RICS Information paper

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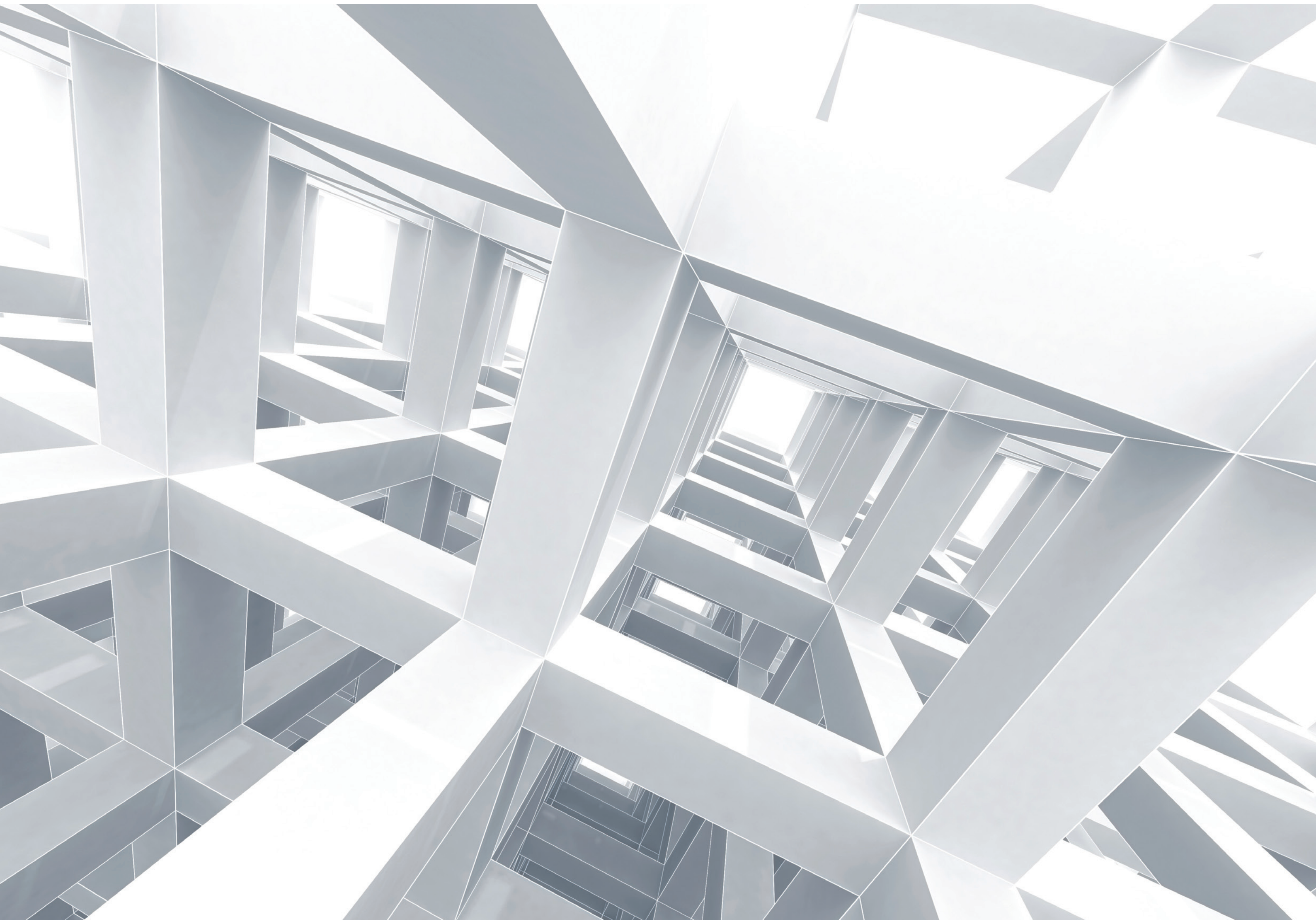
Valuation of historic buildings

1st edition



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Contents

RICS information papers

International standards

RICS is at the forefront of developing international standards, working in coalitions with organisations around the globe, acting in the public interest to raise standards and increase transparency within markets. International Property Measurement Standards (IPMS – ipmsc.org), International Construction Measurement Standards (ICMS), International Ethics Standards (IES) and others will be published and will be mandatory for RICS members. This information paper links directly to and underpins these standards and RICS members are advised to make themselves aware of the international standards (see www.rics.org) and the overarching principles with which this information paper complies. Members of RICS are uniquely placed in the market by being trained, qualified and regulated by working to international standards and complying with this professional information.

RICS information papers

This is an information paper. Information papers are intended to provide information and explanation to RICS members on specific topics of relevance to the profession.

The function of this paper is not to recommend or advise on professional procedure to be followed by members. It is, however, relevant to professional competence to the extent that members should be up to date and have knowledge of information papers within a reasonable time of their coming into effect.

Members should note that when an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of any relevant information papers published by RICS in deciding whether or not the member has acted with reasonable competence.

This information paper is believed to reflect case law and legislation applicable at its date of publication. It is the member's responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document.

Document status defined

RICS produce a range of professional guidance and standards products. These have been defined in the table below. This document is an information paper.

Type of document	Definition	Status
Standard		
International standard	An international high level principle based standard developed in collaboration with other relevant bodies	Mandatory
Practice statement		
RICS practice statement	Document that provides members with mandatory requirements under Rule 4 of the Rules of Conduct for members	Mandatory
Guidance		
RICS code of practice	Document approved by RICS, and endorsed by another professional body/ stakeholder that provides users with recommendations for accepted good practice as followed by conscientious practitioners	Mandatory or recommended good practice (will be confirmed in the document itself)
RICS guidance note (GN)	Document that provides users with recommendations for accepted good practice as followed by competent and conscientious practitioners	Recommended good practice
RICS Information paper (IP)	Practice based information that provides users with the latest information and/or research	Information and/or explanatory commentary

1 Purpose and scope

The real estate valuation process requires the careful examination of data and the application of sound judgment that follows good practice. Accurate analysis of evidence and an understanding of the many factors influencing value are essential in order to arrive at a well-informed opinion. In this respect, the valuation process for historic properties is no different from any other category of property.

It is recognised, however, that historic properties may present more challenges for the valuer, because of their particular characteristics and lack of uniformity compared with more modern buildings. Valuers need to not only recognise the factors and issues specific to historic property, but also understand how these are then manifested in the valuation.

This information paper examines the principles of valuation as they apply to historic properties and, in particular, provides an overview of the issues facing valuers appraising such assets. The key aims are to:

- Outline the key factors to be considered when undertaking the valuation of historic properties and assets, and their potential effect on value.
- Consider the relationship between the principal methodologies and the valuation of historic properties.
- Identify and signpost sources of information and guidance relevant for the valuation of historic properties or assets.

It should be highlighted that in this context the term 'historic property' embraces all types of real estate, including land, structures and buildings, and is not restricted only to those properties afforded statutory designation. In light of the diverse nature of assets within the historic built environment, this publication seeks to address those principles common to the majority of valuation scenarios.

It is also important to note that the purpose of this information paper is not to cover valuation methodology in depth, but rather to provide a broad outline of the constraints and issues that may arise when applying one or more approaches to the valuation of historic property.

The information given here is not prescriptive and valuers should therefore draw on the content for the purpose of guiding their general approach. Due allowance should be paid to the wide variety of market conditions and circumstances affecting the particular property being valued, as well as the purpose for which the valuation is undertaken. Reference should therefore be made to the *RICS Valuation – Professional Standards January 2014* (the 'Red Book') for the appropriate standards and frameworks that ensure a valuation is compliant.

2 Introduction to the valuation of historic property

The valuation of historic property ranges from relatively straightforward to complex scenarios, but the common principle that first needs to be understood is that any real estate asset will be subject to market forces and value may therefore be measured within the marketplace when traded.

The historic assets that most valuers will encounter are still in existence primarily because they are, or were, capable of a beneficial use and have been adapted over time by their owners and occupiers in order to meet changing market forces and demands.

A valuation may be required for a number of reasons, including:

- sale or purchase
- mortgages and loans
- letting and investment
- grants
- compulsory purchase
- taxation
- valuation for financial statements.

Whatever the underlying purpose, any valuation will reflect the principal market influences common throughout the property sector: location, the demand and supply cycle, economic and political forces, social influences, the physical environment, etc. What separates historic property from the wider market are the additional factors, the impact of which should also be measured by the valuer. These include the effect of the historic nature and architectural interest on value, together with the particular constraints imposed by the statutory framework and less tangible elements, such as the indirect cultural and social benefits arising from the property.

The starting point for the valuation of any property, be it historic or otherwise, is compliance with the *RICS Valuation – Professional Standards January 2014* (the 'Red Book'). Therefore, when accepting an instruction to provide a valuation of historic assets, valuers should first satisfy themselves that in accordance with PS 2.3 Member qualification, they possess the market knowledge, skills and understanding necessary to undertake the valuation competently.

Valuers are also reminded that in the UK, RICS members must comply with the requirements of RICS valuer registration when undertaking Red Book valuations.

Where the valuation is to be provided to a lender in respect of a residential mortgage, paragraph 2.7 of UK appendix 10, RICS residential mortgage valuation specification, reinforces this requirement where the property is of architectural or historic interest, or is located in a conservation area.

Valuers should also be aware that in certain other specific circumstances, the Red Book provides supplementary guidance on the valuation of historic property. These include:

- UKGN 2, Depreciated replacement cost method of valuation for financial reporting. Paragraphs 8.7 – 8.9 provide guidance on the approaches to be taken when costing historic property.
- UKGN 1, Land and buildings apportionments for lease classification under IFRS. Reference should be made to section 12 where a lease relates to certain listed buildings.

International Valuation Asset Standards, IVS 230 Real Property Interests (2013) also provides specific advice in a supplementary annex, relating to historic property that has been publicly recognised or officially designated by a government body as having cultural or historic importance. While the guidance embedded within the annex relates specifically to valuation of those buildings and assets enjoying statutory protection, many of the principles are equally relevant to all historic property.

It is stressed that in any circumstance where the valuer does not have appropriate knowledge and skills, the instruction should be declined (PS 2.3, Member qualification).

3 Factors and issues affecting the valuation of historic property

Valuing historic properties or sites is, inherently, no different to valuing any other property. At the heart of the process is revisiting first principles, adopting one or more of the valuation methods and adapting that selected, where required, to allow for the issues that affect the individual property.

Value itself is underpinned by the economics of supply and demand, with the market generally attaching greater weight and, consequently, worth to properties demonstrating certain physical characteristics (e.g. location, condition, size). There are, however, a number of additional factors a valuer may have to take into account when assessing the value of historic properties. In some cases, weighting the impact in monetary terms may be straightforward, but for other intangible factors the effect will be more difficult to quantify, particularly where it is reliant on subjective interpretation.

3.1 Philosophical considerations

Historic assets are not solely recognised as having a value to society simply because they have been formally identified as retaining some architectural or historic interest. Many historic buildings were built with some degree of permanence and are, by their very nature, capable of re-use. Those encountered by surveyors are therefore still in existence primarily because they possess the flexibility to adapt both physically and functionally to suit changing needs over time and remain in beneficial use.

In arriving at an opinion of value in the marketplace for historic properties it is often necessary to consider not only conventional valuation factors, but also to quantify the impact ascribed to less tangible values and factors. Valuers therefore require an understanding of the philosophical drivers underpinning the retention of historic properties within the built environment.

The original criteria for listing included not only buildings of exemplary architectural note, but also those of historic interest. Historic interest arises from a connection with a particular person or historic event and such associations have the ability to add significance to an otherwise relatively ordinary building. Such associations form part of a nation's psyche and are connected to cultural values, although determining or apportioning any consequential impact on value can be difficult due to the individual nature of such characteristics.

The rationale underpinning the process of determining why certain buildings are considered worthy of retention now extends beyond architectural or historic interest. It encompasses additional cultural and social values, including association with a community's past achievements, the wider setting in which a property stands, aesthetic pleasure and custodianship. Subjective values such as these may, however, have no tangible effect on economic value.

3.2 Statutory and legal considerations

3.2.1 Statutory designation

The statutory designation of heritage assets, through the listing or scheduling process, affords a building or structure an additional level of protection above and beyond the normal planning framework. Listing at Grade I, II*, or II (A, B or C in Scotland and A, B+ and B in Northern Ireland) recognises that historic assets have intrinsic architectural or historic interest that is worthy of protection.

The planning framework additionally recognises the value of the built environment through the designation of conservation areas. Properties situated within conservation areas, whether listed or not, are subject to a stricter planning regime than those lying outside the boundary, including the removal of permitted development rights via the Article 4 Directions within the Town and Country Planning (General Permitted Development) Order 1995 ('the Article 4 Directions').

When accepting instructions to value historic properties, and in order to ensure compliance with the requirements of VPS 3, Valuation reports, it is essential for the valuer to establish at the outset whether there are any statutory designations that might influence value. It is important to note that, while in many circumstances the age and character of the property itself will indicate a strong likelihood of such designation, the principles of selection adopted by

English Heritage and its equivalent elsewhere within the UK (CADW, Historic Scotland and Northern Ireland Environment Agency) provide that assets as young as 30 years in age (or even less in very exceptional circumstances) may be listed. Guidance on listing, and the criteria for selection, can be sourced in the English Heritage publications Principles of Selection for Listed Buildings and thematically arranged Listing Selection Guides.

Any impact on value arising from designation is intrinsically linked to the character, location and type of property to be valued, and should be considered on an individual case-by-case basis. The architectural significance of a property should positively enhance value, but statutory designation could potentially adversely affect value where, for example, there is a consequential impact on maintenance costs, or more stringent conditions and limitations are attached to proposed works of alteration – for example, Grade I listing carries with it a greater burden of conservation obligations and restrictions than Grade II designation. The protection afforded through listing or conservation area status may, conversely, retain, or even enhance, value as the character of the property and environs will be protected from adverse changes.

Valuers should also be careful to ensure that they are fully conversant with the effect of any statutory regulations on the extent of the property to be valued. Valuers should be aware that when a building is listed, the listing covers the entirety of the structure, not just the exterior envelope. The list description should not be solely relied on as it and does not rigidly define those parts of the property that are protected. The listing of a building can therefore encompass subsidiary buildings or structures, as well as the main property and also fixtures and fittings. While many fixtures and fittings will be common to all properties by virtue of their nature (e.g. staircases), part of the character of many historic properties lies in items whose status is less straightforward and might ordinarily be regarded as a chattel. If an object is considered to be a 'fixture', and therefore part of a listed building, its alteration or removal will require listed building consent if the works will affect the character of the building as a building of special architectural or historic interest. Fixtures and fittings may possess little individual merit or worth, but when taken together with the structure as a whole, have a material effect on value. Valuers are advised to establish and confirm the precise extent of the property to be valued and ensure relevant expert opinion is obtained when required.

Local heritage listing has added a further layer of recognition in England and Wales, where local authorities are responsible for drawing up lists of buildings they consider to be of local importance, but which do not necessarily meet the criteria for statutory designation. The rationale for inclusion is often broadly based on those criteria adopted for national designation, but supplemented by additional location specific criteria, including communal and social values.

Inclusion on the list does not give rise to any additional requirements when seeking planning consent, but local authorities will take into account the nature of the proposals and potential harm or loss to the asset. Valuers should therefore ensure they are aware of local lists, as well as national designations.

Any effect on value arising from statutory designation or local listing cannot be considered in isolation, and should be weighed against other market factors such as location, setting, aesthetics, adaptability, scope for alternative uses and likely maintenance obligations.

3.2.2 Legal constraints

The uses to which a building may be put, together with its capacity for physical adaptation, will be directly influenced by the statutory framework; in the UK this stems principally from the National Planning Policy Framework for England, Planning Policy Wales (2012), Scottish Planning Policy (2010) and Planning Policy Statement 6 in Northern Ireland – together with the respective, General Development and Use Classes Orders. The value attributable to any property is therefore inevitably influenced by the constraints imposed by these controls on the free operation of the market.

For historic assets, however, further regulatory layers are imposed which can have a consequential impact on value. Valuers should therefore ensure they are fully apprised of the full scope of statutory parameters to be taken into account.

Legislative controls imposed on historic property, notably the *Planning (Listed Buildings and Conservation Areas) Act* 1990, and *Planning (Listed Buildings and Conservation Areas) (Scotland) Act* 1997 and *The Planning (NI) Order* 1992 are principally concerned with controlling the degree of physical change and adaptation a property may undergo.

A building is often considered to have additional value if it is particularly adaptable or lends itself to extension. For a listed building most internal and external alterations and extensions will require approval by obtaining listed building consent in addition to any usual planning approvals. The underlying purpose of the listed building consent procedure is to ensure that the special character and features of historic properties are not compromised by any proposed works. Consent is not guaranteed, even where the alteration would be acceptable under the standard planning framework. Similarly, in conservation areas the degree of external adaptation to an unlisted building may be restricted by withdrawal of the usual permitted development rights under the Article 4 Directions.

While legal restraints may limit the degree of adaptation and change historic properties may undergo, it is not necessarily the case that any change is precluded and the consequential effect on value may therefore be minimal. In recent years it has become more generally accepted that in order to secure a long-term future in a modern environment, many historic buildings will have to undergo a degree of change, be it a physical change, or simply one of use.

The degree of permissible change will be dictated by the nature and extent of the proposed alteration and the sensitivity of each individual property to change. For conservation areas in particular, controls are intended to actively manage rather than prevent change. Proposals that either enhance or do not detract from the character of the area should be approved.

The potential impact of legislative controls on value should be considered carefully by the valuer on a case-by-case basis. Advice on the extent to which a building may be permitted to physically change and adapt should be sought at an early stage from the local authority's conservation officers. While conservation officers aim to protect buildings from unnecessary or unsympathetic changes, the planning framework within the UK (e.g. National Planning Policy Framework, Section 12) requires that any application for change takes into account the positive contribution of the historic environment to the establishment and maintenance of sustainable communities and economic vitality. Value and character are intrinsically linked and the loss of period features arising from physical alterations may exert an impact on value.

It is frequently assumed that the imposition of restrictions on the degree to which listed buildings and properties within conservation areas can be altered, to suit the needs of the modern market, will exert a negative impact on value. However, this is not necessarily the case. In conservation areas, e.g. research commissioned by English Heritage and carried out by LSE *An assessment of the effects of conservation areas on value* (2012) has shown that, on average, houses in conservation areas attract an average premium of 23 per cent when compared with values outside the boundaries and there was no universal negative attitude towards planning controls.

The value of historic buildings may, however, be reduced due to limited development potential. Listing, in particular, may invalidate potential redevelopment value, by freezing the site at the level derived from its existing use and circumstances. This level will reflect any inherent value arising from the permitted use and any potential changes of use or alterations, but will differ, in some cases significantly, from the value for redevelopment.

Historic properties may be listed at any stage. The closer in time to redevelopment that an unanticipated listing takes place, the greater the potential loss imposed on owners. In limited circumstances, where a building is under imminent threat of redevelopment, the spot listing procedure may be employed to afford an unlisted historic property immediate protection. Valuers should therefore weigh this risk, as if the building is then entered into the statutory list any future redevelopment value of the land will be immediately reduced to nil. Alternatively, where the spot listing is not upheld, the financial viability of any proposed redevelopment may be compromised due to cost implications arising from the unexpected delay to the scheme. In such cases the consequences, in terms of impact on value, can be significant.

3.2.3 Statutory remedies

The UK legislative framework not only controls the degree to which any property may be altered and changed through a series of consents, but it also makes provision for penalties and enforcements where permissions are not obtained, or conditions deliberately flouted.

Under the provisions of the *Town and Country Planning Act* 1990 the remedy for the majority of breaches of planning regulation lies in civil proceedings. It is however a criminal offence to carry out unauthorised works of alterations which affect the character of a listed building. Unlawful alterations to a listed building can be remedied either by enforcement action, requiring the rectification or reversal of the works, or in some cases, criminal prosecution resulting in fines and potential imprisonment of offenders. The costs associated with rectifying breaches can therefore be significant and, it is important to note that as enforcement action in respect of listed buildings can be instigated against successors in title (not just the original perpetrator) and without time limitation valuers should be alert to the potential implications and penalties for clients.

Enforcement action can also be taken within four years in the case of unauthorised works to unlisted properties lying within a conservation area.

Insurance indemnity cover may offer clients protection against legal action arising from earlier breaches of planning consents but cannot necessarily guarantee total immunity from future prosecution and, where appropriate, clients should therefore be advised to seek legal advice on the mitigation of such a risk.

Clients should be made aware that insurance indemnity cover may cover costs in defending actions brought and provide legal assistance in such circumstances, but does not offer immunity from the prospect of legal or criminal action arising from earlier breaches.

When undertaking the valuation of historic properties it is recommended the report include a disclaimer to the effect that no assessment has been made as to whether unauthorised alterations have been undertaken; or, where the valuer concludes on the available evidence that there might have been a breach of planning regulations, attention should be drawn to those works suspected to have been undertaken without prior consent, together with a recommendation for further investigation.

3.3 Heritage value

While many elements within a valuation, such as the effect of location and local market conditions, can be assessed with clarity and certainty, the impact of the 'heritage' aspect on value is less straightforward to quantify.

Heritage value is a term that is frequently referred to, but has no absolute definition and is most simply described as:

the assessment of the effect on value specifically attributable to the historic character and particular circumstances of a property.

Heritage value is partly derived from the effect arising from statutory designation (3.2) but is more closely allied to heritage significance, a similar, but entirely separate concept. When assessing the value of a heritage asset valuers should therefore be aware of the interaction between the two, which can result in a net positive or negative overall effect.

While statutory designation identifies a property as enjoying special architectural and historic interest, heritage significance attempts to assess and assign a level of importance to the various elements or parts of the asset. This will inform the degree of alteration or change it can withstand without detrimentally affecting the overall significance. Some buildings may be capable of sustaining a greater level of intervention than others but it would be incorrect to link this to statutory designation alone, e.g. a small Grade II listed cottage may suffer proportionately greater detrimental impact from an extension than perhaps a larger Grade I mansion. To consider the effect on value based purely on the statutory designation could therefore be fundamentally flawed.

Valuers should note that under the provisions of Section 12 , para 128, of the NPPF a formal Statement of Heritage Significance is required for Listed Building and Conservation Area Consent , for planning applications in Conservation Areas and those affecting the setting of Listed Buildings and Conservation Areas. While the assessment itself will be outside the scope of a valuation there may well be circumstances where it informs the assessment of value and valuers should therefore have a basic understanding of the concept and impact of heritage significance.

The impact on value of the 'heritage' factor will often be unique to an individual property or asset but may also affect the market value of the surrounding built environment. For example, the presence of historic buildings located within a conservation area may enhance the value of all properties located within the designated boundary. The potential enhancement in value examined in the LSE (2012) study is further explored in section 2.2 of *Heritage works – the use of historic buildings in regeneration*, a joint publication between English Heritage, the British Property Federation, RICS and Deloitte.

While the 'heritage' aspect can often enhance value, this is not automatically the case. Regeneration programmes, or the designation of a conservation area, may well enhance values of properties as the surrounding physical environment is secured, but the statutory listing of a building can have an equally detrimental effect (due to the more limited development or redevelopment potential). Any additional value deriving from the historic character and appearance of the property may be negated by factors, such as: the economic impact of a higher repair liability and limited flexibility in terms of potential uses.

It is equally the case that there may be no 'heritage' value attached to a property simply because it is historic in nature. For example, about 25 per cent of England's housing stock predates 1919 and age on its own is therefore unlikely to be a factor giving rise to embedded 'heritage' value.

There are other, more subjective, values such as those stemming from cultural and social influences that should be considered by a valuer. These can be defined as the benefits to the wider community beyond the owner or user of historic properties. These factors are not readily definable and consequently any influence on value is not easily measurable. While, in theory, social and cultural benefits may be quantified, they are generally an indirect element and, as such, will not be reflected in the market value of a building.

3.4 Costs of repair and restoration

Where a valuer does not have the benefit of a building survey or report on condition there may nonetheless be a requirement to make a basic assessment of the state of repair. This may frequently be in the form of recommendations for further investigation, conditions attached to a loan, or even a retention. Where a building is redundant, derelict or where major changes are proposed, issues relating to condition may well directly impact on the value. It may therefore be appropriate, in some situations, to hold the valuation in abeyance until a suitable report has been obtained – so that the condition and associated costs can be properly established.

In order to properly consider the issue of repair and any consequential impact on value it is critical that a valuer first understands the property. An expert appreciation of an individual building's particular architectural qualities and construction is a fundamental precursor to making an accurate assessment of condition. An inaccurate appraisal could result in a significant over or under-estimation of costs, and consequently an unreliable valuation.

The RICS guidance note *Historic building conservation*, 1st edition (2009) provides guidance for practitioners on the philosophical and practical approach to the assessment of the physical fabric and condition of historic properties. Where a valuer does not possess the required knowledge it is essential that advice is sought from a professional surveyor with the requisite expertise.

In circumstances where a home survey is undertaken concurrently with the valuation, reference should be made to the RICS Residential Building Surveys guidance note (2014). It is imperative in such instances the individual is satisfied they possess the skills and knowledge necessary to accept the instruction.

When considering the effect of condition and repair on value it is more likely that older buildings will require more frequent remedial works than those constructed to modern building regulation standards. For a historic building kept in good repair there is, however, often no need for the maintenance regime to be significantly different from that of a modern structure, and any impact on value is potentially negligible. It is therefore a common misperception that the repair liability for historic properties is more onerous and consequently depresses value.

It should, however, be noted that with older buildings of widely varying types of construction, it is frequently less easy to predict the full extent of repairs required. Invariably, work begun with the intention of making a single, minor repair will reveal further defects requiring more extensive work than could have been foreseen. There are, however, a number of specific factors that valuers are advised to consider when undertaking the valuation of historic properties in need of repair.

A key distinction can be drawn between historic buildings and their modern equivalent when considering the materials and skills required for works of repair and maintenance. Traditional materials can often be more expensive and sometimes more difficult to source, e.g. re-pointing may have to be undertaken using lime mortar and repairs to a roof may require replacement peg tiles. In addition the supply of craftsmen skilled in traditional techniques is relatively limited with a consequential impact on labour costs. The overall cost of maintaining a historic building might therefore be higher than that for a modern building, but not necessarily more frequent or onerous in other regards.

One of the core principles of repair for historic properties is that of minimum intervention. The philosophy of conservative repair, most frequently associated with William Morris' manifesto of 1877 *Society for the protection of ancient buildings* (SPAB), promotes the approach whereby, in order to protect the historic fabric, only work that is essential to ensure the survival of a building's fabric should be undertaken. Valuers should therefore understand that the 'less is more' principle may serve to offset the impact of higher unit costs of materials and labour.

The zero rate for approved alterations to protected buildings was also removed from 1 October 2012. This relief, restricted to certain types of listed buildings (e.g. residential and buildings used by a charity for non-business purposes) made certain improvements and alterations less financially onerous on those incurring the costs. As VAT is now charged at standard rate the implications in terms of cost can be considerable.

The legislation protecting historic building requires applications for listed building consent where a 'change to the character' is being proposed. While it is usually not necessary to obtain consent for repairs valuers should be aware that some relatively minor works which, in other circumstances would conventionally be viewed as maintenance, might require consent. For example some remedial solutions for the treatment of damp are irreversible and as such are considered a change requiring consent. Re-pointing or re-rendering elevations (particularly if the underlying structure is to be exposed) may frequently require listed building consent.

When assessing the potential impact on value of the cost of any repair and restoration works valuers must also take into account related liabilities, such as additional costs incurred in complying with modern regulatory requirements. Listed buildings, for example, are not exempted from compliance with Building Regulations although local authorities have discretionary powers to relax these where strict application would be detrimental to the character of the property. Additionally, for those buildings and sites open to the public, compliance with accessibility and safety requirements may require innovative and complex solutions, at a substantially higher cost than for more modern properties.

Other legal requirements (such as a condition or retention to a loan) imposed in respect of repairs may also have a consequential impact on the time required and overall cost, particularly if the work requires consent. Valuers should not therefore take lightly any comment with regard to works and specifically any requirement for further investigations, conditions or retentions.

Where a valuation is being undertaken in the context of major restoration, refurbishment or alteration, full details of the works proposed, assurance that the appropriate consents have been obtained and an indication of likely costs are all essential elements of the valuation process. If the valuation is being provided to give an early indication of likely future value (e.g. a feasibility study for major changes) it is important that the valuation contains caveats regarding the extent of and nature of the works, not least with regard to the issues of obtaining consent for the works. Any assumptions made and stated should be reasonable in the context of what might be considered appropriate repairs, etc., for the building in question.

In addition to the costs associated with repair and restoration valuers should be alert to the potential impact arising from works which have previously been undertaken, particularly where inappropriate materials and techniques have been prescribed as a standard solution. For example, recommending chemical damp treatment or the use of cement based materials which hinder permeability for a historic timber framed property. Such works have the potential to cause irreversible physical damage to a structure with resulting impact on the cost of remediation as well as heritage loss and, consequentially, value.

The question of sustainability and sustainable development has become increasingly embedded within all sectors of the property market. As the market continues to adapt to reflect this increasingly important driver valuers need to ensure they develop the requisite understanding of the trends and factors which impact on value. Many historic properties were constructed using traditional sustainable construction methods but their flexibility to adapt to incorporate modern sustainable features (such as biomass, ground source heating systems or photovoltaic panels), may be constrained by factors such as the nature of construction and physical characteristics and layout, as well as statutory consents and cost. This in turn has the potential to adversely affect value. RICS information papers *Sustainability and commercial property*, 1st edition (2012), and *Sustainability and residential property valuation*, 1st edition (2011), provide valuers with further guidance on current issues and practice.

On-going research by SPAB, Historic Scotland and a number of other organisations, has indicated that historic buildings may perform better than previously anticipated in terms of such matters as heat loss, and can often be considered more ‘sustainable’ without the need for significant modern intervention. Careful consideration therefore has to be given by a valuer not only to the scope of potential adaptations which might be considered appropriate, but whether the absence of modern energy efficiency features has any direct impact on value.

In the context of a historic building, reliance on an Energy performance certificate as the principal indicator of its sustainability and efficiency may be inappropriate but, when taken in the context of the minimum energy standards proposed under the *Energy Act* 2011, marketability of some historic properties may be significantly reduced from 2018, with a consequential impact on value. Buildings and monuments officially protected as part of a designated environment or because of their special architectural or historic merit, in so far as compliance with certain energy efficiency requirements would unacceptably alter their character or appearance, have been exempted from the provisions – but much uncertainty remains on the effect on non-designated historic properties. Valuers therefore need to ensure they remain abreast of the potential implications arising from the statutory requirements.

3.5 Client and valuer perception

An accurate valuation of historic properties requires the understanding of the architectural and historic characteristics and factual information relating to the building or structure, the assembly and analysis of comparable data and the other physical and policy matters that have influenced use.

When providing professional advice valuers should not only understand the wider economics of conservation, but also ensure that the valuation process remains entirely objective from unfounded perceptions, assumptions or attitudinal prejudices.

The market value, for example, of historic buildings may be considerably different from the value perceived by the client. The economic impact of the cost of repairs and restoration on value may be ignored by a purchaser in favour of the subjective influence exerted by the attractiveness and prestige of owning a period property. Any effect on value of restrictions in use, and the extent to which a building may be physically altered or adapted, may similarly be overlooked by the client as a secondary concern. This can be equally true of residential and commercial property.

The valuation of historic properties requires valuers to understand the philosophy underpinning the protection of the historic environment. While the weight of opinion might lean towards the view that listing and conservation area status add value in terms of prestige and heritage value, it is also the case that historic buildings are commonly perceived as obsolete, redundant, too costly to maintain or restore, and thus offer a poorer return on investment.

Such polarised views are commonly based on subjective opinion and should be set aside in favour of factual evidence. It is also the case that in assessing all aspects of historic properties, a long-term view is taken when considering economic viability. Many buildings that may have been considered either economically or physically redundant, or both, have been restored to viable and secure uses as part of regeneration programmes and can be regarded as catalysts for the improvement of an entire community.

Valuers should also be aware that client knowledge and expectations may be based on experience which is confined to more contemporary properties and modern construction methods. Standard terminology may be inappropriate for a valuation report relating to a historic property and clients should be advised where such wording is inappropriate.

3.6 Impact of grants, loans, and tax incentives

A property will generally retain its value where it is well maintained and capable of beneficial use. When historic assets are obsolete or the costs of their repair and conversion are excessively high, then it is possible that any potential future value may be outweighed by the cost of bringing the building back into profitable use. Proposed works may secure a sustainable and beneficial use for the property, but if the projected income stream or value of the building is significantly less than the economic cost of delivering the project, what is termed 'the conservation deficit' may only be bridged using additional finance provided by a grant or loan.

A valuer may be called upon to give valuation advice to a grant making body to assess this conservation deficit. They will also need to have an understanding of the availability of grants in determining the market value of a historic property for other purposes.

Grants and loans can provide finance to assist in the purchase or repair of heritage assets, and a valuation is often required for the purposes of providing security for the finance. Relatively few sources of funding exist for privately owned assets and, where available, are frequently limited to Grade I and II* Listed buildings. Moreover, the majority of funding opportunities are restricted to projects that can demonstrate that public benefit arises from the proposed works. Public access to the property for a specified number of days per year is a common requirement. Applicants are also normally means-tested and will not receive support if they are able to fund the project themselves.

Each individual grant making body will target different types of work. Many funding bodies impose specific restrictions as to the work that can be undertaken and which final uses are considered appropriate. Some are restricted to supporting only public or third-sector interests, while others may only provide funding for a particular aspect, such as re-roofing. They will on occasions exercise greater control over standards of repair and alteration than would be the case if the project was only subject to the controls under planning legislation. It is also unusual for a historic asset to be assisted by only one stream of funding and projects may therefore be supported by a range of providers. Sources of funding are constantly subject to change. Furthermore, the conditions of finance and the rules for eligibility can also change quickly – so detailed knowledge of the potential sources of funding can offer a distinct advantage.

The Architectural Heritage Fund publishes an online guide to sources of funds (www.ffhb.org.uk) that might usefully be consulted to help better understand the range of available funding sources across much of the UK and the criteria affecting eligibility.

A funding body normally takes several months to determine an application for grant and the dates for reviewing submissions are normally established and published in advance. Once the resources for one particular year are exhausted it may be necessary to wait for the forthcoming cycle to commence.

Valuers will need to consider the impact of the all potential sources of finance, as their role is to balance the existing use value against the estimated future value. A knowledge of the grant and loan systems would be helpful in determining the likely success of any potential projects.

In order to determine the conservation deficit on a project, a minimum of two valuations are usually required: a current valuation for an existing use, and a future indicative value for the preferred proposed use. These valuations may be required as part of the grant application process and will consequentially be fundamental to the decision making process.

Tax incentives may exist that have the effect of offsetting historic liability or increasing market demand for a historic building. For example 'conditional exemption' from Inheritance Tax is available in the UK for heritage property, provided certain conditions including conditions relating to public access, are met. The 'conditional exemption' applies to heritage landscapes as well as buildings.

3.7 Enabling development

When seeking to secure a sustainable long-term future for some historic properties the cost involved in, repair, conversion or cyclical maintenance can significantly exceed the market value following the work. In order to bridge this 'conservation deficit' some form of subsidy is required. This may be in the form of enabling development which can be defined as: development contrary to established planning policy but which is permitted on the grounds it delivers a public benefit which outweighs any harm that would be caused and reduces the value shortfall to zero.

The scale and range of any 'enabling development' will vary according to the nature and circumstances of the historic property. At its simplest it could comprise a change of use or an extension which exceeds the maximum area permitted under planning policies. Alternatively it may take the form of new development within a property's grounds. It is most frequently associated with residential development to support the repair of a country house, or conversion of a redundant historic hospital or military site.

Enabling development is generally seen as the option of last resort. The protection of the heritage asset and its significance is of paramount importance and enabling development should only be considered if the proposed economic benefit arising from the scheme can be proven to secure the long-term future of the property. This policy is formally recognised in the National Planning Policy Framework (NPPF) at paragraph 140.

A comprehensive discussion of enabling development and historic assets can be found in the 2008 English Heritage publication *Enabling Development and the Conservation of Significant Places*.

As the purpose of enabling development is to bridge the conservation deficit so the property or site is retained in beneficial use, the scope of valuation advice sought can include the market value of the existing site, that of the completed scheme or a full development appraisal to determine the viability of the proposals or appropriate level of development.

As enabling development schemes inevitably carry with them a high degree of sensitivity valuers must possess the necessary expertise and skills to comprehensively analyse and understand the existing historic asset, evaluate the impact arising from the proposed development and weigh the proposals against the specific policy tests set out by English Heritage. The accuracy and reliability of information and costs is critical and valuers should therefore seek the relevant professional advice to underpin any valuation advice.

3.8 Compulsory purchase

Where land is taken for compulsory purchase the basis of valuation is market value at the relevant date, ignoring any effects attributable to the scheme underlying the acquisition, but taking into account certain planning assumptions, development value etc. The principal legislation in England and Wales governing the compulsory purchase process and valuation approach is the *Land Compensation Act* 1961 and 1973 and the *Compulsory Act* 1965, as amended.

For listed buildings in disrepair, however, compulsory purchase powers can also be exercised under s47 of the *Planning (Listed Buildings and Conservation Areas) Act* 1990 where it appears that proper steps are not being taken to properly preserve a listed building and a valid repairs notice has previously been served.

Market value remains the normal basis for the assessment of compensation in a compulsory purchase case relating to a listed building in disrepair. However, a local authority may seek a direction for minimum compensation if an owner is considered to have allowed the property to deliberately fall into disrepair in order to justify demolition and secure redevelopment.

3.9 Scheduled ancient monuments

Valuers may be called on to determine the value of Scheduled Ancient Monuments (SAMS). These come in a wide range of shapes and sizes; some being barely perceptible bumps in the ground, while others comprise substantial ruins. Some may even be occupied properties.

Analysis of sales of SAMs, most commonly being smaller sites with archaeological remains or ruins rather than significant heritage assets, indicate they are sold at prices slightly above land value. Depending on the level and completeness of the ruins, the additional premium achieved ranges from 10 to 20 per cent.

SAMs do occasionally come to the market, but are often included with additional land. A surveyor who knows local land values well, should be able to calculate a valuation range for such sites relatively easily. By apportioning out the value of the surrounding land, the surplus figure attributable to the scheduled ancient monument can be determined.

A valuer needs to be aware that a SAM may exist within the curtilage or grounds of the asset being valued (e.g., a moat or garden feature). The SAM may not be the principal asset, but by association or proximity could have an impact on value. See Example 2 Appendix 1.

4 Approach to the valuation of historic property

The most common basis on which valuers' work is undertaken is 'market value'. However, the underlying purpose of the valuation – be it for financial reporting, taxation, sale, purchase, letting, finance or insurance purposes – will affect the valuer's approach.

In most instances the approach to the valuation will be no different to that adopted for any property, requiring the selection of one of the conventional valuation methodologies. For historic properties, however, the valuation may require a degree of adaptation from the standard approach in order to fully account for the more individual nature of historic properties.

In the event of 'forced sale' conditions applying, see VPS 4.4,Valuations reflecting an actual or anticipated market constraint, and forced sales, and VPS 4.3, Special assumptions.

4.1 The comparative method

The RICS information paper *Comparable evidence in property valuation*, 1st edition (2012) provides valuers with an outline of the principles and use of market evidence within real estate valuation.

The value of a building or structure may frequently be estimated using market evidence from comparable transactions, but valuers should recognise some additional constraints when undertaking the valuation of historic properties.

Firstly, there will be fewer transactions of similar properties for bona fide comparison. Heterogeneity is one of the key characteristics that singles out the landed property market from other commodities and the limited supply and individual characteristics of many historic properties accentuates the element of uniqueness.

Comparables may have to be sourced from a number of alternative locations, at a local, regional and even national level. It should be possible to obtain data capable of analysis for the range of values for buildings of a particular type and, even where detailed information is not readily available it may be possible to establish a median level of value. Analysis to establish a unit rate per square metre may assist in arriving at the median, with adjustments then made to reflect the individual characteristics of the property being valued.

Benchmarking a historic property may present more challenges than when applied to contemporary buildings, but offers valuers an objective approach to analysing market value in terms of cost, quality and integrity, by establishing clear parameters and enabling it to be placed in a context of direct comparison.

Where appropriate comparables of both historic and non-historic buildings are available in the alternative locations, ratios between these values can then be used to approximate the value of the subject property. This is an inexact method, but could be useful in extreme circumstances.

Secondly, the market for the building is likely to be restricted, or in some cases, artificially enhanced because of the perceived attraction of a 'period' building. The proportion of value due to the heritage factor may be difficult to isolate within comparable transactions.

As outlined in section 3.2, some guidance on the quantification of any 'historic premium' may be elicited from the research undertaken by LSE (2012) in respect of the effect on value derived from location within a conservation area.

For many historic properties the comparative method remains the most widely used and potentially the most accurate approach, particularly for the residential market. See Appendix 1 Example 1.

4.2 The investment method

Most property has the capability of producing an income, and the investment method can therefore be used for most building types, historic or otherwise.

The considerations outlined in section 4.1 apply equally to the determination of rental levels for historic properties.

The assessment of an appropriate yield can be further complicated by the impact of the 'historical' factor as restrictions on use, alteration and perception of higher maintenance and repair costs may negatively impact an investor's attitude. It is not necessarily the case, however, that investment yields achieved in the market will be significantly lower for historic properties. Research undertaken by IPD in 1993 and 1996 examined the investment performance of listed buildings. The findings, in terms of the office market, indicated that returns from listed office properties lagged only slightly behind their modern comparables.

In assessing the appropriate yield to be applied to the income stream, evidence should be carefully evaluated and appropriately weighted to accurately reflect the overall quality of the investment. It can be the case that a listed property affords perceived prestige, which in turn increases marketability, and a consequential increase in value and attractiveness as an investment. Limited supply and good demand can also mean historic buildings hold their value. Conversely, limitations on physical alteration and potential future uses, combined with greater outlay on repair and maintenance costs, may lower the return. Even if a building is considered to enjoy 'trophy' status, its attractiveness as an investment may be reduced if the internal space and layout are not versatile and suitable for modern requirements.

4.2.1 Discounted cash flow

Traditional investment valuation methodology does not always form an adequate basis on which to determine the value of a building. Discounted cash flow (DCF) techniques offer an alternative means of appraising the projected return from a property investment or development opportunity, and have equal applicability to both historic and non-historic income-generating property.

In the case of historic buildings, discounted cash flow can be utilised as a check to appraise its inherent worth. In this way, the special elements affecting the value of historic buildings, such as physical deterioration and obsolescence or grant allowances can be included in the appraisal to create a true picture of worth.

When valuing historic property, the cycle of repair and renewal costs can only be determined on an individual case-by-case basis, meaning that standard elemental costing will not necessarily provide an accurate estimate of future outlays. Some specialist input may therefore be required. Conservation and management plans, together with best practice approach to the maintenance of heritage buildings, outlined in the RICS guidance note *Historic building conservation*, 1st edition (2009) provides valuers and practitioners with useful tools for quantifying more accurately projected costs in the short, medium and long term.

4.3 The residual method

The notion of adopting a valuation approach most typically associated with development scenarios may, at first glance, appear to conflict directly with the concept of maintaining the historic nature and architectural features of a period property, particularly where it is protected by statute.

The fact that a property is historic does not mean, however, that it is entirely inflexible to change. In fact, many of these properties are primarily still in existence because they were capable of adapting. Historic properties that have little or no beneficial use are more likely to fall into disrepair and it is recognised and accepted that the only way to secure some buildings' long-term future is to permit a greater degree of physical adaptation in order to secure a suitable new optimum, viable use. In such circumstances a residual valuation will be useful in determining the existing value of the site or commercial feasibility of a proposed scheme of works.

In instances where the nature of the property dictates that significant alterations and development are not feasible, the residual approach should be discounted from the outset as inappropriate. One valuation issue that frequently arises with historic properties is the possibility for greater cost inaccuracy due to a higher degree of uncertainty. Those assessing the costs should have experience in dealing with historic buildings – otherwise unnecessary works may be included, the true condition of the building may be misunderstood and major defects missed. Specialist advice should therefore be sought on the condition of the building so that building costs are properly assessed. These will not only include works of alteration and extension, but also sympathetic repairs to the existing fabric.

There is also the prospect of significant delays arising where an unexpected discovery is made. This can range from archaeological finds unearthed during excavation through to the uncovering of previously unknown and unrecorded architectural features. These have the potential to not only delay a scheme's progress, but impact commercial viability as proposed alterations may no longer be feasible, requiring further changes and statutory approval.

Valuers should also consider the impact of legal and professional costs on the residual appraisal, as additional fees may be payable in the course of securing the necessary consents. Historic property specialists and consultants may be appointed in addition to the usual professional team.

4.4 The receipts and expenditure method

Many historic buildings are used for some form of commercial activity, such as public meeting places, theatres or museums. In circumstances where valuation by reference to trade receipts is feasible, valuers should refer to the guidance contained in VPGA 4 – Valuation of individual trade related properties in the Red Book 2014.

It is, however, the case that many historic properties are operated in such a way that little or no annual operating profit is earned. Examples include historic houses open to the public where the motivation is not purely commercial, but driven by a combination of the need to mitigate occupational costs and preserve the building (and often contents) for the greater good of the wider community.

There may well be elements of commercial activity, such as a shop, restaurant, wedding and conference facilities, but these will not, on their own, generate sufficient income on which to base a full accounts based valuation. A more specialised approach will therefore be required in order to determine value.

4.5 Cost based valuation approaches

Depreciated Replacement Cost (DRC) is often referred to as a method of last resort and is generally relied on where it is impractical to produce a reliable valuation using other methods. Classification of an asset as specialised should not automatically lead to the conclusion that a DRC valuation should be adopted and, while listed buildings form only a relatively small percentage of the UK's building stock, the vast majority can be valued by reference to the alternative methodologies outlined above.

In considering whether this method is appropriate for historic buildings valuers should recognise that since the assumption is that the building will need to be entirely rebuilt, difficulties may well arise in assessing an accurate reconstruction cost. Similarly there are practical issues in determining a precise rate of obsolescence. The accuracy of adopting a straight line approach, assuming a uniform rate of erosion over an asset's life, is questionable when applied to historic properties which, particularly if statutorily protected, will have a considerably longer and indeterminable lifespan compared with more modern buildings.

Land value may be similarly difficult to establish on the grounds that, as the approach is one adopted for properties where there are no market transactions, it is unlikely that there will be any directly comparable evidence for sites in that particular use. A valuer may therefore be required to make a number of assumptions and adjustments to market evidence in order to arrive at an appropriate value for the land element.

The assumption that there will be demand for the current use of the asset is an inherent feature of the method but the resulting valuation cannot necessarily be relied on as an indication of the amount that could be recovered if the property were to be sold. If sold in the open market the historic property or asset might well realise a lower sum.

The use of this method in connection with historic properties is therefore to be treated with caution. Valuers should note that the 2014 Red Book's UKGN 4, Depreciated replacement cost method of valuation for financial reporting makes specific reference to the difficulties encountered in applying this methodology to historic properties.

4.6 Alternative valuation methodologies

In some circumstances none of the foregoing valuation methodologies will be considered appropriate, particularly for those historic properties and assets that enjoy unique cultural, artistic, environmental or scientific characteristics and which are held and preserved principally for the benefit of society as a whole and future generations. Examples of such built heritage assets include castles, cathedrals, parks and historic transport infrastructure. Such assets are frequently managed by organisations (including local government and charities) as custodians on behalf of the general public with the purpose of not only ensuring their preservation, but also promoting their educational value and wider contribution to knowledge and culture. The approach to valuation for this type of property can therefore be more complex than for other historic buildings.

Methods for establishing a value for built heritage assets attempt to take account of the influence of the more subjective aspects of historical and social value, the intangible contribution made by the property's context and surroundings, and the economic impact of the property on the local and wider community. Determining the monetary value of these influences may be difficult to quantify and it has been suggested that not all assets of this nature may therefore be capable of valuation. Research reports published by Kingston University (2009) and the College of Estate Management (CEM) (2010) provide valuers with guidance on a number of alternative valuation approaches developed by economists by which value may be placed on these environmental attributes. These approaches are detailed in the sub-sections that follow.

4.6.1 Cost-benefit analysis

All relevant costs and benefits of a project are identified. These are then afforded a financial value, discounted to present-day costs, and weighted in terms of their perceived importance. By its very nature the identification, quantification and ranking of each cost or benefit is a highly subjective process.

4.6.2 Substitution pricing mechanisms

In respect of heritage assets for which a market value cannot be directly determined, a substitution pricing mechanism will endeavour to ascribe a value by developing a hypothetical market based on related properties for which there is a known market. It can be argued that, rather than determining a value, the techniques are an asset management tool, informing long-term strategy and aiding the decision making process.

Recognised substitution pricing techniques include:

Contingent valuation

This endeavours, in the absence of any transactional market, to value heritage assets through the identification and creation of an artificial marketplace. Value is then determined by establishing how much people would be willing to pay for a specific asset or service. Due to the hypothetical nature of the survey and the impact of statistical constraints, the validity of this approach has been subjected to considerable debate.

Travel cost method

The travel cost method is underpinned by the concept that by incurring time and money costs, consumers reveal a willingness to pay for a particular location, even if no formal entry fee is paid. Visitors to a site are sampled using survey techniques to determine key information such as visit frequency, distance travelled, time taken, travel costs incurred and demographic characteristics. By aggregating the observed travel costs associated with a number of individuals accessing the asset, a demand curve can be plotted, and an overall value thereby obtained.

Hedonic pricing

Hedonic pricing works on the principle that some heritage assets can be valued in terms of their effects on other known marketable goods. A hedonic pricing model deconstructs an asset into separate components, each of which individually provides value to a purchaser. The market value or overall worth of the asset is determined by aggregating the individual sum afforded to each characteristic.

A simple example is the pricing of houses, with value related to, among other factors, plot size, number of rooms, proximity to key facilities and environmental advantages, such as a quiet location. A house will therefore be worth more than others of a comparable nature if it enjoys superior characteristics and a further premium if it is located in close proximity to a heritage asset such as a park, historic house, castle, etc.

The hedonic pricing approach is argued to be more realistic than other implied value techniques since values are determined directly from market behaviour and evidence.

Shortcomings arise with all of these techniques and this will have a consequential impact on their accuracy and applicability.

Valuers are reminded that while substitution pricing techniques have been used in a number of real estate scenarios, they require specialised knowledge and, wherever appropriate, more established conventional methodologies should be applied.

5 Summary

This information paper has highlighted factors and issues pertinent to the valuation of historic properties in order to illustrate to valuers the potential effect on value.

Historic buildings may be subject to particular constraints that can affect their value in the wider market. These include limitations on the degree of physical alteration that can be accommodated, the range of acceptable uses of the property, and the higher costs frequently associated with repair and maintenance. Some are imposed by statutory requirements while others relate to the physical attributes and historical development of the individual building or structure.

As any consequential effect on value arising from these factors will be driven by the particular characteristics and nature of the property under consideration – the impact therefore should be evaluated on a case-by-case basis. Valuers should, however, be careful not to assume that such restrictions will necessarily generate a negative effect on value. The perception that historic properties offer more limited potential and, accordingly, generate a lower price in the marketplace, needs to be balanced against evidence of enhancement arising from the embedded heritage and prestige values attached to a building.

It is crucial to establish a comprehensive knowledge of a building, its history and environs, in order to ensure all relevant facts are taken into account in the valuation. Where appropriate valuers should also be alert to the need to consult an accredited conservation professional at an early stage of the valuation process; e.g. where issues relating to repairs or structural condition are identified.

Much of the historic building stock is, in terms of type and use, no different to their contemporary equivalents and standard valuation methodologies can be applied in order to determine market value. For some more specialised heritage assets, particularly those held and managed for the wider public benefit, a more specialised valuation approach will be required. Valuers should therefore bear this in mind when considering any instruction to value historic properties.

Appendix 1

Example 1: Valuation of a listed building

A Grade II listed mid-terrace, retail unit in the centre of a historic market town. The property comprises an owner-occupied Victorian two-storey shop, given over to retail use on the ground floor and storage above. The property is of traditional brick construction, under a pitched slated roof, featuring a traditional shop front and two timber casements with single glazing at first floor level.

From a site inspection, desktop research and discussions with relevant parties, the standard parameters of the valuation can be established, including the interest to be valued, age, condition, floor area, etc.

For historic properties valuers are advised to then consider the additional factors that might directly, or indirectly affect value, including: the listed status and description, planning history and any current planning issues.

In this example it is likely there will be several comparable properties within the immediate locality from which to draw evidence and on which a valuation can be determined utilising a standard valuation methodology. Analysis and comparison of rental values and yields between listed and non-listed properties may also provide evidence of whether there is any embedded ‘historic’ value for this particular type of property.

If the building is of a relatively rare use or unusual type, it may be prudent to widen the search for similar properties across a wider set of parameters. For more uncommon property types this might require a national or international trawl for information. The valuation of a pier, for example, may initially seem impossible, but a detailed search will uncover several market transactions within a five-year period. Similarly, while there are many comparables available for converted mills, evidence for unconverted mills is harder to source, requiring a wider search radius. While an element of rarity exists in both cases, drawing on a wider pool of market evidence should enable a value to be readily determined.

Example 2: Valuation of a historic asset

Red Castle is a Grade I listed building and SAM. It is a large ruin and is open to the public free of charge. The property is maintained under a Deed of Guardianship.

The first stage is to eliminate those methods that are not suitable for this type of historic property:

- The investment method may be eliminated fairly readily on the grounds of lack of rental evidence for this type of historic asset.
- A receipts approach is also inappropriate because Red Castle is free to access. Visitor numbers could be estimated and an average entry ticket price applied to create a turnover, but this would produce an entirely theoretical value.
- Using a depreciated replacement cost approach would yield a similarly inaccurate figure, as stonemasons’ costs to recreate the castle in its current condition would be excessive and requires an allowance to be determined for 700 years of obsolescence.
- With no prospect of redevelopment the residual method is also inappropriate.

This leaves only one method available: the comparative method. Castles and follies are occasionally sold, but in order to source sufficient evidence the parameters of any search should be set sufficiently wide, potentially at a national level. Analysis of a diverse comparables database, to determine reliability and suitability of the evidence, will frequently be time-consuming and require substantial valuer experience.

Title deeds should also be examined carefully, as they will include not only a site plan but historical details and previous sales.

Red Castle formed part of a larger sale of land in the area that was sold by auction in December 2009. The estate was sold in five lots, as follows:

- Lot one: 6 acres of land and farm buildings with good access. Sold for £159,000 in December 2009, analysing to £26,500 per acre. This evidence can be discounted, because it includes a selection of farm buildings.
- Lot two: 32 acres of good quality level farmland with road access. Sold for £242,000 in December 2009. £7,562 per acre.
- Lot three: 37 acres of good quality level farmland with road access. Sold for £275,000 in December 2009. £7,432 per acre.
- Lot four: 5.3 acres of good quality level farmland with road access. Sold for £40,000 in December 2009, analysing to £7,500 per acre.
- Lot five: 24 acres comprising 16 acres pasture and 8.5 acres woodland including Red Castle. Sold for £122,000 in December 2009, equating to £4,949 per acre. The castle itself sits within a curtilage of 3.18 acres.

Valuation approach (i)

Analysis suggests that good quality farmland in this locality sells for approximately £7,500 per acre. Lot five appears anomalous by comparison, with initial analysis suggesting the castle has reduced the value of the surrounding land.

Further investigation and analysis revealed that only 8.85 acres comprised good quality farmland. 6.65 acres sloped steeply and were difficult to access, while the remaining 5.35 acres formed a mostly inaccessible, densely-vegetated steep slope leading to a stream below. The castle site itself extended to 3.18 acres.

A more detailed analysis of lot five could therefore appear as follows:

8.85 acres good quality farmland at £7,500 per acre = £66,375

6.65 acres of steeply sloping land at £3,750* per acre = approx. £24,950

(*halved to reflect the poorer quality for agricultural purposes)

3.1 acres at £1000* per acre = £5,350

(*this land has little commercial value and any amenity value is low because it is virtually inaccessible).

This provides a total value of £96,675 for 20.85 acres, leaving £25,337.5 for the Castle and its environs. Say: £25,000.

Valuation approach (ii)

The alternative approach utilises the ‘added value’ concept, developed from analysis of sales of Scheduled Ancient Monuments, which concluded that sites incorporating SAMs sold for approximately 10 to 20 per cent more than surrounding land.

Taking the castle as an individual asset, set within its curtilage, the valuation would be as follows:

3.18 acres at £7,500 per acre = £23,850

Add 10% to 20% for SAM status: £2,385 – £4,770.

Final valuation range of between £26,235 to £28,620 Say: £27,000.

Using both valuation approaches suggests the castle site was worth approximately £26,000 in 2009.

Given the listed and scheduled status, plus the Deed of Guardianship preventing any development or restoration of the castle, any embedded value arising from ownership of such an asset may be difficult to ascertain, but the methodologies applied above suggest a range of £25,000 to £27,000.

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Principles of selection for listing buildings, Department for Culture, Media and Sport, 2010.

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Useful websites

The Architectural Heritage Fund (AHF) – www.ahfund.org.uk

Building Conservation – www.buildingconservation.com

CADW – www.cadw.wales.gov.uk

English Heritage – www.english-heritage.org.uk

Funds for Historic Buildings – www.ffhb.org.uk

Historic Gateway – www.heritagegateway.org.uk

Historic Scotland – www.historic-scotland.gov.uk

Institute for Historic Building Conservation – www.ihbc.org.uk

National Trust – www.nationaltrust.org.uk

National Trust for Scotland – www.nts.org.uk

SPAB – www.spab.org.uk

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