Local Historic Districts and Property Values in Michigan Neighborhoods

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INTRODUCTION

At the Michigan Historic Preservation Network (MHPN), our mission is to advocate for Michigan's historic places to contribute to our economic vitality, sense of place, and connection to the past. Michigan's special places—forests, lakes, and rivers, waterfront fishing villages, lakeside resorts, family farms, and industry boom towns—tell our history. That story connects people to people, both past and present, and connects us all to the places themselves. As the Michigan Land Use Institute expressed in their 2003 publication, *A Civic Gift*, "People care about old buildings because they reflect shared memories and a sense of continuity, which are the essence of community." Indeed, old buildings nurture community and convey a sense of a community's character and identity.

Maintaining the character and architecture of a place is not about history alone—it's also about the quality of life for residents and the draw of a unique experience for visitors, who invest in local businesses and experiences. The most effective way for Michigan communities to protect their unique sense of place and manage change in their historic areas is to create local historic districts. Many studies have shown (see a sampling of studies in the Resources section) that in local historic districts, homeowners tend to stay and invest for longer periods of time, rates of foreclosure tend to be lower, and properties tend to appreciate at a higher rate than non-designated properties. In 2002, MHPN looked at the relationship between local historic districts and property values as part of its broader study of the economic impacts of historic preservation in Michigan. We, too, found a positive correlation between local historic district designation and property values in the communities we studied.

In 2016, with funding from the Michigan State Housing Development Authority and the State Historic Preservation Office, MHPN sought to revisit a study of the relationship between property values and local historic districts. We wanted to know how property values within local historic districts would compare with nearby similar, non-designated neighborhoods over time and how the historic districts weathered the 2007-08 real estate crash and subsequent recession. We wanted to be able to share updated information with communities considering local historic district designation. To investigate, four communities of varying sizes and demographics were selected that have local historic districts and similar historic houses outside the local district.

We are again pleased to find that, as a rule, properties in local historic districts have higher property values than nearby similar, non-designated properties. Michigan has thousands and thousands of historic resources that are not locally protected—currently, only 78 communities in Michigan have local historic districts. We know that many of our historic buildings and neighborhoods could be lost to insensitive development or long-term neglect without local protection. It is our hope that this report's findings will provide encouragement and information to communities as they consider local designation to protect their significant resources. Local historic district designation helps communities retain their unique historic character and benefits homeowners with higher property values.

Nancy Finegood, Executive Director
Michigan Historic Preservation Network

EXECUTIVE SUMMARY

Assessor data from four communities at three points over time was analyzed to reveal how local historic district designation affects property values in residential neighborhoods. The communities studied were Ann Arbor, Bay City, Grand Rapids, and Kalamazoo. The points in time for the snapshots were around the year 2000, 2010, and 2015/16.

The data was explored in two ways:

(1) overall patterns were identified across averaged collections of similar data from in and outside local historic districts, and

(2) more exhaustively, the study's author applied a statistical technique that seeks to measure the effect of local historic designation, while holding constant all other factors that contribute to property value. In other words, this second approach (hedonic regression) breaks out and assigns weights to the various components that contribute to a property's value to create true, apples-to- apples comparisons between properties inside local historic districts and similar undesignated properties nearby. The result is a determination of the actual value of local historic district designation and how it contributes to property values.

Overall Findings:

• In all communities and time periods studied, the property values in designated historic districts were higher than the comparable non-designated areas of the same community, regardless of whether the overall values were stable, increasing, or decreasing.

• In communities and time periods where there was an overall increase in property values, the homes in the designated historic districts generally increased at nearly the same or better rates than the comparable non-designated areas.

• In communities and time periods where there was an overall decrease in property values, the homes in the designated historic districts still fared better. While the rate of decreasing values was inconsistent between the designated historic and non-designated areas, the actual property values in designated historic districts always remained higher than non-designated neighborhoods.

Specific Findings of the Statistical Analyses:

Hedonic regression models were estimated and tested for each community to determine the actual value of local historic district designation and how it contributes to property values. In Ann Arbor, Grand Rapids, and Kalamazoo, historic designation contributed positively to property values in every year of the study.

- In the earliest year studied (between 2000 and 2004 depending on the community) in these communities, local historic district designation added between 11% and 35% in value when compared to similar non-designated properties.

- In 2010 in these communities, local historic district designation added between 10.6% and 28.5% in value when compared to similar non-designated properties.

- In 2015, in the same communities, local historic district designation added between 6% and 28.6% in value when compared to similar non-designated properties.

In Bay City, actual property values in the local historic district were consistently higher than similar properties outside the district in every year studied. Because of the small dataset for Bay City (27 undesignated and 64 designated houses), however, the hedonic regression approach was deemed statistically unreliable.

Conclusion:

Whether similar collections of data are averaged or an in-depth hedonic regression technique is used to determine the value of local historic designation between similar properties in and outside local historic districts, the outcome is the same: **local historic district designation enhances property values.**

LOCAL HISTORIC DISTRICTS
Definition and Community Selection

What is a Local Historic District?

In general, there are three types of historic designation: national (National Register of Historic Places), state (State Historical Marker program), and local. Both national and state designations are honorary and raise awareness of the importance of historic places but do not, broadly speaking, protect those places. If a community's goal is to protect historic character and a sense of place, that goal is most effectively achieved at the local level. Local historic districts in Michigan are enabled by P.A. 169 of 1970, as amended, and local historic districts are established by local ordinances and administered by local residents. These residents serve on a historic district commission, which reviews applications for proposed exterior changes, new construction, and demolition. This application and review process helps to manage change in the district so that the historic character of a neighborhood is retained over time, even as properties change hands.

How were communities selected for this study?

Because the Michigan Historic Preservation Network (MHPN) wanted to compare property values within local historic districts with property values of nearby similar properties over time, communities with both local historic districts and comparable undesignated properties were needed, as well as an ordinance and districts that were established in 2000 or earlier. Of Michigan's 78 communities with local historic district ordinances, most are in the Lower Peninsula, and many have districts that were established well after 2000. In addition, several have scattered single-resource districts (scattered districts of one building) instead of contiguous districts where neighborhoods or whole areas are designated. Whole collections of designated buildings were necessary for this study.

Many of those 78 communities have locally designated their commercial area and not any residential districts. MHPN had initially wanted to include one downtown commercial district in the study, but the host of variables that go into commercial property assessments made a commercial property value study exceedingly complicated. Additionally, many communities

that have designated a commercial local historic district have, logically, designated all of the historic buildings in the historic downtown, leaving no comparable undesignated buildings for a study like this one.

Another factor was the size of the districts—collections of the data needed to be large enough so that the statistical analysis would be reliable. As seen in one of the communities in this study, sample size ended up being an issue when trying to draw larger conclusions from the data.

Other criteria included diversity in geography and population size, a local ordinance that was compliant with the state enabling act, and some staff capacity and a willing partner in the city assessor's office. Ultimately, after sifting through all of these factors and discussing this project with municipal staff and local stakeholders all over the state, Ann Arbor, Bay City, Grand Rapids, and Kalamazoo were the communities selected for this study.

METHODOLOGY

MHPN wished to know whether local historic designation increases the value of properties in a historically designated area relative to those in a comparable neighborhood. One challenge associated with such a study is that designated and non-designated homes might differ in ways other than designation. For example, in any given area, designated homes might be larger than otherwise comparable non-designated properties, and a simple comparison of the two types might ascribe the higher valuation of designated homes to the designation, when in fact the difference is due to size. One might, in that case, use price per square foot as the measuring rod, but size is only one of many possible structural differences between designated and non-designated properties.

Because of these potential structural differences, the *hedonic regression* method has become the primary tool used in studies across the country to evaluate how historic designation contributes to property values. This method views the price of a piece of real estate as the sum of the value of its parts. When using this method, various characteristics of the houses being studied (fireplace, garage, full bathrooms, etc.) are assigned weights and those values are entered into an equation. This method allows the researcher to measure how much one characteristic (such as historic designation) contributes to property value, while holding the other characteristics constant, thus overcoming the issue described above.

For each of the four cities in this study — Ann Arbor, Bay City, Grand Rapids, and Kalamazoo — a hedonic regression model was estimated, and three years of assessor data for each city was analyzed. MHPN's general request to the assessors was for data from the years 2000, 2010, and 2016, but the actual years assessors were able to access varied slightly from city to city. In each city, a locally designated neighbor-hood and a comparable, non-designated neighborhood were recommended by respective city staff. The home attributes used in each community included: local designation, interior square footage, yard size, year of construction, number of bathrooms (full and half), number of fireplaces, and indicators for various building classes, styles, HVAC systems, and garage presence and size. Assessors also provided property value data and most recent sales prices.

> For each city, a hedonic regression model was estimated and tested, and three years of assessor data was analyzed.
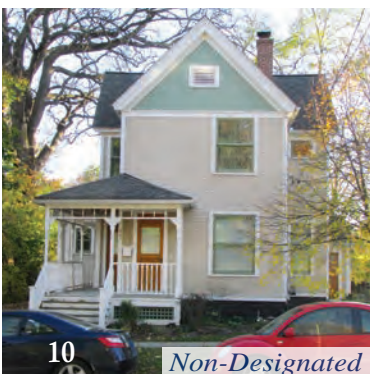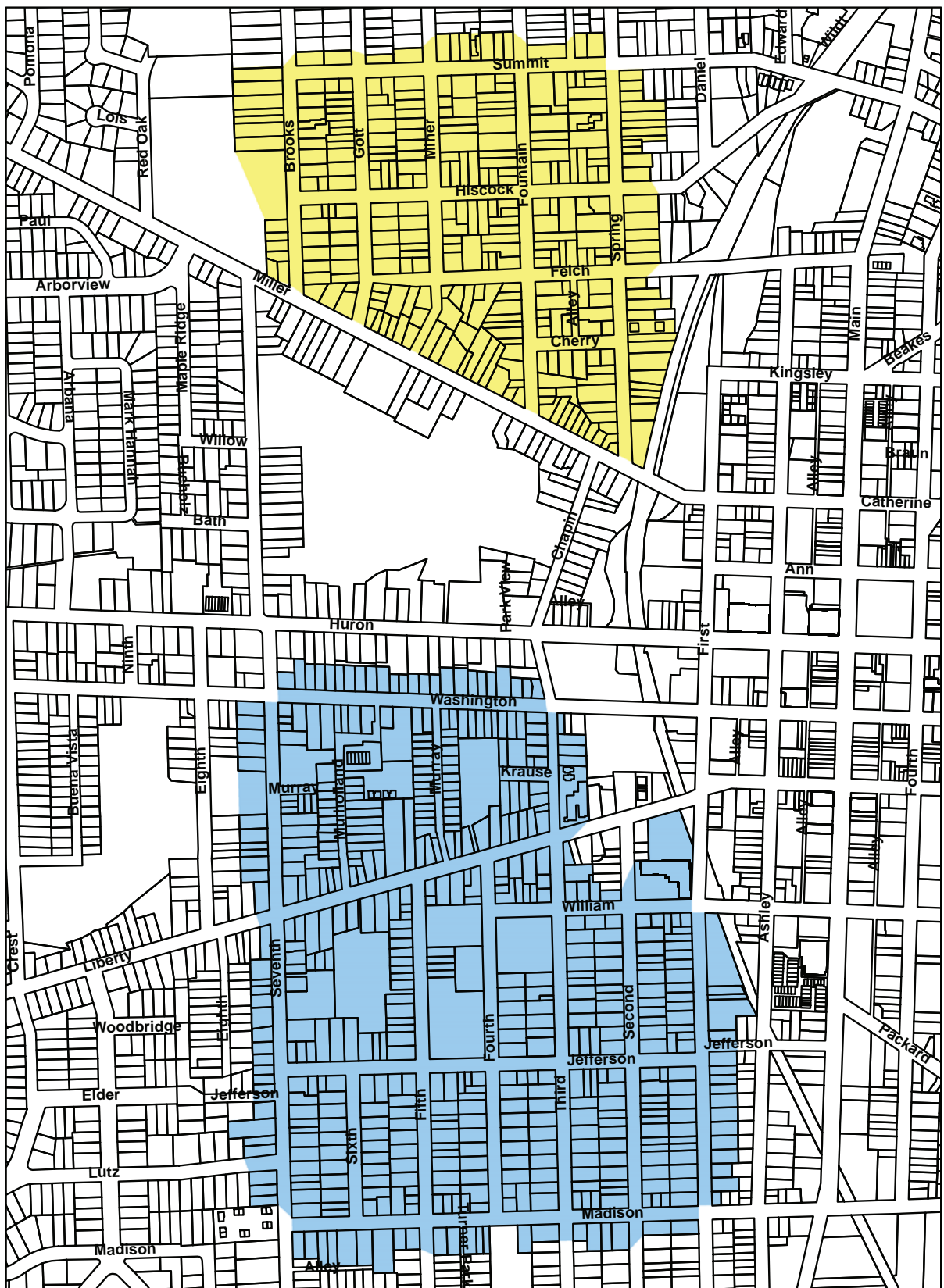
ANN ARBOR

County: Washtenaw

Local Historic Districts: 14

Population: 113,934

Ethnic Makeup:
White: 73%
African American: 7.7%
American Indian &
 Alaska Native: .3%
Asian: 14.4%
Two or more races: 3.6%
Hispanic or Latino: 4.1%

Median Household Income, 2011-2015 (in 2015 dollars): $55,990

Owner-occupied Housing Unit Rate: 44.8%

**Median Value of Owner-Occupied Housing Units, 2011-2015:** $240,700

Data from 2010 U.S. Census, census.gov/quickfacts

Designated
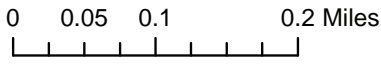

Non-Designated

Designated

Non-Designated

Description of study areas

The two areas analyzed for this study are portions of the neighborhoods known as the Old West Side and Water Hill. The Old West Side (designated in 1978) is a local historic district located west and southwest of downtown, comprised of 955 mostly residential properties. Water Hill is an adjacent neighborhood just northwest of downtown, also mostly residential. Both neighborhoods are about equidistant from downtown. The portions of both neighborhoods that were selected for the study are the portions closest to each other, both geographically and architecturally. The architecture throughout both is very similar—the majority of the houses are modest, gable-front, clapboard-sided, and one-and-a-half to two stories tall. Many have front porches and there are many different styles, including Classical Revival, Italianate, Queen Anne, and some Colonial Revival and Craftsman. Both neighborhoods attend the Ann Arbor public schools and share the same elementary and middle schools. The average square footage in the Old West Side is 1524, while in Water Hill it is 1452. The lot sizes are also quite similar. Data for approximately 450 homes was analyzed from the Old West Side and compared to data from approximately 265 Water Hill houses for the years 2000, 2010, and 2015.
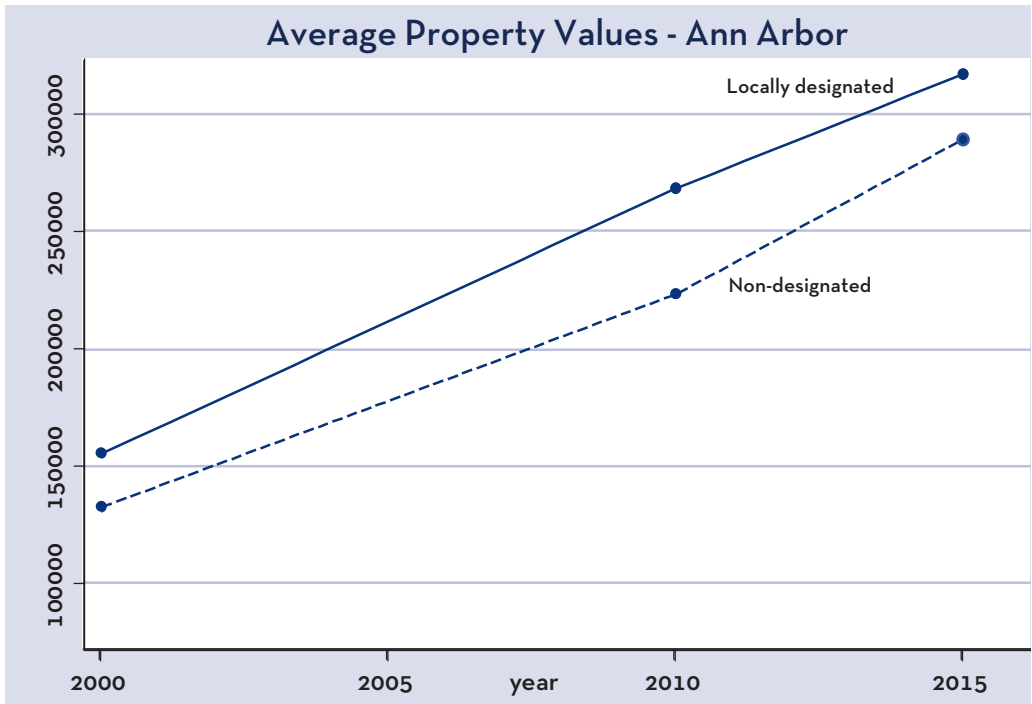
Legend

☐ City of Ann Arbor Parcels

🟦 Old West Side Local Historic District Study Area

🟨 Non-designated Study Area

N

0   0.05   0.1   0.2 Miles

Ann Arbor Study Area

Average Property Values - Ann Arbor

Locally designated

Non-designated

Property values data from assessor, totaled and averaged, before statistical analysis. Property values in the local historic district are consistently higher than in the similar non-designated neighborhood.

Designated

Non-Designated

Conclusions

Unlike many parts of Michigan between 2000 and 2010, property values in Ann Arbor rose, and the value of the designated homes rose faster during these years than the comparable non-designated properties. The statistical analysis showed that in the year 2000, local historic district designation added an average of 11% to property values in the local historic district when compared to similar non-designated properties. In 2010, that premium on local historic designation added an average of 16% to property values when compared to similar undesignated properties. Between 2010 and 2015, however, property values began to converge in the two neighborhoods. In 2015, the value added by designation was about 6%. At 6%, the dollar value of the premium for the designation is almost $7,000 on a 2015 base of about $113,000.

Designated

Non-Designated

BAY CITY

Designated

Non-Designated

Designated

Non-Designated

County: Bay

Local Historic Districts:
　2 multi-resource districts
　5 single-resource districts

Population: 34,932

Ethnic Makeup:
　White: 89.7%
　African American: 3.5%
　American Indian &
　　Alaska Native: .6%
　Asian: .5%
　Two or more races: 3.9%
　Hispanic or Latino: 8.5%

Median Household Income, 2011-2015 (in 2015 dollars): $34,743

Owner-occupied Housing Unit Rate: 69.4%

Median Value of Owner-Occupied Housing Units, 2011-2015: $67,700

Data from 2010 U.S. Census, census.gov/quickfacts

Description of study areas

In the 1800s in the region surrounding Bay City, the rich forests and water access gave rise to lumber and shipping industries. Bay City became known as the "Lumber Capital of the World," and its smaller neighbor to the west, West Bay City, was also a successful city in its own right, profiting from the lumber, shipbuilding, and salt industries that were building this region. Both cities had wealthy lumbermen, ship builders, and industrialists who built homes and businesses. In Bay City, the wealthy built their homes along Center Avenue, and in West Bay City, on a slightly smaller scale, the wealthy built their homes along Midland Street. In 1905, West Bay City merged with the City of Bay City.
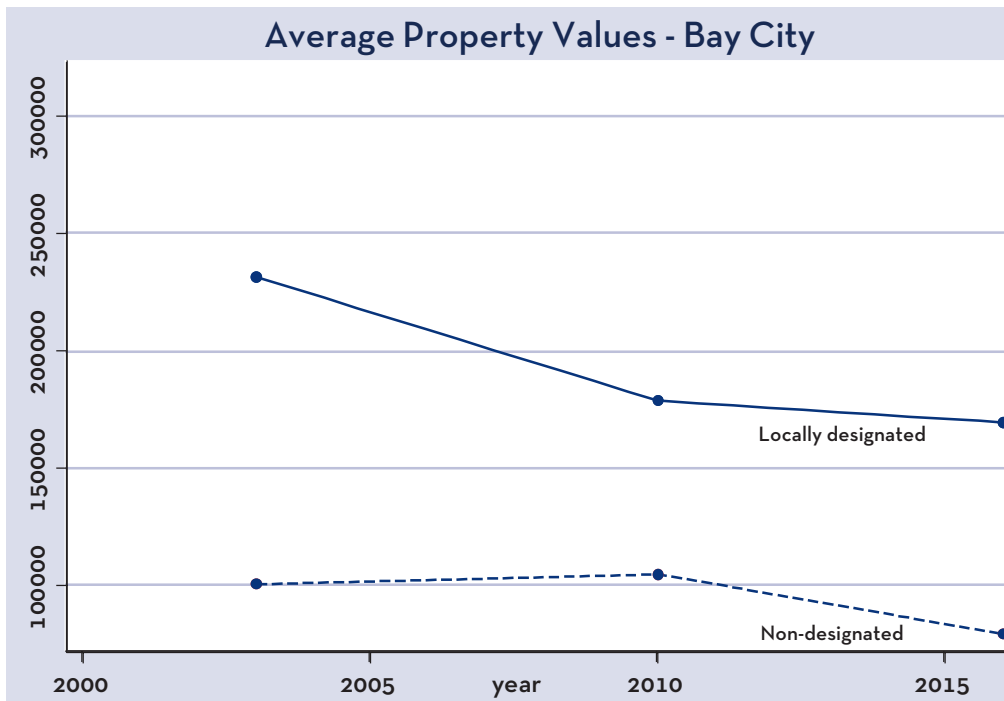
The two areas analyzed for this study include a portion of the locally designated Center Avenue District and a portion of the residential neighborhood West Midland Street in what was formerly West Bay City. The original Center Avenue historic district included properties having frontage on Center Avenue between Madison and Livingston Streets. In this district, property owners who have wanted to make exterior architectural changes to their properties have sought approval from a design review body since 1999. From 1999 to 2011, proposed architectural changes in this area were reviewed by a committee who used the Secretary of the Interior's

Standards for Rehabilitation to approve or deny proposed work. In 2012, Bay City sought to get its architectural review processes in line with the state enabling act for local historic districts and adopted a compliant ordinance. At the same time, architectural review for the district went to the local historic district commission, who used the same standards for review. Also in 2012, the Center Avenue Historic District was expanded to include some of the surrounding houses to the north and south of Center Avenue for a block or two at the far west and far east ends of the district. Because those houses did not begin their architectural review processes until 2012, they were not included in this study. Also not included in this study is the western half of the original Center Avenue district, because the largest homes are concentrated there. For the study, the portion of the Center Avenue district that was analyzed is between approximately Johnson and Livingston Streets.

The non-designated area that was used for a comparison in this study is the portion of West Midland Street between approximately Alp and Erie Streets. Both study areas include houses from the 19th and 20th centuries of a variety of styles, including Arts & Crafts, Colonial Revival, Queen Anne (common in these neighborhoods), Second Empire, and Tudor Revival. The Center Avenue neighborhood features additional styles as well, and the Center Avenue houses tend to be larger on larger lots. There were only 27 houses included in the W Midland Street area and 64 houses in the Center Avenue area and the years for the data were 2003, 2010, and 2016.
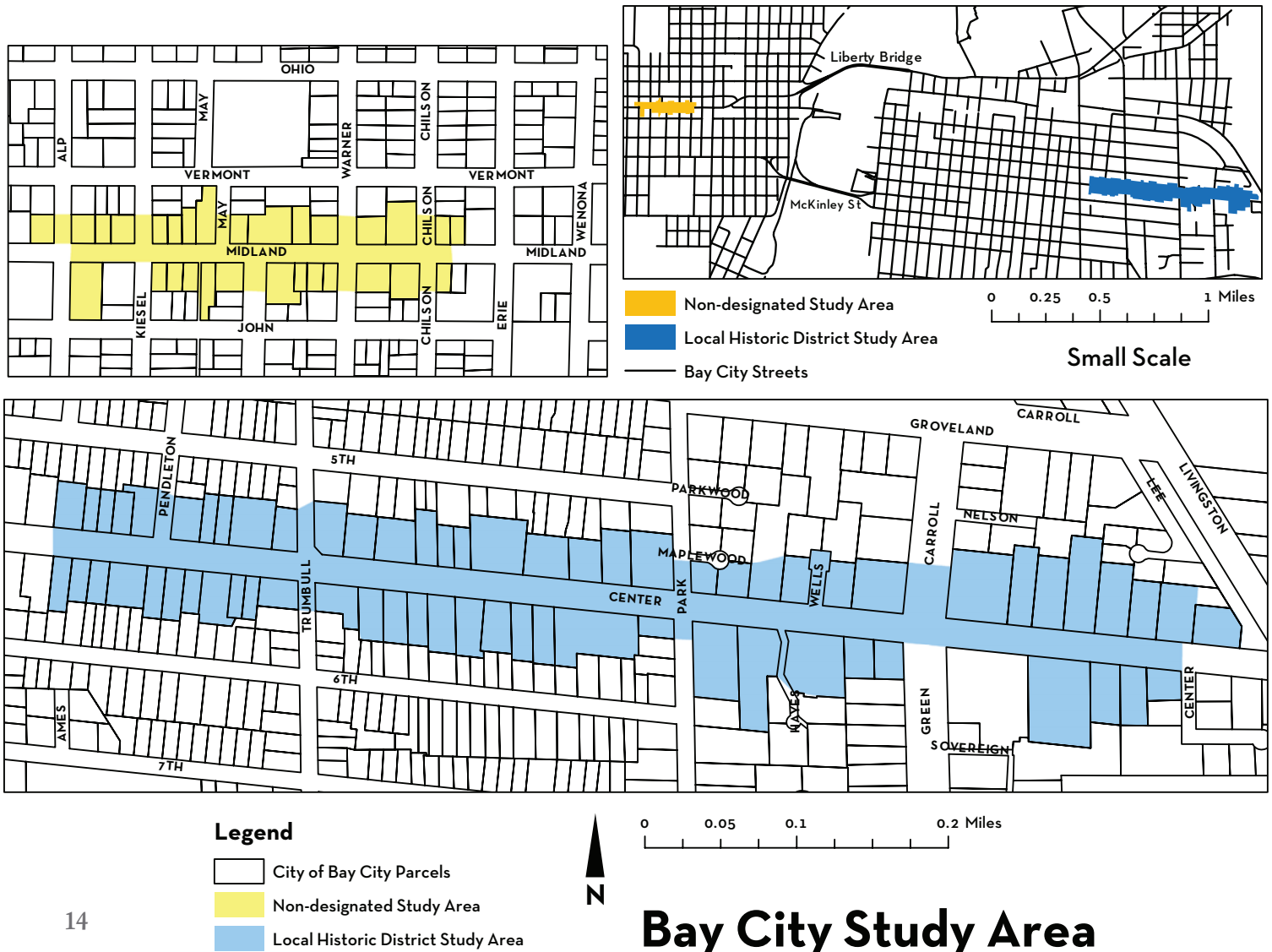
Non-designated Study Area

Local Historic District Study Area

Bay City Streets

Small Scale

Legend

City of Bay City Parcels

Non-designated Study Area

Local Historic District Study Area

Bay City Study Area

Average Property Values - Bay City

Locally designated

Non-designated

Property values data from assessor, totaled and averaged, before statistical analysis. Property values in the local historic district are consistently higher than in the similar non-designated neighborhood.

Designated

Non-Designated

Designated

Non-Designated

Conclusions

When Bay City data is compared as a collection and property values are averaged, the property values in the local historic district are higher than they are in the nearby undesignated, comparable area for every year of the study—2003, 2010, and 2016.

When the hedonic regression method is applied, the conclusion is that the data set for Bay City is too small to be statistically reliable. "T-values" are a typical metric used to assess the quality of statistical estimates. A t-value greater than 2 indicates reasonable precision in a statistical estimate, and Bay City's results don't exhibit a t-value greater than 2 until the 2016 data. In 2016, the value of the premium for historic designation is 14.6%.

After more time has passed following Bay City's 2012 historic district expansion, the enlarged local historic district could provide an interesting case study to measure the effects of local historic district designation over time. Rates of change in property values pre-designation could be measured and compared with rates of change in property values post-designation, and this comparison could help the researcher understand the effects local historic designation has had on these properties. The 2012 district expansion was too recent an occurrence for this study to explore.

GRAND RAPIDS

Designated

Non-Designated

Designated

Non-Designated

County: Kent

Local Historic Districts:
6 multi-resource districts
79 single-resource districts

Population: 188,040

Ethnic Makeup:
White: 64.6%
African American: 20.9%
American Indian &
 Alaska Native: .7%
Asian: 1.9%
Two or more races: 4.2%
Hispanic or Latino: 15.6%

Median Household Income, 2011-2015 (in 2015 dollars): $40,355

Owner-occupied Housing Unit Rate: 54.3%

Median Value of Owner-Occupied Housing Units, 2011-2015: $109,400

Data from 2010 U.S. Census, census.gov/quickfacts

Description of study areas

Heritage Hill Historic District was locally designated in 1973 and is one of the largest urban historic districts in the country. This district includes many of Grand Rapids' finest surviving structures, with many of these constructed between 1860 and 1920 for residents such as lumber barons, teachers, judges, and legislators. In the late 1800s and early 1900s, this was the city's most prestigious residential area. There are about 1,300 buildings in the district and many styles of architecture are represented, including Greek Revival, Italianate, Queen Anne, Tudor, and Prairie. Many of the same styles are represented in the blocks adjacent to the locally designated district, and the comparison data was drawn from the blocks just outside the district to the northeast and southwest. Data from approximately 900 houses within the district and 500 houses adjacent to the district was analyzed for the years 2004, 2010, and 2015. Houses larger than 8,000 square feet were eliminated from the analysis.
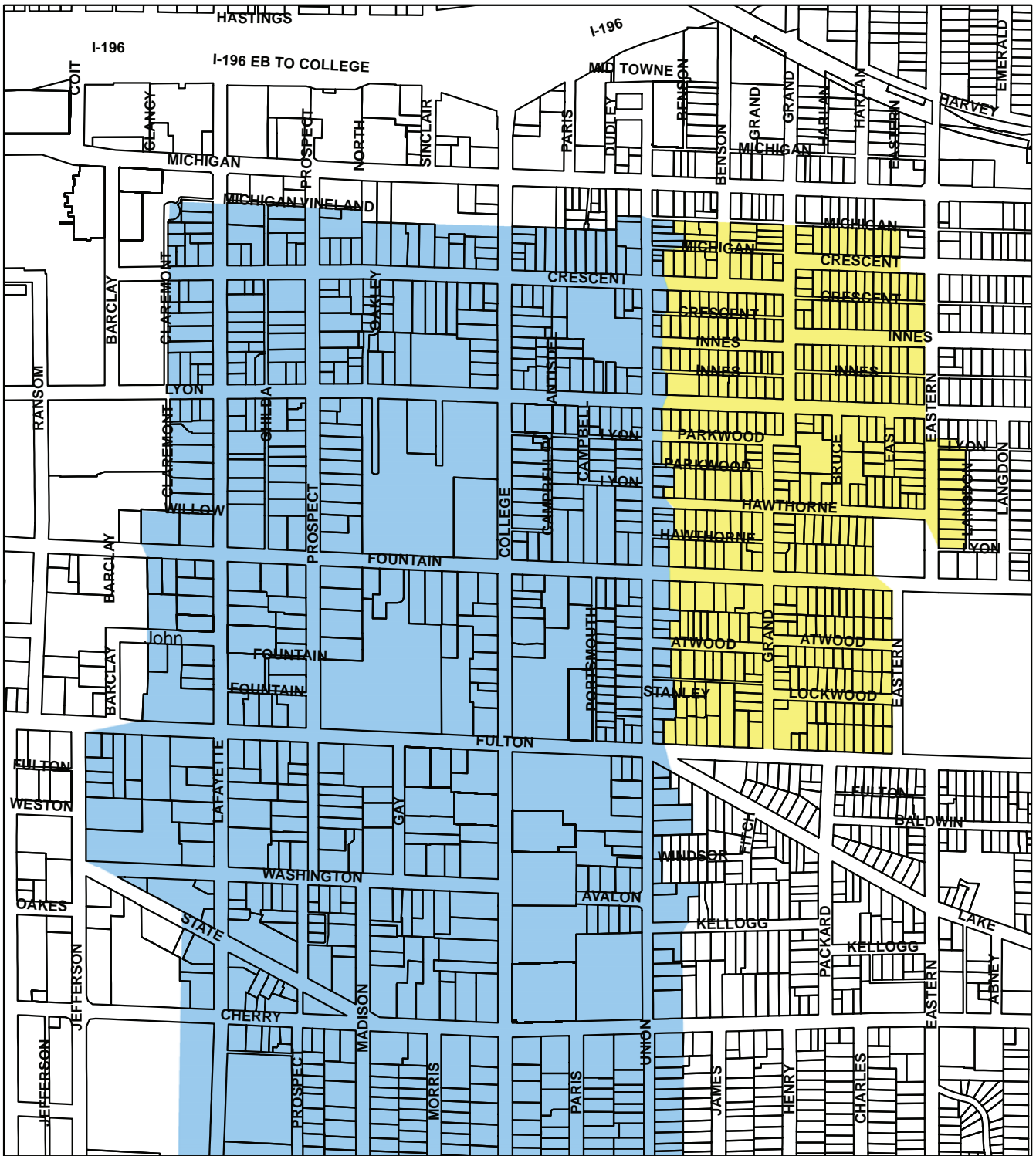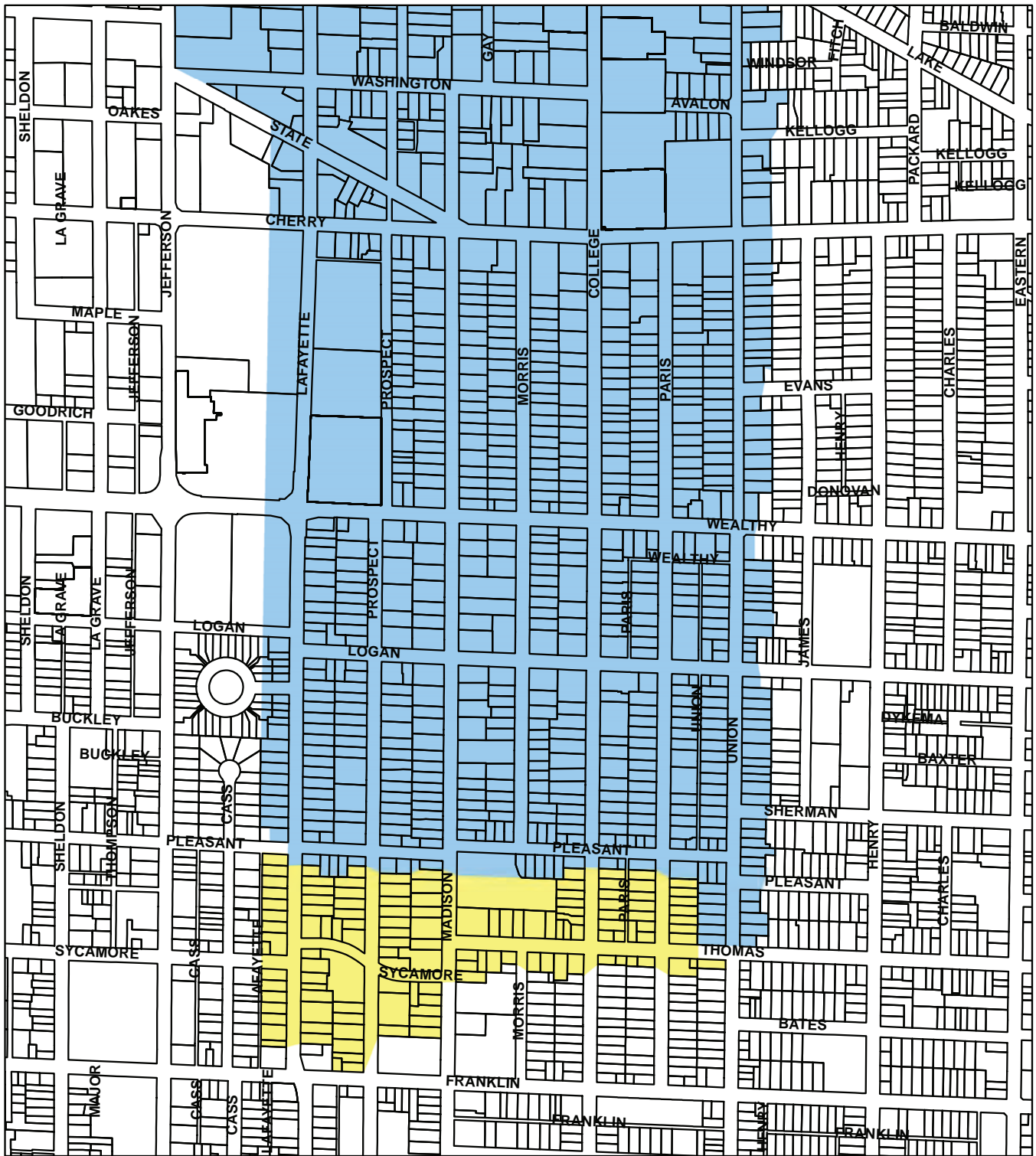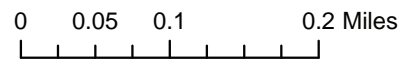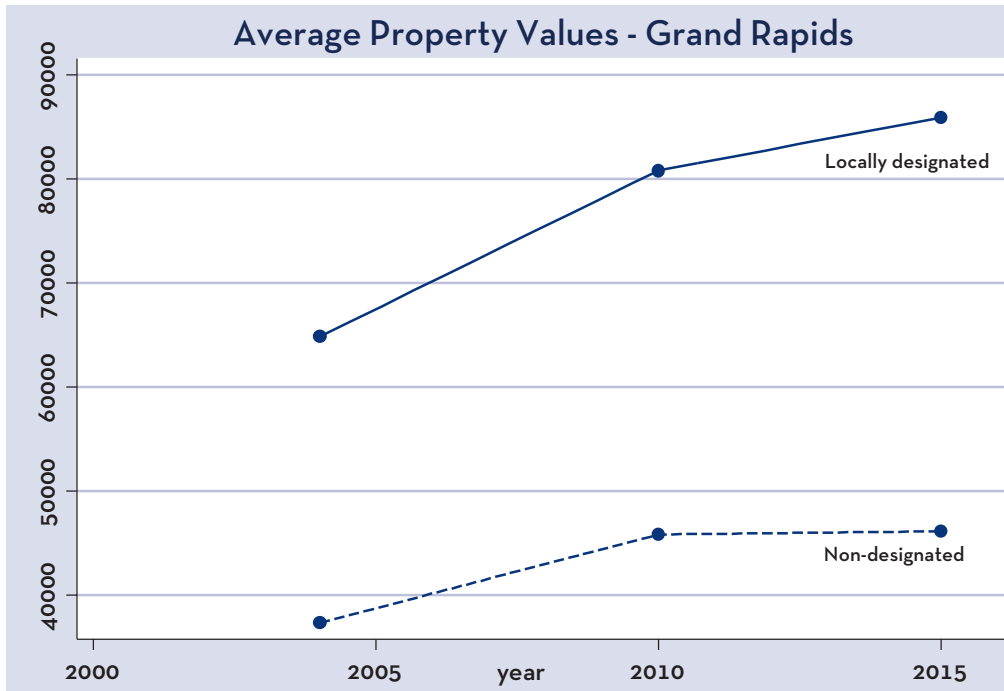
Legend

☐ City of Grand Rapids Parcels

🟦 Heritage Hill Local Historic District Study Area

🟨 Non-designated Study Area
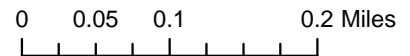
Grand Rapids Study Area (North)

Local Historic Districts and Property Values in Michigan Neighborhoods

Legend

☐ City of Grand Rapids Parcels

🟦 Heritage Hill Local Historic District Study Area

🟨 Non-designated Study Area

N

0   0.05   0.1   0.2 Miles

Grand Rapids Study Area (South)

Average Property Values - Grand Rapids

Locally designated

Non-designated

Property values data from assessor, totaled and averaged, before statistical analysis. Property values in the local historic district are consistently higher than in the similar non-designated neighborhood.

Designated

Non-Designated

Designated

Non-Designated

Conclusions

In Grand Rapids, the designated neighborhood enjoys a substantial premium. The statistical analysis showed that in 2004, local historic district designation added an average of 35% to property values within the local historic district when compared to similar properties in the comparable undesignated areas. In 2010 and 2015, that premium on local historic designation added an average of 28-29% to property values when compared to similar non-designated properties. This is the highest observed premium in this study and on the upper end of historical valuations found in other studies from across the country.

Designated

KALAMAZOO

Designated

Non-Designated

Designated

Non-Designated

County: Kalamazoo

Local Historic Districts:
   5 multi-resource districts
   9 single-resource districts

Population: 74,262

Ethnic Makeup:
   White: 68.1%
   African American: 22.2%
   American Indian &
      Alaska Native: .5%
   Asian: 1.7%
   Two or more races: 4.6%
   Hispanic or Latino: 6.4%

Median Household Income, 2011-2015 (in 2015 dollars): $33,009

Owner-occupied Housing Unit Rate: 44.5%

Median Value of Owner-Occupied Housing Units, 2011-2015: $96,600

Data from 2010 U.S. Census, census.gov/quickfacts

Description of study areas

Data for approximately 970 homes in the Vine local historic district and approximately 1,700 homes in a portion of the Edison neighborhood was analyzed for the years 2000, 2010, and 2015. Both neighborhoods are located just south of downtown Kalamazoo and both have similar housing stock, mostly built between the 1880s and the 1920s. In both neighborhoods, most houses are modest, one-and-a-half or two-story houses, and many are gable-front with front porches. Four-squares are also quite common. Architectural styles in both neighborhoods include Greek Revival, Queen Anne, Craftsman, some Tudor, and others. The Vine neighborhood has a small commercial area to serve its residents and the Edison neighborhood accesses the Washington Square business district. In many respects, the two neighborhoods are very similar. The Edison neighborhood is larger, however, so only the portion of it deemed most architecturally similar to Vine by the historic preservation coordinator in Kalamazoo was used in this study.
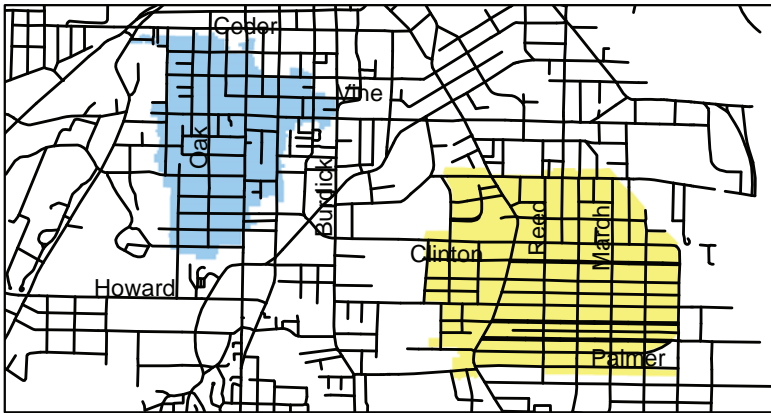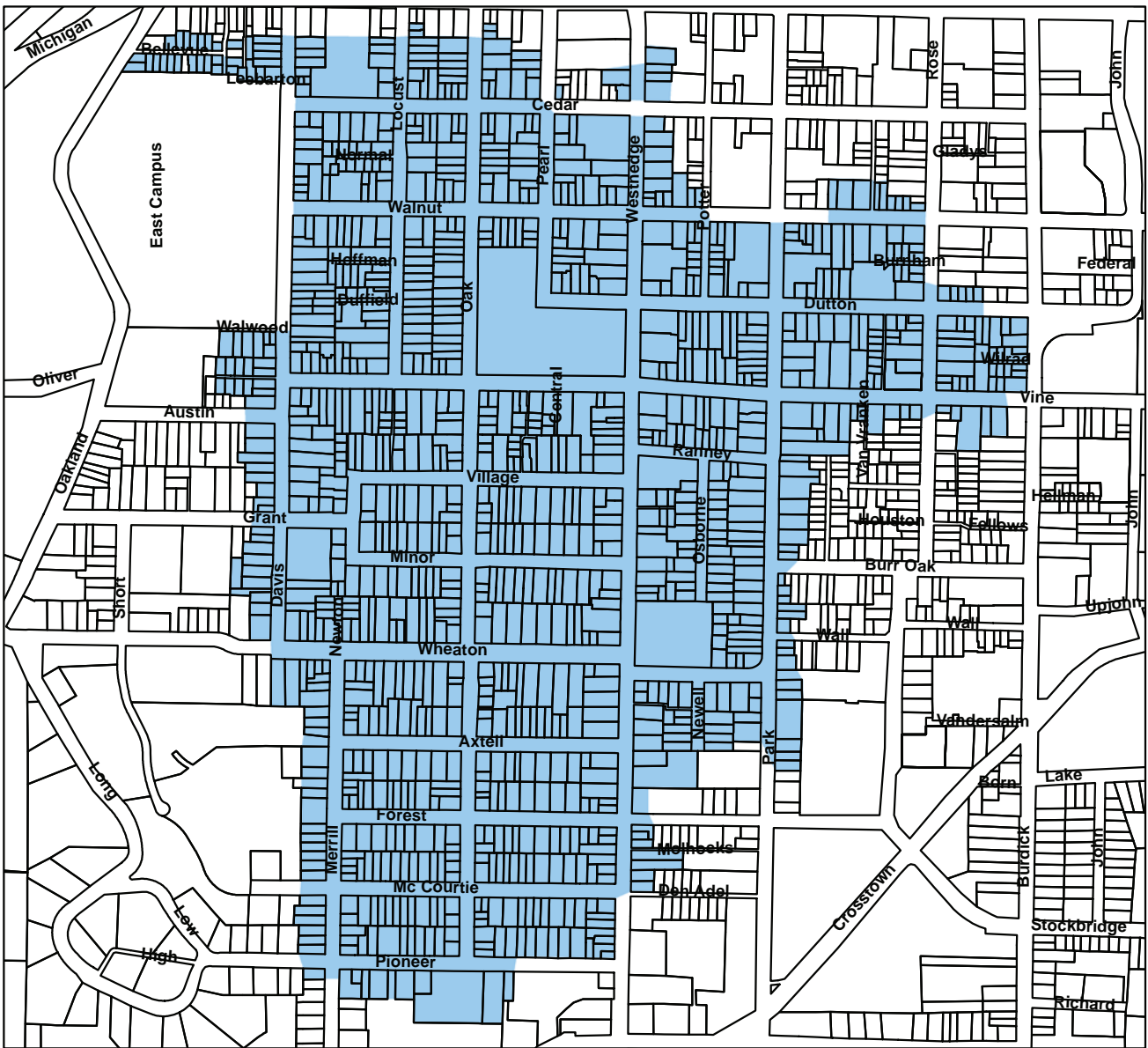
Legend

— Kalamazoo Streets

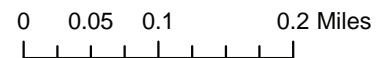▮ Vine Area Historic District Study Area

▮ Non-designated Study Area
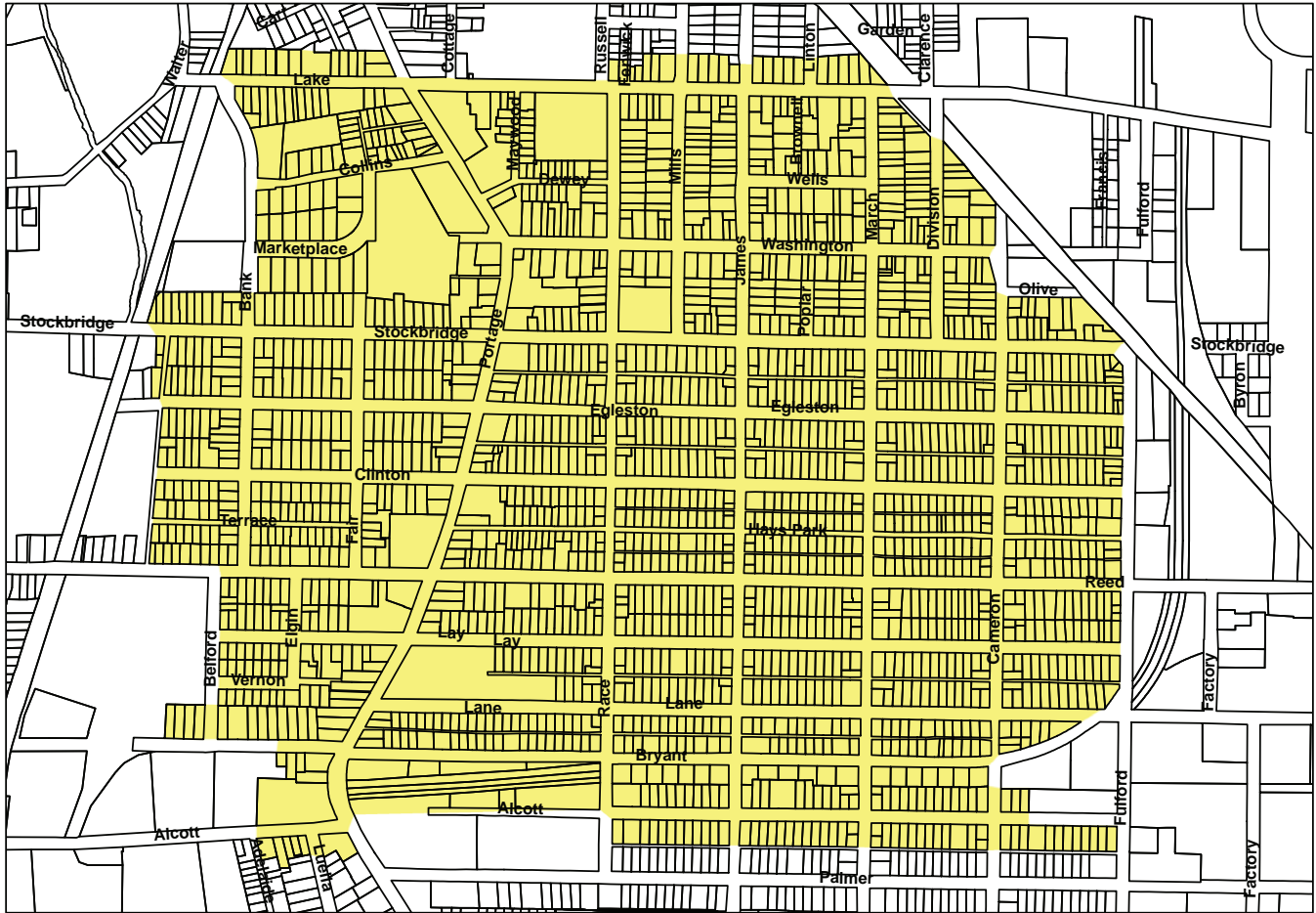
0   0.25   0.5   1 Miles
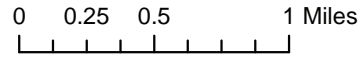
Kalamazoo Study Area (Small Scale)

Vine Area Historic District

▢ City of Kalamazoo Parcels

▮ Vine Area Historic District Study Area

N

0   0.05   0.1   0.2 Miles

Kalamazoo Study Area

Legend

☐ City of Kalamazoo Parcels

▨ Non-designated Study Area

N

0   0.05 0.1   0.2 Miles

Kalamazoo Study Area (Non-designated)
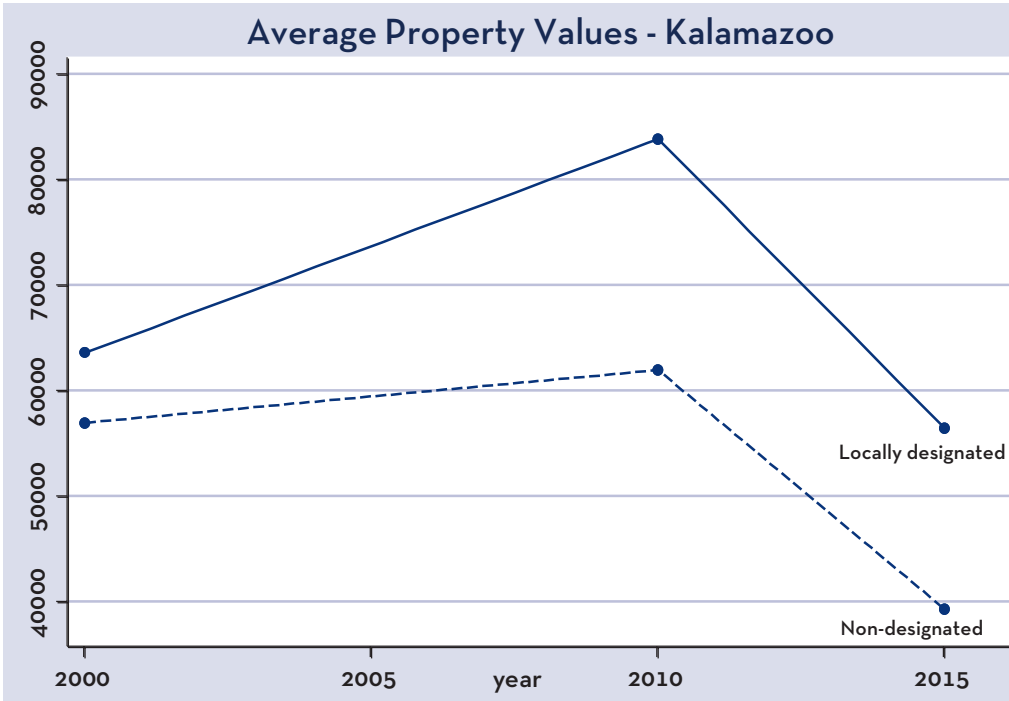
Designated

Average Property Values - Kalamazoo

Locally designated

Non-designated

Property values data from assessor, totaled and averaged, before statistical analysis. Property values in the local historic district are consistently higher than in the similar non-designated neighborhood.

Conclusions

In Kalamazoo, the statistical analysis showed that in 2000, local historic district designation added 12.6% to property values in the local historic district when compared to property values of similar houses outside the district. In 2010, local historic designation added 10.6% to property values in the district, and in 2015, local historic designation added 16% to property values in the district when compared to similar properties outside it.

Designated

Non-Designated

Designated

Non-Designated

Non-Designated

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**For the Bay City and Grand Rapids
Descriptions of Study Areas,
the following resources
were referenced:**

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The Heritage Hill Association.
"One of a kind community." Available at
http://www.heritagehillweb.org.

**For more information about
historic preservation or local historic
districts in Michigan, please visit
the websites below or contact:**

State Historic Preservation Office
Michigan State Housing Development
Authority
735 E. Michigan Ave., P O Box 30044
Lansing, MI 48909
517.373.1630
www.michigan.gov/shpo

Michigan Historic Preservation Network
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About the Author

Edward Coulson is Professor of Economics and Public Policy at the Merage School of Business at the University of California, Irvine. Professor Coulson received his B.S. in Economics at the University of California, Riverside, and his Ph.D. from UC San Diego. From 2014 through 2016, he was Professor of Economics and Director of the Lied Institute for Real Estate Studies at University of Nevada at Las Vegas, and was prior to that on the faculty of The Pennsylvania State University where he was Professor of Economics and the Jeffrey and Cindy King Faculty Fellow in Real Estate. Professor Coulson has published widely on a number of topics in real estate and urban economics, and served as President of the American Real Estate and Urban Economics Association for the calendar year 2016.

Academic affiliations are provided for identification purposes, and do not imply endorsement of the views expressed in this document.

Credits

Photos:

Ann Arbor: Ellen Thackery

Bay City: Scott McKillop

Grand Rapids: Amanda Reintjes

Kalamazoo: Spring: Sharon Ferraro; Winter: Pamela Hall O'Connor

Maps:

The Cities of Ann Arbor, Bay City, Grand Rapids, and Kalamazoo provided the base maps for this report.