THE EVOLUTION OF A NON-PROFIT PRESERVATION DEVELOPER: 1976 TO 1985
CASE STUDIES FROM EARLY AND LATE IN THE DECADE AND STRATEGIES FOR FUTURE WORK IN THE FIELD

by

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Submitted to the Department of Architecture on August 16, 1985,
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ABSTRACT

Twenty-five years ago, when the clearance-oriented process of urban "renewal" threatened to destroy many cities' distinctive physical heritage, a few pioneering historic preservation groups launched what was later to assume the proportions of a popular national movement: the campaign to "save" significant old buildings and neighborhoods. The formal organizational structure of the preservation movement, and public awareness of the value of historic environments began to mature in the mid-1970's. By the Bicentennial year of 1976, non-profit preservation "revolving funds" in many history-rich cities had begun to participate directly in the identification, purchase, rehabilitation, management, and re-sale of historic properties. Increasingly sophisticated in matters of real estate finance, the preservation movement now proceeded to lobby for legislation designed to alter the private sector perception of old buildings as unprofitable development prospects. With the passage of tax incentives for historic preservation, private involvement in "adaptive use" rehabilitation of historic properties suddenly mushroomed.

These significant shifts in position among the participants in the historic rehabilitation process -- the maturing of non-profit preservation groups as economic developers and political activists; the federal government's embrace of preservation in the tax code; and the resulting surge in private sector interest in rehabilitating historic properties in the "best" locations -- suggest the following **thesis** for this paper:

In the field of historic preservation the balance between non-profit and for-profit development shifted dramatically over the decade from 1976 to 1985. Simultaneously, many formerly-stagnant American center cities experienced geometric business growth, intensive high-rise building construction, and exponential increases in property values. To adjust to these changes in the real estate environment, non-profit preservation development groups must adopt new goals, strategies, and operating methods for: (a) influencing development policy and practice; and (b) sustaining the cultural identity, physical form, and social fabric of their communities in the future. In support of this thesis, the paper:

(1) describes the evolution of the historic preservation movement, discusses the rationale for the presence of non-profits in the U.S. economy, and outlines the participation of non-profit organizations in real estate development;

Abstract

(2) profiles one non-profit developer's decade-long practice in historic rehabilitation, with particular attention to changes in the organization's role over the period from 1976 to 1985;

(3) presents contrasting preservation development projects undertaken by the profiled developer in the early and later phases of its work, by way of illustrating some current dilemmas non-profit developers face; and

(4) considers strategies for the pursuit of preservation development in future.

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ACKNOWLEDGEMENTS

In September of 1984 I returned to school for the first time in fifteen years to join the inaugural class at the M.I.T. Center for Real Estate Development (CRED). The idea that I would suspend my professional work in educational and cultural facilities development to become a student once again — to contend with syllabi, recitation schedules, class participation, tests, and theses — evoked reactions from colleagues and friends that ranged from incredulity to sympathy to nostalgia.

My family was magnanimous in its indulgence, considering that my decision to roam the campus once more meant that now all of us would be scholars simultaneously -- my wife Karen in her second year of an MBA program, daughter Becky a college freshman, and her sister Jennifer a high school junior. What with academic schedules that never meshed, our daily routines were soon to leave us literally passing in the halls, on the way to or from the refrigerator during all-night bouts with case analyses, term papers, and take-home exams.

However, the time did fly, as it is reputed to do when you're having fun. In nine months of intensive study I learned a great deal about real estate development in all of its manifestations, gained new good friends of diverse age and background, and came to feel well-rewarded by my choice to invest mid-life time in a consuming educational endeavor. And then came June, the beginning of three months of thesis research and writing, of which this document is the result.

Without the teachings of an extraordinarily enthusiastic and dedicated faculty at the infant M.I.T. Center for Real Estate Development, I could not have begun to understand many of the issues and concepts embodied in the material that follows. No less siginificant was the sharing of ideas and experiences with my fellow students, individually well-versed in fields including law, finance, architecture, and city planning. Of particular importance to the shape and substance of this thesis were two people whose generous help I wish gratefully to acknowledge.

Lynne Sagalyn, my thesis advisor, and professor of real estate finance for the CRED master's program, devoted much time and thought to reading and re-reading drafts that inevitably benefited from her observations and suggestions. In so far as the final product presents substantive material in a coherent manner, it owes much to Lynne's persistent, constructive criticism.

Martin Adler, Executive Director of the Architectural Conservation Trust (ACT) for Massachusetts, afforded me the opportunity to work with his organization, to delve into its past projects, and to participate actively in analyzing a New Bedford property that was a prospective candidate for historic preservation by ACT. Time and again, Marty responded to naive as well as probing questions with thoughtful answers and much wit. My experience with him was fundamental to the development of the themes herein.

Naturally, all errors, omissions, and interpretations of the facts are mine, notwithstanding the attentive editing of Karen Anne Zien, who completed her own return to academia just in time to help me commit this thesis to print for good and all.

PREFACE

The development of real estate for profit can and sometimes does improve the physical environment and economic climate of a community. But that is not the primary motive for a private developer. Rather, the industry's near-religious concern with "location" implies the virtual opposite: developments thrive best where the environment and economy already are blessed.

Within the narrow confines of "hot" real estate markets even the most problemmatic properties — the so-called "dogs" -- eventually attract risk-takers: when the development action is fast, fools rush in. But outside the hot spots, the sleeping dogs lie; buildings fall apart; streets languish; and neighborhoods decline.

As elsewhere in society where the marketplace fails to meet essential needs, the real estate industry has spawned a public-purpose sector comprised of housing, commercial, and industrial finance agencies; community development corporations; and historic preservation groups. The organizations in this sector function primarily to bridge the distance between poor real estate locations -- _viz._, poor prospects for development profits — and the rehabilitated or expanded residential, commercial, and industrial facilities communities must have in order to remain vital.

The widespread practice of non-profit, public-interest real estate development in the United States emerged out of the social ferment of the 1960's. Over the past quarter-century, in large and small communities from coast to coast, thousands of homes, stores, offices, small manufacturing facilities, and dilapidated historic buildings have been placed in productive economic service by non-profit developers. The vast majority of these projects

-- high-risk ventures promising modest financial returns at best -- would not have been undertaken by for-profit development companies.

By the 1980's, however, the interests of non-profit and private developers in one segment of the real estate industry had converged dramatically: the development of new economic uses for historic buildings.

Twenty-five years ago, when the clearance-oriented process of urban "renewal" threatened to destroy many cities' distinctive physical heritage, a few pioneering historic preservation groups launched what was later to assume the proportions of a popular national movement: the campaign to "save" significant old buildings and neighborhoods. In the earliest phase of the movement's quarter-century evolution, most non-profit preservation groups coalesced around a concern for the fate of a particular historic building threatened by abandonment or demolition. Later, preservationists began to view their mission in terms of economic revitalization and community development as well as pure historic restoration. Then, whole residential neighborhoods and commercial districts became targets for preservation action through rehabilitation.

The formal organizational structure of the preservation movement, and public awareness of the value of historic environments began to mature in the mid-1970's. By the Bicentennial year of 1976, non-profit preservation development "revolving funds" in many history-rich cities had begun to participate directly in the identification, purchase, rehabilitation, management, and re-sale of historic properties. Increasingly sophisticated in matters of real estate finance, preservationists now proceeded to lobby for legislation designed to alter the private sector perception of old buildings as unprofitable development prospects. With the passage of tax incentives for historic

preservation, private involvement in "adaptive use" rehabilitation of historic properties suddenly mushroomed.

The Thesis

These significant shifts in position among the participants in the historic rehabilitation process -- the maturing of non-profit preservation groups as economic developers and political activists; the federal government's embrace of preservation in the tax code; and the resulting surge in private sector interest in rehabilitating historic properties in the "best" locations -- suggest the following **thesis** for this paper:

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> To adjust to these changes in the real estate environment, non-profit preservation development groups must adopt new goals, strategies, and operating methods for: (a) influencing development policy and practice; and (b) sustaining the cultural identity, physical form, and social fabric of their communities in the future.

In support of this thesis, the paper will:

(1) describe the evolution of the historic preservation movement, discuss the rationale for the presence of non-profits in the U.S. economy, and outline the participation of non-profit organizations in real estate development;

(2) profile one non-profit developer's decade-long practice in historic rehabilitation, with particular attention to changes in the organization's role over the period from 1976 to 1985;

(3) present contrasting preservation development projects undertaken by the profiled developer in the early and later phases of its work, by way of illustrating some dilemmas non-profit developers currently face;

(4) consider strategies for the pursuit of preservation development in future.

The following questions will guide the discussion:

(a) What development needs do non-profit developers serve? How does non-profit status enhance their capacity to meet these needs?

(b) What special purposes are served by non-profit development organizations in the historic preservation field? How have their roles and activities changed over the fifty-year period since the first preservation-related legislation was enacted?

(c) Is there a continuing need for non-profit preservation development now that private developers have become agressive participants in historic rehabilitation?

(d) What are the emerging issues of significance for preservation interests in the United vtates? How should they be engaged?

The Chapters

Chapter One views the historic preservation field in retrospect, and discusses the role of non-profit organizations in the U.S. economy, with particular attention to the involvement of non-profits in real estate development.

Chapter Two examines the first half-decade in the life of the Architectural Conservation Trust (ACT) for Massachusetts, a non-profit preservation development "revolving fund" founded in 1976.

Chapter Three reviews the Rodman Candleworks project, a successful ACT development in the waterfront historic district of New Bedford, Massachusetts. The project exemplifies the early phase of the organization's work, prior to the inception of the three-tier system of historic rehabilitation tax credits associated with the Economic Recovery Tax Act of 1981 (ERTA). The chapter concludes with a brief overview of ERTA and its implications for subsequent non-profit preservation development.

Chapter Four presents the case of a 1985 ACT effort to establish a rehabilitation program for a century-old, seriously fire-damaged retail structure on New Bedford's principal shopping street, three blocks from the Rodman Candleworks. The case illustrates some of the problems non-profit preservation developers face in today's real estate market.

Chapter Five contemplates questions and suggests approaches for future work in non-profit preservation development: What urban, economic, and social issues should preservationists address in the closing years of the twentieth century? Where will the non-profit preservation community find the financial resources to continue working on behalf of distinctive buildings, neighborhoods, and cities?

CHAPTER 1

Non-Profit Preservation Development in the U.S. Economy

Until recently, twentieth-century America disdained old buildings, relegated them to marginal uses, abandoned them to the ravages of time, accident, and the elements, and then cleared them away in the name of progress.

But no longer.

In the 1950's and early 1960's the bulldozers of urban renewal swept through inner-city communities from coast to coast, galvanizing partisans of architecture, cultural heritage, and neighborhood conservation into action under the banner of historic preservation.[1] By 1966, 2,500 non-profit preservation groups had been established to defend the nation's patrimony of significant buildings, sites, and districts. A decade later interest in America's past burgeoned with the advent of the Bicentennial, swelling the preservationist ranks to over 6,000 organizations in 1977.[2]

The first federal preservation-policy initiatives pre-date this burst of popular enthusiasm for saving old buildings by more than thirty years. In 1933 the Works Progress Administration established the Historic American Buildings Survey (HABS) to document the country's architectural heritage. Shortly thereafter, the Historic Sites Act of 1935 articulated a national agenda for preserving historic buildings, sites, and objects for public use; and fostered the development of the National Historic Landmarks Program to identify, list, and maintain properties of national significance.

The private, non-profit National Trust for Historic Preservation was chartered by the Congress in 1949 "to encourage public participation in the preservation of sites, buildings, and objects significant in Amercian history and

culture."[3] Finally, 1966 saw the creation of the National Register of Historic Places under the aegis of the National Historic Preservation Act. The Register extended the concept of preservation-worthiness to properties of state and local as well as national importance.

Building on these federal initiatives while simultaneously reacting to the onslaught of urban renewal, many local preservation groups began around 1960 to depart from the traditional single-building-oriented, donation-dependent, house-museum approach to historic rehabilitation. Adopting a broader perspective intended to challenge the prevailing wholesale-replacement concept of community revitalization, organizations such as the Historic Savannah Foundation made entire districts targets for their preservation efforts, in order to demonstrate the worth of returning a critical mass of historic structures to economic use:[4]

> (T)he Historic Savannah Foundation...has been largely responsible for the nationally acclaimed restoration of the city's downtown Historic District. (Founded in 1959) Historic Savannah has gone well beyond the traditional role played by most preservation societies. HSF is actively involved in the real estate, planning, urban development, and political activities of the city...The Foundation uses a "revolving fund" to buy desirable properties and resells them to buyers willing to restore the buildings according to the standards demanded by their respective styles...Its basic function has been to assume the financial burden of showing the way to practical, modern use of fine old residential and commercial buildings.[5]

To achieve their ambitious goals, the first generation of non-profit preservation developers had to overcome formidable barriers to financing the rehabilitation of deteriorating, underutilized, poorly-located, or abandoned historic properties. While the passage of the National Historic Preservation Act of 1966 ushered in a program of federal historic rehabilitation matching grants that grew from $2 million in 1967 to $100 million in 1979, the funds had to be

apportioned among all 50 states, and their use was limited to a maximum of $100,000 per project. Nor was the federal commitment long-lived: most direct federal subsidies for preservation development were terminated after 1981.

In order to capture and recycle public grants and private contributions to their historic rehabilitation efforts enterprising, results-oriented organizations such as the Historic Savannah Foundation adopted the "revolving fund" method of project financing -- a technique that proved effective in diverse development environments from Boston to Galveston.

Simply-stated, the ideal preservation revolving fund is a self-replenishing pool of money used in conjunction with other funding sources to purchase threatened historic properties, hold them in anticipation of improved market conditions, stabilize their structural systems, restore their exteriors, or implement full rehabilitation programs.

In best-case scenarios, sums dispersed from a revolving fund are fully-recovered upon the sale of a preservation-worthy property at a price equal to or greater than the amount expended by the revolving fund to enhance the value of the property for adaptive, economic use. The recaptured funds are then applied to the acquisition and improvement of other candidates for preservation.

Many preservation revolving funds were established between 1960 and 1975 with public grants and private contributions supplemented by borrowings from community-conscious financial institutions and business organizations. Anticipating a life-cycle of increasingly indirect involvement in the development process, most funds sought ultimately "to stimulate the conservation of the built environment...by private property-owners and developers, using traditional

institutional lenders...The revolving fund serves as an interim vehicle to elevate the present real estate market (for) old buildings..."[6]

The preservation movement would succeed admirably in its effort to demonstrate the value of historic rehabilitation to the private sector. However the execution of exemplary projects by revolving funds and other non-profit development organizations was but one of two important strategies in the campaign to preserve America's architectural and community heritage. To correct the American developer's short-sighted vision of a distinctive old building as a wicked witch rather than a sleeping beauty, the preservationists needed to fashion a pair of rose-colored glasses -- which they did in the form of the preservation provisions in Tax Acts of 1976 and 1978.

Since 1954, the federal tax code had favored new construction by confining the most favorable accelerated depreciation methods to 'first users' of newly constructed property, notes a 1984 brief on tax incentives prepared by the National Trust for Historic Preservation. The Tax Reform Act of 1976 added four provisions to encourage the rehabilitation and preservation of certified historic structures and to discourage their demolition. In addition, the Revenue Act of 1978 added a 10 percent investment tax credit to encourage the 'qualified rehabilitation' of 20 year old or older commercial buildings.[7]

The passage of these provisions was attributable in part to the preservation movement's first foray into Congressional lobbying under the aegis of Preservation Action, a group formed for the purpose in 1974. Moreover, the tax incentives proved to be reasonably effective in encouraging in historic rehabilitation in the private sector: according to a study conducted by the Department of the Interior in 1979, better than half of the 454 survey

respondents never would have undertaken their preservation projects without the incentives.[8]

Of even greater significance from a political point of view, the soon-to-be Chairman of the House Ways and Means Committee "became so enthused" about the results of preservation development in his home town, according to a report in Historic Preservation, the magazine of the National Trust, "that he took over the guide's microphone and began pointing out historic sites that the tax incentives had helped to save," while on a 1980 bus tour in conjunction with hearings on extending the provisions of the 1978 act.[9] In 1981, when the Reagan Administration's proposals for tax reform appeared to weaken the previous incentives for preservation, newly-elected Ways and Means Chairman Rostenkowski announced his support for a new form of tax subsidy for historic rehabilitation: graduated credits that would encourage renovation of industrial and commercial structures based on their age.

Months of preservationist lobbying later, the Economic Recovery Tax Act of 1981 (ERTA) offered old buildings their best prospects yet for romancing by private developers: a three-tier system of investment tax credits for historic rehabilitation that meets standards established by the National Park Service. ERTA makes available credits of 15 percent of allowable development costs for buildings over 30 years old; 20 percent for buildings 40 years of age or more; and 25 percent for any structure listed National Register. Through July, 1985, the National Trust for Historic Preservation estimated that the ERTA credits had promoted 6,800 historic building rehabilitations by the private sector, encompassing investments of over $5 billion.[10]

Yet in 1985 the Trust, Preservation Action, and other preservation advocates including private developers and mayors throughout the country were fighting to retain the hard-won 1981 rehabilitation incentives in the various "tax simplification" plans then proposed for the late 1980's and beyond.

Clearly, major shifts had occured over the preceding fifty years -- and especially in the decade since the Bicentennial -- in the objectives, economics, and demographics of participation in historic preservation. In consideration of these shifts, a question that might well be posed is this:

> On what issues, objectives, strategies, and approaches should non-profit historic preservation groups focus for maximum effectiveness in the closing years of the twentieth century?

To attempt answers, we need to understand something about the nature of non-profits in the U.S. economy and the real estate development industry.

Non-Profit Enterprise: Theory and Practice

In the United States we do business under the banner of a system popularly known as "free enterprise." The term conveys an image of the venturesome, independent entrepreneur whose pursuit of economic objectives is constrained only by the limits of his or her own talent, knowledge, skills, and perseverance, and the inevitable vicissitudes of the marketplace. When we speak of "free enterprise" we usually mean the exercise of private business functions for financial gain.

Arguably, the traditional practice of real estate development is the quintessence of American free enterprise business activity: It involves thousands upon thousands of small operators seeking and seizing opportunities to profit

from the risk of building accomodations in which the rest of us will choose to live, shop, work, and play.

Yet thousands of buildings occupied by families, businesses, industries, and community institutions from coast to coast have been created by real estate entrepreneurs engaged in the "we entreprise" of non-profit, public-interest development.

Why and how do the "free" and "we" enterprises of real estate development coexist in the American economy?

Public-interest developers operate in the context of a "three-sector" U.S. economy comprised of private, profit-seeking enterprises; non-profit enterprises; and government enterprises. The Pluralistic Economy, a 1965 study of the business activities of non-profit and government organizations[11], describes a "veritable transformation" of U.S. economic life under the expanding influence of governmental enterprises, and non-profits including:

* mutual insurance companies
* savings and loan associations
* trade associations
* chambers of commerce
* professional societies
* producer and consumer cooperatives
* trade unions
* private colleges and unversities
* foundations
* voluntary hospitals
* research organizations
* religious organizations
* social clubs
* museums and libraries.

In the real estate field, we might add to this list today's roster of diverse community development corporations, housing partnerships,

quasi-governmental development finance agencies, historic preservation groups, and environmental protection coalitions.

Unlike private, profit-oriented businesses, non-profits concern themselves primarily with community rather than personal goals, and dedicate 100% of their organizaitonal income to furthering their public purposes. While non-profits are not prohibited from earning net revenues, or from accumulating surplus income over time, the law bars individuals or groups from maintaining an equity interest in their operations. Usually controlled by a volunteer board of directors, a non-profit that ceases to operate must turn over its assets to another non-profit with a similar purpose.[12]

Accordingly, non-profit organizations are granted certain special privileges, including tax-free status for their mission-related operations; deductibility of gifts of cash, securities, and property from the donor's tax liability; and exclusive eligibility for certain types of government assistance. Notwithstanding such marks of special status, many non-profits nevertheless exhibit significant similarities to their for-profit counterparts. For example, non-profit preservation revolving funds endeavor to realize returns on some of their development ventures in order to recycle them into future projects that require capital investments unavailable from other sources. (In a subsequent section of the paper, we will see how some early, avant garde historic rehabilitation projects in key downtown locations now generate handsome rent roles for their non-profit developer-owners, thereby endowing contemporary preservation development efforts in neglected neighborhoods where the private sector still fears to tread.)

Chapter 1

Economists have advanced a variety of theories regarding the role of non-profits in the U.S. economy, and have rationalized their privileged, tax-exempt status in a variety of ways. One common view suggests that tax-subsidized non-profits perform services such as health care, education, research, or housing development for the poor that for would be undersupplied without subsidy.[13] A further explanation of the role of non-profits in the American economic system concerns the public preference for acquiring goods and services of a complex, critical, difficult-to-compare, or difficult-to-monitor nature (eg. educational services) from organizations that can be trusted to preserve quality and eschew cost-cutting for profit's sake. In this view, the public seeks to avoid "contract failure," in which "ordinary market competition may be insufficient to police the performance of for-profit firms, thus leaving them free to charge excessive prices for inferior service."[14]

Finally, many non-profit organizations operate at the cutting edge of their fields, meeting society's need for enterprises that are willing to experiment and lead the way in areas which cannot attract profit-seeking businessmen and where governments cannot enter.[15]

Non-Profit Real Estate Developers: Form and Function

In the three-sector U.S. economy, non-profit developers share the important function of community-building with their private counterparts. Both groups are engaged in furnishing shelter, creating environments for economic activity, and rehabilitating structures that provide continuity with the past; both seek financial support from lenders, equity investors, and public agencies; and both expect their projects to yield economic benefits.

What then distinguishes the non-profit and for-profit sectors of the real estate development industry?

1. Development Objectives and Project Geography. Non-profit developers measure the value of their development efforts in terms of present human use and long-range community revitalization, rather than current tax benefits and future cashflows. Objectives in the non-profit arena revolve around the production of attractive facilities for living and working at the lowest possible cost to the occupants. Most often, this entails the rehabilitation of properties that have fallen into disrepair amidst general conditions of economic depression and physical deterioration in a community.

Participation in the planning and execution of projects by their ultimate users -- a frequent component of the non-profit development process -- reflects the further purpose of many non-profit development organizations to "empower" people of limited financial means with a measure of control over their daily environment. For example, the 1984 twentieth anniversary report of Greater Boston Community Development, Inc., cites "GBCD's continued and enhanced productivity...in the face of federal cutbacks, shifting funding patterns, and an ever-changing economic environment. Despite these factors, GBCD has remained a positive, productive resource for community-based sponsors of housing and commercial facilities, empowering them to control and direct the development process for the benefit of those in need."[16]

"Location" -- the private developer's triple-play, the 100% commodity for which he or she will scour a region or a nation -- is simply a fixed geography of development need, where most non-profits are concerned.

2. Client Orientation. Private development is largely a product-centered business. Its output is measured in quantities of square feet, and described by product type: first-class office space; luxury condominiums; strip shopping centers; festival marketplaces. A substantial proportion of the competitive product of for-profit development is speculative with regard to user groups, and standardized to meet the requirements of broad market sectors.

Non-profit developers focus on "clients": low-income families, minorities, the elderly, or the disabled in need of housing; neighborhood populations lacking commercial services; small business operators with expansion plans; workers in search of jobs; threatened buildings or neighborhoods of distinction. Often the particular beneficiaries of a non-profit development project are identified in advance, and their specific requirements are incorporated into the project design.

3. Credibility. The problem of "contract failure" discussed above in connection with the general theory of non-profits in the economy has particular relevance to the development of real estate. Development is a complex, costly process that is difficult to monitor for quality, and subject to wide variations in the pricing of its products. Unfortunately, the stereotypical image of the profit-seeking developer/owner has acquired an untrustworthy shade, particularly where economically-disadvantaged or unsophisticated real estate consumers are concerned.

The best client-centered non-profit developers can offer some assurance that their projects will be implemented with the best interests of the ultimate users and project neighbors in mind: subject to the non-distribution requirements of their tax-exempt status, non-profits dedicate 100% of their financing

proceeds to project implementation; required to submit complex funding packages to scrutiny by a wide range of demanding public and private sources, they frequently engage in more detailed financial analysis than for-profit firms; responsible to boards of directors who often represent the market for their products, they are more likely to manage project budgets to the consumer's advantage than to cut costs in deference to investor objectives. (Nonetheless, amateurism in non-profit development can and sometimes has negated these reassurance factors, for example in the experience of church groups that failed in well-intentioned attempts to master the complexities of housing development in the 1960's.[17])

4. Vision. Non-profit developers typically focus their efforts on one principal project type -- housing, historic preservation, commercial revitalization, or industrial development -- to which they bring a vision of the future. In the early 1970's, for example, preservationists, were "betting that their view of the cultural importance of an architectural monument (could) eventually become financially self-sufficient. This vision embodies a note of idealism: a street, a town, the world will become a better place when economic and social forces consider the positive value of old buildings."[18]

An important concomitant of the visionary approach to development is the willingness to experiment, and the capacity -- when profits cease to rule practice -- to take failure in stride: "(A preservationist's) vision, if not opposed to many expressed community attitudes, is usually ahead of, or more daring than the prevailing real estate market, especially where there is no subsidy involved...(However) success lies in buildings saved, not in the greatest return of equity. Although money may be lost on some projects, profits on others and

periodic fundraising should perpetuate the ability to conserve old buldings which lend dignity and continuity to existing communities."[19]

5. Innovative Financing and Deal-Making. Motivated by their vision of the future and their commitment to community improvement, non-profits succeed in implementing projects the private market would reject as inordinately risky. The high risk/low return financial profile of most non-profit development projects limits access to conventional equity investors. However non-profit developers can secure contributions of both funds and property from private interests by virtue of their tax-exempt status and the deductibility of gifts in support of their activities. In addition, they are eligible for grants from government sources that provide financial assistance to public-purpose projects only. Finally, unlike commercial developers non-profits can sometimes borrow money at below-market rates from lenders sympathetic to the community objectives of their development ventures. Accordingly, "creative," complex combinations of these and other special sources of financing are the rule rather than the exception in non-profit development.

Development for Profit and Not: A Telescopic History

The 1980's witnessed a frenzy among developers and investors to put big money into buildings, and large buildings into the ground. Historically however, real estate development has served purposes more direct than the production of tax benefits and limited-partnership profits. Until about one hundred years ago, the development of land and buildings was undertaken principally by "owner-occupants" -- individuals and groups concerned with producing functional space in which to live, trade, work, and play.

Chapter 1

Pure pecuniary speculation in land and buildings emerged as a significant phenomenon in urban America in the mid-19th century, as cities grew to encompass ever greater numbers of factories, businesses, professional offices, stores, and workers in need of housing. The 1870's, for example, witnessed the development by a group of New York investors including Boss Tweed of an unprecedented scheme for creating property value on the far shore of the East River: the Brooklyn Bridge. "Brooklyn happens to be one of those things that can expand," wrote the editors of the Brooklyn Monthly. "The more you put into it, the more it will hold."[20]

Westward expansion produced its own special brand of speculative developer: the "booster." From a shack by the side of the wagon-track this real estate entrepreneur promoted barren plots of prairie "paradise" to the folks back East. His marketing program consisted of imaginatively-illustrated broadsides produced on a portable printing press standing in the middle of nowhere.[21]

After World War II, when Federal banking policy established the low-cost mortgage loan and national defense planners laid the groundwork for the interstate highway system, suburban home and shopping center builders swelled the ranks of the private real estate development community. A decade later direct government subsidies for rental housing touched off another profitable development boom. Finally, the 1970's and 1980's revisions to the U.S. tax code rendered passive investment in real estate highly attractive as a method of sheltering personal income.

While the private real estate development industry expanded rapidly throughout the latter half of the twentieth century, a public counterpart

emerged in the form of the city planning profession. Beginning in the 1950's, city planners concerned themselves with establishing economic, social, and environmental objectives for development in their communities.

As the pace, volume, and sheer size of for-profit development projects increased geometrically, concerns surfaced among planners, designers, and city-dwellers over the decimation of coherent urban neighborhoods; the attrition in habitable housing for the poor; the decline of city centers of commerce and industry; and the destruction of historic properties, architectural treasures, and open space. As a result diverse non-profit action groups were founded in the 1960's and 1970's to promote community revitalization, housing development, historic preservation, and environmental protection.

In the early 1960's, substantial Federal support for "urban renewal" and housing production programs contributed to the formation of community development corporations in predominantly low-income neighborhoods of large U.S. cities. These private, non-profit "CDC's" were established by local political, social, and economic activists to channel government financial aid into high-risk development projects intended to improve housing and employment opportunity in their communities. At about the same time, historic preservation advocates began to coalesce around the need to protect the architectural heritage that lends every community a physical and historic identity from the ravages of the clearance-oriented, ahistorical urban renewal process.

The non-profit CDC's and historic preservation groups initially occupied quite separate worlds. The community developers, typically low-income residents of their target areas, were concerned primarily with the tasks of producing decent, functional, and affordable housing for the poor; and defending the

residents of old innner-city neighborhoods against the threat of removal and relocation that inevitably accompanied the "slum clearance" process. By contrast, the "clients" of historic preservation were at first fine old buildings, singly and in distinctive groupings, while the advocates themselves represented middle-class or even patrician interests motivated by a philosophical concern for the physical quality, aesthetic character, and historical significance of community environments. Inherent in these different orientations was the potential for conflict when the CDC's goals of affordability and neighborhood stability clashed with the preservationists' costly requirements of craftsmanship-conscious restoration and long-term caretaking.

Thus in Savannah, a community housing development organization called the Savannah Landmark Rehabilitation Project (SLRP) emerged in 1974 as a counterpart to the Historic Savannah Foundation (HSF) "in reponse to the black community's accusation that black and other low-income people had been forced out...from the Historic District as preservation/restoration work occured there in the 1960's and 1970's."[22] According to a local Black leader in Savannah, the preservation community was "shamed" into starting SLRP. True or not, the SLRP founder was the same prominent white Savannah businessman and preservationist who had established Historic Savannah more than a decade earlier: "'HSF has failed to move ahead as an organization' to address a more serious problem than preservation -- poor housing conditions for the city's low-income residents, and property speculation that forces poor people out of their homes," he commented in a 1979 portrait of SLRP that appeared in a preservation magazine.[23]

By the mid-1980's, as we shall later observe, examples of cooperative projects between CDC's and non-profit preservation developers would point the way toward future joint strategies for collaboration to preserve the both the physical and social dimensions of older neighborhoods.

The balance of this paper concerns the dynamic changes in the field of historic rehabilitation over the decade from 1976 to 1985, and the particular evolution of one non-profit preservation development organization that came into being as the decade began.

CHAPTER 2
Genesis of a Non-Profit Preservation Developer

ACT: A Precis

The private, non-profit Architectural Conservation Trust (ACT) for Massachusetts was chartered in 1976 as a statewide preservation revolving fund designed to stimulate the revitalization of Massachusetts communities through the retention and adaptive use of valued buildings. In the interest of developing economic uses for properties of historic, architectural, or cultural significance ACT would conduct surveys to identify preservation-worthy structures; perform preservation feasibility studies; analyze the user market for historic rehabilitations; assemble public and private funding for rehabilitation efforts; and implement preservation development projects.

The ACT progam was conceived by Roger Webb, President of the Architectural Heritage Foundation, non-profit developers of Boston's Old City Hall.

ACT: The Prologue

Gesturing toward the construction activity beyond the ornate frame of his office window, Boston's new Mayor, Kevin White, asked Roger Webb what he thought the city ought to do with its dowdy old headquarters, now that a daring tentieth-century city hall was ready for occupancy a block away.[1]

The year was 1968, and the Boston Redevelopment Authority already had proposed demolition for the 100 year-old municipal building to clear the way for selling the valuable downtown site to a private developer. However some prominent Bostonians including Walter Muir Whitehill, the distinguished architecture scholar and author of Boston: A Topographical History, protested.

In response, Mayor White's predecessor had appointed a "blue ribbon panel" to discuss "preservation alternatives."[2] In due time, the panel concluded that notwithstanding the protests, the edifice was of little present value, and would cost five million dollars to modernize — far more than the administration or any public-purpose institution could afford. Nor, in the interim, had any private organization expressed the slightest interest in making a corporate home out of the Civil War-era relic.

Webb, who was present in the Mayor's office to present the findings of his two-year study of the prospects for rehabilitating the Faneuil Hall/Quincy Markets area, said he would like to take a second look at the Old City Hall problem.

Under the umbrella of the non-profit Architectural Heritage Foundation, which he had established in 1966 for the purpose of raising funds to supplement the city contract for the Faneuil Hall area study, Roger Webb and his associate, architect Tad Stahl, sought out the data used by the blue ribbon group to reach its determination. They found virtually nothing.

A well-known architect on the panel had pronounced the old city hall "ugly," while structural problems had merely been assumed — after all, the building _was_ 100 years old -- and rule-of-thumb assumptions had been employed to estimate the cost of producing modern space within its antiquated frame. Consequently, Webb and Stahl had to develop true rehabilitation requirements and cost estimates from scratch.

Their careful examination of the old city hall suggested that the 90,000 square-foot building could be given a new lease on life for about two and one-half million dollars -- 50 percent less than the blue ribbon estimate.

Nevertheless, the Mayor did not intend to contradict his distinguished advisors: even at half-price, the city could not become directly involved in renovating its old headquarters. Instead, White challenged Webb: "If you believe these numbers," he said in effect, "why don't you develop this place yourself?"

Despite the fact that the Architectural Heritage Foundation had never undertaken a development project, Webb decided to accept the Mayor's challenge. However, to avoid the appearance of favoritism (Webb's associate Stahl held a position with the City), the Boston Redevelopment Authority announced a nationwide competition for prospective Old City Hall developers. The only entrant beside the Webb organization was a student group from the Harvard Business School.

Designated in 1970 to develop a mix of commercial and office uses for the Old City Hall, the Architectural Heritage Foundation secured a ninety-nine year lease from the Boston Redevelopment Authority. To meet the City's objective of realizing a financial return on its property, the non-profit development enterprise was to pay Boston a percentage of the building's annual rental income in lieu of real estate taxes.

The Old City Hall renovation was completed in late 1971. At first it rented slowly, but later gained momentum as public appreciation for historic properties grew. By the time of the Bicentennial, the project had been much-heralded as a pioneering venture in the economic approach to preservation, and enjoyed a waiting list of office-seekers for what was now considered prestigious space. In 1985, fourteen years after its completion, Old City Hall would be characterized by Roger Webb as the Architectural Heritage Foundation's "cash cow."

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With its first venture in preservation development in the midst of a proving-out period, Architectural Heritage began to seek further opportunities. The Foundation competed for the designation to develop the Faneuil Hall complex that had been the subject of its 1968 re-use study, but lost out to a for-profit scheme devised by Benjamin Thompson Associates, Architects, and the Rouse Company, a national developer of shopping centers. Meanwhile, Webb and his associates had been engaged to do preservation planning in other U.S. cities including Baltimore, Cleveland, and New Orleans. In addition, the Foundation had made a heavy financial commitment to preserving the historic Sanborn Fish Market Building next to Faneuil Hall -- a project that later went up in smoke, the victim of arson.

ACT: The Inspiration

Such was the context for Roger Webb in 1975 as he listened to a representative of the Department of the Interior speak before a meeting sponsored by the National Trust for Historic Preservation. The speaker's message concerned the benefits to states of establishing revolving funds to support historic rehabilitation projects in communities with limited access to preservation expertise. Federal dollars were available, the speaker advised, to state historic commissions for the purpose of seeding statewide revolving fund programs. A dedicated preservation advocate, Webb decided to pursue the course of action suggested by the Interior official's remarks.

As it happened, the head of the Massachusetts Historic Commission at the time previously had been on the staff of the Architectural Heritage Foundation. When approached by her former employer with the idea of creating

a private, non-profit preservation revolving fund for the Commonwealth, she expressed strong interest.

Although the Architectural Heritage Foundation already functioned as a non-profit preservation development fund, accepting financial support from private contributors, and anticipating eventual recyclable returns from Old City Hall, Webb's concept did not entail extending the reach of his own organization. Architectural Heritage already was overcommitted in Boston, Old City Hall was just beginning to break even, and the Foundation had incurred significant debts and losses in conjunction with the Quincy Markets and Sanborn Building ventures.

Therefore Webb proposed the formation of an independent entity that would endeavor over a period of years to raise one million revolving dollars to finance historic rehabilitation efforts in the state's architecturally-rich medium size and smaller towns.

ACT: The First Scene

The curtain went up on ACT during the Bicentennial celebration of the American Revolution. Its original incorporators were Roger Webb; Elizabeth Amadon, Director of the Massachusetts Historical Commission; John F. Bok, an attorney whose firm had restored the historic Boston Herald building for its offices; F. Aldrich Edwards, the first ACT executive director; and Walter Muir Whitehill, architectural and urban historian, and Director of the venerable Boston Atheneaum. Initial financial support of approximately $150,000 came from the National Trust for Historic Preservation, the Massachusetts Historical

Commission, and contributions from several large community foundations in Boston.

Only seven statewide preservation organizations such as ACT existed before 1966; by 1983 the number had grown to forty-two in thirty-nine states. However few function as ACT does to implement development projects directly. Rather, most of ACT's sister statewide groups perform educational, advocacy, and advisory roles only.

In 1976, ACT's founders articulated its mission as follows:

> To plan and put in place economically sustainable uses for buildings of historic, architectural, or cultural significance,...to support local municipalities with increased tax revenues through rehabilitation of deteriorating properties which now reduce the tax base,...to provide professional counsel and financial support to property owners who invest private capital to rehabilitate buildings,...(and) to finance continuing project activities through the recovery of public and private funds employed.[3]

From the vantage point of 1985, these objectives seem unremarkable, eminently sensible, and entirely feasible. Private developers, in fact, have been achieving them for years now.

At the time, however, the average developer would have needed flash cards in order to define "adaptive use historic rehabilitation" correctly. Inspired by a 1975 National Trust for Historic Preservation conference on the economic benefits of preserving older buildings, the Urban Land Institute initiated a series of case studies of principally private-sector preservation development projects. In conjunction with the studies the ULI engaged an economic consulting firm to prepare an overview of the financial aspects of historic rehabilitation. Published in 1978 under the title Adaptive Use: Development Economics, Process, and Profiles, the ULI book begins as follows:

> Adaptive use -- converting a building originally designed for one purpose to a different and contemporary use -- is becoming a widespread form of development...
>
> During the past three decades, the historic preservation movement has grown from a small group of history-minded preservationists to a large popular movement with a wide and varied constituency. During this same period, the real estate industry witnessed a great boom of new construction and development. This activity capitalized on the post-war economic expansion, population shifts, and the suburbanization of the 1950's, 1960's, and early 1970's. Over the last few years changing economic conditions -- rising costs, decreasing availability of developable properties, and fewer attractive large-scale development ventures -- have forced real estate professionals to seek alternatives which will maximze investment objectives.
>
> Growing interest in history and in preservation of the built environment has led to increased awareness of the value of old buildings and historic areas...
>
> The real estate development community, for its part, is also finding that it must respond more vigorously to concerns from a variety of public and quasi-public interest groups. More than ever before, real estate developers are required to consider the social, economic and environmental consequences of proposed new construction. These factors can add further "costs" to the development process, creating a special interest in the adaptive use of existing buildings.[4]

Prior to publication of the ULI study, only a few major historic rehabilitation projects had received national attention. Two of the earliest, the 1960 restoration of Gaslight Square in St. Louis, and that of Old Town in Chicago, achieved initial popularity as old-time restaurant and retail districts, but then "deteriorated rapidly, generally because neither area had any common ownership or quality control."[5] These, therefore did not serve as good examples for imitative efforts elsewhere.

Not until Ghiradelli Square became famous after 1968 as a commercially-successful conversion of a San Francisco chocolate factory did historic preservation begin to gain respectful attention from the private sector. Thereafter, exemplary projects emerged more frequently; among them was

Boston's Old City Hall, characterized in the ULI handbook as "one of the most widely-known examples of adaptive use."[6]

To enhance the private sector's awareness and understanding of historic preservation, the Adaptive Use handbook presents fifteen in-depth case studies of pioneering private rehabilitation ventures undertaken in the 1970's, principally in downtown or near-downtown locations in medium and larger cities. Portrayed are projects involving commercial, residential, and office uses of buildings including old schools, courthouses, warehouses, factories, mansions, garages, and apartment houses. The publication also offers brief profiles of another 180 diverse conversions, both private and non-profit: a gas atation into a beauty salon, a church into a museum, a hospital into apartments, a synagogue into a high school for the arts, a flour mill into a recording studio.

In view of the awakening interest in the best of cities' older properties among profit-seeking real estate investors, ACT was established in 1976 to serve as a "developer of last resort." Its program was to search out and assume responsibility for projects unattractive to private rehabilitators by virtue of their too-small size, ruinous condition, poor location, or the spectre of costly red tape associated with government-certified landmarks. Nevertheless, as a revolving fund operation ACT sought economic results similar to those derived from private development enterprises: in addition to enhancing the physical environment and boosting morale in their communities, ACT projects were intended to generate tax revenues, provide local jobs, and stimulate further revitalization in their neighborhoods. Some projects, it was hoped, would benefit from the rising values they helped to stimulate, and ultimately yield financial returns to be recycled to other preservation projects. In its first half-decade,

prior to the watershed historic rehabilitation provisions of the Economic Recovery Tax Act of 1981, ACT engaged in a wide variety of preservation endeavors including re-use feasibility studies for single buildings, renewal plans for entire historic neighborhoods, and full-scale, adaptive-use commercial and residential development projects in diverse Massachusetts communities.

Some of the ventures in which ACT ultimately assumed the developer's role originated with requests for technical assistance in preservation planning from a community group or municipality that had identified a local property in need of preservation, but lacked the expertise to formulate a feasible approach. Typically in these cases, ACT would be brought in to conduct a professional evaluation of the prospects for historic rehabilitation, prepare a preservation development plan, market the plan to the private sector, and, in the absence of any private interest, would sometimes assume the role of preservation developer itself.

Of major significance for a key intersection in downtown Lowell, Massachusetts, for example, was ACT's restoration of the handsome Howe Building facade, the 1892 appearance of which had been obscured for many years beneath a "modern" but mundane false front. Slated for demolition and replacement with a parking lot, the structure was saved by the intercession of the U.S. Congressman from Lowell, who appealed to the owners on behalf of a downtown revitalization citizens' group. Hired by the city in 1979 to conduct a re-use feasibility study, ACT received the building as a gift from the owners when no private developer stepped forward to undertake its recommended rehabilitation plan. However, ACT's preservation of the exterior subsequently attracted a private buyer for the Howe Building.

Similarly motivated by community group action was ACT's Oak Square School conversion project in the Brighton section of Boston. In this case, ACT was approached in 1980 by the local Allston-Brighton Community Development Corporation with the idea of establishing a joint venture to recycle a Boston landmark -- the oldest wood-frame schoolhouse in the city -- into affordable, owner-occupied housing for neighborhood residents. As a result, the two non-profits submitted a joint development proposal to the city, which owned the property and had solicited developer interest in its rehabilitation. One of a half-dozen submissions, the ACT/ABCDC scheme was judged most likely to produce residential units at the lowest possible sale prices -- and succeeded in doing so with financing from diverse preservation and community development funds to which they had access by virtue of their non-profit status.

On the other hand, ACT also took the initiative to seek out preservation development opportunities.

In Barnstable, Massachusetts, on Cape Cod, for instance, ACT initiated a 1978 preservation project involving adaptive re-use for condominium residences of the town's 130 year-old former Agricultural Exhibition Hall, a building that most recently had been used as a moving company storage facility. With support from the local preservation community and zoning board, ACT purchased the abandoned and badly deteriorated property from a local savings bank with the dual objectives of restoring a handsome structure and realizing condominium sales profits for return to the revolving fund. Unfortunately, shortly after ACT had acquired the property and commenced renovations vandalism and arson defeated the plan.

Another entrepreneurial effort on ACT's part led to in the rehabilitation of the Primrose School Haverhill, Massachusetts, in 1981. This venture was the result of an ACT press release to real estate journals, designed to attract preservation development inquiries from owners of abandoned and underutilized historic properties. A response from the owner of the then-vacant 1868 schoolhouse -- later a city storage depot, home, and finally daycare center -- led to its donation to ACT for recycling into market-rate rental apartments.

All-told between 1976 and 1981, ACT implemented five full-scale preservation development projects involving investments of approximately $1.75 million. Little of this project capital represented ACT equity; rather, the greatest percentage was supplied by local, state, and federal sources of preservation and community development funding.

ACT's first comprehensive venture, described in detail in the next chapter, exemplifies the initial phase of the organization's practice as a non-profit preservation developer. The story unfolds in the old whaling port city of New Bedford, where ACT rehabilitated the defunct and crumbling Rodman Candleworks for use as a bank, restaurant, and office building.

CHAPTER 3
ACT Lights Up the Candleworks

Introduction: New Bedford Nearly Died Twice

New Bedford, Massachusetts, is a community of approximately 100,000 on the southeast coast of the Commonwealth. Famous as the nation's premier whaling port in the mid-19th century, New Bedford today hosts a two-hundred boat fishing fleet that lands the largest annual dollar volume of fish in the United States -- over $100 million in 1984.

To an outsider, the city's most salient features -- its working waterfront; the cobblestoned streets of the adjacent historic district where whaling-era buildings date back to the early 1800's; and the imposing Victorian mansions on the slope above the harbor -- chronicle its storm-tossed history:

> In 1790, New Bedford had a fleet of only a few sqaure riggers; by 1802, there were perhaps a score. By 1807, there were seven wharves in the harbor at which could be seen as many as 100 ships and brigs. Until mid-century, in fact, specialization in the whaling trade continued unabated, so that, by the 1850's the city could boast a fleet of 329 ships worth $12 million, and manned by more than 10,000 seamen. The yield of oil and bone yearly topped $10,000,0000 in both 1851 and 1853.
>
> After the 1850's however, decline was relentless. Subsitutues for scarce and expensive whale oil were continually sought, and finally found...During the Civil War, dozens of large New Bedford whalers were burned by the Confederate raiders..., and 45 more were lost in the grip of the Artic ice in 1871 and 1876. Yet, under the guidance of some enterprising citizens, New Bedford had been moving into a new great venture: cotton manufacturing.
>
> The first great mill, the Wamsutta Mills, was built in 1848...By 1910 New Bedford, second only to Fall River and Lowell in its textile production capability, had become the most important center for the manufacture of fine cotton goods in the United States...
>
> What finally paved the way to the decline of the New Bedford cotton industry was the rise of the Southern textile mills...(which) were making considerable inroads by the 1920's...(followed by) a double death-blow in 1928-30(:) the most disastrous strike in the city's history, and then...the depression. Two-thirds of the cotton mills shut their doors for the last time between 1929 and World War II, leaving behind such unemployment that the City of New Bedford has yet to recover fully.[1]

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New Bedford Enters the New Preservation Age With a Bang

The story of New Bedford whaling is embodied in a rich collection of artifacts, artwork, and documents maintained by Old Dartmouth Historical Society in its Whaling Museum atop Johnny Cake Hill overlooking the New Bedford waterfront. In 1960 some members of the Society became concerned about the deteriorating condition of the many early-19th century whaling-era buildings that surround the Museum. They acted on their concern by founding WHALE, the Waterfront Historic Area League, a non-profit preservation organization that would endeavor to raise funds in the community for the purpose of restoring New Bedford's dockside architectural heritage.

The volunteer organization developed slowly over the first decade of its life. Supported largely by private contributions from old New Bedford families and prominent members of the Old Dartmouth Historical Society, WHALE succeeded in rehabilitating the showpiece Rodman House, built by one of the kings of New Bedford whaling industry; acquired several other buildings for future restoration; facilitated an urban renewal study of the waterfront area; and drafted historic district legislation designed to preserve its 19th century character for future generations to enjoy. In 1966, the New Bedford waterfront district was listed as a Landmark in the National Register of Historic Places.

By 1976, however, most of WHALE's financial resources had become tied up in economically-moribund properties, and the organization decided to launch a major funding drive in order to replenish its working capital. In so doing, WHALE, now led by a descendant of a leading whaling family -- John Bullard, a young M.I.T.-trained urban planner who had written his master's thesis on "Collective Private Urban Renewal in New Bedford's Historic District --

expanded its original mission of historic building preservation to encompass "economic revitalization by saving the best of the City's waterfront heritage."[2]

Within days of the decision, a disasterous gas explosion in the Waterfront Historic District leveled WHALE's most recent restoration project and made a shambles of the neighboring historic building. Although they had not yet begun their capital campaign, the WHALE board of directors felt it imperative to save the remaining property from demolition. Consequently, twenty board members pledged their personal guarantees to borrow bank funds to stabilize the heavily-damaged structure. WHALE then boosted its fundraising goal from $275,000 to $425,000. Inspired by the demostration of personal commitment on the part of WHALE's trustees, and moved to act in response to a community tragedy, individual donors, New Bedford businesses, and foundations helped WHALE to achieve its higher aim within a year.

While the waterfront disaster and the inspirational recovery played themselves out, another event of importance to the future of the Waterfront Historic District occured with less fanfare: the completion of public improvements that had begun in 1975 with Community Development Block Grant funding allocated by the City to economic revitalization through preservation. The funds had supported the burying of utility wires, the return of cobblestones to the streets, the installation of federal period street lamps, and general landscaping to enhance the pedestrian environment.

The Candleworks Project Begins

A traveller to New Bedford from Boston drives south for an hour and a half to the west bank of the Acushnet River, a wide Atlantic estuary halfway

between Newport, Rhode Island, and Cape Cod. At the exit from Interstate 195 to downtown New Bedford and the Waterfront Historic District stands the 1810 Rodman Candleworks, once-upon-a-time manufactory of fine smokeless candles from spermaceti, a wax derived from sperm whale oil. Now host to a bank, a first-class restaurant, and law offices, the Candleworks' re-birth from rubble was achieved through the efforts of two non-profit organizations concerned with historic preservation and community development: WHALE, New Bedford's Waterfront Area Historic League; and ACT, the Architectural Conservation Trust for Massachusetts.

The restoration of the Rodman Candleworks between 1977 and 1979 serves as an excellent illustration of ACT's early approach to non-profit preservation development. Detailed in an ACT publication entitled The Revolving Fund Handbook, the Rodman development process "contains lessons in human relationships, grantsmanship, marketing, perseverance, planning, and the use of tax laws."[3]

The Rodman Candleworks anchors the northeast corner of the New Bedford's Waterfront Historic District. Like the whaling industry of which it was a part, the Candleworks had ceased to function for its original purpose by the end of the Civil War. A series of marginal warehousing uses over the next one hundred years led to abandonment, tax title claims by the City of New Bedford, and eventual acquisition of the property in 1963 by the New Bedford Redevelopment Authority, a clearance-oriented renewal agency. Subsequently, the 16,000 square-foot building stood abandoned for thirteen years until 1977, when WHALE joined forces with ACT in order to return the Candleworks to a productive life in commerce.

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The ACT/WHALE connection came about as the result of a National Trust for Historic Preservation survey of potential Massachusetts preservation projects that would benefit from ACT's attention. In New Bedford, the survey led ACT to seek the City's authorization to study the feasibility of preserving the Rodman Candleworks through adaptive use development. It also had the effect of renewing previous relationships between Roger Webb, who had founded ACT, and members of the WHALE board of directors.

The $6,000 ACT study, supported by a matching grant from the Massachusetts Historical Commission and contributions from several New Bedford businesses, found merit in pursuing a preservation development program. It established the historic and architectural significance of the Candleworks; suggested a market for retail and office uses; presented a conservative development plan; and outlined a financing package comprised of city block grant funds, state and federal preservation dollars, private contributions, and loans. The preservation plan envisioned a joint venture arrangement involving ACT and WHALE as co-developers and owners of a rehabilitated Candleworks.

The partnership between ACT and WHALE gave each organization 50% ownership of the Candleworks project, with ACT designated as the managing partner. The case study of the project prepared for The Revolving Fund Handbook offers the following rationale for the arrangement:

> Although technically-speaking the WHALE/ACT Joint Venture might be attributed to the Mayor's insistence upon a locally based partner, there are equally compelling reasons why the two organizations should have worked together. WHALE keeps overhead low by hiring only project related staff. ACT has grants to support a staff that seeks preservation projects to administer. Being statewide and closely associated with Boston's Old City Hall rehabilitation, ACT conveyed a sense of legitimacy and professionalism in New Bedford, while WHALE provided local knowledge and helped to establish trusting relationships.

> Finally, WHALE...raised capital...(while ACT contributed an equivalent amount in staff time).[4]

In response to the study, the City sold the building to an ACT/WHALE joint venture for one dollar, and commited approximately $150,000 in community development funds to exterior restoration. In order to avoid "the appearance of City funds being used to enrich any development group, including non-profits,"[5] the terms of the sale stipulated that the City would share in any proceeds realized from a subsequent sale of the property within ten years, in proportion to its equity in the project. Beyond the ten-year holding period, real estate taxes were expected to have repaid the City for its contribution to the development costs.

The Challenge of Marketing, Leasing and Financing

To support projected development costs of approximately $600,000, exclusive of the city-subsidized property acquisition, the ACT/WHALE Joint Venture had to assemble financing from diverse sources. A principal financial hurdle was the relatively low value of the project from a lender's perspective.

Because of its poor condition and marginal location, the building was not a candidate for "spec" development. Nor did the joint venture partners possess the capital to perform a first round of improvements that might justify establishing rents at or near the market level for space comparable to that planned for the Candleworks. Nevertheless, in order to achieve bank financing the developers had to secure tenants for the Candleworks, and did -- at pre-construction prices that reflected a high degree of uncertainty about the project outcome.

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In seeking tenants for the as yet unrenovated Candleworks, ACT first approached local realtors without great success: none had had experience trying to sell the concept of an historic rehabilitation, sight unseen; moreover, the time that would be required to identify prospects for so uncertain a product made the likelihood of profitable commission-taking appear dim. Therefore ACT and WHALE had to assume the marketing and leasing responsibility on their own.

Fortunately, round one of the effort was, in the words of the WHALE executive invloved, "like hitting the bulls-eye on the first shot."[6] The New Bedford Savings Bank, which had been approached for project financing, needed expansion space at the time, knew the work of WHALE, and felt the development of the Waterfront Historic District merited community support. Consequently, the bank agreed to lease two of the building's four floors, but only on the condition that the four-story structure be equipped with an elevator -- a $100,000 expense not originally anticipated in the development budget.

Having learned in the feasibility study that New Bedford residents and business people felt the need for a restaurant of quality downtown, ACT next set out to locate such a tenant -- with difficulty, compared to the quick results obtained in the case of the bank. No national chain expressed interest, the New Bedford market area being too small. Then, nine months into the search, after an independent operator of a restaurant in a nearby shopping center had signed onto the project and excavations of the basement level of the building for the purpose had begun, the prospective Candleworks restaurateur had a falling out with his partner and was forced to withdraw. By this time, exterior restoration was nearing completion and "there was too much momentum in the project and

too many commitements in the construction work to abandon the project in reponse to a default,"[7] so ACT persisted in seeking an alternate tenant for the restaurant space. The persistence paid off when the original lessor approached ACT again six months later, having located a restaurant supplier willing finance the equipment and furnishings for his operation.

Eighteen months into the leasing effort and approximately twelve months into construction, the top floor of the Candleworks remained to leased for office use. Finally, a law firm seeking to expand into New Bedford from a nearby city agreed to take the 2,400 square foot floor on the condition it could sublet unneeded space to other users.

Based on the leases so strenuously-achieved, the total rent role for the Candleworks' 12,000 feet of rentable space was to be approximately $65,000 per year, yielding a pro forma cash flow projection with a capitalized value for the project of less than $320,000 -- roughly 50% of the estimated cost of development. Based on this valuation, the ACT/WHALE Joint Venture obtained a permanent mortgage loan of $255,000 from its prime tenant, the New Bedford Five Cent Savings Bank. In addition to receiving a ten-year lease with an option to renew, the bank acquired the right after ten years to purchase the entire building for an appraised value not to exceed $500,000, inclusive of the mortgage.

Of the remaining $350,000 required to rehabilitate the Candleworks, approximately half came from City of New Bedford Community Development Block Grant funds; just under $100,000 was received in the form of grants from the federal Historic Conservation and Recreation Service, and the Massachusetts Historical Commission; and $85,000 was raised or contributed in

kind by WHALE and ACT. All told, the initial financial structure for the project consisted of 45% public funding from a variety of sources, 40% bank financing, and 15% equity from the two non-profits, made up in part by in-kind contributions of staff time.

Finally, in order to recoup about $130,000 in development costs for use by WHALE and ACT in future projects, Candleworks Associates, a limited partnership, was formed to syndicate the tax benefits associated with rehabilitation of an historic property. As managing general partners, ACT and WHALE share a 1% interest in Candleworks Associates. The other 99% of the partnership is apportioned among a group of private investors.

These financial agrrangements -- which seem "excessively complicated, considering the syndication, for a building whose improvements barely amount to a half million dollars"[8] -- were nonetheless necessary to the realization of a project that most certainly would not have been undertaken by the private sector. In their very complexity, they serve to demonstrate the original rationale for the existence of non-profits in the preservation development business: The small promise of rehabilitation profits never would have sustained the effort required to revitalize the likes of a Candleworks; only commitment to the historic product could prevail.

Building Construction: Two Crises

Having weathered the trials of marketing the Candleworks, ACT moved on to two crises of construction.

The first involved a misunderstanding with the City of New Bedford over its commitment of CDBG funding. Whereas the ACT/WHALE partnership had

understood the City to have set aside $200,000 for exterior renovations, the City had actually counted the imputed purchase price of the property, about $53,000, as a portion of its intended commitment, leaving the construction budget with a shortfall in that amount. However the dedication to the venture of all the parties enabled a compromise involving on additional contribution of $20,000 of City money, and a City loan for the balance, to be repaid once the project had proved itself.

A second crisis surfaced when construction documents for the interior work called for the expenditure of $50,000 more than had been alloted in the development pro forma. Subsequently, the Candleworks architect and local general contractor spent two months making detailed adjustments in the building plans in order to reduce the costs to a level that the future income of the project could support.

The three and one-half storey 12,000 square foot Rodman Candleworks opened to community acclaim in March, 1979, two years to the month from the commencement of the ACT feasibility study that launched its rehabilitation. In their role as non-profit preservation developers in the era before substantial rehabilitation tax incentives, ACT and WHALE had been willing to sustain the high per square foot cost in time and effort required to achieve a small but significant historic preservation endeavor of no interest to the for-profit development community. Elsewhere in the country, private developers had erected millions of feet of profitably-depreciable skyscrapers over the same two-year period.

Chapter 3

Pre-ERTA Preservation Development: Inferences from the Candleworks Project

The Rodman Candleworks rehabilitation epitomizes the covergence in 1970's preservation enterprises of local, state, and federal public interests in history, architecture, community revitalization, and economic development:

* A dedicated and creative effort on the part of two non-profit development groups succeeded in preserving an historic city asset that easily could have been replaced by a parking lot. Moreover, the project created a work setting that provides forty to fifty permanent jobs; returned a property of negative value to the tax roles with an assessment that yields approximately $20,000 per year; and recycled funds back to the non-profit developers for investment in future "last resort" historic rehabilitation efforts.

* WHALE, a local non-profit preservation revolving fund assigned a high priority to restoration of the property within its district-wide historic rehabilitation plan and fundraising agenda.

* ACT, a non-profit preservation developer, contributed the special expertise, creativity, and tenacity required to implement an exceedingly problemmatic venture in physical rehabilitation, financial packaging, and user marketing.

* The City of New Bedford committed substantial discretionary funding to establish momentum for developing the Candleworks as a key component of its downtown revitalization effort.

* In tenanting and financing a literal disaster of a structure in a destitute neighborhood, a major New Bedford lending institution accepted the short-term risk of locating a branch in un-banker-like territory -- in return for

the possibly-high future reward associated with an option to buy for a sum that might consitute a steal were conditions in New Bedford and its Historic District to improve dramatically over the ensuing decade. (And in any event, for an amount that was less than the development cost of the property!).

* State and federal preservation funding agencies provided direct financial support to fill the gap between the project cost and locally-available private and public dollars.

At the time, no for-profit developer would have touched the risky, complex Candleworks project in depressed, dreary New Bedford, notwithstanding then-available accelerated amortization and depreciation incentives for historic rehabilitation under the Tax Reform Act of 1976. Yet people knowledgeable about New Bedford real estate in 1985 agreed that the Candleworks, vacant and available today, would be a prime prospect for private sector rehabilitation. In fact, real estate bargains were no longer to be had in the Waterfront Historic District.[9]

ERTA Ushers in ACT Two

When the Candleworks project was begun in 1977, a general perception of the gains to be had in historic rehabilitation had yet to be formed among private developers, and was still two years in the offing. Of nearly two hundred pioneering for-profit preservation projects profiled in the Urban Land Institute's 1978 Adaptive Use handbook, ninety percent were initiated after 1970 -- the vast majority after 1976. The record indicates that non-profit preservation developers opened private sector eyes to the potentials of historic rehabilitation with examples like the Candleworks.

What equipped private eyes to see such projects through, however, was decidedly something other than example: The ERTA rehabilitation tax credits, for which preservationists fought long and hard, made old buildings into new opportunities for traditional real estate investors -- and changed the historic preservation game radically for non-profit developers.

By 1982, the growth in private sector involvment in historic rehabilitation had created an opportunity for the Architectural Conservation Trust to generate revenue by providing developers with fee-paid preservation-planning and process-management services, including preparation of historical research, National Register nomination and historic preservation certification applications. ACT's annual report for the year notes that "after some research into how and by whom consultants are selected for this sort of work, it seemed most useful to pursue personal contacts for referrals (and to approach) attorneys involved in real estate and tax law."[10]

Consequently, under the direction of a newly-hired hired an architectural historian, the ACT Preservation Advisory Service began to carry out National Register nominations, historic rehabilitation certifications, and other tax credit qualifying procedures. In 1981-82, the Service undertook twenty-five contracts with private development companies, individual property owners, and non-profit preservation groups. By 1984, the number of Advisory clients had nearly quadrupled.

The new emphasis on consulting services to the private sector reflected the steadily changing relationship, over the period since ACT's inception in 1976, between non-profit and for-profit developers engaged in historic rehabilitation -- a change stimulated in part by three successive tax acts

culminating in "ERTA," the Economic Recovery Tax Act of 1981. ERTA established the current (and currently-jeopardized) three-tier system of 15 %, 20%, and 25% tax credits for substantial rehabilitation of thirty- and forty-year-old commercial buildings, and certified historic structures. Until ERTA's predecessor acts in 1976 and 1978, the tax code had favored new construction by offering the highest levels of accelerated depreciation to "first users" of newly-constructed property. Now, section 212 of the Economic Recovery Tax Act of 1981 effected "dramatic and sweeping changes that make rehabilitation of historic structures a more attractive investment than before."[11]

Where government gave, however, it also took away, cutting back funds for preservation-related technical assistance programs formerly conducted by various federal and state agencies. Morevover, as the ACT Advisory Service grew, the funding context for non-profit preservation continued to change. In 1982, direct grant support for historic rehabilitation projects was curtailed. Looking ahead, ACT's 1982 annual report acknowledged the diminishing availability of traditional government grants and individual or corporate cash gifts, and went on to suggest alternative approaches to pursuing development projects in the future: seeking property contributions; promoting below-market-value "bargain sales" to ACT by owners who wished to realize both cash and donation write-offs; and examining the potential of "sale-leasebacks" involving the tax-advantaged purchase of historic properties and their future improvements by private investors for subsequent leasing and rehabilitation by ACT.[12]

Chapter 3

Post-ERTA Preservation Development: the Picture for Non-profits

Under the influence of ERTA and its stimulating effect on the participation of the private sector in historic rehabilitation, three important conditions would shape ACT's second half-decade of evolution:

1. A diminishing stock of "good" preservation candidates, rehabilitation of which could produce modest gains to offset losses on historically important, but very difficult, high-risk undertakings. The preservation movement's success in fostering the tax credit provisions of ERTA had placed a premium on private development of well-located historic properties in reasonable condition and neither too small nor too large to undertake at a profit. No longer would an Old City Hall or a Candleworks go begging for want of a private developer.

2. The increasing-complexity of arranging financing for projects of no interest to the private sector, even with the maximum tax credit. For example, a news photo of a 1984 ACT closing on a commercial property in the center of downtown Gardner, Massachusetts, identifies thirteen attendees crowded around a conference table, among them representatives of ACT and a joint venture equity partner; the Massachusetts Industrial Finance Agency; the City of Gardner; the non-profit downtown Gardner redevelopment corporation; three banks; and several law firms — all assembled on behalf of a three-story building of less than 20,000 square feet.[13]

3. A shrinking capacity to recycle funds from one project to the next. Supplanted by private developers in the better locations; limited to working on only the most unsound properties; and obliged to apportion high financial risks among numerous participants, a non-profit preservation developer only rarely could emerge "whole" from a post-ERTA historic rehabilitation project. With the

days of direct government grants for non-profit preservation development long-gone and unlikely to return; and with the sense of urgency waning among preservation groups' private contributors, in view of the visible accumulation of rehabilitated historic buildings, organizations like ACT confronted a constant depletion of their development reserves.

How do these problems manifest themselves in the present-day operations of a non-profit preservation developer? Clues may be found in the author's experience with ACT's investigation of the feasibility of rehabilitating the W.T. Grant building, a fire-damaged retail structure in downtown New Bedford, Massachusetts, just three blocks from the Rodman Candleworks.

CHAPTER 4
No Grants, No Grant's

Introduction: New Bedford Gets Malled

In the mid-1970's, around the time that ACT and the Waterfront Area Historic League were preparing to rehabilitate the historic Rodman Candleworks, the City of New Bedford was completing a major modernization of Purchase Street, the principal downtown shopping avenue. The centerpiece of the extensive renewal program was a three-block outdoor pedestrian mall meant to lure shoppers back to the declining retail core from shopping centers in the New Bedford suburbs.

At first, the new brickwork, lamposts, planters, benches, and absence of automobile congestion along Purchase Street were welcomed as positive changes in the formerly drab and uninviting center-city environment. Yet downtown businesses continued to lose trade and close their doors, while the mall developed a reputation as a haven for loiterers. In early 1985, the Star Department Store, New Bedford's largest retail emporium and the mall's southern anchor, went dark.

For some time prior to the demise of the Star Store, the question of what the city should do about its failed attempt to stimulate a downtown comeback had been a subject of argument in the community. Now, a major New Bedford bank which owned and occupied a modern office tower overlooking the north end of the Purchase Street experiment raised ante, and a February, 1985, edition of the New Bedford Standard editorialized as follows:

> The scales of sentiment are now tipped in favor of ripping up the downtown New Bedford pedestrian mall. When the Bank of Boston weighed in this week with an offer of $1 million in cut-rate business loans providing the mall is removed and Purchase Street is re-opened, it made a promise with clout. Money talks...

> As mall-bashing fever builds, the point that cannot be lost is that the mall is not the problem. The whithering of downtown in the face of competition from suburban malls is the problem...
>
> For many, ripping up the mall appears to serve a psychological rather than a practical need. It is almost as though New Bedford would rather junk this eyesore of a street and forget it ever existed than attempt to rescue it as part of larger package...
>
> But...it would be a shame to scrap (any) promising revitalization plan on the grounds that it includes the mall. If New Bedford is to revive its downtown, it can't afford to rule out any option.[1]

To keep options open, the Waterfront Historic Area League, which had succeeded in revitalizing the neighboring whaling-port district by recycling twenty-five historic buildings since the mall had been put in place, proposed to coordinate a Downtown Working Group of business leaders and city officials to address the Purchase Street problem in a coordinated fashion. WHALE also sought assistance from the Architectural Conservation Trust to investigate the feasibility of restoring to active use one of the mall's most serious deficits: the burned-out, plywood-plastered W.T. Grant building, diagonally across Purchase Street from the Bank of Boston.

ACT in '85

As 1985 commenced, ACT was engaged in efforts to close out several projects that had been initiated as far back as 1981. For example, rehabilitation of the Garbose Building in Gardner, Massachusetts, begun four years earlier with a feasiblity study for the City and the Downtown Businessmen's Association, had proceeded through the development of plans, the assembly of low-interest financing, construction, and finally syndication in December, 1984. However tenants were still lacking, and a "Downtown Gardner Recruitment Day" in the first quarter of the new year failed to turn up any viable new candidates

for the Garbose space. Consequently, in consideration of ACT's having endeavored to market the property for well over a year, the ACT trustees voted to "immediately close a lease with the most financially strong prospect of record -- and quickly improve our cash flow position in the building."[2]

When ACT began operating, its basic staff and office expenses amounted to roughly $100,000 per year. The budget was largely subsidized by grants from the Massachusetts Historical Commission, which served as a conduit for federal preservation-development dollars, and matching dollar contributions from private supporters. At first, staffing consisted of only an executive director and secretary, with other professionals hired on an as-needed basis for projects under way. Later, the development of the Preservation Advisory Service added one architectural historian -- also supported at first by state monies -- and, as the volume of advisory work grew, a second preservation services specialist. When the volume of development activity expanded from one to three on-going projects in a single year -- about 1980 -- ACT brought in a part-time "in-house consultant" to function as a project manager/comptroller.

However, although the ACT budget and staff grew only modestly over a decade of operation, the distribution of ACT's income sources did change significantly after 1982. With demand for its expertise growing and government aid for its provision shrinking, the Preservation Advisory Service developed a self-supporting fee structure. On the development side, staff and other operating expenses increasingly were paid for out of project administration fees, the turning of real-property gifts into cash, and revenues from sales or syndications of completed ventures.

Nevertheless, by the late Spring of 1985, concern over ACT's cash flow had become significant enough for the board of trustees to discuss a postponement of some staff salaries. The ambitious goal of amassing a $1 million preservation investment revolving fund had not been achieved in the decade since ACT's founding; rather, after years of assembling financing for "last resort" ventures, the organization's capital reserves were, for all investment intents and purposes, nil. No single project had developed into a significant income-producer for the organization; the tactic of syndicating depreciation and tax benefits had left ACT with little residual interest in the increasing value of its ventures; and the flagship Candleworks, perhaps the most commercially successful of ACT's endeavors, was tied up in a below-cost purchase agreement with its lender.

When approached by WHALE in March, 1985, to assess the W.T. Grant building, ACT under the circumstances was inclined to be cautious. Even a cursory examination of the derelict property's re-use feasibility would require an investment in staff time and incidental expenditures of several thousand dollars. Yet grant funds such as those that had supported the initial studies for the Candleworks project were no longer readily available. Therefore, ACT would be speculating on the possibility of recovering its up-front study expenses in a Grant's project implementation, should such a thing prove feasible.

Nevertheless, ACT agreed to undertake a limited investigation of the property for four apparent reasons: (1) its mission dictated involvment in difficult preservation/economic revitalization problems such as that presented by the Grant property; (2) having exhausted its backlog of active preservation development projects (as distinguished from advisory services), ACT needed to

take on new ventures in order to justify its continuing operation at present budget and staffing levels; (3) the organization was struggling to secure future sources of operating money and capital; and (4) once before, an ACT/Whale partnership in New Bedford had produced a small jewel of a project out of a pile of rough stones.

In short, there was the outside chance that ACT might discover its own phoenix among the Grant's ashes.

The W.T. Grant Property

One of the first stores to go out of business after New Bedford's downtown pedestrian mall had been completed was the W.T. Grant's, a variety store that closed when the national chain went bankrupt around 1980. Shortly after Grant's vacated the 30,000 s.f., three-storey brick building at the north end of mall, the building suffered a major fire.

The 1882 Grant building has a classic commercial front composed of large display windows within a modestly-decorative brick framework. At the street level, the original facade design had been obliterated by a "modern" metal, plastic, and plate-glass entrance. The properties to either side of the building display a mish-mash of appliqued storefront styles from the 1940's onward. A potpourri of illuminated signage advertises businesses including jewelry shops, a discount shoe store, and a McDonald's "Town House" restaurant. Although not uniquely important from an architectural or historic point of view, the property gains significance by virtue of its age and its rear-facing location on a cobblestone way along the western edge of the Waterfront Historic District.

The Grant's fire was concentrated in the Purchase Street structure, where it completely destroyed the third floor over the pedestrian mall, and caused extensive water damage on the second, ground, and basement levels. In the interest of public safety, the city demolished the third-storey roof and walls. The Acushnet Avenue structure suffered moderate to heavy water damage as a result of the fire, but retained its roof, floors, and walls intact.

Rough estimates sought by ACT from the local general contractor who had executed the Candleworks project placed the cost of shell renovation at $150,000 to $200,000, approximately $5 to $7 per square foot. To furnish the building with HVAC, electrical, and plumbing systems, an additional investment of $14 to $17 per square foot would be required, bringing the total cost of basic rehabilitation into the range of $19 to $24 per square foot. For pro forma purposes ACT elected to use a number in the middle of this range, yielding development costs of about $675,000, including acquisition. Uncertainty prevailed regarding prospects for the waiver of approximately $60,000 in tax and demolition liens that had been imposed on the property by the City, which had removed the third floor of the structure after the fire as a public safety precaution. As for the owner's asking price, figures mentioned had ranged from $5,000 to $40,000.

The New Bedford Marketplace

To assess the feasibility of returning the Grant building to productive use, the author, on behalf of ACT, interviewed more than a dozen persons knowledgeable about diverse sectors of the New Bedford economy, including the

retailing business, the office market, industrial development, and tourism. The interviews painted the following picture of the city:

1. New Bedford was a community undergoing discovery as an attractive, affordable place to live. Residential real estate bargains existed in the form of Victorian homes at one-third to one-half the price of comparable buildings in the Boston and Providence marketplaces. As a result, the population of younger business and professional families was growing.

2. In recent years, private developers had rehabilitated several substantial historic buildings in the New Bedford CBD. Bargain properties were no longer to be had in the Waterfront Historic District proper.[3]

3. Industrial development in the New Bedford region was progressing steadily, if slowly, attracted by a surplus labor market in southeastern Massachusetts, and fueled by a coordinated effort among the economic development agencies in New Bedford, Fall River, and Taunton. The showcase newcomer was the AT&T Data Processing Center, a 1600-employee facility in Fairhaven, across the Acushnet River. Under the influence of such ventures, the number of legal and accounting professionals practicing in the New Bedford area was on the rise. On the other hand, the crucial fishing industry was troubled by an over-expansion of the fleet, the division of its major off-shore fishing grounds between the U.S. and Canadian fisheries, and lack of attention to conservation.[4]

4. Seasonal tourism was a minor factor in the New Bedford economy. Efforts to promote tourism suffered from the lack popular attractions, night life, and in-town accomodations other tnan a dozen or so bed-and-breakfast rooms. Consequently, most tourists were day-trippers.[5]

The Whaling Museum, by far the best-known, most frequented destination, had an annual visiting audience of 70,000. For comparative purposes, it was noted that the Peabody Museum of Salem, Massachusetts, an institution of similar maritime historical orientation in a city of approximately equal size, entertained about 150,000 visitors per year.

As for the effect of tourism on commerce, a popular "upscale" restaurant in the waterfront area estimated that tourists constituted 8% to 10% of its monthly business, on average.[6]

5. The downtown office supply was experiencing expansion and upgrading, although a significant percentage of the available space was vacant. In the Spring, 1985, edition of the New England Real Estate Directory, which tracks existing or permitted office buildings of 15,000 square feet or larger, six such properties were listed in New Bedford, including four within three blocks of the Grant building. Their gross rents exclusive of electricity fell within a range from $5 to $20 per square foot, with most rents for better-quality space clustered between $9 and $12.

Significantly, the large, modern Bank of Boston building, just steps away from the Grant property, showed rents at the high end of the New Bedford market, as well as the highest vacancy rate (30%) among the established buildings listed. Directly across Purchase Street from the bank, on the nearest corner to the Grant's, a nearly-complete historic rehabilitation of a two-building office/retail complex was 90% leased in June, 1985, at rents ranging from $5.50 to $9.50.

In total, 60,000 feet, or 20% of approximately 300,000 square feet of available space in the six Directory properties, were vacant at the time of the

survey.[7] With regard to New Bedford's many smaller buildings, no good source of summary figures was available.

Rehabilitation Prospects for the W.T. Grant Building

As in other apparently hopeless assignments in its experience as a "developer of last resort," ACT had been called upon by a local community development group to seek potential in the Grant building where none had been perceived for years on end.

From a market perspective, the overriding problem was to conceive of uses that could support an investment of up to three-quarters of a million dollars in the midst of a stagnant economic environment and the contested physical setting of the Purchase Street mall. With regard to financing, the key to a feasible project would be a maximum amount of cheap debt, given ACT's lack of capital reserves, the long-standing absence of federal or state grants in support of routine historic rehabilitation ventures, and the obvious lack of interest in the Grant property among investors.

ACT's simple first-stage development pro forma for rehabilitating the Grant building encompassed only structural stabilization; exterior restoration; basic HVAC, plumbing, electrical, and fire protection systems; and code-conforming entries, exits, corridors, and stairs. The mid-range cost of $675,000, conventionally financed, would have required gross rents (as the term was employed in the New England Real Estate Directory) in the range of six dollars per foot. For the price, tenants would get minimally-renovated space: four walls, a roof over their heads, running water and heat, with electricty dutch treat.

Chapter 4

In the abstract, the most obvious re-use scheme for the W.T. Grant site would place one or more retail tenants at the ground and basement levels in the Purchase Street mall building, while utilizing the second storey over Purchase Street and both stories of the Acushnet Avenue structure for offices. Yet, a resurrected W.T. Grant building that offered office space over retail on the Purchase Street side, and offices facing a backstreet on Acushnet would not have been competitive in New Bedford's soft office marketplace: Much larger contemporary projects and first-class historic rehabilitations already were experiencing substantial vacancies, many at rental levels only modestly higher than the six dollars the Grant's would have required merely to protect tenants from the weather.

As for retail per se, the big question in town was whether or not the new owners of the Star Department Store at the opposite end of the mall from Grant's would re-open the big emporium any time soon. In between the two defunct sites the slow business attrition seemed destined to continue. Of thirty-five establishments listed in New Bedford's official "Shop and Dine" guide, just five had addresses on the downtown mall: a convenience store, a McDonald's, a candy and nuts shop, a jeweler's, and a stationer's.

In central New Bedford, only the Waterfront Historic District at the Grant's back door exhibited a commercial liveliness in the late spring of 1985, as the shops and restaurants along its cobbled streets prepared to exploit the coming tourist season for whatever it would be worth.

Chapter 4

A User Out of the Blue?

Under the circumstances, the prospects appeared dim for a Grant's rehabilitation, in view of the costs involved and the lack of identifiable users. Certainly, no bank would lend to a "spec" venture at the site. Moreover, the debate regarding the future of the pedestrian mall was destined to drag on, effectively preventing the City from acting decisively on any appeal that might be made for municipal funding of the kind that had supported the Candleworks project. And, of course, federal preservation grants were no longer readily available. Consequently even non-profit ACT, which had pedigreed some genuine old dogs of buildings, was on the verge of declaring the mongrel Grant's an infeasible undertaking — until an unsolicited expression of interest in the derelict property momentarily brightened the picture.

The occasion was a visit to the building by the author to meet New Bedford's former preservation officer, who had volunteered to recollect its history. In recent weeks, the one-time city bureaucrat had assumed a position as vice president of the Swain School of Design, a small, private visual arts institution in town. During the telephone conversation that led to our meeting, the new Swain executive had mused over the School's possible use of the Grant building to house a major new program it was about to inherit from Boston University. Known as the Program In Artisanry, it offered graduate level training in the fine crafts of wood- and metal-working, ceramics, musical instrument-making, and textile design. The vice president brought his colleague, Swain's president, to our rendez-vous in front of the Grant's boarded-up entrance.

The real estate agent who opened the door to the building elected to

wait outside until we'd finished looking it over. We soon learned why: The interior was dark as a dungeon and equally damp; where our flashlights shone, the floor was strewn with charred remnants of fixtures and merchandise; wet ashes covered the buckled floor tiles making the footing treacherous; in a far corner, the single source of daylight was an open stairwell to the second storey -- and to sky where the third storey had been.

Notwithdstanding the mess, the Swain administrators expressed enthusiasm for the Grant building's size, location, and potential to accomodate a facility which would require little in the way of subdivided or finished space. PIA, as the Program In Artisanry was known, needed large open studio and workshop environments, street-level access for heavy equipment and materials, and accomodations for a public art gallery/bookshop. Grant's seemed ideal in almost every way.

Moreover, the Swain people could envision the possibility of owning the building in the future, a plus for the School's effort to raise funds in support of the PIA enterprise. Prior to visiting the Grant property, Swain's plans for the PIA facility had revolved around renovating far less suitable rental space in a large city-owned former trade school complex that would never become available for purchase.

Consequently, over coffee after our spooky trip through the fire-gutted shell, we established the bare outlines of a possible approach to rehabilitating the Grant structure for PIA use:

ACT would serve as a turnkey developer and interim property owner/manager for a five-year period; Swain would lease the entire building with an option to buy at an agreed-upon price at the end of the five years.

Furthermore, the School would endeavor to raise capital contributions toward the renovation in order to reduce to amount to be financed, and also would try to persuade local banks to lend funds at favorable rates, in support of a growing community institution.

By way of next steps, the author was to develop occupancy-cost data for a PIA tenancy, while the Swain officers were to examine the Grant building option more closely with some of the School's trustees and advisors.

Fantasy vs. Reality: Preserving Grant's for the Program In Artisanry

From ACT's point of view, the advent of a possible full-building user for the W.T. Grant property made the project feasible -- if a "bankable" lease could be devised with the Swain School.

The $675,000 estimated cost for acquisition and basic rehabilitation of the building shell and systems appeared to encompass the modest environmental requirements of the workshop-oriented PIA operation. In the worst case, therefore, if Swain were unable to raise substantial contributions toward the development of a PIA facility, and only conventional market-rate bank financing could be achieved, Swain's debt coverage payments would amount to approximately $100,000 per year, about $4 per usable square foot.

On the other hand, if Swain were able to raise $150,000 from private contributors to establish the PIA headquarters in the Grant building, and community-conscious banks came forward with below-market financing, Swain's basic cost would be reduced to about $60,000 per year, less than $2.50 per usable square foot.

For its part, Swain approached several New Bedford banks with the

project -- including the Bank of Boston, the Grant's neighbor and self-styled financier of business development on a mall-less Purchase Street -- with a more far-reaching concept than mere favorable-rate financing. Swain proposed that one or more New Bedford banks actually purchase and renovate the Grant building as a community investment, realize the available 25% rehabilitation tax credit and depreciation benefits, and lease the building to the School for an annual sum equal to the difference between the cumulative mortgage payments, and the total present value of all the tax benefits.

In the proposed scheme, Swain could have secured a low annual occupancy cost without the necessity of raising up-front capital. The School also would have captured a five year period over which to build the strength and reputation of the PIA enterprise while seeking contributions toward an eventual buy-out.

The problem was time. Swain needed an operating PIA facility by mid-September, 1985, and it was already July 1. Consequently, when Swain and ACT officials next met, ACT stressed the necessity of the School's being prepared to undertake the Grant's project along conventional lines of financing, all the while working to achieve the kinds of benefits envisioned in the bank-purchase proposal.

Swain, in turn, emphasized the financial uncertainty associated with inheriting a full-blown academic program from another school in a remote city. Not all the present PIA students could be counted on to move to New Bedford with the program; it would take time to establish a new image and audience. Thus tuition income would be unpredicatable in the first few years, and Swain would find it difficult to commit to a $100,000 annual overhead expense.

By the end of the meeting, it was apparent that two non-profits were not better than one where historic rehabilitation of the W.T. Grant building was concerned. Some weeks later, after Swain had presented its community investment idea to several New Bedford banks without positive response, the School decided to move ahead with improvements to the city-owned space for which negotiations had been underway when the Grant's opportunity surfaced. Upon learning of Swain's decision, ACT declined to expend further time and funds in pursuit of a Grant's project with no local, state or federal grant prospects to encourage private sector participation.

Having briefly stirred the Grant's ashes to no apparent avail, ACT made an exit from downtown New Bedford's longest-running disaster scene with little to show for the effort. However, the W.T. Grant saga was not yet fully played out. For ACT learned approximately one month later that WHALE had resolved to make the revitalization of Purchase Street its principal mission for the balance of the 1980's. Accordingly, notwithstanding ACT's assessment that prospects for an economically sound rehabilitation were presently poor, WHALE had obtained a series of inexpensive options on the property in order to keep it out of harm's further way until a productive use could be devised. In the meantime, all the looking action appeared to have boosted the tax-delinquent owner's asking price for the wreck about 150 percent!

Present Day Non-Profit Preservation Development: The Grant Building Implications

If, for the sake of argument, we view the Rodman Candleworks as a project that exemplifies the heyday of non-profit preservation development --

when government money flowed toward distinctive old buildings in depressed old neighborhoods in need of renewal; when the tools had not yet been devised to make preservation profitable for the private sector; and when, therefore, the stock of barely-feasible historic properties had yet to be depleted, leaving the non-profits with only the terminal cases -- then the W.T. Grant building represents the twilight years.

In the Grant's case, no consensus had developed over a period of five years since the devastating fire regarding the need to restore the dangerous eyesore to active, attractive use -- despite its potential to contribute to the visual and commercial vitality of an important downtown street corner. Nor could ACT conceive of an economic approach to the preservation and adaptive use of the once-handsome nineteeth-century emporium, given the paucity of its own internal resources, the absence of subsidy sources, and the cloud of uncertainty hovering over the much-maligned pedestrian mall.

The context for the stalemate was this:

* The physical comeback of neighboring sections of downtown New Bedford -- particularly the Waterfront Historic District and the civic center area -- was nearing completion; much of the recent renewal had taken the form of historic rehabilitation implemented by private developers.

* On Purchase Street, within two blocks of the Grant building, the two largest development projects in central New Bedford were under construction. One, an 80,000 square foot historic rehabilitation of a pair of adjoining retail and office buildings, was already partially operating just two doors away. The other, a new seventeen-storey apartment tower would soon offer 115 rental units -- most at market rates, a few subsidized -- featuring concierge service

and an indoor pool facility.

* In New Bedford's nearby South End, a former textile mill of 175,000 square feet has received a pristine renovation for light manufacturing, office, retail, and R & D users.

* On the hill above New Bedford harbor, nineteenth-century houses ("Nowhere in America...more patrician like," wrote Herman Melville, "brave houses and flower gardens...harpooned and dragged hither from the bottom of the sea."[8]) were being renovated by "new people" -- young families drawn to New Bedford by recent expansions in several marine electronics, telecommunications, and manufacturing firms in the area.

With such development activity near at hand, what conclusions may be drawn from the fruitless effort to engender a non-profit preservation development project at the W.T. Grant building?

1. Unless they possess substantial capital resources of their own, non-profit preservation developers presently lack mechanisms and leverage to launch projects with no immediate prospects for cash flow. Where formerly it had been possible to assemble a package of specifically preservation-related development subsidies for "impossible" undertakings such as the Candleworks, most current sources of subsidy funding, where they exist, are targeted for specific purposes, eg. low- and moderate-income housing, or "incubator" industrial facilities.

2. The image of historic preservation endeavors as public "goods" has been blurred by a plethora of up-scale festival marketplace and first-class business-environment rehabilitations. Therefore, although many important historic properties continue to deteriorate for want of investor interest outside

"hot" real estate markets, the apparent need for heroic efforts on behalf of old buildings and distinctive historic neighborhoods has been diminished.

3. The enormous land-value appreciation in many center cities, attributable in part to image-enhancing effect of early non-profit historic preservation endeavors such as Boston's Old City Hall and the Candleworks, has created intense pressure to replace relatively small older buildings with high-density, more highly profitable projects. Where preservationists once fought to prevent historic buildings from collapsing into weedlots, they now face the challenge of holding at bay an advancing phalanx of office and condominium towers at bay.

How should public-interest preservation practitioners respond to these circumstances? The final chapter endeavors to envision goals and strategies for non-profit preservation development in the future.

CHAPTER 5

Future Strategies for Non-Profit Preservation Development

Introduction: The Experts Speak

In 1985, a research foundation concerned with policy studies of major economic, political, and social institutions and issues published a book entitled Living Cities: Report of the Twentieth Century Fund Task Force on Urban Preservation Policies.[1] The report commences by posing the question: "How well has the preservation movement used its increasing power and influence" in the interest of urban development? The answers it supplies represent the consensus of a fifteen-member panel composed of preservation practioners; local, state, and federal officials; and private-sector architects, planners, developers, and lawyers.

The Fund's experts conclude that historic preservation has brought new vigor to many cities, and has "on balance been a boon to development."[2] They hasten to point out, however, that the benefits of preservation have not been achieved without costs, including displacement of the poor; the salvation of mediocre buildings where new projects would have provided greater public benefit; and the inequitable visitation of hardship upon owners of historic properties that are subject to development restrictions imposed under ill-defined or arbitrary classification and protection procedures.

"Cities are quintessentially a mix of different industries, people, and styles," the Report asserts, "and the most vital of our cities are constantly changing, varying the mix in countless ways...It is all very well to celebrate the past, but we ought not to be bound by it."[3] The challenge for the future, according to the authors, is to pursue the work of preservation to maximum benefit while acting to mitigate its unwelcome effects.

If we accept the validity of this proposition, then how should non-profit preservation developers respond?

The Re-Cycling of Non-profit Preservation Development

Twenty-five years ago, a few pioneering preservation groups intent on preventing the destruction of their cities' distinctive physical heritage launched what was later to assume the proportions of a popular national movement: the campaign to "save" significant old buildings and neighborhoods by rehabilitating them for renewed economic use.

The American preservation movement both influenced and was strongly influenced by a series of changes in government policy with regard to the rehabilitation of historic properties of local and state, as well as national importance. In turn, the life cycles of non-profit preservation developers naturally paralleled the evolution of the movement.

In the earliest phase of the movement's quarter-century evolution, most non-profit preservation groups were established to focus attention on particular historic buildings or districts. In 1959, for example, Historic Savannah set out to preserve a two-mile square, nineteenth-century neighborhood of 2,500 buildings.[4] New Bedford's Waterfront Historic Area League was founded in 1960, as we have learned, to restore neglected whaling-era properties in the immediate vicinity of the city's Whaling Museum. That same year, Historic Boston was incorporated in order to save from demolition the Old Corner Bookstore, the city's last remaining colonial period structure downtown. In 1966, the Architectural Heritage Foundation was created in order to investigate the prospects for adaptive use of Boston's deteriorating Faneuil Hall/Quincy

Markets complex; it became one of about 2,500 local preservation groups active at the time.

Statewide preservation organizations such as ACT are of more recent vintage. Before 1966, only seven such programs existed; by 1983 the number had grown to forty-two in thirty-nine states[5] -- although ACT functions somewhat uniquely to implement development projects, while most of its sister groups perform educational, advocacy, and advisory roles only.

The formal organizational structure of the preservation movement, and public awareness of the value of historic enironments began to mature in the mid-1970's. It was then that ACT and other non-profit preservation developers came to the fore as direct participants in the identification, purchase, rehabilitation, management, and re-sale of historic properties.

The period marked a shift in the orientation of practical preservationists. Earlier, such groups tended to focus on buildings and neighborhoods that were obviously and directly threatened by demolition for an alternative development use -- as with the Old Corner Bookstore and Old City Hall in Boston, or the urban renewal-ripe downtown Savannah Historic District. Now, the movement proceeded to chart two other courses simultaneously.

The first initiative involved lobbying for legislation designed to encourage the private, for-profit development community to take on the task of preservation in the best locations -- or those that were becoming so as a result of preservation groups' efforts prior to 1975. The second entailed searching out abandoned, underutilized, or otherwise indirectly-threatened properties that possessed both historic significance and the potential to stimulate neighborhood revitalization in areas that would be of little or no interest to private

developers even with the new preservation incentives the movement helped to enact.

A case in point is Historic Boston. Having been established in 1960 to save the downtown Old Corner Bookstore and other "ancient landmarks of the City," the organization evolved in the late 1970's into a revolving fund with a much broader mandate: to "undertake real estate and financial transactions that serve to...preserve historic properties that are ignored by the private development market. These properties tend to be in neighborhoods suffering from disinvestment, speculation, poor self-image, and general lack of appreciation for the historic significance of the properties and their surroundings."[6] Now directly engaged in facilitating historic rehabilitation projects citywide, Historic Boston published its second comprehensive Preservation Revolving Fund Casebook in 1985. The casebook contains a detailed inventory of thirty-nine current preservation development "opportunities" and eleven successful recent projects in thirteen diverse Boston neighborhoods.

Of the successes portrayed in the Casebook, only three were well-located in conventional real estate investment terms -- one, a church at the foot of Beacon Hill, was converted to retail, office, and residential uses; a second Beacon Hill property that had been the home of a financially-ailing private club, was saved from an insensitive condominium conversion plan by a preservation restriction, and later purchased for use as a private residence and law office; the third, an elementary school, was rehabilitated without the assistance of tax credits into condominium apartments in Boston's gentrified South End.

As for the eight others located in the moribund business or residential districts of low-income neighborhoods, a majority had had to overcome years of false starts, changes in ownership, financing failures, and, in some cases, physical damage from fire or vandalism before their rehabilitation ultimately was achieved with the aid of substantial public subsidies. And without exception, the thirty-nine unrehabilitated properties to which Historic Boston assigns the highest current priority for future preservation action fall into this latter category. (Tragically, one of the sites considered to be of the highest historical significance -- the Maragaret Fuller Cottage at Brook Farm, site of a famous nineteenth-century American utopian community whose participants included Nathaniel Hawthorne, Henry David Thoreau, and Ralph Waldo Emerson -- was victimized by arson and burned to the ground in August, 1985, barely one month after the publication of the Casebook.)

ACT's two experiences in New Bedford, the first begun in 1976, the second in 1985, reflect this same transition. In the first case, the 1810 Rodman Candelworks had been identified as a veritable antiquity, site of the fabrication of the finest spermaceti candles in the world, built by one of the city's first families of whaling, and threatened with demolition in the path of highway construction. Intent on restoring the old whaling port district, the local Waterfront Historic Area League called upon the development expertise of ACT to devise a means of saving the endangered, singular historic property.

By contrast, the W.T. Grant building was not a property of fundamental significance in the history or architecture of New Bedford, but rather one target on WHALE's expanded agenda of historic rehabilitation in the interest of economic development. Nor was there particular pressure to "save" the building

from an imminent demise; the likelihood in fact was that the Grant's would remain standing indefinitely in its boarded-up state, possibly to be replaced by a more space-intensive building should downtown New Bedford experience a sufficient future rise in demand for commercial space. For ACT, the investigation into the feasibility of developing the property was undertaken in the context of a continuing search for meaningful preservation projects with the potential to generate revenues to fuel its under-capitalized operation.

At the time of the Candleworks project, preservation in New Bedford was still novel, and the property benefited from a consensus among city officials, local citizens, and state and federal funding sources regarding the both the cultural and economic importance of its renovation. The Grant building, on the other hand, seemed destined to remain an orphan in an urban environment that over the preceding decade had become host to dozens of private historic rehabilitations, even as direct public financing for preservation diminished.

In view of these contrasts, we might observe that non-profit preservation development had come full-circle over the decade from 1976 to 1985: Private developers had assumed responsibility for preserving historic properties in the best locations, while government had substantially reduced its outright support for preservation development elsewhere. Consequently, the non-profits were once again squarely in the mission-impossible business. In 1985, however, their locus of activity was no longer to be the principal historic districts of center cities, but rather the poorer residential neighborhoods and commercial streets as yet untouched by a decade of intensive private development downtown.

These circumstances would make it imperative that non-profit preservation developers plan their future work by seeking to answer the following critical questions:

1. What present and prospective environmental, economic, and social needs should be assigned the highest priority on the future agenda for preservation development?

2. What new operating strategies and organizational structures can be envisioned to address these priorities effectively?

3. How can non-profit preservation developers expand their financial base for continuing revitalization of historic buildings and neighborhoods?

1. Priorites for Preservation Development in the Decade Ahead

The Candleworks and W.T. Grant building case studies; the Twentieth Century Fund evaluation of the preservation record; and interviews with diverse practitioners of historic preservation suggest three principal, forward-looking priorities for the future work in non-profit preservation development:

(a) Continuing the campaign against stagnation along the main streets of urban residential neighborhoods and smaller cities -- with a multi-dimensional approach to historic rehabilitation and economic revitalization.

(b) Participating in broad-based efforts to rehabilitate the nation's continually deteriorating stock of old, period housing without displacing occupants who wish to remain.

(c) Helping to formulate urban design and development policies that permit cities to enter the twenty-first century with downtowns that can accodomate growth without a progressive loss of urban character and diversity.

2. Future Operating Strategies for Preservation Developers

The single most significant requirement for the successful operation of a non-profit preservation development organization is access to investment capital. The most stable and productive groups appear to be those in possession of revenue-generating downtown properties that were "saved" through adaptive

use rehabilitation in the early years of the preservation movement, and now regularly contribute income to the preservation revolving funds administered by their owners. In Boston, the Architectural Heritage Foundation and Historic Boston possess such properties in Old City Hall and the Old Corner Bookstore.

Yet the day is most certainly over for the development by non-profits of such "cash cows" in prime locations. Consequently, non-profit preservation developers need to explore new, more collaborative operating approaches and organizational structures that serve to concentrate the financial resources of past successes and the expertise of diverse independent groups on selective efforts to address the priorities outlined above. Among the options to investigate are these:

(a) Collaboration to develop statewide annual preservation "casebooks."

These documents would identify key properties in need of attention, track current projects, and summarize the physical and economic outcomes of completed efforts. The annuals would serve as decision-making tools for local preservation developers, and as resources for encouraging collective action to rehabilitate properties of particular historic and economic importance wherever in a state they might be located. Historic Boston's 1985 Preservation Revolving Fund Casebook offers an excellent model for publications of the type envisioned.

(b) Cooperation to create city- or state-wide preservation development endowments through consolidation of income-producing real estate assets.

To build a strong financial base for preservation development in the future, small independent preservation organizations might consider pooling their assets to form quasi-public revolving fund corporations that have the potential

to secure larger sums of matching government funding than any individual group could hope to attract. Such preservation development endowments could then utilize their financial strength to acquire or develop additional income-producing historic properties that contribute to the total reserves available to finance important but difficult preservation projects in their city or state. Endowments of this type could sponsor the development of annual preservation "casebooks" for their cities, regions, or states, and then use the results to allocate their limited funding resources.

(c) Collective efforts to foster community preservation and development partnerships.

"The final lesson of both the successes and failures of the past five years," according to Historic Boston's 1985 Casebook "concerns the need to build constituencies for historic preservation in the neighborhoods."[7] A case in point is ACT's most definitive success in its second half-decade: the Oak Square School project, implemented in partnership with a community development corporation that enjoyed the strong support of neighborhood residents. To increase the likelihood of such alliances forming among non-profit preservation developers and their community development counterparts, more formal mechanisms should be established for sharing resources and engaging in joint planning. One approach to stimulating interaction between the two groups would involve active linking efforts by the officials in city planning and economic development agencies with whom both inevitably work. A possible mechanism for accomplishing this sort of linkage would be for cities to establish planning task forces for neighborhood revitalization composed of preservation- and community-development leaders. City planning and economic development

officials might be encouraged in this direction by appeals from groups that have already collaborated to implement successful projects.

3. Discovering New Funding Sources for Non-Profit Preservation Development

Following the passage in 1981 of the ERTA incentives for historic rehabilitation, non-profit and for-profit developers experienced a radical shift in their roles relative to an extensive inventory of preservation-worthy properties that formerly would have been ignored by private investors. Appropriately, most non-profits adopted a non-competitive stance with respect to projects of clear interest to their private sector colleagues. In the wake of ERTA, they elected to act "as a catalyst by making high-risk investments in historic areas in the hope of attracting other private investment."[8]

However, because most non-profit preservation development organizations were based on the revolving-fund concept, this stance carried the seeds of inevitable dissolution: From project to project, meagre returns, at best, would conspire with inevitable losses to diminish their reserves for future investment.

Only the rare few -- Historic Boston, for example, with its Old Corner Bookstore -- were in possession of "cash cows" from their early preservation efforts, properties that perpetually would throw off "profits" in support of future non-profit endeavors. Lacking such a resource, ACT -- whose Candleworks was saddled with renewable leases at below-market rents, the result of concessions made to attract risk-taking tenants -- would struggle after 1981 with a variety of alternative approaches to generating operating and investment capital, with little success.

To continue in the future to function effectively as leaders of

development in historic locations that suffer from neglect and private disinvestment, non-profit preservation developers must build up their capital resources and stabilize their operating budgets. To accomplish these objectives, they should consider employing some of the following strategies:

(a) "One-Percent for Preservation" provisions associated with local and state capital construction budgets.

Under the aegis of a strong statewide revolving fund collaborative, non-profit preservation development groups might seek to secure revolving dollars through the mechanism of a 1% "tax" on capital projects undertaken by local and state government agencies. For example, a new $1 million city fire station would yield $10,000 for preservation investment by the statewide revolving fund in the neighborhood of the station; similarly, a $10 million state facility for toxic waste disposal would channel $100,000 to the fund for preservation projects in surrounding towns. Precedent for such provisions exists in Massachusetts and elsewhere in "Percent for Art" legislation, and in local "linkage" provisions usually applied to private development projects.

(b) Voluntary "Investment Tax Debits" from the accounts of private developers who realize 15%, 20%, or 25% investment tax credits for their historic rehabilitations.

An "ITD" program would offer special benefits to developers for donating 1/15th, 1/20th, or 1/25th of the value of their credits to a preservation revolving fund. Aside from having the donations publicized widely, ITD donors might, for example, be entitled to utilize their fund's educational resources free-of-charge, or to contract for its preservation advisory services at a discount.

(c) Asset-Investment Opportunities for Community Foundations.

In July, 1985, a large private charitable foundation in Boston, the $45 million Godfrey M. Hyams Trust, announced an unprecedented financial commitment to neighborhood rehabilitation: the use of $1 million of the foundation's assets to take over outstanding loans for low-income housing and commercial projects in the city. The loans were to be taken from the Local Initiatives Support Corporation (LISC), a national non-profit lender to community development organizations, thereby freeing LISC funds for the purpose of financing new ventures. The foundation was to receive interest on its funds at below-market rates for four years, after which the loans will be repaid. The plan is unusual because foundations normally invest their assets conservatively in stocks and bonds, and disperse only the investment income for social purposes. To minimize the risk of loss, the foundation would acquire only loans that had performed well for approximately two years.[9]

Like the Local Initiatives Support Corporation, though on a much smaller scale, many preservation development revolving funds make loans to historic rehabilitation projects of importance to the revitalization of depressed neighborhoods. Through statewide collective efforts, they too might succeed in presenting community foundations with portfolios of solid asset investment opportunities that meet the foundations' social and financial criteria while aiding the revolving funds to extend the reach of their limited preservation dollars.

How might preservation groups attract community foundations to invest some of their assets on behalf of preservation development that leads to neighborhood revitalization? One approach would be to assemble buy-out

packages of free-and-clear or mortgaged, but revenue-generating historic properties currently owned by non-profit preservation developers or revolving funds. To market the packages, special-edition preservation "casebooks" might present not only the investment-opportunity packages, but also the rehabilitation projects and community benefits that will result from recycling the freed-up funds.

Through such cooperative endeavors to focus attention and scarce resources on a few issues of major significance to the future of urban communities, the preservation development community should be able to remain vital and productive as the twentieth century draws to a close.

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