Using Historic Properties as Economic Assets Issue Area

Executive Summary of Issue Area

Forty years ago this year, the framers of the National Historic Preservation Act of 1966 boldly predicted that "economic growth and development" would be among the benefits to flow from the increased knowledge of historic resources, the establishment of better means of identifying and administering them, and the encouragement of their preservation called for by the new law. Their prediction proved prescient. Nearly 20 years later, President Ronald Reagan – who signed into law the current 20-percent federal investment tax credit for historic rehabilitation -- was able to state that the preservation of older buildings had become "not only a matter of respect for beauty and history" but also of "economic good sense." By the 25th anniversary of federal tax incentives for historic rehabilitation in 2001, the director of the National Park Service observed that previously "few accepted the idea that reusing historic buildings could be profitable. Today, few question it. That turnaround has had profound consequences for saving and reusing historic properties . . . ."

Appreciation for the status of historic properties as economic assets reached its most recent milestone in 2003 when President George W. Bush signed Executive Order 13287, Preserve America, emphasizing the use of federal historic properties to enhance the economic vitality of America's communities. Executive Order 13287 is noteworthy for, among other things, its recognition of the multiplicity of ways in which historic properties can contribute to local communities and their economies. One way emphasized in the Executive Order is the use of historic properties for heritage tourism and related economic development. The Executive Order directs the Secretary of Commerce, working with that department's partners, to help promote the use of federal historic properties for such purposes and directs other agencies to use historic properties in their ownership in conjunction with state, tribal, and local tourism programs to foster economic partnerships with tourism officials and others with interests in the properties.

Against the backdrop of this remarkable progression, the members of the Using Historic Properties as Economic Assets Issue Area met to take up the question: *How can communities be encouraged to use their historic properties as economic development assets?* The Panel focused on current national preservation programs and policies with a view to proposing improvements to modernize them in keeping with the goals of Preserve America.

Expert Panel Focus and Methodology

The Using Historic Properties as Economic Assets Issue Area Panel met at the historic Chase Park Plaza Hotel in St. Louis, Missouri on September 7th and 8th, 2006.

Attendance

The meeting was convened by the co-chairmen of the Panel, Jim Yeager, and Peter Bell. Sandy K. Baruah, Assistant Secretary of Commerce for Economic Development, attended the meeting and served as the meeting facilitator. Susan S. Barnes, Vice Chairman of the Advisory Council on Historic Preservation, also participated actively in the meeting. Ten of the panel's 12 official members were able to personally attend all or some of the two-day meeting.

Panel Methodology

Before arriving in St. Louis, each panelist was provided with a list of questions to be considered. Panelists were also provided with background materials including a National Park Service paper entitled "Measuring the Economic Impact of Federal Historic Properties" and the draft report of the National Park System Advisory Board Committee on the Federal Historic Rehabilitation Tax Credit Program report entitled "Federal Historic Rehabilitation Tax Credit Program, Recommendations for Making a Good Program Better." Many of the meeting participants assembled for an informal dinner on September 6th, the evening before the Panel meeting.

The questions to be considered, which were refined at the meeting, were grouped under the headings "Role of the Public Sector", "Measurement and Identification", "Role of the Private Sector", and "Marketing and Branding". Much of the first day of the Panel's meeting was spent discussing these topics in an open session. Acting as facilitator, Secretary Baruah then broke the Panel into four expert sub-panels, one corresponding to each of the aforementioned headings. After a two-hour breakout session, each sub-panel then reported back three to five preliminary recommendations to the full Panel. The balance of the first day of the Panel's meeting and the second day were used to review and refine these preliminary recommendations. Ultimately, Panel members were able to distill the preliminary recommendations into five final recommendations, which were unanimously adopted by the full Panel.

Various members of the Panel agreed to draft supporting text for each recommendation. Those drafts were circulated by September 15th. Panel staff then synthesized the text into a draft full report. The Panel held a teleconference meeting on September 20th in order to review the draft full report in advance of its submission by September 22nd.

Co-Chairs:
Federal Agency
Jim Yeager, Chief of Staff, Economic Development Administration, U.S. Department of Commerce
Non-federal partner
Peter Bell, President, National Housing and Rehabilitation Association

Expert Panelists:
Bill Armbruster, Deputy Assistant Secretary, U.S. Department of Defense
Marilyn Black, Vice President for Heritage Development, Oil Region Alliance of Business, Industry, and Tourism
Lona Barrick, Administrator, Chickasaw Nation Division of Arts and Humanities
Tom Capp, Executive Vice President, Gorman and Company, Inc.
Judy Christa-Cathey, Vice President for Brand Marketing, Hampton Hotels
Hal Fairbanks, Director of Acquisitions, HRI Properties/National Cities Fund
John Garvin, Senior Advisor to the Assistant Secretary for Housing/Federal Housing Commissioner, U.S. Department of Housing and Urban Development
James Hamrick, Deputy SHPO, Oregon Parks and Recreation Department
Larry Oaks, State Historic Preservation Officer, Texas Historical Commission
Donovan Rypkema, Principal, Place Economics
Bill Struever, Partner, CEO, and President, Struever Bros. Eccles & Rouse
John M. Tess, President, Heritage Consulting Group

Facilitation and Staff:
Sandy K. Baruah, Assistant Secretary of Commerce for Economic Development, Economic Development Administration, U.S. Department of Commerce
Susan S. Barnes, Vice Chairman, Advisory Council on Historic Preservation
Kelly Yasaitis Fanizzo, Advisory Council on Historic Preservation
Suzie Terrell, Dennis Alvord and Chris Stokes, Economic Development Administration, Department of Commerce
Tom Amdur, National Housing and Rehabilitation Association
Andrew Potts, Nixon Peabody LLP

Findings

The private-sector members of the Using Historic Properties as Economic Assets Issue Area Panel reflect disparate backgrounds, ranging from housing providers to commercial real estate development to hospitality and tourism. Public-sector participants were drawn from the federal, state, tribal and local levels. The broad experiences of the Panel members supported the conclusion that historic buildings represent a potent tool for economic development, particularly when viewed as a function of jobs created and household income. Drawing on their own experiences, the Panel members identified a number of economic benefits associated with historic buildings, including the following:

- Rehabilitation is by definition smart growth and promotes conservation of resources and better leveraging of roads, sewers and other existing infrastructure.
- Historic buildings are commonly a key driver of downtown revitalization.
- Preservation-based economic development strategies, such as the Main Street program, have been demonstrated successes.
- Small business incubation occurs disproportionately in historic neighborhoods.
- Heritage tourism creates significant economic opportunity and compares favorably to other types of tourism when measured in terms of per-trip impact.
- Historic preservation has a positive impact on real property values and in particular on rates of property value appreciation.
- Rehabilitation is fundamentally "green" and a key component of sustainable development.
- America's older neighborhoods provide much of our country's affordable housing, making historic rehabilitation a key part of the affordable housing solution.

Another important point brought forward was that the Historic Tax Credit Program -- the largest (by dollar volume) federal program dedicated specifically to historic preservation -- ultimately pays for itself. The combination of income taxes on workers, construction firms, and suppliers; the fact that the credit itself is effectively subject to capital gains tax on sale of the property; and the high ratio of tax credits to private investment (a minimum of $5 of investment to receive $1 of credit) makes this Program nearly self-funding for the US Treasury. This is in addition to the state and local income, property and sales taxes that historic rehabilitation generates.

Panel members were of the view that certain challenges exist that must be addressed before all communities can fully realize the economic development potential of their historic properties, consistent with the requirement of stewardship responsibilities and recognizing the particular needs of sacred and archeological sites. Some of the challenges and needs most consistently identified by Panel members included the following:

- In order to capitalize on the potential of their historic assets, communities need to know what they have to work with. In many places, the National Register represents only a fraction of potential historic assets and thus attention cannot be limited to that list. More attention needs to be paid to identifying and cataloging historic buildings, with an emphasis on rural and distressed communities where such efforts may have lagged.
- Innumerable historic properties are in the hands of individuals and small businesses, many in rural or distressed communities. Often these people lack information about the potential economic benefits of historic buildings. Worse yet, there sometimes exists misinformation about the costs of historic preservation. These communities need case studies and better information about the true costs and benefits of historic buildings. In

addition, federal incentive programs are sometimes not accessible to or well-understood by these constituencies.

- Federal regulation of historic buildings is coordinated under the auspices of the Advisory Council on Historic Preservation; federal incentives for historic buildings generally are not. No one agency has jurisdiction over historic preservation and thus incentives are fragmented throughout the federal government with key agencies being the Departments of Treasury, Interior, and Transportation, followed by Housing and Urban Development ("HUD"), Commerce, and others. Programs commonly used in connection with historic preservation initiatives such as the Historic Tax Credit, Transportation Enhancements, and HUD and Economic Development Administration ("EDA") grants are not coordinated in terms of national preservation policy and, in fact, sometimes work poorly together in connection with rehabilitation projects.
- Rehabilitation is sometimes viewed as secondary to new construction. Some federal policies and incentives are designed with new construction in mind and do not work optimally for rehabilitation.
- The Federal Historic Rehabilitation Tax Credit is an effective program but it would benefit from a sustained effort to ensure that its tax provisions and its administration keep pace with modern practices and needs.
- Many historic buildings with the greatest potential are in the hands of government and the nonprofit sector. Others are owned by small businesses, as in the case along many traditional small-town main streets. Effectively realizing the economic potential of these assets requires a concerted effort to develop public-private partnerships.
- Heritage tourism is driven by "local flavor" — communities determining what differentiates them and then collaborating to identify and engage an audience around what they have to offer. Achieving the latter while preserving the former requires distinctive skills and expertise which some communities and property owners lack.

The Panel's deliberations were marked by a belief that federal, state and local government and the private sector, all can play a major role in addressing many of these challenges and that certain improvements in national preservation programs and policies would help more communities more fully recognize the economic development potential of their historic resources.

In particular, the members of the Panel achieved consensus on five ideas which are more fully presented in the Ideas for Consideration portion of this report.

Ideas for Consideration

Idea 1:

Create incentives for recipients of federal economic and development funds to include historic preservation elements in applicable comprehensive economic development strategies or plans.

Background:

Numerous federal programs offering assistance to state, tribal, and local governments require various types of planning processes as a pre-requisite for receiving funds or other assistance. An example are the Consolidated Plans which must be submitted by jurisdictions receiving Community Development Block Grants ("CDBG"), HOME funds or other assistance from the U.S. Department of Housing and Urban Development.

While many pertinent factors are taken into consideration in such planning processes, Panel members felt that historic preservation strategies are often overlooked. To make historic preservation a "top of mind" topic, all such planning requirements, for any type of federal assistance, should take into consideration a community's commitment to rehabilitation and/or other activities that further historic preservation. This type of consideration could be addressed as a threshold requirement for all applicants or, alternatively, in some programs, could work more effectively by providing positive incentives, such as additional funding or "bonus points" in ranking for competitive funds when making funding decisions.

Idea 2:

Dramatically increase the use of the highly successful Federal Historic Rehabilitation Tax Credit Program by working with the Program's preservation partners to increase awareness and understanding by the economic development community and to streamline the administration of the Program. In particular, the Panel endorses an ongoing dialogue between partners and the timely implementation of the recommendations in the "Federal Historic Rehabilitation Tax Credit Program, Recommendations for Making a Good Program Better" report of September, 2006 and prepared by the Committee on the Federal Historic Rehabilitation Tax Credit Program of the National Park System Advisory Board.

Background:

Through the effective partnership of the State Historic Preservation Offices, the National Park Service and the private sector economic development community, the Historic Tax Credit Program (sometimes referred to as the "Program") has become one of the nation's most effective community economic development programs because it:

- Promotes both urban and rural revitalization.
- Encourages private investment in historic preservation assets.
- Has generated $36 billion in historic preservation development.
- Has returned 32,800 historic buildings to productive community use.
- Has transformed communities in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico.

The Program could be even more successful if there were increased awareness and understanding of the Program within the economic development community. In order to accomplish this, the National Park Service and its public and private historic preservation partners should work together to:

- Plan and execute effective workshops and training sessions in all sections of the country.
- Hold educational workshops in public forums that are inexpensive, accessible and convenient for all segments of the population.
- Develop materials that explain the elements of the program to varied users, both professional and small owner-developers.
- Provide training resources to the states to promote the program and train one-time users (two-thirds of all projects).
- Create a preservation/conservation ethic that uses the Program to preserve the nation's historic assets.

Many Panel members felt that use of the Program would also increase if its administration were streamlined. In order to accomplish this, the historic preservation partners should continuously assess the effectiveness of the program through structured dialogue. The recommendations made in the 2006 "Recommendations for Making a Good Program Better" should be implemented with all deliberate speed, including both the four recommendations aimed at bringing clarity and flexibility to questions relating to the Secretary of the Interior's Standards and the three recommendations concerning making the application process more user-friendly, fee-appropriate and responsive to unique ownership issues.

Idea 3:

Devise a uniform set of generally accepted metrics for rehabilitation, historic preservation and heritage tourism that can be used to measure the direct and indirect economic impacts.

Background:

Historic preservation today plays a significant role in economic development in multiple ways. Studies conducted in the last decade by both academics and practitioners have begun to identify and quantify those impacts. Among the identified contributory roles that historic preservation plays are: job creation, increased household income, the incremental impact of heritage tourism, affordable housing, downtown revitalization, housing values, small business incubation, economic integration of neighborhoods, the impact of museums and institutions, Smart Growth, and others.

Speaking in the context of federally-owned properties, the Preserve America Executive Order notes that accurate information on historic properties is essential to promoting community economic development. And yet, in its June 2005 information paper entitled "Measuring the Economic Impact of Federal Historic Properties," the Federal Preservation Institute found that it is not easy to determine the contribution of historic preservation to the economy since, among other reasons, such information was not discretely tracked by the U.S. Bureau of Census's Economic Census and its North American Industry Classification System.

Although the number and quality of the existing non-federal research continues to grow, existing studies are inadequate by themselves to demonstrate historic preservation's economic importance to a broader audience on a consistent and ongoing basis. In part, this is because:

- Most analysis is done on a state, local or single institution level, and not assembled on a comprehensive national basis.
- Analytical methodologies vary, and are not always defensible under robust standards.
- Because most of the analyses have been conducted for clients who are preservation advocates, the conclusions are sometimes suspect regardless of the research's objectivity.
- The commissioning of these analyses is sporadic, and does not look at the same variables from the same sources on a sustained periodic basis.

Therefore there was wide agreement among Panel members that one or more federal agencies devise and conduct appropriate analysis. This would include:

- Identifying what is most appropriately measurable.
- Devising methodologies suitable for those measurements.
- Conducting that analysis on an appropriate periodicity and make it publicly available.
- Integrating these findings into broader economic measurements and reports.

Panel members anticipated that some of these measurements would be directly economic (e.g., rehabilitation starts as equivalent to housing starts) while others might be "economics-once-removed" (e.g., acres of greenfields not developed because of the reuse of historic buildings). This information would be of use on the macro level – informing national, regional, and state policy makers. But done appropriately, it would also be available on the micro level for use by developers, economic development advocates, and preservationists to make the economic case to mayors, city council members and county commissioners. Such information could be made available through the web portal discussed in Idea 4.

Idea 4:

The federal government should create and sustain one integrated and interactive website as an economic and marketing development planning tool to support the stewardship of historic assets.

Background:

Mrs. Laura Bush, First Lady of the United States and honorary Chair of the Preserve America initiative, has noted that "Preserve America helps boost local economies, because historical landmarks attract visitors and business." The Preserve America Executive Order directly acknowledges this link by promoting preservation through heritage tourism. In particular, the Executive Order directs the Secretary of Commerce, working with the department's partners, to assist in the promotion of the use of federal historic properties for such purposes and directs other agencies to use historic properties in their ownership in conjunction with state, tribal, and local tourism programs to foster economic partnerships with tourism officials and others with interests in the properties.

The Panel discussed ways in which the federal government could go beyond the existing Executive Order to further encourage communities to use their historic properties as economic development assets, particularly in the context of heritage tourism. Panel members felt that a useful role would be to make materials and information available for identifying, managing, marketing and branding historic properties to ensure that property owners and managers have access to information and can develop the skills necessary to maximize the productive use of these historic properties while meeting stewardship responsibilities. Panel members felt strongly that this information should, at a minimum, be provided through an Internet website.

The goal of the website would be to serve as an economic and marketing development tool. Website functionality would include:

- Technology tools. These tools will assist historic preservation identification and planning ranging from historic districts and buildings as layers on GIS maps; digital scans of older photographs into databases; posting existing inventories while being sensitive to sacred and archeological sites.

- Brand strategy and marketing plans. These tools will assist the owners and managers of historic properties in building strategic brand plans to launch and support their properties, including marketing templates for channels such as press release templates and guidance on releasing to media; ad templates, online banner, or micro site-development templates; and collateral and advertisement templates. This site would also provide easy-to-use links for a collaborative integrated approach for a historic site to be virtually associated with similar preservation efforts on a local or national level.

Idea 5:

Identify and resolve impediments to the use of existing governmental financial incentive programs in connection with historic rehabilitation and, in particular, inconsistencies between such programs and the Historic Tax Credit Program. Remove regulatory barriers and fix legislative glitches that reduce the effectiveness of the Historic Tax Credit Program, and create new incentives for using historic rehabilitation with other governmental incentive programs.

Background:

Many members of the Panel felt that impediments exist to the use of current governmental financial incentive programs to fund historic rehabilitation and, in particular, inconsistencies between certain programs and the Historic Tax Credit Program. Panel members felt that the Advisory Council on Historic Preservation, together with its preservation partners and industry representatives, should work to identify and facilitate the resolution of these impediments, consistent with the ACHP's mission to review federal programs to promote coordination and consistency with national preservation policies. Panel members felt that such a review should be broad-ranging and guided by a recognition of preservation's cultural value, its effectiveness as an economic development tool and its efficacy as a tool for addressing the country's need for affordable housing. An example of a program that might benefit from such a process is the Federal Housing Administration's ("FHA") mortgage insurance program. Current program rules preclude using FHA insurance with the Historic Tax Credit pass-through structure, the syndication structure widely preferred by banks. Another improvement would be allowing FHA projects to use design/build construction contracts, a preferred method of construction delivery for historic rehabilitations.

The 2006 "Recommendations for Making a Good Program Better" report noted that certain changes to the Internal Revenue Code would serve to enhance the Historic Tax Credit Program and encourage more projects. Many members of the Issue Area Panel echoed this sentiment. Noting that the rules governing the Historic Tax Credit had not been materially updated in 20 years, Panel members expressed the view that existing legislative "glitches" be fixed and that other provisions be adopted to improve the effectiveness of the Program, particularly as a tool for providing affordable housing. Suggested examples include:

- Changing the fixed-date age of building requirement for the 10-percent Rehab Credit so it mirrors the floating 50-year standard used for National Register consideration; and allowing the 10-percent Rehab Credit to be used on residential rental real estate projects to promote rental housing and in particular affordable rental housing (as is currently the case with the 20-percent credit).
- Boosting Historic Tax Credit "basis" for projects located in HUD-designated Difficult Development Areas and Qualified Census Tracts, as currently allowed for the Low-Income Housing Tax Credit ("LIHTC") program.

Finally, Panel members felt that additional targeted incentives were needed to promote historic rehabilitation as part of other governmental initiatives. Suggested examples include:

- Implementing priority award criteria with respect to historic rehabilitation projects for Brownfields and Economic Development programs.
- Creating new LIHTC regulations requiring state Qualified Allocation Plans to promote preservation and not disadvantage historic rehabilitation projects.
- Adopting previously proposed legislation for a homeownership historic tax credit in conjunction with current efforts to promote homeownership.

Conclusions

The Panel chose not to prioritize among the five ideas for consideration it adopted. It should be noted, however, that among the many challenges and issues identified in the "Findings" section of this report, the topics embodied by the five ideas adopted by the Panel reflect the areas Panel members felt to be most deserving of attention. These areas can be broadly summarized as follows:

- Expanded inclusion of historic preservation elements in federally mandated comprehensive economic development strategies or plans.
- Enhanced administration of the Federal Historic Rehabilitation Tax Credit Program.
- Development by the federal government of measures of the direct and indirect economic impacts of rehabilitation, historic preservation, and heritage tourism.
- Creation of better economic and marketing tools to support the stewardship of historic assets.
- Improvements to the design of the Federal Historic Rehabilitation Tax Credit Program and other federal historic preservation incentive programs and enhanced coordination among them.