

# **The Delaware Historic Preservation Tax Credit Program: Restoring History and Communities**

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# Overview

**In its glory days,** “Market Street was *the* place to be on Friday night,” according to Wilmington resident Bill Grant. Traffic cops stood on every corner not because of crime, but to help with street congestion.

During the last few decades, however, “there wasn’t much of anything,” said Jimmy Hackett, owner of Leo & Jimmy’s Deli. A combination of suburban growth, urban problems, and highway construction had left the downtown area barren. “We lost a lot of people,” Hackett added. A writer for the *News Journal* once described portions of the street as “an economic wasteland” that was “lined with dilapidated buildings, often strewn with trash.”

Now, Hackett sees new faces in his shop. Some of those faces, he says, live in apartments in the historic Delaware Trust building at the corner of Ninth and Market streets. After a fire in 1997, the structure sat virtually unused until developers, utilizing a Delaware Historic Preservation Tax Credit, converted it into a mixed use building that includes 277 apartments. The building is now restored to its classic 1930s design adding elegance and stateliness to one of the city’s main thoroughfares.

Karl Wagner, Senior Vice President of Acquisitions and Finance at Buccini/Pollin Group, which led the project, has no doubt that the rehabilitation of the Delaware Trust building would not have happened without the state tax credit. “The costs are substantially higher,” he said, to clean up decayed buildings and restore them in a way that preserves historic character.



Jimmy Hackett, owner of Leo & Jimmy’s Deli.



The lobby of the Delaware Trust building before (left) and after (right) rehabilitation.

Hackett and others across the state tell similar stories of renewal and revitalization in which a common theme surfaces—without the tax credit, “the project would never have been done.” Wilmington city planners John Kurth and Debra Martin agree. Without the credit, “we’d be ten years back on the Market Street project.”

When the General Assembly unanimously endorsed the creation of the Delaware Historic Preservation Tax Credit Program in 2001, its stated goals were ambitious:

- ▶ Encourage revitalization and re-development in existing communities
- ▶ Create new jobs
- ▶ Attract new private investment to historic areas
- ▶ Promote tourism
- ▶ Enhance property values

**Those goals are being met.** Of the seventy-five projects for which Delaware Historic Preservation Tax Credits have been claimed, almost half were fully or partially vacant buildings including several that were disintegrating and unsafe for human occupation. To date, \$34 million in tax credits have been awarded, leveraging almost five times that amount in total investment.

## How the Program Works

Delaware's Historic Preservation Tax Credit Program allows owners of commercial or residential property to reduce their income tax liability by a percentage of the costs they incur in rehabilitating historic buildings. The tax credit applies to most construction costs, including architectural and engineering expenses. If the owner is exempt from income tax liability (e.g., a nonprofit or local government), Delaware allows the tax credit to be sold or transferred to a lending institution or a taxpaying entity that can claim the credit.

**To qualify, the property** must be listed in the National Register of Historic Places or be part of a historic district that is listed in the National Register. Property owners submit an application that describes the work that needs to be done. Applications are then reviewed by State Historic Preservation Office staff members who are also available for technical guidance and assistance.

Unless the costs exceed \$100,000, no review fee is required. The rehabilitation must meet the U.S. Secretary of the Interior's Standards for Rehabilitation. These standards are ten basic principles, the goal of which is to preserve the distinctive character of a historic building while allowing for reasonable changes to meet new needs.

"I tell everyone, it's easy to use," said Tracy Skrobot, manager of the Main Street program in Middletown who used the tax credit to rehabilitate her own home.

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I tell everyone,  
it's easy to use.

Tracy Skrobot – Middletown Main Street

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### Features of the Delaware Historic Preservation Tax Credit Program:

- ▶ For commercial properties, 20% of approved rehabilitation costs are credited against state income or franchise tax liability
- ▶ For owner-occupied residences, the credit increases to 30% of qualified costs. For low-income housing properties or qualifying low-income owners, the credit rises to 40%
- ▶ Property must be listed on the National Register of Historic Places or located in a National Register-recognized historic district
- ▶ Approved expenditures include most construction-related costs; and architectural, engineering, legal, and development fees. Acquisition and furnishing costs are not covered
- ▶ The rehabilitation must be considered substantial and exceed \$5,000
- ▶ Tax credits can be transferred to a bank or any Delaware income taxpayer who can use them as an offset against income or franchise taxes
- ▶ The program is capped at \$5 million in tax credits per year
- ▶ The program is set to expire on June 30, 2010

# Federal Historic Preservation Tax Incentives

Delaware Historic Preservation Tax Credits can be used in conjunction with the [Federal Historic Preservation Tax Incentives Program](#). Since 1976, developers have been able to claim a federal income tax credit for 20% of qualifying rehabilitation costs. Unlike the Delaware Historic Preservation Tax Credit which applies to homes and commercial property, homeowners are not eligible for federal tax credits and property owners cannot sell or transfer credits. In addition, costs related to landscaping, sidewalks, additions, or parking areas are not eligible for federal tax credits.

## National Momentum

Delaware is one of thirty states that have created historic preservation tax credit programs to encourage property owners to rehabilitate buildings in ways that retain their historic character, and to foster economic vitality in historic downtown areas. Only nine states that tax income do not have tax credits for historic preservation. However, more states may be added to the list, as similar tax credit programs have recently been proposed in New Jersey, Minnesota, Illinois, and Pennsylvania among others.

States with strong programs and sufficient funding are reaping the benefits. For example, a study by Rutgers University found that every \$1 invested by Missouri leveraged almost \$4 in historic rehabilitation expenditures. In three years, Missouri created 6,871 jobs and collected \$60 million of additional tax revenue through new development.

Rhode Island reports similar results. A consultant concluded that \$145 million of state investment for 111 projects yielded over 5,300 construction jobs and 3,394 project-related jobs, as well as 3,000 permanent positions. Ultimately, the projects are expected to generate almost \$800 million in economic activity.

**In Delaware, the results** have been similarly impressive. In his recently produced study, [“The Delaware Historic Preservation Tax Credit Program: Good for the Economy, Good for the Environment, Good for Delaware’s Future,”](#) Donovan Rypkema of [PlaceEconomics](#), a Washington D.C.-based real estate and economic development consulting firm, reported the following:

- ▶ In the decade since the Delaware Historic Preservation Tax Credit Program was passed, some seventy-five historic buildings have been rehabilitated utilizing state tax credits
- ▶ A commitment of approximately \$35 million in tax credits has spurred private investment of over \$166 million. Said another way, every \$1 invested through Delaware’s tax credit program leverages at a minimum \$4 of private investment
- ▶ The investment that Delaware has made through state tax credits for historic preservation has yielded over 2,400 jobs and nearly \$90 million in household income

# Success Stories

**In the ten years** since the Delaware Historic Preservation Tax Credit Program took effect, property owners and developers have been eager to participate. To date, tax credits have been used to:

- ▶ Restore a 150-year-old landmark in downtown Georgetown to its historic use and appearance as a hotel
- ▶ Transform whole city blocks in Wilmington
- ▶ Prevent the destruction of historic buildings that were significant parts of the streetscapes of Milford, Dover, Georgetown, Delaware City, and Wilmington
- ▶ Convert historic buildings into multi-resident living spaces that have brought more people downtown and improved affordable housing for senior citizens
- ▶ Rehabilitate twenty-two historic homes state-wide
- ▶ Create inviting spaces to attract retail shops, restaurants, and other economic activity

Following are a few examples of the many success stories resulting from the Delaware Historic Preservation Tax Credit Program:

## Governor Tharp Mansion

**Location:** Milford

**Total Cost:** \$1.1 million

**Tax Credit Award:** \$182,500

For several years, Dan Bond and his wife Rhonda loved to escape from city life in Washington, D.C. to relax at a bed and breakfast in downtown Milford. “We just loved it,” Bond recalled. “I think it’s one of the prettiest downtowns in the state.” When they learned the B & B was being sold, the couple did not hesitate. “We decided the next day to buy it,” he said smiling.



I think it’s a great program, one of the best in the country. Delaware got it right.

**Dan Bond – Milford, DE**

They both saw the city’s potential. At the time the Bonds moved in to take over the Towers B & B, Milford’s principal street showed few signs of life. Rundown buildings along Front Street were vacant, nothing was being built, and dining and shopping options were minimal. One of the vacant buildings was a historic mansion once occupied by a Delaware governor, William Tharp.

The mansion had a long history of people trying to save it, Bond explained, but the structural damage scared off potential investors. The original brick portion was built in 1814 by a man named John Williams who later gave it to his son as a wedding present. Governor Tharp lived there from 1847 until his death in 1865. His daughter Ann remained until 1890, when it was taken over by the Jewell family who utilized part of the building as a grocery store. For almost 100 years afterwards, townspeople bought their provisions there.



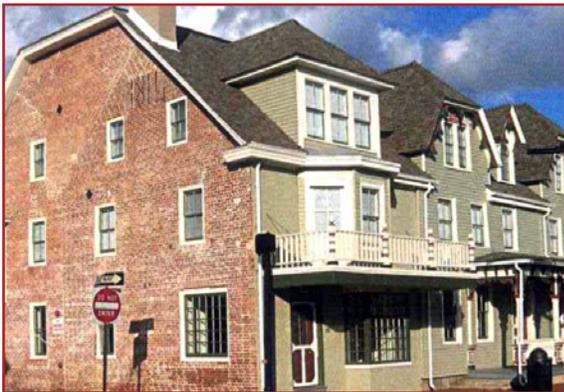
Dan Bond, a former economist who bought and restored the Governor Tharp mansion in downtown Milford.

“People have very fond memories” about the Jewell grocery store, Bond noted. After the store closed in 1988, the building deteriorated considerably. Eventually it became the property of the Milford Historical Society.

Bond, a historical society member, partnered with a few others to bring the building back. The original estimate to restore it—\$700,000—grew to almost \$1.2 million. Construction stopped as the group struggled to put together the needed funds for added costs such as a sprinkler system.

Finally, through the use of state and federal preservation tax credits, as well as grants, the building got the facelift and structural repairs it needed. Bond praises the state’s Historic Preservation Tax Credit Program for the critical financing and for how the program is structured and administered. “Delaware makes it easy,” he said.

Now, the first level of the two structures within the mansion houses a local art league and the Lady Bug Shop which sells items featuring Delaware’s official state bug. Bond also has plans to rehabilitate more downtown properties. “Every time I improve one property, the value of everything else goes up.” Milford’s population growth over the last decade may provide more customers for new businesses in the city’s burgeoning downtown.



The restored Governor Tharp mansion in downtown Milford.

## The Brick Hotel

**Location:** Georgetown

**Total Cost:** \$2.4 million

**Tax Credit Award:** \$478,144

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A visitor walking into the elegant lobby of The Brick Hotel in downtown Georgetown may have trouble picturing it as a site for nineteenth-century barroom brawls or twentieth-century bank transactions. Yet, the building has served in both capacities in its long history.

Once a hotel known for serving Union sympathizers (hence its original name as the Union Hotel), the 183-year-old building that occupies a prominent spot on the city’s traffic circle later became a Wilmington Trust bank. The bank closed in the mid-1990s and the state considered converting the building to a courthouse. Following protests from the community, the courthouse plan was scrapped and the new owners, Ed and Lynn Lester, were faced with a choice of what to do with the property.

After Lynn consulted with economic development and business representatives about what the town needed, the Lesters ultimately chose to restore the building to its original use as a hotel, continuing a tradition begun by Burton Baker in the 1800s.

The work required to restore the hotel’s Greek Revival and Federal architectural features was tremendous. In its conversion to a bank, the building lost many structural elements that reflected its original architectural style, including the two-story front porch, as well as several doorways and window bays. “People from Wilmington Trust are in awe of what’s happened here,” Lynn said.

The federal and state tax credits were “truly the only thing that justified the project,” Lynn added. Otherwise, she thinks they would have converted it into a corporate center and the historic veranda that graced the circle over one-hundred years ago would never have been rebuilt.

By April 2008, the Lesters were fully booked for the city's Return Day festivities in November. Lynn notes that the hotel, which includes meeting rooms and a bar, "has quickly become the centerpiece of the town," but acknowledges that more activities are needed to attract potential visitors year-round. She hopes the state's tax credit program can be used to accomplish just that.



## 218 – 222 West Ninth Street

**Location: Wilmington**

**Total Cost: \$2.6 million (for two separate projects)**

**Tax Credit Award: \$527,058**

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Wilmington's West Ninth Street has undergone more than one transformation in its lifetime. Once a residential street, by 1930, it had evolved into a luxury shopping corridor for guests who visited the Hotel du Pont, and for nearby office workers. The arrival of Goldey College in 1914 brought even more life to the street, and demand for services and shopping grew. The street was dotted with office buildings, banks, and specialty shops that sold high-end jewelry, books, shoes, clothing, and other goods.

West Ninth Street began to lose its luster, as many downtown areas did in the 1950s, with the advent of suburban shopping centers that offered more conveniences such as parking. The city upgraded the area in the 1970s and upscale shops still had foot traffic as they sold items not found at suburban chain stores. However, the malls eventually caught up and shoppers found their specialty items there. Adding to the loss of vitality was the departure of the college (now Goldey-Beacom College), which relocated to a suburban location.

Fast forward a few decades and signs of life have begun to re-appear. Three buildings that were approximately 80% vacant are now the site of the Ninth Street Lofts, rehabilitated (and occupied) storefronts, and four new apartments. The lofts are one of many ambitious undertakings by Preservation Initiatives, a redevelopment company that relocated from Philadelphia to Wilmington. The company is also participating in an effort spearheaded by the owners of Minster's Jewelers to create a fashion district on Ninth Street.

## 300 Block of Market Street

Location: Wilmington

Total Cost: \$12.5 million

Tax Credit Award: \$695,250

Spanning the east side of Market Street between Third and Fourth streets is an ensemble of nineteenth and twentieth-century buildings that had deteriorated considerably before the redevelopment company Market-Preservation Associates embarked upon a block-wide rehabilitation project in 2005. The block had once contained the thriving Lippincott & Co. department store, but when rehabilitation began “rotten wooden lintels above the basement windows [had] caused some collapse of the masonry above,” and “there [was] ... a tree growing out of the wall that has been there for some time.”

With rehabilitation nearing completion, the buildings will contain 15,000 square feet of street-level retail space as well as 35,000 square feet of commercial space on the second floor. A Thai restaurant and an environmentally friendly dry cleaner are now serving customers, and all trees are now located outside the buildings.



The 300 block of Market Street before rehabilitation.



Interior of one of the buildings in the 300 block of Market Street prior to rehabilitation.

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“ I can’t stress to you the importance of the federal and state preservation tax credits to make a project like this happen.

Chris Buccini – Buccini/Pollin Group

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## Queen Theater

Location: Wilmington

Total Cost: \$22.3 million

Tax Credit Award: \$4.5 million

At Fifth and Market streets is another unfolding story of decay and renewal. Despite its royal name, the Queen Theater had become anything but majestic in its appearance. Beginning in 1916, the Queen was a popular spot for moviegoers until it shut its doors in 1959. “When the Queen shut down, a part of Wilmington shut down,” Representative Mike Castle told a crowd at a ceremony launching the Queen’s redevelopment. Buccini/Pollin Group will reconstruct the Queen using donations from the city, the Light Up The Queen Foundation, and federal and state tax credits. After 40-plus years of neglect, the “to do” list to fix the Queen is enormous so every dollar counts. “We skinned the cat every which way,” Karl Wagner of Buccini/Pollin said. “It would never work [without the state tax credit], he explained, because unlike an office or retail building, the theater will probably not generate enough revenue to recover the full investment in a time frame that is acceptable for developers.

Though the theater will not open for business until 2011, Bill Taylor, director of the Light Up The Queen Foundation, has been busy lining up programs and tenants including international radio show World Café Live which will broadcast from the facility. With businesses such as restaurants indicating that they are interested in moving into the area once the Queen opens, Taylor has no doubts that the project will be worth it. “When I stood on stage—wow, it was really an amazing thing to see.”



Crews have begun work on repairing the damaged Queen Theater.



Developer Chris Buccini at the kickoff ceremony for the rehabilitation of the historic structure.

## Polk-Henry House

**Location:** Delaware City

**Total Cost:** \$688,030

**Tax Credit Award:** \$137,600

The ghosts that are rumored to inhabit the Polk-Henry house can rest easy. They will be able to keep their home. The house on 136 Washington Street is another one that almost got away through neglect and absence of investment. According to Delaware City’s Community

Development Manager, Paul Morrill, “Plants were growing through the floorboards.” The house, built in 1839, was briefly occupied by Robert Polk and later owned by James Bonaparte Henry, a coal merchant who became a captain in the Union Army. During World War II, a man named “Ducky” Delmar Seimheiser subdivided the building into apartments for soldiers. When John and Anne Pichette first moved in, they rented to tenants, some of whom reported encounters with ghosts who moved furniture and even occupied their beds.

The local fire company bought the house with plans to demolish it in order to construct a new fire hall. Because of the building’s history, “we didn’t want to see that happen,” Morrill said. The city arranged a land swap in which it received the Polk-Henry house in exchange for a property where the fire company could build its new hall. After Wilmington Trust donated a building adjacent to the Polk-Henry house, the city issued a request for proposals to attract an investor who could develop the properties, receiving a successful bid from a local builder.

“We were able to redevelop the whole block and saved the building. It wouldn’t have happened without the city and the tax credit,” Morrill said.



Polk-Henry house during construction.

## The Need Continues

The Sterling Hotel (also known as the Van Amringe house) in Delaware City is a perfect example of the need for continued support of the Delaware Historic Preservation Tax Credit Program. The landmark building is sitting vacant in the center of Delaware City along the canal. Constructed in 1830 and used throughout its history as a storehouse, a hotel, and a tannery, the building later fell on hard times to the point that it was condemned by the city because of safety concerns. No developer would touch it. The city bought the property in 2000 and went to work making structural repairs, rebuilding the exterior, and replacing the leaking roof.

Delaware City is now looking for a long-term leaseholder who can convert the majestic brick building with waterfront views into a much needed visitor destination with a restaurant on the ground floor and retail shops or other commercial uses on the second and third floors. The building currently has no electricity or plumbing, and work is still needed to restore the interior. Incentives such as Delaware Historic Preservation Tax Credits will be critical in motivating investors to take on the risks of completing the restoration of this historic structure.

The Sterling Hotel is one of many possible success stories in Delaware waiting to happen.



The Sterling Hotel, Delaware City.

## Conclusion

These snapshots of the success of Delaware Historic Preservation Tax Credits in communities across the state provide a glimpse of the program's full potential. Much work remains to be done. Vacant, deteriorating historic buildings still dominate many of Delaware's main streets, lowering property values and discouraging businesses from investing in new or existing properties. Unique architectural features, such as tin roofs, verandas, and cupolas continue to be accidentally altered or destroyed.

Planners and managers such as Tracy Skrobot of Middletown Main Street, and Diane Laird, coordinator for Downtown Delaware, can attest to the challenge of getting some owners to clean up eyesores that would help to revitalize downtowns. Even just getting them on the phone can be difficult, according to Laird. However, the state's Historic Preservation Tax Credit "may be just the incentive to buy a house and do the right thing," Skrobot said. "I think it's a great program."

**In the short term**, demolishing a historic structure or converting it into a modern building is easier and cheaper. However, in the long term, the payoff from restoring a 150-year-old building to its original splendor is **far** greater. The study, "The Delaware Historic Preservation Tax Credit Program: Good for the Economy, Good for the Environment, Good for Delaware's Future," conducted by economic development consultant PlaceEconomics, provides a clear picture of the jobs and additional revenue that can and will be gained through the Delaware Historic Preservation Tax Credit Program. What such studies do not show, however, are the priceless benefits that accrue to Delaware's people through the preservation of the state's rich history, from the renewal of its communities, and from investing in people like Lynn Lester, Dan Bond, Jimmy Hackett, and scores of others who work hard and take risks to make their communities a better place to live.

# Acknowledgements

## About the Author

Ann Marie Maloney is a writer and researcher with over fifteen years experience in the fields of public policy and communications. Between 2000 and 2009, Maloney worked for the Maryland legislature as a senior policy analyst where she wrote issue papers, analyzed legislation, and advised lawmakers on public policy. Previously, she was a journalist in Washington, D.C. where she earned an Excellence in Action award for her coverage of major tax legislation. Maloney holds a master's degree in public policy from Georgetown University and a bachelor's degree from James Madison University.

## Photograph Credits

### **Ann Marie Maloney:**

- Photo of Jimmy Hackett, page 1
- Photo of Dan Bond, page 4
- Photo of the Governor Tharp mansion, page 5
- Photos of The Brick Hotel and Lynn Lester, page 6
- Photo of the Queen Theater, page 8
- Photo of Chris Buccini, page 8

### **Buccini/Pollin Group:**

- Photos of the Delaware Trust building lobby, page 1

### **Paul Morrill:**

- Photo of the Polk-Henry house, page 8

### **Phillip Franks:**

- Photo of The Sterling Hotel, page 9

### **Rachel Royer, Preservation Initiatives:**

- Photos of the 300 block of Market Street, page 7