

ECONOMICS OF HERITAGE LISTINGS

PART A

VALUING THE PUBLIC BENEFITS OF HERITAGE LISTING OF COMMERCIAL BUILDINGS

Dr Peter Abelson

PART B

THE IMPACTS OF HERITAGE REQUIREMENTS ON THE FINANCIAL VIABILITY OF INDIVIDUAL DEVELOPMENT PROPOSALS

Colin Dominy

For
The NSW Heritage Office

March 2001

Foreword

The objective of this study was to produce guidelines to enable the preparation and assessment of economic and financial information submitted as part of development applications involving heritage items and heritage conservation areas (HCAs) in a standardised, comparable and easily understandable manner.

The Steering Committee divided the project into two sections;

- A: Analysis of the Social/Economic Cost/Benefit for the Local Community, and
- B: Cost/Benefit Analysis of Heritage Requirements for the Owner.

To maintain a manageable scope of work, the study focussed on commercial (non-residential) properties in the urban environment.

Analysis of the Social/Economic Cost/Benefit for the Local Community

State departments, local government and communities are usually concerned with the wider social benefits and social costs to the community of a proposed development project. Their interest is in the economic or cost benefit analysis. (In economic analysis true costs of resources to the community have to be reflected, hence taxes are treated as revenue and subsidies are treated as costs.) These types of analysis are complex and require a fair degree of economic expertise. Part A was prepared by Professor Peter Abelson, Applied Economics, an academic with knowledge of heritage economics.

The analysis was to be based on practical case (actual) studies as examples of development proposals and the costs and benefits to the communities. Loss of heritage places and loss of heritage values are costs to the community and the economic analysis was to identify and reflect these costs. As indicated in the study, determining a suitable model for this analysis proved to be a difficult.

Cost/Benefit Analysis of Heritage Requirements for the Owner.

The proponents or developer who submit development plans are most concerned with the financial viability and profitability of the project. Their concern is with the financial analysis of the proposed project (in financial analysis, taxes are reflected as costs and subsidies are treated as revenues. Financing of projects by commercial financial institutions and banks are determined on the basis of financial analysis and profitability, in addition to the life cycle cost of asset.

The analysis undertaken in this section concentrated on the impacts of heritage requirements on the financial viability of seven case studies, and an explanation of those impacts. Part B was prepared by Colin Dominy, lecturer in Property Economics at the University of Western Sydney, working under the guidance of the Australian Property Institute (NSW).

Ian Kelly
Principal Heritage Officer
NSW Heritage Office

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PART A

VALUING THE PUBLIC BENEFITS OF HERITAGE LISTING OF COMMERCIAL BUILDINGS

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Summary

The overall aim of this report is to contribute to the development of an objective and scientific approach to the valuation of heritage buildings. To this end, the report reviews the main public benefits of heritage listing of commercial buildings and the main methods of valuing these benefits. It then examines the application of these valuation methods to seven listed properties in Sydney.

An initial aim for the consultancy was the production of guidelines for the preparation of information about the public benefits of individual heritage buildings, which would assist consent authorities in assessing such information for practical decision-making purposes.

However, the report finds that there is no simple method for valuing these public benefits. The report recommends that, if government wishes to examine the public benefits of a heritage building and the consequences for public decision making, government should carry out a staged research program along the lines outlined below.

The main public benefits of a heritage building are benefits to businesses and residents in the precinct, to tourists and other visitors to the area, and to the general public who may appreciate the cultural ambience but rarely, if ever, visit the area.

The main potential methods for valuing these benefits are stated preference surveys, hedonic property valuation and travel cost studies, and economic impact analysis. However, economic impact analyses provide estimates of heritage and related expenditures and do not measure the value of heritage. Property value and travel cost studies have limited practical application for heritage valuation purposes. Only stated preference techniques have much general application and these techniques require very careful implementation and considerable resources.

These general observations are confirmed by detailed analysis of the valuation issues that arise for seven heritage listed commercial buildings in Sydney. These are the General Post Office, Martin Place; Westpac Bank, 341 George Street; Wales House, Pitt Street; Liner House, Bridge Street; Parcel Post office / Medina Apartments, Railway Square; the Strand Arcade, George to Pitt Street; and 60 Macquarie Street, Parramatta.

Despite their evident heritage values, no valuation method can provide a quick objective valuation of their public benefits. Two important reasons, but not the only ones, are that the valuations of individual buildings depend on the information provided to the respondent and on the relationship between the individual building and the precinct in which it is located.

If the government wishes to obtain community valuations of the public benefits of heritage buildings, the report recommends a staged approach using the contingent

valuation method. This would involve a significant number of in-depth focus groups, an extensive large-scale pilot household survey, and then the household survey itself. Each stage would be carefully planned and reviewed. To achieve credible results, the whole process could take two years.

1 Introduction

This report examines how the public benefits of heritage listed commercial buildings in a large city can be valued for practical purposes. The aim is to elicit the value of the heritage component rather than to value the whole building. There is an extensive literature on how to value heritage and related goods such as culture and the environment. However few studies have attempted to estimate the public value of heritage and these few applications deal almost exclusively with standout heritage items. Little attention has been given to the important issue of how to value individually the many heritage buildings that contribute to the urban mosaic in many cities.

The report starts with a discussion of the nature of the public benefits of heritage buildings and possible valuation methods, including stated preference, travel cost, hedonic property values and economic impact analysis. The third section examines these valuation methods in more detail and concludes that some form of stated preference analysis is the most suitable valuation method for most purposes. However, we also note some significant limitations of stated preference methods.

The fourth section of the report outlines the heritage environment in Sydney and describes seven listed buildings for which the New South Wales Heritage Office asked Applied Economics to estimate a public value. This turns out to be an ambitious request. The last part of the report discusses how methods for valuing these buildings might be developed.

2 Public Benefits of Heritage Buildings and Possible Valuation Methods

What are the public benefits of a heritage building? In one sense, all benefits are private because all benefits accrue ultimately to individuals. However, there is a common distinction in economics—that between internal and external impacts—on which we draw here. In the case of heritage buildings, the internal impacts are those experienced by the owners and users of a building. These internal effects we will refer to as private benefits or costs. In practice most private benefits (and costs) of a heritage building accrue to the owner who can charge occupiers or visitors for use of the property. These private effects are an important part of the whole picture of heritage impacts, but they are not the main concern of this report.¹

The public benefits of a heritage building are the external benefits that cannot be appropriated by the owner. These may include benefits to:

- owners of other commercial properties in the precinct,

¹ In Part B of *The Economic Benefits of Heritage Listing*, Col Dominy examines the private costs and benefits of six of the buildings listed in this paper.

- owners of residential properties in the precinct,
- tourist visitors to the area (i.e. those who visit the precinct for the prime purpose of tourism),
- other visitors to the area (i.e. those who are in the area for working, shopping or other purposes),
- the general public (people who value a heritage listed building who neither own a local property nor visit the area).

The external benefits are especially significant for listing a heritage building. If the private benefits of heritage are large enough, the owner will generally retain the heritage building or at least the essential heritage features.² Thus, these external (public) benefits provide the main justification for a heritage listing.

Note also that these five sets of benefits have a common feature: they depend on the values that individuals attach to the heritage property itself. In other words they are based on consumption values. They do not include parties who may benefit from the renovation and maintenance of heritage buildings. Many producer groups (including specialised construction firms, as well as some professionals, skilled tradespeople and unskilled workers) may benefit from the creation of extra work in the heritage sector. Moreover, in so far as these groups gain extra income from this work, there may be multiplier income and employment benefits. Heritage listing may also affect government income (positively or negatively).

In a full cost-benefit analysis, the net benefit of any public policy decision is the sum of consumer and producer surpluses. Equivalently, this is the sum of private plus public benefits less costs. It follows that, if a heritage listing does increase the incomes of workers in this sector, this increase would be part of the net benefit of the policy decision. However, heritage listing is generally driven by consumer valuation of heritage rather than by producer surpluses. Moreover, as discussed in section 3, it is important to distinguish between the justifiable inclusion of producer surplus in a cost-benefit analysis and the inflated claims of economic benefits that frequently arise in economic impact analyses. Accordingly, this report focuses mainly on the benefits listed in the five dot points above.

Before we line up the valuation methods that quantify these benefits, a brief note too on the principle of economic valuation. In economic evaluation, the value of a benefit is the maximum amount of money that someone is willing to pay for a benefit and not be any worse off than before.³ For business, the implication is straightforward: the increase in income is the measure of benefit. For consumers, valuation is more complicated because the maximum amount that someone is willing to pay for something is often a notional concept rather than a directly observable expenditure.

² The qualifier 'generally' has to be added because not all property owners would retain heritage features even if they were profitable, either because the owner held a different view of the market or because of an owner preference for a new building.

³ This is known as the principle of 'compensating variation'. There are alternative measures of benefit, but this is the most common one.

There is an additional complication if someone loses some property, or simply a property right. In this case, the standard economic principle is that the value lost is the minimum that the owner of the property or property right would be willing to accept for the loss and be no worse off than before.⁴ This willingness to accept value (for a loss of property) may be much higher than the willingness to pay value (for a gain of the same property). There is an extensive literature on when to use willingness to pay values or willingness to accept values. Notwithstanding general acceptance of the concept of willingness to accept values, most valuations in environmental, cultural and heritage studies are willingness to pay valuations for three reasons. The most influential reason is that willingness to pay values, though often difficult to estimate, are a great deal easier to estimate than willingness to accept values. Second, for small expenditures, there tends to be little difference between willingness to pay and to accept values. Third, the allocation of property rights for public goods is not always clear. People have a right to enjoy old buildings, but they also have a right to new ones. Accordingly, but not without some reservations, this report focuses on willingness to pay methods of valuation.

What valuation methods, then, may be used to estimate values for the five benefits listed in dot form above?

Benefits to owners of other commercial properties in the precinct. These benefits can be estimated directly in two main ways: (a) by estimates of changes in the income of local property owners over time discounted to the present or (b) by estimates of changes in the capital or rental value of the properties. If changes in rental values are estimated, these too should be converted to present values. The present value of estimated income or rent streams should provide equivalent capital values.

Alternatively, local property owners may be asked how much they would be willing to pay for conservation of a local heritage building. As discussed in section 3, this question can be asked in several ways. In this report, this approach is described as the *stated preference* method. This distinguishes this general valuation approach from *revealed preference* methods that derive valuations from observations of behaviour in either market or non-market situations.

Benefits to owners of residential properties in the precinct. These benefits should be reflected likewise in rental or capital values of local residential properties. Again, local property owners can be asked how much they would be willing to pay for conservation of a local heritage building

Benefits of tourist visitors to the heritage building or precinct. Tourists may gain more pleasure from their visit as a result of the enhanced environment. Some of these benefits may show up in increased expenditure and therefore in increased revenues of local property owners. But some benefits will accrue to tourists as consumer surpluses

⁴ This is also part of the principle of compensating variation. The common feature of the principle is that each individual should be as well off after a change in policy as before it.

(the difference between what tourists are willing to pay for the experience and the prices they actually pay). These benefits can be estimated in two main ways. One is the travel cost method. This method derives estimates of the consumer surpluses of tourists from an analysis of travel expenditures. The other method is again the stated preference approach—asking tourists what they would be willing to contribute to conserve a heritage building.

Benefits of other visitors to the heritage building or precinct. Other visitors to the area may also gain enhanced pleasure from the existence of a heritage building although the experience is quite incidental to the purpose of the visit. In this case, asking these visitors what they would be willing to contribute to the conservation of a building is the only way in which their valuations can be elicited.⁵ The travel cost method cannot be used for such an incidental experience.

Benefits to the general public (non-use or existence benefits). Some people may value a heritage renovation even without owning local property or visiting the area as tourists. The only way to value non-use benefits is by one or other stated preference method. Of course, identifying the appropriate population to survey (be it local, regional, national or international population) is complicated when there is no revealed preference behaviour, but this is a problem with this category of benefits, not with the use of stated preference valuation methods.

Table 1 summarises the main possible valuation methods for each form of public benefit. It turns out that there are four main methods: the net income or property value method, the travel cost method, and the stated preference method (and its various sub-methods). The only method that can be used for all forms of public benefit is the stated preference method, which is one reason why it is often the preferred approach.

Table 1 Public Benefits and Possible Valuation Methods

Public benefits	Possible valuation methods
Local commercial properties	Net income, property value or stated preference
Local residences	Property value or stated preference
Tourist visitors to the precinct ^a	Travel cost method or stated preference
Other visitors to the precinct ^b	Stated preference
The general public ^c	Stated preference

- (a) People visiting the site or precinct primarily as tourists.
- (b) People visiting the site or precinct for any non-tourist purpose.
- (c) People who value the site or precinct but who do not own property in the precinct and who do not visit the site. These benefits are sometimes called non-use benefits.

3 Valuation Methods in more Detail

Estimates of the **net income** impact of a heritage building on local commercial properties require data on revenues and costs of these properties with and without the

⁵ Workers in a heritage precinct may not receive a benefit because in a competitive market they would receive lower wages and all the benefits would do to the property owner.

local listed heritage building. This is rarely practical for individual properties. It might occasionally be possible to estimate the net income effect for a precinct based on aggregate precinct expenditure and costs (for example for the Rocks area in Sydney). However, we are not aware of any such studies. Indeed, heroic assumptions would be required to identify the effects of heritage listing on *net* precinct income. More often, studies focus on aggregate expenditure and ignore costs of any kind (see below) which is a different kind of valuation approach and usually an incorrect one.

The **property value (hedonic pricing) method** is more promising. This method analyses how specific attributes of goods, such as the heritage aspects of a building, are valued. Essentially, the analyst compares the prices of houses with different characteristics (size of land, number of rooms, distance to the CBD, quality of view, and so on). Using multiple regression analysis, it is possible to show how house prices change with variations in these characteristics. Real estate agents may also be able to identify the value of specific characteristics, but their judgements are unreliable because the comparisons on which they are based are usually weakly defined.

There have been several studies of the impacts of heritage listing on property values. Hough and Kratz (1983) found that new office buildings with architectural awards in Chicago attracted a significant price premium, but that older heritage buildings did not (possibly because of a partial loss of property rights). Moorhouse and Smith (1994) found that house prices in Boston were significantly affected by architectural styles (Neo Grec, Italianate, Victorian Gothic and so on) but that rows of houses with similar styles of any kind tended to sell at a discount. In Sydney, Penfold (1994) found that house prices in conservation areas rose at a similar rate to house prices in other areas.

However, the hedonic price method is generally of little use for our purpose—to estimate the impact of a heritage listing on the value of other local commercial or residential properties. These values are affected by many variables. Our fieldwork in Sydney indicated how difficult it would be to isolate the effect of a heritage building on other properties, especially commercial properties. None of the hedonic price studies cited above, or other studies that we have seen, attempt to estimate the external price impacts of a heritage building. Hedonic pricing is generally data intensive. Moreover, the method is difficult to apply *ex-ante* before a major property is heritage listed.

The **travel cost method** is based on the observation that visits to a site tend to fall with distance (trips costs) to the site. Data on trip visits and costs can be used to generate a demand curve for the site, i.e. a schedule that shows the number of people who would be willing to pay various prices for access to a site. The classic procedure is to establish the number of per capita visits per zone as a function of transport costs and then, through a series of fictitious prices, to estimate the demand curve. Martin (1994) used the travel cost method to estimate the demand for museums in Quebec,

However, the travel cost method has two significant limitations. It is very difficult to apply when trips have multiple purposes because the attribution of the costs of travel becomes arbitrary. Also a major component of trip costs is the cost of travel time which

is difficult to value. In addition, the travel cost method requires substantial data. Finally, in common with other revealed preference measures, preferences are revealed only after a heritage building is renovated. Decision makers need data before renovation, when the listing decision has to be made.

There are three main forms of **stated preference approach**: the contingent valuation method, stated choice and referenda. In **contingent valuation** studies, people are asked what they would be willing to pay for a specified good. The form of the question varies. Sometimes people are asked an open-ended question: what they would be willing to pay without any guidance as to a possible figure? In other cases, respondents are presented with a range of possible payments to choose from. In still other cases, respondents are presented with a figure and invited simply to say yes or no.⁶ In **stated choice** studies, people are invited to choose between nominated options, nearly always including a monetary element in one or more options. The analyst can then work out the implied monetary tradeoff. In **referenda**, voters may be asked to approve a certain expenditure or policy. In Colorado, for example, people have been asked a series of referendum questions in which voters are asked whether they would rather have a lump dollar amount added to their taxes or a particular type and amount of a public good (Kling et al, 2000). Of course, both stated choice and referenda involve choices. The main difference between them is that a stated choice study is often hypothetical and, in any case, not binding, whereas a referenda may be binding.

Of these three stated preference approaches, the contingent valuation (CV) method has been the most commonly used for valuing culture and heritage, although the number of case studies is still small and the studies are recent. Hansen (1997) describes a CV study of willingness to pay for the Royal Theatre in Copenhagen. The aim was to estimate the total value of the Royal Theatre to the Danish population and to determine whether the value of the Royal Theatre's non-market benefits could justify the public grants given to the theatre. The sample comprised 1843 interviews by telephone. Two question formats were used: direct open-ended questions and 'spend more – the same – or less' questions. Half the sample was told that all Danes pay on average \$16 a year to the Theatre through taxes. The results indicated that the Danish population is willing to pay for the theater subsidy. Although theatre goers were willing to pay more than non-theatre goers, the latter (70 per cent of the population) were also willing to contribute significantly to the theatre. The main concern about the survey was the sensitivity of responses to information provided about the size of the current subsidy. Respondents who were told the subsidy had a lower willingness to pay than respondents who were not told. Hansen concludes that the CV method worked well for this well-known Danish icon. However, he considers that method is too resource intensive and expensive, and the results too uncertain, to be employed routinely on less high profile activities.

⁶ This is known as single-bounded dichotomous choice. Sometimes a follow-up question is asked. If a respondent answers 'yes' to the first question, he/she is given a higher price to respond to. If 'no', he/she is given a lower price to respond to. This is known as double-bounded dichotomous choice.

Pagiola (1999) reports a CV study of the value of cultural heritage assets in Split, a UNESCO listed World Heritage City located on Croatia's Dalmation coast. Much of the historic part of the city is in very poor state and in urgent need of repair. It is anticipated that the costs of repair would be at \$12.0 million (the figures in this study are in US dollars). Some of these costs would be recovered in the development of commercial space. However, there would also be substantial benefits to residents and visitors and to others (non-use benefits). Hedonic price methods were considered but not adopted because the property market in Split was too thin and regulated and because it would not provide information before a decision was made about the benefits of the investment after it had been implemented. The travel cost method was rejected because it would not measure the benefits of residents, people visit Split for many reasons, and it would not pick up the expected benefits after the heritage was renovated. For the CV study, the sample included 400 tourists and 100 residents. Tourists were asked if they would pay a specified tourist tax (four different levels were used). Residents were asked if they would vote for a specified annual tax in a referendum. In both cases, four different levels of tax were specified for different respondents.⁷ The mean tourist WTP figure was \$44; the mean resident WTP amount was \$168. The estimated total present value of the benefits was about \$60 million, providing a net present value in the order of \$48 million. Pagiola concludes that the results are robust. But he warns that they are site specific and that they cannot be transferred directly to other sites.

Still in Europe, Cuccia and Signorello (2000) undertook a CV study to estimate the willingness of visitors to pay for visiting Noto, a city in the south of Sicily that is famous for its built cultural heritage. The heart of its heritage is in two main streets that are no longer the centre of daily life. In a similar study design to Pagiola (1999), 560 tourists were asked whether they would be willing to pay for access to the historical centre, with a follow-on question depending on their first answer. Ninety respondents (16 per cent of the sample) indicated that, on principle, they would be unwilling to pay any price for access. The results indicate that both Italians and other nationalities are willing to pay an average entry fee of about \$8 (Australian). This seems a rather low figure. However, apart from the issue of protest responses, the authors have no reservations about the survey or its results and recommend the approach.

Moving to the United States, Kling et al. (2000) estimate the public good value of preserving a local historical landmark, namely an historic hotel in the medium sized town of Fort Collins. The authors again use CV, remarking that it is 'virtually the only valuation method applicable when non-use values are important'. They also use a referendum-style dichotomous choice question. In the valuation question, people were asked either whether they would be willing to vote yes to a one-time property tax for the stated purpose or whether they would vote yes to spending part of a revenue surplus on the building rather than receive a tax rebate. Respondents were also given two different amounts of historical information (high and low) about the building. The

⁷ In each case, the double-bounded dichotomous choice method was used, with respondents given follow-up figures to respond to.

survey was mailed to 501 households. Although 252 surveys were returned, 40 had no usable information for one or more variables and 35 were rejected as protest votes, leaving only 177 usable responses. The resulting willingness to pay figures for the rebate hypothesis was double those for the extra tax option. They were also much higher for households given more information about the building. For the short description, the mean WTP was \$86 for the tax payment vehicle and \$195 for the rebate vehicle. For the long description, the mean WTP was \$126 for an additional tax and \$434 out of a potential rebate. In total, the city's households value the public good aspects of the restoration at between \$2.5 million and \$13 million, which exceeds the city's likely financial commitment.

These CV studies demonstrate the practicality of CV studies for major standalone heritage buildings or areas. However, as Hansen notes, the method may not be practical for smaller buildings or areas. And, as Pagiola remarks, the results cannot be routinely transferred to other buildings and cities. The studies also illustrate the sensitivity of the results to the payment vehicle assumed and the information provided.

More generally, several major reviews have highlighted substantial problems in the use of CV methods. The most authoritative review was conducted by the high level panel, including several Nobel prize-winning economists, set up by the U.S. Department of the Interior to examine the CV studies made in the aftermath of the Exxon Valdez oil spill in 1989 (NOAA, 1993). Hausman (1993) contains a particularly critical assessment of CV with contributions from many leading economists. Likewise, Knetsch (1994) provides some cautionary remarks. The following are some main concerns.⁸

- **Information.** CV results are very sensitive to the information provided. This was very apparent in Australia's largest CV study—the CV study for preservation of Coronation Hill within the Kakadu National Park (Imber et al., 1991). It is essential to provide an accurate description of the expected effects of the choice being proposed.
- **Part-whole problem.** Respondents often fail to distinguish between the benefits of part of an environment (e.g. one lake or one building) and the benefits of the whole environment (the set of lakes or buildings). CV surveys that deal with only one building could be misleading. Valuing one heritage listing at a time could produce a significant over-valuation of the heritage stock in the city.
- **Budget constraint.** It is important that respondents be reminded of all their possible payments and of their budget constraint,

⁸ Abelson (1996) provides an overview of the issues in contingent valuation.

- **Non-market nature of the good.** Individuals are not familiar with the notion of valuing and paying for heritage. Respondents have to be introduced carefully to the notion of contributing to heritage.
- **Validation.** It is difficult to test whether the answers provided to hypothetical payment questions are realistic and valid.
- **Thoroughness.** CV surveys are not easy or quick. They should generally be carried out in person rather than by mail or telephone.

Finally, note the context for the valuation of heritage. As Pagiola (1999) and Kling et al. (2000) show, the general purpose of valuation is to determine whether the benefits of heritage conservation exceed the cost. The cost includes renovation and maintenance expenditures and may include reduced revenues because land or property is not used as intensively as it could be. In cost-benefit analysis, the costs of renovation and maintenance reflect the value of output foregone due to using resources in renovation and maintenance. If nominal payments to labour exceed the value of output displaced, labour should be costed at a shadow price that represents its opportunity cost. This ensures that any extra income generated by working in the heritage sector is included in the estimated net benefit of the project.

However, some analysts value heritage using economic impact analysis (EIA). In EIA, the local economic benefit is the product of total expenditure on local inputs and a local production multiplier. For example, suppose that government (or the owner of a heritage building) spends \$10 million on a heritage renovation, of which \$5 million are spent on local labour and other local inputs. This \$5 million would in turn generate further local expenditure and production. Because the multiplier equals $1/(1-MPP)$, where MPP is the marginal propensity to produce, the multiplier here equals $1/(1-0.5) = 2$. The total local impact on output and incomes would then be $\$5.0 \text{ million} \times 2 = \10 million . Sanderson (1994) uses the EIA method to estimate the economic effects of historic preservation in Rhode Island. In Australia, the Urban Consulting Group (1995) appeared to recommend the use of EIA for estimating the economic effects of heritage listing.

The problem with EIA here is that expenditure on anything may generate some local output and income. For any given multiplier, it is immaterial whether government spends \$10 million on a hospital, on a heritage project, or in digging holes and then covering them up. Spending money on heritage means not spending it on hospitals or on digging holes. The important issue is which of hospitals, heritage or holes in the ground will provide the greatest social benefits. Similar arguments apply to private expenditures. In EIA, all expenditures are beneficial. Indeed, the higher the expenditure, the greater the benefit. There is no concept of opportunity cost. It is therefore not generally a useful method for assessing the value of a heritage listing.

In conclusion, the benefits of heritage listing are principally the general enhancement of the city environment for visitors, local residents, and the public at large. These benefits

are generally small per individual but enjoyed by a large number of people. There are few discrete large benefits to specific community groups. The only valuation method that can attempt to identify these general and diffuse benefits is the stated preference approach, usually by some form of contingent valuation. Other valuation methods have limited application. However, CV methods require considerable resources and it has yet to be shown that they can be used for valuing an individual building in a complex city.

4 Heritage Buildings in Sydney: Seven Case Studies

All seven buildings considered below are listed as being of state significance. Six of the buildings are located in Sydney's Central Business District and one is in Parramatta. The seven buildings are:

- The General Post Office at 1 Martin Place,
- Westpac Bank building, 341 George Street, at the west end of Martin Place,
- Wales House, 66 Pitt Street, at the junction with O'Connell Street,
- Liner House, 13-15 Bridge Street, southern side,
- The Parcels Post office / Medina apartments, Railway Square, close to Central Station,
- The Strand Arcade, from 412-414 George Street through to 191-195 Pitt Street,
- 60 Macquarie Street, Parramatta.

The buildings represent a cross section of adaptive uses. Two are used as offices (Liner House and 60 Macquarie Street, Parramatta), one is a continuing retail use (Strand Arcade), one building has been converted to a hotel (Wales House) and another to serviced apartments with some retail (Parcel Post office). The GPO has been converted to a mix of uses, a hotel, offices, retail and a continuing post office. The Westpac building has not been renovated.

Before considering how the public benefits of these buildings could be valued, it is important to understand the city context. The City of Sydney's Local Environmental Plan contains three heritage schedules (City of Sydney, 2000). Schedule 1 (Figure 1) lists 443 heritage buildings and sites in the city, of which the NSW Heritage Office registers 220 as being of state significance. Schedule 2 lists 48 building elements in the city. Schedule 3 lists 64 archaeological, townscape and landscape items.

The scope and richness of heritage in Sydney raises several issues. First, can an individual building be valued in isolation from its precinct? If not, people need to be informed about the relationship between the building and its precinct. Second, is it possible to distinguish the heritage value of one building from the heritage value of the whole city? This is a 'part-whole issue'. As Knetsch (1994) demonstrates, CV surveys that deal with only one item at a time (in this case a building) can be seriously misleading. Thirdly, there is the issue of the budget constraint. Supposing that someone

We now consider the seven case studies. In particular we consider two issues. First, what is the nature of the public benefit due to the heritage in each case? Is there a benefit to local property owners, to tourists or other visitors, or to the general public (a non-use value). Second, what valuation issues arise in each case?

The **GPO** is arguably Sydney's premier built heritage building (Figure 2). In the words of Ann Lumley, 'The whole building was intended to be an inspiring symbol of the city, the colony and its place in the British Empire'.¹⁰ Completed in 1874, on the site of the former colonial post office, the GPO was at the heart of the business district: the home of the post, the telegraph and the telephone on which both the economy and much social life depended. The Clock Tower was the most famous meeting place in Sydney. The building itself is considered the finest example of the Victorian Italian Renaissance Revival style in Australia. Its long public colonnade is a rare architectural element in Australia. It is the largest and most impressive post office building in New South Wales and possibly in Australia. It is the most admired monumental sandstone street façade in Sydney.



Figure 2: Model of the GPO redevelopment.

The GPO was closed in 1988. After the Newcastle earthquake in 1990, the government spent \$38 million to make the GPO earthquake proof. In 1999, the dramatically redeveloped building was reopened with the retention of the façade, a five star hotel with 417 rooms including 59 heritage rooms, a modern office block, retail fronting on to Martin Place, and a post office in the original location fronting on to George Street.

¹⁰ Quoted in *No.1 Martin Place: The Story. Meet Me Under the GPO Clock*, No.1 Martin Place (1999).

Because of its location, the hotel is especially popular with business people, but it does not draw many pure tourists.

In regard to the public benefit of the heritage of the GPO building, three issues would need to be considered. First, many people, usually over 40 years of age, would regard this building as 'priceless' and could be unwilling to place monetary figure on its conservation. Second, on the other hand, many people under 40 have not experienced the importance of the GPO as the heart of commercial and social life in Sydney and would be unaware of its long historical importance. Their WTP answers could be very sensitive to the information provided to them. Third, the renovation is so powerful and effective that many people, including the writer, would have had difficulty imagining how successful the renovation would be and so, even though favouring conservation, may have undervalued it.

The **Westpac Bank building** in George Street, at the western end of Martin Place, stands on a site that provided the Head Office of Australia's largest private bank from 1853 until 1970. The current building was constructed between 1927 and 1934 (Figure 3). Together with the adjacent former Commercial Banking Company building to the south, the building forms an important focus and closure to the western end of Martin Place and relates well to the heritage buildings close by in Martin Place that are clad in similar sandstone and granite materials. The building itself is regarded as a fine example of the Renaissance Commercial Palazzo style of architectural design from the 1920s. It contains a stunning banking chamber the length of the ground floor with few columns, and notable for lavish use of marble, scagliola and pressed metal. The building exemplifies the power, optimism and opulence of the banks in the 1920s.



Figure 3: Archival photograph of the Westpac Bank Building, taken from the corner of George and Wynyard Streets.

This building is unlike the others in this sample because it has not yet been renovated. However, it is quite easy to imagine what it would look like after renovation because the opportunities for external alteration are minimal. An important issue in valuing the building would be the presentation of information on its historical features. Another key feature is its relationship to Martin Place and its importance in this precinct. A third issue might be the role of the bank. Banks are not popular in Australia and some people might consider that the bank, not they, should pay for conservation of the building.

The **Wales building** (66 Pitt Street) (Figure 4) also has an important history.¹¹ The site of the building was the home of the Sydney Morning Herald from 1856 to 1955. The present building was designed for, and fulfilled, this purpose from 1927 to 1955. The exterior of the building is a fine example of the inter-war commercial Renaissance Palazzo style, then popular for office buildings of this type. The building with its rounded corner treatment on the prominent narrow-vee site provides a strong visible element in the townscape. The building is now being converted into a five-star hotel that retains some internal building details and historical references to the Fairfax eras. The hotel will open up the building to more visitors than before. But the prime public benefit will be the preservation of the urban landscape for the every day visitor to the area. It will not be in itself a tourist attraction. The strength of the external architecture, and the minimal change to it, would have made this a relatively easy building to value before the conservation was undertaken. But the valuations may again depend on the amount of historical information that is provided to the respondent.



Figure 4: An Archival print of the Wales Building, looking North at the junction of Pitt, Hunter, and O'Connell Streets.

Liner House in Bridge Street is a very different kind of building as can be seen in the attached figure, taken when the building was new (Figure 5). Liner House was completed in 1961 and represented a major departure from the sandstone buildings that line the southern side of Bridge Street. Liner House was awarded the Sir John Sulman medal for the most meritorious building constructed in NSW in 1961. Lucas et al (well-

¹¹ The Bank of New South Wales owned this building after the Fairfaxes.

known heritage architects) describe the building as, ‘an outstanding and relatively intact example of an international style, curtain walled office building, distinguished particularly by the quality and consistency of its design, the fineness of its finishes, and its sensitivity to its contemporary neighbours and streetscape’. To the popular mind this could be regarded as a controversial view. Today the building appears to the consultant to be tired and rundown and out of place with the handsome sandstone buildings on either side. It is possible that, without strong advocacy of its 1960s architectural merits, it would not score very highly in a survey of public opinion about its value.¹²



Figure 5: Liner House – Bridge Street Façade.

¹² Before seeing this building, the research assistant on the field trip was firmly of the view that valuations of heritage should be left to the experts who would be better able to judge the value of conservation, especially before it occurs, than the uninformed and inexpert public. After seeing this building she was equally adamant that heritage decisions should not be left to the experts!

The same would probably not be true for the old **Parcels Post building** in Railway Square (Figure 6). The State Projects heritage group describes this building as having historical, aesthetic, technical and landmark significance. Its historical significance lies in its role as the major parcels office from 1913 to the 1960s. The handsome building combines Chicago School design with Italianate details. It is an early example of the use of a partial steel framework, encased in concrete, to maximise internal floor areas. The building is prominently located when viewed from two of Sydney's major streets (George and Pitt Street) and is an important part of the Railway Square precinct, which contains several buildings in similar materials and style. The Parcels Post building has now been renovated as serviced apartments along with some public facilities and retail at ground level. On the southern side, three new office blocks will be built. These may well benefit from the visual amenity provided by the renovated Parcels Post building. In this case, important valuation issues appear to be the location of the building and the close architectural relationship of the building to the precinct.



Figure 6: The former Parcels Post building, from Railway Square, Lee Street side.

The **Strand Arcade** (Figure 7) consists of five-storey buildings to George and Pitt Streets connected by a three-storey section on the middle. It stands at the heart of Sydney's retail centre. Built in 1891-2, the arcade was remodelled in 1969 and reconstructed in 1978 after severe fire damage. The reconstruction recreated the

Victorian features of layout, materials (timber, tiles and glass), colour and detail. For this, it won a Royal Australian Institute of Architecture Merit Award. The finished product, together with the Queen Victoria building a few hundred metres up George Street, is one of very few examples of Victorian retail style anywhere in the world. It stands in strong contrast to the chrome, stainless steel and marble of modern shopping centres.



Figure 7: The Strand Arcade, from George Street.

The Strand Arcade is especially attractive to 'destination' merchants and shoppers who specialise in fashion and jewellery. Of all the buildings on our list, the Strand Arcade is most likely to have a positive impact on local property values by acting as a strong shopping magnet. Together with the local shops, many of which have heritage features, there is an ambience of colour and vibrancy in and around the Strand Arcade. However, so many factors affect property values in this precinct that it would be very difficult, if not impossible, to determine through statistical analysis whether the Strand Arcade, and more particularly the *style* of the arcade itself, has any impact on revenues or property rents in the precinct. Even a contingent valuation survey would find it difficult to determine which attributes of the Arcade have most value and whether these values

enhance local business. This would be particularly true of valuation surveys before the Arcade was reconstructed because of uncertainty about the appearance after renovation.

The final case study is **60 Macquarie Street**, Parramatta (Figure 8). This is an attractive three-storey Georgian house with several original features such as fireplaces, ceilings and staircase, built in 1842 by Houison, one of the first architects in the colony. It is located close to the centre of the Parramatta CBD and stands opposite the handsome Leigh Memorial Uniting Church with features from 1821. The old building at 60 Macquarie Street has now been converted into offices, with a large office block immediately behind on the same site. Jones Lang Lasalle, the property manager, considers that 60 Macquarie Street adds significantly to the local streetscape value, but that it does not have any impact on local property values and that it does not itself attract tourists to the area.



Figure 8: 60 Macquarie Street, Parramatta ('Houison's Cottage')

Table 2 shows the apparent main public beneficiaries of the heritage features of each building. This is of course quite distinct from the locational advantage of each site.

Table 2 Study Sites and Public Beneficiaries

Site	Precinct	New use	Local Businesses	Local Residents	Tourists	Other Visitors	General Public
GPO	Martin Place	Hotel, office, and retail	Yes	No	Yes	Yes	Yes
341 George St.	Martin Place	Banking ^a	No	No	No	Yes	Yes
Wales House	O'Connell St.	Hotel	No	No	No ^b	Yes	Yes
Liner House	Bridge St.	Offices	No	No	No ^b	Yes	Yes
Parcels Post building	Railway Square	Apartments	Minor	Minor	No ^b	Yes	Yes
Strand Arcade	George and Pitt Streets	Retail	Yes	No	Yes	Yes	Yes
60 Macquarie St.	Parramatta	Offices	No	No	No	Yes	Yes

(a) Original use has not changed.

(b) It is assumed that people do not visit these precincts for tourism purposes. However, these buildings do add to the general tourism character of Sydney.

The following main conclusions can be drawn about the beneficiaries of these heritage buildings.

- The heritage features of the study sites have limited impacts on the trading conditions of neighbouring properties. The Strand Arcade is a possible exception. The GPO building may also enhance trading around Martin Place, although not necessarily more than would a modern building with similar trading businesses inside.
- The sites have little direct impact on local residential values. However, the enhanced style and history embodied in the heritage listed buildings very likely have an indirect impact on the quality of the city and hence on CBD residential property values.
- Only two sites, the Strand Arcade and the GPO, appear to be tourist destinations in their own right. However, all other buildings (with the possible exception of Liner House) appear to the writer to contribute substantially to the local precinct quality. Thus all sites enhance the overall quality of the city and the general visitation experience.
- Many members of the public may consider that the heritage of these buildings is important and should be conserved even though they may not actually visit the site.

This site-specific discussion confirms our earlier general conclusion that the only practical way to value these public benefits is likely to be through some form of stated preference survey.

Conclusion: The Valuation of Heritage Buildings in Sydney

The review of site-specific valuation issues confirms some of the difficulties that would be encountered, and need to be dealt with, in a CV study of heritage values.

- There is a significant part-whole valuation problem. The individual buildings are part of a rich urban mosaic in Sydney. It may not be easy to identify the value of an individual building separately from the value of the whole.
- A related issue is that some buildings may be considered more valuable as part of a precinct than as standalone buildings. For example, the Westpac Bank building in George Street is enhanced by, and enhances, Martin Place. Also, handsome though it is, the Parcels Post Office building may be considered to have greater value as part of Railway Square (which includes Central Station, the old Dental Hospital and the Sydney Institute) than as a standalone building.
- A theme through all the case studies is the crucial importance of information. Information will decisively affect valuations. But it may be difficult to distinguish between the provision of objective information and advocacy argument.
- A related issue is what exactly is being valued in each building? This problem arises most strongly when a building also has a use value, as the Strand Arcade has for shoppers, which is largely independent of its heritage quality.
- Ideally, individuals' valuations of heritage are required *before* a heritage building is restored. However, many people who are not trained in architecture may find it difficult to visualise how a run-down building could be restored. The stunning redevelopment of the GPO is perhaps an example of this.
- The general public is not familiar with the notion of valuing and paying for heritage. This may arise as a special problem where the owner is seen as the responsible party, as it might for example with the Westpac bank building in George Street. Respondents have to be introduced carefully to the notion of contributing to heritage.

These problems may be compounded in public valuations of lesser heritage buildings. The case study buildings are easily recognised major structures. Many decisions,

possibly including more difficult ones, concern lesser buildings. For example, the nondescript corrugated iron shed behind the Parcels Post building is heritage listed. The public might find this more difficult to value than the Parcels Post Building.

Given these difficulties, how could community valuations of public benefits be obtained? The first step is to decide the objective(s): what should be valued and why? Do we want to obtain an estimate of the total value of heritage in Sydney? Is this a sensible question? Or, do we want to estimate the value of adding one or more heritage buildings to the heritage stock? The NSW Heritage Office has confirmed that the latter question is its chief concern because this is the focus of current decision making. This clarifies the objective of the valuation process. Nevertheless, the valuation process must be mindful of the criticism of CV that respondents often confuse the value of part of the environment with the value of the whole and ignore budget constraints.

Turning to the valuation process, this report recommends that if government wishes to examine the public benefits of a heritage building and the consequences for public decision making, government should carry out a staged research program along the lines outlined below.¹³

First, the relevant public authority should commission a series of in-depth focus groups to determine people's attitudes towards heritage, the issues that concern them, attitudes towards valuation questions, the role of information in valuation and so on. In the literature that we have reviewed, there is no reference to focus group market research. This is a striking omission. In this consultant's view, this type of research is critical for an understanding of complex issues before large-scale surveys are undertaken.

In order to carry out meaningful focus groups, considerable planning would be necessary. This would focus, *inter alia*, on the precise nature of the decisions to be made about heritage for particular buildings, the relationship between the building and its precinct, and the kind of information to be provided to the focus groups. To obtain a reasonable feedback, we expect there to be at least four to six focus groups (allowing for socioeconomic and residential differences) for at least two different buildings. Experimentation with information provision may also be desirable. Importantly, at least one building should be valued before redevelopment occurs.

Following analysis of these results, a broad base survey of households would be developed. The first stage of this would be pilot surveys that tested the main features of the survey format, such as the question(s) to be asked, the information about the buildings to be provided, and the impacts of budget constraints on individual willingness-to-pay valuations. Again it would probably be desirable to test people's valuations of two or three buildings. When the various difficulties of contingent valuation of heritage have been adequately resolved, the main survey would be carried out.

¹³ This is only an outline of a possible procedure. Specifying a complete procedure is a complex task that is beyond the scope of this report.

Overall, this process would probably take two years and could cost in the order of \$300,000. This work can be staged and reviewed at each stage. However, this report considers that there are no simple short-cut approaches to valuing built heritage in a large city.

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