

FACTS ABOUT VIRGINIA'S HISTORIC REHABILITATION TAX CREDIT

The state Rehabilitation Tax Credit has been in effect since 1997. Modeled on the highly successful federal rehabilitation tax credit, it has already spurred private investment of over \$316 million in the rehabilitation of more than 264 landmark buildings. But the benefits of the rehabilitation tax credit extend far beyond historic preservation. The credit is responsible for:

- Economic benefits, including new jobs, increased household income, and enhanced local revenue;
- Smart growth and sustainable development, by promoting urban revitalization and efficient redevelopment and contributing to the conservation of open space and natural resources;
- Significant social benefits such as restoration of community fabric, improved housing stock (including a substantial number of low and moderate income housing units), inner-city economic development, community preservation, and economic integration.
- Other benefits, including educational resources, promotion of a sense of community and stewardship, and preservation of a vital part of Virginians' identity.

ECONOMIC BENEFITS OF REHABILITATION

- Job creation: An economic study conducted in 1996 showed that for each \$1 million spent on rehabilitation, 3.4 more jobs are created than for each \$1 million spent on new construction. This is because rehabilitation, while generally cost-competitive overall with new construction, is much more labor intensive. The study showed that for each \$1 million spent on rehabilitation, 15.6 jobs are created in the construction industry and 14.2 jobs elsewhere in the economy. According to the study, since the inception of the federal tax credit, the rehabilitation of some 900 historic buildings, with investment of over \$350 million, had created 12,697 jobs: 6,647 in the construction trades, and 6,050 elsewhere. Since that study, over \$305 million additional dollars have been invested in rehabilitation projects. Applying the figures cited above, this means over 9,000 additional jobs just since 1996: 4,700 in the construction industry, and 4,300 elsewhere. (In 2001 alone, over \$100 million worth of investment was certified for the state credit, resulting in over 1,500 jobs in the construction industry and over 1,400 elsewhere in the economy.)
- Increase in household income: The study further showed that household incomes in Virginia had been increased by nearly \$275 million through the rehabilitation activity: \$153 million directly to those involved in construction and another \$122 million to workers in other fields. Again, because rehabilitation is more labor-intensive than new construction, it creates more household wealth. Each \$1 million spent on rehabilitation adds \$53,500 more to household income than an equivalent amount spent on new construction. Applying the formula from the study, the investment since 1996 of over \$305 million has resulted in an increase of over \$16 million in household income, well over \$5 million of that resulting from projects completed in the past year alone.

- Enhanced local revenues: Rehabilitation activity, and the increased property value that results, enhances local property tax revenue. Studies from various localities have shown that property values in historic districts often rise significantly faster than property values in the community as a whole. For example, between 1980 and 1990, assessments in Richmond's Shockoe Slip rose by 245%, in contrast to the citywide increase of 8.9%. Similarly, between 1987 and 1995, commercial properties outside of historic districts in Staunton appreciated an average of 25.2%, while commercial properties within historic districts appreciated by average rates that ranged from 27.2% to 256.4%. Much of this increase was due to rehabilitation activity driven by the federal tax credit.
- Business and retail activity: Rehabilitation of historic buildings in downtown areas results in enhanced retail and business activity. Through the Virginia Main Street program, over 1,763 new businesses and 4,182 new jobs have been created in historic Virginia communities, and through investment of over \$141 million tracked through the program, some 3,000 buildings have been rehabilitated.
- Catalyst effect: Rehabilitation activity serves as a catalyst for additional economic development. The rehabilitation of a single prominent building is in some cases sufficient to galvanize the revitalization of an entire area. In other cases, a series of smaller rehabilitations can ultimately result in the "critical mass" necessary to bring the neighborhood back to prosperity. The dynamics vary from case to case, but examples abound of historic neighborhoods that were once unfashionable, depressed, and dangerous but are now among the most vibrant and desirable real estate in the Commonwealth.
- Tourism: A study by the Virginia Division of Tourism has shown that visitors who stop at historic attractions stay longer, visit twice as many places, and spend, on average, over 2 ½ times more money than do other visitors. Through the use of the rehabilitation tax credits, these destination attractions are supported by historic neighborhoods where visitors can stay in bed and breakfast inns, shop in restored commercial areas, dine in creatively adapted buildings, and stroll through living neighborhoods showcasing a wealth of historic architecture and settlement patterns.
- Infrastructure: Rehabilitation projects make use of existing infrastructure, eliminating the need for taxpayer dollars to construct new roads, water and sewer lines, and gas, electrical, and telephone lines.
- Stabilization effect: There is evidence that rehabilitation activity is often a counter-cyclical activity that can stabilize local economies during slow times. There are a number of reasons for this. For example, the majority of rehabilitation projects are modest in scale, making them affordable when large-scale new construction is not. In addition, rehabilitation projects can be done in stages, making them more feasible during times of short cash flow. Finally, because local laborers and suppliers tend to get a larger share of the total expenditure in rehabilitation projects than in new construction, the benefits tend to be more concentrated locally.

SUSTAINABLE DEVELOPMENT AND SMART GROWTH

- Urban revitalization: Rehabilitation represents one of the most potent tools available for urban revitalization and inner-city redevelopment. Healthy and vibrant cities serve as a check on sprawl and the loss of urban population.
- Efficient development: Rehabilitation of historic buildings focuses on the reuse of existing assets, both infrastructure and buildings. Use of existing infrastructure, which has already been paid for with taxpayer dollars, represents a fiscally responsible policy. In addition, especially if demolition costs are figured in, the cost of rehabilitation is often less than new construction, resulting in more efficient development.
- Open space preservation: Rehabilitation of historic buildings for new uses reduces sprawl and the destruction of open space and agricultural resources.
- Reduced automobile dependence: Historic districts are typically located in or adjacent to downtown areas. By concentrating business, commercial, and residential uses in a limited area, redevelopment projects reduce dependence on automobiles, thereby conserving energy resources, enhancing air quality, reducing traffic congestion, and often improving quality of life for local residents.
- Conservation of resources: Because rehabilitation projects require fewer new materials, and fewer energy resources for transportation of materials, rehabilitation is a more environmentally friendly development approach than new construction.
- Reduced pressure on landfills: A growing concern for Virginia localities is the high cost, both economic and environmental, of solid waste disposal. By preventing demolitions, rehabilitation projects significantly reduce pressure on landfills.

SOCIAL BENEFITS

- Inner-city revitalization: The poor, the elderly, small business owners, and single parents are disproportionately located in older, inner-city neighborhoods. Historic preservation and rehabilitation of older buildings often directs economic activity where it is most urgently needed.
- Improved housing stock: The National Park Service reports that during Fiscal Year 2000, 5,740 housing units were rehabilitated nationwide, and 11,530 new housing units were created using the federal tax credit. Although numbers specific to Virginia are not available, it should be pointed out that in the northeast region, of which Virginia is a part, 62% of projects specified housing as a final use.
- Affordable housing: The National Park Service's report further states that 6,668 low and moderate income housing units were produced using the federal credit, the highest number since 1986. This is 38% of the total housing units completed. Investors often combine other incentives such as low-income housing credits with the rehabilitation credits to make their projects more financially attractive.

- Leveraging of private investment: Economic incentives are an excellent way to catalyze private investment for considerable public benefit. Particularly when rehabilitation tax credits are combined with other incentives such as low-income housing credits or enterprise zone credits, major public policy goals are met using private dollars.
- Community preservation: Rehabilitation projects tend to preserve social networks and traditional community ties by keeping older neighborhoods intact. Furthermore, by focusing on a variety of neighborhoods and resource types, rehabilitation projects represent an effective response to the challenges presented by a diverse multicultural society.
- Economic integration: Historic districts typically contain mixed uses and a variety of building types. They are also often located near public transportation lines, and social infrastructure – churches, schools, and neighborhood groups – are in place. As a result historic districts can, and often do, accommodate residents and property owners of all socioeconomic classes.

OTHER BENEFITS

- Sense of community: Rehabilitation of historic neighborhoods promotes a general sense of community – of who we are and who we have been. By preserving the tangible evidence of past generations, we allow people to be a part of something bigger than themselves.
- Educational resources: Historic buildings represent a primary document for the study of history, architecture, art, and culture. Rehabilitation preserves unique information.
- Stewardship: Rehabilitation represents good stewardship. Preservation of cultural resources for future generations is an investment in the future.
- Virginia's identity: Respect for the past has been a hallmark of the Commonwealth's citizens for generations, and is a defining characteristic of Virginia's identity. Our heritage is rich and diverse, and we continue to feel passionate about preserving it.