

# **The Value of Heritage Waterfront Development**

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## **SUMMARY**

This paper looks at issues associated with valuing property on historic waterfronts. A review is provided of the complex pressures on waterfront property values created by historic curiosity, conservation, restoration and preservation. The waterfront around Portsmouth Harbour is used as case study and through this a review of the impact of development on the City of Portsmouth is conducted.

The paper illustrates why the surveyor will have to use a number of different valuation techniques when looking at waterfront development. The tension created by using techniques that have been designed for short property lifecycles for historic property that have long life cycles will be assessed in the context of World Heritage designation

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## 1 INTRODUCTION

What is heritage? This question is almost unanswerable as some people may regard one person's heritage as worthless whilst the owner of the heritage might regard it as priceless. The valuation of heritage property can be extremely complex when set amongst cultural values, which may change over time. For example in England Victorian objects commanded low values against an emerging modernist culture in the 1960's and fixtures, fittings and buildings were destroyed. This 'modern' architecture of the 1960's now itself has been subject to changing values and ironically Victorian property is now highly regarded by many people. Industrial and military heritage such as: ships, piers; cranes; docks and other historic remnants from the past may become national icons such as the historic ships HMS Warrior and HMS Victory. Complex issues of valuation can occur when one of these iconic objects is damaged - such as the tea clipper Cutty Sark which has recently been severely damaged by fire in London. A key question now is should the vessel be restored, as it is seen by many 'as a key relic' from British maritime history, or should society move on? It would appear that the money will be found for restoration but this decision appears to be based on emotion rather than any clear valuation technique for heritage property.

## 2 BACKGROUND

The subject area of heritage valuation has received quite a lot of attention in recent years and was the subject of a European symposium looking at the value of heritage, Congress of Local and Regional Authorities (2006). In England proposed legislation to protect assets is in an advanced state with the production of the Heritage Protection Bill, Department for Culture Media and Sport (2008). There are also proposals to review selection for listed buildings, Department for Communities and Local Government (2007). The Department of Media Culture and Sport (2008) makes it clear in its Equality Impact Assessment that the benefits and reforms introduced by the new legislation may not be able to be evaluated in monetary terms and that we should be thinking in terms of public value. It is clear that much good practice regarding heritage management already exists in England and this is reviewed in a toolkit of good practice by Drivers Jonas (2006). The English system of promoting heritage is a little unusual in that it is dominated by two institutions English Heritage which is run by the government and the National Trust which is owned by its members (but is given substantial Tax avoidance mechanisms by government). English Heritage has been particularly active in recent years in evaluating the impact of heritage property, their publication Heritage Counts (2007) gives a good overview of their thinking other examples have been included in the references.

Apart from the practitioners and government institutions a literature review reveals three groups of people writing on this subject area: planners, economists and social scientists. From a planning point of view developing heritage sites provides many opportunities but also many

constraints as can be seen in the work of Baker (2006), Carnell (2007) and Mynors (2006). The cultural fabric of cities can change quite rapidly and an understanding of cultural issues can be used to tie peoples values together as well as stimulate tourism. This can be seen in Portsmouth with the large number of museums trusts, ships and historic buildings. The valuation issues of heritage are complex and a number of people have been writing on this subject such as Parsons (2007). There is a difficulty in that methodologies that have been developed in the western world may be difficult to apply to developing nations particularly in the southern hemisphere where some sites of potential worlds heritage status may never be able to be protected due to scarce resources. There are a much broader group of academics looking at heritage and values which might be described under the broad heading of social scientists - they are looking at the impact of culture, how it might support regeneration and how it might influence the future. The Oxford Castle project and its conversion of a former prison into a thriving inner city development within the constraints of development within a major historic city is an example of lateral thinking, Rodwell (2007) provides a good guide to these issues looking at conservation and sustainability in historic cities.

The RICS are aware of the importance of heritage valuations. A team consisting of the RICS, HM Treasury and Kingston University are currently working on a consultation project looking at the valuation of heritage their recent consultation document is perhaps the start of major developments in this area, Kingston University (2007). These complex valuations have a bearing on the other professions perhaps most notably accountancy and accounting procedure. (Some further background reading is provided in the references).

### **3 HERITAGE PROPERTY MARKETS**

The property market has a number of market mechanisms for assigning value to heritage property, although the property markets are regarded by economists as highly inefficient, Harvey, J & Jowsey, E. (2004). This inefficiency is caused by the complexity of ownership rights, legal interests such as freeholds and leaseholds and the difficulty in conveying market information, which is further distorted by competing influences of occupiers and investors. For this reason there is frequent government intervention in the management of heritage property either through government agencies, development control or tax driven management strategies. The markets for heritage property are highly complex and the intervention of third parties for cultural reasons can create severe distortions of the functions of the real property market. Expectation of future yields can be distorted by: taxation, income and tastes and institutional factors. The restriction of supply might at first sight bid the price of heritage property up but responsibilities to maintenance of the property can in some circumstances create a negative equity situation particularly if this is underpinned by a statutory obligation. For example Stonehenge a World Heritage site, with limited opportunities to develop income flows, might be regarded as 'priceless' in every day speak but as a property investment would potentially have a 'negative' value due to high levels of management cost. Some of the basic concepts of pricing of land and resources and the relationship between price and supply have to be disregarded when appraising the value of heritage property.

The basic concepts of yield analysis can still be applied to heritage property, the relationship between purchase price and rental values, the condition of the property, management costs and government policy still have an influence on value, however, changing society values and tastes are much harder to evaluate. The soaring demand for the conversion of industrial warehousing into flats, situated in docklands that had fallen into decline, is perhaps a good example of rapidly changing tastes.

#### **4 PORTSMOUTH**

These changing tastes can be managed as can be seen in recent developments in Portsmouth. As part of a major regeneration plan for Portsmouth Harbour a group of Stakeholders: Portsmouth City Council; Gosport Borough Council; Trusts; Portsmouth and South East Hampshire Partnership; Millennium Commission and the Heritage Lottery Funding, put together an integrated property development plan for Portsmouth Harbour. This bid was match funded by private investment and was supported by many investors that did not appear in the bid documentation in a formal sense: such as: private persons; insurance and pension companies and general property investment companies.

Profit is broadly the reward for risk and the regeneration plan saw a large number of people either buying property for private use or investment. Investment decisions were possibly being based on case studies rather valuation techniques. The developers were using designs that had been tried out in other parts of the world (Cape Town) and the customers were looking at successes in other parts of the UK. There was a risk as was seen in the residential property crash of the early 1990's of rising interest rates causing a residential property crisis and credit shortfall but at the time of development this seemed unlikely.

The cultural heritage of Portsmouth is predominantly based on maritime heritage and innovation. The area is rich in history with evidence of ancient hill forts before conquest by the Romans who set up a major castle at Portchester. In medieval times the port was significant in the Crusading period and in many disputes with France. At one period through the Norman conquest France and England were one country. Following a break up there then followed hundreds of years of tension between France and Spain, which resulted in the development of a significant dockyard in medieval times. The most well known being the fortifications by Henry VIII at Southsea Castle. The expansion of British maritime power and the creation of European Empires led to the development of an 18<sup>th</sup> Century Dockyard and the eventual battles with Napoleons Forces. Through the Victorian era that followed major 19<sup>th</sup> Century fortifications were put in place in a 'cold war' with France around 1860. There was more growth in the 20th century but following the Second World War Portsmouth saw a 1950's decline in the dockyard due to the contraction of the British Empire. By the 1980s there was much redundant defence property partly accelerated by the end of the Cold War between the West and the USSR.

The redundant property led to the need for regeneration and in April 1995 the Renaissance of Portsmouth Harbour application was made in order to apply for a Lottery Fund bid to the Millennium Commission. This bid was to be one of twelve projects to mark the millennium. It had five elements: waterfront promenades, a harbour tower, expansion and improvement of the

Historic Dockyard, development of the Heritage Area in Gosport and a waterbus network across the harbour.

The aims of project were to: create world-class waterfront; improve access and regenerate buildings; attract more annual visitors and create employment. This disposal of defence sites must not be seen to be a Portsmouth opportunity but a European wide opportunity created by the end of the cold war. As many heritage sites were being developed during this period Portsmouth decided that it needed a unique selling point in the form of a tower. This tower was hugely problematic. Initial contractual problems with the developers led to the City Council having to develop it themselves using appropriate contractors. Further construction issues arose and the final cost of the Tower is thought to be £35million. On opening the scenic lift was inoperable and the financial future of this structure looked bleak. However, visitor numbers have exceeded all expectations and both the tower and the Gun Wharf development have in the view of many been proved a great success. It came at a price as much of the heritage infrastructure of the site was destroyed

## 5 VALUATION

To appraise potential values in the case of integrated heritage and new development, the valuer has a number of techniques that can be employed. In the private sector evaluation techniques such as: comparative costs, cut off periods, yields, payback periods, rates of return and discounted cash flow might be used (Scarrett, D. and Smith, M. 2007). Public sector evaluation might include: political decision-making; cost benefit analysis, multiplier analysis and environmental impact analysis. Underpinning the use of these techniques will be a desire to evaluate, business risk and financial risk. The difficulty in appraising mixed development sites is that the protected heritage property will have a longer life cycle than the modern development, which may set a tension in future years. The heritage property adds value but who should pay for the maintenance: the occupier, or the people in surrounding property or the state?

The use of multiplier analysis at first sight might provide a vehicle for apportioning gain and in turn perhaps a vehicle for apportioning maintenance cost. However multiplier analysis (of which there are many sub types) is a very costly technique to employ and the reality is that often multipliers are borrowed from other studies and their use might be regarded as subjective.

The valuation issues surrounding heritage property are immensely complicated the five basic methods of: comparison, investment appraisal, residual evaluation, profit evaluation and contract costing all present complex valuation difficulties when being used against heritage property that may have sustainability of design issues and endless property lifecycles all within imperfect property markets

The issue is coming to a head in Portsmouth with the emergence a powerful lobby group that would like to apply for World Heritage Status for Portsmouth and the surrounding area. There are obvious benefits for tourism and property values. Portsmouth is rich in heritage with many examples of listed heritage property constructed over a very long period of time. The first

difficulty is defining the world heritage zone there will be winners and losers in terms of value wherever the zone is determined. The second and perhaps most important issue is that once the zones have been drawn what will be the long term implications for the owners of heritage property in terms of maintenance and can a sympathetic re-use be found for them? The most popular form of re-use is residential but how much residential development can the market or the economy bear? The third issue is one of opportunity cost. Portsmouth has historically been a city of innovation. Isambard Kingdom Brunel was born in Portsmouth when his father was an engineer in the dockyard. Portsmouth has moved with technological change over the years stimulating its economy. Would the creation of a World Heritage Site stifle innovation to the detriment of the economy. Economic multiplier analysis does not seem sophisticated to evaluate this question nor modern valuation techniques.

## **6 CONCLUSION**

The development of heritage property raises many valuation issues in Portsmouth particularly on its waterfront. The creation of a World Heritage site potentially raises many more. Current valuation techniques tend to be site specific and to be based around short property life cycles. The development of integrated heritage plans will mean that surveyors and planners will have to develop new techniques to consider values that are changed by being in close proximity to heritage property. They will also need to consider who should pay for the long-term maintenance of the heritage property. FIG could play a major part in the development of these techniques particularly as awareness of the importance of heritage becomes more global. To evaluate the implications of this globalisation it is important that surveyors understand the complexity of heritage valuations. Sometimes the significance of heritage property can evolve very quickly. The Tower in Portsmouth, constructed only in the last ten years, is as now as much a part of the waterfront heritage in Portsmouth as HMS Victory. More research is required in this area.

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## **BIOGRAPHICAL NOTES**

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