1.0 Introduction

1.1 Historic properties are assets that embody a cultural, historic, and/or architectural heritage.

1.2 Historic properties may have legal or statutory protection because of their cultural and economic importance. Many governments have enacted measures to safeguard specific historic properties or to protect whole areas of special architectural or historic interest.

1.3 Private organisations play a significant role in promoting historic preservation and education about historic properties. In some cases, historic properties also bring economic benefits through increased tourism in the communities where they are located.

1.4 The valuation of historic properties requires consideration of a variety of factors that are associated with the importance of these properties, including the legal and statutory protections to which they are subject; the various restraints upon their use, alteration and disposal; and possible financial grants or rate/tax exemptions to the owners of such properties in some jurisdictions.

1.5 The costs to restore and maintain historic properties may be considerable and these costs, in turn, affect the value of the properties.

1.6 The assessment of the highest and best use of historic properties will depend on the specific restrictions that apply to them. In some situations, the use of historic properties is limited to restoration for non-commercial use whilst in others, adaptation to some other use, including commercial use, is permissible.

2.0 Scope

2.1 This Guidance Note covers real property that has cultural and historic significance, specifically focusing upon historic buildings and sites. It does not address either natural heritage assets or heritage assets that are personal property, e.g., works of art. (Guidance Note 5 offers direction on the valuation of personal property.)

2.2 This Guidance Note applies to the valuation of historic properties in both public and private sectors. Historic properties owned either by public sector or private sector entities are distinguished by similar cultural characteristics, and share common problems in regard to restoration and/or adaptation. But the specific legal and statutory protections that apply to private and public historic properties and other restraints upon their use, alteration and disposal may differ.

2.3 Historic property is a broad term, encompassing many property types. Some historic properties have been restored to their original condition; some have been partially restored (e.g., the building façade); and others have not been restored. Historic property also includes properties partially adapted to current standards (e.g., the interior space), and properties that have been extensively modernised. All historic properties (buildings and/or sites) have some degree of historic character. This Guidance Note addresses properties having historic character to some degree or other.

3.0 Definitions

International Valuation Standards Definitions

3.1 Historic House Owner Associations. Not-for-profit membership associations that promote the preservation of historic properties and provide their owner-members with advice on matters such as the management, repair, maintenance, taxation and insurance of historic properties.

3.2 Historic Property. Real property publicly recognised or officially designated by a government-chartered body as having cultural or historic importance because of its association with an historic event or period, with an architectural style, or with the nation’s heritage. Four characteristics are commonly associated with historic properties: 1) their historic, architectural and/or cultural importance; 2) the statutory or legal protection to which they may be subject; 3) restraints and limitations placed upon their use, alteration and disposal; and 4) the frequent obligation in some jurisdictions that they be accessible to the public.
The terms, historic property and heritage asset, often overlap but are not in all cases equivalent. See also Heritage Asset, Publicly Designated Historic Properties.

3.3 Listing of (Heritage) Buildings or Historic Properties Register. A recording of officially designated historic properties. Not all historic properties are necessarily listed in registers. Many properties publicly recognised as having cultural and historic importance also qualify as historic properties.

3.4 Preservation Incentives. Incentives to the owners of historic properties, primarily fiscal in nature, to promote the restoration and maintenance of such properties. Examples may include exemptions on inheritance taxes for conservation properties gifted to heritage trusts, government subsidies, exemptions in municipal rates/taxes, investment tax credits to owners of historic properties, transferable development rights and deductions taken on conservation easements donated to nonprofit organisations.

3.5 Publicly Designated Historic Properties. Those properties, the historic status of which is officially recognised by government-chartered bodies to identify historic properties and to promote historic preservation. Such bodies may be established by national/federal, state/provincial, or county/municipal governments. Local non-governmental historical societies may also designate historic properties and maintain private historic property lists or registers that confer many of the same benefits whilst remaining exempt from government restrictions. See also Listing of (Heritage) Buildings or Historic Register.

International Public Sector Accounting Standards Definition

3.6 Heritage Asset. An asset having some cultural, environmental, or historical significance. Heritage assets may include historical buildings and monuments, archeological sites, conservation areas and nature reserves, and works of art. Heritage assets often display the following characteristics (although these characteristics are not necessarily limited to heritage assets):

(a) Their economic benefit in cultural, educational and historic terms is unlikely to be fully reflected in a financial value based purely on market price;

(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) They are often irreplaceable and their economic benefit may increase over time even if their physical condition deteriorates; and

(d) It may be difficult to estimate their useful lives, which in some cases could be hundreds of years.

The above definition is consistent with the description of heritage and conservation assets in IPSAS 17.9 (n.b., IPSAS 17 does not currently contain a formal definition of heritage assets).

Definitions from the UNESCO Glossary of World Heritage Terms

3.7 Cultural Heritage. Three groups of assets are recognised:

1. Monuments: architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features, which are of outstanding universal value from the point of view of history, art or science;

2. Groups of buildings: groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science; and

3. Sites: works of man or the combined works of nature and man, and areas including archeological sites, which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view.


3.8 Cultural Property. Property inscribed in the World Heritage List after having met at least one of the cultural heritage criteria and the test of authenticity. (World Heritage Convention, Article II, UNESCO, 1972)

4.0 Relationship to Accounting Standards

4.1 International Public Sector Accounting Standard 17 (Property, Plant and Equipment) does not require an entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognise heritage assets, it must apply
the disclosure requirements of IPSAS 17 and may, but is not required to, apply the measurement requirements of IPSAS 17 (paras. 2 and 8). The IPSAS Discussion Paper on Heritage Assets (January 2006) requires the valuation of heritage assets where this is practicable. However, where valuation is impracticable, an entity would be required to make relevant disclosures, including reasons why valuation is not practicable.

AUS 4.1.2
"In Australia, AASB116 requires that heritage assets be recognised unless their value cannot be reliably measured. In Australia therefore, where requested, valuers should seek to determine a value for heritage assets irrespective of the requirements of IPSAS 17."

4.2 This Guidance Note considers historic structures as a category of heritage and conservation assets.

5.0 Guidance

5.1 The valuation of historic properties involves special considerations dealing with the nature of older construction methods and materials, the current efficiency and performance of such properties in terms of modern equivalent assets, the appropriateness of methods used to repair, restore, refurbish, or rehabilitate the properties, and the character and extent of legal and statutory protections affecting the properties.

5.2 The sales comparison, cost and income capitalisation approaches may be employed in the valuation of historic properties. The selection of the approach or approaches to be used depends on the availability of data required to apply that or those approaches.

5.2.1 In applying the sales comparison approach, the historic nature of the property may change the order of priority normally given to attributes of comparable properties. It is especially important that the Valuer find comparable properties with historic features similar to those of the subject. Criteria for the selection of comparable properties include similarity in location (i.e., in zoning, permissible use, legal protection, and concentration of historic properties), architectural style, property size, and the specific cultural or historic associations of the subject property. A variety of adjustments may have to be made to the comparable sales. These involve differences in location, costs of restoration or rehabilitation, or specific encumbrances. Adjustments are made in the following situations:

5.2.1.1 when costs must be incurred to restore or rehabilitate the subject property, but not the comparable sales; and

5.2.1.2 where the specific encumbrances upon the subject, e.g., restrictive covenants or preservation easements, differ from those upon the comparable properties.

5.2.2 Historic properties having a commercial use are often valued by means of the income capitalisation approach. Where the distinctive architecture and ambiance of an historic property contribute to its drawing power under an income-producing use and that income-producing use is considered to be the highest and best use of the historic property, the valuation will address the following:

5.2.2.1 All work proposed to restore, adapt or rehabilitate the historic property must meet existing zoning requirements and covenant obligations.

5.2.2.2 Where listed building consents or a zoning variance and/or building code exemptions are required, the projected timeframe to obtain such authorisation needs to be taken into consideration.

5.2.2.3 The income capitalisation approach should consider the cost effectiveness of an income-producing historic property in terms of the rental and/or commercial income the property is able to generate. In particular, it should address the additional costs involved in maintaining the property, especially those costs incurred due to functional obsolescence or reserves set aside for any required sinking fund.

5.2.3 When applying the cost approach to historic property, the Valuer needs to consider whether the historic features of a building would be of intrinsic value in the market for that property. Some historic buildings will be of value simply because of their symbolic status, for example a famous art gallery where the building is, or more, important than the function it fulfills. In other words, the service potential of such a building is inseparable from its historic features. The modern equivalent of
such properties would need to reflect either the cost of reproducing a replica, or if this is not possible because the original materials or techniques are no longer available, the cost of the modern building with a similarly distinctive and high specification.

In many cases the historic features will add no value, or be viewed as an encumbrance by a purchaser in the market, for example a hospital operating in an historic building. In such cases the modern equivalent would reflect the cost of a new building constructed to a conventional modern specification.

In all cases the adjustments for physical deterioration and functional obsolescence will need to reflect factors such as the higher cost of maintenance associated with historic property and the loss of flexibility for adapting the building to the changing needs of an occupier.

The land or site, upon which an historic property stands may be subject to constraints upon its use. In turn, any such constraints will affect land and overall property value.

5.3 Historic, or heritage assets, for which there is no reliable or relevant sales evidence, which have no potential for generating income, and which would or could not be replaced may be incapable of reliable valuation. An example could be a partially ruined building with no income generating potential. Where a reliable assessment of value is not possible, the Valuer must disclose the reasons for this conclusion in the report.

5.4 Legal measures to safeguard historic properties may limit or restrict the use, intensity of use, or alteration of an historic property. Examples include restrictive covenants that run with the land regardless of the owner; preservation easements that prohibit certain physical changes, usually based on the condition of the property at the time the easement was acquired or immediately after proposed restoration of the property; and conservation easements that limit the future use of a property so as to protect open space, natural features, or wildlife habitat.

5.4.1 Restrictive covenants and preservation easements, whether existing or proposed, may have a major influence on the highest and best use of an historic property, and thereby have a significant effect on property value. Preservation easements can be donated, purchased, or obtained by compulsory acquisition/eminent domain.

5.5 The valuation conclusion shall be reported in accordance with IVS 3, Valuation Reporting.

6.0 Effective Date

6.1 This International Valuation Guidance Note became effective on 31 July 2007.