

Heritage legislation – does it increase or decrease the value of property?



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This is a student paper submitted by Warwick Iles as part of his requirement in the subject 'Advanced Property Analysis' at the University of Melbourne in 2007. His supervisor, Dr Richard Reed supports the publication of this research due to its relevance and ongoing debate within the property market about heritage property. Warwick currently works for Australand Holdings as the Project Director on Twenty8 Freshwater Place in Melbourne.

This paper seeks to understand the relationship between heritage legislation and property values. Heritage legislation within Australia has generally been examined and the topic defined to provide some context. Previous Australian and international studies are reviewed, analysed and conclusions are formulated including possible future research.

This paper will focus on the monetary value of heritage properties although it is recognised that people and society may place other non-monetary values on heritage property such as cultural heritage, civic pride, and tourism appeal. This is an important issue as the general objective of heritage legislation is to conserve or preserve areas, buildings and other places which have architectural, historical, aesthetic, scientific or other cultural interest or value.

Objectives and Definitions

Within all sectors of real estate there is an ongoing question surrounding the impact of heritage legislation and how it affects the value of property. This is partly caused by investors requiring recovery of invested capital after the shortest amount of time, hence any uncertainty is treated with suspicion and concern. Hefferen (1997) acknowledged the issue and remarked that 'successful property development and investment ... is difficult enough without the added risk and regulation which accompany heritage properties.' The majority of reports and articles reviewed to prepare this paper including Deodhar (2004), The Allen Consulting Group (2005), Shipley (2000), Sharpe (2006), Armitage & Irons (2005), and Vogel (2007) all indicated that

heritage listing generally has a negligible effect and in some cases a positive effect.

The definitions of 'conservation', 'heritage', 'legislation', 'preservation', 'property' and 'value' are essential to being able to review this topic. According to the Concise Oxford Dictionary (1999) these are defined as:

- Conservation: preservation or restoration of the natural environment and wildlife. Preservation and repair of archaeological, historical and cultural sites and artefacts.
- Heritage:
 1. property that is or may be inherited; an inheritance;
 2. valued things such as historic buildings that have been passed down from previous generations.

- Legislation: laws, considered collectively.
- Preservation: maintain in its original or existing state.
- Property:
 1. a thing or things belonging to someone;
 2. a building and the land belonging to it.
- Value: the regard that something is held to deserve; importance or worth; material or monetary worth.

Sharpe (2006) remarked that 'the goal of heritage designation may be either to preserve or conserve some of the area's characteristics'. Sharpe (2006) differentiated conservation and preservation in that conservation contemplates the inevitability of change, whereas preservation is concerned with the limitation of change. Hence conservation regulations promote more growth, flexibility and certainty as existing buildings can be adapted, compared to preservation regulations, which can stifle development and bring uncertainty as any changes must be unobtrusive.

There are many reasons for designating an area as heritage: they may include maintaining the aesthetic qualities of an area, conserving resources by ensuring a longer life of the existing townscape, protecting cultural memory, maintaining architectural, functional and environmental diversities, facilitating economic regeneration, stabilizing population levels, promoting local, regional or national identity, helping people cope with change by retaining a familiar landscape, maintaining residential land uses, and enhancing property values, especially by emphasizing an area's distinctiveness' (Sharpe, 2006).

Background to Heritage Legislation in Australia

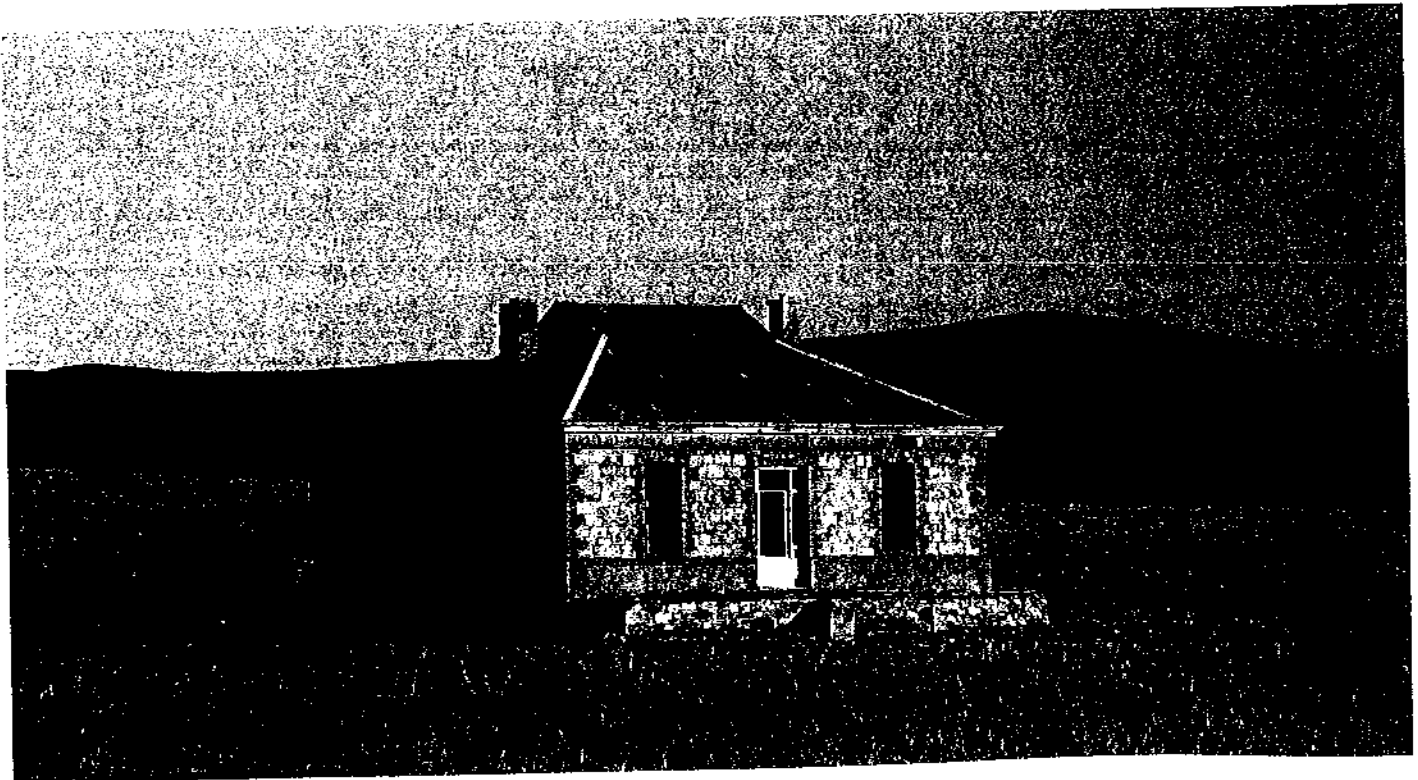
There are three main types of heritage listings in Australia, which are not exclusive and where it is possible for heritage places to be listed at all three levels. These include:

1. Local – identifies places of importance to the local community

2. State – recognises and protects places of significance to the State/Territory via the State Register of Heritage Places.
3. Commonwealth – recognises and protects places of exceptional significance to Australia via the National Heritage List.

While each state has its own legislation, there are similarities between them all and they generally have the same objectives as those previously discussed. The exceptions are the Northern Territory and the Australian Capital Territory, where the legislation is essentially managed by the Territory Government, with some input from local councils in the Northern Territory.

A common characteristic for all the states and territories is they all have some form of heritage council that report to the government and provide advice. Although the Heritage Council's advice is not recognised under legislation, it carries some weight and it is likely the



government would heed their advice. There are also community based associations that provide advice to local, state and commonwealth agencies, although their classification has no legal implications, but can carry moral influence.

The importance of heritage legislation was summarised by Heritage Victoria (2007): 'Heritage places are important for enriching our lives and our communities. Buildings, areas, landscapes and other places of heritage value provide a window to the past and to the very origins of our communities. Heritage places also add character, appeal and interest to our cities, towns and countryside. They are irreplaceable and precious.'

Review of previous research

There has been a considerable amount of both primary and secondary research carried out on the topic of heritage legislation and the impact it has on property values. The papers produced by Armitage and Irons (2005) and Sharpe (2006) are of particular interest as they have both reviewed previous research, and summarise many of the relevant studies undertaken to better understand the relationship between heritage controls and property value.

Deodhar, V. (2004) *Does the housing market value heritage? Some empirical evidence.*

Deodhar undertook an empirical study of Ku-ring-gai in Sydney's Upper North Shore with an objective to calculate the market price differential between heritage listed and unlisted houses. The hedonic regression methodology was used to estimate property value by fragmenting the property into its constituent characteristics and then valuing each

characteristic, such as the number of bedrooms, distance from city and the heritage premium.

The study utilised 2001 census data from the Australian Bureau of Statistics, which identified 73 houses that were heritage listed from 2,763 house sales between 1999 and 2000. Deodhar (2004) then gathered further information from various sources relating to: land size; number of rooms; quality of house interior; estimated age; street access; swimming pool; east or west of the railway; proximity to train station; proximity to business district; traffic levels on street; whether heritage listed or not; time of sale; and heritage significance level of a listed property. Deodhar (2004) was able to source this information for 64 heritage listed houses and 76 unlisted houses.

After adjusting for other property attributes, the study found that on average the prices of heritage listed houses were 12% higher than those of unlisted properties. Deodhar (2004) concluded that 'this premium reflects the combined value that the market places on heritage character, their architectural style elements, and their statutory listing status ... In sum, this market appears to support conservation of heritage listed house.'

The Allen Consulting Group 2005, *Valuing the Priceless: The Value of Heritage Protection in Australia*

The Allen Consulting Group (2005) report reviewed previous studies relating to heritage valuation including Quigley (1987), D'Arcy (1991), Countrywide Valuers and Trevor Budge & Associates (1992), Penfold (1994), Urban Consulting Group (1994), Krastins (1997), Keck (1999), and Deodhar (2004) which are summarised in table 1.

While all the studies had made their own conclusions, The Allen Consulting

Group (2005) summarised these previous studies by concluding 'on the whole, and rebutting the common perception provided by the media, property values have not been negatively affected by heritage listing (i.e. the impact has been neutral or positive) when done in a systematic manner. This reflects the view that it is the collective heritage ambience created by a systematic listing strategy, that is the attraction rather than the benefits created by the protection of an individual residential or commercial place.'

The Allen Consulting Group (2005) undertook a survey of 2,024 adult Australians in September 2005 which sought to:

- 'Quantify the values that people attach to a number of attributes of protection afforded to heritage places; and
- Identify people's views on a number of matters which would point to the social capital associated with heritage place protection.'



Simple attitudinal questions and choice modelling were used in the survey. Choice modelling uses a hypothetical setting and then obtains a person's preference for different options. This type of modelling endeavours to reproduce a market setting where people are given choices.

The Allen Consulting Group (2005) study allowed implicit prices to be assigned to each of the changes associated with the attributes and found the average respondent is willing to pay \$105.90 each year for a package of changes which extrapolates out to \$1.6 billion per annum for the national population aged 18 years or older. The report concludes that on average, people are willing to pay for improved heritage protection outcomes in Australia, which would infer that generally people will pay more for property that has heritage legislation attached to it.

Shipley, R. (2000). *Heritage Designation and Property Values: Is there an Effect?*

Shipley (2000) carried out large study of 2,707 heritage designated properties in twenty-four communities throughout the province of Ontario in Canada for the period 1976 to 1997. The communities ranged from very urban to very rural and were geographically diverse from the far south-west in Windsor, to the north in Sault Sainte Marie. The number of properties used in the final analysis was 208 and the reasons for exclusion included:

- the property not being privately owned therefore can not be considered not affected by the market;
- the property had less than two property sales within the study period; and
- only properties that had sales evidence after heritage designation.

The study found that 59% of heritage designated properties performed better than average, compared to the average property value trend, and 14% of the heritage designated properties equalled the average property value trend. The average property value trend was determined by obtaining the total dollar value of sales divided by the total number of units sold from the local Real-Estate Boards. The Real-Estate Boards are associations in Canada that represent the brokers and professional agents.

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Shipley (2000) concluded 'a strong and clear conclusion can be drawn from the data gathered in this study. Historic designation of properties under the Ontario Heritage Act does not itself have any demonstrable effect on the value of those properties.' This conclusion is based on 73% of the designated heritage properties performing equally or better than the average property value trend.

Sharpe, C.A. (2006). *House Prices in a Heritage Area: The Case of St. John's, Newfoundland*

Sharpe (2006) carried out a difference-in-difference study of the house prices in St. John's, which is the capital of

Newfoundland and Labrador in Canada. Sharpe (2006) explained the difference-in-difference methodology as 'the difference-in-difference methodology compares changes in the mean annual price between two areas. The assumption is that if there is a heritage premium, prices inside the HA will rise more quickly than those outside.' Note that 'HA' is a reference to 45ha (111 acres) of land that was designated heritage in 1977.

Sharpe (2006) reviewed previous research as summarised in table 1 where previous researchers had used two methods to analyse the impact of heritage legislation on property value; the first method being hedonic regression methodology, and the second method being difference-in-difference methodology. The results of the study showed that sixteen of the twenty-one studies (76%) concluded that heritage controls either had a positive or neutral impact on the value of the property.

Sharpe's (2006) own difference-in-difference study investigated heritage premium, heritage shadow effect, and the possible effect of the removal of restrictions used for renovations in 1992. Sharpe (2006) defined the heritage shadow effect as '...where an area adjacent to a designated heritage area has houses of comparable architectural quality and general attractiveness. The effect would be that prices in the non-designated area are as high as those inside the heritage area although architectural quality and neighbourhood characteristics may have a more significant effect on the sales price than designation.' Sharpe's (2006) study concluded heritage designation did not result in a heritage premium, nor a heritage shadow effect, and that the relaxation of heritage controls in 1992 had little effect on the mean annual price.

Table 1. Summary of Previous Heritage Studies

	Author	Effect of Heritage Listing on Property Value	+	Neutral	-
1	Period (1994)	2 suburbs positive 2 suburbs neutral			
2	Urban Consulting Group (1994)	Inconclusive	0	0	0
3	Krastins (1997)	Positive			
4	Keck (1999)	Negative			
5	Heudorfer (1975)	Neutral			
6	Scriber (1976)	Positive			
7	Rackman (1977)	Positive			
8	New York L.C. (1977) 1	Neutral			
9	U.S. AHP (1979) 2	Positive			
10	Samuels (1981)	Mixed			
11	Schaeffer & Ahern (1988)	Mixed			
12	Ford (1989)	Positive			
13	Asabre et al. (1989)	Neutral			
14	Benson & Klein (1988)	Mixed			
15	Schaeffer & Millerick (1991)	Mixed			
16	Gales (1991)	Neutral			
17	Shiple (1991)	Positive			
18	Asabere & Huffman (1994a)	Positive			
19	Asabere and Huffman (1994b)	Negative			
20	Asabere et al. (1994)	Negative			
21	Clark and Herrin (1997)	Positive			
22	Shiple (2000)	Positive			
23	Asabere and Huffman (2001)	Positive			
24	Leichenko et al. (2001)	Positive			
25	Coulson and Leichenko (1991)	Positive			
26	Deodhar (2004)	Positive			
27	D'Arcy (1991)	Positive/Neutral/Negative			
28	Countrywide Valuers et al. (1992)	Positive			
29	Quigley (1987)	Neutral. Negative when development potential significantly reduced			
30	Krastins (1997)	Positive			
31	Investment Property Databank (2000)	Neutral effect on return over full 18-year study period therefore nil impact on (investment) value 1998 return – Positive effect on return therefore positive effect impact on value of investment 5-year annualised return 1994-1998: Positive effect on return therefore positive impact on (investment) value	 Incl		
32	Scanlon, Edge and Willmott (1994)	Negative			
33	Schaeffer and Millerink (1991)	Positive – effect from National Historic District designation but designation of 2 smaller areas in the study area as Chicago Historic Districts (more control) had a negative effect on value.			
	Total		23	8	10

Notes:

1. Where inconclusive no points shown; 2. Where the study found more than one result, a point is shown for positive, neutral and/or negative.

Coffin, C.A., (1989). *The Impact of Historic Districts on Residential Property Values*

Coffin (1989) carried out a study of Aurora and Elgin which are suburbs within the city of Chicago, Illinois. These two cities were chosen because Aurora has an ordinance governing land use within its historic district while Elgin does not. Aurora established a historic district in 1984 and Elgin established a historic district in 1985. Sales data was obtained from the Elgin Board of Realtors for the period 1985-1986 for 120 units, of which 47 were located within the historic district. Sales data was also obtained from the Aurora Board of Realtors for the period 1984-1987 for 243 units, of which 62 units were located within the historic district. The sample periods differed due to data availability. The study used a hedonic housing price equation and applied a data set which permitted identification of housing attributes to be analysed within the framework. This analysis process was used to identify if there was any impact on historic districts that either enforced, or did not enforce the local ordinances.

Coffin (1989) concluded that 'the creation of historic districts in Aurora and Elgin seems to have had a modest effect on the housing prices in these cities, in the order of 6-7%'. Interestingly the increase in average sales prices in Aurora is 7% and in Elgin it is 6%. Coffin (1989) hypothesised the difference may be due to Aurora enforcing their ordinances whereas Elgin does not, however Coffin notes this is not conclusive. Another conclusion drawn by Coffin (1989) is that 'the creation of a historic district does appear to provide people with information about housing stock they might otherwise not have had. This information also appears to have a

positive value to potential buyers.' Coffin believed the certainty of the heritage legislation assists people and actually increases demand in the historic districts.

Armitage & Irons, J. (2005) *Managing Cultural Heritage: Heritage Listing and Property Value*

Armitage & Irons (2005) reviewed seven previous domestic and international studies including Darcy (1991), Country Wide Valuers & Trevor Budge and Associates (1992), Quigley (1987), Krastins (1997), Investment Property Databank (2000), Scanlon Edge and Willmott (1994), and Shaeffer and Millerink (1991)(2005) paper as summarised in table 1.

Armitage & Irons (2005) identified the following key outcomes:

1. 'Marginal impact on residential property' in general however where whole districts have heritage controls the property value appeared to increase.
2. 'Future value of the asset is more certain than would perhaps otherwise be the case'.
3. 'Greater potential for negative impact on non-residential property'.
4. 'The nature of the heritage control is significant' which relates to the certainty of prescriptive heritage legislation rather than uncertainty with descriptive heritage legislation.
5. 'Constraints to development potential'.
6. 'Relative insignificance of impact of listing' apart from future development potential.

The study also concluded that due to a number of constraints, such as small sample size, age of studies, absence of statistical robustness, and degree of heritage controls, the validity of the research is somewhat limited.

Vogel, S. (2007). *An Impact study of Local Historic District Overlays on Property Values in Fayette County, KY*

Vogel's (2007) study of Fayette County in Kentucky was prepared as part of her Masters of Public Administration degree at the University of Kentucky. Data was sourced from the Property Valuation Administrator of Fayette County in 2003 and included 44,049 properties, of which 1,091 were designated historic at a local level. The analysis considered a range of variables including price, living area, number of bathrooms, number of half sized bathrooms, number of sales in data set, number of stories, area of basement, number of parcel acres, age of structure, number of wood burning fireplaces, and historic zoning. Vogel (2007) found 'Using a hedonic price analysis, this study revealed that for property values assessed in 2003 a historic district location added a 19% to 31% increase to the value of the residence.' The study also identified that older homes benefited the most from historic zoning.

Florin v Department of Natural Resources (1998), BCC-South Brisbane AV98-38.

Marianne Florin v. Chief Executive, Department of Natural resources (1998) AV98-38 (the Florin case) related to a residential property in Woolloongabba 3.3 kilometres south-east of the Brisbane Central Business District, where the appellant (Dr Florin) appealed against the annual valuation. In the Florin case, the appellant raised the following issues '... impact of noise and pollution, changes in the valuation, the comparison of sales and impact of heritage listing' as reasons why the valuation should be decreased.

The appellant's main argument, with regard to the impact of the heritage listing, is that heritage listing restricts

future development. In particular it does not permit full flexibility to develop the site as may be the case for another property that has no heritage listing, although it is located within the same suburb and has the same zoning under the town planning scheme. The respondent (Mr Lindberg) in the Florin case argued that 'there is a section of the market which is prepared to pay any additional costs in order to meet heritage requirements. In areas where heritage listed properties occur, often the higher prices paid reflect the "special nature" of the buildings.' However the appellant then argued 'that there is no similar heritage character envelope surrounding the suburb which would support any higher special value for land.'

Divett J. sought guidance from a previous finding of *GV & DE Roberts v. Chief Executive, Department of Natural Resources* (V96-791 12 August 1998) where the Land Appeal Court had found the heritage listing had not affected the unimproved value of the land. With

regard to the issue of the heritage listing, Divett J. concluded that no sales evidence had been produced that confirmed the heritage listing was a detriment or an enhancement of the property. Divett J. found that given s.33 of the Valuation of Land Act 1944 deems all valuations are correct unless proved otherwise, and the appellant had not proved the valuation was incorrect, the case was dismissed and the unimproved land value did not change.

Analysis

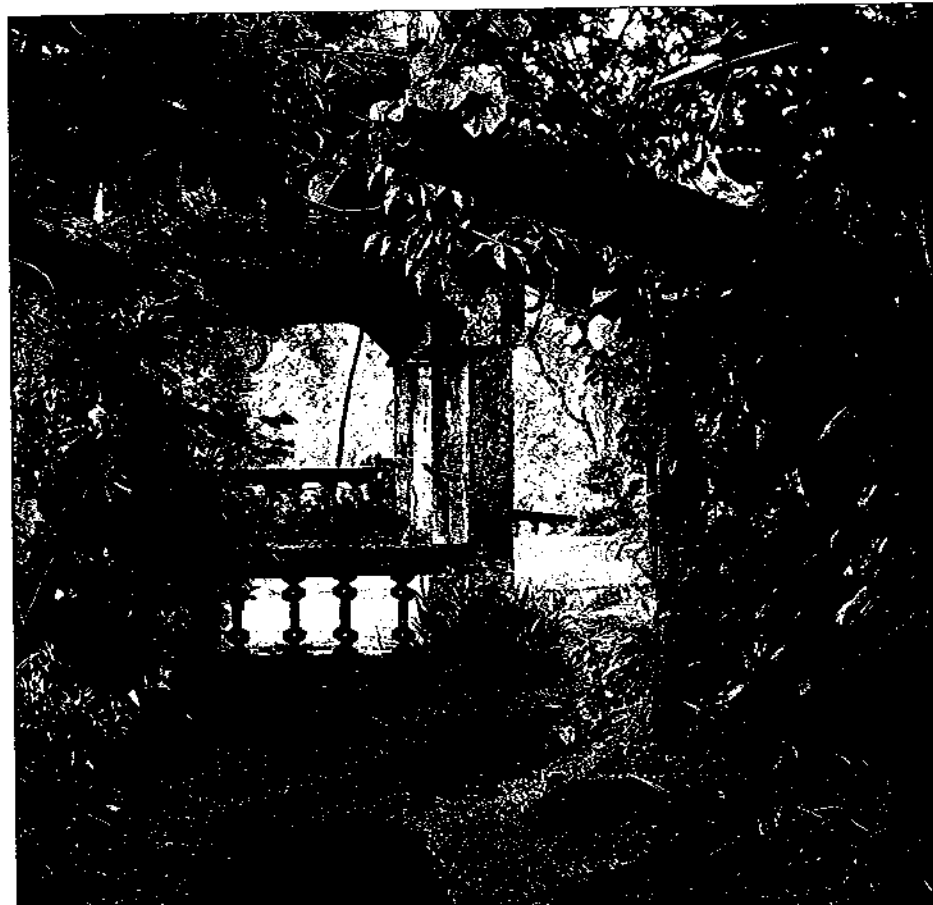
A summary of these previous studies undertaken by Deodhar (2004), The Allen Consulting Group (2005), Shipley (2000), Sharpe (2006), Coffin (1989), Armitage & Irons (2005), and Vogel (2007) are listed in table 1.

Based on the 33 studies in table 1 there are 31 (76%) positive or neutral findings out of 41. While this is an average, it would indicate that in general it is unlikely that heritage legislation will have

a negative impact on property value. It would appear more likely that the location of the property, road width, local amenities, total number of rooms and the condition of the structure is more likely to impact on the value of the property where the heritage controls are relatively unobtrusive. It is worth clarifying that 'the more restrictive the requirements, the greater the potential loss in property rights' (Sharpe 2006).

Another variable that many of the studies endeavoured to analyse was the impact of the timing of the heritage legislation. Heritage Victoria (2001) believed '... the impact of heritage listing can occur in two ways. These are the initial effects associated with the action of listing, and the subsequent change in values over time.' Both Sharpe (2006) and Coffin (1989) found little, if any, difference in property value where heritage controls had been removed or relaxed which would infer the timing of heritage legislation has little impact on the property value.

Property owners with heritage controls over their property argued that the increased costs associated with maintaining and conserving older properties supported their belief that heritage legislation does reduce property value. Whilst this may be true for individual buildings, all buildings require some form of ongoing maintenance so the extra cost to maintain a number of buildings in a heritage area is either offset or diminished by the extra value added to the community as a whole. By maintaining the overall heritage an area produces an additional desirable variable that people are willing to pay for. This was observed by Sharpe (2006) where 'the existence of a significant heritage premium reflects a belief on the part of the buyers and sellers that a designated heritage area



has special qualities that positively influence the value of residential properties.'

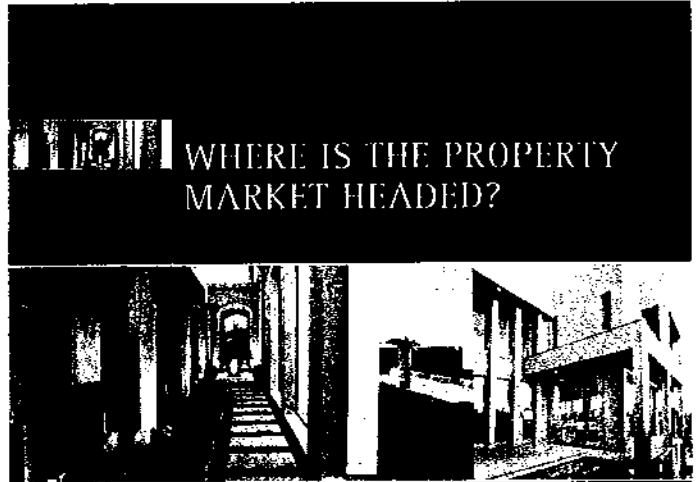
Conclusion

Based on over thirty previous studies it appears that generally heritage legislation does not have a negative impact on the property value, however given every property and area is different then each property needs to be assessed on its own merits. Crawford (1996) reminded valuers that 'it comes down to one thing: the use to which the property can be put. Whether it be "The Highest and Best Use" or a predetermined use, as may be required in an asset valuation, the valuation must reflect the appropriate use.' This literally means that if a property can not be developed to its full potential due to heritage controls, it is likely this will impact on the property value. It would appear, however, that with regards to residential properties this often has a nil effect as the potential to develop a standard city allotment by subdividing or creating medium density housing is usually limited due to the land size. Other constraints include off-street parking, overlooking, overshadowing and setbacks from boundaries.

It would seem the debate surrounding the effects of heritage value on property value will continue due to the difficulty in isolating the impact of heritage legislation. Many of the previous studies highlighted the difficulty in obtaining reliable and useful data as a major shortcoming in their studies. The dynamic nature of the property market makes it difficult to value heritage-affected properties and in particular finding two areas that can be compared with all variables equal except heritage controls.

While incentives such as tax off-sets for owners of properties with heritage controls were not reviewed in this paper, it would appear this is an important aspect that requires further research. Incentives could be the offset required to unleash the perceived stigma of heritage controls and it may even increase the value of heritage properties. Incentives could motivate people to conserve and maintain buildings which may then reduce the amount of time and cost councils expend on monitoring buildings with heritage controls. A further benefit of incentives, and a potentially more important result, is the uniqueness of the area and that streetscape character is maintained. ■

References - A full list of references is available from the author on request.



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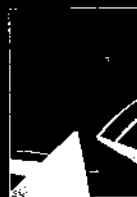
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