



Summer/Fall 2004

Buffalo Branch, Federal Reserve Bank of New York
160 Delaware Avenue
Buffalo, NY 14202
Tel: (716) 849-5023
Fax: (716) 849-5218

Kausar Hamdani
Vice President and
Branch Manager

Richard Deitz, Ph.D.
Senior Economist
richard.deitz@ny.frb.org

Ramon Garcia
Regional Economist
ray.garcia@ny.frb.org

For the online version of this
and other economic research
published by the Federal
Reserve Bank of New York,
visit:

www.newyorkfed.org/buffalo



THE REGIONAL ECONOMY

OF UPSTATE NEW YORK

The Foundations and Practice of Historic Preservation

Historic preservation—the maintenance and protection of places valued for their historical and cultural significance—is the target of significant and growing resources from the public and private sectors. The practice receives broad support largely because of the societal benefits that it produces. Historic sites inform a diverse American population about its shared heritage and contribute to the development of a common national identity. Historic places also function as physical links to the past, providing a sense of orientation and continuity in a time of rapid change. But while these benefits are widely acknowledged, historic preservation has at times met with strong opposition. Such opposition often arises when the effort to preserve historic sites conflicts with other societal goals, such as the modernization of older urban areas or the creation of an efficient real estate market.

In this issue of *The Regional Economy of Upstate New York*, we examine historic preservation and show why it serves as an important—yet sometimes controversial—force in the economy. We begin by discussing the motivations for historic preservation and how the practice has evolved over time. Next, we explain why government plays a role in preservation and how policy is implemented. Finally, we present some of the problems created by the competition between preservation and other interests.

Why Preserve Historic Sites?

The modern view of historic preservation and its societal benefits is best understood by considering how the concept has evolved over the past two centuries. Reflecting the preoccupations of a young nation, early nineteenth-century initiatives sought to protect and maintain places associated with the founding fathers. Preservationists, motivated largely by patriotism, wished to educate the growing immigrant population and future generations about the beginnings of their nation. These early efforts focused primarily on the *historical significance* of places rather than on the structures or places themselves.

In the twentieth century, the motivation behind preservation shifted toward an aesthetic appreciation of architecture. As the pace of industrialization and urbanization began to accelerate, an appreciation for older buildings and neighborhoods emerged. In line with the broader trends in urban design and city

planning, preservationists started to value buildings and neighborhoods for their artistic qualities. Soon, older buildings and neighborhoods were a focus of preservation efforts, with artistic contribution as a guide for determining which structures to save. The aesthetic approach to historic preservation included an interest in finding new uses for older structures so that they could be a functioning part of modern communities. Thus, aesthetic-based historic preservation was somewhat supportive of development—unlike preservation efforts motivated by patriotism, which typically resulted in museum-like sites.

While the local efforts of preservationists expanded over the first half of the twentieth century, historic preservation received little attention from either the general public or the federal government. Indeed, federal programs such as urban renewal and the interstate highway system often led to the demolition of older neighborhoods. In the 1960s, however, national campaigns for historic preservation emerged as a strong force. One impetus for change was the growing environmental movement, which raised the nation's awareness of the importance of conservation. Another key element was the rapid loss of the nation's physical heritage brought about by the post-World War II building boom. A 1966 report by the U.S. Conference of Mayors stated that this transformation had created a heightened feeling of "rootlessness" and called for stronger preservation measures to provide American society with "a sense of orientation."¹ Action came later in 1966 in the form of the National Historic Preservation Act (NHPA), which helped to make historic preservation a part of national policy.

The NHPA and subsequent preservation legislation in the 1970s reflected both the patriotic and aesthetic motivations for historic preservation and brought to light a third: revitalization. In addition to being concerned about the loss of historic structures, many Americans were troubled by the new patterns of development and their effect on how communities functioned. The physical character of communities had changed with the introduction of wide highways and isolated suburban housing, and an increasing number of people were no longer working or shopping near their homes. At the same time, the exodus of middle- and upper-income groups from cities to the suburbs contributed to the decline of many urban neighborhoods. In response

to these developments, many preservationists looked beyond the cultural contributions of historic preservation and began to view it as a community and economic development tool that could help to reinvigorate cities. For some, historic designation—and its associated public funding and support—could be used as a strategy to recreate traditional urban communities that offered vibrant neighborhoods. For others, it could be a way to stabilize distressed urban residential neighborhoods and facilitate the development of affordable housing. Some older communities also came to view historic preservation as a means to revitalize their economies by attracting the growing number of tourists interested in visiting cultural and historic landmarks.

Having acquired a variety of motives and meanings over time, historic preservation is now perceived to provide a bundle of societal benefits. These benefits—and the larger objectives that they reflect—have been instrumental in determining both the policy and the practice of historic preservation. These benefits also help clarify why the government has assumed a central role in preserving historic sites.

The Government's Role in Historic Preservation

Before the enactment of the National Historic Preservation Act, historic preservation had largely been the work of amateur historians and philanthropists. Subsequently, government became primarily responsible for historic resources management. The Act provided the government with a number of tools to document, coordinate, support, and enforce preservation efforts.

Such government involvement is grounded in the belief that preservation achieves public goals that would not be adequately met by the marketplace alone. In this view, historic buildings and neighborhoods generate additional value to the public, over and above what the private market would assign to them, creating what economists call an “externality”—benefits or costs borne by agents not directly involved in an activity.

Externalities can be positive or negative. For example, if a large building is constructed next to a home and that building blocks the sunlight or eliminates a pleasing view for the homeowner, the new building has imposed a negative externality by reducing the homeowner's satisfaction. Alternatively, a local park with flower gardens can create a positive externality that benefits a large number of nearby community residents. Because externalities can affect those not directly involved in market transactions, and these benefits or costs are not incorporated in private market decisions, government often intervenes on behalf of affected citizens to control, eliminate, encourage, or create certain types of activity.

Government has been given the power to encourage and enforce preservation activities because of the belief that historic preservation provides positive externalities that are ignored by private market agents. Federal, state, and local governments have a range of tools for exercising this power. In the next section, we describe how the practice of historic preservation has been shaped by the tools provided by the NHPA and subsequent legislation.

Preservation Policy and Practice

Historic preservation encompasses a wide range of activities related to the identification, protection, and maintenance of

historic places. These activities can be divided into two broad categories: governmental activities and nongovernmental activities.

Governmental Activities

Federal, state, and local governments use several tools to support preservation activities. The most significant responsibility of government is the oversight and management of historic preservation. Although this responsibility is carried out in part through the direct ownership and operation of historic properties, it is largely accomplished by facilitating private preservation efforts. Government supports private efforts in three ways: 1) by organizing and disseminating information, 2) applying regulatory restrictions, and 3) providing financial incentives.

The government's role in historic preservation chiefly involves the identification, validation, and documentation of historic properties. The State Historic Preservation Offices (SHPOs) and the National Park Service (NPS) formally recognize historic significance through a certification process. A sponsor must first submit an application with detailed historical and architectural information. SHPO field staff then review the proposal and seek comments from the owner(s) and local officials. Privately owned property is not listed if the owner objects. The SHPO and NPS use the same eligibility criteria, with final approval resulting in listing on the State and National Registers of Historic Places.

A variety of sites can receive historic designation, and the broad criteria for eligibility reflect the many motives for preservation. Historic sites can include monuments, buildings, structures, open spaces, and entire neighborhoods or districts. They must ordinarily be at least fifty years old, but newer sites have been designated in exceptional cases. Eligibility is based on a number of factors, including significance in U.S. history, architecture, archeology, engineering, and culture. The sites can be associated with significant events or persons, or embody distinctive architectural or artistic characteristics.

The government also facilitates preservation through education and training. The National Park Service and the State Historic Preservation Offices use a number of strategies to educate the public about historic preservation and provide technical assistance to preservationists.

Contrary to popular belief, government regulations related to preservation are limited. For example, federal and state listing on the National Register *does not* limit a private owner's right to alter, sell, or even demolish a property. Restrictions only apply to private development plans that use public funding or projects undertaken by federal, state, or local government agencies. In these cases, the protection of historic properties is still not ensured. However, the effects that projects conducted or funded by the government have on historic properties must be taken into account, and alterations to these properties must comply with state and national regulations that aim to minimize impacts. Such compliance is required even for those properties that have not been listed but are considered eligible for the National Register.

The most important restrictions on private property are at the local level. Local governments can add their own historic designation to a property or district. They can then apply restrictions on private development through their authority to regulate land use and construction (for example, by granting or withholding building and demolition permits). Local historic designation can prohibit property owners from altering their property as they choose; it may entail restrictions on building an addition, erecting a fence, or even painting with a color that might conflict with the historic character of the property.

Government facilitation of historic preservation tends to rely more on incentives than regulation. Private property owners have access to a range of federal, state, and local grants and tax incentives that encourage historic rehabilitation.² The receipt of public funds through incentive programs usually triggers a quid pro quo. For example, to receive the federal Historic Rehabilitation Tax Credit, all work plans must be pre-approved for compliance with federal standards and the final results must be inspected. Such incentives are essential since historically accurate restoration and repair work—which requires specialized materials and skills—tends to be expensive.

Nongovernmental Activities

Although government now plays a significant role in managing and facilitating historic preservation, private preservationists still do most of the hands-on work. These local preservationists identify potential sites, conduct research, and perform administrative work necessary for historic designation. The individuals who provide much of the drive behind preservation are increasingly affiliating with others to accomplish their goals. An estimated 6,000 nonprofit preservation organizations exist in the United States,³ and membership in the National Trust for Historic Preservation has grown to more than 200,000 since its founding in 1949.⁴

In addition to seeking official designation for historic sites, individual preservationists are instrumental in raising awareness about local issues. Armed with both an in-depth knowledge of the historical significance of local buildings and neighborhoods and a strong appreciation of traditional environments, they may actively oppose the redevelopment plans of private property owners. Frequently, their concerns are focused on unprotected sites—that is, those outside the jurisdiction of preservation regulation. As a result, they typically try to accomplish their goals by influencing public opinion and bringing community pressure to bear on property owners.

Competing Interests

While the societal benefits of historic preservation have led to public and private support for the concept, there are potential costs related to preservation policies and programs. As a result, conflicts can and do arise in the practical application of historic preservation. First, an inherent tension exists between historic preservation regulation and property development because regulation can limit what the owners of historically designated properties can do with their land and buildings. For example, individual property owners will evaluate the private market to determine the needs of consumers and the value of property. Then, in an effort to maximize their own profits, they will pursue

actions that satisfy consumer needs. The end result is a real estate market that is most likely to provide the greatest level of sellers' profits and buyers' satisfaction. But if property owners' options are restricted by historic preservation regulation, they are less likely to realize their maximum profits and consumers are less likely to achieve optimal satisfaction. Moreover, the costs and benefits of historic preservation regulation are apt to be distributed unevenly. While the benefits of historic preservation go to an entire community (with some members benefiting more than others), the costs are typically borne by certain individuals.

For example, consider an apartment building in a designated historic district that the owner would like to sell in preparation for retirement. Because the building is located at a busy intersection, a drugstore chain has offered to buy it for a sum that exceeds its current value as an apartment building. The local historic preservation commission could prevent the transaction on grounds that the loss of the apartment building would diminish the historic character of the neighborhood and thereby reduce the value of the neighborhood to the community. But while the commission's action would protect the interests of the community as a whole, it might entail costs for specific members of the community: the building owner might profit less on the sale of the property, the drugstore chain might settle for a less suitable location, and some consumers might lose the opportunity to shop at a conveniently located drugstore.

Complications also arise in assessing and balancing the costs and benefits of historic preservation. On the benefits side, it is hard to place a monetary value on an intangible ideal such as a "common identity" and to determine how much each individual landmark contributes to such a goal. Therefore, the value of a historic property to a community is not easily assessed and, moreover, will be viewed differently by different people. For example, while some may ascribe tremendous community value to a factory that was vital to a city's early growth, others may see it as an eyesore. Costs are similarly difficult to assess, such as the potential private profit or community benefit that might be lost from preserving the factory rather than allowing new development (as in the previously discussed drugstore example). A definitive policy analysis would require an evaluation that weighs all the costs associated with historic preservation against all the benefits. Given the difficulty of such an analysis, disagreements regarding preservation activities are bound to arise.

Disagreement can also occur between preservationists and advocates of other social causes. Evidence suggests that historic designation can result in an increase in property values and thus higher rents and property taxes in a neighborhood.⁵ Some are concerned that these increased costs might force out low-income residents and small businesses.⁶

Also at issue is whether historic preservation efforts dampen redevelopment activity in older industrial centers where it is strongly needed. Developers frequently assert that the marketplace prefers cleared or "greenfield" sites that are "shovel ready" for development instead of sites containing older buildings. Although historic structures can occasionally be used for their original purpose, most often they must be rehabilitated

and adapted for contemporary use. Such adaptive reuse is complicated and expensive since older buildings often do not conform to modern standards of energy efficiency or demands for flexible floor plans and parking. Even government programs designed to offset higher costs can bring costly delays related to regulatory oversight.

Conclusion

Historic preservation has emerged as a force in the economy, spurred by considerations of patriotism, aesthetic appreciation, and community revitalization. Historic sites benefit society by helping to clarify the nation's shared heritage and by providing physical links to the past. The benefits of historic preservation have drawn wide public support, and the practice has been made government policy. Problems can arise, however, in the practical application of preservation, given the competing interests of preservation and property development. A clearer understanding of the foundations and practice of historic preservation can help create a greater alliance between the forces of preservation and change.

Notes:

¹ Special Committee on Historic Preservation, U.S. Conference of Mayors, "With Heritage So Rich," 1966.

² For an in-depth discussion of the availability and use of tax incentives for historic preservation, see Jane Humphreys, Tax Incentives for Historic Rehabilitation in Western New York, Federal Reserve Bank of New York, Buffalo Branch, 2004. The report, in addition to the proceedings and presentations from a June 2004 Historic Rehabilitation Conference held at the Buffalo Branch, can be found at:

<http://www.newyorkfed.org/regional/rehab1.pdf>.

³ W. C. Baer, "When Old Buildings Ripen for Historic Preservation," *Journal of the American Planning Association* 61, no. 1 (1995).

⁴ National Trust for Historic Preservation, http://www.nationaltrust.org/about_the_trust.

⁵ See, for example, Robin M. Leichenko, N. Edward Coulson, and David Listokin, "Historic Preservation and Residential Property Values: An Analysis of Texas Cities," *Urban Studies* 38, no. 11 (2001).

⁶ See, for example, Peter Werwath, "Comment on David Listokin, Barbara Listokin, and Michael Lar's 'The Contribution of Historic Preservation to Housing and Economic Development,'" *Housing Policy Debate* 9, no. 3, Fannie Mae Foundation (1998).

Jane Humphreys and Ramon Garcia

Jane Humphreys is a Community Affairs Analyst at the Buffalo Branch

The views expressed in this newsletter are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.