THE CITY OF NEW YORK
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August 31, 2001

The Honorable Kenneth K. Fisher
Councilmember
New York City Council
250 Broadway, 17th Floor
New York, York 10007

Dear Councilmember Fisher:

Some time ago you asked the Independent Budget Office to examine the effect of historic districting on property values. Our work was significantly delayed due to difficulties in obtaining the necessary data, a delay that was compounded by methodological difficulties. The analysis is now finally complete and the findings are briefly summarized in the following paragraphs. We would welcome the opportunity to provide you and your staff with a briefing on the economic methodology and the reams of data that underlie these results.

In short, we found no statistically significant evidence that historic districting has a negative impact on the appreciation of residential property values, and indeed, all else being equal, prices of houses in historic districts are higher than those of similar houses outside historic districts.

Data. While some historic districts are largely made up of commercial properties, particularly in Manhattan, we limited our analysis to primarily residential districts because our methodology depended on finding a significant number of property sales. To ensure that our analysis contained sufficient sales to be statistically reliable we focused on six community districts in Brooklyn that each contain at least one predominately residential historic district. These six districts accounted for over 40,000 arms-length sales of class 1 properties (one-, two-, and three-family houses) between 1975 and 2000, 5,541 of which occurred within historic districts. Our analysis controlled for differences in property characteristics to the greatest extent possible given the limited data available.

Price Differences. Our work shows that for each year between 1975 and 2000 there was a price premium associated with owning a house located inside a historic district after accounting for differences in property characteristics. (Although positive for every year in the study, the size of the premium was not statistically significant for the years 1987 to 1992.) The extent of the premium has varied from year to year, ranging in recent years from 5.1 percent in 1996 to 21.8 percent in 2000.

Price Appreciation. What this initial finding cannot tell us is whether property values in historic districts appreciate faster or slower than property values outside the districts. To answer this question we employed a different methodology that looks at change in property values over a number of years. Because the city's housing markets have shown very sharp swings over the last quarter century it was necessary to break up the analysis into five shorter periods. Although our comparisons of the rates of appreciation were statistically significant for each period, the interpretation of the results is somewhat ambiguous. In some periods (1975-1982 and 1997-2000) property values of houses inside historic districts appreciated much faster than those outside, and during the downturn of 1989-1993, historic district properties depreciated at a slower rate. In other periods they appreciated at slightly slower rates. In the absence of statistically significant evidence linking districting with consistently lower appreciation, we conclude that is not likely that property owners are adversely affected and may actually benefit from being included in a historic district.

While I regret that this work has taken so long to complete, finding a statistically sound answer to the question of whether historic districting affects property values necessitated some of the most technically challenging research IBO has ever undertaken. I would very much appreciate the opportunity to share these results with you in greater detail. I can be reached at (212) 442-0225 or by e-mail at ronniel@ibo.nyc.ny.us.

Sincerely,

Ronnie Lowenstein

c: Andrew Eristoff, Commissioner of Finance