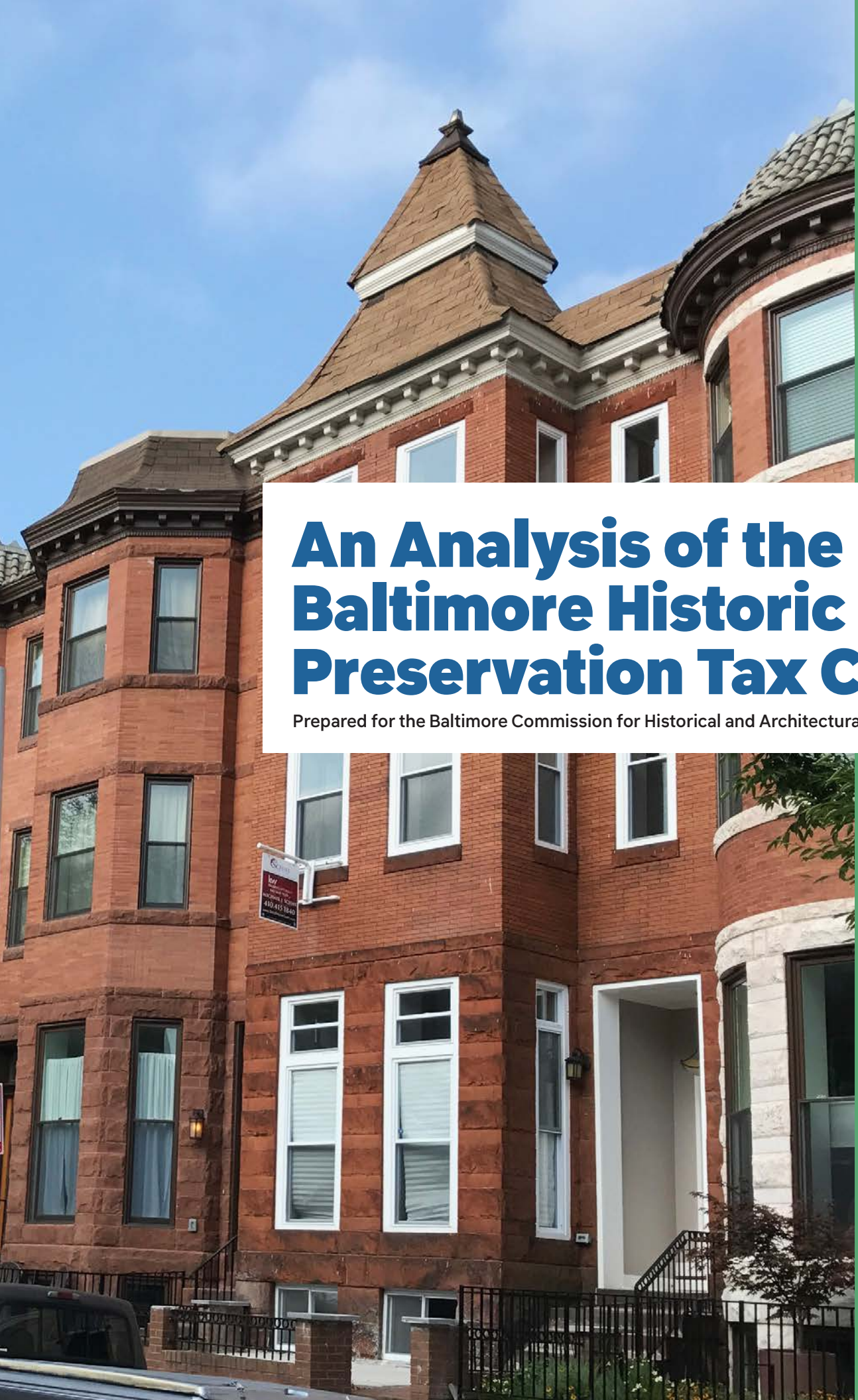


An Analysis of the Baltimore Historic Preservation Tax Credit

Prepared for the Baltimore Commission for Historical and Architectural Preservation



N. Curley Street
Photo by CHAP

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2404 Eutaw Place, Tax Credit Project
Photo by Baltimore Heritage

Executive Summary

This study was commissioned to measure the impacts of 24 years of Baltimore City's Tax Credit for Historic Rehabilitations and Restorations, known commonly as the "CHAP credit." The following are ten key findings from this analysis:

1. More than 3,500 historic properties have been renovated using the CHAP credit representing private sector investment of nearly $1.2 billion.
2. The credit produces value. The properties whose CHAP credits have now expired increased in value from $17 million in 2000 to $211 million in 2019. They went from paying city property taxes of $1.3 million to $5.9 million.
3. In the next nine years, the city can expect $43 million in additional tax revenues from properties with expiring CHAP credits.
4. Because of the private investment and increasing property values, the taxes foregone over ten years are recouped in just over seven years.
5. The City of Baltimore is foregoing around $10 million a year through the CHAP credit. However, very conservatively, if even 52% of the projects would not have happened without the credit, the city is better off financially than if there were no credit.
6. These projects have a "halo effect." Properties located within 500' of CHAP credit projects see increases in aggregate property values greater than properties between 500' and 1000' of CHAP projects, and significantly greater than the rest of the city.
7. Critical mass matters. In general, the greater the percentage of properties that are eligible for the credit, the greater share of them will use the credit. The program is also responsible for bringing private investment to Baltimore's weaker market neighborhoods.
8. Just the incremental rate of higher value growth in the halo vicinity of CHAP projects has created a preservation premium of $2.5 billion in property values. If as little as 20% of that premium is attributable to the investment in CHAP projects, the $10 million in foregone revenues from the credit is recovered from the additional taxes generated from nearby properties.
9. The program creates jobs. Over the last five years an average of nearly 600 direct and indirect jobs and $36 million in labor income have been generated each year through CHAP credit projects.
10. During the Great Recession, investment in CHAP projects was counter-cyclical, increasing in activity when the rest of the construction activity in Baltimore declined.

Introduction

The City of Baltimore is a city rich in history and rich in historic resources. Baltimoreans are rightfully proud both of that history and the historic buildings that tell the city's story. Nearly 25 years ago, the city's commitment to and concern for its built heritage was reflected in the adoption of the Tax Credit for Historic Restorations and Rehabilitations commonly known as the CHAP credit. Since 1997 there has been investment of more than $1 billion in historic property redevelopment using the credit. The city ordinance states, "The goal of this program is to help preserve and revitalize Baltimore's neighborhoods by encouraging home and business owners to make special efforts to restore or rehabilitate historic buildings." By any measure, that goal is being met, as the owners of more than 3,400 historic properties have restored or rehabilitated their historic buildings using the CHAP credit.

Unfortunately, the richness of the built heritage in Baltimore is not matched by abundant surpluses in the city treasury. Like many other legacy cities[1] in America, Baltimore is struggling to meet the often-increasing needs of its citizens while seeing declining population and declining revenues. It was in this context that in 2019, the City of Baltimore ordered an analysis of all of its tax incentive programs. According to the analysis by Ernst and Young, the combined tax credit programs mean the City of Baltimore forgoes approximately $130 million in city revenues annually, a 7% share of all revenue and a 14% share of property tax revenue.

Assessing the impact of these programs is a key component of good governance. It is appropriate that the Tax Credit for Historic Restorations and Rehabilitations is among the eight major and four minor tax credits being evaluated in the Ernst and Young study. The present study was commissioned by the Department of Planning both to provide a more in-depth analysis of the CHAP credit, but also provide information for the Mayor and Council to review when considering extension of the program which is scheduled to sunset in February 2021. The pages that follow constitute that analysis.

1 Legacy cities, also commonly referred to as shrinking, or post-industrial cities, are places that have experienced sustained population loss and economic contraction. According to the Lincoln Land Institute, "Many social and economic forces have contributed to their decline: loss of the manufacturing firms that historically provided their economic base; regional migration and suburban flight that left impoverished urban populations behind; and a reduced housing market demand that led to diminished property values and abandonment." (Mallach and Brachman, Regenerating America's Legacy Cities, 2013.)

Why Historic Rehabilitation Tax Incentives are Good Public Policy

The rehabilitation of historic buildings creates jobs, increases surrounding property values, catalyzes additional redevelopment, and generates new local tax revenue. Incentives are but one tool in a wider range of approaches to conserving built heritage, but they deserve particular attention. Public policy that imposes regulation and property limitations without the balance of incentives can sometimes discourage necessary investment. Moreover, preservation incentives are often the linchpin that makes a preservation investment financially viable.

In real estate terms, "Cost" is the sum of the expenditures that will have to be made from the conception of a project to its completion. "Value," in financial terms, is what the marketplace is willing to pay in rent or purchase price for that restored building. Where Value exceeds Cost, the marketplace will undertake the project, and incentives may not be necessary. Yet when Cost exceeds Value, as is sometimes the case with historic buildings, a gap exists. The primary purpose of incentives is to close this gap—to make an irrational economic act a rational one. Of particular note, in a legacy city like Baltimore where the real estate market strengths vary greatly neighborhood to neighborhood, a rehabilitation tax incentive can help make improvements economically rational in a weaker neighborhood. This helps create a more equitable Baltimore.

Beyond making a purely financial argument, preservation incentives are good public policy because they promote a public good. Historic buildings have values beyond just financial. These values can be aesthetic, social, environmental, educational, cultural, symbolic, etc. The beneficiaries of those non-financial values are not the property owner, but a larger group that includes nearby property owners, tenants, visitors, taxing entities, the general public, and generations not yet born. A property owner is asked to make the financial investment and is entitled to the financial return. But that investment also maintains and enhances the other values of the historic building. Therefore, preservation incentives can be considered as partial payment for the values that the public—not the property owner—receives as a result of the property owner's investment.

It is also important to consider this through an equity lens. Historic buildings in every eligible neighborhood have a chance to receive high-quality rehabilitation. Every neighborhood deserves to have its history preserved, not only the neighborhoods that have a strong market in 2020.

Unlike some incentives, a historic tax credit encourages investment in a long-term capital asset, one that can remain economically productive both for its owner, and an asset to the city as a tax generating resource for years to come.

Purpose

The purpose of this report is to evaluate the impacts of the Baltimore City Tax Credit for Historic Restorations and Rehabilitations, commonly known as the CHAP credit, and if appropriate, recommend ways to make the credit more impactful. A robust Advisory Group of community members, city staff, and industry professionals was established to guide the process and make decisions for recommendations to the Mayor and City Council.

As the Ernst and Young analysis noted, while there are numerous tax credits offered by the city, the CHAP credit is "the only incentive that encourages investment in existing resources."[2] This has positive fiscal and environmental consequences.

A recent Brookings Institute publication, *Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities,* identified criteria upon which local incentives should be based:

"Cities should target incentives based on core principles of inclusive economic development:
1. Grow from within - do local businesses benefit in economic output?
2. Boost trade - bring new income and investment across goods and services?
3. Invest in people and skills - result in skills development, provide local jobs?
4. Connect place - catalyze placemaking?"

By accident or design, the CHAP credit manages to achieve all of those: It is primarily used by local developers employing local workers; capital investments are inherently local in their impact; rehabilitation is more labor intensive than new construction; rehabilitation work is an investment in human skills; and historic preservation is more than just placemaking, it is place "keeping."

Furthermore, equity is an important lens through which city agencies shape public policy. The data within this report and an historical overview of the tax credit program show that this program has helped create a more equitable Baltimore.

2 Presentation to CHAP Advisory Council on findings from the Ernst and Young study for the City of Baltimore, January 8, 2020.

Background of the CHAP Credit

In 1996, the Mayor and City Council established Baltimore City's Tax Credit for Historic Restorations and Rehabiliations Program. Since 1997, over $1 billion dollars have been invested in Baltimore's historic properties. Since the tax credits were originally enacted, the program has been extended four times, most recently in 2016. Unless extended, the program will sunset in February 2021. The goal of the CHAP credit is: "To help preserve and revitalize Baltimore's neighborhoods by encouraging home and business owners to make special efforts to restore or rehabilitate historic buildings." Recent work by the Advisory Group for this report has suggested a slightly amended goal, "The goal of this program is to help preserve and revitalize Baltimore's neighborhoods by encouraging the rehabilitation of historic structures to promote the equitable and inclusive economic growth and vitality of the City of Baltimore."

To qualify for the CHAP credit, a property must be classified as a "historic property" which means either the property is: individually listed on the National Register of Historic Places; individually listed on the City Landmark List; located within a National Register Historic or Landmark District and certified by the Commission for Historical and Architectural Preservation (CHAP) as contributing to the historic significance of that district; or located within a City Historical and Architectural Preservation District and certified by CHAP as contributing to the historic significance of that district. The project is eligible if it includes a plan for "significant improvements," meaning improvements, restoration, or rehabilitation for which the total documented construction costs equal or exceed 25% of a property's full cash value before commencement of the improvements, restoration, or rehabilitation.[3] These improvements must be reviewed and approved by CHAP prior to the commencement of any work. The application is valid for two years and is eligible for a one-time extension. Once the project has gained final certification, the credit stays with the property regardless of ownership.

Applicants must pay a $50 application fee and submit design plans to CHAP for approval. As part of the preliminary review process, the property undergoes an appraisal to determine its pre-rehabilitation full cash value. Within 90 days following the rehabilitation, a post-appraisal must be completed to determine the post-rehab full cash value. The difference between the pre-and post-appraisals multiplied by the City of Baltimore tax rates determines the potential maximum amount of the tax credit. The credit is the full tax liability that would otherwise be assessed against the pre-and post-difference for 10 years.

The tax credit is not calculated until the property is reassessed, and the calculation is handled by the city's Department of Finance. The credit term always commences after final certification by CHAP and the Director of Finance. The tax credit is a dollar value that is subtracted from an owner's property tax bill each year for 10 years. The tax credit offsets any increase in Baltimore City's taxes that occurs following a substantial rehabilitation project. For example, if the property pre-improvement appraisal is $100,000 (times the current tax rate = $2,248) and once the project is completed the property's post-improvement appraisal is $300,000 (times the current tax rate = $6,744), the potential maximum amount of the tax credit is $4,496. That $4,496 is subtracted each year for each of ten year's taxes. [4]

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3 Because the credit is based on the pre-and post-appraisal value, it's important to note that not all improvements necessarily increase the appraised value of a property. Improvements that are most likely to increase appraised value include: Adding additional living area; full restoration or renovation of a property; converting a space to residential use (attic/garage, etc.); or adding an additional bathroom. Normal maintenance or upgrade repairs to existing space such as a kitchen remodel or new roof are less likely to increase the appraised value.

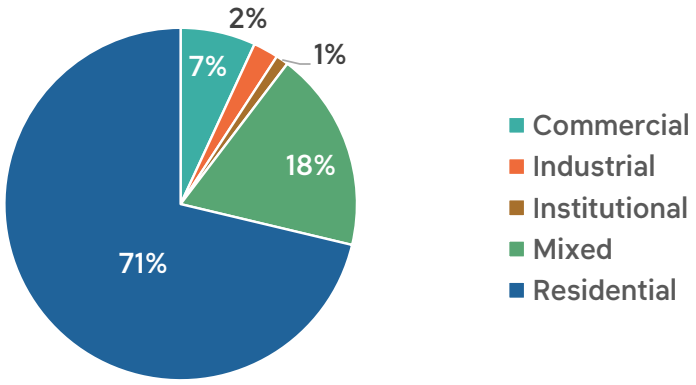
4 No part of this tax credit may be applied: In any tax year to reduce the property's tax liability for that tax year; after application of any other applicable tax credit; to less than the tax liability to which the property was subject; after application of any other applicable tax credit; at the time that the preliminary approval was issued and prior to the commencement of the eligible improvements. So for the example, if the assessment at the time the application received preliminary approval was $110,000 (times the current tax rate = $2,472), and the assessment for the first year in which the credit is awarded is $250,000 (times the current tax rate = $5,620), then the CHAP credit for that year cannot exceed the difference between the two ($5,620.00 - $2,472.80 = $3,147.20). Accordingly, the maximum credit of $4,496.00 would be reduced to $3,147.20.

Typology of Eligible Areas

The typical vision of a Baltimore home is an attached single-family rowhouse. According to the U.S. Census, over 50% of Baltimore's housing stock fits this rowhome description.

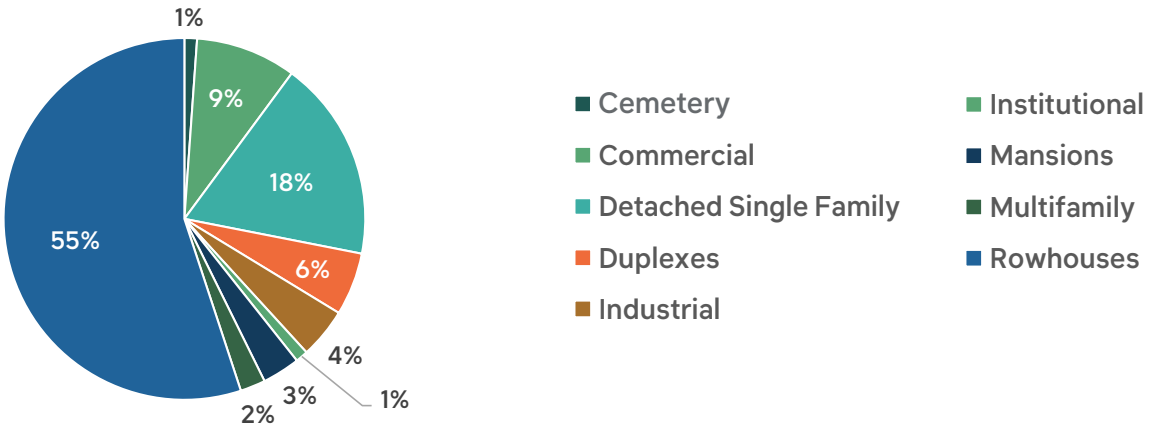
The areas that are eligible for the credit are those that have received public recognition as historic. These are overwhelmingly residential, and a majority are attached rowhomes. Of the areas that are eligible for the CHAP credit, nearly 90% are residential or mixed use.

Types of Eligible Areas

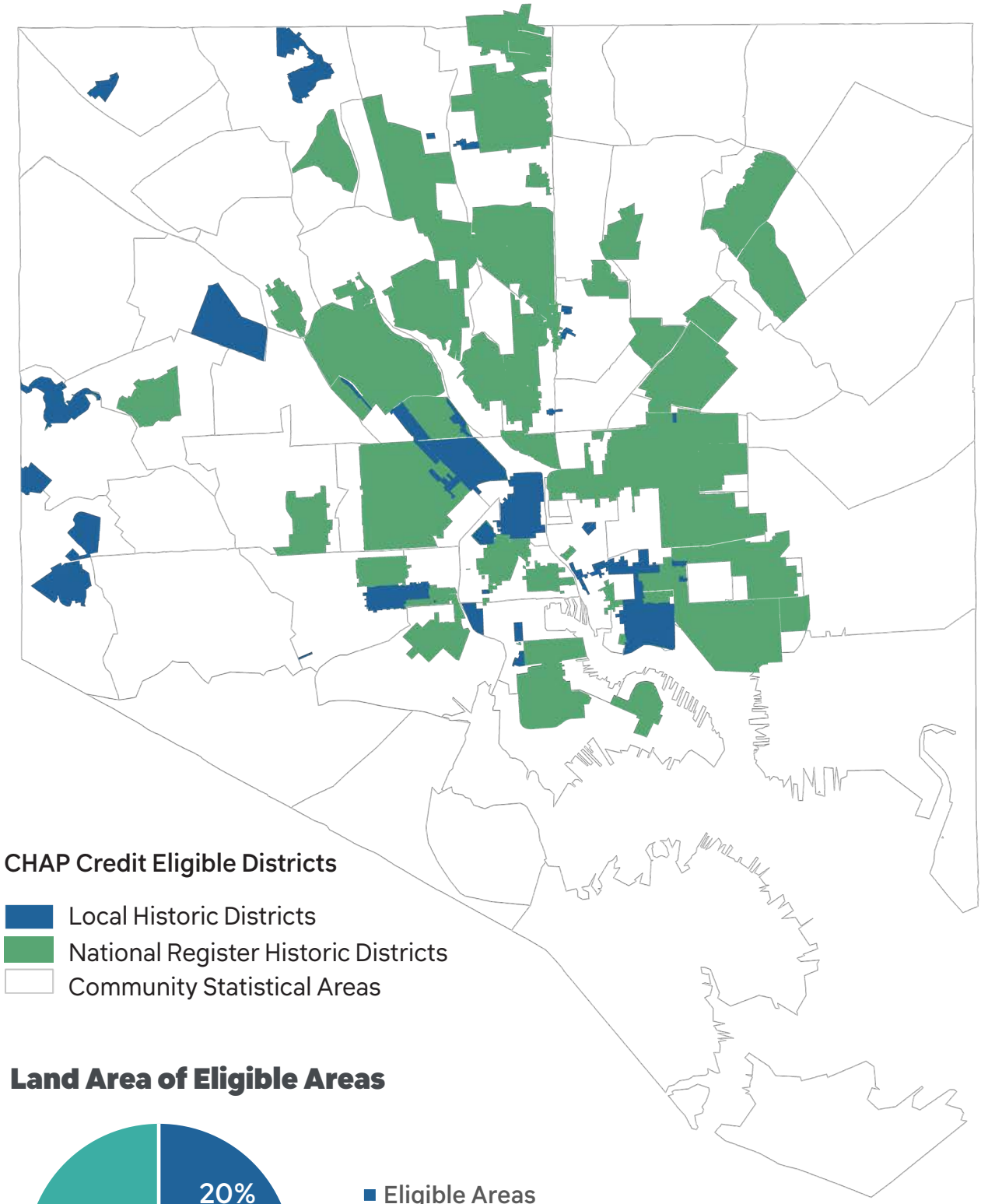


Of the building types within eligible areas, again, most are residential, including 55% that are the Baltimore rowhouse and another 27% are another form of residential dwelling.

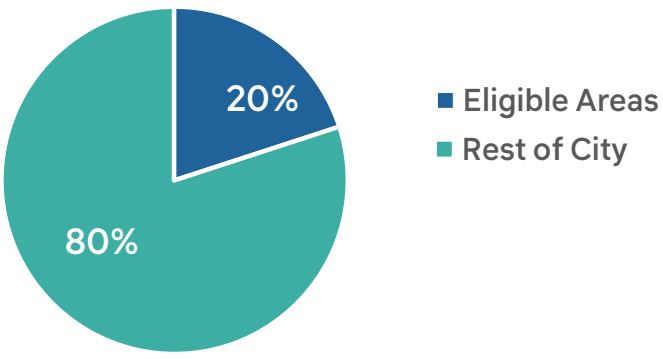
Primary Building Type in Eligible Areas



CHAP Credit Eligible Areas



Land Area of Eligible Areas



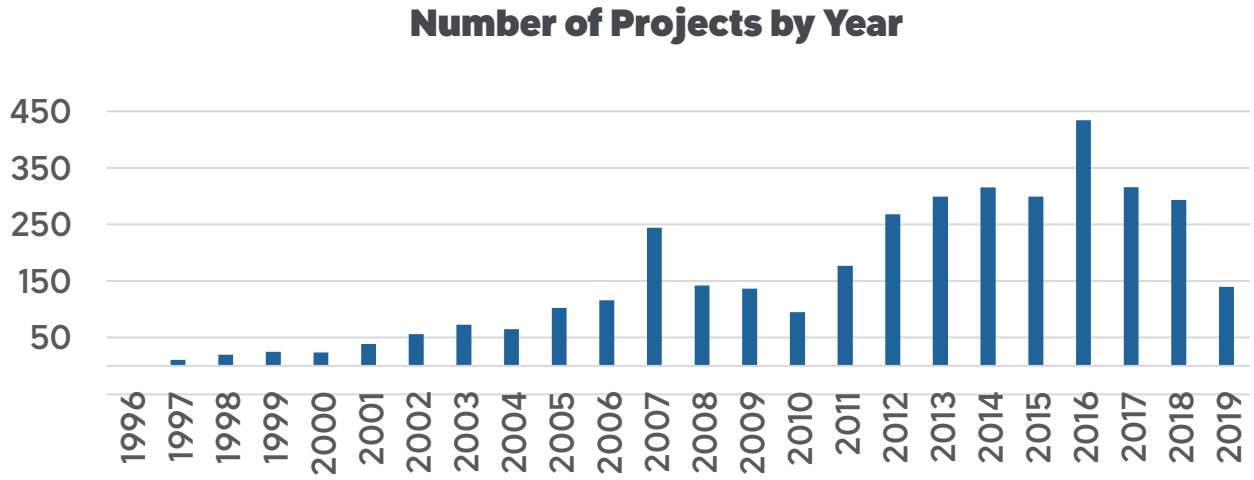
Overall, the Eligible Areas include 20% of the land area of Baltimore while the other 80% of the land has no qualifying properties.[5]

5 The Dundalk National Register District was not included in this analysis because over 90% of the district is outside of city boundaries.

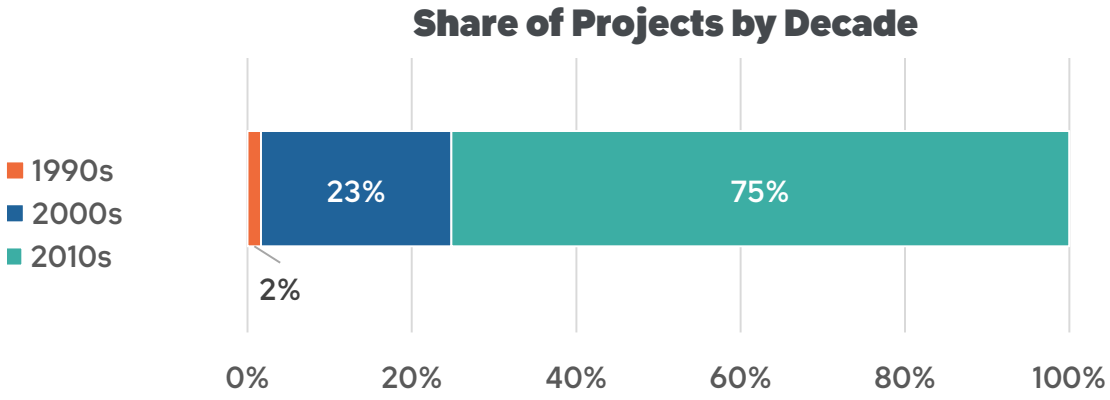
Use of the Credit

Count

There have been 3,528 completed CHAP credit projects since the program started in 1996.[6]



As the credit became more widely known, and both developers and homeowners learned the processes to effectively use the credit, the frequency of CHAP credit projects increased significantly. This program has been essential for first-time home buyers, as the credit significantly reduces the monthly debt service by several hundred dollars a month for many homeowners. Three-quarters of all projects have taken place within the last ten years. Fifty percent of projects have occurred since 2014. [7]

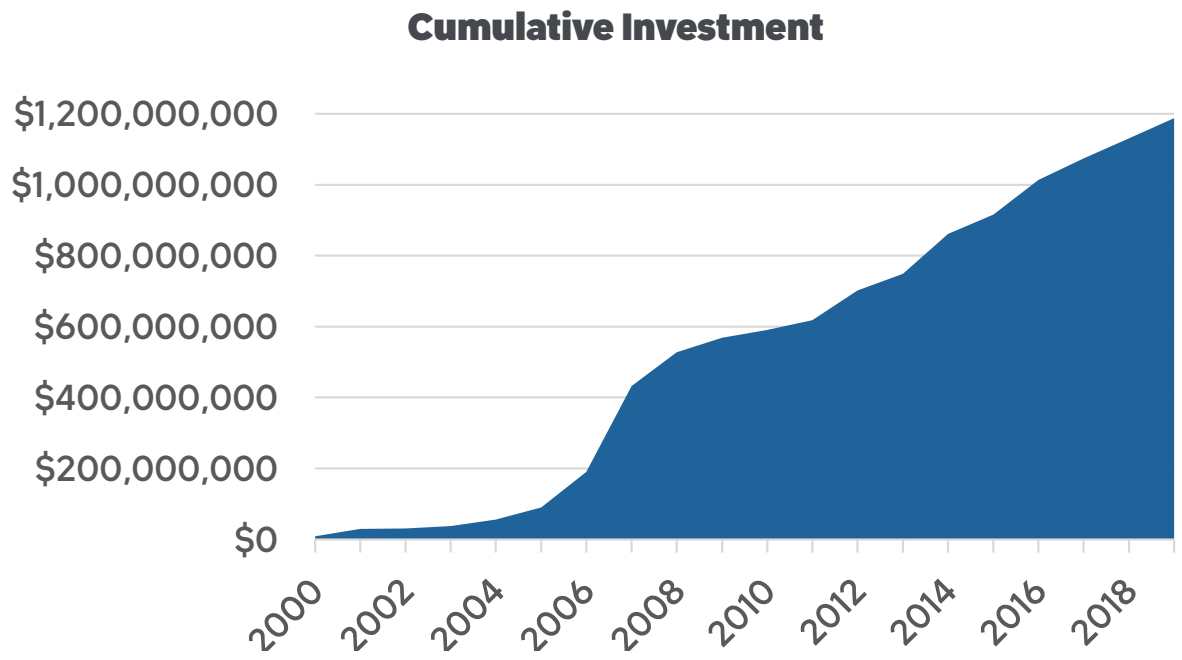


6 Data 1996-August 2019.

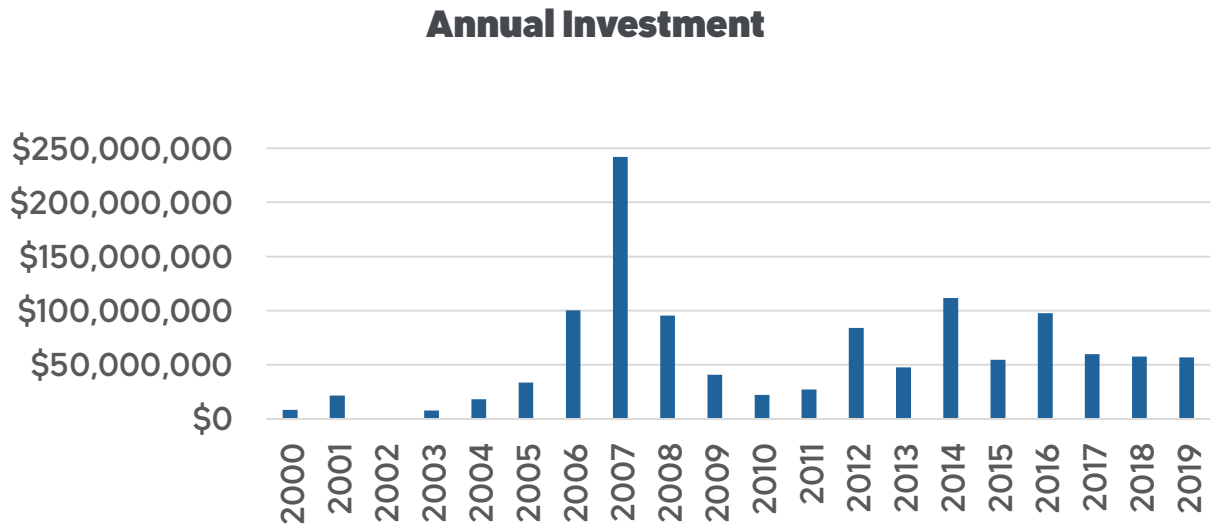
7 This chart is based upon final approval dates.

Annual and Cumulative Investment

Since 2000, CHAP credit projects have seen over $1.19 billion in total investment.[8]



When looking at the annual rather than the cumulative investment, the volatility of use emerges. Because of a few very large projects, the year 2007 saw the largest amount ever in investment using the CHAP credit. Not surprisingly, there was a significant decline in both the number of projects and the amount of investment during the Great Recession of 2007 to 2011.



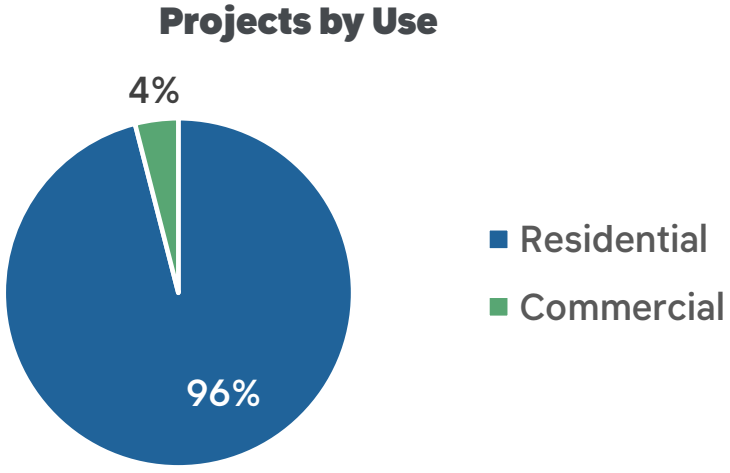
8 Prior to 2000, project budget was not recorded.



The Point in Fells (right), Tax Credit Project. Photo by Kelly Bell via Flickr, Licensed

Commercial vs. Residential Use

Considering the majority of building typologies in eligible areas are residential, it is no surprise that the CHAP credit has primarily been used for residential properties.

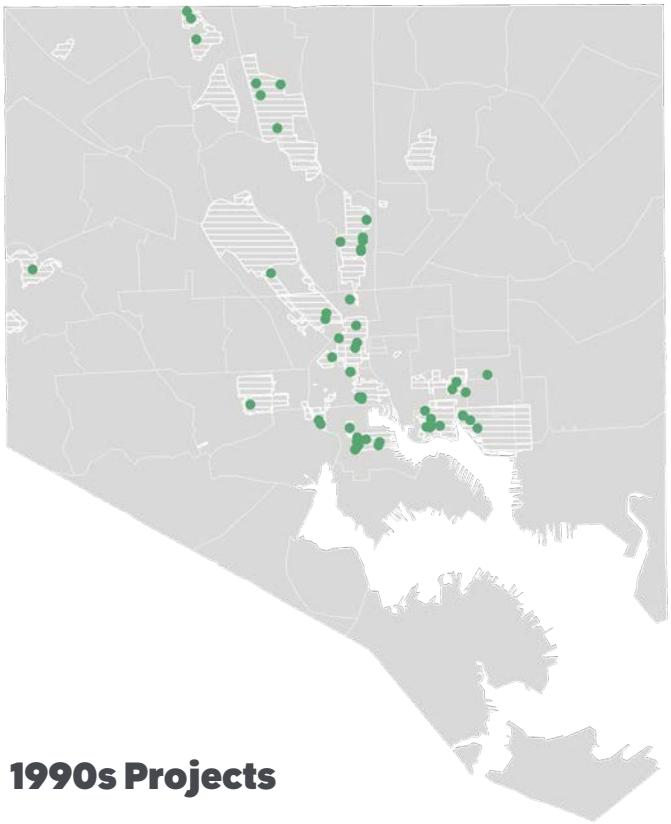


Location

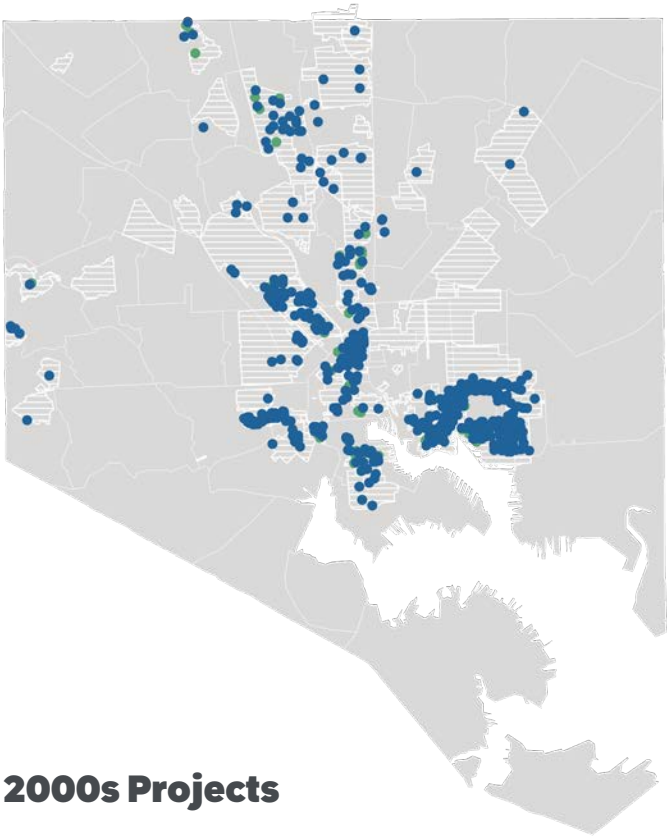
As part of the effort to understand the pattern and the impact of the CHAP credit, completed projects were mapped for each of three decades. Two things can be seen from the accompanying maps: 1) As the credit became better known and more frequently used, projects were undertaken in more parts of the city. This program has been essential to the revitalization of many distressed communities in Baltimore City. The neighborhoods of Oliver, Collington Square, Reservoir Hill, and Upton's Marble Hill have seen significant use of the credit. However, 2) it is also apparent that success breeds success, with new projects most likely to be undertaken where a pattern of successful use of the credit has already occurred.

CHAP Credit Projects

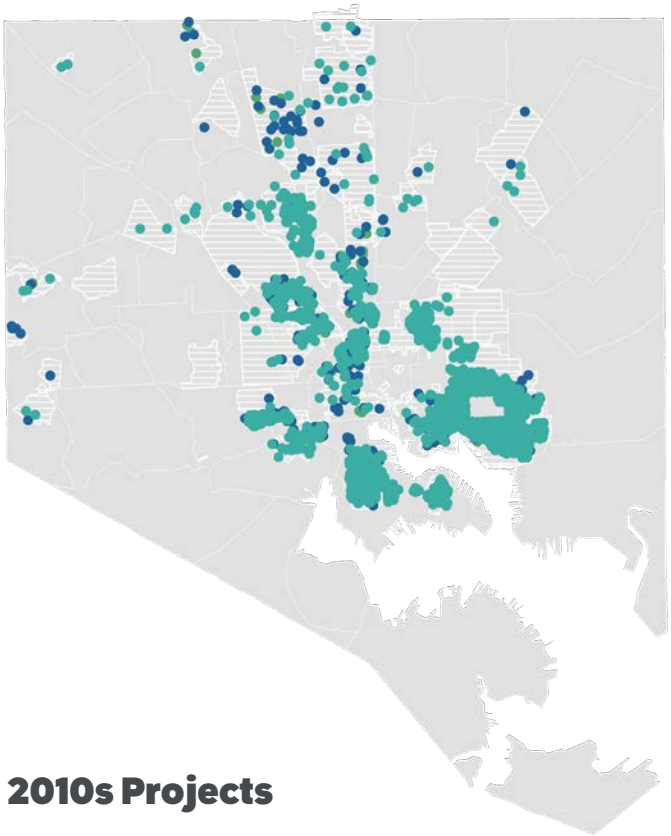
- 2010 Projects
- 2000s Projects
- 1990s Projects
- CHAP Credit Eligible Districts



1990s Projects



2000s Projects



2010s Projects

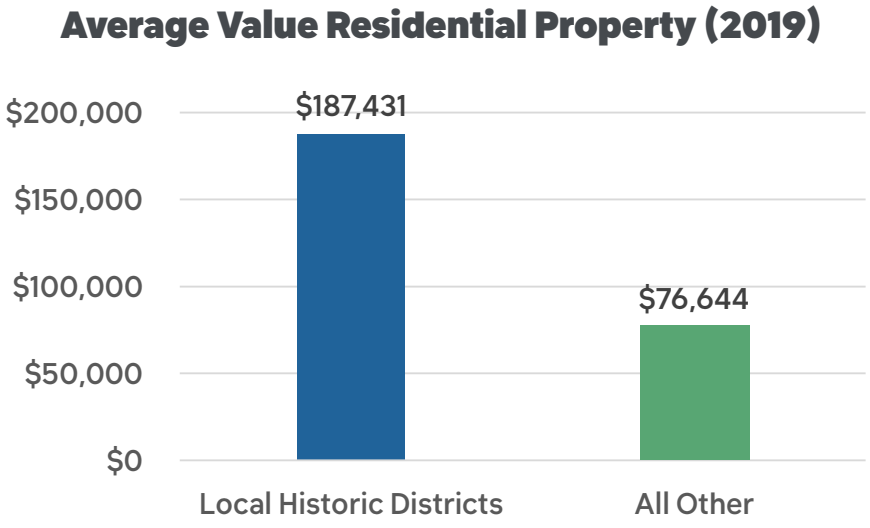
The Impact of Local Historic Districts

In Baltimore, like most American cities, there are two kinds of historic districts—national and local. National Register Historic Districts are an honorary designation, maintained on a list by the National Park Service. These are neighborhoods that the city and the residents of the historic district can be rightfully proud of. However, there is virtually no protection for properties as a result of National Register listing. Without some local protections, National Register property can be changed, altered, or demolished at the will of the owner. There is no design review for National Register properties unless they are also in a local historic district or the property is participating in a local, state or federal tax credit program.

Local historic districts do provide protection for properties within their boundaries. In the case of Baltimore that means that changes to the exterior of the property are subject to review by the Commission for Historical and Architectural Preservation (CHAP). CHAP also reviews the design of new, infill construction and whenever possible prevents demolition. Both types of districts contain buildings of historic significance and/or architectural character. The fundamental difference is that property owners in local districts have to go through a design review process to make changes to their properties; owners in National Register districts, unless they are simultaneously also in a local historic district, do not.

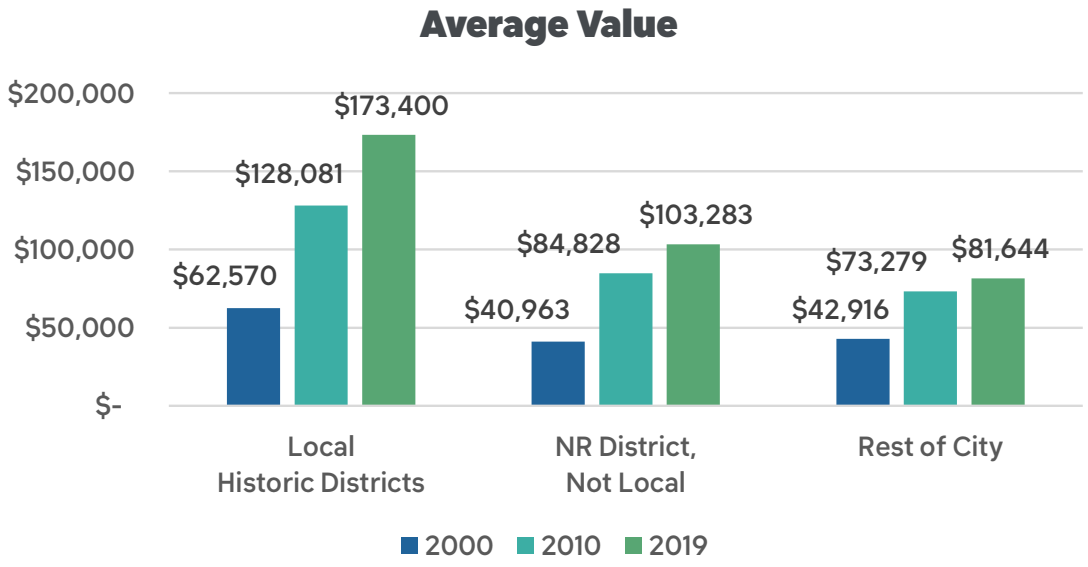
Does this "extra hoop" of regulation and protection of the neighborhood assets make a difference? To answer that question this analysis looked at comparisons in both value and change in value over time among properties in local historic districts, properties in National Register districts that are not also local districts, and properties in Baltimore in neither local nor National Register districts. Taking into account only properties with consistent records going back to 2000, this analysis evaluated 6,000 residential properties in local historic districts, and 56,000 in National Register districts that are not also part of a local district.[9]

The first measurement was simple average value. Based on analysis of more than 170,000 residential properties citywide here is what was discovered: The average current value of houses in local historic districts is over twice the average in the rest of the city.



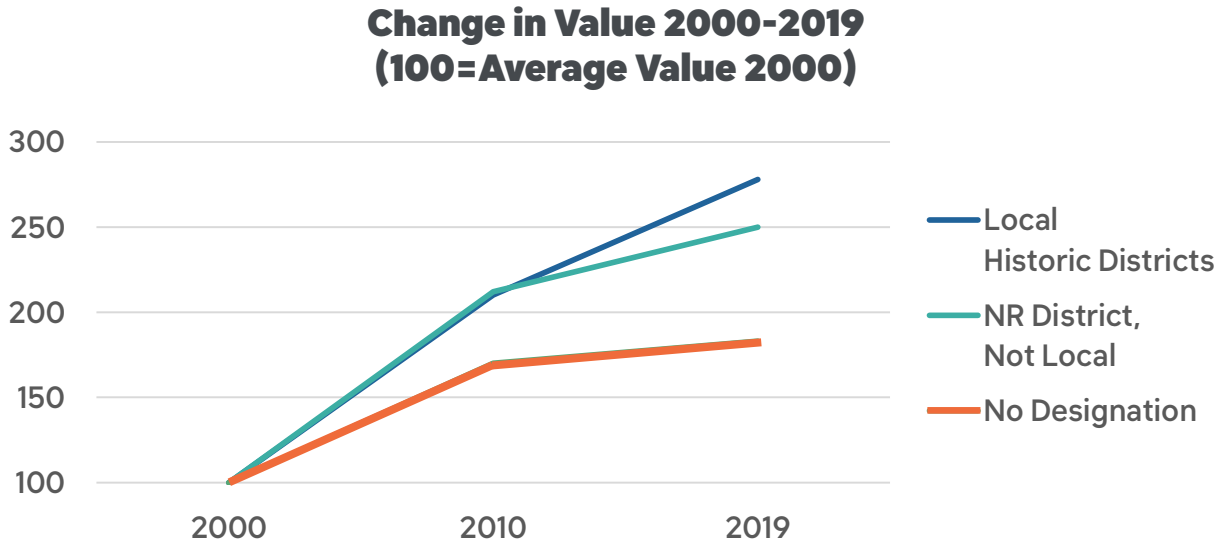
9 This analysis looked parcels for which there were consistent records through to time back to 2000. When not limited by this, in 20171, there were 11,800 parcels in local historic districts and 76,300 in National Register districts that are not also part of a local district.

But maybe buyers just prefer historic houses, and it doesn't matter whether they are in a local historic district or a National Register district. So a comparison was made of the average value of all three categories of residential properties: 1) in local historic districts; 2) in National Register districts; and 3) in neither. And the average value of each was calculated at three points in time: 2000, 2010, and 2019.

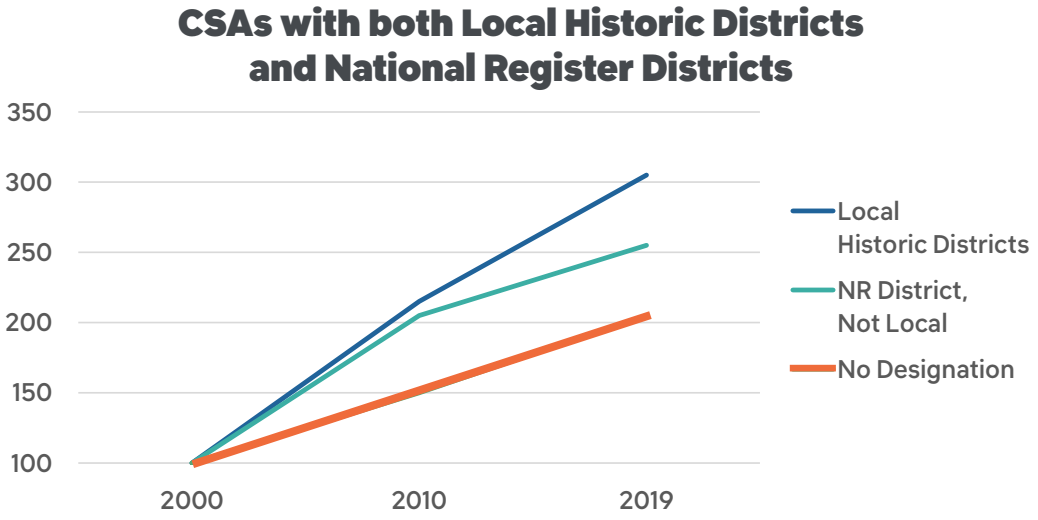


At all three points in time, the market place was willing to pay more for properties in local historic districts, in spite of design review being required if the homeowner wanted to make significant changes. This is certainly not because local historic district property owners loved going to preservation commission meetings, but likely because of the purchaser's confidence that the property owner across the street would not be allowed to make changes that would have an adverse effect on nearby properties.

This difference in average values is also reflected in the rate of change in value over time. While historic properties in National Register districts outperformed the properties in undesignated neighborhoods, properties in local historic districts did better than both National Register houses and the rest of the city.

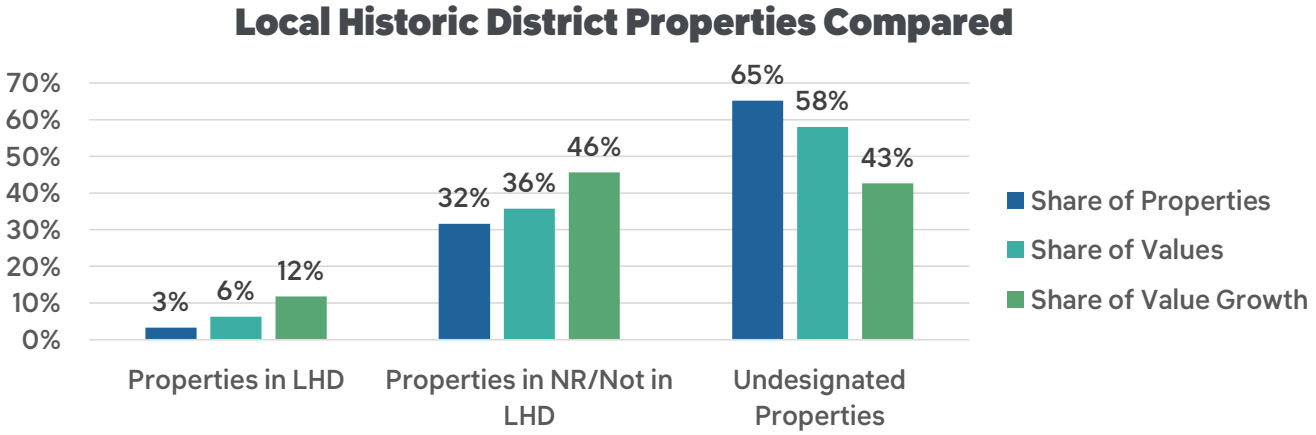


This is what has been happening citywide, but what about at the neighborhood level? Twenty-one of Baltimore's Community Statistical Areas (CSAs) have both local historic districts and National Register districts. For this report an analysis was made of the change in value over time in those CSAs comparing average values in both types of districts. Again, while properties in National Register districts increased in value more than did undesignated properties, average values in local historic districts increased more than both other categories.



This "preservation premium" that the market is willing to pay for properties in local historic districts certainly benefits the owner with more rapid growth in value. But the City of Baltimore is also a major beneficiary of this difference. If, over the last nine years, properties in local historic districts had only gone up at the same rate as the rest of the city, there would have been nearly $3.4 million fewer property tax dollars going into city coffers in 2019.

Local historic districts constitute only 3.3% of residential properties in Baltimore, but 6.3% of the value of residential properties, and in the last decade have seen nearly 12% of the overall increase in residential property value.



Do local historic districts and the design guidelines that accompany them make a difference? Clearly the marketplace shows that they do.



29 S Stricker, Tax Credit Project
Photo by Baltimore Heritage

Housing Market Typology

Baltimore's Housing Market Typology (HMT) was developed to assist the City in its efforts to strategically match available public resources to neighborhood housing market conditions. The typology is also used by the Housing Code Enforcement Division to tailor market interventions and strategies to neighborhood conditions.

The Typology uses a cluster analysis to discern spatial patterns within 8 different data sets, including median sales price, sales price variance, vacant lots and buildings, foreclosures, residential permits, owner occupancy, and housing unit density. These clusters are then aggregated to the census block group level, determining the Housing Market Typology of each census block group. The City's Housing Market Typology is updated every 3 years and published jointly by the Baltimore City Department of Planning, Department of Housing & Community Development, and the Reinvestment Fund.

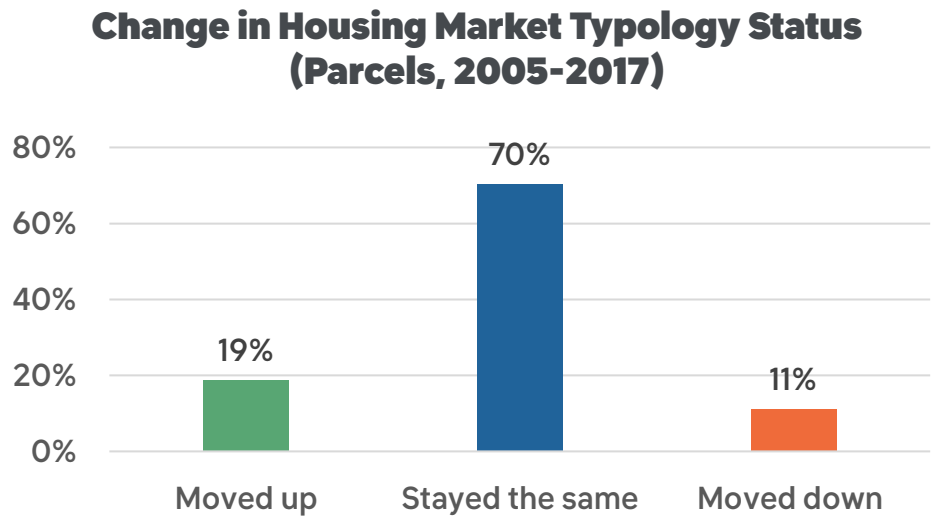
However, there are some limitations to looking at the Housing Market Typology at the block group level. Though Baltimore has conducted this analysis every 3 years since 2005, block group shapes and identifier numbers change every 10 years in conjunction with the decennial census. This makes it difficult to compare block groups from the 2000s with block groups from the 2010s. For this reason, in order to look at the Housing Market Typology longitudinally since its inception in 2005, the analysis was taken down to the parcel level.

Unlike the census unit boundaries, what has been consistent since the beginning is that the City of Baltimore has maintained records of the Housing Market Typology rating for the more than 227,000 parcels within the city for each of the analysis years – 2005, 2008, 2011, 2014, and 2017. Each one of those parcels was identified each analysis year as to which category within the Housing Market Typology the parcel fell. Thus, if an individual parcel was located in a census block group rated as a category 3, for example, that parcel was so identified.

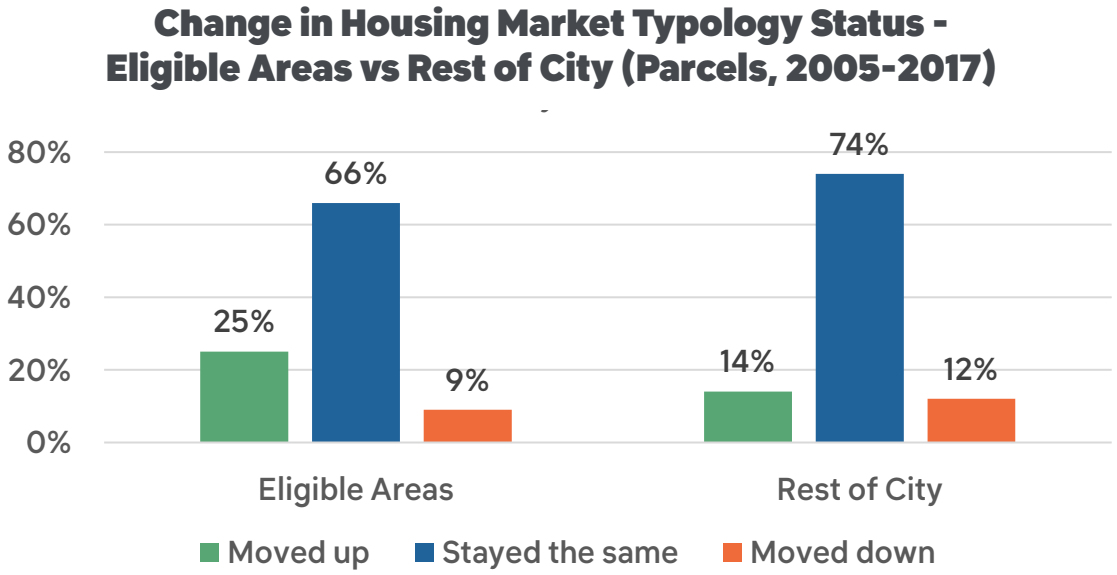
Although some definitions have changed, the legacy data kept by the City allows a parcel level analysis over time. Of the 227,000 total parcels, 88,000 or 38.7% are located in areas eligible for the CHAP credit – National Register Historic Districts or local historic districts.

For this report, the parcel level Housing Market Typology scores were analyzed to determine how many parcels were in areas that improved over time, how many in areas that remained the same, and how many declined based on the HMT variables.

As can be seen in the graph below, a bit less than 19% of Baltimore's parcels improved in their Housing Market Typology status, 70% stayed the same, and 11% declined.



When these same comparisons are made separating parcels that are in areas eligible for the CHAP credit and those that are not, clear differences emerge.

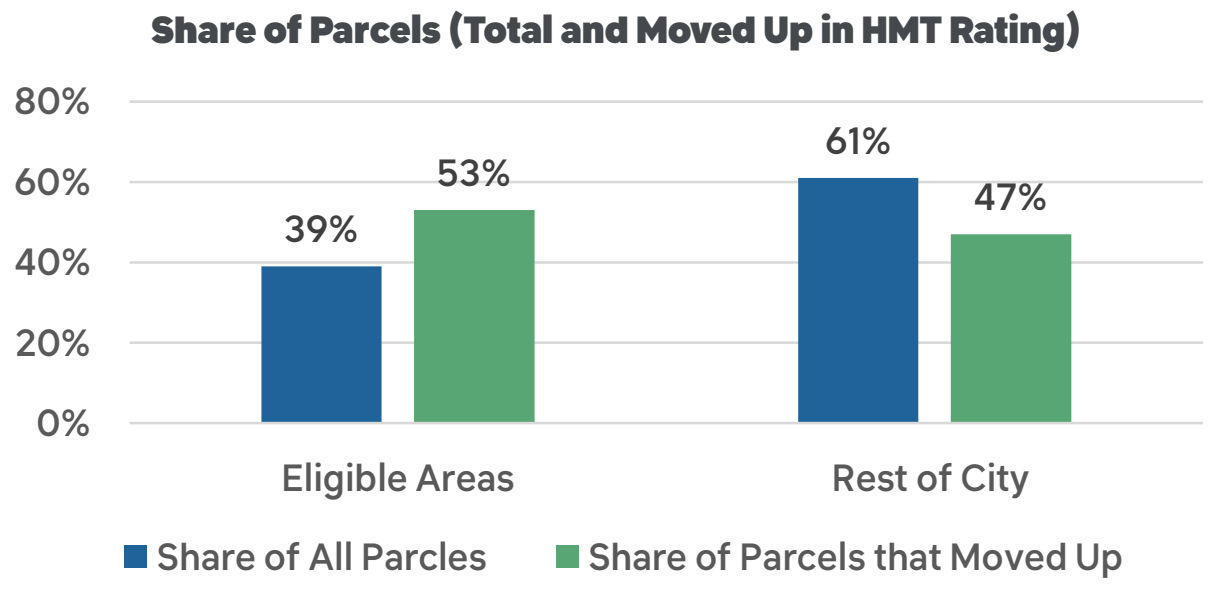


More than a quarter of parcels in eligible areas saw their neighborhoods moving up in Housing Market Typology ratings–more than 2½ times the number that declined in status. For the rest of the city, however, less than 15% saw measurable neighborhood improvement based on HMT criteria, while nearly 12% saw a decline.

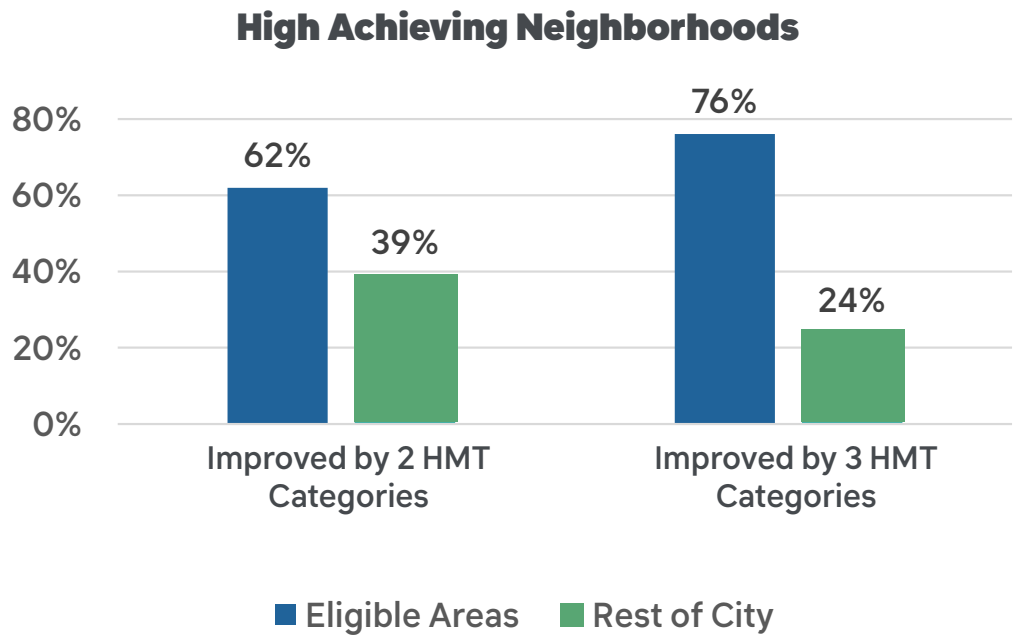


1100 McDonough, Tax Credit Project
Photo by CHAP

Looking at it another way, while properties in eligible areas constitute around 39% of all parcels, properties in eligible areas accounted for more than 60% of properties whose Housing Market Typology ratings improved over the period.



To further consider the effect of being in a CHAP-eligible area, parcels that moved up 2 or more rankings on the 5-point Housing Market Typology scoring system were identified as "High Achieving Neighborhoods." Parcels were then divided between those that were in areas eligible for the CHAP credit and those that were not. Sixty-one and a half percent of parcels within areas that moved up two in the ratings (i.e. from an E to a C or from a D to an B) were in areas eligible for the CHAP credit. Among those that moved up a stunning 3 places in the ratings, more than 3 in 4 were in an eligible area.



Why is the analysis above important? If one looks only at the current Housing Market Typology scores it would be easy to conclude that "Sure, the CHAP credit helps, but it is helping neighborhoods that are already strong." That is clearly not the case. More than a quarter (25.4%) of properties in CHAP-eligible areas today have seen the strength of their neighborhood improve since 2005. Yes, the CHAP credit is effective in already strong neighborhoods, but perhaps even more important, it helps stabilize and strengthen neighborhoods that weren't always in their current condition.

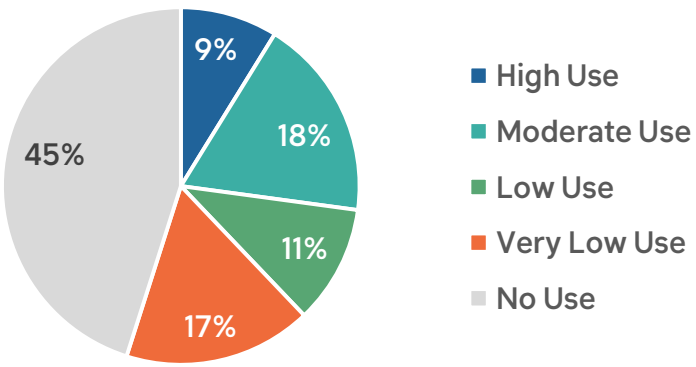
Community Statistical Areas as Basis of Analysis

For a nuanced and neighborhood level understanding of the city, the Department of Planning of the City of Baltimore has identified Community Statistical Areas (CSAs). Because that level of geography is widely used in Baltimore and significant data is available for each CSA, much of the information for this report was gathered at the CSA level. There are 55 CSAs in Baltimore, 38 of which include areas that are eligible for the use of the CHAP credit; 17 CSAs do not have any districts or individual properties that qualify for the credit. Of the 38 CSAs with eligible areas, 35 had at least one project using the credit since it was established. Three CSAs (Greater Govans, Greater Rosemont, and Midway/Coldstream) contain qualifying properties, but no one has yet used the CHAP credit in those areas.

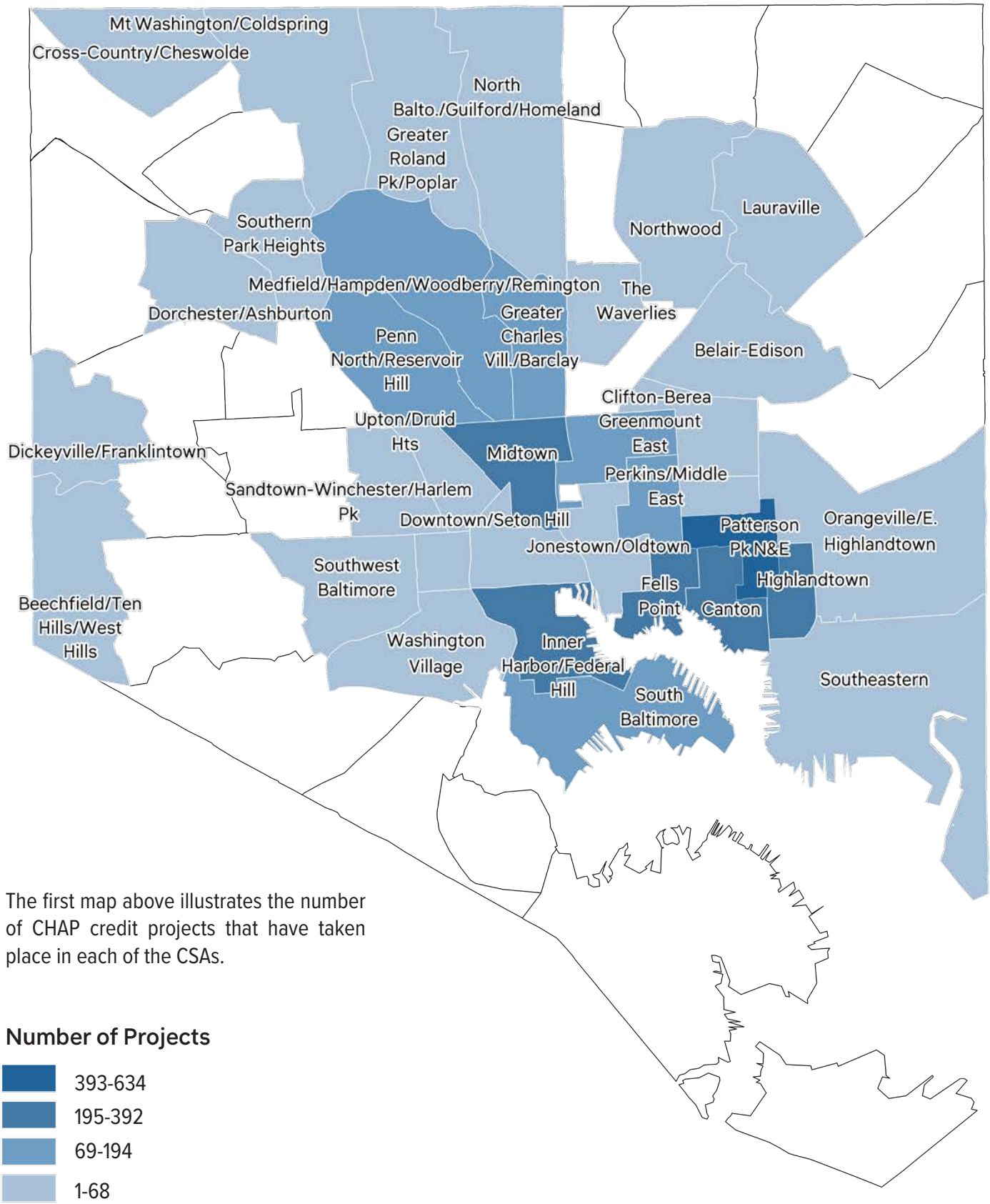
As part of this analysis, each of the CSAs that saw CHAP credit investment was classified as to intensity of use: High Use; Moderate Use; Low Use; and Very Low Use. These categories were based on the percentage of the total number of eligible properties that have used the credit. In High Use CSAs, more than 7% of eligible properties used the credit. Moderate Use was defined as between 2% and 7% of eligible properties using the credit. Low Use CSAs had use of between 1% and 2% and Very Low Use less than 1%. The top 6 CSAs for use of the credit were Midtown, Canton, Patterson Park N&E, Fells Point, Perkins/Middle East, and Highlandtown. These areas account for nearly 60% of the total credit use.

The area of the city that is covered by each of these CSA categories is shown below. "High Use" areas cover just under 9% of the area of the city. "No Use" areas are slightly less than half of the city's land area at 44.7%. These proportions become more significant later in this report where the locale of building permits and investment is sorted into these geographical areas.

City Land Area by Use Intensity Category



Use Intensity by Raw Number of Projects

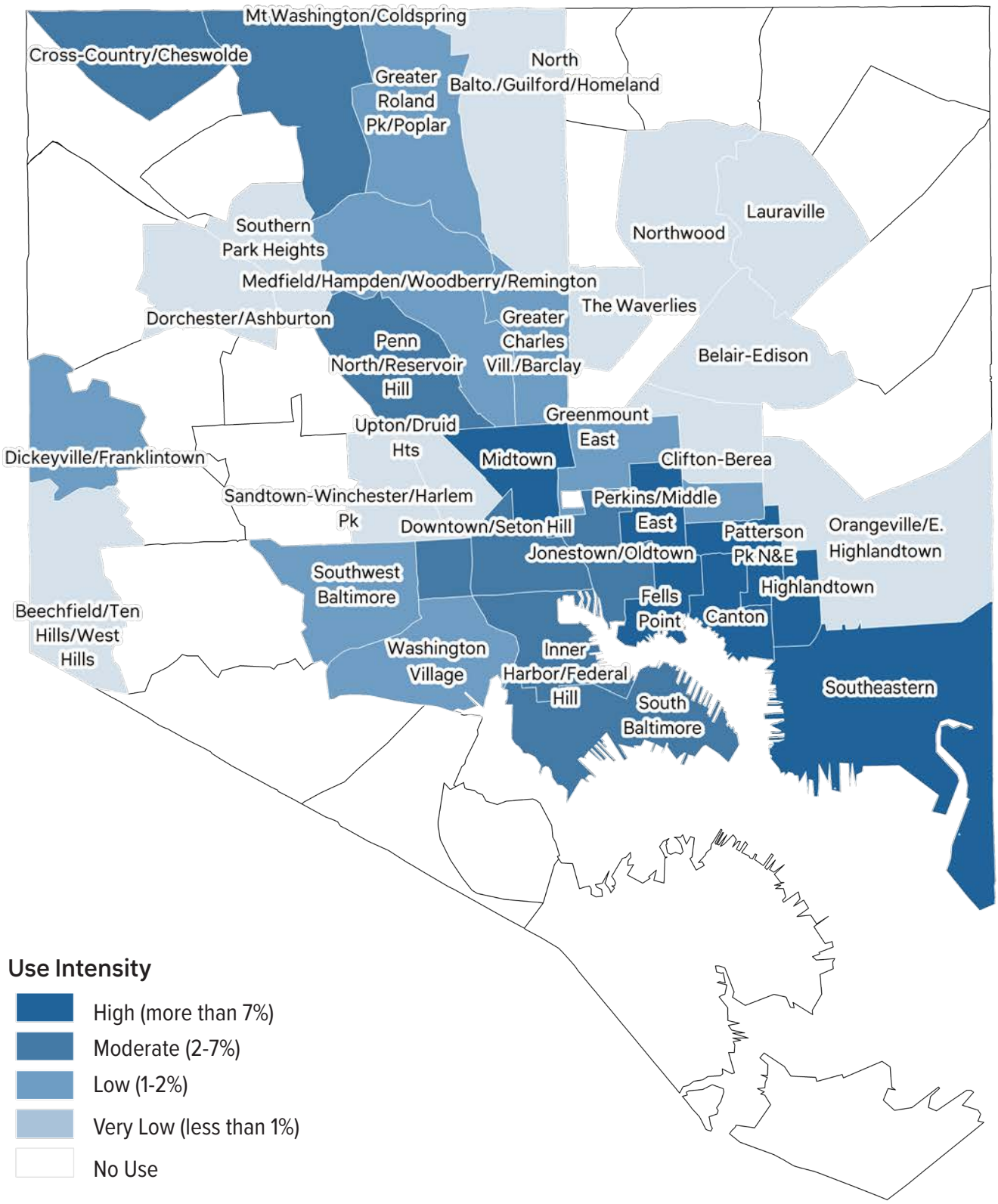


The first map above illustrates the number of CHAP credit projects that have taken place in each of the CSAs.

Number of Projects

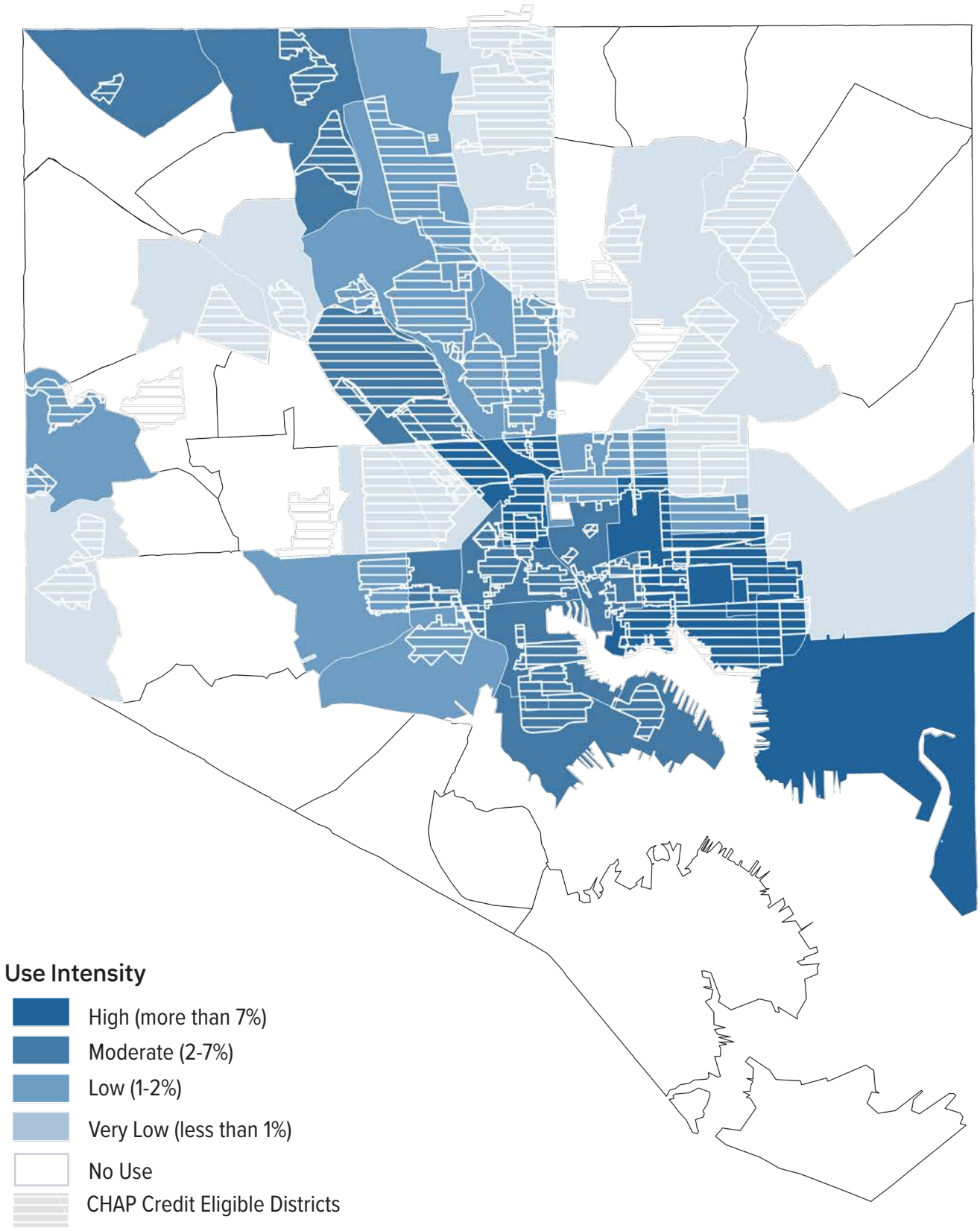
- 393-634
- 195-392
- 69-194
- 1-68
- No Use

Use Intensity by Share of Eligible Properties that Used the Credit

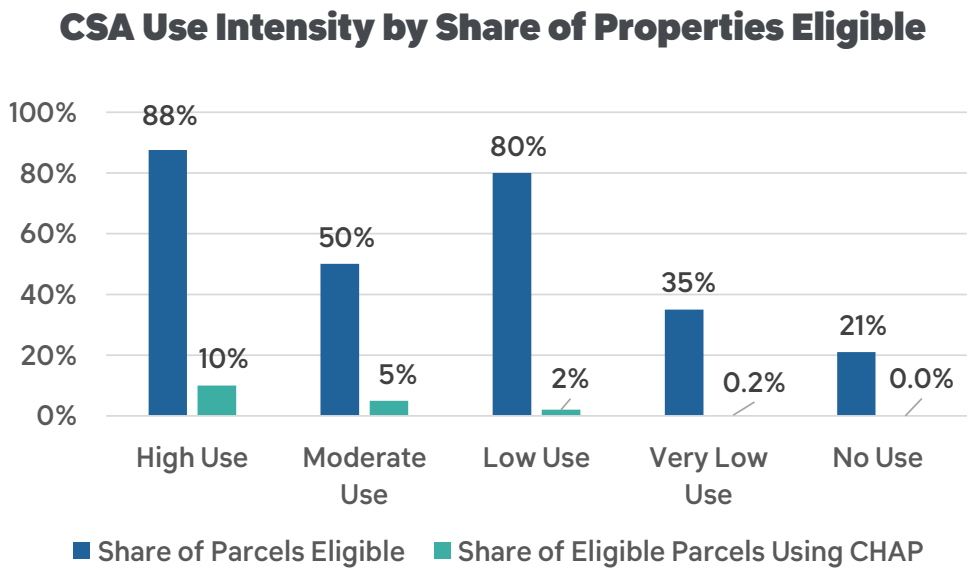


A slightly different picture emerges when the map considers the intensity of use (i.e. share of eligible properties that used the credit) rather than just the total number of projects in each CSA. As can be seen, the swath of CSAs running from Southeast Baltimore to the Midtown area is where the greatest intensity of use of the credit has occurred.

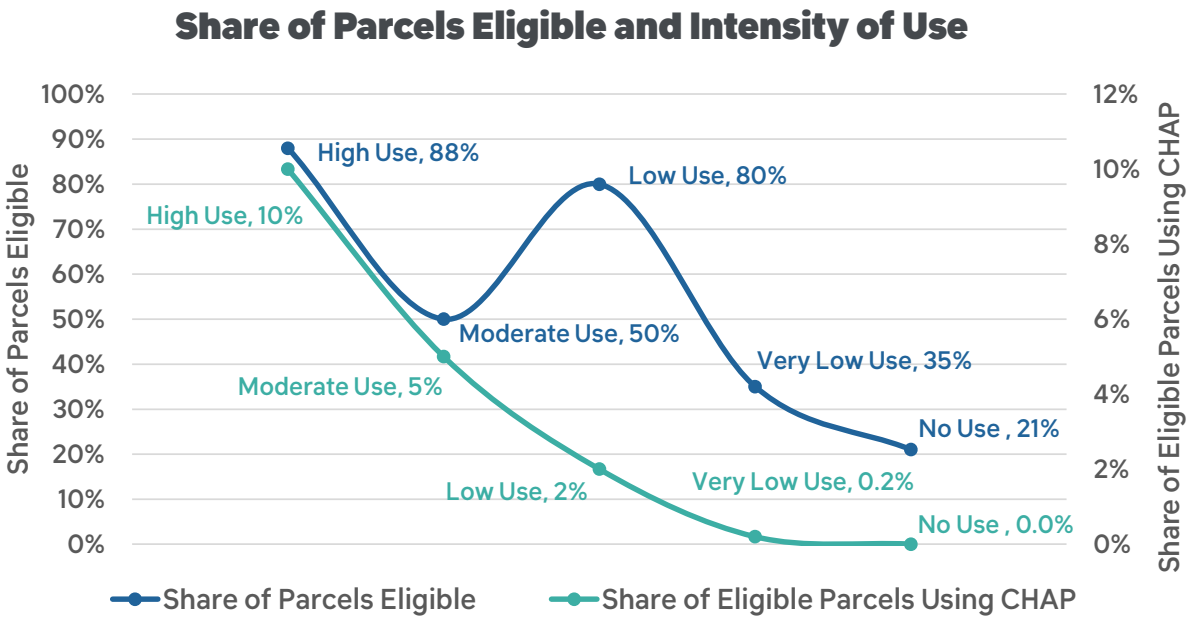
Historic Districts and Use Intensity



There is also a strong, but not perfect, correlation between the share of total properties eligible for the CHAP credit and the rate of the use of the credit. In the High Use category nearly 90% of the parcels within those CSAs were eligible for the credit and nearly 10% of eligible properties used the credit over the life of the program. For the most part, CSAs categorized as less intensive use also had a smaller share of total parcels that were eligible for the credit. The exception is found in the seven CSAs in the Low Use category (Greenmount East; Madison/East End; Medfield/Hampden/Woodberry /Remington; North Baltimore/Guilford/Homeland; The Waverlies; Upton/Druid Heights; Washington Village). While nearly 80% of the parcels in these CSAs are eligible for the credit, only 1.6% of eligible properties used the credit.



The graph below shows the same data but illustrates the deviation from the expected pattern in those Low Use CSAs.

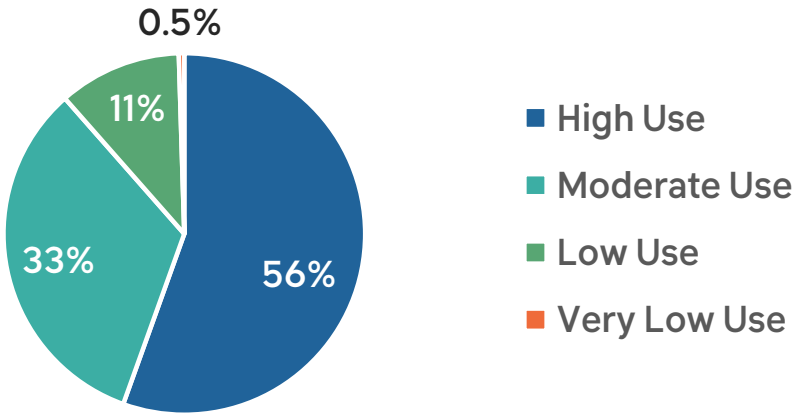




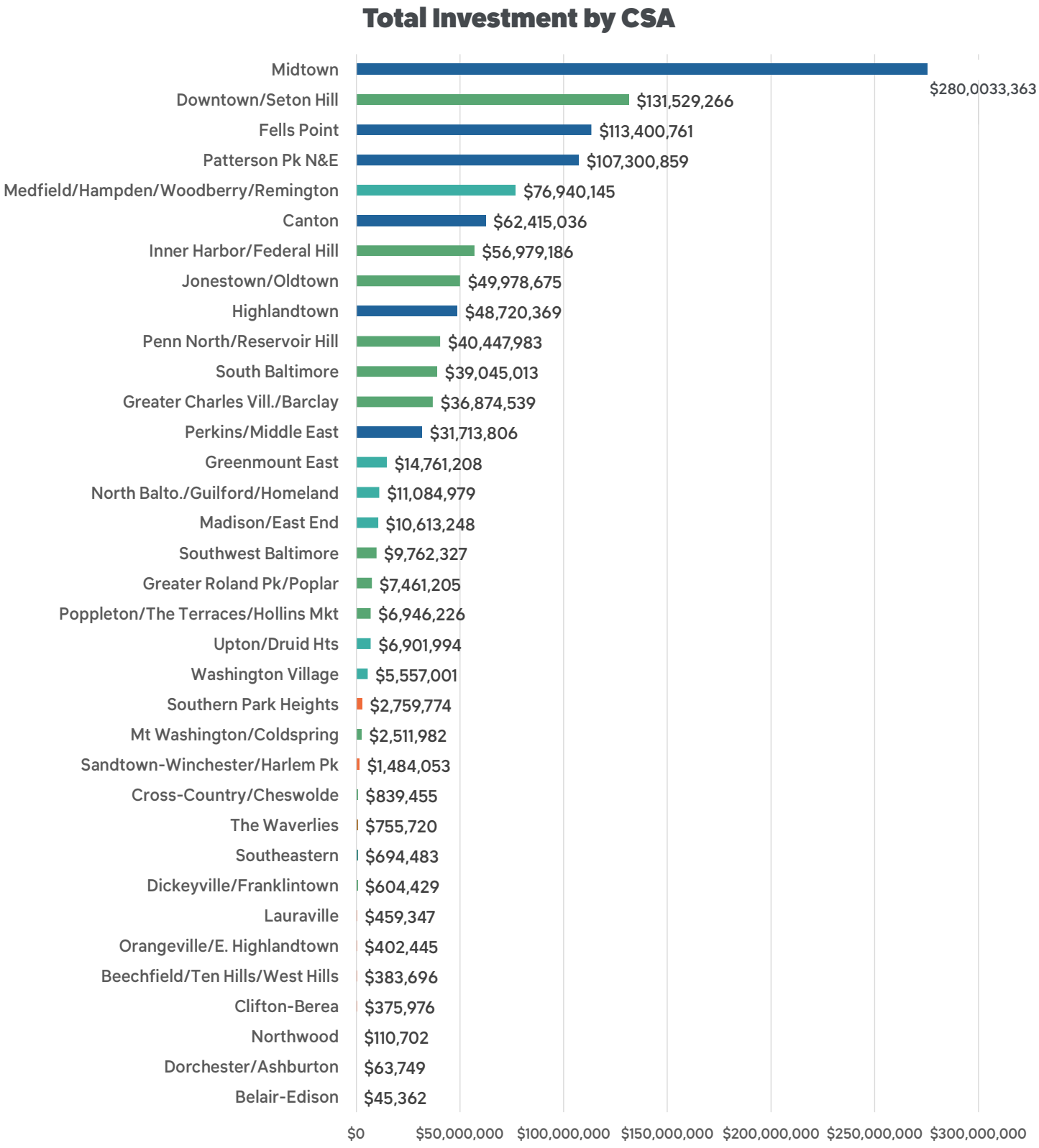
Waterfront Hotel, Tax Credit Project, Photo by Preservation Maryland, Licensed

Overall, more than half of the dollars invested in projects using the CHAP credit took place in High Use CSAs.

Share of Project Investment by Use Intensity

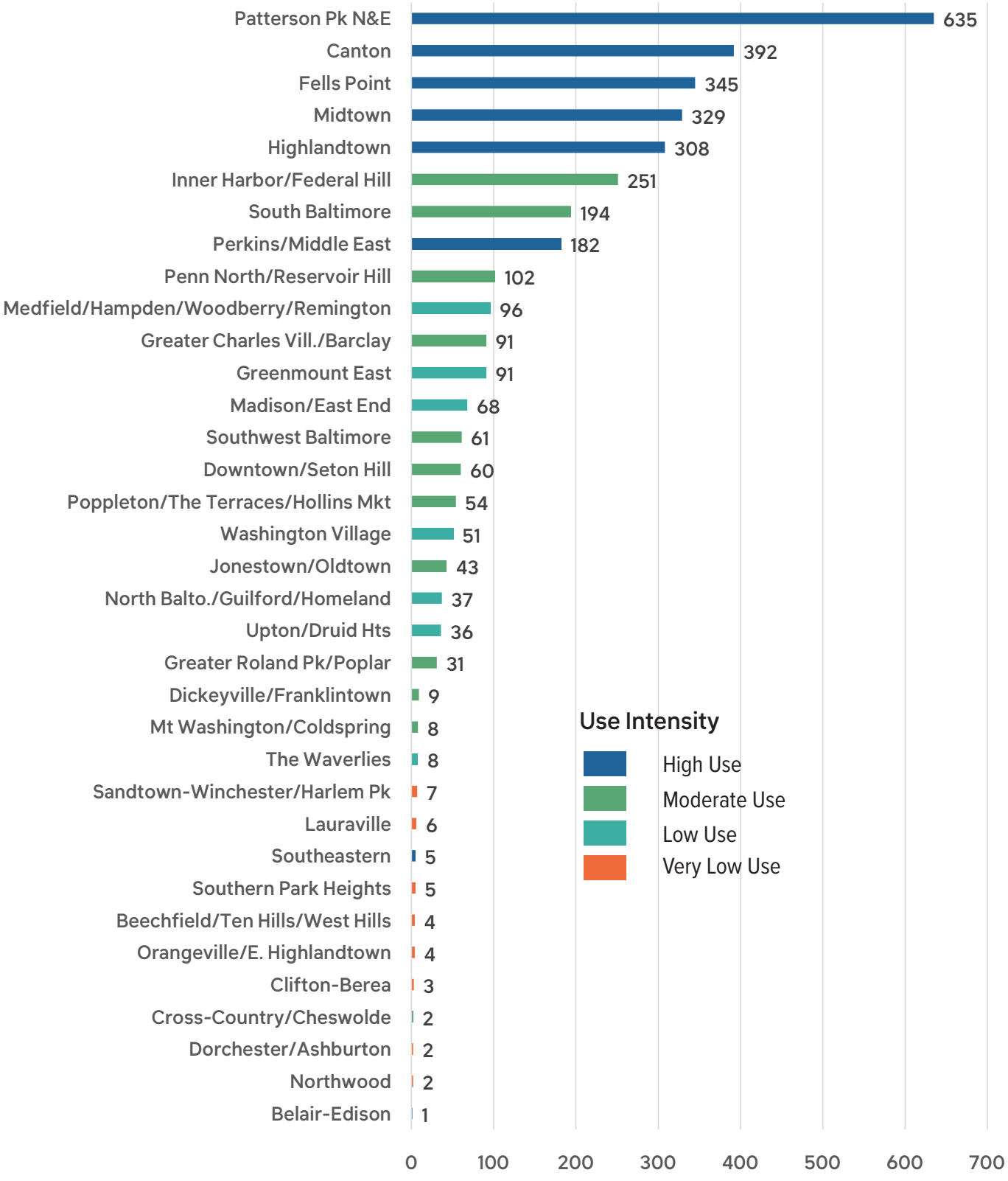


Investment within each CSA is seen below, with the Midtown area representing nearly a quarter of all investment at $280 million. This is driven primarily because of large, commercial projects utilizing the credit. However, in numbers of projects, small-scale residential development is by far the most common. But in terms of total dollars, commercial projects constitute a significant percentage.[10]



10 The Medfield/Hampden/Woodberry/Remington CSA has seen several large mill rehab projects, which explains their high total investment despite its low use intensity.

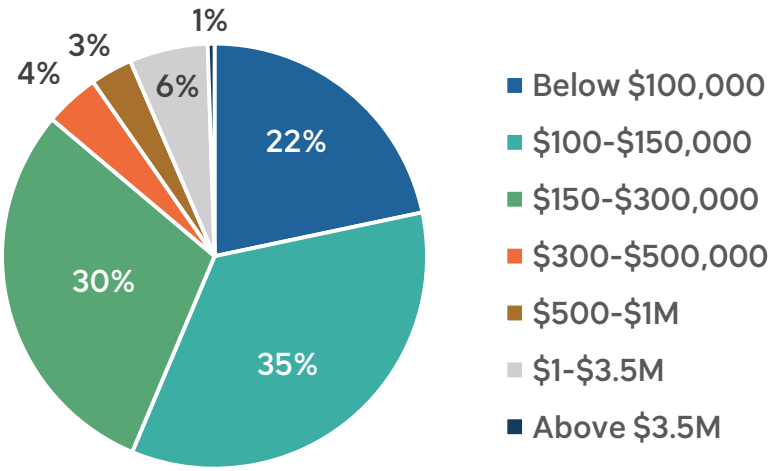
Number of Projects by CSA



Size of Projects

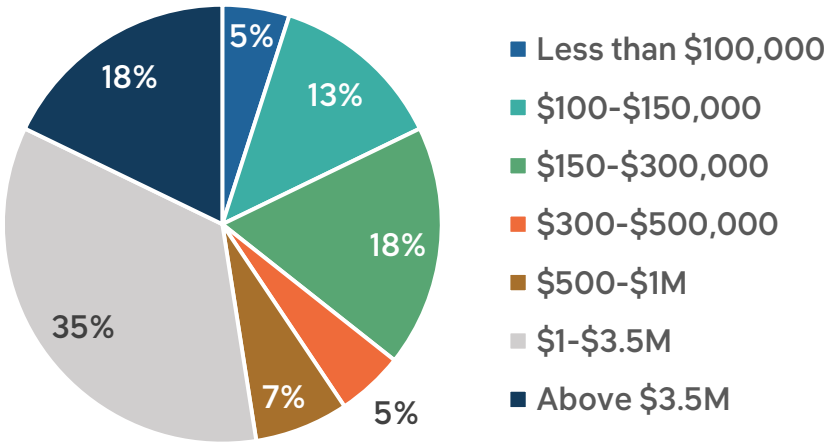
As was noted above, a few large, commercial projects represent a substantial share of the total dollar amount of investment. However, this program could legitimately be considered a "mom and pop" incentive, as over half of projects had budgets less than $150,000 in project costs.

Projects by Size



Based on the number of projects, those below $150,000 constituted more than half. However, in terms of total investment dollars, projects of more than $1 million represented more than half of all investment dollars.

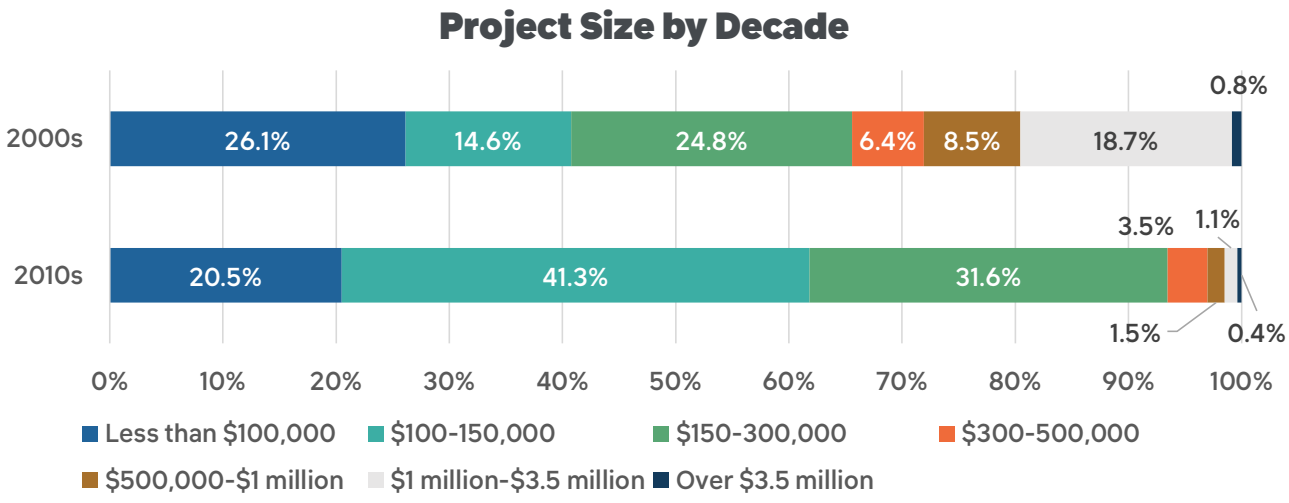
CHAP Investment by Size



Average Project Investment

The handful of very high budget projects using the CHAP credit in the 2000s is apparent when comparing the average (mean) project budget for that decade versus the median budget. While the "average" project was nearly $650,000, the median was just $195,000, meaning more than half of the projects in that decade were less than $200,000. In the following decade both the mean and median project budgets went down, meaning both that fewer very large projects were skewing the average, but also that a number of smaller (and, therefore, more affordable) projects were undertaken.[11]

	Average Project Budget:	Median Project Budget:
2000s:	$648, 249	$195,205
2010s:	$234,946	$135,252
Overall:	$334,282	$140,000



11 Project budgets not recorded until 2000. In 2014, the city introduced the High Performance Market Rate Rental Tax Credit which many large buildings downtown used to rehab rather than the CHAP credit. This may explain some of the decline in larger projects.



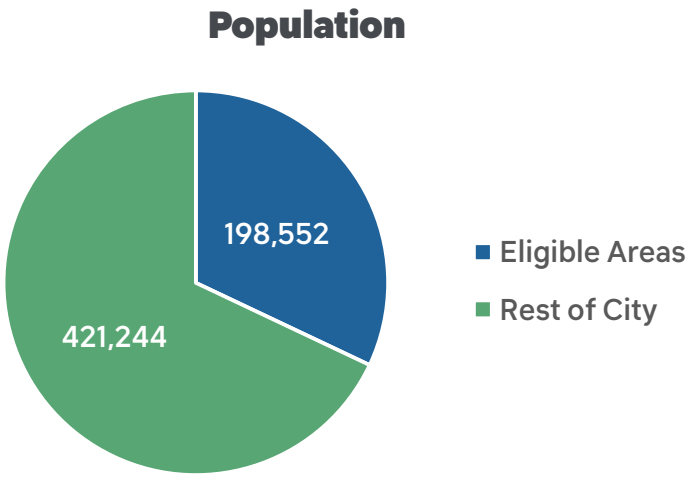
1200 Gay Street, Tax Credit Project
Photo by CHAP

Population and Tenure

CHAP credit eligible areas cover approximately 20% of the city's land area. The results of this study show that areas of the city with CHAP investment stabilized in population—while the city as a whole declined—and strengthened neighborhoods through homeownership.

Population

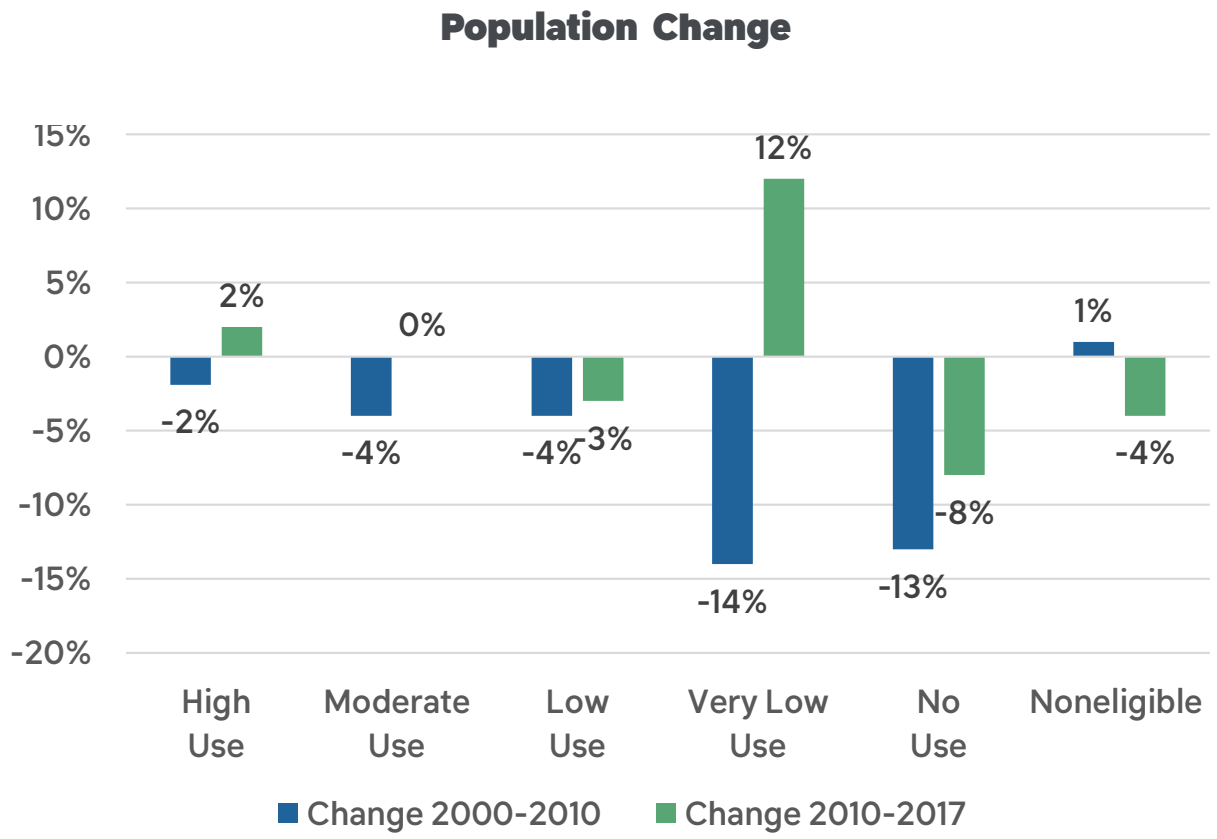
Just slightly less than two-thirds of the population of Baltimore (65.5%) live in CSAs which contain CHAP credit-eligible areas. Within those CSAs, 32.0% of the population resides in districts that are eligible for the CHAP credit.



Baltimore is one of many legacy cities with declining populations. Between 2000 and 2017, the city lost 4.8% of its population, approximately 31,000 people. But at the CSA level, the data shows some neighborhoods gained and others lost. Of the high intensity tax credit use CSAs, two-thirds saw population growth during that time and one-third saw a loss.

It may be too soon to draw conclusions, and there may be peculiarities at the neighborhood level that skew the data. But when the rate of population change is looked at in relation to the intensity of use CSA's, comparing the 2000 to 2010 period and then the 2010 to 2017 period, a consistent pattern emerges. As shown in the graph below, every one of the CSA groupings with eligible properties did better in the more recent time period than the earlier time period. In some cases, the 2000 to 2010 period showed a population loss while the 2010 to 2017 period a population gain. In other instances, there was still a

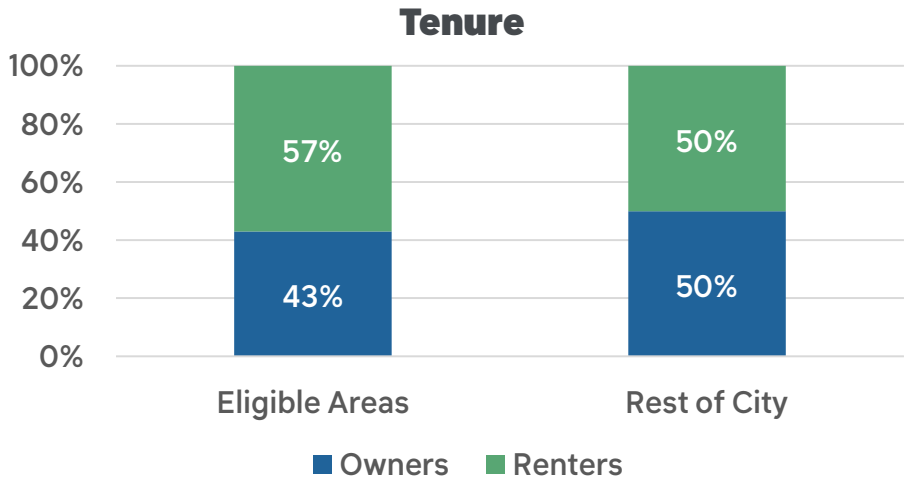
population loss in both periods, but the rate of loss declined. This is contrasted with the 17 CSAs that have no eligible properties. Those areas experienced population gain between 2000 and 2010 but declined in population in the following period. The one outlier in this data is the group of nine CSAs who have eligible properties for the CHAP credit but Very Low Use of the credit. Those areas experienced a very large loss of population between 2000 and 2010 but a large percentage gain between 2010 and 2017. Because less than 1% of eligible properties used the credit in these neighborhoods, it is unlikely that projects using the credits were sufficient in number to catalyze this level of change in the area.



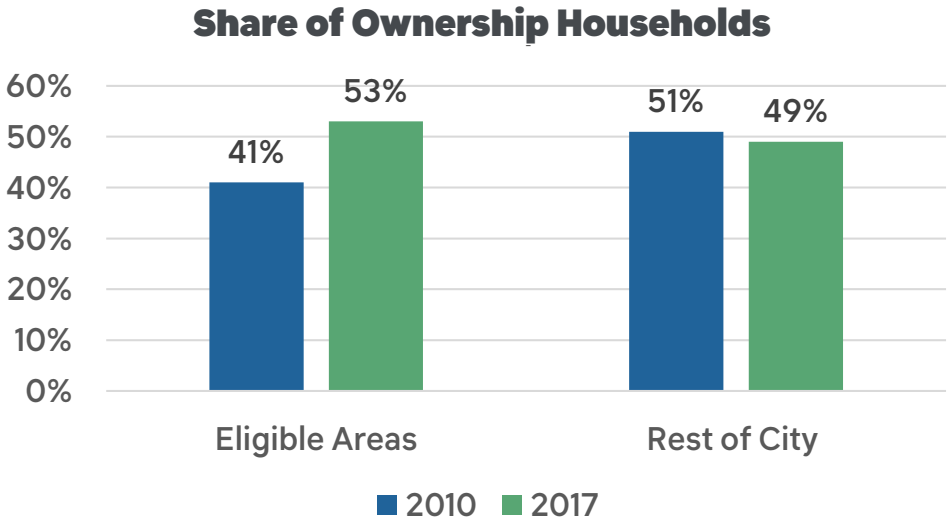
It should be seen as significant that the High Use areas gained nearly 2% in population between 2010 and 2017 while the city overall still experienced a nominal decline.

Tenure

The rate of home ownership in Baltimore is lower than most other cities in the United States. Overall, approximately 47% of all households are owners while 53% are renters. That number is skewed somewhat, however, by a greater share of renting households in the areas eligible for the CHAP credit as compared to the rest of the city. Only 42% of households in eligible areas are owners. The rest of the city is nearly half owners and half renters. A household on the lower end of the income scale is more likely to be able to rent than to own. Therefore, this high percentage of rental households in eligible areas is one of the reasons a large percentage of lower income households remain there.



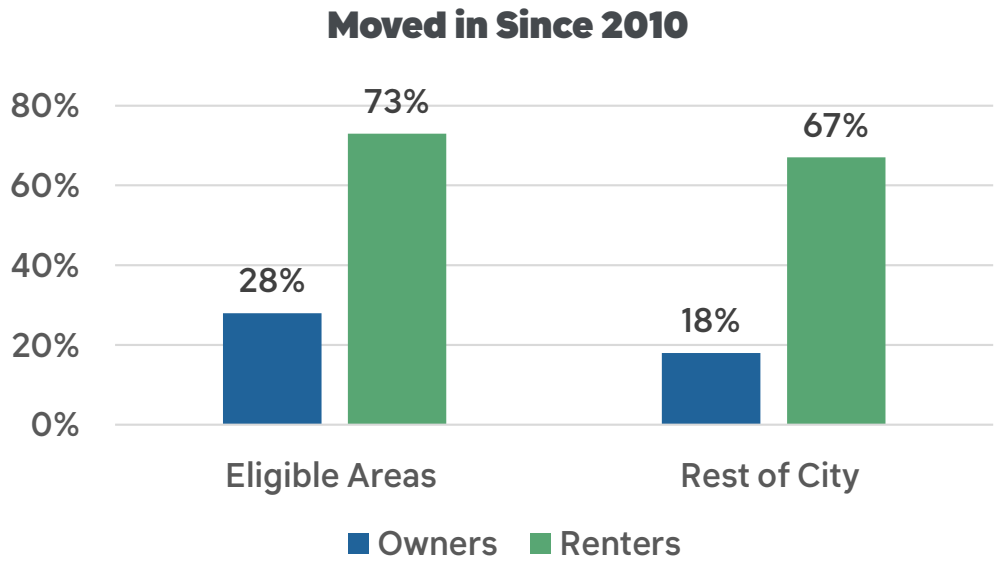
Home ownership certainly is not for everyone, and any equitable city must have ample rental properties available. However, home ownership is often seen as a sign of neighborhood stability. The City of Baltimore lost more than 5,600 homeowner households between 2010 and 2017. While areas with CHAP credit activity also lost 275 homeowner households over that period, the rate of homeownership increased from 41.2% to 43.1%.





N. Curley St, Tax Credit Project
Photo by CHAP

In a city like Baltimore which is losing population, the challenge is getting new people to move into neighborhoods both as renters and owners. The transformation that has been taking place in eligible areas in Baltimore has seen this pattern. Nearly three quarters of renters and more than a quarter of homeowners have moved into their residences since 2010. Both of those "new arrival" rates are greater than the rest of the city.





100 S. Stricker Street
Photo by Baltimore Heritage

Impacts

The CHAP credit is calculated based upon the difference between the pre- and post-appraisal values. Appraisals are based not only upon visual inspection and physical aspects of the home, but also upon recent sales of similar properties. This means that in a city like Baltimore, where basically the same rowhome could exist in two neighborhoods–both property owners could spend $100,000 restoring the property–but due to the comparable properties around it, one could increase more in value. In Baltimore, the market strengths vary greatly between neighborhoods and therefore the majority of permit activity, market strength, and tax credit use are clustered.[12] While the CHAP credit can only be used in eligible areas that cover only 20% of the city land area, the impacts are felt citywide.

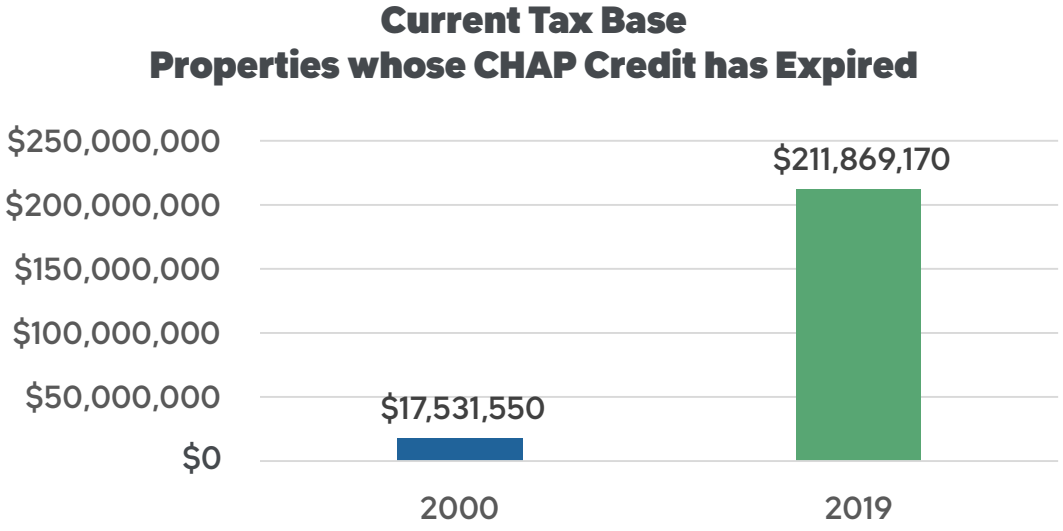
To specifically measure those impacts, this analysis of the CHAP credit attempts to answer the following questions: What is the tax value generated by CHAP projects after they become fully taxable? What is the "halo" effect experienced by properties near those projects? How many jobs are created through the CHAP credit by private sector investment? How does the CHAP credit meet the "if-then" test? How soon does the city recovers the costs to implement the program?

Overall, the results of this analysis show that the improvements to properties that received the tax credit do substantially increase the appraised value of the property and therefore increase the tax revenue. But the impacts do not stop there. The CHAP projects have a catalytic impact on the construction activity happening around them resulting in a demonstrable property value premium in the immediate vicinity, deemed the "halo effect." This produces additional tax revenue to the city through job creation and the incremental property tax revenue. All combined, these fiscal benefits far outweigh the $10 million dollar a year cost to the city.

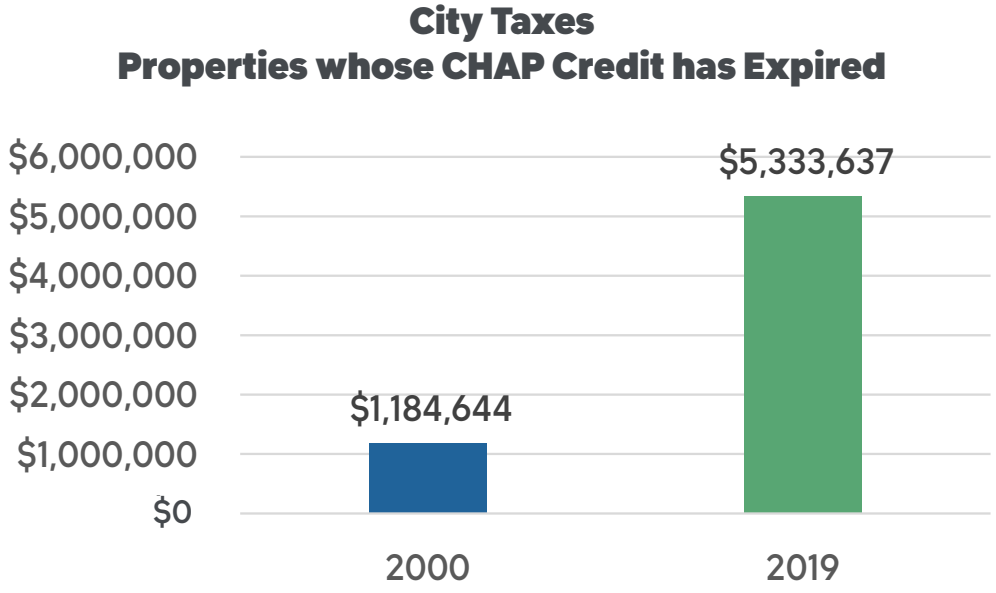
12 This is demonstrated by the overlap of the Market Value Analysis Housing Typology and CHAP credit use.

Properties Becoming Fully Taxable

To quantify how much the CHAP project properties increased in value after the investment took place, an analysis of CHAP credit projects finished prior to 2010 was completed. As of 2019, there are 597 properties which utilized CHAP tax credits that are now back on the rolls as fully taxed assets, generating significant revenues for the City of Baltimore. These properties completed their renovations between 1997 and 2009, so their 10-year credit has now expired. These properties have seen their base value increase from $17 million to $211 million, illustrating that the investments did increase the properties' appraised value.



These properties where the 10-year credit has already expired also increased in tax value from $1.1 million to $5.3 million, adding to city coffers.



Looking forward, over the next nine years an additional 2,366 properties[13] which have been receiving the CHAP credit will come back online as fully taxable properties.[14] The value of these properties has more than doubled from $374,397,931 in 2010 to $762,332,000 in 2019. The table below gives the additional taxes the city will receive each year as these credits expire. Over those years the City of Baltimore will receive more than $43 million in additional tax revenues from these properties.

Returns to the City – Additional Taxes from Expiring CHAP Credit Projects	
Year	Additional Taxes
2021	$388,881
2022	$945,615
2023	$1,684,452
2024	$2,582,566
2025	$3,949,582
2026	$6,215,169
2027	$7,886,457
2028	$9,415,886
2029	$10,381,763
TOTAL	$43,450,371

The results of this tax base and tax revenue analysis show that the private sector investments made to historic properties through the CHAP credit are indeed increasing the appraised value, tax base, and tax revenue collected by the City of Baltimore.

13 These are projects that received a final certification from CHAP between 2011 and 2019.

14 These calculations assume both property values and effective tax rate remain constant between 2021 and 2029.

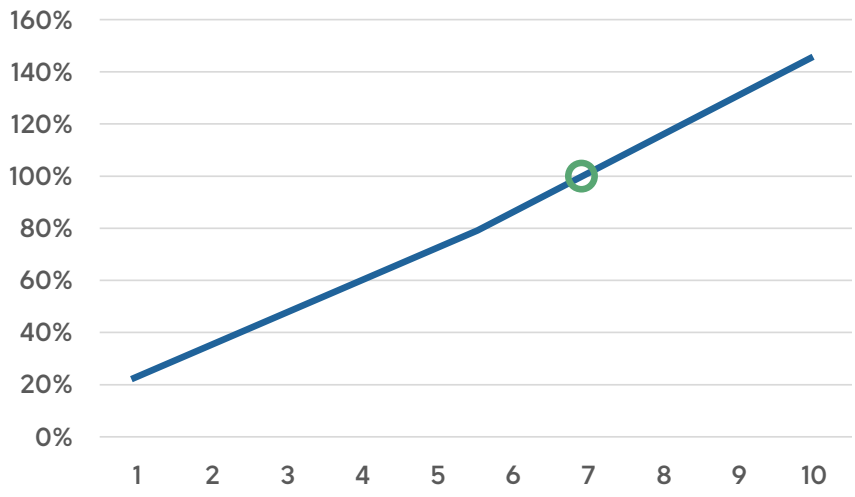


Tax Credit Project
Photo by CHAP

Foregone Taxes Recovered

Under the CHAP credit program, the City of Baltimore provides a property tax credit for ten years. When that time period has expired, the property comes back on the tax rolls at its full taxable value. Obviously, the property is now worth much more than it was prior to the renovation. So how long does it take for the city to retrieve the forgone revenue for ten years? Based on the pattern of values of properties whose credits have expired, in just over 7 years the city recoups the amount of the 10-year tax credit.

Taxes Recovered, 10 Years after Credit Expires

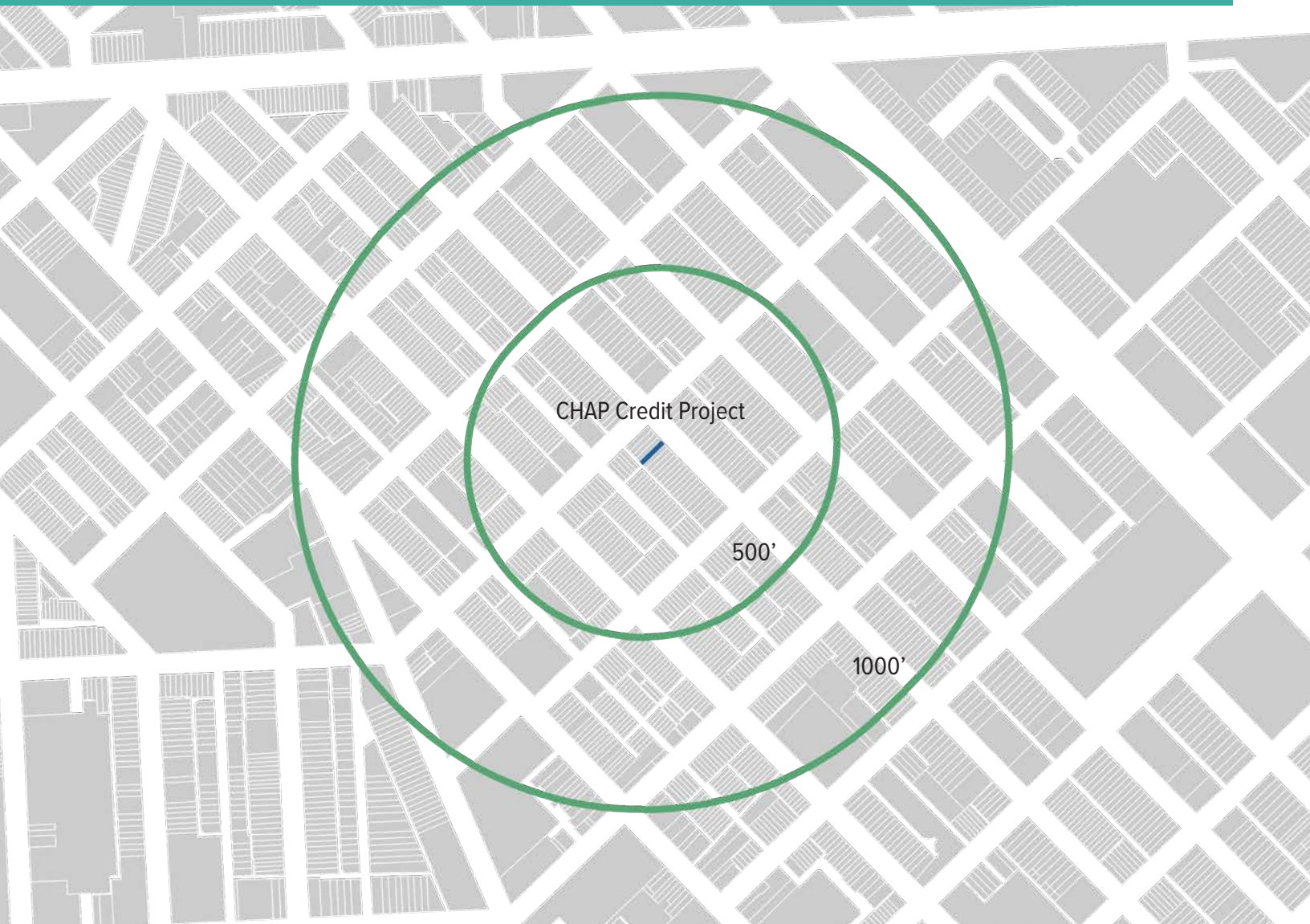


The Halo Effect – Property Values

The City of Baltimore certainly benefits when properties that have received the CHAP credit come back on the full tax rolls at a much higher value. But that is not the only property tax benefit increase received by the city. There is a pattern of property value enhancement, a "halo effect," in the areas immediately surrounding the projects that received the credit.[15]

This study looked at property values within 500 feet of CHAP credit projects and compared their change in value over time with properties more than 500 but less than 1000 feet from CHAP projects. The premise of this approach is that property values may well benefit when improvements are made to nearby properties. The 500- and 1000- foot "circles" around the projects mean they are both near enough to be affected by historic building rehabilitation and are subject to the same positive or negative value influences in their immediate area. This analysis was limited to residential properties as commercial property values and their immediate areas are likely to be driven by many factors unrelated to improvements to proximate properties.

15 See Appendix 3 - Use of Assessment Data as Proxy for Property Values.

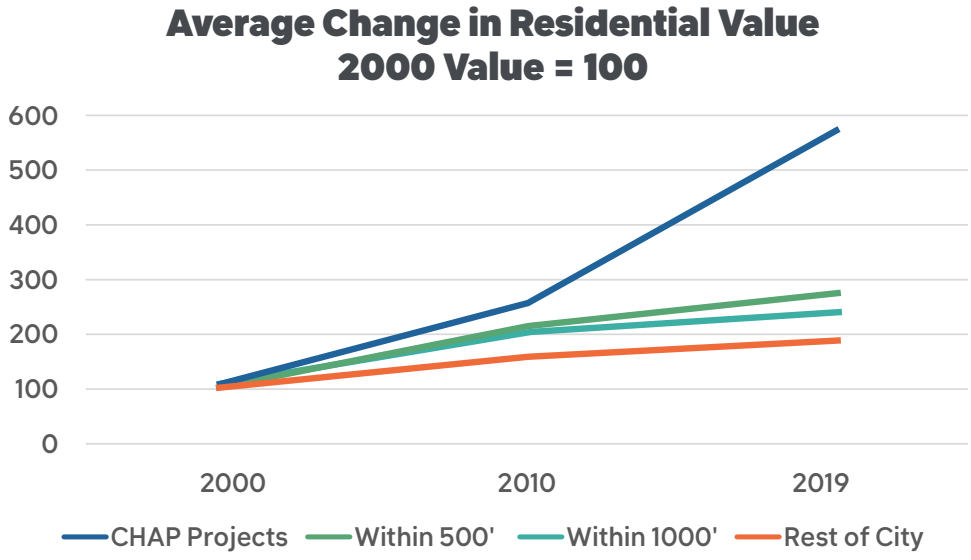




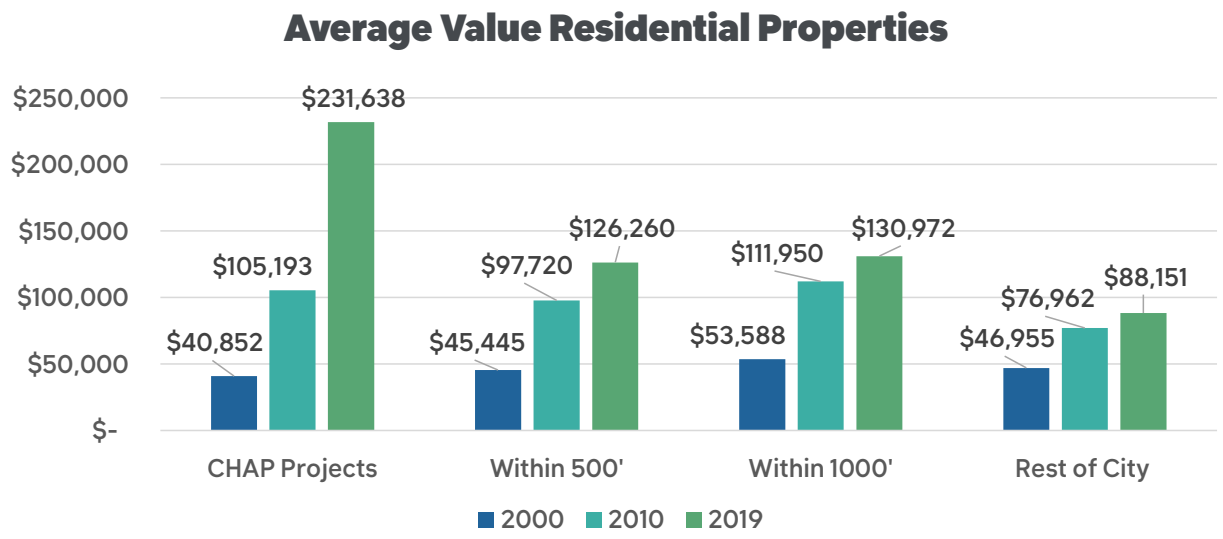
1200 Gay Street, Tax Credit Project
Photo by CHAP

One way to compare quantities of different sizes over time is to "index" the amounts. For this report, the average values of residential properties were indexed, assigning the 2000 Current Cash Value amount as 100 for each of four categories: 1) properties that used the CHAP credit; 2) properties within 500' of the CHAP projects; 3) properties between 500' and 1000' of the CHAP properties; and 4) the rest of the city.

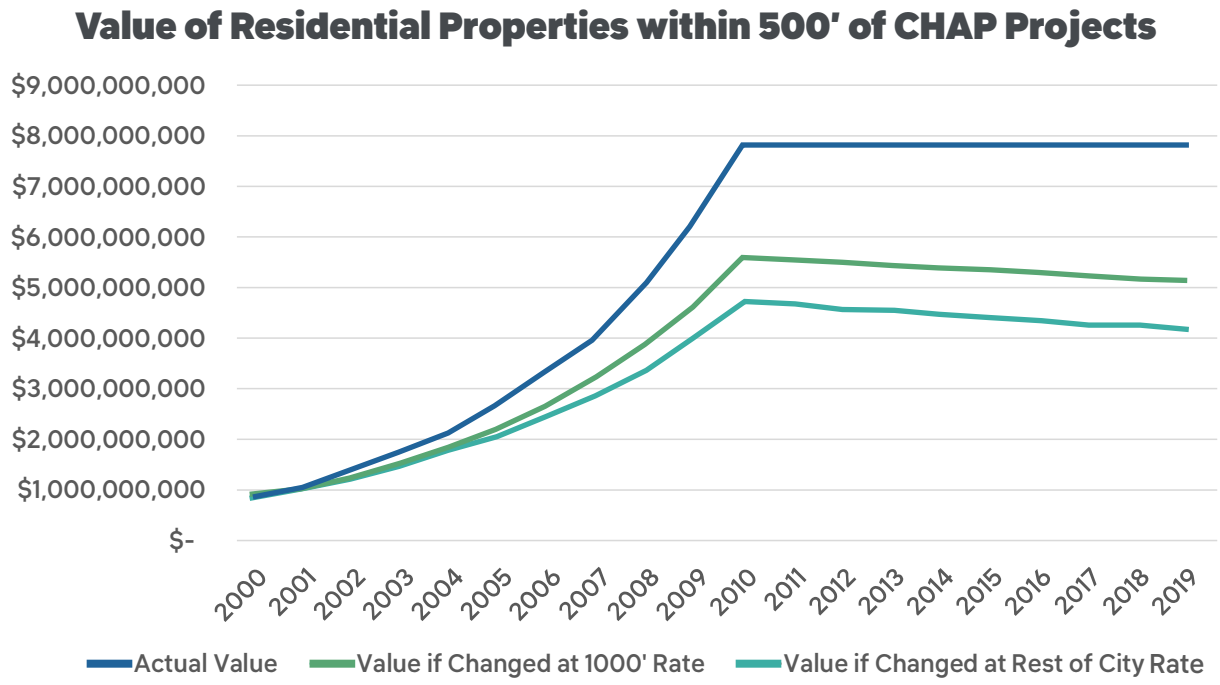
By indexing it is easy to see the relative change in value over time in the four categories. As can be seen below, the biggest rate of change was in the CHAP projects themselves; no surprise as each of them have undergone significant renovation. But the properties both in the 500' and the 1000' distance from the CHAP projects outperformed the rest of the city in value increase over the 19-year period.



This halo pattern also emerges in the average value of individual properties. In 2000, properties that ultimately were renovated and received the CHAP credit had an average value of slightly less than $41,000 before renovation, an average lower than properties within a 500' distance, lower than properties between 500' and 1000' away, and lower than the rest of the city. By 2019 and after historic renovation, these properties have become the highest average value of the four geographic regions. Properties within the 500' buffer saw a greater rate of change in value than between 500' and 1000'. Both those buffers increased in value more than the rest of the city. It should be noted that there are neighborhoods in Baltimore with very expensive homes, averaging considerably above the $231,000 average of CHAP project houses. But when the expensive houses are averaged with lower cost housing in other neighborhoods, the rest of the city average is considerably less.



As the graph on the following page illustrates, the value of properties within 500' of CHAP credit projects are today worth more than $7.5 billion (blue line). Had the aggregate value of those properties only increased at the rate of the properties between 500' and 1000' of CHAP projects, their value would instead be $5.2 billion (red line). Again, that value increase in the immediate area of the CHAP projects comes from property appreciation, renovation of properties not using the CHAP credit, additions to existing housing, and in some instances new construction. But the point is, the areas around the CHAP projects have become attractive for purchase, for property improvement, and for new investment. All of those mean additional property tax revenue for the City of Baltimore.



Because of this greater incremental rate of aggregate property value growth, the delta between the blue and red lines, the City of Baltimore is receiving an additional $55 million more in taxes each year than it would have received if the value of properties closest to the CHAP projects had only increased at the rate of the properties 500' to 1000' feet away.[16]

Of course, there are more factors than just the CHAP projects that have catalyzed this accelerated change in property value. If as little as 20% of this incremental value is attributable to the CHAP credit projects, the increased share of tax revenues, not including from the CHAP projects themselves, exceed $10 million a year, which is still more than is foregone each year in the CHAP credit itself.

16 It should be noted that while the graph shows a relatively straight line between 2000 and 2010, that was not the case. Because the Great Recession happened in that decade, property values were very volatile, going both up and down and then up again over that ten-year period. The report only looked at the 2000, 2010, and 2019 data since that was sufficient to identify major trends. This resulted, however, in a change of value curve that, while accurate at the data capture years, somewhat misrepresents the value points in any interim year. This does not alter the conclusions, however, as the pattern stemming from the 2000, 2010, and 2019 data points were all that was considered in the analysis.

All of the data above considers the halo effect reflected by the aggregate property value change from all the CSAs which had CHAP projects sorted by the 500' and 1000' buffer areas and the rest of the CSA. But this can also be measured looking at CSAs on an individual basis. For this analysis, four representative CSAs were selected, one each in the "high use", "moderate use", "low use" and "very low use" intensity categories. The table below shows the external impacts the CHAP projects have had.

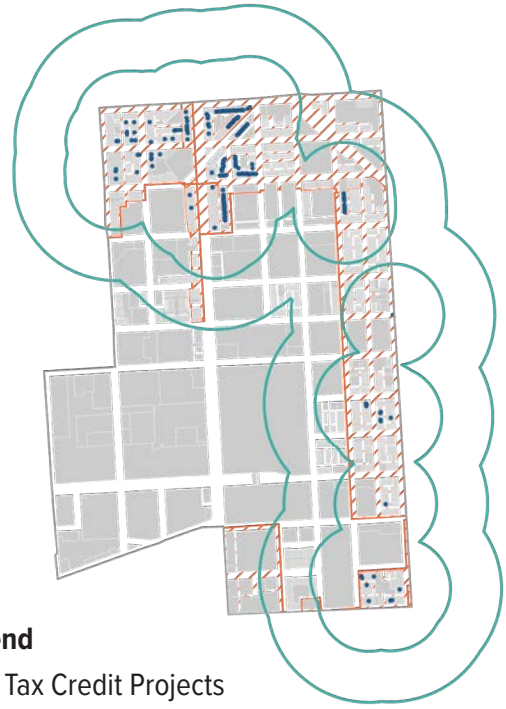
Examples of the Halo Effect 2000 – 2019 Change in Value				
CSA	**Use Intensity**	**500'**	**500' to 1000'**	**Rest of CSA**
Perkins/Middle East	High	+468%	+145%	+11%
Penn North/Reservoir Hill	Moderate	+228%	+133%	+87%
Medfield/Hampden/Woodberry/ Remington	Low	+154%	+149%	+88%
Sandtown-Winchester/Harlem Park	Very Low	+60%	+65%	+41%

What is evident is that the greater the intensity of use of the CHAP credit, the greater the impact on values in nearby parts of the neighborhood. But in every instance the change in value within the two buffer areas was greater than the change in the rest of the CSA.

Perkins/Middle East (High Use)



Photo by Elvert Barnes via Flickr, Licensed

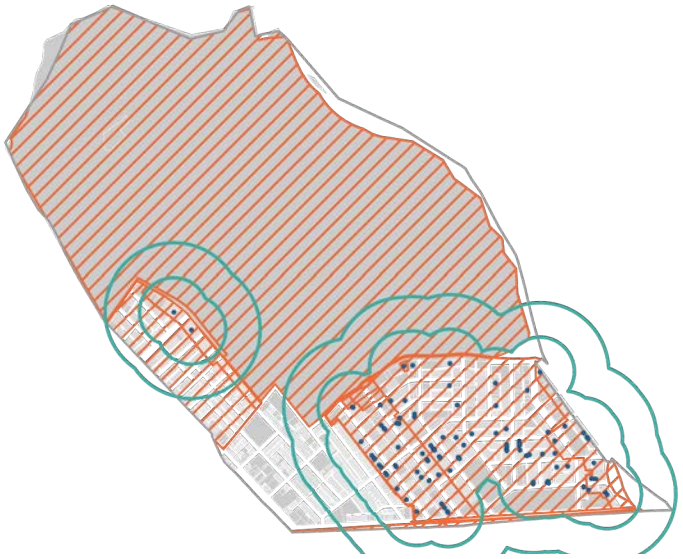


Legend

- Tax Credit Projects
- Buffers
- Eligible Areas

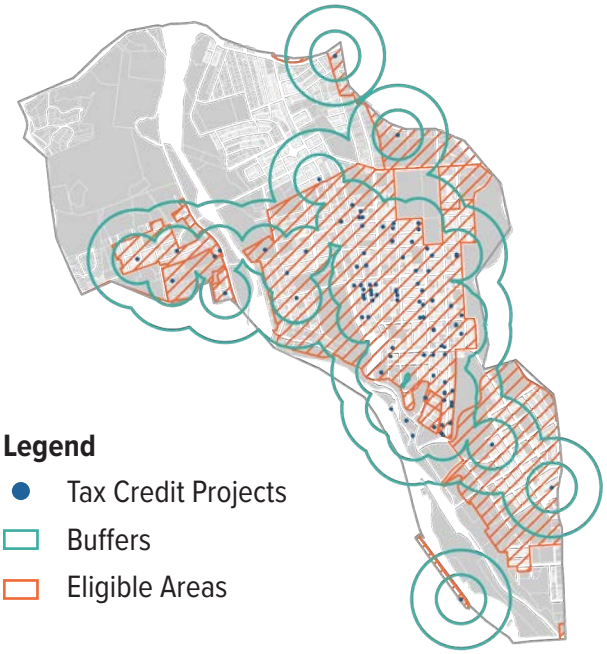
Penn North/Reservoir Hill (Moderate Use)


Photo by Baltimore Heritage



Medfield/Hampden/Woodberry/ Remington (Low Use)


Photo by Eli Pousson via Flickr, Licensed



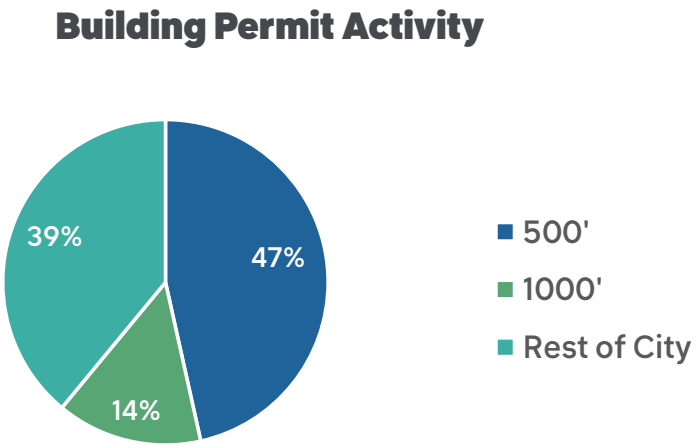
Sandtown-Winchester/Harlem Park (Very Low Use)


Photo by Baltimore Heritage

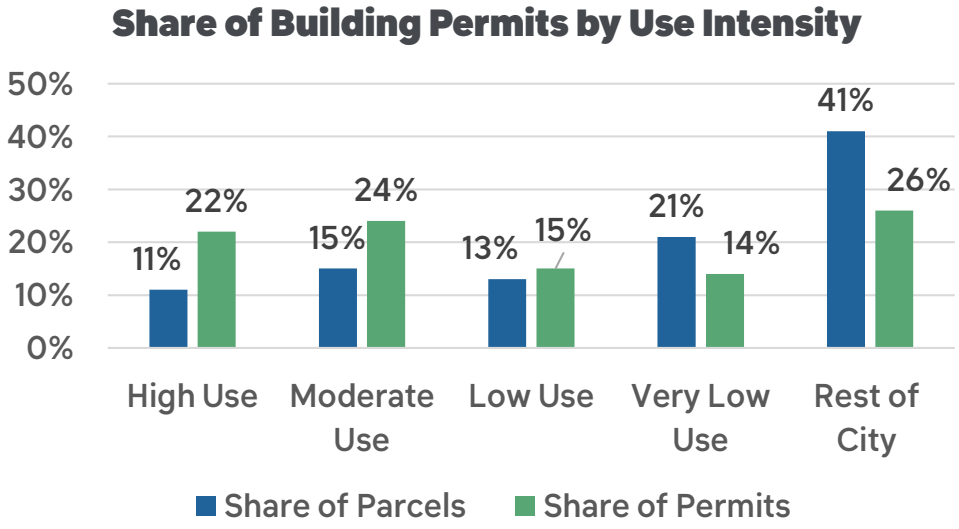


Permits

As was previously stated, one impact of the CHAP credit was that success led to more success. A completed rehabilitation is a huge visual and financial confidence boost in the market. This pattern is especially observed with building permit activity. Between 2002 and 2019, building permits for residential and mixed-use projects in Baltimore totaled $3.356 billion in value. But a disproportionate share of that amount was invested in and around CHAP credit projects. Forty-six point five percent of residential and mixed use construction activity fell within 500' of CHAP projects.

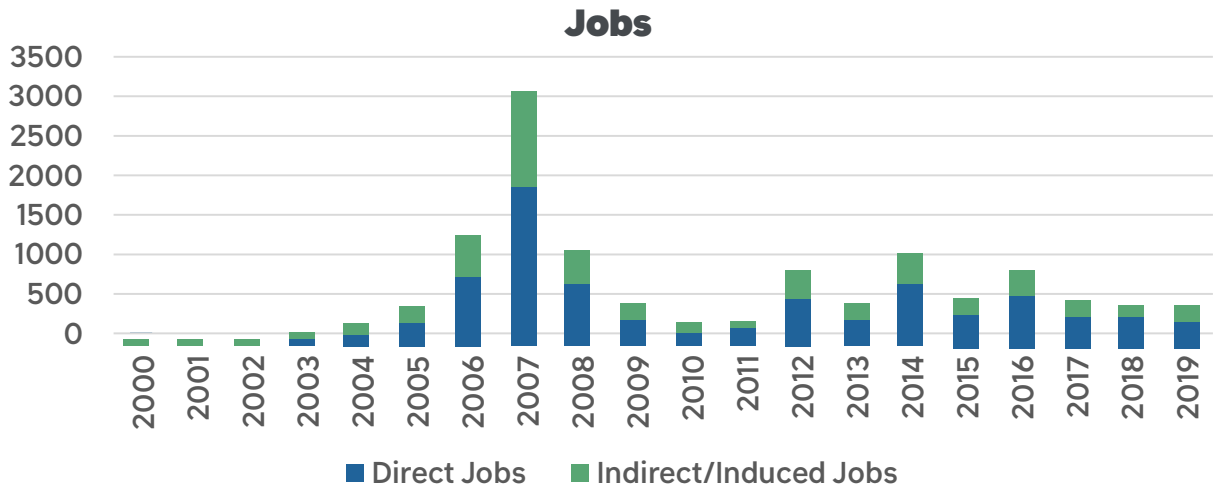


When the share of parcels is compared to the share of building permits over the 17-year period, the revealed preference of the marketplace for areas with a high concentration of historic properties becomes all the more apparent. The CSAs that fell into the High Use of the CHAP credit category only constitute 10.6% of the parcels in the city, but were the location of 21.5% of all building permits issued. The parts of the city with no use of the CHAP credit are more than 40% of the parcels by number, but saw only 26.2% of all building permits.

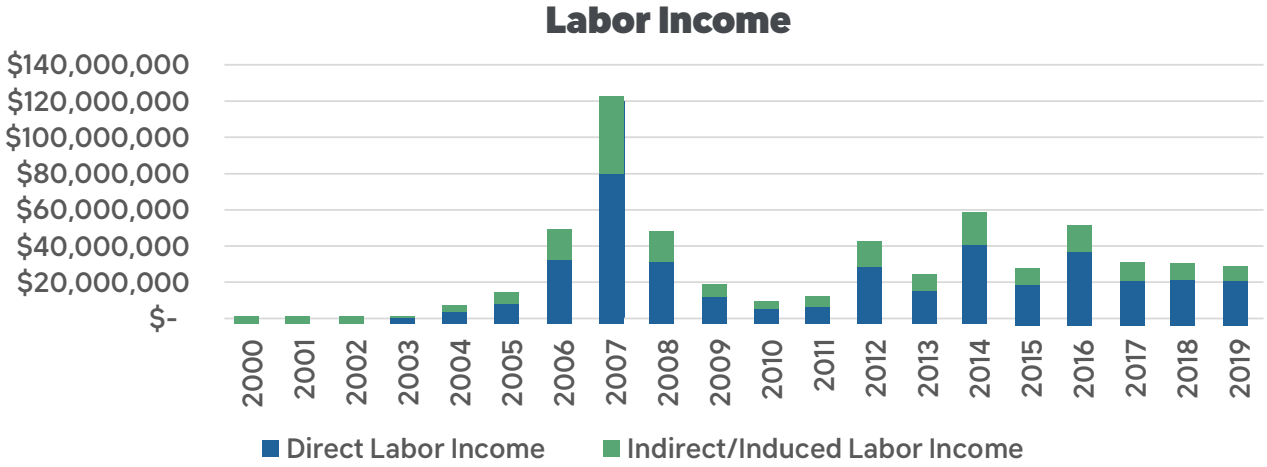


Jobs Created from Investment

When more than $1.2 billion is invested in Baltimore, jobs are created. The annual number of jobs goes up and down depending on overall activity, with the highest number of jobs created in 2007--the biggest year for CHAP credit use. Over the last five years an average of 591 jobs (396 direct jobs, 195 indirect and induced jobs) were created through the work done on CHAP credit projects.[17]



And those jobs have paychecks. Over the lifetime of the CHAP credit program, more than $600 million has been paid out as a result of those projects. [18]



In each of the past five years, an average of nearly $36 million a year in labor income ($25,502,000 direct; $10,276,000 indirect and induced) has been paid to local workers because of the CHAP credit projects. The conclusion is this: The investment made through the CHAP credit is a significant generator of local jobs and income.

17 "Direct jobs" are those within the segment of the construction industry. A carpenter working on a CHAP project is a "direct job." "Indirect jobs" are those which provide goods or services to the industry. So, a worker at a lumber yard cutting 2x4s for the project is an "indirect job." "Induced jobs" are those made possible because of the payroll created in the construction industry. The carpenter takes her paycheck and buys groceries and a membership at the gym. Each of those expenditures creates part of a job which was "induced" because the contractor employed the carpenter. A "job" is a one-year, full-time equivalent job. Therefore, two carpenters each working half a year would constitute one full-time equivalent job.

18 These are the jobs and paychecks generated within Baltimore County, including the City of Baltimore.

The "But For" Test and Returns to the City

There is a principle in economic development called the "but for" test. Incentives are to be judged in this fashion: The action of the private sector entity would not have happened, "but for" the incentive. The concept is easier to define than to measure. While the "but for" test is difficult if not impossible to do in the absolute, the strongly differentiated patterns of investment within and without eligible areas strongly suggest the CHAP incentive was a key element in making the projects financially feasible.

Instead of trying to pinpoint an exact percentage of the projects that would have met the "but for" test, this analysis approached the question somewhat differently, using an "if/then" approach. A model, displayed in the table below, was created that looked at 20 years of tax collections with and without the CHAP credit being available. At one extreme the assumption was that 100% of the projects would have happened even with no incentive and at the other end, no projects would have occurred without the incentive. By calculating the tax collections over the 20-year period, it was then possible to evaluate the share of the projects that met the "but for" test in order for the city to receive at least as much money as properties currently using the CHAP credit provided.

If all (100%) of the projects required the credit to happen, the city would receive $132.53 for every $100 in CHAP credit or a net gain of $32.53. If none (0%) of the projects needed the credit to happen (in other words, would have happened even if there were no credit), the city's property tax collections over the 20 years would be just $65.08 for every $100 of CHAP tax credit awarded or an effective "loss" of $34.92. The break-even point is 51.7%. That is to say, if at least 51.7% of the projects would not have happened without the credit, (i.e. at least 51.7% met the "but for" test) the City is getting a positive return from its tax credit investment.

If the Share of Projects that Would ***Not*** Have Happened without CHAP Credit was	***Then*** 20-year return to the City would be X for every $100 of CHAP Credit provided	***Therefore***, the gain or (loss) to the City over 20 years would be
100%	$132.53	$32.53
90%	$125.79	$25.79
80%	$119.04	$19.01
70%	$112.30	$12.30
60%	$105.55	$5.55
50%	$98.80	($1.20)
40%	$92.06	($7.94)
30%	$85.31	($14.69)
20%	$78.57	($21.43)
10%	$71.82	($28.18)
0%	$65.08	($34.92)

While it is impossible to definitively "prove" that half or more of the projects would not have been completed without the CHAP credit, the patterns of investment within and outside of eligible areas, the disproportionate share of rehabilitation projects in the city that used the CHAP credit, and the existence of an active redevelopment market within a generally static market all suggest that the vast majority of these projects would not have occurred without the CHAP credit. This becomes even more evident when the activity in the Great Recession is considered (see sidebar).

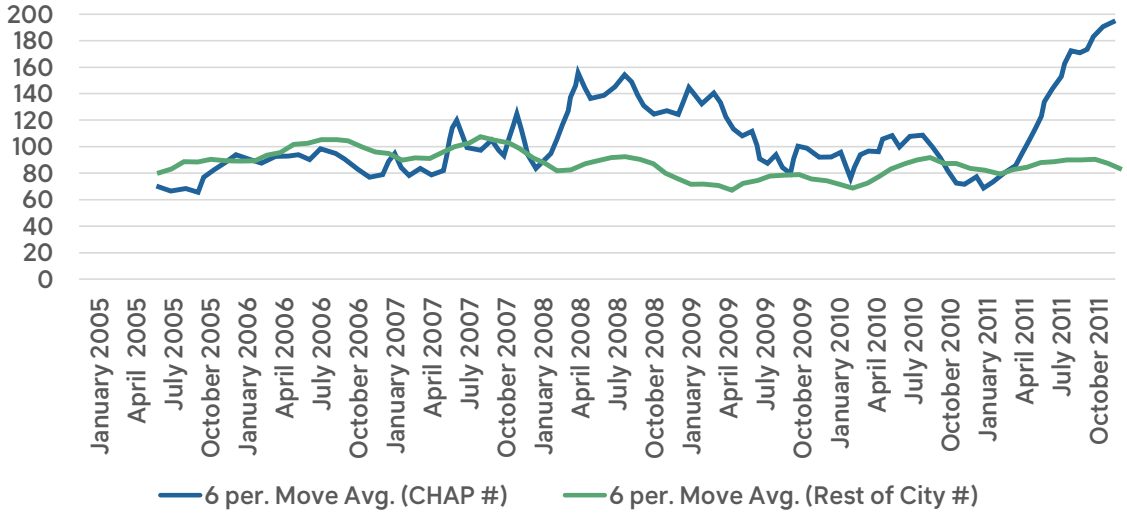
CHAP Activity in the Last Recession

In the midst of the coronavirus crisis, few predictions of what will happen to the economy in the next few years are given with certainty. Most experts in residential real estate are noting that both listings and sales have fallen considerably since the beginning of March, but whether that pattern will continue, or housing prices will fall, or what will be the availability of mortgage money is still uncertain. What is already apparent, however, is that unemployment rates continue to rise, Gross Domestic Product will decline, and nowhere will be spared an adverse economic impact of the virus.

Both the causes and the effects of this recession are significantly different than the Great Recession which officially ran from December 2007 until June 2009. So to look at the last major recession, during which the real estate market was a major victim, may not be a useful predictor of what will happen over the next several months. However, data from the last recession does indicate that: 1) activity using the CHAP credit was counter-cyclical to the down market; and 2) that clearly the "but for" test of the credit was met for most of the projects that took place.

For this report an analysis was made of the building permits[19] issued by the City of Baltimore for the 24 months prior to the beginning of the recession; during the period of the recession; and the 24 months following the recession. The results are dramatic. In the two years prior to the recession, the pattern of CHAP projects and the pattern of building permits issued followed a generally consistent path. At the start of the recession, however, overall permit activity went down, while CHAP projects increased. This significant spread of activity lasted the length of the recession when the two measures of activity resumed their previous similar pattern. This continued for 18 months after the end of the recession, at which point the CHAP projects increased while the issuing of building permits remained flat. The conclusion of this data is that developers and owners using the CHAP credit continued their activity while the rest of the market slowed down significantly. In other words, but for the CHAP credit, it is unlikely that this additional activity would have been undertaken.

Building Permit Activity
100=Average Number of Permits per Month,Two Years Pre-Recession



19 Residential building permits. Not included in the count were permits, such as use permits that did not represent an investment, and all permits issued for less than $1000.

Conclusion

The Baltimore City Tax Credit for Historic Restorations and Rehabilitations does exactly what it was created to do – encourage property owners to invest in their historic buildings. That has happened more than 3,500 times representing private investment in Baltimore of nearly $1.2 billion.

But the program has had an impact far beyond those 3,500 historic structures. Jobs have been created. Surrounding property values have increased significantly. Tax revenue has been generated, not just the amount from the CHAP credit projects themselves, but through investment in close proximity. Now that the credits are expiring on some properties, millions of new tax dollars are flowing to city coffers.

The neighborhoods within which the CHAP credit projects have been undertaken have become neighborhoods of choice for homeowners, renters, investors, and newcomers to the city.

The Tax Credit for Historic Restorations and Rehabilitations is not just an effective tool for historic preservation, but a community development tool to help Baltimore to grow and prosper as one of the great American legacy cities.



Union Mill Offices and Residences, Tax Credit Project
Photo by Preservation Maryland, Licensed

Appendix 1 - Activity by Community Statistical Area

	Community Statistical Area	Number of HTCs	% of Total Parcels Eligible	% of Eligible Parcels with HTC
High Use				
	Perkins/Middle East	182	73.22%	**11.93%**
	Midtown	329	97.00%	**11.45%**
	Canton	392	99.95%	**10.13%**
	Southeastern	5	2.05%	**10.00%**
	Patterson Pk N&E	635	99.83%	**9.57%**
	Fells Point	345	99.42%	**9.21%**
	Highlandtown	308	98.57%	**8.77%**
Moderate Use				
	Cross-Country/Cheswolde	2	1.50%	**6.45%**
	South Baltimore	194	92.19%	**6.20%**
	Inner Harbor/Federal Hill	251	79.64%	**6.17%**
	Downtown/Seton Hill	60	76.44%	**5.50%**
	Jonestown/Oldtown	43	38.74%	**5.23%**
	Penn North/Reservoir Hill	102	65.69%	**4.80%**
	Mt Washington/Coldspring	8	9.59%	**4.79%**
	Poppleton/The Terraces/Hollins Mkt	54	50.38%	**4.51%**
	Dickeyville/Franklintown	9	49.08%	**3.38%**
	Greater Charles Vill./Barclay	91	63.32%	**3.37%**
	Greater Roland Pk/Poplar	31	51.63%	**2.97%**
	Southwest Baltimore	61	23.54%	**2.65%**

Low Use				
	Washington Village	51	84.71%	**1.89%**
	Madison/East End	68	99.95%	**1.75%**
	Medfield/Hampden/Woodberry/Remington	96	73.96%	**1.73%**
	Greenmount East	91	94.41%	**1.65%**
	North Balto./Guilford/Homeland	37	76.08%	**1.22%**
	The Waverlies	8	23.39%	**1.14%**
	Upton/Druid Hts	36	92.12%	**1.08%**
Very Low Use				
	Orangeville/E. Highlandtown	4	11.43%	**0.82%**
	Beechfield/Ten Hills/West Hills	4	13.91%	**0.79%**
	Southern Park Heights	5	18.38%	**0.54%**
	Northwood	2	10.28%	**0.40%**
	Belair-Edison	1	5.15%	**0.29%**
	Lauraville	6	46.43%	**0.27%**
	Dorchester/Ashburton	2	25.41%	**0.21%**
	Sandtown-Winchester/Harlem Pk	7	66.74%	**0.14%**
	Clifton-Berea	3	89.76%	**0.06%**
No Use				
	Allendale/Irvington/S. Hilton	0	0.00%	**0%**
	Brooklyn/Curtis Bay/Hawkins Pt	0	0.00%	**0%**
	Cedonia/Frankford	0	0.00%	**0%**
	Cherry Hill	0	0.00%	**0%**
	Chinquapin Pk/Belvedere	0	0.00%	**0%**

	Claremont/Armistead	0	0.00%	**0%**
	Edmondson Village	0	0.00%	**0%**
	Forest Pk/Walbrook	0	0.00%	**0%**
	Glen-Falstaff	0	0.00%	**0%**
	Greater Govans	0	10.16%	**0%**
	Greater Mondawmin	0	0.00%	**0%**
	Greater Rosemont	0	21.03%	**0%**
	Hamilton	0	0.00%	**0%**
	Harford/Echodale	0	0.00%	**0%**
	Howard Pk/W.Arlington	0	0.00%	**0%**
	Loch Raven	0	0.00%	**0%**
	Midway/Coldstream	0	32.16%	**0%**
	Morrell Pk/Violetville	0	0.00%	**0%**
	Pimlico/Arlington/Hilltop	0	0.00%	**0%**
	Westport/Mt Winans/Lakeland	0	0.00%	**0%**

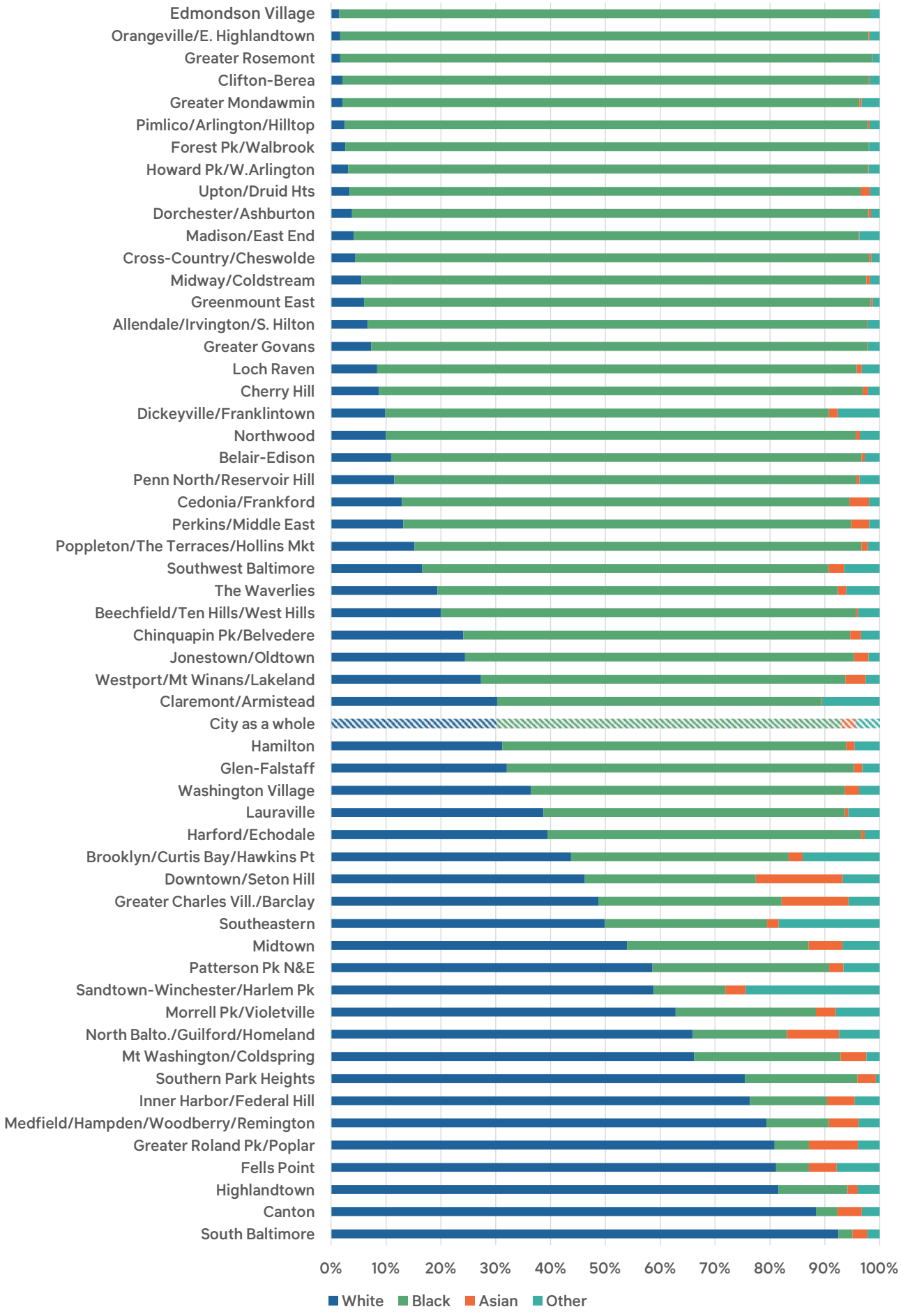
*Bold indicates a CSA in which there is an eligible area, but no CHAP credit projects have taken place.

Appendix 2 - Demographic Profile of Eligible Areas

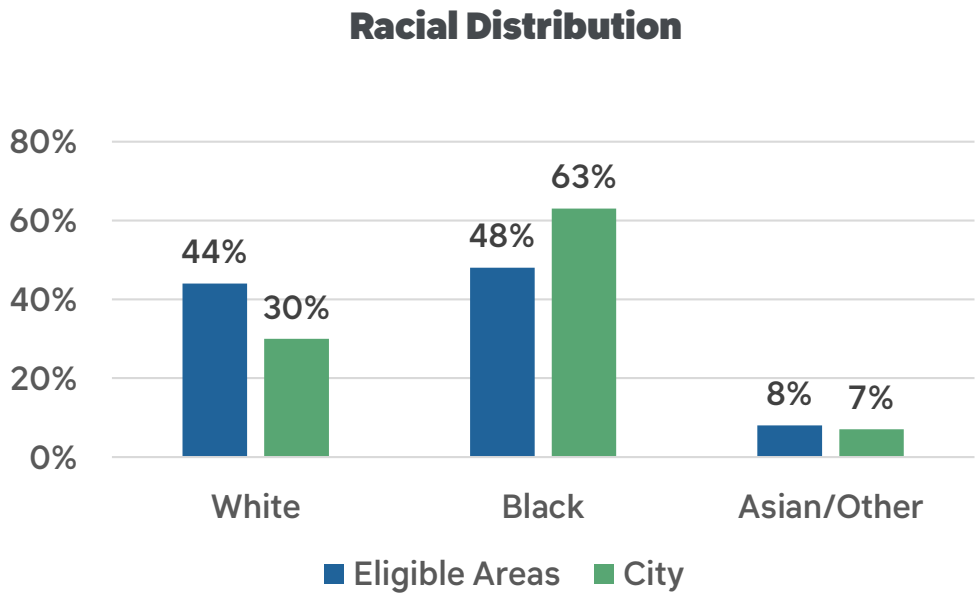
Race

Baltimore is a diverse city with an overall population that is 30.3% white, 62.8% black, and 6.9% Asian and Other. That distribution varies widely from neighborhood to neighborhood, however. Of the CSAs with properties eligible for the CHAP credit, some are nearly all white and others nearly all black. However, as a whole, these CSAs reflect the racial distribution of the city, with half of the 38 CSAs with eligible properties having a greater white share of the population than the city as a whole and half having a greater black share than the city as a whole.

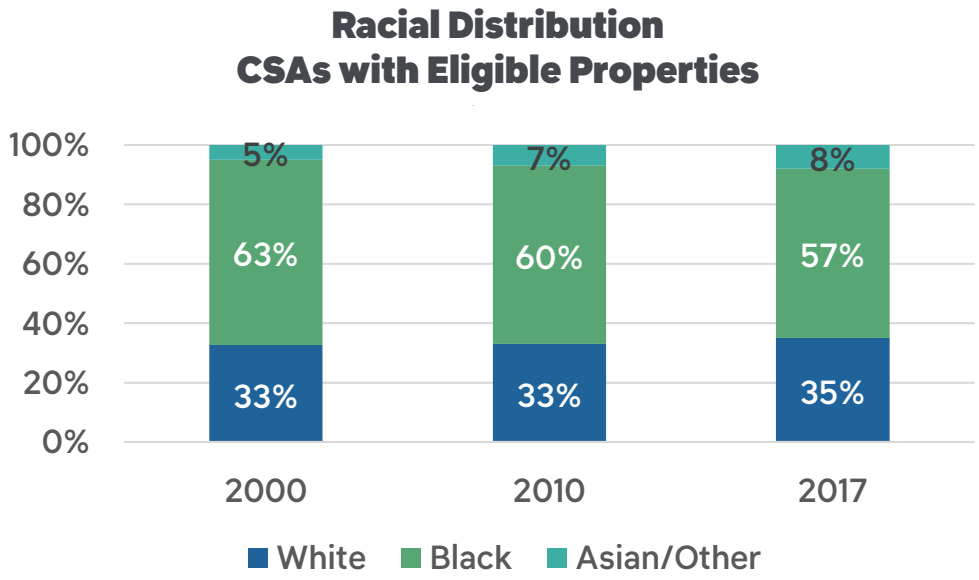
Racial Distribution in CSAs with Eligible Properties



When only considering eligible areas within the CSAs however, there is a greater share of white population. The black population, while still a plurality of the population, is not a majority on an aggregated basis.

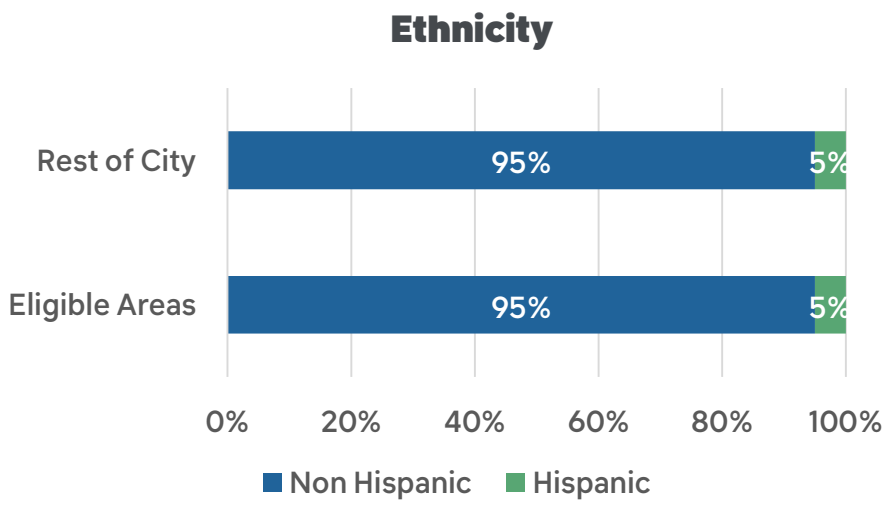


Over the time that the CHAP credit has been available, there has been a nominal change in the racial composition of CSAs that have eligible properties. There has been a slight increase in the white share of the population, a slight decrease in the black share, while the biggest rate of change has been among the Asian and Other portion of the population.



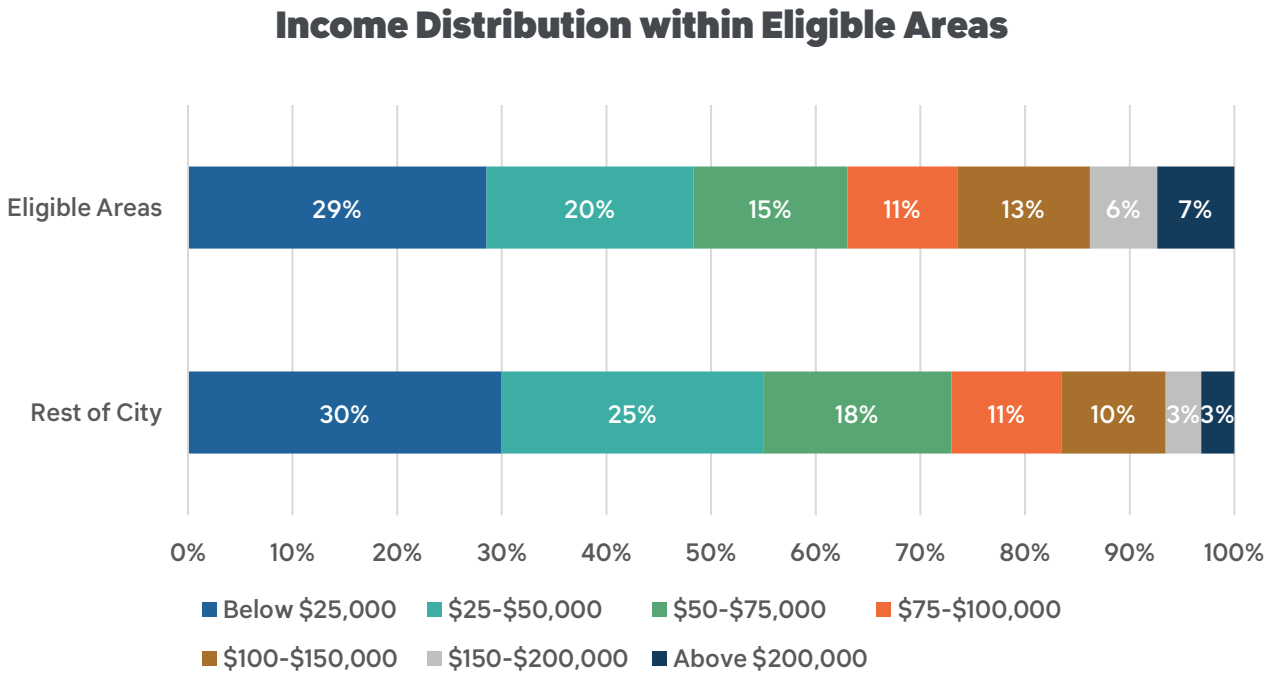
Ethnicity

Overall, eligible areas mirror the rest of the city and the city as a whole in the share of Hispanic population.

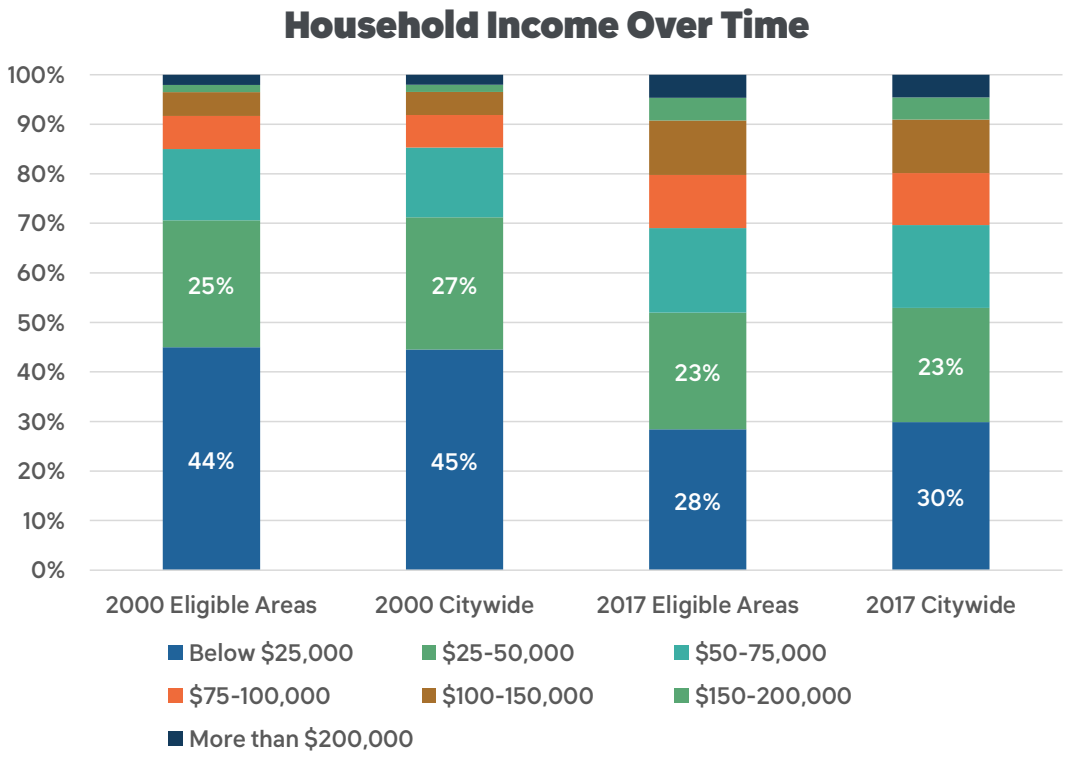


Income

While there is a higher share of higher income households in eligible areas (26.5% with incomes greater than $100,000 vs. 16.5% of households in those income brackets in the rest of the city), the share of the population at the other end of the income spectrum (less than $25,000) is essentially the same for eligible areas (28.5%) and the rest of the city (30.0%).



When looking at the change in household income status between 2000 and 2017, the share of higher end incomes has increased at a greater rate in eligible areas than in the rest of the city. However, the households at the lower end of the income range changed at essentially the same rate in the eligible areas as in the rest of the city.



Appendix 3 – Use of Assessment Data as Proxy for Property Values

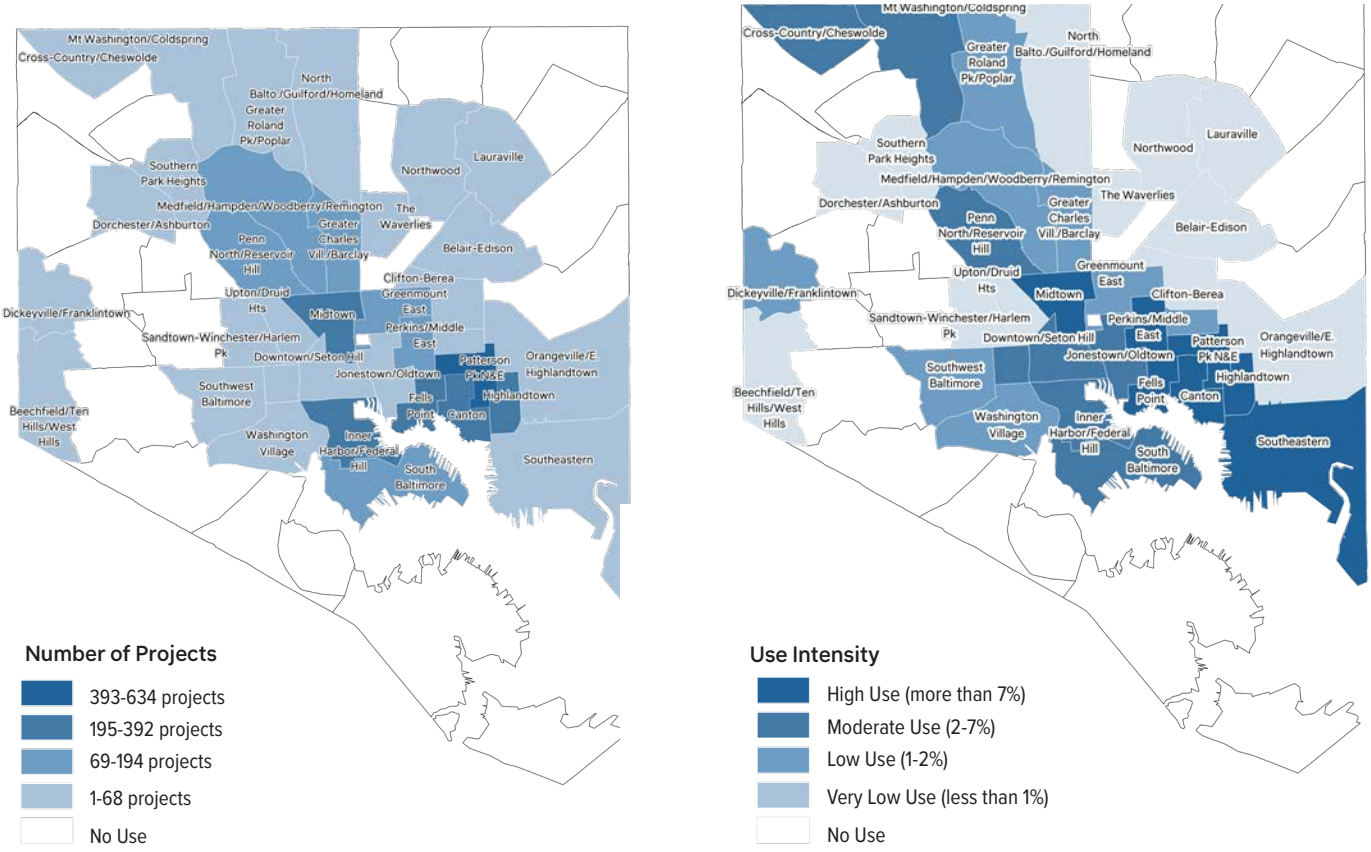
For this report the assessment records for every property in Baltimore was included in the analysis. The records included were from 2000, 2010, and 2019. Information within these records that was used included: address of the property; "Current Cash Value" for each of the examined years; address and age of the property; use category; and other variables. Further, this information was aggregated into Community Statistical Areas (CSAs) and was used to map both the eligibility and the use of the CHAP credit. Additionally, value estimates from the assessment data were aggregated into areas within 500' of CHAP projects, between 500' and 1000' of CHAP projects, and the rest of the CSA. Most significantly, the assessment Current Cash Value estimates were used to measure relative change in value over time. These property value estimates within the assessment data are, at best, an imperfect proxy for value. To rely on these estimates for any given property as the definitive statement of value would often be a mistake. This is not a critique of either individual assessors who make those estimates nor the assessment process itself. Rather it is important to keep in mind that the major goal of property assessments for tax purposes is "equalization" rather than using formal appraisal methods that would be expected for bank lending purposes, for example. The priority is to try to assure that two properties of equivalent value are taxed the same, hence the concept of "equalization." In fact, in many jurisdictions around the United States the officer in charge of the assessment process is called the Director of Equalization. Furthermore, assessments are nearly always lagging the market, so changes in value, either up or down, often would be reflected in the Current Cash Value estimate for one or two or three years after the market has acted.

Additionally, when the values of thousands of properties are aggregated within a geographic area, changes in value include multiple variables beyond just the market driven appreciation or depreciation of any given properties. Included within the aggregate value change within an area would be: new construction, renovation, additions, all adding value. Also factors such as demolitions, fire or other natural damage, deferred maintenance, and other negative variables could reduce aggregate value. So when a table or a graph seems to reflect, "properties in this area increased by x%" it is unlikely to be only because properties in that area appreciated. Rather it implies that the value of the whole area increased from a combination of the factors noted.

Why, then, with all these deficiencies, is the Current Cash Value from the assessment records used? Three reasons: 1) the data includes every parcel in the city; 2) the sheer size of the database means that any given property may be significantly in error as to market value without having a major statistical impact overall; and 3) when the primary goal is to indicate patterns of change rather than a precise value of any particular property, the overall movement of aggregated values constitutes a reliable proxy for relative values for this research.

Appendix 4: Methodology

This analysis was conducted at two scales. The largest scale looked at all eligible areas–local historic districts and National Register districts–compared to the rest of the city. This analysis allowed us to see how all areas with access to the credit have performed compared to areas where no credit activity was permitted. However, there is great diversity even among the eligible areas in demographics and intensity of credit use. Therefore, to take a more granular look at these differences, we conducted an analysis at the level of the Community Statistical Areas (CSAs). CSAs are clusters of neighborhoods that were combined along census tract boundaries. Of Baltimore's 55 CSAs, 38 contain eligible areas. These CSAs were categorized into five groups based on their intensity of tax credit use (percent of parcels that undertook a tax credit project).



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Dominic Wiker, The Time Group
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Tom Pirritano, Department of Finance
Bob Cenname, Department of Finance

Chris Ryer, Director of Department of Planning

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About PlaceEconomics

PlaceEconomics is a private sector firm with over thirty years experience in the thorough and robust analysis of the economic impacts of historic preservation. We conduct studies, surveys, and workshops in cities and states across the country addressing issues of downtown, neighborhood, and commercial district revitalization and the reuse of historic buildings.

This report was prepared and written by Donovan Rypkema, Briana Grosicki, Rodney Swink, Katlyn Cotton, and Alyssa Frystak. Rypkema is principal and founder of PlaceEconomics. Grosicki is Associate Principle at PlaceEconomics and handled research methodologies and data collection. Cotton is the Director of Marketing and Design at PlaceEconomics and handled graphic design. Frystak is a Research and Data Analyst, and handled data analysis. Editing was done by Alyssa Frystak and Rodney Swink. Swink is the Senior Associate for Planning and Development.

An Analysis of the Baltimore Historic Preservation Tax Credit

August 2020
Prepared by PlaceEconomics
for the Baltimore Commission for Historical and Architectural Preservation

PlaceEconomics

CITY OF BALTIMORE