

**MORE EXTRACTS FROM THE LITERATURE
ON THE EFFECTS OF HISTORIC PRESERVATION
ON PROPERTY VALUES**

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INTRODUCTION

Presented here are additional summary abstracts and extracts of papers on the effect of local historic designation on residential property values.

It is hoped that this collation will provide useful background material for consideration of historic designation by the Burleith Citizen's Association.

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**PRESERVING HISTORY OR HINDERING GROWTH?
THE HETEROGENEOUS EFFECTS OF HISTORIC DISTRICTS
ON LOCAL HOUSING MARKETS IN NEW YORK CITY**

http://furmancenter.org/files/NYUFurmanCenter_HistoricDistricts_2014.pdf

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September, 2014

ABSTRACT

Since Brooklyn Heights was designated as New York City's first landmarked neighborhood in 1965, the Landmarks Preservation Commission has designated 120 historic neighborhoods in the city. This paper develops a theory of heterogeneous impacts across neighborhoods and exploits variation in the timing of historic district designations in New York City to identify the effects of preservation policies on residential property markets.

Designation raises property values within historic districts, but only outside of Manhattan. In areas where the value of the option to build unrestricted is higher, designation has a less positive effect on property values within the district.

Consistent with theory, properties just outside the boundaries of districts increase in value after designation. There is also a modest reduction in new construction in districts after designation.

EXCERPTS

Preservation has at least two offsetting effects on local property values. On the one hand, the designation of a historic district restricts the changes property owners can make to their buildings and prohibits demolition and redevelopment. This loss of flexibility – the

forgone option to redevelop potentially at higher density levels – should lower land and property values, especially in high demand areas that are initially low density. On the other hand, designation can preserve the historic beauty – or amenity level—of a neighborhood and minimize the risks that new investment will undermine the distinctive character of the area. This effect should be larger in areas with architectural attributes that buyers and renters value, and in areas that have high density levels before preservation.

Preservation districts will raise unit prices if the initial aesthetic level of the area is higher than the typical level for new construction, but will lower unit prices otherwise.

The model predicts that preservation will not uniformly affect all neighborhoods. If demand for the location is high and heights are far below the allowable zoning cap, then the lost option value is large and land values should fall. If buildings are initially high or demand for the location is low, then the impact of preservation on prices is likely to be positive. Thus, we would expect that designation would have a more negative effect on property values in higher value neighborhoods with a greater share of buildings built at heights well below the allowable limits. By contrast, we would expect historic designation to have more positive impacts on property values in neighborhoods where buildings are generally already built to the heights allowed by zoning, and values are lower. Preservation should also provide more benefit to owners if the neighboring historic homes that are preserved by the district rules are more attractive and historically meaningful.

It is also true that the districts are more likely to reduce value in areas that have a non-aesthetic appeal, for those are the areas where added density is most likely to be value. Overall, there are a range of neighborhoods for which local property values would be higher than those that would solely maximize local land values. As such, for higher amenity areas preservation increases property values, but for low amenity areas, preservation reduces property values. The overall effect becomes an empirical matter.

Identifying the effect historic district designations have on residential property values is methodologically challenging, as the selection of neighborhoods for historic designation is not random. It is possible – even likely – that the characteristics of properties located in neighborhoods designated as historic districts differ from properties in other neighborhoods in unmeasured ways. For example, properties located in historic districts could include ornamentation or other architectural features not captured in our hedonic regression analyses. If so, we should be concerned that location within a historic district is actually picking up unobserved property characteristics, rather than any effect of designation itself.

Many hedonic analyses of the price effects of historic districts rely on cross-sectional data (or do not have access to prices of properties in districts before designation), and as such, cannot control for unmeasured differences between properties inside and outside of districts. The few recent studies that use longitudinal data find that designation has a negligible or even negative effect on property values. For example, a recent longitudinal analysis of historic districts in Boston indicates that historic districts depress prices (Heintzelman and Altieri 2011), suggesting that restrictions imposed on property owners outweigh the benefits of historic districts. Similarly, in a recent study of historic

conservation areas in England, Ahlfeldt, Holman and Wendland (2012) find that prices are generally higher within conservation areas, but that designation itself fails to lead to any statistically significant boost in values. Finally, Noonan and Krupka (2011), after instrumenting for historic district designations, find that designation leads to a significant decline in prices.

At the very least, the results suggest that district designation affects decisions about where to build. Less new construction takes place in historic districts after they are designated.

This paper sheds new light on the effects of the designation of historic districts on local housing markets, revealing that impacts vary with market conditions. Consistent with the predictions of our theory, we find that designation results in a larger increase to property values in community districts where the value of foregone development potential is lower. Also consistent with theory, the act of designating historic districts appears to offer a boost to the value of properties immediately outside the historic district. Properties located in the immediate vicinity of a district sell at a discount relative to nearby properties, but the designation of a district leads to an increase in their prices.

**MAKING – OR PICKING – WINNERS: EVIDENCE OF INTERNAL AND EXTERNAL PRICE EFFECTS IN
HISTORIC PRESERVATION POLICIES**

<https://scholarworks.iupui.edu/handle/1805/3580>

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Associate Professor
School of Public Policy
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*Douglas J. Krupka
Institute for Research on Labor, Employment and the Economy (IRLEE) and Ford School of
Public Policy, University of Michigan, and IZA*

2011

ABSTRACT

This article measures the impacts of historic preservation regulations on property values inside and outside of officially designated historic districts. The analysis relies on a model of historic designation to control for the tendency to designate higher quality properties. An instrumental variables model using rich data on historic significance corrects for this bias. The results for Chicago during the 1990s indicate that price impacts from designation inside a landmark district vary considerably across homes inside the districts. Controlling for extant historic quality, which the market values positively, restrictions apparently have negative price effects on average both within and outside districts.

EXCERPTS

In the 2SLS hedonic [analysis technique], the balance of the evidence points towards large, negative effects of designations on preserved properties on average, with a substantial amount of heterogeneity both within and across districts. Older districts have much stronger negative effects, while newer districts appear to have more positive effects. The results are consistent with a story in which properties included in districts due to their own historic value are negatively affected by the preservation policy while properties included in districts because of the historic value of their neighbors' experience increases in sales price.

Since district designation is designed to constrain supply, the lower prices for homes in districts suggests that the restrictions on property use indeed lower demand for the housing assets. These lower prices may be indicative of a takings common to preservation laws where individuals suffer costly encumbrances for the sake of positive external benefits. But, since we show that the external effects of the policy are not robust to controls for unobserved neighborhood or building quality, there is no strong evidence that these external benefits are valued in the housing market.

As Turnbull (2002) has shown, the threat of "preservation" can speed owners towards redevelopment, which could lead to an overall decrease in historic resources over the long run (even if the policy itself effectively preserves the properties it does designate).

Historic Preservation: Preserving Value?

<http://journal.srsa.org/ojs/index.php/rrs/article/download/182/137>

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Jason J. Altieri
Economics and Financial Studies
School of Business
Clarkson University*

April, 2011

ABSTRACT

The creation of historic districts has become a common way to preserve historic buildings and neighborhoods. Advocates of historic districts assume that such districts augment, or at least, protect property values for homes within these districts. The existing economic literature supports this conclusion, but most studies seem to fall victim to an endogeneity bias since higher value homes are, all else equal, more likely to be included in districts. Thus, these studies are mistaking correlation for causation.

EXCERPTS

In creating districts, policy-makers are 'picking winners.' That is, districts tend to contain more valuable homes, hence the common result that historic districts increase value. However, our analysis suggests instead that while homes in districts are more expensive, the act of designation actually reduces their value by 11.6% to 15.5%. This implies that the limitations put on changes to a designated home outweigh the benefits provided, including possible tax breaks. That is, the private costs appear to exceed the public goods, benefits, at least internally. One possibility... is that the inability of homeowners to demolish historic structures is proving to be a substantial limitation. Even if current homeowners have no intention of making such a large change, the loss of this option for future homeowners would still be capitalized into current values.

Regulation would be expected to reduce home values if it prevents optimal development from happening.

However, what is clear is that advocates, including the National Trust for Historic Preservation, may be mistaken in asserting that one benefit of local historic districts is that they 'protect and enhance property values' for residents of these districts. From a policy perspective, it may be necessary to include or increase tax breaks or other financial incentives for district residents in order to secure their support. Most importantly, homeowners considering attempts to have their neighborhoods designated as locally historic may be disappointed in the effects on their home values. Furthermore, since these results seem to go against prior studies using

assessment data, it seems likely that tax assessors are over-valuing homes in historic districts, which has clear economic implications for the owners of these homes.

**The Hedonic Pricing Model Applied to the
Housing Market of the City of Savannah and Its
Savannah Historic Landmark District**

<http://journal.srsa.org/ojs/index.php/rrs/article/download/182/137>

*Richard J. Cebula
Jacksonville University*

January, 2009

ABSTRACT.

This study applies a hedonic pricing model to the housing market of the City of Savannah, Georgia. The Savannah Historic Landmark District is located both in and adjacent to downtown Savannah. Of the 2,888 single-family homes for the period 2000- 2005 for which data are available, 591 are located in the Historic District. The model of the real sales price of a single-family house in the City of Savannah environment reveals it is positively affected by the number of bathrooms, fireplaces, bedrooms, stories in structure, garage car spaces, square feet of finished living space, the presence of a deck, a private courtyard, a pool and/or hot-tub, an exterior construction of brick or stucco, the presence of an underground sprinkler system, and whether the house was new. Six spatial control variables are considered. Locations across from, or adjacent to, open space carry premia, as do locations on cul-de-sacs or lakes. Corner properties do not. In addition, proximity to an apartment complex is capitalized as a negative quantity, as do locations on a busy street. The real sales price of residential properties that closed during May or July tend to be higher. In addition, houses designated as a national historical monument tend to carry with them a modest price premium, as do properties that are simply located within the Savannah Historic Landmark District.

EXCERPTS

Designation as a national historic landmark is apparently appealing and enhances property prices. Furthermore, the coefficient on HISTDIST implies that location in the Savannah Historic Landmark District per se increases a house's sales price.

Finally, it appears (other things held the same) that a property designated as a national historical landmark (HISTDES) secures about a 1.7 percent premium over a non-designated property. This premium is distinct from the premium properties derive from their location in the Savannah Historic Landmark District (DISTRICT). Indeed, single-family properties located in the Savannah Historic Landmark District command a real price premium of about 20–21 percent (on average) over otherwise similar properties not located in the District. These results for the case of Savannah are effectively compatible in principle (if not in magnitude) with studies such as Clark and Herrin (1997), Leichenko, Coulson, and Listokin (2001), Coulson and

Leichenko (2001), and Coulson and Lahr (2005). For example, Clark and Herrin (1997, p. 42) find, for the case of the Sacramento housing market, that historic designation "...exerts a net positive influence on housing prices." They revealed a 10 to 17 percent property price premium from historic designation in most sections of the city. Leichenko, Coulson, and Listokin (2001, p. 1983) find for the City of San Antonio that "historic designation is associated with an 18.6 percent increase in housing values," and in Dallas that there was a "4.9 percent increase in value associated with historic designation." Thus, in the case of Savannah, it appears that the Savannah Historic Landmark District per se yields a higher housing price premium than do similar districts in Sacramento and selected Texas cities.

The price of a single-family property in Savannah was enhanced modestly by designation as a historic national landmark. In addition, a significant premium (20-21 percent) was paid on average for a house located within the Savannah Historic Landmark District.

The Positive Externalities of Historic District Designation

<http://digitalcommons.iwu.edu/parkplace/vol12/iss1/16>

*Ana Maria Romero
Illinois Wesleyan University
The Park Place Economist: Vol. 12*

April, 2004

ABSTRACT

This paper argues that assigning historic district designation to a neighborhood or urban area increases the value of properties within the district and revitalizes the area economically because of the positive externalities associated with historic districts. It focuses almost exclusively on the economic and commercial reasons for why a historic property should be conserved and how policies to do so should be implemented.

EXCERPTS

The costs of historic district designation are that once a property is considered part of a historic district, the owner loses a great deal of control over the external appearance of the property, as well as its economic uses. As part of a historic district, a property's external appearance needs to meet certain standards and cannot be modified. In addition, the use of the property cannot be modified. As a result, owners of historic property experience a loss, since their property could possibly earn a higher economic return if used differently. However, marginal benefit is greater relative to marginal cost, which will increase demand for historic properties. This increase in demand will become evident by rising property values after the designation.

[Gale] (1991) concludes that the possible physical and economic benefits of historic district designation are abundantly clear, but there are nagging doubts about whether the act of designation should lead or follow reinvestment trends in older neighborhoods possessing historic attributes.

In conclusion, the evidence of whether historic districts create positive externalities and therefore, higher prices, is inconclusive. Some of the evidence suggests that there are no benefits to historic district designation and, in some cases, the restrictive policies of the designation actually lessen property values. Other evidence suggests that there is a premium to buildings located within a district, but the premium is not related to the social need to preserve the building. Instead it is related to the positive externality effect of living in a neighborhood where all other neighboring houses are required to maintain a certain standard. Theoretically, renovation should imply many economic benefits to an area, but evidence to support this is also inconclusive. Historic district designation may not be what leads to the economic revitalization of an area, but it can be a tool to speed up the renovation. Therefore, there are doubts of whether it should only be applied to neighborhoods that are already experiencing renovation.

THE ECONOMIC IMPACT OF HISTORIC PRESERVATION DISTRICTS – A CASE STUDY OF INDIANAPOLIS NEIGHBORHOODS

https://cardinalscholar.bsu.edu/bitstream/handle/123456789/194697/WertzK_2010-1_BODY.pdf

*KATHRYN WERTZ
DR. FRANCIS PARKER
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DECEMBER 2010

Based on research and previous studies I hypothesized that the results of this study would indicate that historic preservation districts would increase assessed value of properties located within their boundaries. In my research of historic preservation literature, I found that many texts indicate that a rise in property value is associated with local district designation. In the case of Indiana assessment, market value is one component used to determine the assessed value of a property. With this knowledge of assessment practices, I applied the assumption to assessed value. I concluded that historic districts would affect the assessed value of properties in a positive manner.

My assumptions on what I would find from the analysis of this study proved to be somewhat incorrect. The data and analysis did not produce any solid, compelling results. No significant trends could be identified or used to make assumptions. My original hypothesis that historic districts would provide stability to the assessment of structures within historic district boundaries proved to be true. The three local districts showed a gradual increase in the average assessed value over time, where during the same time period the non-historic districts experienced a less gradual increase and show only minor increases in average value.

I have also concluded that as historic districts age, the assessed value of the properties located within their boundaries will experience a steady increase. The analysis of the assessment data showed that Fletcher Place historic district consistently had one of the highest assessed values. Fletcher Place is also the oldest neighborhood in the study, as well as the oldest historic district in the study. This indicates that as districts age, assessed values increase.

Historic Preservation and Its Even Less Authentic Alternative

Lior Jacob Strahilevitz

Evidence and Innovation in Housing Law and Policy

Edited by Lee Anne Fennell Benjamin J. Keys

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Cambridge University Press

Online publication date: September 2017

In areas of significant land scarcity, such as urban centers, there is little credible evidence that historic preservation regulations systematically enhance property values. Most of the rigorous evidence in fact suggests that such regulations cause property values to decline.

Historic preservation restrictions on land do seem to enhance property values in lower-density areas where there is little economic pressure to redevelop property and where such regulations can promote an aesthetically appealing form of homogeneity in the streetscape that might be difficult to achieve through purely voluntary coordination among property owners.

To be sure, property values do not capture all of the potential benefits and costs of historic preservation. Such preservation, when successful, can provide current generations with guidance about how past challenges were addressed, provide present generations with an escape from their current confines, or establish continuity with the past.

On the other hand, preserving the past may stifle present generations' creativity by failing to free up scarce space for future landmarks. The past can become an orthodoxy from which one deviates only at her peril.

RESIDENTIAL PROPERTY VALUES AND HISTORIC DISTRICTS: A KALAMAZOO CASE STUDY

*Curtis Aardema, M.A.
Western Michigan University, 2015*

In order to provide a quantitative assessment of the economic impact of historic districts, this project compares property values from 1990, 2000 and 2010 in both a historically designated and a non-designated neighborhood in Kalamazoo, Michigan. Through tedious sampling techniques and statistical analysis, the results of the project indicate a link between historic districts and higher property values.

In order to fill some of the gaps in the historic preservation story, this project was designed to directly compare two neighborhoods in Kalamazoo, Michigan. As discussed in detail throughout the text, the city's Edison and Vine neighborhoods were chosen as representative sample neighborhoods. Both neighborhoods share significant physical, economic, and cultural features, including proximity to downtown Kalamazoo, access to major employers, median age of housing stock, architectural features and mean square footage of the houses. The key difference between the two neighborhoods, however, is the Vine neighborhood's historic designation enacted in 1990. The Edison neighborhood has been declared eligible for historic designation, but residents and leadership have chosen not to proceed with designation, partly due to concerns related to the impact of the designation on property values.

Historic designation in the neighborhoods of Kalamazoo, Michigan drives property value growth as it has done in other parts of the United States. Additionally, the results paint a clear picture of the greater increases in property values in Vine, while underscoring this benefit as home values in 1990 were statistically identical.

The many dimensions of historic preservation value: national and local designation, internal and external policy effects

Tetsuharu Oba

Article in [*Journal of Property Research*](#) 34(3):1-22 · August 2017

Abstract

This analysis examines the internal and external policy effects of national and local register programs for historic preservation. Robust hedonic pricing models are crucial to informing policy proposals and understanding how property markets relate to urban heritage. Estimating a repeat-sales hedonic model with neighborhood trends and spatial mixed models, novel to this literature, offers a marked improvement in terms of jointly identifying internal and external policy effects, comparing national and local designations, separating policy from heritage effects and estimating models robust to spatial dependence and trends in hedonic prices.

Historic designation variables, while often individually insignificant in the model, are always jointly significant in explaining varying appreciation rates. Local districts exhibit no consistent price impacts across the models. Being located inside a national district confers a price premium that increases over time in the preferred model specification, while prices fall in national districts' buffers after designation. The sensitivity of results to model specification raises questions about alternative approaches to spatial dependence in the data in the urban historic preservation context. Evidence of the influence of historic district designation on property turnover and renovation investments is also examined.

Available from:

<https://www.researchgate.net/publication/319341285> [The many dimensions of historic preservation value national and local designation internal and external policy effects](#) [accessed Apr 02 2018].

Historic Designation and Residential Property Values

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2017

The State of California enacted the Mills Act in 1972. This act allows local municipalities the option of setting up a historic designation program. The main feature of the program is to allow the owners of historic buildings a reduction in their property taxes in return for an agreement to not alter the exterior façade of the designated building.

This paper uses hedonic regression analysis to estimate the impact of the historic designation on the value of single-family residences in the City of San Diego.

The results suggest that the designation creates a 16% increase in housing value. This is higher than the capitalization of the property tax savings would suggest, implying market value in the historic designation itself.

Estimating the Value of the Historical Designation Externality

Andrew Narwold

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2017

Historical preservationists have long argued that programs that protect historically significant houses create a positive externality for the houses in the surrounding neighborhood. California's Mills Act presents a unique opportunity for the measurement of this externality. The Mills Act allows local governments to protect houses individually, rather than through districts, by giving property tax relief to the homeowners. Previous research has shown that the value of this tax benefit to the homeowner is very significant, increasing property values by 16%. However this program costs the local government in terms of lost property tax revenue.

The results presented in this paper suggest that the loss in property tax revenue is more than compensated for by a general increase in the property value of other houses in the neighborhood. The value associated with the proximity of a historically significant house in the neighborhood varies with distance. For distances up to 250 feet, a historical house adds 3.7% to a house's value with this amount decreasing to 1.6% for distances of 250 to 500 feet.

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