptive reuse of historic buildings, is an important part of the consultation process when working with developers in assessing the viability of the adaptive reuse and complying with the program requirements. An experienced team with expertise in adaptive reuse of historic buildings can provide timely, creative, and collaborative spirit among the consulting parties to develop a working solution that is mutually beneficial to the developer, government, and community.

The SHPO is also the agency that reviews the federal Historic Rehabilitation Tax Credits (HRTC) process and administers state tax credits, if available. Although every SHPO administers their HRTC review process differently, in general, they follow similar processes and guidelines to ensure compliance with the National Parks Service requirements. SHPO staff are involved in all three parts of the application: part one is the evaluation of significance, part two is the

\textsuperscript{14} Preservation50, \textit{Commemorating 50 Years of the National Historic Preservation Act}, (Preservation 50, accessed January 9, 2019), \url{http://preservation50.org/about/nhpa-history/}. 

21
description of rehabilitation, and part three is request for certification of the completed work. See Appendix 2 and 2A for the Virginia Department of Historic Resources forms and description of the state’s HRTC application and review process.

In every part of the process, the SHPO works closely with the developer and team in advising the preparation and application, then the review and approval of the HRTC process. This is a qualitative factor that helps support a developer’s project and assures a major quantitative subsidy. The experience level and ability for SHPOs to provide historic preservation leadership, creativity, and collaboration is a qualitative factor that should be considered in the development plan in terms of schedule, consultation reviews, and approvals. Although the role and activities of the SHPO have minimal direct impacts to the Triple Bottom Line, they do provide a valuable contribution to the project process and project results.

The NHPA also established the National Register for Historic Places (NRHP) and, for federal government agencies, the NHPA also contains sections 106, 110, and 111 that cover federal responsibility for historic preservation, the consultation process, and alternatives for historic properties that include adaptive reuse. Under Section 110, federal agencies assume responsibility for historic preservation and are required to participate in consultation for compliance with Section 106. Any project receiving federal funding, grants, subsidies, or undertaking are required to follow the Section 106 process. This also includes private sector projects, such as adaptive reuse of historic buildings to hotels, that use the HRTC. Section 106 requires federal agencies to consider the impacts of their projects that they approve, build, or

---

Federal agencies must allow the Advisory Council for Historic Preservation (ACHP) and the public to review and comment on the project. Section 106 encourages preservation but does not mandate it. The Section 106 process also allows for consulting parties to review, debate, and collaborate as “checks and balances” in order to minimize and mitigate the impacts on the historic building. The Section 106 consultation process can also be a medium for both federal and private projects where “triple bottom line” of economic, environmental, and social benefits are common, and where the owner/developer, local government, and community come together to express each parties’ interests and collaborate for that balance for all. The consultation process can be a model for private sector adaptive reuse of historic buildings or older building projects, as a means of fostering communications and understanding among all parties for a mutually beneficial project for all.

In some cases, government agencies benefit directly by leasing properties that are historic buildings to the private sector. Under section 111 of the NHPA of 1966, a federal agency, after consultation with the ACHP, can establish and implement alternatives for historic properties to include adaptive use, and may lease a historic property owned by the agency to defray costs of administration, maintenance, repairs, or other related ones. This approach triggers the use of Section 106 consultation. The General Services Administration (GSA) has successfully leased federally-owned historic buildings to the private sector as an adaptive reuse for hotels. Two examples in Washington D.C. include the historic former General Post Office Building (also known as the Tariff Commission Building) to Kimpton Hotel Monaco and the

---

historic former Old Post Office Building on Pennsylvania Avenue to Trump International Hotel. These properties were previously unoccupied and underutilized for many years due to past unsuccessful use as office space or mixed-use retail. These examples are also another reason why adaptive reuse of historic buildings to hotels can be a viable option.

**Secretary of Interior Standards for Rehabilitation**

The federal historic preservation program also provides a process and guidelines for doing an adaptive reuse of a historic building when certain programs are used. The guiding principles for adaptive reuse and rehabilitation of a historic building are known as the Secretary of Interior (SOI) Standards for Rehabilitation. The National Park Service (NPS) is the federal government agency that is administratively responsible for the SOI standards. The NPS provides administrative and technical guidance and support to those looking for guidance, review and approvals, and advice. The premise of the Standards for Rehabilitation is that some changes may be made to a building for updated or new uses, but without diminishing the architectural character of the historic building.

In general, the standards are a good reference, source, and benchmark for any historic building rehabilitation. Even if the property is not historic, projects for older buildings with historic and architectural character could use the SOI Standards for Rehabilitation as a guideline and good practice.

The Historic Rehabilitation Tax Credits (HRTC) program requires that each project complies with the Secretary of Interior’s (SOI) Standards for Rehabilitation. For the standards, rehabilitation is defined as, “The act or process of making possible a compatible use for a
property through repair, alterations, or additions while preserving those portions or features which conveys its historical, cultural, or architectural values.” Adaptive reuse of historic building projects is likely to respect and abide with the SOI standards. Standards four, nine, and ten, in particular, recognize that historic buildings change over time and provide good guidance and opportunities for flexibility with adaptive reuse projects. See Appendix 3 for the SOI Standards for Rehabilitation.

- Standard 4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.

- Standard 9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.

- Standard 10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

The SOI Standards for Rehabilitation provide a framework for projects using historic buildings. Although compliance is required for only HRTC subsidized projects, the standards provide a good guide and reference for adaptive reuse of all older buildings, including those that may not be eligible for listing in the NRHP, and hence a HRTC project. The fact that the SOI Standards for Rehabilitation are widely known and used provides common expectations as architects, reviewers, community members and Preservation Boards consider proposals.
Hotel Real Estate and Program Requirements

Hotel developers have demonstrated that converting various types of historic buildings to hotel use can be successful. Many historic buildings are located in prime locations in cities and have distinct architectural character and historic storylines that provide competitive advantages in differentiating a business from competing hotels. Hotel operators are good stewards of their buildings for business reasons. Their properties must achieve and maintain an appearance and have operations that accommodate and support guest needs for lodging, food and beverage, meeting spaces, safety, and security. What are the fundamental hotel program requirements for location, building plan, and infrastructure?

Location is key to a hotel business. Depending on the hotel company’s target market and business plan, location choice will vary depending on hotel type of business or leisure, quality star level, room price, amenities, and operational cost. Hotel brands targeting business travelers may prefer locations in the commercial business districts while those who service leisure travelers are likely to want to be near historic districts or points of interest and entertainment, and those targeting, commuting travelers want to be near freeway major off ramps and transportation directional transfer points such as airports and railroad stations.

A location in an appealing neighborhood and amenities such as restaurants, entertainment, public transportation, walkable neighborhoods, historic or local points of interest, are important success factors that support a hotel location for both business and leisure travelers. Also, hotel business owners desire locations within a historic district, areas with landmarks, arts and entertainment districts, or a locale with a distinctive architectural character and community vibe and interest.
Typically, a hotel needs a minimum of 70 rooms in order to meet a critical mass for rooms available and revenue. Hotels have a variety of guestroom types at different room rates to accommodate travelers’ lifestyles and preferences. Room size and amenities vary by quality star levels and hotel brands. Guestroom options include standard king, double twin, junior suite, suite, and presidential suite. Guestroom layout plan and details also vary between business and leisure travelers. The presidential suite is usually a non-revenue generator but is a room type that is needed for special guests and the allure that it provides.

Food and beverage (F&B) amenities such as a lobby bar, three-meal restaurant, specialty restaurant, café, grab-and-go snack bar, and catering are all considered based on the star quality level and the hotel brand’s level of service and amenities. Restaurants are typically designed to serve three meals per day. Higher end hotels in the four- and five-star categories usually have a three-meal restaurant, specialty restaurant, and lobby bar. Depending on the location and larger room count, there could be a third or fourth restaurant for casual dining and another specialty restaurant.

Other hotel amenities typically include a ballroom, a junior ballroom, meeting rooms, a health and fitness center, a gift shop, retail, a kids’ room, and a business center. The amenities provided are based on the star quality level, hotel brand, traveler target market, and location. Resort hotels will include more amenities geared for recreation and outdoor activities, such as golf, kid’s recreation room, and pool with pool bar.

In many preferred locations, guestrooms and services accommodate both type of travelers, where there may be business travelers during the weekday and leisure travelers on the weekend. The recent trend in “bleisure” travel combines both business and leisure time.
According to “Research: Bleisure Travel is Booming,” in Hotel Business, “Fifty-six percent said they are more likely to consider a bleisure trip in a destination with desired food and restaurants, closely followed by approximately 50 percent influenced by beaches, weather, nature, historical monuments or sightseeing.”

This is an indication that the lines between business and leisure are being blurred by business travelers willing to combine leisure with business or staying extra days to experience the environment, cultural, or historic aspects of the destination.

Quality levels for hotels are rated by several of the popular star ratings by the American Automobile Association (AAA), Michelin, and Forbes. Although there are many hotel rating systems throughout the world, these are the respected and key industry organizations that provide standards for rating quality levels. Ratings are based on a minimum requirement of having key amenities and service as determined by each rating organization. The ratings provide travelers with a scale on expectations in terms of price, room comfort, amenities, and service. The criteria and details for the rating system is closely guarded by the rating agencies. Hotel companies use the ratings for advertising and managing expectations for potential customers.

The AAA rating is most common in the U.S. and is based on its five-diamond scale. According to AAA, “Hotels and restaurants that pass inspection are designated as AAA Inspected & Approved. This indicates they offer clean, comfortable, hospitable places for

---

members to stay and dine whether they're motels, diners or resorts.”

According to AAA, a one diamond is categorized as budget oriented, which means a bed, pillow, and a bargain. Two diamonds are enhanced, which means a familiar, casual, and comfortable setting. Three diamonds are distinguished, which means it delivers the comforts of home without the effort. Four diamonds are refined, which means a notable splurge for a special occasion. And five diamonds are ultra-luxury, which means it is a crown jewel.

The Michelin rating is another common standard started by the Michelin Tire Company in 1900 to encourage drivers to travel. Michelin rates both hotels and restaurants, but recently it has focused more on restaurants. It is based on a three-star rating system, where one star is very good in its category, two stars is excellent and worth a detour, and three stars is exceptional and worth a special journey. The hotel or accommodations rating is also based on comfort and quality and is categorized, from lowest to highest, quite comfortable, comfortable, very comfortable, top class comfort, and luxury in the traditional style. Similar to other rating organizations, Michelin reviewers or inspectors are anonymous, and their expenses are fully paid by Michelin and not the hotels, to avoid conflict of interest.

The Forbes Travel Guide is an independent global rating system for hotels, restaurants, and spas. Originally the Mobil Travel Guide in 1958, it started a system based on five-star ratings. The rating checklist contains over 900 objective items and is independently and

---

19 Ibid.
anonymously inspected over a two-night period.\textsuperscript{21} The star rating levels are recommended, four stars, and five stars. Recommended means the hotel is excellent and has consistent service and facilities. Four stars means the hotel is an exceptional property with high levels of quality service and facilities. Five stars is an outstanding hotel, often iconic properties with flawless service and amazing facilities. Forbes uses a proprietary weighted algorithm system that measures 75 percent for service and 25 percent for high quality facilities.\textsuperscript{22}

A hotel operator must also consider logistical requirements to support daily operations. The location must have a critical mass of labor locally or from the vicinity. It must also have readily available vendors and services such as food suppliers, laundry, building and equipment repair and maintenance, transportation, and medical facilities.

Hotel metrics are measured by revenue key performance indicators (KPI) of room occupancy, average daily rate (ADR), revenue per available room (RevPAR), and cost per occupied room (CPOR). These KPI provide hotel management and investors with benchmark numbers for performance over a set period of time. KPIs are used for internal performance management and for comparisons with competitors to gauge market share, pricing, and trends in the local and regional business environment.

Room occupancy count is the percentage of rooms sold versus rooms available. Typically, most hotels have a goal of 70 percent occupancy rate to generate sustaining revenue and profit. The ADR is the average sold room rate, which does vary depending on the season. The RevPAR number is the average of total room revenue divided by the number of rooms.

\textsuperscript{22} Ibid.
Typically, since 60-65 percent of revenue mix is from rooms, the RevPAR is the key metric for performance used by hotel managers.\textsuperscript{23} It is also a ratio that helps measure the revenue generated per room that can evaluate a hotel’s performance internally and as comparison with the competition or other hotel brands. CPOR measures the operating costs and expenses of the room divided by the number of rooms. The goal is to control expenses and maximize revenues where the RevPAR number is higher than the CPOR.

Typically, a developer or hotel company considering a new hotel project will conduct a market study to analyze the location and market and provide a feasibility report. Real estate and market study firms such as CBRE, Jones Lang LaSalle, HVS International, Horwath, and PKF Consulting Group conduct market studies that survey local and regional comparables in assessing the hotel program and potential room rate.

The market study report will generate an analysis of comparable hotel properties at the same star quality level and assess the program requirements for number of rooms, amenities, architectural style, target market of travelers, transportation network, and local and regional social and economics. The report will analyze the city and regional area economics, traveler demographics, and recommend hotel brand, star level quality, hotel program, and architectural style. From the analysis and recommendations, the report will also generate a general business plan and pro-forma estimate to provide the owner with a comprehensive study and assessment of the project.

Historic Building Location and Functional Considerations

Historic and older buildings in prime locations offer advantages and assets that make adaptive reuse to hotels attractive. Location is a key asset, as many historic buildings are located in the city core of the central business district (CBD), commercial and retail areas, and in historic districts. These are destinations for both business and leisure travelers. A location or neighborhood with a historic district or architectural character provides a qualitative advantage by providing a destination of interest for the leisure traveler. A CBD location for business destination also provides qualitative value with convenience for the business traveler – as well as likely some architectural character.

Another advantage and asset are existing entitlements that come with the historic building and being in neighborhoods with either historic or architectural character that defines the community. Existing entitlements may have higher allowable density that is “grandfathered” into the building and property. This would provide a developer with a quantitative advantage over new construction that may otherwise not provide the adequate density in the return on investment.

Although the advantages are attractive, there are also disadvantages of established locations and challenges with adaptive reuse of historic building projects. It is important that these challenges are identified early in the project, as part of the due diligence, to uncover all constraints, restrictions, and obstacles that would have to be addressed.

Some of the challenges are parking requirements, lot size and building geometry, and outdated building infrastructure. In urban areas, parking is a key concern. Many historic and older buildings were built prior to mid-20th century in an era when there were minimal, or no
automobiles and the use of public transportation was more common. Consequently, existing onsite parking or space available for new parking does not exist. But these buildings are located in areas that have access to public transportation or are in walkable neighborhoods.

Parking is a major obstacle and concern for hotel projects, as it is a guest necessity whether valet or self-parking. But, in certain locations, there may be less demand for parking than for the previous use and the planning and zoning requirement should be updated for current situations. The parking requirement may be reduced if there is ample and accessible public transportation, off-site parking availability, or other alternative means of transportation.

Historic buildings were built during a different era when planning requirements, building technology, and construction means and methods were applicable to the needs and knowledge at that time. Some of the challenges for adaptive reuse involve different floor plate areas and variations among floor levels, lower floor to floor ceiling heights, column spacing, and limited fenestration that allows less natural light to penetrate the interior. These quantitative challenges can be seen as technical disadvantages, but the exterior building façade and architectural character can be a qualitative advantage from the perspective of identity, branding, and marketing.

Suitable historic building types for adaptive reuse to hotels need a combination of good structural stability and infrastructure and some combination of architectural and historic significance and a story that conveys the past. There are also design considerations to be aware of that may have significant obstacles or impacts to the design and rehabilitation of the building. For these reasons, a developer should conduct a proper due diligence examination...
and survey to ensure knowledge of all obstacles and challenges ahead of time. Then, these items can be addressed early in the due diligence or preliminary pre-concept design phase.

Adaptive reuse of historic buildings to hotels or any other building type must also address updating and modernizing the building infrastructure to current building code and standards, including egress, fire protection, accessibility, and building safety requirements. Code compliance and reference include the International Building Code (IBC) and International Existing Building Code (IEBC) for safe building occupancy capacity and egress requirements and the National Fire Protection Association (NFPA) 101 Life Safety Code and NFPA 914 Code for Fire Protection of Historic Structures for egress and fire protection requirements.

Egress is the travel path and stairs to allow the building occupants to safely exit the building in the event of a fire or building emergency that requires evacuation. Code requirements for egress have become more stringent over time in an effort to improve safety and incorporate lessons learned from past building fire incidents. Egress requires more exit stairs with direct access to the exterior at ground level, wider corridors, and maximum exit travel distance. These code requirements vary in detail and are based on the building type use and occupancy headcount allowed. Egress requirements also require doors within the public travel path to have door hardware devices such as panic hardware, and public corridor fire separation doors on magnetic door openers.

Fire protection includes fire and smoke separation, a fire alarm system, and a fire suppression system. It also includes requirements for fire rated wall and floor separation and non-combustible interior materials. Fire protection code requirements are intended to alert,
mitigate, and minimize the spread of fire and smoke and allow the building occupants ample
time to exit the building.

Another major code compliance is with accessibility. The accessibility code is covered
by the Americans with Disability Act (ADA) and Architectural Barriers Act Accessibility Standards
(ABAAS) for federal government buildings. The ADA was signed into law by President H.W.
Bush in 1990.24 The ADA is a comprehensive civil rights law addressing the needs of people
with disabilities, prohibiting discrimination and including accessibility and public
accommodations in buildings. The ADA also contains architectural design standards for new
construction and alterations. The design standards provide rules, descriptions, and graphic
illustrations with dimensions.

ADA compliance is required for adaptive reuse of historic buildings to hotels.
Compliance is not only in alignment with the law, but also makes good social and economic
sense. ADA standards allow people with special needs to access and use the hotel without
impeding their mobility. ADA also benefits older people that may have impaired mobility. The
hotel business benefits by accommodating disabled guests as customers that otherwise may
not have been able to access the hotel.

Life safety and accessibility requirements are important to ensure operations,
employees, and guests have a safe building environment. Not only are these code compliance
and requirements, but also economic and social factors. The economic factor demonstrates the
owner’s responsibility as a business operation to protect and minimize damage. The social

24 U.S. Department of Justice Civil Rights Division, Information and Technical Assistance on the Americans with
factor demonstrates the owner’s concern for the safety, comfort, and well-being among the building occupants. Knowing all of these potential rehabilitation and code updates will help the development team plan, budget, and schedule cleanup and remediation during the course of building rehabilitation and construction.

In areas with earthquake activity, such as California, seismic retrofit and upgrades to the historic building structure will need to be addressed. Seismic upgrade is a major requirement to ensure the structural integrity of the building and safety for the building occupants and surrounding public. Historic buildings with un-reinforced masonry and brick façade are affected by the seismic actions in an earthquake. This can cause damage not only to the building itself but to adjacent property and people.

Adaptive reuse of historic building projects must also consider updating and modernizing the building infrastructure and mechanical electrical and plumbing (MEP) equipment to current energy efficiency standards. Many historic and older buildings were built with heating systems, but not air conditioning systems. Air conditioning became a more common part of the building system in the 1920s, after Willis Carrier installed air cooling systems in the Metropolitan Theater, Los Angeles in 1922.25

The two main energy efficiency codes are the International Energy Conservation Code (IECC) Chapter 4 on commercial energy efficiency and the American Society of Heating and Ventilation Engineers (ASHRAE) 90.1. Besides these major energy efficiency codes, each state has its code or standards. Many states may refer to the IECC or ASHRAE codes, but some states

---

like California are more stringent, as shown by the California Energy Code, better known as Title 24 of the California Code of Regulations.

Energy efficiency modernization includes major installation and upgrades to the heating, ventilation, and air conditioning (HVAC) system. The HVAC system includes all the major equipment, such as air handling units, condensers, boilers, and cooling tower, but also all the other mechanical ducts, diffusers, grilles, and thermostats. Our modern buildings require an enormous amount of electrical infrastructure compared to historic and older buildings prior to the early 1900s. The electrical system includes major equipment, such as transformers and switchgears, and also the electrical wiring, circuit breakers, junction boxes, and outlets. Information technology (IT) installation is another major electrical requirement as part of the building modernization.

Hazardous Materials

Prior to the start of any adaptive reuse of historic or older buildings, a comprehensive environmental survey and site assessment should be done as part of the due diligence to identify and mitigate any hazardous materials. Identifying all of these potential environmental hazards within the historic building will help the development team plan, budget, and schedule cleanup and remediation during the course of building rehabilitation and construction.

---

Since many of historic buildings were built prior to the federal government ban on hazardous materials, one can assume that the historic building will contain asbestos, lead, polychlorinated biphenyls (PCB), chemical solvents, mercury, or mold. Prior to development, due diligence should be conducted with an environmental site survey and assessment for any hazardous materials. The Environmental Protection Agency (EPA) provides a list of hazardous building materials and waste, along with regulation on remediation, waste management, and disposal.

Hazardous material remediation and removal is complex and sometimes difficult to find unless selective exploratory demolition is done throughout the building during the due diligence review. Asbestos was a common material used for fire proofing and insulation of walls, pipes, electrical wiring, and boilers. Historic and older buildings erected prior to 1900 most likely do not contain asbestos.\(^{27}\) Asbestos became widely used after the 1940s and was banned by the EPA in stages by material type in the 1970s.\(^{28}\)

Lead was commonly used in paint, piping, and metal window frames. The EPA banned lead use in many building materials in 1978, and any historic and older buildings built or renovated prior to the ban are very likely to contain lead in paints and window frames.\(^{29}\) PCBs became common in buildings from 1929 until 1979, when banned by the EPA. PCB was commonly used in many industrial and commercial applications including electrical

---


transformers and fluorescent light ballast. PCB was also used in other building materials such as plasticizers in paint, plastics, and caulking.\(^\text{30}\)

Over time, historic buildings tend to leak and have water damage within the building. A due diligence will review the building envelope, to include the roof, walls, doors and windows, chimneys, skylights, and site conditions. The surrounding site and area adjacent to the building may have ground conditions that may be contributing to water damage such as improper site drainage, flooding and ponding, or cracks and damage to subsurface retaining walls. Besides repairing the building envelope or improving site conditions to prevent water leaks, there also could be water damage and mold, which is caused by excessive moisture for a long period of time in unoccupied buildings. Mold is another environmental hazard that must be removed and cleaned before construction starts and the building is occupied.

Besides the technical aspects with the building infrastructure and systems, assessment of the building should explore its history. This assessment should include whether the property is listed in the NRHP or is eligible for such listing. Association with a significant historic event or use, person, or story that can be incorporated into to the hotel’s image for branding and marketing should be noted. A historic building that is iconic, has identifiable architectural aesthetics, is a visual landmark, or associated with history tied with the local heritage appeals to heritage tourism, is a visitor point of interest. The qualitative aspects of branding and marketing will be covered in chapter four.

Hotel companies have introduced many different types of hotel levels and lifestyle branding to offer distinction and differentiation to attract different demographic groups. Experienced hotel developers know that “Where there is intensive competition, finding gaps to fulfill unmet needs will be harder, ...”31 One gap and way to have a competitive advantage and differentiation is to have a hotel in a historic building with architectural character and historic storyline to differentiate it from the competition. Kimpton Hotels, based in San Francisco, has been a pioneer in the hotel industry by selectively launching new hotels in adaptively reused historic buildings. Kimpton COO Mike DeFrino states, “What we love about adapting historic buildings is that no two properties can ever be the same, and each supplies guests with a unique experience that cannot be replicated.”32 Kimpton Hotels has converted 13 historic buildings into hotels between 1992 and 2014.33

Adaptive reuse of historic buildings for hotels must consider all of the code and regulatory updates, building modernization, and environmental hazards as part of the due diligence and building rehabilitation and construction. Although these present obstacles to the adaptive reuse process, identifying all requirements upfront with proper planning and budgeting can help overcome these challenges for successful projects. These obstacles are quantitative factors that are measured as part of the pro forma and project execution. It is

---

important to remember that the appeal of a hotel in an adapted historic building can balance some of the challenges encountered in the construction period.

**Conclusion**

This chapter covered the background and information about adaptive reuse of historic buildings to hotels. It notes a number of entities involved in project planning from a municipal government and historic preservation program point of view. It also describes the many factors that hotel developers must consider when selecting a historic building for conversion as well as the complications of converting a historic building. The appeal of differentiated hotels and the social and economic benefits of adaptive reuse projects counter the complicated project design and funding quantitative factors and begin to show how many factors must be balanced in such projects.

The information in this chapter will help participants from a diverse backgrounds, expertise, and interests understand what it takes to plan an adaptive reuse of an historic building to a hotel. It is offered based on the assumption that, as more participants have knowledge and understanding of different goals and perspectives in such a project, a spirit of cooperation and collaboration with an outlook for achieving a balanced outcome can more easily be achieved.

Adaptive reuse of buildings has been in practice for many centuries. Over time, change is expected as people’s needs and uses evolve and adapt to changing market and social conditions. Buildings have been re-purposed and adapted to meet different functional use once the primary functional and purpose is no longer usable due to different property
ownership, business or organizational needs, changing market conditions, and changing economic and social needs. Bill Wilhelm of R.D. Olson Construction Company asserts that,

“Adaptive reuse projects often are a necessity in high-demand, high-density areas, but they also offer many economic, environmental and social benefits for hotel owners, developers and the local community. As there continues to be less available land for new construction, adaptive reuse hotel projects will only become more prevalent.”

Mr. Wilhelm’s statement summarizes the advantages and benefits of adaptive reuse from the perspectives of economics, environment, and social, which supports the idea of the Triple Bottom Line analysis for businesses.

---

Economics drives decisions on the use and preservation goals of a historic building. It is a key factor in quantifying and motivating decisions on how much an owner or developer wants to do with the property. These measurable aspects support the economics and business plan that demonstrate the viability of the project. Adaptive reuse of historic buildings can be done for a variety of building types and uses. Common types of adaptive reuse are offices, residential, mixed-use retail, and hotels. Projects are done either independently or as combination of two or more uses to enhance marketability and attraction for multiple business and community uses. Current and future potential market conditions and demand will influence the adaptive reuse building type.

Quantitative factors for a project can cover a wide variety of tangible and measurable items. These items can be categorized as real estate, project development, and business operations. Real estate could include factors of property value and property taxes. Project development could include owner’s equity, mortgages, HRTC, grants, construction costs, and property tax abatement. And, business operations could include room occupancy, REVPAR, revenues from amenities and hotel events. These factors are important considerations in the overall project, but this study emphasizes quantitative factors related to historic preservation, in particular, adaptive reuse of historic buildings to hotels.

This chapter explores the quantitative success factors with adaptive reuse to building use comparisons, the Historic Rehabilitation Tax Credits (HRTC) financial tool, government and community benefits, and hotel room rate premium that offers advantages of adaptive reuse of
historic buildings to hotels. These quantitative factors must be considered and are integral to the development and business plans, which will be outlined. The development plan is a key component in planning, organizing, and measuring to determine a project’s success. The developer’s goals and expectations will determine the building type, business use, and quantifiable contributions to the project’s Triple Bottom Line of economics, environment, and social factors. The goal is to have a project that is mutually beneficial to the developer, government, and community.

These quantitative success factors include financial aspects with direct and indirect benefits. Direct benefits for the owner or developer include the HRTC’s 20 percent tax credit on qualified rehabilitation expenses, other tax credit opportunities such as New Market Tax Credits (NMTC) and Opportunity Zone (OZ) equity investments if qualified, and demolition and building material savings with adaptive reuse. Local governments and communities benefit from a project directly with job creation, local business support, new business opportunities, and tax revenues.

Direct impacts also include opportunities for leasing unused government buildings that provide lease revenue for the government and a tenant that will be a good steward of the historic building. As a result, there are positive indirect impacts with quantifiable values such job creation in construction and services, tax revenues for local governments, improved or new opportunities for businesses that support the hotel and tourism. There are other related items that are more complex to measure and will be covered in the next chapter on qualitative factors.
Comparison of Building Uses for Redevelopment

Historic buildings can be repurposed for many uses. Building types for reuse include office, multi-family residential, mixed-use commercial retail, or hotel. Each new use type has its own program use, return on investment timeline, and can be developed to be profitable depending on the owner’s or developer’s business model. Local and regional market economics and demand will determine and influence selection of new use and business to operate.

Developers with a specialty or experience operating particular building functions will be selectively looking for opportunities within their expertise. There are methods for seeking what demands are for building re-development type. Typically, a city or region will have a general plan that is coordinated with its planning and zoning departments that outlines the future growth demands and needs of the city. A developer should review the city’s general plan and meet with government officials as a good way of sensing and determining what development opportunities are available.

Other sources of information for determining market demand are the local chamber of commerce, tourism board, and Main Street coordinators. These organizations typically have close knowledge and relationships with the local government and business owners, and have an idea of what types of business are saturated or in demand. Meeting with these organizations are good tests to verify if the government’s general plan is coordinated with what the community sees as demands and opportunities. The developer should also conduct a feasibility study and due diligence to assess the local government and community needs but also to determine the building’s best use and financial bottom line for the developer.
Hotels are more complex to develop and operate than other uses. The hotel building and program require more and different room types, food and beverage venues, various amenities, services, and infrastructure than other building types. The *Rider Levett Bucknell Fourth Quarter 2018 – North America Construction Cost Report* notes that hotel construction tends to be 50%-60% more than an office, multi-family residential, or mixed-use retail buildings.\(^{35}\) But in the long term, hotel properties, as an asset, tend to significantly appreciate in value over time, which has a strong positive impact on the financial balance sheet.\(^{36}\)

From a design standpoint, developers can reduce the project design development time through adaptive reuse. According to Bill Wilhelm, President of R.D. Olson Construction, a national general contracting and construction management firm based out of Orange County, California, “The speed to market is key, so when developers want to get the most bang for their money in the shortest time frame, they often decide to go the way of adaptive-reuse.”\(^{37}\)

Adaptive reuse projects allow the architect or interior designer flexibility to be creative within the shell of the building, with juxtaposition between the original building exterior and new interior space finishes and elements. In addition to speed, adaptive reuse is economical and saves on construction material costs. Wilhelm further describes that,

“The from an economic standpoint, adaptive reuse is more cost-efficient because it reduces the price of materials and construction equipment. In addition, adaptive reuse projects have shorter timelines that allow hotel developers and builders to be nimbler when adjusting to new trends and any unforeseen shifts in supply and demand levels. The

---


flexibility allows hotel developments to go to market much faster, meaning heads on beds and the hotel can be profitable much more quickly.”  

Financially, hotels require patience and long-term financing. Typically, a hotel will start to pay for itself three years after opening, whereas a residential project can pay for itself by the time the project is complete through pre-market sales before a project is completed. As a comparison, a residential project will have its payback upfront but no cash flow, whereas a hotel will generate annual cash flow for the long term. Similarly, office and retail also generate annual cash flow, but because they have long term leases, their cash flow is fixed by the terms of the lease. If the economy takes a downturn, then office and retail uses may lose tenants and their space may be unoccupied for a long time without any cash flow. In contrast, hotels are able to adjust their daily room rates to capitalize during peak season or during a good economy, but also reduce room rate during an economic downturn to compete and at least have some cash flow. In addition, hotels are able to generate more revenue from other functions such as business meeting space, events in ballrooms, food and beverage sales, retail, and other amenity rentals. These additional revenue sources provide hotels with the flexibility for more upside sales that an office, residential, or retail lease does not have.

In many five-star and luxury hotels, project development also includes a residential component to help balance the cash flow with residential sales to help fund the upfront costs and help shorten the payback time period. This has become the popular hotel development model for financial reasons for balancing out the cash flow timeline. In addition to for-sale residential components, many hotels will also include other options with vacation residences or

---

timeshares and longer time fractional residences. The residential type and room mix are
determined by economics and the destination’s market demand and target demographics.39
Adding residential to hotel provides development flexibility and opportunities for economic
reasons and for building types that have similar building characteristics.

Overall, adaptive reuse as a hotel is feasible and offers a variety of uses and sources of
revenue, as well as many qualitative benefits. Table 1 summarizes several aspects of hotel use
and compares it to other building uses.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Commercial Office</th>
<th>Residential</th>
<th>Retail/Mixed Use</th>
<th>Hotel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Source</td>
<td>Lease rate</td>
<td>Rental rate</td>
<td>Lease rate</td>
<td>Room rate, F&amp;B, Meetings, Spa, Retail</td>
</tr>
<tr>
<td>New Build Cost/SF</td>
<td>$200 - $300</td>
<td>$175 - $300</td>
<td>$150 - $275</td>
<td>$350 - $525</td>
</tr>
<tr>
<td>Active Times</td>
<td>Day</td>
<td>Day, evenings</td>
<td>Day, evenings</td>
<td>Day, evenings</td>
</tr>
<tr>
<td>Users</td>
<td>Tenant employees</td>
<td>Residents</td>
<td>Locals, visitors, employees</td>
<td>Visitors, locals, employees</td>
</tr>
<tr>
<td>Dining</td>
<td>Minimal</td>
<td>Internal to residents</td>
<td>Breakfast, lunch, dinner, entertainment</td>
<td>Breakfast, lunch, dinner, entertainment</td>
</tr>
<tr>
<td>Place</td>
<td>Second place</td>
<td>First place</td>
<td>Third place</td>
<td>First and third place</td>
</tr>
</tbody>
</table>

Table 1: Comparison of general building uses for development with both quantitative and qualitative factors, based on metro Washington D.C. area. Sources: Author, New Build Cost/SF (Rider Levett Bucknell)40 and Adaptive Reuse Cost/SF (MGAC)41

---

39 Paraphrased from phone interview with Bill Claypool, Executive Vice President for Development at Montage Hotels and Resorts on January 31, 2019.
Historic Rehabilitation Tax Credits

The Historic Rehabilitation Tax Credit (HRTC) is one of the nation’s most successful and cost-effective community revitalization programs. The HRTC is an incentive program that encourages private sector investment in the reuse and rehabilitation of historic buildings.42 The HRTC is a financial tool that contributes to the quantitative success of the adaptive reuse of historic buildings where it has a major positive impact to the developer’s pro forma and project development financials. The HRTC financial benefits also extends beyond the developer’s interests to local government tax revenues and community social and economic development. In Triple Bottom Line analysis, the HRTC has a direct benefit to the economic success of the development and provides positive indirect benefits to the environment and social aspects of adaptive reuse of historic building project.

The HRTC program is available for qualified projects for the reuse, adaptive reuse, and rehabilitation of historic buildings that are income-producing properties. Owner-occupied residential properties do not qualify for the HRTC. The historic property must be listed on the National Register for Historic Places (NRHP) or eligible or contribute to the defining characteristics of a National Register listed historic district. The NPS and the SHPO coordinate and work closely in reviewing and approving qualified projects to ensure that they comply with the Secretary of Interior’s (SOI) Standards for Rehabilitation.

Since the HRTC program began in 1977, up to 2017, more than 43,328 historic properties have been rehabilitated; more than $89.97 billion in private funds were invested to rehabilitation projects of historic buildings. Each year, the NPS Technical Preservation Services (TPS) approves approximately 1,200 historic building rehabilitation projects, leveraging almost $6 billion annually in private investments across the country.\textsuperscript{43} In addition to the private funds invested, the HRTC has created positive economic impacts to the national economy in 2017 by generating $4.6 billion in income, $1.7 billion in local taxes, $1.1 billion in Federal taxes, and 107,000 jobs created.\textsuperscript{44} The HRTC is an incentive and a catalyst that provides positive impacts to the economy. Developers of adaptive reuse of historic buildings to hotels have capitalized on the HRTC program to make the financial numbers work. My interviews with developers found that the HRTC is a major financial reason for pursuing their projects that otherwise may not have been financially viable. Without it, there may be fewer buildings saved and fewer private investments for preservation and community social-economic development.

The HRTC requires that the rehabilitation must comply with the Secretary of Interior’s (SOI) standards, as noted in Chapter 2. The HRTC is 20 percent of the qualified rehabilitation expenses (QREs) incurred during the building rehabilitation. Although the NPS and SHPO are involved during the application, review, and approval process, it is the Internal Revenue Service (IRS) that defines the qualified rehabilitation expenses (QREs) and processes the tax credits. QREs include all certified rehabilitation to the building structure and all soft costs with architectural and engineering fees, construction period taxes and interest, construction


management fees, and developer fees. QREs can also include expenses to new cooling and heating equipment, updating kitchens and bathrooms, compliance with accessibility requirements per the Americans with Disability Act (ADA), fire suppression system, and fire escapes.\textsuperscript{45}

Most historic buildings were not designed or constructed for accessibility. Because of this, there are also tax credits for removing barriers to allow access to and within historic buildings. This is a positive social benefit for people with accessibility needs and access for the community. The Internal Revenue Code (IRC) allows both small and large businesses tax credits for building improvements for accessibility such as ramps, elevators, handrails, and other accessibility and ADA requirements. For small businesses, IRC section 44(c)(1) states the Disabled Access Credit is a nonrefundable credit equal to 50 percent, up to a $5,000 credit, of the amount of eligible expenditure that exceed $250 but do not exceed $10,250 for any taxable year. For large businesses, IRC section 190, large businesses not eligible for the disabled access credit under IRC section 44 can deduct up to $15,000. If the Disabled Access Credit is claimed, no other credit or deduction is allowed for the same expenditures in the QREs.\textsuperscript{46}

Recently, there have been some changes to the tax credit program due to the 2017 tax law revisions. Developers and the development team need to be aware of this at the early stage of the project to avoid costly errors that may impact their pro forma and financial outcome. Public Law Number 115-97, dated December 22, 2017, amends the Internal Revenue Service (IRS) Code for individuals and businesses to reduce their tax rates and modify policies,

\textsuperscript{45} Virginia Department of Historic Resources, \textit{Rehabilitation Tax Credits}, (Virginia Department of Historic Resources, updated August 16, 2018), \url{http://www.dhr.virginia.gov/tax_credits/tax_credit.htm}.

51
Section 13402 modifies the HRTC 20 percent tax credit to now require taxpayers to take the 20 percent credit over five years beginning in the year, they placed the building into service after occupancy. Another change is a transition rule that provides relief to owners of either a certified historic structure or a pre-1936 building by allowing owners to use the prior law if the project will meet these conditions: the taxpayer owns or leases the building on January 1, 2018 and at all time thereafter, or the 24 or 60-month period selected for the substantial rehabilitation test begins by June 20, 2018.47

SHPOs are the agencies that first review the historic building rehabilitation project even as the NPS administers the federal tax credit program and provides final certification of a project. Developers and the design team work closely with the SHPO during the process and it is important to start the dialogue and coordination early to avoid any misunderstanding that may impact the development schedule. The design process could also be an opportunity for creative and innovative ideas for the hotel design, drawing from experiences of the consulting party members and the SHPO.

Part one is the Evaluation of Significance.48 At the start of the project, the developer, architect, and preservation architect will review and document the building and property for the existing condition, historic significance, and architectural character defining features of the exterior and interior. Most of this effort is done by the preservation architect, who submits to SHPO a description of the property, maps of the historic district (if applicable) and property

48 This section is based on the description of and guidance for the program in the Virginia Department of Historic Resources, Rehabilitation Tax Credits, (updated August 16, 2018), http://www.dhr.virginia.gov/taxCredits/taxCredit.htm.
location. Part one also includes photos of the pre-project conditions, including site plan, floor plans, streetscape, all sides of the building, major interior spaces, and architectural character defining features.

Part two is the Description of Rehabilitation. This part includes a complete description of the proposed rehabilitation work, often feature by feature, and describes the impact of the proposed work on the existing building and features. Part two also includes additional photos of the building prior to the rehabilitation work, identifying areas where the proposed significant work will be, and a description of the project and rehabilitation work. Besides photos, documentation will also include the site plan and the floor plans to provide a complete description of the work.

Floor plans are also required in two sets of drawings for comparison of the existing floor plan and proposed floor plan. This comparison conveys how the proposed plan will be integrated with the existing plan and any alteration and impacts to the historic building. Other graphic documentation, such as diagrams and sketches are helpful. They demonstrate minimizing and mitigating impacts to the historic building that is encouraged for both the review and approval process and to document planning and intentions to be good stewards of preservation.

Part three is the Request for Certification of Completed Work. This part includes photos of post-rehabilitation work showing all exterior elevations, significant interior spaces, significant exterior and interior features, major alterations, and new construction. Photos should be taken from the same location and of the same features as Part two for comparison and compliance with the intended plan.
Part three also requires the review of the rehabilitation expenses by a certified public accountant (CPA). The CPA will provide an Agreed-Upon-Procedures (AUP) engagement report for projects less than $500,000, which includes a schedule of construction costs, schedule of rehabilitation expenses, and relevant disclosure notes. The AUP is submitted as Part 3. [See Appendix 1 for examples of the forms required.] Because the HRTC is for the project owner, it cannot be sold to another person or entity, but the HRTC to be transferred and allocated to shareholders or partners. The project ownership structure needs to be determined early in the development stage to avoid any conflicts with the HRTC rules.

The process for preparing and approving the HRTC with a team of managers, architects, accountants, SHPO, NPS, and the IRS is a long journey that requires planning, documentation, and diligence. Although the HRTC is a long process, even after the completion of the rehabilitation project, the benefits to the developer’s project financials, preservation, and positive economic, environmental, and social impacts are significant. The economic incentive that is an important success factor also stands up through Triple Bottom Line analysis. The positive impacts of the HRTC have been described as, “These leverage and multiplier effects support the economic argument that the Federal HRTC is a strategic investment that works,” in the Annual Report on the Economic Impact of the Federal Historic Tax Credit for Fiscal Year 2017.


Other Tax Credit Programs

Although the HRTC is the most commonly used incentive for development of historic buildings, there are other incentives such as property tax abatement and federal incentive programs for projects in low-income and disadvantaged areas. These tax incentives are beneficial to the developer and investors, but they may not apply to all development opportunities like the HRTC, due to the limitation of selected areas.

The New Market Tax Credits Program (NMTC) and the Opportunity Fund or Zone (OZ) programs were developed by the U.S. Department of the Treasury to incentivize developers and investors to invest in projects in qualified economically distressed neighborhoods. Established in 2000, the NMTC program provides up to 39 percent tax credit to investors who invest in community development entities (CDEs) for business development, to include real estate development, in economically distressed Census Tracts. Investors can claim their allotted tax credits in seven years: 5 percent of investment in each of the first three years and 6 percent of the project for the remaining four years for a total of 39 percent of the NMTC project. The NMTC credit amount is authorized by Congress and has averaged around $1.3 billion per year.\(^\text{51}\)

Since December 2017, the OZ program encourages investors to invest in low-income communities and economically distressed Census Tracts by making it possible for them to defer or eliminate capital gains tax on investments made in these Census Tracts. The OZ program has three tax incentives in the Opportunity Fund: temporary deferral of inclusion in taxable income

for capital gains, step-up in basis for capital gains reinvested in a fund, and a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in the fund.\textsuperscript{52} If the project location qualifies, then these programs can be added or “stacked” with the HRTC as additional incentives to make the project financially viable.

Tax increment funding (TIF) is another financial tool and tax credit incentive that allows cities to promote local economic development by setting aside property tax revenue from increased assessed values within a designated TIF district. District designation usually requires finding an underdeveloped area where development would not take place except for public funding or subsidy. The rules vary among states where authorized. According to the Lincoln Institute of Land Policy, “proponents point to evidence that assessed property values within TIF districts generally grows much faster than the rest of the municipality ... Our own empirical analysis, using data from Illinois, suggest to the contrary that non-TIF areas that use TIF grow no more rapidly.”\textsuperscript{53}

For the purpose of this study, the HRTC is the primary tax credit incentive to be considered because it is solely for historic preservation, the most widely available, and most likely to be used. These other tax credit programs are mentioned to expand the opportunities if a project qualifies. For an adaptive reuse of historic building to hotel project, the locations where these NMTC, OZ tax credits, and TIFs were designated for may not be the locations that meet hotel real estate and program requirements. Hotel developers tend to look for locations

\textsuperscript{52} Economic Innovation Group, Opportunity Zones, (Economic Innovation Group, accessed May 19, 2019), https://eig.org/opportunityzones.

where hotel room demand is based on their market study and research with local governments, tourism boards, and Chamber of Commerce.

**Government and Community Benefits**

As mentioned in the previous Historic Rehabilitation Tax Credit (HRTC) section since the HRTC program began in 1977 to 2017, more than 40,000 historic properties have been rehabilitated, and nearly $90 billion in private funds have been invested in rehabilitation projects of historic buildings. The 40-year old HRTC program is still a popular incentive for historic preservation. Even as the HRTC program is an effective tool for a project developer, projects using them have both direct and indirect positive impacts to local governments and the community.

<table>
<thead>
<tr>
<th>Historic Rehabilitation Tax Credit (HRTC): Positive Impacts Data</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Data Description</strong></td>
</tr>
<tr>
<td>HRTC Cost</td>
</tr>
<tr>
<td>Total Rehabilitation Investment</td>
</tr>
<tr>
<td>National Economy - Output</td>
</tr>
<tr>
<td>National Economy - GDP</td>
</tr>
<tr>
<td>National Economy - Income</td>
</tr>
<tr>
<td>National Economy - Taxes</td>
</tr>
<tr>
<td>National Economy - Federal Taxes</td>
</tr>
<tr>
<td>Jobs Created</td>
</tr>
</tbody>
</table>

* Inflation adjusted to 2017 dollars.

Table 2: HRTC Nationwide Economic Positive Impact Data

---

The data from the Rutgers University and NPS Technical Preservation Services Annual Report on the Economic Impact of the Historic Tax Credit in FY2017 indicates positive economic impacts of the HRTC to local governments and communities in the form of job creation, and generation of income and taxes, as shown in Table 2. These private investments are added contributions that might not be otherwise possible if the HRTC was not available.

In addition to the impacts noted for rehabilitation projects of all types, local government and communities receive quantitative benefits of adaptive reuse of historic buildings to hotels with new job creation for construction and hotel service, new business opportunities that support the hotel, and a new tax revenue source. There are job creation and new business opportunities for the local community during the development, construction, and hotel operation stage of the project. Surrounding businesses benefit from hotel guests and employees patronizing and participating in the local shopping, services, and incidentals.

Governments also benefit from tax revenues in the long term, after the successful completion of the project from the business itself and other supporting businesses. After the rehabilitation and adaptive reuse of the historic building, the property value tends to increase due to improvements to the building and use. Local governments will also reassess the property value and enjoy an increase in property tax revenue. The project and businesses can create a sustainable economic and social environment that is good for well-being of the neighborhood and community.

Visitors add to the local tourism industry as a whole with spending, but also for the tourism infrastructure that provides lodging and accommodations. In a sense, the hotel and community are “exporting” their venue and attraction for business or leisure visitors in order to
“import” spending for the hotel room, food and beverage, entertainment, transportation, and other local activities. These are all opportunities contributing to the local economy that would otherwise not be possible had the hotel not been there.

Hotels are part of the tourism infrastructure that have direct, indirect, and induced positive economic impacts to the local economy. Direct impacts are a result of visitor or tourist spending on the local economy. Tourists bring in “outside” dollars to spend on the hotel, and local restaurants, retail, and businesses. Indirect impact refers to businesses that support the hotel and tourists with vendors and services. Induced impacts are the result of worker’s income from jobs at the hotel, vendors, and services. The income is used for paying bills, taxes, discretionary spending, or savings that contributes to the local economy.

Other building uses, such as office space, residential, and retail also contribute to the local economy, but their incomes are primarily from local businesses renting office space and local residents living and working within the community. These are local dollars circulating within the community. Incoming dollars from outside the community add and contribute to the economic growth and sustainability of the local economy and also to tax revenues for the local government. This has overall benefits to both the local government and community.

Besides tax revenues, governments can directly benefit from leasing government-owned, vacant historic buildings to the private sector for adaptive reuse to hotels. As noted in Chapter 2, federal government agencies lease historic buildings to the private sector in order to defray cost of administration, maintenance, repairs, or other related costs.

---

Hotel Revenue Premium

In the hotel business plan and as part of pro forma planning, hotels typically use a ratio to account for their revenue mix based on rooms and food and beverage (F&B). For a ratio of 70/30, 70 percent of the total revenue is derived from room sales and 30 percent from F&B operations.\(^{56}\) Although the hotel room rate is a major revenue generator for a hotel, consideration must be given to the entire operations for the bottom line. Other hotel operations such as special F&B, conferences and meeting, spa treatments, and other recreational amenities also contribute to hotel revenues.

For certain hotel operations, the ratio may vary depending on the location, amenities, and services. A ratio could be 60/30/10 for 60 percent rooms, 30 percent F&B, and 10 percent other hotel operation departments.\(^{57}\) In a 2007 PKF Consulting trend study, the revenue mix of U.S. resort hotels was 56 percent from rooms, 33 percent from F&B, 7.5 percent from other operated departments (such as golf, spa, retail, etc.), and 3.4 percent from rental properties or group rates.\(^{58}\) The revenue and profitability metrics for hotels vary and are dependent on the owner’s or hotel operator’s goals, location, local market, amenities, and service quality. As noted in Chapter two, the traditional rule of thumb for minimum room numbers was 70 with an average occupancy of 65 to 70 percent, but the metric can vary.

Nevertheless, two hotel development executives interviewed for this study suggest that this standard formula is not always the rule it once was. Sam Zarlenga, Vice President of

---


\(^{57}\) Ibid.

Development-Europe for Four Seasons Hotels and Resorts, and Bill Claypool, Executive Vice President of Development for Montage Hotels and Resorts, both similarly stated that the main considerations for a hotel program and metrics are economics, driven by market demand and providing quality amenities and services that command the higher room rates. Although both companies have developed and operate hotels in adaptive reuse of historic buildings, preservation was not their primary reason for doing the projects. The key considerations for the projects were market driven, location, and business arrangements with the property owners. However, both hotel executives feel that historic preservation does bring qualitative value to the business and fosters their community relationship, which will be covered in chapter four.

For comparison, a hotel room rate is a measurable factor to determine if an adaptive reuse of a historic building can command a premium. There are analyses and studies that demonstrate hotels in a historic building can have a room rate premium over peer hotel brands and competition. The attraction and opportunities of an adaptive reuse of historic building to a hotel can provide an upside premium of a higher-level hotel brand, which can ask for a higher room rate that contributes to better ADR and RevPAR. According to Shannon Sampson, Senior Vice President at HVS International, a hotel market study firm,

“Redevelopment project costs, even considering incentives, are often higher than those that would be typical of new hotel construction. However, a historic building’s materials, design, and legacy can put it on a higher tier of the market, ultimately translating into higher average rates and RevPAR.”59

In April 2015, The Urban Land Institute (ULI) published a Case Study on the 21c Museum Hotel in Cincinnati, a 156-room boutique hotel that is an adaptive reuse of a historic building built in 1912. The boutique hotel brand and concept are to not only reuse historic buildings but also incorporate a contemporary art gallery and museum at the hotel first floor that is accessible to the public (see figures 1 and 2). The ULI study revealed that the average daily room rate was $196 at a revenue per available room (REVPAR) rate of 135 percent. According to Smith Travel Group, the room rate is also 35 percent more than other competing hotels in Cincinnati. The project also created 160 new jobs at the hotel. The 21c Museum Hotel indicates that the juxtaposition of old and new attracts interest with a cool vibe that can support the business aspect of the hotel with a hotel room rate premium and operations revenue.

Figure 1, left, 21c Museum Hotel Cincinnati is an adaptive reuse of a historic building. Figure 2, right, 21c Museum Hotel contemporary art museum open to the public. (Photos: 21c Museum Hotel)

Ibid.
A survey of 10 Kimpton Hotels in Washington D.C., with information found on the hotel’s websites on January 13, 2019, for room rates on May 19, 2019 explored hotel room rate premiums for operations in historic buildings. The Kimpton Hotels are all located within Northwest D.C. where there is a large concentration of government and business offices, tourists, and entertainment attractions. The room rates for the same king bed hotel room varies from $139 to $231 per night. The highest room rate was for the Hotel Monaco, which is located in the historic Penn Quarter and is an adaptive reuse of the historic General Post Office and Tariff building to a hotel (see figures 3 and 4). The average room rates for the other hotels, none of which are in historic buildings, is $166, indicating that the Hotel Monaco $231 room rate has a 28 percent premium. Although this survey is a concentrated sample for one hotel company and location, it does reveal interesting evidence that an adaptive reuse preservation project can generate a premium factor and contribute to a hotel or business’s bottom line.

Figure 3, left, Kimpton Hotel Monaco D.C. historic front facade of the former General Post Office building. Figure 4, right, Kimpton Hotel Monaco D.C. Paris Ballroom, the architectural character defining features are preserved. (Photos: Kimpton Hotel Monaco D.C.)

Hotel room rate premium is a quantitative factor that is measurable and can convince a developer or hotel operator that the value that historic preservation can add to the revenue
and profits. Although preservation can be a driving factor, it should be combined with other special amenities and experiences that supplement or support the case that preservation can add value to the hotel room rate and bottom line.

**Development and Business Plans**

Project development is complex and takes time. Proper research and planning are always important in any new business venture or project. For adaptive reuse of historic buildings to hotels, a developer must initially have a development plan and business plan with pro formas to conceptualize the project potential and risk management. Proper planning is not only for the developer and investors, but also for local governments and communities that will be reviewing, approving, and participating in the development process. A development and business plan are quantitative factors that provide an organized road map and process to prepare, manage, and execute the project.

A development plan must cover the various stages from idea inception through the development process with feasibility study, construction, and finally, the property asset and portfolio management. A business plan covers the operations and service of the business and how it relates to the building. For hotels, the owner or developer may decide to engage a hotel operating company, such as Kimpton or Hilton, to operate and manage the hotel operations rather than self-operate. Managing a hotel can be complex, so having a hotel company operate the hotel is a good option if the owner does not have its own internal capabilities or experience. A hotel operator with experience in adaptive reuse of historic building and a good record of stewardship of a property could be a key partner.
Developing a real estate project is high risk. At the beginning of a project, a developer will provide upfront working capital to get through the initial planning stages. This working capital is typically limited from conventional lending institutions so the developer will need to finance the initial stages with either his own or equity investors’ capital. Developers will typically require a high rate of return, often 25 percent or more for their vision, initial investment, time, effort, and project risk.62

To minimize risk and ensure project success, proper and careful planning is the important first step to ensure all aspects of the project development are included, along with the skills and experience of various team members. A project team’s organization and composition will vary. There is no one method to set up a development team of skillsets to handle the various complexities of a project. Chuck Gee, former dean of the University of Hawaii School of Travel Industry Management and author of *World of Resorts – From Development to Management, Third Edition*, explains that a developer’s development team is normally organized into two parts with a physical plant team and an ancillary team. The physical plant team consists of the developer, land planner, architect, engineers, interior designer, landscape architect, general contractor and subcontractors, and specialty consultants. The ancillary team is made up of the developer, feasibility consultant, market and financial analysts, social engineer, lawyers, hotel management consultants, and government advisors.63

Donavan Rypkema’s, *Feasibility Assessment Manual for Reusing Historic Buildings*, recommends organizing the development team into four sub-groups specializing in real estate

---

63 Ibid, 110.
economics, community and preservation, government rules and regulations, and design and construction.\textsuperscript{64} Smaller projects may have team members with versatile skillsets that could overlap with the various tasks. Larger and more complex projects will require team members specializing in their discipline and skills to handle certain tasks. An experienced development team with historic preservation skills and adaptive reuse of historic building projects are key to the project’s success.

According to the Urban Land Institute publication, \textit{Real Estate Development – Principles and Process, Fifth Edition}, by Mike E. Miles, Laurence M. Netherton, and Adrienne Schmitz, the authors provide a general real estate development plan outline in eight stages, as shown in Table 3.\textsuperscript{65} The stages are organized in a linear process from inception to completion and property management. This process is generic enough to be applicable to all building types, but each project is different with its own set of opportunities, constraints, obstacles, and challenges. An experienced developer may have its own process that could combine several stages or spend different amount of time and resources at different stages. The details of the process would be adjusted as required to address the specific needs of the project. The development process is a long-term commitment and requires working through the many stages with various organizations and with many participants, including historic preservationists.


<table>
<thead>
<tr>
<th>Stage</th>
<th>Development Description</th>
<th>Team Involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Idea Inception and Real Estate Finance</td>
<td>RE</td>
</tr>
<tr>
<td>Two</td>
<td>Idea Refinement and Concept</td>
<td>RE, C&amp;P, D&amp;C</td>
</tr>
<tr>
<td>Three</td>
<td>Feasibility Study</td>
<td>RE, C&amp;P, Govt, D&amp;C</td>
</tr>
<tr>
<td>Four</td>
<td>Contract Negotiations</td>
<td>Developer, D&amp;C</td>
</tr>
<tr>
<td>Five</td>
<td>Formal Commitment</td>
<td>RE, C&amp;P, Govt, D&amp;C</td>
</tr>
<tr>
<td>Six</td>
<td>Construction</td>
<td>D&amp;C, Govt, C&amp;P</td>
</tr>
<tr>
<td>Seven</td>
<td>Marketing and Sales</td>
<td>Developer, RE</td>
</tr>
<tr>
<td>Eight</td>
<td>Property Asset and Portfolio Management</td>
<td>Developer</td>
</tr>
</tbody>
</table>

Table 3: The eight stages of project development. Development plan stages and team members includes the developer’s management team (Developer), real estate (RE), community and preservation (C&P), government rules and regulations (Govt), and design and construction (D&C).

Stage one is the developer’s origination of the idea and pre-concept thoughts to include a rough order of magnitude or “back of the napkin” pro forma. Origination of ideas is done in many ways, such as corporate level brainstorming, discovery of a site, local government approach to developers, or engagement by multiple parties for development opportunities. At this early stage, “… the developer must have the tools – the relevant experience in development and the familiarity with the latest changes in the industry -- to be able to respond to the stimulus.” Experience matters in determining the feasibility of a project. Experience will help determine if the project is realistic, develop a reasonable preliminary pro forma, risk

---


67 Ibid, 177-178.
management, and to understand potential challenges and how to overcome obstacles. For an adaptive reuse project, historic preservation considerations must be an integral part of stage one to determine the overall project strategy, planning, understanding the process, and consultation. According to the Planner’s Web, pro forma is defined as,

“A proforma analysis is a set of calculations that projects the financial return that a proposed real estate development is likely to create. It begins by describing the proposed project in quantifiable terms. It then estimates revenues that are likely to be obtained, the costs that will have to be incurred, and the net financial return that the developer expects to achieve.”

The pro forma aspect of Stage One provides the developer with an early estimate to determine if a project is potentially viable and worth proceeding with the development. If the pro forma is not favorable, the developer may relook at the project program, calculations, assumptions, and exemptions to determine if details have been miscalculated mathematically or wrong data was used. The hotel operator or hotel management company will also develop its own pro forma for the business relationship with the developer and managing the hotel.

The pro forma is a general estimate or rough order of magnitude (ROM) cost estimate of the development, property life cycle cost, and operational costs. Along with the development plan and process, at this early stage a pro forma is a general cost estimate without the details that are found in a construction estimate. The pro forma will provide an early estimate if the project is feasible, adjustments needed to be made to the original idea, or canceled because it

---

is unfeasible. A typical pro forma will include a separate, but related, source and uses document and operating pro forma, see Appendix 4 and 4A for example of pro forma format.

Separate from the pro forma but still an integral part is the sources and uses document, which includes the project information in the first part with basic information such as property value, commercial property tax rate, mortgage interest rate, mortgage terms, and the loan to value ratio. The property value is the cost to acquire the property, which includes land, building, on-site structures, and easements. The mortgage interest is the interest rate that the lender will charge for the loan amount based on a percentage and time. The loan to value ratio (LTV) is the ratio amount that the lender will provide a loan in comparison to the property value.

The second part of the sources and uses of financing is divided into two sub-categories. The sources of financing includes: owner’s equity, the Historic Rehabilitation Tax Credit (HRTC), other state or local tax credits, grants, mortgage amount, and other sources of financing. The owner’s equity is the amount of cash the owner, developer, and/or investors will pay in upfront to cover the initial costs of the project until a project loan is obtained from a bank or financial institution. This is similar to a down payment for a home mortgage.

The uses of financing includes property acquisition, architects and engineers and other professional fees, permits, construction qualified rehabilitation expenses (QREs), construction non-QREs, site preparation, construction period financing, construction period utility costs, and other uses of financing. Rehabilitation cost for rehabilitation projects for a historic building would be approximately $200 - $250 per square foot. The due diligence and feasibility study would reveal the estimated rehabilitation and construction cost. The architects and engineers
(AE) fees can vary from approximately 2.5 to 7 percent of the total construction cost for rehabilitation of historic properties, depending on the existing property condition and quality level and program of the hotel. Typically, for new construction, the average AE fee can be approximately 5 – 7 percent depending on scale and complexity, which is in line with an adaptive reuse project.

Stage one also involves the developer figuring out how the project will be financed. There are many financial models, but typically the developer will look for availability of financing by investors, commercial banks, and insurance or long-term financial companies. When an opportunity arises, a typical financing model would consist of,

“… local developers would gather wealthy investors and form a limited partnership to provide equity or ownership capital. A local bank would fund the construction loan, which is a short-term construction debt underwritten by the credibility of the developer and the strength of the project in its market. And, a life insurance company would fund a permanent loan of long-term debt underwritten by the property’s prospective income.”

Depending on the developer, project, financing options, and opportunities, there may be additional financing of bridge loans to cover the gaps between available financing versus loan required or an investor or financial entity may cover several loan types. It helps that the financial experts on the team have experience with adaptive reuse of historic properties, thus understanding the risks and benefits of the project.

Stage two is when the developer’s idea refinement indicates a feasible concept or termination of the project if further review reveals major obstacles or unfeasible development and business conditions. The developer begins to communicate and engage others on the team.

---

for refining the idea with marketing, financing, and construction management. A plan is developed to research and analyze the site location and neighborhood, the competition, planning and zoning regulations, initial design requirements, discussions with government officials and city planners, and financial feasibility. For an adaptive reuse of a historic building, this stage should include an initial engagement with the local historic preservation office or the SHPO to meet the officials who will be part of the review and consultation process. At this stage, the developer should also research the macro-economic conditions, local government growth projections and general plans, and conduct a market study.

Stage two also involves the developer conducting an initial due diligence with the existing site conditions by checking for opportunities and constraints, biological surveys, wetlands, geological surveys, soils analysis, environmental hazard reviews, flood zone reviews, cultural resources, and infrastructure. In addition, historic buildings require additional due diligence by the development team with the building infrastructure, condition, and code compliance. Conducting a comprehensive and thorough building condition due diligence is prudent to uncover any obstacles and challenges early so they can be factored in to the design and construction budget and schedule. Due diligence also includes consultation with the local government, SHPO, and community to gauge their reception to the project.

Stage three is the developer’s feasibility study that sets the basis of the project, with due diligence, preliminary concept program, ROM cost estimate, and government approvals. It is carried through and constantly updated and refined through the next stages. The feasibility study should also consider optimizing the project to determine the best plan possible rather than simply an acceptable plan. Because of this, the study needs to be extensive and
comprehensive covering the preliminary design, construction cost estimates, and financing options of the project. The developer should further engage with the local government on zoning and planning regulations and with historic preservation reviewers at the local level and SHPO. These engagements will assess the project feasibility and identify any obstacles or potential issues early and work through remedies to keep the project viable.

A feasibility study includes doing a market study that analyzes the economic conditions, population and job growth projections, competition, restaurant and entertainment amenities, supporting infrastructure and public transportation. Real estate consulting firms that specialize in market studies surveys local and regional comparables in assessing the hotel program and potential room rate.

If the adaptive reuse of an historic building is planned to be a hotel, then the feasibility study will include a comprehensive hotel market study report to generate an analysis of comparable hotel properties at the same star quality level and assess the program requirements for number of rooms, amenities, architectural style, target market of travelers, transportation network, and local and regional social and economics. The study should also review the local culture and its history with historic districts and heritage tourism, and how it can be incorporated with the adaptive reuse project strategy. The study will analyze the city and regional area economics, traveler demographics, and recommend hotel brand, star level quality, hotel program, and architectural style. From the analysis and recommendations, the report will also generate a general business plan and pro forma estimate to provide the owner with a comprehensive study and assessment of the project.

---

A preliminary concept design is also done by the development design team with the architect and engineers during the feasibility stage to “test fit” the program within the constraints of the property, local zoning restrictions, and neighborhood. The “test fit” seeks to optimize the area program for the best use of the land and return on investment. Another important aspect is to consider using consulting party review to “test” the proposed adaptive reuse design to meet the rehabilitation requirements and context within the site and the neighborhood. This “test” should be done as early as possible to determine any challenges and discover opportunities that the project may have.

The developer’s feasibility study includes the construction cost estimate and the project total cost estimates. From the preliminary concept design and design intent information, a construction management firm or construction contractor can provide the preliminary construction cost estimate. As the project and design phase continues, the construction cost estimate is updated as more design details and information are provided at the concept, schematic, design development, and construction document phases.

The developer will use the project overall estimate to include construction cost estimates to search for potential investors and lenders for the project. The lenders will review the project and the cost estimates for potential return and risks. Lenders typically have their interests and preferences in certain types of projects, working with certain developers, risk management, and portfolio mix. For larger projects, large insurance companies will typically finance these with national and reputable developers. Smaller and local projects typically are financed by regional insurance companies and banks.
Stage three and the feasibility study is critical where the results of the research, findings, and assessments will determine if the project will proceed, wait for better conditions, or be terminated. A developer should not proceed without a comprehensive feasibility study assessment and be sure of the decision to move forward.

Stage four is the developer’s contract negotiation phase with various team members such as architects and engineers, preservation architect, construction manager, construction contractor, lenders, and investors, and other specialty consultants. The contract negotiations phase is where the team starts to come together and each team member’s scope of work, responsibilities, and costs are identified without any ambiguity. It is also the phase where gaps are identified and if an additional consultant or specialist is required to fulfill the coverage.

Stage four will also include the developer’s contract negotiations with the hotel operator. If the developer will self-operate the hotel, then a business plan for the hotel operations is needed. Even though the project has not started design or construction yet, the hotel operator will provide technical design services to ensure the project meets their hotel brand standards with all the amenities and infrastructure that supports their operations and service.

Stage five is the developer’s formal commitment with contract agreements and signings. Depending on the discipline and consultant team, scope of work, and conditions, some contracts may start at a later time period to fit in and coordinate with the rest of the project team. Some contracts, such as those with lenders have contingencies based on the owner’s or developer’s ability to sign agreements with tenants. Hotels typically would not have such a
contingency based on the nature of the hospitality industry being for transient lodging and guests.

The design phase, prior to construction, could take anywhere from eight to sixteen months depending on the complexity of the adaptive reuse of the historic building and the complexity of the hotel program and design intent. The design phase can start as early as stage two or as late as stage five. The design phase typically has sub-phases of feasibility study, concept, schematics, design development, construction documents, bidding and negotiations, and construction administration. The preservation architect has an integral role with the team in developing the design and complying with SOI Standards for Rehabilitation and programmatic agreements, if any, with the consulting parties. The design phase also involves reviews and approvals with the local government fire marshal and planning, building, and health departments.

Stage six is the construction phase where actual work is done on the property and building, and the preservation architect should have a major role as the work proceeds. The construction phase will include multiple phases of activities including site preparation, demolition, stabilizing and rehabilitation of the historic building, groundwork, structural construction, building construction, interior construction, commissioning of the MEP systems, inspections for compliance with the design documents and codes, and completion. The local government building department and SHPO are involved during construction with regulatory code reviews and compliance with the programmatic agreement, if any.

Stage seven is the marketing and sales phase where typically, the developer retains a hotel operator that does these functions. The hotel operator has the experience and depth of
expertise and networks in marketing and attracting hotel guests. The branding and marketing of the hotel based on an adaptive reuse of a historic building and its history and neighborhood will be covered in the next chapter.

Stage eight is property asset management. Typically, the owner or developer will do the asset management. The hotel operator will typically manage the daily operations, services, and routine repairs and maintenance. Larger repairs and maintenance or capital improvement projects require review and approval by the asset manager of the property ownership. Any repairs and maintenance to the building’s historic façade, landscape, and interior areas that are designated as historically significant to the property will have to be reviewed with the local preservation office and/or SHPO.

Conclusion

This chapter covered quantitative success factors, including building types for development, the Historic Rehabilitation Tax Credit (HRTC), benefits to local governments and communities, and hotel revenue premiums that have measurable data and information that support the project, as well as having a development and business plan, pro formas. Each factor contributes to the financial and overall project success of adaptive reuse of historic buildings to hotels.

The HRTC is probably the most powerful item in the financial tool kit as a convincing incentive for preservation, and certainly applies to adaptive reuse to hotel projects. It is the main factor that helps subsidize the rehabilitation costs and make an adaptive reuse of a historic building project financially viable. The success of the HRTC program is evident in the
data, which shows private investment dollars help generate job creation, social-economic
development, and tax revenues from the tax credit incentive.

Hotels in historic buildings have a significant hotel room rate premium over non-historic
buildings and standardized brand hotels. Hotel room rate premium is a quantitative factor that
is measurable and an economic benefit for the hotel operator where historic preservation can
add to their bottom-line revenue and profits.

Government and communities are recipients of quantitative benefits of adaptive reuse
of historic buildings to hotels with new job creation for construction and hotel service, new
business opportunities, and new business and property tax revenue sources. Existing and new
businesses benefit from hotel guests and employees patronizing and participating in local
shopping, transportation, retail and entertainment, and tourism services. Federal government
can also benefit in the leasing out of federal historic buildings for private sector use, such as
hotels, by leasing former unoccupied and underutilized buildings that previously struggled to
gain suitable federal tenants.

Development and business plans contribute to the project organization, planning, and
road map for project success. Understanding the staging and financial planning for an adaptive
reuse project for a hotel and considering the wide range of quantifiable factors will help
government officials, and community members and leaders consider how the project will affect
the existing community. Moreover, this information should reinforce the importance of using a
Triple Bottom Line analysis when considering change.
“Although I consider myself to be primarily in the quantitative school, the really sensational ideas I have had over the years have been heavily weighted toward the qualitative side, where I have had a ‘high-probability insight.’ This is what causes the cash register to really sing.”

Warren Buffett, 1967

The statement also reveals the relationship and supporting role that qualitative factors can support and contribute to the success of quantitative factors. The goal of this chapter is to demonstrate that qualitative factors add value, complement, and support the quantitative factors for adaptive reuse of historic properties to a hotel.

Qualitative factors are subjective and intangible impacts that are understood by many but often difficult to measure. Community support and goodwill, branding and marketing, and sense of place -- can have both positive and negative impacts on project development and business operations, as well as help to ensure the long-term success of a project within a community.

The values of qualitative factors are often understood but are typically not for comparison to the quantitative factors. This situation suggests why we should even consider quantifying or at least weighting them: decision making is often supported by data and numbers and this approach would add further legitimacy to subjective factors. Perhaps there are ways to quantify qualitative factors, such as a scorecard to assess these aspects of a project.

---

This chapter will explore some models that might be used as the basis for a qualitative model and will introduce the weighted decision matrix, the analytic hierarchy process, and Bhutan’s Gross National Happiness index.

This chapter will review community support as an important qualitative factor. The relationship between the hotel and the community needs to be open and amicable as both sides will be mutually benefited. This is often referred to as goodwill. A qualitative factor for an adaptive reuse of historic building to hotels is the branding and marketing opportunity to differentiate itself from the competition.

Adaptive reuse of historic buildings to hotels also either helps create or reinforces a community’s sense of place. A qualitative success factor will also include the benefits to the neighborhood and community where the hotel contributes to the sense of place, serves as a “third place” for the local people, and fosters community pride. Sense of place provides indirect benefits to both the hotel and the community.

**Community and Public Support and Goodwill**

Travel industry expert Chuck Gee emphasized the importance of good will and public support for resort projects, which would include adaptive reuse projects as well, writing, “Acceptance by its host community is important to a resort’s long-term economic success. While it is true that a resort provides employment ... a resort should see itself as part of the community and make an investment in relationship building.”

He also noted that building a good community relationship starts at the very beginning, not after the hotel has opened for

---

business. Support from the local community and public is a very important qualitative factor that can work in favor of the developer and hotel operator. Public support can influence local government by endorsing a project; it can help reinforce the need for development, jobs, preservation, and building a sense of place within the community.

The developer and hotel operator should build a meaningful relationship between the hotel and community, even if it is not an easy task. Gee explains that “A genuine relationship requires commitment, mutual trust, nurturing, information sharing, open communications, and the willingness to address problems when serious concerns are voiced by residents or their representatives.”73 Building trust starts with an expression of willingness to forge a relationship with the community. The relationship between the hotel and community can be mutually beneficial for social and economic development.

Hotel operators benefit by having local labor and vendor sources for workers, supplies and services. Hotels can also benefit from a neighborhood atmosphere that is welcoming and supportive to visitors of the hotel and community. Besides the owner and hotel operator engaging with the community, the community should also engage with and support the hotel. The hotel provides lots of economic and social benefits and opportunities in terms of jobs, drawing in visitors, paying taxes, supporting local existing and new businesses, and promoting the history and stories of the community.

The community benefits by having a local employment source and business opportunities to supply materials and services for the hotel operations. Also, there is business committed to the long-term maintenance for a rehabilitated historic building. Other business

---

opportunities include restaurants, entertainment, transportation, and retail business that support both hotel visitors and employees. The community support goes both ways that is a qualitative value with mutual benefits to owner, government, and community.

Community relationships have to be nurtured and considered from the beginning during the development planning due diligence stage. A developer will need to factor in how the adaptive reuse of historic building project will impact the community, both positively and negatively, in terms of the physical environment and community support. “Developers need to examine how a historic conversion will make its mark on its neighborhood, submarket, or city, as well as its potential as a hotel from the perspective of product, service level, and branding,” according to Shannon Sampson, Senior Vice President at HVS International. Understanding and factoring in the sentiment of the local community and public is important. This is more than just listening in a public meeting it means addressing concerns. A developer must also understand the social impacts to a community that might include environmental, lifestyle changes, and cultural impacts. These are important factors to consider for the livelihood and sustainability of the social fabric of the community.

Where lack of experienced planning and zoning departments or obstacles for adaptive reuse of historic building projects are experienced by the developer, other community entities could provide support and expertise. Main Street program coordinators, architects and planners, preservation architects, and community groups can all contribute and lend their expertise and experience to the project. The developer must provide the leadership and spirit

---

of cooperation to orchestrate the team and its process and develop a positive working relationship with the local government. Community support is a qualitative factor that can help a project, including adaptive reuse of historic buildings to hotels. In turn, local governments and neighborhood groups should approach project planning with a sense of respect and cooperation and be willing to address constructively effects of a project that might need mitigating.

Goodwill is another intangible qualitative benefit to the developer or hotel operator. From a business standpoint, goodwill can be defined as having a favorable advantage with the property location, hotel amenities and service quality, and business managerial skills that are qualitative factors and not easily translated to measurable quantitative factors. Goodwill is also valued as community relationships and the reputation as a good business and community partner. Goodwill provides qualitative success factors when accounting for the business’s Triple Bottom Line in the environmental and social aspects. In this sense, goodwill also means fostering a mutual sense of collaboration and support between a project proponent and a community.

Reputation is an important qualitative value that promotes trust, confidence, reliability, and experience. Mike E. Miles, Laurence M. Netherton, and Adrienne Schmitz provide principles to reduce risk during the development process in the Urban Land Institute Publication, *Real Estate Development – Principles and Process, Fifth Edition*. To protect your reputation, the principles are: know yourself, know your image, and behave ethically. Knowing

---

yourself is explained as, “a developer who honestly evaluates his own capabilities is better situated to deal with the pressures of development.” To know your image, “successful developers see themselves as risk adverse … understand both what a developer does and how the public views the development profession.” Behaving ethically means, “personal relationships and ethics are critically important in the development process. The stronger the personal relationship and business ethics of all those involved, the safer the development for all concerned, including the general public.” This advice on reputation is not only for business, but also important for goodwill and fostering relationships with the local government and community for a long term, and sustaining that practice among all parties.

In addition to reputation, the Urban Land Institute (ULI) instills in its members its code of ethics, which promotes fair and respectable practice in the development industry. The ULI code of ethics are: 1) Respect for the land, 2) Respect for the profession, 3) Respect for the consumer, 4) Respect for the public, 5) Respect for equality of opportunity, 6) Respect for others in the land use and development profession, 7) Respect for the larger environment, 8) Respect for the future, 9) Respect for future generations, and 10) Respect for personal integrity. This advice is not only for the business practice and reputation but also for the development industry as a whole. I recommend expanding on “respect for the public” by elaborating more on the respect and collaboration with the neighborhood or community in which a project is located. This relationship should include respecting the community’s local culture and sense of place.

Branding and Marketing

Adaptive reuse of historic buildings to hotels provides qualitative benefits to the building owner, developer, or hotel operator with branding, identity, marketing, and storytelling opportunities. These are all interesting factors for creating and sustaining the business that can highlight a unique and historic experience for the guests. The historic significance and architectural character of the building, and neighborhood provides the hotel with an environment to differentiate itself from the competition with a compelling story for marketing, attracting visitors, enhancing the guest experience, and fostering community relationships. As related to a quantitative factor, differentiation of a hotel product can command visibility and attraction and a higher room rate premium. Moreover, there are qualitative benefits to the host neighborhood or community by having its particular story presented to visitors.

Many hotel companies tend to follow a brand standard where every property has the same design guidelines with architectural style, color scheme, and image. Brand standards are used for hotel business efficiency; they provide predictability, operational consistency, and profitability. Some busy business travelers prefer branded hotel companies for their efficiency and consistency for ease of navigating the hotel and its amenities and a comfort level of expectations. These are attributes preferred by certain hotel brands and travelers, but they can be boring, redundant, and the same no matter where you are in the world.

Adaptive reuse of historic buildings to hotels opens up a strategic opportunity for hotel brands to offer a different and adventurous experience where the building architecture reflects
the historic character of the city and neighborhood. The hotel becomes original, interesting, and memorable for its own historic architectural character, history, and the stories behind the building. “One of the interesting things about the adaptive-reuse of old buildings to create new hotels is how this often creates a unique property,” states Michael Tall, president and COO of Charleston, South Carolina based Charlestowne Hotels, a management company with a portfolio made up of at least 25 percent adaptive reuse hotel properties. He continues, “In today’s paradigm of highly commoditized chain hotels, differentiating oneself as unique is a huge competitive advantage.”

Hotel companies have introduced many different types of hotel quality levels and lifestyle brands to offer distinction and differentiation and to attract different demographic groups and preferences. Chuck Gee points to the value of this differentiation: “Where there is intensive competition, finding gaps to fulfill unmet needs will be harder, …” One way to have a competitive advantage is to have a hotel in an adaptively reused historic building with architectural character and an historic storyline to differentiate itself from the competition.

A National Trust for Historic Preservation (NTHP) survey in 2017 revealed two-thirds (67 percent) of millennials are interested in staying at historic hotels.” The preference for historic hotels is another reason why adaptive reuse of historic buildings to hotels is an opportunity for developers and hotel operators to market to millennials. Tapping into the millennial population

---

is a strategic hotel branding and marketing opportunity for sustaining a business for the long-term.

A hotel in a historic building with history and a storyline can appeal to travelers interested in heritage or historic places and who are looking for a unique experience. The hotel and neighborhood would be a marketing opportunity for heritage tourism for this target market where the historic building may be contributing to the historic district or city. Hotel marketing expert Shannon Sampson, sums up this aspect of branding and marketing:

“The rehabilitation of heritage sites and buildings also provides developers with powerful marketing and branding opportunities. Most heritage buildings have a unique, even colorful history. People recognize them as distinct, fascinating, and even unforgettable.”

Branding and marketing of an adaptive reuse of historic building to hotel provides qualitative success factors and opportunities that are directly beneficial to the hotel operator. It provides a good business opportunity with a favorable preservation image when accounting for the business’s Triple Bottom Line analysis in the economic, environmental, and social aspects. Besides the owner and hotel operator, local governments and communities also receive indirect benefits with the exposure, reputation, allure, and draw of tourists to the hotel and neighborhood. An adaptive reuse of historic building to hotel can also reinforce the neighborhood character if the location is in a historic district, Main Street, or an area with an existing tourism industry.

Sense of Place

Sense of place can take on many forms and meaning. Tom Mayes, former deputy general counsel at the National Trust for Historic Preservation and author of the blog and now book, “Why Old Places Matter,” describes a combination of factors that contribute to and create an atmosphere of old places and connection to sense of place. Mayes emphasizes the range of meanings that places can have to different people within or outside a community. These meanings include “continuity, memory, individual identity, civic, state, and national identity, beauty, history, architecture, sacred, creativity, learning, sustainability, ancestors, community, and economics.” These meanings form a connection between people and the neighborhood, which defines their role and beliefs with the community. This list could also include economics, meaning that a particular building housing a business provides a sense of thriving. The reuse of historic buildings, including hotels, is a contributor to sense of place and the mix of important values that create a vibrant community.

Donavan Rypkema of PlaceEconomics views sense of place not as a standalone topic for a community, but one integrated with others. Rypkema spoke in 1999 about the Five Senses of Quality Communities that include, sense of place, sense of identity, sense of evolution, sense of ownership, and sense of community. Rypkema noted that historic preservation contributes and reinforces all five senses for quality communities.

---

Rypkema describes Sense of Place as, “Both the built and natural environment should be used to express the particularity of this place. That this community is neither “anyplace” nor “no place” but “someplace,” unduplicated anywhere.” This description is an analogy of the qualitative branding and marketing of adaptive reuse of historic buildings to hotels, where these hotels and their neighborhoods provide experiences that are different from the typical “cookie cutter” hotel design and atmosphere that is common in chain brand hotels.

Rypkema’s term “sense of evolution” refers to his assertion that, “living communities will neither be frozen in time as museum relics nor look like they were built yesterday. The physical fabric of a community should reflect its functional, cultural, aesthetic and historical evolution.” Evolution is part of our ever-changing history to adapt to changing needs of our community. Rypkema discusses the importance of economics to sustain the livelihood of our communities and how it contributes to community qualities and sense of place. Rypkema also notes, “Adaptive reuse of buildings is central to an effective historic preservation as economic development strategy.”

Adaptive reuse of historic building projects provide qualitative benefits for the community by fostering a sense of place, which is beneficial for local social and economic factors of community, heritage, and pride as well as tourism. The adaptive reuse of a building or place can have positive impacts on adjacent buildings and neighborhoods, serving as their community landmarks. Hotels can help reinforce business districts by being an anchor or visual

---


85 Ibid.

86 Ibid, 3.
landmark. When a hotel does good for historic preservation and the neighborhood, it is also builds community relationships. This work also undoubtedly contributes to sense of place.

“For young Americans, many third places are now virtual – from Facebook and chat rooms to group texts.” But as Ray Oldenburg also notes, “the most effective ones for building real community seem to be physical places where people can easily and routinely connect with each other: churches, parks, recreation centers, hairdressers, gyms and even fast-food restaurants.” Public transportation hubs can also be third places if they provide clean and presentable gathering spaces and are connected to other amenities such as public spaces, restaurants, and retail.

The concepts of both third place and sense of place support social well-being among people. Hotels can be a social connection between locals and visitors. Table 4 shows how first, second, and third places function in different building types, and suggests how hotels provide different types of places for locals and visitors. Each group contributes to the social and economic fabric of the community and is important to its vitality and sustainability.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Commercial Office</th>
<th>Residential</th>
<th>Retail/Mixed Use</th>
<th>Hotel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Times</td>
<td>Day</td>
<td>Day, evenings</td>
<td>Day, evenings</td>
<td>Day, evenings</td>
</tr>
<tr>
<td>Users</td>
<td>Tenant employees</td>
<td>Residents</td>
<td>Locals, visitors, employees</td>
<td>Visitors, locals, employees</td>
</tr>
<tr>
<td>Dining</td>
<td>Minimal</td>
<td>Internal to residents</td>
<td>Breakfast, lunch, dinner, entertainment</td>
<td>Breakfast, lunch, dinner, entertainment</td>
</tr>
<tr>
<td>Place</td>
<td>Second place</td>
<td>First place</td>
<td>Third place</td>
<td>First and third place</td>
</tr>
</tbody>
</table>

Table 4: The chart also shows how hotels can be the first place, second place and third place in a community bringing people together with more interactions than other building types. Source: Author.

Hotel public spaces can serve as the community’s third places when the exterior site, lobby, and restaurant are accessible to the public. Both hotel guests and visitors can enjoy and appreciate the preservation efforts, history, and stories of the historic building.\(^8^8\) The 21c Museum Hotel in Cincinnati, mentioned in the previous chapter, is an exceptional example of this. All of this company’s hotels have a design program that includes a contemporary art museum and event space that invites the public to view art and culture, and also to experience the historic building. The event space is also available to host community events. These hotels provide a third place and also a sense of place for the communities they are located in.

Some studies show that people prefer historic buildings and districts with a sense of place over modern buildings and shopping malls. The 2017 National Trust for Historic Preservation (NTHP) survey revealed that millennials tend to value a mix of old and new buildings where they live, dine, shop, and travel. The survey found “One-in-two millennials view historic preservation as important through the lens of engaging in authentic experiences (52 percent), preserving a sense of community (52 percent) and creatively re-using structures (51 percent).”\(^8^9\) In addition, “nearly one-in-two (44 percent) prefer living in a neighborhood with historic character. When sightseeing, three-in-four (71 percent) millennials enjoy exploring the history of an area.”\(^9^0\)

Reinforcing sense of place provides qualitative success factors with strong connections between people and communities with identity, memory, sustainability, and pride. Creating a


\(^9^0\) Ibid.
favorable image within a community and sense of place appears in more than one category in Triple Bottom Line analysis.

**Assessing Qualitative Factors**

The Whole Building Design Guide (WBDG) program is one that recognizes the importance of qualitative factors. Its design objectives section titled, “Consider Non-Monetary Benefits such as Aesthetics, Historic Preservation, Security, Safety, Resiliency, and Sustainability,” discusses the value these items contribute to a building or project even as we have challenges with quantifying their values.

“Certain projects may provide benefits such as improved quality of the working environment, preservation of cultural and historical resources, safety and security of the building occupants, and other similar qualitative advantages. Although they are most difficult to assess, these benefits should be documented and portrayed in a life-cycle cost analysis.”

Although qualitative factors are important considerations and attempts have been made, there are situations that are difficult to quantify. In that case, the program recommends that narratives that describe such qualitative values may be an only option. Documentation should capture both positive and negative aspects of the qualitative factors in order to provide a holistic view and consideration of the project.

However, written narratives of qualitative factors are perceived as having a subjective nature and lack of measurable factors. The WBDG emphasizes the necessity of capturing the benefits contributing to and supporting the overall project. It recommends that qualitative...

---

documentation identify all benefits associated with each alternative under consideration and identify all the benefits that are common in kind but not the same among the alternatives.⁹²

Although there is no model specifically for qualitative factors for adaptive reuse of historic buildings, a hypothetical model could be developed to numerically quantify and weight various factors. Some existing models used in business suggest how to assign relative values for factors. Each factor considered needs to have narrative documentation explaining the importance and value of the qualitative factor. A model could help quantify and demonstrate the level of importance of various qualitative factors and could be part of a development project preplanning and due diligence study in determining the viability of a project. This approach would help developers, government officials, and community leaders better understand what factors are important to them and to others. For each method, each party should undertake some investigation and perhaps narrative explanation, of qualitative factors to document what are priorities for the developer, local government, and community. Priorities will vary and weightings should indicate factors deemed most important.

My research found three models to consider, the analytical hierarchy process (AHP), the weighted decision matrix (WDM), and the Gross National Happiness (GNH) model used by the country of Bhutan. All models require mathematic formulas to tabulate and generate numeric results where the standard, meaning, and weighting are developed and determined by the team or decision maker. Only the GNH model requires surveys and input by public participants and the results are calculated and assessed by the team conducting the research.

---

The WBDG recommends the use of the AHP model as a way to formalize the qualitative or non-monetary costs and benefits in the decision-making process. The AHP model can be adapted to the project development of adaptive reuse of historic buildings along with using the factors in the Triple Bottom Line for comparison. The developer, government, and community could weight factors differently based on their priorities and judgement of what factors are important to them.

The analytical hierarchy process (AHP) was developed by Thomas L. Saaty and is designed to solve complex multi-criteria decision problems.\(^93\) The AHP model requires the project team or decision maker to provide factors or judgements about the relative importance of each criterion and then specify a preference for each decision alternative using each criterion. The result of the AHP is to prioritize the ranking of the alternatives based on the overall preference by the decision maker.\(^94\) Although there are some similarities in the setup and concept with the weighted decision making (WDM) model, AHP adds more layers of complexity in the analysis than the WDM, but it provides more in-depth comparisons and analysis among the criteria.

The AHP model is a very complex and comprehensive method that requires mathematical checks on the numbers and calculations to ensure the process is consistent to provide a fair assessment in the outcome of the comparisons and priorities. It is suitable for the developer or organization that has the capability and resources to conduct this analysis.

---


Certain organizations and members of the consulting parties may not have access or capability and therefore may be discouraged from participating using this method. Because of its complexity, AHP is not recommended as a model for measuring qualitative factors.

The weighted decision matrix (WDM) is a simpler model widely used by many industries and organizations. It is based on criteria and assigned weighted factors that mathematically result in numeric comparisons that are then ranked from highest to lowest. It is simple to use and does not have the many layers of complex analysis and comparisons that the AHP model requires.

The WDM, also known as the Pugh Method or Pugh Analysis was developed by Stuart Pugh, a professor and head of the design division at the University of Strathclyde in Glasgow, Scotland. The WDM is a simple format where factors or criteria are listed in the first column, followed by numerical weighting in the second column, then numerical scoring of different decision alternative in the follow-on columns. The numerical weighting and scoring can be determined by the user on a scale of 1 to 5 or 1 to 10 or other scale as long as it is consistent throughout the analysis. The weighted decision matrix is the least complex and least time required to conduct as compared with the AHP or GNH type models.

A basic WDM table for the adaptive reuse of a historic building (Table 5) uses the Triple Bottom Line factors of economics, environmental, and social rather than decision alternatives. The weighting scale can also be tested based on the priorities and perspectives of the developer, local government, and community. The weighted numerical scoring of each

---

95 School of Engineering and Computer Science, *How To Use The Pugh Matrix*, (Oakland University, School of Engineering and Computer Science, Rochester, Michigan, accessed February 17, 2019), http://www.secs.oakland.edu/~latcha/ME4999/Pugh.html.
A qualitative factor with the highest score will indicate factors with highest importance. Priorities will vary based on who the decision maker is and what high weightings are applied to factors deemed most important. Table 5 presents a developer’s perspective where criterion 4.b branding and marketing has the highest score, which benefits the developer. Evaluations completed by the local government and community will presumably have different priorities and scores. The differences in the priorities and scores can be used to understand each party’s perspective and how to address each concern.

Table 5: Example of weighted decision matrix as adapted and applied to qualitative factors using the Triple Bottom Line. The total score of 62 is divided among the criterion to see the percentage each factor. (Source: Author).

Another method for measuring qualitative factors is the Gross National Happiness (GNH) index. His Majesty Jigme Singye Wangchuck, the Fourth King of Bhutan, developed the GNH index to measure the quality of life and happiness of its citizens in the early 1970s. His Majesty Wangchuck questioned the economic measurement system of gross domestic product (GDP) that is commonly used throughout the world, as it does not determine the happiness and well-being of a nation or society. Wealth alone does not contribute to and determine life

satisfaction or happiness. Wealth is a quantitative criterion and life satisfaction or happiness can be considered as a qualitative value.

The foundation of GNH is its four pillars of environmental conservation, sustainable and equitable socio-economic development, good governance, and preservation and promotion of culture. From the four pillars, GNH is organized into nine domains of living standards, education, health, environment, community vitality, time-use, psychological well-being, good governance, and cultural resilience. The nine domains are the framework for the GNH screening tool that uses 38 sub-indexes, 72 indicators and 151 variables that define the happiness level of the people.

Surveys are conducted every several years to measure quality of life and well-being. The survey follows the four pillars and nine domains with detailed questions supported by the 72 indicators and variables. The 2015 survey is approximately 30 pages covering questions on demographics, psychological well-being, health, time use and balance, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. Within each of these domains are detailed questions, such as source of income and cooking. The GNH Index is a holistic way to measure the happiness and well-being of the Bhutanese people. The GNH screening tool is a system that ensures all of Bhutan’s development policies and projects are reviewed under the spirit of GNH. It is applied in two phases of planning at the policy and project levels.

---

The GNH method can be adapted for historic preservation projects in general or project specific evaluations. The project domains, indicators, and variables would need to be adjusted and adapted for historic preservation, although many of the concepts and ideas are similar. “Happiness” and “sufficiency” could be adapted for sense of place and preservation with the emotional bond and knowing that a historic building within a community is preserved.

Although the concept of GNH and the survey method may seem simple, the method of surveying, calculating, and interpreting the GNH index is mathematically complex and time consuming. The analysis and understanding of the GNH index calculations is a study all to itself. The model can show the balance and interrelationship between the economic, environment, and social factors considered in the Triple Bottom Line analysis with emphasis on the well-being and health of the people.

The question remains: How can we measure or quantify subjective qualitative factors for adaptive reuse of historic buildings to hotels? Each of the three methods can be used as a model that needs to be adapted for such purposes. The method selection will depend on the amount of time, resources available, and the level of detailed expectations for the historic preservation project and organization.

The weighted decision matrix (WDM) is the least complex, most easily understood, and can be designed and completed in a reasonable amount of time with all the factors, weightings, and alternatives available. The decision team or decision maker will need to establish firm rules and expectations to ensure consistency and understanding by the team members. Besides the numerical ratings of the WDM, narratives explaining the factor and weighting methods are also
recommended to describe the results and how it will determine the project’s plan and course of action.

The AHP method is recommended by the WBDG but is much more complex than the WDM and requires more mathematical calculations to test and confirm priorities and outcomes for the study. For these reasons, it is not very likely to be used for historic preservation projects. The GNH type method is the most comprehensive but also requires the most time and resources to conduct. The GNH model may not be attractive to a developer or appropriate for small projects because of the subjective nature and amount of time and resources required. The GNH model would be viable for a local government or community study for a large project or in general for a larger area in the city that may have more time and resources to conduct a comprehensive study. The GNH survey will offer a wider perspective and feedback from a larger population of participants rather than the WDM or AHP methods that will have judgement and decision making among an individual or small group.

**Conclusion**

This chapter covered the importance of qualitative factors, which provided insight on how the subjective and intangible aspects of community support and goodwill, branding and marketing, and sense of place can have positive direct and indirect impact to an adaptive reuse of historic buildings to hotels project.

The relationship between the hotel operations with the community is interrelated, where both sides have mutual beneficial interest that supports each other economically and socially. The relationship has to start from the very beginning of the project and continue
through the life of the hotel. The same applies with the preservation community during the consultation process with the SHPO and community leaders.

Adaptive reuse of historic buildings to hotels opens a strategic branding and marketing opportunity to differentiate its property from the competition that build and operate national chain brand hotels with the same design and operation guidelines everywhere. Hotel companies such as Charlestown Hotels and Kimpton, look for adaptive reuse of historic buildings as opportunities to differentiate their properties from the competition with their concept of juxtaposing the historic building with contemporary design.

Historic buildings and hotels reinforce sense of place with connections between visitors, and communities with identity, landmarks, sustainability, and pride. Hotels are also a people hub and “third place” within the community bringing both visitors and locals to share and enjoy the public spaces and amenities for socializing. Creating a favorable image within a community is a correlation among the three factors in the Triple Bottom Line analysis.

Qualitative factors provide value and should be considered as an important part of the development and business plan. Qualitative factors contribute to and support the quantitative factors and overall project, with consideration of the Triple Bottom Line of economic, environmental, and social. While there is no easy way to quantify and weight them for consideration in project evaluations, they must be brought into the analysis.
Chapter five introduces two project profiles of adaptive reuse of historic buildings as hotels. The profiles highlight similarities and differences of these projects in terms of building background and quantitative and qualitative factors for each project. They also convey how very different projects still hold up in Triple Bottom Line analysis of economics, environmental, and social aspects benefits. Similarities will review utilizing the HRTC, hotel room premiums, branding and marketing, community support and sense of place. Differences will look at their geographic locations of urban and rural, historic building and hotel size, national brand hotel company and locally owned boutique hotel company, and lease and owned property.

**Hotel Monaco D.C. – Washington D.C.**

The Hotel Monaco D.C. is an adaptive reuse of the historic General Post Office Building, later known as the Tariff Commission Building (see figures 3 and 4). The building is located on F Street, Northwest, Washington D.C., across from the Smithsonian Portrait Gallery, in the historic Penn Quarter. Hotel Monaco D.C., a Kimpton Hotel, occupies the entire city block between E, F, 7th and 8th Streets NW. The property was designated a National Historic Landmark in 1971. Hotel Monaco D.C. has 184 guest rooms with amenities including a restaurant, two ballrooms with capacity for 250 to 300 people, a boardroom, and fitness

---

Hotel Monaco D.C. is an award-winning boutique hotel that was ranked as the best hotel in Washington D.C. in 2019 by *U.S. News and World Report*, and best historic hotel in Washington D.C. in 2018 by Fodor’s Travel.\(^\text{100}\)

Hotel Monaco D.C. is located in an urban area of Northwest, Washington D.C. The city, home to our nation’s capital is the 20\(^\text{th}\) largest city with a population of 693,927, based on 2017 U.S. Census data.\(^\text{101}\) Washington D.C. is a diverse city with the U.S. Federal Government as the primary business and contributor to the local economy, along with a variety of businesses and institutions. The city is a major tourist destination for global conventions, special events, and tourists. In 2016, there were 22 million visitors that spent $7.31 billion, representing over $788 million in new tax dollars for the District.\(^\text{102}\)

According to the consulting firm, Hospitality Valuation Services (HVS) report, Market Pulse: Washington D.C., November 20, 2018,

“The Washington, D.C. metropolitan area remains one of the most resilient regions in the nation, with an economy propelled by strong growth in the business and professional service sectors, as well as substantial economic stability provided by the federal government. The region has seen the emergence of a more diverse and dynamic economy that features the country’s largest technology cluster and rapidly growing biotech and aerospace industries. Due to the federal government’s presence and the related industries located nearby, D.C. has the highest concentration of office-using jobs in the nation.”\(^\text{103}\)

---


Originally, the site used to be the three-story Blodgett’s Hotel, built in 1795, that was sold to the U.S. Government in 1810 to house the General Post Office on the first floor and the Patent Office on the second floor. After British troops burned Washington in 1814, Congress met in the former hotel until the Capitol building was rebuilt. In 1836, fire destroyed the former hotel used as the Post Office and Patent Building and plans were started for the new building. The General Post Office was designed in two phases in 1839 to 1844 and 1855 to 1866. Architect Robert Mills designed the first portion; he also designed the Washington Monument and the Treasury Building. Thomas U. Walter, who designed the second phase, was the architect of the U.S. Capitol dome and wings.

The General Post Office occupies the entire city block and has a large internal courtyard. The architectural style is Palladian with Italianate detailing, which is more high style than the Greek Revival buildings standing in Washington during this time (figure 5). The General Post Office was the first important marble building and was regarded as the finest of all Government buildings in Washington; it was designated a National Historic Landmark in November 1971 for its architectural merit.

---

106 Ibid.
The General Post Office occupied this building for most of the 19th century until its new Romanesque Revival building was built on Pennsylvania Avenue in 1897.\textsuperscript{109} The General Land Office was the tenant until World War I when General John Pershing had offices in it until 1921.\textsuperscript{110} The U.S. Tariff Commission became the next tenant for most of the 20th Century until 1974 when the U.S. International Trade Commission (ITC) became the tenant. ITC remained in the building until 1988 when it moved to its new location on E Street.\textsuperscript{111}

![Figure 5, Historic General Post Office Building (Photo: General Services Administration)](image)

The General Services Administration (GSA) manages the former General Post Office Building and serves as the landlord. The GSA federal building was vacated in 1988, was unoccupied for 15 years, until Hotel Monaco D.C. opened in July 2002.\textsuperscript{112} During this time, GSA


\textsuperscript{110} Ibid.

\textsuperscript{111} Ibid.

struggled to find another tenant, including the Smithsonian, but the small building size made it difficult to find a suitable tenant. GSA was also spending valuable dollars to maintain the unoccupied historic building.

Through Section 111 of the NHPA of 1966 (as revised), GSA issued a Request for Developers Qualifications and Adaptive Reuse Concepts in June 1997. In April 1998, GSA selected the Kimpton Group’s proposal to turn the historic building into a hotel over other finalists who proposed schemes for housing and retail use. The leasing process was unprecedented for both GSA and Kimpton, as well as a long term lease between the government and a private sector entity. But the successful result is a four-star hotel with a 60-year lease with positive net rental revenue for GSA. The building is in the hands of a hotel operator experienced with adaptive reuse of historic buildings.

In a Greater Greater Washington website article, John DeFerrari notes that when the Hotel Monaco D.C. opened, longtime Washington Post architectural critic, Benjamin Forgey commented that, “it is unsettling to see one of the city’s most distinctive public buildings transferred to the private sector. It remains extremely regrettable that the Smithsonian let slip a long-standing opportunity to turn the building into a public museum.” However, he concluded that “The Monaco project is an exemplary, unambiguous reminder of what creative preservation can do for a building, and, potentially, for a city.” After eight years of successful operation at that time, (since the opening of the hotel in 2002), the hotel (figure 6) was an

---


established fixture in D.C.’s Penn Quarter.\textsuperscript{115} The success of this adaptive reuse project has been mutually beneficial to both GSA and Kimpton Hotels, and ultimately, for historic preservation.

Since the building and its infrastructure was built many decades ago and was unused for fifteen years, the adaptive reuse of this historic building required modernization of the structural, mechanical, electrical, and plumbing systems, along with modern amenities such as elevators, communications system, information technology, and fire protection systems. Kimpton brought in an experienced team of architects, engineers, and interior designers to rehabilitate the historic building and design the adaptive reuse to hotel. This approach drew

\textsuperscript{115} John DeFerrari, \textit{Then and Now: General Post Office to Hotel Monaco}, (Greater Greater Washington, December 15, 2010), \url{https://ggwash.org/view/7616/then-and-now-general-post-office-to-hotel-monaco}.
upon Kimpton’s expertise as an experienced hotel company that has done many adaptive reuses projects that converted historic buildings to hotels.

GSA participated in Section 106 consultation because the building is a historic federal property within the Penn Quarter historic district, as did the Advisory Council on Historic Preservation and with the local D.C. SHPO. In addition, the project required review and approval by the National Capitol Planning Commission (NCPC) and the Commission of Fine Arts (CFA), which is an independent agency that oversees the “design and aesthetics, as they affect the federal interest and preserve the dignity of the nation’s capital.”

Quantitative Factors

Historic Rehabilitation Tax Credits (HRTC): The project utilized the 20 percent HRTC for the rehabilitation of the historic building. The 60-year master tenant lease agreement with GSA allowed Kimpton to qualify for the HRTC, since the lease is longer than the 39-year non-residential property depreciation time period. Kimpton accounted for their design and construction qualified rehabilitation expenses (QREs) of the adaptive reuse to the Hotel Monaco D.C. in order to qualify for the HRTC. Kimpton invested $40 million into the project for rehabilitation of the historic building and construction of the hotel, and in return benefited with an $8 million tax credit from the HRTC. The HRTC was a key factor and incentive for the project. In addition, GSA invested $5 million to support the rehabilitation of the exterior

---

historic façade, to include window repairs, masonry restoration, and updating the building for accessibility.¹¹⁸

Hotel revenue premium: As noted in Chapter 3, this Hotel Monaco D.C. has a 28 percent room rate premium in comparison to ten other Kimpton hotels in Washington D.C. Although this survey is a concentrated sample for one hotel company and location, it does reveal evidence that preservation can be a premium factor and contribute to a hotel or business’s bottom line.

Local and Federal Government and community benefits: The project provided construction jobs, supplies, and business opportunities in support of the development and hotel operations. The Hotel Monaco operations employs up to 140 full time employees, plus contract workers for select positions and seasonal need employees from D.C. and region.¹¹⁹ Other local businesses also benefit by providing supplies, logistics support, outsourcing of laundry, landscaping, and general cleaning for the hotel and restaurant operations. Other businesses surrounding the hotel in the Penn Quarter also benefited with hotel guests visiting, shopping, and dining in the area.

GSA also benefited with a 60-year lease agreement with Kimpton Hotels, as revenue from the lease helps to pay for the maintenance and upkeep of other historic GSA buildings in its inventory. Kimpton also assumed full responsibility for maintenance and repairs for Hotel Monaco to ensure proper and timely care of the building. Robert Peck, GSA Public Building


¹¹⁹ Leinweber, Gregory (General Manager, Kimpton Hotel Monaco D.C.), in email and phone call discussions with the author, March 2019.
Service Commissioner, in a testimony to the House of Representatives, Committee on Transportation and Infrastructure, describes his interpretation of the project’s success: “The lease provided for privately funded restoration of ornamental spaces, replacement of all building systems, modification to bring the building up to current code requirements, and a positive net rental revenue over the 60-year lease.” GSA benefited from the lease arrangement and Kimpton has a successful hotel operation in a beautiful historic building in a prime location in Penn Quarter, next to the Smithsonian Portrait Gallery, Verizon Center, Chinatown, and other local business and tourist destinations.

Tax revenues: The local government of Washington D.C. benefited from tax revenues from the hotel’s lodging, food and beverage, meeting events, and catering. Taxes include a charge of 14.95 percent sales and room tax. The adaptive reuse project and hotel operations are a benefit to the local government tax revenues that would otherwise not have been possible if the project did not occur. In addition, visitors and guests from outside the area spend money at other local businesses, and thus generate tax revenue from sales tax.

Qualitative Factors

Branding and marketing: As noted earlier, hotel companies, including Kimpton Hotels purposely seek opportunities in historic buildings as part of their business plan. Hotel Monaco D.C. utilizes its building architecture and history as a backdrop to offer distinct interior design that combines hints of the past and contemporary features in the furnishings.

and color schemes; this helps to differentiate its properties from the national chain hotels with standardized and identical designs at every property. Hotel Monaco D.C.’s website promotes the history and storyline of the historic building and describes the design flair of integrating the new with the old (figure 7). Its website identifies key design details to note under the section that says, “During your visit, keep an eye out for the many homages to old and new throughout the hotel (figure 8).”

Community and sense of place: Hotel Monaco D.C.’s historic building has been a fixture in the Penn Quarter community for over 180 years and has housed various occupants. Hotel Monaco D.C. is part of the revitalization of the area, contributing to a vibrant and diverse mixed-use community of museums, office buildings, theaters, entertainment arena, retail, and restaurants. For a while during the 1960s to the 1970s, the Penn Quarter and areas east of the

---

White House suffered due to crime, unoccupied buildings, and an appearance of a worn-out community. The Pennsylvania Avenue Development Corporation, created by Congress in 1972, was intended to respond to these conditions. The development corporation focused on a redevelopment plan for housing, retail, and historic preservation. The opening of the MCI Center entertainment arena in 1997 was the catalyst for attracting and bringing people back to Penn Quarter. The Hotel Monaco D.C. followed, being selected for the project in 1998 and opening in 2002. As noted on GSA’s website on Heritage Tourism in the Penn Quarter, “The Hotel Monaco occupies one of Washington's most significant federal buildings. The National Historic Landmark is now one of Washington's premier hotels.”

The project represents both quantitative and qualitative success factors. In a Triple Bottom Line analysis, the economic, environmental, and social aspects mutually benefit the developer, federal and local governments, and the neighborhood.

---

Ledges Hotel, Hawley, Pennsylvania

Ledges Hotel is an adaptive reuse of the historic J.S. O’Connor American Rich Cut Glass Factory, situated along a scenic rock gorge above the Wallenpaupack Creek in Hawley, Pennsylvania (figures 9 and 10). Ledges is a 20-room boutique hotel opened in 2011, with meeting rooms, a wine bar and bistro, and fitness center at the adjacent Lake Region Fitness in the Hawley Silk Mill. Settlers Hospitality Group (SHG), the owner and developer of the Ledges Hotel, has a passion and commitment to historic preservation, sustainability, and developing adaptive reuse of historic buildings to hotels, restaurants, and commercial mixed-use properties. In addition to Ledges Hotel, the company also developed and owns four other hotel properties in the region that were adaptive reuse from historic buildings.

Figure 9, Ledges Hotel circa 2015, Hawley, PA. (Photo: Ledges Hotel, Settlers Hospitality Group)

---

123 Grant Genzlinger (Shareholder, Settlers Hospitality Group), in email discussion with the author, January 2019.
Hawley, located in rural northeast Pennsylvania, has a population of 1,157, based on 2017 U.S. Census data. The town is situated in the Pocono Mountains and adjacent to Lake Wallenpaupack. The surrounding mountains, forests, parks, and lakes have made the area popular for outdoor recreation activities, and weekend and vacation getaways from nearby New York City. Hawley offers both a rustic and refined town experience with an active art and cultural community. It also has markets, inns, restaurants and cafes, art galleries, and music venues. Hawley is known as a destination for outdoor adventure, family fun, shopping, dining, golf and winter fun. The location attracts visitors who want to experience the Pocono Mountain region and the history of Hawley.

Figure 10, Ledges Hotel next to the Wallenpaupack Creek at night. (Photo: National Geographic – Scenic Wild Delaware River – Ledges Hotel)

---


Figure 11, Hawley Silk and Textile Mill at top of the hill and the former O’Connor Glass Factory at bottom next to the Wallenpaupack Creek. (Photo: Ledges Hotel, Settlers Hospitality Group)

Ledges Hotel, an adaptive reuse of the J.S. O’Connor American Rich Cut Glass Factory and adjacent Hawley Silk and Textile Mill to a boutique hotel and restaurant, opened in 2011 (figure 11). In 1890, John S. O’Connor built the bluestone building at the base of the Wallenpaupack Falls for manufacturing cut glass using Dorflinger blanks, from a method he learned working at Christian Dorflinger’s glass cut shop for twenty three years. O’Connor ran a successful business and manufactured some of the finest cut-glass pieces in America. During President Grover Cleveland’s administration, O’Connor provided the White House with engraved water bottles, flagons, bowls, and jugs. He was awarded first prize for his cut-glass submission to the Paris Exposition of 1900. It was during the “Brilliant Period” in glass

---

128 Ibid.
cutting, between 1880 and 1905, where O’Connor designed many highly collectible glass patterns, such as the Parisian, Florentine, and Princess.  

Power and electricity for the glass factory was generated by hydropower from the Wallenpaupack Falls, located directly behind the building, with a 300-candle power dynamo generator in the basement. The glass factory first floor contained offices and the roughing and stockrooms, and the second and third floors contained the designing, smoothing, and polishing departments. The building is a simple rectangular shaped with walls of bluestone. The factory has many windows spaced evenly throughout the building to allow for natural light and ventilation.

The Hawley Silk Mill, up on the hill and adjacent to the Ledges Hotel, also owned and operated by SHG, was originally the Bellemonte Silk Mill, which employed over 300 women during the 1880s and 1890s. The mill was a major producer of silk and textiles reaching its peak in the 1950s and eventually closing in the 1980s. The adjacent storeroom once contained thousands of silkworm cocoons that supplied the raw material for the silk mill. The building is similar in architecture as the glass factory, built with bluestone and many windows spaced evenly throughout the building.

Since the building and its infrastructure were built many decades ago, the adaptive reuse of this historic building required modernization of the structural, mechanical, electrical, and plumbing systems, along with modern amenities such as elevators, communications, information technology, and fire protection systems. SHG commissioned the architectural firm

---

130 Ibid.
131 Joe Sugarman, Room and Board, (Preservation, The National Trust for Historic Preservation, Spring 2018), 25.
132 Ibid.
of Bohlin Cywinski Jackson and their consultant team of engineers to rehabilitate the historic building and design the adaptive reuse to hotel (figure 12).

Hawley is a small rural Pennsylvania town with a planning and zoning code that has not been updated to meet current use and demands, in particular, adaptive reuse of historic buildings and parking requirements. Also, part of the challenge was the lack of availability, experience, and expertise of the planning and zoning department, and building department staff with adaptive reuse of historic buildings to hotels.\footnote{Grant Genzlinger (Shareholder, Settlers Hospitality Group), in email discussion with the author, January 2019.} The Hawley building code official is available only on Fridays from 9:30 am to 10:30 am, and the building permits are issued by a separate entity, Building Inspection Underwriters, Incorporated, (BIU) in Scranton,
Pennsylvania. The zoning code enforcer is available only on Wednesday evenings from 5:00 pm to 6:00 pm or available at other times by appointment only. These challenges can impact the development plan and process where the project viability and approval can be somewhat unpredictable and slower. Developing a project in rural areas must consider this different public service environment when planning appropriate resource and time to the development and reviews.

Initial discussions of the project were difficult, due to lack of experience with this project type and limited availability of the building officials. To overcome these challenges, SHG recruited the help of the architect and project team to present concepts and process of the adaptive reuse design and examples of other similar projects. That the project had favorable support of the local community, which helped influence the local government and community to approve the project.

Quantitative Factors

Historic Rehabilitation Tax Credit (HRTC): SHG is both the property owner and developer, which simplified the ownership structure and utilizing the 20 percent HRTC for the rehabilitation of the historic building. There were no other local or state tax credits or incentives used for the project. SHG accounted for their design and construction qualified rehabilitation expenses (QREs) of the adaptive reuse to the Ledges Hotel in order to qualify for the HRTC. SHG invested $1.2 million into the project for rehabilitation of the historic building

---

and construction of the hotel. The HRTC was a key factor and incentive for the project. Per Grant Genzlinger, SHG’s major shareholder, “It is doubtful that we would have done the Ledges project without HRTC, or for that matter any of our other adaptive reuse projects.”

The HRTC was instrumental in SHG’s pro forma estimates when drafting the development plan and monitoring and tracking their QRE throughout the project development. The hotel was an immediate success. Genzlinger noted, “In the case of Ledges, the project outperformed the pro forma and our estimates, turning positive in year two versus our four to five-year plan.”

Hotel Room Rate Premium: A survey of hotels in the Hawley area, with information found on the hotels’ websites on March 16, 2019, for room rates on May 22, 2019, explored room rate premiums for hotels in historic buildings. The room rates for the same king bed hotel room varies from $65 to $245 per night. The highest room rate was for the Ledges Hotel at $245 per night. The average room rates for the other hotels, of which only one is an adaptive reuse in a historic building, is $121, indicating that the Ledges Hotel $245 room rate has a 100 percent premium, or almost double. Although this survey is a concentrated sample of one location around Hawley and in a rural environment, it does provide evidence that differentiated preservation projects can be a premium factor and contribute to a hotel or business’s bottom line, even in non-urban areas. Although preservation can be a driving factor, it should be combined with other amenities and experiences that supplement or support the case that preservation can add value to the hotel room rate and bottom line.

---

135 Grant Genzlinger (Shareholder, Settlers Hospitality Group), in email discussion with the author, January 2019.
136 Ibid.
Local government and community benefits: The project provided construction jobs and supplies and business opportunities in support of the development and hotel operations. After the Ledges Hotel was opened, the operations hired twenty full time staff from Hawley and Wayne County.\textsuperscript{137} Other local businesses also benefitted by providing supplies and logistical support for the hotel and restaurant operations. Ledges Hotel and SHG’s other hotels and restaurants have a “farm to table” concept of providing fresh and sustainable local grown ingredients, which benefits local farmers.

Tax revenues: The local government of Hawley benefits from tax revenues from the hotel’s lodging, food and beverage, meeting events, and catering. Both state and local taxes charge a 9 percent room tax in addition to sales tax, which contributes to the tax revenues. The business initiative and operations are a benefit to the local government tax revenues that would otherwise not have been possible if the project did not occur. In addition, visitors and guests from outside the area provide spending to other local businesses and thus generate tax revenue from sales tax.

Qualitative Factors

Branding and marketing: Ledges Hotel was able to capitalize on and incorporate the history, culture, and stories of the historic glass factory building and the Pocono Mountain environment into their hotel branding and marketing. The Ledges website introduction describes the hotel’s history, architectural characteristics, and connection to the community. Ledges is described as, “A Pocono hotel built in 1890, this Federal-style structure was originally

\textsuperscript{137} Grant Genzlinger (Shareholder, Settlers Hospitality Group), in email discussion with the author, January 2019.
built for the John S. O’Connor Glass Factory, illustrating the deep culture and heritage of the area’s manufacturing industry.”

The Historic Hotels of America website describes Ledges as, “Passionate for maintaining its aesthetic and historic integrity, Ledges Hotel celebrates its legacy to the community, blending its contemporary sustainable design with its vibrant natural landscape.” The combination of the building’s history and historic architectural characteristics, and the attractiveness of the Wallenpaupack Creek environment, provides Ledges Hotel an opportunity to differentiate itself from the competition that may not be able to offer such distinct experiences.

Sense of Place and Community: The Genzlinger family and principles of SHG grew up in Hawley and has maintained a close and warm business relationship with the community for over forty years. They contribute to the social and economic development and sustainability of the community. The community has been very supportive of the adaptive reuse project at Ledges Hotel. Besides saving the historic building, jobs, business opportunities, and sustainment were developed, which provides income and well-being by keeping residents locally and avoid moving elsewhere.

Ledges Hotel provides an opportunity for Hawley to promote the best qualities of the town and region, while enhancing sense of place (figure 13). The location of Ledges Hotel on the banks of the beautiful Wallenpaupack Creek, a historic building that once produced quality

---

glass cut products, a “farm to table” sustainable food program, small town charm, and Pocono Mountain environment provides a special experience and sense of place.

The project represented both quantitative and qualitative success factors to the Triple Bottom Line with the economics, environment, and social aspects that mutually benefited the developer, local government, and community.

Figure 13, Ledges Hotel at the Wallenpaupack Creek. (Photo: National Geographic – Scenic Wild Delaware River – Ledges Hotel)
My research highlights quantitative and qualitative success factors for adaptive reuse of historic buildings to hotels. The numerous success factors within these categories demonstrate that such projects are not a “one size fits all” solution, as various stakeholders and consulting party members from the developer and hotel operator, local government, and community have different goals and objectives. My primary supposition underlying this study is that finding common themes and understandings are important for project success will benefit both the developer and community in which the project is located. The goal was to share knowledge and information about hotel project development and show how considering both quantitative and qualitative success factors bring awareness and understanding about direct and indirect project benefits, as well as bridge divides about understanding such projects. My study used the concept of the Triple Bottom Line analysis of economic, environmental, and social benefits for a sustainable business. I am convinced that adaptive reuse as a hotel can be a long-term successful historic preservation solution for vacant historic buildings in certain locations.

Supporting Adaptive Reuse

Adaptive reuse of historic and older buildings extends same general ideas as previous times. An historic building can be skillfully altered and adapted from its former use, resulting in successful new use, including hotels. Adaptive reuse prolongs the building life cycle and has an economic and environmental benefit for the building owner and community. It is recycling and
conserves building materials, reduces building demolition waste, and reduces energy and resources for generating and transporting new building materials.

Nevertheless, The Partnership for Building Reuse-Learning from Los Angeles, identified important barriers to more adaptive reuse projects, several of which could slow a hotel conversion project. The Ledges Hotel project is an example of how unavailable and inexperienced government officials made the permitting process more challenging. Parking requirements have been changing in some areas but remain a challenge for many adaptive reuse projects. While hotels need to either accommodate parking onsite and/or valet parking offsite arrangements, they have to meet the parking requirements. The fact that many guests in urban locations do not drive but use other modes of public transportation and taxis further complicates the assessment of the need for onsite parking.

Adaptive reuse of historic buildings is an effective way of preserving and sustaining the use of a building, as well as promoting and maintaining the architectural character and historic fabric for a community. Adaptive reuse project construction costs vary per building but overall are within the range of new construction costs, but with the environmental benefits of conservation of demolition waste and savings in new building materials of the historic building shell. In the Triple Bottom Line analysis, adaptive reuse has direct benefits to the developer, offers environmental sustainability of building material conservation, and has the social impact of saving historic buildings in the community.
Quantitative Success Factors

Historic Rehabilitation Tax Credit (HRTC)

The HRTC is one of the nation’s most successful and cost-effective community revitalization programs. The HRTC financial tool is a major quantitative success factor for the adaptive reuse of historic buildings to hotels. At the same time, the project investment is an economic catalyst for construction, logistics, and a stimulus for the economy with jobs, businesses that support the hotel, and businesses that are recipients of hotel guests such as restaurants, entertainment, transportation, and tourism activities. In Triple Bottom Line analysis, the HRTC has a direct benefit to the economic success of the development and has positive indirect impacts to the environment and social aspects of adaptive reuse of historic building project community.

This study also briefly reviewed other federal tax credits are also available, such as the New Market Tax Credits (NMTC) and the Opportunity Zone (OZ) program, which are focused on areas of low economic activity and emphasize boosting investment and reconstruction improvements. For the purpose of this study and considering the location these types of opportunities may be available if the area is on the verge of improvement based on growth trends and real estate constraints that forces development in these zones. For most hotel adaptive reuse projects, the NMTC and OZ are not likely to be used. However, further studies that address different types of adaptive reuse programs should study these programs further.
Hotel Room Premium

My research shows there is evidence that hotels in historic buildings have a significant hotel room rate premium over non-historic buildings. Along with the HRTC, this premium is another quantitative success factor that is good for the project economics and the bottom line. This quantitative factor is interrelated with the qualitative factor of branding and marketing that is tied to the success for room rate premium.

Hotel room rate premium is a quantitative factor that is measurable and an economic benefit for the hotel operator that demonstrates how a differentiated property, specifically adaptive reuse of a historic building, can add to their bottom-line revenue and profits. Although distinctive property can be a driving factor for room rate premium, it should be combined with other special amenities and experiences that either supplement or support the case that preservation can add value to the hotel room rate and bottom line. Location in a historic district where heritage tourism takes place can be that complementary component.

Government and Community Benefits

My study demonstrates that both local government and communities are recipients of quantitative benefits of adaptive reuse of historic buildings to hotels with new job creation for construction and hotel service, new business opportunities that support the hotel, and new tax revenue source. Surrounding existing and new businesses benefit from hotel guest and employees patronizing and participating in the local shopping, transportation, retail and entertainment, tourism services, and incidentals. These businesses that provide indirect services are recipients of hotel visitor spending as part of business and leisure travels.
Local governments also benefit in the long term after the successful completion of the project, and hotel operations with tax revenues from the business itself and other supporting businesses. After the rehabilitation and adaptive reuse of the historic building, the property value tends to increase due to improvements to the building, use, and higher tax revenue that follows. The adaptive reuse project and businesses can create a sustainable economic and social environment that is good for well-being of the neighborhood and community.

Visitors add to the local tourism industry as a whole with spending, but also for the tourism infrastructure that provides lodging and accommodations. Hotels are part of the tourism infrastructure that have direct, indirect, and induced positive economic impacts to the local economy.¹⁴⁰

My analysis included the examination of the General Services Administration (GSA) leasing out federally owned historic buildings to private sector to operate as a hotel. In Washington D.C., the adaptive reuse of the General Post Office Building in Penn Quarter to the Kimpton Hotel Monaco D.C. and the most recent conversion of the Old Post Office Building on Pennsylvania Avenue to the Trump Hotel are two compelling examples. In both situations, GSA benefited by leasing formerly unoccupied and underutilized buildings that previously struggled to gain suitable federal tenants. Importantly, revenue from the lease is retained in the budget activity (BA) 64 building fund that GSA allocates for repairs, maintenance, and rehabilitation of other federal historic buildings. Many government buildings are located in business areas and some may be candidates for the lease and redevelopment program. Sophisticated lease and

ownership structures can make the use of the HRTC program possible, provided that the lease
time is longer than the 39-year depreciation.

Qualitative Success Factors

Branding and Marketing

My study shows adaptive reuse of historic buildings to hotels provides qualitative
benefits to the hotel operator with branding and marketing. The historic significance,
architectural character of the building, and neighborhood provides the hotel with an
environment to differentiate itself from the competition, attract visitors, enhance the guest
experiences, and foster community relationship. As related to a quantitative factor,
differentiation of a hotel product can command visibility and attraction and a higher room rate
premium. Moreover, there are qualitative benefits to the host community by having its
particular story promoted to visitors.

My previous work as a design professional in the hotel industry indicates that many
hotel companies follow a brand standard where every property follows the same design
guidelines with modern or contemporary architectural style, color scheme, and image. Brand
standards are used for hotel business efficiency with development predictability and
operational consistency and profitability. These are attributes preferred by certain hotel
brands, but can produce nearly identical hotel rooms and buildings, no matter where you are in
the world.
In contrast, my research found many hotel developers and operators, such as 21C Museum Hotels, Charlestowne Hotels, and Kimpton Hotels strategically position their hotels within historic buildings through adaptive reuse for the purpose of differentiating themselves from the competition. In my interviews with hotel executives, they explained that hotel companies tend to be good stewards of historic buildings, as it is important to maintain their properties in excellent condition for their business operations, image, and reputation.

Branding and marketing of an adaptive reuse of historic building to hotel provides qualitative success factors and opportunities that are directly beneficial to the hotel operator. It provides a good business opportunity with a favorable differentiated image when accounting for the business’s Triple Bottom Line in the economic, environmental, and social aspects. Besides the hotel operator, local governments and community also have indirect benefits with the exposure, reputation, allure, and draw of tourists to the hotel and neighborhood. An adaptive reuse of historic building to hotel can also reinforce the neighborhood character if the location is in a historic district, business area, or an area with tourism activity.

**Sense of Place and Third Places**

Adaptive reuse of historic building projects provides qualitative benefits for the community by fostering a sense of place, which is beneficial for local social and economic benefits with community, heritage, pride, and tourism. The re-occupation of a building can have positive impacts to adjacent buildings and neighborhoods by highlighting a community historic landmark and by contributing to the tone and atmosphere of a town or neighborhood. These efforts also foster community relationships and can go a long way with establishing a
good and sustainable goodwill with the community. This work also undoubtedly contributes to sense of place.

Donovan Rypkema’s admonition to not be “anyplace” or “no place” provides an analogy with the qualitative branding and marketing of adaptive reuse of historic buildings to hotels, where these hotels and their neighborhoods provide experiences that are different from the typical standardized hotel design and atmosphere that is common in chain brand hotels.

The “third place” is a concept that contributes and ties in with sense of place and supports social well-being among people and communities. Hotels can also be a social connection between locals and visitors. Hotel public spaces can serve as the community third place by having the exterior site, lobby, and restaurant accessible to the public. Both hotel guests and visitors can enjoy and appreciate the preservation efforts, history, and stories of the historic building. The example of the 21c Museum Hotel in Cincinnati is an exceptional example of this. Other hotels serve as regular meeting places for business, dining, and socializing in their ballrooms, meeting rooms, restaurants, and lobby bars.

Sense of place provides qualitative success factors with strong connections between people and communities with identity, memory, sustainability, and pride that supports a favorable image when accounting for the business’s Triple Bottom Line analysis in economics, environmental, and social aspects. There is a strong correlation among the three factors that contributes and supports each other in creating a sense of place.
Opportunities for Further Research: A More Robust Approach to Qualitative Factors

In Chapter 4, I touched upon the idea and potential methods for measuring qualitative factors. I propose that translating subjective and qualitative factors to measurable numbers would help bridge the divide between qualitative and quantitative factors one considered objective, and the other only subjective. My research did not find, nor did I develop, a method that encompasses the Triple Bottom Line analysis of quantitative and qualitative factors that represents the views of developer, hotel operator, local government, and community. There is an opportunity for further research to explore this concept and develop a working method simple enough to be understood and used by all consulting parties.

My research did find that the weighted decision matrix (WDM) method was the easiest to understand and implement. The WDM is also commonly used in business and government as a means to quantify evaluation factors that are qualitative. The shortcomings of the WDM are that the method is highly influenced by the decisions of a team or individual leader of a narrow group that may not reflect the consensus of all stakeholders. A WDM scorecard could be used to seek real community engagement; all stakeholders could complete the WDM scorecard that presents weighted factors to express what is important to various consulting parties. This information, then, could be used to identify gaps to bridge differences. This exercise could be a starting point in the dialogue and consultation process.

The Gross National Happiness method (GNH) used by the country of Bhutan to measure their citizen’s happiness and sufficiency is intriguing. Its genesis was the differentiation between wealth as a quantitative criterion and life satisfaction or happiness, as a qualitative value. The method has been effective in determining Bhutan’s citizens’ well-being and where
to direct resources to achieve a balance between economic, environmental, and social factors. As a complex and detailed approach, this method would require expertise and time in managing and supervising the implementation of the surveys and calculations. Yet it does ask a balance of questions between economic, environmental, and social factors that could be used as a model for an adaptive reuse of historic building project.

Measuring qualitative factors using a WDM or an extensive GNH-like survey analysis can help demonstrate both types of quantitative and qualitative success factors are important. The measurement can help identify commonalities and gaps among each party and use it as a goal to bridge the divide of understanding for an amicable and successful project for all. Even though it may not equalize all parties’ goals, it can help shorten the differences and attempt to find a successful and mutually beneficial project that aligns with the Triple Bottom Line.

The Triple Bottom Line of Hotels in Historic Buildings

Adaptive reuse of historic buildings to hotels does work, and this study highlights how positive quantitative and qualitative success factors are beneficial to the developer, hotel operator, local government, and community. Project development and hotel operations provide direct and indirect success factors and benefits in terms of HRTC, hotel room rate premium, government and community benefits, branding and marketing, community support, and sense of place and third place. These factors provide direct and indirect benefits that are good for the hotel business, generate jobs and supporting businesses, provides tax revenues, assist social-economic development, build sustainable businesses and communities, and most of all, a win for historic preservation, in that a building is placed back into use.
The premise that an adaptive reuse of historic buildings to hotel project can be a winning proposition for all parties involved is supported by this study. There is a common interest among everyone for economic, environmental, and social benefits, which are the basis for the Triple Bottom Line analysis for a business but can also be translated into benefits for local government and the community. Understanding the motives and position of all parties can help project developers, government officials, and community leaders find common ground for a mutually beneficial project. The underlying factors for all positions are the common themes that historic preservation is something that we all can agree is a benefit and ties together everyone in terms of economic, environmental, and social benefits.
The NHPA is a long document, but it is worth noting the first several pages of the Act in Section 1 and Chapter 3001 Policy, 54 U.S.C. § 300101. Policy, which summarizes the overall goals and intentions of the Act.

Section 1 of the National Historic Preservation Act, Pub. L. No. 89-665, as amended by Pub. L. No. 96-515:

... (b) The Congress finds and declares that—

1. the spirit and direction of the Nation are founded upon and reflected in its historic heritage;

2. the historical and cultural foundations of the Nation should be preserved as a living part of our community life and development in order to give a sense of orientation to the American people;

3. historic properties significant to the Nation's heritage are being lost or substantially altered, often inadvertently, with increasing frequency;

4. the preservation of this irreplaceable heritage is in the public interest so that its vital legacy of cultural, educational, aesthetic, inspirational, economic, and energy benefits will be maintained and enriched for future generations of Americans;

5. in the face of ever-increasing extensions of urban centers, highways, and residential, commercial, and industrial developments, the present governmental and nongovernmental historic preservation programs and activities are inadequate to insure future generations a genuine opportunity to appreciate and enjoy the rich heritage of our Nation;

6. the increased knowledge of our historic resources, the establishment of better means of identifying and administering them, and the encouragement of their preservation will improve the planning and execution of Federal and federally assisted projects and will assist economic growth and development; and

7. although the major burdens of historic preservation have been borne and major efforts initiated by private agencies and individuals, and both should continue to play a vital role, it is nevertheless necessary and appropriate for the Federal Government to

---

accelerate its historic preservation programs and activities, to give maximum encouragement to agencies and individuals undertaking preservation by private means, and to assist State and local governments and the National Trust for Historic Preservation in the United States to expand and accelerate their historic preservation programs and activities.

54 U.S.C. § 300101. Policy

It is the policy of the Federal Government, in cooperation with other nations and in partnership with States, local governments, Indian tribes, Native Hawaiian organizations, and private organizations and individuals, to—

1. use measures, including financial and technical assistance, to foster conditions under which our modern society and our historic property can exist in productive harmony and fulfill the social, economic, and other requirements of present and future generations;

2. provide leadership in the preservation of the historic property of the United States and of the international community of nations and in the administration of the national preservation program;

3. administer federally owned, administered, or controlled historic property in a spirit of stewardship for the inspiration and benefit of present and future generations;

4. contribute to the preservation of non-federally owned historic property and give maximum encouragement to organizations and individuals undertaking preservation by private means;

5. encourage the public and private preservation and utilization of all usable elements of the Nation’s historic built environment; and

6. assist State and local governments, Indian tribes and Native Hawaiian organizations, and the National Trust to expand and accelerate their historic preservation programs and activities

---

APPENDIX 2
Virginia Department of Historic Resource (VDHR)
Historic Rehabilitation Tax Credit Forms

Instructions to Apply For State & Federal
Rehabilitation Tax Credits

Use the following checklists to ensure that your Virginia state or federal application is complete. Please check your application carefully; an incomplete application will not be reviewed until the appropriate information is received. Failure to submit a complete application may result in substantial delays.

PROCESSING FEES

VIRGINIA STATE: Refer to the attached Filing Statement to calculate the processing fees for state applications. A check for the state processing fee must be submitted in accordance with the instructions on the Filing Statement at the same time the application is submitted. The Virginia Department of Historic Resources (DHHR) is unable to accept credit cards for processing fees.

FEDERAL: Review fees for Federal projects are now paid on-line through pay.gov. The Park Service will notify applicants of the review fee after they have received the application. The Park Service no longer accepts payments by check or credit card.

APPLYING FOR TAX CREDITS

VIRGINIA STATE TAX CREDIT ONLY

Part 1: Evaluation of Significance

- One Virginia Part 1 application with owner's original signature on current form (revised 7/20).
- Map locating property within the boundaries of historic district, if property is in a historic district. (Copies of historic district maps are available from the Virginia Department of Historic Resources.)
- One set of labeled 4"x6" color photos showing streetscapes, all sides of the building, major interior spaces, and specific character-defining features. Key photos to a floor plan, and if applicable, to a site plan.

* Please note: For properties individually listed on the Virginia Landmarks Register or the National Register of Historic Places, a Part 1 must be submitted if the property has one or more outbuildings or other resources. Please include a photo of each contributing resource, approximate date of construction, brief description, and contributing status.

Part 2: Description of Rehabilitation

- One Virginia Part 2 application with owner's original signature on current form (revised 5/08).
- Complete description of the rehabilitation work, describing building's existing features and impact of proposed work on these features.
- One set of labeled 4"x6" color photos showing condition of the building prior to rehabilitation. Photograph all areas where significant work is proposed and key to the description of work. Key photos to a floor plan, and if applicable, to a site plan.
- One set of drawings showing the existing floor plan. (Not to scale drawings are acceptable.)
- One set of drawings showing the proposed floor plan.
- For phased projects, a phasing plan outlining work proposed for each phase plus approximate cost and start and end dates for each phase.
- State review fee check, and copy of the Filing Statement.

Part 3: Request for Certification of Completed Work

- One Virginia Part 3 application with owner's original signature on current form (revised 2/18) with the original assessment value, the total rehabilitation costs, and the date the project was completed.
- One set of labeled, after rehabilitation 4"x6" color photos of building, showing all exterior elevations, significant interior spaces, significant exterior and interior features, major alterations, and new construction. These should be taken of the same features and from the same locations, as photos presented with Part 2. Key photos to a floor plan, and if applicable, to a site plan.
- State review fee check and a copy of the Filing Statement.
- Copy of State Part 1 certification letter.
- Cost certification by a certified public accountant (for all projects).

143 Virginia Department of Historic Resources, Rehabilitation Tax Credit Forms, (Virginia Department of Historic Resources, updated August 16, 2018), http://www.dhr.virginia.gov/tax_credits/tax_credit_forms.htm
APPENDIX 2A
Virginia Department of Historic Resource (VDHR)
Historic Rehabilitation Tax Credit Forms

BOTH STATE & FEDERAL TAX CREDITS

- When submitting applications for both State and Federal tax credits, remember that the Virginia Department of Historic Resources needs to have a copy of everything sent to the National Park Service (except for Federal credit card forms).
- All forms must have original signatures.
- Photos for the National Park Service must be printed on photographic paper and the images must be at least 4" x 6".

Part 1: Evaluation of Significance

Two Federal Part 1 application forms with owner’s original signature on both copies. (When applying for both State and Federal tax credits, it is not necessary to submit a State Part 1 application form in addition to the two Federal Part 1 application forms.)

- Map locating property within the boundaries of historic district, if property is in a historic district. (Copies of historic district maps are available from the Virginia Department of Historic Resources.)

Photographs: Submit two sets of labeled 4" x 6" color photos depicting streetscapes, all sides of building, major interior spaces, and specific character-defining features. Key photos to a floor plan, and if applicable, to a site plan.

* Please note: For properties individually listed on the National Register of Historic Places, if there are no outbuildings or secondary resources, a Part 1 is not required. However, if the property has one or more outbuildings or other resources (even if they are non-contributing and not part of the project), a full Part 1 is required. Please include a photo of each outbuilding/feature, approximate date of construction, brief description, and contributing status.

Part 2: Description of Rehabilitation

Two Federal Part 2 application forms with owner’s original signature on both copies. (When applying for both State and Federal tax credits, it is not necessary to submit a State Part 2 application form in addition to the two Federal Part 2 application forms.)

- Complete description of the proposed rehabilitation work, describing building’s existing features and impact of proposed work on these features.

Photographs: Submit two sets of labeled 4" x 6" color photos showing the condition of the building prior to rehabilitation. Photograph areas where significant work is proposed and key to the description of work. Key photos to a floor plan, and if applicable, to a site plan. (Please don’t send plastic photo sleeves, rubberband them, slip them, or put them in envelopes.)

Floorplans:
- Two sets of drawings showing the existing Floorplan. (Not-to-scale drawings are acceptable.)
- Two sets of drawings showing the proposed Floorplan.

For phased projects, a phasing plan outlining work proposed for each phase plus approximate cost and start and end dates for each phase.

- State review fee check and a copy of the Billing Statement.

Part 3: Request for Certification of Completed Work

Two Federal Part 3 application forms and one Virginia Part 3 application form with owner’s original signature on all copies. (When applying for both State and Federal tax credits, for Part 3, it is necessary to submit a Virginia Part 3 application form in addition to the two Federal Part 3 application forms.)

Photographs: Submit two sets of labeled after rehabilitation 4" x 6" color photos showing all exterior elevations, significant interior spaces, significant exterior and interior features, major alterations, and new construction. These should be taken of the same features and from the same locations as the Part 2 photos. Key photos to a floor plan, and if applicable, to a site plan.

- State review fee check and a copy of the billing statement.

Copy of State Part 1 certification letter (for State Part 3 application only).

- Copy of Federal Part 1 certification letter (for all Federal Part 3 applications only).

- For the Virginia Credit: Cost certification by a certified public accountant (for all projects).

144 Virginia Department of Historic Resources, Rehabilitation Tax Credit Forms, (Virginia Department of Historic Resources, updated August 16, 2018), http://www.dhr.virginia.gov/tax_credits/tax_credit_forms.htm
The following are the SOI standards published by the National Park Service – 2017.145

1. A property shall be used for its intended historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.

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

3. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.

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

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

6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.

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

8. Significant archeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.

9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.

10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.
APPENDIX 4

PRO FORMA EXAMPLE
(by Author)

<table>
<thead>
<tr>
<th>Basic Information</th>
<th>Building - X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date Built</td>
<td>1806</td>
</tr>
<tr>
<td>Current Assessed Value</td>
<td>$990,000</td>
</tr>
<tr>
<td>Commercial Property Tax Rate</td>
<td>$1.13 / $100</td>
</tr>
<tr>
<td>Bldg. Square Footage (SF):</td>
<td>3,000</td>
</tr>
<tr>
<td>1st Floor</td>
<td>1,000</td>
</tr>
<tr>
<td>2nd Floor</td>
<td>1,000</td>
</tr>
<tr>
<td>3rd Floor</td>
<td>1,000</td>
</tr>
<tr>
<td>Estimated Construction Cost / SF.</td>
<td>$50.00</td>
</tr>
<tr>
<td>Mortgage Interest Rate (Jumbo Loan-over $424,100)</td>
<td>4.23%</td>
</tr>
<tr>
<td>Mortgage Term (years)</td>
<td>30</td>
</tr>
<tr>
<td>Loan to Value Ratio (LTV)</td>
<td>80.00%</td>
</tr>
<tr>
<td>Estimated Gross Leaseable Area (% of all SF.)</td>
<td>85.00%</td>
</tr>
<tr>
<td>1st Floor</td>
<td>$25.00</td>
</tr>
<tr>
<td>2nd Floor</td>
<td>$25.00</td>
</tr>
<tr>
<td>3rd Floor</td>
<td>$25.00</td>
</tr>
<tr>
<td>Annual Rent Increase</td>
<td>2.50%</td>
</tr>
<tr>
<td>Annual Inflation Rate</td>
<td>1.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sources and Uses of Financing</th>
<th>Building - X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources</td>
<td></td>
</tr>
<tr>
<td>Owner's Equity</td>
<td>$500,000</td>
</tr>
<tr>
<td>Historic Rehabilitation Tax Credit (HRTC)</td>
<td>$28,500</td>
</tr>
<tr>
<td>Grants: Historic Alexandria Fund</td>
<td>$5,000</td>
</tr>
<tr>
<td>Mortgage</td>
<td>$611,000</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$-</td>
</tr>
<tr>
<td>Total Sources of Financing:</td>
<td>$1,144,500</td>
</tr>
<tr>
<td>Uses</td>
<td></td>
</tr>
<tr>
<td>Property Acquisition</td>
<td>$990,000</td>
</tr>
<tr>
<td>Architect, Engineer, Professional Fees</td>
<td>2.50% $3,750</td>
</tr>
<tr>
<td>Permits</td>
<td>0.05% $75</td>
</tr>
<tr>
<td>Construction</td>
<td>$150,000</td>
</tr>
<tr>
<td>Site Preparation, Landscaping</td>
<td>0.15% $225</td>
</tr>
<tr>
<td>Construction - Period Financing</td>
<td>0.20% $300</td>
</tr>
<tr>
<td>Construction - Period Utilities</td>
<td>0.10% $150</td>
</tr>
<tr>
<td>Other Uses</td>
<td>$-</td>
</tr>
<tr>
<td>Total Uses of Financing:</td>
<td>$1,144,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses</th>
<th>QREs</th>
<th>Non-QREs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Acquisition</td>
<td>n/a</td>
<td>$990,000</td>
</tr>
<tr>
<td>Architect, Engineer, Professional Fees</td>
<td>2.50%</td>
<td>$3,750</td>
</tr>
<tr>
<td>Permits</td>
<td>0.05%</td>
<td>$75</td>
</tr>
<tr>
<td>Construction:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualified rehabilitation expenses</td>
<td>92.00%</td>
<td>$138,000</td>
</tr>
<tr>
<td>Non-qualified rehabilitation expenses</td>
<td>5.00%</td>
<td>-</td>
</tr>
<tr>
<td>Site Preparation, Landscaping</td>
<td>0.15%</td>
<td>$225</td>
</tr>
<tr>
<td>Construction - Period Financing</td>
<td>0.20%</td>
<td>$300</td>
</tr>
<tr>
<td>Construction - Period Utilities</td>
<td>0.10%</td>
<td>$150</td>
</tr>
<tr>
<td>Other Uses</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Uses of Financing:</td>
<td></td>
<td>$1,140,000</td>
</tr>
</tbody>
</table>
## Operating Pro Forma Example

<table>
<thead>
<tr>
<th>OPERATING PRO FORMA</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Scheduled Rents</td>
<td>$63,750</td>
<td>$65,344</td>
<td>$66,977</td>
<td>$68,652</td>
<td>$70,368</td>
<td>$72,127</td>
<td>$73,930</td>
<td>$75,779</td>
<td>$77,673</td>
<td>$79,615</td>
</tr>
<tr>
<td>Minus: Vacancy (0% - Own/Occupy Business)</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
</tr>
<tr>
<td>Plus: Other Income (Sublease 1 office room)</td>
<td>$12,500</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
<td>$12,813</td>
</tr>
<tr>
<td>Effective Gross Income</td>
<td>$76,250</td>
<td>$78,156</td>
<td>$79,790</td>
<td>$81,464</td>
<td>$83,181</td>
<td>$84,940</td>
<td>$86,743</td>
<td>$88,591</td>
<td>$90,486</td>
<td>$92,428</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
</tr>
<tr>
<td>Other Fixed Expenses</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td>Variable Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Fees (Self Manage)</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
<td>-$</td>
</tr>
<tr>
<td>Utilities</td>
<td>$1,800</td>
<td>$1,836</td>
<td>$1,873</td>
<td>$1,910</td>
<td>$1,948</td>
<td>$1,987</td>
<td>$2,027</td>
<td>$2,068</td>
<td>$2,109</td>
<td>$2,151</td>
</tr>
<tr>
<td>Other Variable Expenses</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
</tr>
<tr>
<td>Reserves for Replacement</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
<td>$3,600</td>
</tr>
<tr>
<td>Total Expenses:</td>
<td>$21,687</td>
<td>$21,723</td>
<td>$21,760</td>
<td>$21,797</td>
<td>$21,835</td>
<td>$21,874</td>
<td>$21,914</td>
<td>$21,955</td>
<td>$21,996</td>
<td>$22,038</td>
</tr>
<tr>
<td><strong>Net Operating Income:</strong></td>
<td>$54,563</td>
<td>$56,433</td>
<td>$58,030</td>
<td>$59,667</td>
<td>$61,345</td>
<td>$63,065</td>
<td>$64,829</td>
<td>$66,637</td>
<td>$68,490</td>
<td>$70,389</td>
</tr>
<tr>
<td>Minus Debt Service:</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
<td>$36,328</td>
</tr>
<tr>
<td><strong>CASH FLOW:</strong></td>
<td>$18,235</td>
<td>$20,106</td>
<td>$21,703</td>
<td>$23,340</td>
<td>$25,018</td>
<td>$26,738</td>
<td>$28,501</td>
<td>$30,309</td>
<td>$32,162</td>
<td>$34,062</td>
</tr>
</tbody>
</table>
# Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABAAS</td>
<td>Architectural Barriers Act Accessibility Standards</td>
</tr>
<tr>
<td>ACHP</td>
<td>Advisory Council on Historic Preservation</td>
</tr>
<tr>
<td>ADA</td>
<td>Americans with Disability Act</td>
</tr>
<tr>
<td>ADR</td>
<td>Average Daily Rate</td>
</tr>
<tr>
<td>AHP</td>
<td>Analytical Hierarchy Process</td>
</tr>
<tr>
<td>ASHRAE</td>
<td>American Society of Heating and Ventilation Engineers</td>
</tr>
<tr>
<td>AUP</td>
<td>Agreed Upon Procedures</td>
</tr>
<tr>
<td>CBD</td>
<td>Commercial Business District</td>
</tr>
<tr>
<td>CFA</td>
<td>Commission of Fine Arts</td>
</tr>
<tr>
<td>CLG</td>
<td>Certified Local Government</td>
</tr>
<tr>
<td>COO</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>CPOR</td>
<td>Cost Per Occupied Room</td>
</tr>
<tr>
<td>EPA</td>
<td>Environmental Protection Agency</td>
</tr>
<tr>
<td>F&amp;B</td>
<td>Food and Beverage</td>
</tr>
<tr>
<td>GNH</td>
<td>Gross National Happiness</td>
</tr>
<tr>
<td>GSA</td>
<td>General Services Administration</td>
</tr>
<tr>
<td>HRTC</td>
<td>Historic Rehabilitation Tax Credits</td>
</tr>
<tr>
<td>HVAC</td>
<td>Heating Ventilation and Air Conditioning</td>
</tr>
<tr>
<td>IBC</td>
<td>International Building Code</td>
</tr>
<tr>
<td>IEBC</td>
<td>International Existing Building Code</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>IECC</td>
<td>International Energy Conservation Code</td>
</tr>
<tr>
<td>IRC</td>
<td>Internal Revenue Code</td>
</tr>
<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Index</td>
</tr>
<tr>
<td>LEED</td>
<td>Leadership in Energy and Environmental Design</td>
</tr>
<tr>
<td>LTV</td>
<td>Loan to Value Ratio</td>
</tr>
<tr>
<td>MEP</td>
<td>Mechanical, Electrical, Plumbing</td>
</tr>
<tr>
<td>NCPC</td>
<td>National Capital Planning Commission</td>
</tr>
<tr>
<td>NFPA</td>
<td>National Fire Protection Agency</td>
</tr>
<tr>
<td>NHPA</td>
<td>National Historic Preservation Act (1966)</td>
</tr>
<tr>
<td>NMTC</td>
<td>New Market Tax Credits</td>
</tr>
<tr>
<td>NPS</td>
<td>National Park Service</td>
</tr>
<tr>
<td>NRHP</td>
<td>National Register for Historic Places</td>
</tr>
<tr>
<td>NTHP</td>
<td>National Trust for Historic Preservation</td>
</tr>
<tr>
<td>OZ</td>
<td>Opportunity Zone</td>
</tr>
<tr>
<td>QRE</td>
<td>Qualified Rehabilitation Expenses</td>
</tr>
<tr>
<td>RevPAR</td>
<td>Revenue Per Available Room</td>
</tr>
<tr>
<td>SHPO</td>
<td>State Historic Preservation Office</td>
</tr>
<tr>
<td>SOI</td>
<td>Secretary of Interior</td>
</tr>
<tr>
<td>TBL</td>
<td>Triple Bottom Line</td>
</tr>
<tr>
<td>TPS</td>
<td>Technical Preservation Services (National Park Service)</td>
</tr>
<tr>
<td>ULI</td>
<td>Urban Land Institute</td>
</tr>
</tbody>
</table>
USGBC    U.S. Green Building Council
VDHR   Virginia Department of Historic Resources
WBDG   Whole Building Design Guide
WDM    Weighted Decision Matrix
BIBLIOGRAPHY


Claypool, Bill (Executive Vice Preside - Development, Montage Hotels and Resorts), in email and phone call discussion with the author, January 2019.


Genzlinger, Grant (Shareholder, Settlers Hospitality Group), in email discussion with the author, January 2019.


Leinweber, Gregory (General Manager, Kimpton Hotel Monaco D.C.), in email and phone call discussions with the author, March 2019.


Meeks, Stephanie. *Adaptive reuse should be the default, and demolition a last resort*, (National Trust for Historic Preservation, Marketplace Interview, date?), https://savingplaces.org/reurbanism?gclid=EAIaIQobChMI3sHQ5eb13QIIVz0oNCh2tDwVUEAMYASAAEgKw1fD_BwE#.W7rB0_ZFyXY.


School of Engineering and Computer Science. *How To Use The Pugh Matrix*, (Oakland University, School of Engineering and Computer Science, Rochester, Michigan, accessed February 17, 2019), http://www.secs.oakland.edu/~latcha/ME4999/Pugh.html.


Sheppard, Susan (Project Manager/Assistant Coordinator, State Main Street Program, Maryland Department of Housing and Community Development), in email and phone call discussions with the author, October and November 2018.


U.S. Census. Wayne County, PA (U.S. Census, July 1, 2017), [https://www.census.gov/quickfacts/waynecountypennsylvania](https://www.census.gov/quickfacts/waynecountypennsylvania).


Zarlenga, Sam (Vice President of Development-Europe, Four Seasons Hotels and Resorts), in email and phone call discussions with the author, January 2019.