# PRESERVING THE PAST, BUILDING THE FUTURE HRTC AT WORK IN VIRGINIA



# **JANUARY 2018**

DHR | Virginia Department of Historic Resources



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# PRESERVING THE PAST, BUILDING THE FUTURE HRTC AT WORK IN VIRGINIA

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**CENTER FOR URBAN AND REGIONAL ANALYSIS** 

AT VIRGINIA COMMONWEALTH UNIVERSITY

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#### **ABOUT THE WILDER SCHOOL**

The L. Douglas Wilder School of Government and Public Affairs at Virginia Commonwealth University informs public policy through cutting-edge research and community engagement while preparing students to be tomorrow's leaders. The Wilder School's Center for Public Policy conducts research, translates VCU faculty research into policy briefs for state and local leaders, and provides leadership development, education and training for state and local governments, nonprofit organizations and businesses across Virginia and beyond.

#### **ABOUT CURA**

The Center for Urban and Regional Analysis (CURA) is the economic and policy research center of the L. Douglas Wilder School of Government & Public Affairs at Virginia Commonwealth University. The Center serves stakeholders and organizations at all levels of focus, providing information systems support, program impact analysis, public policy evaluation, targeted investment models, and strategic plans to state agencies, regional and metropolitan organizations, planning districts, cities, counties and towns, as well as businesses and non-profit organizations.



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#### **EXECUTIVE SUMMARY**

Virginia's Historic Rehabilitation Tax Credit (HRTC) program has played an essential role in the preservation of thousands of historic properties since its inception 20 years ago. The program has issued \$1.2 billion in tax credits since 1997, reimbursing 25 percent of eligible rehabilitation expenses as tax credits. Those tax credits have stimulated \$4.5 billion in private investment since 1997. Although the \$1.2 billion in tax credits issued represents revenue not immediately realized by the Commonwealth, much of the \$4.5 billion of private investment may not have otherwise occurred. VCU's Wilder School analyzed the Historic Rehabilitation Tax Credit program to better understand its costs and benefits to Virginia, its communities, and its historic buildings.

**SECTION 1: QUANTITATIVE ANALYSES** – The first section of this report focuses on the quantitative economic impacts generated by the tax credit program, including a first-in-Virginia look at the ongoing economic impacts of unused or under-used historic buildings that have been rehabilitated.

- 1. **REHABILITATION-PERIOD IMPACT** The Center for Urban and Rural Analysis (CURA) calculated that the work associated with historic tax credit projects—the spending generated by construction and activities related to construction—generates \$4.20 to \$5.30 of economic impact for every \$1.00 of tax credit. That's an annual average impact of \$357 million to \$446 million, including 2,300 to 2,900 jobs and \$12.7 million to \$16.0 million in state and local tax revenue.
- 2. POST-REHABILITATION IMPACT Rehabilitated buildings continue to generate economic impacts after construction is completed by making available commercial and residential square footage in historic districts that was previously unused or underutilized. These projects act as catalysts to attract businesses and residents in historic downtowns. CURA analyzed commercial activity, visitors attracted to new or upgraded museums, and wages spent by residents that use reclaimed square feet from projects completed and certified in 2014. Unlike the rehabilitation-period impacts, post-rehabilitation impacts continue year after year. Projects completed in a single year about \$109 million in tax credits in 2014—generate annual post-rehabilitation economic impacts of \$510 million, including 3,565 jobs, \$13.3 million in state tax revenues, and \$16.6 million in local tax revenues. Every \$1.00 of historic tax credits generates \$4.66 in annual, ongoing, post-rehabilitation impact.
- 3. **RETURN ON INVESTMENT** Understanding the annual post-rehabilitation impact (including state and local tax revenues) in combination with the one-time rehabilitation-period impact offers an opportunity to estimate the net benefit and payback period of the HRTC program. Based on state tax revenues alone, the Commonwealth recoups revenue lost through one year of tax credits within nine years. Including local tax revenues in this analysis reduces the payback period to less than five years. After those payback periods, historic rehabilitation projects continue to generate economic impacts. The Commonwealth nets \$5.35 in combined state and local tax revenues for every \$1.00 in tax credits over a 20-year period.
- 4. **PROPERTY VALUE IMPACTS** The historic preservation work incentivized through the historic rehabilitation tax credits virtually guarantees that the property values of rehabilitated structures will rise. CURA estimates that rehabilitated structures see a 166 percent increase in value per square foot and a 170 percent increase in the average property value. Buildings rehabilitated for institutional or public use experience the largest value gains followed by multifamily residential, commercial, and single-family residential.

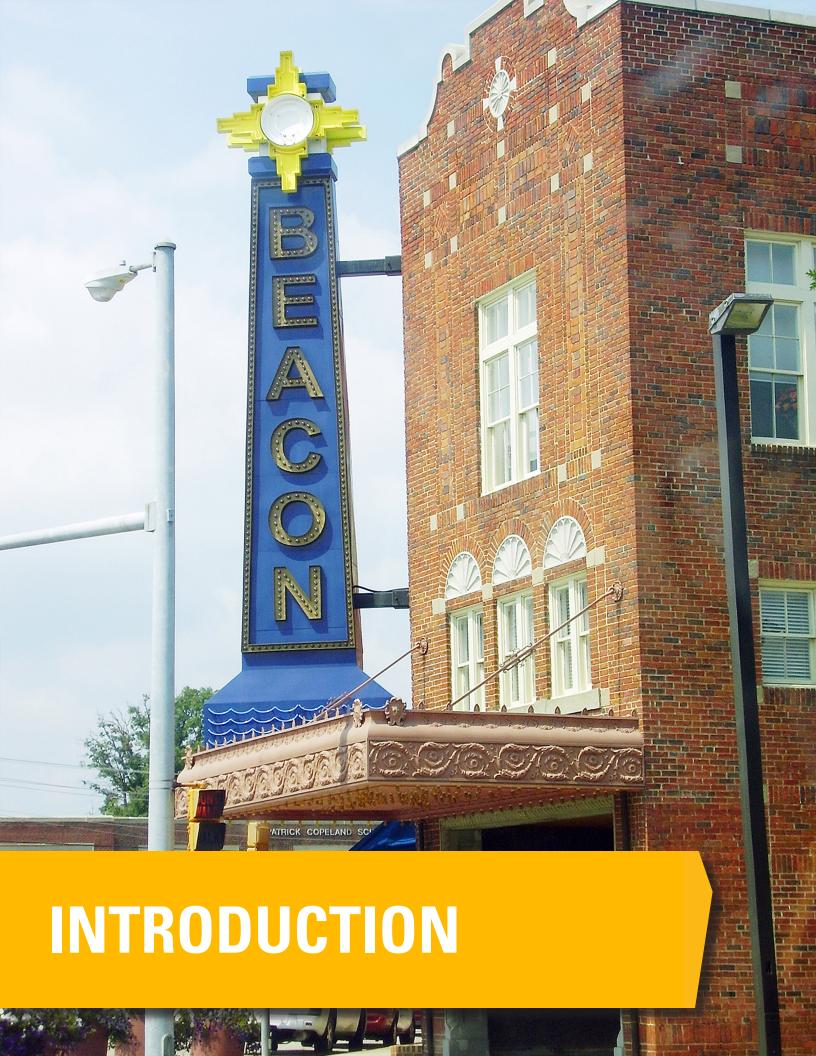
**SECTION 2: BEYOND THE NUMBERS** – The second section of this report provides an understanding of the trends and impacts of the HRTC program that mere numbers can't capture. It includes:

**5. THEMATIC FINDINGS** – A series of focus groups and interviews revealed the use of historic tax credits by developers, architects, bankers, government officials, and other stakeholders follows

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common trends and motivations.

- a. The HRTC program is utilized as a tool for community revitalization in economically distressed areas largely because it makes development in those areas profitable. The tax credit program allows developers to secure financing in places where banks may be more hesitant to lend. Tax credit development has led to market stabilization in some cases—increases in demand that make development easier to finance without subsidy.
- b. Developers who specialize in historic rehabilitation projects are beginning to move beyond a handful of large cities. For example, much of the historic building stock in Richmond has been addressed, and tax credits aren't necessary to develop in a stabilized market.
- c. Developers and tax credit syndicators are hesitant to undertake projects with timeframes longer than 24 months. Discussions of the HRTC program in recent General Assembly sessions have left program participants and professionals concerned about the stability of the program's funding, threatening predictability that's necessary to secure financing.
- d. Some tax credit developers seek out projects in economically distressed areas where tax credits can make projects economically feasible and revitalize communities. Others continue to utilize them for development in thriving cities where tax credits can make projects profitable.
- 6. URBAN/RURAL Urban jurisdictions have historically benefited most from the HRTC program. Not only do urban areas contain the greatest demand for different uses, they also contain the largest stock of historic buildings. Further, federal historic rehabilitation tax credits, which may be used in tandem with the state tax credits, are difficult to use in rural areas with less developed finance infrastructure and fewer large-budget projects. However, as focus group participants noted, the stock of historic buildings available for rehabilitation in high-demand urban areas has decreased. Analysis of tax credit use per jurisdiction, per capita, and by rurality indicates that rural jurisdictions may be reaping the benefits of a shift away from primary markets. Although data is insufficient to establish a trend, the per capita use of tax credits in rural Virginia in 2014 surpassed that of urban Virginia.





#### INTRODUCTION

Virginia's historic buildings and districts reflect the Commonwealth's outsized role in U.S. history. Virginia's rich past provides a uniquely large and prominent number of historic structures and historic districts—more than 3,000 according to the National Register of Historic Places. Rehabilitation of these historic buildings provides demonstrable social, environmental, and economic benefits. The preservation and reuse of historic properties allows property owners, developers, architects, and local governments to:

- Take advantage of existing sites, preserving untouched natural areas
- Make use of existing infrastructure, ensuring efficient use of tax dollars
- Limit sprawling development that contributes to gridlock and transportation inefficiencies •
- Reinvigorate town centers in urban and rural areas alike
- Move vacant or undervalued properties back onto tax rolls

Virginia's Historic Rehabilitation Tax Credit program incentivizes preservation and reuse of the Commonwealth's historic building inventory by reimbursing 25 percent of eligible expenses in a historic rehabilitation project as tax credits. Those tax credits can be used by a project's investors to reduce tax liability for up to 10 years. The program can be used in tandem with the federal historic tax credit program, which offers an additional 20 percent reimbursement used as a tax credit against federal tax liability. The Virginia Department of Historic Resources (DHR)—the state tax credit program's administrator—has partnered with the Wilder School's Center for Urban and Regional Analysis (CURA) to understand and quantify the program's costs and benefits.

This report builds upon previous work completed by the Wilder School for DHR and Preservation Virginia in 2007, 2010, 2012, and 2014. Prior reports concluded that Virginia realizes significant economic returns through preservation and reuse of historic properties. Those reports detailed the economic impact of tax credit-driven rehabilitation through private and public spending during the rehabilitation process. CURA's 2014 report noted that incentivizing historic preservation presents certain broad economic benefits:

- 1. Historic properties and the infrastructure surrounding them represent fixed assets and sunk costs. When unused, they become wasted assets—investments that are no longer generating returns. Making those buildings usable and inhabitable allows them to generate returns once again.
- 2. Rehabilitated historic properties contribute to the economy through the economic outputs of new tenants and increased property values.
- 3. Preserving a building avoids incurring demolition costs—both financial and environmental—while encouraging efficient development through density.
- There is a cost savings obtained through reuse of existing structures when compared to new 4. construction.

However, there are also costs to the tax credit program. The cost-benefit relationship between tax credits and historic rehabilitation remains less understood. A 2013 report for the Advisory Council on Historic Preservation notes, "While many may argue that the benefits to society, both financial and otherwise, outweigh the costs, the relationship between preservation and the economy as well as overall societal benefit remains imperfectly understood and only partially documented." This report seeks to narrow that gap in understanding and contribute to a more complete picture of both the costs and benefits of Virginia's Historic Rehabilitation Tax Credit program.

This report updates and builds upon prior work, supplementing an economic impact analysis of rehabilitation spending with, for the first time in Virginia, analysis of post-rehabilitation spending—that is, the impacts of spending as a result of those fixed assets returning to use. This report also investigates tax credit impacts on



property values, the return on investment, and the qualitative impacts—those intangible effects not captured in numbers.

### REPORT STRUCTURE

This report is divided into five major analyses of Virginia's historic rehabilitation tax credit program: recent and historic trends in the tax credit program, economic impacts (including a return on investment analysis), property value impacts, qualitative impacts, and urban/rural. Each section contains significant contributions towards existing knowledge surrounding the program.

#### **SECTION 1: ECONOMIC IMPACT**

- 1. Current and historic trends and descriptive statistics: CURA has reviewed and analyzed data from the program's inception through 2014, the most recent full year for which all tax credit projects have been completed and certified. This section provides information on the program's aims, scope, breadth, costs, and achievements.
- 2. Economic impact and return on investment of historic rehabilitation tax credits in Virginia: CURA has conducted two economic impact analyses. The first updates previous analyses looking at the rehabilitation phase of historic tax credit projects. The second analysis measures the economic impact of tax credit projects after rehabilitation, including the impacts of tenant spending (rent), tenant sales revenues, and visitor spending (for museums, arts centers, or other institutions). CURA has also estimated the return on investment for state expenditures on the historic tax credit program.
- 3. Property value impacts: In updating historic structures for modern use, historic tax credit projects almost certainly have significant impacts on property values. CURA has conducted an analysis to quantify exactly what that impact is and how far beyond a property's boundary that impact extends.

#### **SECTION 2: BEYOND THE NUMBERS**

- 4. Qualitative impacts: trends, themes, and policy alternatives: Despite the importance of a data-informed picture of the historic tax credit program, qualitative analysis—detailed information gleaned from interviews and focus groups—remains an essential tool in understanding the trends, benefits, and costs of the program.
- 5. Urban and rural use of tax credits: Urban jurisdictions have historically benefitted most from the HRTC program. However, as focus group participants noted, the stock of historic buildings available for rehabilitation in high-demand urban areas has decreased. Analysis of tax credit use per jurisdiction, per capita, and by rurality indicates that rural jurisdictions may be reaping the benefits of a shift away from primary markets.



SECTION ONE: ECONOMIC IMPACT

"WE HAVE THIS EXISTING **INFRASTRUCTURE IN DOWNTOWNS, AND THE TAX CREDIT PROGRAM FURTHERS THE GOAL OF KEEPING DENSITY WHERE** THAT INFRASTRUCTURE **EXISTS, BUT WE KEEP BUILDING EXTRA INFRASTRUCTURE INSTEAD** OF USING WHAT WE HAVE **ALREADY. THIS TAX CREDIT PROGRAM IS WHAT TURNS** THE PRO FORMA AROUND...

**MAKES IT WORK FOR US."** 

## **CHAPTER 1.1: HRTC TRENDS**

Virginia's General Assembly codified the Historic Rehabilitation Tax Credit Program in the 1996 session, placing the program under the administration of the Department of Historic Resources (DHR). The program provides an incentive for private investment in the rehabilitation of historic structures by reimbursing a percentage of eligible project costs as tax credits. In many projects, private investors provide equity at the start of a project—allowing developers, businesses, and individuals to access financing—and receive credits at the project's completion that may be used to lower tax liability. The investor must be a Virginia taxpayer.

In the program's first year (1997), the Commonwealth reimbursed 10 percent of eligible rehabilitation costs as tax credits. The reimbursement rate increased by five points each year until it reached 25 percent in 2000. The program's reimbursement rate has remained 25 percent for 17 years.

According to the Virginia Administrative Code, eligible costs include, "those expenses incurred by a tax-payer in connection with a plan of rehabilitation in the material rehabilitation of a certified historic structure and added to the property's capital account." The Virginia Administrative Code specifies expenditures that are not eligible for reimbursement, including:

- The cost of purchasing any structure or land
- Landscape improvements
- Site work not integral to the building's systems
- Expansion of the building
- Rehabilitations not certified by DHR
- Any cost not paid for by a taxpayer
- Anything financed directly or indirectly by an obligation of the Commonwealth of Virginia
- Any expense paid with insurance or indemnity payments stemming from a property loss of the property being rehabilitated
- Any expense related to personal property or nonessential equipment (e.g., appliances or furniture)
- Any cost associated with the syndication of tax credits including legal and business fees
- Deferred fees or unpaid costs for which there is no charge to a capital account

Non-eligible expenses typically constitute less than one-quarter of total expenses on a given project. Between 2010 and 2014, non-eligible costs accounted for 17.4 percent of the total project costs. Eligible expenses are reimbursed at a rate of 25 percent, but after considering non-eligible expenses from 2010 to 2014, tax credits constituted 20.6 percent of total project expenses on average.

Tax credit users have indicated that the equity and investment leveraged by the program is an important factor in moving projects forward. A previous survey administered by VCU determined that many historic rehabilitation projects would be financially infeasible without the tax credit. When asked to rate the importance of state tax credit assistance in the decision to undertake a rehabilitation project, 95 percent of survey respondents said the credits were somewhat important or very important (see Table 1.1). Further, 85 percent of respondents said they would reduce their scope of work or not move forward with rehabilitation if their work plans had not been approved (certified) by DHR (see Table 1.2).

TABLE 1.1: ROLE OF STATE TAX CREDIT ASSISTANCE IN THE DECISION TO UNDERTAKE THE REHABILITATION PROJECT

Very important	82%
Somewhat important	13%
Not too important	2%
Not important at all	2%
Don't know or No opinion	1%

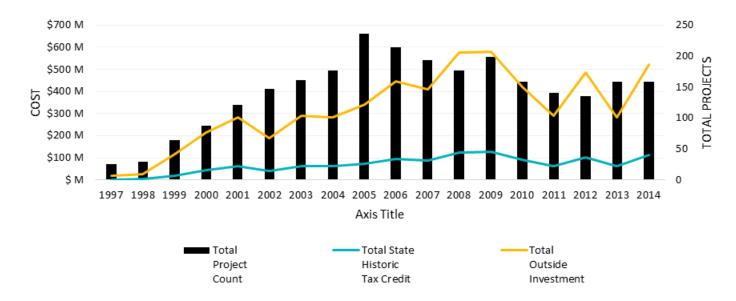
Source: VCU survey administered for DHR

## TABLE 1.2: STATUS OF PROJECT IF PROPOSED SCOPE OF WORK HAD NOT BEEN APPROVED FOR STATE TAX CREDIT ASSISTANCE

Would have rehabilitated property without state tax credit assistance, and would have done the same amount of rehabilitation work for the project.	8%
Would have rehabilitated property without state tax credit assistance, but would have done less rehabilitation work for the project.	31%
Would not have rehabilitated this property without state tax credit assistance.	54%
Don't know/Unsure or No answer	7%

The number of projects completed and certified has risen substantially from 26 in the program's first full year (1997) to 158 in the most recent full year of certification (2014) (see Figure 1.1). The number of tax credit projects completed and certified peaked in 2005 at 236. That number has remained below 200 since 2006. However, the tax credit cost and the amount of outside investment leveraged has not fallen at the same rate. The average project cost—and likely the average size and scope of projects—has risen over time.

FIGURE 1.1: STATE HISTORIC TAX CREDITS, PROJECT COUNT, AND TOTAL PROJECT EXPENSE [1997-2014]



From 1997 to 2014, the tax credit program leveraged \$1.2 billion of private investments in lieu of taxes (tax credits) to enable 2,582 historic rehabilitations (see Table 1.3). The total cost of all certified historic rehabilitation projects in that span—both eligible and non-eligible expenses—is just under \$5.8 billion. The Commonwealth's \$1.2 billion in foregone tax revenues spurred an additional \$4.5 billion in historic rehabilitation spending. Every dollar in historic tax credits yielded \$3.72 in private investment in historic rehabilitation projects.

TABLE 1.3: TOTAL STATE HISTORIC TAX CREDITS BY YEAR [1997-2014]

YEAR	NUMBER OF PROJECTS	REHABILITATION PROJECT COST	NON-ELIGIBLE EXPENSES	TOTAL PROJECT Expense	STATE HISTORIC TAX CREDIT
1997	26	\$16.9 M	\$2.9 M	\$19.9 M	\$1.7 M
1998	29	\$21.7 M	\$3.8 M	\$25.4 M	\$3.2 M
1999	64	\$98.6 M	\$17.1 M	\$115.7 M	\$19.7 M
2000	87	\$182.3 M	\$31.7 M	\$214. M	\$45.6 M
2001	121	\$241.4 M	\$42. M	\$283.4 M	\$60.4 M
2002	147	\$159.9 M	\$27.8 M	\$187.7 M	\$40.0 M
2003	161	\$248.3 M	\$43.2 M	\$291.5 M	\$62.1 M
2004	177	\$241.5 M	\$42. M	\$283.5 M	\$60.4 M
2005	236	\$290.4 M	\$50.5 M	\$340.9 M	\$72.6 M
2006	214	\$378.6 M	\$65.9 M	\$444.5 M	\$93.5 M
2007	194	\$349.9 M	\$60.9 M	\$410.8 M	\$88.7 M
2008	177	\$489.7 M	\$85.2 M	\$574.9 M	\$122.0 M
2009	180	\$493.1 M	\$85.8 M	\$578.9 M	\$125.4 M
2010	159	\$359.6 M	\$62.6 M	\$422.1 M	\$90.2 M
2011	141	\$243.4 M	\$42.3 M	\$285.7 M	\$61.7 M
2012	135	\$412.5 M	\$71.8 M	\$484.3 M	\$103.6 M
2013	158	\$239.7 M	\$41.7 M	\$281.4 M	\$60.9 M
2014	158	\$444.4 M	\$77.3 M	\$521.7 M	\$111.0 M
TOTAL	2,564	\$4,911.9 M	\$854.5 M	\$5,766.4 M	\$1,222.7 M

#### **OVER THE HISTORY OF THE HRTC PROGRAM:**

\$1.2

**BILLION** 



Total Tax Credits

2,564

**PROJECTS** 



Historically Rehabilitated

\$5.8

BILLION



In Total Expenses

**\$4.5** 

**BILLION** 



In Private Investment

\$1.00 OF HISTORIC TAX CREDITS





\$3.72
IN OUTSIDE
INVESTMENT

Projects from 1997 to 2014 clustered around several Virginia localities, as shown in Map 1.1. Some of the state's urban centers such as Richmond and Hampton Roads have seen a higher volume of tax credit projects. In northern Virginia, Alexandria is home to a large number of historic rehabilitation projects, though it has seen fewer than Richmond. West of I-95, Roanoke city, Charlottesville, and Lynchburg have seen a higher number of projects completed. What stands out most in Map 1.1 are the small circles throughout Virginia. Although few localities experienced the volume of projects seen in Virginia's urban centers, tax credit projects—and associated benefits—are visible in almost every jurisdiction.

1 - 5 6 - 50 51 - 100 101 - 500 500+ **MILES** 

MAP 1.1: STATE HISTORIC TAX CREDIT TOTAL PROJECTS BY LOCALITY [1997-2014]

The distribution of total tax credit dollars, rather than projects, shows a slightly different pattern (Map 1.2). Although Richmond continues to represent the top of the list with the largest amount of tax credit projects, localities west of I-95 show total dollar amounts comparable to localities in Northern Virginia and Hampton Roads. Roanoke city and Lynchburg represent some of the largest beneficiaries of tax credit projects outside Richmond. The gap between project counts and historic tax credit totals suggests that although rural jurisdictions have seen fewer projects than urban jurisdictions, those projects have been larger in terms of cost.



100

Throughout the program's history, the Richmond Metropolitan Statistical Area (MSA) has attracted the largest number of projects with 1,320 (see Table 1.4 below). The Richmond region, which includes Petersburg, has also accumulated the largest sum of project costs, at \$2.6 billion dollars. Thus, the states largest distribution of tax credits—\$647.7 million over the program's lifetime—has also flowed to the Richmond region. The Washington-Arlington-Alexandria MSA follows, with 301 projects. Smaller MSAs such as Blacksburg-Christiansburg-Radford and Harrisonburg, with only 17 projects each, may seem to be lagging. However, when considering the ratio of projects and tax credits to MSA size and historic building inventory, these small values can have a relatively large impact.

TABLE 1.4: TOTAL STATE HISTORIC TAX CREDITS BY MSA [1997-2014]

MSA REGION	NUMBER OF PROJECTS	REHABILITATION PROJECT COST	NON-ELIGIBLE EXPENSES	TOTAL PROJECT EXPENSE	STATE HISTORIC TAX CREDIT
Blacksburg	17	\$17.9 M	\$3.2 M	\$21.1 M	\$4.5 M
Charlottesville	56	\$156.2 M	\$27.7 M	\$183.9 M	\$38.6 M
Harrisonburg	17	\$43.3 M	\$7.7 M	\$51.0 M	\$10.8 M
Bristol	12	\$32.4 M	\$5.7 M	\$38.2 M	\$8.1 M
Lynchburg	89	\$236.0 M	\$41.4 M	\$277.4 M	\$57.7 M
Richmond	1,320	\$2,601.7 M	\$455.7 M	\$3057.4 M	\$647.7 M
Roanoke	129	\$364.4 M	\$64.2 M	\$428.6 M	\$90.9 M
Hampton Roads	271	\$451.5 M	\$79.0 M	\$530.5 M	\$112.4 M
Washington DC	301	\$295.4 M	\$52.0 M	\$347.4 M	\$73.7 M
Winchester	43	\$156.5 M	\$27.8 M	\$184.3 M	\$38.8 M
Non-MSA	309	\$556.5 M	\$90.1 M	\$646.6 M	\$137.8 M
TOTAL	2,564	\$4,911.9 M	\$854.5 M	\$5,766.4 M	\$1,220.9 M

Notes: Values for the Staunton–Waynesboro MSA are included in the Non-MSA row as it only recently became an MSA.

Values for the former Danville MSA are included in the Non-MSA row as it recently regressed from a metropolitan statistical area to a micropolitan area.

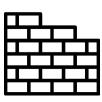
Non-eligible expenses for all years prior to 2009 were projected based on detailed financing data provided to CURA from DHR.

## **HRTC HISTORICALLY:**

HAVE **AVERAGE** DEVELOPMENT COST AND TAX CREDIT AMOUNTS OF...

\$1.9

**MILLION** 



Eligible Project Cost Per Project

\$0.3

MILLION



Per Project

**\$2.2** 

**MILLION** 



Total Project
Cost
Per Project

**\$0.5** 

MILLION



Historic Rehab Tax Credit Per Project

ARE UTILIZED FOR A WIDE RANGE OF PROJECT SCALES...

**SMALLEST**:

**\$8.9** 

**THOUSAND** 

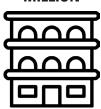


Single-Family Home

**AVERAGE**:

\$1.8

**MILLION** 



Multifamily Home

LARGEST:

\$98.0

**MILLION** 



Handley High School

PROJECT COST	> 100K	100K to 500K	500K to 1M	1M to 5M	5M to 10M	10M +
PROJECT COUNT	303	1,230	341	515	133	104

ARE UTILIZED BY VIRGINIA RESIDENTS...

ARE PAIRED WITH FEDERAL FUNDING...

95%

**OF USERS** 



Are Virginia Residents

100%

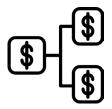
**OF USERS** 



Are Virginia Tax Payers

**54%** 

**OF PROJECTS** 



Utilize Federal Tax Credits

### **CHAPTER 1.2: ECONOMIC IMPACT**

This section seeks to understand, from a public policy perspective, the real quantitative impact of the Virginia Historic Rehabilitation Tax Credit program on the Commonwealth's economy and, ultimately, the costs and benefits of the program for Virginia's taxpayers. Although ample evidence demonstrates how historic tax credits have been crucial in the rehabilitation of historic properties and deteriorated buildings, the full scope of these projects' benefits—in terms of both economic and fiscal impact—remains unclear. This analysis outlines how those impacts relate to the costs sustained by the public sector.

This report builds on the past decade of studies conducted by the Wilder School on the relationship between historic preservation and community and regional economic development. For the first time in Virginia, this report addresses economic impact during and after historic tax credit-enabled rehabilitation. First, it provides a detailed and comprehensive account of the economic and fiscal impacts of both rehab and post-rehab spending activities. Second, this report shows how long it will take the Commonwealth to recoup its investment and realize additional tax revenues—the return on investment (ROI) that the program generates for Virginia's taxpayers. Finally, it quantifies the influence of HRTC on property values.

#### **METHODOLOGICAL NOTE**

This report uses economic input-output analysis to illustrate the impact of the Virginia historic tax credit program. An input-output model measures the economic impact of an activity or entity by looking at the spending that goes into the activity, modeling the resultant economic output in dollars, and feeding those dollars into the model as an input for economically linked business sectors.

Economic linkages may be best described as an interconnected network, from suppliers and manufacturers to retailers and customers. The entire network is connected in a very specific pattern. When one industry increases or decreases production, it sends a pulse that is felt in other parts of the network, forwards and backwards. That change affects the supply and demand for materials, labor, and goods. Economic impact models, like the one created for this study, contain information on how the network of industries is structured, so the effect of a change in production in one industry can be estimated throughout the economy.

To estimate the impact of the Virginia Historic Rehabilitation Tax Credit program, CURA used IMPLAN Pro™ software to prepare and customize an economic model for the Commonwealth of Virginia as well as a model for each of the state's ten MSAs. IMPLAN is a regional input-output computer modeling system used by economists to estimate the effects of spending and policy actions. In this case, IMPLAN was used to estimate the economic effects that take place as goods and services are purchased in connection with expenditures related to both the rehabilitation of historic buildings and the economic activities that take place in them after being rehabilitated.

The IMPLAN model divides economic activity into three components—direct, indirect, and induced effects—and sums them to derive a total economic impact (See Table 2.1).

#### **TABLE 2.1: DEFINITIONS OF IMPLAN TERMS**

IMPACT TERM	DEFINITION
Direct Impact	The initial expenditures, or production, made by the industry experiencing economic change
Indirect Impact	The effects on local inter-industry spending through backward linkages (which track industry purchases backward through the supply chain)
Induced Impact	The results of local spending of employee wages and salaries for both employees of the directly affected industry and the employees of the indirectly affected industries

Source: Frances Day - "Principles of Impact Analysis and IMPLAN Applications"



**DIRECT EFFECTS** are expenditures made in relation to building rehabilitations (during the rehabilitation phase) or deriving from the economic activities taking place in the rehabilitated buildings – including new commercial businesses and households (during the post-rehabilitation phase). This initial spending causes ripple effects (also known as "multiplier effects") within the study area. These additional effects are called indirect and induced impacts.

**INDIRECT EFFECTS** are "supplier" effects. Businesses (such as professional services or general contractors) that receive money from the original purchases must also buy additional goods and services to accommodate the new demand. As purchases are made from other firms, the economy is stimulated further.

**INDUCED EFFECTS** are generated by changes in household expenditures. When companies receive additional business because of the direct and indirect effects, they meet the new demand by hiring additional workers or paying existing employees more to work longer hours. As a result, these employees will have more money to spend on the goods and services that they buy within the study area.

The direct, indirect, and induced effects are estimated for labor income, value added, economic impact, and employment impact. These components are defined below:

- **LABOR INCOME:** The wages and salaries paid to local employees of firms as well as an estimate of the value of benefits earned by these workers. Labor income also includes payments received as income by freelance employees.
- **ECONOMIC IMPACT:** The overall economic effects on the region, which can be viewed as the total additional output generated by rehabilitation, are equal to the value added plus intermediate expenditures. Consider the economic impact as the value of change in sales or the value of change in production.
- **EMPLOYMENT:** The number of total jobs in the study area, including full-time and part-time employees, supported by the new economic activity.

As mentioned, in calculating the impact of the Virginia HRTC program on the Commonwealth's economy, we looked at both the spending taking place during the rehabilitation phase, as well as the spending taking place after the rehabilitation. That is, CURA has included analysis of spending deriving from economic activities in the rehabbed buildings, from the operational budget of businesses in improved or reclaimed historic spaces to the spending patterns of households attracted to historic residential units.

#### REHABILITATION IMPACT

To estimate the economic impact of rehabilitation projects using historic tax credits, CURA used a dataset provided by the Virginia Department of Historic Resources that includes information on every historic rehabilitation project certified as completed since the program's inception in 1997. For this study, CURA has used data from a five-year period, 2010 to 2014. These data include information on each property's name, the locality in which the property is located, the street address of the site, whether the project has also benefited from Federal tax credits, the total qualified rehabilitation expenditures, and the amount of state tax credits awarded for the project.

Table 2.2 summarizes the total number of projects, total project costs (both eligible and non-eligible), and total amount of tax credits allocated between 2010 and 2014 (see A.1 in the appendix for the same span of data categorized by MSA). Each year, an average of 150 rehabilitation projects made use of the HRTC program. Just over \$400 million of total annual rehabilitation expenditures, on average, resulted in \$85 million dollars in tax credits annually. These numbers confirm the crucial role played by historic tax credits in leveraging private investment in historic rehabilitation. Each year, by allowing owners and developers to invest an average of \$85 million in historic preservation projects in lieu of taxes, the Commonwealth of Virginia leverages an additional \$315 million in private funds that would not have been invested in the rehabilitation of historic buildings. Another way to look at it is that every \$1.00 of tax credits allowed by the state leverages an additional \$3.70 in the private market.

## TABLE 2.2: SUMMARY STATISTICS OF THE VIRGINIA HISTORIC REHABILITATION TAX CREDITS PROGRAM BY YEAR [2010-2014]

YEAR	# OF PROJECTS	ELIGIBLE Expenditures	NON-ELIGIBLE EXPENDITURES	TAX CREDITS
2010	159	\$359,588,972	\$63,998,040	\$90,237,156
2011	141	\$243,378,102	\$43,284,884	\$60,836,348
2012	135	\$412,498,110	\$73,746,749	\$102,968,897
2013	158	\$239,684,415	\$42,626,353	\$60,619,768
2014	158	\$444,373,189	\$79,388,393	\$109,530,518
TOTAL	751	\$1,699,522,788	\$303,044,418	\$424,192,687
AVERAGE	150	\$339,904,558	\$60,608,884	\$84,838,537

Source: Virginia Department of Historic Resources All dollar values are in 2017 Dollars

#### HRTC PROJECT FIGURE SUMMARY (2010-2014)

\$2.0
BILLION

M

Total Rehab Project Expenditures TOTAL PROJECTS

Across Virginia \$2.7

**MILLION** 



Average Expenditure

#### **DATA PREPARATION**

To calculate the economic impact of historic rehabilitation tax credit projects between 2010 and 2014, the project expenditures must be adjusted to reflect only the spending that:

- Can be attributed directly to the tax credit program
- Generates an economic impact on the state economy (i.e. there is some production associated with the transaction)

In short, to understand the economic and fiscal impacts of Virginia's historic tax credit program that would occur through private investment in rehabilitation and construction projects, we must focus on projects that are dependent upon tax credits and ignore those that are not. Additionally, we must eliminate those expenditures that are not associated with economic production.

From a survey previously administered by CURA to property owners, investors, and developers of rehabilitated properties, we were able to determine how state historic tax credits affected the feasibility of and expenditures in rehabilitation projects (see Tables 1.1 and 1.2 in History and Background section). With that information, CURA has classified tax credit projects as follows:

FULLY DEPENDENT PROJECTS - About 54 percent of survey respondents indicated that without the availability of state tax credits, their projects would not have been completed. These projects were determined to be fully dependent upon state tax credits. Assuming this same proportion is applicable to all rehabilitation projects, 54 percent (407 projects) of the total (751) rehabilitation projects completed during the five-year period are considered fully dependent upon the use of state historic tax credits. These fully dependent projects were responsible for almost \$1.1 billion in rehabilitation expenditures.

PARTIALLY DEPENDENT PROJECTS - An additional 31 percent of survey respondents indicated they would have completed their rehabilitation projects at a reduced scale without state tax credits, indicating that total rehabilitation expenditures would have been fewer. Thus, these projects were deemed partially dependent upon the use of state tax credits. Consistent with these survey results, it was assumed that the same proportion (31 percent) of all rehabilitation projects were also partially dependent upon the use of state tax credits. Thus, from 2010 to 2014, an estimated 233 projects were partially dependent upon the assistance of state historic tax credits.

In the absence of the state tax credit program, it was assumed that less rehabilitation work would be completed, reducing the \$620,795,834 rehabilitation expenditures associated with these projects. It is impossible, however, to determine the scale of this reduction in rehabilitation expenditures. In order to estimate this reduction, a sensitivity analysis with three different scenarios was conducted:

- Scenario 1: assumes a 25 percent<sup>1</sup> reduction in rehabilitation expenditures (\$155 million)
- Scenario 2: assumes a 50 percent reduction in rehabilitation expenditures (\$310 million)
- Scenario 3: assumes a 75 percent reduction in rehabilitation expenditures (\$466 million)

The resulting spending, including both eligible and non-eligible expenses, was then further reduced to eliminate spending associated with property acquisition<sup>2</sup> (approximately 90 percent of all non-eligible expenses).

The bottom of Table 2.3 shows the total amount of spending considered for each scenario. Those totals are used to estimate the economic impact generated by the rehabilitation activities.

The 25% of expenditures that would have been reduced without tax credits is the only rehabilitation spending directly attributable to the HRTC program. In this scenario, out of almost \$621 million in rehabilitating expenditures - for which the developers indicated that their project were partially dependent on tax credits - only \$155 million (25 percent) was considered to calculate the economic impact.

There is no production associated with property acquisition. Building or land acquisition are considered mere asset transfers.

## TABLE 2.3: ESTIMATED NUMBER OF PROJECTS AND AMOUNT OF EXPENDITURES THAT WERE FULLY OR PARTIALLY DEPEDENT ON HISTORIC TAX CREDIT ASSISTANCE

TOTAL PROJECTS:				
Total number of projects	751			
Total expenditures	\$2,002,567,206			
FULLY DEPENDENT PROJECTS (54%):				
Fully dependent projects	407			
Fully dependent project expenditures	\$1,081,386,291.09			
PARTIALLY DEPENDENT PROJECTS (31%):				
Partially dependent projects	233			
Partially dependent expenditures	\$620,795,834			
Scenario 1 - 25% reduction in expenditures	\$155,198,958			
Scenario 2 - 50% reduction in expenditures	\$310,397,917			
Scenario 3 - 75% reduction in expenditures	\$465,596,875			
TOTAL ESTIMATED EXPENDITURES DEPENDENT ON HI				
(COMBINED FULLY AND PARTIALLY DEPENDENT PROJ	ECTS):			
Scenario 1	\$1,236,585,250			
Scenario 2	\$1,391,784,208			
Scenario 3	\$1,546,983,166			
TOTAL ESTIMATED EXPENDITURES DEPENDENT ON HI	STORIC TAX CREDIT PROGRAM			
MINUS PROPERTY ACQUISITION COSTS:				
SCENARIO 1	\$1,066,561,489			
SCENARIO 2	\$1,200,421,433			
SCENARIO 3	\$1,334,281,377			
	Santan fan Hulana and Danis and Analysis			

Source: Virginia Department of Historic Resources and the Wilder School's Center for Urban and Regional Analysis All dollar values are in 2017 Dollars

Spending data was categorized and distributed proportionally according to appropriate IMPLAN categories (each describing a specific economic sector) to build customized economic models for the Commonwealth and for each Virginia MSA.

Rehabilitation costs extend beyond bricks and mortar. Historic tax credit projects tend to involve (and spend on) several industries, including design, finance, and legal services, in addition to expenditures on building materials, and construction labor. In order to accurately capture the true impact of all types of spending happening within (or because of) a historic rehabilitation project, CURA collected detailed spending data from the DHR on more than one hundred projects. That data was used to develop spending patterns that were vetted with field experts for eligible and non-eligible expenses. CURA also mapped the data for thorough economic impact analyses.<sup>1</sup>

Relevant expenditures were mapped to their corresponding North American Industry Classification System (NAICS) 2012 six-digit code and, then, to the broader IMPLAN category to calculate economic impacts. For example, new masonry work at a single-family residence is mapped to NAICS code 238140 and professional services, like accounting, is mapped to NAICS code 541211. Then, the NAICS codes are mapped to IMPLAN categories "Construction" and "Finances" respectively. Three different spending patterns were identified to reflect differences in categorical spending patterns based on project size – less than \$500K, \$500K to \$2.5M, and more than \$2.5M. Appendix A.2 shows the IMPLAN sectors used for this analysis.

**STATEWIDE REHABILITATION IMPACTS** - The total economic impact from rehabilitation expenditures for projects completed between 2010 and 2014 is estimated to be between \$1.8 billion and \$2.2 billion, depending on the spending scenario considered (see page 16 for details). That includes \$615 to \$769 million in payroll distributed to Virginia workers. The employment impact is estimated to be between 11,692 and 14,627 supported jobs, with more than half of these positions directly related to rehab and construction activities. Finally, the five years of rehabilitation spending generated additional state and local tax revenues between \$64 million and \$80 million (see Table 2.4).

# TABLE 2.4: ESTIMATED IMPACTS OF HRTC ON THE COMMONWEALTH OF VIRGINIA'S ECONOMY [2010-2014]

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$1,783,792,014	\$614,583,251	11,692	\$33,234,739	\$30,678,221
Scenario 2	\$2,007,668,741	\$691,717,178	13,159	\$37,405,898	\$34,528,521
Scenario 3	\$2,231,545,471	\$768,851,108	14,627	\$41,577,061	\$38,378,825

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

The five year average annual economic impact generated by historic rehabilitation project expenditures is an important figure. This average represents the economic impact that can be expected each year of the program's operation. The average annual economic impact of HRTC projects is estimated to be between \$357 million and \$446 million, including \$123 million to \$154 million in labor income paid to Virginia workers. This average annual impact supports between 2,338 and 2,925 jobs statewide and generates an additional \$13 million to \$16 million in combined state and local taxes. On the reverse side, the state foregoes an average of \$85 million in tax credits annually. Comparing that \$85 million to the total impact (\$357 million to \$446 million) offers some idea of the average annual impact of the state's historic tax credits. The economic impact reflects a multiplier of 4.2 to 5.3, meaning that each \$1.00 of tax credits generates an overall impact of \$4.20 to \$5.30 in Virginia's economy.

TABLE 2.5: ESTIMATED YEARLY AVERAGE IMPACT TO THE COMMONWEALTH
OF VIRGINIA FROM REHABILIATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$356,758,403	\$122,916,650	2,338	\$6,646,948	\$6,135,644
Scenario 2	\$401,533,748	\$138,343,436	2,632	\$7,481,180	\$6,905,704
Scenario 3	\$446,309,094	\$153,770,222	2,925	\$8,315,412	\$7,675,765

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

As previous studies have shown, most of this impact is concentrated in the construction sector. However, significant impacts are experienced by the trade sectors (both wholesale and retail) and by the Professional Services sector, which plays an important role in rehabilitation projects.

## TABLE 2.6: REHABILITATION TOTAL IMPACT AND EMPLOYMENT BY INDUSTRY SHARE

INDUSTRY	% OF TOTAL IMPACT [OUTPUT]	% OF TOTAL IMPACT [EMPLOYMENT]
Construction	46%	45%
Trade (wholesale and retail)	11 %	17%
Professional Services	14%	16%
Real estate	6%	2%
All other industries	18%	20%
Total	100%	100%

**IMPACTS ON VIRGINIA'S METROPOLITAN STATISTICAL AREAS** – CURA has used a similar approach to estimate the economic impact of rehabilitation expenditures within each of Virginia's MSAs. For the five year period considered (2010 to 2014), total spending for each MSA was calculated using the Virginia DHR data. Then, based on the spending patterns identified during the state analysis, CURA built IMPLAN models for each MSA and identified leakages (spending outside the region) to deduct from the total spending in the region.

When examining the MSA-level impacts, it is important to consider the following points:

- 1. The values for economic impact, employment impact, labor income, and state tax revenue estimated for Virginia are greater than the combined impacts from the ten MSAs. When examining each region of the state, any spending that takes place outside of the MSA is a leakage from the local economy and is not considered for the regional impact analysis. In the state model, however, spending anywhere in Virginia contributes to the estimated impacts. There are more opportunities for expenditures to occur within the borders of the state than there are within each MSA.
- 2. Impacts are not estimated for rehabilitation spending that took place in Virginia cities or counties that are not part of an MSA. These localities were grouped together and classified as "Non-MSA" in Table 1.2. The localities are not geographically connected and have only minimal economic linkages. In contrast, localities that comprise an MSA are physically connected and have strong economic linkages. It would be problematic to present impact estimates for the disconnected jurisdictions outside of an MSA.
- 3. A smaller MSA will have greater leakage of spending outside the MSA. Therefore, a smaller MSA will experience less overall impact of rehabilitation tax credits.

The tables on the following pages (Tables 2.7 through 2.17) detail the five-year average regional economic impact<sup>2</sup> generated by rehabilitation expenditures in each MSA for the three scenarios outlined previously in Table 2.3.

Another way to look at these results is to consider them as the average annual economic impact generated by historic rehabilitation projects that have taken place in each MSA. For most MSAs, this average was identified through five years of data. It should be noted that not every MSA had a project for each of the five years considered. The average yearly impact in those instances was calculated dividing the overall economic impact by the numbers of years in which rehabilitation projects took place.

## TABLE 2.7 ESTIMATED YEARLY AVERAGE IMPACTS TO BLACKSBURG MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$2,061,628	\$648,098	18	\$55,039	\$50,805
Scenario 2	\$2,320,375	\$729,438	20	\$61,947	\$57,182
Scenario 3	\$2,579,121	\$810,779	22	\$68,855	\$63,558

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

# TABLE 2.8: ESTIMATED YEARLY AVERAGE IMPACTS TO BRISTOL MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$7,296,271	\$2,293,630	62	\$194,762	\$179,780
Scenario 2	\$8,211,998	\$2,581,495	70	\$219,206	\$202,344
Scenario 3	\$9,127,724	\$2,869,360	78	\$243,650	\$224,907

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

## TABLE 2.9: ESTIMATED YEARLY AVERAGE IMPACTS TO CHARLOTTESVILLE MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$14,893,354	\$4,681,828	127	\$397,557	\$366,976
Scenario 2	\$16,762,560	\$5,269,426	143	\$447,453	\$413,033
Scenario 3	\$18,631,766	\$5,857,024	159	\$497,349	\$459,091

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

# TABLE 2.10: ESTIMATED YEARLY AVERAGE IMPACTS TO HAMPTON ROADS MSA FROM REHABILIATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$19,721,147	\$6,199,379	169	\$526,367	\$485,877
Scenario 2	\$22,196,271	\$6,977,439	190	\$592,429	\$546,858
Scenario 3	\$24,671,394	\$7,755,499	211	\$658,492	\$607,838

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

## TABLE 2.11: ESTIMATED YEARLY AVERAGE IMPACTS TO HARRISONBURG MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$4,090,018	\$1,285,734	35	\$109,183	\$100,784
Scenario 2	\$4,603,340	\$1,447,102	39	\$122,886	\$113,433
Scenario 3	\$5,116,662	\$1,608,469	44	\$136,589	\$126,082

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

## TABLE 2.12: ESTIMATED YEARLY AVERAGE IMPACTS TO LYNCHBURG MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$10,534,956	\$3,311,721	90	\$281,206	\$259,575
Scenario 2	\$11,857,157	\$3,727,362	101	\$316,500	\$292,153
Scenario 3	\$13,179,358	\$4,143,003	113	\$351,793	\$324,732

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

# TABLE 2.13: ESTIMATED YEARLY AVERAGE IMPACTS TO NORTHERN VIRGINIA MSA FROM REHABILIATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$14,893,354	\$4,681,828	127	\$397,557	\$366,976
Scenario 2	\$16,762,560	\$5,269,426	143	\$447,453	\$413,033
Scenario 3	\$18,631,766	\$5,857,024	159	\$497,349	\$459,091

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

# TABLE 2.14: ESTIMATED YEARLY AVERAGE IMPACTS TO RICHMOND MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$135,427,873	\$42,571,890	1,157	\$3,614,566	\$3,336,523
Scenario 2	\$152,424,893	\$47,914,921	1,303	\$4,068,216	\$3,755,277
Scenario 3	\$169,421,914	\$53,257,952	1,448	\$4,521,866	\$4,174,030

## TABLE 2.15: ESTIMATED YEARLY AVERAGE IMPACTS TO ROANOKE MSA FROM REHABILITATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$24,961,661	\$7,846,843	213	\$666,300	\$615,046
Scenario 2	\$28,094,501	\$8,831,670	240	\$749,925	\$692,238
Scenario 3	\$31,227,341	\$9,816,496	267	\$833,549	\$769,430

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

# TABLE 2.16: ESTIMATED YEARLY AVERAGE IMPACTS TO STAUNTON-WAYNESBORO MSA FROM REHABILIATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$20,810,597	\$6,541,957	178	\$555,511	\$512,779
Scenario 2	\$23,422,453	\$7,363,012	200	\$625,231	\$577,136
Scenario 3	\$26,034,310	\$8,184,067	222	\$694,951	\$641,493

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

## TABLE 2.17: ESTIMATED YEARLY AVERAGE IMPACTS TO WINCHESTER MSA FROM REHABILIATION EXPENDITURES

	ECONOMIC IMPACT	LABOR INCOME	EMPLOYMENT IMPACT [# OF JOBS]	STATE TAX IMPACT	LOCAL TAX IMPACT
Scenario 1	\$20,810,597	\$6,541,957	178	\$555,511	\$512,779
Scenario 2	\$23,422,453	\$7,363,012	200	\$625,231	\$577,136
Scenario 3	\$26,034,310	\$8,184,067	222	\$694,951	\$641,493

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

All dollar values are in 2017 Dollars.

#### POST-REHABILITATION IMPACT

The economic impact of rehabilitating a historic structure extends beyond the rehabilitation process. The process modernizes and makes available underutilized and unused square feet in historic districts, increasing or attracting residents and businesses. Localities may use these projects as catalysts to attract businesses and residents to historic downtown areas. This process makes historic tax credits a tool for business retention, expansion, and attraction.

CURA's analysis of the post-rehabilitation economic impact looks at the activities of businesses and residents making use of those reclaimed square feet. No previous report in Virginia has investigated the potential impact of tax credits in the post-rehabilitation phase. This analysis, in calculating the post-rehabilitation economic impacts of projects completed and certified in 2014, represents the first attempt to understand the recurring impacts of Virginia's historic tax credit program.

The post-rehabilitation phase includes the annually recurring economic impacts of the uses of structures that have already undergone tax credit-driven rehabilitation. The spending that fuels post-rehabilitation impacts falls into three categories:

- 1. **RESIDENTIAL HOUSEHOLD SPENDING:** the spending patterns of households living in rehabilitated structures, including renters and owners
- 2. **COMMERCIAL ACTIVITY IN REHABILITATED SPACES:** sales and spending of businesses that operate in rehabilitated structures and the spending patterns of their employees
- 3. **VISITOR SPENDING:** the spending patterns of visitors using rehabilitated structures, such as hotels, museums, and spaces that may attract visitors to cultural events

These three categories of spending combined are fed into a model to understand how that spending echoes throughout a region or state. A clearer picture of the tax credit program's economic impact emerges when considering post-rehabilitation impacts in addition to rehabilitation-period impacts. Utilizing economic impact data for the lifespans of rehabilitated buildings provides a more comprehensive accounting of the costs and benefits of the program.

#### **DATA PREPARATION**

Calculating the economic impact of post-rehabilitation uses requires an estimation of the spending related to those uses. That spending informs a statistical model that calculates the broader impact on the regional or state economy. It translates the spending patterns of residents, businesses, and visitors attracted to or using newly rehabilitated structures into new labor income, new tax revenues, and the ripple effects on industries down the line. Those spending patterns were calculated as follows:

#### NEW RESIDENTIAL HOUSEHOLD SPENDING [INCLUDING RENTERS AND OWNERS]

Residential household spending is based on the number of housing units created by residential historic rehabilitation projects and median incomes for both renters and owners. The Consumer Expenditure Survey allows that total spending to be broken down into categories such as dining, furniture, and transportation. These figures serve as inputs for spending across different industries. These inputs inform the economic impact mode, allowing us to capture the annual economic impact of residents in structures financed in part by historic tax credits.

<sup>2</sup> United States Bureau of Labor Statistics. Consumer Expenditures Survey (CEX). Retrieved September 19, 2017, from https://www.bls.gov/cex/tables.



<sup>1</sup> Rental properties and owned properties are processed separately through the equation as they have different values for occupation rates, median household income, and patterns of consumer expenditure.

#### NEW COMMERCIAL ACTIVITY [BUSINESSES AND THEIR EMPLOYEES OPERATING IN REHABILITATED STRUCTURES]

CURA identified commercial activities operating in structures financed in part by state historic tax credits through the Virginia DHR database. Commercial projects were then cross-referenced geospatially with employment data to derive the total number of employees by industry in each rehabilitated building. This employment figure was then used to identify the spending input for each industry. The resulting dollar figure served as the input in modeling the economic impact of new commercial activity.

#### VISITOR SPENDING – HOTELS, MUSEUMS, AND CULTURAL EVENTS THAT ATTRACT VISITORS

Visitor spending was derived through travel data profiles. These profiles provide information on the spending patterns of visitors for a multitude of different regions and purposes, similar to the breakdown of new residential spending. This spending data may be multiplied by the total number of visitors for different purposes (bed and breakfasts, museums, events, etc.). This provides total spending numbers for each industry, which are then used as the inputs for the economic impact model.

#### **STATEWIDE IMPACT [ANNUAL]**

Statewide, 158 projects utilized a total of \$109.5 million in historic tax credits in 2014. Of those projects, the 15 identified as commercial use projects created workplaces for 1,428 direct employees. Another 74 residential rental projects that created 1,400 housing units, and 58 owner-occupied residential projects created 59 housing units. 11 projects categorized as "other" were also completed with the assistance of historic rehabilitation tax credits. These projects include non-commercial, non-residential uses such as churches, schools, and community centers.

Virginia's 2014 tax credit projects yield a total post-rehabilitation economic impact of \$511.0 million annually. That's a ratio of \$4.66 in economic impact after rehabilitation for every \$1.00 in tax credits Post-rehabilitation uses yielded 3,565 total jobs with an annual combined labor income of \$188.0 million. Post-rehabilitation economic activity yielded the state \$13.3 million dollars per year in tax revenues, and localities saw an additional \$16.6 million annual in tax revenues.

Source: Estimates developed by CURA using DHR data and IMPLANPro $^{\text{TM}}$ . Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".



For 1,014 employees

74
RENTAL RES.
PROJECTS

With 1,400 total units

# TABLE 2.18: STATEWIDE SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$109,530,518
Per Capita Credit	\$13.38
Total Projects	158
Commercial Projects	15
Total Employees	1,428
Residential Projects (Rented)	74
Units (Rented)	1,400
Residential Projects (Owned)	58
Units (Owned)	59
Other Projects	11

# TABLE 2.19: STATEWIDE SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$510,994,198
Labor Income	\$188,066,160
Employment Impact (# of Jobs)	3,565
State Tax Impact	\$13,291,611
Local Tax Impact	\$16,582,816

All dollar values are in 2017 Dollars.

OWNER RES. PROJECTS



Create 59 total homes

OTHER PROJECTS



Schools, churches, etc.

\$1.00
OF HISTORIC
TAX CREDITS







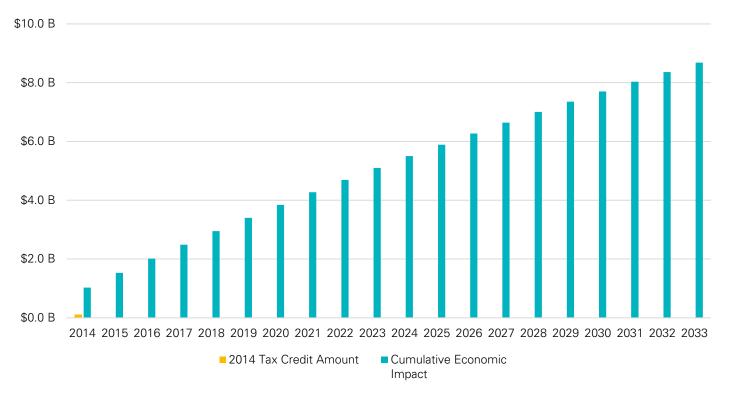
\$4.66
IN POST-REHAB

#### **PROJECTING 2014 TOTAL IMPACT [20 YEARS]**

While analysis of a single year of the economic impact of post-rehabilitation activities is a useful tool, observing the impacts of a single year does not provide the complete picture. Utilizing the post-rehabilitation economic impact data gathered from projects completed in 2014 and projecting those annual impacts into the future can provide a better understanding of the potential long term post-rehabilitation economic impact of the historic tax credit program.

Figure 2.1, below, shows the cumulative post-rehabilitation economic impact of 2014's historic tax credits projected 20 years into the future, through 2033. A single year of foregone tax revenues—\$109.5 million in historic tax credits—generates \$8.6 billion in total impact (adjusted to reflect net present value) over the next 20 years. The economic multiplier of the \$109.5 million in tax credits over 20 years is 79.28. Every \$1.00 in tax credits yields \$79.28 in economic impact over the span of 20 years.

FIGURE 2.1: CUMULATIVE POST REHABILITATION ECONOMIC IMPACT OF 2014 HISTORIC TAX CREDITS [2014-2033]



This analysis projects the 20 year impact of one year of historic tax credit spending. For each year in which the program operates, the program's overall impact will compound.

#### IMPACTS ON VIRGINIA'S METROPOLITAN STATISTICAL AREAS

The statewide post-rehabilitation impact analysis shows a clear and substantial economic multiplier. However, regional economic impacts vary widely by both the number of projects and their post-rehabilitation uses. That the economic impact would increase with the number of projects is not surprising. But there is also a clear correlation between total economic impact and post-rehabilitation use type. Metropolitan areas differ in the post-rehabilitation uses of their projects. Some regions feature residential rehabs only, and the economic impacts in those areas are based solely on the estimated spending patterns of residents in newly rehabilitated square footage. Other regions have projects with a variety of post-rehab uses, including residential, commercial, and institutional. The economic impact in those areas is comparatively outsized. Commercial uses in post-rehab buildings—that is, uses that represent business spending, jobs, and labor income—appear to generate post-rehabilitation economic impacts far greater than residential uses alone.

For example, the Lynchburg, Winchester, and Kingsport-Bristol-Bristol MSAs have similar project numbers but very different post-rehabilitation impacts. In 2014, Lynchburg saw five residential projects completed that created 120 residential units at a cost of \$7.5 million in tax credits. Lynchburg also completed three projects categorized as other (e.g. churches or community centers). That's a 100 percent share of projects with residential post-rehab uses that have measurable economic impact. The total post-rehab economic impact is \$3.2 million per year—an economic multiplier of only 0.43.

In the same year (2014), Winchester saw one mixed-use commercial/residential project and one residential project completed, totaling \$1.7 million in tax credits—far less than Lynchburg. Together, these two projects provided a workplace for 40 people and rental housing for 9 households. The total economic impact generated by these post-rehabilitation uses is \$6.1 million—far greater than Lynchburg. By utilizing historic tax credits to rehabilitate buildings for both commercial and residential uses, the projects generated a higher economic multiplier of 3.66.

At the far end of the commercial spectrum, the Kingsport-Bristol-Bristol MSA saw two commercial projects and one residential project (with one housing unit) completed in 2014. Those projects made use of \$3.1 million in tax credits. One of the projects—the Birthplace of Country Music Museum—is a commercial attraction that attracts 85,000 visitors to the MSA annually. Visitor spending with that volume of attraction has a significant influence on the economic impact of all post-rehabilitation uses, which generate \$16.4 million annually in the region. That represents an economic multiplier of 5.18—the largest among the three regions with only two to three projects in each.

These comparisons reflect only a single year of data (2014), and the distribution of post-rehabilitation uses over time likely differs. The difference in impact by use in this year is a helpful example and doesn't reflect the impacts of historic tax credit projects as a whole over the lifespan of the program. Lynchburg and Kingsport-Bristol-Bristol represent differing tax credit land uses in 2014, but a broader analysis of the total scope of the program from 1997 to current data would be required to draw any broader conclusions about regional differences.

Although the economic multiplier in the Lynchburg MSA is comparatively small, it remains a positive impact. In order to preserve and enhance productive towns and cities across the Commonwealth, developers and local officials must strike a balance between commercial projects and residential projects. Focus groups and interviews identified residential uses as important for many developers in creating the demand required for commercial development. Likewise, residents and potential residents are attracted to places with commercial amenities available. This analysis simply notes that the economic impacts generated by post-rehabilitation uses are likely to vary by the type of use rather than the number of projects or even the amount of tax credits.

## **BRISTOL MSA**

Virginia's portion of the Kingsport-Bristol-Bristol MSA saw three rehabilitations completed and certified in 2014, totaling \$3.2 million in historic tax credits. Of those three projects, two commercial projects created space for 21 employees and one residential project created a single rental unit.

Post-rehabilitation uses yielded a total economic impact of \$16.4 million across the Kingsport-Bristol-Bristol MSA. The projects yielded 255 jobs with a combined labor income of \$6.7 million due to economic multipliers and ripple effect. This economic activity yielded \$0.5 million in state tax revenues and \$0.7 million local tax revenues per year.

## MSA COMPONENTS: [ONLY INCLUDES LOCALITIES WITHIN THE COMMONWEALTH]

- City of Bristol
- Scott County
- Washington County

# TABLE 2.20: KINGSPORT MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$3,171,449
Per Capita Credit	\$33.31
Total Projects	3
Commercial Projects	2
Total Employees	21
Residential Projects (Rented)	1
Units (Rented)	1
Residential Projects (Owned)	-
Units (Owned)	-

# TABLE 2.21: HARRISONBURG MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$16,440,281
Labor Income	\$6,675,705
Employment Impact (# of Jobs)	255
State Tax Impact	\$537,735
Local Tax Impact	\$670,887

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## **CHARLOTTESVILLE MSA**

In 2014, the Charlottesville MSA saw two historic tax credit projects completed and certified, totaling \$11.6 million in tax credits. The projects include one mixed use multifamily residential project yielding 43 rental units and creating workplaces for 410 direct employees, and additionally one single-family residential project that created one housing unit.

The two projects yielded a total post-rehabilitation economic impact of \$156.3 million across the Charlottesville MSA. The post-rehabilitation uses yielded 964 total jobs. The combined labor income of those additional jobs is \$58.0 million. This post-rehabilitation economic activity produced \$1.9 million per year in state taxes and an additional \$2.4 million in local tax revenue.

#### **MSA COMPONENTS:**

- City of Charlottesville
- Albemarle County
- Fluvanna County
- Greene County
- Nelson County

## TABLE 2.22: CHARLOTTESVILLE MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$11,557,824
Per Capita Credit	\$51.81
Total Projects	2
Commercial Projects	1*
Total Employees	410
Residential Projects (Rented)	1*
Units (Rented)	43
Residential Projects (Owned)	1
Units (Owned)	1

# TABLE 2.23: CHARLOTTESVILLE MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$156,329,640
Labor Income	\$57,993,256
Employment Impact (# of Jobs)	964
State Tax Impact	\$1,941,964
Local Tax Impact	\$2,422,823

<sup>\*</sup>Residential and commercial count includes 1 mixed use project

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

### HAMPTON ROADS MSA

In 2014, the Virginia Beach-Norfolk-Newport News MSA saw eight tax credit projects completed and certified, totaling \$9.5 million in historic tax credits. Those projects included one commercial project that created workplaces for 46 employees, one multifamily residential project that created 77 rental units, and four single-family residential projects that created four housing units.

Post-rehabilitation uses yielded a total economic impact of \$17.8 million across the Virginia Beach-Norfolk-Newport News MSA. Those uses generated 128 jobs with a combined labor income of \$7.1 million due to economic multipliers and ripple effect employment. This economic activity generated \$0.4 million per year in state tax revenues and \$0.5 million per year in local tax revenues.

#### MSA COMPONENTS [ONLY INCLUDES LOCALITIES WITH-IN THE COMMONWEALTH]:

- City of Chesapeake
- City of Hampton
- City of Newport News
- City of Norfolk
- City of Poquoson
- City of Portsmouth
- City of Suffolk
- City of Virginia Beach
- City of Williamsburg
- Gloucester County
- Isle of Wight County
- James City County
- Mathews County
- York County

#### **TABLE 2.24: VA BEACH MSA SINGLE YEAR CREDIT USE SUMMARY [2014]**

ITEM	VALUE
Total Tax Credit Amount	\$9,460,283
Per Capita Credit	\$5.57
Total Projects	8
Commercial Projects	1
Total Employees	46
Residential Projects (Rented)	1
Units (Rented)	77
Residential Projects (Owned)	4
Units (Owned)	4
Other Projects	2

#### **TABLE 2.25: VA BEACH MSA SINGLE YEAR CREDIT IMPACT [2014]**

ITEM	VALUE
Economic Impact	\$17,819,480
Labor Income	\$7,151,469
Employment Impact (# of Jobs)	128
State Tax Impact	\$388,016
Local Tax Impact	\$484,094

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## **HARRISONBURG MSA**

In 2014, two historic rehabilitation projects were completed and certified in the Harrisonburg MSA, totaling \$3.9 million in historic tax credits. One commercial project directly created space for 54 employees, and one multifamily residential project created 34 rental units.

The post-rehabilitation uses yielded a total economic impact of \$33.6 million across the Harrisonburg MSA. Those uses also yielded 115 jobs with a combined labor income of \$5.1 million due to economic multipliers and ripple effect employment. This economic activity yielded \$2.4 million in state tax revenues and \$3.0 million local tax revenues per year.

#### **MSA COMPONENTS:**

- City of Harrisonburg
- Rockingham County

## TABLE 2.26: HARRISONBURG MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$3,878,640
Per Capita Credit	\$30.26
Total Projects	2
Commercial Projects	1
Total Employees	54
Residential Projects (Rented)	1
Units (Rented)	34
Residential Projects (Owned)	-
Units (Owned)	-

# TABLE 2.27: HARRISONBURG MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$33,557,851
Labor Income	\$5,102,066
Employment Impact (# of Jobs)	115
State Tax Impact	\$2,407,821
Local Tax Impact	\$3,004,035

Source: Estimates developed by CURA using DHR data and IMPLANPro<sup>TM</sup>. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## LYNCHBURG MSA

In 2014 the Lynchburg MSA saw eight tax credit projects completed and certified totaling \$7.5 million. Of those eight projects, five residential projects created 120 rental units and three other projects (a church, a community center, and a library) are associated with visitor spending.

\$7.5 million in historic tax credits yielded a total economic impact of \$3.2 million across the Lynchburg MSA in 2014. The tax credits yielded 47 total jobs with a combined labor income of \$1.1 million due to economic multipliers and ripple effect employment. This economic activity yielded the state \$0.1 million per year in taxes and the MSA localities an additional \$0.1 million in tax revenue.

#### **MSA COMPONENTS:**

- City of Lynchburg
- Amherst County
- Appomattox County
- Bedford County
- Campbell County

## TABLE 2.28: LYNCHBURG MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$7,458,088
Per Capita Credit	\$29.20
Total Projects	8
Commercial Projects	-
Total Employees	-
Residential Projects (Rented)	5
Units (Rented)	120
Residential Projects (Owned)	-
Units (Owned)	-
Other Projects	3

# TABLE 2.29: LYNCHBURG MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$3,231,923
Labor Income	\$1,139,202
Employment Impact (# of Jobs)	47
State Tax Impact	\$122,085
Local Tax Impact	\$152,316

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## **NORTHERN VIRGINIA MSA**

In 2014, the Washington-Arlington-Alexandria MSA was home to 12 completed and certified tax credit projects totaling \$1.1 million in historic tax credits. Those projects include two residential projects that created three rental units, eight single-family residential projects that created eight housing units, and two other projects associated with visitor spending.

Post-rehabilitation uses generated a total economic impact of \$2.7 million across the Washington-Arlington-Alexandria MSA. Those uses yielded 33 jobs with a combined labor income of \$1.3 million due to economic multipliers and ripple effect employment. This economic activity generated \$76,777 per year in state taxes \$95,788 in local taxes.

#### MSA COMPONENTS [ONLY INCLUDES LOCALITIES WITH-IN THE COMMONWEALTH]:

- City of Alexandria
- City of Fairfax
- City of Falls Church
- City of Manassas
- City of Manassas Park
- City of Fredericksburg
- Arlington County
- Clarke County
- Culpeper County
- Fairfax County
- Fauquier County
- Loudon County
- Prince William County
- Rappahannock County
- Spotsylvania County
- Stafford County
- Warren County

## TABLE 2.30: VA WASHINGTON MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$1,097,021
Per Capita Credit	\$0.39
Total Projects	12
Commercial Projects	-
Total Employees	-
Residential Projects (Rented)	2
Units (Rented)	3
Residential Projects (Owned)	8
Units (Owned)	8
Other Projects	2

# TABLE 2.31: VA BEACH MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$2,710,033
Labor Income	\$1,303,948
Employment Impact (# of Jobs)	33
State Tax Impact	\$76,777
Local Tax Impact	\$95,788

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## RICHMOND MSA

The Richmond MSA saw 101 projects completed and certified in 2014, totaling \$55.4 million in historic tax credits. These projects included eight commercial projects that created workplaces for 757 employees, 51 multifamily residential projects that created 889 rental units, and 42 single-family residential projects that created 43 housing units.

The post-rehabilitation uses yielded a total economic impact of \$200.0 million across the Richmond MSA. Those uses also yielded 1,452 jobs with a combined labor income of \$73.7 million due to economic multipliers and ripple effect employment. This economic activity resulted in an additional \$5.7 million per year in state taxes and \$7.1 million per year in local taxes.

#### **MSA COMPONENTS:**

- City of Richmond
- City of Petersburg
- City of Hopewell
- City of Colonial Heights
- Amelia County
- Caroline County
- Charles City County
- Chesterfield County
- Dinwiddie County
- Goochland County
- Hanover County
- Henrico County
- King William County
- New Kent County
- Powhatan County
- Prince George County
- Sussex County

## TABLE 2.32: RICHMOND MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$55,410,690
Per Capita Credit	\$44.90
Total Projects	101
Commercial Projects	8
Total Employees	757
Residential Projects (Rented)	51
Units (Rented)	889
Residential Projects (Owned)	42
Units (Owned)	43
Other Projects	3

# TABLE 2.33: RICHMOND MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$200,039,175
Labor Income	\$73,745,107
Employment Impact (# of Jobs)	1,452
State Tax Impact	\$5,699,878
Local Tax Impact	\$7,111,254

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## **ROANOKE MSA**

In 2014, the Roanoke MSA was home to 10 tax credit projects that were completed and certified. Three commercial projects created workplaces for 62 employees, six multifamily residential projects created 138 rental units, and one single-family residential project that created one owner-occupied housing unit.

Post-rehabilitation uses yielded a total economic impact of \$8.7 million across the Roanoke MSA. Those uses also yielded 124 jobs with a combined labor income of \$3.3 million due to economic multipliers and ripple effect employment. This economic activity yielded \$0.3 million per year state taxes and \$0.3 million in local taxes.

#### **MSA COMPONENTS:**

- City of Roanoke
- City of Salem
- Botetourt County
- Craig County
- Franklin County
- Roanoke County

## TABLE 2.34: ROANOKE MSA SINGLE YEAR SUMMARY CREDIT USE [2014]

ITEM	VALUE
Total Tax Credit Amount	\$5,581,051
Per Capita Credit	\$17.95
Total Projects	10
Commercial Projects	3
Total Employees	62
Residential Projects (Rented)	6
Units (Rented)	138
Residential Projects (Owned)	1
Units (Owned)	1

# TABLE 2.35: ROANOKE MSA SINGLE YEAR SUMMARY CREDIT USE [2014]

ITEM	VALUE
Economic Impact	\$8,740,818
Labor Income	\$3,354,322
Employment Impact (# of Jobs)	124
State Tax Impact	\$273,852
Local Tax Impact	\$341,662

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## STAUNTON-WAYNESBORO MSA

In 2014 the Staunton-Waynesboro MSA saw three tax credit projects completed and certified totaling \$97,000 in historic tax credits. These projects included two residential projects that created two rental units and one residential project that created one owner-occupied housing unit.

Post-rehabilitation activity generated a total economic impact of \$150,033 across the Staunton-Waynesboro MSA. The tax credit projects yielded two total jobs with a combined labor income of \$56,577 post-rehabilitation due to economic multipliers and ripple effect employment. This economic activity generated \$5,762 per year in state taxes and \$7,188 in local taxes.

#### **MSA COMPONENTS:**

- City of Staunton
- City of Waynesboro
- Augusta County

# TABLE 2.36: STAUNTON-WAYNESBORO MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
Total Tax Credit Amount	\$97,325
Per Capita Credit	\$0.82
Total Projects	3
Commercial Projects	-
Total Employees	-
Residential Projects (Rented)	2
Units (Rented)	2
Residential Projects (Owned)	1
Units (Owned)	1

#### TABLE 2.37: STAUNTON WAYNESBORO MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$150,033
Labor Income	\$56,577
Employment Impact (# of Jobs)	2
State Tax Impact	\$5,762
Local Tax Impact	\$7,188

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

## **WINCHESTER MSA**

The Winchester MSA saw two tax credit projects completed and certified in 2014, totaling \$1.7 million in historic tax credits. Those projects include one commercial project that created space for 40 jobs and two multifamily residential projects that created nine rental units. One of the residential projects was located above the commercial project in a mixed-use approach.

Post-rehabilitation uses generated a total economic impact of \$6.1 million across the Winchester MSA. Those uses also produced 102 jobs with a combined labor income of \$2.6 million due to economic multipliers and ripple effect employment. This economic activity generated \$0.15 million per year in state taxes and \$0.19 million in local taxes.

## MSA COMPONENTS [ONLY INCLUDES LOCALITIES WITH-IN THE COMMONWEALTH]:

- City of Winchester
- Frederick County

## TABLE 2.38: VA WINCHESTER MSA SINGLE YEAR CREDIT USE SUMMARY [2014]

ITEM	VALUE
ITEM	VALUE
Total Tax Credit Amount	\$1,673,874
Per Capita Credit	\$15.58
Total Projects	2
Commercial Projects	1
Total Employees	40
Residential Projects (Rented)*	2
Units (Rented)	9
Residential Projects (Owned)	-
Units (Owned)	-

# TABLE 2.39: WINCHESTER MSA SINGLE YEAR CREDIT IMPACT [2014]

ITEM	VALUE
Economic Impact	\$6,125,388
Labor Income	\$2,587,976
Employment Impact (# of Jobs)	102
State Tax Impact	\$153,750
Local Tax Impact	\$191,821

<sup>\*</sup>Residential count includes 1 mixed use project above one of the listed commercial projects

Source: Estimates developed by CURA using DHR data and IMPLANPro™. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

# **RETURN ON INVESTMENT [ROI]**

Virginia's Historic Rehabilitation Tax Credit program encourages the private market to invest in the rehabilitation of historic properties. Tax credits provide equity that can help reduce the risks inherent in development, especially in distressed markets where private investment is less likely to flow in the absence of such incentives. The tax credit program presents clear benefits to its users, but public policy works best when it generates net positive benefits to the Commonwealth.

Although many benefits aren't easily quantifiable—preservation of history, sense of place, quality of life, and sprawl reduction, to name a few—the program's tangible benefits may be measured against its costs. This measurement provides an understanding of the tax credit program's return on investment, or the net benefit over time. The first step in measuring the return on investment (ROI) is defining costs and benefits.

#### **COSTS**

The cost of implementing the tax credit program includes the tax credits (forgone tax revenues) and the costs of program administration. In 2014—the year on which this ROI analysis is based—the total tax credit amount distributed was \$109 million. The costs of administering the tax credit program, including the salaries and wages of selected staff positions at the Department of Historic Resources, are paid through revenue generated by the review fees and contribute to the total cost. The program's administrative cost—about 0.2 percent of the tax credit cost annually—has little impact on the total program cost and negligible statistical significance in this analysis.

#### **BENEFITS [RETURNS]**

The tax credit program creates broad economic benefits, as outlined in the economic impact analysis. However, from a fiscal perspective, the tangible benefit to the Commonwealth is the tax and fee revenues generated by the various economic activities enabled by the program. Tax revenues can be broadly classified into two catego-

- 1. **ONE-TIME REVENUES** Generated from economic activities during the rehabilitation phase (construction). State revenues resulting from rehabilitation activities include taxes collected from sales of construction materials, equipment, fuel, and taxes on personal and corporate incomes. Based on a fiscal impact model developed by CURA, about 52 percent of total revenues collected during the rehabilitation phase go to the state government and 48 percent go to local governments. Using 2014 as a model year, where \$109 million was spent in tax credits, the total state revenue is estimated to be \$9.65 million.
- 2. **ANNUALLY RECURRING REVENUES** Generated during the post-rehabilitation phase (occupancy) after the building is put to its intended use. One of the easily quantifiable benefits of the rehabilitation of historic buildings is the immediate increase in a building's use and sale value. Other tangible benefits include economic activities resulting from occupancy of rehabilitated structures—that is, the activities of a building's new tenants—such as office, retail, residential, and non-profit uses. A substantial share of the revenue from the use of a rehabilitated building is collected through real property taxes that go to local governments. However, sales tax and personal and corporate income tax revenues from post-rehabilitation use are collected by the state. About 45 percent of taxes collected during the post-rehabilitation phase go to the state government. The other 55 percent go to local governments. State revenues from post-rehabilitation use of those buildings are estimated to be around \$13.29 million each year.

#### **RETURN ON INVESTMENT**

This ROI analysis takes two approaches in estimating the net costs and benefits of the historic rehabilitation tax credit program over a twenty-year period:1

- The first analysis investigates state revenues alone and does not include local revenues
- The second analysis includes local revenues in addition to state revenues

Both analyses look at a 20-year timeline, with the first year representing the rehabilitation phase where the cost to the Commonwealth is realized. The analysis uses 2014 as a sample year—a year in which the tax credit program reimbursed \$109 million in private investment through tax credits. In practice, depending on the size of a project, it might take more or less than a year to complete. However, for simplicity in analysis, we have allocated the first year for rehabilitation and all subsequent years for post-rehabilitation activities.

Once the expenditure is made in the form of tax credits during the first year, the state does not spend any money in the subsequent years for the same projects (except in the case of multiphase projects). However, the buildings keep generating tax revenue for the state every year and thus, they are added cumulatively. The net present value (NPV) of the future revenues are calculated using an average discount rate of 1.5 percent<sup>2</sup> per year.

The ROI column in the tables that follow represents the ratio between net expenditure and cumulative revenue every year. A negative value indicates the value of the expenditure is greater than that of the cumulative revenue. A positive value indicates that the cumulative revenue has surpassed the initial one-time cost and the Commonwealth starts realizing net gains.

<sup>2</sup> The discount rate for the calculation of ROI is based on the percentage increase in CPI published by the Bureau of Labor Statistics (https://data.bls.gov/cgi-bin/cpicalc.pl). The average of the year-to-year inflation rate for the years 2013-2017 is 1.5%. It is expected that the economy remains stable over the next twenty years and the average inflation factor remains consistent.



<sup>1</sup> A rehabilitated building will generate revenue well past the twenty-year mark. Literature suggests the average life expectancy of wood construction is 50 years, and that of Masonry, Concrete, and Steel buildings is beyond 75 years (Connor, 2004). However, most financial institutions extend loans for residential buildings for up to twenty years. The loan terms for commercial and industrial buildings are generally higher.

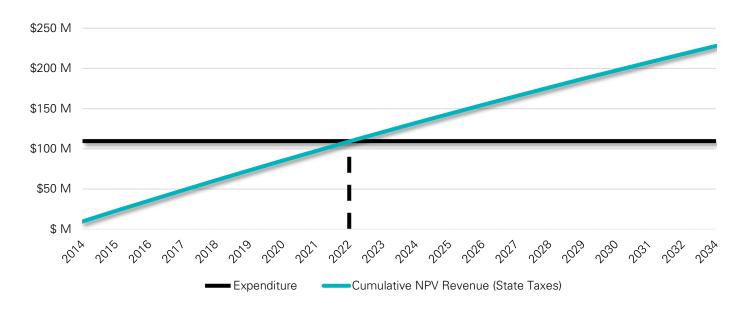
#### RETURN ON INVESTMENT BASED ON STATE REVENUE

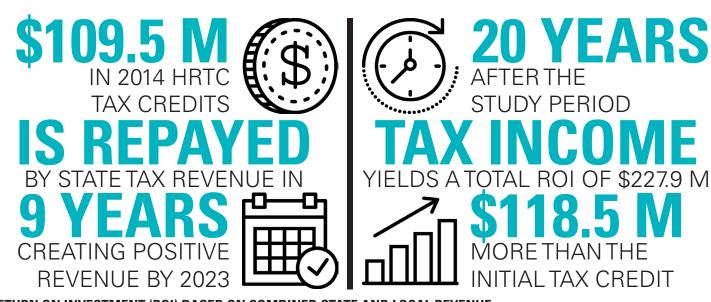
The Commonwealth achieves a positive return on historic tax credit spending—its net benefit is greater than its net cost—in 9 years considering the state revenues only. Table 2.40 presents the results of the ROI analysis for tax credits granted in the year 2014. The \$109 million in tax credits generated an estimated \$9.65 million in state tax revenue during the rehabilitation phase (all dollar figures are in 2017 dollars). The post-rehabilitation use of the buildings has been estimated to generate \$13.29 million in state taxes annually for the next 20 years. The negative 91 percent ROI in the first year suggests that the total state revenue from rehabilitation activities (\$9.65 million) accounts for about nine percent of the return on investment. The remaining 91 percent of the initial expenditure is recouped through revenue resulting from the use of the buildings over the next 8 years.

TABLE 2.40: RETURN ON INVESTMENT [ROI] BASED ON STATE TAX IMPACT

	YEAR	TAX CREDIT	REVENUE	NPV REVENUE	CUMULATIVE NPV REVENUE	ROI
1	2014	\$109,530,518	\$9,658,534	\$9,658,534	\$9,658,534	-91%
2	2015	-	\$13,291,611	\$13,095,183	\$22,753,717	-79%
3	2016	-	\$13,291,611	\$12,901,658	\$35,655,375	-67%
4	2017	-	\$13,291,611	\$12,710,993	\$48,366,368	-56%
5	2018	-	\$13,291,611	\$12,523,146	\$60,889,514	-44%
6	2019	-	\$13,291,611	\$12,338,075	\$73,227,588	-33%
7	2020	-	\$13,291,611	\$12,155,739	\$85,383,327	-22%
8	2021	-	\$13,291,611	\$11,976,097	\$97,359,424	-11%
9	2022	-	\$13,291,611	\$11,799,111	\$109,158,535	0%
10	2023	-	\$13,291,611	\$11,624,739	\$120,783,274	10%
11	2024	-	\$13,291,611	\$11,452,945	\$132,236,219	21%
12	2025	-	\$13,291,611	\$11,283,690	\$143,519,909	31%
13	2026	-	\$13,291,611	\$11,116,936	\$154,636,845	41%
14	2027	-	\$13,291,611	\$10,952,646	\$165,589,491	51%
15	2028	-	\$13,291,611	\$10,790,784	\$176,380,276	61%
16	2029	-	\$13,291,611	\$10,631,315	\$187,011,591	71%
17	2030	-	\$13,291,611	\$10,474,202	\$197,485,792	80%
18	2031	-	\$13,291,611	\$10,319,411	\$207,805,203	90%
19	2032	-	\$13,291,611	\$10,166,907	\$217,972,110	99%
20	2033	-	\$13,291,611	\$10,016,657	\$227,988,767	108%

## FIGURE 2.3: RETURN ON INVESTMENT [ROI] AT 1.5% AVERAGE DISCOUNT RATE BASED ON STATE TAX REVENUE





RETURN ON INVESTMENT (ROI) BASED ON COMBINED STATE AND LOCAL REVENUE

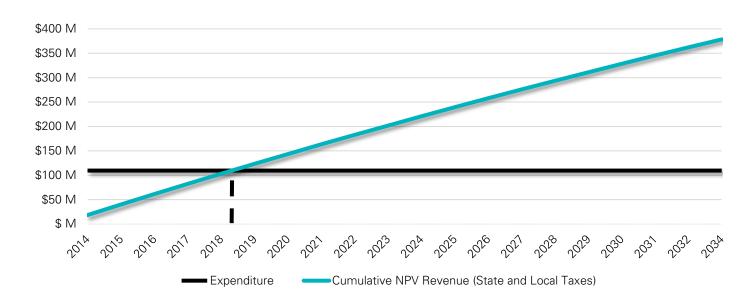
Rehabilitation of historic properties considerably increases their market values. In Virginia localities, real property is taxed at 100 percent of fair market value. Those taxes are collected by local governments, making localities some of the biggest beneficiaries of the tax credit program. As noted, about 48 percent of tax-credit-based revenue during the rehabilitation phase and 55 percent during the post-rehabilitation revenue is realized by the locality in which the project is located. The tax credit program creates a de facto transfer of funds from the state, which bears the cost of the program, to localities, which receive substantial benefits at little to no cost. However, some localities offer tax abatement programs as a complement to the state tax credit program. Those localities do not realize the real estate tax revenues until after the abatement period has passed.

If both state and local taxes are considered in the revenue estimation, the initial \$109 million expenditure in tax credits is recouped in less than six years. That's an average rate of return of 17 percent per annum. Over a twenty-year period, the program generates \$379 million in combined state and local taxes. At the end of the 20th year, this translates into \$3.45 in revenue for each \$1.00 spent in tax credits. The ROI output for the combined state and local revenues are presented in Table 2.41 and Figure 2.4 on the following page.

TABLE 2.41: RETURN ON INVESTMENT [ROI] BASED ON STATE AND LOCAL TAX IMPACT

	YEAR	TAX CREDIT	REVENUE	NPV REVENUE	CUMULATIVE NPV REVENUE	ROI
1	2014	\$ 109,530,518	\$18,574,140	\$18,574,140	\$18,574,140	-83%
2	2015	-	\$21,917,738	\$21,593,831	\$40,167,971	-63%
3	2016	-	\$21,917,738	\$21,274,710	\$61,442,680	-44%
4	2017	-	\$21,917,738	\$20,960,305	\$82,402,986	-25%
5	2018	-	\$21,917,738	\$20,650,547	\$103,053,533	-6%
6	2019	-	\$21,917,738	\$20,345,367	\$123,398,900	13%
7	2020	-	\$21,917,738	\$20,044,696	\$143,443,596	31%
8	2021	-	\$21,917,738	\$19,748,469	\$163,192,065	49%
9	2022	-	\$21,917,738	\$19,456,620	\$182,648,685	67%
10	2023	-	\$21,917,738	\$19,169,084	\$201,817,768	84%
11	2024	-	\$21,917,738	\$18,885,797	\$220,703,565	101 %
12	2025	-	\$21,917,738	\$18,606,696	\$239,310,261	118%
13	2026	-	\$21,917,738	\$18,331,720	\$257,641,981	135%
14	2027	-	\$21,917,738	\$18,060,808	\$275,702,790	152%
15	2028	-	\$21,917,738	\$17,793,900	\$293,496,689	168%
16	2029	-	\$21,917,738	\$17,530,936	\$311,027,625	184%
17	2030	-	\$21,917,738	\$17,271,858	\$328,299,483	200%
18	2031	-	\$21,917,738	\$17,016,609	\$345,316,092	215%
19	2032	-	\$21,917,738	\$16,765,132	\$362,081,223	231%
20	2033	-	\$21,917,738	\$16,517,371	\$378,598,595	246%

FIGURE 2.4: RETURN ON INVESTMENT [ROI] AT 1.5% AVERAGE DISCOUNT RATE BASED ON STATE AND LOCAL TAX REVENUE



# **CHAPTER 1.3: PROPERTY VALUE AND HALO EFFECT**

### **PROPERTY VALUE**

Any improvement in real property directly affects its market value. Rehabilitating a historic property requires significant investment, and the market values of rehabilitated buildings reflect that investment. The dollar-for-dollar value addition (that is, the increase in property value above the dollar value of the existing real property improvement) in historic properties is much higher compared to properties in general.

Virginia localities assess real property values at 100 percent of fair market value and collect real estate taxes based on those assessments. Effective true tax rates vary between localities—each city, county, and town government taxes real property at the rate of its choosing—making direct comparisons difficult. However, a proportional difference in revenues between successive years may indicate whether a locality's property values are improving compared to others.

In order to understand how rehabilitation impacts historic properties, CURA tracked the assessed values of historic tax credit projects completed and certified in 2014 across five years (2012 to 2016). Where 2012 and 2013 represent the period before rehabilitation, 2015 and 2016 represent the period after. CURA obtained the assessed value of each historic property from local assessors' records.

The average change in total local real estate tax revenues in the localities where those projects were completed provides a baseline against which the average change in historic property values—before and after rehabilitation—may be measured. Local tax revenue information for the years 2013 and 2016 was used to estimate the percentage increase in real estate tax revenues for selected Virginia localities.

The City of Richmond realized a 22.5 percent increase in real property revenue during this period, followed by city of Harrisonburg at 16 percent, Charlottesville and Norfolk at 11 percent, and Arlington County and the City of Alexandria at 12 percent and 14 percent, respectively. On the other hand, Danville had the lowest (0.7 percent) growth in property revenue followed by Roanoke and Lynchburg at around 2.5 percent. City of Hopewell had a modest 6.5 percent increase in property revenue between 2013 and 2016. These localities had an average aggregate revenue increase of 12 percent during this period. These increases in real property revenue reflect changes across the entire locality, not just historic rehabilitations.

The average assessed value of historically rehabilitated properties increased by 170 percent after completing rehabilitation in 2014. The average value per square foot increased by 166 percent. The annual assessed values shown in Table 3.1 demonstrate a clear impact. Average property values were derived from the two years before rehabilitation (2012 and 2013) and the two years after completion (2015 and 2016). The increase in historic property value is substantially higher than the 12 percent average increase in all property revenue in these localities.

Although some of the historic buildings may have been rehabilitated without tax credits, survey data suggests about 70 percent of rehabilitations and their consequent property value increases may be attributed to the state historic tax credit program. In a survey of historic tax credit recipients conducted by VCU's Wilder School, 54 percent of respondents said they would not have rehabilitated their property without the state incentive, and about 31 percent said they would have done less work without the incentive. Assuming that those 31 percent of respondents would reduce their project scopes of work by 50 percent, a fair equivalent would be stating that 15 percent (half of that 31 percent) would complete their original projects and 16 percent would complete no projects. Adding that 16 percent to the 54 percent of respondents who said they would not have rehabilitated

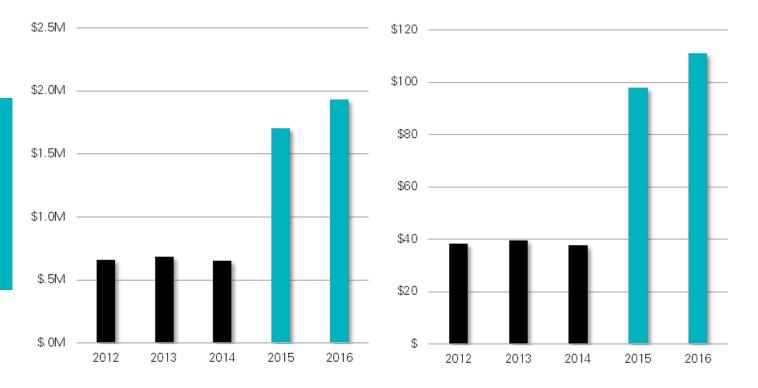
without state tax credits indicates that roughly 70 percent of all projects would not happen. In this regard, 70 percent of all historic rehabilitations and the resulting increases in property tax revenues may be attributed to the state historic tax credit program.

TABLE 3.1: ALL REHABILITATED PROPERTY TYPES EXCEPT TAX EXEMPT AND PUBLIC PROPERTIES

	2012	2013	2014	2015	2016	CHANGE PRE/ POST REHAB
Average Assessed Property Value	\$ 662,196	\$ 683,389	\$ 651,147	\$ 1,703,234	\$ 1,932,686	170.2%
Value Per Square Foot	\$ 38.50	\$ 39.73	\$ 37.85	\$ 97.81	\$ 110.99	166.9%

FIGURE 3.1: ASSESSED PROPERTY VALUE (PRIVATE PROPERTIES) 2012-2016

# FIGURE 3.2: PROPERTY VALUE PER SQUARE FEET (PRIVATE PROPERTIES) 2012-2016



# PROPERTY VALUE IMPACT BY BUILDING TYPOLOGY

Property value changes are not uniform across building uses. Historic building values pre- and post-rehabilitation increase at different rates for commercial, residential, and other uses. The "other" category in this analysis demonstrates the strongest average value per square foot change after rehabilitation, increasing by 399 percent (see Table 3.2). Many of the buildings in this category are public or institutional buildings: churches, libraries, museums, schools, and theatres. Most of the public buildings associated with rehabilitation projects are of state-level historic significance and boast superior architectural character. For example, the Altria Theater (formerly The Mosque and Landmark Theater) is an unmistakable architectural landmark in Richmond that would fall under the "other" label as it cannot be considered residential or strictly commercial. Similar landmarks such as the Old Norfolk City Hall, St. John's Episcopal Church and the Miller Center in Lynchburg, Cochran Library in Amherst, and the Birthplace of Country Music Cultural Heritage Center in Bristol that represent the histories and cultures of their respective localities. In many cases such significant institutional buildings are exempted from local property taxes and do not directly contribute to the local revenues; however, they contribute intangibly towards the image and identity of their locality and attract additional investment.

TABLE 3.2: PROPERTY VALUE PER SQUARE FOOT BEFORE AND AFTER REHABILITATION BY BUILDING TYPOLOGY

	BEFORE REHABILITATION	AFTER REHABILITATION	% CHANGE
Commercial	\$35.35	\$100.88	185%
Market Rate Rental	\$30.68	\$92.35	201%
Other	\$38.73	\$193.36	399%
Residential	\$102.52	\$152.23	48%

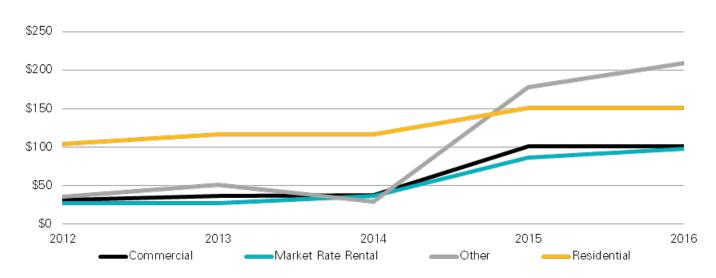
Market rate rental properties—usually multifamily structures—experienced substantial growth in value for an entirely different reason. The value per square foot for market rate rental properties increased by about 200 percent after rehabilitation. Almost half (78 out of 158) of rehabilitation projects completed and certified in 2014 belonged to this category. Market rate rental properties are mostly conversions of disused industrial warehouses, unused factories, old hospitals, and rental residential buildings that have fairly low property assessments prior to rehabilitation. The Clark & Co. Plug Tobacco Warehouse in Bedford, Pemberton and Penn Tobacco Warehouse in Danville, Cassco Ice Plant in downtown Harrisonburg, and Larkin's Hotel in Hopewell are some of the notable examples of market rate rental projects completed with historic tax credits.

Historic buildings rehabilitated for commercial use have demonstrated strong property value growth. Commercial buildings show a 185 percent increase in their average assessed value per square foot between pre- and post-rehabilitation periods. Out of about 90,000 square feet of rehabilitated commercial space certified in the year 2014, 27 percent (or 25,000 square feet) has been converted from unused vacant buildings and parking garages—structures with negligible assessment values prior to rehabilitation.

Residential buildings—generally single-family homes—rehabilitated and certified in 2014 experienced a 48 percent increase in their assessed value per square foot after rehabilitation. Although this rate of increase is lower than other historic properties, it is still about four times the average rate of 12 percent in the selected localities. Out of 56 residential properties completed in 2014, 41 percent were developed for sale and 59 percent were rehabilitated by owners. The aggregate assessed value per square foot for properties developed for sale increased by 87 percent pre- and post- rehabilitation. Owner-based projects showed a modest 35 percent gain.

Figure 3.3 shows the overall trend of property value per square foot for the selected building typologies. The assessed values are corrected for inflation and measured with reference to 2016 dollars.

#### FIGURE 3.3: PROPERTY VALUE PER SQUARE FEET BY BUILDING TYPOLOGY TREND [2012-2016]



Note: "Other" Includes Artist's Studio, Community Center, Church, Library, Museum, School, and Theater

Virginia's historic tax credit program is an example of public-private partnership in practice. The program encourages property owners and developers to invest private money in historic property improvement, which not only benefits the investors but also allows the local and state governments to gain direct and indirect benefits. One of the direct benefits of historic property improvement goes to local governments in the form of increased real estate tax revenue. Localities and the neighborhoods also benefit from the improvement as the buildings are converted from deteriorated and disused shells into functional and vibrant spaces. If left to market forces alone, an estimated 70 percent of these properties would likely remain un-rehabilitated. The result would be significant forgone real estate tax revenues. In theory, the market would have responded to the demands for commercial and residential spaces by developing new buildings. However, from a property value perspective, historic buildings experience substantial improvements relative to local averages

### PROPERTY VALUE HALO EFFECT

Real property improvements have impacts that extend beyond the boundaries of a single parcel. When a parcel of land is improved through public or private spending, the surrounding parcels benefit from economic spillover effects. The manner in which the impact of that spending spreads out in all directions resembles a halo surrounding the property.

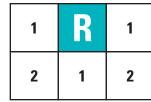
Historic rehabilitation lends itself to halo effects. Historic properties represent fixed assets. Improvements on these assets—bringing them back into use—will increase demand for services and spaces around them. For example, if a newly rehabilitated building were used as offices or retail shops, new complementary businesses may seek to locate near those activities, thus increasing the demand for retail and office space nearby. Similarly, historic buildings rehabilitated for residential use may improve the overall architectural quality of a location, which affects the residential demand in nearby buildings. Increases in real estate demand and desirability increase the property values of not just the improved historic structure but also those surrounding it.

To examine the phenomenon quantitatively, we randomly sampled historic rehabilitation projects completed in 2014 in four different locations: Danville, Lynchburg, Petersburg, and Richmond. Neighboring properties selected for the halo effect analysis had one of four relationships with the selected rehabilitated building.

- 1 = Structures immediately adjacent to a rehabilitated historic building
- 2 = Structures diagonally adjacent
- 3 = Structures immediately across the street
- 4 = Structure diagonally across the street

4 3 4

ACCESS ROAD



The diagram to the right demonstrates these relationships:

Properties adjacent to the selected rehabilitated buildings up to a radius of 200 feet were identified and their assessment values in the years 2013 and 2016 were collected from local assessment records. To remove any potentially spurious effects in the calculations, publicly available local parcel data and building permit information were

used to determine if adjacent properties had undergone any improvements between 2012 and 2016. For comparison, area-wide five-year changes in sales value in the respective locations were also obtained. The results are presented in Table 3.3.

TABLE 3.3: AGGREGATE DIFFERENCES IN ASSESSED VALUES FOR PROPERTIES IN IMMEDIATE PROXIMITY TO SELECTED REHABILITATED HISTORIC BUILDINGS

CITY	NEIGHBORS WITHIN 200 FEET	2013 TOTAL VALUE* (2016 DOLLARS)	2016 TOTAL VALUE*	2013-2016 CHANGE	MEDIAN SALES VALUE CHANGE FOR LOCALITY** 2013-2016
Danville	4	\$7,632,197	\$7,913,500	3.7%	-0.1%
Lynchburg	4	\$163,770	\$182,700	11.5%	2.9%
Petersburg	1	\$1,734,200	\$1,794,200	3.5%	4.1%
Richmond	2	\$777,650	\$869,000	11.7%	4.1%

<sup>\*</sup> Obtained from Tax Assessor's records from the respective local governments

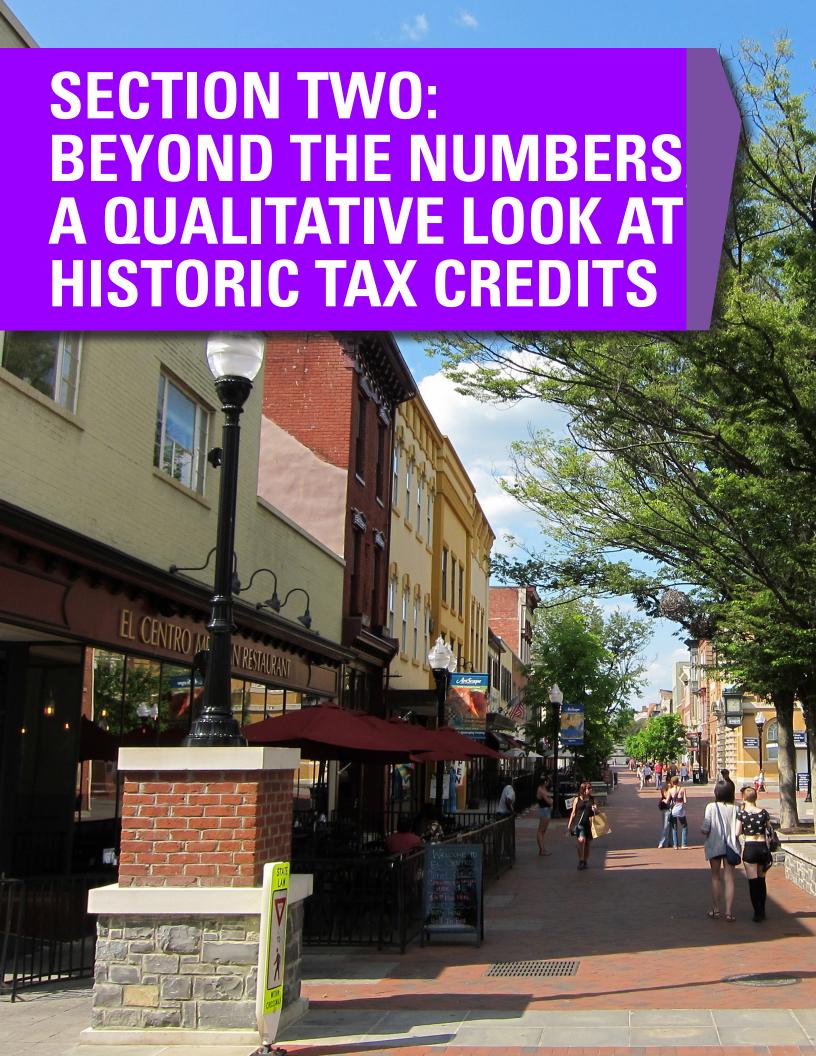
Three out of the four historic properties selected for evaluation showed considerable positive effects on the values of neighboring properties. In Danville, the aggregate difference in the values of properties adjacent to the selected historic rehabilitation project showed an increase of 3.7 percent, compared to virtually stagnant area-wide property sale prices over the selected period. Similar halo effects can be seen in Lynchburg and Richmond where neighboring properties experienced increases in assessed values greater than 11 percent.



<sup>\*\*</sup> Obtained from Zillow Home Prices and Values Index

The area-wide average increase in sale prices in Lynchburg is about three percent and in Richmond about four percent. The property adjacent to the selected historic rehabilitation project in Petersburg experienced a change in assessment value consistent with the area-wide change in average sale price.

Sample data may not be sufficient to make an argument for causality. However, the escalation in value of neighboring properties appears somehow related to the rehabilitation of historic properties. This value addition to neighboring properties also contributes to increases in real property tax revenues for the local governments.





The first section of this report has examined the quantitative economic impact of the Historic Rehabilitation Tax Credit program during the rehabilitation phase as well as after. This section examines exactly how those impacts play out—often in ways that aren't captured by mere numbers. CURA conducted focus groups and interviews with users of tax credits (developers, tax credit consultants, architects, etc.), local government officials, and professionals involved in the tax credit syndication process (bankers, syndicators, attorneys, etc.). Focus groups were held in four Virginia cities: Lynchburg, Petersburg, Richmond, and Suffolk. Those focus groups and interviewees provided insight into broad themes of tax credit use, policy alternatives, and the difference in tax credit usage between urban and rural communities.

Each group and interviewee was asked to discuss the role tax credits play in their projects and their communities and to consider how each might be impacted by hypothetical changes in the program. Observations from participants provided unique insights into the ways in which the tax credit program achieves its goal of preservation of historic buildings. The focus groups also presented an opportunity to understand the tax credit program in a changing economic and political landscape. What emerged was a deeper understanding of the program's role in community revitalization (through investor risk reduction, gap financing, demand creation, and development densification) and market stabilization. CURA also gained insights into how the program's reach continues to evolve and adapt to changing market conditions—the supply of and demand for historic buildings is not static. Participants also discussed the impacts of policy uncertainty surrounding the tax credit program and the hypothetical impacts of policy alternatives. And finally, CURA investigated the differences between urban and rural markets and the applicability of tax credits to both.

This section of the report is organized into three chapters:

- 1. Thematic Findings: The volume of focus groups and interviews allowed CURA to identify several broad themes of tax credit usage and development.
  - a. HRTC as a tool for revitalization of economically distressed areas
  - b. HRTC trends in saturated markets
  - c. Program stability and predictability
  - d. Geographic distribution of tax credits
- 2. Urban and rural as well as other economic differences in tax credit development: CURA conducted additional analysis in order to address a larger question of how state funds benefit the Commonwealth's variety of counties and cities. Legislators have questioned whether tax credits disproportionately flow towards urban areas rather than rural areas. CURA mapped the distribution of projects and tax credits over time to understand why more projects happen in some places than others and whether that pattern is static or changing.

## **CHAPTER 2.1: THEMATIC FINDINGS**

Throughout focus group discussions and interviews, CURA identified a number of common themes regarding the historic tax credit program beyond those described in previous reports.

#### HRTC AS A TOOL FOR REVITALIZATION OF ECONOMICALLY DISTRESSED AREAS

Repeatedly, focus group participants described the impacts of tax credit projects in terms of community transformation—shared prosperity catalyzed by tax credit development. Tax credit projects in historic downtowns frequently warehouse lofts but also commercial spaces like theaters or institutional spaces like government offices—turned vacant and blighted blocks and neighborhoods into hubs of activity. Tax credits allow for development in otherwise difficult or distressed areas in the following ways:

**RISK REDUCTION:** Tax credits reduce the risk of developers deciding whether to invest in distressed neighborhoods. These neighborhoods and projects may have less certain returns for project investors, and tax credit-based equity allows those investors to move forward without investing at a level they feel disproportionate to the potential returns.

- There was very much a "you don't go down that road" attitude. [Tax credit developers here] had the pioneer mentality, and they would see [potential that] others don't. [Tax credits] allow them [developers] to take risks that normally would not be taken.
- Historic buildings are bringing people downtown, but they're unproven markets, and that means I'm taking a risk. As communities mature, it becomes less uncertain; real estate values increase; it costs more to acquire a building. If you're taking a risk, I have to argue you can't get as much loan dollars. Tax credit equity comes from investor members and brings our [developers'] exposure down to where it's comfortable for all parties.
- Banks are totally risk averse. They don't want risk...You [developers] get dinged in 3 ways [in smaller markets]: expenses, LTV [loan-to-value ratio], and cap rate [capitalization rate]. So the tax credits offset those things. If you incentivize small town development with these credits, it makes it a successful program.
- One of the things about historic tax credits was that it kept us alive during the economic downturn as architects. From 2008 to 2012, when the first RFPs starting coming back out for municipalities, projects with tax credits associated had enough meat to the funding package they continued moving through the financing process.
- New construction is more expensive dollar-wise upfront. It's a huge outlay. For smaller developers, coming up with a large amount of cash upfront is more difficult. A loan is easier to get with less upfront cash using tax credits.

**RENT GAP FINANCING:** Tax credits make projects feasible in places where rents are significantly lower than private financing of a project would dictate. Although this is related to risk, we are considering it separately as the gap covered by tax credits between an area's rents and financing needs were mentioned frequently in discussion.

- The reality is...once you reach a certain rent threshold...you don't need the credits to make it work because the rent is high enough. That's just a math problem.
- If everyone is demanding lofts and a private developer wanted to take that on [without historic tax credits], you're talking about a 35% bump in the rent levels in that building in order to pay the debt service, which puts rents way above market...it would be a \$1,000 per month rent [with

tax credits] versus \$1,400 or \$1,500 per month rent [without tax credits], and you're not going to keep that building occupied [at the higher rent].

**DEVELOPMENT PHASES (WAVES):** Developments in many, but not all, cases have happened in waves. The first wave in a community creates multifamily residential units, often through the rehabilitation and preservation of large warehouses. The attraction of tenants to unique, market rate units creates greater demand in the neighborhood for commercial and office space. Those uses often follow the initial wave of residential development. This process of demand-creation and supply-attraction allows for successful community revitalization by leveraging basic market dynamics in stages.



- Our tax credit [development] types seem to come in waves. We have waves of multifamily, then
  theatres like [the] Altria [Theater in Richmond]. The current wave has been boutique hotels. They
  have been game changers and real generators of economic impact; [for example], Quirk Hotel [in
  Richmond], the Royster Hotel in downtown Norfolk, the Bristol hotel in Bristol.
- It's a timing thing. You need more retail-commercial with more people [residential].
- From 2008 to 2011, tax credits were 100% residential [in a Richmond city neighborhood]. Now it's 50 [percent] or less...mostly office space.
- There was early emphasis on residential [development] to attract commercial. We're still in that phase [in our community].
- Over the last five to seven or ten years, it has been multifamily followed by retail-slash-office. The recent projects that we've been working on have been multi-use buildings with frontage on prominent right-of-ways. We try to encourage commercial on right-of-ways. In years past there has been a lot of single-family housing [development] but most recently it's multi-family [development]. The recession played a role in that switch.

**DEVELOPMENT CLUSTERING, DENSIFICATION, AND/OR SPRAWL PREVENTION:** Clustering development around an anchor project serves as an alternative to the lifecycle of residential developments creating demand for commercial and office space described earlier. Historic projects beget historic projects, and activity attracts activity. A single successful development—converting a vacant, dilapidated space into a historic and vibrant center of activity—is likely to attract other developers and investors. As developments cluster around each other, neighborhoods reach a critical mass of demand, supply, and workforce that increases property values. Historic tax credits encourage this process in historic neighborhoods and structures that are often built at a pedestrian scale and walkable density. Tax credits also discourage or prevent sprawl by taking existing buildings and the infrastructure built around them and putting them back into service (as opposed to greenfield or new construction).

 Getting anchors in place was important [for us]: the children's museum, [Riverview] Artspace, and the Academy [Center of the Arts] were first in Lynchburg. We've told Danville, when a municipality makes a key investment in its downtown, the developers will come. We were bringing in developers from all over the place to Lynchburg, but the city made the initial investment...not the residential driver, but the initial downtown investment in key anchor buildings.

- The tax credit program is a catalyst to get the first person in, then [development] starts to spread. Tax credits are the catalyst to make that happen. In [Virginia city], we were the first [developers] in [the market]. We bought a building for \$135,000. People thought we were crazy. We used historic tax credits to provide equity [for financing]; next thing you know we're doing other projects in the city, and other people are doing other projects in the city.
- Lynchburg is a story of private investment following public investment. [The] early adopters became anchors, including the City. [The City's] human services building moved smack dab in the middle of downtown. [The human services building] brought 200 employees [and] proved to the community that downtown will work.
- Tax credits inhibit sprawl. No community is prepared to draw a line [beyond which growth is discouraged], but tax credits can inhibit sprawl. We [developers] don't have to provide parking, infrastructure, etc. Those buildings are located in places with years of investment in them.
- We have this [existing] infrastructure in downtowns, and [the tax credit program] furthers the goal of keeping density where that infrastructure exists, [but] we keep building extra infrastructure instead of using what we have already. This [tax credit program] is what turns the proforma around and makes it work for us, [the municipality]. But it may not be as cheap and sexy as starting a new town center somewhere.

**MARKET STABILIZATION:** Post-rehab, tax credit conversions of warehouse space or other historic buildings into multifamily residential units served market rate and affordable housing needs at a time when demand for rental units began to rise sharply. Developers noted that tax credits allowed for the construction of units that would cost \$1,200 to \$1,400 per month if privately financed. With tax credits, those same units could be built and rented in markets with typical rents of \$1,000 per month. The equity provided by tax credits allows for development of market rate housing in places with rents that would typically make that difficult. Associated increases in property values ultimately support local governments' tax revenues.

- There's no way we could finance [residential projects] without tax credits. [Tax credits are] the engine of building apartments and doing business. Without them, we'd be in [redacted] County like everyone else.
- We see ten-fold increases in assessments routinely. The surrounding area increases [in value] as well. It's good for localities. It's a vibrant area that was nothing [before rehabilitation]. Storefronts are occupied now where there were none before.
- In the downtown residential market, they [potential tenants] all want exposed brick and beams. If the choice is between living in old and new apartments, they choose the old apartments with an identity and a history. Residential adaptive reuse is more attractive, specifically to younger people.
- If you invest money in a person, that person can leave [the community]. Invest in the community and you draw people and private dollars into the community; you put that property back on [the] tax rolls.
- I don't think we have a perception that [our community is] dangerous [anymore]. Now we just have parking issues.

As historic neighborhoods and districts experience revitalization, property values and rents rise, making privately financed development more feasible and tax credit development less necessary. Devel-

opers find themselves in a stabilized market where the role of tax credits has shifted from necessary to highly profitable. Developers who are comfortable with additional risk and who place significant value on transforming neighborhoods continue to seek out new markets for historic rehabilitation: those in which low rents may be offset by historic tax credits.

- Every single project we did in Suffolk [required historic tax credits]. People look at Richmond and say, 'Richmond is making good use of this!' But, the rents are high enough and the land value is high enough that some projects could be done without [historic tax credits]. But in Suffolk... without the program, [projects] would be impossible.
- Once you reach a certain rent threshold, fat cat or no, you don't need the credits to make [a project] work because the rent is high enough [to secure financing]. That's just a math problem. That's why I'm not in Richmond: I saw the prices climbing in Richmond...but I saw value in [a secondary market]; so I became the only one [in that secondary market] because [other developers] don't see a market [there]. What I do to offset that risk is use [tax] credits.

#### TAX CREDITS IN SATURATED MARKETS

As the supply of historic buildings shrinks in primary markets such as Richmond, some developers are looking to secondary and tertiary markets such as Suffolk or Danville.

- Lynchburg is saturated now. Some [historic] buildings are left, but most of the [historic] stock has been renovated. 99 percent [of renovations] has benefitted from the tax credit process. Now we're working in Danville. We see Danville as being about 10 years behind Lynchburg. We're working on projects stretching into far Southwest Virginia. You'll start seeing more smaller communities [with tax credit development] as they become educated about the program.
- Supply and demand is driving a lot of us [developers] away [from major markets]—there is a lot of demand and low supply. The historic building supply is going down. Richmond is done...Roanoke is having a heyday, but without the [historic tax] credits I wouldn't think about it [for development]. Suffolk may be on the radar next. Maybe Culpepper.
- There's limited [historic building] stock in Richmond today, but there's still plenty throughout the state. The greatest example we have is Danville: one entire side of the [Dan] River is historic warehouses.

#### TAX CREDIT PROGRAM STABILITY/PREDICTABILITY

Developers, bankers, and syndicators all said that current concerns about the future of the program have already had impacts. Specifically, discussions of changing, reducing, or eliminating the historic tax credit program have created uncertainty about the lifespan of the program. That uncertainty, bankers and developers suggest, has led to instability in financing and some level of hesitation. Some developers are only taking on projects that can be completed within a two-year window. Other macro-level uncertainty includes federal tax reform. The prospect of broadly lower tax burdens on major individuals and corporations may make tax credits less valuable as a financing tool. A syndicator suggested his organization has been backing away from historic tax credit projects that don't have other public funding mechanisms attached due to the uncertainty of tax reform. Financers and lenders need long-term stability/predictability of funding sources to underwrite loans.

- The continued annual uncertainty at the [legislative] level is having an impact on large phased projects. We will not do any [projects] right now unless we can start and finish in 24 months.
- Stability would be [our] number one [wish]. There seems to be a reputation that the program is
  continually under attack. I think one of the ways that I view it is as a real estate component. We
  need product. Not everyone can take the risk or see the vision of [a historic building] that hasn't



seen any love or money in a long time. Some people can. [The historic tax credit program] allows a bank to partner with them when that would [otherwise] be a challenge. It creates a team where one couldn't be before. Rehabilitation is multigenerational. An upstart may not be able to have a new space, but if you have the vision and team to bring a rehabilitated space to fruition, it would be ideal. It's multi-generational because there is change in the structure.

The most recent threat to the tax credit program came up during this general assembly [session] as [a developer] was about to go through with [a project], and [the developer] backed out of the deal. It would have created 300 units. With the program being backed down or done away with completely, [the developer] was afraid that they couldn't create a multi-phase development without the [tax credit] funding. That was pretty close. They backed away from it. [The building] is currently on the market, and most of the developers we talk to really want to know what the future holds here before they take a risk on it.

# CHAPTER 2.2: THE USE OF TAX CREDITS IN URBAN AND RURAL VIRGINIA

A primary objective of the Virginia Historic Rehabilitation Tax Credit program is to encourage private investment in the rehabilitation of historic properties. Some markets attract investment in different ways—and at different rates—than others. In particular, urban and rural markets demonstrate different market trends and, subsequently, different rates of historic tax credit use. This analysis investigates those differences to determine how and why tax credits flow towards some markets and not others. The following observations about the HRTC program should be kept in mind throughout the analysis:

- 1. The tax credit program naturally works best to offset the cost of rehabilitation where property markets are relatively weak. Weaker markets often correlate with economically distressed localities—mostly older urban centers that have experienced disinvestment and population loss.
- 2. Rural areas, as well, generally experience weak economies, disinvestment, and population loss. Despite some encouraging data from 2014, historic tax credits seem to be less effective in rural areas because of a limited professional and financial services infrastructure and a lack of large scale projects sufficient to make the transaction cost of federal tax credits worthwhile.
- 3. Virginia's historic tax credit program reimburses 25 percent of eligible rehabilitation expenses. The remaining 75 percent and all non-eligible costs are borne by the outside investors. This means that the investment is more likely to go into places where the initial cost of acquiring property is relatively low and the expected post-rehab returns—in terms of sale price or rental value—is high. Rehabilitations financed by debt require rents sufficient to cover monthly payments.
- 4. The availability of historic building stock is another factor that affects historic tax credit use. Urban areas are more likely to have significant historic building stock that qualifies for tax credits compared to rural areas.
- 5. Tax credit development has unsurprisingly clustered around urban areas. However, in theory, more historic properties in rural areas with sound property markets can be expected to be sought for rehabilitation as the historic rehabilitation opportunities in urban areas decreases.

This section will explore the proportion of tax credits distributed to urban and rural localities by comparing tax credit amounts with the proportion of population and historic building stock in urban and rural localities. Additionally, relationships between the economic conditions of the localities and usage of historic tax credits are examined.

Tables 5.1 and 5.2 present the number of tax credit projects and the aggregate tax credit amounts claimed by these projects by percent in urban and rural localities for the years 2010 through 2014. During this period, 94 percent of the rehabilitation tax credits were used in urban areas and the remaining 6 percent in rural areas. The 2014 percentage distribution varies less than two percentage points from the five-year average, and 2014 may be considered as a typical year for the purpose of this study.

Not all cities and localities classified as "urban" have the same characteristics. Urban and rural classification is based on the census definition of relative rurality which considers for various factors including population size and density, land use, and proximity to urbanized areas. "Urban" areas, according to the Census definition, also include a number of Virginia's smaller cities with dense populations that may be surrounded by predominantly rural areas. For example, Lexington, with an estimated 2016 population of 7,045, is considered urban, while surrounding Rockbridge County, with an estimated 2016 population of 22,392, is considered rural.

TABLE 5.1: TAX CREDIT URBAN/RURAL SHARE BY PROJECT COUNT [2010-2014]

URBAN/RURAL	2010	2011	2012	2013	2014	TOTAL (2010-2014)
Rural Projects	10.7%	7.8%	4.4%	8.2%	8.1%	8.0%
Urban Projects	89.3%	92.2%	95.6%	91.8%	91.9%	92.0%
All Projects	159	141	135	158	160	753

TABLE 5.2: TAX CREDIT URBAN/RURAL SHARE BY CREDIT AMOUNT [2010-2014]

URBAN/RURAL	2010	2011	2012	2013	2014	TOTAL (2010-2014)
Tax Credits in Rural Areas (%)	12.3%	5.3%	2.0%	8.3%	4.3%	6.1%
Tax Credits in Urban Areas (%)	87.7%	94.7%	98.0%	91.7%	95.7%	93.9%

#### TAX CREDITS PER CAPITA BY RURAL OR URBAN AREAS IN 2014

Table 5.3 on the following page presents per capita tax credits for all localities receiving historic tax credits in 2014. Three of the ten highest tax credit per capita localities are rural. Similarly, five of the bottom ten per capita localities in 2014 are classified as being urban. For example, the city of Danville and the towns of Rocky Mount and Wytheville received substantially more tax credits per capita in 2014 than the median per capita credit in that year. Other rural localities, such as the towns of Abingdon, Bedford, Farmville, and Glade Spring, received the fewest tax credits per capita. Urban localities in the Commonwealth also have a similar distribution of tax credits in 2014. Richmond and Charlottesville received the most tax credits per capita and northern Virginia localities Arlington and Alexandria received the fewest. The data trend for 2010 to 2014 and the distribution across localities in the year 2014 suggest that urban and rural designations of localities do not impact their ability to utilize historic tax credits.

TABLE 5.3: TAX CREDITS PER CAPITA BY LOCALITIES [2014]

LOCALITY	PERCENT TOTAL TAX CREDITS 2014	TAX CREDITS PER CAPITA 2014	URBAN/RURAL
Lexington	5.8%	\$901.59	Urban
Charlottesville	10.6%	\$261.53	Urban
Richmond	47.2%	\$246.45	Urban
Bristol	2.8%	\$176.92	Urban
Rocky Mount	0.7%	\$161.95	Rural
Wytheville	1.0%	\$133.57	Rural
Petersburg	2.5%	\$84.57	Urban
Danville	3.2%	\$83.10	Rural
Lynchburg	5.2%	\$73.18	Urban
Winchester	1.5%	\$62.36	Urban
Roanoke	4.4%	\$49.45	Urban
Harrisonburg	2.2%	\$48.64	Urban
Hopewell	0.9%	\$42.81	Urban
Norfolk	8.5%	\$38.17	Urban
Amherst	0.9%	\$31.49	Rural
Mathews	0.2%	\$20.71	Rural
Marion	0.1%	\$18.48	Rural
Ashland	0.1%	\$11.47	Urban
Bedford	0.7%	\$10.77	Rural
Farmville	0.1%	\$9.52	Rural
Abingdon	0.1%	\$9.11	Rural
Staunton	0.2%	\$8.39	Urban
Fredericksburg	0.2%	\$7.14	Urban
Glade Spring	0.0%	\$3.62	Rural
Alexandria	0.2%	\$1.70	Urban
Arlington	0.2%	\$0.75	Urban
OVERALL MEDIAN		\$40.49	
URBAN MEDIAN		\$49.05	URBAN
RURAL MEDIAN		\$19.59	RURAL

#### TAX CREDITS BY TYPOLOGY BY URBAN OR RURAL AREAS IN 2014

About 95 percent of the total tax credits in 2014 went to urban areas, whereas the remaining 5 percent went to rural localities. The type of properties that claimed the most tax credits in urban and rural areas are different in nature. More than half of the total tax credits in urban areas in 2014 went towards rehabilitation of market rate rental properties (see Table 5.4). More than a third went towards non-market or institutional buildings such as public libraries, museums, schools, and churches. Only about 2.5 percent of tax credits were claimed for residential rehabilitation. Single-family units, offices, commercial buildings, and hotels used the smallest share of



tax credits in urban areas.

In rural localities, market rate rental housing claimed about a quarter of tax credits, as did hotels and bed and breakfast establishments. Commercial and office buildings used 18.6 percent of rural tax credits. Similar to urban areas, single family homes in rural localities used the smallest share of historic tax credits.

The distribution of project typologies in urban and rural areas are consistent with the concept of development waves suggested during the focus group discussions. Urban areas are using the tax credit dollars to develop market rate rentals - the majority of which involve redevelopment of industrial warehouses. Also, a majority of such development is taking place in the so called "secondary market" cities such as Lexington, Bristol, and Lynchburg compared to the larger localities such as Arlington, Alexandria, and Richmond. On the other hand, rural areas are distributing their share of tax credits almost equally among rental properties, hotels, and commercial spaces. Most urban areas have a competitive market for commercial development. However, rural areas, where the market to support commercial redevelopment is weaker, are increasingly using tax credits for rehabilitation.

TABLE 5.4: TAX CREDITS BY BUILDING TYPOLOGY IN URBAN AND RURAL AREAS [2014]

DESCRIPTION	TAX CREDITS 2014 [\$]	PERCENT TAX CREDITS	REHABILITATED AREA (SQ.FT.)
URBAN AREA TOTAL			
Rental - Market Rate	\$56,092,439.35	33.3%	115,000
Other	\$36,362,456.75	35.8%	697,020
Rental- Low and Medium Income	\$4,085,143.82	4.0%	157,520
Rental- Low and Medium Income	\$4,085,143.82	4.5%	157,520
Residential - Owner Occupied	\$1,715,944.99	1.7%	79,563
Hotel/Bed and Breakfast	\$983,187.40	1.0%	14,755
Residential - For Sale	\$732,913.57	0.7%	49,770
AVERAGE PER PROJECT (URBAN)	\$699,817.77		
RURAL AREA TOTAL			
Rental- Market Rate	\$1,147,257.84	25.0%	57,016
Hotel / B&B	\$1,123,834.00	24.5%	24,541
Other	\$985,210.75	21.5%	40,700
Office/Commercial	\$852,082.25	18.6%	23,029
Residential – Owner Occupied	\$472,700.55	10.3%	13,845
Rental – Low and Medium Income	\$6,242.01	.01%	650
AVERAGE PER PROJECT (RURAL)	\$352,871.33		

#### TAX CREDITS COMPARED TO STATE REVENUES COLLECTED FROM URBAN AND RURAL LOCALITIES

One of the objectives of comparing usage of tax credits among urban and rural localities is to explore the equitable distribution of the tax benefits provided by the state. From an equity perspective, Virginia residents should benefit from HRTC policy regardless of urbanity or rurality. However, from a rational economic perspective, urban and rural areas are not created equally. Market forces work differently in these areas to attract the private investment needed to utilize the historic tax credit program. In any policy involving a public-private partnership, the role of the government must be active enough to steer the program towards its intended objective but sufficiently passive enough to encourage voluntary participation by private investors making rational economic decisions. On one hand, the market conditions of localities are likely to influence the magnitude of historic rehabilitation and tax credit usage. On the other hand, some localities might be receiving a disproportionately higher share of the benefits.

Table 5.5 examines the relationship between historic tax credits and state tax revenue collected for 2014. Personal and corporate income taxes and sales taxes constitute the bulk of tax revenues going to the state's coffers from localities. Also included are communication taxes, gasoline taxes, and deed fees. The ratio of tax credits to state tax revenue represents the share of tax credits going into a locality compared to the revenue it generates for the Commonwealth. The ratio is expressed in terms of percentage, where anything upwards of 100 percent suggests that the locality is receiving more in tax credits than the revenue it is generating for the state.

**TABLE 5.5: TAX CREDITS AND STATE REVENUES** 

LOCALITY	RATIO OF TAX CREDIT TO STATE TAX REVENUE EXPRESSED IN PERCENTAGE	PERCENT TOTAL TAX CREDITS 2014	URBAN/RURAL
Rocky Mount	382.4%	0.7%	Rural
Lexington	93.6%	5.8%	Urban
Marion	81.0%	0.1%	Rural
Ashland	29.4%	0.1%	Urban
Glade Spring	21.5%	0.0%	Rural
Charlottesville	18.5%	10.6%	Urban
Richmond	17.4%	47.2%	Urban
Bristol	16.5%	2.8%	Urban
Farmville	14.6%	0.1%	Rural
Petersburg	12.7%	2.5%	Urban
Danville	9.5%	3.2%	Rural
Harrisonburg	8.5%	2.2%	Urban
Lynchburg	7.9%	5.2%	Urban
Hopewell	5.9%	0.9%	Urban
Winchester	5.0%	1.5%	Urban
Roanoke	4.9%	4.4%	Urban
Bedford	4.8%	0.7%	Rural
Wytheville	4.6%	1.0%	Rural
Norfolk	4.4%	8.5%	Urban
Amherst	3.7%	0.9%	Rural
Mathews	1.8%	0.2%	Rural
Staunton	0.9%	0.2%	Urban
Fredericksburg	0.5%	0.2%	Urban
Alexandria	0.1%	0.2%	Urban
Arlington	0.02%	0.2%	Urban

State Revenue = Four revenue categories included in this calculation. 1. Income tax liability, 2. State's share of the sales tax, 3. Recordation Tax and Deed of Conveyance, 4. Communications Tax.

Source: Virginia Department of Taxation Annual Report downloaded from https://www.tax.virginia.gov/annual-reports



#### TAX CREDITS AND THE HISTORIC BUILDING STOCK

Localities with more historic buildings have a higher probability of seeing those buildings rehabilitated, thus explaining higher usage of historic tax credits by those localities. Table 5.6 on the following page explores the relationship between existing stock of historic buildings—in this analysis defined as buildings constructed prior to 1960—and the usage of tax credits in the year 2014. The ten localities with the highest number of historic buildings used about 82.5 percent of all tax credits during that year. Eight out of the ten localities with the largest historic building stocks are urban. Similarly, six out of ten localities with the lowest number of historic buildings are classified as rural. The ten localities with the smallest historic stocks used about eight percent of the total historic tax credits during 2014. Some of the important outliers in the table are the cities of Lexington and Danville, both of which have substantially higher percentages (59 percent and 49 percent respectively) of historic buildings compared to other rural counterparts. Together they claimed about nine percent of total historic tax credits in 2014.

In 2014, localities with higher percentages of buildings 50 years or older tended to use more tax credits. However, some rural localities with greater historic stocks have utilized tax credits more than other rural areas. Similarly, larger urban areas such as Norfolk, Arlington, and Alexandria (except the City of Richmond) have not significantly utilized tax credits despite having a large stock of historic buildings. The relationship between tax credit usage and the economic characteristics of the localities receiving tax credits appears important. For example, high property values in northern Virginia may contribute to the lower number of projects because it is more expensive to meet the spending thresholds required for participation in the program.

TABLE 5.6: TAX CREDITS RELATIVE TO HISTORIC BUILDING STOCK [2014]

LOCALITY	HISTORIC STOCK 2014	PERCENT HISTORIC STOCK 2014	PERCENT TAX CREDITS 2014	URBAN/RURAL
Richmond	57,648	58.2%	47.2%	Urban
Norfolk	45,257	47.3%	8.5%	Urban
Arlington	42,747	39.6%	0.2%	Urban
Roanoke	25,564	54.0%	4.4%	Urban
Alexandria	22,847	31.1%	0.2%	Urban
Lynchburg	13,283	41.3%	5.2%	Urban
Danville	11,102	49.6%	3.2%	Rural
Charlottesville	8,300	42.3%	10.6%	Urban
Petersburg	6,682	40.6%	2.5%	Urban
Bedford	5,554	15.7%	0.7%	Rural
Staunton	5,208	44.4%	0.2%	Urban
Winchester	4,704	39.5%	1.5%	Urban
Wythe County	3,937	27.8%	1.0%	Rural
Bristol	3,601	40.8%	2.8%	Urban
Hopewell	3,550	34.9%	0.9%	Urban
Harrisonburg	3,379	19.0%	2.2%	Urban
Amherst	3,207	22.8%	0.9%	Rural
Fredericksburg	3,059	27.7%	0.2%	Urban
Mathews	1,959	34.4%	0.2%	Rural
Marion	1,311	44.7%	0.1%	Rural
Rocky Mount	1,220	47.3%	0.7%	Rural
Lexington	1,153	59.3%	5.8%	Urban
Abingdon	1,144	26.7%	0.1%	Urban
Farmville	1,013	34.3%	0.1%	Rural
Ashland	799	28.1%	0.1%	Urban
Glade Spring	323	47.2%	0.0%	Rural
OVERALL MEDIAN	3,576	30.2%		

#### TAX CREDITS AND ECONOMIC CHARACTERISTICS

This section examines whether the use of tax credits is related to the economic conditions of localities. Based on the information obtained during focus group discussions, we hypothesize that localities facing economic distress need tax credits more than localities with stronger economies. The theory suggests that historic rehabilitation is directly connected to property markets. In localities where property markets are strong—where sales and rental returns are high—the market pushes for rehabilitation of existing properties, historic and non-historic alike. But in localities with weaker or growing markets—where rental returns may not be sufficient to cover debt payments—investors depend on historic tax credits to reduce costs and make the numbers work. Three important metrics of economic conditions—per capita income, median rent, and unemployment rate—are compared for each locality against the amount of tax credits they have received. These metrics represent measures of local economies: per capita income may serve as a proxy for the local Gross Domestic Product (GDP); median rent offers an understanding of an area's housing market and land values; and unemployment provides an understanding of the business and employment environment. Data for the three economic characteristics are obtained from 2014 American Community Survey 5-year estimates. Table 5.7 shows the selected economic variables and historic tax credits per capita by locality.

PER CAPITA INCOME: Localities receiving tax credits in 2014 have a median per capita income of \$23,685 in 2014. Urban localities have a slightly higher median per capita income at \$24,294 compared to the rural median of \$21,369. The Town of Farmville has the lowest per capita income of \$14,693, and Arlington County has the highest per capita income of \$63,579. Six of the top ten localities receiving the highest tax credits per capita in 2014 have lower per capita incomes compared to the median for the cohort. At the other end of the spectrum, seven out of ten localities receiving the lowest per capita tax credits have higher per capita incomes. Localities with less than average economic conditions appear to be accessing the benefits of historic tax credits more than affluent jurisdictions.

MEDIAN CONTRACT RENT: Median rent is an approximate measure of the real estate market conditions of localities. Higher rents reflect stronger demand for rehabilitation or new construction. The median contract rent for localities receiving tax credits in 2014 varies from a low of \$413 in the Town of Marion to a high of \$1,725 in Arlington County. Median rent among the urban localities is \$731, compared to \$468 in rural localities. Among localities receiving the most tax credits per capita, most report median contract rents closer to or slightly below the cohort median of \$603. Bristol, Rocky Mount, and Danville, which have used higher tax credits per capita, also have substantially lower rents. Similarly, the Town of Ashland, City of Fredericksburg, City of Alexandria, and Arlington County have higher rents among the cohort. Those localities also have the fewest tax credits claimed in 2014.

**UNEMPLOYMENT RATE:** A higher unemployment rate corresponds with fewer business establishments which in turn correlates with lower demand for commercial, retail, and residential space. Urban localities have a median unemployment rate of 8.8 percent. The median rate among rural localities is 9.2 percent. In 2014, seven of ten localities utilizing the fewest tax credits have unemployment rates lower than the median for the group. Five localities out of the top ten tax credit users have higher than median unemployment rates. Mathews County has the highest unemployment rate of 20.5 percent, and Arlington County has the lowest rate of 3.6 percent. Mathews County has utilized higher than median per capita tax credit dollars for rehabilitation in 2014 compared to Arlington County which has claimed the lowest tax credits among the cohort.

**TABLE 5.7: TAX CREDITS AND SELECTED ECONOMIC CHARACTERISTICS** 

LOCALITY	PER C	REDITS Apita 14		APITA IE 2014	MEDIAN 201		UNEMPLOYMENT RATE 2014	URBAN/ RURAL
Lexington	\$	901.59	\$	14,792	\$	712	5.1%	Urban
Charlottesville	\$	261.53	\$	30,378	\$	874	5.0%	Urban
Richmond	\$	246.45	\$	28,023	\$	735	10.7%	Urban
Bristol	\$	176.92	\$	20,777	\$	436	11.0%	Urban
Rocky Mount	\$	161.95	\$	21,292	\$	464	4.2%	Rural
Wytheville	\$	133.57	\$	24,728	\$	442	10.1%	Rural
Petersburg	\$	84.57	\$	19,149	\$	667	15.1%	Urban
Danville	\$	83.10	\$	20,933	\$	421	14.7%	Rural
Lynchburg	\$	73.18	\$	23,685	\$	594	9.6%	Urban
Winchester	\$	62.36	\$	26,182	\$	766	7.2%	Urban
Roanoke	\$	49.45	\$	23,685	\$	566	8.0%	Urban
Harrisonburg	\$	48.64	\$	18,324	\$	726	6.8%	Urban
Hopewell	\$	42.81	\$	20,700	\$	656	13.7%	Urban
Norfolk	\$	38.17	\$	24,657	\$	796	11.6%	Urban
Amherst	\$	31.49	\$	23,469	\$	502	13.7%	Rural
Mathews	\$	20.71	\$	35,239	\$	604	20.5%	Rural
Marion	\$	18.48	\$	21,446	\$	413	8.2%	Rural
Ashland	\$	11.47	\$	23,930	\$	778	6.5%	Urban
Bedford	\$	10.77	\$	18,644	\$	601	7.0%	Rural
Farmville	\$	9.52	\$	14,693	\$	584	10.6%	Rural
Abingdon	\$	9.11	\$	26,360	\$	442	8.0%	Rural
Staunton	\$	8.39	\$	25,182	\$	602	6.4%	Urban
Fredericksburg	\$	7.14	\$	29,090	\$	945	10.4%	Urban
Glade Spring	\$	3.62	\$	20,910	\$	472	14.6%	Rural
Alexandria	\$	1.70	\$	54,861	\$	1,438	4.7%	Urban
Arlington	\$	0.75	\$	63,579	\$	1,725	3.6%	Urban
OVERALL MEDIAN	\$	40.49	\$ 2	23,685	\$	603	<b>8.9</b> %	

While comparing various economic indicators with the scale of historic rehabilitation, we have found that localities with weaker economic conditions have utilized more tax credits per capita than localities with stronger economies. The examples on the following page demonstrate how economic conditions appear to influence tax credit usage in urban and rural localities.

#### **EXAMPLE-1: TOWN OF ROCKY MOUNT**

Locality type: Rural Per capita income: Moderate Median contract rent: Moderate

Unemployment rate: Low

Historic stock: Moderate-to-high

Tax Credit per capita: High

#### **EXAMPLE-2: FARMVILLE / GLADE SPRING**

Locality type: Rural Per capita income: Very low

Median contract rent: Low-to-moderate

Unemployment rate: Very high Historic stock: Very low Tax Credit per capita: Very low

The Town of Rocky Mount has the second-greatest per capital tax credit usage among rural localities. It has the median per capita income among the rural localities and one of the lowest unemployment rates at 4.2 percent. The median contract rent is \$38 less than the rural median.

Farmville and Glade Spring are among the rural localities that received the lowest percentage of historic tax credits in 2014. Both localities also have the lowest historic stocks among the selected cohort. Both localities are economically distressed, as they have lower per capita incomes compared to the median for rural localities. Both register unemployment rates upwards of ten percent. Farmville has slightly higher than median rent, but the rent in Glade Spring is substantially lower than the median for the selected rural localities.

## **EXAMPLE-3: CITY OF LEXINGTON**

Urban Locality type: Per capita income: Low

Unemployment rate: Low Historic stock: High Tax Credit per capita: High

The City of Lexington has the highest per capita tax credit usage and the highest percentage of tax credits among second-tier rural localities in 2014. Lexington has a per capita income of \$14,792, which is about 30 percent lower than the overall median. However, it has a Median contract rent: Moderate-to-high median rent of \$712, which is \$109 higher than the overall median. The unemployment rate in Lexington is 5.1 percent – almost 37 percent lower than the overall median of 8.9 percent.

#### **EXAMPLE-4: CITY OF CHARLOTTESVILLE**

Locality type: Urban

Per capita income:

Unemployment rate: Low Historic stock: High Tax Credit per capita: High

Similarly, the City of Charlottesville is among the top urban localities receiving historic tax credits in 2014. It has slightly higher per Moderate-to-high capita income and median contract rent compared to the median for Median contract rent: Moderate-to-high urban areas. The unemployment rate in Charlottesville is substantially lower than the median. Charlottesville also has a higher than median percentage of historic building stock.

## **EXAMPLE-5: ARLINGTON COUNTY** / CITY OF ALEXANDRIA

Locality type: Urban Per capita income: Very high Median contract rent: Very high Unemployment rate: Very Low Historic stock: Moderate

Tax Credit per capita: Very low

Arlington County and the City of Alexandria represent the urban localities that have utilized the fewest tax credits in 2014. Both localities report per capita incomes more than double the median for urban localities. Rents in these localities are also two to three times higher than the median value for the cohort. Both localities have less than half the median unemployment rate. These are examples of localities with the best economic conditions among all localities receiving tax credits in 2014. Arlington and Alexandria have historic building stocks of 39 percent and 31 percent, respectively.

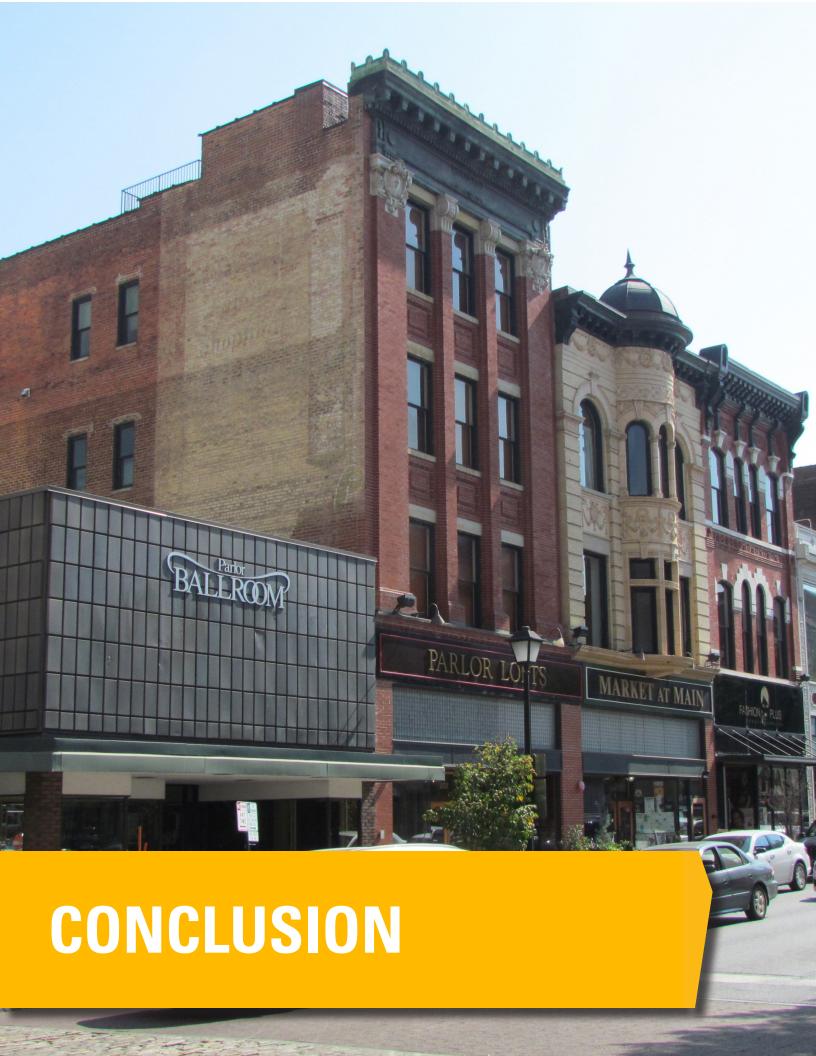
This descriptive analysis does not claim any causal relationships between historic tax credits, historic building stock, and the economic conditions of the localities. However, there may be loose correlations between these variables. Localities with higher percentages of historic building stock are naturally more likely to use historic tax credits. Similarly, localities with moderately stronger markets, better rental values, and higher than average economic conditions are more likely to attract private investments. This analysis uses locality-wide median and average values for comparison. Any specific street intersection, retail corridor, or blocks of historic district can attract considerable private rehabilitation investments. Statistics for those selected blocks of economic oasis are not represented in the locality-wide averages. The overall comparison among the localities receiving tax credits conducted as a part of this report can be the starting point for a much more comprehensive comparison between urban and rural or distressed and vibrant localities.

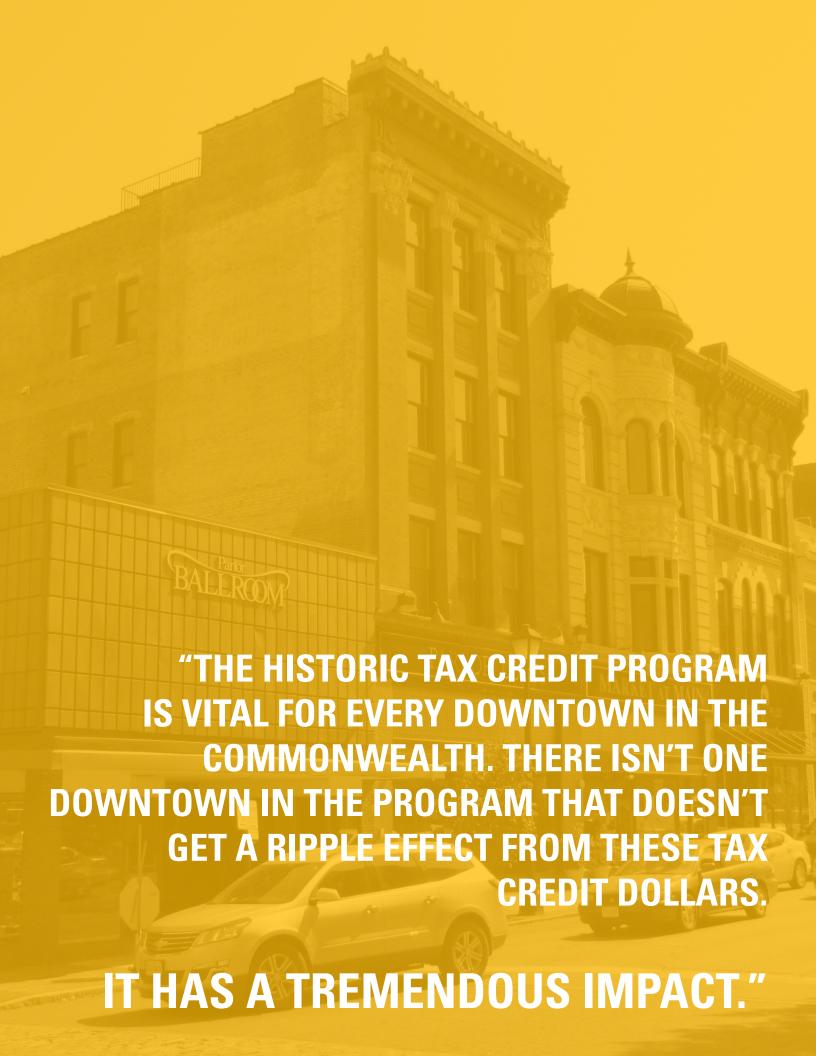
#### **FOCUS GROUP AND INTERVIEW DISCUSSIONS**

Focus group participants varied on whether tax credits benefited rural markets as well as urban markets. Some developers said that as available historic building stock in primary markets shrank, they ventured into secondary and tertiary markets that might be considered rural. Others said the details of federal tax credits made rural projects difficult. The federal threshold for financing is set at a level that encourages only larger projects (over \$5 million). But rural areas often also lack the complex infrastructure of legal, historic, architectural, and other professional services that makes tax credit development possible.

- It's a gut thing [whether or not I take on a project in a town or city]. Like, Bedford is a town of 6,000, and when I was looking at the businesses there, this restaurant had a Banh Mi [a Vietnamese sandwich] on the menu. The fact that it [a restaurant serving a Banh Mi] was there meant there was an intellectual current [in the town]. I mean, 32 units aren't that much, but...32 people were like, "Yeah, I'll pay \$900 for that unit." And now that place is just packed. And it shouldn't be that way on paper, but it is that way.
- You gotta know [that] the lenders are there; you need to actually identify who is going to be the tax credit investor—you must know he terms of the deal. The investor has the same fear that the bank does. Why would I take the risk [of developing] in [small rural town]? Just getting there is so difficult. I use big investors like [Fortune 500 company]. I have a pipeline. \$1 million in [tax] credits is a \$5 million project. \$5 million projects in small towns don't really exist. Who's [what investor] got the tax credit liability to use it in small towns? It doesn't exist.
- The banking community in rural areas, they don't usually finance tax credit deals [and actually bridge the equity gap]...It takes someone to know how to do it and explain it. And it's not DHCD.
- I'm doing a project in [small rural town]. My two options are rehab it or scrap it. If the rents are \$650 a month—which they are—you can't justify rebuilding it until the rents climb back up to \$850 [per month]. So [without tax credits] you have to bulldoze it, which is going to affect the neighborhoods. Historic tax credits are uniquely (useful) in economically disadvantaged areas.







Virginia's Historic Rehabilitation Tax Credit program has proven to be an effective historic preservation tool that has been able to promote community development in previously distressed neighborhoods and towns. However, the program also presents a public policy issue. Lawmakers must understand and decide whether foregone revenues in the form of tax credits are in the best interest of taxpayers or if those revenues could be allocated elsewhere. While an opportunity cost was beyond the scope of this project, CURA's analysis demonstrates that the HRTC program is fiscally sound and has the potential to generate long-term positive returns on investment (ROI) for the Commonwealth and its taxpayers.

Historic tax credits seek above all to encourage the rehabilitation and preservation of historically significant structures in Virginia. Historic buildings contribute to a shared understanding of history, heritage, and place throughout the Commonwealth. They add to the tangible and intangible qualities of our neighborhoods, cities, and regions that attract residents, visitors, customers, and businesses. Rehabilitation reclaims and adds usable square footage for residents and businesses that otherwise sits vacant or underused, preserving infrastructure and green space. Moreover, the HRTC program's utility extends beyond its core preservation function.

The HRTC program has proven itself a true community development program. This report outlines how the program's benefits extend beyond the developers, architects, or the construction sector in general. Entire neighborhoods and small downtowns have experienced revitalization with the help of HRTC, sometimes after a single catalytic rehabilitation project.

The program may have the greatest impact in the most economically distressed neighborhoods with high concentrations of vacant historic structures. One focus group participant noted, "The only things getting displaced [in a distressed neighborhood] are pigeons and rats." Transforming unused buildings into vibrant structures adds life to a neighborhood. However, the long-term effects of neighborhood revitalization (i.e. higher market rents) could generate some displacement.

The study shows the HRTC program's users have focused their activity in urban areas. Urban areas have certain characteristics that make historic rehabilitation and preservation an easier task, including greater stocks of available historic structures, larger professional services infrastructure, greater rental market demand, easier access to capital, and larger project sizes.

However, as the program ages and neighborhoods experience revitalization, there is new interest in smaller cities and towns as well as areas that are more rural. While this is still an emerging pattern that appears to be explored by smaller, experienced, and sophisticated developers, both qualitative and quantitative data (including property values and per capita tax credit spending) suggest rehabilitation projects in smaller, rural, or declining regions often work as major catalysts for other projects and, ultimately, for the revitalization of entire districts.

The economic impacts of the HRTC program continue to accumulate after construction on each project ends. For the first time in Virginia, this study looked at the life of buildings after rehabilitation to capture the ongoing, annual economic benefits that the local and state economy can extract from the economic activities taking place in rehabilitated buildings.

Although not all these activities are new and additive to the existing economy, most rehabilitated buildings may be considered unused or underutilized prior to rehabilitation. The program frees or reclaims important square footage in historic districts to accommodate additional businesses and residents. This study quantifies that benefit, calculating the potential economic impact deriving from new economic activities and resident spending taking place because space has been made available and reclaimed.

When the effects of the program are considered in their entirety by calculating the impact of both construction and post-construction activities, the Commonwealth of Virginia experiences a positive return on investment. Virginia taxpayers see a net gain in the long-term (5 to 10 years, depending whether local taxes are included) from the initial investment of those foregone taxes.

A program that was conceived, designed, and implemented to save and reclaim the historic and architectural assets of the Commonwealth has proven to be more versatile. The HRTC program is a powerful community revitalization tool for economically distressed neighborhoods and cities, leveraging private investment to create usable, attractive commercial and residential space in historic districts. Those tax credits—foregone revenues for a single year—are a potentially sound long-term investment for Virginia and its residents as returns and economic impacts accumulate. The program makes substantial contributions to Virginia's historic districts as both a tool for preserving history and one for giving historic neighborhoods new life. That it does so with a positive return on investment makes the program an asset to the Commonwealth and its localities.



# **TABLE A.1: SUMMARY STATISTICS OF THE VIRGINIA HISTORIC REHABILITATION TAX CREDITS PROGRAM BY MSA [2010-2014]**

MSA	NUMBER OF PROJECTS	ELIGIBLE Expenditures	NON-ELIGIBLE EXPENDITURES	TAX CREDITS
Blacksburg-Christiansburg-Rad- ford MSA	6	\$7,470,181	\$1,354,344	\$1,867,545
Charlottesville MSA	21	\$89,980,818	\$16,159,253	\$22,507,189
Harrisonburg MSA	7	\$24,706,307	\$4,453,766	\$6,176,577
Bristol MSA <sup>1</sup>	4	\$17,633,178	\$3,164,704	\$4,384,281
Lynchburg MSA	23	\$63,656,014	\$11,403,067	\$15,914,003
Richmond MSA	442	\$818,589,764	\$145,507,046	\$205,417,679
Roanoke MSA	38	\$150,822,912	\$27,035,511	\$37,703,312
Hampton Roads MSA <sup>2</sup>	51	\$119,196,034	\$21,218,603	\$29,798,565
Northern Virginia MSA <sup>3</sup>	84	\$157,074,323	\$27,913,875	\$39,325,150
Winchester MSA <sup>4</sup>	13	\$100,583,794	\$18,067,016	\$25,146,024
Non-Metro Areas	62	\$149,809,463	\$26,767,234	\$37,451,759
TOTAL	753	\$1,699,522,788	\$303,044,418	\$425,692,083

Source: Virginia Department of Historic Resources

All dollar values are in 2017 Dollars

<sup>&</sup>lt;sup>1</sup>The "Bristol MSA" is defined as the Virginia portion of the "Kingsport-Bristol-Bristol, TN-VA MSA

<sup>&</sup>lt;sup>2</sup>The "Hampton Roads MSA" is defined as the Virginia portion of the "Virginia Beach-Norfolk-Newport News, VA-NC MSA."

<sup>&</sup>lt;sup>3</sup>The "Northern Virginia MSA" is the Virginia portion of the "Washington-Arlington-Alexandria, DC-VA-MD-WV MSA."

<sup>&</sup>lt;sup>4</sup>The "Winchester MSA" is the Virginia portion of the "Winchester VA-WV MSA."

# TABLE A.2: CONSTRUCTION SPENDING IMPLAN INDUSTRY CODE AND **CATEGORY FOR REHABILITATION PHASE MODELS**

IMPLAN	IMPLAN INDUSTRY
CODE	CATEGORY
52	Construction of new health care structures
54	Construction of new power and communication structures
55	Construction of new educational and vocational structures
57	Construction of new commercial structures, including farm structures
58	Construction of other new nonresidential structures
59	Construction of new single-family residential structures
60	Construction of new multifamily residential structures
62	Maintenance and repair construction of nonresidential structures
63	Maintenance and repair construction of residential structures
64	Maintenance and repair construction of highways, streets, bridges, and tunnels
135	Wood preservation
397	Retail - Furniture and home furnishings stores
399	Retail - Building material and garden equipment and supplies stores
406	Retail - Miscellaneous store retailers
433	Monetary authorities and depository credit intermediation
437	Insurance carriers
440	Real estate
445	Commercial and industrial machinery and equipment rental and leasing
447	Legal services
448	Accounting, tax preparation, bookkeeping, and payroll services
449	Architectural, engineering, and related services
450	Specialized design services
454	Management consulting services
460	Marketing research and all other miscellaneous professional, scientific, and technical services
461	Management of companies and enterprises
462	Office administrative services
464	Employment services
465	Business support services
468	Services to buildings (pest control)
470	Other support services
471	Waste management and remediation services
499	Hotels and motels, including casino hotels
500	Other accommodations

# TABLE A.3: RESIDENTIAL SPENDING [OWNERS/RENTERS] IMPLAN INDUSTRY CODE AND **CATEGORY FOR POST-REHABILITATION PHASE MODELS**

IMPLAN	IMPLAN INDUSTRY
CODE	CATEGORY
37	Drilling oil and gas wells
49	Electric power transmission and distribution
50	Natural gas distribution
51	Water, sewage and other systems
108	Breweries
109	Wineries
110	Distilleries
111	Tobacco product manufacturing
396	Retail - Motor vehicle and parts dealers
397	Retail - Furniture and home furnishings stores
398	Retail - Electronics and appliance stores
400	Retail - Food and beverage stores
401	Retail - Health and personal care stores
402	Retail - Gasoline stores
403	Retail - Clothing and clothing accessories stores
404	Retail - Sporting goods, hobby, musical instrument and
405	Retail - General merchandise stores
406	Retail - Miscellaneous store retailers
412	Transit and ground passenger transportation
423	Motion picture and video industries
427	Wired telecommunications carriers
428	Wireless telecommunications carriers (except satellite)
436	Other financial investment activities
438	Insurance agencies, brokerages, and related activities
440	Real estate
472	Elementary and secondary schools
473	Junior colleges, colleges, universities, and profession
475	Offices of physicians
476	Offices of dentists
477	Offices of other health practitioners
480	Home health care services
482	Hospitals
483	Nursing and community care facilities
488	Performing arts companies
489	Commercial Sports Except Racing
492	Independent artists, writers, and performers
501	Full-service restaurants
502	Limited-service restaurants
514	Grantmaking, giving, and social advocacy organizations
517	Private households

# TABLE A.4: COMMERCIAL SPENDING IMPLAN INDUSTRY CODE AND **CATEGORY FOR POST-REHABILITATION PHASE MODELS**

IMPLAN	IMPLAN INDUSTRY			
CODE	CATEGORY			
63	Maintenance and repair construction of residential structures			
108	Breweries			
154	Printing			
398	Retail - Electronics and appliance stores			
400	Retail - Food and beverage stores			
401	Retail - Health and personal care stores			
406	Retail - Miscellaneous store retailers			
433	Monetary authorities and depository credit intermediation			
434	Nondepository credit intermediation and related activities			
436	Other financial investment activities			
436	Other financial investment activities			
437	Insurance carriers			
438	Insurance agencies, brokerages, and related activities			
440	Real estate			
447	Legal services			
449	Architectural, engineering, and related services			
453	Other computer related services, including facilities management			
454	Management consulting services			
456	Scientific research and development services			
460	Marketing research and all other miscellaneous professional, scientific, and technical services			
461	Management of companies and enterprises			
467	Investigation and security services			
468	Services to buildings			
475	Offices of physicians			
478	Outpatient care centers			
479	Medical and diagnostic laboratories			
482	Hospitals			
487	Child day care services			
488	Performing arts companies			
491	Promoters of performing arts and sports and agents for public figures			
499	Hotels and motels, including casino hotels			
501	Full-service restaurants			
503	All other food and drinking places			
503	All other food and drinking places			
508	Personal and household goods repair and maintenance			
509	Personal care services			
512	Other personal services			
514	Grantmaking, giving, and social advocacy organizations			
520	Other federal government enterprises			
531	* Employment and payroll of state govt, non-education			

# TABLE A.5: VISITOR SPENDING IMPLAN INDUSTRY CODE AND **CATEGORY FOR POST-REHABILITATION PHASE MODELS**

IMPLAN CODE	IMPLAN INDUSTRY CATEGORY	
400	Retail - Food and beverage stores	
402	Retail - Gasoline stores	
405	Retail - General merchandise stores	
406	Retail - Miscellaneous store retailers	
412	Transit and ground passenger transportation	
491	Promoters of performing arts and sports and agents for public figures	
493	Museums, historical sites, zoos, and parks	
496	Other amusement and recreation industries	
503	All other food and drinking places	
512	Other personal services	

# CITY OFFICIALS FOCUS GROUP PROTOCOL – APRIL/MAY 2017

# PURPOSE OF STUDY: IMPACT OF HISTORIC TAX CREDITS SPONSOR: VIRGINIA DEPARTMENT OF HISTORIC RESOURCES

Focus Group: Anonymous – results aggregated – we'll take names here to help us record and understand, but we will not use them in the report. We will acknowledge you in the group of participants, unless you do not want to be included. If you'd like to say more after the session today, please contact us.

- 1) What roles do you play in the historic preservation / rehabilitation process? Please describe briefly.
- 2) Which areas of the city have seen the most amount of historic rehabilitation activity? Briefly describe the main kinds of projects in each major area. What percentage are:
  - a. Single-family housing
  - b. Multi-family housing
  - c. Retail / restaurants / entertainment number of jobs?
  - d. Office number of jobs?
  - e. Other non-residential number of jobs?
- 3) What role, if any, did historic rehab projects play in the improvement of these areas? Please respond by comparing pre- with post-rehab conditions. If spillover effects occurred, please explain how that happened.
  - a. Property values
  - b. Physical condition of buildings
  - c. Public safety
  - d. Commercial activity
  - e. Neighborhood vitality in general
- 4) For these areas, please estimate the impact of the state historic tax credit on:
  - a. Permanent employment
  - b. Tax revenues: real estate, sales, other
- 5) What would be the consequences, if any, especially for your work, if the state historic tax credit program were eliminated or reduced in the future?
- 6) How, if at all, can the state historic tax credit be made more productive more impactful in the future? Should it be expanded in some way? Used for other kinds of development?

# **BANKERS AND SYNDICATORS FOCUS GROUP PROTOCOL – MAY 2017**

## **PURPOSE OF STUDY: IMPACT OF HISTORIC TAX CREDITS** SPONSOR: VIRGINIA DEPARTMENT OF HISTORIC RESOURCES

Focus Group: Anonymous – results aggregated – we'll take names here to help us record and understand, but we will not use them in the report. We will acknowledge you in the group of participants, unless you do not want to be included. If you'd like to say more after the session today, please contact us.

- 1) Please give snapshot of the projects you are involved:
  - a. What are most typical projects in type and dollar amount?
  - b. What's their financial structure?
  - c. How is the \$5 million taxpayer cap affecting your deals?
- 2) Why do you do historic rehabilitations as opposed to other kinds of development? (HTC a cause?)
- 3) How important is HTC for your deals? Would you finance or invest in rehabilitation projects without HTC?
- 4) What impacts do you think historic rehabilitation projects have on the community?
  - a. Jobs
  - b. Housing
  - c. Public safety
  - d. Commercial activity
  - e. Property values
  - f. Neighborhood vitality in general.
- 5) What would be the consequences, if any, especially for your work, if the state historic tax credit program were eliminated or reduced in the future?
- 6) What would be the consequences, if any, especially for your work, if the state historic tax credit program were capped, similar to what currently happens to VA EZ?
- 7) How, if at all, can the tax credit be made more productive more impactful in the future? Should it be expanded in some way? Used for other kinds of development?

# USERS OF TAX CREDITS FOCUS GROUP PROTOCOL — JULY 2017

PURPOSE OF STUDY: IMPACT OF HISTORIC TAX CREDITS.
SPONSOR: VIRGINIA DEPARTMENT OF HISTORIC RESOURCES

Focus Group: Anonymous – results aggregated – we'll take names here to help us record and understand, but we will not use them in the report. We will acknowledge you in the group of participants, unless you do not want to be included. If you'd like to say more after the session today, please contact us.

#### **FOLLOW-UP ON COMMUNITY IMPACTS:**

A Short background of the study for new participants (if any), otherwise summarize the general outcome of the previous focus group and lay a foundation for today's discussion.

1) In our earlier meeting we talked about historic rehab projects having permanent impacts on the community. Please describe one or two specific examples, such as public safety, commercial activity, property values, and neighborhood vitality in general.

### **POLICY SCENARIOS:**

- 2) Assuming that the historic tax credit is reduced to 15% (from the existing credit equivalent to 25% of the total project cost), what would be the resulting impact on the market?
  - a. (Depending upon the response to Q.3.) And how would that impact if it is only reduced to 20%?
  - b. As a user of historic tax credit, what would be your response to such reduction? Would you still be able to revitalize historic properties? What will you need to sacrifice?
- 3) How would the market be impacted if, instead of a reduction on percentage of tax credit, a cap is imposed on the overall rehabilitation budget for the fiscal year? (This signifies that there will be a fixed amount to be shared between the tax credit recipients, and the amount received by each applicant can vary depending on the number of qualified applications for the fiscal year).
  - a. How would this policy change affect you as a user, and what would be some of the ways you might be able to adjust to this change?
- 4) Assuming that the historic tax credit program is going to be modified one way or the other, which of the two scenarios discussed above would be more acceptable to you and why?
- 5) If you believe that the two scenarios discussed here are not the most appropriate method to reduce spending on the historic tax credit program, what would be an alternative policy change in your opinion?
  - a. Further probe into the ideas generated at the meeting. Why is this approach better than the other two?
  - b. Would you be willing to accept a reduction or elimination of some of the eligible expenses –such as: (examples of currently tax eligible expenses that can be eliminated or reduced)
    - i. Elimination of developer fee as eligible expense.



- ii. Elimination of "soft costs" as eligible expenses, so that tax credit is based solely on construction costs.
- iii. Elimination of costs associated with rehabilitation of non-historic additions, when such non-historic addition(s) are equal to or greater than 50% of the total square footage of the historic building.

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