

# ECONOMICS OF HISTORIC PRESERVATION: DOLLARS AND SENSE

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**Abstract**

The built environment expresses diversity, identity, individuality, and differentiation. In economics, it is the differentiated product that commands a monetary premium. Historic preservation protects our diverse building stock while creating more construction jobs, returning under-utilized buildings to the tax rolls, attracting heritage tourists, and maximizing the use of existing infrastructure. It has been said that the greenest building is the one that is already built.

Four out of five existing buildings will be renovated over the next generation while two new buildings are added. With an overwhelming vastness of existing building stock, this becomes the elephant in the room. We cannot build our way to sustainability but must conserve our way to it. Economically, this makes good sense. Historic preservation, sustainability and conservation go hand in hand to protect our built environment while providing healthy, aesthetically pleasing buildings in which to live, work, and play, thus growing the local economy.

**Keywords:** economics, historic preservation, sustainability, built environment.



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## **1. Introduction**

What is the role of historic preservation in today's society? What value is placed on our cultural and architectural heritage? Are they treasured or considered expendable in the name of progress?

When the United States passed the National Historic Preservation Act in 1966, it was discovered that approximately 20 to 25 percent of the buildings listed on the Historic American Building Survey (HABS) had already been demolished and HABS had concentrated on buildings built prior to 1830 (Greiff, 1971). Demolishing significant architectural treasures diminishes our streetscape and lessens the sense of place (Steele, 1981) provided by these iconic buildings within the community. Charles V stated (when viewing the insertion of a Christian church into the Mosque at Cordova) that 'Had I known what you desired to do, you would not have done it, for what you are doing here can be found everywhere and what you possessed previously exists nowhere' (Ambriere, 1961, p. 720). Let us carefully consider our actions lest we destroy irreplaceable architectural treasures.

### ***1.1. Secretary of Interiors Standards***

The Secretary of Interiors Standards for the Treatment of Historic Properties (National Park Service, 1995) list four levels of treatment: preservation, rehabilitation, restoration, and reconstruction. Preservation is the maintenance of a property without significant alteration to its current condition, such as Mt. Vernon, George Washington's house on the Potomac River outside of Washington, DC (US). Restoration is the process of returning a building to its condition at a specific time period, often its original condition, such as many of the buildings at Colonial Williamsburg, Virginia (US). Reconstruction is building an historic structure using replicated design and/or materials, such as was done to the Governor's Palace and Capitol buildings at Williamsburg. Rehabilitation is the process of returning a building to a state of utility. Rehabilitation includes 'adaptive reuse' – which requires a certain amount of modification to allow for a new use, such as converting a no longer functioning train station into a restaurant. Adaptive reuse is a common treatment today when utilizing an historic structure for contemporary usage and incorporating modern technologies. When revitalizing our historic downtowns, adaptive reuse is most often the preferred treatment.

### ***1.2. Revitalization of urban centers***

Many downtown centers have lost vitality and businesses due to urban sprawl and suburban strip shopping centers. In the United States with the emphasis on speed, independence, emerging technologies, and the lack of expansive mass transportation systems, city centers began to deteriorate and were considered unhealthy in the 1950s instigating a move to the suburbs (Halberstam, 1993; Massey, 2001). Today people are moving back to cities and invariably back to historic districts. It is estimated that more than half of the world's population live in cities today and this number will swell to almost 5 billion by 2030 (United National Population Fund, 2007).

As people move back to the cities in search of the amenities offered there, quality of life issues come into play. Entertainment venues, such as, theaters, operas, and museums, are often housed in historic buildings, and there is a corresponding need for housing, restaurants, shops, and other services. With infrastructure in place, historic buildings can provide centers of trade, places of employment, housing, and serve as landmarks providing diversity to the neighborhood. These iconic buildings add historic character to the streetscape, serve as focal points for the community, and provide a sense of place, while at the same time combating sprawl.

## **2. Economics of historic preservation**

Historic preservation has proven to be an effective economic development strategy in large cities, smaller cities, small towns and rural areas across the United States. The architectural fabric of the city is woven into its neighborhoods providing identity, sense of place and marketing of place (Allen, 2011). Cities are often known and marketed through historic neighborhoods and significant architectural buildings, such as the French Quarter in New Orleans, Louisiana (US) and the Chrysler Building and the Empire State Building in New York City (US). In small towns, the Main Street Program has proved an effective model for economic development with the creation of significant numbers of jobs, new business formations, and public-private initiatives. Nationally (in the US), each dollar invested in historic preservation by the public sector was matched by \$25 from the private sector (Rypkema, 2008). The economic development strategy of historic preservation works in an incremental manner; it is not a quick fix which often fails in the long run.

### **2.1. Rehabilitation versus new construction**

Many assume that the cost of rehabilitating an historic property will be more than comparable to new construction. In actuality, the opposite may be true. Although there are no absolutes, when comparing high quality new construction to quality rehabilitation of an historic building, new construction costs are higher. On a square foot per square foot or square meter per square meter basis, historic rehabilitation is cost competitive.

‘While any single project will vary in some ways, a consistent pattern emerges. If no demolition is required, a major commercial rehabilitation will probably cost from 12 percent less to 9 percent more than the cost of comparable new construction, with a typical cost savings of about 4 percent. If, on the other hand, a new construction project includes the costs of razing an existing building, the cost saving from rehabilitation should range from 3 to 16 percent’ (Rypkema, 2008, p. 89).

While rehabilitation of historic buildings remains cost competitive, life expectancy of the renovated building is much higher than the 30 to 40 years average of much new construction (Rypkema, 2008).

### **2.2. Job creation**

Historic preservation is labor intensive and creates jobs – more jobs than new construction. Historic rehabilitation can spend up to 70 percent in labor costs which

is most often hired locally. This money is broadly distributed throughout the local economy. Dollar for dollar, historic preservation is one of the highest job-generating economic development options available. In addition to construction, jobs are also created in the service sector, retail, manufacturing, finance and real estate.

Small and new businesses create two out of every three new jobs in the US with 28 million small firms employing 60 million Americans, half of the private sector workforce (Small Business Administration, 2012). Historic buildings are well suited for the space requirements of these businesses and retail shops. The historic character of the neighborhood, the scale of the buildings, and interesting architectural details present a pleasing ambiance. Buildings can also be utilized as incubator space for businesses of all types. With lower rents, they contribute to lower start-up and operating expenses. Mixed use facilities, incorporating offices, retail and residential, has proved a successful model for urban areas and historic buildings are generally more adaptable for this strategy than newer buildings (Rypkema, 2008).

### **2.3. Cultural tourism**

Internationally cultural tourism is a growing industry with 415 million expected to travel abroad during the peak summer season of 2012 (UNWTO World Tourism Organization, 2012). We travel to learn about and experience new places. Travelers spend money and more money is spent on cultural tourism than any other type.

Historic architecture attracts visitors to large cities, such as the Eiffel Tower in Paris, the 'painted ladies' Victorian houses in San Francisco (US), or the Opera House in Sydney, Australia. Small towns have their own historic character that they can optimize as well. Preservation and the arts go hand in hand and play an important part in the economy. Heritage tourism brings in billions of dollars with tourists staying longer than other types of tourists. Historic museums and historic sites generate a significant source of revenue. In 2002 tourists in Florida (US) visiting historic and cultural sites spent \$3.7 billion (Advisory Council on Historic Preservation, 2009).

### **3. Historic preservation and sustainability**

Historic preservation and sustainability are two sides of the same coin. It has been stated that 'the greenest building is... one that is already built' (Elefante, 2007, p. 27). Not only is rehabilitation more cost effective than new construction, it is also more energy efficient. The embodied energy in the building, the amount of energy invested in the construction and improvements of a facility must be calculated along with the energy measurement to tear down and build anew. When we consider embodied energy and the cost of demolition, new construction becomes cost prohibitive, not to mention the physical and environmental costs of filling up landfills.

'The conservation spirit that's prompted Americans to recycle billions of aluminum cans has not carried over to its older buildings. Mountains of demolition debris have needlessly been relegated to America's landfills, squandering embedded energy and excellent building materials' (Myrick Howard, 2007, p. 5).

Along with greater demand for local labor, rehabilitation has a greater impact on local suppliers as well. Local contractors make more purchases from local retailers and wholesalers with a greater dollar to dollar expenditure than for new construction. These purchases cut down on transportation costs and keep money in the community that might have gone elsewhere. Local direct purchases along with reinvested wages of workers have a positive effect on the local economy.

When there is a downturn in the economy, historic preservation projects tend to continue unabated helping to stabilize the local economy. As preservation projects are often smaller in scale, they are more affordable and thus, more feasible during a financial recession. Often these smaller jobs will see workers through an economic downturn until new construction activity picks up (Rypkema, 2008).

Dealing with solid waste disposal is a global problem which increases daily. High transportation costs, higher disposal costs, higher taxes to fund budgets for landfills, illegal dumping, and environmental ramifications are issues endemic to the problem of solid waste disposal. 'Builders in the US generate approximately 31.5 million tons of construction waste per year, a number that represents almost 24% of the total municipal solid waste stream' (National Association of Home Builders, 2004 *apud* Rypkema, 2005, p. 33). Efforts to abate this include selecting materials that are recyclable, reusable, and rapidly renewable. One of the best methods of dealing with construction waste may be to avoid demolition in the first place.

When Bologna (Italy) found that many younger people were leaving in increasing numbers largely due to substandard housing and poor living conditions, a long-range plan was developed by the city. They took the position that there was no justification for expansion if it threatened the quality of life for residents and declared a moratorium on all new construction. It was rightly held that residents were entitled to improved housing, but it had to come from existing housing stock. The Bologna Plan went into full effect in 1975 including strategies such as limiting growth, improving services and recreational space, financing housing rehabilitation, improving transport links, facilitating pedestrian movement in the center, and maintaining a stable, socially mixed population (Fitch, 1995). Data gathered by the European Regional Economic Growth Index (E-REGI) in 2009 listed Bologna as the first Italian city and the 47<sup>th</sup> European city in terms of its economic growth rate (Baker, 2009). Many cities could benefit from a similar plan.

#### **4. Historic preservation and the urban context**

When a local government creates an historic district, it effectively demonstrates a commitment to the area. While opponents fear that restrictions imposed by historic districts may limit private investments, the opposite has more often been the case. Denver, Colorado (US) demonstrated the creation of housing units, new businesses, and building renovations in the historic district when the rest of the city was undergoing a real estate depression (Rypkema, 2008). As happened in Denver, historic districts set the stage for private investment and as real estate is rehabilitated, this can create

a snowball effect with more investment taking place lending stability to what might have previously been a marginal or under-valued area. A restored downtown with attractive buildings signifies that the city cares about the residents, business owners, and others that travel through the area.

Incentives to rehabilitate historic properties act as a catalyst and have proven cost-effective. Economic development created through public-private partnerships work to a city's advantage via such methods as tax credits for new jobs, low interest loans for new businesses, and tax abatements for new buildings. Incentives for historic preservation can work in the same way. The federal rehabilitation tax credit for historic buildings, extensively modified in 1986, is still the most widely available incentive for historic preservation in the US. The former Mayor of Philadelphia (US), Edward G. Rendell states:

'While a \$1 million rehabilitation expenditure would cost the Treasury \$200,000 in lost tax revenues, it would at the same time generate an estimated \$779,478 in wages. Taxed at 28 percent, the investment would produce \$218,254 in federal tax revenue. Corporate income, capital gains, and real estate taxes would further complement gains in household income tax. Thus ... these offsetting factors make the historic rehabilitation tax credit a largely self-funding program. Best of all, it would provide cities with much-needed private investment capital for redevelopment and housing' (Rypkema, 2008, p. 29).

Thus, in a cost-benefit analysis historic preservation is a good bet.

In order to implement an effective historic preservation plan within a city, preservationists should be involved in planning of various strategies, such as: a downtown revitalization program, an historic district, a tourism plan, and an economic development plan. A program such as the Main Street program in the United States may prove useful in small towns as well. Key players to be involved with each of these programs include residents, home owners, business owners, city staff (including chamber of commerce executives and the economic development director), elected officials, the real estate community, bankers, tourism director, tourism industry representatives, social service providers, historic preservationists, and interested others (Rypkema, 2008).

Historic properties in the downtown business districts of cities offer a diversity of styles, space options, and rental costs providing opportunities for residential housing, mixed use facilities, and affordable options for start-up businesses. Locating new businesses in historic structures leaves more money available for employment and future expansion. These structures can be the face of an economically healthy downtown representing the community's institutional leadership. Social and economic issues must be considered together in community economic development and historic preservation can play a significant role in response to the challenge of a multicultural community by providing housing with variable rents and businesses with various services and layers of employment (Rypkema, 2008).

Other benefits of historic preservation are not so easily quantified. Social connections due to historic preservation include attachment to the neighborhood, a connection to

neighbors, a sense of place, and the ability to actively participate in community decisions. Pedestrian friendly streets important for human interaction, retail and services within the neighborhood, and high quality renovations reinforce the sense of community.

## 5. Conclusions

As cities seek to become more economically viable, place marketing is being implemented in order to attract residents, businesses, and tourists (Dinnie, 2011; Anholt, 2010; Kavaratzis and Ashworth, 2008; Vitiello and Willcocks, 2006; Hospers, 2004; Kavaratzis, 2004). In place marketing if the unique features of the city are emphasized, the identity of the city and its people are preserved creating an authentic representation of place. Allowing development to occur in a vernacular way creates user centered spaces that encourage exploration and interaction and a memorable experience for those traveling through the city.

The built environment expresses diversity, identity, individuality, and differentiation. In economics, it is the differentiated product that commands a monetary premium (Rypkema, 2008). In place marketing the differentiated product is what makes a city unique. It is the variety and uniqueness of buildings, the parks and green spaces, the alcoves of the street which entreat you to see what lies beyond. Each city has its own iconic buildings and features that create a sense of place and encourage visitors and residents alike to revisit and enjoy.

With infrastructure in place, the existing building stock represents the elephant in the room. Considering environmental concerns, the cost of demolition and limited landfill sites, we must adapt a new model for the future. The push to suburbia post-World War II in the US has begun to reverse itself with people moving back into cities in search of the amenities offered there. As people cohabitate in closer proximity, we must conserve our way to sustainability; we cannot build our way to it (Elefante, 2007). Mixed use facilities, a good public transportation system, walkable neighborhoods, attractive housing options, entertainment facilities, and businesses that provide needed services are necessary elements of creating neighborhoods that create a sense of community and attract a diverse population to live, work, shop, and play within. Historic preservation can play a significant role in this endeavor and lead to sustainable environmental decisions in the future.

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