

# The Economic Impact of Historic Preservation Projects

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During the past fifteen years, the conservation of historic resources has become a mainstay of planning and economic revitalization efforts in the United States. Fuelled by historic preservation tax incentives and given increased visibility with the National Main Street Program, conservation efforts have spread from the protection of individual buildings to the protection of entire residential and commercial districts, battlefields and rural areas. However, as the focus of historic preservation has broadened, so too has the effect of conservation efforts broadened to include a wide array of private property rights and municipal budget issues.

With the focus of preservation efforts broadening and beginning to affect not only governmental acquisition of properties, but also the regulation of actions on private property, the most common question asked is "Does historic preservation pay for itself?" Most people in the United States will agree that it is important to celebrate the past, however, when they are faced with making a decision between a new shopping mall or preserving an historic battlefield, the new commercial development most often wins. This result stems mainly from the fact that the economic effects of historic preservation on local and regional economies have been underappreciated, and that most people believe that a commercial development will bring in higher municipal revenues.

This is a loss for many communities who have not chosen to pursue historic preservation opportunities. In addition to providing a sense of time, place and meaning for local residents, the conservation of historic properties has been successful for purely business reasons as will be described in more

detail in the following paper. These include the fact that rehabilitating an existing building may cost less than building a new one and that rehabilitation can bring more jobs into the community than new construction projects. In addition, well preserved historic areas increase tourism and the designation of an historic area can increase local pride, investment, and increase local property values. All of these results of historic preservation are important to the continued vitality of communities, from cities to small towns across the United States.

## Historic Preservation in the United States

The preservation movement was in its infancy in 1966, when Congress passed the National Historic Preservation Act, 16 U.S.C. sect. 470a-047m. This act authorized the Secretary of the Interior to maintain a National Register of Historic Places, which includes historic districts, sites and structures. Although the National Register is the basis of preservation efforts across the country, it does not restrict the development of private property. Listing on the Register merely places controls on federally-funded or assisted projects. In this case, the President's Advisory Council on Historic Preservation may comment and recommend mitigation, or when federal historic preservation tax credits are involved, require that specific preservation standards be met.

In addition to the federal listing, historic preservation programs in the United States also rely on state and local historic site, district and landmark designations for regulatory control. These designations are protected through local ordinances and regionally

through state designations. Local ordinances contain the most strict regulations of private property interests on historic sites.

The local and federal restrictions placed on the development of historic sites can come under attack in the United States as a "taking" of private property rights. For example, it is difficult to argue that the owner of the historic site will make a greater return on his investment by restoring an historic six-storey office building, than by tearing it down and erecting a new twenty-storey office building. The compensation in this case flows directly to the community, which will benefit economically from the character and sense of history that has been maintained. Due to this "community compensation", the courts in the United States have found no "taking" of property under this scenario, and found the overall public benefit to be a positive one. The landmark case with respect to this argument was *Penn Central Transportation Co. v. New York City*, 438 U.S. 104 (1978) where the Supreme Court of the United States found that the owner could continue to make a reasonable return from the protected railroad station property in New York City, even though he was not allowed to tear down the station and erect a highrise building on the site. The court also suggested that if enough landmarks are protected, then there is a reciprocity of benefits between the public at large and the individual property owners.

With respect to restrictions on historic districts, it is far easier to make the case that historic preservation regulations provide a benefit for individual property owners as well as for the public at large. For example, regulations protecting historic resources in areas of the city provide a certain level of certainty for adjacent property owners and developers. Purchasers of property place a high premium, in the form of dollars or faster sales rates, on knowing that the character and scale of the neighborhood will remain constant, and that the building next door won't be razed for a

parking lot. The distinctive character and scale of a historic district can increase retail sales, through increased tourism, community pride and local resident interest.

#### Methods of Valuation

The value of historic resources to a community comes from a variety of sources: the value of the property, the value of the resource as a result of tourism, and the spin-off jobs and associated spending as a result of rehabilitation efforts. For tourism and rehabilitation efforts, both the direct expenditures and the indirect or multiplier effects must be considered. In the United States, the economic impact of historic resources is usually valued using two major methods: real estate valuation and multiplier effects.

Real estate valuation of historic properties is commonly done based on two separate models: comparables, where comparable property that has been sold within the recent past is used to estimate how much the given piece of property would sell for and fair market value. The accepted definition of fair market value is:

"The most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress." (*The Appraisal of Real Estate*, 1983, as cited in Roddewig and Duerksen, 1989)

In addition to standard real estate criteria, the valuation of historic properties adds three major types of value which must be considered (Dolman, 1980) in determining the total value of the resource. These are antique value, architectural value, and historical value. Antique value is the value assigned to the age of a property, representing its distinctiveness as a

representative of the past. Architectural value involves buildings characterized by their architectural integrity, as examples of a period or style, or of the work of a great architect. True historical value is that value given to the property by a person or event in history.

In determining a value for the effects of tourism and historic rehabilitation, all of the direct and multiplier (indirect and induced) economic effects must be determined. The actual amount spent by visitors at businesses and by developers on rehabilitation efforts represents the direct effect on the local economy. These values are usually determined through surveys of visitors and developers, comparisons of retail sales figures and local assessment data.

The direct expenditures account for only a portion of the effect of the historic resource on the economy. For instance, tourists purchase goods and services from local businesses. In turn, these businesses and their employees purchase goods and services from other businesses, from the increased economic activity between different sectors of the economy such as manufacturing, agriculture and transportation. In the vernacular of economists, this "rippling" effect within the local economy is known as the multiplier effect.

#### **The Economic Effects within a Community**

Historic preservation projects have both direct and indirect economic impacts in a community. Direct impacts result from the jobs created and money spent materials for rehabilitation efforts, while indirect impacts result from the increased purchasing power of this spending. Rehabilitation projects are more labor intensive than new construction projects thus, a larger percentage of rehabilitation costs on older buildings go directly to labour than similar new construction projects. Studies show a range of 10 to 15 percent more of the construction budget goes to labour in rehabilitation as compared to new construction (Office of Archaeology and Historic Preservation, 1977. Wilkie

and Farrell, 1992). This has the effect of employing more people locally in rehabilitation projects, with the broader effect of increasing the need for support services and increasing local cash flow. In one study by the Boston Redevelopment Authority, it was found that historic preservation projects between 1978 and 1988 led to 9,433 temporary construction jobs, 16,739 permanent jobs, \$11.6 million in city taxes per year and an annual permanent job payroll of \$334 million (Wilkie and Farrell, 1992).

There are other reasons for viewing historic buildings as economic resources for the community. Saving historic buildings in older urban centres helps assure a diverse supply of office and retail space within a wide range of rents. This makes the central business district a more attractive place to locate for small, start-up business and retailers. "Saving historic buildings in inner city residential areas means saving neighbourhood services such as the tailor, dry cleaner, "ma and pa" grocery, and other small businesses operating on low margins and unable to afford the rents required by new construction projects" (Roddewig, 1987).

The resulting character of rehabilitation projects can also inspire spending from the film and television industry. Massachusetts ranks fourth in the nation for revenue generated from film and TV production generating \$200 million in 1991. (Wilkie and Farrell, 1992) Washington, DC, the nation's capitol, generated \$40 million in 1992.

#### **Tourism**

Historic sites are important visitor attractions to both domestic and foreign tourists. locations, along with recreation, and visiting great natural sites. Most foreign visitors also rate historic significance as an important factor in choosing their destinations in the United States. In 1991, 31.9 percent of all foreign visitors visited historic sites. These 16.2 million visitors spent an average of \$76 per day (US Travel and Tourism Administration, 1992).

The dollars that are spent by both foreign and domestic tourists are a good incentive for communities to preserve their historic resources. Small communities as well as larger centers can reap the benefits of well preserved historic districts. For example, the American Bed and Breakfast Association estimates that over 70 percent of over 15,000 bed and breakfast inns in the United States are housed in buildings 50 years of age or older (Oldham, 1990). In California, over 200 bed and breakfast inns operating in 1983 were located in structures built before 1925. These inns generated \$14 million in visitor expenditures and approximately \$840,000 in bed tax revenues to local governments.

For larger cities, "festival marketplaces" which have been designed to take advantage of the historic character of an area have also led to substantial economic benefits. Quincy Market Land Faneuil Hall Marketplace in Boston are one of the world's most influential models for historic preservation, and draw nearly 14 million visitors annually (Wilkie and Farrell, 1992). In 1981, the Faneuil Hall marketplace in Boston attracted nearly 12 million visitors, and generated about \$1 million in real estate taxes (McNulty, 1985). Baltimore's Harborplace, the city's prime tourist attraction, attracted 18 million visitors in 1981, spending nearly \$679 million and generating \$10.3 million in local tax revenue and 16,000 jobs. In 1979, the year before harborplace opened, only \$5.8 million in tax receipts were generated (McNulty, 1985).

A study of the impact of historic places on the economy of Rhode Island looked primarily at the income generated by visitors to protected historic sites. By surveying the historic sites in the state, the study found that more than \$3.7 million per year was generated by entrance fees alone. Although the survey was not comprehensive, the authors compared the total with state expenditures of \$20 million for historic preservation over the last 20 years showing a net profit for

state owned sites (Nechushtan and manheim, 1988). One of the primary tourist attractions in Newport, Rhode Island are the historic mansions administered by the preservation Society of Newport, attracting over 500,000 visitors annually. Using a random sample survey of mansion visitors, it was determined that these visitors spend approximately \$30 million annually in Newport. The overall impacts of tourism, using an indirect impact multiplier of 1.36, found that the total contribution of the preservation Society to Newport was \$45 million per year, and \$53 million for the state as whole (Crutchfield, 1985).

In another historic seaport community, a local preservation society has been instrumental in shaping tourism to improve its economic vitality. Galveston's success story lies in its enduring attraction as a tourist destination. For decades, Galveston has been synonymous with the sea for many Texans, a place to escape the summer heat. However, since Galveston lies less than one hour south of the metropolitan center of Houston, many of the tourists have been "day-trippers", people who come and enjoy the beaches, spend little money, and leave their garbage behind for the community to pick up. Galveston was unwilling to settle for this level of tourism, and so began to develop alternatives for the tourist, attractions to keep them in the community long enough to make a positive contribution to the economy.

The primary resource that Galveston has to offer its tourists, after the beaches, is its grand collection of historic Victorian architecture. Over the years, Galveston has developed an expanding economy based on tourism and cultural events centered in its historic districts. Galveston has also used its historic districts to improve the quality of life for the residents of the city, inspiring them to support and reinvest in their community.

Tourism spending in Galveston increased dramatically. The 180,000 tourists that visited the Strand Historic

District in 1990 spent approximately \$11.5 million dollars. This led to an increase in retail establishments from 2 stores, restaurants and galleries in 1980, to 126 in 1990. The resulting rehabilitation efforts occurring on the Strand and in Galveston's two residential historic districts yielded benefits to the local economy beyond enhanced property values and neighbourhood stability. Rehabilitation work has provided jobs for Galveston residents both in construction and in retail sales of construction materials. It has also provided a small amount of manufacturing work, primarily in customized mill work. Employees who hold the newly created jobs spend a good part of their wages at stores and restaurants on the island, creating still more jobs for area residents. While the construction-related jobs are temporary and will last only for the duration of the construction projects, they can still provide significant benefits to the local economy if they are several in number and occur over a period of years. Between 1970 and 1990, rehabilitation construction created a total of 2,125 jobs, earning over \$44 million in salaries and wages. In addition, the city earned approximately \$338,000 in building permit fees and sales taxes during the same period (GFRC, 1991).

#### **Effect of Historic District Designation on Property Values**

In many communities, historic designation can increase property value, by conferring a certain amount of prestige and recognition, and by reducing threats from the inappropriate development of surrounding properties. Historic zoning generally protects the size, quality and scale of new construction within the district and also prohibits or severely restricts demolition, thus protecting the character and quality of the area. In addition, historic designation can serve to improve retail trade, tourism, encourage property rehabilitation, and in some cases improve financing opportunities (Listokin, 1985).

On the other hand, designation can at times decrease property value. If an

individual property is landmarked and protected within a zoning district that allows new construction that is greater in scale and density than the existing structure or structures, the landmarked property will often see a reduction in property value due to that reduction in density. Historic designation can also impose additional costs on the property owner such as the increased regulatory costs of renovation approval, maintaining intricate facades, and in some cases, the inability to demolish or substantially alter the existing building. These value adding and value detracting factors are not mutually exclusive. In any given building, these values may cancel each other out or have a net positive effect.

In a study prepared by the Virginia Department of Historic Resources, it was found that there was no negative effect on property value as a result of historic designation. In a survey of local Assessors and Commissioners of the Revenue, the unanimous response was "no loss of assessed value has occurred as a result of historic designation, and that values have risen in general accord with the values of surrounding properties over the years" (Virginia Department of Historic Resources, 1992).

A study of the effects of the creation of historic districts on property values was done in Winnetka Heights Historic District, Dallas, Texas in 1988. By looking at the assessed property value, the market value and the investment in historic district homes, the researchers found a positive effect on property values within the district. The overall assessed value of homes within the district was over \$17,000 higher (1987 dollars), while homes within the district sold for an average of \$30,000 more than homes outside of the district. There was also indication from a windshield survey that properties within the district were in better condition than similar properties outside the edistrict (Warner and Lee, 1988).

In Richmond, Virginia within a ten-block section of Franklin Street, there are five properties listed on the National

Register of Historic Places, three National Register Districts, and three City Old and Historic Districts. Within this area, the typical renovated historic property appreciated in value 22 percent from 1970 to 1975, 32 percent from 1975 to 1980, 50 percent from 1980 to 1985, and 41 percent from 1985 to 1989. During the same period, new construction appreciated only 18 percent from 1985 to 1989. In addition, the per square footage value of renovated properties on Franklin Street is \$21 per square foot greater than that of new construction (Chen, 1990). In another historic district, Shockoe Slip, before designation on the National Register of Historic Places in 1970, there was little reinvestment and many buildings were vacant. In the 30 year period from 1960 to 1990, while the aggregate value of real estate increased by 8.9 percent, values in the Shockoe Slip area increased more than 700 percent (Historic Richmond, 1990).

#### **The Evolution of Federal Tax Incentives for Historic Preservation**

Historically, the Internal Revenue Tax Code provided incentives for people to invest in new buildings rather than old or existing buildings. The Code did this in two ways: by providing more favorable depreciation rates for the first user of a building, and by allowing demolition costs to be deducted as a loss against other income. This tax code bias was exacerbated by government urban renewal and highway programs in the 50s and 60s that favoured development on the fringes of existing towns and cities (Coughlin et al., 1983). With the advent of the National Historic Preservation Act in 1966, the stage was set for major changes in the way that America dealt with its historic resources. But it was not until the Tax Reform Act of 1976 that the tax code was changed to encourage the preservation and rehabilitation of historic structures. Under these changes to the Code, a taxpayer could amortize and deduct rehabilitation expenses or depreciate the substantial rehabilitation of an historic structure at an accelerated rate. The new Code also discouraged the demolition of certified

historic structures. In addition, the Accelerated Cost Recovery Rule (ACRS) repealed the first user bias in depreciation of real estate.

In 1981, changes were made again to the Code in the form of the Economic Recovery Tax, Act of 1981, further reducing the disincentives to historic preservation (Coughlin, et al., 1983). Congress enacted a three level investment tax credit system for historic buildings. The law allowed a 15 percent tax credit for the rehabilitation of buildings 30 years and older, a 20 percent tax credit for buildings 40 years or older, and a 25 percent tax credit for the rehabilitation of certified historic structures.

These rules were again changed in 1986 and simplified to a two tier system in which certified historic structures could qualify for a 20 percent tax credit, and buildings built before 1936 could qualify for a 1 per cent credit. In trying to close all tax "loopholes" Congress had slated the removal of the historic rehabilitation tax credit. A successful case was presented to Congress that the tax credit was having a positive effect on local economies and that the credits were in fact achieving preservation goals. This information provides ample support for continued use of the federal and similarly based local tax credits and incentives for historic rehabilitation efforts.

A variety of studies over the years have shown the positive effects on local economies of federal tax incentives for historic preservation. The gross economic output in the state of New York increased by a total of \$639.7 million from 1976 to 1982 as a result of certified rehabilitations, resulting in \$184.9 million in greater wage earnings. In 1982, a year of high unemployment for the nation as a whole, the tax-act rehabs generated 996 construction jobs and 5,402 jobs in all sectors. The state's economic output grew by \$331.8 million in 1982 due to these rehabs (deSeve Economic Associates, Inc., 1983). New York State received at least \$9.5 million in 1982 tax revenues from personal income, sales, unemployment, and

corporate taxes resulting from certified rehabilitation projects. In addition, New York City earned \$2.7 million, while other communities brought in \$500,000 (deSeve Economic Associates, Inc., 1983).

Between January 1982 and December 1984, a total of 195 certified rehab projects were approved in Texas, representing \$304.55 million in rehab construction work. It is estimated that an additional \$903.63 million was generated in associated goods and services. As a further result of the program, earnings in Texas increased by an estimated \$203 million, which was spurred by additional spending and thus created addition revenues in the form of tax receipts for the Texas treasury and local governments (Shlaes & Co., 1985).

Between 1981 and 1984, 18 buildings in the Pioneer Square Historic District in Seattle, Washington had been completely rehabilitated or were under renovation by 1984. These buildings, with a total of \$15.6 million in rehab tax credits stimulated gross private investments of \$100.4 million. The adaptive use of these previously empty buildings created 88 apartments and 1.2 million square feet of commercial space. In addition to the economic benefits of creating 1,600 permanent, private sector jobs, and 1,100 construction jobs, over \$3.6 million was paid in state sales taxes on construction and annual real estate taxes were estimated to increase by approximately \$1 million per year (Historic Seattle, 1984).

In New York State, investment in the rehabilitation of historic properties jumped from \$28.7 million in 1981, to \$102.7 million in 1982, the first year of the 25 percent tax credit for certified historic structures. This was a 350 percent increase, while new housing starts for the same period were at their lowest level since 1946 (deSeve Economic Assoc., 1983).

#### **State and Local Preservation Incentives**

Many states and local governments in the United States have found it attractive to boost their preservation efforts

through tax benefits for property owners who engage in historic rehabilitations. This "carrot" approach may be particularly appropriate in areas where regulatory programs - the "stick" approach - are not politically feasible. Tax benefits can also be used to augment existing regulatory programs and achieve greater preservation benefits. As is shown by the following studies, the programs can pay for themselves and reap benefits for the community.

The City of San Antonio instituted tax abatements for commercial and residential properties in 1980. Commercial properties that have been restored and certified receive a 100 percent property tax abatement for 5 years, at which time the property is appraised at market value and assessed at half that value for the next five years. Residential properties receive a freeze on assessed value for 10 years, after which the assessment returns to full market value (Robinson and Petersen, 1989). In the period from 1980 to 1989, city staff estimate that approximately \$200 million in restoration has taken place.

The City of Seattle allows a property tax credit for improvements to historic properties, which acts as a reduction in assessed value for 10 years. Between 1985, when the program was adopted in Seattle, and 1989, \$100 million in restoration costs had been approved for 36 properties (Robinson and Petersen, 1989).

#### **Conclusion**

It is clear from the evidence of numerous studies in the United States, that the conservation of historic sites provides economic benefits for the surrounding community and government. However, this information is not widely known, nor has it become accepted in development circles. It is clear that more research must be done in this area, and along with that research, more publicity given to the results. In both the United States and internationally, it is evident that the preservation of historic sites will only receive broad acceptance when the economic benefits are realized.

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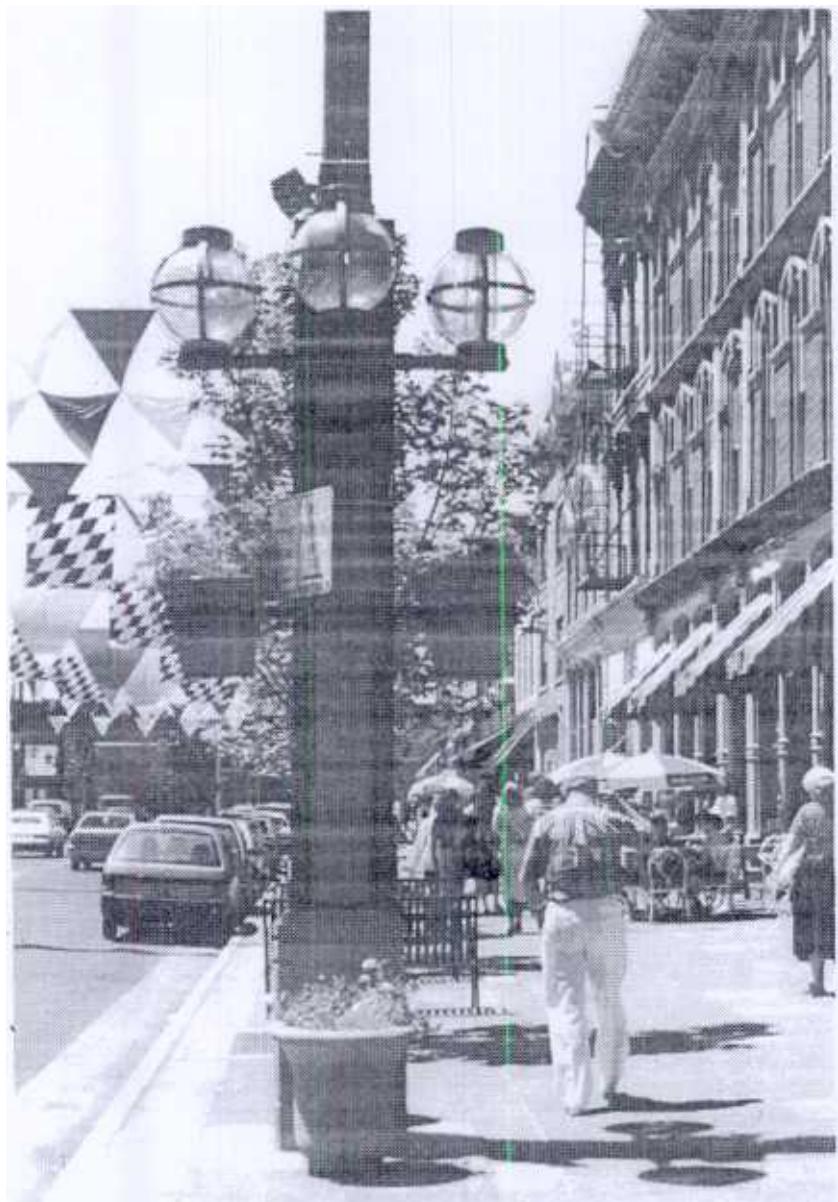
Figure 1. The Conservation of historic sites such as Mesa Verde in Southern Colorado, provides significant tourism income to the local economy. (Photo: Land Ethics)



Figure 2. The rehabilitation of historic residential districts can increase property values through local reinvestment efforts. (Photo: Land Ethics)



Figure 3. The rehabilitation of historic commercial districts such as this one in Denver, Colorado, provide a unique mix of commercial space and shopping opportunities for the city. (Photo: Land Ethics)



**Figure 4.** Many historic towns such as Taos, New Mexico, rely on their historic character to attract tourists and provide a stable base for the local economy.