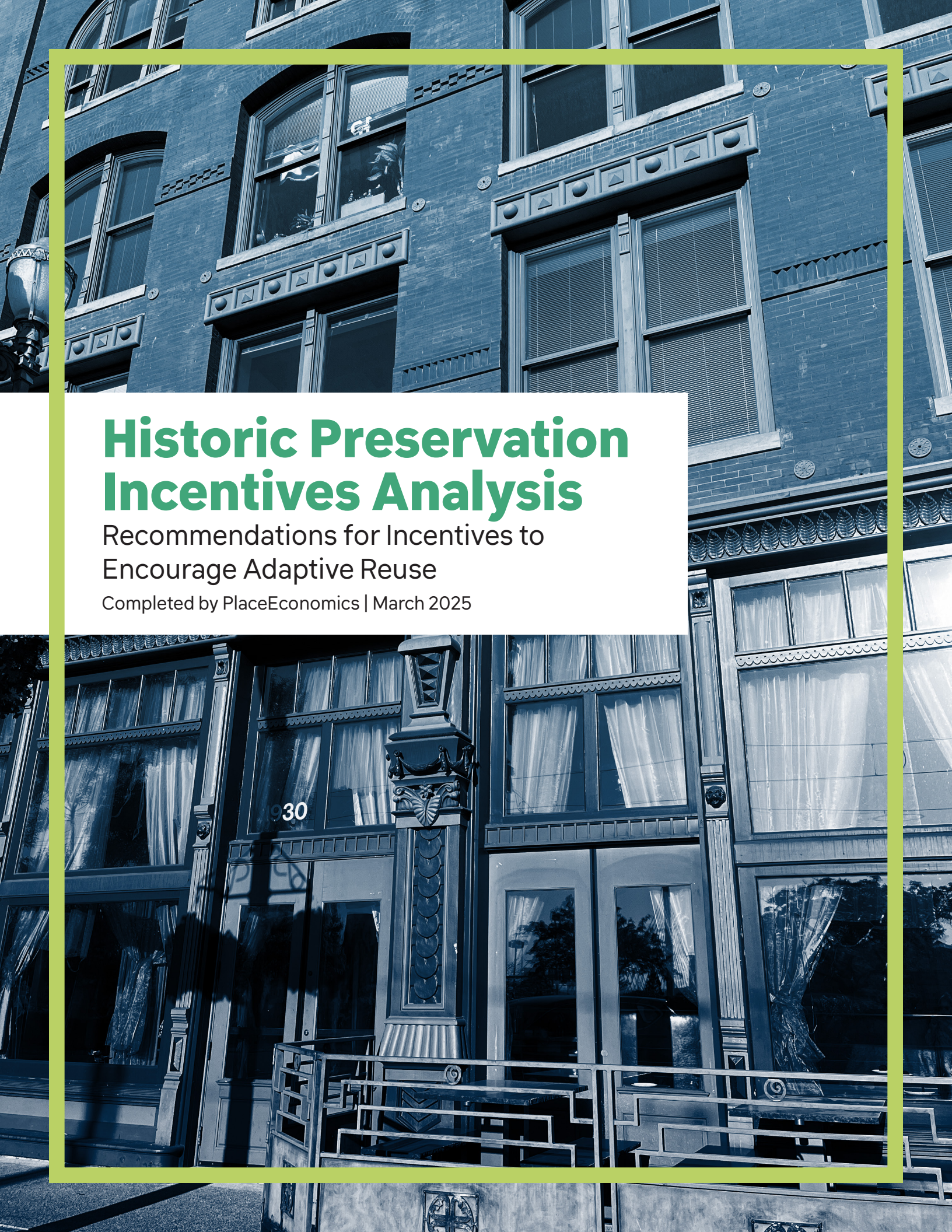


# Historic Preservation Incentives Analysis

## Recommendations for Incentives to Encourage Adaptive Reuse

Completed by PlaceEconomics | March 2025

# INTRODUCTION

Tacoma is experiencing a great degree of change that can feel like it creates tension among the goals of preservation, affordability, and sustainability. Housing costs are rising in a city that has historically been one of the more affordable in the Puget Sound. In response, the City of Tacoma has embarked on a multi-year, multi-phase planning initiative to overhaul land use policies, with the goal of increasing housing affordability and availability. Preservation advocates in Tacoma believe that historic preservation can be a part of the solution, contributing to housing growth through adaptive reuse and helping meet carbon reduction goals through sustainable building reuse.

To ensure that historic preservation policies and processes evolve and remain relevant as part of the City's re-evaluation, the City's Historic Preservation Office sought to inventory existing preservation incentives and tools, evaluate ways they might be improved, and assess the need for new tools. PlaceEconomics was commissioned to conduct research, facilitate stakeholder outreach, and develop recommendations in service of this goal.

# Inventory of Existing Tools

As part of this process, PlaceEconomics undertook a review of existing programs, incentives, and tools related to historic preservation, development, and housing at the city, county, state, and federal levels. The following list identifies incentives and tools that are currently available to property owners in Tacoma:

**City Tools**

- Historic Rehab & Repair Loan
- Heritage Project Grant
- Transfer of Development Rights
- Development Regulatory Agreement
- Current Use Assessment
- Accessory Dwelling Unit Regulation
- Affordable Housing Provider Loan
- Affordable Housing Pre-Development Fee Waiver
- Affordable Housing Permit Program
- Multifamily Property Tax Exemption (MFTE)
- Residential Infill Pilot Program (RIPP)[1]
- Single Family Residence Homeowner Occupied Rehab Loan
- Down Payment Assistance Program
- Neighborhood Business District Technical Assistance
- Business Loan Program–Micro Loan
- Business Loan Program–Small Business Gap Revolving Loan
- Business Loan Program–Facade Improvement Loan
- Fire Safety Loan Program

**County Tools**

- Pierce Co. Historic Preservation Grant

**Statewide Tools**

- Special Tax Valuation Program
- Recording, Excise, & Map Fees
- Historic Preservation Easements
- Library Capital Improvement Program
- Heritage Capital Projects Fund
- Valerie Sivinski Washington Preserves Fund (Washington Trust)
- Historic County Courthouse Rehab Grant
- Historic Cemetery Grant
- Heritage Barn Rehab Grant
- Historic Theater Grant
- Building for the Arts
- Building Communities Fund

**Federal Tools**

- Federal Historic Rehab Tax Credit
- Various Historic Preservation Fund Grant Programs
- HUD 203(k) Rehab Mortgage Insurance Loan
- Title I Property Improvement Loan
- Community Development Block Grants (CDBG)

PlaceEconomics also evaluated "peer cities" to learn what types of tools, programs, and incentives are offered in cities similar to Tacoma. The peer cities review, feedback from key stakeholders, and the firm's expertise working with municipalities all over the country were the basis for recommendations made in this document.

[1] City stakeholders indicated that the Residential Infill Pilot Program is no longer accepting new proposals.

# Stakeholder Engagement

In order to understand the challenges facing rehabilitation and building reuse in Tacoma, PlaceEconomics conducted two rounds of stakeholder engagement sessions. These groups as identified by City staff included residents, developers, city staff, preservation advocates, and housing advocates. After the first round of engagement, the PlaceEconomics team synthesized the feedback from the conversations and held a second round of meetings to present and confirm summaries of the group's initial responses.

A number of challenges were identified, the major themes of which are detailed below. These challenges were organized into the categories of Affordable Housing, Cost of Rehabilitation, Environmental Responsibility, and Improvements to Existing Tools. These themes largely shaped the recommendations within this report.

It is also important to acknowledge that this stakeholder engagement process largely coincided with the development and finalization of the Home in Tacoma planning process. Therefore, much of the legislation and code changes were still in discussion at the time of PlaceEconomics' engagement with stakeholders, and some concerns that were voiced may have been remedied by the final Home in Tacoma language. Where possible, PlaceEconomics tried to include Home in Tacoma provisions that addressed or were relevant to the issues voiced by stakeholders.

## AFFORDABLE HOUSING

Housing affordability in Tacoma is an issue at the top of mind for residents, public officials, City staff, and beyond. The City of Tacoma is undertaking significant initiatives to address this crisis, but some stakeholders voiced both concern for the impact this will have on historic resources and a desire to contribute to the solution.

### Challenge: The nationwide affordable housing crisis is impacting Tacoma's historically more affordable housing market

The lack of affordable housing is a crisis affecting nearly every city in America. According to the National Low Income Housing Coalition (NLIHC), "no state has an adequate supply of homes affordable and available to its lowest-income renters."[2] In their 2022 annual report, NLIHC found that between the first quarter of 2021 and the first quarter of 2022, median rents for two-bedroom apartments in major metropolitan counties increased by 15%.[3] This is more than four-and-a-half times greater than the increases between previous years.

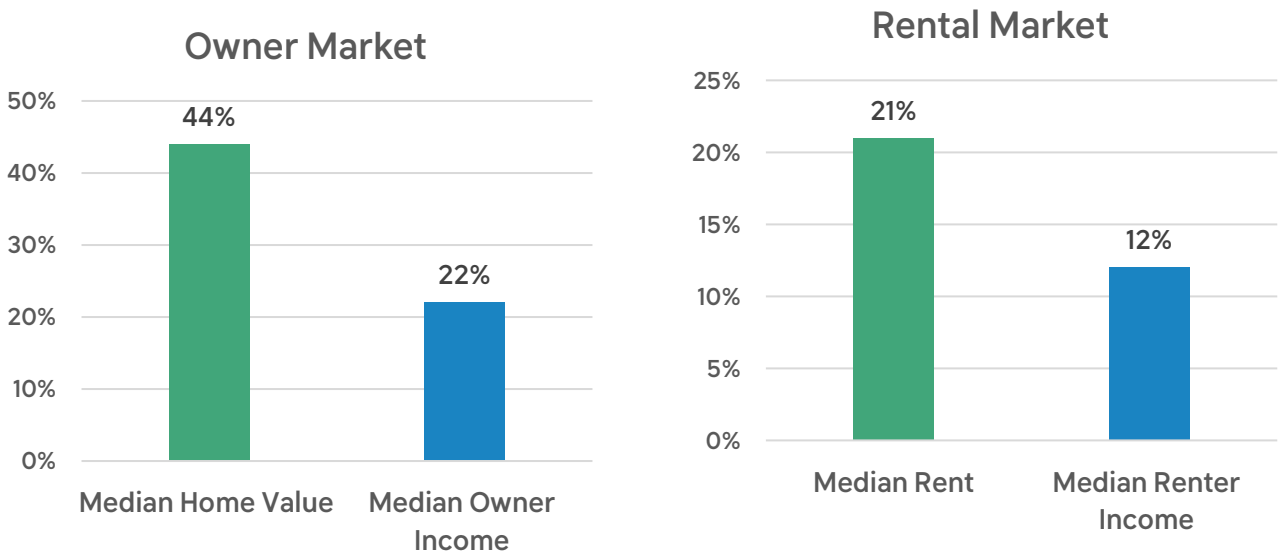
[2] "The Affordable Home Crisis Continues, But Bold New Plans May Help," https://www.citylab.com/perspective/2019/03/affordable-housing-near-medata-bold-solutions-funding/584779/

[3] "Out of Reach," National Low Income Housing Coalition Annual Report 2022, https://nlihc.org/oor

The affordable housing crisis–compounded by inflation, stagnant wages, and increased investor purchases of rental properties–is urgent. Nationally, older housing plays an important and often overlooked role in affordable housing. According to data from the American Housing Survey, 37% of occupied housing units were built prior to 1970. Overall, 49% of all owner households and 39% of all renter households live in pre-1970 housing units.

In Tacoma, rents and home values are rising faster than incomes. According to the Affordable Housing Action Strategy, median owner incomes grew 22% between 2016-2019, while home values increased 44%. In that same time period, median renter incomes grew 12%, while rents increased 21%.

**Change in Income vs Housing Prices (2016-2019)[4]**




## Challenge: New legislation and land use reform mandates that all neighborhoods allow for increased density

Public pressure regarding housing affordability has been building in Tacoma and this came across in stakeholder meetings. Addressing the housing affordability crisis has been high on the City's list of political priorities. In response, the Home In Tacoma Project, a multi-phased planning initiative, was begun in 2021. Phase 1, which was passed in December 2021, "adopted a new housing growth vision, updated housing policies, enabled Missing Middle Housing in Tacoma's neighborhoods, called for actions to ensure Tacoma gets housing growth right, and called for actions to make housing more affordable." It also adopted a package of short-term code changes to help meet immediate housing needs and endorsed a Housing Action Plan to guide long-term housing goals. It also authorized Phase 2

[4] Source: Home in Tacoma Project, City of Tacoma's Affordable Housing Action Strategy https://storymaps.arcgis.com/stories/63476315c3f54736b846e477126959f1

of the initiative, with the stated goal to "develop zoning, standards, and actions to support housing growth."

Passed by City Council in November 2024, Phase 2 of Home in Tacoma lays out a roadmap to accomplish four main goals: increase density, streamline development, encourage tree planting/preservation, and reduce parking requirements. The package also introduced three designated "Urban Residential (UR) zones," which come with their own set of design and zoning guidelines. Development incentives within these three UR zones include: Expedited permit review and fee reductions, FAR/height bonuses for providing public benefit features, and provisions for upzoning.

While stakeholders recognized that the goals of Home in Tacoma are appropriate to address affordable housing needs, some stakeholders voiced concerns that Home in Tacoma provisions may not acknowledge existing density in historic districts through existing small scale multifamily housing types and small unit sizes. Stakeholders also voiced their desire for provisions that allow context-sensitive density to be added to older neighborhoods.

In response to such concerns, Home in Tacoma does include development bonuses for the retention of existing buildings, outlined in the Tacoma Municipal Code 13.06.020.F.2. The bonus provisions allow projects to be eligible to utilize more flexible and generous development standards in exchange for the provision of public goods like affordability or the preservation of an existing building. The code outlines certain requirements and design standards for exterior alterations and additions for eligibility for the bonus and states that "to ensure retained existing structures continue to contribute to the area's unique history and character," eligible developments must meet certain standards related to height, setbacks, window openings, and principal building preservation.

# COST OF REHABILITATION

## Challenge: Costs associated with rehabilitation can be high or uncertain

Stakeholders cited numerous factors that influence the cost of rehabilitation and reuse of historic and older buildings. Developers with experience in historic buildings noted that the costs associated with rehabilitation and adaptive reuse are often uncertain, because there may be unforeseen interventions that only become apparent after work begins. This makes many developers wary of undertaking a redevelopment project or those that require a change of use. Additionally, rehabilitation projects, like any other development, often trigger costly additional infrastructure improvements, such as roads, curb, gutters, sidewalks, and utility work depending on the scope of a project, However, developers in stakeholder meetings stated the thresholds that trigger this additional investment can be unclear. This added cost and that the uncertainty of the threshold can discourage reinvestment, and stakeholders indicated that development incentives are important to mitigate this risk, particularly for historic rehabilitation projects.

# ENVIRONMENTAL RESPONSIBILITY

Stakeholders expressed concern for several issues related to sustainable development and environmental responsibility, particularly pertaining to mandates to retrofit buildings for seismic or energy efficiency. Stakeholders perceive these topics to be of high political priority for the City but feel as though more proactive interventions are needed for historic buildings.

## Challenge: Few resources are available for energy retrofits to historic buildings

Energy retrofits are important for meeting statewide carbon reduction goals, but there are few incentives to help historic buildings meet these standards. The State of Washington passed the 2019 Clean Buildings Act, which created energy performance standards for existing covered buildings larger than 20,000 square feet. The objective is to lower costs and pollution from fossil fuel consumption in the state's existing covered buildings, multifamily buildings, and campus district energy systems. The legislation creates tiers determined by building size with mandatory compliance dates for each tier. Tier 1 includes buildings over 50,000 sq ft, and Tier 2 applies to buildings between 20,000-50,000 sq ft. The law also provides Tier 1 and Tier 2 incentives to encourage building owners to make energy efficiency improvements earlier than required.

While an important and landmark step toward energy efficiency, many stakeholders are concerned that this regulation does not account for embodied energy in existing buildings, the additional complexity of energy retrofits in historic buildings, and the associated higher costs. Even where property owners want to do the right thing and make their buildings energy efficient, there is a concern about a lack of guidance and financial resources. Recent state legislation provides some relief for existing housing units in buildings that are undergoing an addition,[5] but cities should think proactively about ways to provide resources for building owners that do want to make their existing buildings energy efficient.

## Challenge: Seismic retrofits are important, but complex and costly

Another environmental and public safety concern is seismic preparedness. As climate change continues and natural disasters become more frequent and intense, cities on the West Coast are beginning to ramp up regulation pertaining to building codes and mandatory seismic retrofits. While stakeholders acknowledged the necessity of making seismic interventions, they voiced concerns about the steep learning curve and lack of resources for these complex and costly improvements.

Other municipalities have already started the process of implementing seismic retrofit policy. Seattle, for instance, passed a voluntary seismic retrofit ordinance in 2023 that establishes minimum safety standards for the retrofit of unreinforced masonry buildings and they have six full-time staff dedicated to the effort. The initiative won't be mandatory until the city has developed financial and other support services to assist building owners. So far, Seattle has applied for federal grant funding to support seismic retrofitting in underserved communities and are exploring other tools, such as TDRs, to fund

[5] ESHB 1042 - 2023-24 provides some guidance and relief, stating: "By January 1, 2024, the state building code council shall adopt by rule an amendment to the current energy code that waives the requirement for unchanged portions of an existing building used for residential purposes to meet the current energy code solely because of the addition of new dwelling units within the building. New dwelling units created within the existing building must meet the requirements of the current energy code."

seismic retrofits. A statewide effort, in coordination with the Washington State Seismic Safety Subcommittee, is also underway to identify tax incentives and additional funding for these activities.

Currently, there are no mandates requiring seismic retrofitting in Tacoma, and the City of Tacoma does not have the resources or capacity at this time to undertake such an expansive initiative. Tacoma would benefit from developing proactive promotion and education on seismic retrofitting interventions for historic and older buildings. Additionally, the City should pursue funding and staffing for these efforts. That way, if mandates are created in the future, there is an existing understanding and knowledge base. Additionally, it was noted that the learning curve for building owners looking to retrofit is very steep; technical assistance and funding would help close this gap.

## Challenge: Embodied energy / embodied carbon is not accounted for in a building's energy performance

There's a growing recognition of the importance of the embodied energy and carbon in existing buildings. Embodied carbon refers to the greenhouse gas emissions that have already been spent in the manufacturing, transportation, installation, maintenance, and disposal of building and infrastructure materials. Similarly, embodied energy refers to the total energy necessary–renewable or nonrenewable–used to produce a product, including raw material extraction, transportation to a job site, and assembly. This is in contrast to operational emissions, which include the energy used for heating, cooling, lighting, ventilation, and appliances over the lifetime of the building's operation. Stakeholders expressed concern that embodied energy/carbon of historic and older buildings is not factored into conversations of sustainable development or energy efficiency. Most calculations of sustainably-designed buildings take operational energy into consideration, but not embodied energy. Reusing buildings and building materials inherently preserves embodied energy and carbon that has already been expended. While the City does not have jurisdiction over changes to the state energy code, City-level acknowledgement of embodied energy could set the foundation for future policy, such as a deconstruction ordinance or energy audits for incentives.

# IMPROVEMENTS TO EXISTING TOOLS

The City of Tacoma has a number of existing incentives specifically geared towards historic preservation. Stakeholders identified some challenges that each of these pose to users. Below are some of the common issues:

## Challenge: Special Tax Valuation program is cumbersome and has narrow eligibility criteria

The Special Tax Valuation program is state-enabled and locally-determined legislation that allows for an exemption of property taxes to offset the cost of rehabilitation on designated historic properties. Stakeholders noted that in Tacoma, unlike in some other Washington cities, the local ordinance only makes properties listed on the Tacoma Register eligible for the STV. This leaves many properties listed in the National Register without access to this incentive. Additionally, the program requires all rehabilitation work to take place within a two year time period. Homeowners noted that this timeline is difficult for the average Do-It-Yourself owner-occupant who may wish to make incremental improvements to their home over time. Finally, many stakeholders said that the formula to calculate the tax benefit is complicated for property owners to understand.

## Challenge: No use of the Historic Rehabilitation and Repair Loan Program

Enacted in 2014, the Historic Rehabilitation and Repair Loan Program (HRRLP) is administered by the Tacoma Community Redevelopment Authority (TCRA) and staffed by the City Community and Economic Development Department (CEDD). It is designed to encourage the rehabilitation, preservation, and adaptive reuse of commercial and retail buildings listed on the Tacoma Register of Historic Places. The HRRLP program provides gap financing, which is used in combination with the borrower's other financial resources. Loans are made available on a reimbursement basis up to 50% of the approved project costs and range from a minimum of $20,000 to a maximum of $100,000. However, since this program was enacted, it has not seen any use. Many stakeholders were not aware of the existence of this program and among those who are, the loan amounts are considered to be too small, and do not compete well in a low interest lending climate.

# RECOMMENDATIONS

The following recommendations are intended to address concerns and challenges raised by stakeholders during the engagement process. There is no "one big fix" incentive. Effective programs have multiple incentives, many of which can be layered, to fit the needs of a particular project. Each recommendation outlines the challenge that is being addressed and where the responsibility to adopt the recommendation would lie.

# Financial Incentives

## ELIMINATE SALES TAX ON LABOR FOR REHABILITATION OF DESIGNATED HISTORIC BUILDINGS

- Which challenge is being addressed
  - Feasibility of rehabilitation/cost of rehabilitation
- Where the adoption of recommendation would lie:
  - City of Tacoma (for city portion of sales tax)
  - State of Washington (for state portion of sales tax)

Washington State has one of the highest sales tax rates in the country. At 6.5% it is ranked ninth overall in state sales tax rate and in the top five for the combined state and local sales tax levies.[6] In Tacoma, the local sales tax rate of 3.8% is higher than 95% of other local Washington jurisdictions. With a combined rate of 10.3 this means that a $1,000,000 price tag for rehabilitating a historic building includes $93,381 in sales taxes. Not all states apply sales tax to construction, including other relatively high tax states like Illinois, Minnesota, and Pennsylvania. In addition, some states, including West Virginia, exempt construction labor from sales tax as long as the construction represents a capital improvement to the property. Others have construction sales tax waivers for certain categories of construction.

The rehabilitation of historic buildings is a labor-intensive activity resulting in significant local economic impact both directly and indirectly through the local expenditure of paychecks. This "multiplier effect" is significantly greater for labor than materials. The sink, once installed, doesn't spend any money. But the plumber who installed the sink spends his/her paycheck on groceries, a membership in the YMCA, and making car payments. Waiving the sales tax on the labor portion of the cost of rehabilitation could have a substantial impact on a project's financial feasibility. Ideally this would be an incentive adopted at both the state and local level, and would apply to properties designated either individually or as part of a historic district. There are numerous examples of categories that are exempt from sales tax in Washington State. Adopting an exemption for historic building rehabilitation would have negligible impact on public budgets but could increase the likelihood of more historic structures being put back into sound and usable condition.

**Examples**

- Sales tax exemption for construction, Pennsylvania, https://revenue-pa.custhelp.com/app/answers/detail/a_id/1936/~/are-construction-contracts-subject-to-sales-tax-in-pa%3F

- Exemption for construction labor for capital improvement projects, West Virginia, https://tax.wv.gov/Documents/TSD/tsd310.pdf

[6] While Washington does have high tax rates on sales taxes and other forms of revenue, there is no personal or corporate income tax in the state.

# FREEZE PROPERTY TAX ASSESSMENT ON AFFORDABLE MULTIFAMILY REHABILITATION PROJECTS

- Which challenge is being addressed:
  - Need for affordable housing
- Where the adoption of recommendation would lie:
  - City of Tacoma

Tacoma's answer to the housing crisis has been to produce new housing.
The Multi Family Tax Exemption (MFTE) exempts projects from property taxes on assessed improvement value for 8, 12, or 20 years based on the level of affordability provided. The program requires projects to create a minimum of four new multifamily units. The exemption is available in designated Residential Target Areas in Tacoma and the base incentive is available for 8 years for market rate units. For a 12 year exemption, 20% of the units must be affordable at 70% Pierce County Area Median Income (AMI) for 12 years, and for a 20 year exemption, 25% of the units must be permanently affordable. There have only been three projects that used the Special Tax Valuation (STV) and the MFTE. In effect, MFTE only incentivizes adaptive reuse where the project produces new housing units, not the rehabilitation of existing multi-family buildings. However, the MFTE can be used for rehabilitation if the structure has been empty for a year, as those units brought back on line are considered new units. Essentially, the MFTE only prioritizes *net new units* in multifamily buildings, either through new construction, adaptive reuse, or activating vacant buildings.

Historically, the MFTE Residential Target areas had very little overlap with local or National Register historic districts. However, under Home in Tacoma, the eligibility areas have been expanded to all Urban Residential - 3 zones, which may have made more historic properties eligible for the incentive.

Overall, the MFTE was not designed to incentivize rehabilitation for affordable housing, and so it has been underutilized on historic buildings–only eight properties on the local or National Register have utilized the MFTE. However, 13% of all multifamily parcels are located in historic districts or individually designated. Therefore, to achieve stated goals around the production of affordable housing, Tacoma would benefit from a new tool designed to promote historic rehabilitation of multi-family buildings in exchange for an affordability covenant.

This new incentive would freeze the assessed value at the pre-renovation value for projects that rehabilitate historic multifamily buildings and incorporate a specified percentage of affordable units. Following the example of the MFTE, the length of the freeze would be determined by the level of affordability provided: if 20% of units in the rehabilitated property are affordable for 12 years, the assessed value is frozen for 12 years, and so on.

**Example**

- Substantially Rehabilitated Low-Income Rental Properties, San Antonio, TX, https://www.sanantonio.gov/portals/0/Files/HistoricPreservation/Tax_incentive_brochure-8-2010.pdf

## ENACT AN INCENTIVE FOR ENERGY RETROFITS IN HISTORIC BUILDINGS

- Which challenge is being addressed:
  - Few resources available for energy retrofits
- Where the adoption of recommendation would lie:
  - City of Tacoma

The State of Washington has made meeting state energy goals a high priority, demonstrated recently through the adoption of landmark energy efficiency performance standards. The 2019 Clean Buildings Act created energy performance standards for existing covered buildings larger than 50,000 square feet. The objective is to lower costs and pollution from fossil fuel consumption in the state's existing covered buildings, multifamily buildings, and campus district energy systems. The legislation creates tiers determined by building size with mandatory compliance dates for each tier. The law also provides Tier 1 and Tier 2 incentives to encourage building owners to make energy efficiency improvements earlier than required.

Going forward, the need for increased efficiency and energy retrofits will only grow. In order to make sure that historic buildings, including smaller and residential structures, are able to stay up to date with these improvements, the City should be proactive about making sure resources are made available. The 2022 Inflation Reduction Act directed $500 billion to accelerate clean energy investments that reduce carbon emissions. In Washington state, the money from the Inflation Reduction Act is being made available for energy retrofits and efficiency rebates. Therefore, the City should pursue State and/or Federal funds to create an incentive that provides designated historic buildings with funds to complete energy and efficiency retrofits. Such an incentive might be a grant to replace worn shingle roofs with energy efficient roofing, window restoration, insulation, solar panel installation, or other system upgrades.

**Examples**

- Various energy retrofit programs, Berkeley, CA
  https://berkeleyca.gov/construction-development/green-building/financing-green-building-improvements
- Under 1 Roof, San Antonio, TX
  https://311.sanantonio.gov/kb/docs/articles/property-maintenance-and-construction/san-antonio-under-one-roof
- Green & Healthy Homes Program, San Antonio, TX
  https://www.sa.gov/Directory/Departments/NHSD/Housing-Support/Repair/Green-Healthy-Homes
- Multi-Family Home Energy Savings Program, Chicago, IL
  https://www.chicago.gov/city/en/progs/env/retrofit_chicagoresidentialpartnership.html

# Adaptive Reuse Incentives

## INCREASE THE THRESHOLD FOR TRIGGERING INFRASTRUCTURE UPGRADES FOR HISTORIC OFFICE BUILDINGS BEING CONVERTED TO RESIDENTIAL USE

- Which challenge is being addressed:
  - The cost of conversion of office buildings to residential
- Where the adoption of recommendation would lie:
  - City of Tacoma

The City of Tacoma is seeking more housing for its residents. At the same time, there is vacancy in many of the city's downtown office buildings as the real estate and office industries adjust to the post-COVID business realities. Encouraging conversion of vacant or underutilized office buildings to residential use could help alleviate the housing shortage and give renewed economic life to these structures, while stimulating investment in downtown.

Currently, the City requires improvements such as roads, curb, gutters, sidewalks, and utility work depending on the scope of a project, though those thresholds are not specified. Developers in stakeholder meetings stated that this added cost and that the uncertainty of the threshold can discourage reinvestment. Improving transparency of the process will help potential developers gain a clearer understanding of the infrastructure upgrades required.

The City should create guidelines that address the respective triggers for infrastructure upgrades, or by waiving the requirement for rehabilitation projects that are being converted to residential use. This may be paired with a threshold, for example, waiving requirements for rehabilitation projects less than $1,000,000 in total value.

# ENACT INCENTIVE PACKAGE FOR UPPER FLOOR/OFFICE CONVERSION TO RESIDENTIAL USE

- Which challenge is being addressed:
  - Cost of Rehabilitation
- Where the adoption of recommendation would lie:
  - City of Tacoma

Converting the upper floors of many office buildings downtown and along commercial corridors to residential use is another way to increase available housing. However, converting office spaces to residential use requires meeting different fire code standards, which can be costly. Developers cited that change of use permitting is expensive because it often requires significant structural modifications to a building to accommodate its new purpose, involves complex permitting processes with multiple government agencies, necessitates additional design and engineering work, and can lead to potential legal complications, all of which create substantial costs for the property owner. Incentives to help offset some of those costs would be useful.

The City of Tacoma should undertake a survey to inventory buildings along commercial corridors with upper floor vacancy or underutilized office buildings in the downtown. Once inventoried, and given the interest and need for more housing, the city should package a series of incentives to encourage office to residential conversions. Los Angeles has a Citywide Adaptive Reuse ordinance that aims to simplify the current code requirements and remove barriers to project approval, so that as many existing buildings as possible may be repurposed for housing. Washington DC also recently authorized a program called Housing in Downtown, designed to catalyze new residential development through commercial-to-residential conversion via a 20-year tax abatement.

**Examples**

- Downtown TIF District Upper Story Housing Program, Rock Island, IL
  https://www.rigov.org/DocumentCenter/View/569/program-summary?bidId=

- Upper Floor Residential Rehab Program (CDBG-funded), Covington, KY
  https://www.covingtonky.gov/Portals/covingtonky/211220_PY%202021%20Upper%20Floor%20Residential%20Rehabilitation%20Program%20Guidelines.pdf

- Housing in Downtown (HID) Program, Washington DC
  https://dmped.dc.gov/featured-content/housing-downtown-program

- Adaptive Reuse Ordinance, Los Angeles, CA
  https://planning.lacity.gov/odocument/6725f347-7fdb-42fa-aa6e-44c37f8fa999/Fact_Sheet_-_Adaptive_Reuse_Ordinance.pdf

## WAIVE THE TRANSFER FEE FOR ADAPTIVE REUSE PROJECTS

- Which challenge is being addressed:
  - Cost of Rehabilitation
- Where the adoption of recommendation would lie
  - City of Tacoma (for City portion of Real Estate Excise Tax (REET)
  - State of Washington (for State portion of REET)

The Real Estate Excise Tax (REET) is another cost of engaging in a real estate transaction.[7] Washington's rate is among the five highest in the country with REET rates ranging from 1% to 3% depending on the size of the transaction. Washington is also one of the few states that allows local governments to levy their own REET. Most cities in Washington do so, including Tacoma, where the current rate is .5%. Ordinarily, the seller pays the transfer tax, but that is subject to negotiation. A property which is sold for $500,000 would have a tax liability of $5,500 for the state share and $2,500 for the local share – a total of $8,000. The total for a $1,000,000 sale would be $17,800.

Tacoma has an abundance of historic commercial buildings, particularly in the downtown. But a significant number of those are vacant or underutilized and in need of rehabilitation. There is a particular need to convert some properties from office to residential or other use.

This recommendation is to waive the REET if the property is converted from office to residential, school to residential, or other use. The reality of real estate development is that the margins between a project that makes money and one that loses money are actually quite small. This is particularly true with rehabilitation, where there is considerable uncertainty as to costs. The effective reduction of 2% to 3.5% of the acquisition price could make the difference between a developer considering a project vs. walking away. Further, this would encourage the redevelopment of properties and ultimately see lower vacancy, higher values, and higher local property tax revenues.

[7] The REET is a percentage of the price at which the property is sold.

# Policy Initiatives

## ENCOURAGE CONSTITUTIONAL CHANGE TO ALLOW FOR A STATE HISTORIC TAX CREDIT

- Which challenge is being addressed:
  - Feasibility of rehabilitation/cost of rehabilitation
- Where the adoption of recommendation would lie:
  - State of Washington

Washington is one of only 11 states (Alaska, Arizona, Florida, Idaho, Nevada, New Hampshire, Oregon, South Dakota, Tennessee, Washington, Wyoming) and three jurisdictions (District of Columbia, Puerto Rico, and US Virgin Islands) that have no state historic tax credit for rehabilitation. In Washington, it is the interpretation of a state constitutional clause – Article 8, sections 5 and 7 – which "prohibit gifts of public funds." The Washington courts have addressed multiple cases regarding those clauses and have established a two-step test: 1) Are the funds being expended to carry out a fundamental purpose of the government. If so, then no gift of public funds has been made, and 2) Does the government entity have a "donative intent," and whether it received an adequate return for the transfer. But even the first test has been interpreted broadly, deciding that while, for instance, a baseball park is not a "fundamental purpose of government," it is a "public purpose" and certain tax benefits were therefore found constitutional.

The authors of this report are not attorneys, and it would be far beyond our competence to suggest an interpretation of the constitutional provisions that would allow a historic tax credit. But we would argue that, for cultural, environmental, and economic reasons, the rehabilitation of the state's historic resources certainly serves multiple public purposes. Whether through constitutional amendments or new arguments before the courts, the adoption of a state historic tax credit should be reconsidered.

Another argument against historic tax credits in Washington is the absence of a state income tax against which the credits could be applied. But several states without an income tax have figured out how to create effective historic tax credit programs.

PlaceEconomics has modeled the use of the federal historic tax credit from 1989 through 2023 and compared the amount of activity in states with a historic tax credit versus those without. While the rehabilitation of historic buildings in Washington has been sizable – an average of just under $90 million a year over the past fifteen years – our model suggests that were there an effective state historic tax credit there would have been an average of $22 million more annually for the last fifteen years. That additional activity would have generated jobs, household income, and taxes as well as saved hundreds of historic buildings in Washington.

**Examples**

- Texas https://thc.texas.gov/preserve/grants-tax-credits-and-funding/historic-preservation-tax-credits/texas-historic

- Florida (introduced)
  https://www.flsenate.gov/Session/Bill/2024/1183
- New Hampshire (introduced)
  https://www.nhpreservation.org/blog/nh-tax-credit-proposal-2023
- Interpretations of Article 8, Sections 5 and 7,
  https://mrsc.org/explore-topics/officials/ethics/gift-of-public-funds

## ENACT A DECONSTRUCTION ORDINANCE

- Which challenge is being addressed:
  - Construction and demolition waste adding to already stressed landfills and climate change
- Where the adoption of recommendation would lie:
  - City of Tacoma

Some American cities have begun to mandate the deconstruction of historic houses and this is being explored in Tacoma. In an effort to reach Tacoma's goal of creating a circular economy, City Council passed a resolution in March 2024 directing the City Manager to explore options and costs for increasing deconstruction and salvage efforts.

The deconstruction initiative aims to manage the expected increase in construction and demolition debris, promote the reuse of building materials and reduce waste. Deconstruction, compared to demolition, offers benefits such as lower greenhouse gas emissions, job creation, and safer removal of hazardous materials. The resolution aligns with Tacoma's goals to create a circular economy and expand the green job sector, while also preserving the city's historic architecture.

A number of cities around the country have passed a deconstruction ordinance, each having their own set of parameters that determine if a property must pursue deconstruction over demolition. These can be based on the year the building was constructed, geographic location, property use, or a combination of other variables. While Tacoma's program is still in the exploratory phase, there are many cities that can be referenced as models.

"PEOPLE BEMOAN THE LOSS OF OUR OLD GROWTH TREES, BUT THEY AREN'T TOTALLY LOST. OLD GROWTH LUMBER IS IN OUR HISTORIC BUILDINGS... WHY WOULD WE THROW THOSE AWAY?"

**Examples**

- Portland, OR
  https://www.portland.gov/bps/garbage-recycling/decon
- San Antonio, TX
  https://www.sanantonio.gov/historic/CurrentProjects/Deconstruction
- Build Reuse Wiki (Resources Forum)
  https://www.buildreuse.org/wiki

# Improvements to Existing Programs

## MAKE THE SPECIAL TAX VALUATION BY RIGHT FOR ELIGIBLE PROPERTIES AND SIMPLIFY PROCESS

- Which challenge is being addressed:
  - Improvement of existing programs
- Where the adoption of recommendation would lie:
  - City of Tacoma (for local STV stipulations, i.e. which class of properties are eligible)
  - State of Washington (for all other changes)

The Special Tax Valuation Program is the best incentive currently available in Washington State to encourage the rehabilitation of historic properties. However, it is unnecessarily complex and simplifying it would greatly increase its use and, thereby, the stewardship of and reinvestment in Tacoma's heritage resources. While most of the provisions of the program are well conceived and appropriate, there are steps that are burdensome for both the property owner and the assessor's office.

As currently structured, "Special Valuation is the revision of the assessed value of a historic property which subtracts, for up to ten years, such rehabilitation costs as are approved by a local review board."

The alternative would be as follows:

a) All properties will be given the Special Tax Valuation if three tests are met:
   i) The property is either designated individually or as a contributing building in a National Register or local historic district.
   ii) The rehabilitation expenditures are at least 25% of the assessed valuation of the property, exclusive of land value, prior to the rehabilitation.
   iii) The rehabilitation work done is approved by the Landmarks Preservation Commission.
b) If those three tests are met, the assessed value of the property will remain at the pre-rehabilitation value for the ten years of the program.
c) After the expiration of the eligible period, the property would be reassessed at its current value.

This approach (which is the usual method used in property tax incentive programs) would eliminate the need for the assessor to revalue the property after rehabilitation and subtract the amount invested to establish the Special Valuation. The property owner would be able to know with certainty the assessed value of his/her property for the decade after the rehabilitation has taken place. The uncertainty of whether a property owner would receive the Special Valuation would be eliminated. If the three tests are met, the Special Valuation would be automatic.

The rest of the provisions in the current program, such as what happens if the property is sold, the requirement for property maintenance, etc. can remain as currently defined.

**Example**

- Special Property Tax Assessments (Bailey Bill), South Carolina
  https://planninganddevelopment.columbiasc.gov/wp-content/uploads/2021/10/Bailey_Bill_Information.pdf

- Property Tax Assessment Freeze, Illinois
  https://dnrhistoric.illinois.gov/preserve/taxfreeze.html
  https://dnrhistoric.illinois.gov/content/dam/soi/en/web/dnrhistoric/preserve/documents/summary-taxfreeze.pdf

- Ithaca, NY
  https://www.cityofithaca.org/DocumentCenter/View/1576/Local-Property-Tax-Incentives-for-Historic-Preservation?bidId=

## EXPAND SPECIAL TAX VALUATION TO PROPERTIES ON THE NATIONAL REGISTER

- Which challenge is being addressed:
  - Improvement of existing program
- Where the adoption of recommendation would lie:
  - State of Washington

Currently, only properties listed on the Tacoma Register, either individually or as part of a district, are eligible for the Special Tax Valuation program. Nationally, it is a best practice to make local incentives available for properties historically designated at the federal level. Tax abatement programs for historic rehabilitation in Illinois, South Carolina, and California allow for their statewide program to be applicable to buildings designated at any level, including the National Register. Additionally, the state legislation allows for each municipality to determine the level of designation required to make a property eligible for the STV. In Seattle, buildings listed either individually or as part of a district on the local or National Register are eligible for the STV.

There are currently 1,890 parcels locally designated, either individually or as part of a district, and therefore eligible for the STV. If eligibility were expanded to properties listed in National Register Districts, 2,244 additional parcels would become eligible.

**Example**

- Seattle Special Tax Valuation
  https://www.seattle.gov/neighborhoods/historic-preservation/preservation-incentives#stateandlocalincentives

## EXPAND SPECIAL TAX VALUATION TO ANY ADU IN A HISTORIC DISTRICT

- Which challenge is being addressed:
  - Need for affordable housing
- Where the adoption of recommendation would lie:
  - State of Washington

The Special Tax Valuation program is a useful tool to encourage reinvestment in historic buildings, particularly if it were modified as suggested earlier. Backyard Buildings, also known as Accessory Dwelling Units (ADUs), can be an effective way to increase density and potentially increase the supply of affordable housing. Although there may be resistance from some property owners, ADUs should be allowed in historic districts, and their design and siting on the lot should be subject to the approval of the Landmarks Preservation Commission.

To encourage the development of ADUs, the application of the Special Tax Valuation program should be expanded to include Accessory Dwelling Units. In the case of an ADU being created through the redevelopment of an existing building (garage, other outbuilding, etc.), the test of at least 25% of the assessed value of the building could be applied. When an ADU is created through new construction or *within* the existing structure (i.e. basement remodel), a minimum investment of $40,000 should be required to qualify for the program. Deeper incentives could be offered to owners who rent their ADUs to low- to moderate-income households, with a structure similar to that in the Multifamily Housing Tax Exemption.

Since these new Accessory Dwelling Units will be in historic districts and/or located within or near individually listed structures, and therefore have to follow the design guidelines established by the Landmarks Commission, they should be treated as if they were contributing properties in a historic district or reviewed as part of changes to an individual landmark or site.

## EXTEND THE PERIOD THAT USERS RECEIVE THE SPECIAL TAX VALUATION

- Which challenge is being addressed:
  - Need for affordable housing
- Where the adoption of recommendation would lie:
  - State of Washington

Under the current structure of the Special Tax Valuation program, qualified rehabilitation expenses on projects that meet the program requirements are subtracted from the property assessment each year for ten years. The goal of the special valuation of the property is to offset the potential increases in taxes caused by building improvements and to help owners regain their investment. A simple way to make this

program more attractive to users is to extend the period over which they can claim the property tax reduction. The City of Tacoma should analyze the potential impact of expanding the benefit period to 15 or 20 years. Richland County, South Carolina is a jurisdiction with a similar property tax incentive, but with a 20-year benefit period. PlaceEconomics measured the net present value of tax revenues to the City of Columbia, South Carolina and Richland County over a thirty-year period. Overall, local governments received a significant positive fiscal benefit through granting the Bailey Bill assessment freeze, even over a long benefit period.[8] To increase the utility of the STV for affordable housing, the base period of the tax reduction should be 15 years, but extended to 20 years for projects that utilize an affordability covenant.

**Example:**

- Richland County, SC, Bailey Bill, 20 year property tax exemption for rehabilitation https://www.richlandcountysc.gov/Government/Commissions/Conservation-Commission/Historic-Preservation/Bailey-Bill

## REVISE THE TACOMA HISTORIC REHABILITATION AND REPAIR LOAN PROGRAM TO BE SPECIFICALLY AVAILABLE FOR SEISMIC RETROFITTING

- Which challenge is being addressed:
  - No usage of the program
- Where the adoption of recommendation would lie:
  - City of Tacoma

The Historic Rehabilitation and Repair Loan Program (HRRLP) was established in 2014 to encourage the rehabilitation, preservation, and adaptive reuse of commercial and retail buildings in Tacoma. The program is administered by the Tacoma Community Redevelopment Authority (TCRA) and staffed by the City Community and Economic Development Department (CEDD). The HRRLP offers loans on a reimbursement basis up to 50% of the project costs with loan amounts ranging from $20,000 to $100,000. In order to qualify, the building itself must be listed on the Tacoma Register of Historic Places either individually or within a locally designated historic overlay zone.

Despite there being numerous inquiries, to date there have been no loans executed under the program. Therefore, the priority should be for the Historic Preservation Office to meet with the TCRA and CEDD to identify what might be discouraging potential users from taking advantage of the program. As part of that process, it may be necessary to facilitate listening sessions with those who previously inquired

[8] https://www.placeeconomics.com/wp-content/uploads/2024/06/Columbia-Report_reduced.pdf

about the program and other potential users to learn more about the challenges and issues of using the program.

Based on what is learned, the program needs to be amended if it is to be an effective tool. For instance, as concerns regarding seismic readiness continue to grow, it's likely that retrofitting buildings, both large and small, for seismic activity will become necessary in the future. The HRRLP could be focused on providing funding specifically for the purpose of seismic retrofits in historic buildings.

**Examples**

- California Residential Mitigation Program (Soft-Story and Brace & Bolt Programs) https://www.californiaresidentialmitigationprogram.com/our-seismic-retrofit-programs
- Commercial Seismic Retrofit Grants, Berkeley, CA https://berkeleyca.gov/construction-development/seismic-safety/funding-seismic-retrofits/retrofit-grants
- Transfer Tax Rebate Program, Berkeley, CA https://berkeleyca.gov/construction-development/seismic-safety/funding-seismic-retrofits/transfer-tax-rebates-seismic-work

# OTHER IDEAS

As part of the process of arriving at the recommendations found in this report, PlaceEconomics made a second visit to Tacoma to meet with City staff and other stakeholders with whom meetings had been conducted earlier. The purpose of this second round of meetings was to present and get reactions to a series of ideas for tools, strategies, policies, and incentives to encourage historic preservation in Tacoma. These were specifically called "ideas" as it was important to get local feedback to determine which ideas should ultimately become recommendations.

This input was extremely valuable and allowed PlaceEconomics to eliminate entirely from consideration some ideas, modify others to become recommendations, and put others in a category of "Ideas to possibly consider later" which are those listed below. Ultimately, the list of more than 50 ideas became 13 recommendations.

In general, the ideas that became recommendations were those that: 1) received the most positive reactions from stakeholders; 2) met the priority needs of the client; 3) were not eliminated because of cost, significant difficulty in building political support or otherwise deemed not useful in advancing the purpose of the study. This editing process was useful in that it focused attention on ideas that would be most effective in meeting the goals of the assignment.

However, there were ideas that did not become recommendations but that may merit consideration at a later time. These ideas fall into the categories listed below:

**Reduce barriers to preservation**

- Training for developers, architects, planners, general contractors, and subcontractors on the International Existing Building Code.
- Develop certificate awarding training for real estate agents and general contractors.
- Link city tools to federal rehab tax credit applications to avoid duplicate paperwork burden.
- Evaluate existing tools for use in support of historic building rehabs for non-residential properties.
- Establish an Ombudsman to work with the Historic Preservation office to assist homeowners, others navigate the system.

**Regulatory compliance with pressing environmental and safety needs**

- Create an incentive for energy retrofits in historic buildings.
- Make the Energy Audit Incentive available to historic buildings.
- Encourage the State Historic Preservation Office (SHPO) to adopt one of the existing tools to calculate/audit embodied energy in existing buildings.

- Allow historic buildings to take credit for embodied energy in required Energy Audit. Correspondingly new construction must account for energy expended in construction as part of the Energy Audit.
- Expand the availability of the Heritage Capital Fund to be used for seismic retrofit on historic structures.
- Encourage the SHPO to create a grant program for seismic retrofit of historic buildings.

**Modifications to existing programs**

- Extend the period that property owners have to make improvements from 2 years to 5 years under the Special Tax Valuation.
- Make it easier to combine Multifamily Housing Exemption and the Special Tax Valuation by examining eligibility criteria.
- Reevaluate the administration of the Historic Rehabilitation and Repair Loan Program, for example, consider housing it under the Office of Historic Preservation.

**Other**

- Add staff for the City Historic Preservation Office.
- Conduct more informational/educational programs regarding historic preservation and its benefits.

# CONCLUSION

Tacoma stands at a crossroads, facing a critical need to balance historic preservation with the growing demand for affordable housing and environmental responsibility. Engagement with stakeholders revealed the breadth of the challenges, from rising housing costs and rehabilitation expenses to regulatory and environmental concerns. However, they also underscore the significant opportunities available to foster increased rehabilitation activity, creating new jobs and income for Tacoma.

The recommendations presented in this report address these challenges with a multifaceted approach. By improving existing tools, enacting new incentives, and refining policies to encourage adaptive reuse and sustainability, Tacoma can create a framework that fosters growth while preserving its rich heritage. Collaboration among city leaders, community members, and preservation advocates will be key to implementing these strategies effectively.

Ultimately, by leveraging its historic assets and embracing a forward-thinking approach, Tacoma has the opportunity to lead as a model city that champions affordability, sustainability, and cultural preservation for future generations.

# APPENDICES

## Appendix 1: Matrix

| Tool | Complexity | Effectiveness | Cost to City | Likely Acceptance by Interested Parties |
|---|---|---|---|---|
| Eliminate Sales Tax on Labor For Rehabilitation of Designated Historic Buildings | Moderate | High | Moderate | Very High |
| Freeze Property Tax Assessment on Affordable Multifamily Rehabilitation Projects | Moderate | High | Moderate | Very High |
| Enact an Incentive for Energy Retrofits in Historic Buildings | Moderate | Moderate | Moderate | High |
| Increase the threshold for triggering infrastructure upgrades for historic office buildings being converted to residential use | Low | High | High | Very High |
| Enact Incentive Package for Upper Floor/Office Conversion to Residential Use | High | Moderate to High | High | High |
| Waive the Transfer Fee for Adaptive Reuse Projects | Low | Moderate | Low | Moderate |
| Encourage Constitutional change to allow for a state historic tax credit | High | Very High | Low | Very High |
| Enact a Deconstruction Ordinance | High | High | Moderate | Moderate |
| Make the Special Tax Valuation by right for eligible properties and simplify process | Low | High | Moderate | High |
| Expand STV to Properties on the National Register | Low | High | High | High |
| Expand Special Tax Valuation to Any ADU in a Historic District | Moderate | High | Moderate | Mixed |
| Extend the Period that Users Receive the Special Tax Valuation | Low | High | Moderate | High |
| Revise the Tacoma Historic Rehabilitation and Repair Loan Program to be specifically available for seismic retrofitting | Low | High | Low | High |

# Appendix 2: Stakeholder Engagement

**Representatives from nearby cities**

- John McDonagh, Senior Planner with Port Townsend
- Michael Houser, Architectural Historian, Washington State Department of Archaeology and Historic Preservation
- Emy Scherrer, City Planner, Bellingham
- Megan Duvall, Historic Preservation Officer, Spokane
- Sarah Sodt, City Historic Preservation Officer, Seattle

**Washington State**

- Todd Scott, Preservation Architect
- Michelle Thompson, CLG coordinator, Washington State Department of Archaeology and Historic Preservation
- Chrisanne Beckner - Architectural Historian, Historical Research Associates
- Ellen Mirro - Principal Architect, Studio TJP
- Jeff Williams, Realtor, South Sound Realty

**Preservation Advocates**

- Brian Rich, Consultant, Richaven Architecture & Preservation
- Michael Sullivan, Artifacts Preservation Studio
- Kathleen Brooker, Historic Tacoma
- Eugenia Woo, Director of Preservation Services, Historic Seattle
- Chris Moore, Executive Director of Washington Trust for Historic Preservation
- Michael Lafreniere, Historic Tacoma

**City Staff**

- Lauren Hoogkamer, Principal Planner, Neighborhood Planning
- Carl Metz, Senior Planner, Urban Design Studio
- Patricia Beard, Interim Director, Community and Economic Development
- Felicia Medlen, Housing Division Manager, Community and Economic Development
- Anneka Olson, Senior Planner, Neighborhood Planning Services
- Stephen Antupit, Senior Planner, Urban Design Studio and Long Range Planning
- Brian Boudet, Planning Division Manager, Long Range Planning

**Community Members**

- Ross Buffington, resident
- Heidi Stephens, Neighborhood Advocate
- Marshall McClintock, Historic Tacoma
- Leslie Young, Realtor

**Developers and Property Owners**

- Kevin Grossman, Grossman Services Inc
- Jess Gautney, Property Owner
- Rick Semple and Jori Atkins, Property Owners
- Mike Barlett, President, Horizon Partners

# Historic Preservation Incentives Analysis

Recommendations for Incentives to Encourage Adaptive Reuse