

# HISTORIC PRESERVATION AS A CATALYST FOR GENTRIFICATION

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*Urban Reinvestment, Historic Preservation, and Gentrification*

Since World War II, large numbers of middle-class American families have been moving out of central cities in order to live in suburbs where they enjoy good schools, low crime, reduced tax rates, and large, new homes. A result of this exodus of middle-class, mostly white residents has been a decrease in the tax base and a general economic decline of inner cities. This decline, in turn, has been accompanied by disinvestment in historic neighborhoods and homes. However, since the 1960s, evidence of reinvestment in some American urban areas has begun to surface, especially in larger cities on the East Coast like Boston, Philadelphia, and Washington, D.C. These cities have welcomed back young, middle-class, white residents, who have been primarily concentrated in the cities' historic neighborhoods, where beautiful brownstones and large brick row houses awaited them at bargain prices. As these neighborhoods have grown in popularity, so has the historic preservation movement.

The historic preservation movement gained popularity in the United States during the 1960s and 1970s. Supporters of preservation have argued that government action is needed to protect endangered structures, prevent inappropriate modifications to buildings, and encourage historically-sensitive rehabilitation. In addition to the cultural and aesthetic value of preserved homes and commercial buildings, proponents have pointed out that preservation can spur economic development and attract tourism. Most recently, they have begun to frame the debate around smart growth and sustainability. Since historic preservation discourages demolition, reconstruction, and the conversion of virgin land, it is more envi-

ronmentally-friendly than new construction.<sup>1</sup> Also contributing to sustainability, historic neighborhoods are usually located closer to the core of urban areas, meaning that they are generally better served by public transit and existing transportation infrastructure than new developments on the urban fringe.

In order to promote preservation, various levels of government have enacted measures to provide incentives for rehabilitation, and in some communities, to strictly regulate the types of modifications that can be made to existing structures. Historic districts designated at the local level by municipal governments are most likely to carry these restrictions; they often come in the form of historic overlay zoning and mandated design review procedures. Over 2,300 communities have historic preservation ordinances of some kind.<sup>2</sup> Districts can also be designated at the state or local level, following applications by municipal governments. Sometimes these designations are the result of advocacy by local residents and nonprofit community groups seeking to protect the historic character of a neighborhood, gain access to federal and tax incentives, or to simply increase the prestige of an area. State and federal districts, however, do not carry protections for historic properties.

Historic designations are often sought because the status grants eligibility for generous rehabilitation tax incentives. The Federal Historic Preservation Tax Credit Program offers tax credits that cover up to 20% of eligible rehabilitation expenses for properties located in national historic districts. These credits apply only to income-generating properties: rental housing, offices, agricultural facilities, and other businesses. They do not benefit owner-occupants of historic homes. Furthermore, landlords and business

owners can only qualify for the credits if they meet large minimum investment requirements; generally projects must spend at least \$5,000 during renovation.

Although federal tax credits often receive the most attention, many states offer large credits that apply to owner-occupied homes as well as structures with other uses. For example, the State of Virginia offers a Rehabilitation Tax Credit program that covers both income-generating and owner-occupied housing and business properties. This program offers a 25% tax credit for eligible rehabilitation expenses, again with requirements for minimum rehabilitation investment. It is possible that business owners and landlords could receive both credits, totaling 45% of the rehabilitation expenses.<sup>3</sup> For those who can afford the minimum investment to qualify for the credits, these incentives can be major benefits, significantly reducing the cost of large rehabilitation projects.

Unfortunately these incentives are confusing, investment-intensive, difficult to take advantage of, and not widely-known. Those with higher education, greater familiarity with tax laws, and sufficient loose cash or available equity to finance rehabilitation are more likely to take advantage of the incentive programs. Those pursuing the tax credits are actually encouraged to hire accountants and financial advisors to guide them through the process.<sup>4</sup> These services are expensive and only add to the burden faced by low and moderate income individuals seeking to take advantage of these programs. Moreover, these credits largely benefit landlords or business owners. Although the state credit applies to owner-occupied homes, it still focuses on renovation projects valued at more than \$5,000.

In addition to the difficulties discussed above, residents in historic districts have other concerns, particularly gentrification. Neighborhoods can become gentrified as residents and business owners are attracted to historic areas to buy and fix up buildings that previously were seen as inadequate. This process can transform entire neighborhoods into fashionable places to live, work, and shop. As a result of this increased investment in gentrifying neighborhoods, property values, rent, and taxes rise; in turn, lower-income residents find it more and more difficult to afford living in their communities and may eventu-

ally be forced to leave. Rising property values can benefit homeowners who wish to move or gain access to more home equity, but subsequent increased property taxes can be a prohibitive burden. Renters are even more likely to suffer. Increased popularity of a neighborhood can cause rapid increases in rent, especially in cities without tenant protections such as rent stabilization.

In addition, as wealthier individuals move in, affordable neighborhood stores that serve lower-income families may be replaced by specialty stores that cater to those of higher incomes. Gentrifiers tend to be white, college-educated, young professionals. In some cases, gentrifiers push out nonwhite residents from predominantly minority neighborhoods, disrupting the social culture which attracted many of the native residents to the area. While gentrification may not necessarily force lower-income residents to leave an area, it certainly changes the quality of life in these neighborhoods, often making the area less desirable to native residents.

Gentrification undoubtedly has its benefits. Naturally, as individuals and businesses renovate buildings, property values rise, creating greater tax revenue for municipal governments.<sup>5</sup> Thus, redevelopment is generally welcomed by city governments. More often than not, before undergoing gentrification, neighborhoods are primarily recipients of municipal services and contribute little to city coffers. As reinvestment becomes widespread, the areas transform into contributors to the municipal tax base with a much reduced demand for city services. For this reason, designating neighborhoods as historic districts may appeal to local government officials who use the designations to attract greater private investment in the areas.

To some, the quality of life improvements that come with revitalizing older neighborhoods justifies the displacement of some existing residents. Supporters of gentrification cite benefits such as lower crime rates, more attention from municipal governments, increased police patrols, and even better garbage collection.<sup>6</sup> However, it is unclear whether existing residents are able to afford to remain and enjoy these benefits. The magnitude of displacement certainly varies by community.

*The Case of Richmond, Virginia*

The gentrification of historic areas and the subsequent growth of historic preservation is an issue that deserves greater investigation. Most research on gentrification and displacement has been centered around major cities such as Boston and New York, while little has been reported on smaller cities, particularly those in the South. Known for its historic neighborhoods such as the Fan—the largest intact Victorian community in the United States—Richmond, Virginia is an interesting case study for the potential link between historic preservation and gentrification.<sup>7</sup>

In Richmond, there is a significant amount of controversy over the property restrictions that accompany designations. Designed to maintain the integrity of historic areas, restrictive preservation regulations significantly impact residents and owners. For instance, to replace windows, roofs, siding, or other exterior components, the owner must apply for special permits and receive approval from the City's Commission for Architectural Review. City officials readily admit that regular exterior maintenance, such as replacing a roof, is often more expensive as a result of these regulations. High quality building materials required by the Commission may last longer and provide an ultimate financial benefit, but to lower-income owners, investing in these materials may prove to be a financial hardship.

Once again, higher income residents find the rules less financially restrictive and have greater access to information on government restrictions, so it is easier for them to comply with such constraints. If low-income residents are not able to afford basic modifications to their properties, they will either be forced to sell their homes and leave their neighborhoods or will allow their properties to fall into disrepair. Clearly, both scenarios are undesirable.

Historic preservation in Richmond has been a controversial issue among residents. The movement began in the late 1950s with the preservation of the residential area surrounding St. John's Episcopal Church, the site of Patrick Henry's famous "Give me liberty or give me death" speech. Historic preservation has since spread to many other parts of Richmond. Starting in the 1970s, a new district was added to the National Register or designated by the City of Richmond nearly every year, and about three national

districts per year have been designated since 2000.<sup>8</sup> It seems Richmond has been struck with historic preservation fever. In fact, the City of Richmond and a select group of its residents have been so eager to create new designations that sometimes they have ignored public outcry, only to end up reversing local designations after controversy and infighting.<sup>9</sup> Preservation and gentrification polarize the Richmond community, with opinions often varying along class and racial lines.

Despite the ongoing controversy, little research has been done to determine if historic preservation is actually correlated with demographic change in Richmond's neighborhoods. Census tract data from 1950 to 2000 show

that many areas designated historic in the 1950s, '60s, and '70s have experienced significant increases in home values, household income, and educational attainment of residents compared to the city as a whole over the same time period. Furthermore, the percentage of nonwhite residents living in some of the districts has decreased and racial integration in historically white

neighborhoods has been slow.<sup>10</sup> While analysis of Census data is far from an ideal method of identifying gentrification and neighborhood change, the trends are nevertheless compelling. If Richmond is using preservation for community development and the promotion of tourism, City officials should be studying its implications.

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*Options for Countering Gentrification and Displacement*

There are options for reducing the potentially harmful side effects of historic preservation. For example, Richmond could expand the homeownership

resources it has provided in its popular *Neighborhoods in Bloom* community development program to those in historic districts. The Neighborhoods in Bloom program seeks to revitalize low-income communities through home ownership counseling and classes, incentives for purchasing and rehabilitating properties, and partnerships to create owner-occupied housing units.<sup>11</sup> This program could be expanded to cover some historic neighborhoods since many of the newly-designated historic districts with low-income residents in North Richmond are located near or adjacent to Neighborhoods in Bloom districts. Greater homeownership helps prevent displacement in gentrifying areas and is generally thought to be a successful strategy for increasing wealth among those with low and moderate incomes.

The City could also establish a type of emergency maintenance fund for residents living in municipal historic districts with regulations on property renovations. This fund could provide assistance in the form of matching grants or other subsidies to those who need to make expensive, historically-appropriate modifications to their homes. The Low Income Historic Housing Rehabilitation Program in Phoenix, Arizona may serve as an example for cities like Richmond to follow.

In order to prevent historic districts, particularly municipal districts with property regulations, from being designated without the support of affected residents, the City could consider instituting a voting process to include residents in the decision making process. To its credit, the City currently makes efforts to contact residents and get their feedback before establishing municipal districts. However, a more formal system of voting on designations would be more equitable. In addition, voting could also be required in districts undergoing state and national historic designations. These designations are less controversial, but it is important that affected residents have the opportunity to sanction or prevent them through a formal, binding process.

Finally, the City of Richmond should undertake a project to analyze the effects of historic designations. The City alone has access to the most important information and data for tracking reinvestment, gentrification, and displacement trends. If it finds that historic areas or other neighborhoods exhibit

signs of displacement, it could go so far as instituting rent stabilization policies to accompany new historic designations.

Richmond, like many cities, faces a number of serious problems. There are high levels of poverty and crime, as well as a great need for social services in many neighborhoods. If used as part of a holistic community development strategy to empower existing residents and welcome newcomers, historic preservation can help address these problems. Richmond should be proud of its history and take action to protect historic structures; however, the government must also prioritize the welfare of its residents, particularly those with little financial resources and a lack of political influence.

#### Endnotes

- 1 National Trust for Historic Preservation. "Sustainability Initiative" available at <http://www.nationaltrust.org/green> accessed 1 November 2007.
- 2 National Trust for Historic Preservation. "A Citizen's Guide to Protecting Historic Places: Local Preservation Ordinances, Smart Growth Tools for Main Street." (2002) available at [http://www.nationaltrust.org/smartgrowth/toolkit\\_citizens.pdf](http://www.nationaltrust.org/smartgrowth/toolkit_citizens.pdf) accessed 1 November 2007.
- 3 Virginia's program was initiated in 1997. The federal program was introduced in 1976, and since then over 1,400 historic properties in Virginia have been rehabilitated. Virginia Department of Historic Resources. "Federal and State Rehabilitation Tax Credits" available at [http://www.dhr.virginia.gov/tax\\_credits/tax\\_credit.htm](http://www.dhr.virginia.gov/tax_credits/tax_credit.htm) accessed 1 November 2007.
- 4 "...the Internal Revenue Code is complex and changes frequently. Furthermore, the provisions of the tax code regarding at-risk rules, passive activity limitation, and alternative minimum tax can affect a taxpayer's ability to use these tax credits. Applicants are strongly advised to consult an accountant, tax attorney, or other professional tax advisor, legal counsel, or the Internal Revenue Service for help in determining whether these incentives pertain to their own situations." National Park Service. "About the Federal Tax Incentives for Historic Preservation." Available at <http://www.nps.gov/history/hps/tps/tax/brochure1.htm> accessed 1 November 2007.
- 5 Vigdor, Jacob. "Does Gentrification Harm the Poor?" *Brookings Papers on Urban Affairs*, 3, 2002: 133-182.
- 6 Freeman, Lance. "Displacement or Succession? Residential Mobility in Gentrifying Neighborhoods." *Urban Affairs Review* v. 40, n. 4 (March 2005): 463-491. and Vigdor (2002).
- 7 Historic Richmond Foundation. *Historic Areas*, available at <http://www.historicrichmond.com/historicareas.html> accessed on 5 June 2005.
- 8 City of Richmond Department of Community Development, *The Richmond Old and Historic Districts Handbook and Design Review Guidelines*, 1999. National Register of Historic Places, available at <http://www.nationalregisterofhistoricplaces.com>; accessed 1 November 2007.

- 9 In the 1990s, the designation of the Church Hill Old and Historic District just north of the existing St. John's Church district was extremely controversial. The designation was ultimately reversed, though in 2007 the area was re-designated by the City. See Bradley, Paul. "Marsh vows fight over historic zone," *News Leader* (Richmond, VA), 12 June 1990, 1 and 5. See also Rowley, Dorothy. "The new Church Hill commercial strip; will poor Black residents be forced out?," *Voice* (Richmond, VA), 23 October 1996, 1 and 5, Sloan, Dena. "Historic district disputed," *Times Dispatch* (Richmond, VA), 16 July 2005, B-1 and B-3, Smith, Randolph P. "Distrust, hope meet plan for historic district," *Times Dispatch* (Richmond, VA), 6 December 1987, G-1 and G-4, and Williams, Michael Paul. "Meeting on designating historic area tension-filled," *Times Dispatch* (Richmond, VA), 5 December 1990, B-4.
- 10 Skiles, Lauren, (Lauren Lambie-Hanson). "Historic Preservation, Gentrification, and Displacement in Old Richmond Neighborhoods," (2005) available at <[http://research.richmond.edu/students/Lauren\\_Skiles.htm](http://research.richmond.edu/students/Lauren_Skiles.htm)>.
- 11 John Accordino, John, George Galster, Peter Tatian. "The Impacts of Targeted Public and Nonprofit Investment on Neighborhood Development: Research based on Richmond, Virginia's Neighborhoods in Bloom Program." (July 2005) available at <[https://richmondfed.org/community\\_affairs/topical\\_essays\\_and\\_resources/pdf/nib\\_research.pdf](https://richmondfed.org/community_affairs/topical_essays_and_resources/pdf/nib_research.pdf)>.