

Benefits of Residential Historic District Designation for Property Owners

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(6-7-07)*

Historic district designation has become an important tool for local governments in efforts to preserve the character of central-city neighborhoods. Designation of historic districts based on a national level of significance, called National Register Historic Districts, has occurred widely in the U.S. since the passage of the enabling legislation of the National Historic Preservation Act in 1966. In addition, some states have created state historic registers and many municipalities have established local historic registers and special zoning for local historic landmarks and districts. The number of local historic districts in the U.S. has grown from approximately 100 in 1966 to more than 2,000 in the late 1990s (Listokin et al. 1998).

National- and state-level designations convey more prestige to an individual property or historic district, and makes federal and state tax breaks available to owners of individually listed properties and properties listed as contributing to the significance of a district. However, national- or state-level designation offers no real protections, as both listing and participation in tax abatement programs is voluntary, and owners can renovate or demolish a significant historic property to replace it with a “highest and best use” building that maximizes income or sale price.

In contrast, local-level historic designations typically require review of significant exterior alterations, demolitions, and new construction within historic districts in order to restrict incompatible development, and thereby maintain the historic character and integrity of designated structures and neighborhoods. Reviews are conducted by community commissions or neighborhood advisory groups, or both, composed of local residents, and are based on specific design standards and guidelines developed by the community.

The City of Tucson currently has 21 National Register Historic Districts. Six of the nationally designated districts are also designated as local Historic Preservation Zones (districts), as enabled by a 1972 ordinance revising the Land Use Code. In the locally designated districts, there are two levels of review of exterior renovations, demolitions, and new construction. The level of review is determined by whether the property is a contributing or noncontributing property in a National Register District, or whether the proposed changes are major or minor.

Higher Property Values and Rates of Appreciation

Higher property values and rates of appreciation are important economic benefits of historic district designations of residential neighborhoods. Recent studies in Arizona

document this effect of historic district status on property values. A study of the Speedway-Drachman National Register Historic District in Tucson showed that between 1987 and 2007 the average assessed value of homes in this district appreciated 15 percent higher than the average in a nearby neighborhood with housing stock of similar age, construction, and design (L'Orange 2007:4). A study of 25,975 single family homes sold in Phoenix in 2005, including 212 located in National Register historic districts, showed that historic designation increased the average marketable sales price of a house by 31%, or more than \$100,000 (Poppen 2007:7). A study in Mesa comparing house market value changes between 1997-2004 in the Mesa Evergreen National Register Historic District compared to those in two comparable, undesignated neighborhoods identified a +26 percent difference in the historic district (Bellavia 2007:3-4).

There is some data that national-level historic designation has a slightly greater positive effect on property values than local-level historic designation alone (Leichenko et al. 2001:1982-1983). However, this difference is not statistically significant, and the same comparative data shows that properties that carry only local designation also tend to have higher values compared to similar, undesignated properties (Leichenko et al. 2001), and relative to the entire real estate market (Rypkema 2002).

Local landmarking and design review can actually boost property values by introducing certainty into the marketplace and improving the overall economic climate, which benefits all property owners (Clarion Associates of Colorado 2002).

Comparison of a number of independent studies of local historic districts in New Jersey, Texas, Indiana, Georgia, Colorado, Maryland, North and South Carolina, Kentucky, and Virginia showed that this economic effect of local designation is typical across the country.

The results of these studies are remarkably consistent: property values in local historic districts appreciate significantly faster than the market as a whole in the vast majority of cases and appreciates at rates equivalent to the market in the worst case. Simply put—local historic districts enhance property values (Rypkema 2002:6).

Other data indicates that the greatest impact on rates of property appreciation occur with the addition of local designation (which usually includes a design review process and more restrictions on property renovations, demolitions, and new construction) on top of national designation. In a recent study conducted in Memphis, Tennessee, combined local/national designation added 18.6% to assessed property values over a four-year period compared to 13% added by national designation alone (Coulson and Lahr 2005:494-495). In Evansville, Indiana, the rate of appreciation between 1980 and 1995 was significantly greater within a locally designated portion of a larger National Register District (Rypkema 1997:7). Over the same period in Indianapolis, average property values appreciated faster in a district with combined local/national designation compared to a neighborhood with only a national designation (Rypkema 1997:9). Between 1976 and 1996 in Georgia, assessed property values in districts with both local and national designations increased at a rate of 47% compared to 23% for properties in districts with

only the national designation (both figures adjusted for inflation) (Athens-Clarke County Planning Department 1996:4).

Table 1 summarizes the findings of 15 recent studies of the effect of historic district designation on property values over time. These studies were conducted in several different regions of the United States, and include both nationally and locally designated districts. These studies vary in the specific aspects of value over time examined, such as assessed value, sales value, and rate of appreciation. However, all of the studies in Table 1 can be compared in terms of average property values in historic districts relative to similar, undesignated neighborhoods.

Table 1. Property Values* in Designated Historic Districts Compared to Similar Undesignated Neighborhoods in the Same Communities

Study Area	Data Interval	Ave. Value Difference (%)	Annual Rate (%)	Reference
Athens, GA	1976-1996	+14	+7	Leithe and Tigue 1999
Denver, CO	1993-2000	+3-6	+4-1.2	Clarion Assoc. of CO 2002
Durango, CO	1993-2000	+7	+1	Clarion Assoc. of CO 2002
Galveston, TX	1975-1991	+85-360	+5.3-22.5	Govt. Fin. Res. Center 1991
Memphis, TN	1998-2002	+14-23	+3.5-5.7	Coulson and Lahr 2005
Mesa, AZ	1997-2004	+26	+3.7	Bellavia 2007
New Jersey	?	+5	—	New Jersey Hist. Trust 1997
New York, NY	1975-2002	+13	+5	NYC Ind. Budget Office 2003
Phoenix, AZ	2005	+31	—	Poppen 2007
Rome, GA	1980-1996	+10	+6	Leithe and Tigue 1999
San Diego, CA	2000-2005	+16	+3.2	Narwold 2006
Savannah, GA	1974-1997	+264-588	+11.5-25.6	Leithe and Tigue 1999
Texas (9 cities)	(variable)	+5-20	—	Leichenko et al. 2001
Tifton, GA	1983-1996	+2	+2	Leithe and Tigue 1999
Tucson, AZ	1987-2007	+15	+7	L'Orange 2007

* Phoenix and Mesa studies used sales values; all other studies used assessed values.

A few of the designated districts experienced extremely high rates of appreciation, or very modest rates, but most saw property values increase by 5-35% per decade over the values in similar, undesignated neighborhoods.

Within these data, another important pattern is that newer properties within historic districts benefit just as much as older properties. In Memphis, both older and newer (less than 10 years old) buildings in a local/national historic district appreciated to levels higher than similar properties in undesignated neighborhoods (Coulson and Lahr 2005:502-504).

Insulation from Extreme Market Fluctuations

Local historic district designation has proven to insulate property values from wild swings in the housing market, including both downturns tied to larger economic trends, and “bubbles” caused by cycles of real estate speculation. This stability is related to investor confidence that, because there are explicit design limits in the zoning code, home investments in historic districts will not be adversely affected by construction of an inappropriate, out-of-scale building next door. It is also due to the fact that neighborhoods with stable values do not offer opportunities for “flipping” (purchase followed by quick resale at a high profit margin). In these ways, local historic district designation reduces the uncertainty facing the buyer regarding the future value of the investment.

In short, it may be that historic districts are more likely to experience a certain indemnification from extremely modulating property values, perhaps because of a higher degree of investor confidence in these officially recognized and protected areas (Gale 1991:8).

Tax Breaks

Increasing property taxes associated with rising property values in nationally designated and state-designated historic districts can be offset by state and federal tax reduction programs. In Arizona, contributing properties in a National Register District are eligible for the State Historic Property Tax Reclassification program. This program reduces the taxes of listed properties by up to 50 percent over 15 years, and reduces assessments of improvements to commercial properties to 1 percent of their full value over 10 years. The Federal Investment Tax Credit program provides a 20 percent tax credit and accelerated depreciation for rehabilitated investment properties listed as contributors in National Register Districts. The reductions in property taxes available in National Register Districts provide needed economic relief for moderate-income neighborhoods experiencing rising property taxes during real estate boom cycles. The tax incentives also provide alternatives to demolition of historic homes, thereby providing stability to the built environments of neighborhoods.

Stabilization of Residence

Designation as a historic district raises the value of investments, promoting increased levels of home ownership and longer residence. This stabilizing effect on residence patterns has been documented by a study conducted in Indiana, which found that designated historic districts have higher rates of owner-occupation, and longer durations of residence by both homeowners and renters, than do similar, undesignated neighborhoods (Rypkema 1997:2, 6, 10).

Increased Connections among Neighbors and Community Involvement

Neighborhoods with a significant proportion of owner-occupied homes tend to have higher rates of participation in neighborhood associations and improvement projects, which protects shared spaces from decline (Rypkema 2005:51-52). All proposed exterior modifications, new construction, and demolitions in locally designated historic districts require review by neighborhood advisory groups and historical commissions, thereby ensuring community involvement in neighborhood planning.

Summary

The findings of recent comparative studies of the effects of historic district designations over time, conducted in many different regions of the U.S., converge on a few key findings:

- Historic district designation typically increases residential property values by 5-35% per decade over the values in similar, undesignated neighborhoods.
- Both nationally designated historic districts and locally designated historic districts outperform similar, undesignated neighborhoods, but districts that carry both local and national designation experience the highest relative increases in property values.
- The values of newer properties within designated historic districts increase along with those of older properties.
- Local historic district designation decreases investor uncertainty and insulates property values from wild swings in the housing market.
- Increasing property taxes due to rising property values in historic districts designated at the national or state levels can be offset by state and federal tax reduction programs.
- The tax incentives also provide alternatives to demolition of historic homes, thereby providing stability to the built environments of neighborhoods.
- Historic district designation leads to increased levels of home ownership and longer residence by both homeowners and renters.
- Designated historic districts tend to have higher rates of participation in neighborhood associations and improvement projects, which protects shared spaces from decline.
- Proposed exterior renovations, demolitions, and new construction in locally designated historic districts are reviewed by neighborhood advisory groups and historical commissions, thereby ensuring community involvement in neighborhood planning.

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