



TAX CREDIT WORKGROUP PRESENTATION

City of Baltimore Commission For Historical and Architectural Preservation

September 26, 2024

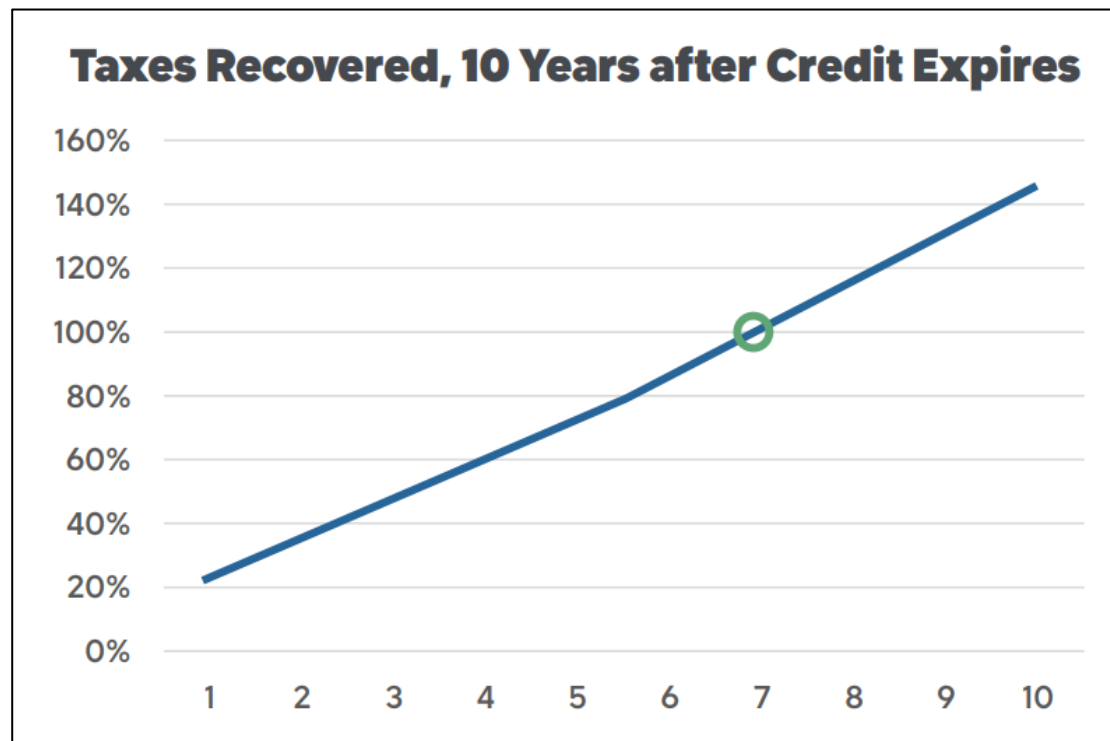


Baltimore City Historic Tax Credit (CHAP Tax Credit)

- The CHAP tax credit was created in 1996.
- More than 4,000 historic properties have been restored and rehabilitated using the credit to date.
- Approximately \$1.3 Billion dollars of reinvestment have been leveraged by the credit.
- Properties whose tax credits have now expired increased in value from \$1.3 million to \$5.9 million.



Introduction – Taxes Recovered



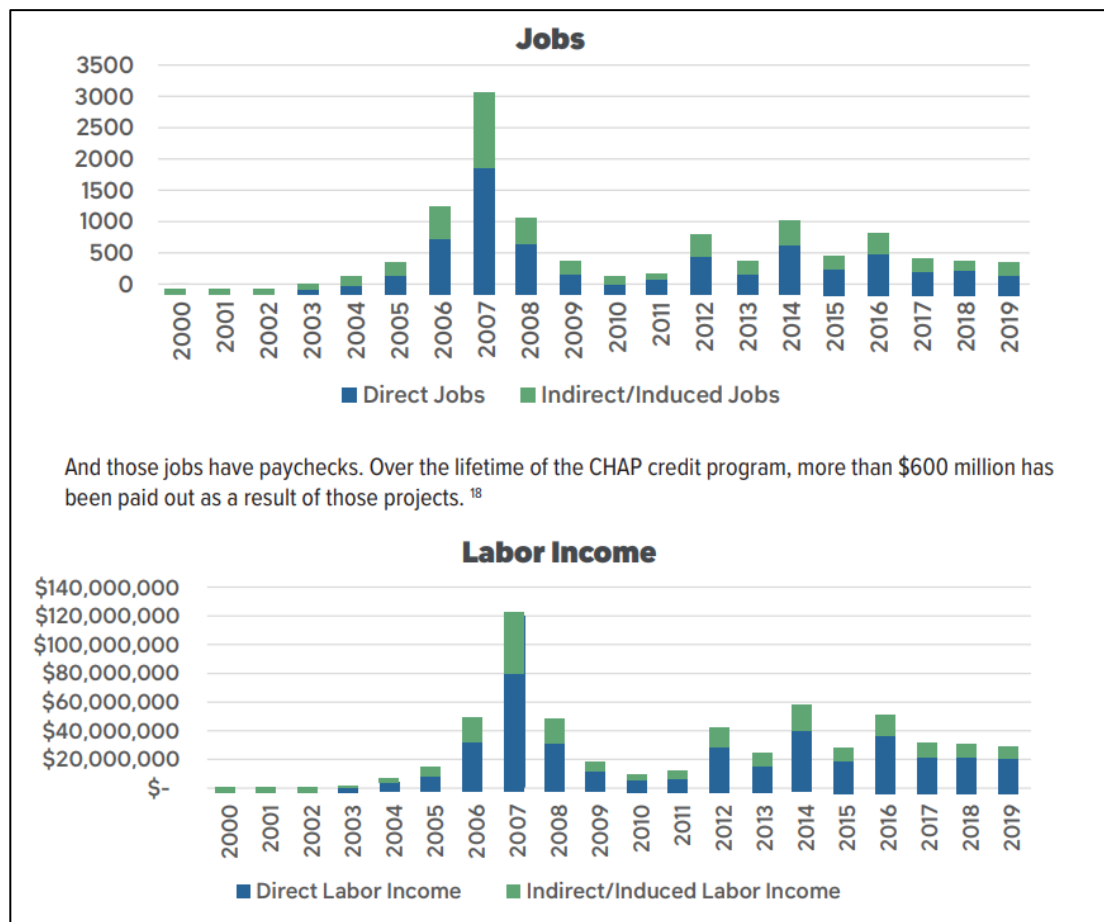
2020 Analysis of the Baltimore Historic Preservation Tax Credit

- Because of private investment and increasing property values, the taxes foregone over ten years are recouped in just over seven years.
- The program is partly responsible for bringing private investment to Baltimore's weaker markets.



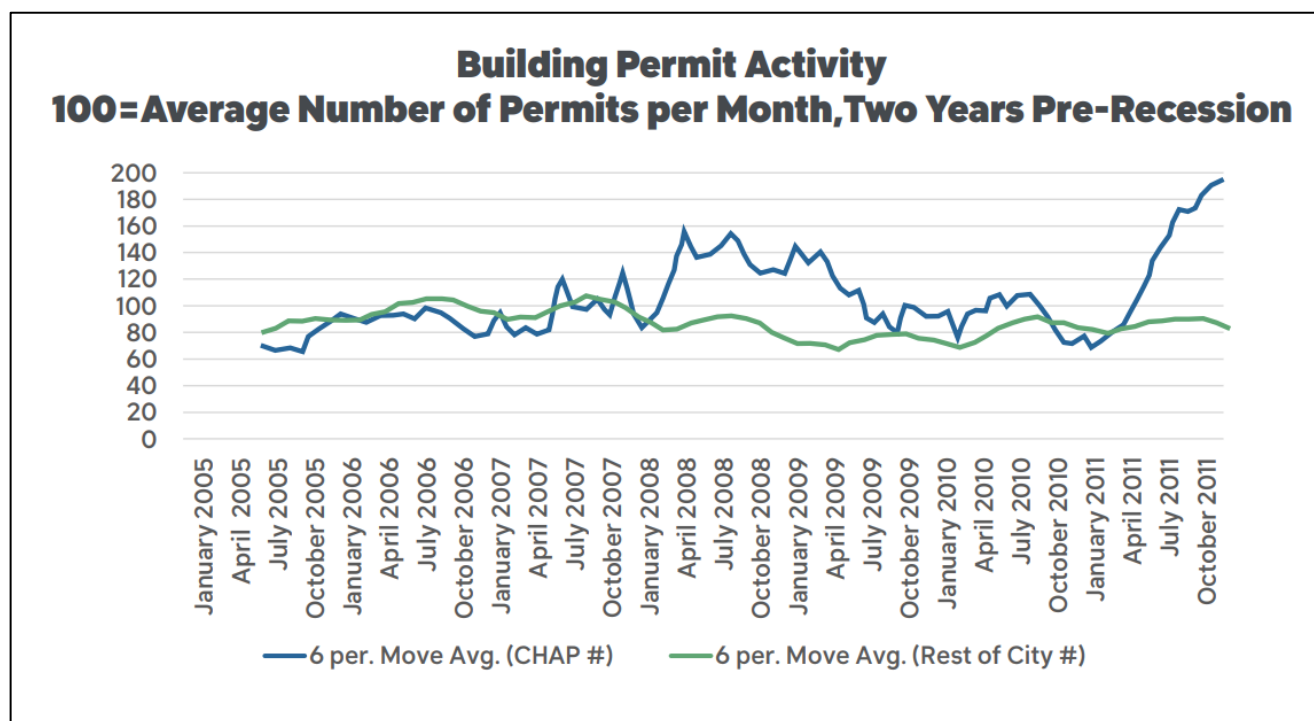
Introduction – Jobs and Income Generated

An average of nearly 600 direct and indirect jobs, and \$36 Million in labor income have been generated each year through the CHAP credit projects.*



Introduction - Permit Activity During Great Recession

During the great recession, investment in CHAP projects was counter-cyclical, increasing in activity when the rest of the construction activity in Baltimore declined.



2020 Analysis of the Baltimore Historic Preservation Tax Credit



Introduction – Design Review

CHAP projects undergo a comprehensive design review, which increases the quality of work.



These two properties are on the same block, the property on the left received design review through the historic tax credit process, the property on the right did not. This design review allows the character of the block to be retained, and helps the property retain value over time.



726 S. Linwood

- credit issued on 6/15/2012, expired 7/1/2022
- currently assessed at \$400,400
- current tax amount = \$7,884.48
- minus homestead credit = \$7,231

730 S. Linwood

- currently assessed at \$208,100
- current tax amount = 4,195.51
- (minus homestead credit = \$2,742)

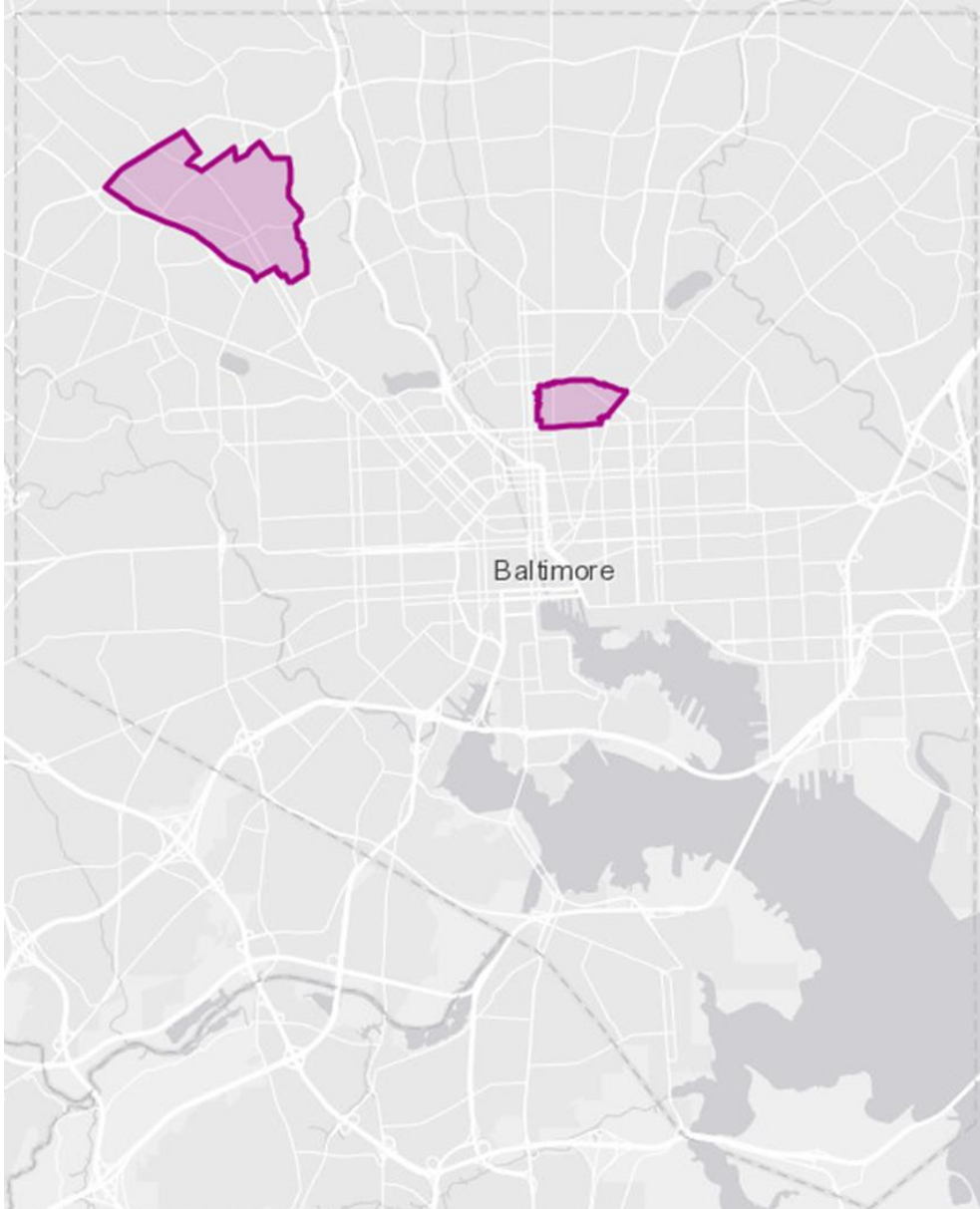
How It Works

To be eligible, properties must be designated as historic, this can currently be done in four ways:

- ✓ within a **local** or **national register** historic district,
- ✓ **individually** listed on the national register
- ✓ listed as a **local landmark**, or
- ✓ be within the boundaries of the **Baltimore National Heritage Area**.
- ❖ Legislation to create Conservation Districts is currently in Council, properties in the proposed Conservation Districts may also be able to access the credit.



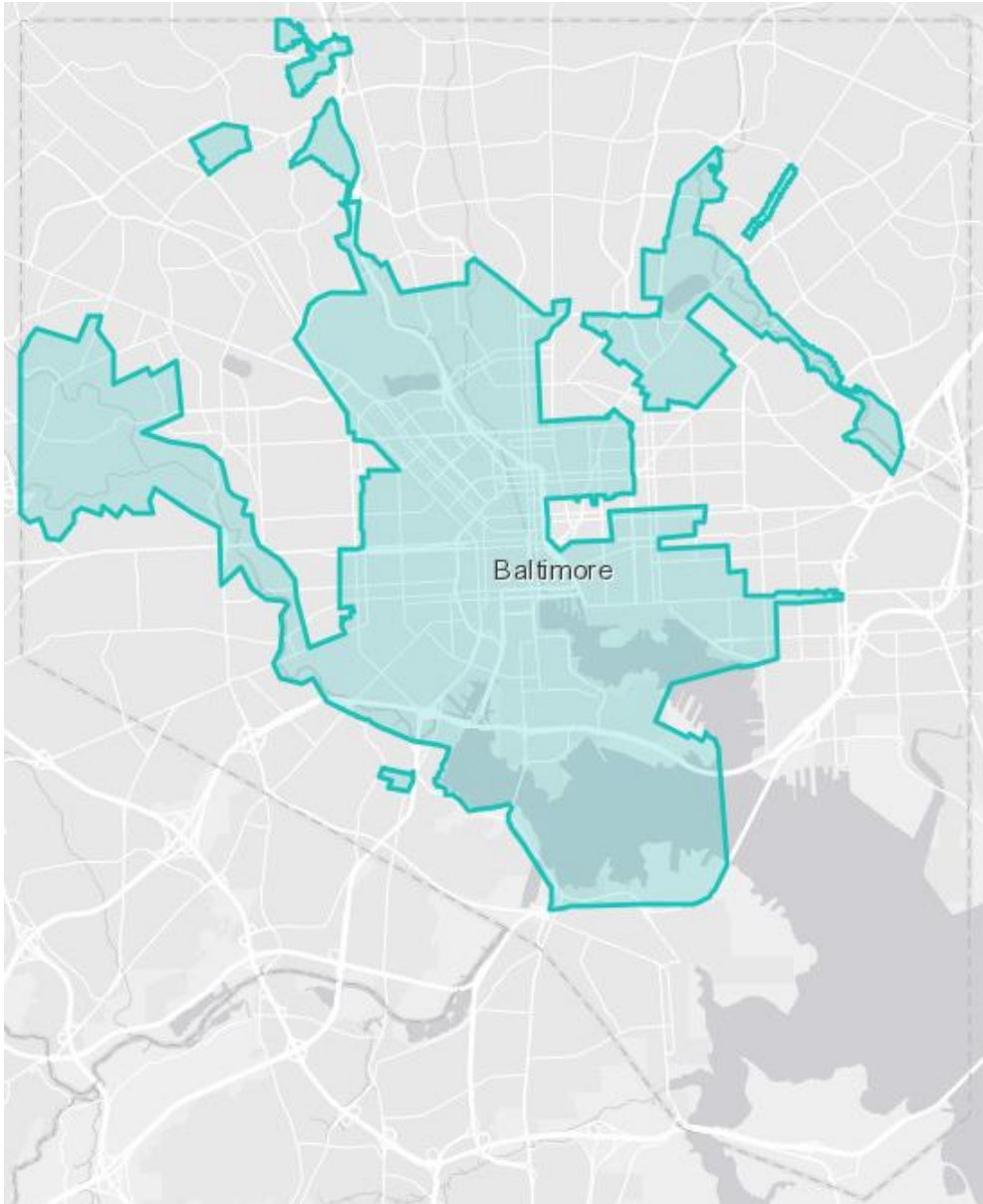
How It Works



CHAP staff has aided in the creation of new National Register Districts in areas that have experienced disinvestment.

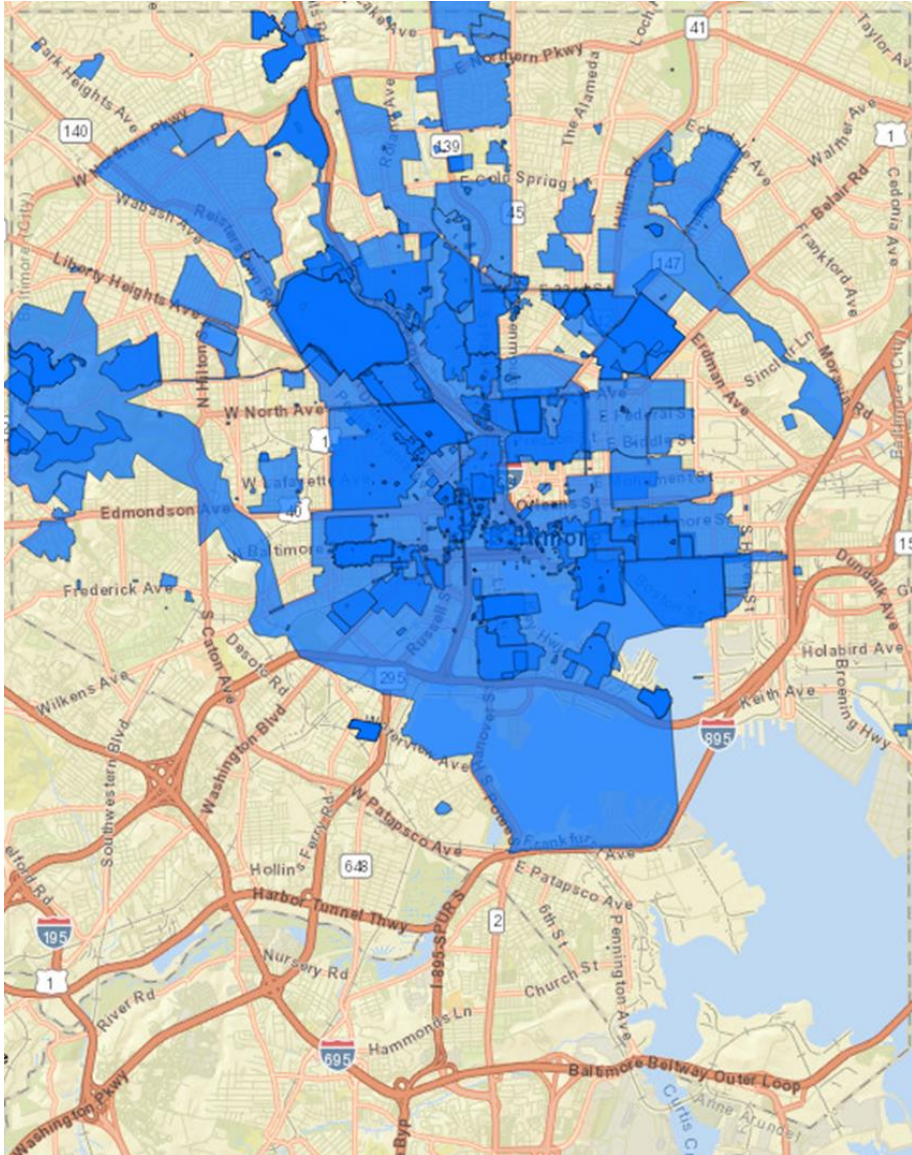
- Barclay/East Baltimore/Midway – listed March 2024
- Park Heights – listed August 2023

How It Works



Staff has also expanded access to the credit, through work on CCB#21-0178, enacted 9/18/23 that allowed properties in the Baltimore National Heritage Area to be eligible beginning in January of 2024.

How It Works



Map of areas eligible for Historic Property Tax Credit

With these efforts, eligible areas now cover the majority of the city, spanning all markets and building types.



How It Works

1. Projects must obtain permits that are reviewed by CHAP staff at the end of the project.
2. The tax credit stays with the property for the 10-year life of the credit, regardless of owner. It can be transferred, impacting future value and property owners.



Projects in the Milton-Montford Community

How is the Credit Calculated?

Simplified (fictional) Example

		<i>Property Value</i>	<i>City Tax Amount</i>
A	Pre-Renovation Value	\$50,000	\$1,124
B	Post-Renovation Value	\$250,000	\$5,620
C	Historic Tax Credit Each Year	$(B-A) \times 0.02248$	\$4,496
D	Total Savings over 10 years		\$44,960

Clarifying Notes

- 0.02248 = City Tax Rate
- This is simplified as the credit is calculated using the appraisals completed for the credit, while the property tax is calculated using property assessments (in a best-case scenario, these should be similar)



How the Credit is Calculated?

Real Tax Bill Example

- Single-family rowhome property in Milton Montford
- Received Preliminary Approval 12/12/2018
 - Pre-Improvement Appraisal - \$35,000
- Received Final Certification 9/17/2019
 - Post-Improvement Appraisal - \$120,000
- Since 2019, the property value has increased incrementally up to the current assessment of \$160,000

TAX DESCRIPTION	ASSESSMENT	RATE	TAX
STATE TAX	160,000.00	0.112%	\$179.20
CITY TAX	160,000.00	2.248%	\$3,596.80
TOTAL TAX			\$3,776.00
SPECIAL CREDIT			(\$2,235.80)

Screen shot of Real Property Tax Bill

Total City Tax	\$3,596
Total Credit	\$2,235
Total Tax Due	\$1,361



Is the CHAP Credit a Good Investment for Baltimore?

An important tool to reduce vacancy:

The following are the results of a survey filled out by applicants during the application process.

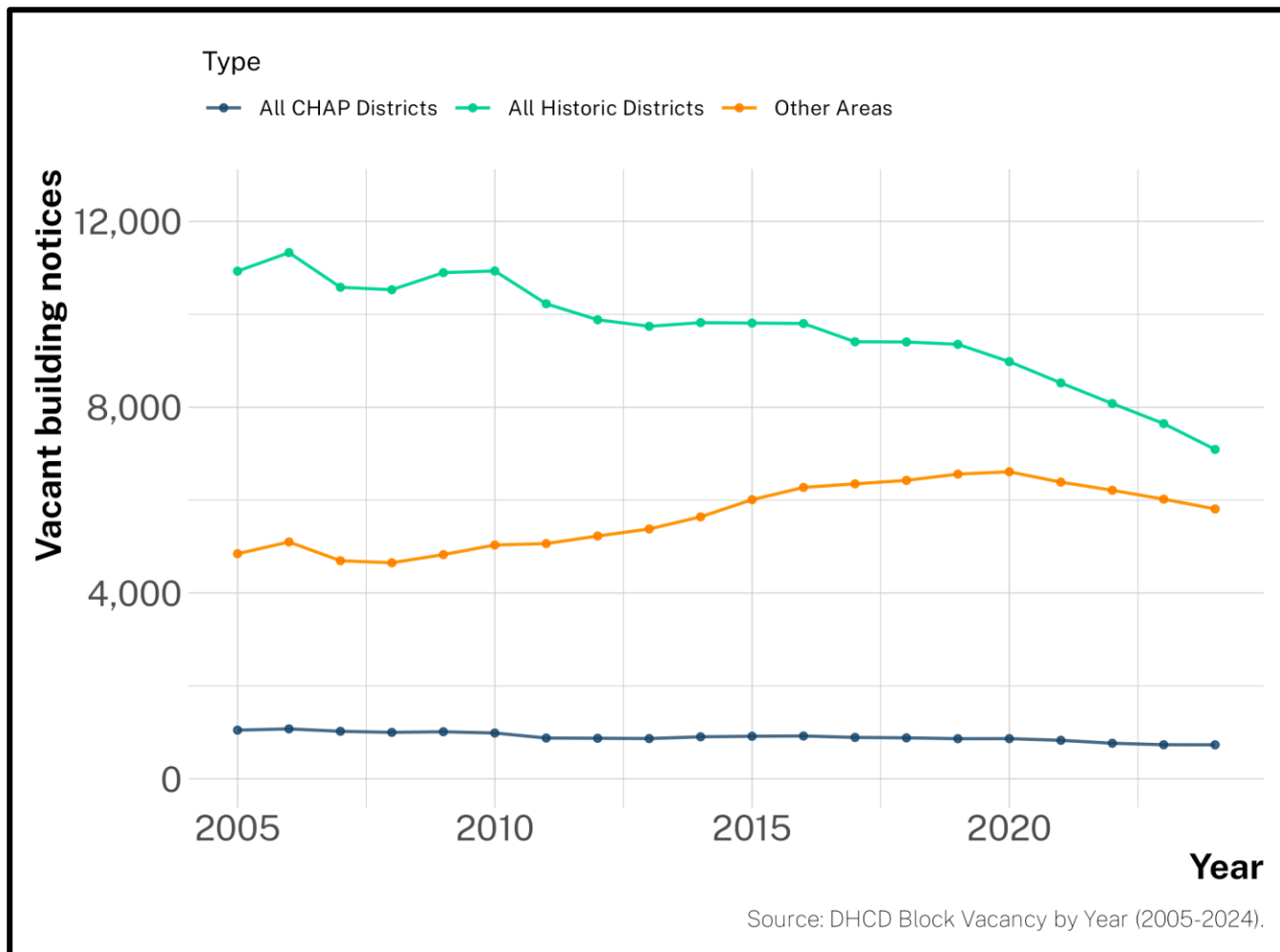
- “Vacancy” was defined by the applicant, likely interpreted as an unoccupied building.
- Because this is a self-reported survey, not all applicants chose to answer these questions.

Question	Yes	No	Total Response
Was the property vacant?	2,773 (79%)	725 (21%)	3,498
Was it part of the Vacants to Value program?	338 (12%)	2,454 (88%)	2,792



Is the CHAP Credit a Good Investment for Baltimore?

An important tool to reduce vacancy:



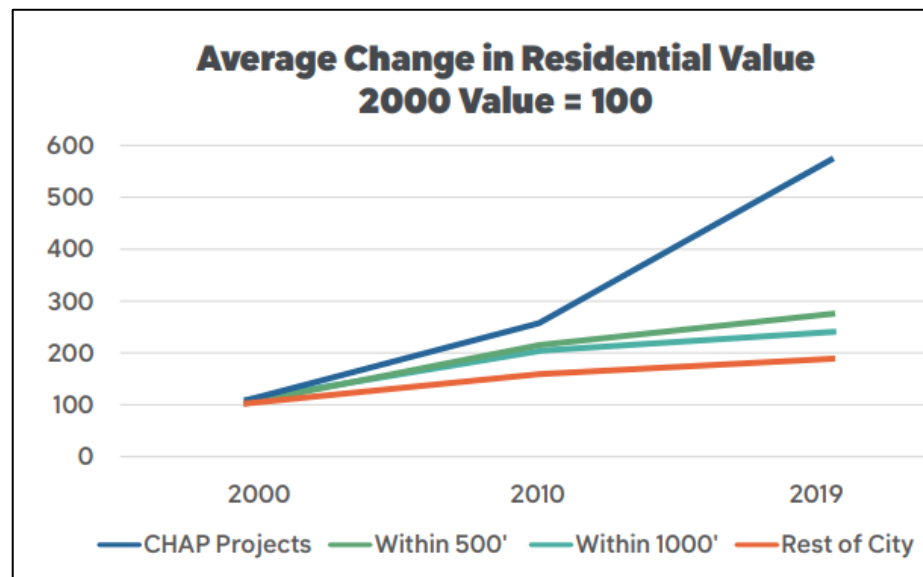
This illustration shows the following:

- The majority of vacant building notices are in areas eligible for the CHAP credit.
- The greatest decrease in Vacant Building Notices occurred, in part, because of the use of the CHAP credit.

Is the CHAP Credit a Good Investment for Baltimore?

It is an Important Tool to Reduce Vacancy:

- Significant rehab projects **increase** the value of adjacent or nearby properties – this is called the “*halo effect*.” (from PlaceEconomics 2020 *Analysis of the Baltimore Historic Preservation Tax Credit*)
- The incremental rate of higher value growth in the vicinity of CHAP projects has created a preservation premium of \$2.5 Billion in property values. If 20% of that premium is attributable to the investment in CHAP projects, the \$10 million (2020 numbers) in foregone revenues is recovered from the additional taxes generated.



2020 Analysis of the Baltimore Historic Preservation Tax Credit



Is the CHAP Credit a Good Investment for Baltimore?

- This is contrasted with vacancy that **decreases** the value of properties in neighborhoods – the “*contagion effect*.” (from *The costs of Vacant Housing in Baltimore, September 2022 – Johns Hopkins 21st Century Cities Initiative*).
- When vacancy rates exceed 4%, vacancy accelerates, and home prices collapse. Most neighborhoods with more than 4% vacancy rates do not show growth in population.



Is the CHAP Credit a Good Investment for Baltimore?

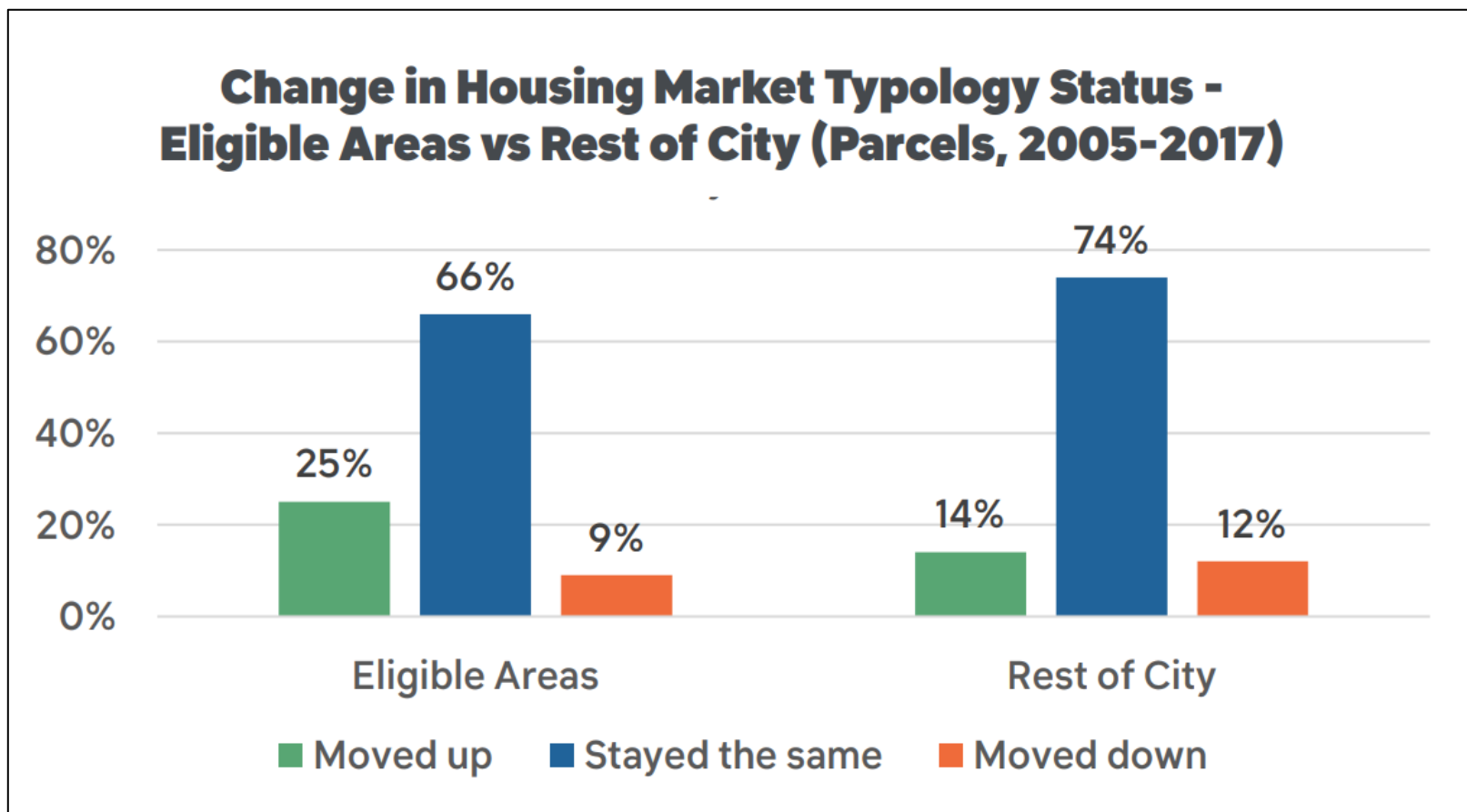
For large scale rental properties, the credit is important for getting the project financed. According to a prominent real estate developer:

“[the credit] doesn’t do anything to help with the initial capital stack – i.e. debt, equity and grants. It improves the projected cash flow especially in the early years. It provides greater security that the construction loan will be repaid. As the credit steps down, rents will begin to increase, and by the time the credit goes away, rents will have gotten to a point where they are fully supporting the debt service.”



Is the CHAP Credit a Good Investment for Baltimore?

In terms of the Housing Market Typology, neighborhoods that are eligible for the tax credit are more likely to remain stable or improve over time.



2020 Analysis of the Baltimore Historic Preservation Tax Credit



No Loss to City Revenue (But/For Argument)

- For every project that would not occur without the tax credit, the city does **not forego** any future tax revenue.
- Place Economics, in its analysis of the CHAP tax credit, conducted an “if/then” test. If 52% or more of the projects would not have happened without the CHAP credit, **then** the City would fully recoup the money foregone in tax credit revenue.

<i>If</i> the Share of Projects that Would Not Have Happened without CHAP Credit was	<i>Then</i> 20-year return to the City would be X for every \$100 of CHAP Credit provided	<i>Therefore</i> , 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)



No Loss to City Revenue (But/For Argument)

- In the self-reported survey of tax credit users, 73% of respondents would **NOT** make the improvements without the historic property tax credit.
- **Therefore**, the City fully recoups the money foregone in tax credit revenue.

Question	Yes	No
Would you make the improvements without the availability of the historic property tax credit?	919 (27%)	2,470 (73%)
Did the availability of the historic tax credit affect the timing and the amount of the improvements?	1,368 (52%)	1,499 (48%)



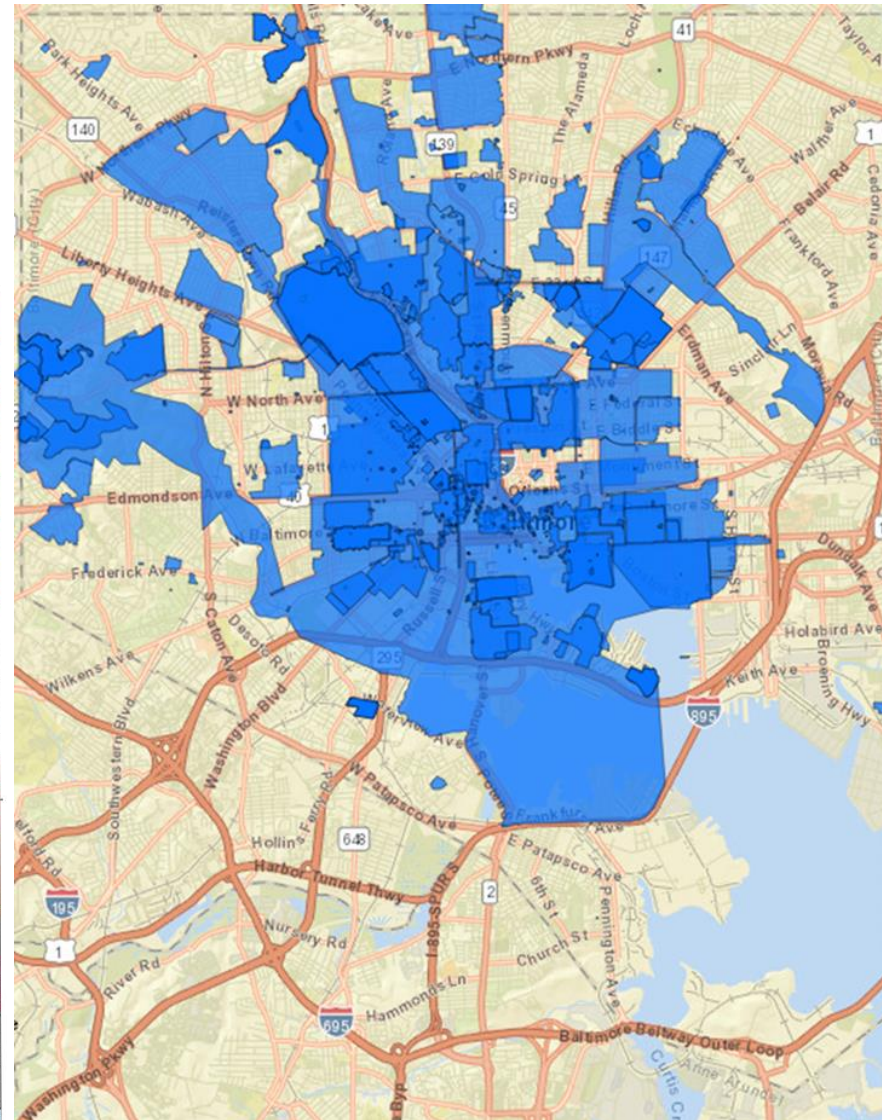
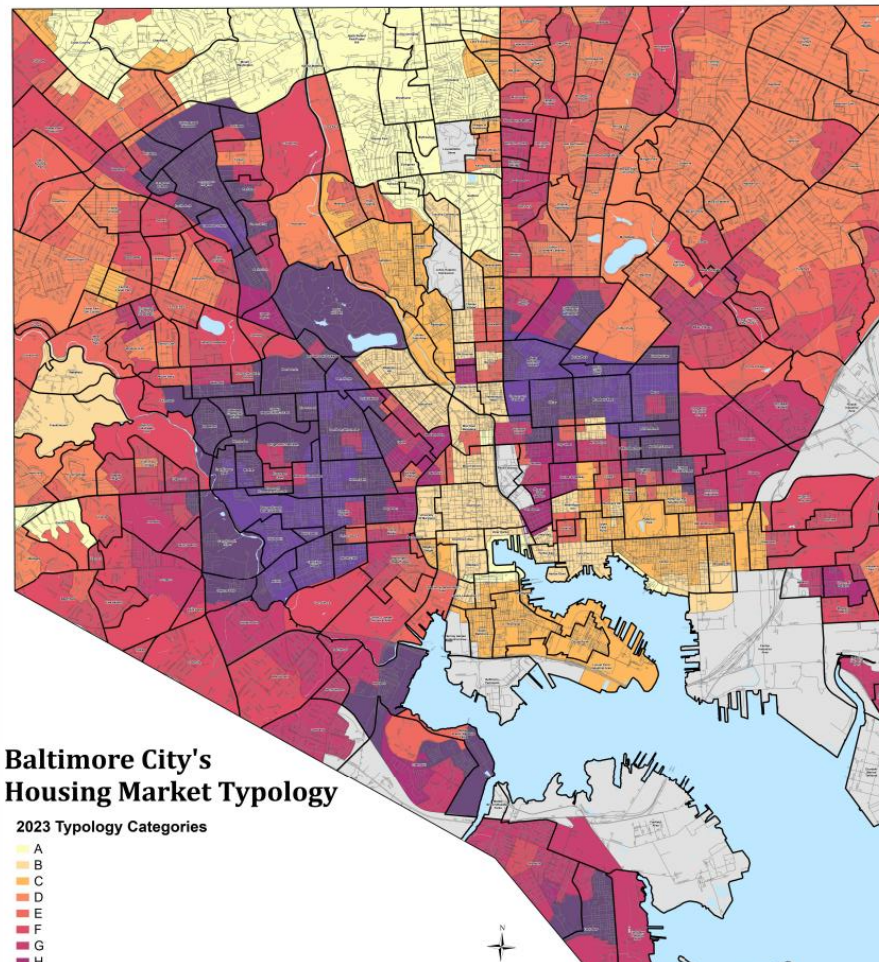
Opportunity for Distressed Neighborhoods

Another way of looking at the “but/for” scenario is to look at the Housing Market Typology:

- Must consider potential projects, not just completed projects. The **majority of the most distressed areas** in Baltimore are eligible for the tax credit, including East Baltimore, West Baltimore, and Park Heights.
- While there are more completed tax credit projects in healthy real estate markets than in distressed real estate markets, there are more potential projects in distressed real estate markets.
- The number of projects in **distressed markets are increasing**, while the number of projects in healthy markets are decreasing.
- Healthy neighborhoods are in part healthy due to investment like that from the Historic Tax Credit (Highlandtown, Patterson Park, Reservoir Hill, etc.)



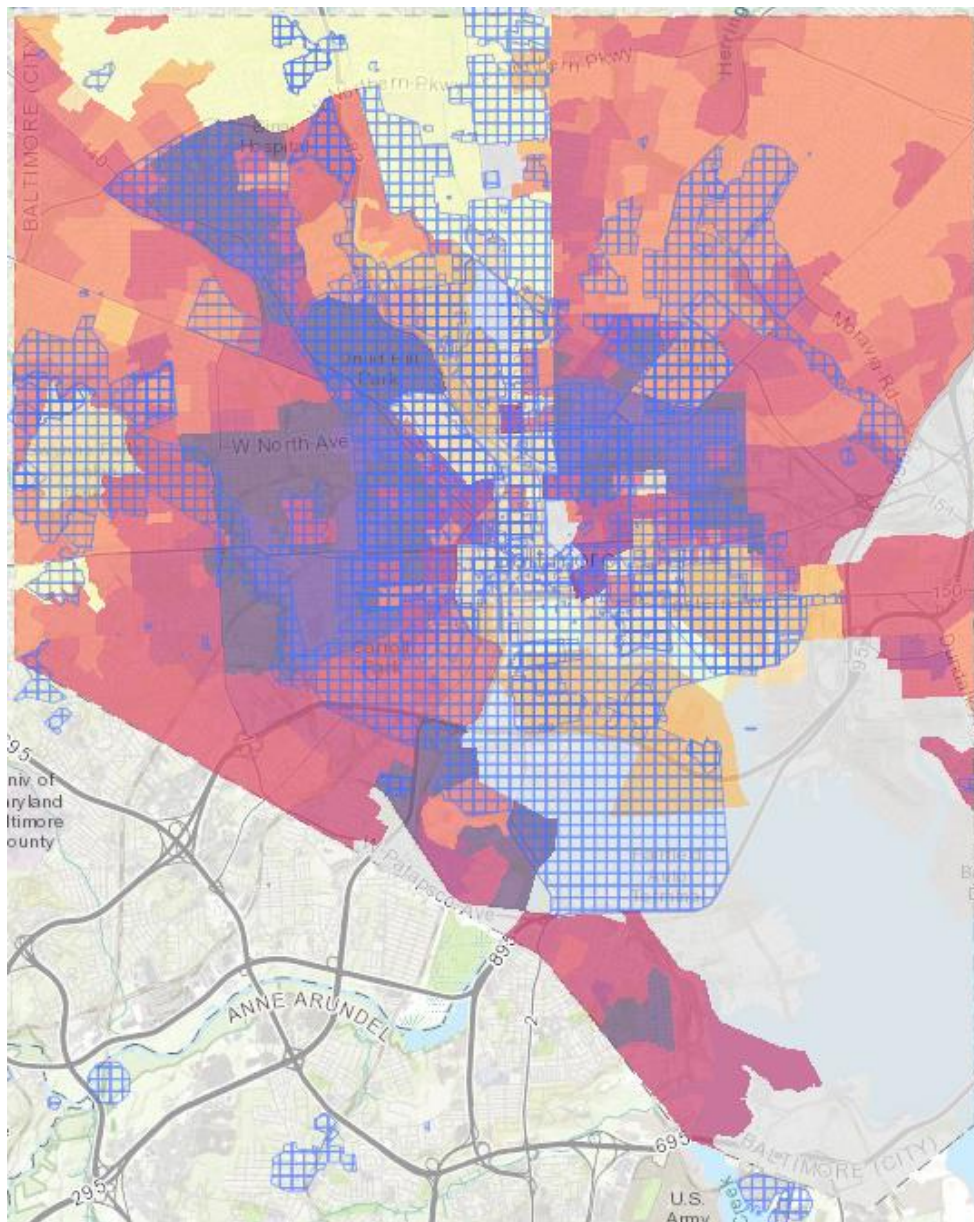
Housing Market Typology & Tax Credit Eligibility



Map of areas eligible for Historic Property Tax Credit



Housing Market Typology & Tax Credit Eligibility



Together, these maps show that the most distressed city neighborhoods are eligible for the credit.

Conclusions

- For the last 27 years, the CHAP credit has incentivized rehabilitation of over 4,000 properties in Baltimore.
- Most of the neighborhoods that have gained population and risen in value have done so with the use of the tax credit.
- The number of projects in distressed neighborhoods are increasing while the number of projects in stable neighborhoods are decreasing.
- This credit incentivizes historic rehabilitation. Most projects that don't use this credit have less oversight of rehabilitation and often don't get building permits.

