

## **Comment on David Listokin, Barbara Listokin, and Michael Lahr’s “The Contributions of Historic Preservation to Housing and Economic Development”**

Peter Werwath  
*The Enterprise Foundation*

### *Abstract*

Listokin, Listokin, and Lahr laud the economic benefits of historic preservation but fail to delve deeply enough into the negative impacts and how they might be mitigated. Preservation projects tend to displace lower-income households and small businesses, and the jobs they generate tend to be low paying. In areas with high potential for displacement, local government and civic leaders should act cautiously and not intervene in ways that overheat these markets. We are unlikely to see new federal policies that substantially mitigate displacement. Nonetheless, the historic rehabilitation tax credit could be revised to encourage more modest and affordable preservation projects.

The extra costs associated with historic rehabilitation standards can be more burdensome than the authors describe. To reduce these costs, the administration of the Secretary of the Interior’s Standards for Rehabilitation could be made more consistent and cost-sensitive.

**Keywords:** Development/revitalization; Preservation; Gentrification

In analyzing the community and economic development contributions of historic preservation, David Listokin, Barbara Listokin, and Michael Lahr begin to address a central question: Development for whom? The authors provide persuasive evidence that rehabilitation of historic properties helps boost local economies. And they are careful to point out a glaring problem with preservation-related construction activity—namely, involuntary displacement of lower-income residents and small businesses. But this does not go far enough in explaining who benefits, who does not, and how displacement might better be mitigated.

### **Negative impacts on lower-income residents and small businesses**

By its nature, a significant amount of preservation-related rehabilitation occurs in old, run-down neighborhoods where low-income

people and small businesses can afford to live and operate. The pioneer homesteaders and entrepreneurs holding up the preservation banner envision no less than a total transformation of their historic area, an upgrading of its demographics (to put it politely), and a manifold increase in property values and rents. Although they may have pangs of conscience, they know that success will be predicated on the removal of many of the area's residents and businesses and their replacement with households and companies that have fuller pocketbooks. In fact, if this demographic change does not occur, there will be no way to finance a major rehabilitation of the neighborhood, and the early investors will lose out because effective demand does not materialize.

All this occurs in a national context of substantial, ongoing losses of low-cost, unsubsidized housing stock. Much of this is due to demolition and temporary removals, but some is due to "reverse filtering"—that is, existing housing that moves from a lower-rent category to a higher one. In the nation as a whole, more existing rental housing filters down than up, but that trend is reversed in northeastern and central cities, where historic property rehabilitation is prevalent (Joint Center for Housing Studies 1994, 1997).

In some respects, historic preservation is not so different from the urban renewal movement, which (under other names) is still alive and well in many cities. For both preservation and urban renewal, major goals are to bring in new investment, create higher-value land uses, and improve the appearance and image of targeted areas. Typically, when either kind of effort becomes public knowledge, many existing residents and businesses (particularly renters who have little to gain) oppose it. Conscientious city planners may promise them protection from displacement, but as the areawide renewal proceeds, low-income residents and small business owners tend to drift away. In the end, at best, only a small portion of the "old timers" remain, either because some rents were subsidized or because a few property owners chose not to take part in the renewal effort.

But in the details of execution, urban renewal and historic preservation diverge considerably. First, because urban renewal begins with bulldozed lots, it creates more options for redevelopment and thus more economic development potential. In practice, urban renewal has provided space for new housing, retail businesses, offices, warehouses, distribution centers, and light industry—generally, whatever the market will support. Boston's urban renewal efforts have radically changed the face of its downtown and elsewhere in the city have encouraged substantial infill construction of subsidized apartments. In Baltimore, urban renewal created Harbor Place, a rejuvenated downtown, and many pockets of affordable new town homes.

In contrast, historic preservation offers fewer options for redevelopment because it aims to preserve existing street grids, building envelopes, and even floor plans. My own impression (based on fieldwork in a number of cities) is that the most common construction activity in historic districts is upgrading existing single-family stock for occupancy by middle- and high-income households, often involving conversions from low-cost rental housing. Admittedly, this is not well documented, since rental housing in certified historic structures is the only form of housing that qualifies for the historic rehabilitation tax credit (HRTC) and thus is the only residential preservation activity that is easily tracked.

Other typical preservation projects in historic districts involve small-scale rental housing developments, boutique retail shops, restaurants and taverns, hotels, and small office spaces—business activities that fit with the constraints of the real estate and the desired historic ambiance. As a result, many of the permanent jobs that become available to indigenous low-income residents are in low-paying service occupations such as retail sales, food preparation, food service, housekeeping, and building maintenance. While better than no jobs at all, these occupations do not offer anywhere near the diversity, quality, and numbers of jobs created in a typical urban renewal project that involves new construction.

In a second notable divergence, preservation efforts are more prone to cause displacement than redevelopment projects involving new construction. Urban renewal has certainly caused massive displacement, but much less so in recent years as cities have tended to avoid demolition of habitable residential properties, particularly those outside of downtown areas. In contrast, rehabilitation activities in historic districts almost inevitably bring on a slow and painful process of attrition. Once investors sense a turnaround, property values and rents begin to increase even before the real estate experiences much improvement. In Boston's South End, where I worked as a renovator in the 1970s, the price of the run-down nineteenth-century town houses (often housing two or three renter families) increased three- to sevenfold in the space of a half dozen years. Speculators and enterprising middle-class home buyers from outside the neighborhood pocketed most of this increase in value.

Once renovations began in earnest in the South End, virtually all of the architects and building contractors were based somewhere else and typically took their profits home to some other part of the metropolitan area. Few construction workers were hired from the immediate neighborhood for two reasons: (1) most of the investors were undertaking substantial rehabilitation and careful restorations, requiring for the most part highly skilled and specialized workers who were not available in the neighborhood, and (2) the

contractors for the most part advertised outside the neighborhood when hiring new workers.

In a decade, low-income renters in the South End were gradually displaced as housing costs escalated and middle-class families took their places. In most buildings, two rental units were preserved in each of the large town homes, but rents increased three- to fivefold from prespeculation and prerenovation levels. Given that many other low-income neighborhoods in Boston were gentrifying at that time and rents in general were increasing rapidly, displacement was not just a social trauma and temporary inconvenience. Most of the displaced low-income families thereafter paid a much higher percentage of their incomes for housing. In Boston neighborhoods with old and attractive architecture (whether designated historic or not), a scarce resource—low-cost housing—was being mined and refined for new purposes. To the extent that these losses were being offset with subsidized housing, it was predominantly through urban renewal—style demolition and infill new construction, not preservation projects.

### **Analyzing market conditions and tailoring mitigation strategies**

Although the net economic benefits of historic preservation to existing residents are often negative, there *are* measurable gains to the broader local economy, as demonstrated by Listokin, Listokin, and Lahr. In addition, there are important but less quantifiable benefits such as enhancement of a city's image, reversal of suburban flight, and new magnets for tourists. A key issue, then, for planners, government officials, and civic leaders is how best to balance the interests of the city at large with the interests of low-income residents and small businesses in proposed historic districts that have redevelopment potential.

Listokin, Listokin, and Lahr hold out hope that this balance can be struck in the future through more enlightened planning, leadership, and subsidies. They admit that a successful balance (as has occurred in Savannah, GA and Pittsburgh) is premised on obtaining a significant amount of housing subsidies, which are not likely to be had in today's funding environment.

This vision of a more humane approach to redeveloping historic districts rests on another weak assumption, albeit unstated: Good planning and public interventions—social engineering, really—can effectively channel free market forces. This assumption may be valid when a proposed historic district is small, gentrification pressures are weak or moderate, and heroic efforts are made to preserve

affordable housing. But in most situations, market forces will overwhelm efforts to control them. To understand these forces, an analytical model is needed.

Historic areas have vastly different potentials for redevelopment, based on (1) citywide market conditions and (2) their own special characteristics. When business is good and job growth is occurring on a citywide or regional basis, a historic area has more potential for redevelopment and consequent displacement. When enough market indicators are negative, a historic area will most likely remain static or deteriorate despite all public and philanthropic efforts to intervene, and displacement will not be an issue.

Today, most of our major metropolitan areas have booming or improving economies that create a demand for more residential and commercial space. This leads real estate developers to look for new frontiers. Languishing neighborhoods with historical value are particularly attractive opportunities in cities that have constraints on outward growth, such as New York City, Boston, and San Francisco. Conversely, in declining cities and towns, some historic areas are withering away, and there is little that can be done about it unless new jobs and buying power are added to the local economy.

The second major economic driver is a historic district's unique potential for redevelopment. If an area is near downtown, is visible and accessible, and has high automobile traffic counts, the laws of real estate economics indicate that it is merely waiting its turn for successful redevelopment. If so, rising property values are an early positive indicator. On the other hand, the benefits of a strategic location can easily be outweighed by strong negatives such as a high crime rate, pervasive poverty, and earlier redevelopment efforts that had poor outcomes (witness historic areas near downtown Newark, NJ, which may be finally turning the corner due to demolition of blighted public housing projects and their replacement with lower-density affordable housing).

Social engineering can nudge these market conditions. In inner-city neighborhoods teetering between redevelopment and decline, public intervention can tip the balance and possibly mitigate displacement. Simply designating an area as historic (if it is indeed historic and attractive) and establishing aesthetic standards for future rehabilitation are powerful incentives for investment. Other public interventions that have effectively spurred historic area revitalization include renewing infrastructure, streetscaping, controlling crime, demolishing or stabilizing the most blighted buildings, rehabilitating anchor buildings with public funds, and providing low-cost financing to private investors. But in most cases, the invisible hand of market forces, not the more visible hands of government and

civic leaders, will determine the future of a historic area, whether or not it is ever formally designated as such.

So, what can a city's planners and leaders do to mitigate the almost inevitable negative outcomes for low-income residents? The first step is to make an honest and thorough assessment of the area's potential for redevelopment, the availability of subsidies to mitigate displacement, and the supply of low-cost replacement housing outside the neighborhood. If development potential is high, housing subsidies are lacking, and the housing market is tight, the right answer would be to minimize incentives for historic preservation and maximize efforts to preserve affordable housing. The aim would not be to prevent or discourage preservation but rather to avoid overheating a neighborhood real estate market that is going to gentrify anyway. Historic district designation and federal tax credits are not necessarily needed for historic preservation activities to occur.

In historic inner cities that have experienced net population losses, such as Baltimore's, the decisions are somewhat easier. Any increase in employment opportunities, even lower-paying service jobs, is sorely needed. Small pockets of gentrification can have many more positive than negative social and economic effects in a city that has experienced major losses of its middle class. Small neighborhoods and business districts can be designated as historic with less danger of permanent economic losses to low-income families. Even as families are displaced, they still have the opportunity to buy or rent low-cost housing elsewhere in the city—often only a few blocks away. As housing costs rise in a historic area in cities such as this, there is little or no ripple effect outside it, since population losses have a general, dampening effect on occupancy rates, rents, and property values.

### **New federal policies could encourage more affordable rehabilitation**

In the near future, we are unlikely to see changes in national policies that will ameliorate the displacement problem. To date, the federal government's primary role in historic preservation has been to offer a carrot, the rehabilitation tax credit, attached to a stick, the Secretary of the Interior's historic rehabilitation standards. Earmarking more federal subsidies for low-income housing in historic areas or imposing antidisplacement rules is almost unthinkable in today's political environment. Furthermore, it could be argued that antidisplacement controls, unless tied to the use of public funding or tax incentives, would be an unconstitutional taking of private property rights.

However, one fundamental change in the tax credit eligibility rules might make an important difference. Presently, a property owner qualifies for the credit only if a historic property is substantially rehabilitated. This is defined as spending on rehabilitation the greater of (1) \$5,000 or (2) the property owner's "adjusted basis" in the property (roughly speaking, his or her investment minus depreciation taken). This rule has major implications for the affordability of both residential and commercial space in historic buildings.

When buildings are badly deteriorated and/or there is a potentially strong rental market for completely renovated space, substantial rehabilitation may be the only feasible treatment. But in other cases, such as a basically sound building in a historic area that is only slowly appreciating, a moderate level of rehabilitation may be the most feasible and desirable choice. But HRTC offers weak incentives for modest-scale, affordable rehabilitation. The prerenhabilitation cost basis of properties suitable for moderate levels of rehabilitation typically ranges from \$30 to \$70 per square foot (from my experience)—requiring at least an equivalent investment in rehabilitation in order to qualify for the credit (historic buildings can be bought more cheaply, but that is usually a sign that they require substantial rehabilitation). If one's investment must at least double, it is hard to keep rents affordable.

In recent years, much work has been done in systematizing selective and less expensive approaches to rehabilitation, in which building systems are repaired and renewed but not entirely thrown out and replaced (Hecht 1996; Santucci, Stoddard, and Werwath 1995). Contrary to popular opinion, selective rehabilitation can be just as reliable and durable as substantial rehabilitation when buildings are suited to this treatment and correct practices are used.

Modifying the tax credit rules to promote selective rehabilitation could have three positive outcomes. First, it would provide an incentive to rehabilitate historic properties for which substantial rehabilitation is not feasible. Second, encouraging selective rehabilitation conforms more to the spirit of historic preservation, since this method leaves more of the original building's design elements and materials in place. Third, it can make some historic tax credit projects more affordable and thus marginally help mitigate displacement.

### **Managing the added costs associated with regulations**

Finally, Listokin, Listokin, and Lahr's commentary on the extra cost burden of preservation-related requirements needs some amplification. The authors leave us with the impression that these costs are

minimal, which in some instances is not the case. And they make no mention of the generally arbitrary ways in which preservation standards are applied or how this problem might be mitigated.

In my work with The Enterprise Foundation, I have seen historic preservation requirements add as much as \$10,000 per dwelling unit, or up to about 15 percent extra, to rehabilitation costs. The major cost drivers are requirements for new wooden windows versus vinyl or aluminum, expensive facade restorations, and preservation or restoration of interior features. The third area—interior features—can have a double impact on costs, by both adding to direct construction costs and diminishing the amount of usable space (for example, by not allowing reconfiguration of floor plans to create optimum room sizes and layouts and maximize usable, income-generating space).

In one sense, it is hard to take issue with some such requirements. In Chicago I recently visited a single-room occupancy building owned by the Lakefront SRO organization in which the art deco facade and lobby had been painstakingly restored, at considerable expense. Not to have done so would have made a mockery of the very idea of historic preservation.

Yet, too often expensive requirements can be imposed arbitrarily and capriciously. I recently helped with the conversion to an assisted-living facility of a historically significant building in coastal Maine. The project was, in part, federally funded, thus triggering review by the state historic preservation office. We wanted an entirely new side porch added so that residents could sun themselves and so the main wheelchair ramp access to the building would be protected from the elements. The assigned historic preservation officer wanted the porch recessed and reduced in size, with the effect that (1) the space could be used by only half as many people and (2) the ramp would be open to snow and rain. We went to the wall over this and won, by tinkering with the design in other ways.

This example would not have had dire consequences whatever the outcome, but there are some important lessons in it. First, many design mandates come from individuals, not rule books, and can depend on (among other things) how they felt when they got up that morning. Second, many design requirements lend themselves to negotiation. Third, for negotiation to succeed, the property developer and architect must be flexible, creative, and basically respectful of the spirit of historic preservation. In my experience, a developer's first historic preservation project is the hardest and most expensive from the standpoint of regulatory burdens. As time goes on, he or she learns how to negotiate, build working relationships with regu-

lators, and thus reduce the cost burdens—often slicing in half the regulatory-related costs that might be experienced by novices.

But putting aside possible mitigation of cost impacts by negotiation, another major issue looms—namely, the arbitrary application of the Secretary of the Interior’s Standards for Rehabilitation (SISR) on more predictable design issues such as acceptable materials and designs for windows (the venerable debate on wood versus vinyl). It is simply a fact that some state historic preservation offices are more strict than others. It is also a fact that some regional Interior department offices have “their” special, unwritten interpretations of the SISR. As a result, vinyl and aluminum windows with ersatz muntins (grilles) are routinely approved by some preservation offices, while others adamantly insist on “correct” wooden sashes. The difference in cost can amount to more than \$1,000 per dwelling unit, not counting the additional ongoing maintenance and energy costs associated with wooden sashes and window frames.

Why vinyl windows are acceptable in one place and not others—along with similar questions about exterior doors, siding, and other predictably contentious materials choices—would make good fodder for a national study on how rationally the SISR is being administered. A desirable outcome of such a study would be more detailed guidelines that spell out the circumstances in which more modern and cost-efficient materials are acceptable, leading (one would hope) to more uniform and cost-sensitive administration of the SISR. This could have a significant positive impact on the financial feasibility of historic preservation projects, particularly affordable housing projects, where every dollar saved is important.

### *Author*

Peter Werwath is a Senior Program Director at The Enterprise Foundation. His views do not necessarily reflect those of The Enterprise Foundation.

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