To the Graduate Council:

I am submitting herewith a thesis written by Edward F. Conner entitled "Economic Incentives for the Preservation of Old Buildings Having Historic or Architectural Significance and Their Reuse for Commercial and Industrial Use in the Southeast." I have examined the final copy of this thesis for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Science in Planning.

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# ECONOMIC INCENTIVES FOR THE PRESERVATION OF OLD BUILDINGS HAVING HISTORIC OR ARCHITECTURAL SIGNIFICANCE AND THEIR REUSE FOR COMMERCIAL AND INDUSTRIAL USE IN THE SOUTHEAST

A Thesis

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ABSTRACT

Urban areas throughout the U.S. have been experiencing a decline in importance in the past three decades. Changes brought about by technological advances and improvements in communications and transportation systems have combined to facilitate a transition in the role and function in America's urban cores. Once the industrial and commercial center of a metropolitan area, the urban cores have gradually evolved as the service and office center. This transformation in role and function has had a negative impact upon the buildings designed for the original role of the urban core. Buildings once designed for industrial and retail use have been abandoned or left to deteriorate to such a condition requiring the demolition of the building, ultimately to be replaced by contemporary buildings. As the old and historic buildings are being demolished to make room for the new generation of impersonal buildings or parking decks, yet another vestige of America's and the particular city's history and past is lost forever.

While preservationists argue that old buildings possessing historic or architectural significance need to be preserved, both the public and private sector believe that these buildings could no longer serve a useful purpose in today's contemporary society and take no actions to preserve these buildings. Compounding the public attitude that these buildings could no longer be functional or were not economically feasible to renovate for future use is the "throw away"

philosophy of many Americans which results in discarding objects when they get old, dirty, need repair or are out of style.

In the mid-1960's a small number of developers began to undertake preservation and reuse projects involving old buildings. While a number of factors have combined in the past decade to create an improved climate amenable for the resurgence of the preservation and reuse of old buildings, the Bicentennial celebration served to stimulate the growth of the preservation movement.

Preservation and reuse projects in cities such as the harbor area in Charleston, Old Faneuil Hall in Boston, Ghirardelli Square in San Francisco and Trolley Square in Salt Lake City served as a sensible means to preserve significant old buildings in a non-government supported manner. This is the key to preservation and reuse projects, reusing the old buildings for contemporary and profitable activities. The economics of preservation and reuse projects in many instances presently favor reuse projects versus new construction. With a project of this type, generally the project sites are located in the center city and they serve to support and, in some instances, stimulate revitalization activities in the vicinity of the project.

This thesis examined the increasing practice on the part of the private sector to implement preservation and reuse projects and the types of economic incentives available from the federal, state and local governments to stimulate these projects. This thesis focused its attention on the southeast United States. Mail questionnaires were sent to the states and large cities in the southeast to determine the types of economic incentives available and their use.

One major finding was that most of the state and local governments did not provide economic incentives and generally the incentives available were for economic development activities in general. Generally, the state and local governments did not provide incentives because they did not have sufficient revenues for such a program. The second major finding was that the tax incentives developed as a result of the Tax Reform Act of 1976 and Revenue Act of 1978 have served to be the most effective incentive for preservation and reuse projects. The tax incentives serve to provide tax treatment comparable with new construction and in a few respects better which attracts the attention of the private sector.

In order for preservation and reuse projects to occur, the government must develop a framework comparable with new construction. In areas, such as the urban cores, where government desires preservation and development activities, the government must develop a framework which will allow the private sector the financial returns necessary for the private sector to justify its risk and involvement.

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# CHAPTER I

# INTRODUCTION

## 1. INTRODUCTION

This thesis investigates the types of economic incentives which were offered by the three levels of government for preservation and reuse projects of old, historic or architecturally significant buildings for commercial and/or industrial use in the southeast in 1980. For the purpose of this thesis, old buildings being reused for commercial and industrial use were not treated differently. They were combined as a general classification of land use. As the research indicated, preservation and reuse projects involved commercial use in a high percentage of the projects. Economic incentives are composed of those government programs and provisions which provide financial assistance or tax relief to the private sector undertaking preservation and reuse projects.

Old buildings of historic or architectural significance can be considered a scarce non-renewable resource. In order for these buildings to survive, an economically feasible activity must be found for the building. Not every old building of historic or architectural value can be placed on "welfare" by employing the building as a museum or for government offices. Preservation and reuse projects allow these buildings to be adapted for economically viable contemporary use, thus preserving the building for future generations to experience. In a society oriented towards profit-making, the preservation of these buildings cannot be accepted unless the buildings are economically feasible for contemporary use.[1]

Preservation and reuse projects, besides preserving old buildings of historic or architectural significance, possess practical development advantages in comparison to new construction projects. Some of these advantages are as follows: lower development costs on a square foot basis, shorter development time, greater job creation capabilities, a larger multiplier impact upon the community and the stimulus for the revitalization of deteriorating urban areas. Perhaps preservation and reuse projects can be a partial solution to the monotony and drabness of America's urban cores. The positive impacts of such projects in several cities demonstrates the ability of such projects to substantially assist revitalization efforts and to improve the quality of life in the urban center.

## 2. FOCUS

The focus of this thesis is the delineation of government offered economic incentives designed to stimulate preservation and reuse projects in the Southeast. Further, this thesis examines the implications of these incentives including the following:

1. The benefits of preservation and reuse projects with respect to community impacts, social perspectives and private sector development;

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[1]Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978" (Washington: U.S. Government Printing Office, 1979), p. 2.

2. Identifies the economic incentives available on the federal, state and local level;

3. The effect of economic incentives in stimulating private sector investment in preservation and reuse projects.

## 3. PURPOSE AND SCOPE

The primary purpose of this thesis is to compile and analyze information concerning economic incentives offered in the Southeast in 1980 and the implications of those incentives. Analysis of this information is intended to improve the readers' understanding of the function, history and impacts of these incentives. Perhaps if the readers understand economic incentives for preservation and reuse projects, they can formulate incentives which may assist such projects. Thus, old buildings of historic and architectural significance and importance to the community can be preserved for posterity's sake, as well as having positive social, environmental and employment ramifications.

This thesis considers economic incentives utilized in urban areas possessing populations greater than 100,000, although the reader should be aware that these programs are also eligible for use in rural settings. This thesis is intended to provide a perspective for the planner and government official concerning preservation and reuse projects in urban areas.

# CHAPTER II

# DEVELOPMENT OF PRESERVATION AND REUSE PROJECTS IN AMERICA

## 1. URBAN TRENDS AFFECTING OLD AND HISTORIC BUILDINGS

America's urban centers have experienced a transformation in their role and importance in the past four decades. While urban populations have increased, there has been a massive migration to the outlying urban area resulting in a dramatic shift in the population concentrations.[1] Technological advances in the fields of communication and transportation have served to facilitate suburban development. Advances such as these have allowed people who are able to pay the price to reside in the outlying areas. Major transportation arteries which once functioned to bring traffic and people to the urban centers have reversed their original function.[2] Now these arteries function as a means to carry traffic and people away from the downtown and to connect them to surrounding roads serving outlying development.

Retail and industrial establishments, once located in the urban center, have relocated to the periphery in order to be closer to the affluent consumers and more lucrative markets.[3] No longer is the

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[1]Marion Clawson, Suburban Land Conversion in the United States (Baltimore: Johns Hopkins Press, 1971), p. 34.

[2]John McMahon, Private Property Development: Effective Decision Making in Uncertain Times (San Francisco: McGraw-Hill Book Company, 1976), p. 15.

[3]Clawson, p. 173.

urban center the dominant commercial and industrial center of the city. Problems of the urban center are complex and deeply embedded in the economic and social fabric of the city. Private market, demographic forces and inadvertent government actions have resulted in a multitude of problems facing the urban center. The migration of residents, industrial and commercial establishments to the periphery has drastically altered the economic and social foundations of the urban center. Due to this migration, the commercial and industrial firms remaining have found it difficult to compete with firms located in the outlying area. Basically, the urban center does not possess the same set of functional features which make outlying areas attractive to industrial and commercial firms.

Decline of the urban center has been characterized by physical aging and deterioration of the buildings and high vacancy rates. Being the oldest, buildings in the urban core have been the first to exhibit deterioration and obsolescence. In nearly every urban center of any American city, buildings which are aged, vacant, poorly maintained, structurally unsound and unsafe for contemporary use are being left to succumb to the eventual reality of the wrecking ball.[4] These conditions prevail as a force in the decline of the urban core areas.

In spite of the suburbanization process, the urban center continues to possess merit for continued development and it has retained an element of its former preeminence. Center city location is well suited for government, legal and financial activities. Indeed, with

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[4]National Trust for Historic Preservation, "The Mainstreet Program," (Washington, 1979) p. 1.

the location of these primary activities, the demand for space for secondary activities such as office space and the service industry has been stimulated.

At times, people have expressed views that the urban centers in America are dying and in some cities dead. Rather than facing extinction, America's urban cores have stopped their decline phase of a city's life cycle and headed upward, again becoming a center of development and activity. The transformation of the urban center from the center of dominance to a position of partial dominance merely exemplifies the evolution of the urban center. The function of the urban center has been changing as the function and activities in the urban cores have changed.[5] During the downturn of the urban center, commercial and industrial firms have relocated to other areas meeting the needs of their changing needs, thus changing the form and function of the urban cores.

Situations such as these have precipitated the abandonment or underutilization of old buildings located in the urban core. As a result, these buildings have reached varying stages of dilapidation and many have succumbed to the wrecking ball. Old buildings of historic or architectural significance have been among the many victims of the urban center's evolution. Approximately 16,000 buildings listed in the 1933 Historic American Building Survey have since been destroyed.[6]

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[5] National Trust for Historic Preservation, "The Mainstreet Program," p. 2.

[6] Robert L. Montague III and Tony P. Wrenn, Planning for Preservation (Chicago: American Society of Planning Officials, 1964), p. 1.

Many of these buildings were located in the urban center areas of America. There have been estimated to be as many as one million buildings of historic or architectural significance in America, many of which are destined to face the wrecking ball.[7]

Compounding the plight of these buildings of historic or architectural significance has been the characteristic inherent in American society to discard objects which are old, out of style and in need of repair.[8] Ingrained in American society is the concept that new is best. In terms of buildings, Americans perceive old buildings as obsolete and inferior to new, modern buildings. Americans have convictions that although these buildings were practical at one time, they are impractical for contemporary use. Herbert McLaughlin, a San Francisco architect who has worked extensively with old buildings stated:

> Perhaps the most threatened group of architecturally significant buildings in America are the inner city commercial and industrial buildings. They vanish steadily to be replaced by a melange of parking lots and new office buildings. In the main, this is due to the perception that older buildings are believed to be uneconomical or inefficient for contemporary times and uses. . . . Historic buildings can and have been reused for viable commercial activities. All too often, preservation and reuse is seen as a romantic, unprofitable venture . . . preservation and reuse of historic buildings can be profitable, prestigious and immensely enjoyable.[9]

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[7]Charles Tseckes, "One Winthrop Square," Urban Land (July-August, 1976), p. 13.

[8]Walter Kidney, <u>Working Places: The Adaptive Reuse of Industrial Buildings</u> (Pittsburgh: Ober Park Associates, 1976), p. 3.

[9]Herbert McLaughlin, "Commercial Renovation Proves Its Worth," Urban Land (October-December, 1975), p. 14.

Since the late 1960's, government officials, members of the business community and developers have begun to recognize the potential for reuse of old and historic buildings for contemporary use.[10] Attitudes pertaining to the continued use of these buildings have begun to change and people have begun to lend credence to the preservation and reuse of these buildings. In a sense, these qualities can be conceived as valuable assets when assessing the buildings' reuse potential.

The 1960's witnessed the conception of the "back to the city" movement, assisted by the energy problems which began in the mid-1970's, has directed considerable attention to the concept of preservation and reuse for economic as well as other philosophical factors.[11] Contributing to the "back to the city" movement has been the emerging interest in the preservation of our national heritage. Of this trend, Gary Stonebreaker, research associate with the Advance Planning Research Group, wrote:

> Throughout the country there is a renewed interest in the conservation of important natural and other resources. . . . A maturing society recognizes that these things have value; indeed, an irreplacable value. If one keeps throwing away the past, there are no guideposts for the present, or the future.[12]

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[10]Tseckes, p. 14.

[11]"Adaptive Use: The Key to Born Again Central Cities," Mortgage Banker (December, 1978), p. 57.

[12]Gary Stonebreaker, "Principals of Successful Project Development (Kensington, Md.: The Advanced Planning Research Group, Inc., 1975), p. 18.

Factors which have been mentioned as contributing to the "back to the city" movement include the following:

> 1. Rapidly accelerating costs of new construction and raw land costs;
> 2. Increasing costs to municipalities for providing basic services;
> 3. Growing awareness of higher transportation costs coupled with potential fuel shortages;
> 4. Growth of the conservation ethic and the renewed interest in our country's heritage;
> 5. Recent government incentives to companies for reuse projects;
> 6. Renewed interest and nostalgia for the past reflected as by the increasing designation of additional historic districts, growing popularity with preservation and reuse projects, a growing interest in antiques and a wider understanding and realization of the importance of a healthy downtown to the vitality of an urban area.[13]

## 2. DEVELOPMENT POTENTIAL OF THE URBAN CENTER

Much has been said concerning the decline of the urban centers, but the population of these areas actually increased between 1960 and 1970, thus reversing the population decline. The contrast between the cities and suburbs is not as sharp as some people perceive. David Cox and Steven Wolochowicz, authors of an article discussing the reemergence of the urban center, commented:

> The suburbs are no more immune to the consequences of neglect and carelessness than are the core cities. Unless some changes are made, more and more suburbs will develop the deteriorated conditions that people associate with core cities . . . in the mature city, the planners orientation must be

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[13]Raynor Warner, Sybil Groff and Ranne Warner, <u>Business and Preservation</u> (New York: Inform, 1978), pp. 1-3.

> toward permanence and conservation. The future need and opportunity for the American urban planner lies in the realm of community conservation and betterment, where a population may level off in size, but where vital forces are still strong and other kinds of growth can still occur. There is no need to assume that the planners task in urban areas is now limited to a salvage operation. Nor do we wish to pretend that there are no serious urban ills. But the last thing we need is a gratuitous and premature declaration of the death of the American city.[14]

Public opinions and perceptions concerning the urban center areas have been greatly chaped by the news media. The public has been greatly influenced to believe the urban center areas are in a state of chaos and decay. This situation has exacerbated the plight of the urban center by stimulating the flight of the population to the suburbs and by reducing private sector investment initiative.[15]

Despite the myriad of problems facing it, the urban center represents a source of commercial and industrial potential. In a sense, the urban center is an enigma in terms of development potential. On the one hand, the urban center is generally a densely populated area consisting of a captive population many of whom are unable to reach outlying areas for goods, services and employment opportunities. On the other hand, however, the inhabitants generally possess the lowest income and education skills making them unattractive for firms

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[14] David F. Cox and Steven P. Wolochowicz, "Big Cities Are Not an Endangered Species," (Planning, Vol. 41, No. 6, July, 1976), p. 17.

[15] "Adaptive Reuse: The Key to Born Again Cities," Mortgage Banker, p. 1.

providing goods, services and employment opportunities.[16] In essence, the urban center presents a source of considerable commercial demand and labor availability for those companies willing to interface their activities with the characteristics of the population.

The urban center also represents a source of attractive financial investments. The large population inhabiting the urban center constitutes a captive market as well as a labor pool. Inadequate public transportation generally restricts the inhabitants from shopping and working in the outlying suburban areas.[17]

In a study undertaken under the auspices of the Urban Land Institute, James Boykin investigated the industrial potential of the urban center. Results of the study indicated a strong potential for industrial development in the urban center. Boykin emphasized the urban center could not emulate the type of industrial development occurring in the outlying urban and rural areas characterized by sprawling, horizontally oriented industrial development.[18] This type of industrial development allows for a continuous floor production process with large areas available for storage purposes.

Rather, the urban center industrial site is comprised primarily of multi-story buildings with minimal outside storage areas.[19] Boykin

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[16]Calvin Greenberg, Profit Opportunities in Real Estate Investments (Englewood Cliffs: Prentice Hall, 1976), p. 152.

[17]Ibid., p. 153.

[18]James H. Boykin, Industrial Potential of the Central City (Washington: Urban Land Institute, 1973), p. 5.

[19]Ibid., p. 5.

asserts industrial activities which produce non-standardized finished products not requiring a continuous floor production process are suitable for location in the urban center. Small firms which are often able to utilize one floor and thereby allow for multi-tenant occupants in a multi-story industrial development are particularly well suited for urban center industrial activities. In addition, the study indicates that these urban center industrial firms utilize floor production space much more efficiently than plants in outlying locations.[20]

Boykin further asserts the location of these industrial firms in the urban center allows them to be in the vicinity of specialized markets, labor, support services and suppliers. In the case of industrial firms in the urban centers, it was found that the firms are oriented towards intra-regional markets rather than inter-regional markets.[21] As a result, the urban center location is well suited to these particular industrial firms and their respective markets and labor needs. As in the case of the transition of the urban center to office and governmental activities, the urban center industrial activities stimulate the location and growth of secondary industrial and support activities.[22] In this cycle of supporting industrial development, these secondary activities further support commercial and office development.

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[20] Ibid., p. 18.

[21] Ibid., p. 27.

[22] Ibid., p. 35.

As the economic base of the urban center is revived, people are discovering the potential of preservation and reuse projects involving old buildings for industrial and commercial use. Thus old buildings will continue to play an important role in the living fabric of the urban center.

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## 3. ADVANTAGE OF REUSING OLD AND HISTORIC BUILDINGS

While not every old building of historic or architectural significance is suitable for preservation and reuse for commercial and/or industrial use, there are some very compelling advantages for reusing old buildings. An obvious motive or justification for preserving and reusing old buildings is that they physically link us to our past history. These buildings represent a component of our cultural heritage and provide a sense of place and time. Retaining these buildings amidst the new development serves to make a smooth transition from the old to the new.[23] The monotony of the "cityscape" is decreased by the continued existence of these buildings. Due to the escalating energy and construction costs, the rehabilitation and renovation of this country's finer old buildings has resulted in preservation and reuse projects becoming a very practical and beneficial activity as well as cost effective alternative to new construction. Advantages of preservation and reuse projects are numerous and are discussed in the ensuing paragraphs.

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[23] David Scribner, Jr., "Historic Districts As an Economic Asset to Cities," Real Estate Review (May-June, 1976), p. 10.

Employment

Rehabilitation and renovation projects can be as much as 75 percent labor intensive, as compared to 40-50 percent for new construction projects.[24] Thus, these projects are not influenced as much by escalating costs of building materials and materials as new construction projects. In testimony before a Congressional Sub-committee, General Services administrators stated that rehabilitation creates two to five times as many employment opportunities as new construction for a given expenditure of money.[25] In another study, the Office of Archeology and Historic Preservation (OAHP), the U.S. Department of the Interior, disclosed that new construction projects generated 70 jobs per one million dollars expended on a new construction project while on the other hand preservation and reuse projects generated 109 jobs per one million dollars expended.[26] These results certainly support the assertion concerning the labor intensiveness nature of preservation and reuse projects.

According to a report published by the OAHP, preservation and reuse projects involving rehabilitation and renovation activities have been important in terms of direct employment created, but also in terms of the projects' multiplier effects upon the local economy. It was found that money spent on preservation and reuse projects involving

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[24]Thomas D. Beaver, "Economic Benefits of Historic Preservation," U.S. Department of the Interior (March, 1978), p. 2.

[25]Ibid., p. 2.

[26]Ibid., p. 2.

rehabilitation and renovation have remained in the local economy for a substantially longer period than money spent on new construction which generally disbursed for materials imported into the area.[27] Thus, funds used for preservation and reuse projects have had a superior effect impact upon primary and secondary job creation than for funds used for new construction projects.

Social Benefits

Aesthetic and cultural factors are important considerations in a community's interest in preservation and reuse projects. One important factor is the scale of the buildings. Old neighborhoods and buildings generally consist of 2-4 story buildings which do not project a threatening presence or overpower the individual in terms of scale and magnitude. In addition, the older buildings and areas display a consistency in building textures, materials and style not found in many contemporary urban centers. Individuals perceive the scale, textures, materials and colors characteristic of old buildings to be reassuring and people appear to enjoy the familiarity of the buildings. People also relate to the attention to detail in the construction of the building, the individuality of the design and construction, the craftsmanship, carvings, sculptures and interesting brick work.[28] The public appreciates and desires beauty and craftsmanship in their

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[27] Ibid., p. 2.

[28] Geraldine Chapman, "Livable Cities: Historic Preservation or Urban Conservation," HUD Challenge (August, 1978), p. 5.

built environment; it is meaningful in today's society. Dr. Joyce Brothers wrote in an issue of Historic Preservation the following:

> Studies in sensory deprivation have shown that a constant uniformity of vista is extremely unnerving. . . . it produces anxiety, sleeplessness and in some instances hallucinations. Our great American cities are rapidly being montages of shiny glass and metal, with fewer and fewer islands of relief. I predict that if we do not act to save some of our period pieces now, we will end up reproducing them 25 years hence, just to save our sanity.[29]

Maintenance and reuse of existing old and historic buildings have assisted communities in avoiding the trauma resulting from the deterioration, disrepair and filthiness of existing neighborhoods. These conditions ultimately result in abandonment and destruction of the old buildings.[30] This represents tragic social costs such as dislocation, economic decline, disruption of social patterns and a decline in the quality of community of life for a neighborhood.

Poorly maintained dilapidated old buildings create an atmosphere of reduced social responsibilities, social consciousness and hope on the part of those living and working in these circumstances. By reusing old buildings of historic and architectural value, an improved urban landscape can emerge to provide the community with a pleasing and psychologically satisfying urban environment.

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[29] Joseph Shapiro, "Renovators Get Tax Breaks," Municipal Technical Advisory Service (February, 1979), p. 6.

[30] Beaver, p. 6.

Energy Efficiency

Studies indicate preservation and reuse projects are energy efficient and are responsive to the problems of contemporary natural resources scarcity. The Advisory Council on Historic Preservation (ACHP) conducted a study on the energy costs of rehabilitation and renovation as compared to new construction. The study produced three primary findings:

> 1. Rehabilitation and renovation of existing buildings require much less initial investment in energy than construction of comparable new structures. This is due in part to the fact that rehabilitation and renovation are labor intensive and as a result require less construction materials; resulting in less energy being required to produce the building materials, reduced transportation costs associated with transporting the materials and reduced warehousing costs associated with storing the building materials until the time of delivery to the project site.
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> 2. Rehabilitated buildings will consume, on an annual basis, less energy than equivalent new buildings. Recently, ERDA conducted a study which determined that rehabilitated buildings consume 23 percent less energy than new construction. The study noted that with the wide surface window construction prevalent in new office construction, energy consumption may be significantly greater than the 23 percent difference noted between new and rehabilitated or renovated buildings.
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> 3. Rehabilitation of existing buildings rather than demolition and new construction results in a net energy savings over the expected lifetime of the building.[31]

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[31]Advisory Council on Historic Preservation, "Assessing Energy Use in Rehabilitated Buildings," (Washington, 1979), p. 2.

Aid to the Revitalization of Cities

As mentioned earlier, the urban center has been in a state of transition in the past two decades. There has been an emergence of the urban center as a focal point for government offices, financial institutions and accompanying office development. In order to accommodate this development, many old buildings have been demolished in order to provide space for new development. However, preservation and reuse of existing space may be able to provide space suitable for these activities. Preservation and reuse projects are not only important for nostalgic and sentimental reasons, but they serve to provide a guide for the development of the urban center. As Walter Eshbach notes:

> Recycling of older buildings strengthens the very fabric of the downtown. Recycling would reinforce the variety of choice and diversity which is so basic for downtown design and would help create around-the-clock usage of the area. If we allow the leveling of architectural resources for more automobile parking and other short term facilities, we only dilute the heart of the metropolitan area.[32]

As a result of the increase in neighborhood, commercial and industrial preservation and reuse projects in the past decade, it has been found that historic preservation can improve land values, retail sales, tax base and give the community a more positive perspective towards their city. Attitudes, building conditions, community pride,

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[32]Walter Eshbach, "Recycling Old Buildings," HUD Challenge, (February, 1976), p. 28.

and other cultural resources have been greatly enhanced by the revitalization in the urban center.[33]

In the Pioneer Square area of Seattle and the Trolley Square area of Salt Lake City, commercial preservation and reuse projects have stimulated revitalization efforts in the vicinity of the projects.[34] An ACHP report states, " . . . these projects have stimulated the rejuvenation of the surrounding neighborhoods . . . the areas are now experiencing revitalization with new people moving in and renovating buildings in the contiguous areas."[35] In the case of the Pioneer Square area, the revitalization generated a 1000 percent increase in the property tax base.[36]

The soundness of the property tax base is determined as much by the quality, state of repair and the use of the buildings as by the amount of new construction generated. Preservation and reuse projects can be successful in creating direct economic benefits for an area by:

1. Attracting new businesses and industries while retaining present companies;

2. Increasing appeal for transit development;

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[33]Ralph Thayer and Paul Waidhas, "What Do In-Town Investors Want?", Urban Land (June, 1977), p. 19.

[34]Beaver, p. 3.

[35]Advisory Council on Historic Preservation, "Report to the President and the Congress of the United States, 1978," p. 21.

[36]Beaver, p. 4.

3. Attracting residents while retaining an attractive area in which to shop, drive, work, socialize and stroll at night.[37]

As more residents and businesses locate in the urban center, revenue from the increased property taxes and sales taxes will increase.

In Savannah, property values have soared; where once a building could be purchased for $2,500 in the urban center, now the unrenovated shell would sell at many times that amount.[38] Property values in other cities where historic preservation projects have taken place such as San Francisco, San Antonio, New Orleans, Savannah, Alexandria and Georgetown have escalated rapidly with no end in sight.[39] Investors seeing the rapid appreciation in values have gained confidence in the areas experiencing preservation and reuse activities, thus leading investors to other properties in the area. This appreciation in land value in turn leads to higher property assessments and ultimately higher property tax revenues.

With the preservation and reuse projects, the areas become more attractive areas for persons to live and shop. Retail sales in Alexandria experiencing preservation and reuse projects have increased 147 percent in six years since the inception of preservation and reuse projects. While in Savannah, such projects have brought national

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[37]National Trust for Historic Preservation, "The Mainstreet Program," (Washington, 1978), pp. 1-2.

[38]Carol Matlack, "Savannah: The Beautiful City," American Preservation (March-April, 1979), p. 22.

[39]Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 2.

acclaim and tourist business to the city. Consequently, revenues from tourism increased 227 percent from 1969 to 1975. These figures serve to demonstrate the benefit of preservation and reuse projects to a city's coffer.[40]

The ACHP reported that the Trolley Square Project created a new shopping area which provided a market for tourists as well as residents of the nearby areas. In addition to these services, the report stated, "Trolley Square has stimulated the rejuvenation of the surrounding area. Typified by deteriorating housing stock, the area is presently experiencing revitalization with new people moving in and renovating houses throughout the area."[41]

Preservation and reuse projects not only improve the structures and areas directly associated with the project, but also provide a stimulus for other revitalization activities in adjacent areas near the project site.[42] Trolley Square is an example of this "influence" effect of preservation and reuse projects. After the preservation and reuse of the trolley barns proved to be a commercial success, revitalization efforts were initiated in the vicinity of the project site. Chattanooga, for example, experienced the revitalization influence effect with properties adjacent to the Chattanooga Choo Choo. In Memphis, the proposed historic preservation and reuse projects in the

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[40] Ibid., p. 2.

[41] Advisory Council on Historic Preservation, "Report to the President and the Congress of the United States, 1978," p. 22.

[42] Scribner, "Historic Districts: As an Economic Asset to Cities," p. 10.

Beale Street area have stimulated similar projects in nearby areas. Alexandria, Georgetown and Savannah are further examples of this phenomenon. Once a developer has become committed to the project, other property owners and developers become interested. . . . in effect, the commitment of one developer may be sufficient to stimulate other private and public sector actors on a larger scale.[43]

Benefits to the Private Sector

Private developers and building owners attempt to make buildings self-supporting; to be self-supporting a building must generate revenues from rentals, sales, etc. which must be equal to or greater than the cost of rehabilitation, construction, ownership, debt service, maintenance and other associated expenses of the project. Simply stated, the money coming in (revenues) must at least equal the money going out (expenses).

The concept of preservation and reuse has experienced growing support and interest in the past decade, however, in a society oriented towards profit making, preservation and reuse projects have not yet become widely accepted as viable projects. However, one solution to date has been to work within the existing framework of the real estate development market and recycle the buildings for contemporary use starting with successful simple, smaller projects and then advancing to larger, more complex projects as experience with preservation and reuse projects is gained. By far, the success of publicized large

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[43]Shapiro, p. 2.

preservation and reuse projects diverts attention from small preservation and reuse projects which have served as the genesis for larger such projects.

The objective of a preservation and reuse project is to retain as much of the architectural integrity of the exterior and interior as possible while, at the same time, transforming space to conform to current space needs and introducing modern mechanical systems to provide contemporary levels of comfort, convenience and safety.[44] These properties have potential for reuse because the improvements may have a replacement value far in excess of current market value and an economic value in excess of the cost of the building's shell plus the cost of the improvements necessary to adapt the structure to a new use.[45] Often times, experts will state that rehabilitation or renovation of old and historic buildings is more expensive as compared to new construction. What these experts often fail to consider is the cost of replacing the old building with a comparable building and atmosphere would add tremendously to the cost of a new building.

Older buildings, in many instances, possess superior construction quality, craftsmanship and materials which cannot be replicated in today's market. These buildings generally have thicker walls, windows that open, higher ceilings as well as other amenities normally

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[44] Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 2.

[45] Georgio Cavaglieri, "Design in Adaptive Reuse," Historic Preservation (January-March, 1974), p. 14.

not found in new buildings.[46] In addition, these buildings were designed to utilize natural light and ventilation, oftentimes resulting in a more efficient utilization of energy resources.[47]

Several factors or considerations contribute to the advantages of preservation and reuse projects for the developer:

1. With spiralling construction costs, existing buildings being renovated or rehabilitated have generally become better buys when analyzed on a cost performance basis as compared to new construction.

2. A preservation and reuse project requires less time in process with the rehabilitation or renovation work versus new construction. As a result, preservation and reuse work can be completed in a shorter time period than new construction. This reduces the time lag between the time project expenditures commence and revenues are derived from the project. In areas where a building had to be "buttoned up" during the winter, construction time can be programmed around this period. Since much of the work is completed indoors, delays with the weather affecting the improvements are drastically reduced and when the cost of reuse projects are comparable with a new construction project the preservation and reuse project will be less expensive because the construction financing period will be shorter resulting in less interest being paid for construction financing;

3. Marketing of the project can commence earlier in a reuse project than new construction. The more highly visible and marketable areas such as the lobby and model spaces can be delegated priority areas and can be completed earlier. Potential tenants can be brought directly into the structure while work is in progress in other areas of the building and be shown finished areas;

4. An existing building brings with it an "image" that has both a positive marketing and an affirmative community influence and recognition. The development process is often much shorter and smoother for a building which is being

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[46] Advisory Council on Historic Preservation, "Adaptive Use: Survey of Construction Costs," (1979), p. 3.

[47] Ibid., p. 4.

rehabilitated and reused. This allows for a faster reaction of a developer or businessperson to market needs, allowing the person to shorten the lag time between market recognition and market supply. As the lag time is reduced, the building being reused has a competitive advantage over new construction projects which require a longer lead time and as a result the building being reused is ready to meet market demand before the new building;[48]

Four factors contribute to making a building being reused cheaper and competitive with new construction on a cost per square foot basis:

1. Lower costs per square foot to rehabilitate (25 to 40 percent less to rehabilitate a building than construct a comparable new building);

2. Recapture of underutilized space;

3. Reduced development time (25 to 60 percent);

4. Easier promotion and flexibility of interior space layout.[49]

In a special report, "Adaptive Use: A Survey of Construction Costs" preservation and reuse projects were compared to new construction with the cost computed using the Robert Means Company Building Construction Cost Data. The costs for preservation and reuse projects were gathered by surveys sent to the architects responsible for the projects. Two building uses: retail and office were calculated comparing the cost per square foot rehabilitated and new construction. This comparison is shown in Table II-1.

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[48] "Adaptive Use: The Key to Born Again Cities," Mortgage Banker, p. 38.

[49] Thomas J. Martin and Melvin A. Gamzon, "Adaptive Use Gives Life to Old Buildings," Real Estate Review (Winter, 1977), pp. 29-30.

TABLE II-1. RENOVATION COSTS

| | Demolition | Architectural | Structural | Mechanical | Total |
|---|---|---|---|---|---|
| BUILDING TYPE: OFFICE (Cost per Square Foot) | | | | | |
| Webster House 31,800 sf | M | M | M | M | 3.74 |
| Bank of Newburgh Bldg. 3,900 sf | .53 N | 6.57 N | 1.06 M | 3.50 S | 11.66 |
| Means - Lowest | | | | | 12.10 |
| China Basin Building 500,000 sf | .62 M | 7.80 N | .62 M | 7.94 S | 16.98 |
| Butler Square 500,000 sf | .26 N | 9.48 N | 2.90 N | 6.12 S | 18.76 |
| Grand Central Arcade 80,000 sf | .73 N | 14.16 N | .44 N | 4.77 N | 20.10 |
| Pioneer Building 88,550 sf | M | N | N | N | 30.06 |
| Dodge - Average | | 13.47 | 6.67 | 9.48 | 29.62 |
| Teknor Apex Company 25,000 sf | M | N | M | N | 30.06 |
| Baltimore City Hall 203,000 sf | 3.75 S | 15.75 S | S * | 13.50 S | 33.00 |
| Old Boston City Hall 40,000 sf | 1.99 S | 15.18 S | 2.64 S | 13.20 S | 33.00 |
| Actors Theatre 42,125 sf | .54 N | 18.76 N | 2.14 N | 12.06 N | 33.50 |
| Means - Median | | | | | 35.48 |
| Saturday Review Bldg. 27,657 sf | | 18.83 | 6.12 | 11.88 | 36.83 |
| 21 Merchants Row 25,000 sf | 3.96 | 19.80 | 6.60 | 6.60 | 36.96 |

TABLE II-1 (Continued)

| | Demo-lition | Archi-tectural | Struc-tural | Mechan-ical | Total |
|---|---|---|---|---|---|
| One Winthrop Square 105,000 sf | 3.39 S | 24.86 S | 2.26 N | 10.17 S | 40.68 |
| Blackwell House 6,348 sf | .57 M | 21.13 S | 2.26 N | 19.15 S | 43.51 |
| Means - Highest | | | | | 101.52 |
| BUILDING TYPE: RETAIL (Cost per Square Foot) | | | | | |
| Means - Lowest | | | | | 6.48 |
| Trolley Square 566,280 sf | | | | | 18.65 |
| Means - Median | | | | | 21.11 |
| Exeter Street Theater 37,000 sf | 2.00 | 15.00 | 1.00 | 4.00 | 22.00 |
| Park Square Court 120,000 sf | 2.62 N | 7.86 N | 3.39 N | 7.86 S | 22.09 |
| Dodge - Average | | 11.32 | 5.03 | 8.56 | 24.91 |
| The Garage 55,000 sf | 2.28 S | 19.72 S | 4.56 S | 6.85 S | 33.41 |
| Southbridge Credit Union 6,017 sf | 1.73 N | 33.91 N | 1.88 N | 11.99 N | 49.51 |
| Design Research 20,000 sf | S | S | S | 19.63 S | 61.20 |
| Means - Highest | | | | | 75.60 |

*Structural costs included in architectural.

All costs are based on January, 1976 indexes and are shown in dollars. The degree of work required in each category is defined as: (M) = Minimal; (N) = Normal; and (S) = Substantial. These letters will accompany each cost figure. Where data was not supplied by the architect, the space has been left blank.

A number of observations can be made from the survey data depicted in Table II-1. Results of the survey indicate that reuse is not always cheaper than new construction, however, the costs for reuse fall within the range of new construction in the most expensive preservation and reuse projects, although in the majority of examples rehabilitation costs were generally less than for the costs of new construction. Cost differences varied in relation to the varying amounts of rehabilitation undertaken for the different buildings.

Demolition costs inside the buildings being rehabilitated were minimal, normally 1 to 4 percent of the total project cost. Structural costs were low also, ranging from 5 to 12 percent of the total project cost, which is less than half the average cost for new construction. This reflects the fact that little structural work was necessary in order to reuse the old buildings included in this survey. Architectural costs varied above and below the average costs for new construction. Generally, the architectural costs were related to the degree in which interior alterations and modifications were required. Costs for materials were also dependent upon the amount of interior and exterior materials used.[50]

Mechanical costs, much like those for architectural costs tended to vary above and below those for new construction. It was found when complex climate control and fire protection systems were installed the costs of rehabilitation were higher than for the costs

[50]Advisory Council on Historic Preservation, "Adaptive Use: Survey of Construction Costs," p. 21.

of new construction. In addition, large amounts of ductwork were needed with the sophisticated mechanical equipment; mechanical equipment will likely remain the most expensive cost factor in preservation and reuse projects.[51]

Demolition and structural costs were found to represent minimal cost factors for preservation and reuse projects and were areas where considerable cost savings could be achieved versus new construction. Survey results indicated the real determining cost factors in the preservation and reuse projects were the architectural and mechanical costs. Ingenuity and inventiveness on the part of the architect can minimize these costs.[52] The architect for the rehabilitation of the Cast Iron Building in New York City noted the challenge facing the architect in preservation and reuse projects, "Ultimately the main difference between rehabilitation and new construction lies in the fact that the developer working within an existing structure must be alert for both unexpected and unique problems and opportunities."[53]

The cost analysis did not take into account the situation whereby a building must be demolished in order to construct a new building. The costs for demolition generally account for 5 to 13

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[51]Ibid., p. 21.

[52]Ibid., p. 22.

[53]Herbert McLaughlin, "A Historic Preservationist Addict Looks at the Practical Side of Rehabilitation for Profit," Architectural Record (March, 1976), p. 67.

percent of the total project cost.[54] As a result, the costs for new construction may have been understated in the survey results.

Problems Confronting Preservation and Reuse Projects

Steadily, preservation and reuse projects have been attracting national attention and support. Despite growing attention and support by the private sector, the developer and businessperson undertaking preservation and reuse projects have experienced problems unique to such projects. Many of the same basic problems facing new development apply to preservation and reuse projects such as land assemblage and dealing with ownership problems such as absentee owners or trusts. There are two primary problem areas associated with this type of project, locating architectural and engineering professionals knowledgeable and experienced in these types of projects and obtaining financing terms and interest rates.

Architectural and engineering experience is certainly required because the cost factors are more difficult to identify and accurately determine, requiring an understanding of a multitude of variables which affect preservation and reuse projects. This problem is particularly difficult in large preservation and reuse projects in which the tremendous skill and expertise is necessary. Because the project may be reusing a building for a new and originally unplanned use, the

[54]Advisory Council on Historic Preservation, Adaptive Use: A Survey of Construction Costs," p. 22.

design team must have insight and imagination with their design requiring a different type of architectural and engineering expertise.[55]

By far, the most critical problem facing a developer or businessperson considering undertaking a preservation and reuse project is obtaining project financing at reasonable rates and terms.[56] Due to the novelty of such projects in many areas of the country, bankers and financiers have had little experience with such projects. As a result, lending institutions have been reluctant to lend capital for such projects. Bankers and financiers, normally being conservative in their institutional perceptions and thinking, have difficulties visualizing the transformation of a deteriorated or vacant building into an active, viable economic entity.

Skepticism on the part of bankers and financiers has been slowly altered in the past decade as more preservation and reuse projects are developed and as they establish a track record and financial history for the lenders to examine. Lenders have had to be convinced that preservation and reuse projects are viable projects that can be undertaken for profit. Herbert McLaughlin, a San Francisco architect experienced with preservation and reuse projects, believes that once a climate of confidence is established in the corporate and financial community, the attitudes concerning preservation and reuse projects

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[55] National Trust for Historic Preservation, Economic Benefits of Preserving Old Buildings (Washington: Preservation Press, 1976), p. 6.

[56] Raynor Warner, Sybil Groff and Ranne Warner, p. 8.

will improve. As preservation and reuse projects establish a "track-record," lenders will become more amenable to reuse projects.[57]

[57]McLaughlin, "Commercial Renovation Proves Its Worth," p. 14.

CHAPTER III

# PUBLIC AND PRIVATE SECTOR INVOLVEMENT IN HISTORIC PRESERVATION

## 1. FEDERAL GOVERNMENT INVOLVEMENT

Early preservation activities in America were more the consequence of private sector initiative and labor rather than federal government involvement.[1] Not until the mid 1960's did federal government involvement in the preservation movement constitute an active role comprised of providing economic incentives designed to support and stimulate preservation and reuse activities.[2] European governments, unlike their American counterpart, have been very conscious of their countries' heritage as it is exhibited by the continued utilization of a large number of historic buildings in their respective countries. As a part of the European governments' support for the preservation and reuse of old and historic buildings, these countries have designed and implemented programs supportive and attuned to the preservation and continued use of their old and historic buildings since the 1800's.[3]

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[1]Robert R. Garvey, Jr. "What the Government Has Done, "American Preservation (October-December, 1974), p. 38.

[2]Ibid., p. 38.

[3]Lawson B. Knott, "The Impact of Historic Preservation on Development and Land Use," Urban Land (June, 1975), p. 4.

With the turn of the 20th century, the federal government began to formulate its initial preservation legislation. The first federal overture in preservation legislation was the passage of the Antiquities Act of 1906 authorizing the President to designate historic landmarks within federal ownership.[4] Ten years transpired before the next ensuing government legislation was promulgated resulting in the establishment of the National Park Service in 1916.[5] This legislation delegated authority to the newly established National Park Service to have the responsibility of protecting historic sites and landmarks within federal government ownership.[6] In 1935, the federal government legislated the Historic Sites Act which served to establish the beginning of a national policy regarding historic preservation of sites, buildings, landmarks and objects of national significance.[7] Creation of the National Park Service and the passage of the Historic Sites Act served as the genesis of federal government involvement in the preservation movement.

Disrupted by the depression of the 1930's and the efforts of the nation in conducting its war efforts during World War II, the federal government did not redirect its attention towards preservation activities until after the conclusion of the war. At that time, the federal government began to promulgate programs which conceptually

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[4]Garvey, p. 38.

[5]Ibid., p. 38.

[6]Ibid., p. 39.

[7]Ibid., p. 39.

could be supportive of preservation and reuse of old and historic buildings in America's urban cores.[8] The first such program was titled Urban Renewal.

Urban Renewal

After more than two decades of neglect of the nation's urban cores, a substantial level of deterioration and blight was manifest in the heart of America's cities. To meet the urgent needs of the nation's urban areas, the 79th Congress promulgated Title I of the Housing Act of 1949, designated the Urban Redevelopment Program.[9] Urban Renewal, as it was subsequently retitled by the Housing Act of 1954, was at the time the most direct and effective means for the federal government to assist preservation projects.[10] In 1966, Robert Weaver, the Secretary of the Department of Housing and Urban Development (HUD), spoke of Urban Renewal:

> Urban Renewal was designed to be a local program. . . . locally conceived, planned and carried out. It is a concerted effort by a city, using public and private resources to remedy and prevent urban blight and decay and carry out a continuing program of planned conservation, rehabilitation, and redevelopment of both residential and non-residential areas.[11]

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[8]Carol D. Shull, "Historic Preservation and CD," Journal of Housing (May, 1976), p. 21.

[9]Ibid., p. 22.

[10]Ibid., p. 22.

[11]Department of Housing and Urban Development, Preserving Historic America, (Washington: U.S. Government Printing Office, Washington, 1963), p. 5.

The federal Urban Renewal administrators stated that the priorities of Urban Renewal were:

1. Rehabilitation and conservation of structures and neighborhoods that are not afflicted with substantial blight allowing them to be saved;

2. Clearance and redevelopment of blighted areas requiring more drastic treatment.[12]

Urban Renewal was conceptualized and intended as a program designed to eliminate slums and blight as well as other underlying causes for the slums and blight in the urban cores. Although urban renewal was primarily oriented towards providing decent housing conditions, commercial and industrial projects were also eligible for assistance.[13]

Federal administrators with the Urban Renewal Administration emphasized the program was designed to be utilized for conservation and rehabilitation activities and projects.[14] Urban Renewal would be the first program in which privately developed preservation and reuse projects were eligible to receive large scale financial support from the public sector.[15] According to the legislation, actual building and

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[12]Urban Renewal Administration, Historic Preservation Through Urban Renewal (Washington: U.S. Government Printing Office, 1963), p. 5.

[13]James Q. Wilson, Urban Renewal: Record and the Controversy (Cambridge: MIT Press, 1966), p. 217.

[14]Urban Renewal Administration, p. 6.

[15]Department of Housing and Urban Development, Preserving Historic America, p. 8.

infrastructure improvements were to be completed through state, local or private organizations with federal financing covering between 2/3 to 3/4 of the project costs.[16]

From the onset, however, the program resulted in the massive demolition of large tracts of land in the urban core areas rather than the discriminate demolition of selected deteriorated buildings. Often massive demolition projects occurred in heavily populated neighborhoods, dislocating large numbers of persons and destroying many valuable buildings.[17] In retrospect, the good was demolished with the bad, and in many cities, entire neighborhoods fell victim to the federal bulldozer.

By 1960, however, Congress and the Urban Renewal Administration had been inundated with criticism and opposition, causing a transformation in the administration of the Urban Renewal program and its policies. As a result of change in policies, preservation and rehabilitation of existing buildings began to receive more consideration from the federal government.[18] For the first time, the federal government mandated that historic preservation be considered in project plans. With the growing public criticism for the program, support for the program dissipated and the program was gradually phased out. By 1964, 1200 projects in 740 cities had implemented renewal projects, however only

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[16]Ibid., p. 8.

[17]Wilson, p. 380.

[18]Ibid., p. 383.

118 projects had been completed. Over 27,000 acres of land had been cleared or involved in renewal projects by 1965 and in 1974 approximately 50 percent of that acreage was still vacant.[19]

This is not to say that Urban Renewal was a total failure and non-supportive of historic preservation. In fact, by 1965 Urban Renewal had been instrumental in historic preservation projects in 14 cities. Cities such as Mobile, Philadelphia, Boston, Monteray, Portsmouth and Norfolk had utilized Urban Renewal program as an integral component in historic preservation projects.[20] According to Robert Weaver, the Secretary of HUD, over 100 historic buildings have been preserved as a result of Urban Renewal.[21] However, countless other old buildings of architectural or historic value and significance have been destroyed by Urban Renewal.

Urban Renewal significantly assisted urban core areas in a number of cities to enhance their physical condition, allowing these areas to retain their competitive strengths in relation to outlying suburban areas.[22] In these cities, a more favorable investment climate was created or retained which encouraged new public and private sector development in the urban cores, resulting in improved urban

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[19] Real Estate Research Corporation, The Future of Local Urban Development (Washington: U.S. Government Printing Office, 1975), p. 9.

[20] Wilson, p. 218.

[21] Ibid., p. 219.

[22] Ibid., p. 579.

core areas, fresh revenues for the local government and other gains from this program to the city.[23] Despite a list of "success stories," many critics of the program in both the public and private sector believe the list of "failures" as being much greater.[24] If the fault and virtues of Urban Renewal could be put on a scale, the scale would tip against urban renewal.[25]

In a report on the Urban Renewal program commissioned by HUD, the Real Estate Research Corporation identified six primary problem areas which affected preservation and reuse projects including the following:

1. Urban Renewal was not intended to be utilized in every deteriorated urban neighborhood. Consequently, the program funding was inadequate to upgrade all the neighborhoods requiring treatment.

2. The renewal remedies were primarily oriented towards physical improvements to neighborhoods, neglecting the social, economic, political and financial factors involved with such a radical program.

3. The renewal process failed to marshall the local support for the program which doomed the neighborhoods demolished to remain vacant or redevelop in an agonizingly slow process.

4. Renewal was the first urban program of this scale and magnitude which hindered the program planning and implementation components of the program resulting in poorly managed land disposition practices and procedures.

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[23]Ibid., p. 579.

[24]Ibid., p. 579.

[25]Ibid., p. 580.

5. Renewal suffered from inappropriate project sizes and poor project locations which stifled the marketing and disposition of the property after it had been cleared.

6. Overall, the implementation of the program exhibited poor planning by not considering the reuse potential for the project sites and designing mechanisms to stimulate the reuse of the project sites.[26]

Overall, Urban Renewal was not sufficiently selective in determining which areas and buildings to demolish. Renewal administrators seemingly focused their attention on the quantitative aspects of removing entire existing neighborhoods rather than considering the qualitative aspects of the project and seeking to retain or improve the urban quality of life for a project neighborhood.[27] The end result was that much of America's physical culture and heritage was destroyed with the attempt to renew the vitality of America's urban cores through Urban Renewal.

## The Small Business Act of 1953

The Small Business Administration was established through the passage of the Small Business Act of 1953.[28] Supporters of the Act espoused the concept that it was the declared policy of Congress that the American government should aid, counsel, assist and protect insofar as possible the interest of small business concerns.[29]

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[26] Real Estate Research Corporation, p. 36.

[27] Ibid., pp. 37-38.

[28] U.S. Small Business Administration, "Facts About the SBA," (Washington: U.S. Government Printing Office, 1978), p. 7.

[29] Ibid., p. 7.

By protecting the interests of small businesses, the supporters of the legislation believed the free competitive enterprise system would be preserved. In addition, a fair proportion of the total purchases and contracts for supplies and services for the government should be placed with small businesses to maintain and strengthen the overall economy of the nation.[30]

The Small Business Administration (SBA) believed its primary task was to provide readier access for small businesses to adequate sources of capital at reasonable rates and terms.[31] Particular emphasis has been directed by the SBA toward resolving the problems of small business concerns in obtaining intermediate and long-term financing.[32] As a general policy, the SBA prefers to direct small business concerns seeking financial assistance to conventional sources of capital rather than to the SBA itself. Only after all other sources of capital have been exhausted will the SBA consider and review a loan proposal from a small business concern.[33] It has been SBA's contention that by forcing small businesses to seek conventional financing, its lending capacity could be directed to those firms truly needing an alternative source of financing. In instances where small businesses

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[30]Ibid., p. 8.

[31]U.S. Small Business Administration, "Annual Report of the U.S. Small Business Administration, 1978," (Washington: U.S. Government Printing Office, 1979), p. 26.

[32]Ibid., p. 27.

[33]U.S. Small Business Administration, "Facts About the SBA," p. 9.

do receive SBA assistance, SBA prefers to utilize a loan guarantee in order to leverage private sector investment. Direct loans are made only in instances when the loan guarantee alternative is not available, and such an action is considered an act of last resort by the SBA.

SBA is empowered by its enabling legislation to, " . . . make loans enabling small businesses to finance plant construction, conversion or expansion, including the acquisition of equipment, machinery, supplies or materials necessary to ensure the well balanced economy."[34] As stipulated by Congress, all loans and loan guarantees must be of sound value or be secured as to reasonably assure loan repayment.[35]

Assistance by the SBA to small business concerns involved in preservation and reuse projects takes the form of two principal programs: the 7(a) Business Loan and Guarantee Program and the 502 Local Development Corporation (LDC) program. With the 7(a) program SBA is responsible for locating and processing the loan and loan guarantee requests while with the 502 program another organization originates the requests for assistance for a client and the SBA funds are loaned through the local development company to the small business concern. The local development company receives the funds from SBA and passes the loan funds through to the small business concern and the LDC is responsible for servicing and supervising the loan rather than SBA.[36]

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[34]Ibid., p. 2.

[35]U.S. Small Business Administration, "Programs of the Small Business Administration," p. 3.

[36]Ibid., p. 4.

Local Development Company Loans (LDC) are made by SBA to private sector projects through for profit or non-profit local development companies which combine local investment funds with the SBA capital injection for construction, expansion and modernization of small business concerns.[37] Conceptually, the primary purpose for the 502 LDC program centers around the federal government's program to support local self-help initiatives with a community organizing an LDC willing to invest some of its own money in identified, feasible community business concerns. In the case of the 502 LDC program, it is possible for the LDC to design a development program in the community supportive of local economic development.[38] Thus the LDC is able to plan and implement projects in delineated project areas, a program quality not available with the 7(a) program operated directly from a regional SBA office which provides loans and loan guarantees on a competitive basis with other projects. Consequently, the 502 LDC program possesses the capability to be utilized in targeted project areas for preservation and reuse projects.[39]

In fact, the 502 LDC program was utilized effectively in supporting downtown revitalization projects in several towns. One notable example is the Old Town Mall project located in close proximity

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[37] Ibid., p. 4.

[38] Ibid., p. 4.

[39] Conversation with Catherine Szucs, SBA Administrator, March 20, 1980.

to the Inner Harbor area of Baltimore.[40] While the 502 LDC program does possess the capability for being supportive of preservation and reuse projects, the funding allocations for the program have remained constant since 1975 limiting the scope of the programs effectiveness.[41]

Overall, SBA funding for the 7(a) and 502 programs has been increasingly more difficult to receive for several reasons. First, the demand for the loans has been increasing tremendously in the past decade with the rise in interest rates prevalent in the mid and late 1970's resulting in stricter loan reviews by commercial lenders. Second, the level of funding for the entire SBA operation has remained constant in the past ten years.[42] Even when firms have been approved for SBA financing, the waiting time for actually receiving the capital has at times ranged from 9 to 12 months with 3 months generally being the fastest fund transfer.[43]

At a conference in Seattle in 1975, concerning the economics of historic preservation, it was stated that the SBA can be a valuable financing source, but SBA has limited resources and has funded only 14 historic preservation projects. Overall, the delegates to the convention agreed that SBA has not been widely utilized to support and assist preservation and reuse projects and activities due to SBA's

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[40]Edwin C. Daniel, "Small Business Administration," Journal of Housing (August, 1977), p. 392.

[41]Ibid., p. 392.

[42]Ibid., p. 393.

[43]Ibid., p. 393.

limited resources and capabilities.[44] Beyond the stated problem of limited financial resources, SBA officials have been reluctant to obligate the SBA to cooperate with other organizations in targeting SBA programs to project areas with other sources of financial assistance.[45]

Economic Development Act of 1965

The Public Works Act of 1965 created the Economic Development Administration (EDA) located within the U.S. Department of Commerce. EDA has two programs which can serve as economic incentives for preservation and reuse projects:

1. Title II Business Development Loan and Loan Guarantee Program;

2. Title IX Long Term Economically Distressed Area Revolving Loan Fund Program.[46]

Although neither one of these programs has been specifically designed to assist preservation and reuse projects, in the past such projects have benefited from the support of these programs. With EDA, the primary thrust of their programs has been job creation. Consequently, industrial development has received EDA's attention.[47] These two programs were designed to improve the basic determinants of economic

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[44]National Trust for Historic Preservation, Economic Benefits of Preserving Old Buildings (Washington, D.C.: The Preservation Press, 1976, p. 103.

[45]Ibid., p. 103.

[46]National Trust for Historic Preservation, A Guide to Federal Programs (Washington, D.C.: The Preservation Press, 1974), p. 56.

[47]Ibid., p. 58.

development, namely capital formation and availability of capital to labor intensive industrial firms.

The Business Development Loan Program is designed to provide long-term, below market interest rate loans and loan guarantees to businesses and local development organizations to establish and expand businesses' opportunities. Unlike the SBA loans which provide loans for 90 percent of project value, EDA loans will be made for only 50 percent of the project value.[48] Interestingly, the EDA loans and loan guarantees will only be made to firms which are too large to qualify for SBA assistance. Generally, the EDA loans and loan guarantees are made for project costs similar to the SBA programs, plant construction, expansion and modernization, fixed asset purchases and working capital. EDA does specify that its loans and loan guarantees cannot be utilized by firms relocating from one labor market to another.[49]

Dale Jones, the North Carolina Economic Development Representative (EDR), commented that the Development Loan or Loan guarantee process can be a long and involved process lasting up to 12 months or more requiring a great deal of input from the applicant.[50] As Ben Goldstein, a prominent development Consultant with Rouse and Company, observed at an economic development conference in Atlanta on April 11,

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[48] Economic Development Administration, "Business Loan Program" (Washington: U.S. Government Printing Office, 1980), p. 3.

[49] Ibid., p. 3.

[50] Discussion with Mr. Dale Jones, Economic Development Representative for the State of North Carolina, August 28, 1980.

1981, " . . . when dealing with the Economic Development Administration you need a great deal of information and data, real or imagined, as well as a good sense of humor and time."[51]

On the other hand, the Title IX programs, unlike other EDA and SBA programs, are targeted to areas possessing "Long Term Economic Distress" (LTED). According to the EDA representatives, approximately 80 percent of America is included in this classification.[52] The Title IX program authorizes grants to states, cities, councils of governments, Indian tribes and non-profit organizations to capitalize business loan programs and revolving loan funds to stimulate economic development in LTED areas. With these funds, grants will be provided to eligible organizations having the legal authority to make loans and EDA delegates its role of evaluating and authorizing loans to the eligible organizations.[53] As a result, this program provides more flexibility on the part of the participating eligible organizations to utilize the funds to promote and support preservation and reuse projects.

Conceptually, a revolving loan fund (RLF) is a pool of money utilized by an eligible organization for the expressed purpose of making loans to targeted groups of recipients or in targeted areas.

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[51]Discussion with Mr. Ben Goldstein, The Rouse Company, at a Seminar on Urban Development in Atlanta, Georgia, April 5-8, 1980.

[52]Jones.

[53]Economic Development Administration, "Title IX Revolving Loan Fund Program" (Washington: U.S. Government Printing Office, 1979), p. 3.

As the loans, often made at lower than market interest rates and less stringent loan conditions, are repaid the funds are revolved to make additional loans. Essentially, the funds are returned to the fund to be loaned to other recipients and the RLF becomes an ongoing revolving financial tool.[54] The major difference between the RLF and conventional lending institutions concerns the ultimate goals to be achieved from making the loans. For the conventional lender, the object is to make safe loans producing profit, thereby enhancing the "bottom line" for the lender. In the instance of the RLF, the goal is to derive economic benefits such as new plant start-ups, new jobs being retained or created and overall economic development within a LTED area.[55] RLF's are designed to achieve the desired results through plugging the gaps in the existing local financial marketplace by providing either the capital requirements for a firm of the appropriate share or type of financing which can be utilized to attract the participation of conventional sources of financing. RLF's are designed to leverage the financial resources rather than provide the bulk of the financing for the project costs.[56]

Historically, both EDA programs have been employed for the start-up and expansion of industrial plants and development of industrial parks involving generally new buildings. While these programs

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[54] Council on Community Economic Development, "Report on Revolving Loan Funds" (Washington, 1981), p. 16.

[55] Ibid., p. 18.

[56] Economic Development Administration, "Title IX Revolving Loan Fund Program," p. 30.

have not benefited old and/or historic buildings on a large scale, the use of these programs in preservation and reuse projects has been increasing.[57] Prior to the mid 1970's, few preservation projects had received financial assistance from the business development loan and loan guarantee program or the Title IX program, however since the mid 1970's 11 projects have utilized these programs for preservation and reuse projects.[58] Generally, these projects have taken place in the New England area and along the Eastern coast primarily due to the location of large numbers of buildings suitable for a preservation and reuse project, the high level of development of land in these areas, the growing flexibility on the part of EDR's support for these preservation and reuse projects in these areas. Industrial firms, with EDA assistance, have become increasingly involved with preservation and reuse projects involving old mills located along rivers.[59] In fact these firms have designed their operations to harness the naturally abundant hydroelectric capacity of the streams by which the plants are located. As the economics of preservation and reuse projects are fully understood and the dynamics of development financing continues, EDA participation in similar projects may increase in the future.[60]

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[57] Jones.

[58] Compilation of Economic Development Administration, "Monthly Grant Announcements," Published Monthly, (January, 1975-June, 1980).

[59] Jones.

[60] Ibid.

## The National Historic Preservation Act of 1966

The federal government commitment in historic preservation became stronger with the passage of the National Historic Preservation Act of 1966.[61] Congress, with the passage of this legislation, established direct funding for historic preservation projects and announced the following policy statement:

> Although the major burdens of historic preservation have been borne and major efforts initiated by private agencies and individuals, and both should continue to play a vital role, it is nevertheless necessary and appropriate for the federal government to accelerate its historic preservation programs and activities to give maximum encouragement to agencies and individuals undertaking preservation by private means, and to assist state and local governments and the National Trust for Historic Preservation in the United States to expand and accelerate their historic preservation programs and activities.[62]

This legislation was significant because it created a special department within the Department of the Interior whose particular responsibility was historic preservation. Prior to this legislation, the National Park Service had been responsible for historic preservation matters and that particular organizational structure was primarily concerned with historic sites and buildings located on federally owned land. With the new legislation, federal government had widened

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[61] Elizabeth D. Mulloy, _The History of the National Trust for Historic Preservation: 1963-1977_ (Washington: Preservation Press, 1978), p. 130.

[62] John S. Pyke, Jr. _Landmark Preservation_ (New York, Citizens Union Research Foundation, 1972), p. 9.

the scope of its interest and support for historic preservation for projects located on non-federally owned land.[63] Essentially, federal support for historic preservation was expanded from historic sites or buildings located on federally owned property to historic sites and buildings located within the boundaries of the United States and its territories.

The legislation involved two component elements:

> 1. Expanded federal program of resource identification and preservation to include places of local regional significance;
>
> 2. Established the Advisory Council on Historic Preservation and gave it the power to evaluate the impact of all federal agency actions on historic resources and provide the agencies with assistance through matching grant-in-aid assistance administered through the Department of the Interior.[64]

Historic preservation grant-in-aid assistance was designed to provide funds to states to compensate up to 50 percent of the costs of state and local preservation surveys, acquisitions and development.[65] Since the first federal dollars were appropriated in 1968, appropriations have increased 900 percent in a ten year period from $300,000 to $45 million in 1978.[66] In 1978, acquisition and development projects totaled 1,450 projects, of which 42 percent were adaptive use projects

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[63] Mulloy, p. 80.

[64] Ibid., p. 80.

[65] Ibid., p. 82.

[66] Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 28.

and 14.8 percent of those projects involved commercial and industrial projects.[67] The bulk of the funds is being used to fund historic surveys, acquire and restore historic buildings and maintain restored historic buildings. Despite the growth in federal funding for the program, state preservation officers and local preservation agencies report that the funding levels are falling drastically short of meeting national needs.

General Revenue Sharing Act of 1972

The State and Federal Assistance Act of 1972, commonly known as revenue sharing, began a new trend in federal funding by which federal tax revenues were shared with state and local governments. Substantial amounts of money have been transferred directly to state and local governments to spend as they consider suitable. Since passage of the legislation in 1972 to 1976, more than $30.2 billion have been distributed to approximately 38,000 state and local governments.[68]

Congress established no guidelines under which the revenue sharing funds were to be spent, the expressed intent of the program was to allow state and local governments discretion in disbursing the funds. At the time of the legislation, Congress believed with the financial pressure many state and local governments were experiencing, the revenue sharing funds could assist the governments meet the myriad of

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[67] Ibid., p. 28.

[68] Monitoring Revenue Sharing (New York: Brookings Institute, 1978), p. 1.

funding needs facing them.[69] Consequently, the governments were free to spend their revenue sharing allocations for any purpose allowable under state and local law.

General revenue sharing was intended by Congress to favor low-income state and municipalities and was planned to account for differences in financial need and financial capability of the units of government to provide services and improvements.[70] Funds were allocated to states using a three factor formula which considers the state population, states' general tax effort and per capita income of state residents. Upon receiving funding, the state may use for its own purposes one third of its allocation with the remaining two thirds being distributed to local governments according to an allocation that relies upon similar funding criteria as with the states' funding formula. Funding ceilings were established for the maximum amount of funds allocated according to the revenue sharing formula.[71] In some instances this formula has abrogated the intentions of the general revenue sharing concept by actually limiting the level of funding which "needy" areas have been entitled to receive.

General revenue sharing has a central city preference over suburban areas due to the central city's diminished financial capability.[72]

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[69] Kenneth Hubbell, ed., Fiscal Crisis in America's Cities: A Federal Response (Cambridge: Ballinger Publishing Co., 1979), p. 37.

[70] Monitoring Revenue Sharing, p. 37.

[71] Hubbell, p. 98.

[72] Monitoring Revenue Sharing, p. 39.

Initially, the general revenue sharing concept envisioned the local governments undertaking special, innovative projects benefiting the city which the local government could not have normally undertaken without the availability of the revenue sharing funds. The concept intentions have been partially realized, according to the federal government statistics, general revenue sharing dollars have been spent in the following manner:

| Percentage | Activity |
|---|---|
| 5 | Expanded governmental operations |
| 21 | New Capital Spending |
| 15 | Tax reductions or tax relief |
| 15 | Tax stabilization |
| 7 | Avoidance of borrowing |
| 10 | Increased fund balances |
| 12 | Allocated for specific purposes[73] |

As the breakdown of the General Revenue Sharing funds indicates, the program has been used primarily for the maintenance of existing programs and tax stabilization rather than new programs or innovative projects. Historically, the General Revenue Sharing funds have been utilized to bridge the gap in financing needs and capabilities of state and local governments. Unfortunately, General Revenue Sharing has not always been successful in preventing reductions on public services and capital projects due to the escalating costs of providing public services and improvements.

While General Revenue Sharing has not been a major supporting program of historic preservation, there are examples of General Revenue

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[73]Ibid., p. 198

Sharing being utilized to significantly assist preservation and reuse projects. One standout example occurred in the City of Seattle, Washington. The City utilized $600,000 of its General Revenue Sharing allocation to capitalize a revolving loan fund designed to revitalize the waterfront area. Prior to the establishment of the revolving loan fund, the waterfront area had been a rundown area serving as a haven for "winos," social derelicts and street people.[74] Capitalization of the loan fund served to bring public attention to the waterfront area as well as stimulating private sector investment with the lure of the economic incentive. The private sector realized the benefits and development capabilities of the waterfront area and the private sector subsequently joined the momentum and injected substantial private sector investment in the area. Today the waterfront area is a unique shopping and office area characterized by the preservation and reuse of existing old and historic buildings in the area for an efficient and refreshing modern use.[75]

Housing and Community Development Act of 1974

In 1974, Congress promulgated legislation involving far-reaching ramifications to historic preservation with the passage of the Housing and Community Development Act of 1974. Commonly termed the Community Development Block grant program (CDBG), the intention of Congress was to delegate more autonomy and authority to local governments in

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[74]Advisory Council on Historic Preservation, "Report to the President and Congress, 1978," p. 28.

[75]Ibid., p. 29.

distributing federally collected revenues for housing and community development activities.[76] The CDBG program consolidated seven categorical grant programs into one broad flexible grant program. Rationale for the legislation was based upon Congress perceiving the need to delegate more responsibility to local governments in formulating solutions to the problems confronting America's urban areas.[77]

It was Congress's conviction that local governments could devise more effective plans and programs if they were not forced to conform to a myriad of inflexible guidelines and regulations specified by the categorical grant programs. The CDBG program was designed to provide more flexibility and discretion to the local governments in formulating and implementing a wide range of housing and community development activities specifically designed to meet the needs of the particular locality.

According to the legislation promulgated by Congress, historic preservation was identified as being one of the goals of the CDBG program. The legislation specifically stated that a major goal of the CDBG program was, " . . . the restoration and preservation of properties of special value for historic preservation, architecture or aesthetic reasons."[78] The National Trust for Historic Preservation in 1976 stated, "That the integration of historic preservation into

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[76]Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 29.

[77]Ibid., p. 30.

[78]Carol D. Shull, "Historic Preservation and CD." Journal of Housing (March, 1976), p. 230.

the CDBG program demonstrates a growing appreciation among Americans that historic and cultural resources are viable and precious assets, the conservation of which enhances the quality of the total environment."[79] In a hearing before a senate sub-committee in 1976, witnesses before the sub-committee testified:

> With the passage of the Housing and Community Development Act of 1974, the potential preservation activity with HUD's assistance had been greatly increased. In the first year of the program, one percent of $15 million or the equivalent of three quarters of the Historic Grant-in-aid program was targeted for historic preservation activities. As a result, the amount spent for historic preservation activities had increased significantly. The CDBG program has had a positive effect upon historic preservation activities within this country.[80]

Since the inception of the CDBG program, the funds have been utilized to promote historic preservation projects in four principal manners:

1. Public acquisition, restoration or rehabilitation and disposal of historically significant properties;

2. Public acquisition of historic preservation easements;

3. Financing the rehabilitation of privately and publicly owned properties by means of grants, loans, loan guarantees and other similar financing means;

4. Payment of non-federal matching for federal grant-in-aid programs.[81]

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[79] Ibid., p. 231.

[80] Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 30.

[81] Ibid., p. 231.

HUD considers the CDBG funds as "non-federal" monies, allowing the CDBG funds to be utilized as the local government or private sector matching share for a federal grant.[82] The CDBG program has been a contrast to other previous federal programs in terms of the degree in flexibility in the uses of CDBG funds by local governments for historic preservation projects and the diversity in types and use of the funds.

In 1975, HUD was directed by Congress to remove historic preservation as a program goal of the CDBG program. Despite this change, historic preservation was still an eligible program activity, but preservation was delegated a lower program priority ranking.[83] This change was due primarily as a result of the change in emphasis on the part of Congress toward directing maximum attention and resources toward activities benefiting low and moderate income households and areas. Consequently, there was a transition in HUD in terms of targeting the CDBG program from business areas to neighborhood areas. Priorities were shifted toward housing rehabilitation and infrastructure improvements in CDBG target neighborhoods.[84] As a result of a lower priority in funding, the preservation movement's momentum was dealt a temporary blow.

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[82] Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 30.

[83] Ibid., p. 29.

[84] Department of Housing and Urban Development, First Report on the Community Development Block Grant Program (Washington: U.S. Government Printing Office, 1976), pp. 92-93.

Subsequent CDBG legislation in 1979 modified the previous legislation and the CDBG regulations were expanded to include economic development as an eligible program activity. Under this program change, CDBG funds could be utilized to provide financial assistance to a preservation and reuse project of an economic development nature which included commercial and industrial preservation and reuse projects.[85] Although this change was not designed to benefit commercial and industrial preservation and reuse projects, these projects have benefited greatly from the inclusion of economic development as an eligible CDBG activity. Moreover, this change also provided another avenue in which preservation and reuse projects of a commercial and industrial nature could be eligible to receive federal assistance from a major federal program which was receiving in excess of $4 billion of funding per year. Inclusion of the economic development program eligibility also indicated a broadening of the CDBG program focus from neighborhoods to include the business areas in HUD's scope of concern once again.

The Housing and Community Development Act of 1977

The Housing and Community Development Act of 1977 brought about an innovative new program called the Urban Development Action Grant (UDAG) program established to assist severely distressed cities and urban counties. Conceptualized as a means to revitalize local economies and deteriorated neighborhoods, the UDAG program was designed

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[85]Federal Register, Vol. 44, #167, Monday, August 1977, pp. 50225-50239.

as a one shot program to local governments combining public and private sector investment in a project.[86] UDAG funding is available for projects which would not otherwise occur unless assisted by a UDAG grant. The program was promulgated to direct financial assistance toward projects which provide maximum benefit to low income persons and members of minority groups.[87]

Priority for UDAG funds is given to projects which have prospects of recapturing the community's financial investment for stimulating economic development activities. The private sector's financial commitment is required by HUD to be secured by the public sector prior to the submission of the proposal to the funding agency and the grant is intended to leverage private sector investment in a range of 1:5-1:6.[88] As mentioned before, the UDAG grant is a one time grant for a particular grant and the funds have been used in a wide variety of methods.

In 1978, $400 million was appropriated for the program and for 1980 $675 million was appropriated for the program.[89] Funding for the program has remained relatively stable for the program in the past few years.

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[86]Phyllis Myers, "UDAG and the Urban Environment," APA Journal (Winter, 1982), pp. 99-103.

[87]Ibid., p. 99.

[88]The Department of Housing and Urban Development, The UDAG Program (Washington: U.S. Government Printing Office, 1978), p. 43.

[89]The Department of Housing and Urban Development, UDAG: The First Annual Report (Washington: U.S. Government Printing Office, 1978), p. 4.

According to the Advisory Council on Historic Preservation's 1978 annual report, the UDAG grants have leveraged private sector investment on the average of six times the amount of the grant and said cost of increasing the authorization in program funding would result in significant increase in private sector investment and productivity.[90] Representative Henry Reuss of Wisconsin, Chairperson of the House Banking Committee, commented on the leveraging capability of the UDAG program:

> No other federal program in recent years had been able to attract, with the lure of federal dollars, the private sector investment capital that many of our declining areas so desperately need as this program.[91]

The UDAG program was designed to be flexible in the manner by which the UDAG grant could be utilized such as:

> 1. Establish revolving loan funds for rehabilitation or renovation projects;
>
> 2. Assemble land in urban areas by the private sector with property acquisition grants and loans;
>
> 3. Direct rehabilitation grants or loans to the private sector;
>
> 4. Use by local governments for reusing public buildings;
>
> 5. Establish mortgage and interest assistance programs for the private sector development.[92]

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[90]Ibid., p. 88.

[91]Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 32.

[92]The Department of Housing and Urban Development, UDAG: The First Annual Report, p. 46.

In 1980, the Conservation Foundation completed a survey of the UDAG program and found that 28 percent of the UDAG projects involved the rehabilitation of commercial and industrial guildings.[93] UDAG assistance has provided an innovative approach on the part of the federal government emphasizing the leveraging of private sector investment in meeting the investment problems of the urban areas. The one shot approach of the UDAG program removes the tendency for local governments to establish bureauracies for managing ongoing programs, thus alleviating the self-perpetuation motivation of the local UDAG administrative agency.

Tax Reform Act of 1976

The first tax incentives for the preservation and rehabilitation of historic buildings were established by section 2124 of the Tax Reform Act of 1976 and later amended by the Revenue Act of 1978. The Tax Reform Act of 1976 amended the federal tax income tax code to allow owners or lessees of certified historic buildings to benefit from two tax incentives such as the following:

1. Amortize the costs of rehabilitation over a five year time period.

2. Depreciate the costs of a substantially rehabilitated building at an accelerated rate of 150 or 200 percent of the straight line depreciation value depending upon the use of the building.[94]

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[93] Myers, p. 101.

[94] Department of the Interior, "Information: Rehabilitation: The Tax Reform Act of 1976."

Included in the legislation were two disincentives for developers who demolish a certified historic building such as:

> 1. Eliminating the cost of demolition from the overall cost of the building which effectively reduces the tax deduction for the project cost;
>
> 2. Reducing tax deductions for the construction of a new building on the site of a historic building by limiting the depreciation treatment of the building to straight line depreciation.[95]

In a study completed by the Bureau of the Standards, the Tax Reform Act of 1976 was found to positively affect the economic trade-off between rehabilitation and redevelopment through a change in the bias of the tax code. Results of the study indicated rehabilitation, in certain circumstances, to be up to 16.2 percent less expensive than new construction over a five year holding period. Over a 20 year holding period rehabilitation was 29.4 percent less expensive than new construction.[96]

Analyses of various alternative development scenarios utilizing the tax incentives led the study team to the conclusion that the tax incentives allowed under section 2124 of the Tax Reform Act of 1976 reversed the tax inequities that had developed between new construction and preservation and reuse projects involving rehabilitation of old and historic buildings. The study states:

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[95]The National Bureau of the Standards, Historic Preservation Incentives of the 1976 Tax Reform Act: An Economic Analysis (Washington: U.S. Government Printing Office, 1979), p. 11.

[96]Ibid., p. 13.

> The TRA has managed to tip the scale in favor of historic preservation. Thus, potential investors and current owners of income producing historic structures now have a strong incentive to consider rehabilitation as a serious alternative to demolition and redevelopment. Whereas formerly there was a distinctive tax bias in favor of demolition and redevelopment, now the tax bias has been reversed, when the tax provisions were analyzed on a life-cycle cost basis. This information about the recently legislated tax advantages of historic preservation should prove useful to corporate owners of historic non-residential properties as well as to policy-makers interested in tax incentives for building rehabilitation.[97]

In order for a building to be certified an historic building, the state historic preservation officer must inspect and certify that the building is considered historic. The preservation officer makes a recommendation to the National Trust for Historic Preservation for the building to be placed on the National Register, a list of approved historic structures.[98] Buildings may be considered historic if they are located in a historic district and are certified historic structures. Generally, the certification process requires seven months or longer if there are appeals or requests for more information. The preservation officer must approve the rehabilitation plans for the historic structure in order to qualify for use of the tax incentives.[99]

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[97] Richard S. Roddewig and Michael S. Young, "New Tax Shelters in Old Properties: The Tax Reform Act of 1976," Real Estate Issues (Winter, 1978), p. 12.

[98] Ibid., p. 12.

[99] Ibid., p. 12.

Work may proceed on the building or area while the developer or building's owner proceeds through the certification process, but the state historic preservation officer prefers owners to request certification prior to the completion of rehabilitation work. This allows the state historic preservation officer and the Office of Archeology and Historic Preservation (OAHP) to request changes in the plans according to their interpretation of ten rehabilitation criteria outlined in the tax incentive legislation.[100]

Once the structure has been certified as being an historic structure, the OAHP must certify that the rehabilitation conforms to ten rehabilitation criteria. Developers, not used to the bureaucratic procedural requirements for utilizing the tax incentives, consider conformance to the ten rehabilitation criteria as "an invitation to a bureaucratic nightmare."[101] The OAHP, on the other hand, considers the rehabilitation criteria sufficiently flexible to permit changes important to the vitality of the rehabilitation process and also to preserve the essential historic qualities of the building. Due to the length of the certification process and scrutiny the OAHP directs to the tax incentive applications, developers and building owners on fast track development schedules can become frustrated with the approval process and either abandon the project or complete the rehabilitation work which may not retain as many of the historic qualities of the historic structure.

[100] Ibid., p. 14.

[101] Ibid., p. 14.

Revenue Act of 1978

Several problems experienced as a result of section 2124 of the Tax Reform Act of 1976 were corrected by subsequent tax legislation in 1978 called the Tax Reform Act of 1978. The act specified:

1. Rapid amortization and accelerated depreciation could no longer be options selected simultaneously by a developer or building owner;

2. An amendment which allows amortization benefits to life tenants and those tenants holding leases extending for a minimum of 30 years beyond the completion of the certified rehabilitation;

3. A 10 year investment tax credit for rehabilitation was allowed for buildings which had been used for a minimum of 20 years and 75 percent of external walls must remain after the rehabilitation is completed. This provision cannot be used with the provision rapid amortization of rehabilitation costs, but it can be used with the accelerated depreciation provision of the tax incentives. This provision can only be used with commercial and/or industrial buildings.[102]

Initially the private sector exhibited limited interest in the tax incentives, even after passage of the 1978 tax legislation. Due to the lack of private sector response the OAHP began to promote the tax incentives actively by publishing articles in journals and magazines and conducting a series of seminars throughout the country. After the promotion of the tax incentives, the interest and applications for the use of the tax incentives began to increase gradually.[103]

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[102] Department of the Interior, "Information: Rehabilitation: The Tax Reform Act of 1976 and Revenue Act of 1978" (November 29, 1978).

[103] Discussion with Ms. Floy Brown, Department of the Interior, Tax Incentives Department, September 16, 1979.

In a conversation with Floy Brown, tax incentives department of OAHP, Ms. Brown stated interest in the tax incentives began to increase gradually after the dissemination concerning tax incentive information and the conferences commenced. Interestingly, after the promotional program pertaining to the tax incentives concluded, private sector interest in the use of the tax incentives increased substantially. By May of 1978, 192 requests for rehabilitation certification to utilize the tax incentives had been processed. This represented a private sector investment of more than $175 million. The applications for certification involved more than $500 million in private sector investment.[104]

According to Ms. Brown, approximately 950 applications for certification to use the tax incentives from September of 1976 to September of 1979 had been approved for projects located in 42 states. Of these projects, 25 percent were for commercial/industrial preservation projects, 25 percent for mixed-use projects and the remaining 50 were for multi-housing projects. The approved projects involved more than $450 million in private sector investment.[105] The rate of receiving the certification applications and certification approval has been increasing as the incentives are more fully understood and used by the private sector.

In terms of location, Ms. Brown noted that majority of the projects were located in developed urban areas and these projects

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[104] Ibid.

[105] Ibid.

provide a stimulus to the revitalization of rundown urban areas. The tax incentives provide an excellent opportunity for businesses and industries to rehabilitate and upgrade their facilities which permit them to remain in their existing facilities or relocate to facilities in the older urban areas.[106] Maryland Senator Glenn B. Beall suggested that center city commercial and industrial areas were intended to be the main beneficiaries of the tax incentives by stating:

> The rehabilitation proposals are specifically aimed at preserving a variety in the size and architecture of urban structures by offering to the investor an attractive alternative to the demolition of older buildings. Center city commercial areas have been particularly affected by a tendency to convert land usage to large multi-story structures or to parking lots and other low density use often related to motor vehicle accommodation. The resultant loss in the character and charm of our cities is a permanent concession to economic realities. Over the long term, the effect of moving toward more equal tax treatment of demolition and rehabilitation should result in a greater variety and character in the urban environment. More older structures should be retained and renovated. Downtown areas should provide a broader range in architecture as the ages of buildings will be more varied. Smaller older structures should be saved and used where before they might have been converted to parking lots. Fewer structures should be abandoned and left to decay.[107]

The Advisory Commission on Historic Preservation says of the tax incentives, "They are a step toward solving most of our major domestic problems; creating jobs, conserving energy, and revitalizing our commercial centers."[108]

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[106] Ibid.

[107] Roddewig and Young, p. 10.

[108] Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 32.

The National Trust for Historic Preservation and the OAHP estimate there are 600,000 to one million structures eligible for the tax incentives.[109] Preserving these buildings through the use of tax incentives rather than demolishing the structures to be replaced with modern buildings or parking lots would certainly be a tremendous aid to historic preservation as well as to the revitalization of America's urban areas. The tax incentives, despite facing extensive scrutiny on the part of the OAHP in the rehabilitation certification process, do put preservation and reuse projects on an equal basis with new construction with regard to tax treatment.

Ronald Borad, a Memphis tax attorney, comments that the tax incentives provided by the tax legislation of 1976 and 1978 have stimulated rehabilitation activities which in most cases have been occurring in urban areas. Buildings which normally would have been demolished are being rehabilitated using the tax incentives. Borad believes once developers become accustomed to the tax incentives many more buildings will be rehabilitated and reused for income producing activities.[110]

Gene Carlisle, a Memphis developer working with the Beale Street rehabilitation, states, "Rehabilitation is going to be the name of the game in the next five years to ten years because those tax laws (1976 and 1978 tax incentives legislation) make it awfully attractive to

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[109] Brown.

[110] Shapiro, p. 8.

renovate." Carlisle feels the tax incentives are truly a "heck" of a deal.[111]

The tax incentives encourage non-subsidized private sector investment in urban core areas. Provisions of the tax legislation establish a private sector commitment to continuous reinvestment in the urban core areas. Systematic development in these areas is greatly facilitated by the private sector interest whose motives are both preservation and profit. The private sector can, as a result of tax laws, undertake projects of social and historical importance while being financially rewarded for its efforts commensurate with a new development project. With the tax law changes, the federal government has introduced urban renewal without the large outlays of capital, waste and social disruption characteristic of past efforts.

## 2. STATE GOVERNMENT PARTICIPATION

Many states have exhibited interest in historic preservation in some shape or form. Primarily, states support historic preservation by passing enabling legislation for historic districts, facade easements, property tax abatement and deferrals and operating state historic preservation departments, albeit these departments are often small departments.[112] In terms of financial support for historic

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[111]Ibid.

[112]Lecture by Dick Tune, Historic Preservation Officer, The Tennessee Department of Archeology and Historic Preservation, February 12, 1978.

preservation, state governments provide support by matching federal historic preservation grants with state funds. The state historic preservation officers research the nominations for the National Trust for Historic Preservation's National Register and make recommendations of acceptance or rejection. With the 1976 and 1978 tax incentive legislation, the state historic preservation officers participate in the process by researching and making recommendations for certification for historic building designation. The state historic preservation office also conducts seminars and information dissemination pertaining to the tax incentives for historic preservation.[113]

To date, 22 states now allow some form of property tax relief for historic structures and properties, although it is still the local government's discretion to implement the property tax relief. Essentially, the power of the states to support historic preservation is related to its historic preservation grant-in-aid appropriations made each year. Every state in the country participates in the matching grant-in-aid program whereby the state matches federal funding on a 50/50 basis.[114] A majority of these funds are used by the states to purchase and maintain historic buildings or sites as a means of protecting these important state historic sites. Thus, the grant-in-aid

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[113]Ibid.

[114]National Trust for Historic Preservation, Guide to State Programs and Guide to State Programs: Supplement (Washington: The Preservation Press, 1972 and 1976).

program is employed to purchase and maintain publicly owned historic structures and sites.[115]

Several states, such as the State of North Carolina, have operated a separate grant-in-aid program similar to the federal grant-in-aid program.[116] In this instance, the state matches local government or private sector dollars.[117]

### 3. LOCAL GOVERNMENT PARTICIPATION

Local governments have a multitude of tools which they can utilize to support preservation and reuse projects. The local government possesses the following economic tools to support preservation and reuse projects such as:

1. Purchase rehabilitate and maintain historic or old buildings;
2. Allow preferential property tax treatment for buildings involved with preservation and reuse projects;
3. Allow for utilization of air-rights above historic and old buildings;
4. Develop transfer of development rights;
5. Provide grant or loan funds for preservation and reuse projects.[118]

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[115] Advisory Council on Historic Preservation, "Report to the President and the Congress, 1978," p. 25.

[116] Ibid., p. 28.

[117] National Trust for Historic Preservation, <u>Guide to State Programs</u>.

[118] John S. Pyke, Jr., <u>Landmark Preservation</u> (New York: Citizens Research Foundation, 1972), pp. 3-13; and in agreement was Dennis

In many instances, local governments have other pressing financial needs which have higher priority with local government spending or attention. Consequently, municipal funds have not been readily available for grants or loans to the private sector for preservation projects.[119] In the case of utilization of air-rights and transfer of development rights, the local governments have had other more urgent needs which have distracted the municipal officials from investigating the concepts. This is not to say local governments have ignored historic preservation; in many cities, local officials have adopted historic district zoning districts and landmark designation which attempt to control the use and disposition of historic structures.[120] In addition, the local governments have undertaken public infrastructure improvements which can certainly enhance historic preservation and preservation and reuse projects. However, these activities enhance preservation and reuse projects, but do not serve as financial incentives for preservation and reuse projects.

One economic incentive local governments employ to encourage historic preservation is the utilization of preferential property tax treatment for preservation and reuse projects. Preferential property tax treatment is classified in the following categories:

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R. Marino, Lawrence B. Rosser and Nadrea R. Rozran, The Planners' Role in Facilitating Private Sector Reinvestment (Chicago: Woodstock Institute, 1979), pp. 2-3.

[119]Perry, p. 18.

[120]Ralph W. Miner, Conservation of Historical and Cultural Resources (Chicago: American Society of Planning Officials, 1969), pp. 25-26.

1. Exemption from property tax;

2. Credit of improvements of preservation and reuse project against the property tax;

3. Abatement from property tax;

4. Assessment based upon actual use;

5. Deferral of the increase in assessment due to rehabilitation or renovation;

6. Assessments to reflect encumbrances on the property.[121]

Property tax abatement in large cities is widespread throughout the country. Some cities have given tax abatement and reductions to so many pieces of land and types of development that the local tax bases have been badly eroded.[122] In the future, these cities will be confronted with a philosophical choice of continuing to encourage certain types of construction and development. Furthermore, with the fiscal pressures placed upon the local tax base, local governments will be facing even more difficult choices with regard to granting preferential tax treatment for preservation and reuse projects.

## 4. PRIVATE SECTOR PRESERVATION EFFORTS

Historic preservation by the private sector can occur by two different methods or approaches by the private owner or through the

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[121] Jerome Pickard, Changes in Urban Land Values as Affected by Taxation (Washington: Urban Land Institute Monograph, 1962), pp. 25-26.

[122] Ibid., p. 27.

efforts of a private non-profit organization. Private ownership is the conventional means of preserving and reusing historic structures involving a private sector developer or owner. The project is dependent upon the motives of the developer or owner to rehabilitate the old or historic building.[123] The developer must obtain financing which is difficult to obtain in many cities.

Non-profit preservation organizations have been gaining widespread support and interest in the past 20 years. These organizations have had a tendency to undertake historic preservation projects which turn a building into a museum or non-income producing activity.[124] In many instances, these organizations take the form of non-profit corporation and function similarly to private for-profit corporations except their primary purpose is not to earn a profit in their endeavors but to complete the primary purpose of its existence. The non-profit status does possess a negative aspect in that it denotes an amateur standing to conventional lenders, making it difficult for the non-profit organization to secure project financing. In addition, being non-profit, the corporations are not liable for corporate earnings taxes and capital gains taxation which eliminates the tax advantages of preservation and reuse projects involving certified historic buildings. These tax advantages improve project returns which is a tremendous disadvantage for a non-profit organization undertaking a

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[123] Pyke, p. 13.

[124] Educational Facilities Laboratories, Reusing Old Railroad Stations: Part Two (New York: Educational Facilities Laboratories, 1975), p. 63.

preservation and reuse project.[125] Non-profit organizations also possess limited capabilities which restrict their involvement to a limited number of projects at one time. It is said, however, the non-profit organizations have a reputation of completing the most detailed, accurate restoration and rehabilitation projects involving historic buildings.[126] Thus, the overall impact of non-profit organizations upon preservation and reuse projects is limited.

Private sector preservation efforts in this country were initially oriented toward individual buildings reflecting historic, architectural or patriotic value. Associations with persons and events connected with the Revolutionary War and the Civil War are particularly revered. Private sector efforts characteristically emphasize the establishment of individual museums and the major sources of preservationist interest were the historic events and buildings reminiscent of these events.[127] In these early preservation efforts, very little concern was directed to either the architectural or artistic value of the buildings.

Later as more citizens became interested in antiques, there emerged a concern for saving structures of historical significance.[128] This interest was primarily oriented in creating museums out of these historically significant buildings.

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[125] Ibid., p. 63.

[126] Pyke, p. 13.

[127] Ibid., p. 1.

[128] Miner, p. 4.

One of the first preservation efforts by the private sector was the rescue of George Washington's Mount Vernon homesite in 1859. An organization, the Mount Vernon Ladies Association, was pivotal in raising the necessary capital to purchase the building and grounds and restore the site.[129] Despite the success of this preservation effort, other preservation activities by the private sector were few are far apart.

In the late 1920's, an important transition began in preservation activities. Until this time, virtually all preservation activities and efforts were oriented toward single structures to be utilized as museums. In 1927, John D. Rockefeller, Jr. decided to support the restoration of Colonial Williamsburg.[130] The restoration project involved a new concept in historic preservation, the concept of area preservation. Area preservation entails the restoration of the structures within a community rather than merely one or two structures. Preservationists focused their preservation efforts toward an entire area, enhancing the value of the individual buildings in the area as well as preserving the interrelationships between the structures and the community functions for all to observe and study.

The restoration of Colonial Williamsburg served as an example for other cities in the country to emulate. Winston-Salem, North Carolina and a number of smaller cities began similar preservation

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[129] Ibid., p. 5.

[130] Ibid., p. 5.

projects and these efforts were accomplished entirely with private funds.[131] After WW II, other cities began to attempt similar activities on a growing scale. Preservation organizations have become increasingly active since 1950 and increasing government awareness toward historic preservation has made preservation activities easier to promote and implement.

Restoration of Colonial Williamsburg also initiated the inclusion of income producing activities and motivation in preservation projects. Both the Williamsburg and Winston-Salem projects involved commercial income-producing activities combined with the museum function of the preservation project.[132] While the projects were primarily designed to serve a historic and education purpose, the projects were the first to include the profit incentive and start the transition from preservation projects being museum projects to income-producing, profit oriented private sector initiated preservation projects.

The private sector ownership approach to preservation and reuse of old and historic buildings for commercial and industrial use became an accepted and financially acceptable project in the mid-1960's with the development of Ghirardelli Square in San Francisco, Trolley Square in Salt Lake City and the development of the Chattanooga Choo Choo in the mid 1970's. The commercial preservation and reuse project

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[131]Ibid., p. 5.

[132]Pyke, p. 5.

already completed have been successful and literally hundreds more of varying sizes are in the planning and implementation stages.

Private preservation and reuse projects for commercial purposes have become more popular and successful due to the unique character of the project which the American public finds attractive. The charm and identity of the old structures creates a sense of individuality and distinctiveness which appeal to the customers. This appeal makes the marketing of the retail "theme" center preservation project easier than that of a shopping mall.

For the most part, private funds are used to preserve and reuse old and historic buildings and convert them to contemporary use. Dispite increasing government support for preservation, and preservation organizations, the heart and soul of the preservation movement is still the initiative of the private sector.[133]

Preservation and reuse projects and activities in cities such as Washington and Savannah, for example, have been almost completely initiated and completed without government financial support and yet contain many quality preservation and reuse projects. These projects serve as an excellent example to private sector developers and, possibly even more important, to financiers the feasibility and viability of preservation and reuse projects.

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[133] Ibid., p. 24.

# CHAPTER IV

# SURVEY METHODOLOGY

## 1. DESIGN OF THE STUDY

To compile pertinent information regarding the availability of economic incentives for the preservation and reuse of historic buildings, four basic research methods were utilized. First, a comprehensive review of literature pertaining to the history of preservation and reuse projects was undertaken. Second, a review of literature relating to corollary topics such as real estate development and real estate developers was completed in order to obtain a development perspective towards preservation and reuse projects. Third, interviews and discussions with knowledgeable sources in historic preservation and real estate development were conducted to supplement the information gathered through literature reviews. The interviews and discussions served to contribute information to fill information gaps not provided by the literature searches. Finally, cities and states in the southeast United States were surveyed in order to gather information pertaining to the availability and utilization of economic incentives for preservation and reuse projects. The survey served as a means of generating primary information for the study.

Information collected through the literature reviews was discussed in Chapters II and III. Chapter V discusses the survey findings concerning the types of economic incentives available in the survey area. This chapter also discusses the frequency for the use of these incentives. The conclusions, discussed in Chapter V, were derived from the information generated through the four research methods.

## 2. FOCUS OF THE STUDY

The survey examined the types and frequency of use of economic incentives offered by states and city governments in the southeast United States. As a result of the literature review, a wide array of economic incentives were known to be offered by state and city governments throughout the country, however, the types of economic incentives being offered by specific state and city governments throughout the southeast was unknown. Consequently, the survey served to document the types of economic incentives being offered by state and local governments in the southeast as well as the frequency of their incentives use.

To collect this information, a two-part survey was administered to gather data relating to the provision of economic incentives for preservation and reuse projects on the state and local level. States included in the survey were: Alabama, Georgia, Florida, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. In order to control and manage the cost of the survey of cities, it was decided to limit the number of cities being surveyed to only those cities with a population of 100,000 or more. The population of the cities was ascertained by examining the census projections for the population of the cities in 1979.

## 3. METHODOLOGY

As mentioned earlier, this survey consisted of a two-part survey utilizing two different survey mechanisms, a marketed questionnaire and an interview schedule administered by telephone. The survey design consisted of two phases. The first phase consisted of administering the mail questionnaire to determine the number of states and cities offering economic incentives and several other general questions. Once the states and cities offering incentives were identified, the interview schedule was administered. The primary function of the mail questionnaire was to screen the respondents in order to determine the availability of incentives by the survey population.

The mail questionnaire was intended to gather basic quantitative data and was thereby designed to be a short, closed-end survey. On the other hand, the interview schedule was planned as a mechanism to collect qualitative as well as quantitative information. Reasons for the selection of the two survey mechanisms were based upon the nature of the research purpose. Since numerous cities and states were to be contacted, circumstances dictated the use of a questionnaire due to limitations in capital, manpower and time.

## 4. QUESTIONNAIRE

The objective which the mail questionnaire was designed to achieve was relatively simple in nature, and a closed-end questionnaire was considered the most appropriate and suitable instrument for the task. Due to the lack of substantive information concerning the availability of economic incentives for preservation and reuse projects in the survey area, information gathered in the mail questionnaire would serve as the basis of understanding of the situation reagrding the incentives. Thus, basic information concerning the availability of economic incentives was the primary objective for the first phase of the survey.

Survey questions were designed through the knowledge and understanding concerning the types and uses for different incentives based upon information gleaned from the literature searches and conversations with knowledgeable sources. The mail questionnaire included 8 questions, of which 5 were closed-end questions and several open-ended questions were included to allow the respondent an opportunity to explain or expound upon their answers to the closed-ended questions.

After the initial mail questionnaire was formulated, it was pre-tested with persons interested in historic preservation at the East Tennessee Development District, Knoxville/Knox County Metropolitan Planning Commission and the Knoxville Heritage Foundation. Following the pre-test, the mail questionnaire was reviewed and several changes were incorporated in the wording of two questions and at that time, the final mail questionnaire was prepared. (Refer to Appendix for a copy of the mail questionnaire)

Questions included in the mail questionnaire consisted of three categories of questions. The first type of question utilized was a simple yes-no question with room allowed for the respondent to explain their answer. The second type of question employed was a question asking the respondent to select their answer from a list of choices and one of the answers was marked "other" with a space to write a response, thereby allowing the respondent to supply the answer if the correct choice was not available. Finally, the respondent was asked the number of projects which had utilized the incentive(s), if available, in the respective cities and the respondents were requested to list the projects and developers utilizing the incentives. To make the questionnaire simple to complete, the first question asked whether the city in which the respondent worked offered economic incentives. If the respondent marked "yes," then they would complete the questionnaire. If they marked "no," the respondent was finished with the questionnaire.

Once the first round of the survey was completed and the results were tabulated, cities offering economic incentives were identified and were noted in order to be included in the second stage of the survey. The second stage consisted of an interview schedule being employed to query the respondents concerning the economic incentives which the respective cities offered. Two questions asked the respondents to rank the economic incentives in terms of being most often utilized and which incentive the respondent considered to be most effective for stimulating preservation and reuse projects. The remaining questions were closed-ended with the respondent offered an opportunity to elaborate on their response. The remaining questions concerned what other types of incentives the respondent would like to see developed, what federal programs are being utilized with preservation and reuse projects in the respective cities, the level of investment generated by the economic incentives being offered and the leverage ratio of private sector investment to the public sector investment with the incentives.

In order to reduce the bias in the survey, the questions were intentionally kept simple and straight forward. The mail questionnaire was limited to one page and to eight questions in the schedule to ensure the respondent would not be discouraged from participating due to the amount of time involved to complete the survey instrument. With the interview schedule, the time necessary for completing the survey was designed to last no longer than five minutes. These measures served to reduce or eliminate instrument decay, mortality of the respondent and sensitization of respondents.

## 5. SAMPLE

The universe of possible questionnaire respondents consisted of all persons knowledgeable about federal, state and local governments' economic incentives. After discussions with my advisor and a literature review, it was decided to select a population consisting of only respondents directly involved with and knowledgeable about the incentives being offered. Such respondents included government officials and persons working in local historic preservation organizations. This screening procedure significantly narrowed the scope of potential respondents. The survey population was further narrowed to include local government officials involved in planning and policy development which might include economic incentives. The sample selected in a nonrandom selection were those officials working in community development, planning, downtown development and historic commissions or agencies.

The addresses for the sample respondents were derived through a process of examining telephone books, lists obtained from the East Tennessee Development District and historic preservation literature. A list of historic commissions was obtained from a mailing list found in an issue of American Preservation.

For the mail questionnaire, it was decided that the questionnaire would be mailed to the director of each planning and community development department of each sample city. In addition, every historic commission and downtown development commission in the sample cities would be surveyed. By surveying all of these agencies, the reliability would be improved. The questionnaires were coded in order to ascertain the identity of the respondent.

For the second round, every respondent indicating the city for which they worked offered economic incentives was contacted in order to complete the interview schedule. Once the responding organization was identified by means of coding the questionnaire, the director of the responding agency or the person including their identity on the questionnaire was contacted in order to implement round two, the completion of the survey schedule. In some instances, the respondents to the mail questionnaire wrote a short note or attached their professional card to accompany the mail questionnaire when it was returned, thereby expediting the completion of round two.

## 6. RESPONSE RATE

Since the study was limited to examining the economic incentives being offered by the larger cities in the Southeast, an extremely high response rate was desired in order to obtain a valid, quantifiable finding. At the beginning of the survey, an objective for a response rate of 75 percent was established. This response rate would provide a representable survey and a good basis for a quantifiable survey analysis. The response rate was calculated on the number of cities responding rather than the absolute number of possible respondents. For the second round, a 100 percent response rate was established.

Several factors were considered important for the response rate in round one. First, the number of questions on the mail questionnaires were kept to a minimum, the questionnaire was one page and the duration of time required to complete the survey was minimized. In addition, the questionnaire was reproduced on off-white paper so as to present an appealing, easy to read questionnaire. Important also was the cover letter which was attached to the mail questionnaire. Several sponsors for the study were obtained from the HCRS Department of Archaeology and Historic Preservation and the East Tennessee Development District. It was felt these sponsorships would add creditability to the study. Enclosed with the mail questionnaire was a self-addressed stamped envelope. As mentioned earlier, each of the mail questionnaires was coded in order to provide a means of identifying the responses.

As the questionnaires were returned, they were identified and the response was noted whether the respondent's city offered economic incentives. As cities were identified offering economic incentives, the city and respondent was placed on the list for round two.

## 7. FOLLOW-UP

In order to achieve the desired response rate in round one, if a response was not obtained from a sample city within three weeks another questionnaire was mailed to the sample city not responding. If the mailing did not work and the researcher had not received a response from the particular city then the researcher telephoned the planning director for that city and the questionnaire was used as an interview schedule. If as a result of the questioning the city was identified as offering economic incentives, the round two survey schedule was implemented. This allowed the researcher to proverbially "kill two birds with one stone." As it turned out, the follow-up procedure did allow for the researcher to achieve the desired response rate for rounds one and two.

## 8. SURVEY ANALYSIS

Data compilation and tabulation for this research consisted of placing the data in tabular form and the use of frequency distributions. Frequency distribution is defined as the separation of a variable into mutually exclusive categories and placing a number of individual variables in a category. The basic level of all statistical calculations is the frequency distribution and thus is the basis for all data analysis. In the instance of this research, the frequency distribution was utilized to summarize a number of questionnaire responses.

In addition to the use of frequency distributions, multi-variate distributions were compiled. With the multi-variate distribution, the data collected can be cross-classified and displayed in tabular form. The principal benefits of this cross-classification in tabular form is a concise, visual depiction or representation of multiple relationships of the variables. In reality, the multi-variate distribution is merely an extension of the frequency distribution involving the distribution of more than one category of variables.

## 9. LIMITATIONS OF THE STUDY

The data analysis was not intended to provide a definitive quantitative analysis of economic incentives for preservation and reuse projects in the cities surveyed. Data collected was not designed nor intended to compare the individual incentives' effectiveness or the different cities' economic incentives and their ability to stimulate preservation and reuse projects. The primary purpose of the survey was to delineate which of the cities surveyed offered economic incentives, frequency of use for the different incentives and the respondents' opinions regarding the effectiveness of the incentives being offered. At no time was there an attempt to quantify or measure the absolute effectiveness of the individual incentives being offered.

# CHAPTER V

# QUESTIONNAIRE ANALYSIS

## 1. RESPONSE RATE

The survey of state and cities in the Southeast was undertaken in August and September of 1979 and the response rate for the survey was extremely good. For the state mail questionnaire 7 out of 12 questionnaires were completed for a return rate of 58.3 percent. In the first round of the mail survey to the cities, 38 of 44 cities responded for a response rate of 82 percent. In round two of the survey of cities, the response rate, as planned was 100 percent which can be directly attributed to the survey method employed to contact the respondents.

In computing the local government response rate for the survey, if a response was received from any one of the agencies contacted then that response counted as a response for that city. The (N) number of responses constituted the total number of cities being surveyed rather than the number of agencies being surveyed. Thus for the survey of cities, 38 out of 44 cities responded for the response rate of 82 percent while only 52 percent of total number of agencies surveyed responded.

## 2. RESPONSES TO THE STATE SURVEY

Question 1 of the mail questionnaire sent to the state historic preservation officers asked, "Does your state offer economic incentives to encourage developers and business people to preserve old and historic buildings for commercial and/or industrial use?" "Why?" Responses to the question are indicated in Table V-1.

As indicated in Table V-1, six out of the seven (86 percent) responding state historic preservation officers replied that their state offered economic incentives. Two basic reasons were given for the state offering economic incentives. First, the incentives were offered in order to encourage the rehabilitation of old and historic structures as well as the incentives being employed to alleviate blight in urban areas and foster the redevelopment of these areas. Second, the incentives served to encourage and further the cause of historic preservation in their respective states.

The economic incentives which the respective states offered to the private sector was dealt with in Question 2 which asked which economic incentives were offered by the respective states. As shown in Table V-2, both direct grants and state matching grants were offered by three states. Property tax abatement was offered by four states while direct loans were offered by only one state. Five of the six states offering economic incentives offered multiple incentives while only one state, Virginia, offered only one incentive.

As described in earlier chapters, state matching grants are separate from the federal grant-in-aid program offered by the Department of the Interior. In the instance of state matching grants, grants are provided to the private sector with the state providing 50 percent funding while the private sector is responsible for the

TABLE V-1. RESPONSES TO QUESTION #1
ROUND 1: SURVEY OF STATES

N = 12

| Responding States | Yes | No | Why |
|---|---|---|---|
| Alabama | | X | No Response |
| Florida | X | | Redevelopment of Blighted Areas |
| Georgia | X | | Encourage Historic Preservation |
| Kentucky | | X | No Response |
| Louisiana | X | | No Response |
| Maryland | X | | Encourage Rehabilitation |
| Mississippi | | X | No Response |
| North Carolina | X | | No Response |
| South Carolina | | X | No Response |
| Tennessee | | X | Legal and Political Restraints |
| Virginia | X | | No Response |
| West Virginia | | X | No Response |
| Total | 6 | 6 | |

TABLE V-2. RESPONSES TO QUESTION #2
ROUND 1: SURVEY OF THE STATES

N = 6

| States With Incentives | Property Tax Abatement | Mortgage Assistance | Interest Assistance | Direct Grants | Matching Grants | Direct Loans |
|---|---|---|---|---|---|---|
| Florida | | | | X | X | |
| Georgia | X | | | | X | |
| Louisiana | | | | X | | |
| Maryland | X | | | X | | X |
| Virginia | X | | | | | |
| North Carolina | X | | | | X | |
| Total | 4 | 0 | 0 | 3 | 3 | 1 |
| Percent | 67 | 0 | 0 | 50 | 50 | 17 |

remaining 50 percent. Generally, the state will match private sector investment only after the private sector has committed the investment capital.

State historic preservation officers from two states, Maryland and Florida, declared that the funding for their states' economic incentives was tenuous and had been subjected to budget cut-backs in the previous two years. Due to these cut-backs, the states' budgets for economic incentives for historic preservation had been substantially reduced. As a result, the historic preservation officers stated that their economic incentive programs were not adequately funded and were being drastically curtailed.

Three other state historic preservation officers from Georgia, Louisiana and North Carolina replied that their states focused their attention primarily on residential structures and neighborhood preservation. Economic incentives for non-residential preservation activities had seldom received assistance from these states due to the orientation of the incentive programs in these states towards residential projects.

In addition to the lack of emphasis on the part of the states for supporting commercial and/or industrial preservation projects, the State of Virginia's incentive was to become effective at the time of the survey. Thus the property tax abatement was non-operational and precluded its utilization as an operational economic incentive for this survey.

Preservation officers were asked in Question 3 whether the private sector had used the incentives offered by their state for all types of preservation projects. Results of this question are displayed in Table V-3. As shown in the Table, three states indicated that incentives had been used. Question 4 asked how many projects had used the incentives and as shown in Table V-3, approximately 231 projects have benefited from the incentives although the wide majority of these projects are residential in nature.

Economic incentives for the preservation projects of a commercial/industrial nature for the most part have not benefited from limited incentives available through the states in the southeast. At the time of the survey, the states were delegating the bulk of the available incentives towards residential and neighborhood preservation efforts.

## 3. LOCAL GOVERNMENT SURVEY: ROUND ONE

The first round of the local government survey was mailed to 44 cities in the southeast. The survey involved a basic mail questionnaire designed to delineate which of the cities in the first round of the survey offered economic incentives for commercial/industrial projects. A total of 90 mail questionnaires were mailed to local government departments, downtown development agencies and historic preservation commissions.

Thirty-seven cities responded to the mail questionnaire and the responses to the first question asking whether the city offered economic incentives for commercial/industrial preservation and reuse projects is shown in Table V-4. As displayed in Table V-4, 6 of the 37

TABLE V-3. RESPONSES TO QUESTIONS #3 AND #4
ROUND 1: SURVEY OF THE STATES

N = 6

| Respondents | Yes | No | Number of Projects Using Incentives |
|---|---|---|---|
| Florida | | X | |
| Georgia | X | | Approximately 100 |
| Louisiana | X | | Approximately 100 |
| Maryland | | X | |
| Virginia | | X | |
| North Carolina | X | | 31 |
| Total | 3 | 3 | |
| Percent | 50 | 50 | |

TABLE V-4. RESPONSES TO QUESTION #1
ROUND 1: SURVEY OF CITIES

N = 37

| Respondents | Yes | No |
|---|---|---|
| Alexandria, VA | | X |
| Atlanta, GA | X | |
| Baltimore, MD | | X |
| Baton Rouge, LA | | X |
| Charlotte, NC | X | |
| Chattanooga, TN | | X |
| Chesapeake, VA | | X |
| Columbus, GA | | X |
| Durham, NC | | X |
| Ft. Lauderdale, FL | | X |
| Greensboro, NC | | X |
| Hialeah, FL | | X |
| Hollywood, FL | | X |
| Huntsville, AL | | X |
| Jackson, MS | | X |
| Jacksonville, FL | | X |
| Lexington, KY | | X |
| Knoxville, TN | | X |
| Louisville, KY | | X |
| Macon, GA | X | |
| Memphis, TN | X | |
| Mobile, AL | | X |
| Montgomery, AL | | X |
| Nashville, TN | | X |
| New Orleans, LA | | X |
| Norfolk, VA | | X |
| Orlando, FL | | X |
| Portsmouth, VA | | X |
| Raleigh, NC | X | |
| Richmond, VA | | X |
| Roanoke, VA | | X |
| Savannah, GA | | X |
| Shreveport, LA | X | |
| St. Petersburg, FL | | X |
| Tampa, FL | | X |
| Virginia Beach, VA | | X |
| Winston Salem, NC | | X |
| Total | 6 | 31 |
| Percent | 16 | 84 |

cities responding to the survey (16.2 percent) offered economic incentives for commercial/industrial preservation and reuse projects. Question 2 asked respondents not offering incentives their city's reason(s). As shown in Table V-5, ten of the cities reported that there was not sufficient public interest or support for such incentives, making the incentives a political liability. The lack of public interest or support was due primarily to government and citizen attention being directed to more urgent local needs. As one respondent commented, "These buildings have been around a long time and will remain a long time, so the public's attention is focused on the more contemporary, urgent and demanding needs of the metropolitan areas."

Despite the lack of widespread public attention and support, in recent years historic preservation has been receiving more attention from local governments. At the time of the survey, six of the cities were in various stages of completing historic preservation studies and plans. The respondents mentioned that the plans may include economic incentives. Use of economic incentives are an element of the studies and are under consideration for use in these six cities, while in four of the cities the city was focusing its attention and efforts primarily toward residential structures and neighborhood preservation.

As indicated in Table V-5, five of the cities replied private sector interest and activities were strong and that the city did not need to consider local incentives necessary in order to stimulate preservation and reuse projects of a commercial/industrial nature. Private sector initiative was sufficient to plan and implement

TABLE V-5. RESPONSES TO QUESTION #5
ROUND 1: SURVEY OF CITIES

N = 37

| Reasons for Cities Not Offering Economic Incentives | Number |
|---|---|
| Politically Not Acceptable/ Lack of Public Support | 10 |
| Limited Capacity of City to Fund Programs | 3 |
| Preparing Historic Preservation Studies and Plans | 6 |
| Neighborhood/Housing Preservation has Higher Priority | 4 |
| Private Sector Provides Own Initiative | 5 |
| State and Federal Support Sufficient | 3 |
| No Response | 6 |
| Total | 37 |

preservation and reuse projects. Cities such as Alexandria, Savannah, Orlando, Louisville and Baltimore replied that the cities had experienced extensive preservation activity which was privately initiated and completed. The cities with a strong history of private initiative with regards to preservation and reuse projects believed it was not necessary to become involved when the private sector was responding without their stimulus.

Illustrated in Table V-6 are responses to Question 6 asking the cities for the economic incentives offered at the time of the survey in their city. As indicated, no one specific incentive proved to be the dominant incentive being offered by the local governments. Three of the seven cities offering incentives had developed direct loan programs while another incentive offered by two cities was interest assistance. Mortgage assistance was also employed by two cities as an economic incentive as was property abatement. Results from the mail questionnaire indicated that direct grants were offered in only one city, Macon. Lastly, transfer of development rights was not used in any of the responding cities as an economic incentive.

In response to the question concerning whether the respondents perceived developers or businesses in their respective city utilizing the available economic incentives, the responses were nearly unanimous as shown in Table V-7. Five of the seven respondents perceived the private sector was taking advantage of the incentives. The respondents perceived the private sector was taking advantage of the incentives. The respondents commented that they believed the private sector was gradually realizing the benefits of the incentives which

TABLE V-6. RESPONSES TO QUESTION #2
ROUND 1: SURVEY OF CITIES

| Respondents | Tax Abatement | Transfer Development Rights | Mortgage Assistance | Interest Assistance | Direct Grants | Direct Loans |
|---|---|---|---|---|---|---|
| Atlanta, GA | | | | X | | |
| Greensboro, NC | | | | X | | |
| Macon, GA | | | | | X | |
| Memphis, TN | X | | X | | | |
| Raleigh, NC | X | | | | | |
| Shreveport, LA | | | X | | | |
| Total | 2 | 0 | 2 | 2 | 1 | 0 |

TABLE V-7. RESPONSES TO QUESTION #3
ROUND 1: SURVEY OF CITIES

N = 6

| Respondents | Yes | No |
|---|---|---|
| Atlanta, GA | X | |
| Greensboro, NC | | X |
| Macon, GA | X | |
| Memphis, TN | X | |
| Raleigh, NC | | X |
| Shreveport, LA | X | |
| Total | 4 | 2 |

enhanced the feasibility of the projects. In response to the question asking for the number of projects utilizing the incentives in the respondents' cities, five of the six cities offering incentives had been used. Only the City of Raleigh had not had the private sector to employ its available incentive.

James Cummins, assistant director for community development, stated that the property tax abatement had not been a significant factor to influence investment decisions by the private sector. However, Cummins stated the city is completing an economic development strategy which will incorporate economic incentives for development in target areas; although the incentives are not specifically designed to deal with old or historic buildings. Cummins asserted that the city is planning to include preservation and reuse of old and historic buildings in target areas as eligible for economic incentives as a component of the economic development strategy. It was interesting to note that Raleigh was planning to utilize CDBG funds to finance the planned economic incentives.

The small number of projects using economic incentives was indicative of the limited scale of the economic incentives as well as the relative newness of the incentive programs. Table V-8 presents the number of projects employing economic incentives in the responding cities. Four of the six cities replied that ten or fewer projects utilized the available incentives in the respective cities. Macon and Memphis were the only cities which reported ten or more projects had used the economic incentives. Memphis reported that 15 projects

TABLE V-8. RESPONSES TO QUESTION #4
ROUND 1: SURVEY OF CITIES

| Respondents | Number of Projects Using Economic Incentives | | | | |
|---|---|---|---|---|---|
| | 1-5 | 6-10 | 11-15 | 16-20 | 20+ |
| Atlanta, GA | | X | | | |
| Greensboro, NC | | X | | | |
| Macon, GA | | | | X | |
| Memphis, TN | | | X | | |
| Raleigh, NC | X | | | | |
| Shreveport, LA | | X | | | |
| Total | 1 | 3 | 1 | 1 | 0 |

had used the incentives while Macon reported 16 projects had taken advantage of the incentives.

Round one of the survey of cities was intended to identify those cities offering economic incentives as well as identifying the type and frequency of use in the respective cities. All of the incentives had been promulgated since 1976, indicating the recent trend in this country to recognize and value the heritage and vestiges of the past these buildings represent. In addition to the seven cities offering incentives at the time of the survey, six additional cities were in the process of preparing historic preservation studies and plans which may incorporate economic incentives for the preservation and reuse of old and historic buildings or commercial/industrial use. This is indicative of the trend in historic preservation becoming accepted by cities in the southeast.

### 4. LOCAL GOVERNMENT SURVEY: ROUND TWO

Round two of the survey was designed to provide a detailed examination of the economic incentives which were available at the time of the survey by the seven cities identified in round one. The information generated in this round of surveying complemented the information gathered in round one and expanded the base of understanding.

The first question asked the respondents to identify the economic incentives offered in their city in the frequency in which they are used. Table V-9 displays the results of the first question. Both property tax abatement and interest assistance were ranked as the most often utilized with direct grants, direct loans and mortgage assistance

TABLE V-9. RESPONSES TO QUESTION #1
ROUND 2: SURVEY OF CITIES

| | Frequency of Use | | | | | |
|---|---|---|---|---|---|---|
| Respondents | Tax Abatement | Transfer Development Rights | Mortgage Assistance | Interest Assistance | Direct Grants | Direct Loans |
| Atlanta, GA | | | 3 | 2 | | 1 |
| Greensboro, NC | | | | 1 | | |
| Macon, GA | | | | | 1 | |
| Memphis, TN | 3 | | 1 | | | 2 |
| Raleigh, NC | 1 | | | | | |
| Shreveport, LA | | | 2 | 1 | | |

all tied for second. Clearly there was no decisive leader with the first two incentives being ranked first by two respondents and the remaining incentives ranked only once.

The responses to the second question, as shown in Table V-10, asked the respondents to rank the incentives in terms of the respondents' opinions regarding the incentives' effectiveness in stimulating preservation and reuse projects. Mortgage assistance was ranked as the most effective economic incentive for stimulating preservation and reuse projects. Interest assistance was ranked second, direct loans third, mortgage assistance fourth and the incentive ranked least effective was the property tax abatement.

There was a positive correlation between the direct loan being identified as one of the most often used incentives and the incentive the respondents ranked as being the most effective incentive. Respondents in cities which offered more than one incentive explained that the circumstances concerning the project dictated which incentive or group of incentives the city would utilize. The city would consider the nature of the applicant's project and then proceed to match the needs and capabilities of the project with the appropriate incentive(s). In essence, the city examined the project's needs and capabilities and used an incentive which would best serve to stimulate the project while minimizing the cost, thereby maximizing the benefit of the project to the city.

Whenever possible, the local governments preferred to loan money or guarantee a loan rather than provide a tax break or grant because the money will theoretically be returned to the city coffers.

TABLE V-10. RESPONSES TO QUESTION #2
ROUND 2: SURVEY OF CITIES

| Respondents | Tax Abatement | Transfer Development Rights | Mortgage Assistance | Interest Assistance | Direct Grants | Direct Loans |
|---|---|---|---|---|---|---|
| Atlanta, GA | | | 3 | 2 | | 1 |
| Greensboro, NC | | | | 1 | | |
| Macon, GA | | | | | 1 | |
| Memphis, TN | 3 | | 1 | | | 2 |
| Raleigh, NC | 2 | | | | | 1 |
| Shreveport, LA | | | 2 | 1 | | |

City officials consider incentives such as interest assistance and direct grants as a cost to the city, precluding these funds from being utilized again in the future a catalyst for other private sector preservation and reuse projects. Funds involved in direct grants and interest assistance programs represent non-renewable financial resources while those funds involved with direct loans and mortgage assistance represent renewable resources for the local government.

The third question asked the respondent was the amount of dollars budgeted for the economic incentives in the 1979 fiscal year. Table V-11 displays the results of this question. As indicated in the Table, the results of the question exhibit a wide disparity of responses. The answers can be broken into two basic categories, those cities budgeting less than $500,000 and those budgeting $500,000 or more for the fiscal year. Raleigh, Macon, Shreveport and Greensboro fell into the first category while Memphis and Atlanta fell into the second category.

The City of Memphis had budgeted $8.3 million for economic incentives and this sum is comprised of cash, CDBG funds and the commitment by the City to provide revenue bond financing for development in the downtown which is being revitalized. The revenue bonds will be purchased through a consortium of Memphis banks to provide a stimulus for development in the historic old Memphis area. Memphis has incorporated several means of generating capital sufficient to stimulate the preservation and reuse of a substantial portion of the center city adequately. The economic incentives have evolved from the private and

TABLE V-11. RESPONSES TO QUESTION #3
ROUND 2: SURVEY OF CITIES

| | (In Dollars - In Thousands) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Respondents | 0-500 | 500-1000 | 1000-1500 | 1500-2000 | 2000-2500 | 2500-3000 | 3000-3500 | 3500-4000 | 4000-4500 | 4500-5000 | 5000+ |
| Atlanta, GA | | X | | | | | | | | | |
| Greensboro, NC | X | | | | | | | | | | |
| Macon, GA | X | | | | | | | | | | |
| Memphis, TN | | | | | | | | | | | X |
| Raleigh, NC | X | | | | | | | | | | |
| Shreveport, LA | | X | | | | | | | | | |
| Total | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |

public sector cooperative effort to ameliorate the blight infesting the center city area, preserve and reuse old and historic buildings and foster compatible development. Both the public and private sector have worked closely together to establish mutually acceptable development goals and objectives and to develop a development fund capable of producing sufficient funds to provide economic incentives. Fulfillment of these objectives will allow the achievement of the project's goals and objectives for the reemergence of the center city in Memphis.

Question four asked the respondents about other economic incentives the respondent would like their city to offer. As displayed in Table V-12, only the respondent from Macon believed her city's economic incentives were sufficient to stimulate preservation and reuse projects. James Colvin, the respondent for the City of Shreveport, replied that he believed the city would like to offer a non-expenditure such as property tax abatement. The city is not amenable to adding any more expense-type incentives and property tax abatement would serve to complement the present incentives.

Presently Atlanta and Memphis offer direct loans which can be utilized for development costs, but not for working capital. Both Atlanta and Memphis would like to offer direct loans which could be employed for working capital and start-up costs. These costs can be substantial and the lack of such financing could preclude the implementation of preservation and reuse projects. Don Paight of Memphis and Dan Culp of Atlanta believe working capital loans, when combined and integrated with their economic incentives, would provide a broad

TABLE V-12. RESPONSES TO QUESTION #4
ROUND 2: SURVEY OF CITIES

| Respondents | None | Working Capital Loans | Tax Abatement | Mortgage Assistance | Interest Assistance | Direct Grants | Direct Loans |
|---|---|---|---|---|---|---|---|
| Atlanta, GA | | X | | | | | |
| Greensboro, NC | | | | | | X | X |
| Macon, GA | X | | | | | | |
| Memphis, TN | | X | | | | | |
| Raleigh, NC | X | | | | | X | X |
| Shreveport, LA | | | X | | | | |
| Total | 2 | 2 | 1 | 0 | 0 | 2 | 2 |

package of incentives suitable to meet a myriad of development needs by the private sector.

The City of Greensboro responded that it would like to expand its present economic incentive package to include direct loans and grants. The respondent believed this would allow the city to better meet the needs of the private sector.

Respondents were subsequently asked about the drawbacks or problems their city was experiencing with their respective incentives. Once again, there was not a consensus among the respondents, as shown in Table V-13. Insufficient funding and size limitations of the applicants eligible for assistance were the two most identified problem areas. With respect to the problem of insufficient funding for the incentives, the respondents mentioned that assistance is administered on a first come first served basis. Basically, the respondents stated that the demand for the incentives was far greater than the funds allocated for the incentives. The respondents added that they would like to see their respective city's allocated funds based upon a scoring system using the leverage factor for the economic incentives or the project impact upon the city. The respondents said that the city could also consider the element of risk in the provision of economic incentives, meaning that the city would consider the risk factor for a project and provide incentives in instances where there is minimal risk to the city.

As for the size limitations for the applicants, this basically referred to the size of the business which is eligible for receiving the incentive. Jim Colvin stated that in Shreveport only firms

TABLE V-13. RESPONSES TO QUESTION #5
Round 2: SURVEY OF CITIES

| Respondents | Insufficient Funding | Size Limitation of Firm | Gaps in Financing | Dissemination of Information |
|---|---|---|---|---|
| Atlanta, GA | | X | | |
| Greensboro, NC | X | | | |
| Macon, GA | X | | | |
| Memphis, TN | | | X | |
| Raleigh, NC | | | | X |
| Shreveport, LA | | X | | |
| Total | 2 | 2 | 1 | 1 |

classified as small businesses by the city were eligible for economic incentives. The city followed the definition of a small company as classified by the Small Business Administration. Size limitations instituted by the city were logical for two reasons. First, it precluded the city from making a large capital investment in a limited number of projects and increasing the element of risk to the city for losing the majority of its resources in one failure. In addition, only the City of Memphis has aggregated a large pool of funds sufficient to participate in a large project. Second, the size limitation forced the city to spread the use of the incentive program to many projects which would allow more projects to benefit from the incentive program rather than a limited number of projects benefiting from the incentive.

As mentioned earlier, Don Paight of Memphis identified the gap in financing as being the problem area confronting developers in Memphis. Paight believed that by developing a start-up and working capital loan program it would bridge the gap in the incentive package available in Memphis at that time. Such a program would better deal with problems the private sector was experiencing at the time of the survey.

Dissemination of information concerning the incentive available was mentioned as the major problem in Raleigh. Cummins emphasized the newness of the incentives being offered and the lack of publicity concerning the incentive had not facilitated public awareness of the incentive.

Although Macon did not identify any problems or gaps in the provision of economic incentives, Mary Costello of the City of Macon stated that the city had commissioned an artist to design a color brochure for the grant program the city was operating. Inside the brochure, the details, eligibility rules and grant criteria for the program were discussed. Ms. Costello added that the brochure was made available and distributed at neighborhood and civic meetings where the program was presented. Ms. Costello believed the numerous presentations and the brochure were instrumental in establishing the public awareness and ultimate success for the city's incentive program.

Respondents were asked in Question 6 why they believed preservation and reuse projects had taken place in their city and why developers were selecting their city for such projects. Responses, as depicted in Table V-14, indicated a diversity of opinions on this subject. In Atlanta, Dan Culp, a loan officer for the city, believed that the demand for downtown office space was creating the market for the old buildings being reused for office space. Atlanta, in the last decade, has witnessed a growing demand for commercial space due to a burgeoning corporate office space market and expansion of government offices in the downtown. As a result, office space is in great demand and the older office buildings have been renovated faster than new buildings can be constructed, thus allowing these buildings to reach the marketplace earlier.

Both Macon and Memphis reported that the local governments have been making a concerted effort to reestablish and reaffirm the downtown as a viable and valuable asset for the city. Preservation and reuse projects are integral components of the effort by the cities to stimulate the rebirth of the center city areas. Due to the cities'

TABLE V-14. RESPONSES TO QUESTION #6
ROUND 2: SURVEY OF CITIES

| Respondents | Corporate Headquarters | Governmental Center | Revitalizing Downtown | Nice City | History and Heritage of City |
|---|---|---|---|---|---|
| Atlanta, GA | X | X | | | |
| Greensboro, NC | | | | X | |
| Macon, GA | | | X | | |
| Memphis, TN | | | X | | |
| Raleigh, NC | | X | | | |
| Shreveport, LA | | | | X | |
| Total | Shared | 2 | 2 | 2 | 0 |

efforts to revitalize the center city, private investors are once again being attracted to the center city. As Don Paight noted, the attraction of the private sector back to the downtown will not happen all at once, but over the course of many years.

Greensboro, Charlotte and Shreveport responded that these cities are growing cities that provide a nice, stable and secure place to live and work. All the cities possessed established old areas which serve as the core which the cities are interested in preserving.

The last question asked the respondents was the level of private sector investment stimulated by the economic incentives. As shown in Table V-15, Memphis reported the largest level of private sector investment totaling approximately $80 million in private sector project commitment. Atlanta reported $3.7 million and Shreveport $4.1 million and the remaining cities reported investments amounting to less than $1 million per city. Also important, in addition to the level of private sector investment stimulated by the incentives, was the leverage ratio of the private sector investment.

As represented in Table V-16, the range of leverage ratios ranged from 1:4 to 1:40. Shreveport reported the highest leverage ratio of all the respondents with the 1:40 ratio. According to Colvin, several factors contributed to the high leverage ratio. Foremost, the city exhibited parsimony in allocating financial assistance to the private sector. When considering the use of the economic incentive, city representatives scrupulously examined the applicant's financial capability, the project impacts and the financial requirements for the project. The city operated under the practice of allowing incentives

TABLE V-15. RESPONSES TO QUESTION #7
ROUND 2: SURVEY OF CITIES

| | (In Dollars - In Thousands) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Respondents | 0-500 | 500-1000 | 1000-1500 | 1500-2000 | 2000-2500 | 2500-3000 | 3000-3500 | 3500-4000 | 4000-4500 | 4500-5000 | 5000+ |
| Atlanta, GA | | | | | | | | X | | | |
| Greensboro, NC | | X | | | | | | | | | |
| Macon, GA | | X | | | | | | | | | |
| Memphis, TN | | | | | | | | | | | X |
| Raleigh, NC | X | | | | | | | | | | |
| Shreveport, LA | | | | | | | | | 1 | | |
| Total | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 1 |

TABLE V-16. RESPONSES TO QUESTION #8
ROUND 2: SURVEY OF CITIES

| | Leverage Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Respondents | 1:1-<br>1:4 | 1:4-<br>1:5 | 1:5-<br>1:6 | 1:6-<br>1:7 | 1:7-<br>1:8 | 1:8-<br>1:9 | 1:9-<br>1:10 | 1:10+ |
| Atlanta, GA | | | | | | X | | |
| Greensboro, NC | | | | | | | | X |
| Macon, GA | | | X | | | | | |
| Memphis, TN | | | | | | X | | |
| Raleigh, NC | | X | | | | | | |
| Shreveport, LA | | | | | | | | X |
| Total | 0 | 1 | 1 | 0 | 0 | 2 | 0 | 2 |

on what the city ascertains the private sector needs rather than what the private sector requests. Colvin emphasized the important requirement for the effective operation of the incentive program was good communication between the city and the private sector. Colvin also added that the incentives were designed to improve the investment atmosphere for the private sector in a target area. Once the momentum of investment in an area has changed, the city incentives were not needed and the city redirects its efforts to another target area. Once the private sector became involved, further public sector involvement was not needed to enhance the investment atmosphere of a target area. Colvin further stated that once the city ceased to offer financial incentives in an area the city continued to monitor and provide technical advice in order to ensure orderly development.

Greensboro also reported a high leverage ratio of 1:15. The city representative responded by stating the city limited the level of public investment to $5,000 or less depending upon the project size. The city budgeted $50,000 for their assistance program and to maximize the returns the city carefully reviewed requests for assistance and sought to maximize the leverage ratio of the city funds. By operating on this philosophy, the City of Greensboro "makes their dollars go a long way" as the respondent stated.

Both Atlanta and Memphis had leverage ratios of 1:8 and both respondents had similar philosophies with regards to incentives. Their philosophy centered around the concept of developing several incentives and shaping them into a cohesive, integrated economic incentive package. As a result, both cities believed in assessing the needs of the private sector and employing the incentive or a combination of incentives which best suited the needs of the private sector. Thus they combined the components of their financial incentives into an integrated, flexible set of economic incentives utilized in situations which they felt best met the needs of the private sector.

Macon had a leverage ratio of 1:6; to put these ratios into perspective, HUD considers ratios of 1:5-1:6 very desirable ratios in the UDAG program. Thus even the worst ratios of the local incentive programs would be considered as very good ratios.

## 5. SUMMARY

The survey results and data analysis generated a better understanding concerning the availability of economic incentives for preservation and reuse projects of a commercial/industrial nature. Examination of state and local government programs have presented expected results on the state level and very interesting results on the local level.

On the state level, the response rate was 58.3 percent (7 out of 12 states responded) and 6 of the 7 states responding to the survey stated their state offered economic incentives. However, all of the state programs were inadequately funded to provide substantial incentives. However, the economic incentives were primarily oriented towards residential development which essentially excluded assistance for preservation and reuse projects of a commercial/industrial nature.

On the local level, responses were received from 37 of 44 cities surveyed (84 percent) and six of the responding cities stated that they offer economic incentives (16 percent). However, six cities did report that they were in the process of preparing historic preservation plans at the time of the survey which may incorporate economic incentives. Approximately 40 percent of the cities responding did not offer economic incentives because the city did not have sufficient public support or interest for such incentives. Another 30 percent responded that they were either focusing their attention on residential and neighborhood preservation or the private sector was already undertaking preservation and reuse projects of a commercial/industrial nature which did not require the use of incentives.

All the incentives found to be offered by the cities responding to the survey noted had been developed and capitalized since 1976. This highlighted the fact that preservation and reuse projects are a relatively recent trend which is consistent with the information gathered in Chapters II and III.

After examining the economic incentives offered by those cities responding to the survey, several relevant results can be noted. First, there was not a dominant incentive, property tax abatement, mortgage assistance and direct loans were the most frequently identified. This indicates the incentives were designed and oriented towards the individual city's needs and goals. However, the respondents stated they would like to offer more direct loans and grants. Budget allocations for the most part were below $150,000 a year for five cities while Memphis was greater than $500,000. All of the cities had leverage ratios equal to or greater than 1:5, a leverage ratio considered by HUD as an excellent leverage ratio.

Conceptually, the respondents made several observations concerning the use of economic incentives. Basically, the respondents stated that incentives were designed to stimulate development or private sector investment in targeted areas. Once the private sector had commenced development activities in the area and the momentum of private sector investment in an area had changed then the city needed to redirect the use of its incentives to different target areas. The city should monitor the development and provide technical assistance in order to sustain the positive development atmosphere.

It was found that several cities did not have economic incentives because the private sector did not need the stimulus of economic incentives in order to undertake preservation and reuse projects. The private sector was undertaking such projects with its own initiative. As was shown in the survey, most of the cities prefer to allow the private sector to initiate and undertake preservation and reuse projects without direct financial incentives.

CHAPTER VI

# SUMMARY AND CONCLUSIONS

## 1. SUMMARY

Urban areas throughout the U.S. have been experiencing a decline in importance in the past three decades. Technological advances and improvements in communications and transportation systems have combined to facilitate the suburban sprawl which had proven to be a nemesis to the urban center areas. Inadvertent government policies and actions combined with demographic and market forces have further contributed to the malaise of the inner urban areas.

In the past decade, the inner urban areas have begun to experience a transition in the role, function and importance. Once the industrial and commercial center of a metropolitan area, the inner urban areas have gradually evolved as the service and office center. This transformation in role and function has had a negative impact upon the buildings designed for the original role of the urban core. Buildings once designed for industrial and retail use have been abandoned or left to deteriorate to such a condition requiring the demolition of the building. As these buildings are being destroyed to be replaced by newer, more contemporary glass and steel office buildings, the old and historic buildings are being demolished to make room for the new generation of massive, impersonal office buildings or parking decks. As this occurs, yet another vestige of America's and the particular city's history and past is lost forever.

Bankers, businesspeople, developers, citizens and government officials alike have developed a belief these old and historic buildings could no longer serve a useful purpose in today's contemporary society and took no actions to preserve these buildings. To preserve these buildings, in their eyes would be tantamount to stopping progress. In general, society believes these old and historic buildings could no longer be functional or were not economically feasible to renovate for future use. Compounding this negative attitude towards preservation and reuse projects is the "throw away" philosophy of many Americans which results in discarding objects when they get old, dirty, need repair or are out of style. Consequently, citizens and public officials perceive the replacement of an old building with a new glass and concrete office building as a sign of progress and civic well-being.

Within the decade of the 1970's, renewed interest and attention has been focused upon the plight of old and historic buildings. A number of factors have combined in the past decade to create an improved climate amenable for the resurgence of the preservation and reuse of old buildings for commercial and/or industrial use. Renewed interest on the part of Americans in historic preservation in general is due to a dichotomy of reasons. The Bicentennial celebration served to invigorate national interest in the history of America as a growing fascination and appreciation on the part of Americans for the history and development of this country.

This is not to say that the preservation movement started in the decade of the 1970's, however that decade did witness an upsurge in interest and activity in preservation and reuse projects. An early preservation project which contributed appreciably to the preservation and reuse movement was the preservation and restoration of historic Williamsburg, Virginia. This project was started by a private foundation and benefited tremendously from the philanthropy of John D. Rockefeller. Americans had the opportunity to experience a taste of American lore and witness the commercial success of the city resulting from the project. However, the project was designed and implemented as a museum type of preservation and restoration project, as were the majority of the early preservation projects.

It was not until the period of the 1960's that the concept of preservation and reuse of old and historic buildings for commercial and/or industrial use initially began and gained acceptance, in cities such as the harbor area in Charleston, Old Faneuil Hall in Boston, Ghirardelli Square in San Francisco and Trolley Square in Salt Lake City. These projects benefited from a wide range of public sector support, but they were all conceptualized, designed, developed and managed by private sector developers. As these projects reached fruition, Americans noted the attractiveness and novelty of the projects shifted from the negative to the positive. As developers realized the commercial potential for these projects and became involved in their own projects, preservation projects sprouted throughout as the country understanding of these projects improved. Developers began to reuse old factories for office space possessing a relaxed decor and atmosphere and, in fact, industries began to reuse old factories located along the streams in New England for new industrial plants.

The developers and industrial firms were not reusing the old and historic buildings for philanthropic purposes, but rather for sound economic reasons and purposes. Construction and land acquisition costs had escalated so greatly in the last decade that in many instances it was cheaper to preserve and reuse a building than design and construct a new facility or plant. The economics of preservation and reuse projects has gradually become recognized by developers and business people that were willing to transcend the pressure to construct or develop contemporary buildings and developments.

Since the 1930's the federal government has become increasingly more involved with historic preservation. The 1930's witnessed the creation of the National Park Service which had the responsibility for restoring and managing historic landmarks and museums. Shortly after the end of World War II, a monumental federal program greatly expanding the federal government's exposure in urban areas, called Urban Renewal, was promulgated. The legislation dictated a major program area for Urban Renewal being the preservation and conservation of buildings and areas. In retrospect, Urban Renewal did not delegate the specified emphasis as dictated by the legislation. Building demolishment and neighborhood clearance received the emphasis of the Urban Renewal program. Overall, the program designed to be a protagonist for historic preservation in reality assumed an antagonist role to historic preservation.

Ensuing programs in the 1960's such as the Department of Housing and Urban Development's Open Space program and the Historic

Preservation programs and the establishment of the Department of the Interior's Grant-in-Aid program began to focus more public attention on historic preservation. These programs focused their attention on establishing and maintaining historic landmarks, battlefields, museums and historic public buildings. Other programs developed by the Small Business Administration and the Economic Development Administration have provided grants and loans for businesses involving preservation and reuse projects, but these programs were not designed specifically for preservation and reuse projects and thus far have provided only nominal assistance.

In 1972 a program called General Revenue Sharing (GRS) was promulgated which could have potentially assisted historic preservation. GRS was intended to provide funds to state and local governments for non-essential projects designed to enhance the capability of the state and local governments to undertake innovative projects. As the budget problems have beset state and local governments, the GRS funds have been increasingly utilized for the provision of essential projects and services. Although GRS did not prove to be a great impetus to historic preservation, the program did prove to be a catalyst for further flexible federal government assistance programs.

Subsequent programs such as the Community Development Block Grant (CDBG) program promulgated in 1974 and the Urban Development Action Grant (UDAG) program, both of thich are operated by the Department of Housing and Urban Development, have been the major programs for providing financial assistance to preservation and reuse projects. Both of these programs began to operate under a new principle, the concept of leveraging private dollars with public dollars. Although historic preservation is not a designated program objective, the use of CDBG funds for preservation and reuse funds is allowable under the program eligibility for economic development. In many instances, CDBG funds have been used for preservation and reuse projects. Generally the leverage ratio for CDBG funds with private funds has been 1:4. In the instance of the UDAG program, the average leverage ratio is the highest among the government programs at 1:6. The UDAG program has been utilized effectively for preservation and reuse projects and is very flexible in its program applications.

The last government legislation significantly affecting preservation and reuse projects were the Tax Revision Acts of 1976 and 1978. These two tax laws provided significant federal tax treatment similar with new construction which provided beneficial tax treatment for the rehabilitation, renovation and restoration of "certified historic structures." Allowances for accelerated depreciation, rapid amortization for rehabilitation, renovation or restoration expenses and a 10 percent investment tax credit allow preservation and reuse projects to compete with new construction projects for developer interest and returns on investment.

While the federal government has become involved with preservation and reuse projects, state and local governments have been handicapped by the fiscal limitations of their budgets from becoming active participants in preservation and reuse projects.

The primary actors for successful historic preservation and reuse projects in this country have been private sector individuals and groups. The first major preservation and reuse project which departed from the traditional preservation and museum piece project was the restoration of historic Williamsburg in the late 1920's. This project was conceived, planned and developed to provide an active example of historic life and evolved into a profit-making venture for the private sector. No other major historic preservation and reuse projects were developed until the mid-1960's until a series of projects in Seattle, San Francisco and Salt Lake City proved that a preservation and reuse project could transform deteriorated old buildings into profitable real estate and commercial development. These projects indicated the viability of preservation and reuse projects and the national sentimentality resulting from the bicentennial celebration served to enhance and stimulate the historic preservation and reuse movement. This concept gained growing acceptance on the part of American business people and developers because the architecture and atmosphere provided a different type of commercial and office development. This form of marketplace differentiation generated profit-making environments which because they were becoming an increasingly valuable element in successful profit-making developments began to be emulated. Preservation and reuse projects began to become an accepted type of development by financiers and developers alike because more often than not these types of development were successful profit-making ventures.

While there is an understanding of the federal programs which possess the capability of being utilized to support preservation and reuse projects, the understanding of state and local programs which support preservation and reuse projects is limited. There are several fine examples of cities across the country and in the southeast that have actively supported preservation and reuse projects by implementing economic incentives designed to stimulate preservation and reuse projects. Economic incentives are designed to fill gaps in the financing of a preservation and reuse project or improve the rate of return of such a project so that it will entice a developer or businessperson to undertake such a project. Essentially a state or local government formulate these incentives to create the positive impacts generated from such projects. Such positive impacts consist of the use of existing public infrastructures improvements, the increase in the local property tax base, stimulation of urban revitalization and the improvement in the appearance of deteriorating urban areas.

In a survey of 12 states and 44 cities with populations greater than 100,000 in the southeast, four states and six cities offered economic incentives which could be utilized for preservation and reuse projects. Respondents to the survey identified six types of economic incentives which had been established by the cities, property tax abatement, mortgage assistance, interest assistance, direct grants and direct loans available to developers and businesspersons. No particular incentive proved to be the dominant incentive in terms of the rate of utilization and effectiveness. However, the application for the incentives has been increasing as persons learn of their availability. Generally the incentive programs had relatively small budgets which have served to limit their application.

The incentives are designed to stimulate private sector investment for stipulated projects or designated areas, thereby allowing the momentum of investment to attract additional investment by the private sector for that project or into the area. The intention is to stimulate the private sector ranging from bankers, investors, businesspeople and developers to undertake investments in projects or areas they ordinarily would not consider at that time. In the case of preservation and reuse projects, the object on the part of the public sector is to stimulate private sector participation in preservation and reuse projects which are generally located within the older decaying urban areas. As a result, additional private sector investment is drawn into these areas, initiating and supporting urban revitalization of these once undesirable areas.

## 2. CONCLUSIONS

Through the process of the preliminary research incorporating the literature research and discussions with knowledgeable sources in the field of historic preservation and preservation and reuse projects as well as the result of the survey of cities throughout the southeast several notable conclusions have been derived. These conclusions are discussed below.

1. Despite prolific pledges of support and involvement on the part of the federal government administrators and officials, the actual federal investment in historic preservation and preservation and reuse projects has not amounted to a significant investment. Much of the federal funds allocated for

historic preservation have been directed towards residential preservation programs and preserving public buildings, structures and sites. Programs such as the HUD Urban Renewal, CDBG and UDAG programs, EDA Title IX programs were designed and empowered to answer specific contemporary problems prevalent at the time such as decaying urban commercial and residential areas. Each program had a different thrust towards resolving urban problems on a national scale. In addition, these programs were conceived and implemented at different times and perceptions, beliefs and public mentality of administrators for those time periods. In the implementation of these programs, the administrators were confronted with too many requests for funding and insufficient funds to fund all of the projects. Through the grant and project review process the projects best meeting the objectives of the program and obtaining the best results were funded. At those times, the demolishment of areas for the construction of new homes and shopping centers was designated more priority than the preservation and reuse of potentially historic buildings or classic architecture.

Only the Department of the Interior's historic preservation grant program has allocated appreciable levels of funding for historic preservation and these funds have been spent to preserve for posterity those buildings indicative of significant historical value. Typically, these buildings have been converted into museum pieces for people to tour and view. Other historic buildings privately owned receive the lowest priority for these funds and typically are not funded. As discussed in Chapter III, only a small percentage of federal funds spent on historic preservation have been spent on commercial and industrial projects. Preservation of residential structures and conversion to museums has been the main focus of the federal expenditures for historic preservation. The allocation of a scarce resource (Federal dollars) has resulted in inappreciable levels of federal financial support for private preservation and reuse projects. This certainly is not an allegation of federal government inefficiency or disinterest, rather an example of historic preservation's rating on the part of the federal government in relation to the hierarchy of needs and problems confronting this nation and the federal government's approach to a means to ameliorate the prevailing problems of the time.

2. The state and local governments have characteristically not possessed sufficient revenue generating mechanisms to raise sufficient capital to fund and support historic preservation programs. The states and local governments have also viewed the federal government as the purveyor of programs to resolve urban problems, including historic preservation. Thus, state and local governments have limited their involvement seeking remedies to problems endemic to their jurisdiction.

3. The tax incentives promulgated as a result of the 1976 and 1978 tax laws have created tax incentives comparable to new construction, only with a greater benefit to the investor or developer. These incentives serve to equalize the tax advantages new construction held over historic preservation and reuse project prior to the passage of the tax incentives. In addition, the greater tax advantages also equalize the disparity in the elements of risk between non-government supported new construction which typically occurs in the undeveloped urban periphery and the historic preservation and reuse projects taking place in many instances within the urban core areas. The incentives have opened American business people's and industrialists' minds and perceptions to the prospect of preservation and reuse projects in the urban core areas. Growing numbers have taken advantage of the incentives and others have undertaken preservation and reuse projects as a result of the benefits. The tax incentives have been responsible for a large number of reuse projects reaching fruition and have proven to be the most effective economic incentive in terms of stimulating reuse projects.

4. Cities in the survey area possessing sugnificant numbers of historic preservation and reuse projects such as Washington, New Orleans and Savannah, for example, have not resorted to economic incentives for preservation and reuse projects because the private sector already understood the market ramifications of such projects and did not require government

stimulus for such projects. In several other cities, major historic preservation and reuse projects had been initiated without the benefit of economic incentives, but the incentives had served to stimulate additional preservation and reuse projects. In some instances, the incentives served to make the expansion of these projects more financially rewarding to the innovators responsible for the projects, thus providing larger scale benefits to the community. These cities are primarily older cities with ample and established historic and architectural buildings and areas and the preservation and reuse ethic began in these areas because there was an established inventory of eligible buildings from which to select a viable building or site for such a project. In addition, in these cities there is a better developed and accepted sense of historic value and culture which is essential to serva as mental stimulus for such projects.

5. The acceptance and establishment of the documentation of the creditability of historic preservation and reuse projects as an alternative to new construction, the need for tax incentives and other governmental financial intervention in the marketplace can be reduced and such assistance can either be phased out or applied to other identified target areas or target projects. In instances of substantial private sector participation, the need for public sector support becomes unnecessary and should be eliminated or re-targeted to other problem areas or situations.

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APPENDIX

Gentlemen:

I am currently investigating different forms of economic incentives being offered for the preservation and reuse of historic buildings for commercial and/or industrial use. This research examines: tax incentives, utilization of air rights, use of CDBG funds, publicly funded revolving funds, direct grants or lending by the local or state government, transfer of development rights, and interest or mortgage assistance by the local government. The study will examine the incentives which are offered by each of the three levels of government: federal, state, and local. The study area will be the south-eastern section of the United States. The federal government, each state government in the study area and each city over 100,000 persons in the study area will be surveyed. The study will focus on those incentives private developers consider attractive for investment purposes. The research is essentially oriented towards examining strategies for stimulating private investment in historic buildings for commercial and/or industrial use.

The Heritage Conservation and Recreation Service, formerly the Bureau of Outdoor Recreation of the Department of the Interior, and the East Tennessee Development District have endorsed this research and are awaiting the results of the study. If you could assist me with information concerning this subject or direct this letter and questionnaire to someone who is knowledgable in this subject area I would appreciate the assistance.

If I can be of any assistance to you please let me know. Once again, thank you for your time and assistance.

Sincerely,

Edward Conner

Edward Conner

INTERVIEW SCHEDULE

1. Which of the economic incentives offered by your city is the most often utilized? Can you rank them?

2. Of the economic incentives offered by your city, how would you rank them in order of effectivenss for encouraging private sector investment in historic presrvation and preservation and reuse projects involving commercial and industrial use?

3. How much has your city invested in the economic incentives?

4. Would you like to see any other economic incentives offered by your city? Why?

5. What drawbacks to you see to the incentives?

6. Why do you believe historic preservation projects of the type we have discussed have occurred in your city? Why is the private sector investing in your town?

7. Have any federal programs such as SBA, EDA or any other programs assisted historic preservation and reuse projects in your city?

8. What level of investment in preservation and reuse projects have these economic incentives stimulated?

I appreciate you taking time to complete this questionnaire, it will only take a few moments of your time. After questionnaires from the other cities have been received and tabulated you will recieve a summary of the results.

1. Does your city offer economic incentives to encourage developers and businessmen to preserve and reuse historic buildings for commercial and/or industrial uses?
   Yes____
   No ____

2. If economic incentives are being offerred, which of the following incentives are offered by your city?
   Transfer of development rights____________
   Tax abatement ____________
   Mortgage assistance ____________
   Interest assistance ____________
   Direct grants ____________
   Direct loans ____________
   Utilization of air rights ____________
   Other (Please specify) ____________________, ________
   ______________________________, ______________________________.

3. How long have these economic incentives been in use?.

4. What was the reason the economic incentives were developed?

5. Do you feel developers or private businessmen are utilizing the incentives being offered in your city?
   Yes ____
   No ____

6. Can you please list some preservation and reuse projects in your city, and if possible the developer's name?

# VITA

Edward F. Conner was born in Mansfield, Ohio on April 1, 1953. He later moved to Knoxville, Tennessee in September 1962 and attended elementary schools in that city and graduated from Bearden High School in 1971. Following graduation from high school, he attended Rollins College and received a Bachelor of Science degree in economics and continued at Rollins College and earned a Masters in the Science of Business Administration in 1975.

After working a year, he entered The Graduate School of Planning at The University of Tennessee, Knoxville, in September 1977. After completing the course work for the degree, he obtained employment with UDI Community Development Corporation and continued to work on his thesis. He received his Master of Science in Planning in December 1983.

The author is a member of the American Planning Association, the Urban Land Institute and the National Trust for Historic Preservation. Mr. Conner remained employed by UDI Community Development Corporation after his graduation.