

VALUERS' PERCEPTION ON THE CURRENT PRACTICE OF HERITAGE PROPERTY VALUATION IN MALAYSIA

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ABSTRACT

This paper investigates the perception of government valuers in Malaysia regarding the current practice of heritage valuation. This stems from the fact that heritage property contributes towards the economic development of a country. As such, an effective method of valuation should be in practice. However, the literature review has revealed that there is no standard method being practiced for heritage property. Therefore, by adopting a qualitative approach, the government valuers had been interviewed in order to gain some insights on their practice and perceptions. The results indicate that the conventional method of comparison is the most preferable method due to market conditions. While, the factors of heritage have not been given a primary consideration in the current practice. The interviewees admit the importance of the factors. Hence, the government valuers welcome an innovative method that would allow a more effective approach of heritage valuation. This will push the current research to next stage of innovating a mixed method for heritage property valuation.

Keywords: Valuation, Heritage Property, Heritage Factors, Effective Method

1.0 INTRODUCTION

In real estate valuation, the goal of valuation process is to estimate the best possible value for a specific property. There are three common approaches used to obtain the value of the property which are sale comparison approach, cost approach and income capitalization approach. Depending on the availability of the data and the type of property being valued, all these three approaches do not estimate the same value and they are not reliable in the same way (Mattia et al. 2012). In valuation process, the valuer has a task of reconciling the values of the property based on their experience, the accuracy of the data and procedures and the market conditions. Generally, the process of reconciling the value of property is based on country and types of property.

Further discussion of this paper will focus on heritage property. The valuation of heritage property requires special consideration in ensuring that the estimated value reflects the actual value of heritage property. The importance of heritage property is that it is able to increase the value of the surrounding property, create new employment, tourists attraction, has an economic lever and others. However, to make this a reality there are four activities that heritage property should undergo in its way to contributing towards economic development of a country. The activities are identifying, assessing the value, producing and delivering new services (Greffé 1998). However, studies on valuation process are lacking. Particularly, the reliability and accuracy of existing method is questionable (Mason 2002). In conservation planning, assessing the value of heritage property is important because it strongly shapes the decision that will be made. However, even though most people understood the important of identifying the values for heritage property, there is a little knowledge of how to value and what are the most appropriate methods that can be used (Mason 2002).

To date, no previous study has conceptually and empirically investigated on effective method for heritage property valuation particularly in Malaysia (Junainah et al. 2014). The studies only focus on determining the impact of heritage characteristics to the property value. In addition, the existing methods are not capable to take into account both value of heritage property at one time; use value and non-use value. Therefore, as a starting this paper investigates the current practice of heritage property valuation based on valuers in Malaysia.

The remainder of this paper is organized as follows. Section 2 presents the literature review on heritage property valuation, the methods that had been used and the issues and challenges in conducting the assessments for

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value of heritage property. Section 3 explains the methodology of the research. Section 4 discusses the findings of the research and Section 5 concludes the paper by highlighting the need of further research.

2.0 LITERATURE REVIEW

2.1 Heritage Property Valuation

The valuation of heritage property differs from other kinds of properties because heritage property is not actively traded in the market and most people tend to think that this type of property is worthless. The impossibility of selling heritage property on the open market prevent accountants, economists or valuers from obtaining relevant valuations that will show the potential value or services that encompass heritage property (Aversano & Ferrone 2012).

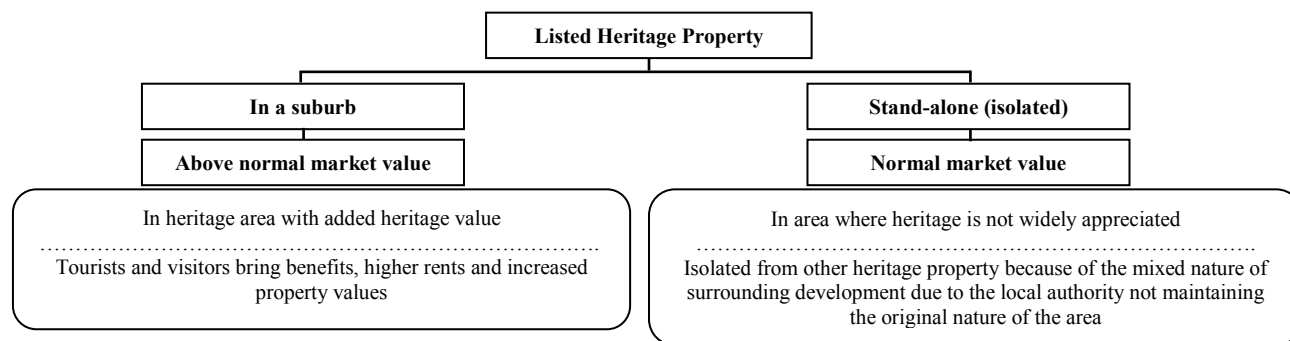
Valuation is an important stage in the preservation and maintenance of heritage property. In carrying out an assessment of heritage property, the valuers must first understand the difference between value and worth. Sayce (2009) in his study defines the difference between value and worth. Value is estimated using market evidence from comparable transaction in relation to rents and capitalisation rates, to direct capital transactions or to the capitalisation of maintainable profits. Worth, on the other hand, may be calculated using cash flow approach or it may take into account non-monetary values. Such estimates may be critical to the owner in management decisions. Also, worth categorized as subjective as it is normally assessed for the use of individual owners to enable them to manage their property strategically. Under current accounting principles, worth is not measures while value is. Normally, worth is used as a management tool. It can be concluded that in measuring the cultural heritage asset, it involves value and worth. This is because 1) the value of cultural heritage is subjective, 2) not many transactions take place (not in an active market) and 3) the value of cultural heritage is used in decision making for preservation and maintenance.

The method used in valuing heritage property can be categorised into two which are conventional method and advanced method. The conventional methods include sale comparison approach, cost approach and investment approach (Boyd & Usilappan 2006). The advanced method are stated preferences (SP) method, revealed preference (RP) method and hedonic pricing method (Treasury 2011). International accounting standards have proposed a method for measuring heritage property refer to historical cost, reproduction cost and fair value. The use of valuation techniques that include replacement cost, reproduction cost, net present value are difficult to carry out in valuing cultural heritage asset because they are assumed to exist in the ready market. Therefore, in many cases “conventional method” cannot serve as a reliable proxy in economic valuation for non-market goods. The following texts will discuss the concept of heritage property market and the current conventional method used in valuing heritage property

2.1.1 Heritage Property Market Concept

The property market is a dynamic market. In a normal market, property market transactions have a large number of buyers in competition with other similar properties. The market will negotiate and determine the price or value of the property. Figure 1 shows the concept of heritage property market. The heritage market can be divided into two; firstly, in the situation where the listed heritage property is located in a suburb area and secondly where the listed heritage property exists as a stand-alone (isolated) entity. In a suburb area the heritage property will be treated the same with stand-alone property but with an added heritage value (Deodhar 2004). Therefore, the value of heritage property in suburb area is above normal market value. Previously, most studies focus on listed heritage property in suburb area and there are lacks of study on identifying the value of stand-alone heritage property. However, it is important to quantify the amount on economic basis of stand-alone listed heritage property because it will increase the value of the property, give higher rents, conservation and maintenance strategies and others.

Figure 1: Heritage Property Market Concept (added value)



Source: Adapted from Wills & Eves (2005)

2.1.2 The Conventional Valuation Methods

According to International Valuation Standard Council (2011), there are three principle valuation approaches used in heritage property valuation. The approaches are sale comparison approach, cost approach and income approach. The explanation will focus on sale comparison approach because this method is most widely used in valuing heritage property. The sale comparison approach is also known as market approach because it is based on market analysis (Alias et al. 2012). In implementing the market approach, the indications of value are by comparing the subject property with similar comparable properties that have recently sold on the open market (Andreasson et al. 2007; International Valuation Standard Council, 2011) and normally the number of comparable property used is between 3 to 4. The fact that the property market is heterogeneous means that it is rarely possible to obtain the “same” characteristics of comparable properties with subject property. Thus, evidence of similar property transactions will be identified and the adjustment on the different characteristics will be made in order to obtain the value of subject property.

In applying the sale comparison approach to heritage, the historic nature of the property may change the order of priority normally given to attributes of comparable properties. It is important to find the property that has similar historic features with subject property. According to Betts & Ely (2005) and Ruijgrok (2006) the factors that affect the value of historic building are architecture design, property size, specific cultural or historic that associate with subject property and similarity in location such as zoning, permissible use, legal protection and the concentration of historic properties. Various adjustments have to be made to the comparable properties. It involves the differences in the location, the cost of restoration and rehabilitation. Betts & Ely (2005) also state that to be able to use this approach properly requires good knowledge of the subject property, understanding of the neighbourhood, city and region where it is located.

Primary criticism of sale comparison approach is it is very subjective because it depends on valuers experience, knowledge in selecting the comparable property and types of adjustment in order to determine the estimated value of subject property (Calhoun 2001). Strengths and weaknesses of the sale comparison approach can be presented as follows.

Table 1: Strengths and Weaknesses of Sale Comparison Method

Strengths	Weaknesses
a. Straightforward and easy-to-understand (Andreasson et al. 2007)	b. Very subjective because it depends on appraisers experience and knowledge (Calhoun 2001)
c. It reflects the actions of buyers and sellers and it should portray “market value” (Andreasson et al. 2007)	d. Comparable sale might be difficult to find either few number or no-existent (Andreasson et al. 2007)
	e. Difficulties encountered in making comparisons (adjustments value) between property, location and other characteristics (Andreasson et al. 2007; Alias et al. 2012)
	f. Since the price are historic, it may not present the current market value (Andreasson et al. 2007)
	g. Special property not suitable to this approach, e.g, government properties, churches, sport arena and others (Andreasson et al. 2007)
	h. Lack of empirical study to examine how valuers perform the techniques and what are their preference (Alias et al. 2012).

The cost approach provides an indication of value using economic principles which a buyer is willing to pay not more than the cost should be. When applying the cost approach for heritage valuation, consideration should be given either on the historic features of the heritage building become an intrinsic value in the market for that property.

The income approach provides a determination of value by converting future cash flows to a single current capital value. The income approach considers that the asset can generate income over the period of its useful life. There several types of income approach which are income capitalisation, discounted cash flow and various option pricing model. Heritage property that are fully utilised for commercial purpose is suitable to be valued using income approach.

2.2 Issues and Challenges in Valuing Heritage Property

There are several issues and challenges that exist in valuing heritage property. These can be listed as understanding the meaning of cultural heritage asset, how to measure heritage property, non-availability of effective method and lack of knowledge in valuing heritage property. The issues and challenges in valuing heritage property are elaborated as follows.

Problems in assessing the heritage property remains in contention and it attracts the policy and media to discuss this issue. The complexity of the term is a fundamental part of why heritage property becomes difficult to be assessed (O'Brien 2010). There are two criticisms in the assessment of heritage property namely 1) intrinsic values division is unhelpful and unclear and, 2) heritage value subsists in economic value. Intrinsic value is the subject of a hotly debated and criticized by cultural policy studies and economist. According to the literature, the study regarding the intrinsic value has not been carried out in detail. Intrinsic value is extensive and varies according to the type of heritage property for example intrinsic value that owned by the museum is different with the other heritage properties. Another problem inherent in identifying the intrinsic value is the cultural experience. Cultural experience is usually based on personal experience and varies by different people (Holden 2004).

Previously, heritage assessment is based on aesthetic quality. However, since 1980s, the measurement is based on the contribution of heritage sector to the cultural, economic, and social. This type of measurement has received extensive criticism. According to Holden (2004), heritage property value cannot be expressed only with statistics because the heritage value is also influenced by other factors such as intrinsic value. The availability of the data might fail to understand the valuable of the heritage value (O'Brien, 2010). Selwood (2010) state that everyone in the art and cultural struggle when talking about "value". According to the author, it is not good to relate art and cultural with monetary valuation. There are puzzles in obtaining the heritage value. This raises a question of what is the best way to express the value of heritage whether in form of cultural, economic or social impact?. Heritage sector requires the appropriate methods to suit the "mixed economy" of public, private and government (Smith, 2010).

Current methods of assessing the impact and outcomes of heritage property value are increasingly being questioned both in terms of methodologies and the results illuminate our understanding. If the methodology of measurement is not accurate, the results are inconclusive. Department of Cultural Media and Sport (DCMS) has ensured that there is no standard methodology that is ready-made and reliable in measuring the economic impact of heritage property (Holden, 2004). The inclusion of heritage property in the balance sheet points out the need to determine a book value that emphasizes the importance of their artistic, historical and cultural features. It is very difficult or almost impossible to find a universally acceptable method of valuation for heritage property and there are many problems need to be resolved in order to apply it (Aversano & Ferrone 2012). Consequently, dedicative efforts to resolve the mentioned issues and challenges should be preceded by an insight into the current practice. This will allow for an identification of the gap between theory and practice.

3.0 RESEARCH METHODOLOGY

The study initially attempted to use questionnaire survey in order to obtain data of valuers' perception on the current practice of heritage property valuation. Questionnaires were sent to 188 email address of government valuers. After 2 weeks only 15 (7.9%) responded. Out of this only 3 valuers have the experience of undertaking the heritage property valuation. The respondents wrote that they were not able to respond to the questionnaire informatively because their answer would be very subjective. Consequently, the study opted to use semi-structured interview for the data collection. This is plausible because semi-structured interview is a primary technique due to the richness of the data and a flexible technique in exploring mini research (Omar et al. 2015). Before the interview begins, the respondents were briefed that all information provided will be treated as confidential.

Each interview session took between 30 minutes to 1 hour and was audio recorded digitally. A set of semi structured questionnaire were prepared for this interview. The questionnaire was designed as a guideline for the interview session. After the interview session finished, all the data were transcribed into verbatim line by line and coded to be fitted under several categories based on the differences and similarities. The present study had some limitations due to time constraints. For the purpose of this study, only three respondents were chosen. Table 2 shows the respondents' profile and they were asked to share their personal background. All of the respondents were in the age of 30 – 55 years old and had working experience between 8 to 31 years.

Table 2: Respondent's Profile

Respondent	Gender	Position	Age	Working experience	Attending the seminar on heritage property valuation
Informant 1	Male	Senior Assistant Valuation	55 years old	31 years	No
Informant 2	Female	Valuation Officer	30 years old	4 years in private 4 years in government	No
Informant 3	Male	Valuation Officer	45 years old	19 years	Yes

4.0 RESULT AND DISCUSSION

Based on the interviews, all the coded data which was found to be informative and valuable has been obtained. Later, they were grouped accordingly into subcategories based on their similarities and patterns. At early stage, the researchers faced difficulties in identifying lists of valuers that had experience on heritage property valuation. Therefore, for identification purposes, the corresponding valuers were contacted via email. Based on the email feedback, 3 valuers were chosen for an interview session. Afterwards, the respondents were contacted to set a date for interviews. The followings texts discuss the findings based on the outcome of the interview. Three focuses of the discussion are 1) the method being used and their criticism, 2) factors that influence heritage property value and 3) the criteria that should be considered in choosing an effective method for heritage property valuation.

4.1 The Methods Being Used and Their Criticism

Based on the findings, all the respondents used comparison approach in valuing heritage property. They claim that, the comparison approach is the best approach to be used although there are weaknesses on the application of this approach. One of the informants claimed that,

“I will choose comparison approach rather than cost approach. It is because when we used cost approach in valuing heritage property it does not reflect the real market value of the property. We need to do adjustments to the building value and the adjustment may be large because it depends on the age of the building. The result may become negative or below the market value. Therefore, the comparison method is more suitable compared to cost method. However, the comparison approach also depends on the availability of the comparable data. If the data is not enough to conduct the valuation, the comparison approach also becomes a problem to be used”. (Informant 2)

Besides that, one of the informants said that if the heritage building is not controlled under the Heritage Act 2005, redevelopment technique can be used in valuing heritage property.

“In Kota Bharu, Kelantan, the enforcement of the Heritage Act 2005 toward heritage property by local authority are weak. Therefore, the valuers tend to use highest and best use concept for the purpose of heritage property valuation. This is based on the concept of the best building that can be built by bringing the highest capital return to the owner.” (Informant 1)

In addition, the other informants also said that,

“When conducting the assessment process for heritage property, the best approach is comparison approach where the comparison is made without considering the condition of the building. If the building is in good condition then we can use cost and reinstatement approach.” (Informant 3)

From the findings, the valuers use conventional method for heritage property valuation where comparison approach is the main choice due to market conditions. Moreover, based on the feedbacks, the respondents admit that they do not have enough knowledge about valuation of heritage property. Out of 3 respondents only one had attended a seminar regarding valuation of heritage property. Indeed, although all the respondents claimed that the comparison approach is the best approach compared to other conventional methods, but there are weaknesses that need to be dealt with in applying this approach. The main weakness of this approach is the unavailability of comparison data. In addition, highest and best use concept is also not suitable to be used in valuing heritage property because the building is controlled under Heritage Act 2005. Hence, all the potential development that can destroy the building façade is prohibited. So, it could be said that it is very important to develop an effective method for heritage property valuation in order to produce reliable and accurate value of assessment.

4.2 Factors that Influence Heritage Property Value

Generally, the values of real estate property are influenced by physical factors of the building, geographical position and the maintenance condition. However, what about the heritage property? Which factors do influence the heritage property values? Based on the literature review, no study has been conducted to list the factors that influence heritage property value (Ruijgrok, 2006), and there is a problem of how to measure those factors. Thus, for the initial stage, this study was conducted and the respondents were asked about their opinion on the factors that influence the value of heritage property. Surprisingly, the findings show that the respondents do not take into account the heritage factors in their valuation due to limitation of knowledge.

“We are not taking into account the heritage factors because we are not knowledgeable about that. We didn’t get exposure about this matter”. However, we admit that it is very important to take into account the factors that influence heritage property values.” (Informant 1)

“In valuing heritage property we just value their effective floor area (EFA). We do not separate the land and the building. If we separate the land and building, the value of the building are low and the land value are high. Truly, in valuing heritage property, the value is more to land without considering the building. In addition, in valuing heritage property we not consider the heritage factors.” (Informant 2)

“The valuation process does not consider the heritage factors. We just consider the location of heritage property. If the heritage property is located at the city centre then the value are higher.” (Informant 3)

All in all, this proves that it is very important to identify the factors that affect the value of heritage property. These factors can be used to develop an effective method for heritage property valuation.

4.3 Criteria that should be Considered in Choosing an Effective Method for Heritage Property Valuation

The study by Yung et al. (2013) has theoretically discussed the 10 criteria that should be considered in choosing an effective evaluation method for heritage property conservation. According to them, the ten criteria are matching the objective, evaluate use and non-use value, scope of evaluation, availability of the data, time and cost of conducting the methods, methodological procedures, analysis of the results, issue in interdependences of attributes, local contexts where the issue arise and whether the public participation is a social goal.

Previous studies widely discuss the evaluation method for heritage property conservation. However, based on our knowledge, none has focused on effective method for heritage property valuation. Due to this, valuers were consulted for this study. This study specifically explores the heritage property valuation. In order to develop an effective method for heritage property valuation, the criteria for an effective method should be determined. The respondents were asked about their acceptance if an effective method for heritage property valuation is innovated. Their feedbacks are discussed as follows.

“We are open to accept the new proposed method. The method should be compatible with our market. However, it is difficult to make people accept the new thing. Before this, we only get exposure to conventional method.” (Informant 1)

“Agree to use an innovative method as long as the proposed method is at least as good as the comparison approach and also the method should consider the purpose of valuation. The proposed method should also be applicable to variety of heritage property types. In addition, the proposed method also should take less time and less cost.” (Informant 2)

“Agree to use a new improved method. However, is depends on the purpose of valuation. Furthermore, the method should also applicable for various types of heritage property.” (Informant 3)

Based on the findings, “the purpose of valuation” is the main thing that should be considered in choosing an effective method for heritage property valuation. Nonetheless, time and costs should also be of consideration.

5.0 CONCLUSIONS AND RECOMMENDATIONS

It is undeniable that heritage property plays a role in the economic development of a country. This signifies the importance of an effective method of heritage property valuation. The efforts toward development of an effective method should be preceded with an insight of the current practice and the perceptions of those involving in the exercise. For this purpose, this paper presents the preliminary finding of an ongoing research project. Data have been collected via semi structured interview with three government valuers of Malaysia. Results have been presented based on three themes of the current methods and their criticisms, factors that should be considered in heritage property valuation and the valuers’ readiness to accept a new innovative method. The findings indicate that the comparison method has been the most preferable method in practice. The respondents recognised the limitations of the comparison method but there is no better alternative available to them. The respondents showed awareness of the factors that relate to heritage property which should be taken into consideration in the valuation. However, they were unable to give due attention to the factors as a result of insufficient technical knowledge which is specifically related to heritage property valuation. The respondents also highlighted the importance to give prime consideration on the purpose of valuation in developing an effective approach. This seems to be the factor that will influence their acceptance of the new innovative method to be pursued by this research.

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