

RESEARCH BRIEF | SEPTEMBER 2014

# The Heterogeneous Effects of Historic Districts on Local Housing Markets in New York City

Historic preservationists and their critics have debated the merits of historic preservation for decades. Nowhere has this debate been fiercer than in New York City, where the preservation movement was launched with the demolition of the much beloved Beaux Arts Penn Station.

That demolition prompted the creation of the Landmarks Preservation Commission in 1965. Roughly 50 years later, there are 111 historic districts in New York City. As of 2009, a total of 4.8 percent of residential units in the city were within historic districts, and 11.8 percent of residential units in Manhattan were in historic districts. Historic districts are spread throughout the city but concentrated in Manhattan: in 2009, 58 percent of historic districts were located in Manhattan; 26 percent were in Brooklyn; and a little less than 10 percent were in the Bronx.

In a just-released working paper,<sup>1</sup> Furman Center researchers and their partners focus on one aspect of the preservation debate: how the designation of historic districts affects property values within district boundaries and in the buffer areas just outside the boundaries.

<sup>1</sup> The working paper can be found at [http://furmancenter.org/files/NYUFurmanCenter\\_HistoricDistricts\\_2014.pdf](http://furmancenter.org/files/NYUFurmanCenter_HistoricDistricts_2014.pdf). Please see the paper for citations and further detail about research and findings.

## I. Theory

Within a historic district, owners get the benefits of predictability and knowing that their neighborhood’s historic character will be preserved. On the other hand, they lose the right to tear down their building to redevelop, and their ability to modify their building is significantly restricted. The net effect of these benefits and costs will differ across neighborhoods. District designation should boost property values in neighborhoods where the value of the option to redevelop is low (so owners are not giving up much) and increase them less, or possibly even reduce them relative to surrounding properties, in areas where further development would be very valuable. For properties located just outside the district, the predicted outcome is more clear. Owners get the benefits of living near protected historic buildings, but experience no restrictions themselves. In these buffer areas, one would expect to see an increase in value as a result of designation.

## II. Methods

To test these theories using data from New York City, the Furman Center compares the changes in prices of homes located inside districts to changes in the prices of comparable homes that are outside the district, but located in the same neighborhood. The researchers look at housing prices before the district was designated and then test how the differential – the difference between houses located inside and outside the district – changes after designation. The study also compares the prices of homes in the 250-foot buffer area surrounding the district to the prices of comparable homes that are outside both the buffer and the district, but still located in the same neighborhood. Again, the researchers compare the difference in these prices both before and after districts are designated.

### Methods: Basic Intuition



Inside District



Outside District

Furman Center researchers compare price differences between comparable properties inside a historic district and properties outside the district but within the same neighborhood, before and after designation.

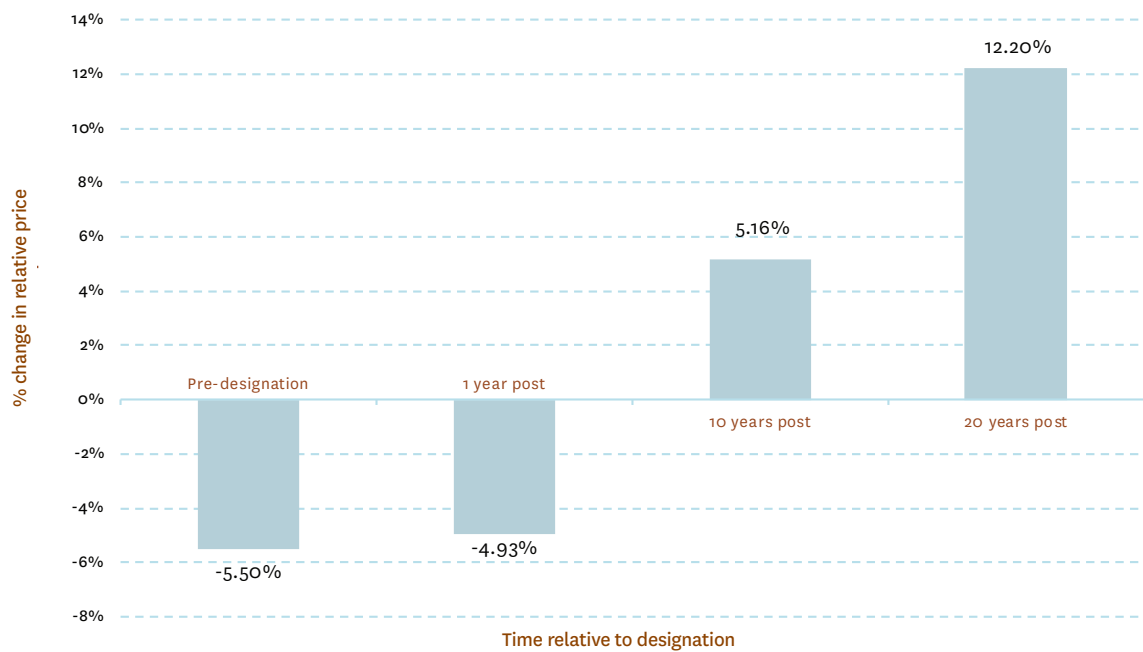
### III. Results

Compared to properties located in the same neighborhoods, the value of properties in the buffer areas immediately surrounding historic districts increases after designation relative to properties farther from the districts. Although they originally sell for slightly less than comparable properties in the neighborhood, their value starts to rise relative to other properties after the designation of a historic district, as shown in Figure 1.

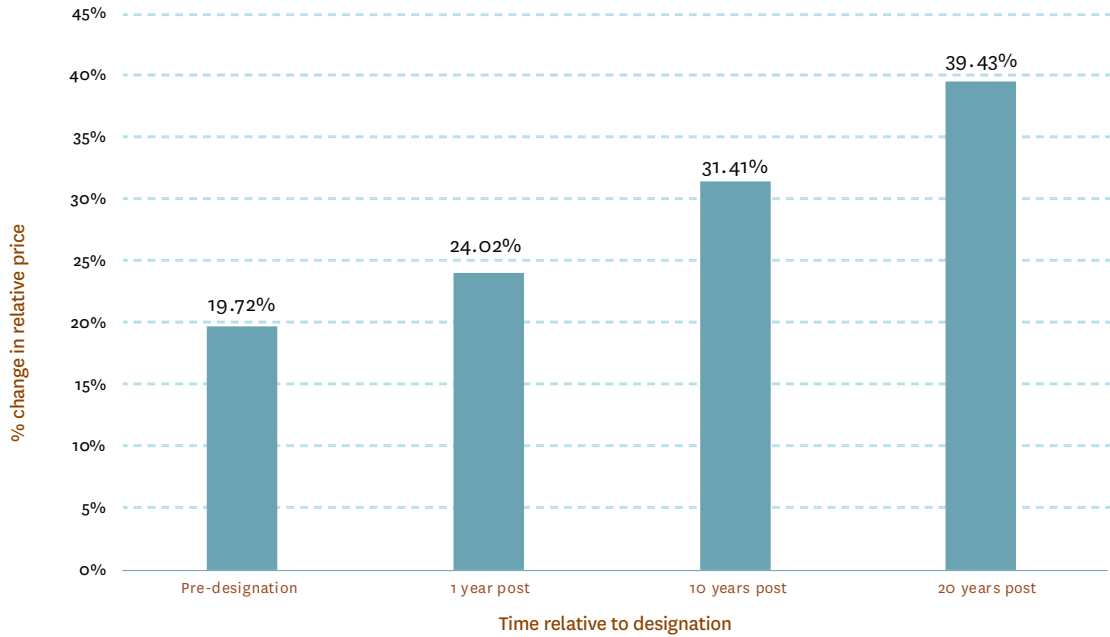
Similarly, Figure 2 shows that, compared to similar properties outside the district, homes within historic districts grow relatively more valuable after designation.

In Manhattan, however, a different pattern emerges, as illustrated in Figure 3. Prices in the historic district remain higher than those outside the district, but that gap narrows slightly after the designation. When a historic district is designated, owners lose their development rights. Owing both to the greater allowable density and the more valuable residential space, those rights are often far more valuable in Manhattan than in other parts of the city. The paper runs further tests to show more generally that the designation of historic districts leads to larger increases in the value of properties within historic districts when the value of the development rights that owners give up are lower.

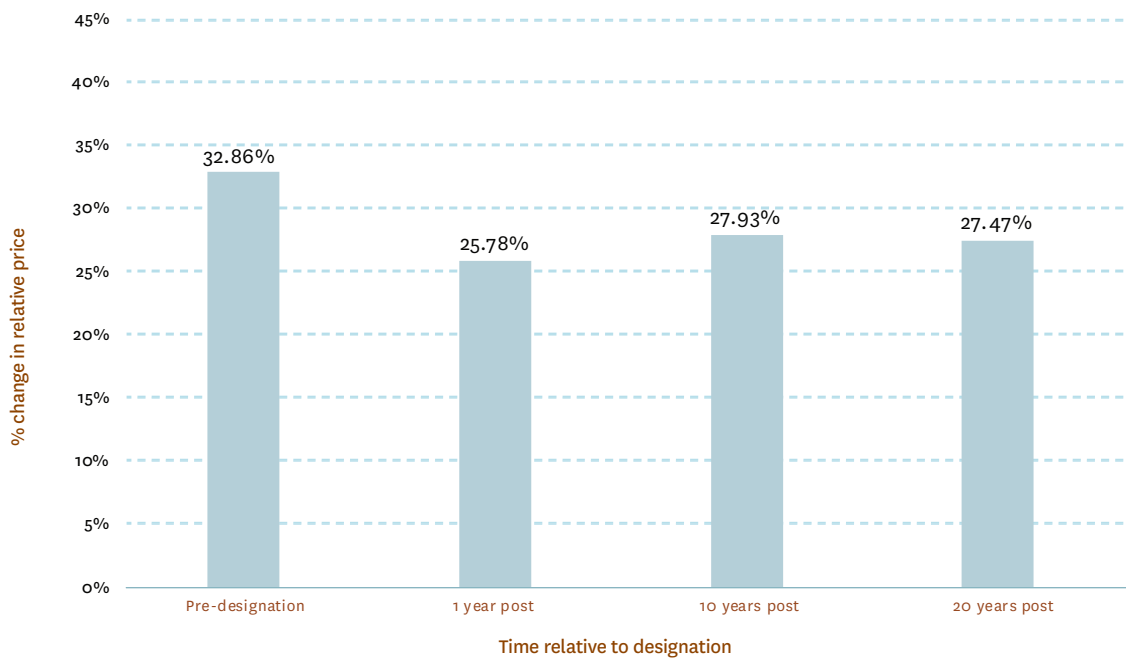
**Figure 1: Relative Price of Buffer Properties Compared to Properties Farther From Historic District (Regression-Controlled), Citywide**



**Figure 2: Relative Price of Properties Within Historic Districts Compared to Similar Properties Outside District (Regression-Controlled), Citywide**



**Figure 3: Relative Price of Properties Within Historic Districts Compared to Similar Properties Outside District (Regression-Controlled), Manhattan**





## IV. Conclusion

Our findings suggest that, across the city, the designation of a historic district boosts the value of residential properties just outside the district.

While the designation also increases the value of properties within districts on average citywide, our research reveals systematic variations across neighborhoods.

In communities where the value of the lost option to redevelop is lower, the value of properties within districts increases significantly after designation. However, when the foregone development rights are very valuable, the value of properties within the district increases less after designation—and may even decline—relative to properties in the surrounding neighborhood.<sup>2</sup>

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<sup>2</sup>There are many aspects of the historic preservation debate that this paper does not address. It did not capture the value of preserving architectural heritage to residents outside the neighborhood and to others more broadly. Similarly, it did not attempt to capture broader impacts on housing prices that may result from restricted supply.

### About the NYU Furman Center

The NYU Furman Center advances research and debate on housing, neighborhoods, and urban policy. Established in 1995, it is a joint center of the New York University School of Law and the Wagner Graduate School of Public Service. More information can be found at [furmancenter.org](http://furmancenter.org) and [@FurmanCenterNYU](https://twitter.com/FurmanCenterNYU).