

HERITAGE LISTING & PROPERTY VALUATIONS IN VICTORIA

ABSTRACT

Heritage property values are determined by a multiple of factors which are general and specific. General factors include zoning, planning overlays, size of property, types of surrounding properties, general amenities, tenancy opportunities, alternative property use, returns, current socio-economic conditions and the quality of the buildings.

Specific factors include prestige associated with ownership, refurbishment costs, building efficiency, maintenance and operational costs and perception of risk.

In relation to demand for heritage properties, there are those in the market who are prepared to pay a premium for properties of heritage significance whilst there are some who will not participate due to heritage listing.

The available literature suggests that the impact of heritage listing on property value can occur in two ways. These are the initial effects associated with the action of listing and the subsequent change in values over time.

Research studies, both domestic and international, indicate that heritage listing on a macro level, is not a significant factor in determining property value either at the time of listing or following. However, there are individual cases where the effects are more significant, either positive or negative.

The initial effect is often dependent on the stage of the property market. When the market is in a strong upcycle the incentive for redevelopment increases the land value relative to the incumbent building value. In such a climate, the effect of heritage listing may have some impact. However, the impact will largely depend upon the capacity to redevelop the specific property without compromising its heritage significance.

It is often difficult to estimate the specific effects of heritage listing on the value of a property since heritage controls do not prohibit development, subdivision or demolition but require that approval be obtained. Where there is some capacity to develop the particular place and achieve additional development on the land without seriously compromising the heritage significance of the place, the impact on values may not be as great as where the capacity for further development is more limited.

Consideration for listing should be based on the merits of heritage significance alone. That is not to say that a mechanism to allow for consideration of economic and financial is not required. It is. The appropriate mechanism is through the permit approvals process. This is no different than for any other planning requirement in as much as any change in a planning control is likely to have an effect on the status of a property, its potential and its market appeal. This position has been expressed in a planning Panel's report into a heritage amendment to the Stonnington Planning Scheme. A similar process of divorcing economic matters from the assessment of heritage significance also occurs at the State level under the *Heritage Act 1995*.

INTRODUCTION

The protection of buildings, areas and other places of heritage significance has been an important Government objective in Victoria since the 1970s.

As at February 2001, there are 1,900 properties that have been included on the Victorian Heritage Register and which are subject to the requirements of the *Heritage Act 1995*. At the local government level there are at least 80,000 properties that are covered by a Heritage Overlay under municipal Planning Schemes.

With over 25 years of statutory protection for heritage places in Victoria, economic matters and the impact of heritage controls on property values are still raised as issues when heritage protection is contemplated either under the *Heritage Act 1995* or through a Planning Scheme.

This paper addresses the question of the impacts of heritage controls on property values by summarising some of the available research.

The paper also identifies the appropriate time and method to consider economic effects. This is at the approvals process time under both the *Planning and Environment Act* or the *Heritage Act*, not at the time of listing.

The following is a summary of some studies undertaken both in Australia and internationally.

J. Alan D'Arcy – Victorian Valuer-General – “The Preservation of Historic Buildings and Sites and the Cost Implications” – paper c1991

Alan D'Arcy studied the impact of Historic Buildings Council (HBC) registration on property values. D'Arcy considered the impact of HBC listing for all places included on the State Register as at 1986. His findings were also broken down into the impacts for metropolitan and non-metropolitan properties and residential and non-residential properties. Some of his findings were:

- The impact of HBC listing on the 97 dwellings in the metropolitan area included on the then Historic Buildings Register in 1986, was as follows:
 - Total value in 1986: \$41,689,100
 - Total value in 1989: \$75,734,960
 - The increase between 1986 and 1989 for these HBC registered dwellings was 81%
 - The increase for all residential properties over the same period was 61.6%
- For dwellings in non-metropolitan Victoria the results were as follows (48 dwellings on the Register):
 - Total value in 1986: \$4,974,500
 - Total value in 1989: \$7,111,000
 - The increase between 1986 and 1989 for these HBC registered dwellings was 42.9%
 - The increase for all residential properties in the non-metropolitan area over the same period was 42.3%

The study also looked at other building types (commercial, industrial, farms, churches, public buildings etc) which were included on the then Historic Buildings Register. Here the results identified some negative impacts of heritage listing. The total value of the 202 other HBC listed buildings (non-residential) increased between 1986 and 1989 by 34% against a metropolitan average about 69% for all properties. For country Victoria the 198 non-residential properties increased by 37.9% against an average of 58.6% for all properties.

D'Arcy concluded that:

... single dwellings in the metropolitan area are not generally disadvantaged by registration. The figures show that the increase in value is greater than dwelling value movements.

It is evident that residential properties which are still having a primary use for residential purposes do not generally have any diminution in value. In fact the evidence appears that in many cases it could be argued that there is a benefit.

Countrywide Valuers in association with Trevor Budge and Associates – “Heritage and Property Valuations in the Shire of Maldon – A study of the effects of planning and heritage controls on property valuations” 1992

Amongst other tasks, the brief for this study involved examining changes in property valuations in Maldon from January 1970 to December 1990 and to ascertain whether the introduction of heritage controls had resulted in any impact. This study took into account every notice of property disposition or acquisition in the town of Maldon between 1970 (prior to the planning controls) and 1990 and involved interviews with all the local estate agents handling property sales in the area.

The authors' conclusions were that :

“the strict heritage controls have had no adverse effect on property values in Maldon. On the contrary, these controls have protected the town and attracted both visitors and property buyers to the area, which has economic and social advantages to the town and the Shire”.

Specifically, the authors found that:

- “Notable” dwellings (residential properties subject to heritage controls in the planning scheme) increased in value over the period 1970 to 1990 by 1,844% compared to 1,432% for other dwellings in the town (ie buildings not subject to heritage controls).
- There is a substantial preference by purchasers to buy historic homes in Maldon. The “notable dwellings” were in greater demand; there were more inquiries to local Real Estate Agents and they were on the market for a shorter period of time than other dwellings in the town.
- Overlaying the dates of the introduction of heritage controls on the graphs of dwelling sales failed to show any discernible movement in values immediately following the introduction of those controls.

James Quigley “Incentives for Heritage Listing and the Effects of Heritage Listing on the Value of Residential Properties” – Research paper South Australian Institute of Technology, Adelaide 1987

James Quigley undertook a survey of owners of heritage properties that were affected by heritage controls. The survey examined people’s perceptions of heritage controls and their impacts on decision making. The conclusions were that:

- 60% of survey respondents that had purchased properties that were affected by heritage controls indicated that the heritage listing had not influenced the amount that they were prepared to pay.
- 80% of survey respondents who had purchased their property before the heritage controls had come into operation thought that the heritage controls had affected the value of the property. These respondents were evenly divided between those that perceived that the heritage controls had a negative effect and those that thought the effect had been positive.

“Economic Effects of Heritage Listing” – Urban Consulting Group 1995

This study examined the broader economic effects of heritage listing. In relation to property values and heritage controls, the study examined previous empirical work undertaken both locally and overseas. A finding from this study was that the effect of heritage listing on property values is related to the specifics of each particular property. To quote the study:

The limited quantitative research which has been undertaken (mainly in the US and UK) relates to the impact of heritage designation on property values within particular sub-markets, for example, specific residential precincts, or certain types of commercial property. These studies are generally inconclusive but suggest that heritage designation per se has little impact on the value of residential property.

The most recent research concludes that other factors such as location, general amenity ... are possibly greater influences on value than heritage designation.

A survey of real estate agents active in historical residential areas in Australian cities, undertaken as part of this study, supported the view that heritage listing generally has little impact on residential property values. Moreover, the heritage qualities of historic residential property are generally emphasised as a positive attribute in marketing campaigns by developers and agents. Analysis of case studies demonstrated that the heritage characteristics of buildings such as ambience and attractive appearance are also a positive feature in the marketing of commercial properties ...

Kevin Krastins, Thesis Deakin University “The implications of heritage listing on property valuations: A case study of residential development in Geelong” 1997

Kevin Krastins examined the sale records and council valuations for 100 residential properties in Geelong over a twelve year period from the mid 1980s when heritage controls had first been introduced. Of these 100 residential properties, 50 were subject to heritage controls in the planning scheme while the other 50 were roughly equivalent properties that were not affected by a heritage control. Krastins concluded:

Other factors that influence property values such as street width, location, off-street parking have the most significant impact on property valuation.

His results noted that there was an increase in the value of the buildings with heritage controls of 19.5% compared to 6.9% for those properties that were not subject to heritage controls.

Scott Keck, Herron Todd White – “Heritage Controls and Property Values – A Review at Local Government Level” – April 1999

A 1999 study and report identifying the effects of heritage controls and property values was completed by Scott Keck of Herron Todd White (Property Valuers). The report examined the potential impacts of proposed heritage controls on selected properties in the City of Stonnington and City of Monash where the owners were objecting to heritage listing in the local planning schemes.

Findings of this report included:

- Of the 48 properties proposed for inclusion in the Stonnington Heritage Overlay which were the subject of the study, the adverse effect on property value, as a group, was estimated at 15% on average, with a total value for the group reducing from \$66M to \$56.15M.
- In general terms, the greatest incidence of adverse valuation impact would be for those with highest and best use and therefore value related to land alone. Twenty-six out of forty-eight properties fell into this category. The estimated decrease in value, based upon the assumption that the existing buildings could not be removed, was calculated at approximately 20% on average, with an individual decrease ranging from 10% to 60% in one extreme.
- Keck concluded that twenty-two of the forty-eight properties did not have an alternative highest and best use. In these cases the added value of land and improvements was in balance and there was no obvious potential for major improvement. He concluded that these properties would suffer little, if any impact on value, but may suffer reduced capital appreciation over time compared to similar properties not subject to heritage controls. The impact of heritage listing could reduce their value by up to 10% when contrasted to their pre heritage value.

Dennis E Gale – “The Impacts of Historic District Designation :planning and policy implications”, American Planning Association Journal 1991

Gale examined previous research into the effect of designating residential neighbourhoods as historic districts in the United States. The observation was made that in many historic districts, property values were higher or rose more rapidly than in other sections of the community or in the community overall. However, Gale found that studies in Boston, New York and Washington DC concur in their findings that no association can be identified between the act of historic district designation and rising property values per se. These studies employed pre and post designation comparisons and/or comparisons between historic and non historic districts.

Gale found that, leaving aside the timing of designation issue “there is little support here for the belief that designation per se, significantly affects the economic value of real estate”.

SO WHAT CONCLUSIONS CAN BE DRAWN FROM THIS MATERIAL?

The conclusions that appear to be supported by much of the research, are:

1. There are a myriad of factors which affect property values of which heritage controls are but one influence. It is often very hard to separate the influence of heritage controls from other factors. Those factors include:
 - macro-economic factors – such as interest rates; the availability of credit; taxation policies (eg the GST); and the broader economic factors that influence the property market and whether that market is rising rapidly or comparatively flat.
 - micro economic and location factors – such as the location of the property; its access to facilities such as transport and schools; topographical and other physical characteristics of the locality etc; land-use zoning; subdivision, building and other planning requirements; council policies, codes and guidelines.
 - socio-economic and lifestyle factors – such as the push for urban consolidation; the trend towards smaller families; current housing preferences such as the demand for inner city apartments, warehouse accommodation, properties with smaller gardens etc.
2. Heritage buildings are often ‘quality’ buildings with a special appeal. Because historic buildings are rare and there is a demand in the community for them, it can be expected that a proportion of the community will be prepared to pay a premium to purchase such property.
3. Generally speaking heritage controls do not significantly affect property values for residential buildings particularly buildings in precincts. In most instances, residential heritage properties will continue to appreciate in value after the introduction of heritage controls, although the rate of appreciation will vary dependent on both property specific and macro variables.
4. If there is a diminution in value this may be:
 - A temporary diminution related to uncertainty at the time of the introduction of the heritage controls but not sustained over the longer term.
 - A diminution which might occur across the market and be related to various economic or other factors but have little to do with heritage (ie the general state of the property market or the economy generally, interest rates etc).
 - A diminution because the current value of the property relates to its land value alone (ie the buildings and improvements do not add to the value of the property). In this case, the level of impact will probably depend upon the capacity to achieve some additional development of the specific property without compromising its heritage significance.

- A diminution experienced by a person who has purchased the property prior to the introduction of the heritage controls with the intent of alternative development and finds that their expectations cannot be realised.
5. It is often difficult to talk with certainty about the impact of heritage controls on property values since such controls in Victoria do not prohibit development or demolition.
 6. The impact of heritage controls on the value of commercial, industrial and other non-residential properties or properties may be greater than for residential property. This point was raised by D'Arcy in his 1991 work. However, in the last decade there has also been a substantial demand for inner city living and considerable activity in the recycling of industrial and commercial buildings for residential, office and mixed uses suggesting that different results might be obtained in 2001.

Research into the effects of heritage listing on property values suggests that on the whole, the effect is marginal for residential properties. However, there are individual cases where listing can have a negative impact upon property values. This raises the issue as to what consideration should be given to the impact on property values when considering places for heritage listing.

WHAT CONSIDERATION SHOULD BE GIVEN TO ECONOMIC ISSUES AND PROPERTY VALUES WHEN CONSIDERING HERITAGE LISTING?

It is worth considering the contents of a March 2000 Panel report on proposed heritage controls in the City of Stonnington. The Panel made some pertinent observations in relation to the weight that should be given to economic and other factors when considering whether to introduce heritage controls. To quote:

A number of submissions to the Panel argued that, firstly, inclusion of particular properties in the amendment would cause a substantial devaluation of the property and, secondly, that this was a matter that we should take account in deciding on a recommendation on that building's inclusion in the amendment.

For example, ... [it was] ... put to us, in summary, that in reaching a decision on whether or not to recommend inclusion of a property in the amendment, we are obliged to consider both its heritage importance and the economic consequences of such inclusion.

We also received a number of submissions that argued that it would be inappropriate to conserve particular buildings because of the high maintenance costs (some buildings were claimed to be in a very poor state of repair) or their general unsuitability for modern styles of living. These submitters also argued that inclusion of such buildings in this amendment would cause hardship to the building's owners.

We have paraphrased the issues underlying this argument as follows:

- *The Planning & Environment Act 1987 sets out a number of objectives for planning in Victoria and creates a planning framework to achieve these objectives.*
- *The objectives for planning include one relating to providing “for the fair, orderly, economic and sustainable use and development of land”, another “to conserve and enhance those buildings, areas or other places which are of scientific, aesthetic, architectural or historical interest or otherwise of cultural value”, a third “to balance the present and future interests of all Victorians”.*
- *Council’s must seek to further the objectives of planning in Victoria (Planning & Environment Act 1987, section 6(1)(a), including the three outlined above).*

The principle mechanism of planning framework for implementing the Act’s objectives for planning is the municipal planning schemes The planning scheme framework includes the Victorian Planning Provision (VPPs), which set out various types of landuse zones and overlay controls, including the Heritage Overlay.

It seems to us that, in considering this issue, the relevant question is this: if a building can be shown to have heritage significance, should a decision to designate it in a Heritage Overlay take account of other, non-heritage objectives of the Act, or have these matters been accounted for in the structure of planning scheme framework itself and to now be open to resolution by other means.

Clearly, there will have to be a balance at some point between the interests of heritage conservation and the interests of individual property owners. In the latter case, we were informed (and accept) that the introduction of a heritage control would cause a substantial reduction in the values of some properties. This is a common and, in principle, accepted consequence of changes in planning controls (eg. even a change in a council’s non-statutory residential code can have quite substantial effects on some property values, depending on the specific characteristics of the property).

In some cases, an officious application of the heritage controls would prevent houses being adapted to modern living conditions [the Panel here cited one example]. We accept that, in some cases, heritage dwellings are simply not able or well suited to meet present requirements, that it would be unreasonable to treat dwellings as museum pieces and that some adaptation will be required and reasonable.

In other cases, some buildings that we have recommended for inclusion in the amendment have deteriorated to such a state that their effective maintenance may place an unreasonable burden on their owners [the Panel here cited two examples]. In such cases, the feasibility of retaining the building in the medium term may be in doubt.

In all the above cases, these are issues that we consider should be more appropriately considered in another forum.

Conclusion

In reaching a recommendation in relation to the buildings in this amendment, we have chosen not to take into account any issues of property owners' hardship. We accept that hardship, as it may financially affect the owners of properties of heritage significance (particularly the owners at the time of this amendment's gazettal), may be a relevant consideration in a future decision as to whether to allow alterations to, or demolition of, a heritage building. However, that decision is one to be made at the relevant point in time.

We also consider that transparency of the planning process should be maintained. This transparency will be assisted by separating the process of designating heritage significance from the process of making decisions about building conservation, whether this be related to its replacement, unreasonably expensive maintenance or unsuitability for modern living.

From Stonnington Planning Scheme Amendment L47(D) – Panel Report – Part 1 (pages 42-44)

Most planning decisions and most forms of planning activity will potentially have some effect on the value of property, either positive or negative. The conservation of buildings, areas and other places of heritage value is but one aspect of good planning. The conservation of our heritage is best served through ensuring that listing is considered on heritage worthiness. The consideration of economic impacts of heritage and the interests of property owners is important and needs to be given due consideration and this is best achieved as part of the development or permit approvals process.

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