



HeritageBC



Understanding Heritage Real Estate: Perceptions and Practice



Heritage BC is a not-for-profit member organization with a central office in Vancouver, and satellite offices on Vancouver Island and in the Columbia Basin Region.

The focus of our work includes:

- Advocacy through government relationships;
- Learning through Workshops and Webinars;
- Community Building through Open Forums for Local Government, Commissions and NFPs;
- Support through Heritage Legacy Fund • Columbia Basin Trust;
- And recognition and networking through the Annual Conference and Heritage Awards.

This presentation is based on numerous industry reports and other written resources, plus interviews with experts in the field.

This report considers:

- What do we think is happening
- What is really happening
- And what are the lessons

The report highlights four areas:

- Real estate
- Risk management and insurance
- Appraisals and inspections
- Codes and Standards

Valuations of Heritage Properties

There is a strong perception that heritage designation can be detrimental to the value of the property.

But the research does not support this perception.

The approach to research is varied, and the studies often work with small samples and incomplete data, but collectively they make a compelling case.

In fact, conclusions in one report suggest:

“Historic designation of properties... [do] not in itself have any demonstrable negative effect on the value of those properties... The performance of designated properties is conclusively at or above average... When people recognize and, we suppose, properly care for a property, they seem generally to be rewarded in the market place.”



Photo: Jasperdo





Those quotes come from one of the largest Canadian studies, which surveyed 24 Ontario communities and 3,000 properties. Some of the findings found in this report:

- Considering house prices, 74% of heritage properties performed average or better than average in the market.
- The rate or number of sales among designated properties was good or better than the comparative market.
- Values of heritage properties tend to be resistant to down-turns in the general market.

Taking a closer look, the study indicates approximately 59% of the heritage properties performed better than the average property. 15% of the heritage properties were comparable to the average price trend. And 26% performed below the average price trend. This suggests that three out of four times, a heritage property will sell at the same price or better than the average market.

Looking at individual communities, we can see some performed extremely well:

- Heritage homes performed as high as 88% in Oakville and 92% in the Region of Haldimand-Norfolk

There was only one exception to this trend that was revealed in this Ontario study:

- Individually designated heritage properties in Prince Edward County under-performed by 71% below average.

The author of the Ontario study also looked at the effect of a market downturn.

- 21% of the surveyed properties lost value greater than the average.
- 32% performed at the same rate as the average.
- 47% performed better than average.

That means, nearly 80% of the heritage homes held their value or did better during a repressed period.

The same author produced a report in 1992 that focused on heritage homes in London, Ontario. While it is an older report, it suggests heritage real estate has held a certain strength in the market for a while.

The research showed 64.4% of individual designated properties performed better than the average real estate market.

Another 33.3% were consistent – or held their own - with the market. Only 2.2% performed below average real estate market.

Acknowledging this is a smaller, restricted sample, this report suggests 97.8% of heritage properties did as well or better in the real estate market than non-heritage properties.

A Vancouver Heritage Foundation study looked at BC Assessment Authority figures from 1998 to 2004, and compared designated heritage homes, non-designated heritage homes, and non-heritage homes.

While the samples are small, and the comparative data is incomplete, the author still concluded:

- **“Overall, both designated and non-designated heritage homes outperformed non-heritage homes.”**

This conclusion was based on the author's findings:

- **42% of the *designated* heritage homes increased in value according to BC Assessment data for 1999 to 2004**
- **42.1% of heritage *registered* homes increased in value compared to 39% growth for non-heritage homes**

So, while the margin is small, heritage homes held their own in assessed value compared to non-heritage properties.

The study's author looked at the situation in more depth by comparing houses on the same street.

In this example, the BC Assessment data from 1999 to 2005 was used to compare three houses on the same street:

- **The value of *designated* heritage home increased by 78%**
- **The value of *heritage registered* home increased by 45%**
- **The value of non-heritage homes increased by 48%**

The heritage homes in this small sample performed as well or better than the non-heritage property.

Another comparative of three houses considers BC Assessment data from 2001 to 2005.

- **On this street, the value of the *designated* heritage home increased by 58% after designation**
- **The value of the *heritage registered* home increased by 57%**
- **And the value of the *non-heritage* home increased by 37%**

Here, again, both heritage homes outpaced the non-heritage home.





The Oak Bay Heritage Foundation commissioned a summary of North American studies that offered the conclusion:

“There is strong evidence to suggest heritage designation has positive effects on property values as compared with non-designated properties...”

Here is a sample of research findings that are referenced in some of the reports:

- Houses in Philadelphia National Register historic districts command a premium of 14.3%. Houses in Philadelphia’s historic districts command a premium of 22.5% over houses located outside the district.
- Single family homes in Lincoln, Nebraska, increased \$5,000 in value after designation.
- In Zaanstad, a Dutch urban area, it was determined that sellers will realize an additional 26.9% for listed buildings.

The next two examples suggest there is a ‘rub off’ effect for non-heritage properties bordering historic areas.

- In San Diego, a non-historic house’s value increased by 3.8% by having a historical house within 250 feet; the value increased by 1.6% if the neighbouring house was between 250 and 500 feet away.
- A study of New York City transactions between 1974 and 2009 found that properties just outside the boundaries of heritage districts increased in value after the designation of the districts.

Similar to what we saw in the Canadian report, we see again heritage can resist market fluctuations and downturns.

- Prices of residential properties in Savannah, Georgia-designated historic districts resisted price depreciation better than properties in non-historic neighbourhood areas. The study looked at a nine-year period that included a bubble and a financial crisis.

It is not known with certainty why heritage properties appear to perform well on the real estate market.

Several authors suggest the reasons could be:

- **Reasonable investment by owners of the properties**
- **Maintenance and upgrades**
- **And well-designed additions and modifications**

The supposition is heritage properties attract people for their particular aesthetics, something the owner wants to maintain in good condition.

The authors of the studies often acknowledge the challenges of undertaking this type of research. Data can be incomplete and samples can be small.

Nevertheless, it is possible to make a compelling case when looking at the collected reports.

One author wrote: Owners of heritage properties “seem generally to be rewarded in the market-place.”

So, why does the contrary perception persist? We can only guess:

- **Maybe we need better studies.**
- **Maybe we need to be better at telling a different story.**
- **Maybe we need to be better aligned with the real estate market.**





Heritage Properties: Insurance

Certainly there is a perception that insurance can be difficult to obtain for heritage properties. According to the insurance contract, insurance companies must replace a home with “**like kind and quality**”.

In the case of heritage homes, there are many issues that arise from this, such as:

- Special materials, and unique features.
- A longer time needed for repairs and rebuilding.
- More bureaucracy, leading to more expense (such as long hotel stays).
- Claims settlements can be longer, which again leads to extra time and cost.
- Qualified experts are needed to evaluate heritage homes.
- And local by-laws can change over time, affecting replacement requirements and costs.

From the insurer's point of view, heritage properties can present unique challenges and additional risk.

Ecclesiastical Insurance, a provider that specializes in church and heritage commercial properties, states:

“Aging brick or stonework, insufficient or inappropriate insulation, outdated electrical and mechanical systems, lack of fire detection, fire fighting systems, and lightening protection make a heritage building far more vulnerable to damage caused by fire, fluctuating temperatures and severe weather events.”

The same provider also notes, heritage designation alone will not materially affect the cost of insurance. The cost drivers are typically:

- **Occupancy**
- **Construction; size of building; Height, shape and complexity of design**
- **Fire protection**
- **Location (e.g. flood zone, earthquake zone)**
- **Replacement cost (note: heritage designation might influence this factor)**
- **Loss history**
- **Architectural features; quality of materials and craftsmanship**
- **Availability of skilled labour**
- **Compliance with current codes**

There are different types of insurance and different degrees of coverage.

It is important to know when you are covered, and under what circumstances you are not.

Named Perils Coverage provides protection against such risks as fire, lightening, explosion, impact from aircraft, windstorm and hail, leakage from fire protective equipment, smoke, riot and vandalism. Other perils may be included but they vary depending on the insurance provider. It is therefore important to examine the individual policy carefully to ensure that the appropriate coverage is being offered.

All Risks Policies provide coverage against any kind of loss or damage unless it is specifically excluded. Exclusions vary but typical policies exclude earthquake, flood, seepage, dampness and dryness of the atmosphere, war and invasion, rodents, insects or vermin, criminal acts on behalf of the insured, nuclear incidents, rust or corrosion, pollution, terrorism, fungus, electronic data and increased costs due to by-laws or ordinances.

Replacement Cost coverage requires a prior insurance appraisal of the building. If the property is totally destroyed, it provides for the rebuilding of the property to the same design and quality as the original, in accordance with current building bylaws and regulations and up to the amount stated in the policy. Partial losses would be handled in the same way, covering the repair, restoration or rebuilding of the part of the building that was damaged or destroyed. This is the customary form of coverage for heritage buildings.

Actual Cash Value is calculated by establishing the cost of replacing the property with something of like kind and quality after taking depreciation into account. It is important to speak with your insurance broker regarding your claims settlement when arranging this type of insurance, which is less common.

An insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss.





It is important to understand the insured is responsible for ensuring the building is properly maintained and kept in a good state of repair.

Beyond typical concerns, there are other considerations heritage owners should think about:

- Archaeological excavation
- Conservation of artifacts
- Removal of contaminated materials (for example, asbestos)
- Surveyors' and other professional fees
- Fabrication of unique features and special techniques needed to restore features
- And Municipal building code and by-laws

Under-insurance

In the simplest terms, under-insurance means having an insurance policy with a coverage limit that is insufficient to cover the cost of rebuilding the property in the event of a total loss. In such a case, the insurance company may very well reduce the amount of *any* claim proportionately. That's because many insurance contracts have a co-insurance clause (also known as a 'co-insurance penalty') designed to penalize the insured for carrying an insufficient insurance limit.

Because the repair of a heritage property is not straightforward, heritage owners could easily find themselves facing a co-insurance penalty.

It is important to remember that an insurance policy only covers named events. And it is worth repeating: It is a general condition of insurance that all reasonable steps are taken to maintain a heritage building in good condition in order to prevent loss or damage.

When the Replacement Cost coverage option is selected, the insured value should represent the cost of rebuilding the entire structure including increased costs required by bylaws and regulations enacted since the structure was erected or renovated.

The amount should include an allowance to cover temporary site work to protect the building and adjoining properties after damage. The costs of archaeological excavation, conserving artifacts, demolition, removal of debris, surveyors' and other professional fees also need to be included. If provision for inflation is not included under the policy, then this must be considered within the insured value.

Heritage buildings tend to be more expensive to repair and rebuild than modern buildings of similar size. For example, it is not uncommon for the cost of a restoration following a partial loss to far exceed the cost of restoring an equivalent modern structure. Additionally, a partial loss can be as expensive as a full replacement.

An ounce of prevention is worth a pound of cure.

Routine maintenance and repair are critical – not just for the heritage structure, but for the maintenance of the insurance policy.

One source recommends routine maintenance checks on:

- **Roof**
- **Rainwater fittings and disposal**
- **Paint**
- **Plant growth**
- **Chimneys and flues**
- **Heating systems**
- **Electrical system**
- **Water supply**
- **Brick and stonework**
- **Timber**
- **Doors and windows**

A poorly maintained building is far more susceptible to fire and cannot withstand other kinds of damage and deterioration.

It is important to understand the structure may not be restored with heritage materials. It is not likely old-growth wood will be found for the framing, and 100-year-old brick may not be available.

New by-laws and zoning may come into effect and new building codes may apply. This will likely depend on the extent of the damage and certainly on local government requirements.

An example is a house in the Shaughnessy area of Vancouver that suffered an extensive fire. That house is in a heritage conservation area, but it is not listed. The owners are required to rebuild the exterior to match what was lost, so the heritage aesthetic of the area is not affected. The City has no say in what happens to the interior. Had the house been listed – say an A-listed house – it would retain that listing after reconstruction, not just because of its location in a heritage conservation area, but because the original heritage value is still reflected in the rebuild.





In another situation, a house, that was not listed or located in a heritage conservation area, was entirely lost to fire. When originally built, the house filled much of the width of the property – exceeding modern-day setbacks. Had the house been listed, the homeowner would have been allowed to rebuild to the original size. However, this house did not have a designation and it was not located in a Heritage Conservation Area, so modern codes apply and – in the case of this house – the homeowner will have to build a smaller house in accordance to the prevailing set-backs.

There are at least a couple of lessons here:

- **Heritage designation should not always be feared by the property owner – there are, in fact, benefits.**
- **Understanding local government requirements is an important part of arranging protection measures.**

Heritage properties: Appraisals

As an insurance agent said in an interview: it is a bit late to figure out these things after a catastrophe. Just as you can't (or shouldn't) have a heritage property without insurance, you probably should not obtain insurance without an appraisal. In some cases, an insurance company will require a professional appraisal. Valuation is probably one of the most important parts of insuring the property, and we have seen under-insurance makes a strong case for an appraisal. Still, evaluations can be problematic and misunderstandings of what is required can occur.

The appraisal can involve various professionals, including:

- **Architects**
- **Surveyors**
- **Insurance-provider specialists Building code specialists Heritage professionals**
- **And other specialists, such as an archaeologist.**

A skilled appraiser is able to establish the costs to replace or to reproduce the look of items such as:

- **handmade bricks**
- **ornate hand cut stone work**
- **elaborate fittings in plaster, stone, cast iron, or wood**
- **antique lighting fixtures**
- **antique flooring**
- **antique or stained glass windows**
- **slate roofing**

An appraiser we spoke with mentioned she considers the cost of reproduction— rather than the cost to **replacement**. This difference is in the fabrication and quality of the work.



There are a number of steps in preparing an appraisal:

Visual Impressions raise questions that should be asked and later answered through the appraisal process.

Preliminary Inspection will document what was seen, outlines a preliminary evaluation of causes, and offers a description of the evaluated findings.

Structural Assessment provides the largest benefit for conservation planning.

Conservation Master Plan outlines what work will need to be done, what year it should be done, what costs are anticipated, and a step-by-step-how-to when undertaking the conservation work.

Code Compliance Evaluation determines if the building meets the modern building code requirement.

The Site Documentation includes anything from building layout to building information modeling to landscape documentation.





Having an up-to-date appraisal for a heritage building is extremely important.

This appraisal should be updated every five years, taking a variety of factors into account—for example, inflation,

increases in the cost of labour, materials and professional fees, and additional costs that occur due to new Bylaws.

Zoning changes can cause conflicts for the valuation and the potential to rebuild. A property that once suited a single family home, may now be more valuable to a developer. One appraiser went to far as to suggest a local government may not issue permits to rebuild, when the highest and best use of the property may have changed.

The cost of an appraisal can be expensive, requiring many specialists and disclaimers. Interestingly, we were told that about five years ago the appraisers' evaluation manual did not include any information about heritage properties. It now includes one page on historical residences.

Building Code

The building code provides special provisions for heritage buildings through alternative compliance or equivalences. Hal Kalman explains in his book “Heritage Planning, Principles and Process”, “These provisions are in effect incentives for rehabilitation, since they reduce inherent biases against conservation. Sometimes the old-building provision is a prescribed alternative building system; in other cases the renovated building may be permitted to meet a lower standard or at least be no more hazardous than its pre-rehabilitation condition, although this is a subjective call that is interpreted by the responsible building official.”

It is possible to work with code officials to achieve building code objectives in a manner that minimizes the impact on character-defining elements. Alternative approaches and reasonable permitted variances for character-defining elements can also assist in achieving compliance with building codes.

Access to these building code exceptions is through designation or inclusion on a Community Heritage Register, which defines the property as heritage. It should be noted, however, the equivalencies and exemptions are offered on a case-by-case basis, and must be individually applied in each circumstance.

Once again, it is important to know the local government regulations. In addition to the equivalencies offered under the Building Code, another advantage offered by the City of Port Moody is the option to receive a Building Code Engineer report indicating acceptable levels of code performance.

Similarly, the Energy Efficiency standards provide variances. This means energy upgrading measures can be exempted so as not to destroy heritage character-defining elements such as original windows and doors.

The Homeowner Protection Act allows for exemptions for heritage sites from the need to fully conform to the B.C. Building Code under certain conditions, thus removing some of the barriers to compliance that previously conflicted with heritage conservation standards and guidelines.

As we have seen elsewhere, it pays to know local bylaws. For example, the Vancouver Building By-law Legislation includes an alternate compliance method for heritage buildings and buildings considered to have heritage character merit. The alternate compliance method balances current building by-law provisions with existing conditions such as windows, doors, spatial separation, door swing, and hardware, in order to make it feasible to retain and to continue to use heritage buildings. The intent is to provide flexibility, and to maintain a balance between by-law requirements and the heritage and/or character elements of a building.





The research indicates there are inaccurate perceptions about heritage and real estate.

Insuring and appraising a heritage property is tricky, but by no means impossible and there are benefits to heritage designation and ownership.

An insurance agent said, “the heritage sector does not do a good job in promoting the value of heritage.” While this may be a disagreeable statement, it is fair to say that if the issues reviewed here were more widely understood, heritage ownership would not seem to be such a scary prospect.

We want to conclude by saying the information presented today comes from source documents and interviews. Nevertheless, the information should not be considered advice, legal or otherwise. It is our hope that this presentation provides a better understanding of these issues. It is important that everyone seeks professional advice specific to their need and situation.

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Key Resources:

- City of Vancouver, Conservation of Heritage Buildings And Compliance With Vancouver's Building By-Law (December, 2014); <http://bulletins.vancouver.ca/2014/2014-007.pdf>
- Brian Cook, Electrical Risk of Heritage Homes, (PowerCheck); <http://www.powercheck.ca/pdfs/electrical-risk-of-heritage-homes.pdf>
- Heritage Properties: Insuring the Living Past, (Insurance Board of Canada); <http://assets.ibc.ca/Documents/Brochures/Heritage-Properties.pdf>
- Insuring Heritage Buildings in Canada, (Ecclesiastical Insurance); <https://www.ecclesiastical.ca/wp-content/uploads/2013/08/BR019-19Sep10-Insuring-Heritage-Buildings.pdf>
- Insuring Your Heritage Home, (Insurance Bureau of Canada); <http://www.ibc.ca/bc/home/heritage-properties>
- Knob and Tube Wiring Explained, (PowerCheck, 2007); http://www.powercheck.ca/pdfs/Electrical_dangers_1Jun07.pdf
- Maintaining Your Heritage Property, (Ecclesiastical Insurance); <https://www.ecclesiastical.ca/2015/10/maintaining-heritage-property/>
- Old House Electrical Systems: Summary, (PowerCheck, 2017); <http://www.powercheck.ca/pdfs/PowerCheck-Summary-Sheet-2017.pdf>
- Older Homes-Fire Risks Explained, (PowerCheck, 2016); <http://www.powercheck.ca/pdfs/Old-house-fire-risks-Spring-Summer-2016.pdf>
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- Your Guide to Insuring Your Building to the Proper Value, (Aviva Insurance); https://www.avivacanada.com/sites/default/files/aviva_pdf/en/insuring_your_building_proper_value_en.pdf

