

Annual Report  
on the  
Economic  
Impact  
of the  
Federal Historic  
Tax Credit for  
FY 2013

Executive Summary



**RUTGERS**

Edward J. Bloustein School  
of Planning and Public Policy



**National Park Service**

U.S. Department of the Interior  
Technical Preservation Services

This executive summary is based on the findings of a National Park Service-funded annual study undertaken through a cooperative agreement with Rutgers University. The University is responsible for the content of the study.

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The National Trust for Historic Preservation provided assistance in the preparation of the two case studies.

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Cover photo: Niagara Hudson Building, Syracuse, New York; photo by Ted Bartlett, Crawford & Stearns, Architects and Preservation Planners

## A Message from the National Park Service

Beyond the National Parks, the National Park Service through its Cultural Resources, Partnerships and Science Programs is part of a national preservation partnership working to promote the preservation of historic resources in communities small and large throughout the country. For the past 36 years, the National Park Service, in partnership with the State Historic Preservation Offices, has administered the Federal Historic Preservation Tax Incentives Program.

Commonly referred to as the Federal Historic Tax Credit (HTC), the HTC is designed to not only preserve and rehabilitate historic buildings, but to also promote the economic revitalization of older communities in the nation's cities and towns, along Main Streets, and in rural areas. Targeted to income-producing buildings, the HTC program is the largest and most effective Federal program specifically supporting historic preservation. Since the program's inception in 1976, the National Park Service has certified the rehabilitation of more than 39,600 historic buildings throughout the United States.

In Fiscal Year (FY) 2013, 803 completed historic rehabilitation projects were certified by the National Park Service, representing \$3.39 billion in estimated rehabilitation costs that qualify for a 20% Federal tax credit. (Another 1,155 proposed projects were also approved in FY 2013.) Many of the projects involved buildings that were abandoned or underutilized, and in need of substantial rehabilitation to return them to, or for their continued, economic viability. The HTC program also is an important tool in helping to revitalize older, economically depressed communities. Based on project data provided by the National Park Service, PolicyMap has determined that nearly two-thirds of the certified rehabilitation projects in FY 2013 were located in low or moderate Median Family Income census tracts.

The National Park Service issues annual reports on the HTC program quantifying the number of historic rehabilitations certified each year, their reported costs, and other statistical information on the program. The annual and statistical reports are available on the National Park Service's Technical Preservation Services (TPS) website at <http://www.nps.gov/tps/tax-incentives.htm>, along with information on the HTC program in general.

For FY 2013, the National Park Service also turned to the Rutgers University Center for Urban Policy Research, through a cooperative agreement, to undertake and report on the economic impacts of the HTC for the fiscal year ending September 30, 2013. This report highlights its main findings. An economic model previously developed by the Center under a series of grants from the National Park Service was utilized in the preparation of this report. The economic model was utilized by the Center for their four prior reports on the Federal HTC, as well as for a number of other economic reports for state governments and others.

As the Center's report identifies, the level and breadth of economic impacts resulting from the Federal HTCs in FY 2013 are quite impressive. In addition, the report includes information on the cumulative economic impacts of the Federal Historic Preservation Tax Incentives Program for the past 36 years, starting in 1977-78 with the first completed rehabilitation project to be certified by the National Park Service under the program. The program remains one of the Federal government's most successful and cost-effective community revitalization programs.

Technical Preservation Services

# Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2013: Executive Summary

## Overview of the Rutgers Economic Analysis

The Federal historic tax credit (HTC) is a Federal income tax credit that promotes the rehabilitation of income-producing historic properties. This study examines the economic impacts of the HTC (currently a 20 percent credit) by analyzing the economic consequences of the projects it supports. This analysis focuses on the economic effects of these projects during construction, quantifying the total economic impacts (i.e., direct as well as multiplier, or secondary, economic consequences) for the fiscal year ending September 30, 2013, and for the period since the program's inception. The study utilizes the Preservation Economic Impact Model (PEIM), a comprehensive economic model developed by Rutgers University for the National Park Service.

The current analysis applies the PEIM to both cumulative (FY 1978 through FY 2013) HTC-related historic rehabilitation investment (about \$109 billion in inflation-adjusted 2013 dollars) and single-year (FY 2013) HTC-related rehabilitation investment (about \$3.8 billion). It considers the effects of the cumulative \$109 billion rehabilitation investment as if it applied to one year (2013), rather than backdating the PEIM for each of the 36 years in the study period. It also considers the full rehabilitation investment associated with the HTC (e.g., \$3.8 billion in FY 2013) and not the somewhat lower amount reported by the National Park Service based on estimated qualified rehabilitation costs indicated by property owners requesting certification of rehabilitation for purposes of the tax credit (e.g., \$3.4 billion in FY 2013).<sup>1</sup>

## Niagra Hudson Building, Syracuse, New York

*Completed in 1932, the highly sculpted and richly detailed building is an outstanding example of American Art Deco architecture. Constructed in a ziggurat form, its modern design by Syracuse architect Melvin L. King masterfully integrated black Vitrolite glass, cast stone, aluminum, terra-cotta, aluminum-coated concrete, and stainless steel expressed in stylized geometric patterns. Acquired by the National Grid Group, the building had suffered from years of deferred maintenance, inappropriate alterations, and poor workmanship. Correcting the major deficiencies on the exterior with an emphasis on preservation of materials and design required the commitment of the owners, expertise of the design team, and quality workmanship of the contractors.*

*As part of the \$10 million rehabilitation, previously shortened windows were replaced with energy efficient units, matching the original size and appearance. Where Vitrolite had been replaced with painted aluminum panels, now faded and decomposing, new frit glass with sandblasted details like the originals were installed, returning the long-missing shiny black appearance of the original design. The chrome-nickel metal detail work was repaired, cleaned and polished, returning the crisp contrast between shiny metal and black glass. The result was an award-winning project.*

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<sup>1</sup> The HTC has a multistep application process, encompassing Part 1 (evaluation of the historic significance of the property), Part 2 (description of the rehabilitation work), and Part 3 (request for certification of completed work). Both Part 2 and Part 3 rehabilitation statistics include only items termed "eligible" or "qualified" for the tax credit (Qualified Rehabilitation Expenditures, or QREs), as opposed to "ineligible" or "nonqualified" costs. While the ineligible/nonqualified expenses do not count for tax credit purposes, they are a component of the total rehabilitation investment or cost borne by the HTC-oriented developer. In practical terms, the total rehabilitation investment, including ineligible/nonqualified costs, helps pump-prime the economy. For example, in FY 2013, the Part 3 certified investment amounted to about \$3.4 billion, while the total rehabilitation outlay associated with the HTC was about \$3.8 billion.

The results of the PEIM include many fields of data. The fields most relevant to this study are the following:

- **JOBS:** Employment, both part- and full-time, by place of work, estimated using the typical job characteristics of each industry.
- **INCOME:** “Earned” or labor income; specifically, wages, salaries, and proprietor income.
- **WEALTH:** Value-added—the sub-national equivalent of gross domestic product (GDP). At the state level, this is called gross state product (GSP).
- **OUTPUT:** The value of shipments, as reported in the Economic Census.
- **TAXES:** Tax revenues generated by the activity, which include taxes to the federal government and to state and local governments.



Niagara Hudson Building, Photo by Ted Bartlett, Crawford & Stearns Architects and Preservation Planners

The following table summarizes the impacts of HTC for each of these economic measures for the cumulative period FY 1978-2013 and for FY 2013.

## National Economic Impacts

### Federal HTC-assisted Rehabilitation

|                                   | \$109 billion CUMULATIVE (FY 1978-2013)<br>historic rehabilitation expenditures result in: | \$3.8 billion ANNUAL FY 2013 historic<br>expenditures results in: |
|-----------------------------------|--|---|
| Jobs (person-years, in thousands) | 2,415.0  | 62.9  |
| Income (\$ billion)               | 91.5   | 2.7   |
| Output (\$ billion)               | 251.8  | 7.1   |
| GDP (\$ billion)                  | 124.4  | 3.6   |
| Taxes (\$ billion)                | 36.4   | 0.9   |
| Federal (\$ billion)              | 26.6   | 0.6   |
| State (\$ billion)                | 5.0  | 0.2   |
| Local (\$ billion)                | 4.9  | 0.2   |

The benefits of investment in HTC-related historic rehabilitation projects are extensive, increasing payrolls and production in nearly all sectors of the nation's economy. The cumulative effects for the period of FY 1978 through FY 2013 are illustrative. During that period, \$109.0 billion in HTC-related rehabilitation investment created 2.4 million jobs and \$124.4 billion in GDP, nearly 30 percent of which (711,000 jobs and \$35.2 billion in GDP) was in the construction sector. This is as one would expect, given the share of such projects that require the employment of building contractors. Other major beneficiaries were the service sector (430,000 jobs, \$16.4 billion in GDP), the manufacturing sector (492,000 jobs, \$32 billion in GDP), and the retail trade sector (354,000 jobs, \$9.3 billion in GDP). As a result of both direct and multiplier effects, and due to the interconnectedness of the national economy, sectors not immediately associated with historic rehabilitation, such as agriculture, mining, transportation, and public utilities, benefit as well. (Summary Exhibit 1.)

The recent economic benefits of the Federal HTC are also most impressive. In FY 2013, HTC-related investments generated approximately 63,000 jobs, including 22,000 in construction and 14,000 in manufacturing, and were responsible for \$3.6 billion in GDP, including \$1.2 billion in construction and \$1 billion in manufacturing. HTC-related activity in FY 2013 generated \$2.7 billion in income, with construction (\$1 billion) and manufacturing (\$625 million) reaping major shares. (See Summary Exhibit 2 for more details.) These benefits were especially welcome in 2013, as the nation continued its economic recovery.

### **HTC Impacts at the State Level**

HTC-related historic rehabilitation benefits state economies as well as the national economy. For example, in Missouri in FY 2013, federal HTC-related rehabilitation activity totaled about \$403 million. The national impacts of that investment included 6,911 jobs, an additional \$767 million in output, \$288 million in income, \$381 million in GDP, \$67 million in federal taxes, and \$91 million in total taxes. In Missouri alone, the same \$403 million in HTC-related spending resulted in 3,859 jobs, \$403 million in output, \$179 million in income, \$215 million in gross state product (GSP), and \$47 million in taxes.

### **HTC Impacts Compared with Those of Nonpreservation Investments and Housing Contributions**

How does HTC-related historic rehabilitation perform as an economic pump-primer compared with other, non-preservation investments? In short, quite well.

Numerous studies conducted by Rutgers University have shown that in many parts of the country a \$1 million investment in historic rehabilitation yields markedly better effects on employment, income, GSP, and state and local taxes than an equal investment in new construction or many other economic activities (e.g., manufacturing or services). These findings demonstrate that historic rehabilitation, combined holistically with the many activities of the broader economy, delivers a commendably strong “bang for the buck.”

About half of all HTC transactions include housing. Often used in combination with programs such as the Low Income Housing Tax Credit (LIHTC), the HTC has produced powerful and very beneficial results in this area. From FY 1978 through FY 2013, the HTC has been involved in the creation of 491,167 housing units. Of that total, 252,973, or 52 percent, were existing housing units that were rehabilitated; 238,194, or 48 percent, were newly-created housing units (e.g., housing resulting from the adaptive reuse of commercial space). In addition, 135,017, or 27 percent of the total housing units produced (491,167), were affordable to low- and/or moderate-income (LMI) families. In FY 2013, 7,097 LMI units were produced under the Federal HTC. The Federal HTC’s influence on housing, largely invisible to the general public, deserves much greater attention, given its production of housing in general and LMI housing units in particular.

## The Cost of the HTC

The HTC is a tax expenditure and has a public cost. In the simplest terms, the Federal cost of the HTC is equal to the credit percent (20 percent since 1986) applied to the Part 3 (“qualified for tax credit”) investment.<sup>2</sup> Applying that calculation, we find that the federal HTC cost the U.S Treasury approximately \$21 billion (inflation-adjusted 2013 dollars) over the period of FY 1978 through FY 2013, while the cost for projects certified by the National Park Service in FY 2013 was about \$678 million. Weighing against these costs are the significant economic impacts (i.e., jobs, income, GDP, and output) and tax revenue (federal, state, and local) generated by HTC-aided rehabilitation and documented in this study. An important finding is that the HTC yields a net benefit to the U.S. Treasury, generating an estimated \$26.6 billion in federal tax receipts over the life of the program, compared with \$21 billion in credits allocated.

### Michigan Bell and Western Electric Warehouse, Detroit, MI

*Built in 1929 as offices and distribution center for telephone and communication supplies, the Michigan Bell & Western Electric Warehouse provided essential communication services to Detroit and surrounding areas. The Neighborhood Services Organization (NSO), a community-based human service organization, acquired the building and began a \$48 million rehabilitation in 2011 to create permanent supportive housing for the formerly homeless. With the grand re-opening of the NSO Bell Building in the fall of 2013, NSO now provides 155 one-bedroom units with onsite supportive services for the formerly homeless. Serving a critical need in the community within a newly rehabilitated historic building, NSO has created an award-winning project, certified by the National Park Service for the Federal historic tax credit.*

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<sup>2</sup> See footnote 1.

<sup>3</sup> These estimates are based on full utilization of the credits in cases of certified rehabilitations. For various reasons, not all completed projects certified by the National Park Service ultimately utilize the credit. Their economic impact, nevertheless, remains.

## Summary of HTC Impacts

In short, the federal HTC is a good investment for local communities, individual states, and the nation. The cumulative impacts of the program to date (FY 1978 through FY 2013) support this conclusion.

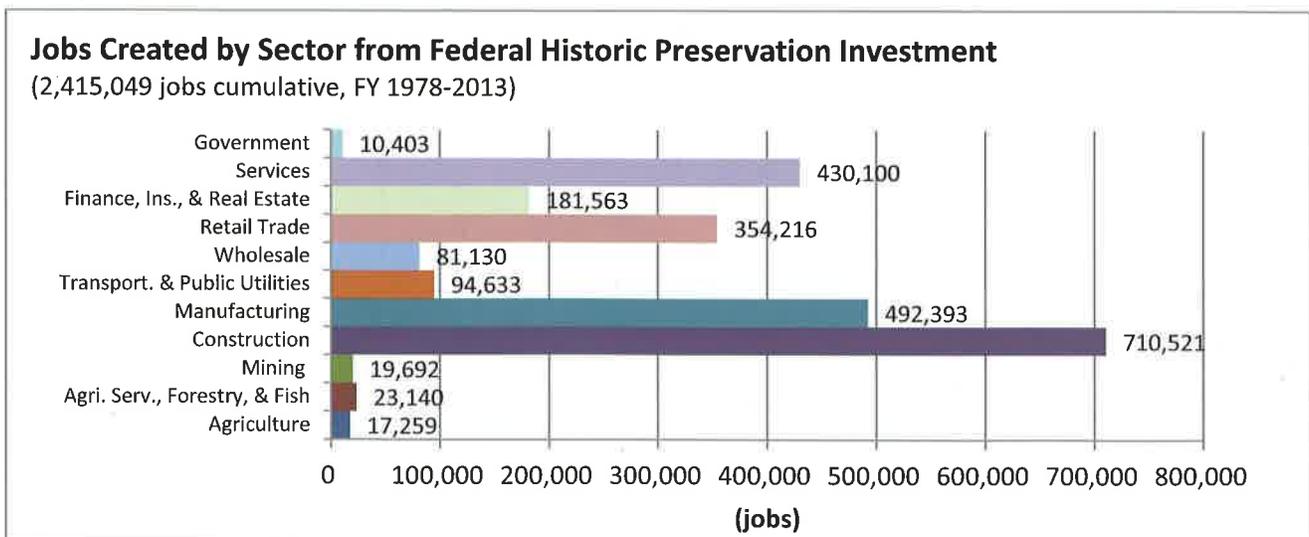
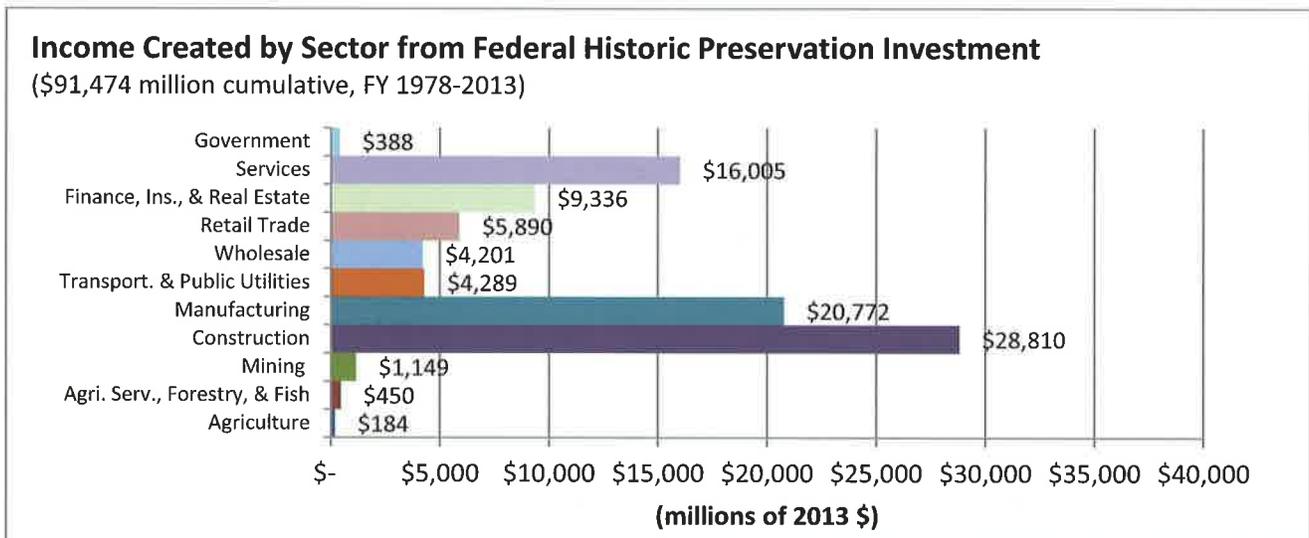
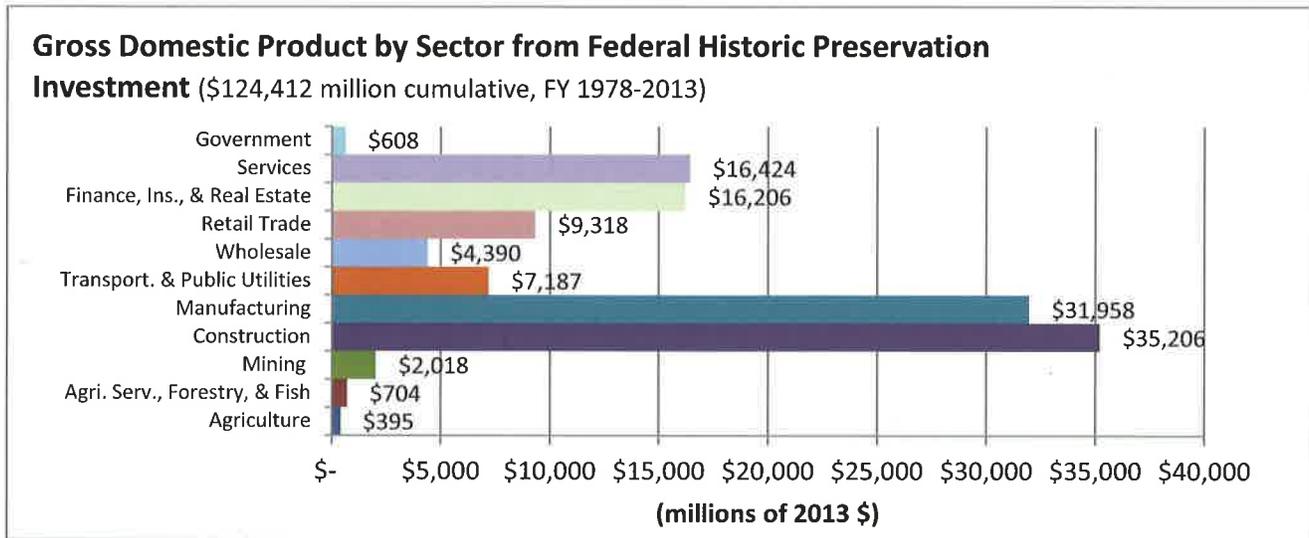
- An inflation-adjusted (2013 dollars) \$21 billion in HTC costs encouraged a five times greater amount of historic rehabilitation (\$109 billion).
- This rehabilitation investment generated about 2.4 million new jobs and billions of dollars of total (direct and secondary) economic gains.
- The cumulative positive impacts on the national economy included \$251.8 billion in output, \$124.4 billion in GDP, \$91.5 billion in income, and \$36.4 billion in taxes, including \$26.6 billion in federal tax receipts.
- The leverage and multiplier effects noted above support the argument that the Federal HTC is a strategic investment that works.



Michigan Bell & Western Electric Warehouse (now NSO Bell Building), Detroit, MI, Photo from NPS file.

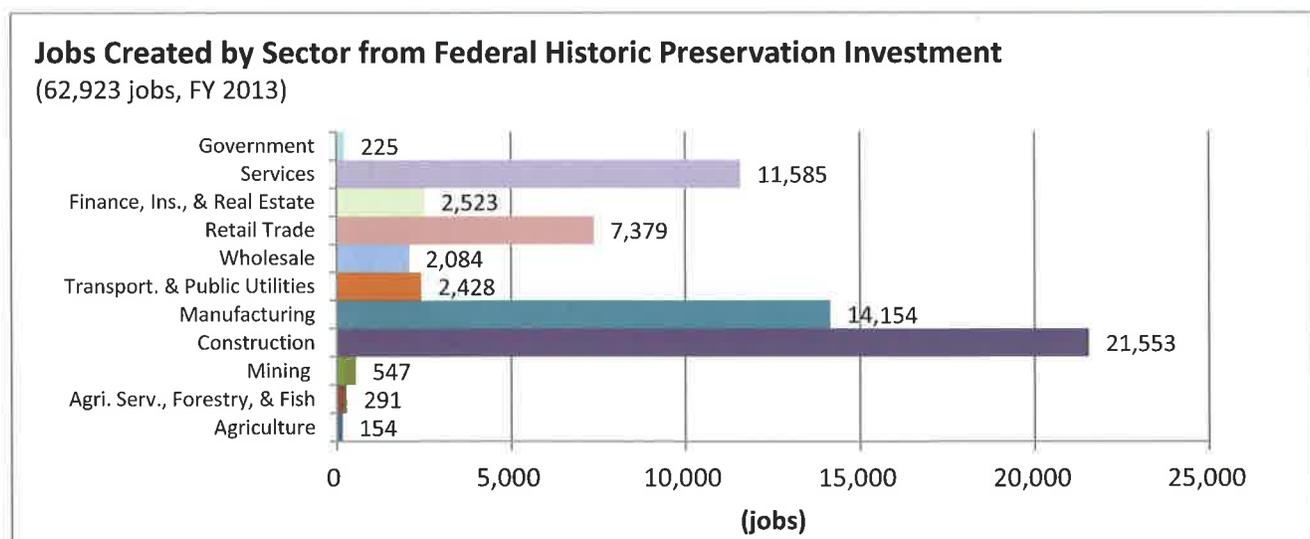
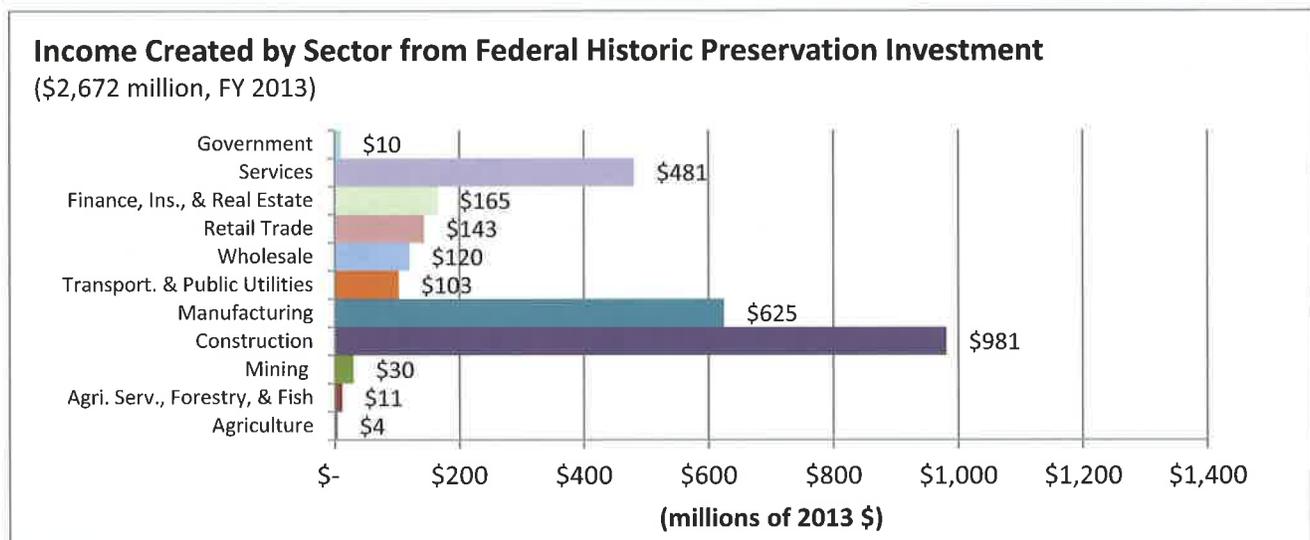
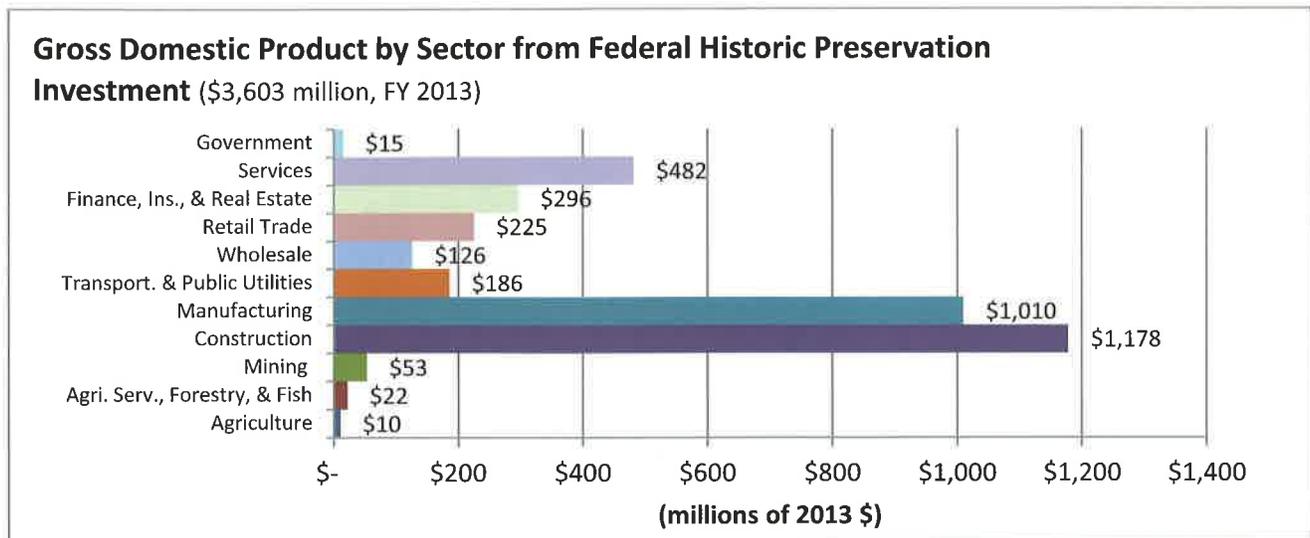
**SUMMARY EXHIBIT 1**

National Economic and Tax Impacts of Federal HTC-related Activity  
 FY 1978 through FY 2013 (HTC Investment: \$109.0 billion)



SUMMARY EXHIBIT 2

National Economic and Tax Impacts of the Federal HTC-related Activity  
 FY 2013 (HTC Investment: \$3.8 billion)



## Brewhouse Inn & Suites 1201-1217 North 10th Street, Milwaukee, WI



After photo by MacRostie Historic Advisors

### Project Profile

|                             |   |
|-----------------------------|---|
| Historic name:              | Pabst Brewing Company Complex               |
| Original construction date: | 1882; 1891                                  |
| Date of rehabilitation:     | 2012  |
| Original use:               | Brewery complex for Pabst Blue Ribbon       |
| New use:                    | 90-room suite hotel with bar and restaurant |
| Project cost:               | \$22.2 million                              |
| Federal HTC equity:         | \$3.90 million                              |
| Other financial incentives: | Wisconsin State Historic Tax Credits        |

### Property and Project Details

Founded in 1844, the Pabst Brewery was at one time the largest brewery in America, bottling millions of barrels of Pabst Blue Ribbon as well as other beers. With its closing in 1996, the 26 buildings comprising the brewery stood vacant in downtown Milwaukee until 2006 when local real estate investor/developer Joseph Zilber purchased the entire Brewery site. Through a mix of rehabilitation and new construction, the site has undergone a major transformation into a new sustainable, mixed-use neighborhood. The development received a LEED Platinum Neighborhood Development certification in 2013.

In 2009, Gorman & Company, Inc. purchased Buildings 20 (the Brewhouse) and 21 (the Engine, Mill and Refrigeration Machine Building), which had been built in 1882 and 1891 respectively. These four- and five-story cream-brick buildings feature elements of the German Renaissance Revival style, including battlements and crenellated towers. The two buildings were physically connected and served as the nucleus of the brewery, and support the iconic “PABST” sign on their rooflines.

The adaptive reuse of these two buildings into the Brewhouse Inn & Suites and Jackson’s Blue Ribbon Pub included repairing and cleaning the exterior masonry and restoring altered and in-filled window openings on primary elevations. On the interior, historic features and original industrial equipment were retained and incorporated into the new hospitality and commercial functions. The former brewing floor was transformed into a five-story atrium lit by a skylight and is dominated by six historic large copper brew kettles and a large stained glass window depicting King Gambrinus – the patron saint of beer.

Funding sources for the \$22.2 million project included private equity generated by federal and state historic tax credits, a \$15 million mortgage, a seller note, and a deferred developer fee.

**Project Budget**

| Sources of Funds       | Amount              |
|------------------------|---------------------|
| Federal HTC Equity     | \$3,905,000         |
| State HTC Equity       | \$540,000           |
| First Mortgage (EB-5)  | \$15,000,000        |
| Seller note            | \$1,000,000         |
| Deferred Developer Fee | \$1,755,000         |
| <b>Total</b>           | <b>\$22,200,000</b> |

| Uses of Funds | Amount              |
|---------------|---------------------|
| Acquisition   | \$2,000,000         |
| Hard Costs    | \$14,150,000        |
| Soft Costs    | \$5,363,000         |
| Reserves      | \$687,000           |
| <b>Total</b>  | <b>\$22,200,000</b> |

**Community Benefits**

|  |           |
|--|-----------|
| 2013 State sales tax<br>(not including bar/restaurant) | \$17,000  |
| 2013 City room/expo tax                                | \$108,000 |
| 2013 Real estate taxes                                 | \$460,000 |

Jobs: Project generated over 300 jobs, direct and indirect

## Chaucer Court Union Manor

1019 SW 10th Ave, Portland, OR



Before



After photo by Carleton Hart Architecture

### Project Profile

|                             |  |
|-----------------------------|--|
| Historic name:              | Odd Fellows Building   |
| Original construction date: | 1922-24  |
| Date of rehabilitation:     | 2011   |
| Original use:               | Office building and Lodge for Portland Odd Fellows; converted into affordable housing in 1980.   |
| Continued use:              | 84 renovated units of affordable housing for seniors and disabled residents earning less than 60% Median Family Income in downtown Portland. |
| Project cost:               | \$16.7 million   |
| Federal HTC equity:         | \$1.6 million  |
| Other financial incentives: | Low Income Housing Tax Credits, Oregon Affordable Housing Tax Credits, City of Portland tax increment financing                              |

### Property and Project Details

Constructed in 1922-24, the six-story 20th-century Gothic Revival-style building served as an office building and Lodge for the Portland Odd Fellows, a local chapter of the Independent Order of Odd Fellows. The building was converted in 1980 into much-needed subsidized housing for the elderly and renamed Chaucer Court.

In 2010, the 30-year HUD Section 8 contract was set to expire. Rather than converting the building into condominiums or a boutique hotel, the owners decided to sell it to a buyer willing to extend the HUD contract, allowing the elderly residents to keep their homes. The Union Labor Retirement Association (ULRA), which runs other homes for low-income seniors, purchased the property for just over \$7 million and agreed to extend the HUD contract for 20 years.

To comply with HUD's current energy efficiency requirements and to upgrade the residential units required considerable work on the interior by Carleton Hart Architects and Walsh Construction. Work was staged to minimize the length of time that tenants needed to be temporarily relocated. Exterior rehabilitation work included the cleaning and repair of the historic terra-cotta and brick façade, installation of historically appropriate and energy efficient windows, and a new roof.

## Project Budget

| Sources of Funds                   | Amount              |
|------------------------------------|---------------------|
| Federal Historic Tax Credit Equity | \$1,641,567         |
| Federal Low Income HTC Equity      | \$7,133,287         |
| State Affordable HTC Equity        | \$4,500,000         |
| PHB Financing                      | \$2,615,000         |
| Other: BETC/Energy Trust/HDGP      |                     |
| State/Income from Operations       | \$411,982           |
| Weatherization- State              | \$411,864           |
| <b>Total</b>                       | <b>\$16,713,700</b> |

| Uses of Funds | Amount              |
|---------------|---------------------|
| Acquisition   | \$7,165,715         |
| Hard Costs    | \$6,080,036         |
| Soft Costs    | \$3,142,949         |
| Reserves      | \$325,000           |
| <b>Total</b>  | <b>\$16,713,700</b> |

## Community Benefits

\$15,450 State and local taxes  
(commercial space); residential  
space is property tax exempt

84 Affordable Housing Units

Jobs: Project generated over 95  
jobs, direct or indirect



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