



National Trust *for* Historic Preservation

Preservation Leadership Forum

JANUARY 2014



ForumFocus

The Power of the Pro Forma

BY JOSH ROGERS, EXECUTIVE DIRECTOR,
HISTORIC MACON FOUNDATION

Preservation Leadership Forum's Focus series presents in-depth, timely reports and guidance on innovative preservation research and practices. Forum Focus is published periodically as a benefit of Forum membership. For more information about Forum and to become a member visit www.preservationnation.org/forum.

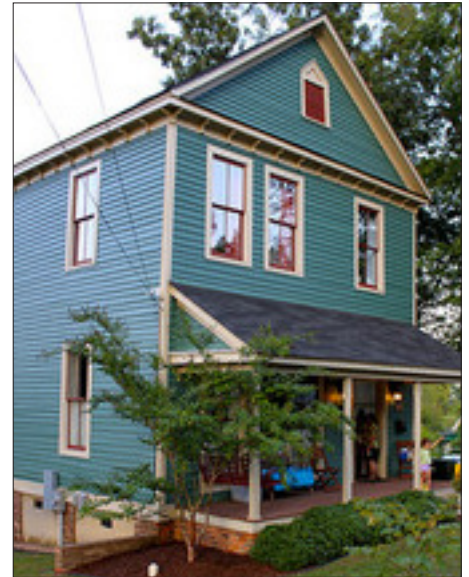
Cover photo: Tremont Temple Baptist Church courtesy of Historic Macon Foundation

The Power of the Pro Forma

Few things strike fear in the hearts of preservationists like financial analysis of historic real estate projects. Vinyl siding comes close, and window replacement might be its equal, but there is probably no greater or more prolific destroyer of historic properties than a pro forma showing in black and red that a beloved building, like so many of its unlucky brethren that fell before it, cannot be saved or rehabilitated in any financially viable way. That dreaded document leads us from the solid, familiar footing of construction dates and architectural styles to the trembling earth of square footage and return on investment (ROI).

Across the country, many preservationists find themselves financially illiterate and ill-equipped to contribute, much less win, a debate over the fate of a historic building cast in terms of financial feasibility. This *Forum Focus* is intended to give preservationists a basic understanding of how a pro forma can clearly demonstrate the financial implications of a historic real estate project.

First, it's not rocket science! Preservationists can and should learn how to develop a pro forma to build relationships with private developers in order to save historic structures before they become endangered. In some cases, preservation organizations are assuming the role of developer using these new skills. If you tremble to think of a preservationist developing his or her own pro formas (or worse, having to learn how to develop them yourself), take a deep breath. Like legal protections and public advocacy, the power of the pro forma is simply another tool in the preservationists' toolbox to protect and revitalize the historic places that matter in their community.



Rehabilitated family home in Beall's Hill, Macon, Ga.

Courtesy Historic Macon Foundation

DEFINITION: WHAT IS A PRO FORMA?

A pro forma is a statement showing the projected annual income and operating expenses of a project. The pro forma is a projection of earnings based on market assumptions that include rents, vacancy rates, operating expenses, and debt service.

PUTTING PRO FORMA TO WORK

Let's look at a simple pro forma for a rehab project using state historic tax credits and a property tax abatement:

A \$135,000 property financed at 4.5 percent (3.5 percent down payment) for 30 years would have a mortgage of \$660 per month. Property taxes, insurance, and PMI bump it up to \$920 per month in net ownership costs. Compare that to the cost of a house of the same price but benefitting from state historic

preservation incentives including a 30 percent state income tax credit and 8.5 year property tax abatement figured in (Georgia's program). The buyer of the house using tax incentives would save \$2,850 in state income taxes annually, and pay \$1,100 less per year in property taxes for the first ten years of ownership, for a net monthly cost of ownership of under \$600, a 28 percent savings per month, and making the house affordable for people with lower incomes.

The same basic math applies to income-producing projects, where these savings convert into increased return on investment. If an investor is looking at two comparable projects that produce the same income, tax credits can improve an investor's income by 10 to 20 percent even on a small project.

For a sample pro forma [click here](#).



700 Spring Street in Macon, Ga., which has since been demolished.

Courtesy Historic Macon Foundation

WHAT DO YOU SEE? A CHARMING HISTORIC GEM OR A SMART INVESTMENT?

Typically a Preservationist Sees...

- A favorite old building or community landmark.
- A building that represents a certain style—an iconic 1873 Carpenter Gothic building or a local, modernist masterpiece.
- A building that tells a story—a narrative with a construction date, a builder, occupants, an architectural style, and historical events.
- A significant building—an iconic example of certain architect's work, a site listed in the National Register of Historic Places.

But a Developer Looks for...

- A building located in a stable, desirable neighborhood that will attract tenants.
- A building that will bring a good return on investment.
- A building that can obtain the necessary financing and attract investors.
- In short, a **building that meets the bottom line.**

USING PRO FORMAS PROACTIVELY

The 1970s-era strategy of waiting to take action until a building is threatened has been replaced by proactive intervention. By conducting a careful financial analysis before a historic building—or even a neighborhood—is threatened, preservationists can help guide its future.

Developing a pro forma allows a preservation organization to:

Determine a realistic selling price: For individual properties it is possible to calculate the rehabilitation costs, less the value of available state and federal incentives for preservation, and subtract these figures from the maximum value. In many cases, a simple calculation like this can help a preservation organization advise sellers how to price a derelict home so that it can sell quickly to a preservation-minded buyer who can use tax incentives to complete a certified rehabilitation.

Broker a no-cost bargain sale: In other cases, this calculation allows an organization to broker a no-cost bargain sale. If the only way a historic home can be rehabilitated and remain financially feasible is to price it at a very low or “bargain” price, then a preservation nonprofit can act as an intermediary to enhance the financial benefit for the seller. The nonprofit can usually even charge a fee for this service.

Encourage preservation-minded development: Preservation organizations can use the power of pro formas to encourage preservation-minded development in endangered properties of which they have no formal role or interest. Tax credits are complicated, even for individuals who use them every day.

Finished Value:	\$134,900.00	Pre-rehab tax value:	\$35,323.00
Down Payment (3.5%):	\$4,721.50 *	Millage rate:	0.037998
		Pre-rehab yearly tax:	\$536.88
		Eligible rehab expense:	\$95,000.00
		State Tax Credit %:	30.00%
		State Tax Credit value:	\$28,500.00
Loan Amount:	\$130,178.50		
Interest Rate:	4.00%		
Loan Term:	30		
Monthly Mortgage:	\$621.49		

Year	With Credits			Without Credits		
	Mortgage	Property Tax	State Income Tax	Mortgage	Property Tax	State Income Tax
1	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
2	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
3	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
4	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
5	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
6	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
7	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
8	\$7,457.90	\$536.88	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
9	\$7,457.90	\$1,398.44	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
10	\$7,457.90	\$2,259.99	\$0.00	\$7,457.90	\$1,640.30	\$2,850.00
Totals	\$74,579.05	\$7,953.48	\$0.00	\$74,579.05	\$16,402.98	\$28,500.00

With Credits and Stipend		Without credits or Stipend	
Yearly Mortgage	\$7,457.90	Yearly Mortgage	\$7,457.90
Yearly Taxes	\$536.88	Yearly Taxes	\$1,640.30
Yearly Insurance	\$600.00	Yearly Insurance	\$600.00
Less Tax Credits	-\$2,850.00	Less Tax Credits	\$0.00
PMI	\$75.00	PMI	\$75.00
Total Monthly payment	\$716.23	Without credits monthly	\$814.43
Effective monthly cost	\$484.98		

Total Savings \$36,949.50

Sample Savings Schedule

Courtesy Josh Rogers/Historic Macon Foundation

Educating homebuyers, entrepreneurs, and developer/investors about the value of tax credits is key to influencing rehabilitation on a community-wide basis. For instance, by using the example above (a pro forma that demonstrates how a historic property can be bought and rehabilitated for \$135,000 by using tax benefits, including any available state historic tax credits or tax abatements) can entice a preservation-minded buyer to a deal that makes financial sense.

Identify factors contributing to decline: Careful financial analysis can also help identify the factors that contribute to the decline of entire neighborhoods, such as vacant housing and high crime rates. Every city has historic neighborhoods that ought to work, but do not.

For example, a neighborhood in Macon, Ga., contained more than a 100 endangered historic houses. Low ownership rates, total abandonment, and the resultant crime doomed these structures to condemnation. The practical reality was that low property values prevented investment. Even for urban pioneers who could buy 1,500-square-foot Victorian cottages for \$5,000 to \$15,000, comparable sales simply could not justify any bank financing for rehabilitation.

To combat this, Historic Macon Foundation, with funding from the John S. and James L. Knight Foundation, undertook several rehabilitation projects to stabilize the market and set higher comparable sales rates. This led to a partnership between the City of Macon, the Macon Housing Authority, and Mercer University which oversees private development of single-family, owner-occupied residences for low-, moderate- and upper-income buyers in the same neighborhood to further revitalize the community. To date, a \$700,000 grant from the Knight Foundation has leveraged nearly \$1.2 million into revitalization projects.

THE PRO FORMA SAVES A LANDMARK BUILDING...

Completed in 1900, the Tremont Temple Baptist Church in downtown Macon is listed as a contributing building to the National Register Macon Historic District. Macon's civil rights-era bus boycott was organized in the building, where luminaries such as Dr. Vernon Johns, Dr. Benjamin E. Mays, Dr. Martin Luther King, Jr., and the Reverend Jessie Jackson all preached. The congregation moved out of the building to a new suburban campus in 2006 and listed the property for sale. As is often the case with historic churches, the building failed to attract a buyer. Then in 2013 the congregation entered into a contract with a franchise holder for a national fast food chain that required the congregation to secure a demolition permit before completing the sale.

The main impediment to rehabilitating this building was the advertised sale price, which made it impossible to purchase and rehabilitate the building and still make a profit from rental income. The contract with the fast food vendor, however, was nearly 2/3 less than the advertised price.



Tremont Temple Baptist Church, Macon, Ga.

Courtesy Historic Macon Foundation

Preservationists used a pro forma to reevaluate whether the building could be put back into viable economic use at the contract price. They developed an adaptive use plan for the church to be converted into a four-tenant food court that included fast food vendors. This plan would have actually made the owner more money than demolition. Not only would this plan save the building, but it would also allow for installation of a permanent civil rights exhibit that would be open to the public every day when they patronized the food court.

Solid proof of the financial viability of this project is the reason this building will be spared from the wrecking ball—not demolition permitting procedures, architectural merit, National Register listing, cultural importance, or any of its other preservation merits. Historic Macon Foundation’s ability, experience, and reputation in financial analysis resulted in preservation success.

...AND DOOMS ANOTHER

Living within economic realities definitely comes at a cost to preservation. In certain cases the facts may not favor rehabilitation. Just because the financial facts are inconvenient does not mean they can be ignored. Every property regardless of its age has a terminal financial value set by comparable sales prices. Debt is a critical component in almost every real estate purchase and rehabilitation, and owners will only be able to obtain financing based on the value of the property, which is determined by the sale of nearby properties. There are financial realities to every project, and the amount of money the bank is willing to lend is one such reality.



Queen Anne home in Macon, Ga.

Courtesy Historic Macon Foundation

A pro forma conducted for a treasured Queen Anne home in Macon, Ga., made it clear that, in this particular case, rehabilitation did not make financial sense. After conducting a structural analysis and evaluating rehabilitation costs in partnership with the owners, the local preservation organization, Historic Macon Foundation, established a funding gap of \$300,000. To buy and rehabilitate the home would cost \$800,000 using state tax credits and other incentives, in a market where the most optimistic value was \$500,000. Dealing in financial reality, the organization’s trustees faced a serious value proposition. Was it worth raising, investing and losing \$300,000 to cover the gap to save this home? The organization’s operating budget barely topped \$300,000 per year. Historic Macon Foundation issued a heartfelt eulogy and dedicated itself to developing an early intervention strategy to prevent deterioration to the point where a project is financially hopeless.

Putting a realistic cost on the project at least helped the organization agree on the facts with the owner, the neighbors, and its members. It is not that historic status does not imbue value, but there is a need to be realistic in pricing within

the capabilities of our organizations and communities. It is not good enough, or fair, to only argue that an owner has to save a property regardless of the financial implications. At the very least, our ignorance of financial realities will result in more demolitions than learning the trade, and how to live within the world of the pro forma. Instead of railing against impossible financial obstacles, we should direct our preservation efforts to encouraging proactive maintenance (such as facade loans) and pursuing demolition-by-neglect ordinances.

SUMMARY

Preservationists can use pro formas to effectively make the case for saving buildings, even when they cannot generate the financial resources. So take the leap—and add pro forma analysis to your inventory of preservation tools.

Josh Rogers serves as the executive director of Historic Macon Foundation in Macon, Ga., and is a certified Economic Development Finance Professional.

ENDNOTES

1. *Feasibility Assessment Manual for Reusing Historic Buildings*, Donovan Rypkema (Washington, D.C., National Trust for Historic Preservation) 2007.
2. *The Economics of Rehabilitation*, Donovan D. Rypkema (Washington, D.C., National Trust for Historic Preservation) 2003.



National Trust *for* Historic Preservation

Preservation Leadership Forum

FOR MORE INFORMATION, PLEASE CONTACT:

Preservation Leadership Forum

National Trust for Historic Preservation

The Watergate Office Building

2600 Virginia Avenue NW Suite 1000 Washington, DC 20037

P 202.588.6000 | forumonline@savingplaces.org | preservationnation.org/forum

The National Trust for Historic Preservation works to save America's historic places for the next generation. We take direct, on-the-ground action when historic buildings and sites are threatened. Our work helps build vibrant, sustainable communities. We advocate with governments to save America's heritage. We strive to create a cultural legacy that is as diverse as the nation itself so that all of us can take pride in our part of the American story.