The Economics of Historic Preservation

A presentation made by Donald R. Rypkema at the 1996 Georgia Historic Preservation Conference, Atlanta, February 16, 1996. Mr. Rypkema, a principal of Real Estate Services Group, is a nationally recognized expert on the economic benefits of historic preservation. His firm specializes in real estate and economic development with an emphasis on historic properties. He lives in Washington, D.C.

In the first paragraph of *The Economics of Historic Preservation*, I quote Greg Paxton, president of the Georgia Trust for Historic Preservation. Greg wrote, "The economic benefits of historic preservation are enormous. The knowledge of the economic benefits of preservation is minuscule." I began the book with that citation because I thought Greg was right on both counts. He is still right on the first point—the economic benefits are enormous. But across the country the understanding of these benefits is growing daily. In the last 18 months, economic analyses of historic preservation have been either completed or are underway in Indiana, New York, Phoenix, Kentucky, Virginia, South Carolina, Maryland, and elsewhere. Why, when in the past there was such a paucity of research, is so much emerging now?

I think there are three reasons. First, the preservation movement continues to broaden, and is no longer dominated by those who consider the discussion of historic preservation and money in the same breath as crass and inappropriate. Second, we are currently in a political environment at all levels of government wherein public policy of all types has to be defended in the vocabulary of economics. But third and most importantly, as we learn from the ongoing research, we are consistently discovering that we don't need to be nervous about the outcome. Study after study shows that far from being a luxury which can be dispensed with in difficult fiscal times, far from being a hamper on economic growth, far from being cute buildings and house museums, historic preservation has an enormous positive impact on local economies and can be at the core of a long range economic development strategy.

Stop a moment and consider why state and local governments have economic development programs at all: to increase the tax base, to increase loan demand and deposits in local financial institutions, to enhance property values, to generate additional sales of goods and services, and—most importantly—to create jobs. What does historic preservation do for a local economy? Increases the tax base, increases loan demand. enhances property values, generates sales of goods and services, and—most importantly—creates jobs.

Jobs Creation

In Georgia, $1,000,000 spent rehabilitating an older building creates 39 jobs—20 in the construction industry and 19 elsewhere in the economy. That is, by the way, 2.2 more jobs than the same amount spent in new construction. Because of this greater impact on the local economy, every time a decision is being made on a new school, a new city hall, a new courthouse, historic preservation needs to be considered among the alternatives. Local officials who don't consider the preservation option cannot claim to be doing all they can to support local economic development.

But it isn't just in comparison to new construction that preservation is a favorable job creator. In Georgia a million dollars of historic preservation creates **12 more jobs** than manufacturing a million dollars of electronic equipment, **13 more jobs** per million than does textile production, and **29 more jobs** than harvesting a million dollars of timber. Historic preservation means jobs for Georgia.

Numbers of jobs, however, is but one way to measure local economic impact. Another is the output generated throughout the economy through the activity within a particular sector. Here again preservation stands up well. In Georgia, $1,000,000 spent rehabilitating an historic building ultimately adds nearly **$2.3 million** to the state's economy. This is a larger overall impact than $1,000,000 of hotel room rents, $1,000,000 of peanut production, or $1,000,000 of communications output. Historic preservation means benefitting the entire Georgia economy.

Household Income

The other most common way of measuring the economic importance of an individual sector of the economy is to determine how much household incomes increase as a result of production within the sector. Here again historic preservation is among the most potent. $1,000,000 spent rehabilitating an historic building adds $819,000 to household incomes of Georgia residents. This is not only $112,000 more than the same amount of new construction but also $182,000 more than $1,000,000 worth of furniture manufacturing, $108,000 more than $1,000,000 in wholesale trade and $156,000 more than $1,000,000 of restaurant sales. Historic preservation adds to the household incomes of Georgians.

Heritage Tourism

A few years ago the Historic Preservation Division of the Georgia Department of Natural Resources completed an excellent study of the impact of historic preservation on local economies in Georgia. One of the major industries benefiting from preservation was tourism—probably no surprise to anyone in this room. Last fall, the Preservation Alliance of Virginia released a report on preservation's impact on Virginia's economy. Here's what we learned regarding tourism - preservation visitors stay longer, visit twice as many places, and spend two and a half times as much money as do non-preservation visitors. As in Virginia, historic preservation brings tourist dollars into Georgia's economy.

Neighborhoods and Property Values

Let's talk about neighborhoods for a moment. By far the largest percentage of historic properties in America is made up of houses in historic neighborhoods. There is sometimes a concern that creating local historic districts to protect those neighborhoods will have an adverse effect on property values. The one type of evaluation of the economic effect of preservation that has been most frequently conducted is that one—what effect does historic districting have on property values. There is some variety in the outcomes—some studies show rates of appreciation in historic districts much greater than the market as a whole; some show historic districts are an important catalyst to new investment in the neighborhood; some that the existence of an historic district protects the neighborhood from wide volatile swings in the real estate market. But not one study I have read—and I think I've read almost every one that's been done—not one shows that historic districts reduce property values, not one! In the Virginia study we looked at the five historic districts in the small town of Staunton. In every case the rate of property appreciation—among both residential and commercial property—was greater than the city of Staunton overall.

One of the criticisms that preservation sometimes receives is that historic districts may benefit property values in rich neighborhoods but are only a burden in moderate income neighborhoods. In Staunton, four of the five historic districts contained residential property. In two of them the average house value was greater than the citywide average value. In the other two, however, the average value was in fact below the typical price throughout the community. What this means is that even though two of the four historic neighborhoods contained housing termed "affordable" and occupied by families of very modest means, still those property owners benefitted by increased values at a rate greater than people, rich or poor, living in non-historic neighborhoods. Historic preservation benefits people of modest means.

But let's look for a moment at the other side of the coin—neighborhoods where property values are falling. A couple of years ago, the National Association of Home Builders analyzed which factors played the biggest role in changing property values. And you know what had the greatest adverse effect on value? Empty and abandoned buildings in a neighborhood. And where, in our towns and cities of every size, do those vacant and abandoned houses exist? In our older and historic neighborhoods. This is more than just local governments losing tax revenues. For the vast majority of us our home is our biggest financial asset. When we allow older neighborhoods to deteriorate we are literally stealing the savings of our citizens. And in too many communities city government is consciously allowing that felony to take place.

Meaningful public intervention in close-in neighborhoods is dismissed by saying, "They're just a bunch of old houses that are about to fall down anyway," or we allow demolition for parking, or intrusions of commercial uses, or fail to enforce property maintenance ordinances, or concentrate public housing there, or cut back on municipal services, or let the schools fall apart, and guess what happens? Properties first go into tax delinquency, then suffer deferred maintenance, mortgage foreclosure, abandonment, vandalism, and finally demolition—by neglect, or arson, or misguided public policy. And, importantly, the loss isn't just to the property owner and the mortgage holder. The entire neighborhood suffers an economic loss.

And then, in addition to this malign neglect of close-in older neighborhoods, the city at the same time is encouraging, usually subsidizing with scarce taxpayers' dollars, the continuing expansion at the edges. Any competent industrial developer today understands at the top priority is retaining the industries you already have, followed by encouraging the expansion of existing firms, and only then focusing on trying to attract new companies. Absolutely the same priorities ought to apply to neighborhoods —first maintain the ones we have, then encourage the reinvestment in and expansion of existing neighborhoods, only then spend scarce resources on building new subdivisions.

Today everyone claims to be for fiscal responsibility, and I happen to share that philosophical position. But the Urban Land Institute—hardly the foe of development—has reported that the life time public costs of servicing dispersed development is between 30 and 300 percent more than meeting the needs of more compact development. Any public official who allows the continued deterioration of older neighborhoods while at the same time providing the public infrastructure for suburban sprawl simply cannot claim to be fiscally responsible. There is no more flagrant waste of local taxpayers dollars than this combination of neglected neighborhoods and subsidized sprawl. Anyone who tells you differently is a liar or a fool.

What mayor of a community of any size doesn't struggle with how to get middle-class taxpayers to move back to the city? But think for a minute where there have been packets of back-to-the-city migration—St. Paul, Chicago, Louisville, Boston, New York, Des Moines, Seattle, Oakland. It has not been back to the city in general—in fact many of those cities are still losing population overall. In every instance, it has been back to historic neighborhoods within the city. City governments that allow their historic neighborhoods to disappear through demolition, neglect, commercial encroachment or abandonment preclude themselves from being beneficiaries of a future back-to-the-city movement.

Downtown Revitalization

But the bulk of my work isn't in residential neighborhoods. It is in downtowns and urban commercial districts. I have a hard time separating downtown revitalization and historic preservation. And here's the reason. I visit about a hundred downtowns a year. I have never been in one that had a successful record of economic revitalization where historic preservation wasn't a key element of the strategy. That doesn't mean such a place doesn't exist—successful downtown revitalization without historic preservation—but I haven't been there, I haven't heard of it, I haven't read of it.

And of course leading that process is the National Trust's National Main Street Center and statewide programs like your very successful Georgia Main Street Program. I defy anyone to find an approach to economic development of any kind—downtown revitalization or other—that makes a more frugal use of public resources with a larger impact on the local economy. In an environment where some states are paying $150,000, $200,000, even $250,000 of public incentives per job to attract some new industry, the cost effective, fiscally responsible economic development approach of Main Street provides sharp contrast indeed. The cost/benefit of Main Street is without parallel.

And, we are in a time when all kinds of public policies are subject to economic cost/benefit analysis. I for one think that's a perfectly appropriate measurement by which public issues be considered. As most of you know, the Historic Rehabilitation Tax Credit—although only a shadow of what it was a decade ago—has been a major component of not only historic preservation, but downtown revitalization, neighborhood stabilization, affordable housing, and economic development throughout the country. But maybe it's time we looked at the cost/benefit of the tax credit.

In Fiscal Year 1995 the Department of the Interior reports that there were 529 projects representing investment of $467,000,000. What is the cost of that program to the Federal Treasury? Well, with a 20 percent tax credit, the revenue loss to the treasury is a maximum of $93,400,000. But what is the economic benefit? Income taxes paid by construction workers of almost $51 million; income taxes from other workers of over $39 million; business income taxes of nearly $15 million; capital gains taxes of over $19 million; totaling Federal economic benefits from this program of $124,250,000 last year—significantly more than the revenue cost.

Additionally, this activity created 14,000 jobs, added $348 million to local household incomes, and will generate each year local property tax revenues of between **$7 and $11 million.** Independent of the social, cultural, and aesthetic benefit historic preservation provides, the U.S. taxpayers are absolutely getting more than their money's worth with this program. And I thought that's what reinventing government was all about.

But, I'm afraid that sometimes when we are talking about hundreds of millions of dollars and tens of thousands of jobs we miss the point. I want to tell you a short story on an entirely different scale. For the last three years I have been privileged to work with the National Trust on a demonstration program in three urban commercial districts. One of these pilot projects is an inner city Detroit neighborhood. There, with some guidance by a great local development corporation, a little technical assistance, and a loan guarantee from the National Trust, Omar Hernandez bought an 1890 three- story commercial building that was once the Odd Fellows Hall.

This was hardly a giant project—maybe Omar spent a total of $120,000 acquiring and rehabilitating the building. But for five months now Omar's Mexicantown Bakery has been open for business. Omar today has customers from all over the metropolitan Detroit area and is making way more money in the bakery than his most optimistic projections indicated. That's economic development.

He now employs nine people in addition to the three family members who work there. And that's economic development.

Nearly every day Omar gets a call from someone asking if there's space in the building available for rent, and offering $8 to $12 per square foot. This in a neighborhood where, before Omar opened up, the highest rents were perhaps $4 or $5 a foot. And that is economic development.

Omar and his family are hard workers - the bakery is open until 8 o'clock five nights a week and until 9 o'clock on Friday and Saturday — a seven day a week operation. But Omar doesn't complain about the long hours. He's a great small businessman and is very happy about the deposits he's making in the bank every day.

But, you know what he's most thrilled about? Over Christmas, lots of young people came back to the neighborhood— as they do in every neighborhood—kids in their late teens and early twenties. And they all stopped in at Mexicantown Bakery. And they told Omar and Cecilia how proud they were of their neighborhood and of Hernandez for reinvesting there. That small investment told them someone cared about their neighborhood. And that too is economic development.

But Omar's investment in Detroit is representative of another reality of today's economic development and that is the scale of the enterprises that are creating nearly all of the net new jobs in this country. Jobs are being created by firms employing less than 20 people—not IBM, AT&T, GM or the rest of the Fortune 500 alphabet. Every day, we hear of the tens of thousands being laid off by those firms.

The Workforce and the Workplace of the Future

Now what does all of this have to do with historic preservation? I call it the myth of the 20,000 square foot floorplate. You know that office tower developer and his leasing agent with their leased Mercedes, rented Armanis and cubic zirconium pinkie rings? Weekly, they are at city hall saying, "We have to raze these old buildings because the tenant today needs a 20,000 square foot floor plate, older buildings can't accommodate them, if we're going to grow, it has to be with big buildings." Some would call that an out and out lie. I would rather think of it as factually challenged.

Of the 20 fastest growing industries in the country, do you know the average firm size? 11 people. Now how much space do those people need. Well, it will vary a little but, 200 to 250 square feet per person would be typical - or around 2500 square feet. What is the size of the typical older building in your Main Street? 25 by 100 or 2500 square feet. And regardless of poor configuration, virtually all older office buildings can provide readily useable space ranging from 500 to 5000 square feet. We ought to be thinking about our historic commercial buildings—particularly in our downtowns of every size—as our industrial parks for growth industries.

You know as preservationists we often celebrate high quality restorations of landmark buildings certified by the Secretary of Interior, and that pride is certainly warranted. But there is another aspect of preservation that too often we overlook. Older commercial buildings—even if they haven't been rehabilitated—serve a crucial role in meeting the challenges of today's economic development.

A start up business has very few costs that it can control—utility costs, taxes, wholesale purchases, equipment, insurance premiums—these are all costs that are largely fixed. One of the few budget items over which decisions can be made is occupancy costs—rent.

Older commercial properties provide the locational affordability critical for the survival of small and start-up businesses. These older structures serve as incubators in which new businesses can grow. The real estate fact of life is this—barring massive public subsidies, cheap space cannot be provided in new buildings. It can't be done. We need to maintain a sizable inventory of older structures if for no other reason than that the source of economic growth in this country—small businesses —need a place they can afford.

Well, I think there are probably a dozen more ways that historic preservation contributes to the economy. But I'm not really in the business of historic preservation. I'm in the business of economic development. So I want to conclude with some observations of what's going to be important in economic development in the coming years.

By early in the next century, the workforce is going to be divided roughly in thirds. A third of us will be able to live absolutely anywhere we choose. This group will include consultants like me, but also the actuary for the insurance company, the stock broker, the software engineer, the import-export dealer, and hundreds of other job categories. These people will be able to live anywhere there is a telephone and electricity.

Another third of us will have to live someplace, but that someplace can be anyplace. The police officer, the clergyman, the dentist, the school teacher, the garbage collector. While these jobs will have to be attached to a location, since every location needs them, the choice of which location in which to work will be nearly limitless.

Therefore, two-thirds of the entire workforce will be locationally independent—can choose virtually anyplace in which to live. No longer will most of us need to care where the port is, or the factory, or the mine. We will live not where our job mandates, but where we choose. And that choice will be made not on how cheap the utility rates, how close to major markets, or how near the Interstate. It will be based on that overused phrase, quality of life. We will each have a different set of variables that constitute our own quality of life criteria.

I live in the middle of Washington, DC, although, in fact, I could live anywhere. And it is because Washington provides a very high quality of life for the things important to me. I understand that many of you wouldn't want to live there—your set of criteria are different than mine, and that is as it should be. But underlying any sustainable quality of life has to be **a sense of community, a sense of belonging, a sense of ownership, a sense of evolution**. That's why few of us would choose for our permanent home Club Med or Disneyland, fine places to visit, of course, but no sense of ownership or evolution, belonging - in short no sense of community.

Sustainable Growth and Quality of Life

For those industrial development types still wearing their Nehru jackets and thinking the only route to economic growth is recruiting one more manufacturer, these quality of life, sense of community factors will be dismissed as imaginings of some aesthetic elite. They are very wrong. Companies who are attracted to communities because they were given a free lot in the industrial park, or to save 20 mills on their property taxes, or because they can hire workers at 50 cents an hour cheaper, will pick up and leave when the town down the road, or the country across the Caribbean cuts taxes another nickel or gives them both the land and the building, or has even cheaper workers.

Sustainable economic growth will come from companies who choose your community because of the quality of life it provides. But quality of life is fragile - those things that make up a given community's quality of life need to be identified, enhanced, and protected. And that's where historic preservation comes in. Historic buildings are an important element in most communities' quality of life criteria because it is those buildings that provide a sense of belonging, a sense of ownership, a sense of evolution—that sense of community that sustainable economic growth requires.

That is also why the biggest threat to tomorrow's sustainable economic growth is not high taxes, lack of capital, or shortage of entrepreneurial capacity. Rather, the biggest threat is the so called "property rights" movement. Think about it. If quality of life is the most significant variable for economic development, and if the physical environment is a major element in the quality of life criteria, then there is no greater threat to sustainable economic growth than the elimination of those community-based enactments whose sole purpose is the protection of that physical environment whether it is built or natural. In the name of real estate rights, these myopic fast buck artists are the ones dooming the economic future of our communities—not the preservationists, environmentalists, and our allies. Yet the property rights advocates are getting away with claiming the opposite. I'm all for property rights, but where is the discussion of property responsibilities? That's where we need to move the focus.

Conclusion

I want to conclude with two quotations from very disparate sources but both of which bring us back to this relationship between historic preservation and economy of our community. First, from *Marketing Places*, the most cutting edge book on economic development, the authors write,

> Current approaches . . . emphasize . . . ways to resurrect the older character and history of places. Such thinking also requires vision, blending old with new, and an appreciation that place character is a valuable asset in retaining firms and people as well as in attracting new investment and businesses . . . . Places lose much when they neglect or destroy their historical landmarks. City officials, erroneously thinking that the cost of maintaining these places exceeds their value, may bulldoze mansions and historical structures to make room for faceless new buildings.

And then back nearly 150 years, John Ruskin was referring to buildings but I think what he said applies to our entire communities as well. He wrote,

> When we build let us think that we build forever. Let it not be for present delight, nor for present use alone; let it be such work as our descendants will thank us for, and let us think, as we lay stone on stone, that a time is to come when those stones will be held sacred because our hands have touched them, and that men will say as they look upon the labor and wrought substance of them, 'See! This our fathers did for us.'

What you are doing for historic preservation in Georgia today, your descendants will thank you for.