

Issue Brief

Historic Preservation and Affordable Housing A smart investment for Rhode Island's economy

Having a strong historic preservation tax credit program that incorporates long-term affordable housing is a strategic investment for Rhode Island's economy. This Issue Brief will look at how other New England states with an abundant stock of historic properties are maximizing their own historic preservation tax credits to build strong, diversified economies with a wide range of housing options for their workforce.

Nationally, historic preservation has become an accepted tool for revitalizing cities, boosting economic development, and maintaining sustainable communities with a unique sense of place. Historic preservation helps cities to increase "inward investment" by utilizing their existing resources and bolstering local construction, tourism, entertainment, housing, and environmental management sectors.¹

In a small state like Rhode Island, historic preservation policies also help make efficient use of existing infrastructure and preserve open land.

Similarly, creating affordable housing has a positive two-fold impact on the state's economy:

- When workers at the lower rungs of the economic ladder have an adequate supply of affordable housing, they are better able contribute to the state's economy.
- The actual development of affordable housing is a proven economic driver, supporting thousands of jobs in construction and related industries.



Pictured: Valley Affordable Housing Corp. was honored for its work on the Factory Street Apartments in Lincoln, RI. The development involved the substantial renovation of several historic buildings into affordable housing and received funding from the state's Historic Preservation Tax Credit

Why Historic Preservation and How Historic Preservation Tax Credits Work

State historic preservation tax incentive programs can be found in many states across the country, and for good reason. Investment in historic preservation is smart development and a win-win for communities. Preserving historic properties revitalizes neighborhoods, while using existing infrastructure. However, the rehabilitation of historic buildings can often cost more up front than new construction, which is why state governments across the country provide tax incentives to encourage this kind of investment.

In comparison to other tax credit programs, historic preservation tax credit programs have a significant and lasting impact on state economies. Historic preservation has a ripple effect on many other industries and is labor intensive. This means that jobs are created, and money is paid and spent locally. Finally, investment in historic preservation creates and protects tangible resources that have lasting impact on states.

Before applying for a historic preservation tax credit, the developer of a property must certify their property

is historic, have their plans approved, and pay the construction costs up front. Once the rehabilitation is complete, the developer can earn back a certain percentage (depending on the state) of the construction costs. This incentive comes in the form of credits to their annual income tax. The credits paid annually cannot exceed their annual income tax, so credits may be paid in installments annually until the developer has been fully reimbursed. It may be difficult for the developer to pay construction costs up front, especially in large-scale projects, so many state programs allow developers to transfer their tax credits. This means that a developer can work with an investor to pay the construction costs up front and transfer the credits directly to the investor upon completion of the project.

EXAMPLE HISTORIC PRESERVATION TAX CREDIT SCENARIO



Historic Preservation in New England

The majority of states across the country encourage the rehabilitation and preservation of historic properties through state tax credit programs. Two states in New England do not offer this incentive: New Hampshire does not tax income, so state historic tax credits are not applicable; Rhode Island ended its program in 2008, but efforts are under way to have a new historic tax credit program enacted during the current legislative session. Maine, Connecticut, and Massachusetts are actively encouraging the development of affordable housing through historic preservation projects.

HISTORIC TAX CREDITS - A QUICK GLANCE AT OUR NEW ENGLAND NEIGHBORS*

State	State Tax Credit %	Project Limit	Statewide Cap	Affordable Housing Incentive
Connecticut www.cultureandtourism.org	25% for converting historic property to mixed residential and non-residential uses	\$5 million	\$50 million over 3 years	Additional 5% in credits given
Maine www.maine.gov/mhpc	25% to rehab certified historic structure	\$5 million	None	Additional 5% in credits given
Massachusetts www.preservationmass.org	20% for income-producing properties like rental housing	none	\$50 million annually	At least 25% of allocated tax credits must be reserved for projects with affordable housing
New Hampshire	NOT APPLICABLE - NEW HAMPSHIRE DOES NOT TAX INCOME			
Rhode Island	NO STATE TAX CREDITS IN PLACE			
Vermont accd.vermont.gov	10% for overall improvements	varies	\$1.7 million annually	NOT APPLICABLE, PROGRAM LIMITED TO COMMERCIAL PROPERTIES
	25% for façade improvement	\$25,000		
	50% for code improvement	varies		

*This chart is a snapshot of other State Historic Tax Credit programs across New England. Click on the urls under each state for more in-depth information

Historic Preservation in Rhode Island

Like other New England states, the historic building stock in Rhode Island makes historic preservation an important economic building tool. **Rhode Island has about 18,500 properties listed on the National Register of Historic Places and an additional 30,000 properties that have been surveyed and determined to be potentially historic.**² In addition, 28.6% of Rhode Island's housing stock was built before 1939.³ But unlike our New England neighbors, Rhode Island is currently not taking advantage of its historic building assets.

In 2002, Rhode Island enacted the state's first historic preservation tax credit program. The program was used to support the rehabilitation of historic structures into income producing properties, including some long-term affordable housing. The program offered a 30% tax credit (reduced to 25% in 2008) on certified rehabilitations. This meant that if a property owner spent \$100,000 rehabilitating a historic property, that owner's tax bill could be reduced by as much as 30% or \$30,000.

This incentive spurred construction and rippled through the economy. Grow Smart RI commissioned an economic impact study of the program. According to the input-output economic modeling tool IMPLAN, the program placed \$535 million in private investment into the state's economy. Furthermore, it **generated 6,185 construction jobs, 2,145 permanent jobs, and close to \$333 million in direct wages.**⁴

The historic preservation tax credit program was suspended to new applicants in 2008 due to concerns about the cost of the program to the state and fiscal pressures on the state budget. Currently, the only incentive for historic preservation in Rhode Island is the Federal Historic Preservation Tax Incentive program, run by the federal government through the National Park Service. This incentive program offers a tax credit for 20% of the expenditure on the rehabilitation of an historic income-producing property. Although this program is a great incentive for historic preservation, there is no system to prioritize projects that incorporate affordable housing.

Rhode Island Success Stories

Stillwater Mill : Clocktower Apartments

Burrillville, RI



Nestled in the village of Harrisville, the old Stillwater Mill building had long been vacant and condemned. The town purchased the building and, working with the nonprofit NeighborWorks® Blackstone River Valley, transformed the blighted building into the Clocktower Apartments. A mixed-income and mixed-use development, the Clocktower includes 36 affordable and 11 market-rate apartments along with commercial space.

Total Rehabilitation Cost:	\$13,395,961
Historic Tax Credits:	\$3,348,990 ⁵

Dreyfus Hotel

Providence, RI



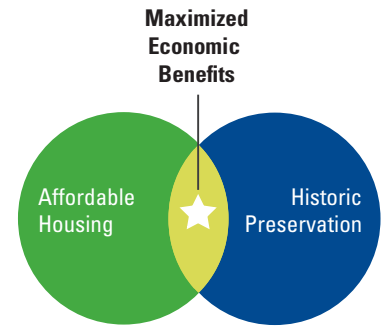
Providence arts organization AS220 wanted to build a strong community downtown. Recognizing the need for more affordable housing for artists, the organization acquired the Dreyfus Hotel in 2005. The top three floors of the building were rehabilitated to include 11 long-term affordable apartments, 3 market-rate apartments, and 10 artist work studios. The ground floor contains restaurant and retail space.

Total Rehabilitation Cost:	\$6,671,258
Historic Tax Credits:	\$2,001,377 ⁶

Incorporating Affordable Housing into Historic Preservation

A number of historic preservation projects in Rhode Island have incorporated long-term affordable homes. Before it was discontinued, the previous Rhode Island historic preservation tax credit program helped to fund the construction of over 500 low- to moderate-income housing units.⁷

If Rhode Island enacts a new statewide tax credit with an affordable housing component or prioritization system, the state could increase housing options in an expensive rental market. For example, one in four renter households in Rhode Island spend 50 percent or more of their income on housing expenses.⁸ Such high housing cost burdens mean these households cannot fully participate in our economy. Increasing the availability of long-term affordable rentals is key to addressing this barrier to our economic growth.



Coupling the State Historic Tax Credit program with affordable housing would maximize the economic benefits of the tax credit and help Rhode Island to stay competitive with our neighbors.

References

¹ John Laurie, "Historic Preservation and Cluster Based Economic Development," *Economic Development Journal* 7, no. 1 (2008): pg. 39, accessed October 18, 2012

² Rhode Island Historical Preservation and Heritage Commission

³ US Census Bureau American Community Survey (2007-2011) 5-year

⁴ Lipman Frizzell & Mitchell LLC, Rhode Island Historic Preservation Tax Credit Economic and Fiscal Impact Analysis 2007, report (Providence: Grow Smart Rhode Island, 2007), 1-2.

⁵ Rhode Island Historical Preservation and Heritage Commission

⁶ Ibid.

⁷ HousingWorks RI analysis of RI Historical Preservation & Heritage Commission Completed State ITC Projects and Rhode Island Housing Low-and-Moderate Income Homes by Community

⁸ US Census Bureau American Community Survey 2011 1-year PUMS

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Quality affordable homes for all

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Issue Brief

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