CHAPTER SEVEN

Historic Property Valuation: Issues and Impacts

INTRODUCTION AND SUMMARY

The study thus far has considered the multifaceted economic impacts of historic preservation in Arkansas. The impacts studied include the economic effects from the rehabilitation of historic properties, from heritage tourism spending, and from Main Street programs.

Yet another economic consideration is the impact of historic designation[1] on property value. As we shall see shortly, there are numerous ways in which designation can enhance property value. This effect is often cited by historic preservationists and is also recognized by planners, economic development experts, and the like. But there are also those who claim that designation can detract from property value. Designation's property value impact continues to be discussed and debated.

To inform us on this issue, this chapter does the following:

- Part One overviews some basic federal, state, and local provisions regarding historic property designation and attendant regulations -- with a focus on Arkansas.
- Part Two examines the theoretical effects of historic designation on property value and finds that there are both value-enhancing and value-detracting influences.
- Part Three reviews the literature on this subject and finds that most studies point to a positive or sometimes neutral effect from designation, whereas only a handful of investigations show that designation has a negative impact on property value. There are, however, limitations in the extent literature that suggest this body of studies is far from definitive.
- Part Four. This section reports on interviews conducted with knowledgeable Arkansas real estate agents and assessors. Those interviewed report that property values within historic districts are generally higher than those outside them.
- Part Five. As a further resource on the subject, the chapter effects an empirical analysis of property values in numerous Arkansas neighborhoods, including National Register Districts, (local) Landmark Districts, and control areas without any historical designation. We find the following: [analysis to follow].

PART ONE: OVERVIEW OF HISTORIC PROPERTY DESIGNATION AND REGULATIONS

National Register of Historic Places

The National Register of Historic Places (NRHP) has been around since 1935, but it was expanded in 1966 as a way to protect historic structures from being torn down using government money. In the late 1960's, a lot of cities jumped on an "urban renewal" bandwagon and decided that the way to improve economic conditions in their city was to clear out the old to make way for the new. Aging urban communities that had fallen on hard times needed to be replaced with gleaming new civic plazas, new malls, and the like. That was progress---or so many city

[1]The reader should remember that although historic preservation often involves the designation of properties on an official register, preservation and designation are not synonymous.

governments thought at the time. In their unrelenting drive towards modernism, they forgot about the importance of a connection to the past.

The "straw that broke the camel's back" was the demolition of Penn Station in New York City. Americans had had enough of urban renewal, and in response, the federal government expanded its registry of historically important sites across America. Significant structures, archaeological sites, and even entire neighborhoods would be included. No federal money could be used to tear down or otherwise alter anything on the list without a strict review. At the same time, federal money for renovation and rehabilitation was also opened up in order to preserve these structures. These measures finally slowed down the urban renewal steamroller.

There are several criteria used to evaluate whether a property is eligible to be on the NRHP. First, it has to be at least 50 years old. In rare cases an exception might be made for a younger structure. Second, it has to be fairly close to original in appearance. This is a judgment call made by state representatives who review the applications. Additions and alterations are usually acceptable if they were made more than 50 years ago. Lastly, and most obviously, it has to be historic. The term "historic" is used very loosely here to include many different types of sites. The home of a prominent local businessman or politician, or even the church where he worshipped might be listed. Entire neighborhoods might be eligible, like Arkansas' Batesville East Main Historic District, because of its 1870-1930 residences built in a variety of architectural styles, namely Plain Traditional, Craftsman, Colonial Revival, Queen Anne and Italianate.

Anyone can apply to have a house, neighborhood, or any stationary place or object put on the National Register. Listings for individual structures require that something historically significant happened there, but listings for neighborhood districts are a little less stringent. Forms are available from the Arkansas Historic Preservation Program (AHPP) in Little Rock. Local preservation groups and historic societies usually can provide some assistance in filling out the forms. The complete forms are then presented to the AHPP's State Review Board for approval. If the board approves of the application, it is forwarded to the National Park Service for final determination of whether the property is eligible for the National Register.

In addition to the recognition of having a structure on the National Register and the extra level of protection from federally funded projects, placement on the Register also allows property owners to apply for investment tax credits. Under the Tax Reform Act of 1986, substantial and certified rehabilitation of certified historic structures qualify for a 20 percent tax credit, and there is a 10 percent credit for non-residential, non-historic buildings constructed before 1936. A certified historic structure means a structure that has been certified by the Secretary of the Interior as a historic or as a contributing member of a historic district. Rehabilitation work must also be conforming to the Secretary of the Interior's Standards for Rehabilitation, as evaluated by the National Park Service and the State Historic Preservation Office. This tax credit has stimulated many rehabilitation projects on historic buildings that might have been otherwise left neglected or demolished. According to the National Park Service, these tax incentives have stimulated over $18 billion in private rehabilitation nationally and over 27,000 historic properties have been rehabilitated.

Being in an NRHP district does not mean you cannot add a room to your house or paint it a certain color or even tear it down. The owner of the property is free to do whatever he or she wishes with the property—only the federal government is restricted.

DESIGNATION IN ARKANSAS

The first step in having an Arkansas property listed on the National Register of Historic Places is completion of a Determination of Eligibility form. The AHPP requests information and photographs regarding the property so staff members can determine whether the property meets standards for National Register recognition.

If the property is found to be potentially eligible, you next complete the National Register form. The completed form will be presented to the AHPP's State Review Board, which meets three times annually. If the board nominates the property, the nomination is forwarded to the National Park Service for final determination of whether the property is eligible for the National Register.

A property (building, structure, object, or site) must be at least 50 years of age and retain as much of its original architectural design and materials as to properly reflect its period of significance. In addition, a property must be significant for one or more of the following criteria:

> A. association with a significant event or pattern of events in local, state, or national history;
>
> B. association with the lives of persons significant in our past whose contributions to local, state, or national history can be identified and documented;
>
> C. significant architectural design or method of construction;
>
> D. archaeological potential to yield information important in prehistory or history.

Artificial siding, when applied to a historic building, can affect its eligibility for listing on the National Register of Historic Places. See the AHPP's Statement of Staff and State Review Board Position on the Eligibility of Artificially Sided Buildings for Listing on the National Register of Historic Places.

The Nomination Process

Below you will find an explanation of the National Register listing process as administrated by the AHPP.

Determination of Eligibility

The eligibility form outlines the information required by the AHPP staff to make a determination of eligibility (DOE). A DOE is the first step in considering a property for listing in the National Register. A thorough and accurate response to this outline will enable the AHPP staff to evaluate the potential eligibility of the property. Once the review is completed (usually within 30 days of receipt), a letter outlining the staff's determination is mailed.

Site Visit

If your property is determined eligible, AHPP staff members will contact you to arrange a site visit to the property at a mutually convenient time. The site visit entails the AHPP staff completing both black-and-white and color slide photography of the building and includes a documentation of the building's architectural features.

Nomination Form

After your property has been determined eligible and the site visit has been completed, you will be responsible for completing the National Register nomination form. To assist in this process, the AHPP staff provides two training sessions each year to answer questions and provide instructions on filling out the form. These sessions are held on the fourth Wednesday of April and the Second Wednesday of October at the Tower Building at 323 Center Street in Little Rock. Directions to the tower building and a map will be provided to all who sign up for theses sessions, which are free and open to the public. For those who are unable to attend a training session, the AHPP will provide a reading list of the materials explaining how to fill out the National Register form. Constituents also have the option of hiring a contractor to complete their nomination form. A list of qualified contractor is available from the AHPP on request. After the completed nomination form is submitted to the AHPP, it will be edited and returned to you for corrections, if needed. When the National Register form is completed and corrected, the AHPP will notify you in writing and schedule the property for consideration at a future meeting of the State Review Board. All nominations must be completed and submitted six weeks before the next scheduled meeting of the State Review Board to be included in that meeting's agenda. The AHPP recommends that you use it if possible, since it will streamline the process of correcting the form. The National Register nomination form is available here on the website for your convenience.

Presentation to the State Review Board

On acceptance of a completed nomination by the specified deadline, the staff will schedule the property for presentation to the State Review Board. The State Review Board is a governor-appointed group of eleven professionals that must approve the staff's recommendations before they can be forwarded to the National Register office in Washington, D. C. The staff will prepare a short (usually five to ten minutes in length) presentation with color slides of the property for the State Review Board meeting. The applicant will receive a notification letter one month prior to the date of this meeting informing him/her of the location and approximate time of day that the property will be presented. Attendance by the applicant is encouraged but voluntary.

Preparation of Final Nomination Form and Listing

After approval by the State Review Board, the AHPP staff prepares the final nomination, including any changes requested by the board, provided the nomination was submitted on a computer disk (if not on disk, the constituent will be responsible for making any needed corrections to the final form). The nomination is then forwarded to the National Register office of the National Park Service in Washington, D. C. A determination will be made by their staff within 45 days of receipt of the nomination. Once official notification of listing is received, the AHPP will notify the applicant of the decision by letter. The AHPP can provide owners of listed properties with a certificate of listing that is signed by the governor and state historic preservation officer. The AHPP does not automatically provide plaques; however, information on ordering a plaque will be mailed to the owner of the listed property along with the letter announcing the property's listing on the National Register.

PART TWO: THEORETICAL DISCUSSION OF HISTORIC DESIGNATION'S POSSIBLE EFFECTS ON PROPERTY VALUE

Historic designation can exert various effects on property value. Value may be enhanced; value may be diminished; or there may be a neutral effect. To illustrate, property value may be enhanced because of various influences

1. *Prestige.* Historic status accords prestige from the official recognition that a building or area has special qualities. This prestige is recognized by the real estate market; real estate salespersons often stress this point in selling a historic property, and at least some buyers are willing to pay a premium for this characteristic.

2. *Protection.* Designation adds a protective overlay to a historic property or area. Disruptive demolition from highway construction, urban renewal, and other government-aided projects becomes less of a threat. Also exterior work to a historic property is reviewed as to its compatibility. Finally, new construction on vacant lots in the historic district may also be regulated for scale and appearance. In short, designation increases the likelihood that the features one finds attractive in a building or an area today will be there tomorrow.

3. *Financial incentives*. Federal tax credits and other financial measures are often accorded to historic properties. These measures have real financial value.

4. *Other supports.* Partially as a result of a historic property's prestige, protective, and incentives features, designation often inculcates further interrelated positive consequences. These include fostering institutional financing, encouraging property rehabilitation, strengthening an area's retail health and tourist trade, and catalyzing formation of community organizations and activity.[2]

Property value may be dampened, however, because of certain designation consequences

1. *Regulatory costs.* Following designation, alteration or demolition of the property accorded historic status must be approved by the local landmarks commission. Historic property owners can incur additional expenses as a result of these regulatory requirements, both directly in the form of outlays for professional assistance, and indirectly from the delays attendant to such administrative procedures.

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[2]See Advisory Council on Historic Preservation, *The Contribution of Historic Preservation to Urban Revitalization* (Washington, D.C.: U.S. Government Printing Office, 1979).

2. *Development constraints*. Historic designation may impede the realization of a designated property's "highest best use." Instead, the designated property may have to be kept at its "current use." Current use is the existing utilization of a property; highest and best use is the most profitable use incorporating those uses that are legally permissible, physically possible, and financially or economically feasible (Kinnard 1971, 39).

It is important to emphasize that owners are not constitutionally guaranteed to realize the highest and best use of their property. For the public good, various police power regulations such as zoning, subdivision, and historic designation provisions may be imposed. Yet while legally permissible, historic designation may have a dampening effect on property value by limiting the maximum development of a parcel.

The degree to which the varying effects noted above are exerted in any given situation, in turn is influenced by numerous factors ranging from the type of designation (e.g., National Register or local register) and the relationship between a property's current versus highest and best use.

To illustrate, assume there are two townhouses in a community's central business district (CBD), where the underlying zoning is for high-rise buildings. One townhouse is designated a historic resource, which prohibits its demolition, whereas the other is not so designated. In both instances, the current use is a townhouse. The highest and best use of the non-designated townhouse is probably to demolish the structure and redevelop the site for a high-rise. The highest and best use of the designated townhouse is its legally permissible use—that is, a historic townhouse.

Assume that the historically designated townhouse is appraised at its current use (which is also its highest and best use given the landmark designation) at $200,000, whereas the non-designated townhouse, given its highest and best use as a redevelopment site, is appraised at $300,000. In this case, landmark status can be said to detract from value by $100,000.

Assume an altered set of circumstances where designation does not prohibit demolition such as National Register districts where review is not conducted. In this instance, designation may have little discernible impact.

But let us assume yet a different set of circumstances—the same two townhouses, one designated (with stringent historic controls) and one not, but both located in a residential zone where townhouses are the "maximum" permitted use (e.g., from a land use, density, and floor-area ratio [FAR] perspective). In other words, a townhouse is both the current as well as the highest and best use. In this instance, it could very well be the case that the historic townhouse, with its prestige of official historic designation and assurance that its desirable historic amenities will be fostered into the future by public regulation, is worth $200,000, whereas the non-designated townhouse is worth $100,000. Here, historic designation adds $100,000 to market value.

These are examples of the many possible effects of designation. The point to be emphasized again is that there can be varied relationships between official historic designation and property value—positive, negative, or neutral. The observed influence of designation on value, as examined by the extant literature is summarized below.

PART THREE: OVERVIEW OF THE LITERATURE ON HISTORIC DESIGNATION AND PROPERTY VALUE

The literature on the subject of historic designation's influence on property value overwhelmingly points to a positive effect. Only a handful of studies that specifically consider the costs of alteration and demolition come to a negative impact conclusion. The literature reviewed in this study consists of analyses dating from the 1970s; these are presented below in chronological order. More detailed annotations are found in the bibliography.

One of the first pieces of research on historic property values was by Reynolds and Waldron (1969) who reviewed disputes over the level of just compensation due to the federal condemnation of a number of historic buildings in the 1960s and 1970s. They simply summarized by noting that appraisers should be aware that historic buildings need to be valuated differently than other structures.

Soon after, arguments promulgated that just compensations should be required for buildings that were designated but not condemned for purchase by the federal government. Costonis (1974), for example, went so far as to develop a formula that determines the financial cost of alteration and demolition restraints that are imposed as a result of designation. For illustration, he calculated that four landmarked Chicago office towers incurred a loss of value between $400,000 and more than $3,500,000 per building.

Costonis (1974), thus, represents a long line of conceptualization on the part of developers and real estate holders. That is, stringent building codes also can discourage the restoration of older properties. Indeed, there is no doubt that properties are designated at least to restrict in some way the manner in which structures on it may be altered or refurbished. Thus, historic designation of a property can require large maintenance expenditures to preserve or restore the historical character of the building or neighborhood. Moreover, for some commercial and industrial properties this extra effort can significantly delay revenue generation. Perhaps the most common theoretical argument is that designation can prohibit a property from attaining its highest value and best use. For example, it could detract from a property's value by prohibiting its conversion to another land use, i.e., of a current single-family property to a multistory office building.

One of the earliest comparative analyses of historic and nonhistoric property values was performed by Heudorfer (1975) who contrasted four designated districts in New York City (Central Park West–76th Street, Chelsea, Mount Morris Park and Riverside Drive–West 105th Street) with four comparable, adjacent areas. She concluded that historic status had a small to negligible influence on property values. One problematic issue in her analysis was that properties in the historic districts sold for a premium both before and after designation. That is, the two sets of areas may have been insufficiently similar to make a viable comparison. Indeed, much of the literature focusing on historic designation's effect upon property values has done so by analyzing differences across neighborhoods that are subjectively deemed to be similar. Unfortunately, it undoubtedly is quite difficult to select undesignated neighborhoods that have properties that are sufficiently close in age, style, and size to those in the designated neighborhoods to facilitate an unbiased statistical comparison. After all, some underlying set of characteristics of the designated neighborhoods has suggested to policymakers that the subject neighborhoods should be allotted an official historic status while the selected comparison neighborhoods were not. For example, it may be that the officially designated historic neighborhoods were selected because they embraced architecturally unique structures, a better maintained stock, or simply from a planning perspective that neighborhood could serve as a sort of buffer zone for a neighboring commercial district if it was improved. Almost any rationale used to select for designation a neighborhood over another somewhat similar one also can help to explain relatively higher property prices in the designated neighborhood. Hence, identifying higher property values or appraisals in historically designated versus undesignated neighborhoods is at best weak proof that designation yields higher property values. Nonetheless, Heudorfer's (1975) analysis held some promise for proponents of designation since, in some cases, it appeared that the premium for being in a district that formally was designated as historic continued to increase after designation was pronounced. Somewhat stronger proof of designation's effect on property values can result if one can demonstrate that historic property values proportionally appreciate at a significantly different rate from that of undesignated ones during the same period and in the same city. That is, while similar arguments can be made with regard to price changes as for those in the preceding paragraph on price levels, the arguments are mitigated somewhat because the effect of unobserved time-invariant characteristics, including those associated with the selection process described above, can be eliminated.

Soon after and using a similar approach, Scribner (1976) obtained far more sanguine results as far as proponents of designation were concerned. He found that in Alexandria, Virginia, unrestored buildings in the Old Town appreciated in value approximately two and a half times greater over a 20-year period than those outside of the historic district. He found a similar pattern in the Capital Hill historic district of Washington D.C. where buildings increased about 40 percent in value, whereas those immediately adjacent to that district decreased in value by 25 percent. Many, many subsequent studies have since confirmed this study's general set of findings, albeit in other regions of the nation.

Interestingly not until Schaeffer and Ahern (1988) had anyone compared differences across different types of historic designation. Interestingly, these researchers found a significant increase in prices and turnover in the residential neighborhoods of Chicago listed on the National Register of Historic Places, but no corresponding increase in two Chicago neighborhoods listed on the local register. Indeed, in a follow-up study in Chicago, Schaeffer and Millerick (1991) obtained some negative effects on property values emanating from local designation. This finding caused the Schaefer and Ahern to speculate that the difference lay in the more stringent controls imposed in the two local districts and in the prestige of location in a nationally recognized neighborhood. That is, it is the burden on property owners for upkeep and maintenance, which designation engenders, that appears to provide a mechanism ensuring neighborhood upkeep. Coulson and Leichenko (2004) and Leichenko, Coulson and Listokin (2002) later suggested that inefficient levels of maintenance, which can accrue in certain neighborhoods typically, are a result of a prisoner's dilemma-like interaction in which property owners have an incentive to invest only in low levels of maintenance regardless of their neighbors' maintenance behavior. Thus, neighbors employing this strategy wind up in a neighborhood that experiences an overall downward spiral in the quality of housing stock. In such a situation, everybody is made worse off than if they all had agreed to provide high levels of maintenance. Hence, it appears restrictions embodied in the designation of a historical neighborhood may have the potential to induce owners to internalize this neighborhood externality that comes about when maintenance drops below efficient levels. Thus, the findings of Schaeffer and Ahern suggest that, at least from a theoretical perspective, compliance with preservation restrictions could overcome the momentum of low-levels of neighborhood-wide investment in properties.

Since this landmark study by Schaeffer and Ahern, Coulson and Leichenko (2001) also found national designation of individual properties to be more value-enhancing in their study of Abilene, Texas. Interestingly, when analyzing Memphis neighborhoods, Coulson and Lahr (2005) found that local ordinance with very heavy restrictions provided greater returns to historic designation over time than did a national designation or less-restrictive local designation. Nonetheless it remains unclear whether these differences are due to (1) differences in housing geography, (2) restrictiveness of ordinances, (3) the fact that the National Registry may get the "cream of the crop," or (4) mechanisms that may be explained by Samuels's (1981) concept of the stage of renovation.

The St. Louis Community Development Agency (1980) considered the implications of historic alteration and demolition restrictions for St. Louis's central business district. The results were mixed. Some buildings may not have been affected, but others that were suitable for intense development were put at a "disadvantage," i.e., landmark designation reduced their value. Interestingly, this is one of the few studies done on the effects of designation upon commercial properties.

Perhaps one of the most frequently cited studies is that by Rypkema (1997), who examined the impact on property values of local historic districts in Indiana. Guided by the desire to represent the geography of the entire state and communities of various sizes, he selected local historic districts in five Indian cities. The chosen historic districts were in Anderson, Elkhart, Evansville, Indianapolis, and Vincennes.

The overall results in Rypkema's study revealed that local historic districts in Indiana not only provided valuable protection for each community's historical resources but protected and enhanced individuals' financial resources as well. The specific findings by community follow:

- In Anderson the values of properties in the study areas steadily appreciated after the creation of the historic districts.
- In Elkhart the rate of appreciation of properties in the historic district, a particularly depressed area, mirrored the rate of appreciation of the entire Elkhart market.
- In Evansville the appreciation of properties within the local historic district outpaced both the surrounding historic properties not included in the local district and the overall Evansville market.
- In Indianapolis the property values in the local historic district increased at a rate consistent with the metropolitan Indianapolis overall market and exceeded the rate of both the adjacent and highly similar neighborhood and the larger area of Indianapolis within which it sits.

- In Vincennes, while the amount of appreciation over the fifteen-year period was modest for both commercial and residential properties, commercial properties in the downtown historic district maintained a pattern of appreciation similar to both the rest of the commercial properties and the overall Vincennes real estate market.

Four communities studied in Georgia all experienced increases in property valuation in historic areas that surpassed increases in values in non-historic areas (Leith and Tigure 1999). In Athens, Georgia, for example, a study of seven neighborhoods found that, during a 20-year period, the average assessed value of properties of historic districts increased by nearly 48 percent, (an average of 2.4 percent per year) versus only 34 percent for properties in non-designated neighborhoods (an average of 1.7 percent per year) (Leith and Tigure 1999).

An extensive statistical analysis on the property value impact of designation was conducted by Robin Leichenko and N. Edward Colson in Texas (Coulson and Leichenko 1999 and 2001). The two researchers found the following:

- Historic designation was associated with higher residential property values in all of the Texas cities included in the study where such valuation was examined. (A total of nine communities—Certified Local Governments (CLGs)—representing a diversity of localities.)
- The positive impact of historic designation was statistically significant in seven of the nine cities: Abilene, Dallas, Fort Worth, Grapevine, Lubbock, Nacogdoches, and San Antonio. In two cities, San Marcos and Laredo, the positive effect of historic preservation is not statistically significant at conventionally accepted levels.
- Among the cities where historic designation had a statistically significant effect on property values, historic designation was associated with average property value increases ranging between 5 and 20 percent of the total property value. The smallest average increases in property values occur in Dallas and the largest average increases occurred in Nacogdoches. In dollar terms, (dollar value change per housing unit) historic designation was associated with average increases in housing values ranging between $2,500 in Dallas and $18,600 in Nacogdoches, with the other cities falling somewhere in between.

Rypkema (2002) examined historic values in Colorado and found the following in a variety of that state's historic districts.

- Denver's Wyman Historic District: The benchmark criteria suggest that the designated district and non-designated comparison area have paralleled each other since designation; in other words, historic designation has not had a demonstrable, negative economic impact. Since designation, the total appreciation in Wyman is approximately four percent greater than in the nearby area.
- Denver's Witter-Cofield District: The designated and non-designated areas are not significantly different. Not only have the historic district and nearby area paralleled each other in all benchmark criteria, but the entire case study area has remained consistent with the median sales price for the city of Denver as a whole. This suggests that the Witter-Cofield district, years after district designation, continues to provide housing representative of other neighborhoods throughout the city.
- Denver's Quality Hill District: Historic designation appears to have made a difference in Quality Hill. Since designation, the district has appreciated faster than the nearby area. Also,

the median sales price within the district has risen at a dramatically faster rate than the median sales price just outside the district. Despite a substantial amount of modern, multi-family residential infill, which in some neighborhoods might tend to depress the values of adjacent single-family residential houses, prices in the Quality Hill District have remained much higher than in the city as a whole.

- Durango's Boulevard District: Sales prices in the Boulevard Historic District tend to be significantly higher than those both in the non-designated comparison area and also in the city as a whole. Our interviews with local Realtors confirmed this trend, noting that the Boulevard District is one of the more desirable and expensive markets in the city. Both the historic district and the nearby area experienced considerable increases in value during the 1990s.

A recent University of Florida (2002) study reviewed more than 20,000 parcels of property in eighteen historic districts and a similar number in twenty-five comparison neighborhoods. (For reference, Florida has more than 9.6 million parcels statewide.) Assessed property values over a ten-year period from 1992–2001 were analyzed in the following cities: Jacksonville, Gainesville, Ocala, Tampa, St. Petersburg, Lakeland, West Palm Beach, and Lake Worth. The Florida researchers found that:

- In no case did historic designation and protection depress property values.
- In at least fifteen of the eighteen cases studied, property in the historic district appreciated greater than target non-historic areas.

Some of the analyses noted above were cited in an excellent "compilation" of the economic effects of historic preservation developed by Rypkema (1994) in a study for the National Trust for Historic Preservation. Rypkema cited the studies, described above, by Leithe, Ford, and the State of Virginia. He also noted numerous other analyses done both abroad (e.g., Canada) and in municipalities and states in the United States showing that historic designation did not depreciate the value but, in fact, enhanced the value of designated properties. A more recent piece by Mason (2005) also reviews much of this literature.

Critique of the Literature on Historic Designation and Property Value

Much of the literature focusing on historic designation's effect upon property values has done so by analyzing differences across neighborhoods that are subjectively deemed to be similar. But as discussed by Heudorfer (1975), it is difficult to select undesignated neighborhoods that have properties that are sufficiently close in character to those in the designated neighborhoods so that a reasonably robust statistical analysis of the value of property designation can be performed. Almost any rationale used to select for designation a neighborhood over another somewhat similar one also can help to explain relatively higher property prices in the designated neighborhood.

As time has progressed, analysts have tried to overcome the many shortcomings in the methods applied to the analysis of historic designation on property values. The techniques applied have become more precise and robust. In the analyses, researchers have come to control for a multitude of housing (see e.g. Coulson and Lahr, 2005) and neighborhood characteristics (Clark and Herrin, 1997). They have tended to use more sophisticated data sources—making sure to use appraisal data from benchmark appraisal years or actual home sales information.

The "difference-in-difference" approach used in most of the studies mentioned above (especially the earlier ones) relies solely on comparing sample averages of the growth rate in property values in historic areas versus nonhistoric areas. Typically, the researcher controls for no other variables (e.g., property characteristics). Thus, to the extent that variables independent of designation explain the differences in property values, the results will be biased and inconsistent. (Few studies, such as those by Ford [1989] and Gale [1991], include any statistical controls.) A multivariable statistical approach, as used in Clark and Herrin (1997), Shaeffer and Millerick (1991), and Coulson and Leichenko (1999 and 2001), and Leichenko and Coulson and Listokin (2001), and Coulson and Lahr (2005) is heavily preferred. But due to data limitations the difference-in-difference approach noted above is often the best that can be applied. Nonetheless, when such an approach is applied, it must be understood that the results from such an analysis cannot be entirely convincing.

In fact in many of the early studies, information on the variations in property values or property value growth within neighborhoods is rarely reported; thus, the *statistical* significance of any difference between designated and non-designated areas cannot be determined. Again, this serious flaw is due to a lack of either adequate data or of knowledge with regard to proper statistical technique on the part of the researchers.

As has already been discussed in some detail above, the choice of comparison districts is also a problem in some cases. By the very distinction of being historic, many districts have no comparable control. The Gale (1991) study is most forceful in pointing this out, and Gale tries to convince the reader that his three control districts are indeed comparable. Hence, the study isolates the effect of designation per se on property market outcomes. However, there must have been a reason why the control neighborhoods were not designated, and if this is in any way related to property values, then the results are spurious.

There is also the issue of timing. For a study to be meaningful, growth rates have to be compared during the same period, otherwise city or economy-wide effects must be controlled for. Taking the designation date of the historic district and comparing growth rates around the same date for nonhistoric districts may confuse the fact that the subject and the control are at different stages with respect to rehabilitation effort undertaken. Thus, the issue of timing is key, as Samuels (1981) points out. If designation takes place before the area has experienced significant rehabilitation and restoration, results will be very different than they would be if designation occurred when renovation was complete.

In fact, studies that show a relationship between designation and property values—as opposed to designation and subsequent property value change—can reveal only a correlation betwixt the two; the direction of causation is merely assumed by the researcher with no rationale. That is high property values could have been what induced the urge to designate in the first place. It is important to determine why a particular building or district becomes designated. If designation is the result of preservation efforts by existing owners, then designation itself may have little impact on the path of property values, which would have increased even in the absence of designation. Indeed, some studies show that prices increased more prior to designation than after (New York Landmarks Conservancy's [1977] study of Park Slope).

The use of appropriate price data depends on the focus of the researcher. If the main concern is for tax payments, then clearly the assessed value is appropriate. But for an investor, the sales price is perhaps more appropriate. To determine economic value, sale prices should be used where possible, since these reflect real transactions rather than the subjective opinion of an appraiser or assessor. Self-reported values such as those found in Census data can be seriously biased since owners may perceive value differently from the market. Nonetheless, if one can argue that the bias is consistently in the same direction and of the same magnitude (e.g., if owners always overestimate value by 10 percent or if one can control for the official who appraised a property), then the measurement error becomes less important. If, on the other hand, there is asymmetry because owners of properties in historic districts have a different bias than other property owners, then the measurement error problem may be much more severe.

The simulation approach has its own set of problems: among them is the definition of what is and is not permitted by historic status. Any decline in value will obviously be determined by the stringency of the restrictions, and often these cannot be gauged in advance since the specifics are determined on a case-by-case basis.

The state of the art of the literature would be improved by more expansive empirical research. This research should focus on utilizing better data sources so that more independent variables can be considered in the analysis. The basic difference-in-difference framework is a sound starting point, though individual property-level data would do much to counter some of the criticisms presented above. If individual sales data are available, then at the very least, standard errors can be computed and simple confidence tests performed.

A superior analysis, as applied in Clark and Herrin (1997), and Coulson and Leichenko (1999 and 2001) calls for individual property and neighborhood characteristics to be entered into a multiple regression framework. As discussed previously, features of certain properties (e.g., elaborate facade work) make them prone to either increases or decreases in value. It is desirable to be able to isolate the effects of these variables. A multivariable analysis can specify the significance of size, ornamentation, location, age, usage, and so on. Only then can conflicting influences be teased out. Knowing the size of a negative impact that is totally offset by a positive impact is far more informative than just knowing, for instance, that designation has a neutral effect.

In sum, the vast majority of the literature points to a neutral or value-enhancing effect from historic designation. There are challenges in conducting such studies so continued empirical work in this area is appropriate.

PART FOUR: INTERVIEWS WITH ARKANSAS REAL ESTATE AGENTS AND ASSESSORS

Knowledgeable real estate agents and tax assessors in three illustrative case study communities in Arkansas were interviewed by telephone by Rutgers University. The experts interviewed in Arkansas reported that *property values within historic districts are generally higher than those outside of them*. Moreover, properties within Arkansas's historic districts—at least those with which interviewees were familiar—tend also to experience faster price rises. Indeed, there purportedly is a collective action that motivates this activity. That is, if there is a commitment to reinvest in a neighborhood—interviewees tended to mention preservation ordinances—then property owners within the neighborhoods reportedly tend to internalize the externality of neighborhood beautification started by others by investing into their own properties. (Governments secure Community Development Block Grants, Main Street monies, and other external funding for infrastructure and aesthetic improvements, helping to start the process.)

As noted, interviews were conducted with representatives from three different communities in Arkansas. Naturally the interview results differed based the experiences of the respondent. Interviewees from Eureka Springs suggested that its unique standing as a historic town in the fast-growing northwestern section of the state yields it a very high "historic premium." Conversations with representatives from Fort Smith, on the other hand, varied a bit more in their opinions about the pros and cons of preservation's effects on property values.

Property Reinvestment

Because of the caché associated with historic districts and properties, homeowners generally feel motivated to maintain them. Some communities have expedited review processes for minor repairs (e.g. repainting in the same color). Little Rock, for example, recently standardized the architectural review process in its historic districts to expedite and better inform the process.

In addition to any caché effect, historic districts tend to provide a sense of reassurance to property owners that, say, a large shopping mall will not soon locate itself next door. Hence, historic districts reduce some perceptions of risk that ordinarily might be associated with investment in properties within them.

Spillover Effects

Significant spillover effects (investment in historic districts encouraging investment in adjacent non-designated areas) exist in Arkansas urban areas where districts are well integrated with the city. This apparently is especially the case where the city's housing stock is somewhat similar in style and age to that within its historic district(s).

Nonresidential Space

Office space in particular is very much drawn to historic districts and historic properties in general. In part this is due to federal tax credits, which are targeted at revenue-generating properties, one respondent pointed out. One respondent pointed out three examples where commercial space was retrofitted and was able to have a dramatic return on investment, both for the private property owners and the cities involved (through increased property and sales taxes).

In sum, the vast majority of the national literature points to a neutral or value-enhancing effect from historic designation. Interviews with knowledgeable real estate agents and assessors in

Arkansas largely support this perspective. Empirical analysis of the effect of historic designation on property value in Arkansas is considered below.

PART FIVE: EMPIRICAL ANALYSIS OF THE IMPACTS OF HISTORIC DESIGNATION ON PROPERTY VALUES IN ARKANSAS

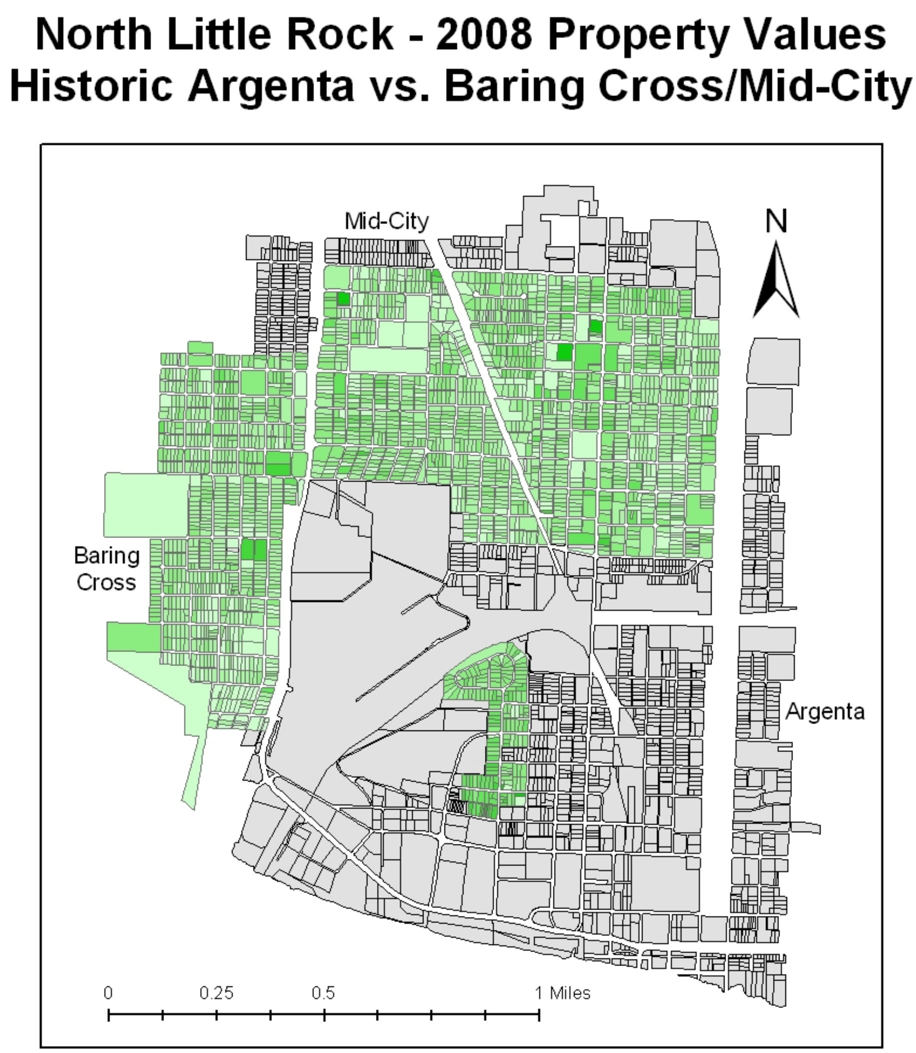
As part of this study, the degree to which historic properties increased property values was examined within the city of North Little Rock. Specifically, comparisons were to be established between older neighborhoods in the original Argenta area and outlying, non-historic Baring Cross and Mid-City areas. At first, it was hoped that data would be available to conduct a comparison of property appreciation rates, but widely variable records made this impossible. In the end, we were able to track down this year's property assessments for almost all of the Baring Cross and Mid-City neighborhoods located north and west of downtown (2248 parcels) and a much smaller collection of properties (160 parcels) in the part of Argenta located west of Maple Street, constituting a large portion of the historic district. From this, a simple comparison of average property values can be made. While there are clear differences in the two areas, most glaringly the distance to the city's central business district, both study areas are primarily residential in character and have generally similar housing stocks (see Figure 1). The difference in structural age is statistically significant, as one would expect from areas that were settled at different times, but in both areas, 10% of structures were constructed before 1920.

Figure 1: Building Characteristics

	Historic Argenta	Baring Cross and Mid-City
Median Square Feet	1,368	1,215
Median Year Built	1930	1940

To determine whether property values were different between the two areas, we began with simple arithmetic. The quickest approach would be to take an average of all parcels in each of the two areas and compare the means. This, however, ignores the fact that the average parcel in Argenta is roughly one-sixth of acre, compared to just under one-quarter acre in other neighborhoods. Since that difference is statistically significant, it was decided that property value needed to be normalized by land area. The results of this are shown geographically in Figure 2. A property's value per square foot of land area (NOT square footage of the building; one acre = 43,560 square feet) is represented by one of six shades of green. In order of lightest to darkest, these represent properties whose property values are under \$2, \$2-5, \$5-10, \$10-20, \$20-30, and greater than \$30 per square foot. (Properties in gray are other parcels in North Little Rock that were not included in this study.) Overall, the average property value in historic Argenta is \$10.40 per square foot of land area, while the same figure in the Baring Cross and Mid-City areas averaged just \$4.30. This indicates that the historic properties were worth 142% more per acre than non-historic ones. Such a disparity in property values indicates that there is markedly higher demand for residences in historic Argenta than elsewhere in North Little Rock. Such a finding lacks scientific viability, however, as it does not control for other potential factors that may impact property values. Doing so requires a more powerful analytical technique.

Figure 2: Mapping the Results



Specifically, an ordinary least squares (OLS) regression model was constructed based on all available property data. The dependent variable would be the property value of a given parcel, which would be modeled based on five items obtained from assessment records: square footage of both the plot of land and the building in question, age of the structure, and whether or not the property is in Argenta and/or is non-residential in nature (1=yes, 0=no). A second specification adds a variable for building condition (rated on a one-to-five scale, five being "excellent") to ensure that any neighborhood effects are not merely the result of differences in housing stocks – most Argenta parcels were rated a three, while most in Baring Cross/Mid-City were rated a two. An OLS model then estimates the impact of each variable separately, determining statistical significance and quantitative effect. The results are included in Figure 3.

Figure 3: Quantitative Impacts on Assessed Parcel Value in North Little Rock (t-statistics)

	Specification 1	Specification 2
Square Feet – Land Area	2.76 (20.00)	2.77 (20.13)
Square Feet – Structure	16.23 (24.54)	16.11 (24.45)
Age of Structure (years)	-221.21 (-5.52)	-217.13 (-5.54)
Condition of Structure	-----	5,885.01 (4.40)
Located in Argenta?	**33,595.21 (12.11)**	**31,026.09 (10.99)**
Non-Residential?	30,314.96 (9.98)	26,412.77 (8.38)
Number of parcels	2081	2081
R^2 (see below)	.735	.738

The most relevant numbers for this study are the large positive coefficients with regard to a structure's location inside or outside the historic area. Without including the condition variable, being located in the Argenta district adds $33,595 to the value of a parcel, all else being equal. After accounting for structural conditions, this declines slightly to $31,026. This still indicates a dramatic premium for residents and other property owners whose structures are located within the historic district. Not surprisingly, it was also found that larger parcels and structures had much higher valuations (approximately $2.75 per square foot of land and over $16 per square foot of enclosed space in each specification). Each added year of age led to a drop in property value, as one would expect, of roughly $220 in each version of the model. In the second version, which included structural condition, the coefficient dictates that a one-point increase along the one-to-five scale increases the assessed value by $5,885. Just as properties in Argenta generally have a higher condition rating, non-residential properties tend to be better maintained as well, so the second specification sees that coefficient reduced as well; specifically, non-residential properties of the same size, location, and age have property values that are $30,315 higher in the first model and $26,413 higher in the second model. Generally speaking, this result is most likely the result of commercial and civic properties being located in more easily accessible locations whose land value has been bid up.

Notably, all variables are statistically significant in each specification at the 99% level, indicating a very strong finding; the absolute value of each t-statistic in both specifications is greater than four, where any value over two indicates a statistically meaningful relationship with the dependent variable. Furthermore, both versions have an R^2 value of just under three-fourths. This statistic evaluates the level of variation in the dependent variable that is explained by the model's independent variables. Values this high are extremely rare for such a study, amplifying the impact of this result. Overall, this regression model shows a dramatic difference in property values between the historic areas of North Little Rock and its surrounding neighborhoods. If one were to take the $31,026 gain found in the second regression model and multiply it across the 160 historic district parcels included in this study, nearly $5 million in real estate value has been added to North Little Rock by the presence of this designation. This would appear to indicate there is significant economic utility – for both property owners and government entities reliant on real estate taxes – to historic district designation and reinvestment.

Also examined as part of this study was the degree to which historic properties increased property values in the City of Fort Smith. Specifically, the goal was to determine whether properties that had been designated historic had significantly higher property values than similar parcels that were not. After paring down a provided data set and eliminating parcels for which there was missing data, a sample of 187 residential parcels was drawn from a neighborhood just northeast of central Fort Smith. Sixty-four parcels (34%) in the sample have a local historic designation.

Based on data from 2005 county assessor's records, we compiled four basic characteristics about each structure in our sample, aside from the market value of the property: square footage, effective age[3], number of bathrooms, and street frontage. Table 1 shows the basic descriptive statistics for each variable, as well as the average for both historic and non-historic properties and whether the difference between them is statistically significant (using a two-sample t-test with a 90% confidence level). Indeed, the data shows that there are no major differences between the buildings that are designated and those that are not – except with regard to the market value of the parcels.

[3] Essentially, effective age combines both the year in which the structure was built and its condition. It is determined by the county assessor's office while evaluating property value for taxation purposes. As one would expect, such a statistic measures how old the building appears to be. For newer structures, where building permits and other records dating to the building's construction are on file, this will typically be its actual age if it has been kept in good repair. For older buildings where actual age is unknown, it is largely based on the structure's condition. The maximum effective age is 60, based on depreciation schedules. One can also consider this statistic to approximate the number of years since the last substantial rehabilitation, which helps to explain why properties in the historic district have a slightly lower effective age than those that are not.

Table 3: Building Characteristics of Sampled Parcels in Fort Smith

Variable	Mean	Std. Dev.	Minimum	Maximum	Mean-H	Mean-NH	Diff.?
Market Value	$45,341	$2,154	$8,500	$374,450	$51,984	$41,885	YES
Square Feet	2,020	826	525	6,536	2,025	2,017	NO
Effective Age	31.23	8.01	1	55	30.70	31.50	NO
# of Bathrooms	1.64	0.78	1	7.5	1.70	1.61	NO
Street Frontage	61.39	26.69	34	300	64.86	59.58	NO

Clearly, this is substantial evidence that there is a positive impact on property values from the designation of properties as historic: there is a difference of more than $10,000 in the average market value of parcels between the historic and non-historic areas that cannot be explained by similarly significant differences in building characteristics. Simply relying on a comparison of the means, however, lacks econometric rigor. Using these variables, we can use ordinary least squares regression to isolate the impact of each of these four building characteristics, as well as the historic designation, on property values in central Fort Smith. Model results are provided on the next page in Table 2.

Table 2: Impact of Historic Designation on Property Value

Variable	Coefficient	t-statistic
Designation	7,221	2.78
Square Feet	17.91	8.64
Effective Age	-1,434	-9.18
# of Bathrooms	11,714	5.74
Street Frontage	86.95	1.73
Constant	26,947	4.52
N = 187	$R^2 = 0.6877$	

Notably, the R^2 value indicates that over two-thirds of the variation in home price is explained by these five variables, a remarkably high proportion. All five variables are found to be significant at a 90% confidence level, as noted by the t-statistics, with only street frontage not reaching a 99% level. The first row verifies the earlier finding: all else being equal, the presence of a historic designation will increase the value of a property in Fort Smith by $7,221. The other variables behave as would be expected: Parcels become more valuable as the floor area of the structure increases (just under $18/square foot), less valuable as structural effective age increases (losing $1,434/year), and gain value both as bathrooms are added ($11,714 each) and as street frontage, and therefore in most cases lot area, are added (just under $87/linear foot). Even though the effective age variable incorporates the condition of the property, the historic designation has a positive impact regardless of the state of the building.

Finally, additional corroboration of these results could be found in property values in an older neighborhood of Hot Springs. The provided data set, once duplicates and buildings with missing data included only 72 parcels (42 designated, 30 non-designated), too few to conduct a reliable regression analysis. However, it is at least possible to compare the averages. The mean 2000 market value of the 42 historic properties was \$25,801, while the same value for the 30 non-historic properties was \$19,905. Using a two-sample t-test proves that the difference between these values is statistically significant at any meaningful confidence level. At least on a raw first cut, there is again evidence that historic designation increases property values.

Overall, the results of this study indicate that historic preservation activity creates significant amounts of both economic wealth for residents and businesses as well as property tax revenue for local government. Among just the 64 historic parcels in this study, the regression output indicates that nearly half a million dollars in additional property value is created by the historic designation in the city of Fort Smith (\$7,221 x 64 = \$462,144). Protecting historic structures and neighborhoods will pay off for Arkansas not just in added amenities and increased quality of life, but also in the pocketbooks of the private and public sectors alike.