

CHAPTER ONE

**Background to the Analysis of the
Economic Impacts of
Historic Preservation**

THE NEED FOR INFORMATION ON THE ECONOMIC IMPACTS OF HISTORIC PRESERVATION

Until almost the mid-twentieth century, the idea of historic preservation 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. Pennsylvania Station in New York City is a prime example. Federal programs, ranging from urban renewal to the interstate highway systems, fueled the demolition of the nation's historic built environment. Partly in reaction to the widespread loss of historic properties, a regulation system for preservation had 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 eligible resources. With federal funds from the NHPA, state historic preservation offices (SHPOs) were established to help identify sites and structures to be placed on the National Register. Many states further enacted "mini-106" procedures to evaluate state and local government actions that threatened historic properties.

Most significant was the establishment of local preservation commissions (LPCs). LPCs were created to identify historic resources and then take appropriate action to designate these resources as landmarks. Once designated, the landmarks could not be demolished, nor could their facades be altered in a historically inaccurate fashion without the approval of the LPCs; at minimum, these actions would be delayed pending LPC review.

In a short period of time, historic preservation has mushroomed in scope. There were about 1,000 entries on the National Register of Historic Places in 1968; today there are nearly 70,000. There have been over 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 nationwide. 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; still, preservation remains the exception rather than the rule.

Preservation has accomplished much. Icons that have been saved, such as Grand Central Station in New York, 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.

The aesthetic and quality-of-life benefits of preservation are generally acknowledged. However, doubts are often expressed about the quantifiable economic contribution of preservation. 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 support. Take, for instance, the federal preservation tax incentive (hereafter referred to as the FPTI). Initiated in the late 1970s, the FPTI has generated billions of dollars in investment in historic preservation, encompassing about 30,000 separate projects. The FPTI is the most significant federal financial support for preservation, eclipsing even the Historic Preservation Fund that supports SHPOs. 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 cite 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 preservationists at a competitive disadvantage compared with those arguing for federal tax breaks for other investments (e.g., capital gains and infrastructure), who can marshal arrays of statistics to support their respective causes.

Parallel developments exist at the state level. As the federal government has cut back and states have ascended 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, Texas, and Vermont, have passed bond issues to foster preservation. But there are many demands on the public purse, and preservation is in competition for state support for other 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, unlike 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 readily available 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 the lack of procedures to quantify these benefits have significant adverse implications. This is unfortunate, since historic preservation generates extensive economic benefits. 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

Arkansas. Few previous analyses have examined the economic impacts of historic preservation 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 in appendix A.)

PRIOR LITERATURE ON THE ECONOMIC IMPACTS OF HISTORIC PRESERVATION

Studies conducted in the late 1970s and early 1980s, although nominally addressing the economic benefits of historic preservation, focused less on economic benefits and more on financial feasibility. (This was 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 economic effects into the discussion, typically in anecdotal or case-study fashion. For instance, *The Contributions 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 of 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 commonly 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 broad 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 with 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 (Preservation Alliance of Virginia 1996) that summarized how preservation benefited the state's economy through 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.

We should also note a study by the authors of the current investigation that focused on the states of New Jersey and Texas (Listokin and Lahr 1997; 1999). The New Jersey and Texas reports considered the direct and total (with multiplier) effects of different components of historic preservation in these states, including historic rehabilitation, heritage tourism, and the operation of such preservation efforts as the Main Street Program. The current analysis considers the similar aspects of historic preservation in Arkansas.

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 estimates statewide figures on the amount of historic rehabilitation, heritage tourism, and Main Street investment. Other state investigations have not done this to the same scale. For instance, the Virginia study (Preservation Alliance of Virginia 1996) examined construction impacts from the rehabilitation of some Virginia historic properties, but did not conduct a full inventory of such state activity since this information was simply not available.

Development of Preservation-Specific Data

Some other studies have developed preservation-specific information, such as the profile and spending of heritage versus nonheritage 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 nonhistoric), as well as such subgroups as heritage versus nonheritage day-trippers, and heritage versus nonheritage overnights. This side-by-side profiling is accomplished for many types of characteristics, such as demographic background, trip origin, and trip spending, with the latter differentiated into numerous components. The point is not detail for detail's sake, but rather that the more precisely the profile and spending of heritage travelers is detailed, the more precise will be 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 in regard to the breakdown 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. This detailed breakdown 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, and (3) Main Street investment. The Arkansas investigation also considers the effects of the potential use of state tax credits for historic rehabilitation investment.

The comprehensive inclusion of the many components of historic preservation in an economic assessment must carefully avoid double counting. For instance, if all of the activity of Main Street investments, historic rehabilitation, and heritage tourism 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 Main Street, we *net* out from the Main Street investment capital spending and revenue derived from visitors, because these are considered in the earlier tallied historic rehabilitation and heritage tourism projections, respectively.

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. For historic rehabilitation, this could include 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 a historic structure (e.g., food purchases by the carpenters' or steelworkers' 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 of historic preservation is accomplished by application of an input-output model developed by the authors. This

model offers significant advantages in detailing the total economic effects of an activity (such as historic rehabilitation), including multiplier effects (see appendix a). The analysis in the subsequent chapters first presents the direct effects of the components of historic preservation—historic rehabilitation, heritage tourism, Main Street investment, and a potential Arkansas Historic Preservation Tax Credit Program—and then applies the input-output model to derive total or multiplier effects.
