



IDAHO STATE  
HISTORICAL  
SOCIETY

## Profiting from the Past: Historic Preservation's Economic Benefits

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"Economic development."

Achieving it is one of the driving forces for most communities. Businesses want more of it. Civic leaders pursue policies to encourage and support it. The eternal question is how to best make it happen for a community.

But one of the most effective methods for encouraging economic development in a community is also one of the most overlooked: preservation of the community's historic resources.

It's easy for preservation advocates to talk about protecting the community's sense of identity, or the aesthetic appeal of a historic neighborhood, or importance of local heritage. Unfortunately, such appeals often lose out when confronted with the desire for "economic development." But if historic preservationists make sure we're able to convey the *economic* benefits of historic preservation, then we are in a position to join the "economic development" discussion, advance historic preservation goals, and maybe, just maybe, win over some new converts.

And the best part, it's not actually that hard to show how historic preservation can be an economic development force from which a community can profit.

### Access to Tax Credits

The first economic benefit of historic preservation that always comes to mind is access to the Federal Historic Rehabilitation Tax Credit program. The Historic Tax Credit program was established through a 1976 amendment to the National Historic Preservation Act, and since that time has supported over 45,000 rehabilitation projects and has leveraged nearly \$103 BILLION in private investment. In 2019 alone, the program leveraged over \$5.77 billion in investment nation-wide.<sup>1</sup>

The program has been so successful that it actually brings in *more* money in federal income than it pays out!

The Historic Tax Credit program provides a tax credit of 20% on qualifying rehabilitation costs, provided the work is done in keeping with the Secretary of the Interior's Rehabilitation Standards. Qualifying costs include most construction hard costs (walls, windows, floors, electrical, plumbing, interior lighting, et cetera) and some soft costs (such as architect and engineering fees). This both helps developers make project costs "pencil out" and encourages the preservation of a community's historic resources and character.

One of the greatest draws of the program is that it can benefit both large and smaller scale projects. In 2019, almost half (49%) of the projects cost less than \$1 million. This means that it is not just the big developers who can take advantage of the program. A great recent example is the Phillips 66 building in Boise. The owner of the building used the tax credits to rehab the building and the qualifying costs on the were only about \$160,000.



The Phillips 66 Station, Boise, ID. Photo from the Idaho State Historic Preservation Office.

The biggest limitation of the program, however, is that it is only available to income-producing properties. This makes it impossible for

<sup>1</sup> ["Federal Tax Incentives for Rehabilitating Historic Buildings: Annual Report for Fiscal Year 2019,"](#) National Park Service, March 2020.

homeowners to participate in the program. The other limitation of the program is that it only applies to Federal tax liability, meaning that those who do not pay Federal taxes, such as non-profits, cannot use it. Some states have a state tax credit program which addresses these limitations; as of right now, however, Idaho does not have a state program (although there is some hope that we may be able to develop such a program in the future).

## Heritage Tourism

One of the other most obvious economic benefits of historic preservation is that it provides a community the chance to capitalize on heritage tourism. When people are once again able to travel and go on vacations (in a post-Covid world), heritage tourism will once again become a major economic driver for many communities.

People visit places for the unique character they offer; they don't visit someplace that looks and feels like it could be anyplace. That's where a robust historic preservation program comes into play. By working to preserve and enhance its unique, historic character, a community can position itself to attract those tourists. For example, think about the City of Wallace in northern Idaho; the local economy thrives on the City's ability to attract heritage tourism dollars every year. And they *can* do that *because* they have worked to make sure the City's historic character has been preserved.



*Downtown Wallace, ID. Photo from the Idaho State Historic Preservation Office.*

Studies have shown that heritage tourists have a larger economic impact on a community than those who travel for recreation. A study by the Colorado Historical Foundation showed that, in 2008 alone, 11.8 million trips to the State of Colorado involved heritage tourism activities; that's 11.8 million heritage tourism trips to a state primarily known for its natural and

recreational attractions. When compared to recreational tourists, heritage tourists stayed for longer, and spent more money. Those visitors spent \$190 million on cultural activities and \$54 million on historic activities. The average heritage tourist spent \$447, compared to \$333; they stayed an average of 5.8 nights, compared to 5.2 for recreational tourists.<sup>2</sup> And the vast majority of the income from these visitors goes directly into the community - lodging, dining, attractions, local artisans, and all the people employed in those professions benefit from those tourists.

## Historic Commercial Districts Attract Small Businesses

A major driver of most local economies is small business. It is estimated that small businesses account for between 60% and 80% of all jobs in the U.S. And historic commercial districts can attract those small businesses.

In 2014 the National Trust for Historic Preservation released a study on historic preservation's impact on urban vitality. The study looked at three different cities (Seattle, Washington, D.C., and San Francisco) and it found that in all three cases the areas of the cities comprised of older, small buildings outperformed the areas of newer, larger buildings. One of main reasons these historic areas did better was specifically that they "serve as thriving incubators for small businesses, as vital centers of neighborhood services, and as regional destinations for restaurants, nightlife, and specialty retail."<sup>3</sup>

Many small businesses, especially new and start-up ones, find historic commercial spaces attractive because they are often smaller and cost less than modern construction, and because historic districts tend to have more foot traffic. Historic districts tend to have more commercial spaces in a smaller area, which often means a great mix of businesses (retail next to restaurants next to service businesses).

For many businesses, this kind of mix is a real benefit because it means that customers who are coming down for one business very well may visit others - the retail shoppers decide they are going to stop in at one of the restaurants for lunch or dinner; the person stopping in the tax prep business also swings into the toy shop to

<sup>2</sup> ["The Economic Power of Heritage and Place: How Historic Preservation is Building a Sustainable Future in Colorado,"](#) prepared by Clarion Associates of Colorado for the Colorado Historical Foundation, October 2011, 19.

<sup>3</sup> ["Older, Smaller, Better: Measuring How the Character of Buildings and Blocks Influences Urban Vitality,"](#) National Trust for Historic Preservation, May 2014, 92.

pick up something for their kid's birthday; the restaurant worker goes a door or two down to the little bank branch to deposit their paycheck. If someone is able to take care of multiple errands in one small area, they are more likely go there than they are to drive all across town.

## Historic Downtowns Encourage Mixed-Use Development

Because many historic downtowns are primarily made up of multi-story buildings, they provide an excellent opportunity for a community to encourage mixed-used development. By converting upper floors of historic commercial buildings to residential, communities can basically build in a customer base for the businesses occupying the first floor commercial spaces.

This kind of mixed use development is not just attractive to residents and businesses; it can also be a major cost savings to municipal governments. A report from the American Planning Association says, "Mixed use zoning is generally closely linked with increased density, which allows for more compact development. Higher densities increase land-use efficiency and housing variety while reducing energy consumption and transportation costs."<sup>4</sup> For a community, this means that they may be able to reduce the amount that they have to spend on things like water and sewer lines, road paving and snow clearing, and they can respond to issues faster, simply because city staff don't have to go as far to get to where the issue is happening.

## Preservation Supports Residential Property Values

It can be easy to only talk about the economic benefits of preservation in relation to commercial properties and forget about the biggest portion of buildings in a community: residential. There are (almost) always going to be more residential buildings in a community than there are commercial ones. As such, it is important to make sure that we help people understand that they can benefit from historic preservation even if they don't own a commercial building in the City's downtown.

There have been a number of studies which have shown that the designation of a residential neighborhood as historic can (and often does) have a positive impact on the property values in that neighborhood. A report from the Colorado

Historical Foundation looked at five case study areas around the state and concluded that "historic district designation does not automatically transform communities into high-income enclaves, but simply enhances the economic climate already present in those areas." That said, "a negative effect was not observed in any of the areas researched [...]. On the contrary, property values in the designated areas experienced value increases that were either higher than, or same as, nearby undesignated areas."<sup>5</sup> When conditions are good, historic neighborhoods tend to increase in property values at a higher rate than non-historic neighborhoods; when conditions take a downturn, historic neighborhoods tend to either maintain their value or decline less than non-historic ones. An analysis of residential foreclosures in Philadelphia between October 2009 and September 2010 found that foreclosures in historic districts were less than half of those in other neighborhoods.<sup>6</sup>



*Residential neighborhood in Coeur d'Alene, ID. Photo from the Idaho State Historic Preservation Office.*

So, why do historic residential neighborhoods behave this way? The short answer is "cachet". While most neighborhoods are going to have their own character and personality, historic neighborhoods tend to carry a sense of importance beyond just that neighborhood. People like being able to say that they live in a historic district. This is especially true when the community decides to take the initiative and adopt some level of design review for historic districts. By adopting historic design review, the community is making a statement about the importance of their historic resources and their heritage. And they make the statement that they are willing to collectively take the actions

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<sup>5</sup> ["The Economic Benefits of Historic Preservation, 2005 Update,"](#) Colorado Historical Foundation, prepared by Clarion Associates, July 2005, 28.

<sup>6</sup> Donovan Rypkema, ["Stuck in Time: How Historic Preservation has to Change in the 21<sup>st</sup> Century,"](#) keynote presentation for the Landmark Society of Western New York annual conference, 2014.

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<sup>4</sup> ["PAS Quick Notes: Zoning for Mixed Uses,"](#) American Planning Association, July 2006.



needed to make sure that those historic resources are going to be around for future generations.

## Keeps Money in the Local Economy

One of the biggest economic impacts that can come from historic preservation is the fact that much of the money spent on preservation ends up staying in the community. Rehabilitation projects can employ local construction workers; supplies can be bought at local stores; new businesses that go into those buildings employ community residents.

According to a study from the Delaware Division of Historical and Cultural Affairs, 14.6 local jobs are created for each \$1 million in rehabilitation work. By comparison, \$1 million in manufacturing output for the same year resulted in only 9.2 jobs, and 11.2 jobs per \$1 million in new construction.<sup>7</sup> And these are jobs that cannot be outsourced.

There is also the fact that the economic impacts of historic preservation, and most especially rehabilitation work, have what is referred to as a multiplier effect. The multiplier effect is the term used by economists to describe how the economic impacts of something ripple out to the larger community - those who are paid for the materials or to do the work on a historic rehabilitation then spend that money at other local businesses; that income then goes to payroll, inventory, and other business expenses that feed into the local economy. While this kind of multiplier effect is a major benefit of most small businesses in a community, because historic preservation has a greater economic impact than other forms of development, its multiplier is naturally greater as well.

Another potential "ripple" to the local economy that a historic rehabilitation can have is to encourage other properties to also undertake rehabilitation or other improvements. A study carried out in the 1990s found that a total of \$7 million in historic rehabilitation work in Trenton, New Jersey led directly to an additional \$41 million on other, non-historic rehabilitations throughout the city.<sup>8</sup>

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<sup>7</sup> "The Delaware Historic Preservation Tax Credit Program: Good for the Economy, Good for the Environment, Good for Delaware's Future," prepared by Donovan Rypkema and Caroline Cheong for the Delaware Division of Historical and Cultural Affairs, 2010, 5.

<sup>8</sup> David Listokin, et al, "The Contributions of Historic Preservation to Housing and Local Development," *Housing Policy Debate*, 1998.

There are countless books, articles, opinion pieces, and reports on the economic benefits that historic preservation can bring to a community, and what's been covered here is just the briefest introduction. But even a brief introduction can provide some useful talking points for conversations with property owners, community organizers, elected officials, and decision makers. The more we, as preservationists, can use these talking points when working in our communities, the more the public as whole will come to see how historic preservation is not just an emotional or sentimental endeavor, but something that can lead to financial dividends for a community now and for the future. By preserving our past, we can do more than learn - we can profit.

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