



Economic Impact Analysis Virginia Department of Planning and Budget

17 VAC 10-30 – Historic Rehabilitation Tax Credit Department of Historic Resources

December 17, 2001

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The proposed regulation sets forth guidelines regarding eligibility for the Virginia Historic Rehabilitation Tax Credit program, application requirements and procedures, review fees, approval criteria, appeal procedures, and coordination with the federal Certified Historic Rehabilitation program. The Department of Historic Resources (Department) has been operating the program under draft regulations since legislation was passed by the 1996 General Assembly establishing the program.

Aside from editorial clarifications and policies that have already been incorporated into current administration of the program, the proposed regulations include the following changes from the draft regulations:

- Establishing a definition of "owner-occupied" in order to address situations which may arise involving residences that are partially income-producing (i.e., a home that is rented out during the summer or a home that includes a sub-unit available for rent);

- Requiring documentation of assessed value of the building in the year preceding the start of the rehabilitation to ensure that rehabilitation expenses meet the minimums set out in the *Code of Virginia*;
- Requiring a lease term of at least five years in order for a landlord to pass the tax credit through to a tenant or tenants in order to encourage genuine businesses transactions; and
- Deleting a provision that allows historic rehabilitation tax credits to be sold or transferred to third parties. Legislation enacted in 1999 stipulated that the department could authorize credits to be transferred only for projects that were certified prior to the effective date of this regulation.

Estimated Economic Impact

The Virginia Historic Tax Credit program was established in 1997. Since then, 264 approved projects have been completed, incurring over \$316 million in eligible rehabilitation expenses. Accounting for the phase-in of the tax credit (10 percent of eligible expenses in 1997, increasing by five percent each year until reaching 25 percent in 2000), approximately \$67 million worth of tax credits have been awarded since 1997.¹ The number of projects, measured by both the number of new projects submitted each year and the number of projects completed and approved each year, has been steadily increasing since 1997. Although the number of new projects can be expected to vary with such factors as the strength of the economy, interest rates, and investor confidence, it is likely that the program will continue to grow as more individuals become aware of it. In addition to increasing the amount of tax credit granted, the growing popularity of the program can also be expected to increase the workload for administering the program. The department currently has the equivalent of one full-time position and one part-time position dedicated to this program and charged against program receipts, and has requested approval for an additional position that is to be funded completely from review fees paid by applicants.

There is evidence that significant economic benefits are generated by historic preservation activities. Studies performed in Georgia, New York, Maryland, and Virginia indicate that historical preservation enhances property values, attracts heritage tourists, and is often a key component in housing development, community revitalization and economic growth.²

¹ This figure reflects the amount of tax credit awarded. The amount actually claimed by individuals is not known. The tax credit may be carried over for ten years or until the full credit is used, whichever occurs first.

² *New York: Profiting Through Preservation*, prepared by Donovan D. Rypkema, Principal, Real Estate Services Group, Inc., with assistance from the Preservation League of New York State, 2000.

According to the Travel Industry Association, travelers who participate in historical and cultural activities tend to stay longer and spend more money than other travelers.³ Using data from the Virginia Department of Economic Development's Division of Tourism, researchers were able to mirror those results here in Virginia, finding that on average, historic preservation visitors stayed longer, visited twice as many places, and spent over two-and-a-half times more money in Virginia than did other visitors.⁴ A case study in downtown Richmond found that the appreciation of renovated historic properties on Franklin Street was substantially greater than the appreciation rates for new construction and unrestored historic properties.⁵ Other studies show that in addition to higher property values, preservation activities help retain businesses and jobs and generate property tax revenues for local governments. Also, investments in historic structures maximize use of already existing infrastructure and offer alternatives to urban sprawl commonly associated with new development.

It must be noted that, in addition to the positive effects of historic preservation, researchers have identified potential negative aspects, including regulatory requirements that sometimes run counter to such goals as flexible reuse and affordable housing and the potential displacement of less-advantaged residents as historic areas are redeveloped.⁶

The proposed regulations reflects the department's experience over the past five years in administering the Virginia Historic Rehabilitation Tax Credit program and represents the current policies and procedures. No significant changes are expected from current operation of the

Profiting from the Past: The Economic Impact of Historic Preservation in Georgia, authored by Joni Leithe and Patricia Teague, Government Finance Officers Association of the U.S. and Canada for the Athens-Clarke County Unified Government and the Historic Preservation Division, Georgia Department of Natural Resources, 1999.

The Value of Historic Preservation in Maryland, prepared by Donovan D. Rypkema, Principal, Real Estate Services Group, Inc., produced by PRESERVATION MARYLAND in collaboration with the Maryland Heritage Alliance, Maryland Association of Historic District Commissions, and Maryland Association of History Museums, 1999.

Virginia's Economy and Historic Preservation: The Impact of Preservation on Jobs, Business, and Community, prepared by Donovan D. Rypkema, Principal, Real Estate Services Group, Inc., for the Preservation Alliance of Virginia, 1996.

³ *Profile of Travelers Who Participate in Historical and Cultural Activities*, Travel Industry Association of America, 1997.

⁴ *Virginia's Economy and Historic Preservation: The Impact of Preservation on Jobs, Business, and Community*, prepared by Donovan D. Rypkema, Principal, Real Estate Services Group, Inc., for the Preservation Alliance of Virginia, 1996. Historic preservation visitors are those visiting historic buildings and sites, museums, and Civil War sites.

⁵ *The Importance of Historic Preservation in Downtown Richmond: Franklin Street, A Case Study*, Kim Chen for the Historic Richmond Foundation, 1990.

⁶ *The Contributions of Historic Preservation to Housing and Economic Development*, David Listokin, Barbara Listokin, and Michael Lahr, *Housing Policy Debate* 9(3), 1998.

program with implementation of these permanent regulations. Approximately \$67 million in tax credit was granted over the past five years for the rehabilitation of 264 buildings in Virginia. While the benefits associated with the rehabilitation of those historic buildings are not as easy to capture, there is evidence to expect that, by promoting historical preservation, those expenditures may result in increased property values, heritage tourism, housing stock, and community revitalization, thereby providing a net economic benefit for Virginia's economy.

Businesses and Entities Affected

The proposed regulations affect all property owners seeking to obtain a tax credit for rehabilitation expenses made on eligible properties. There are approximately 2,000 registered historic resources in the Commonwealth, including individual buildings and historic districts, plus an unknown number of properties that qualify but are not listed. Since the program's start in 1997, 264 approved projects have been completed.

Localities Particularly Affected

The majority of eligible properties are found within the 287 historic districts in the Commonwealth.

Projected Impact on Employment

Studies have shown that historic rehabilitation projects are relatively labor intensive, thus requiring more workers than new construction projects of similar size. However, since these workers are likely drawn from other areas, there is not necessarily a creation of new jobs in the economy.

Effects on the Use and Value of Private Property

Since participation in the historic rehabilitation tax credit program is voluntary, it can be expected that those property owners who choose to undertake such projects expect a positive return on their investment. One case study in downtown Richmond found that the appreciation of renovated historic properties on Franklin Street was substantially greater than the appreciation rates for new construction and unrestored historic properties. "The per square footage value of the renovated properties is \$21 a square foot greater than that of new construction."⁷

⁷ *The Importance of Historic Preservation in Downtown Richmond: Franklin Street, A Case Study*, Kim Chen for the Historic Richmond Foundation, 1990.