The Federal Historic Tax Credit: Transforming Communities.

As part of its Prosperity through Preservation campaign to protect and enhance the federal historic tax credit (HTC), the National Trust and its subsidiary, the National Trust Community Investment Corporation, retained economist Donovan Rypkema to undertake a study that could quantify the ways in which the historic tax credit serves as a catalyst for economic development. Rypkema's findings are described below. This information is vitally important as tax reform discussion on Capitol Hill threatens the HTC with restriction or elimination. We encourage all supporters of preservation to become well versed in the power of the HTC–we can't afford not to.

For years preservationists have been claiming that the rehabilitation of a historic building is a catalyst for additional activity around it. And there is a reason we make that claim–we've seen it happen. Someone takes a white elephant building that's been sitting empty for two decades, uses historic tax credits to rehabilitate it, and all of a sudden the property owner next door reinvests in her building; a new business moves in across the street; someone acquires the vacant lot nearby and builds a mixed-use new structure. Almost all of us can point to an example of that. Unfortunately there has been little systematic analysis of that pattern.

Until now.

We recently completed a study for the Government Relations & Policy Department of the National Trust that looks at projects that used the federal rehabilitation tax credit. These projects were in six cities in three states–Georgia, Maryland and Utah.

To understand this catalytic effect it was important to have a diversity of projects, not just geographically, but by scale of project, size of city, and nature of use.

In Ogden, Utah, the American Can Company had been sitting vacant and deteriorating for years. Today, after a $12 million investment, the former industrial complex houses a school, an architectural firm, a climbing gym and other offices. The catalytic effect? New construction in the immediate area, increase in property values and tax base, and additional rehabilitation projects.

Sixty miles away in Salt Lake City, two historic rehabilitation projects each anchor opposite corners of a neighborhood many considered too risky for investment. But not too risky for a construction firm and Artspace, the nonprofit developer of live/work space for artists. Since the completion of these two projects, the market value of area properties has increased 22.5 percent while citywide property values in Salt Lake City declined more than 17 percent. The city had established a Tax Increment Financing (TIF) District in the area, and the available funds from that program have nearly doubled since these two historic structures have been rehabilitated.

Baltimore has great neighborhoods. It also has neighborhoods that could use an injection of new investment, new businesses, new residents, and new activities. That was the kind of neighborhood where Miller's Court has been developed in a former manufacturing complex. This project includes 40 loft-style apartments and targets teachers in Baltimore schools who get a monthly rental discount. The coffee house in Miller's Court has become the neighborhood gathering point. In the two years before Miller’s Court opened, just two residential building permits were issued in the neighborhood. In the three years since it opened, 17 permits have been issued.

In the Washington, D.C., suburb of Silver Spring, Maryland, the National Park Seminary languished for years under federal government ownership but with vacant buildings, vandalism and water damage. It was the neighbors who brought pressure for something to be done. And the result of their activism has been a $120 million project that ultimately will include the rehabilitation of all 23 historic buildings on the 32-acre site and new, compatible infill construction. In government hands the property generated no taxes to pay teachers, cops and firefighters. Now more than $60 million has been added to the property tax base for Montgomery County.

One of the biggest historic tax credit projects in the United States is being completed in Atlanta. The historic Sears Building is being transformed into the Ponce City Market. The 2.1-million-square-foot structure will be a mixed-use development representing $280 million in investment with an expected occupancy date next year. But even before completion, Ponce City Market has spurred development in the surrounding area. Two years prior to the acquisition of the Sears Building, a total of two building permits were issued in the neighborhood. Two years after there were 38 building permits. Importantly for an inner-city neighborhood, 8 times as many building permits were issued for alteration, conversion, and repair as for demolition.

But if the Atlanta Ponce City Market is an example of the catalytic impact of a giant project, the Warehouse Lofts in Macon, Georgia, demonstrate how a project of a much smaller scale can make a difference. This modest project of $385,000 sparked more than $16 million in other private investment projects in downtown Macon. In the two years prior to the opening of the Warehouse Lofts, a total of two new business licenses were issued in the area. In the three years since, 57 businesses have received their licenses.

These projects don’t have much in common. They are of vastly different scales, different uses, different parts of the country. Some were undertaken by large, sophisticated development companies, others by small-scale developers, one by an owner occupant, and one by a nonprofit company.

But they all had three things in common: 1) in each instance historic buildings were the core of the development; 2) in each instance the federal historic rehabilitation tax credit was used; and 3) every project spurred additional investment in its immediate vicinity.

Why? Why did all of these projects serve as a catalyst for nearby development? First, taking a property out of the category of “vacant, deteriorating white elephant building” significantly reduced the risk of private investment in the neighborhood as a whole. Second, these projects demonstrated the capacity of existing older buildings to undergo rebirth through adaptive use, opening the eyes of other property owners to the possibilities for their own buildings as well.

This report, The Federal Historic Tax Credit: Transforming Communities demonstrates quantitatively the catalytic impact that the rehabilitation of historic buildings has on the community. But it demonstrates one other thing as well–none of these projects could have been successfully redeveloped without the use of the historic tax credit. And without the redevelopment of these buildings, the investment in the surrounding neighborhood would be a foregone opportunity.

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