The Economic Effect of National Register Listing

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Does a property being listed in the National Register of Historic Places increase the economic value of the property? It would be useful if the clear cut answer were "yes." Even an unambiguous "no" would at least put the issue to rest. Unfortunately, providing such an answer would violate a basic Einsteinian tenet, "Things should be made as simple as possible but not more so."

Let's begin with the word "value." Even in the esoteric world of real estate appraising there are many kinds of value, not all of which contain economic ramifications. By definition, a property being listed in the National Register (either individually or as a contributing structure within a historic district) means that the National Park Service has deemed that parcel of real estate to have a particular cultural, historical, or architectural quality that is of value to the nation. The question, then, becomes: "Is that cultural, historical, or architectural quality reflected in the price typically paid for the property in the marketplace?" If so, it can be mathematically demonstrated that National Register listing reflects an incremental economic value.

Can that mathematical demonstration be made? The answer is: "sometimes," "maybe," and "it depends." It is necessary to consider certain principles involved in measuring economic value. First, it is important to understand that value is not determined by real estate brokers, bankers, architects, developers, or appraisers. Value is determined by the actions of buyers and sellers in the marketplace. Brokers and developers can establish asking prices, architects can itemize rehabilitation costs, bankers can set loan-to-value ratios; but all of that is dependent on and subordinate to actual transactions between buyers and seller. Even the appraiser's job is not to determine value. The appraiser's job is to estimate value based, not on his or her own opinions, but on how real buyers and real sellers in the marketplace behave. The appraiser is the student with the marketplace being the instructor.

Appraisers are often criticized by preservationists for not recognizing the "historic value" of a National Register property. Upon occasion the appraiser may be overlooking nuances in the marketplace. Much more often, however, the appraiser is not assigning an incremental "historic value" because buyers and sellers in the marketplace are not assigning any such premium.

Which brings us to the second principle of real estate economics that is germane here. Buyers and sellers in the marketplace are assumed to be "reasonably well advised or well informed." If typical buyers and sellers or, more importantly, the real estate professionals in the community do not understand the significance of National Register listing (or even the existence of such a thing) there is no way that an economic premium will be attached to such designation. The education of buyers and sellers generally and the real estate community specifically should be the responsibility of preservationists. Some have done that well; others have not. But for preservationists to blame the real estate broker for not understanding historic significance is pointing the finger in the wrong direction.

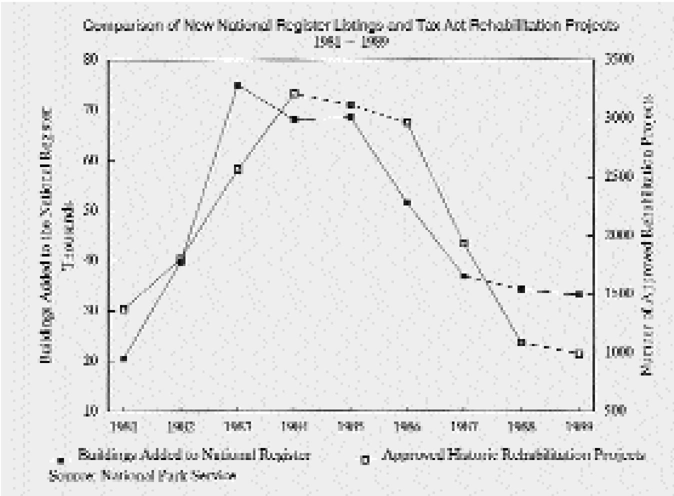
Third, the marketplace is not made up of a single buyer or seller but rather an imaginary group of buyers and sellers choosing independently how to act. Therefore, a single purchaser willing to pay an economic premium for the "George Washington slept here" property does not necessarily establish the price that he/she paid as the value of that property. The price and the value are not synonymous unless the price reflects a typical transaction within that group of buyers and sellers. A single sale does not the marketplace make.

There is an old saying that, "all politics is local." So is all property value and almost all preservation. Real estate values (and any premiums attached to certain attributes) emerge from the local environment. Likewise, almost universally among preservationists, what is cared for most passionately is the local landmark or historic district. More than any other factor this is why the question, "Does National Register listing increase the economic value of the property?" can only be answered on a locality by locality basis—sometimes yes, sometimes no.

What, then, are the conditions when National Register listing does add economic value? Most common, perhaps, is when National Register listing serves as a threshold for additional benefits. Most obvious is the availability of the historic rehabilitation tax credits. Listing in the National Register is a prerequisite to obtaining the federal tax credits. For nearly 20 years, some favorable tax treatment has been available for the appropriate rehabilitation of National Register properties. And the marketplace has responded by paying a premium for eligible properties reflected in the acquisition price, the amount spent on rehabilitation, or both. The precipitous decline in the amount of rehabilitation activity since 1986 is direct evidence of the marketplace assigning a lesser value to the available credits and, by extension, a lesser value to National Register status.

Readers of *CRM* may be familiar with the table published annually by the National Park Service showing the rise and fall of rehabilitation activity over the last 17 years. What is less familiar is the rise and fall in the number of buildings added to the National Register over much of the same period. The table on the following page compares the number of tax act rehabilitation projects during the 1980s with the number of contributing buildings added to the National Register over the same period. The almost identical pattern of increase and decline strongly indicates that when National Register listing provides an economically valuable threshold for rehabilitation activity, the marketplace responds by encouraging more properties to become eligible for the incentives.

But the federal tax credits are not the only area for which National Register status provides a threshold for enhanced economic value. In many state and local jurisdictions properties listed in the National Register become eligible for additional benefits. These local benefits might include tax abatements, state tax credits, low interest loans, facade grants, design assistance, or other incentives. To the extent that these perquisites add economic value, National Register listing has provided the gateway to that value.



Comparison of New National Register Listings and Tax Act Rehabilitation Projects, 1981-1989, by Donovan D. Rypkema.

In many communities, the creation of a National Register district is the trigger for a parallel local district. Often local historic districts provide protection for properties within the district that the National Register does not. This protection from inappropriate design, scale, and uses of properties within the district can maintain and often enhance the value of the properties within. Virtually every analysis that has been done on the economic impact of such protection has indicated that values have been maintained at worst, and usually enhanced, because of historic district status. No comprehensive analysis of all National Register districts in this country has been undertaken. In our neighbor to the north, however, a recent publication reported that, "In every heritage district designated in Canada in the last 20 years, property values have risen despite the fact that development potential has been reduced."[1]

Real estate is an asset the value of which comes largely from its context. To the extent that an entire neighborhood becomes more valuable (because of protections, prestige, architectural character, compatibility of uses and styles, or other reasons) the individual properties within the neighborhood become more valuable as well. Because of this value through context concept, one could argue that a National Register district (and / or its local counterpart) probably has an even greater cumulative effect on value enhancement than does an individual listing outside a district.

Virtually the only direct protection National Register listing provides to an individual property is the requirement for Section 106 review to determine if the expenditure of federal funds would have an adverse effect on the historic resource. But as we become more and more aware of the negative impact not only on buildings but on whole communities that massive federal projects have had in the past, this single protection will become even more significant to individual property values in the future.

It was noted earlier that the marketplace is assumed to be made of "reasonably well informed or well advised buyers and sellers." When local awareness among buyers, sellers, and the real estate profession has risen to the point of understanding what National Register listing means, it is likely that such status will become a value enhancing premium for the designated property. The most telling test of whether this is true locally or not is when the real estate ads include "National Register property" as one of the descriptive attributes of the building. Just like "finished basement" or "heated pool," identifying that National Register status in a real estate advertisement reflects the broker's judgment that buyers are willing to assign monetary value to that characteristic. It is not necessary that every possible buyer in the market assigns value to that variable, only a large enough sub-set of the market to create a specialized demand.

Real estate values will be influenced by the future time horizon envisioned for the property by its owner or prospective buyer. A short-term owner (whether for residential or commercial property) will tend to place less importance on variables such as National Register status, inclusion in a historic district, etc., than will a long-term owner. At a recent conference, a Wall Street investment advisor to European institutional buyers of American real estate was asked how those investors viewed purchasing properties within historic districts. He responded, "Because of their longer-term investment horizon, European purchasers view historic properties within districts more favorably because of the protection against adverse development taking place in the immediate surroundings of their property." American buyers of real estate (both for investment and for occupancy) have, for at least the last 40 years, been rather myopically short-term oriented. This appears to be beginning to change. As the anticipated time of ownership lengthens, the relative economic importance of National Register status should begin to increase.

Perhaps the greatest potential for a National Register listing to increase property value, however, is a result of a lesson we are only recently relearning. On a sustainable basis, real estate will not maintain or enhance its value without there being a combination of a spirit of community and a sense of place. A National Register district in and of itself is a reflection of a sense of place. Increasingly it is that "place" around which grassroots neighborhood groups center the rebirth of a spirit of community. That phenomena has many ramifications but increased long-term property values is certainly among them.

Finally, in our search for a relationship between National Register listing and property value we should not forget that listing in the National Register is an effect not a cause. It is because a property or a district had special architectural, historical, or cultural quality that it was listed, not the other way around. In the end, when preservationists have sufficiently educated a broader audience on the value of that quality, it will be the property attributes themselves that generate a monetary premium. And the National Register will serve its intended purpose, to provide objective, national recognition to the local economic endowment that historic buildings represent.

Notes

[1] *Federal Heritage Buildings Review Office (FHBRO), FHBRO Code of Practice,* Draft, October 1993.

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