

Effects of Historic Designation on Residential Property Values

BURLEITH

April 11, 2018

Richard Schmidt
1810 35th St NW
schmidt.rich@gmail.com

Effects of Historic Designation on Property Values

- What are property values?
- The hedonic pricing method
- Burleith property tax assessments
- Studies of HD effects – literature survey

Burleith(a) (excludes Hillandale)

Property Values

Market values: Sales comparables

- Fewer points
- Subjective

Tax assessments: DC online resource

- Lags market value
- Many points

Hedonic Property Value Pricing

hedonic

adjective he·don·ic \ hi-'dä-nik \

Definition of hedonic

1 : *of, relating to, or characterized by pleasure*

2 : *of, relating to, or characterized by hedonism*

Hedonic Property Value Pricing

In Economics theory:

Hedonic: Estimating total value by breaking out each **characteristic** and evaluating contribution of each

The Hedonic Pricing Method

STEP 1: Gather Inputs

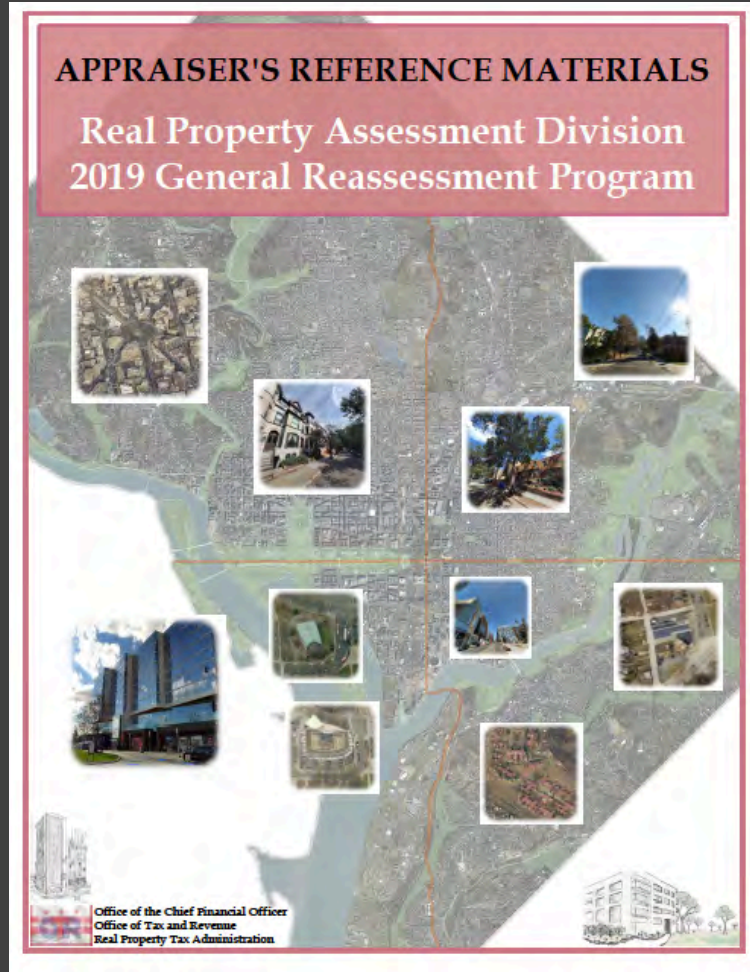
- Market survey selling prices
- lot size, number and size of rooms. . .
- property taxes, crime rates, quality of schools
- distances to work and shopping centers
- availability of public transportation
- environmental characteristics

The Hedonic Pricing Method

Step 2: regression analysis

- Statistically relate property values to **property characteristics**, including HD status.
- Find value of each **characteristic**.
- DC Tax Assessment is a hedonic process.

The D.C. 2019 Residential Valuation Process



Real Property Assessment
Division
2019 General Reassessment
Program
Office of Tax and Revenue
Real Property Tax
Administration

The D.C. 2019 Residential Valuation Process

VISION GOVERNMENT SOLUTIONS CAMA – COMPUTER ASSISTED MASS APPRAISAL

Account # 9999 9999		Property Location 9999 9TH ST NW #999999999		Bidg # 1 of 1		Cont # 1 of 1		Use Code 012			
Internal ID 162803		WASHINGTON, DC		Sec # 1 of 1		Print Date 2/27/2015 8:31:11 AM					
CONSTRUCTION DETAIL				BUILDING SUMMARY SECTION				SKETCH			
Element	Qty	Chng	Description	Code	Description	Gross	Eff Area	Living			
Prim Bldg Use	012		Residential Detached	BAS		1,200	1,200	1,200			
Model	01		Single Family	FBP		400	0	0	FBP (400 sq ft)		
Grade	4		Above Average	FGR		440	196	0			
Style	6		2.5 Story Fin	FHS		1,200	600	600			
Stories	2.5			FOP		60	0	0			
Building Type	1		Single	FUS		1,200	1,200	1,200			
Roof Cover	3		Shingle	UBM		1,200	300	0			
Foundation	2		Average								
Exterior Wall	15		Face Brick								
Exterior Condit	4		Good								
Heat Type	1		Forced Air								
AC Type	Y		Yes								
Floor Cover	11		Hardwood/Carp								
Interior Condit	4		Good								
Total Rooms	6										
Fireplaces	1										
Bedrooms	4										
Bathrooms	2										
Half Baths	2										
Bath Style	2		Semi-Modern								
Kitchens	1										
Kitchen Style	2		Semi-Modern								
Exit to Kitch	0		Default								
Overall Cndtn	4		Good								
View	3		Average								
Park Spaces	0										
No. Units	1										
BUILDING COST											
Effective Area						3,498					
Building RCN						754,788					
Spec. Feature RCN						14,443					
Total RCN						769,231					
% Good						86					
Building Cost						661,538					
DEPRECIATION											
Primary OCC						Current		Change			
						012					
Actual Year Built						1937					
Year Remodeled						2001					
Effective Year Built						1954					
Status											
% Complete											
%GD Override (Cost)											
Type											
Reason Code											
Date											
ID											
Comment											
SPECIAL FEATURES/AMENITIES											
Code	Description	Units	SF	Unit Price	Quality	RCN					
SN	SAUNA	1		13250.0	4	14,443					
DETACHED STRUCTURES											
Code	Description	Units	Unit Type	Unit Price	Grade	Condition	RCN	% GD	Ass. Val		
DG	Detached Garage	200	SF	63.50	5	5	16,791	85	14,270		
PH	POOL HOUSE	1,500	SF	150.07	6	4	194.19	80	155,390		
&											



The D.C. 2019 Residential Valuation Process

Very simplistically

Market Value = land value
+ building RNC
- depreciation

RNC = "Replacement Cost New"

The D.C. 2019 Residential Valuation Process

Burleith(a) [not Hillandale]

Land Value = \$252.24 / sq ft

Base lot = 2000 sq ft = \$504,480

The D.C. 2019 Residential Valuation Process

Replacement Cost New

$$\text{Building RCN}(\$) = [(\text{Base Rate} \times \text{Effective Area}) \\ + \$ \text{ "Good Features" } \\ - \$ \text{ "Bad Features" }]$$

multiplied by Fudge Factors

The D.C. 2019 Residential Valuation Process

Building RCN = [(Base Rate + \sum ABRV) * Effective Area * SizeAdjustment + \sum AFRV] * (MV0 * MV2 * ... * MVn)

- RCN = Replacement Cost New
- Base Rate = rate based on use code
- ABRV = Additive Base Rate Variables
- Effective Area = Adjusted area of improvement
- Size Adjustment = Adjustment factor to base size
- AFRV = Additive Flat Rate Variables
- MV = Multiplicative Variables

The D.C. 2019 Residential Valuation Process

Building Base Rate

Derived from market analysis

Varies with type of home:

- Row \$145.92 / sq ft. (2019)
- Detached \$161.27
- Semi-detached \$148.50

The D.C. 2019 Residential Valuation Process

$$\text{Building RCN} = [(\text{Base Rate} + \sum \text{ABRV}) * \text{Effective Area} * \text{SizeAdjustment} + \sum \text{AFRV}] * (\text{MV0} * \text{MV2} * \dots * \text{MVn})$$

Additive Base Rate Variables

- Hardwood floors + \$7.17 / sq. ft.
- Clay tile roof + \$2.93 / sq. ft.
- Elec base board heat - \$0.20 / sq. ft.
- Finished basement + \$20.00 / sq. ft.
- ... more...

Additive Flat Rate Variables

- Full bath (over 1) \$12,500
- Half bath \$ 7,750
- Fireplace \$ 8,000
- Kitchen \$11,500

The D.C. 2019 Residential Valuation Process

$$\text{Building RCN} = [(\text{Base Rate} + \sum \text{ABRV}) * \text{Effective Area} * \text{SizeAdjustment} + \sum \text{AFRV}] * (\text{MV0} * \text{MV2} * \dots * \text{MVn})$$

Effective area = Adjusted area of improvement

Effective area = Living space assessed @ 100%
+ Garage space @ 45%
+ Unfinished basement @ 25%
+ more...

The D.C. 2019 Residential Valuation Process

$$\text{Building RCN} = [(\text{Base Rate} + \sum \text{ABRV}_n) * \text{Effective Area} * \text{SizeAdjustment} + \sum \text{AFRV}_n] * (\text{MV}_0 * \text{MV}_2 * \dots * \text{MV}_n)$$

- **SizeAdjustment:** compare to 1,800 sq ft
- If smaller, **increase** rate / sq ft
- If larger, **decrease** rate / sq ft

i.e. big houses worth less per sq ft !!

The D.C. 2019 Residential Valuation Process

Depreciation:

$$\begin{aligned} \text{Market Value} &= \text{building RCN} \\ &\quad - \text{depreciation} \\ &\quad + \text{land value} \end{aligned}$$

At effective age 75-yr house depreciates 16%

Effective age decreases with each renovation

The D.C. 2019 Residential Valuation Process

Building RCN = [(Base Rate + \sum ABRV_n) * Effective Area *
SizeAdjustment + \sum AFRV_n] * (MV0 * MV2 * ... * MV_n)

- **MV = Multiplicative Variables:**
Grade, Renovation, Condition, Location...
- **MV** can be largest factors in value variations!

The D.C. 2019 Residential Valuation Process

Depreciation:

At effective age 75-yr house depreciates 16%

Effective age decreases with each renovation

Example Effective Age Adjustments

- New Kitchen = 90% x Age
- Effective Age = Actual Age x 0.9
Actual 80 yrs x 0.9 = 72 yrs

The D.C. 2019 Residential Valuation Process

$$\text{Building RCN} = [(\text{Base Rate} + \sum \text{ABRV}_n) * \text{Effective Area} * \text{SizeAdjustment} + \sum \text{AFRV}_n] * (\text{MV0} * \text{MV2} * \dots * \text{MV}_n)$$

Example:

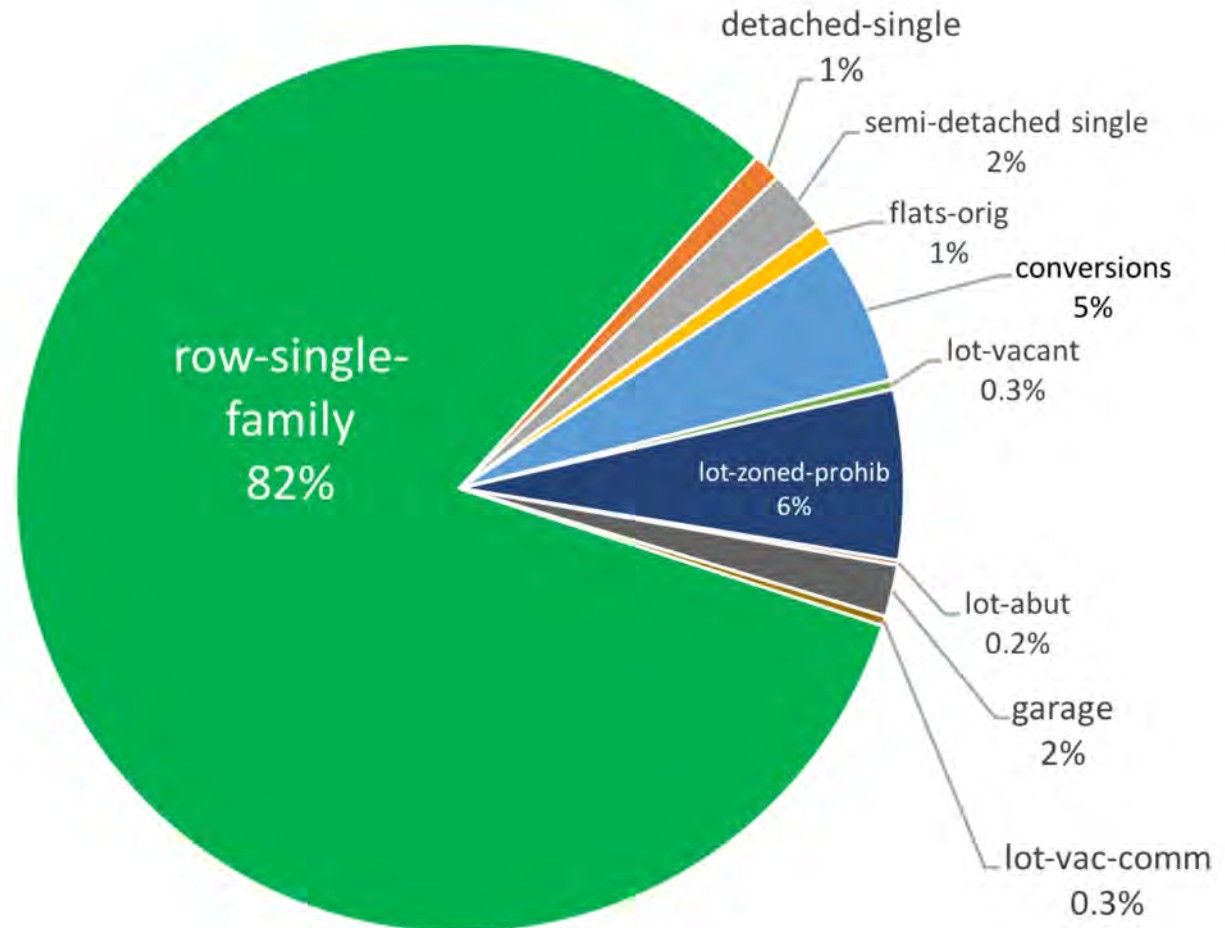
Building Grade

Multiplier

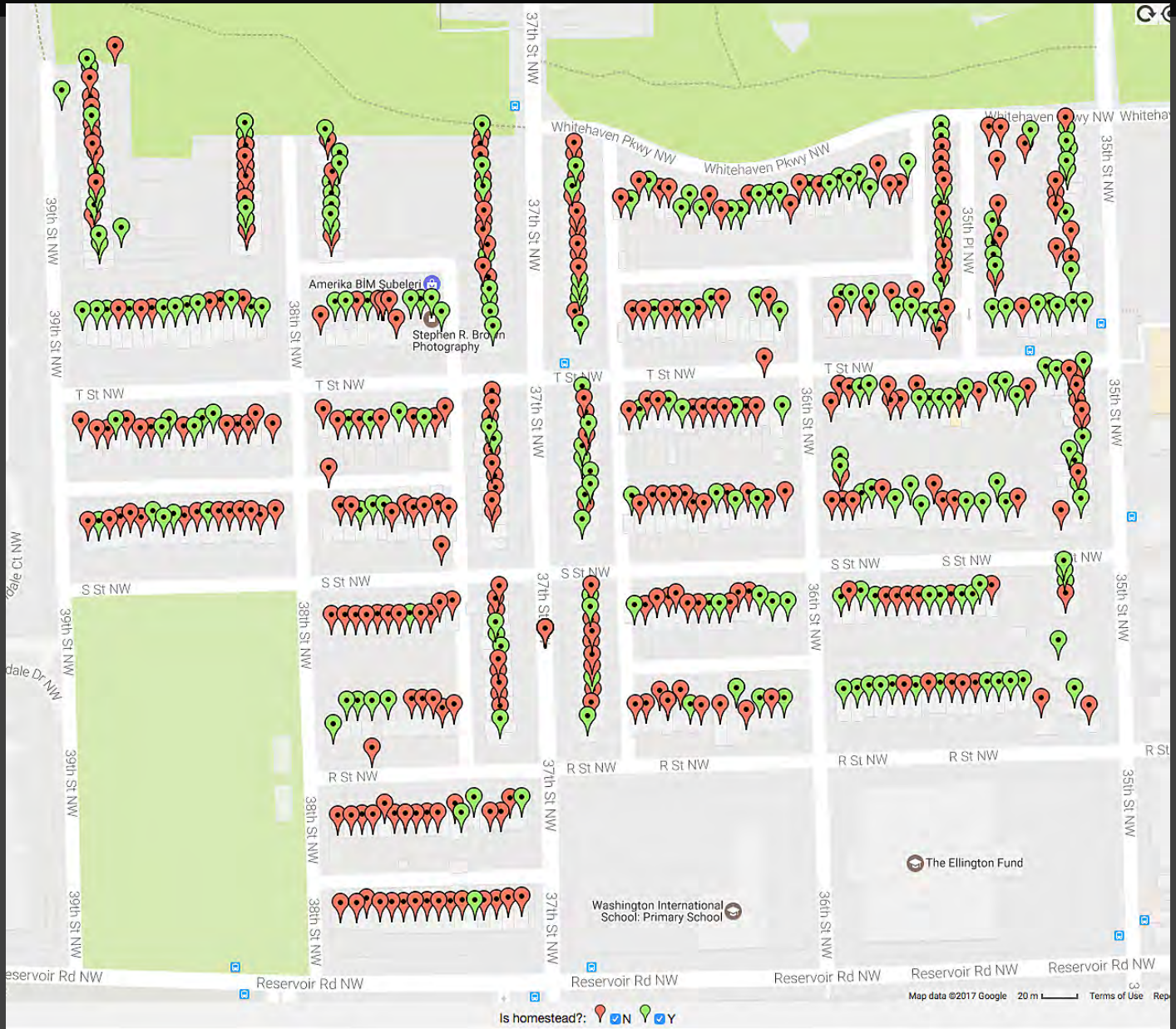
1	Low Quality	0.50	<- half value
2	Fair Quality	0.75	
3	Average Quality	1.00	
4	Above Average Quality	1.07	
5	Good Quality	1.16	
6	Very Good Quality	1.29	
7	Excellent Quality	1.46	
8	Superior Quality	1.66	
9	Extraordinary – A	1.96	
10	Extraordinary – B	2.20	
11	Extraordinary – C	2.55	
12	Extraordinary – D	2.90	<- 2.9 x value

2017 look at 583 Burleith(a) properties

BURLEITH (A) PROPERTY USE CODES



Burleith(a): 60.2% non-homesteads 39.8% homesteads



STUDIES OF EFFECTS OF HD STATUS

Survey of the literature:
25 HD reports (1971 – 2017)
gleaned from the web

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

RICHARD SCHMIDT

NOVEMBER, 2016

FOR THE BURLEITH CITIZENS ASSOCIATION

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

RICHARD SCHMIDT

APRIL, 2018

FOR THE BURLEITH CITIZENS ASSOCIATION

www.burleith.org/historic-designation

THE ECONOMIC IMPACT OF HISTORIC PRESERVATION IN PHILADELPHIA

Preservation Alliance for Greater Philadelphia
2010

Source



Conclusions



- The majority of studies tend to conclude that HDs have a positive effect on property values.
- HD homes have *higher average price increases*

THE ECONOMIC IMPACT OF HISTORIC PRESERVATION IN PHILADELPHIA

Preservation Alliance for Greater Philadelphia
2010

- The majority of studies tend to conclude that **HDs have a positive effect** on property values.
- HD homes have **higher average price increases**.

BENEFITS OF RESIDENTIAL HISTORIC DISTRICT DESIGNATION FOR PROPERTY OWNERS

Jonathan Mabry, Ph.D.

City of Tucson , June 2007

- HD property values appreciate significantly faster than the market as a whole in the vast majority of cases and appreciate at rates equivalent to the market in the worst case.
- Simply put—local historic districts enhance property values.

BENEFITS OF RESIDENTIAL HISTORIC DISTRICT DESIGNATION FOR PROPERTY OWNERS

Jonathan Mabry, Ph.D.
City of Tucson , June 2007

- Home investments in HDs will not be adversely affected by construction of an **inappropriate, out-of-scale building** next door.

HISTORIC DESIGNATION AND RESIDENTIAL PROPERTY VALUES

Andrew Narwold, Jonathan Sandy, Charles Tu
Center for Real Estate
University of San Diego
2017

- Hedonic regression analysis San Diego.
- HD creates a 16% increase in housing value

PRESERVING HISTORY OR HINDERING GROWTH?

Vicki Been, Ingrid Gould Ellen

New York University School of Law

Michael Gedal, Federal Reserve Bank of New York

Edward Glaeser, Harvard University Department of Economics

Brian J. McCabe, Georgetown University Department of Sociology

2014

- HD affects decisions about where to build.
- Less new construction takes place in HDs after they are designated.

PRESERVING HISTORY OR HINDERING GROWTH?

Vicki Been, Ingrid Gould Ellen

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Brian J. McCabe, Georgetown University Department of Sociology

2014

- In areas where the value of the option to build unrestricted is higher, HD has a less positive effect on property values within the district.

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2014

- We would expect that HD 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.

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2014

- 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.

INCOME PROPERTY VALUATION

Kinnard, William Jr.

Heath-Lexington Books, 1971

- HD may impede realization of a property's "highest best use." Instead, the property may have to be kept at its "current use."
- Current use is the existing utilization of a property; highest best use is the most profitable.

THE ECONOMIC IMPACTS OF HISTORIC PRESERVATION IN ARKANSAS

Arkansas Historic Preservation Program [Undated]

- The issue of **timing is key**
- If HD takes place **before the area has experienced significant rehabilitation and restoration**, results will be very different than they would be if designation occurred **when renovation was complete.**

THE IMPACT OF LOCAL HISTORIC DESIGNATION

Akram M. Ijla

Cleveland State University

March, 2008

- As part of an HD a property's **external appearance must meet certain standards** and an individual property owner's options are therefore restrained and restricted.
- Therefore, owners of homes in historic district do experience a **loss of their property rights** and could even sustain economic losses . . .

THE IMPACT OF LOCAL HISTORIC DESIGNATION

Akram M. Ijla

Cleveland State University

March, 2008

Author/Year	Level of Historic Designation	Location	Research Method	Impact of Designation on Property Value
Ford (1989)	Federal & State	Baltimore, MD	Hedonic Regression	Positive (+)
Schaeffer and Ahern (1991)	Federal, State, and Local	Chicago, IL	Hedonic Regression	Negative (-)
Asabere and Huffman (1994a)	Federal & State	Philadelphia	Hedonic Regression	Positive (+)
Asabere and Huffman (1994b)	Federal & State	Philadelphia	Hedonic Regression	Negative (-)
Kilpatrick (1995)	Mixed	Columbia, South Carolina	Hedonic Regression	Positive (+)
Coulson and Leichenko (2001)	Mixed	Abilene, TX	Hedonic Regression	Positive (+)
Leichenko et al. (2001)	Mixed	Nine Texas cities	Hedonic Regression	Positive (+)
Heudorfer (1975)	Mixed	New York City	Case-control	Neutral (N)
Scribner (1976)	Federal & State	Alexandria, VA	Case-control	Positive (+)
Rackham (1977)	Federal & State	Washington, DC	Case-control	Positive (+)
New York Landmarks Conservancy (1977)		New York City	Case-control	Neutral (N)
US Advisory Panel on Historic Preservation (1979)	Federal & State	Alexandria, VA; Galveston, TX; Savannah, GA; Seattle, WA	Case-control	Positive (+)
Cohen (1980)		Six Chicago historic districts	Case-control	Positive (+)
Samuels (1981)	Federal & State	Washington, DC	Case-control	Neutral (N)
Gale (1991)	Federal & State	Washington, DC	Case-control	Neutral (N)

HISTORIC PRESERVATION: PRESERVING VALUE?

Martin D. Heintzelman, Jason J. Altieri
School of Business, Clarkson University
April, 2011

- The act of HD actually reduces value by 11.6% to 15.5%.
- Regulation would be expected to reduce home values if it prevents optimal development from happening.

THE POSITIVE EXTERNALITIES OF HISTORIC DISTRICT DESIGNATION

Ana Maria Romero

Illinois Wesleyan University

2004

- Some of the evidence suggests that there are **no benefits to HD designation** and, in some cases, the restrictive policies of the designation actually **lessen** property values.

THE POSITIVE EXTERNALITIES OF HISTORIC DISTRICT DESIGNATION

Ana Maria Romero
Illinois Wesleyan University
2004

- It can be argued that HD is a powerful tool only if it is designed to meet **the individual and unique needs** of the area in question.

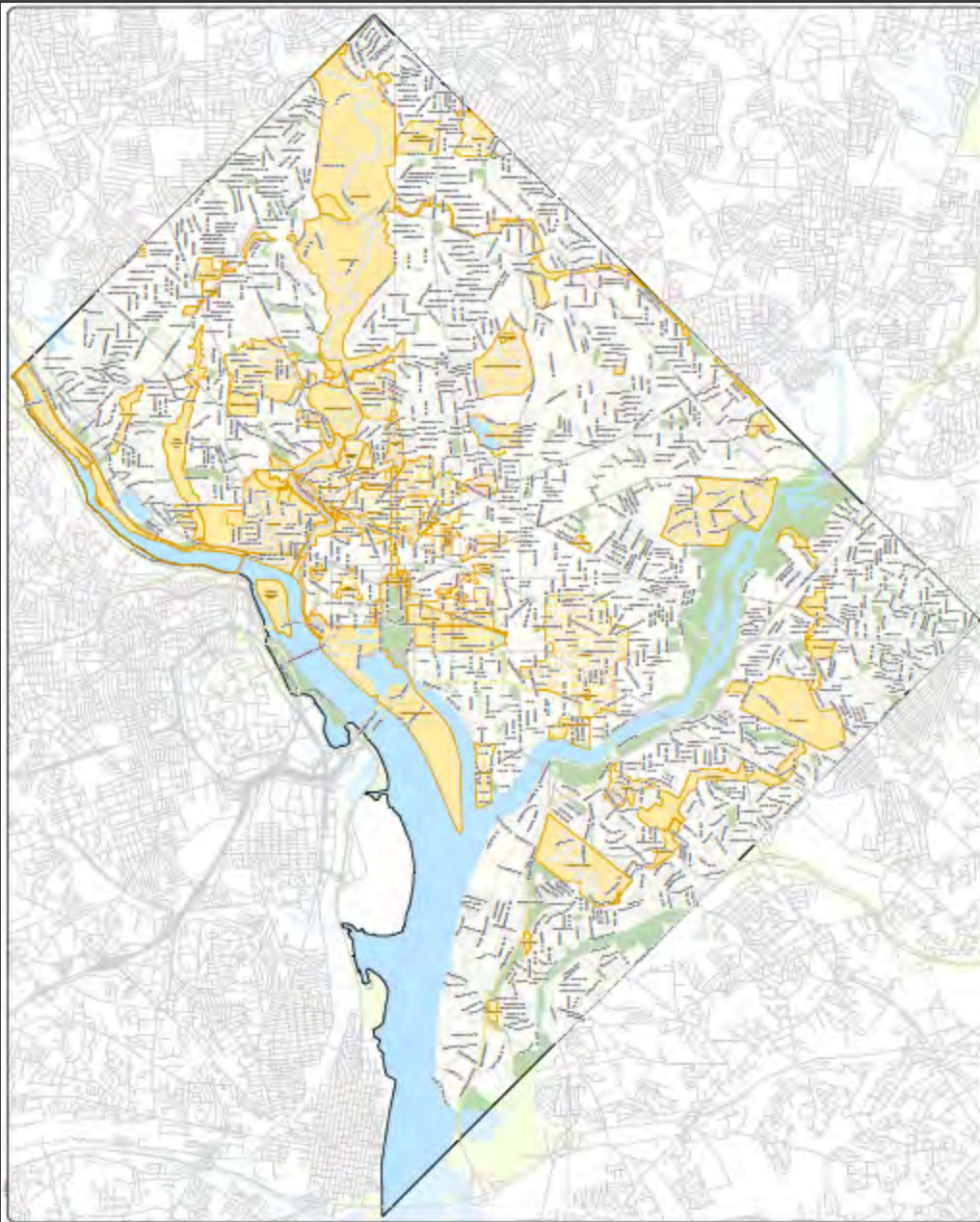
HISTORIC PRESERVATION AND ITS EVEN LESS AUTHENTIC ALTERNATIVE

Lior Jacob Strahilevitz

Wharton School, University of Pennsylvania

2017

- In areas of significant land scarcity... **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**.



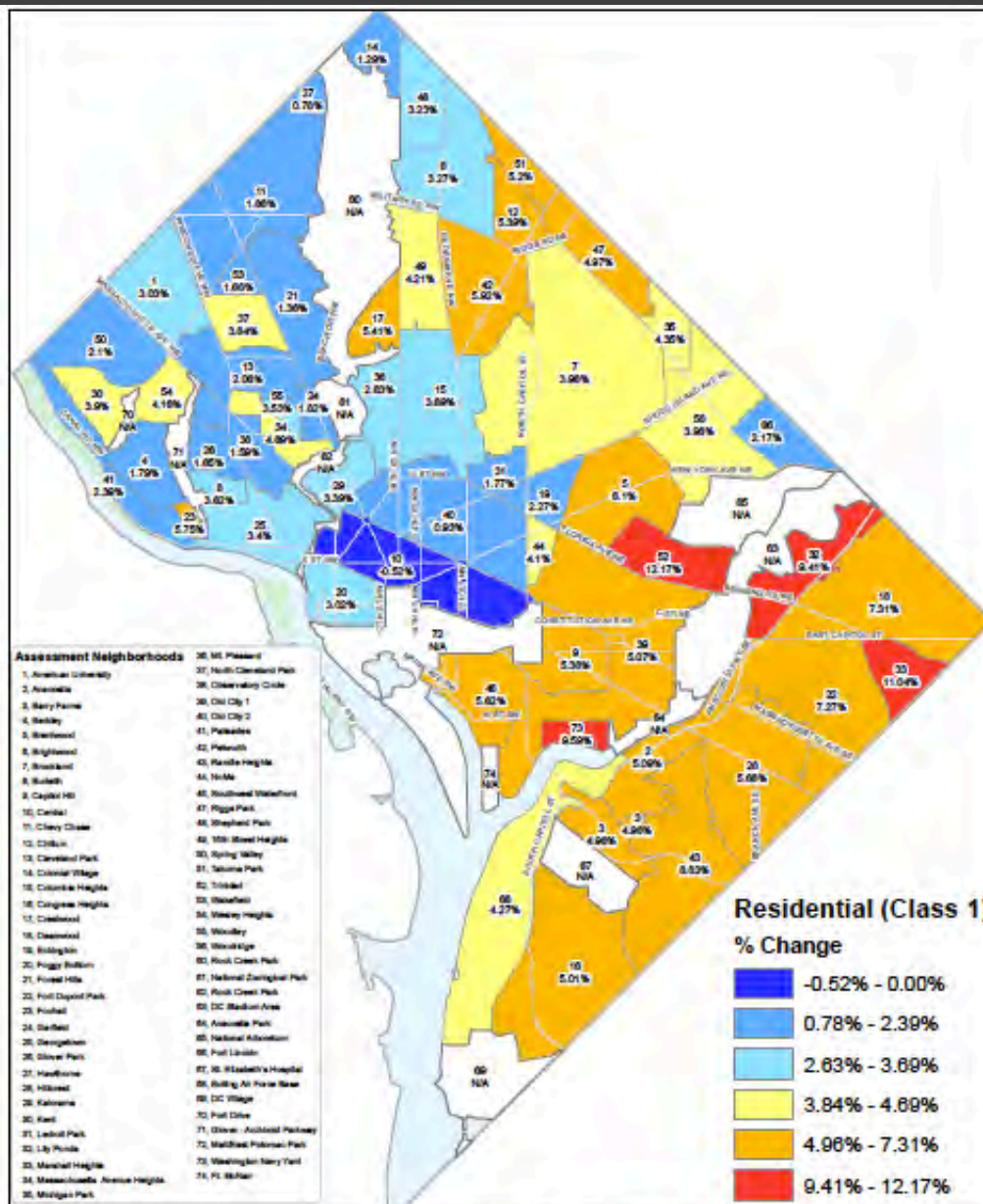
**The District of Columbia
Historic Districts**

DC HD Neighborhoods 2014

Office of Planning
DC Historic Districts Map
2014

2019 Base Changes

Real Property Assessment
 Division
 2019 General Reassessment
 Program
 Office of Tax and Revenue
 Real Property Tax
 Administration



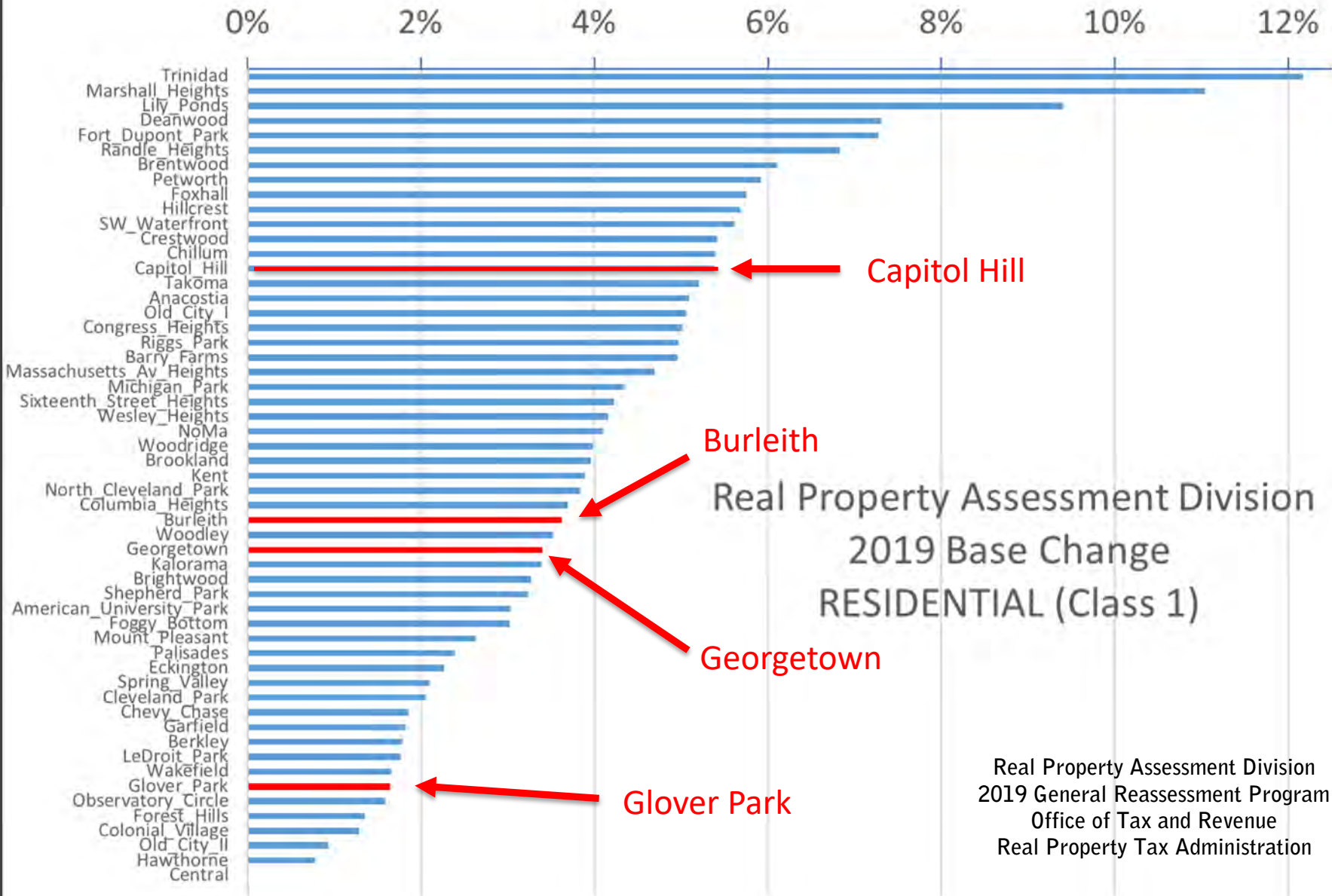
TY *2019 Residential (Class 1) Base Change
 by Assessment Neighborhood

0 0.5 1 2 Miles

Office of Tax and Revenue
 Real Property Assessment Division
 Geographic Information Systems
 Date: 2/23/2018

* Proposed 2019 Assessment Values





Real Property Assessment Division
 2019 Base Change
 RESIDENTIAL (Class 1)

Real Property Assessment Division
 2019 General Reassessment Program
 Office of Tax and Revenue
 Real Property Tax Administration

For more information:

www.burleith.org/historic-designation

BURLEITH

Your Children's Welfare Comes First With You—

It doesn't matter
to your landlord.



THERE'S not a growing boy or girl who won't thrive in the healthful atmosphere of the Burleith Community.

The large well landscaped yards offer opportunity for unconfined recreation on sunny days, and the large double rear porches and the light, airy basements are just the place for playhouses and work shops when rainy days come.

Western High School, a Public Grade School and a Parochial School are all adjacent to Burleith. This is an item to

consider, too—particularly to mothers who have First-grade Intellectuals to think about.

The Baths in Burleith intrigue rather than repel "grubby kids." From the "prickly shower" to the waterproof tile walls and floor there is not one "be careful" warning necessary to make of a bath anything except a glorious and "soapy" adventure.

And you, Mr. and Mrs. Parents, by investing in a Burleith Home are establishing a precedent of thrift that will constructively influence your children's lives.

Prices range from \$9,100 to \$13,500, on attractive terms.

Come out to Burleith, at 37th and R Sts. N.W.

The Sample House is Always Open for Inspection and is Located at

1708 37th Street, N. W.

To Reach: Drive over the Q St. Bridge to 24th St., north one block to R St. and west on R St. to 37th and the Model Home.

SHANNON & LUCHS, INC.

Member of the Operating Builders' Assn. of the District of Columbia