Preservation Virginia

Economic Impact of Historic Rehabilitation Tax Credit Programs in Virginia

VCU Center for Urban and Regional Development

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Cover Photos

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National Theater, Richmond, VA. Photo: Johannas Design Group

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Prepared for

Preservation Virginia

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EXECUTIVE SUMMARY

Virginia has been a national leader in historic preservation for many years. One of the many areas where this is reflected is in the use of historic tax credits in the Commonwealth. As of FY 2012, the most recent year for which such data are available, Virginia ranks third in the nation in total dollar volume of estimated qualified rehabilitation expenditures at project completion, behind only Massachusetts and Missouri.

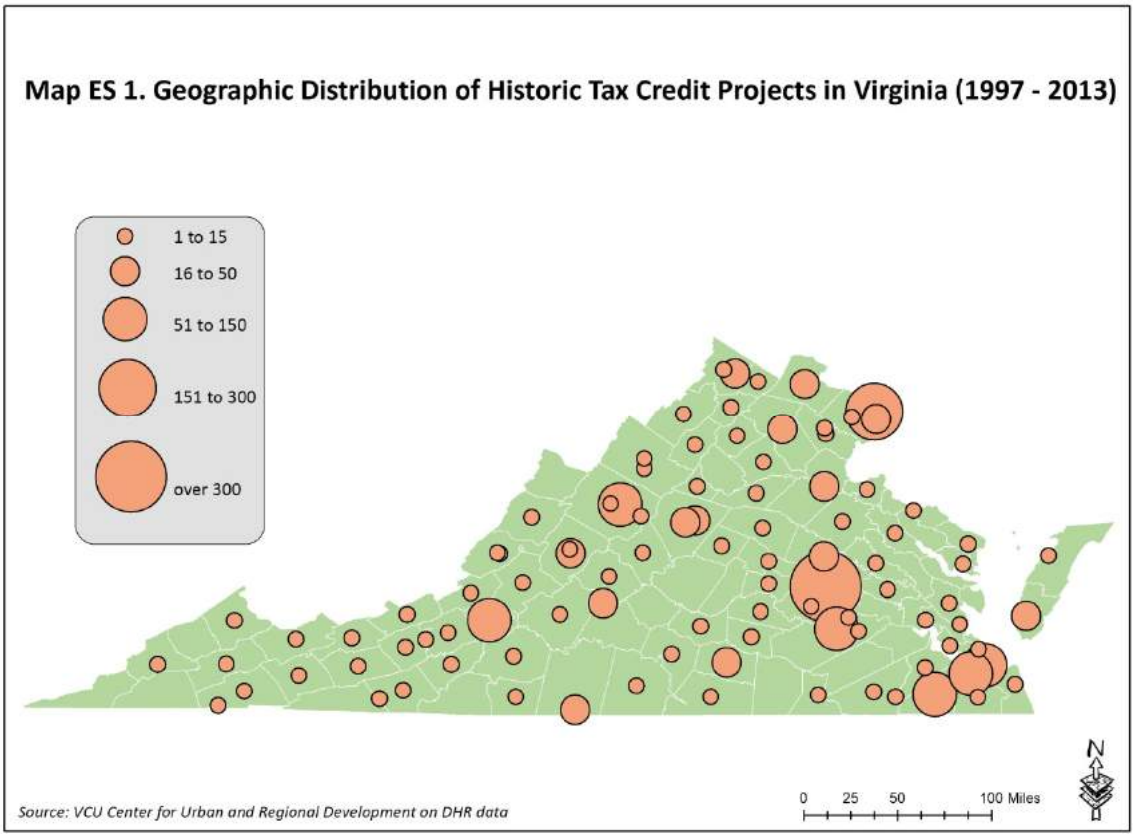
Preservation Virginia retained the VCU Center for Urban and Regional Development to conduct an analysis of the economic impacts of historic rehabilitation, financed in part through the Virginia Historic Rehabilitation Tax Credit Program and the Federal Historic Tax Credit Program, from 1997 to 2013. This analysis builds upon reports and updates completed by VCU for the Virginia Department of Historic Resources in 2007, 2010 and 2012. Like those earlier reports, this study documents the significant economic returns that Virginia realizes from preserving and re-using historic properties. Similarly, a study published in 2012 by Virginia's Joint Legislative Audit and Review Commission concluded that unlike some tax preference programs that do not achieve their stated goals, Virginia's Historic Rehabilitation Tax Credit Program effectively achieves the goal of promoting the rehabilitation of historic structures.

Although this report is able to document only the easily quantifiable returns of economic activity and tax revenues, historic preservation brings many additional benefits to society. These include aesthetic and psychological benefits that help citizens understand their heritage and which improve the attractiveness of places to residents, businesses and tourists. Ultimately, these impacts strengthen the economy and augment the tax base as well.

Tax credit usage in Virginia has occurred more often in urban areas, such as Richmond, Hampton Roads, Northern Virginia and Roanoke, than in rural areas. This is understandable, since urban areas have more buildings, as well as a larger percentage of the stock of historic buildings. However, tax credit-financed projects have been completed in most communities throughout the Commonwealth, reflecting both the utility and perhaps the future expansion potential of this program. (See Map ES 1, below.)

From 2000 (when the Virginia Historic Tax Credit was raised to 25% of qualified rehabilitation expenditures) through 2011 (the most recent year for which all Virginia tax credit projects have been completed and certified), an average of 174 projects have been certified each year. The number of

rehabilitation projects increased steadily from 1997 to 2005, when it reached its peak of 235 projects certified per year. The Great Recession of 2008-09, which had a very significant effect on the construction industry overall, caused a moderate decline in historic rehabilitation activity.



During its 17 years of operation to date, the State program has had a profound impact on private investment in historic rehabilitation. By allowing owners and developers to invest almost $1 billion in historic rehabilitation in lieu of taxes, it has stimulated additional private investment of almost $3 billion – a total of $3.97 billion in 2,375 historic rehabilitation projects. The results of the 2012 VCU survey of tax credit users, as well as the results of focus groups conducted for the present report, indicate that few, if any, historic rehabilitation projects would have been completed without the tax credit. Hence, it is safe to say that absent the $1 billion invested in lieu of tax payments, the additional $3 billion in private funds would not have been invested in historic rehabilitation.

Utilizing the IMPLAN Pro™ input-output software we estimated the total economic impact of these expenditures on the Virginia economy overall and on each of Virginia's 11 metropolitan statistical areas. Input-Output models understand the economy as a web of relationships among industries – buyers and

sellers of products and services. Any new activity in the economy, such as the design, financing, and rehabilitation of a historic property, requires expenditures on labor and materials, including the purchase of goods services from a number of industries, ranging from architects and lawyers to construction workers and restoration specialists, as well as goods such as building materials. To supply these goods and services, these industries must also purchase goods and services, which generates further impacts, or "ripples" of demand for goods and services throughout the economy. These ripples can be added up to estimate the total economic impact of all new spending on the economy. (These calculations do not include employment or other economic activities housed in the rehabilitated buildings.)

The total economic impact on the Commonwealth of Virginia from historic rehabilitation spending from 1997 to 2013 is estimated to be $3.93 billion. The Gross State Product (value added) generated by historic rehabilitation spending is approximately $2.4 billion, while the labor income (total value paid to workers within the state) is approximately $1.54 billion. The overall economic activity generated a demand for labor that supported more than 31,000 jobs (full- and part-time) over the 17-year period considered.

Table ES 1. Estimated Impacts to the Commonwealth of Virginia from Rehabilitation Expenditures
Dollar Values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$1,012	$238	$286	$1,537
Value Added	$1,484	$362	$531	$2,377
Economic Impact	$2,444	$628	$854	$3,926
Employment Impact *(number of jobs)*	19,880	4,562	6,692	31,133
Tax Impact				$133

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

Spending on rehabilitation projects also generates new tax revenues for Virginia and its localities. Economic activity from the initial expenditures and subsequent effects in related economic sectors is subject to taxation, including sales and use taxes, income taxes, and other State taxes. Applicable tax rates were applied through IMPLAN to the expenditures at the direct, indirect, and induced levels to estimate the total tax impact. Direct spending for rehabilitation projects, along with spending in related sectors and purchases made by employees, generated an estimated $133 million in State and local tax revenues.

Most of the new jobs and increased economic activity generated through historic rehabilitation occur in the construction sector. But trade and professional services also benefit from the program; in particular, industries such as legal services, accounting services, and architectural and engineering services, as well as wholesale trade and retail trade industries (especially food and beverages).

In addition to the quantitative analyses, we also conducted qualitative analyses via case studies to document how historic tax credits play their catalytic role in the rehabilitation process and how rehabilitated properties help to stimulate further investment in the community. The case studies are constructed from six focus groups that we conducted – two each in Richmond, Roanoke and Winchester, one with users of tax credits (developers, lenders, tax credit consultants, architects, etc.) and one with local-government officials.

The users of the tax credits stated that very few, if any, of the projects on which they have worked or with which they are familiar would have been completed without tax credits. A few might have been done, but at such a low level of quality that they might not have been able to attract users. Both tax credit users and local-government officials stated that there is ample demand for rehabilitated historic properties in their cities, but that the costs of rehabilitation are so great that tax credits are still needed to close the gap between market value after rehabilitation and the costs of rehabilitation.

Both groups, especially local officials, cited the significant economic impacts that the rehabilitated properties have had on their communities. They improve the investment climate, attracting further investment, sometimes even without tax credits.

The focus-group participants stated that tax credits have contributed in large measure to the revitalization of their communities, but that there remains much work to do, in their communities as

well as throughout the Commonwealth, including in rural areas where fewer historic properties have been revitalized, and in lower-income areas of Virginia's cities. They called for the expansion of the program into these areas and for creative ways to use historic tax credits in service of broader community economic revitalization goals.

In sum, the Virginia Historic Rehabilitation Tax Credit Program and the Federal Historic Tax Credit Program, by reducing taxes for those who invest in historic rehabilitation, have made major contributions to the revitalization of Virginia's cities and towns and to the Virginia economy overall.

INTRODUCTION

Virginia has been a national leader in historic preservation for many years. One of the many areas where this is reflected is in the use of historic tax credits in the Commonwealth. As of FY 2012, the most recent year for which such data are available, Virginia ranks third in the nation in total dollar volume of estimated qualified rehabilitation expenditures at project completion, behind only Massachusetts and Missouri. (Listokin et al., 2013)

Preservation Virginia retained the VCU Center for Urban and Regional Development to conduct an analysis of the economic impacts of historic rehabilitation, financed in part through the Virginia Historic Rehabilitation Tax Credit Program and the Federal Historic Tax Credit Program, from 1997 to 2013. This analysis builds upon reports and updates completed by VCU for the Virginia Department of Historic Resources in 2007, 2010 and 2012. Like those earlier reports, this study documents the significant economic returns that Virginia realizes from preserving and re-using historic properties. Similarly, a study published in 2012 by Virginia's Joint Legislative Audit and Review Commission concluded that unlike some tax preference programs that do not achieve their stated goals, Virginia's Historic Rehabilitation Tax Credit Program effectively achieves the goal of promoting the rehabilitation of historic structures.

Why Historic Preservation Matters

Americans are strongly attached to their history, especially their national and regional history. The continued popularity of historic sites and the rapid growth, in recent years, of heritage tourism bear witness to this. And Americans increasingly support the preservation of the historic built environment – not just monuments, but vernacular buildings, streets, commercial districts and neighborhoods, for its intrinsic charm and beauty and as a visible manifestation of the character and history that give our towns and cities a unique sense of "place."

In addition to these psychological and social benefits, which also bring positive, albeit indirect, benefits to the economy, historic rehabilitation may bring more easily identified economic benefits. Three of these are:

- *Asset value*: Historic buildings, such as offices and manufacturing buildings located in or near the downtown central business district, as well as the infrastructure of streets and sewers where

they are located represent fixed assets – sunk costs that may no longer be generating returns, but which could still do so if they were rehabilitated. Unused, they represent a wasted asset.

- *Role in the modern economy*: Today's historic buildings were built to serve the needs of an industrial economy and outfitted with different technologies than we use today. Many users in today's economy – particularly offices, entertainment, recreation, and housing -- find that the spaces designed for an earlier age are not only aesthetically appealing, but when updated, are also functionally very useful. Rehabilitated historic buildings in downtowns from cities to small towns provide spaces for working, living, culture and entertainment. It is possible that some industries in the 21st century's creative economy thrive more in historic districts than in other locations. Thus, rehabilitated buildings contribute to GDP through their increased property values and the economic output of their occupants.
- *Environmental and fiscal impacts*: The costs of demolishing historic (or any) buildings are substantial, both in terms of the demolition costs themselves and the landfill costs. (Mason, 2005) Moreover, when rehabilitating buildings "[t]he fiscal benefit extends to state and local governments by keeping development closer to existing infrastructure and encouraging density where infrastructure can best support that type of development. Denser development allows for a more efficient delivery of government services." (Coffin, et al., 2010, p. 29)

The Need for Public-Private Partnerships

Despite the use value of rehabilitated historic buildings in the 21st century economy, the process of transitioning from old uses to new ones in a market economy is messy and fraught with risk and uncertainty for private investors. For an individual investor, the risk-adjusted return on investment today from the rehabilitation of an historic downtown office building may be lower than the current return on a new structure on a greenfield site, because the investment climate in a historic district, after years of low or no investment, may not yet be sufficiently attractive to private investors.

A positive investment climate may be viewed as a so-called public good, which is defined by economists as a good that is efficiently consumed by many together and from which it is very inefficient to try to exclude any single individual. (National defense is perhaps the best example.) (Aronson and Schwarz, 1987) Generally speaking, no single private investor can significantly change a community's investment climate, but public-private partnerships may be able to improve the investment climate to the point that

private investors can, at some point, continue without government participation. In the meantime, public-private partnerships can improve economic outcomes by utilizing existing assets so that they provide benefits, rather than imposing costs on society.

Historic Tax Credits at the Federal and State Levels

Recognizing that the private market alone could not preserve and retrofit the nation's historic building stock before it deteriorated, the public and private sectors have established partnerships using tax credits to finance a portion of the rehabilitation expenses. The Federal Historic Preservation Tax Incentives Program was authorized in 1976 and commenced operations in 1977. Virginia established the Historic Rehabilitation Tax Credit Program in 1996 and began operating it in 1997. Today, over 30 states have some form of historic rehabilitation tax credit program.

Both state and Federal programs allow persons to invest their income taxes owed to the government in historic-preservation projects as equity financing. Under the Federal program, up to 20% of the allowable (rehabilitation-related) expenses on a property may be financed this way; under the Virginia program, 25%. Under the Federal program, only income-producing properties may be financed this way; Virginia has no such restriction.[1] The infusion of equity to finance up to 45% of a rehabilitation project makes it possible to find debt capital that might otherwise be unavailable, since the market value of the rehabilitated property, especially while the investment climate is still improving, may be less than the total cost of the improvements.

In Virginia, historic tax credits have been used mostly in cities and towns where most historic buildings are concentrated. Nevertheless, a glance at Map 1 (page 1o) shows that historic rehabilitation with tax credits has taken place throughout the Commonwealth, even in smaller communities. Indeed, the communitywide impacts of historic preservation may in some cases be greater in small centers. It should be noted that a good portion of the projects have taken place in Main Street communities.

[1] The tax credits are available only for *Certified Historic Structures*, defined as follows. Under the Federal program, a certified historic structure must be either listed individually on the National Register of Historic Places, or certified as "contributing" to a district that is so listed. Under the Virginia state program, a certified historic structure is one that is individually listed on the Virginia Landmarks Register, or certified as eligible for listing, or certified as a contributing structure in a district that is so listed. A Virginia property that is listed on one of these registers is generally listed on the other. Source: Virginia Department of Historic Resources website: Rehabilitation Tax Credits: Frequently Asked Questions. http://www.dhr.virginia.gov/tax_credits/tax_credit_faq.htm#B, accessed December 22, 2013.

Although it is beyond the scope of the present report, the Virginia Main Street program, established in 1983, has promoted historic preservation by infusing new economic functions into entire historic downtowns in Virginia's towns and mid-size cities.

Calculating the Economic Impacts of Historic Tax Credits

Anecdotally it is clear that historic tax credits have played a significant role in the rehabilitation of historic properties. But the question that must be addressed for historic tax credits, and for any public policy, is what benefits does it produce and how do these benefits compare with the costs expended by the public sector? Of course, the question cannot be answered completely because historic preservation also has social-psychological value that cannot easily be captured or measured. It is impossible to know the full extent to which living within or even just visiting a historic built environment enriches us not only as individuals, but also our economy and society generally. (Mason, 2005)

But we can at least measure several economic impacts of historic preservation and thus determine if the countable benefits equal or exceed the costs to the taxpayer. Over the past 15 years, the Federal government and states have commissioned studies to measure these impacts. Table 1 provides a sample of these studies noting the analytical tools they have used and the results they have obtained. The vast majority of such studies use quantitative impact analyses; some use qualitative case studies or interviews as well. The former determine the magnitude or dollar volume of impacts on the state and national economy from the projects. Case studies, on the other hand, use interviews or focus groups to create detailed examples of specific investment projects, explaining how buildings came to be rehabilitated and the impacts that such work has had on the community and investment climate.

The primary tool used to calculate the dollar volume of impacts on the economy is input-output analysis, using data from tax credit expenditures and economic statistics. This technique understands the economy as a web of relationships among industries – buyers and sellers of products and services. Any new activity in the economy, such as the design, financing, and rehabilitation of a historic property, requires expenditures on labor and materials, including the purchase of goods and services from a number of industries, ranging from architects and lawyers to construction workers and restoration specialists, as well as goods such as building materials. To supply these goods and services, these industries must also purchase goods and services, which generates further impacts, or "ripples" of demand for goods and services throughout the economy.

Table 1. State-Level Historic Tax Credit Impact Reports*		
State	**Analytical Tools**	**Summary of Impacts**
Colorado* 2005	Input-Output (RIMS II)	From 1981 - 2000 over $676 million invested, generating over 21,327 jobs and $522.7b million in earnings statewide.
Connecticut* 2006	Input-Output (REMI)	The combination of arts, film, history & tourism accounts for over $14 billion in economic activity and 17,000 jobs annually. Historic preservation generates 2,000 jobs, $17.8 million in tax revenue & more than $111 million in gross domestic product.
Georgia* 1999	Case Studies Literature Review	Historic building rehabilitation supports an estimated 7,550 jobs, provides $201 million in earnings and $559 million in total economic impact statewide.
Maryland* 2002	Input-Output (IMPLAN)	Tax-credit program spurred total private investment of $155.5 million, resulting in increase in construction-induced tax revenues of $20 million.
Minnesota 2011	Input-Output (IMPLAN)	Between April 2010 and June 30, 2011 14 projects were approved to use state tax-credit funds totaling $250 million out of total expenses of $343 million. Total economic impact is estimated to be $451 million, including $152 million in labor income and 2,948 jobs.
Missouri 2001*	Input-Output (PEIM)	2001: Historic preservation creates over 28,000 jobs & over $1 billion in gross domestic product annually; Missouri over $346 million on historic rehabilitation annually, generating 8,060 jobs & $249 million in residents' income, $292 million in in-state wealth, & $70 million in tax revenue.
Missouri 2010	Input-Output (IMPLAN) Matched-Pairs Analysis	2010: 2000 - 2009 state historic tax credits are associated with 43, 150 new or retained jobs w/ average salary of $42,732, $670 million in sales/use and income tax revenue, & $2.9 billion in private investment. Also higher than expected annual job growth and increases in high-paying jobs.
Montana 2013**	Direct Expenditures & Revenue Counts	1990-2013 federal historic tax credits (plus state credits after 1997) helped to finance 62 projects, over $59 million in development expenditures, supporting 1,140 jobs, and generating over $30 million in household income.
New Jersey* 1997	Input-Output (RSRC) Case Studies	Direct effects of historic preservation & heritage tourism estimated at $580 million annually. Historic preservation leads to creation of 10,140 jobs, $263 million in income, $543 million in taxes, $460 million in in-state wealth.

* Denotes study analyzed by VCU Center for Public Policy, in partnership with the Virginia Department of Historic Resources in the December 2007 report: An Economic Analysis of Virginia's Historic Rehabilitation Tax Credit Program.

** The Montana report is part of a series created by the National Trust for Historic Preservation in cooperation with state historic preservation alliances, entitled Prosperity through Preservation (2013).

Table 1. State-Level Historic Tax Credit Impact Reports* (cont'd)		
Oklahoma 2008	Input-Output (PEIM)	Between 2001 and 2007 an estimated $125 million was spent on historic rehabilitation in the state, generating 2,530 jobs, $70 million in labor income, $96 million in Gross State Product $6 million in annual state and local taxes.
Pennsylvania 2011	Input-Output	Between 1978 and 2010 an estimated $7 billion was spent on historic rehabilitation projects, generating $17.1 billion in total economic impact, $380 million in state tax revenues, and supporting 148,000 additional jobs.
Rhode Island* 2005	Input-Output (IMPLAN)	$1 million in tax credits leveraged $5.47 million in total economic output statewide.
South Carolina* 2002	Input-Output (IMPLAN) Case Studies	Historic preservation generates estimate of $735.5 million in revenue & nearly $22 million in labor earnings annually.
Texas* 1999	Input-Output Case Studies, Surveys & Interviews Cost-benefit analysis Tax-credit analysis	Historic preservation generates more than $1.4 billion of economic activity annually & supports 41,000 jobs. Rehabilitation of historic buildings contributes $192 million to Texas economy. Texas heritage tourism leads to $1.43 billion invested annually. Total historic preservation impact in 1997 on Texas economy is $1.758 billion.
Virginia 2007	Input-Output (IMPLANPro) Survey of tax-credit users in 2005 and 2006 Analysis of research by other states	From 1997 to 2006 the Virginia historic rehabilitation tax-credit program generated an estimated $1.6 billion in total economic effects, supporting 10,769 in-state jobs, $444 million of labor income & $46 million in state tax revenues.
Washington 2007	Input-Output (Washington State Input-Output Model)	From 2000 to 2004 total project spending using federal & state historic tax credits averaged $83.5 million annually, generating annual average sales of $221 million, 2,320 jobs paying $87 million in wages & salaries and generating $8.9 million in state & local taxes.
West Virginia* 1997	Input-Output (IMPLAN)	Historic preservation created an estimated 824 jobs & contributed $68 million in total business volume, generating over $1 million in tax revenue for West Virginia in 1996.

* Denotes study analyzed by VCU Center for Public Policy, in partnership with the Virginia Department of Historic Resources in the December 2007 report: An Economic Analysis of Virginia's Historic Rehabilitation Tax Credit Program.

More specifically, economic activity, including historic preservation, generates the following impacts:

Direct impacts: construction labor and building materials purchased for a rehabilitation project.

Indirect impacts: spending on goods and services by industries that produce items purchased for the historic preservation activity, such as purchases by a glassmaker used in a rehabilitation project.

Induced impacts: expenditures by the households of workers involved either directly or indirectly in historic preservation activity, such as the construction workers rehabilitating a historic building or the workers at the glassmaker that supplies the project.

A computer-based input-output model calculates these impacts, including the amount of income that accrues to labor and the amount that the local (or state) economy purchases through imports from other economies. As indicated in Table 1, one of several input-output models is typically used for these kinds of analyses:

RIMS II – The Regional Input-Output Modeling System

REMI™ – Regional Economic Models, Inc.

IMPLAN Pro™ – Impact Analysis for Planning

PEIM – Preservation Economic Impact Model

This report uses both quantitative and qualitative analysis. The IMPLANPro™ model is used to calculate the quantitative economic impacts of both Virginia state and Federal tax credit investments from 1997, when the Virginia program started operating, through 2012. These impacts are calculated both for the state as a whole and for each of 11 metropolitan statistical areas in Virginia. Case studies are then used to illustrate specific cases and to document both how historic tax credits play their catalytic role in the rehabilitation process and how rehabilitated properties help to stimulate further investment in the community. We conducted a total of six focus groups in Richmond, Roanoke and Winchester in November and December, 2013. Two focus-group discussions were conducted in each city, one with users of tax credits (developers, lenders, tax credit consultants, architects, etc.) and one with local-government officials.

Part I of the report presents the quantitative analysis of the impacts of historic tax credits. Part II discusses the city case studies, with additional detail on selected projects. Part III contains a summary and concluding observations.

I. ECONOMIC IMPACT ANALYSIS OF HISTORIC TAX CREDIT PROGRAMS IN VIRGINIA

A. Trends in the Use of Historic Rehabilitation Tax Credits

This section of the report presents the results of our quantitative analysis of the impacts of the historic tax credit program. For this analysis, the Virginia Department of Historic Resources provided us with data on every historic rehabilitation project that has been certified as being completed from the time of the program's inception in 1997 to 2013. These data include the property name, locality in which the property is located, street address of the site, contact information for the property owner or developer, 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 summarizes, for each year, the total number of projects, the number of projects that also received also Federal tax credits, the total amount of rehabilitation expenditures, and the total amount of State tax credits allowed.[2] From 2000 (when the Virginia Historic Tax Credit was raised to 25% of qualified rehabilitation expenditures) through 2011 (the most recent year for which all Virginia tax credit projects have been completed and certified), 174 projects have been certified each year, on average. The number of rehabilitation projects increased steadily from 1997 to 2005, when it reached its peak of 235 projects certified per year. The Great Recession of 2008-09 had a significant effect on the construction industry overall, but historic rehabilitation activity suffered only a moderate decline from its 11-year average. (See Figure 1.)

During its 17 years of operation to date, the State program has had a profound impact on private investment in historic rehabilitation. By allowing owners and developers to invest almost $1 billion in historic preservation in lieu of taxes, it has stimulated additional private investment of almost $3 billion – a total of $3.97 billion in 2,375 historic rehabilitation projects. The results of the 2012 VCU survey of tax credit users, as well as the results of focus groups discussed below, indicate that few, if any, historic rehabilitation projects would have been completed without the tax credit. Hence, it is safe to say that absent the $1 billion invested in lieu of tax payments, the additional $3 billion in private funds would not have been invested in historic rehabilitation.[3] Also, as indicated on Map 1, almost every community in the Commonwealth has benefited from the State tax credit program.

[2] Data for 2012 and 2013 reflect only those projects that had been certified by the Virginia Department of Historic Resources as certified, as of October 2013. Property owners have one year after their projects are completed to submit applications requesting final certification of their projects for tax credit purposes.
[3] The number of 2,375 refers to the projects, but sometimes a single property may include more than one project.

Table 2. Historic Rehabilitation Tax Credit Program Data for Virginia by Year

Dollar Values in Millions of Constant 2013 Dollars

Year	Number of Projects	Projects Receiving Federal Tax Credits	Rehabilitation Expenditures	State Tax Credits
1997*	26	23	16.12	1.61
1998*	29	21	20.61	3.09
1999*	64	46	93.25	18.65
2000	87	63	171.47	42.87
2001	121	77	229.03	57.26
2002	147	76	151.00	37.75
2003	161	74	229.29	57.32
2004	177	74	227.19	56.80
2005	235	102	272.06	68.01
2006	232	95	357.30	88.22
2007	203	72	327.76	83.11
2008	192	102	460.64	114.77
2009	199	121	465.59	118.39
2010	177	104	342.03	85.83
2011	157	115	220.87	55.21
2012**	146	92	365.50	91.33
2013**	22	7	24.09	6.11
Total	**2375**	**1264**	**3,973.80**	**986.35**

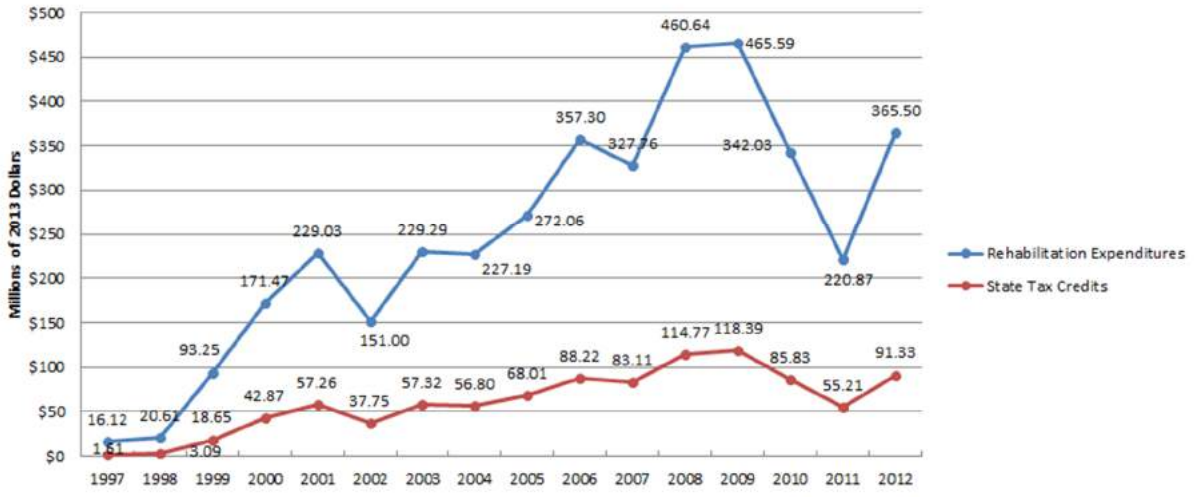
Source: Virginia Department of Historic Resources

* State tax credits in 1997, 1998 and 1999 were respectively 10%, 15% and 20% of the total project cost. The current 25% State tax credit was introduced in 2000

**2012 and 2013 data are for projects that had been certified by DHR as completed, as of October 2013

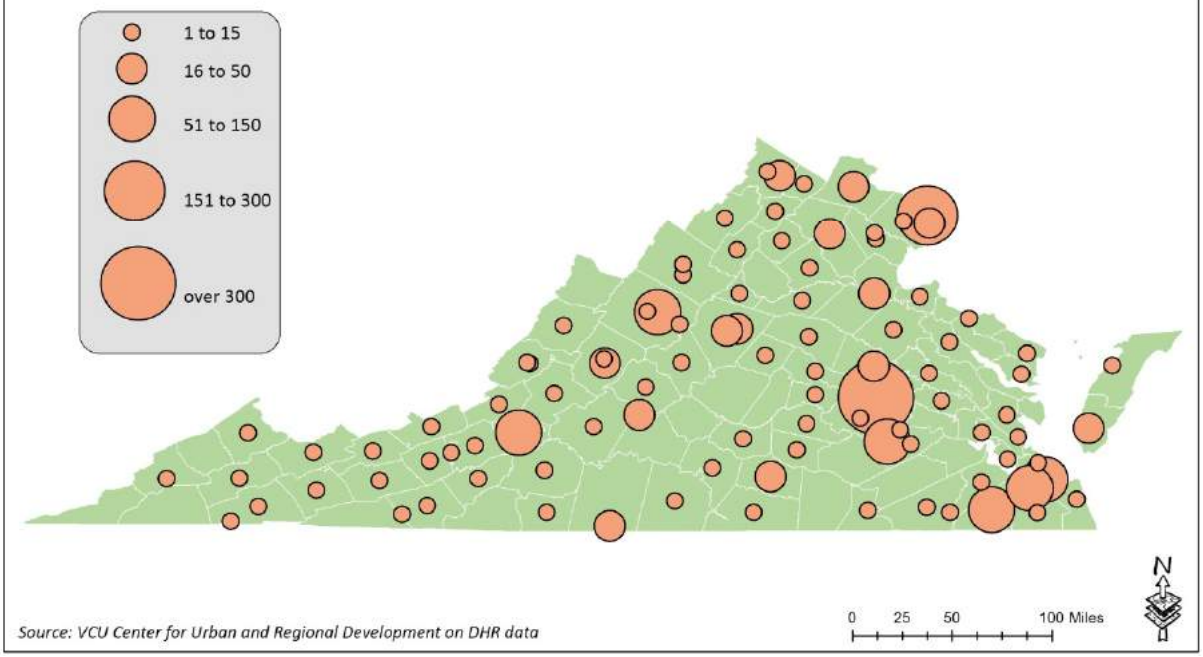
Figure 1. Historic Rehabilitation Tax Credit Program Data by Year

Rehabilitation Expenditures and State Tax Credits Awarded



Source: VCU Center for Urban and Regional Development on DHR data

Map 1. Geographic Distribution of Historic Tax Credit Projects in Virginia (1997 - 2013)



Source: VCU Center for Urban and Regional Development on DHR data

A special focus of this report is the effect that the Historic Rehabilitation Tax Credit program has on Virginia's communities. In order to appreciate its contribution to preserving and rehabilitating historic properties across the Commonwealth, we analyzed how the program has been implemented in each of Virginia's 11 Metropolitan Statistical Areas (MSAs). Table 3 summarizes, for each MSA, the total number of projects, the number of projects that also received Federal tax credits, the total amount of rehabilitation expenditures, and the total amount of State tax credits awarded. (see Appendix A for a list of cities and counties that comprise each MSA)

Table 3. Historic Rehabilitation Tax Credit Program Data, By Region of Virginia
Dollar Values in Millions of constant 2013 Dollars

MSA Region	Number of Projects	Projects Receiving Federal Tax Credits	Rehabilitation Expenditures	State Tax Credits
Blacksburg-Christiansburg-Radford MSA	14	13	$12.8	$3.2
Bristol MSA[1]	9	6	$18.7	$4.6
Charlottesville MSA	48	13	$92.7	$22.7
Danville MSA	17	11	$43.3	$10.8
Hampton Roads MSA[2]	278	95	$361.3	$89.9
Harrisonburg MSA	15	13	$22.1	$5.6
Lynchburg MSA	81	59	$180.2	$43.9
Northern Virginia MSA[3]	269	30	$171.1	$42.7
Richmond MSA	1185	761	$2,120.2	$527.0
Roanoke MSA	121	49	$313.9	$78.3
Winchester MSA[4]	38	29	$137.8	$34.2
Non-Metro Areas	300	185	$499.65	$123.61
TOTAL	**2375**	**1264**	**$3,973.8**	**$986.3**

Source: Virginia Department of Historic Resources, U.S. Bureau of Labor Statistics, and VCU Center for Urban and Regional Development

[1]The "**Bristol MSA**" is defined as the Virginia portion of the "Kingsport-Bristol-Bristol, TN-VA MSA

[2]The "**Hampton Roads MSA**" is defined as the Virginia portion of the "Virginia Beach-Norfolk-Newport News, VA-NC MSA."

[3]The "**Northern Virginia MSA**" is the Virginia portion of the "Washington-Arlington-Alexandria, DC-VA-MD-WV MSA."

[4]The "**Winchester MSA**" is the Virginia portion of the "Winchester VA-WV MSA."

The majority of the rehabilitation projects have taken place in three of the eleven MSAs:

- **Richmond MSA:** 1,185 projects (50 percent of total projects) and $2,120 million in rehabilitation expenditures (53 percent of total expenditures)
- **Hampton Roads MSA:** 278 projects (12 percent of the total projects) and more than $360 million of rehabilitation expenditures (9.1 percent of total expenditures)
- **Northern Virginia MSA:** 269 projects (11 percent of total projects) and $171 million in rehabilitation expenditures (4.3 percent of total expenditures)

This distribution is not surprising, given the fact that most properties are located in larger population centers. A significant number of projects (300) took place in localities that are not part of any MSA. It is a significant portion of the whole program with its 13 percent of total projects and almost the same share (12.6 percent) of total expenditures.

B. The Federal Tax Credit Program

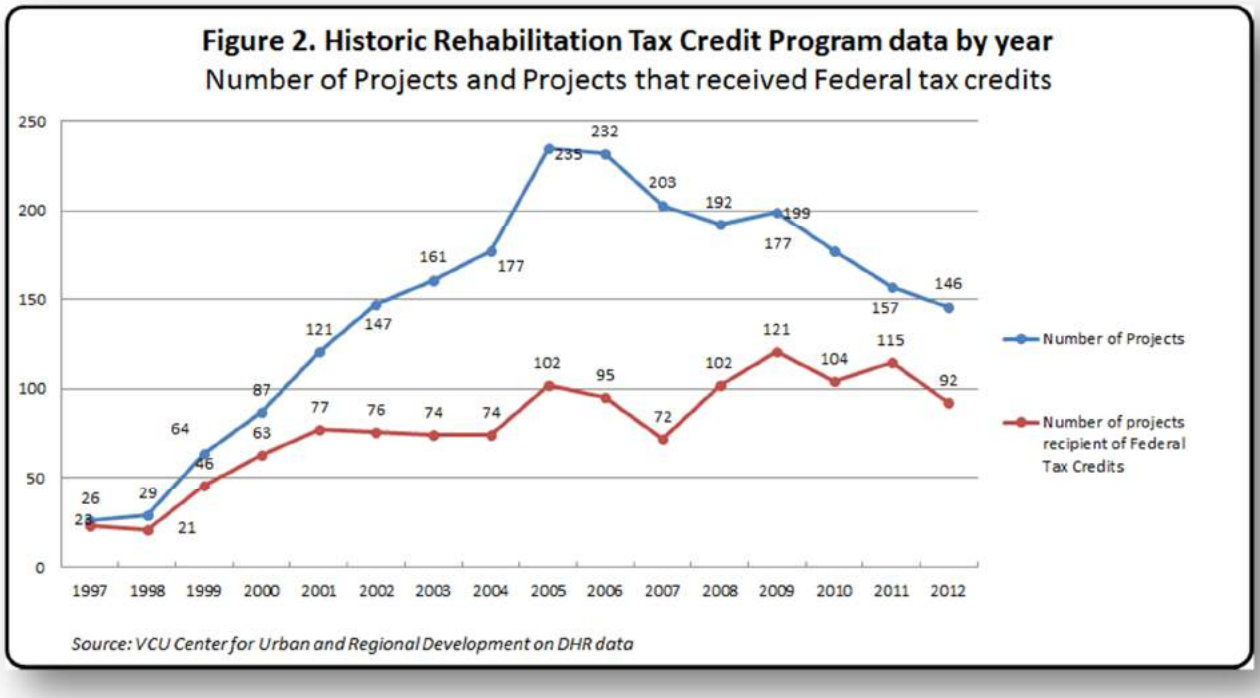
Virginia's Historic Rehabilitation Tax Credit Program is not the only incentive to preserve and rehabilitate historic buildings. As discussed in the Introduction, when a property owner undertakes the rehabilitation of a qualifying property and adheres to specific historic preservation standards, the project is eligible to receive State tax credits for 25 percent of the eligible project expenses. In addition, income-producing properties that meet the requirements of the Federal Historic Rehabilitation Tax Credit program are eligible to receive a 20 percent Federal income tax credit. Some local governments in Virginia also offer incentives to promote historic preservation; these incentives are typically through the abatement of local property taxes for a fixed period of time for the capital investment in historic properties.

Federal and State tax credit programs combined, therefore, can reduce the cost of rehabilitation by 45 percent. As discussed below, these incentives have played a key role in stimulating private investment and in preserving the character of hundreds of communities in Virginia and in all the other States where a similar program has been established.

As indicated in Table 1, of the 2,375 projects that benefited from Virginia tax credits, more than 50 percent also received Federal tax credits. Figure 2 shows how this relationship has changed over the years. When the State program was introduced in 1997 (the Federal program began operating in 1977),

almost all applicants were rehabilitating income-producing properties. In the ensuing years, however, owners and developers started utilizing the State Tax Credit Program on non-income-producing buildings (i.e. single family houses) as well. By 2004-2006, non-income-producing buildings represented the majority of projects. In recent years the ratio has inverted again; since the recession, projects that received both Federal and State tax credits are up to 70 percent of the total. As discussed later in this report, these patterns deserve further investigation.

For the 1,264 projects that received Federal tax credits, a government investment of almost $425 million leveraged (together with the contribution of State tax credits) private investment of more than $2.1 billion.



C. How Owners and Investors Use of Historic Rehabilitation Tax Credits

This report builds upon reports completed previously by this Center in 2007, 2010 and 2012 on historic tax credits in Virginia. For the 2012 study, a survey was administered to all property owners and developers who had participated in Virginia's Historic Rehabilitation Tax Credit Program and completed projects between 2007 and 2011. The survey covered different key topics, including the amount spent on rehabilitation, the use of property prior to and after rehabilitation, whether the projects received

additional tax incentives from the Federal or local government, and the importance of the State tax credit in completing the project.

Most of the results obtained from that survey (261 out of 566 mailed surveys) are still very current and therefore have been used for this report as well. In this section, the key topics that are relevant for the present study are summarized with the help of some tables.

i. Uses of the Property Following Rehabilitation

Table 4 shows the uses to which properties were put after rehabilitation: 73 percent of the respondents indicated that the property was used as a residence – either as a "Single family residence" (43 percent) or "Multi-family residence" (30 percent). Sixteen (16) percent indicated that their rehabilitated property was being used for "Office / commercial" purposes, 9 percent indicated "Retail," fewer than one percent (0.4 percent) indicated an "Industrial space," 3 percent said "Paid Lodging – hotel, motel, inn, or bed & breakfast," and 8 percent said that there was a different use ("Other") for the site. The other uses were: school, restaurant, dance studio and theater, museum, arts center, community theater and health center.

Table 4. Uses of the Property, Following Rehabilitation

	Percent
Single-family residence	43%
Multi-family residence	30%
Office / commercial	16%
Retail	9%
Industrial	0.4%
Paid lodging (e.g., hotel, motel, inn, or bed and breakfast)	3%
Other	8%

Source: DHR Tax Credit Program Survey and VCU Center for Urban and Regional Development.

Sample size = 261.

Note: Percentages do not add to 100 percent. Respondents may have selected more than one use type for the property.

ii. Additional Tax Incentives Received

Another question asked whether the respondent had received any tax incentives from the Federal government or a local government – in addition the Historic Rehabilitation Tax Credits that they received from Virginia. Fifty-seven (57) percent of respondents said that they had received Federal tax credits or incentives (consistent with the 53 percent reported in Department of Historic Resources data and presented in Table 1) and 31 percent said they had received local tax incentives (typically property tax abatement for a fixed period of time).

Table 5. Additional Tax Incentives Received

	Percent
Received Federal tax credits or tax incentives	57%
Received Local tax credits or tax incentives	31%

Source: DHR Tax Credit Program Survey and VCU Center for Urban and Regional Development.

Sample size = 261.

iii. Uses of State Tax Credits

Property owners, developers, and other organizations that receive Historic Rehabilitation Tax Credits from the Commonwealth of Virginia may use them to offset individual or corporate income taxes. The tax credits are typically applied to Virginia income taxes in the year that the rehabilitation is completed, though they can be carried forward for a period of up to ten years.

An alternative to using the tax credits directly is to place the property in the ownership of a tax-paying entity, usually a partnership of individuals and/or companies. (This is referred to as "syndicating" the tax credits.) Member partners contribute capital to the partnership. Once the rehabilitation work has been completed and certified by Department Of Historic Resources, the ownership entity will receive the tax credits and distribute them among the partners in accordance with the partnership agreement.

Fifty-two (52) percent of survey respondents said that they used the State tax credits for their own individual or corporate income taxes, 40 percent said that they formed a partnership or syndicate that

received the credits, and 7 percent did both, using a portion of their tax credits and syndicating the rest (see Table 6).

Table 6. Uses of State Tax Credits	
	Percent
Used tax credits myself / ourselves	52%
Syndicated the tax credits	40%
Both – Used a portion of the tax credits, syndicated the rest	7%
No Answer	1%

Source: DHR Tax Credit Program Survey and VCU Center for Urban and Regional Development.

Sample size = 261.

iv. Importance of State Tax Credits in the Decision to Undertake or Complete the Project

When asked to rate the level of importance that State tax credit assistance had in their decision to rehabilitate the property, almost all of the respondents (95 percent) said that the tax credits were either "Very important" (82 percent) or "Somewhat important" (13 percent) in their decision. (See table 7.)

Table 7. Importance of State Tax Credit Assistance in the Decision to Undertake the Rehabilitation Project	
	Percent
Very Important	82%
Somewhat Important	13%
Not Too Important	2%
Not Important At All	2%
Don't Know or No Opinion	1%

Source: DHR Tax Credit Program Survey and VCU Center for Urban and Regional Development.

Sample size = 261.

Respondents were also asked to indicate if they would have gone ahead with their rehabilitation project if the Virginia Department of Historic Resources had not approved their proposed scope of work and they had not received State tax credits. A majority (54 percent) said that they would not have rehabilitated the property without State tax credit assistance. These projects are considered to be fully dependent on the tax credit program. Thirty-one percent said that they would have gone ahead with their rehabilitation project without State tax credit assistance, but would have done less work at the site. These are projects that are partially dependent on the program. Only 8 percent of respondents indicated that they would have gone ahead with their full rehabilitation project, regardless of whether or not they received Virginia Historic Rehabilitation Tax Credits. (See table 8.)

Table 8. Status of the Project if the Proposed Scope of Work Had Not Been Approved for State Tax Credit Assistance

	Percent
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 this 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%

Source: DHR Tax Credit Program Survey and VCU Center for Urban and Regional Development.

Sample size = 261.

This last survey question informed our approach to estimating the economic impact of the Virginia Historic Tax Credit Program. As discussed below, rather than run any risk of overestimating the impacts, we have taken a very conservative approach and have adjusted our impact estimates downward to reflect the responses presented in Table 8.

D. Economic Impacts of Virginia's Historic Rehabilitation Tax Credit Program

i. Methodology

Here we present the results of the analysis that we conducted for the economic impact of expenditures to rehabilitate historic properties in Virginia. For this task, we used IMPLAN Pro™ software to prepare and customize an economic model for the state. IMPLAN is a regional input-output computer modeling system used by economists to estimate the effects of spending and policy actions. Economic impact analyses are simulations that predict the economic effects upon a regional or State economy of a policy, program, project, activity or event occurring in the State or regional economy. We used IMPLAN Pro™ to estimate the economic effects that would take place as goods and services are purchased in connection with the rehabilitation of historic properties.

The geographic "study areas" used for this analysis are the Commonwealth of Virginia, as a whole, and each of Virginia's MSA regions. Separate estimates are prepared for the economic impacts taking place in each study area. Only the money spent with businesses in Virginia has an impact on the Commonwealth's economy. Similarly, only money spent within the boundaries of a particular MSA will generate economic activity for that region. This means that, as part of the IMPLAN modeling process, expenditure data exclude purchases that are made at establishments outside of the area and the cost of goods sold that are not produced in the region. This spending is said to "leak out" to other geographic areas.

The IMPLAN model divides economic activity into three components, direct, indirect, and induced effects, and then sums them to derive a total economic impact. (see Table 9).

Table 9. Definitions of IMPLAN Impacts Terms

Impact Term	Definitions
Direct Impact	The initial expenditures, or production, made by the industry experiencing the economic change
Indirect Impact	The effects on local inter-industry spending through the backward linkages (which are the tracking of industry purchases backward through the supply chain)
Induced Impact	The results of local spending of employee's 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 & IMPLAN Applications"

Direct effects are expenditures made by developers or property owners who rehabilitate historic buildings. This spending includes labor and materials, including the purchase of goods and services from a number of industries, ranging from architects and lawyers to construction workers and restoration specialists, as well as goods such as building materials. 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 architects and builders) 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 local economy is stimulated further.

Induced effects are generated by changes in household expenditures. When companies receive more business because of the direct and indirect effects, they meet the new demand by hiring additional workers or paying existing employees to work longer hours. As a result, these employees will have more money to spend for 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, along with an estimate of the value of benefits earned by these workers. Labor income also includes payments received as income by freelance employees.
- **Value Added**: in addition to labor income, value added includes income from rents, dividends, profits, royalties, interest, and indirect business taxes paid by companies. Value added is the contribution of this economic activity to the regional Gross Domestic Product (GDP) – defined as the value of all final goods and services produced within the borders of a State.
- **Economic Impact**: the overall economic effects on the region, which can be viewed as the total (additional) output generated by the project and which is equal to the value added plus intermediate expenditures. Another way to look at it is to 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 both full-time and part-time employees, supported by the new economic activity.

ii. Rehabilitation Expenditures Attributable to the Historic Tax Credit Program

As indicated in Table 2, approximately $4 billion (in 2013 dollars) in qualified rehabilitation expenditures were made in Virginia between 1997 and 2013. This brings the average cost of a project to $1.67 million (see table 10). However, prior to estimating the impact from this spending, the total amount needs to be adjusted so that it includes only those expenditures that can be attributed directly to the tax credit program.

Table 10. Average expenditure per project

	Amount
Total expenditures *(Millions of 2013 $)*	3,973.80
total number of projects	2,375
Average expenditure per project *(Millions of 2013 $)*	**$1.67**

Source: Virginia Department of Historic Resources

The survey of tax credit recipients presented in Table 8 above indicates that 54 percent of respondents would not have rehabilitated their property without the incentive of the State tax credit. By applying this percentage to all projects, it is estimated that 1,283 projects (54 percent of the total) are fully dependent on the presence of State tax credit (see table 11). In terms of expenditures, these projects are responsible for $2.14 billion of rehabilitation spending.

An additional 31 percent of survey respondents indicated that they would have done less work on their project if they had not received State tax credits. Applying this percentage and the average per-project expenditure gives an estimate of 736 additional projects and $1.23 billion in rehabilitation expenditures that are partially dependent on State tax credits. However, for projects that are partially dependent we do not know how much less work would have been done. For this analysis, a conservative estimate is made that there would have been a 50 percent reduction in the amount of work done on these projects if State tax credit assistance had not been available. This reduction, and the expenditures that would not have been undertaken, reflect the amount of spending attributable to the State tax credit program – an estimated $615 million (i.e., 50 percent of $1,230 million). (See table 11)

Table 11. Estimated Number of Projects and Amount of Expenditures that Were Fully or Partially Dependent on State Tax Credit Assistance	
Total number of projects	2,375
Projects that were fully dependent on State Tax Credit Assistance	
Number of projects (54% of total)	1,283
Estimated expenditures (@$1.67 million per project) *Millions of 2013 $*	$2,142
Projects that were partially dependent on State Tax Credit Assistance	
Number of projects (31% of total)	736
Estimated expenditures (@$1.67 million per project) *Millions of 2013 $*	$1,230
Estimated expenditures considered for this study* *Millions of 2013 $*	$615
Overall estimated expenditures considered for this study *Millions of 2013 $*	**$2,758**

Source: Virginia Department of Historic Resources

*Since for projects that are partially dependent it is not known how much work would have been left undone without State tax credit assistance, for this analysis a conservative estimate is made that there would have been a 50 percent reduction in the amount of work done.

Combining the expenditures that are fully dependent ($2.14 billion) on State tax credit assistance and the portion of the spending for projects that are only partially dependent ($615 million) results in an estimate of the total spending attributable to Virginia's Historic Rehabilitation Tax Credit Program – $2.75 billion over 17 years.

iii. Impacts on the Commonwealth of Virginia

When analyzing the economic impact of any project expenditure, we must consider so-called leakages, which represent those expenditures that are made outside the study area. After making adjustments for leakages and the cost of goods sold, it is estimated that approximately $2.35 billion, from the total rehabilitation expenditures of $2.75 billion, will generate effects on the State economy.

Compared with the results obtained two years ago in a similar study conducted by this Center, the reduction (leakage) is equal to more than 14 percent of the total expenditures, while two years ago this reduction was only 6.2 percent. This may be due to the economic recession of 2008-09. Between 2009

and 2012 (the years of the two IMPLAN data packages used for the two studies) Virginia's economy apparently lost some of its economic activities, and this is reflected in a different input-output pattern. In other words, some of Virginia's businesses now need to buy their supplies out-of-State, resulting in greater leakage than what was experienced four years ago. This issue is even more noticeable at the MSA level, where internal economic linkages are naturally weaker and therefore the effects of the economic recession are magnified. The weaker are the linkages among buyers and sellers within an economy, the greater is the leakage of spending out of the economy. In turn, the greater the leakage of spending outside the economy, the lesser is the total economic impact of the tax credits within the economy.

The **total economic impact on the Commonwealth of Virginia from rehabilitation spending is estimated to be $3.93 billion.** The Gross State Product (value added) generated by historic rehabilitation spending is approximately $2.4 billion, while the labor income (total value paid to workers within the State) is approximately $1.54. The overall economic activity generated a demand for labor that supported more than 31,000 jobs (both full- and part-time) over the 17-year period considered. This number is lower than what was estimated in the previous study. Here too, the explanation probably lies in the economic contraction that Virginia's economy experienced during the recession and the effects that this had on economic linkages and therefore leakages, within the state.

Spending on rehabilitation projects also generates new tax revenues for Virginia and its localities. Economic activity from the initial expenditures and subsequent effects in related sectors is subject to taxation, including sales and use taxes, income taxes, and other State taxes. Applicable tax rates were applied through IMPLAN to the expenditures at the direct, indirect, and induced levels to estimate the total tax impact. Direct spending for rehabilitation projects, along with spending in related sectors and purchases made by employees, generates an estimated $133 million of State and local tax revenues.

Table 13 shows the total economic and employment impact by industry sector. Most of the new jobs and increased economic activity take place in the construction sector. But trade and professional services also benefit from the program; in particular industries like legal services, accounting services, and architectural and engineering services, or wholesale trade and several retail trade industries (food and beverages in particular).

Table 12. Estimated Impacts to the Commonwealth of Virginia from Rehabilitation Expenditures

Dollar Values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor income	$1,012	$238	$286	$1,537
Value added	$1,484	$362	$531	$2,377
Economic Impact	$2,444	$628	$854	**$3,926**
Employment Impact *(number of jobs)*	19,880	4,562	6,692	**31,133**
Tax Impact				**$133**

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

Table 13. Estimated Economic and Employment Impact to the Commonwealth of Virginia from Rehabilitation Expenditures, by Major Industry Sector

Classification by output *(Millions of Constant 2013 $)*			**Classification by employment** *(Number of Jobs)*		
Industry	**Total Economic Impact**	**Percent of Total Impact**	**Industry**	**Total Emplyment**	**Percent of Total Employment**
Construction	$2,374	63%	Construction	20,011	64%
Trade (wholesale and retail)	$240	6%	Trade	3,139	10%
Professional services	$214	6%	Professional Services	1,856	6%
Real estate	$192	5%	Health care	1,020	3%
All Other Industries	$906	20%	All Other Industries	5,107	17%
Total	**$3,926**	**100%**	**Total**	**31,133**	**100%**

Source: Estimates developed on DHR data by the VCU Center for Urban and Regional Development using IMPLANProTM. Inflation adjustments made using the U.S. Bureau of Labor Statistics' "Consumer Price Index for All Urban Consumers".

iv. Impacts on Virginia's Metropolitan Statistical Areas

An approach similar to the one used for the Virginia impact analysis is applied to estimate the economic and employment impact generated by rehabilitation spending within each of Virginia's MSAs. (Note that

we calculated these impacts only for the portion of the MSAs that lies within the Commonwealth of Virginia. The Hampton Roads, Northern Virginia, Bristol and Winchester MSAs all include areas in neighboring states. Appendix B includes a list of the MSAs and their constituent Virginia jurisdictions.)

Our procedure is as follows. First, the total spending for each MSA is calculated using the Virginia Department of Historic Resources data. Next, IMPLAN models are developed for each MSA and the impacts on the region are estimated. Leakages from each MSA are estimated and deducted from the total spending in the region. These include amounts for purchases made outside of the MSA and the cost of goods sold for products that are not produced in the region. Only money spent with businesses in an MSA has an impact on that region's economy. As already noted for the state level, the MSAs experienced greater leakage of spending and therefore slightly smaller overall impacts, than those recorded in a similar study conducted by this Center two years ago.

The survey findings presented in Table 8, which indicate the extent to which developers and investors depend upon the State tax credit, are applied to the MSA impact calculations as well: 54 percent of the expenditures in each MSA are fully dependent on the State tax credit, while another 31 percent is only partially dependent. Using the same assumptions made for the state-level calculations (50 percent less work would have been done without tax credit) we reduced the 31 percent by 50 percent, assuming only an additional 15.5 percent of total spending in the MSA is dependent on the tax credit. Combining these two percentages, **70 percent** of qualified rehabilitation spending in each region is used when analyzing the impact for the MSA. Tables 14 through 24 provide details on the estimated total impacts (economic impact, value added, labor income, and employment impact) from rehabilitation spending in each of Virginia's MSAs.

When examining the MSA-level impacts, it is important to keep the following points in mind:

1. **The values for economic impact, employment impact, value added, labor income, and State tax revenue that are estimated for Virginia are greater than the combined impacts from the eleven 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. **The impacts are not estimated for rehabilitation spending that took place in Virginia cities or counties that are not part of an MSA region**.

   These localities were grouped together and classified as "Non Metro Areas" in Table 3. However, 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 that are not included within an MSA.

3. **The smaller the MSA, the greater is the leakage of spending outside the MSA and therefore the smaller is the overall impact of the tax credits.**

Blacksburg – Christiansburg – Radford MSA

Blacksburg-Christiansburg-Radford MSA has experienced the smallest amount of rehabilitation spending and, consequently, the lowest levels of impact. For the period 1997-2013, it is estimated that almost $9 million of qualified[4] rehabilitation expenditures are dependent on tax credits. This spending has generated an overall economic impact of $8.4 million, supporting 76 new jobs (table 14).

Table 14. Estimated Impacts to the **Blacksburg MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$2.3	$0.4	$0.3	$3.0
Value Added	$3.4	$0.6	$0.7	$4.7
Economic Impact	$6.1	$1.0	$1.2	**$8.4**
Employment Impact *(number of jobs)*	56	10	11	**76**

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

[4] Here for qualified expenses we consider the 70% of overall rehabilitation expenditures that took place in each MSA, since it is only this 70% that is dependent on tax credits and it is only this 70% that has been used to estimate the economic impact of the Historic Rehabilitation Tax Credit program.

Bristol MSA

Within the Bristol MSA, almost $14 million of rehabilitation expenditures in the Bristol MSA that were dependent on the presence of State tax credits, generated, for the whole 1997-2013 period, an estimated economic impact of $10 million and an additional 111 supported jobs (see table 15). In this case, spending leakage was so significant that the overall impact is lower than the actual rehabilitation spending.

Table 15. Estimated Impacts to the **Bristol MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$1.4	$0.5	$0.3	$2.1
Value Added	$3.0	$0.9	$0.6	$4.5
Economic Impact	$7.5	$1.6	$1.0	**$10.0**
Employment Impact *(number of jobs)*	88	14	8	**111**

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

Charlottesville MSA

It is estimated that approximately $65 million of the preservation work that took place in the Charlottesville MSA would not have occurred without the presence of State tax credits. This spending generated almost $80 million in economic impact and enough economic activity to support 747 jobs (see table 16).

Table 16. Estimated Impacts to the **Charlottesville MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$16.8	$4.5	$4.0	$25.2
Value Added	$28.7	$7.2	$7.7	$43.6
Economic Impact	$55.3	$12.3	$12.2	**$79.8**
Employment Impact *(number of jobs)*	538	107	102	**747**

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

Danville MSA

In the Danville MSA, $30 million of qualified rehabilitation expenditures are estimated to have generated more than $24 million in overall economic impact. This economic activity results in $10.5 million in Gross Regional Product (value added) and $4.9 million paid in wages and benefits. In addition, 280 jobs are supported by this economic activity (see table 17).

Table 17. Estimated Impacts to the **Danville MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$3.4	$1.0	$0.5	$4.9
Value Added	$7.6	$1.7	$1.2	$10.5
Economic Impact	$19.1	$3.1	$1.9	**$24.1**
Employment Impact *(number of jobs)*	229	34	17	**280**

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

Hampton Roads MSA

The Hampton Roads MSA has the second largest amount of rehabilitation expenditures dependent on the presence of State Historic Rehabilitation Tax Credits. During the 1997-2013 period more than $250 million in rehabilitation expenditures generated an overall economic impact of $320 million, which in turn supported an additional 2,470 jobs (see table 18). For this MSA the ratio of *qualified rehabilitation expenditures (70 percent) to overall impact* is much higher than it is for smaller MSAs because larger MSAs experience less spending leakage than do smaller ones.

Table 18. Estimated Impacts to the **Hampton Roads MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$100.4	$12.8	$21.9	$135.0
Value Added	$138.8	$20.1	$43.1	$201.9
Economic Impact	$216.7	$34.5	$69.7	**$320.9**
Employment Impact *(number of jobs)*	1,576	304	590	**2,470**

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

Harrisonburg MSA

For the Harrisonburg MSA we estimate that $15.5 million of qualified expenditures, from 1997 to 2013 are made because of Virginia's Historic Rehabilitation Tax Credit Program. Table 19 shows how this spending generated an overall economic impact of $16.9 million and supported 178 additional jobs (see table 19).

Table 19. Estimated Impacts to the **Harrisonburg MSA** from Rehabilitation Expenditures

Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$2.2	$0.9	$0.5	$3.6
Value Added	$5.6	$1.4	$1.0	$8.0
Economic Impact	$12.6	$2.5	$1.7	**$16.9**
Employment Impact *(number of jobs)*	141	23	14	**178**

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

Lynchburg MSA

In the Lynchburg region, more than $126 million of qualified rehabilitation expenditures that depend on State tax credits are estimated to have generated almost $157 million in economic impact, supporting 1,482 jobs (see table 20).

Table 20. Estimated Impacts to the **Lynchburg MSA** from Rehabilitation Expenditures

Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$31.6	$8.4	$6.4	$46.4
Value Added	$57.3	$12.9	$14.0	$84.3
Economic Impact	$110.6	$23.0	$23.2	**$156.7**
Employment Impact *(number of jobs)*	1,074	205	204	**1,482**

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

Northern Virginia MSA

The region of Northern Virginia has the third largest number of rehabilitation projects (269) but a relatively limited amount of qualified rehabilitation expenditures – almost $120 million, which makes it the fifth MSA for magnitude of expenditures behind the Richmond, Hampton Roads, Roanoke and Lynchburg MSAs. This particular aspect can be explained with the average size of projects in the Northern Virginia MSA, which is significantly smaller than the average size estimated at State level ($0.62 million versus $1.67 million at State level). The nature of the rehabilitation industry in Northern Virginia appears to be somewhat different from that of the rest of the Commonwealth. The small size of the projects, coupled with only minimal use of the Federal tax credit program, implies a focus on smaller properties for use by home owners, rather than larger, income-producing properties.

Table 21 shows how this spending has generated an economic impact of $145 million, supporting 1,107 jobs in the region.

Table 21. Estimated Impacts to the **Northern Virginia MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$43.2	$9.5	$9.3	$62.0
Value Added	$62.2	$13.7	$16.2	$92.1
Economic Impact	$100.3	$20.9	$24.8	**$146.1**
Employment Impact *(number of jobs)*	769	152	186	**1,107**

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

Richmond MSA

By far, the largest amount of qualified rehabilitation expenditures– $1.48 billion – took place in the Richmond MSA. In this case the leakage to other regions was minimal, and the spending generated an economic impact of almost $2.4 billion, supporting 17,104 jobs (see table 22).

Table 22. Estimated Impacts to the **Richmond MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$633.7	$114.7	$188.8	$937.1
Value Added	$910.3	$175.1	$348.6	$1,434.1
Economic Impact	$1,418.9	$295.8	$559.9	**$2,274.6**
Employment Impact *(number of jobs)*	10,261	2,364	4,479	**17,104**

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

Roanoke MSA

It is estimated that almost $220 million of the total qualified rehabilitation expenditures that occurred within the Roanoke MSA from 1997 to 2013 is due to the presence of State tax credits. This spending generated an economic impact of more than $250 million and supported 2,101 jobs (see table 23).

Table 23. Estimated Impacts to the **Roanoke MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$68.2	$11.6	$16.0	$95.8
Value Added	$102.1	$18.2	$31.8	$152.1
Economic Impact	$172.1	$31.1	$50.7	**$253.9**
Employment Impact *(number of jobs)*	1,409	280	412	**2,101**

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

Winchester MSA

In the Winchester MSA from 1997 to 2013 a total of $96.5 million was spent on rehabilitation projects that were dependent on State tax credits. Table 24 shows the impacts for this spending: $94.3 million in economic impact, which supported 801 jobs in the region.

Table 24. Estimated Impacts to the **Winchester MSA** from Rehabilitation Expenditures
Dollar values in Millions of Constant 2013 Dollars

	Direct	Indirect	Induced	Total
Labor Income	$25.5	$4.5	$4.3	$34.3
Value Added	$38.3	$7.5	$9.4	$55.2
Economic Impact	$65.9	$13.4	$15.0	**$94.3**
Employment Impact *(number of jobs)*	553	119	129	**801**

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

II. CASE STUDIES

The quantitative analysis in Section I showed the employment and dollar volume of the impacts of state and Federal historic tax credits in Virginia. This section of the report sheds light on how the tax credits achieve these impacts and how the impacts improve the investment climate and community well-being overall. The cases were developed from six focus groups conducted in three cities – Richmond, Roanoke and Winchester – in November and December 2013. In each city, we conducted two focus groups, one with users of the tax credits – developers and investors, lenders, tax credit consultants, architects, accountants, architectural historians, and professional associations – and one with local-government officials – community planners, historic preservation officers, and economic-developers. Preservation Virginia constituted the groups by soliciting participation from 70 persons in the three cities. A total of 28 persons chose to participate – ten in Richmond and nine each in Roanoke and Winchester. The user group in Richmond included persons who have worked on projects in Petersburg and who mentioned these examples also. No remuneration was offered to participants.

Each discussion lasted 60-75 minutes. Although the discussion themes in the two groups were similar, users were asked to focus more attention on the projects they had completed and on the role of tax credits in their projects, whereas local-government officials were asked to focus more attention on the community impacts of the projects rehabilitated with historic tax credits. Both groups were asked to reflect on how a hypothetical reduction in the availability of historic tax credits would affect historic rehabilitation, and how changes to the tax credit programs could increase their economic impacts. The focus-group protocols are included in Appendix A. During the discussions, one member of our research team took detailed, nearly verbatim notes, while the other posed the questions. No discussions were recorded electronically. Immediately following each discussion, we went over the notes for up to one hour, filling in gaps and clarifying comments, so that the resulting record is very accurate. All participants were promised anonymity in our reporting of their comments.

Although each focus group made somewhat unique observations, it became clear that all of the observations can be grouped into a small number of categories that are common to the groups.

Accordingly, this presentation is organized by category, rather than by city, so as to minimize redundancy. Images of some key projects are included as well.[5]

All of the participants have significant experience in historic preservation or community development; some for two decades or more. Their considerable knowledge and experience with the development process is reflected in their thoughtful and nuanced perspectives on the impacts of this economic-development tool. Within each of the three cities, historic tax credits have been used in or near the downtown, as this is where the majority of historic properties (especially those that can be rehabilitated as income-producing properties and which can therefore utilize the Federal historic tax credit) are located.

A. Synergy among Necessary Elements

Historic rehabilitation is a complex process with multiple requirements. One is that there be a building stock that is not simply old, but historically significant. Another is that there be financing. As discussed below, historic tax credits are an essential component, but so too is debt capital. A supportive local government is also important, to the extent that it helps to facilitate property transfers, makes complementary improvements in infrastructure, streetscape and public services, especially public safety, and in some cases adds other local funds to the mix. Finally, successful historic rehabilitation requires the involvement of a number of professionals -- developers, skilled construction workers, lenders, investors, tax credit consultants, architects, accountants, lawyers, architectural historians, local- and state-government officials – and others. But it is the synergy among these elements that really makes historic rehabilitation work and this is why experienced partners are so important. As one local-government official put it:

> *It's a chicken and egg thing. The City invested in public infrastructure, replacing utility lines, sidewalks, etc. The use of tax credits incentivized City Council to make the investments. … Clearly the City has a much clearer vision today of where they want to go than ten years ago. … The private sector is seeing that and is getting excited. … If the private sector would not have come along, citizens would have been upset with all this public money being spent for nothing. But it's not happening because they are seeing results and private investors are investing their money. But the tax credit*

[5] In the account that follows, italicized lettering is used to denote direct quotes. … are used to denote that we have removed words from the quote. [ ] are used where we have added or modified a participant's words.

was crucial. There was no amount of public improvements that would have made these [historic] buildings work without the tax credit.

B. Passionate Professionals

The people involved in the rehabilitation of historic buildings and towns are not only experts; they are people who are passionate about preserving our historic heritage. This was expressed repeatedly:

We are all passionate about historic preservation. Most of our work is based on emotions; we don't want beautiful buildings to be torn down.

My parents gave me this passion. You get hooked, sometimes involuntarily. It's passion. We are continuing to lose important historic buildings. Someone has to preserve the rest of them.

I don't like waste. I like historic architecture. I love to walk into a historic building and see how people lived. And then you can tell in a modern building how people live now. Noticing the difference is cool. It enriches your life.

It's just a very rewarding thing to bring buildings back to life. A 17[00s] shell can be made viable and brought to our century. … The downtown area was a very strong attraction for my family. We relate to what happens here. …

[P]assion for historic preservation is a big part of who does this job. The financial aspect is important, but you wouldn't do it without passion. In Virginia you had all these assets sitting there deteriorating, which is a loss in itself and for the community. You are lucky that you have all these people who love history and want to rehab instead of building new construction. They put in a lot of free labor, but the only thing that makes it possible for them to work on these projects is tax credits.

This last comment pulls together several important points. As discussed in the introduction, historic properties represent sunk costs – deteriorating assets that can be brought back into use in service of the modern, creative economy. But the transition from old uses to new cannot be made by private investors alone; it requires a partnership with government and it requires something else as well – professionals who are committed to this work and who are therefore willing to put in a lot of free labor to do it. And unlike conventional development, historic rehabilitation, especially with tax credits, requires much extra effort. As one developer put it:

There is a negative side of the tax credit. It requires a lot of work, and it costs a lot, paying consultants and inspectors. … Another stated:

The market came back in the past ten years. Tax credits don't make a difference if people don't want to come back downtown. But it seems that there is a new market for that. Generations change and now there is a demand to improve downtown. Developers usually don't want to do it because it is a complex process to use tax credits. You need professionals.

C. The Necessity of Historic Tax Credits

Focus-group participants stated that very few of the projects with which they are familiar would have been completed without the use of historic tax credits. Although a couple of the large projects may have been completed with fewer tax credit funds, the quality of the finished product would have been so low as to be unattractive to users:

Without historic tax credits, our downtown would have been frozen in time.

The Patrick Henry Hotel would sit vacant without tax credits.

Every single building that I've done would not have happened without tax credits. … Tax credits are the only way to save these buildings. We see it all over the state.

The biggest issue is that these projects wouldn't be bankable. Fair market value is probably less than the amount of money needed to fix it. A lender wouldn't bank the project.

Most of the projects would not have happened without tax credits. Tax credits become equity and without that equity you couldn't make the deal. It wouldn't make sense for the investor. The developers I've worked with wouldn't have done any projects without tax credits.

[Of the projects I've worked on], two wouldn't have been done at all without tax credits. The hotel wouldn't have been impossible. They would have done a much downscaled project. Probably they wouldn't have done any exhibit area. They would have cut corners. [Another] project would have been different -- [it would lack every distinctive feature that was put in place to attract and stimulate users]. When you have disinvestment in the area you need to bring people back, and to bring people back you need to produce good quality products, and therefore you need to invest money, and tax credits are crucial. This way you stimulate demand and you give the private investor the confidence to invest some more, because they see the market.

In a place like Petersburg it is complicated to have your property appraised. The tax credits fill the gap.

The Patrick Henry School would not have been done without tax credits. It's a very challenging project. It was required to meet ADA compliances [because it became a charter school], but the City had no money to meet these requirements. It's an historic building and the only way to make it happen was through tax credits.

St. Andrew's School is a project that could not have been done. It doesn't have an income of its own. It was a public safety issue, and it was this beautiful building. The control of the tax credits [over rehabilitation] was great, because all the historic features of the building had to be kept. The tax credits served the building, not another purpose. It made the institution fit into the skin. It could not have been done without tax credits. Or at least not like that. Probably it would have kept deteriorating.

D. Impacts – Properties Restored with Tax Credits Bring People Downtown, Create New Employment Spaces, and Improve the Investment Climate

Properties restored using historic tax credits revitalize the community, allowing repurposed buildings to serve the needs of the modern, creative economy.

Investment Climate

We move our office to the worst-looking spot to catalyze development. … You can go block by block and see all the effects.

It's always the same thing: You come in, get a building in the middle of junk, you renovate it and within 5-10 years the whole area is rehabilitated. Over and over again. Over the long term it is difficult to say how many jobs are created, but the ripple effects are long.

You nail down one corner and people get more comfortable to come and invest. [This project] was done by a suburban developer who didn't want to do anything in the city, but we convinced him that it was a good risk.

Old Towne Petersburg has become a Virginia movie set, with Killing JFK and Tom Hanks and also a TV series. The governor gave incentive funds [to the film company] and they were looking for areas

where to shoot, and they chose Virginia over Romania. There is a lot of economic spin-off bringing people here for filming.

[Historic rehabilitations are] incremental investments brought by individuals [not big mega-projects]. A system like this that corrects itself over time is infinitely more stable, more flexible, more intuitive. Not everything has to work, … but investors and clients keep coming back. They love it and they come back.

This program pays for itself, because it increases tax revenues and revitalizes downtown.

Once a success story is known around the community, more people are interested in pursuing tax credits. People are asking to go back downtown.

It catches on when people see their neighbors doing it.

Success breeds success. People are seeing the possibility of building on the city infrastructure and tax credits to rehabilitate their properties. Downtown is a place to be. Higher density of residences has a cascade effect on the economy – bringing more businesses. Overall, there's a changing perception of the city and the downtown.

Picture 1 - The Cotton Mill, Roanoke (VA)
Photo: Katharine Gray

The Cotton Mill [Roanoke] is an example of spillover effects. [An advertising agency] located nearby and a restaurant is right across the street [now]. A former hospital [in the area] is being developed… [Another investor just] bought a property in the area because he believes the neighborhood can be transformed. It's quickly becoming a desirable, attractive neighborhood. It is a perfect example of a residential project transforming a neighborhood, with less crime and prostitution. A block away is Miller's Hill… That project has been followed by other projects, most of which are not tax credit projects.

Rehabilitation helped a lot and now a lot of property owners want to invest in that community. There are job impacts, maybe not in that building, but in businesses that decide to invest there. When a project is done it's not just the building that is done but the whole area benefits from it.

People

Jane Jacobs [an author of books on the vitality of cities] observed that it's important to have eyes on the street. People are excited to feel the difference, especially at night when you feel safer. … Tax credits create the space that facilitates night-time street activity.

Picture 2 - The National Theatre, Richmond (VA)
Photo: Johannas Design Group

Historic preservation is important to preserve old buildings but it's also important to bring back life in your downtown – revitalize the urban fabric and attract the creative class. That is the most important aspect and what makes people passionate. … It's amazing what historic preservation can do for a downtown. … Historic preservation is the way to preserve [downtown], but what is important is the quality of life. Buildings are a means to recreate community where people want it. It's cumulative, it's environmentally appropriate.

Now there is something going on every night. It's a safe district; when there is activity, people walk around. Fifteen years ago we had 30 people living downtown; now there are 1,600. Houses range from $4 million condo units to $650 rent per month. And most have been done with tax credits.

Historic preservation makes a block more safe to walk; to spend time in. I'm out late at night and I think about the restaurant where I am and if I can walk to my car. Preservation creates a sense of place – Maggie Walker School [in Richmond] is a good example.

Ten years ago downtown was a ghost town. Now there are people everywhere. They came back here, they live here in apartments and businesses are responding. Jobs have been created. Not so long ago, banks and services were scarce, now there are more.

[T]he rehabilitation of 16 units in an English Tudor building on Windsor Avenue [Roanoke] created an impact in the immediate area – adjacent residential property values went up…People around the area were concerned because of the criminality in the building. The perception of safety improved after it went to the historic registry and rehabilitation.

Historic rehabilitation has effected such a change in certain areas, like Tobacco Row and Broad Street near the [Sara Belle and Neil] November Theater [in Richmond]. It really has contributed to the feeling that the city is safe and walkable. It's not just jobs. People are moving here because they want to be here. … Young people today are going not where the jobs are but where they want to be. Richmond has become an attractive place.

Church Hill [Richmond] is a perfect example. Enough people are reinvesting in the area and create a critical mass to attract more businesses. Property values are going up and sometimes now you can even renovate without needing the help from tax credits. These property values went up because of previous tax credit projects.

Picture 3 - Lewis Jones Knitting Mill, Winchester (VA)
Photo: Frazier Associates

Downtown had all these stores that eventually left. Now we are bringing people back downtown. Downtown is becoming a destination for specialty goods, business meetings, coffee; also for tourism. It's a living, breathing downtown that works well and preserves historic resources.

Before the George Washington Hotel [Winchester] there was no place to go for people who wanted to come into the city for a weekend. Now they can stay there and shop downtown. This is economic development. … That hotel and the Lewis Jones Knitting Mill attract other activities that take advantage of the facilities, for parties, events, and training programs. That brings people to the downtown area, who maybe wouldn't come here [otherwise].

Tax credits allowed us to save a lot of [distinctive] features [in our renovations]: fireplaces, etc., that made every apartment unique. Young professionals in the $55,000 to $100,000 income range are interested in those buildings. Probably if these buildings weren't available they would have gone somewhere else, but not downtown.

Historic preservation has broader societal impacts also. One rehabilitated school, for instance, is in a neighborhood with elderly African American residents. The school and the neighborhood adopted each other.

Historic rehabilitation raises public awareness. It tells the community what you can do with an empty building.

Jobs & Workplaces

As discussed in Section I, the historic preservation process creates many jobs in the development, construction and real-estate industries. In addition, it creates workplaces that become the hosts for many permanent jobs and, as discussed above, it attracts residents and other visitors to an area and these people attract businesses that create additional jobs.

Picture 4 – Movieland, Richmond (VA)
Photo: Lee Brauer Photography for Commonwealth Architects

Neither the Commonwealth of Virginia nor the Federal government collects statistics on the final users of properties that are rehabilitated using tax credits, so it is impossible to even begin to estimate the number of jobs created in this way.[6] Nevertheless, we asked focus-group participants to estimate the numbers of jobs created by projects with which they are familiar. Such rough estimates (which we have not confirmed with employers) for just a few projects, cannot be quantitatively analyzed, but they do create an impression of some of the permanent employment that is attracted by rehabilitated historic buildings.

Picture 5 - Appomattox Governor's School, Petersburg (VA)
Photo: KBS, Inc.

About 30 people are working full-time at Movieland [Richmond]; maybe 50 at the former Miller and Rhoads Department Store [now a Hilton Garden Inn and apartments].

[6] As discussed later in this report, the State of Ohio requires applicants for historic tax credits to state the intended uses of their projects and, where appropriate, to estimate the number of workers those uses will employ.

The trolley building and Pepsi bottling warehouse between Main and Vine [in Richmond] were vacant lots and an underutilized warehouse. Now they are apartments, restaurants employing [a total of] 30 to 40 people, five or six shops where Rostov's Coffee is – another 20-30 jobs there. The ripple effect is that everything across the street is renovated – galleries, commercial spaces.

The [Appomattox] Governor's School in Petersburg has 25-30 full-time jobs. … Patrick Henry School [Richmond] probably has 25 jobs. … St. Andrew's School – 15 faculty employed.

The Black History Museum [Richmond] probably employs 10-15 and attracts tourists.

We leased one of our historic buildings to two companies. One, a start-up, would not have located in the city otherwise. Another one is a software company with 13 jobs.

Our architecture office, located in a historic building, has 45 people. A lot of people work as consultants in this industry.

Non-profit organizations come here [to a rehabilitated historic manufacturing building] and use the facilities at very low rent. This makes a tremendous difference – before these nonprofits didn't have this opportunity.

[In Downtown Winchester,] a lot of formerly vacant buildings are seeing new commercial uses and that means new employment. The George Washington Hotel is another good employer and so are the restaurants.

At Our Health [in the restored Snapp Foundry Building in Winchester] you have a hub with 30 human and health service companies in one location.

Picture 6 - Grandin Theatre, Roanoke (VA)
Photo: Grandin Theatre

A really good example is Grandin Village [in Roanoke]. The theatre is the anchor of the neighborhood center. When it went out of business in 2001, it affected the rest of the other commercial properties. Restaurant failure was high. Now the theatre is back in action [since 2002] and the situation has improved for nearby businesses as well. About 150 jobs have been created in this little community surrounding the theatre. Property values in the neighborhood went up.

Center in the Square [Roanoke] has had an impact of 95 jobs, including retail, museums, farmers. People come back to Downtown because of the cultural center and activity; they spend money, shop and revitalize the economy.

At 16 West Marketplace [the restored S & W Cafeteria in Roanoke] at least 25 people are employed full-time at two restaurants, a RAC Fitness Center express gym, retailers, a market, a chiropractor, art studios, galleries, apartments, and religious services.

The Roanoke Higher Education Center [in the former Norfolk & Western headquarters building downtown] is one of the largest employers where tax credits have been used. Seventeen colleges and universities are represented there, with staff, faculties and [over 2,500] students.

E. The Work Yet to be Done

Despite the large amount of historic rehabilitation work that has been done since 1997 and the impacts it has had on local economies and on the state economy overall, focus-group participants estimated that considerably less than 25% of the eligible properties in Virginia have been rehabilitated. If historic tax credits were curtailed, most historic rehabilitation would cease and downtown redevelopment would slow considerably, especially in smaller communities.

Can I take you on a tour and show you all the empty buildings left out there? We can't let them die. We need to keep educating people to preserve them. There are still 3,000 vacant buildings in the City of Richmond. In the city there are still low-hanging fruits. Young professionals that bought in Jackson Ward are in fact still waiting for more development to happen so their investment might have more value.

Picture 7 - Center in the Square, Roanoke (VA)
Photo: Brian Wishneff and Associates

If the tax credits would diminish we would have several properties [in Richmond] that would not be rehabilitated. There would be no more white elephants rehabilitated.

[If tax credits were curtailed] it would stop this renovation/revitalization process [in Winchester]. So far maybe 25% of the historic buildings have been renovated.

It's a question of magnitude. … If the government builds roads in the suburbs, developers will prefer cheaper land and won't invest downtown. … We have people ready to move [to Downtown Roanoke] tomorrow, so it is not the market that keeps people away, but it is the cost that keeps them from moving downtown. And you don't want to tear down and build anew because you would lose the city integrity.

You cannot replace the sense of history. There is always a neighborhood in need, with vacancies.

What is the period where we could stop? The '50s? '60s? That architecture is part of our history and we can't let it decay.

Most of the small towns in rural Virginia have yet to begin [with historic rehabilitation].

F. How could the Impacts of Historic Tax Credits be Increased?

Although the purpose of this report is not to evaluate the administration of the historic tax credit program or to recommend ways to improve this tool, we asked focus-group participants to reflect upon how the economic impacts of the tax credit could be increased, and this evoked some suggestions to improve the efficacy of the tax credit. Note that the participants expressed overwhelmingly positive views of the tax credits and their work the Virginia Department of Historic Resources. Suggestions for improvements were made within the context of this high level of support. Again, since this is not an evaluation, the comments are reported here without objective analysis of the context and constraints that determine how historic tax credit programs currently are implemented. The comments can be grouped into three somewhat overlapping categories: (a) more flexibility or speed in the tax credit administration process; (b) expanding the program to people or areas hitherto unserved; (c) recasting the program to more explicitly address community economic development.

<u>More Flexible Guidelines and Administration</u>

The review process is a time issue. If you have to wait 90 days for a review, it's too long.

Bureaucracy drives people away from it. Standards are getting complicating and confusing, and sometimes do not seem to be implemented consistently.

Some flexibility by DHR in interpreting standards would help.

Once the low-hanging fruit are gone, the more problematic buildings require more creative thought and should have broader standards of interpretation. These projects are market-driven – don't neglect the standards, but if someone wants to renovate a warehouse, it doesn't mean it needs to stay a warehouse. The intent is to reuse the building so it doesn't fall down. We need more creativity.

Standards need to be revised and be more forward-looking. It looks like we have a fine collection of buildings more than an evolution history – we need the latter.

Expand the Program

The freedom to buy and sell property [that has received Federal tax credits] would open a lot more [buildings] for rehabilitation.

The education on the program would be important. Developers often don't know how tax credits work. It should be made easy for people to explore this opportunity.

Picture 8 – George Washington Hotel, Winchester (VA)
Photo: Preservation Virginia

A good thing that [our City] is doing – surrounding neighborhoods have attractive village centers, which will attract new investors. Residential design needs to be compatible and attractive. … most of the small owners don't know how to do tax credit projects, hence the workshops the City does. … There should be more communication with the Virginia Department of Historic Resources so that we get all the information [especially on small, residential projects]. If one person does it, more people may be willing to try it [if we can show them what others are doing].

We [a developer] have done some training for other developers / investors to educate them how beneficial tax credits can be. We now know the process very well, but it took many years. The Department of Historic Resources [has done great outreach to explain the program to communities], but it should do more training / education programs to help developers and investors learn.

Mixed-use projects are fine but they are missing the single-family owners who know nothing about this program and all the paperwork and regulations. They need a simplified version for homeowners [owner occupants]. And seminars to help understand the program. … They especially need help with conflicting code requirements on historic preservation and energy conservation.

Simplify the process and make it easier for the average middle-income couple who wants to renovate their house.

There are some built-in inhibitors that don't allow you to maximize the impact of the credits. It's limiting that the tax credit can only be used by professionals. Larger users should be encouraged. The Federal credit limit of income-producing property is limiting.

Recast the Program

It's a great program; well established; nothing but good. Now it's time to ask: What do we want to do with the program? Look at the program for the new century and expand its impact. … Make the Federal tax credit available to owner-occupants. That would help vacant and blighted buildings. … Focus the program on these greater needs – more like incentives: Create a "distressed historic districts / buildings" category. … This should be a priority. … The program should incentivize permanent jobs and not just the creation of residential spaces. Also it should support increased home ownership. Right now it's focusing more on being lucrative for developers. But if you want to benefit the community more you should focus on jobs and home ownership. … You should support good development, infill projects. Tax abatement and tax credit programs are the Siamese twins of historic preservation. The State should allow localities to be creative and do more with preservation.

Historic preservation started as a commemorative process but now it's an economic development process. It's like using one language to accomplish something else. The tax credit program has let down low and moderate income people. We don't want to abandon our standards but we need to be more creative, especially in low-income areas. Most of these neighborhoods stay out of the process; you need to pay someone to apply for tax credits and low-income people can't afford it. Or you don't have enough tax liability and you leave credits on the table. … We need broad-scale buy-ins, which is when you are going to see neighborhoods transforming for real. I'd love to see a tax credit incentive for infill projects.

We need to address the missing teeth – infill development.

We need to re-brand preservation to restore, repurpose, revitalize.

Maybe the program should evolve toward green technologies / requirements at national level.

We need to link preservation with energy conservation.

Take a look at what has been accomplished. Is it preventing other goals that we want to achieve? Do we need to change? Let's evaluate the program to improve it.

III. SUMMARY AND CONCLUSIONS

Virginia's Historic Rehabilitation Tax Credit Program, like all well-crafted public-private partnerships, represents a true win-win arrangement. Taxpayers make it possible for passionate professionals to rehabilitate historic properties and then reap gains from the economic activity that this expenditure generates.

These gains represent only the easily countable impacts of historic rehabilitation. Other gains, such as the value of reusing the fixed assets of well-constructed buildings, streets and other infrastructure, the benefit of using rehabilitated historic properties and downtowns to serve the needs of the creative sectors of the 21st century economy, and various environmental benefits that ultimately affect the economy and public treasury as well, are not counted. Nor have we counted the psychological and social benefits that an appreciation of history brings to individuals and to the society overall.

Users of the tax credits, as well as local-government officials, who participated in focus groups conducted for this report, extolled its benefits and the salutary effects it has had on Virginia communities. They also identified ways in which this powerful revitalization tool can be made even more powerful, by extending its reach to more owner-occupants and, especially, to lower-income home owners, by extending it to more Virginia communities, especially smaller ones, and by enlisting it more explicitly in the service of community economic development goals.

Virginia's historic tax credit program is a success story. Such a model deserves not only to be continued, but to be emulated and expanded to serve the goals of community development in Virginia. As noted in this report, the historic tax credits have been used in tandem with the Federal New Market Tax Credits program and with local funds, such as property tax-increase abatements. And localities have made ancillary improvements, in infrastructure and services, for example, to help ensure the success of historic rehabilitation in downtown areas.

Perhaps now is the time to think creatively about how to take this program to a new level of effectiveness. Virginia is fortunate in that it has 17 years of experience, a highly respected Department of Historic Resources, a statewide cadre of passionate professionals and supportive local governments, as well as committed professional associations such as Preservation Virginia to take it there.

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APPENDIX A – FOCUS GROUP PROTOCOLS

Users of Tax Credits – Focus Group Protocol – November 2013 – VCU & Preservation Virginia

Purpose of Study: Impact of Historic Tax Credits. Client: Preservation Virginia

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 process?
    a. Developer, investor, architect, other?

2) Please give snapshot of your projects :
    a. How many years, how many projects, what kind? What are most typical projects in type and dollar amount?

3) Why do you do historic rehabilitations as opposed to other kinds of development? (HTC a cause?)

4) Please *describe* a project on which state historic tax credits were essential to the project:
    a. No project could be done at all without state credits
    b. Less of project would have been done without credits
    c. Different project would have been done without credits
    d. Same type of project but in different location in community would have been done.

5) What impacts do your historic rehabilitation projects have on permanent employment in the community?
    a. Housing
    b. Retail / restaurants / entertainment – number of jobs?
    c. Office – number of jobs?
    d. Other non-residential – number of jobs?

6) In what other ways are your historic rehab projects having permanent impacts on the community? Please describe one or two specific examples, such as public safety, commercial activity, neighborhood vitality in general.

7) 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?

8) 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 – November 2013 – VCU & Preservation Virginia
Purpose of Study: Impact of Historic Tax Credits. Client: Preservation Virginia

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?

APPENDIX B – LOCALITIES COMPRISING VIRGINIA'S METROPOLITAN STATISTICAL AREA (MSA)

Blacksburg-Christiansburg-Radford MSA

- Giles County 51071
- Montgomery County 51121
- Pulaski County 51155
- Radford City 51750

Bristol MSA

- Scott County 51169
- Washington County 51191
- Bristol City 51520

The "Bristol MSA" is defined as the Virginia portion of the "Kingsport-Bristol-Bristol, TN-VA" MSA.

Charlottesville MSA

- Albemarle County 51003
- Fluvanna County 51065
- Greene County 51079
- Nelson County 51125
- Charlottesville City 51540

Danville MSA

- Pittsylvania County 51143
- Danville City 51590

Hampton Roads MSA

- Gloucester County 51073
- Isle of Wight County 51093
- James City County 51095
- Mathews County 51115
- Surry County 51181
- York County 51199
- Chesapeake City 51550
- Hampton City 51650
- Newport News City 51700
- Norfolk City 51710
- Poquoson City 51735
- Portsmouth City 51740
- Suffolk City 51800
- Virginia Beach City 51810
- Williamsburg City 51830

The "Hampton Roads MSA" is the Virginia portion of the "Virginia Beach-Norfolk-Newport News, VA-NC" MSA

Harrisonburg MSA

- Rockingham County 51165
- Harrisonburg City 51660

Lynchburg MSA

- Amherst County 51009
- Appomattox County 51011
- Bedford County 51019
- Campbell County 51031
- Bedford City 51515
- Lynchburg City 51680

Northern Virginia MSA

- Arlington County 51013
- Clarke County 51043
- Fairfax County 51059
- Fauquier County 51061
- Loudoun County 51107
- Prince William County 51153
- Spotsylvania County 51177
- Stafford County 51179
- Warren County 51187
- Alexandria City 51510
- Fairfax City 51600
- Falls Church City 51610
- Fredericksburg City 51630
- Manassas City 51683
- Manassas Park City 51685

The "Northern Virginia MSA" is the Virginia portion of the "Washington-Arlington-Alexandria, DC-VA-MD-WV" MSA

Richmond MSA

- Amelia County 51007
- Caroline County 51033
- Charles City County 51036
- Chesterfield County 51041
- Cumberland County 51049
- Dinwiddie County 51053
- Goochland County 51075
- Hanover County 51085
- Henrico County 51087
- King and Queen County 51097
- King William County 51101
- Louisa County 51109
- New Kent County 51127
- Powhatan County 51145
- Prince George County 51149
- Sussex County 51183
- Colonial Heights City 51570
- Hopewell City 51670
- Petersburg City 51730
- Richmond City 51760

Roanoke MSA

- Botetourt County 51023
- Craig County 51045

- Franklin County 51067
- Roanoke County 51161
- Roanoke City 51770
- Salem City 51775

Winchester MSA

- Frederick County 51069
- Winchester City 51840

The "Winchester MSA" is the Virginia portion of the "Winchester, VA-WV" M

APPENDIX C – IMPLAN INDUSTRY SECTORS

IMPLAN Sectors

When computing the economic impact from rehabilitation spending, the amount of qualified expenditures was distributed across the IMPLAN industry sectors listed below:

Non-Residential Sites:

36 "Construction of other new nonresidential structures"

Expenditures were applied to this sector if the use for the project AFTER rehabilitation was nonresidential and DIFFERENT from the use PRIOR to rehabilitation *(e.g., conversion of a warehouse to office space or conversion of a home to retail space).*

39 "Maintenance and repair construction of nonresidential structures"

Expenditures for nonresidential projects were applied to this sector if the site was being used for the SAME purpose AFTER rehabilitation as it was previously *(e.g., rehabilitation of a school that would continue to be used as a school).*

This sector was also used for projects where the use AFTER rehabilitation was nonresidential, but the respondent did not provide information about the use PRIOR to rehabilitation.

Residential Sites:

38 "Construction of other new residential structures"

This sector was used for projects in the sample that were residential AFTER the rehabilitation and were being used for a purpose that was DIFFERENT from the use PRIOR to rehabilitation *(e.g., conversion of a department store to condos and apartments).*

40 "Maintenance and repair construction of residential structures"

Expenditures were applied to this sector if the project use AFTER rehabilitation was residential and the site was being used for the SAME purpose as what had been done previously *(e.g., rehabilitation of a home that would continue to be used as a home).*

This sector was also used for projects where the use AFTER rehabilitation was residential, but the use PRIOR to rehabilitation was not provided by the respondent.

APPENDIX C – IMPLAN Industry Sectors, *continued*

Table C 1 provides the percent of total spending that was applied to each of the four IMPLAN sectors. These percentages were determined by responses to the survey of tax credit program participants. They were used to allocate the rehabilitation expenditures when estimating the economic impact of that spending in Virginia and each MSA.

Table C 1. Distribution of Rehabilitation Expenditures, by IMPLAN Sector

Category	IMPLAN Sector	Description of IMPLAN Sector	Percent of Total Spending*
Non Residential	**36**	Construction of other new nonresidential structures	6%
Non Residential	**39**	Maintenance and repair construction of nonresidential structures	29%
Residential	**38**	Construction of other new residential structures	11%
Residential	**40**	Maintenance and repair construction of residential structures	54%

Source: Virginia Center for Urban and Regional Development

* Percentages based on a sample size = 252. This is the number of completed surveys where a response was provided for the use of the property after rehabilitation.