

EXECUTIVE SUMMARY

STUDY OBJECTIVE AND ORGANIZATION

Historic preservation has acknowledged cultural and aesthetic benefits; less known and appreciated are preservation's significant economic effects. This study examines these effects with a focus on the many substantial economic benefits brought forth by historic preservation in New Jersey. It is the most detailed statewide analysis of the economic impacts of historic preservation ever conducted.

The study examines the *total* economic effects from historic preservation; these encompass both the *direct* and *multiplier* effects. The latter incorporate what are referred to as *indirect* and *induced* economic consequences. Economists estimate these indirect and induced effects using an input-output model. The *direct impact* component consists of labor and material purchases made specifically for the preservation activity. The *indirect impact* component consists of spending on goods and services by industries that produce the items purchased for the historic preservation activity. Finally, the *induced impact* component focuses on the expenditures made by the households of workers involved either directly or indirectly with the activity. To illustrate, lumber purchased at a hardware store for historic rehabilitation is a direct impact. The purchases of the mill that produced the lumber is an indirect impact. The household expenditures of the workers at both the mill and hardware store are induced impacts.

This study specifies the total economic effects of the major components of historic preservation in New Jersey via a state-of-the-art input-output (I-O) model developed by the Regional Science Research Corporation (RSRC). The historic preservation components considered, and to which the RSRC model is applied, include historic rehabilitation, heritage tourism, and the operations of historic sites and organizations. There are also very brief analyses of the amount of property taxes paid by historic buildings and how landmark designation enhances property values.

The results of RSRC's I-O model include many fields of data. Among them, the most significant for the purposes of this study are the total impacts with respect to:

- **Jobs:** *Employment, both part- and full-time, by place of work*, estimated using the typical job characteristics of each detailed industry. (Manufacturing jobs, for example, tend to be full-time; in retail trade and real estate, part-time jobs predominate.) All jobs generated at businesses in the region are included, even though the associated labor income of in-commuters may be spent outside of the region. In this study, all results are for activities occurring within the time frame of one year. Thus, the job figures should be read as job-years, i.e., several individuals might fill one job-year on any given project.
- **Income:** *"Earned" or "labor" income—specifically wages, salaries, and proprietors' income*. Income does not include nonwage compensation (i.e., benefits, pensions, or insurance), transfer payments, or dividends, interest, or rents.
- **Wealth:** *Value added—the equivalent at the subnational level of gross domestic product (GDP)*. At the state level this is called gross state product (GSP). Value added is widely accepted by economists as the best measure of economic well-being. It is estimated from state-level data by industry. For a firm, value added is the difference between the value of goods and services produced and the value of goods and nonlabor services purchased. For an industry, therefore, it is composed of labor income (net of taxes), taxes, nonwage labor compensation,

profit (other than proprietors' income), capital consumption allowances, and net interest, dividends, and rents received.

- **Taxes:** *Tax revenues generated by the activity.* The tax revenues are detailed for the federal, state, and local levels of government. Totals are calculated by industry.

Federal tax revenues include corporate and personal income, social security, and excise taxes, estimated from the calculations of value added and income generated.

State tax revenues include personal and corporate income, state property, excise, sales, and other state taxes, estimated using the calculations of value added and income generated (e.g., purchases by visitors).

Local tax revenues include payments to substate governments mainly through property taxes on new worker households and businesses, but can also include revenues from local income, sales, and other taxes.

The exposition is contained in nine chapters and multiple appendices. The first chapter sets the overall perspective, followed by a series of linked chapters that analyze, in tandem, the direct and the total effects of historic rehabilitation (Chapters Two and Three); heritage tourism (Chapters Four and Five); and the operations of historic sites and organizations (Chapters Six and Seven). Chapter Eight considers property valuation and property tax issues, while Chapter Nine summarizes the findings, sets them in perspective and shows how the study's findings and analytic procedures can be used by others and can inform policy discussion.

The major findings of the study are highlighted below. In all instances, impacts are shown for the latest years for which complete information was available at the time of the analysis.

ECONOMIC IMPACTS OF NEW JERSEY HISTORIC REHABILITATION

- In 1994, a total of \$2.7 billion was spent on new construction in New Jersey and \$2.0 billion was spent on rehabilitation of existing properties.
- Of the \$2.0 billion spent on rehabilitation, an estimated \$123 million, or about 6 percent of the total, was effected in historic properties (properties designated on national, state, and/or local registers of historic sites). This estimate of historic rehabilitation volume is quite conservative; it does not include construction occurring in properties eligible for, but not yet on, a register.
- Historic rehabilitation is especially important in New Jersey's cities and older suburbs. Almost \$80 million of historic rehabilitation (out of the \$123 million statewide total) was effected in these communities. That amounts to about 9 percent of all the rehabilitation in New Jersey's cities and older suburbs.
- The direct effects of historic rehabilitation are translated into multiplier effects, which encompass, as noted, such dimensions as *jobs* (employment by place of work), *income* (total wages, salaries, and proprietor's income), *gross domestic product* or GDP (total wealth accumulated; at the state level this is referred to as

gross state product or GSP), *taxes* (federal, state, and local), and *in-state wealth* (GSP less “leakage” in the form of federal taxes).

- The total economic impacts from the \$123 million spent on statewide historic rehabilitation included: 4,607 new jobs; \$156 million in income; \$207 million in gross domestic product; and \$65 million in taxes. New Jersey garnered about half of these economic benefits, and as a result, captured \$93 million in in-state wealth. The other effects were distributed outside New Jersey.

**Total Economic Impacts of the Annual New Jersey
Historic Rehabilitation (\$123 Million)**

	<i>In New Jersey</i>	<i>Outside New Jersey</i>	<i>Total (U.S.)</i>
Jobs (person years)	2,316	2,291	4,607
Income (\$ 000)	\$81,085	\$75,212	\$156,297
GDP/GSP (\$ 000)	\$116,404	\$90,631	\$207,035
Total Taxes (\$ 000)	\$38,217	\$26,876	\$65,093
Federal (\$ 000)	\$22,915	\$17,871	\$40,786
State (\$ 000)	\$8,322	\$4,874	\$13,196
Local (\$ 000)	\$6,980	\$4,131	\$11,111
In-State Wealth (\$000) (GSP minus Federal Taxes)	\$93,489	-----	-----

GDP/GSP=Gross Domestic Product/Gross State Product

ECONOMIC IMPACTS OF NEW JERSEY HERITAGE TOURISM

- During the 1993-1995 period, an estimated 9.1 million adult trips were made annually in New Jersey that had some heritage linkage (5.0 million adult daytrips and 4.1 million adult overnight trips). The 9.1 million adult trips comprised slightly more than 1 in 20 (5.4 percent) of all 1993-1995 annual adult travel trips (167 million) in New Jersey.
- Direct expenditures by New Jersey heritage day-trippers and overnight visitors amounted to \$432 million annually on average during the 1993-1995 period.
- The total annual economic impacts from the \$432 million in spending by New Jersey heritage travelers, encompassing both direct and multiplier effects, included, at the national level: 15,530 jobs, \$383 million in income, \$559 million in gross domestic product, and \$216 million in taxes. New Jersey received roughly half of these gains and realized annual in-state wealth creation of about \$230 million.

**Total Economic Impacts of the Annual New Jersey
Heritage Tourism Spending (\$432 Million)**

	<i>In New Jersey</i>	<i>Outside New Jersey</i>	<i>Total (U.S.)</i>
Jobs (person years)	7,085	8,445	15,530
Income (\$000)	\$168,332	\$214,835	\$383,167
GDP/GSP (\$000)	\$286,522	\$272,882	\$559,404
Total Taxes (\$000)	\$134,367	\$81,898	\$216,265
Federal (\$000)	\$56,445	\$53,758	\$110,203
State (\$000)	\$62,191	\$15,444	\$77,635
Local (\$000)	\$15,731	\$12,696	\$28,427
In-State Wealth (\$000) (GSP minus Federal Taxes)	\$230,077	-----	-----

GDP/GSP=Gross Domestic Product/Gross State Product

**ECONOMIC IMPACTS OF
NEW JERSEY HISTORIC SITES AND ORGANIZATIONS**

- New Jersey historic sites and organizations are vital to preserving and communicating the state's historical legacy. In addition, they not only further heritage tourism, but their own expenditures—some \$25 million (net)¹ in 1996—also have economic benefits for the state.
- The total economic impacts, including both direct and multiplier effects, from the \$25 million in annual spending by the New Jersey historic sites and organizations, included a gain in 1996 of 1,438 jobs, \$33 million in income, \$43 million in gross domestic product, and \$14 million in taxes. The in-state New Jersey gains were roughly one-half these figures, with in-state wealth creation of \$16 million.

**Total Economic Impacts of the Annual Net¹ Spending by
New Jersey Historic Sites and Organizations (\$25 Million)**

	<i>In New Jersey</i>	<i>Outside New Jersey</i>	<i>Total (U.S.)</i>
Jobs (person years)	739	699	1,438
Income (\$000)	\$13,772	\$19,482	\$33,254
GDP/GSP (\$000)	\$20,034	\$22,995	\$43,029
Total Taxes (\$000)	\$6,446	\$7,159	\$13,605
Federal (\$000)	\$3,947	\$4,530	\$8,477
State (\$000)	\$1,369	\$1,415	\$2,784
Local (\$000)	\$1,130	\$1,214	\$2,344
In-State Wealth (\$000) (GSP minus Federal Taxes)	\$16,087	-----	-----

GDP/GSP=Gross Domestic Product/Gross State Product

¹ This figure is net of outlays for capital purposes and visitor-supported revenues. The capital outlays and visitor revenues are netted out because these spending components have already been included in the historic rehabilitation and the heritage tourism economic calculations, respectively.

HISTORIC PROPERTY VALUATION AND PROPERTY TAX PAYMENTS

On an order-of-magnitude basis, New Jersey's historic properties:

- Have a market value for property tax purposes of \$6 billion—about 1 percent of the total state property equalized valuation of \$550 billion.
- Have a higher market value because of historic designation, but the exact magnitude of this effect is hard to specify.
- Pay about \$120 million in annual property (local, school, and county) taxes—about 1 percent of the roughly \$10 billion in total property taxes paid statewide. Of this \$120 million, about \$62 million goes to school districts, \$30 million to municipalities, and \$28 million to county governments.
- Are increasing in value and property tax generation because of ongoing rehabilitation.

SUMMARY OF BENEFITS

To capsulize, historic preservation in New Jersey is not just important culturally and aesthetically, but also fosters significant economic activity and benefits in its own right.

- Annual direct economic effects, calculated conservatively, include \$123 million in historic rehabilitation, \$432 million in heritage tourism spending, and \$25 million in net spending by historic sites and organizations—for a total of \$580 million. The landmark properties are valued at \$6 billion.
- When multiplier effects are taken into account, the total annual impacts to the nation include a gain of 21,575 jobs, \$572 million in income, \$929 million in GDP, and \$415 million in taxes (Exhibit 1). The New Jersey benefits include a gain of 10,140 jobs, \$263 million in income, \$543 million in GSP, \$298 million in taxes, and \$460 million in in-state wealth. As part of these benefits, New Jersey historic properties pay annually \$120 million in property taxes. These tax payments, along with the underlying value of the properties, will be enhanced by continued historic rehabilitation.
- A further breakout of the economic benefits from the \$580 million in direct historic preservation spending (not including the \$120 million in property taxes) is shown in Exhibit 2 (national impacts) and Exhibit 3 (in-state or New Jersey specific effects). The exhibits show that although all sectors of the economy benefit, many of the 21,575 new jobs at the national level are found in such industries as retail trade (7,689 jobs), services (5,914 jobs), manufacturing (2,737 jobs), and construction (1,282 jobs). National income and GDP effects are also clustered in the above sectors (Exhibit 2); and a similar pattern is observed for New Jersey (Exhibit 3).
- The above estimates of impacts are *conservative*, because they do not include the effects from construction on historic properties that are *eligible* for landmark designation but not yet listed. The count of heritage tourists and, consequently, estimates of their spending are also likely to be on the low side given the conservative way we have identified heritage travelers.

Exhibit 1
Summary of the Annual Economic Impacts of Historic Preservation in New Jersey

NEW JERSEY DIRECT EFFECTS	I.	II.	III.	IV.	V.
	Historic Rehabilitation	Heritage Tourism	Spending by NJ Historic Sites and Organizations	Historic Stock Valuation	Total Examined Economic Impacts
	\$123 million historic rehabilitation annually results in:	9.1 million annual adult heritage travelers, spending \$432 million annually, results in:	\$25 million in annual spending results in:	Landmark properties, valued at \$6 billion, annually pay property taxes of:	(Sum I-IV)
↓	National Total (Direct and Multiplier) Impacts				
NATIONAL TOTAL IMPACTS (DIRECT and MULTIPLIER)	Jobs	4,607	15,530	1,438	21,575
	Income	\$156 million	\$383 million	\$33 million	\$572 million
	GDP*	\$207 million	\$559 million	\$43 million	\$929 million
	Taxes: <i>Federal</i>	\$41 million	\$110 million	\$9 million	\$160 million
	<i>State</i>	\$13 million	\$78 million	\$3 million	\$94 million
	<i>Local</i>	\$11 million	\$28 million	\$2 million	\$161 million
	Tax Subtotal	\$65 million	\$216 million	\$14 million	\$415 million
↓	In-State NJ Total (Direct and Multiplier) Impacts				
NJ PORTION of NATIONAL TOTAL IMPACTS	Jobs	2,316	7,085	739	10,140
	Income	\$81 million	\$168 million	\$14 million	\$263 million
	GSP*	\$116 million	\$287 million	\$20 million	\$543 million
	Taxes: <i>Federal</i>	\$23 million	\$56 million	\$4 million	\$83 million
	<i>State</i>	\$8 million	\$62 million	\$1 million	\$71 million
	<i>Local</i>	\$7 million	\$16 million	\$1 million	\$144 million
	Tax Subtotal	\$38 million	\$134 million	\$6 million	\$298 million
	In-State Wealth**	\$93 million	\$231 million	\$16 million	\$460 million

*GDP=Gross Domestic Product; GSP = Gross State Product

** GSP less Federal tax payments

Source: Rutgers University, Center for Urban Policy Research, 1997

Exhibit 2
National Economic and Tax Impacts of
\$580 Million in Annual Historic Preservation Spending in New Jersey

	Economic Component		
	Employment (jobs)	Income (000\$)	Gross Domestic Product (000\$)
I. TOTAL EFFECTS (Direct and Indirect/Induced)*			
Private			
1. Agriculture	57	6,819	11,328
2. Agri. Serv., Forestry, & Fish	137	3,967	4,619
3. Mining	76	4,284	16,088
4. Construction	1,282	49,661	52,274
5. Manufacturing	2,737	105,265	156,225
6. Transport. & Public Utilities	893	42,232	78,104
7. Wholesale	458	19,613	51,933
8. Retail Trade	7,689	126,164	145,202
9. Finance, Ins., & Real Estate	1,707	61,399	108,141
10. Services	5,914	143,133	176,058
Private Subtotal	20,949	562,508	799,894
Public			
11. Government	626	10,210	9,574
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Total Effects (Private and Public)	21,575	572,718	809,469
II. DISTRIBUTION OF EFFECTS/MULTIPLIER			
1. Direct Effects	9,806	209,763	330,326
2. Indirect and Induced Effects	11,769	362,955	479,142
3. Total Effects	21,575	572,718	809,469
4. Multipliers (3÷1)	2.200	2.730	2.451
III. COMPOSITION OF GROSS DOMESTIC PRODUCT			
1. Wages--Net of Taxes			518,193
2. Taxes			
a. Local			41,883
b. State			93,614
c. Federal			
General			93,089
Social Security			66,377
Federal Subtotal			159,466
d. Total taxes (2a+2b+2c)			294,963
3. Profits, dividends, rents, and other			(11,763)
4. Total Gross Domestic Product (1+2+3)			801,393
EFFECTS PER MILLION DOLLARS OF INITIAL EXPENDITURE			
Employment (Jobs)			37.2
Income			\$988,164
State Taxes			\$161,446
Local Taxes			\$72,263
Gross Domestic Product			\$1,396,568

Note: Detail may not sum to totals due to rounding.

*Terms:

Direct Effect (National)—the amount of goods and services purchased in the nation.

Indirect Effects—the value of goods and services needed to support the provision of those direct economic effects.

Induced Effects—the value of goods and services needed by households that provide the direct and indirect labor.

Source: Rutgers University Center for Urban Policy Research, 1997.

Exhibit 3
In-State Economic and Tax Impacts of
\$580 Million in Annual Historic Preservation Spending in New Jersey

	Economic Component		
	Employment (jobs)	Income (000\$)	Gross Domestic Product (000\$)
I. TOTAL EFFECTS (Direct and Indirect/Induced)*			
Private			
1. Agriculture	9	39	160
2. Agri. Serv., Forestry, & Fish	28	570	1,562
3. Mining	10	274	445
4. Construction	1,019	41,248	46,790
5. Manufacturing	881	29,376	57,837
6. Transport. & Public Utilities	353	9,836	23,038
7. Wholesale	199	15,838	34,301
8. Retail Trade	3,367	63,394	90,055
9. Finance, Ins., & Real Estate	279	12,366	35,110
10. Services	3,764	86,775	130,202
Private Subtotal	9,909	259,702	419,440
Public			
11. Government	231	3,487	3,520
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Total Effects (Private and Public)	10,140	263,189	422,960
II. DISTRIBUTION OF EFFECTS/MULTIPLIER			
1. Direct Effects	7,119	179,524	317,519
2. Indirect and Induced Effects	3,020	83,665	105,441
3. Total Effects	10,140	263,189	422,960
4. Multipliers (3÷1)	1.424	1.466	1.332
III. COMPOSITION OF GROSS DOMESTIC PRODUCT			
1. Wages--Net of Taxes			231,147
2. Taxes			
a. Local			23,841
b. State			71,882
c. Federal			
General			48,624
Social Security			34,683

Federal Subtotal	83,306
d. Total taxes (2a+2b+2c)	179,029
3. Profits, dividends, rents, and other	4,707
4. Total Gross Domestic Product (1+2+3)	414,884

EFFECTS PER MILLION DOLLARS OF INITIAL EXPENDITURE

Employment (Jobs)	17.5
Income	\$454,159
State Taxes	\$123,955
Local Taxes	\$41,138
Gross Domestic Product	\$729,777

Note: Detail may not sum to totals due to rounding.

*Terms:

Direct Effect (State)—the amount of goods and services purchased in New Jersey.

Indirect Effects—the value of goods and services needed to support the provision of those direct economic effects.

Induced Effects—the value of goods and services needed by households that provide the direct and indirect labor.

Source: Rutgers University Center for Urban Policy Research, 1997.

- The economic benefits of historic preservation are particularly important to urban areas—but gains are felt by all categories of communities.
- The economic benefits of historic preservation (e.g., total job creation, and increases in income and GDP per \$1 million invested) surpass those of such “alternative” investments as new housing or commercial construction. Every \$1 million invested in historic nonresidential rehabilitation, for instance, generates 38.3 jobs, whereas the same amount spent on nonhistoric nonresidential rehabilitation or highway construction generates only 36.1 or 33.6 jobs respectively.
- Given the powerful economic pump-priming effect of historic preservation, including its considerable tax benefits, public programs to foster preservation can realize sizable economic development gains—often at little or no net cost to the taxpayer.
- The New Jersey Historic Trust (NJHT) had made about \$55 million in grants for historic rehabilitation through mid-1997. This sum will leverage (with private and other funds) about \$403 million in total historic rehabilitation. The impacts are listed in the following table:

Total Economic Impacts of the NJHT-Induced Historic Rehabilitation (\$403 Million)

	<i>In New Jersey</i>	<i>Outside New Jersey</i>	<i>Total(U.S.)</i>
Jobs (person years)	6,199	7,286	13,485
Income (\$000)	\$222,389	\$235,593	\$457,982
GDP/GSP (\$000)	\$307,392	\$297,208	\$604,600
Total Taxes (\$000)	\$101,955	\$88,239	\$190,194
Federal (\$000)	\$60,556	\$58,550	\$119,106
State (\$000)	\$22,576	\$16,014	\$38,590
Local (\$000)	\$18,823	\$13,674	\$32,497
In-State Wealth (\$000) (GSP minus Federal Taxes)	\$246,836	-----	-----

GDP/GSP=Gross Domestic Product/Gross State Product

- The tax gains from the NJHT-induced historic rehabilitation, coupled with other enhanced tax revenues (e.g., from the increased heritage tourism), significantly reduce the net cost of NJHT’s preservation grants program to New Jersey taxpayers.