CHAPTER ONE

Background to the Analysis of the Economic Impacts of Historic Preservation

NEED FOR INFORMATION ON THE ECONOMIC IMPACTS
OF HISTORIC PRESERVATION

Until almost the mid-twentieth century, the idea of historic preservation sentiment was alien to the American reverence for the new. There were but a handful of exceptions. Independence Hall, slated for demolition, was purchased by the City of Philadelphia in 1816, and Mount Vernon was saved by a valiant private women's group in the 1860s. Private philanthropy from the Rockefeller family helped restore Colonial Williamsburg in the mid-1920s. In the mid-1930s, there was some nascent public preservation action. The federal government, authorized by the 1935 Historic Sites Act, began identifying nationally significant landmarks on the National Register of Historic Sites and Buildings. From the 1930s to the 1950s, a handful of communities, most notably New Orleans and Charleston (South Carolina), established local preservation commissions to identify and protect selected historic districts.

These preservation activities, however, were the exceptions. More typical was destruction of even acknowledged landmarks. Penn Central Station in New York City is a prime example. In fact, federal programs, ranging from urban renewal to the interstate highway systems, fueled the demolition of the nation's historic heritage. Partly in reaction to the widespread losses of historic properties, a regulation system for preservation developed by the 1960s. At the federal level, the National Historic Preservation Act (NHPA) of 1966 created a National Register of Historic Places and a review process, Section 106 of the NHPA, to evaluate federal undertakings that threatened National Register resources. With federal funds from the NHPA, state historic preservation offices (SHPOs) were established which helped identify sites and structures to be placed on the national as well as state registers. Many states further enacted "mini-106" procedures to evaluate state and local government actions threatening properties on the state register.

Most significant was the establishment of local preservation commissions (LPCs). LPCs were created to conduct surveys to identify historic resources and then take appropriate action to designate these resources as landmarks. Once designated, the landmarks could not be demolished or their facades altered in an historically accurate fashion without the approval of the LPCs; at minimum, these actions would be delayed pending LPC review.

In a short period historic preservation has mushroomed in scope. From about 1,000 entries on the National Register of Historic Places in 1968, today there are nearly 70,000. There have been almost 50,000 Section 106 reviews. In a few years the National Trust for Historic Preservation's "Main Street Program," designed to revitalize older downtowns, has grown from a handful to hundreds of successful examples nationally. Local historic commissions totaled only about 20 as of the mid-1950s. Civic spirit fueled by the Bicentennial increased that number to 100, and today there are almost 2,000 local commissions. Other barometers of historic preservation activity also show quantum increases (Exhibit 1.1); still, preservation remains the exception rather than the rule.

Preservation has accomplished much. Icons that have been saved, such as Grand Central Station, are important to the perception of quality of life. Less dramatic, but equally as important, is the preservation of thousands of residential neighborhoods and downtowns throughout the United States.

FISCAL YEAR	Annual Listings on National Register of Historic Places (entries)	Cumulative Listings on National Register of Historic Places (entries)	Annual Advisory Council Section 106 Review (cases)	Cumulative Advisory Council Section 106 Review (cases)	Local Historic District Commissions	Annual Historic Preservation Fund (millions of dollars)	Cumulative Historic Preservation Fund (millions of dollars)	Annual Rehab Tax Credit Investment (millions of dollars)	Cumulative RehabTax Credit Investment (millions of dollars)	Annual Tax Credit Projects Approved	Cumulative Tax Credit Projects Approved
1955					20						
1966					100						
1967			0	0							
1968	1,204	1,204	5	5		$0.õ9328 3	$0.õ9328 3				
1969	359	1,563	22	27		0.1	0.4				
1970	832	2,395	57	84		1.0	1.4				
1971	1,026	3,421	81	165		6.0	7.4				
1972	1,533	4,954	152	317		6.0	13.4				
1973	2,162	7,116	311	628		7.5	20.9				
1974	2,151	9,267	689	1,317		11.5	32.4				
1975	1,987	11,254	1,104	2,421		20.0	52.4				
1976	2,284	13,538	2,263	4,684	492	24.8	77.2				
1977	1,563	15,101	2,369	7,053		17.5	94.7				
1978	3,120	18,221	1,759	8,812	578	45.0	139.7	$140	$140	512	512
1979	2,783	21,004	2,264	11,076		60.0	199.7	300	440	635	1,147
1980	3,027	24,031	1,623	12,699		55.0	254.7	346	786	614	1,761
1981	518	24,549	2,700	15,399		26.0	280.7	738	1,524	1,375	3,136
1982	3,140	27,689	1,827	17,226	832	25.4	306.1	1,128	2,652	1,802	4,938
1983	4,525	32,214	2,261	19,487	1,000	51.0	357.1	2,165	4,817	2,572	7,510
1984	3,814	36,028	2,241	21,728		27.5	384.6	2,123	6,940	3,214	10,724
1985	994	37,022	1,094	22,822		25.5	410.1	2,416	9,356	3,117	13,841
1986	3,401	40,423	1,400	24,222		23.7	433.8	1,661	11,017	2,964	16,805
1987	2,498	42,921	2,453	26,675		24.3	458.1	1,084	12,101	1,931	18,736
1988	2,035	44,956	1,700	28,375		28.3	486.4	866	12,967	1,092	19,828
1989	3,157	48,113	2,186	30,561		30.5	516.9	927	13,894	994	20,822
1990	2,285	50,398	1,544	32,105		32.9	549.8	750	14,644	814	21,636
1991	3,834	54,232	1,647	33,752		34.5	584.3	608	15,252	456	22,092
1992	1,837	56,069	2,000	35,752		35.5	619.8	777	16,029	655	22,747
1993	1,539	57,608	2,332	38,084	1,863	36.9	656.7	548	16,577	566	23,313
1994	1,718	59,326	2,911	40,995		40.0	696.7	483	17,060	521	23,834
1995	1,514	60,840	2,831	43,826	2,000+	41.4	738.1	469	17,529	548	24,382

The aesthetic and quality-of-life benefits of preservation are acknowledged. Regarding the quantifiable economic contribution of preservation, however, there is often a defensiveness. While proponents of investment in such areas as public infrastructure and new housing construction tout the job, income, and other financial benefits of their respective activities, historic preservationists are much less vocal about the economic benefits that accrue from their activities.

A dearth of information on the economic benefits of preservation has unfortunate consequences, especially in competing for public and other supports. Take, for instance, the federal preservation tax incentive (hereafter referred to as the FPTI). Initiated in the late 1970s, the FPTI has generated $17.5 billion investment in historic preservation, encompassing about 25,000 separate projects. The FPTI is the most significant federal financial support for preservation, eclipsing even the Historic Preservation Fund that supports SHPOs (see Exhibit 1.1). Despite its accomplishments, the FPTI has been under assault from those working to reduce federal tax incentives. In 1986, the FPTI tax credit was reduced from 25 to 20 percent, and there are periodic calls for further reductions or even elimination of the FPTI. Critics of the FPTI harp on its costs to the Federal Treasury. Preservationists, however, have failed to document the FPTI's full economic benefits. This omission, in part due to the fact that a methodology for documenting the FPTI's benefits is not readily at hand, puts preservation at a competitive disadvantage against those arguing for federal tax breaks for other investments (e.g., capital gains and infrastructure) and marshaling arrays of statistics to support their respective causes.

There are parallel developments at the state level. With the federal government cutting back and states ascending as implementers and funders, state activity has become more significant in historic preservation. It is no accident that a recent publication from the National Trust for Historic Preservation is entitled *Smart States, Better Communities* (Beaumont 1997). Numerous states, including Florida, Maryland, New Jersey, and Vermont, have passed bond issues to foster preservation. New Jersey, in fact, is a national leader in this regard. But there are many demands on the public purse, and state bond monies for preservation is in competition for bond support for other state investments ranging from adding new or rehabilitating existing highways to providing affordable mortgages for new housing. Preservationists often do not have hard numbers on the economic benefits of their projects, as do the proponents of competing investments. The same is true when other state preservation incentives are proposed, such as a state income tax credit. State legislators might be more inclined to support such a credit if they were presented with evidence that their home constituencies would benefit from increased jobs, income, and spending as a result of the credit-induced preservation. Yet, such evidence is often not marshaled because the procedures for measuring the economic benefits deriving from preservation projections are not developed.

In summary, the dearth of "hard" economic numbers on preservation and procedures to quantify these benefits have significant adverse implications. It should not be this way, for historic preservation generates extensive economic accomplishments. In fact, preservation's benefits surpass those yielded by such alternative investments as infrastructure and new housing construction.

This study documents the benefits of preservation and develops procedures for assessing its economic effects that others may apply. The focus of the study is the state of New Jersey. No previous analysis has examined the economic impacts at a statewide

level to the scope and detail of this study. To set the perspective for the current investigation, prior literature is briefly reviewed here. (An extensive listing of relevant literature and annotations of critical studies are contained in the bibliography.)

PRIOR LITERATURE ON THE ECONOMIC IMPACTS
OF HISTORIC PRESERVATION

Studies conducted in the late 1970s and early 1980s on the nominal topic of the economic benefits of historic preservation in fact focused less on economic benefits and more on financial feasibility. (This was still a time when the feasibility of preservation vis-à-vis new construction was still an issue.) For example, the *Economic Benefits of Preserving Old Buildings* (National Trust for Historic Preservation 1982) considered such topics as hidden assets of old buildings, the costs of preservation, the types of government grants available for the preservation process, and the advantages of historic preservation from a private financier's viewpoint.

Some of the early literature did introduce into the discussion economic effects, typically in anecdotal or case study fashion. For instance, *The Contribution of Historic Preservation to Urban Revitalization* (Advisory Council on Historic Preservation [ACHP] 1979), investigated the effect of historic preservation activities in Alexandria (Virginia), Galveston (Texas), Savannah (Georgia), and Seattle (Washington). According to the ACHP, historic designation and attendant preservation activities provide many benefits including saving important properties from demolition, fostering construction, and providing a concentrated area of interest to attract tourists and metropolitan-area visitors. Designation also was found to have the beneficial effect of strengthening property values—an impact documented by comparing the selling prices of buildings located within versus outside the historic districts in Alexandria and other cities studied.

The economic topics considered by the Advisory Council on Historic Preservation in 1979—preservation's relationship to property values, tourism, and construction—have been revisited numerous times, typically on a case study basis (see bibliography). For instance, Samuels (1981) examined increases in property values in designated historic neighborhoods in Washington, D.C.; Schaeffer and Ahern (1988), Benson and Klein (1988), Ford (1989), Gale (1991), and Leithe et al. (1991), did similar property value analyses in Chicago, Cleveland, Baltimore, Washington, D.C., and Galveston, respectively.

Construction and tourism effects from preservation have also been studied by numerous authors. For instance, Lane (1982) and Johnson and Sullivan (1992) examined the tourism benefits from Civil War battlefield visitation. Avault and Van Buren (1985) examined the economic contributions of historic rehabilitation construction activity in Boston, and a similar analysis was done in Atlanta by the Center for Business and Economic Studies (1986).

Our review of the existing literature shows some changes over time. The geographical scale of analysis in considering economic impact has expanded. Whereas earlier the focus was typically a neighborhood or two (e.g., Philadelphia's Society Hill or Seattle's Pioneer Square), investigations are now more typically citywide (e.g., Fredericksburg, Virginia, and Galveston, Texas), and there have been some examples of statewide studies, such as in Virginia (Preservation Alliance of Virginia 1996) and Rhode Island (University of Rhode Island 1993). In combination, some of these more

geographically encompassing studies have examined not only the direct but the total economic effects of historic preservation, the latter including multiplier benefits to the larger state and regional economies.

For example, the University of Rhode Island (1993) reviewed the impacts of the Rhode Island Historical Preservation Commission's (RIHPC) programs on the state economy in the areas of employment, wages, value added, and tax revenues generated. To that end, the study used computer models of the state economy to incorporate both direct and multiplier impacts. The study found that the greatest impacts of RIHPC's programs were in the construction-related industries, with retail sales and service industries affected positively as well.

A methodology for examining the total (direct and multiplier) impacts of preservation was developed by Joni Leithe, Thomas Muller, John Peterson, and Susan Robinson of the Government Finance Research Center (Leithe et al. 1991) for the National Trust for Historic Preservation. This work, important to the field, included approaches for estimating the benefits of construction activity, real estate activity (e.g., historic property value appreciation), and commercial activity (e.g., enhanced tourism). Leithe et al. applied the methodology in Fredericksburg, Virginia, and Galveston, Texas (Government Finance Officers Association 1995). For instance, in Fredericksburg, historic preservation was found to have the following effects:

- Over an eight-year period, 777 projects totaling $12.7 million were undertaken in the historic district. These projects created approximately 293 construction jobs and approximately 284 jobs in sales and manufacturing.
- Property values, both residential and commercial, experienced a dramatic increase. Between 1971 and 1990, residential property values in the historic district increased an average of 674 percent as compared to a 410 percent average increase in properties located elsewhere in the city.
- In 1989 alone, $11.7 million in tourist purchases were made within the historic district, and another $17.4 million outside the district, with secondary impacts resulting in $13.8 million.

No overview of literature on the subject would be complete without mentioning *The Economics of Historic Preservation* by Donovan Rypkema (1994), which compiled results from numerous studies showing the economic benefits of preservation. Rypkema also was the author of the Virginia report (Virginia Preservation Alliance 1996) that summarized how preservation benefited the state's economy from tourism, construction, business development, and property value enhancement. Rypkema's numerous and important contributions to the field are noted in the bibliography to this study.

CURRENT STUDY SCOPE AND METHODOLOGY

The current investigation builds from, and adds to, the state of the art as reflected in the extant literature. Some of the distinguishing characteristics of the current study are its:

1. statewide scope
2. development of preservation-specific data

3. comprehensive linked analysis
4. use of a state-of-the-art input–output model

Statewide Scope

The current investigation is truly statewide in scope. It develops statewide figures on the amount of historic rehabilitation and heritage tourism, and the operations of historic sites and organizations. Other state investigations have not done this to the same scale. For instance, the Virginia study (Preservation Alliance of Virginia 1996) examined the construction impacts from the rehabilitation of some Virginia historic properties, as opposed to the full inventory of such state activity—information which was simply not available. In the present New Jersey study, figures are developed via sampling and estimating on the statewide historic rehabilitation that is effected; further, these data are differentiated by area (e.g., amount occurring in urban, mature suburb, developing suburb, and rural communities) and related to the scale of new construction and nonhistoric rehabilitation.

Development of Preservation-Specific Data

Some other studies have developed preservation-specific information, such as the profile and spending of heritage versus non-heritage tourists (Preservation Alliance of Virginia 1996), but few do this to the extent accomplished here. Thus, the chapter on heritage tourism in this study develops side-by-side profiles of all tourists (historic and non-historic), as well as such subgroups as heritage versus non-heritage day-trippers, heritage versus non-heritage overnighters, and still further declensions (e.g., "primary" versus "partial" heritage overnighters). This side-by-side profiling is accomplished for many types of characteristics such as demographic background, trip length and origins, and trip spending, with the latter differentiated into many components (e.g., food, retail purchases, vehicle expenses, and sightseeing and recreation) and subcomponents (e.g., vehicle expenses broken down into gasoline, parking, rentals, and repairs). The point is not detail for detail's sake, but rather that the more precisely the nature of spending of heritage travelers is detailed, the more precise the projection of economic impact of this aspect of preservation.

The more refined development of preservation-specific data is especially pronounced in the current study concerning the breakout of historic rehabilitation expenditures. Many studies to date use "canned programs" that have information on rehabilitation in general. But historic rehabilitation is not the same as "general rehabilitation." To that end, the current study "deconstructs" in great detail the components of historic rehabilitation. It examines almost 60 historic rehabilitation projects encompassing nearly $100 million of construction of different buildings (single-family, multifamily, and nonresidential) and of different types of work (e.g., less versus more extensive systems upgrading, and interior versus exterior repair). From these detailed case studies, the current analysis specifies the precise "bundle" of construction activities comprising historic rehabilitation according to a 16-division taxonomy which includes such components as "doors and windows," "finishes," "metals," "masonry," and so on. This detailed breakout of the components of historic rehabilitation permits a much more precise estimate of the economic impacts of historic rehabilitation, which in turn, is one of the most important components of historic preservation.

Comprehensive Linked Analysis

As there are many facets to historic preservation, a study of its economic impacts should incorporate as many of these as possible. The current investigation attempts to do this by analyzing the respective economic contribution of 1) historic rehabilitation, 2) heritage tourism, 3) operation of historic sites and organizations, and 4) property value and property tax contributions. This is not to say that "everything" is included: for instance, business development from "Main Street" programs is not included. (New Jersey, however, does not have as long-established a Main Street initiative as some other states.) The study does, however, include the economic contribution of historic sites and organizations, such as historic house museums and historic societies. These entities are vital to historic preservation efforts in the United States, yet their economic contribution has heretofore not been included in studies of the economic benefits of historic preservation.

The comprehensive inclusion of the many components of historic preservation in an economic assessment must carefully avoid double counting. For instance, if all the activity of Main Street investments, historic rehabilitation, heritage tourism, and the operation of historic sites and organizations were included, there would be duplicative counting because each one of these entities includes historic rehabilitation, which presumably is already tallied in the separate historic rehabilitation component.

The current study avoids this. For instance, in considering the economic contribution of historic sites and organizations, we *net* out from their budgets capital spending and revenue derived from visitors, because these are considered in the earlier tallied historic rehabilitation and heritage tourism projections, respectively.

The current study also links the different components of historic preservation that bear on its economic contribution. For instance, historic sites and organizations were asked to estimate their current unfunded needs (e.g., underfunding that limits operating hours) and to relate how their visitation would increase if funding deficiencies were subsequently addressed. There is no question that both of these items—current unfunded needs and potential future visitation upon funding—are difficult to determine precisely, especially the latter. Once having established the order of magnitude of these figures, however, we can figure the economic return of making at least a portion of the investment (e.g., through rehabilitation grants from the New Jersey Historic Trust) by translating the added visitation into enhanced tourism spending—a projection made possible by the earlier profiling of heritage travelers and their spending.

Use of a State-of-the-Art Input–Output Model

As other recent studies have done, the current investigation of the economic impacts of historic preservation considers direct effects of preservation-related activities as well as indirect and induced economic impacts. The total or multiplier effect, sometimes referred to as the ripple effect, has three segments:

1. A *direct effect* (the initial drop causing the ripple effects) is the change in purchases due to a change in economic activity.

2. An *indirect effect* is the change in the purchases of suppliers to the economic activity directly experiencing change.

3. An *induced effect* is the change in consumer spending that is generated by changes in labor income within the region as a result of the direct and indirect effects.

To illustrate briefly, the *direct effects* encompass the goods and services immediately involved in the economic activity analyzed, such as historic rehabilitation. This could include, for historic rehabilitation, carpenters hired and steel purchased. *Indirect effects* encompass the value of goods and services needed to support the provision of the direct effects (e.g., materials purchases by the steel plant). *Induced effects* include the goods and services needed by households to provide the direct and indirect labor required to rehabilitate an historic structure (e.g., food purchases by the carpenters' or steel workers' households). The estimation of indirect and induced effects typically is accomplished by what is referred to as an input-output model.

In this study the projection of the total or multiplier effects from historic preservation is accomplished by application of an input–output model developed by the Regional Science Research Corporation (RSRC), termed the RSRC PC I–O Model. This model is state-of-the-art and offers significant advantages in detailing the total economic effects of an activity (such as historic rehabilitation), including multiplier effects (see Appendix C).

The analysis in the subsequent chapters first presents the direct effects of the components of historic preservation—historic rehabilitation, heritage tourism, and spending by historic sites and organizations—and then applies the RSRC PC I–O Model to derive total or multiplier effects.