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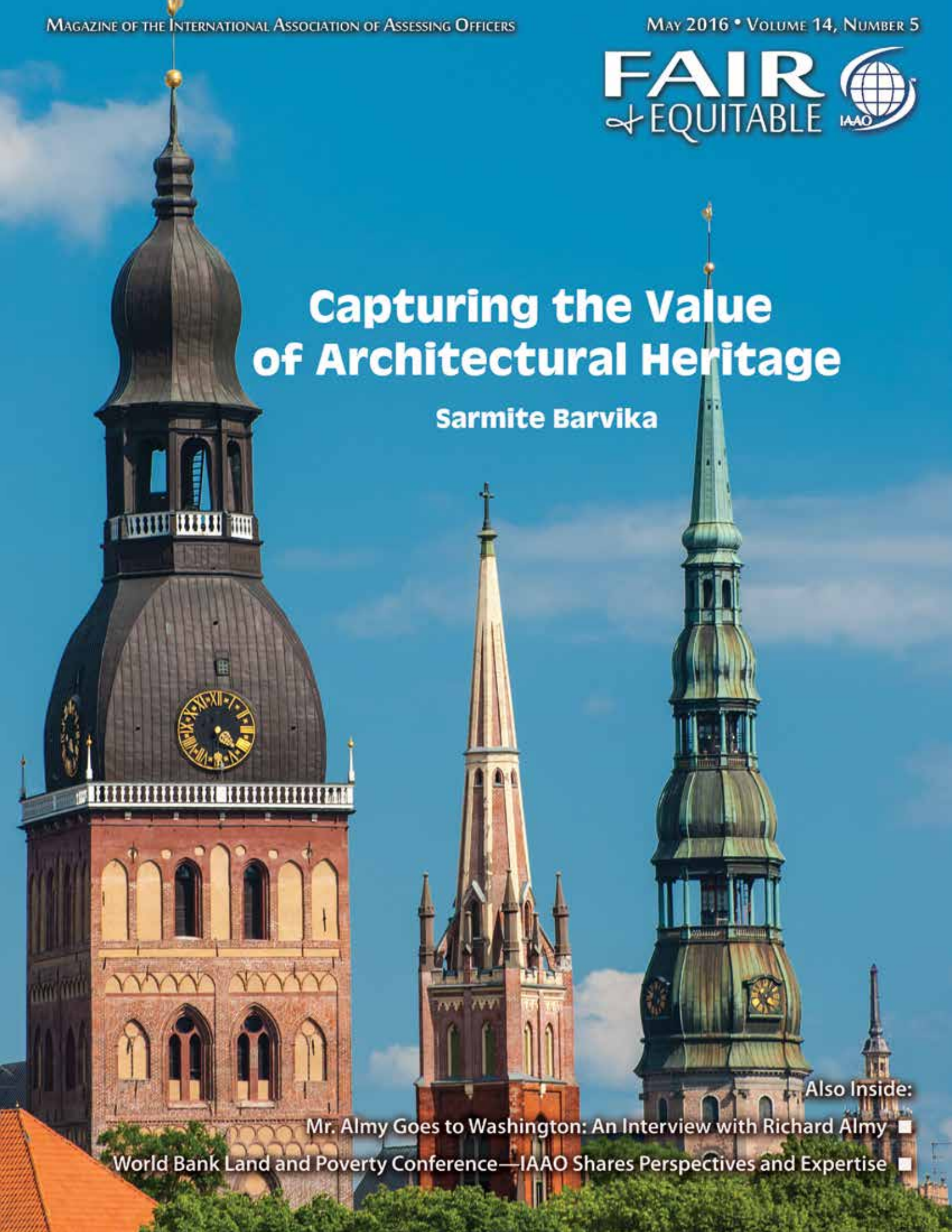

Capturing the Value of Architectural Heritage

Sarmite Barvika

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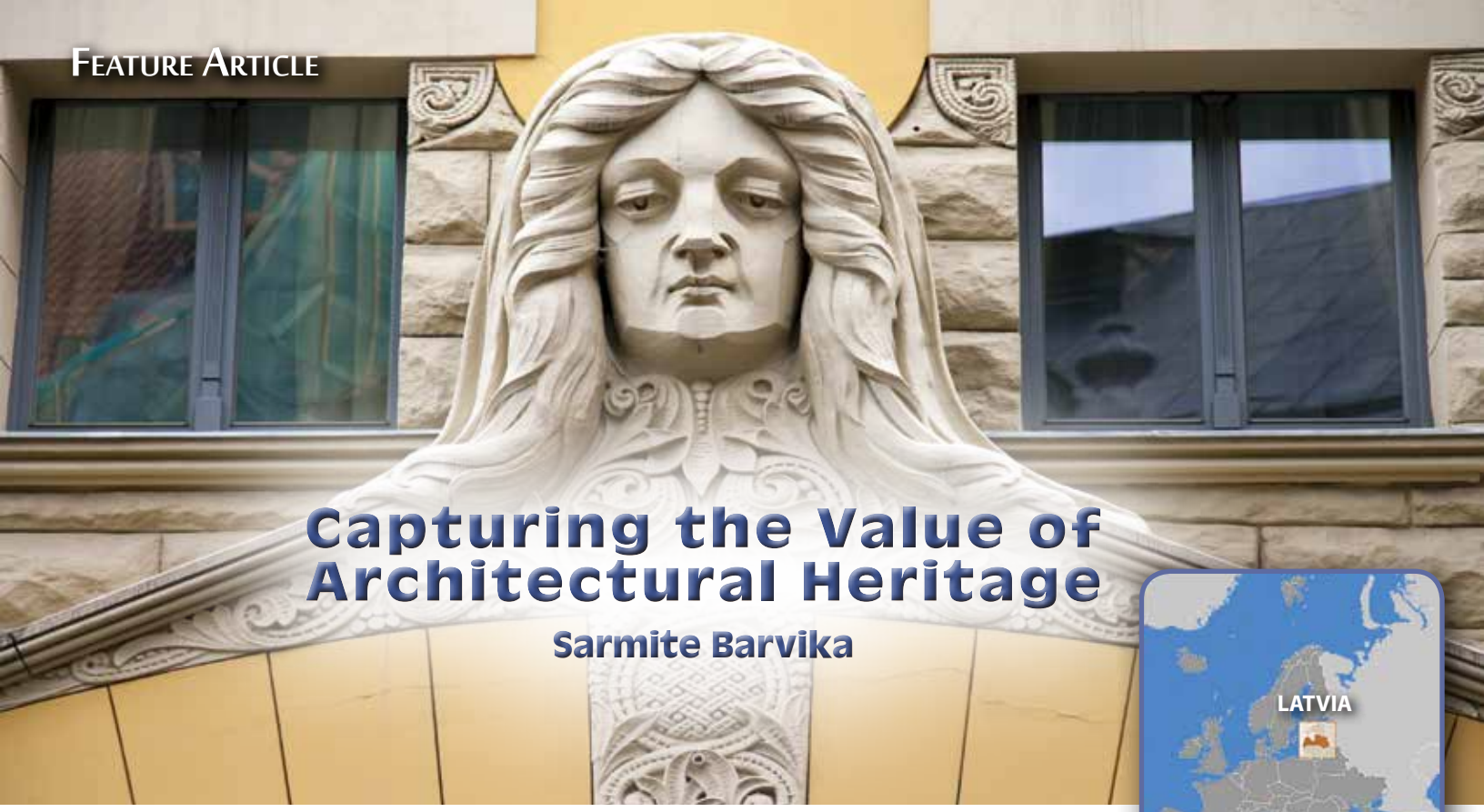

Capturing the Value of Architectural Heritage

Sarmite Barvika

 Photo: Architectural detail in Medevial Old Town (Vecrīga), Riga, Latvia

In the valuation of properties with outstanding intangible (cultural) value, it is thought that *cultural value*, having unique (nonmaterial) features, cannot be assessed by the application of market valuation (e.g., in mass valuation). However, the 2012 *International Valuation Standards* (IVSC 2012) contain guidance (requirements for and considerations of valuation approaches) for valuing "the interests of historic real property."

Nevertheless, disputable issues remain: What criteria should be used for reconciliation of the final opinion on value and to what degree? Does the assessed value represent the market value of older (unique) construction? Can special value (probably cultural value for buyers or owners) also be a valuation attribute (e.g., value reconsideration factor) and how (to what degree) can it be measured?

This theoretical study discusses two types (concepts) of values affecting architectural heritage buildings—cultural value and market value—and assessment principles, in which the feature *cultural heritage* can be taken into account. The Historical Centre of Riga, (HCR), Latvia, and its protective zone (PZ) were selected for characterizing urban shrinkage and the loss of livability in historical cities.

Current Interest in Values of Cultural Heritage

A fundamental problem in heritage preservation is how to balance modern land administration, which urban design addresses, with cultural heritage. In the twenty-first century, the approach to the management of environmental resources has changed. In addition to the three classical dimensions (economic, environmental, and social), today there are also *good governance* and *the culture*, that is,

- Assurance of territorial sustainability
- Value-oriented interventions aimed at sustainable place-shaping
- A systemic approach
- A balancing of interests
- More public participation (bottom-up planning)
- Classified digital environment-related data.

Many cultural cities that are recognized worldwide (e.g., Rome, Milano, Porto, also Riga) dominate the list of the fastest shrinking cities in Europe; their historical vicinities continue to gradually lose residents (e.g., historical brownfields with deserted buildings whose value has decreased).

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Historical buildings are the most visible part of cultural heritage. Policies for capturing the value of historical buildings are becoming increasingly

important throughout Europe, requiring new competencies, skills, education, and technologies. A new challenge for historical buildings is adjusting to the requirements of energy efficiency and environmental accessibility, according to European Union (EU) directives. A total of 120 million people in the EU live in 55 million residential buildings built before 1945 (26 percent of the residential building stock of the EU) (UNESCO n.d.). Practical interventions for their preservation (ownership preservation, maintenance, renewal opportunities) and, consequently, their economic potential and value have not yet been fully evaluated and monitored.

Systematic economic evaluation of environmental interventions is becoming increasingly important in understanding their impact, as well as the value of environmental resources. Current pragmatic models of evaluation need to be improved and, to assess the economic value of cultural heritage, need to concentrate on such aspects as social, spatial, aesthetics, cultural rights, heritage significance, and so on.

According to UNESCO's periodic survey, "World heritage in danger 2015 UNESCO second cycle" (UNESCO n.d.), in Europe the fundamental threat to the successful preservation of UNESCO cultural heritage sites is the lack of a management system (e.g., common approach, holistic cooperation, standardization, and digitized integrated information on cultural heritage) in setting up preservation activities, whose impact on preservation success is measured at 59 percent.

Current urban development strategies are based on principles of urban intelligence and the new concept of smart cities, in which the integration between contemporary reality and the historical city becomes an important factor. Urban s*martness* has also been achieved through historic (cultural) elements within the virtual world of ICT (information and communications technology). In particular, geographic information system (GIS) solutions focus on the exploration of new sources of information that would provide accuracy, completeness, and security of property data, but would not increase registry maintenance costs.

Until recently, the heritage field was relatively isolated and comprised small (exclusive) groups of specialists and heritage experts. Today, groups of citizens, professionals from other fields, and representatives of special interests arrive in the heritage field with their own issues, criteria, and opinions (their own *values*), which often differ from those of heritage specialists and bureaucrats.

The global agenda for sustainable development includes the creation of "future cultural heritage" by the present generation.

There is also the stereotype that traditional, immovable *cultural heritage* can only be very old built environment (buildings) in Old World countries (probably in Western Europe). In recent decades, the concept of *what is heritage* has expanded, and new heritage groups have been identified. The number of *immovable heritage* buildings is growing; numerous typical *problematic* urban heritage buildings are being built in this century. The global agenda for sustainable development includes the creation of "future cultural heritage" by the present generation.

Cultural Value and Its Relation to Architectural Heritage

Culture, a contested and open concept, has developed over time from a simple understanding of the *good* and the *evil* in ancient days to a scientifically empirical concept in the twenty-first century (e.g., taking into account psychology, sociology, economics, technology, responsibility, and ecology). A variety of theories exist to understand how, why, and to what degree people think about specific values and how values can be estimated and used.

A cultural value is essentially associated with the scope of local traditions, territory, language (dialect), and behavior, with roots in the community's memories of the past. Culture probably is the most important and complex aspect for promoting the sustainable development of cities; it refers to ethics—how people understand and appreciate nature, resources, common values (or planning culture), and each other. Ignoring ethical aspects can have a profound impact on long-term development.

In modern Europe, specifying the content of the term cultural *value*, along with *traditional understanding*, emphasizes

- Culture as a language
- Diversity and sharing within the culture in the international context that defines what it means to be a human being
- Recognition of culture of minorities
- Cultural rights—the right of everyone to enjoy cultural values and cultural space
- The need to invest in culture to preserve cultural values for future generations
- The prevention of violence and of the neglect of cultural heritage.

Moreover, the European Commission (EC) most precisely characterizes culture as "the treasure or repository of the collective memory of a nation" or "the memory about the world's nations, their dreams, culture, beliefs and expectations" or "the steadily growing national wealth" (Pickard 2006; European Commission 2007).

However, culture could be a better discriminator than *material* or *structural*

condition, giving a reasonable explanation of why some countries gain a competitive advantage and others do not.

Cultural heritage is both intangible and tangible; it is inherited from the past; and it is natural (not man-made). This places the responsibility for preservation on the current generation. The United States holds a more pragmatic meaning of cultural heritage, calling it *a cultural resource*, meaning a systemic approach to using its potential on behalf of society's spiritual and economic needs.

Architectural heritage is the most important part of tangible heritage. In the European context architectural heritage represents "an unrepeatable stock of history of national science, education and economic achievements." It is closely associated with "public physical and spiritual interests and preferences," "craftsmanship," and "opportunities," in which museums, theatres, universities, and churches "serve as educational and spiritual centers" and a "cognitive environment for forming today's new generation of beliefs and self-confidence" (Council of Europe 2015; Pickard 2006).

In the EU the demand for culture remains significant: 39 percent of respondents have indicated that culture is very important in their lives, associating it with the performance and visual arts and architectural heritage (http://ec.europa.eu/eurostat). Still the total cultural heritage loss (e.g., value) has not been fully estimated. The current value is not known because of a lack of common standards (approaches and methodologies) and appropriate data systems to monitor it.

Market Value

An opposite cultural value—a significant and measurable type (or concept)—is market value. Market value is estimated by the application of three well-developed, practically tested, and professionally recognized assessment techniques (approaches): the market approach, the cost approach (applied only to construction), and the income approach and its derivations (methods).

One or more valuation approaches may be applied to create an opinion on the value of a particular property on the defined (market or nonmarket) basis. Market value is also taken into account in other, real-estate connected, broadly used types of values (e.g., value for taxation or mass value, forced sale value, fair value, compulsory value for alienation for public good, and so forth). The valuation process includes a range of procedures, requires professional skills (theoretical and practical experience), and collects a large variety of information on the subject property (legal, physical characteristics, market data, construction costs, financial data). Valuation of residential property requires the collection of large amounts of very detailed information (characteristics) on land use and premises, effective age (last remodeling), and the like.

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Valuation is more of an art than a precise science or calculation. This statement can be applied more to the choice of the proper valuation approach and reconciliation of value (selection of comparables and factors, impact on assessed value for a final opinion on specific value) than to how value is determined. The basis of value assessment is the real property sales data. The mass valuation system also demands continuous improvements to achieve maximum quality with efficient use of available resources.

The factors that affect the market value of real property to the greatest extent and that are examined in valuation applications are location, property interests (property rights), and highest and best use (probably the current use of the property). The roots of these three factors are in classical economic theory, whereby economists and philosophers over time, analyzing and rating earlier knowledge, developed a variety of pricing theories and concluded that market value was probably representative of the real (current) economic potential of good (property).

Location is the most important influence on the value of realty because of the specific physical features of land, the strong connection of location and structures to the local territory and landscape, and its limited size (i.e., supply) due to the limited physical size of the surface of the Earth. Location correlates very strongly with permitted use (eventually the highest and best use), because the highest and best use (probably permitted use in the zoning) may represent the highest economic potential of the property in cash—a market value.

Property interests represent the corroborated rights of ownership (control, use, occupation, sale) of land and buildings. Their impact on market value varies. Property rights are not obsolete; private ownership rights may be limited through numerous legal instruments, such as zoning, changing the use of land and buildings, subdivision, the construction code, the removal of current construction, eminent domain, easements, and charges.

Requirements for Valuation of Cultural Heritage

What is the impact of the features of an intangible value on the market value of real property? What kind of consider-

ations must be taken into account to encourage a potential purchaser and owner to act in favor of acquiring (and maintaining) a cultural heritage building?

Immovable cultural heritage includes objects of building art, which are considered worthy of future preservation. These properties, like other goods, have economic (in cash) value; they comply with common characteristics of real property (location, use, rights, as well as limited supply) and have great potential in the property market.

The IVSC standards, the most respected professional guidelines for asset (also real property) valuers worldwide, contain guidance (requirements, definitions, and considerations) for valuation of the interests of historic real property. IVSC recognizes three groups of historical heritage, as defined in the UNESCO *Glossary of World Heritage Terms*: monuments, groups of buildings, and sites with their subclassifications (UNESCO 1996, n.d.).

Cultural property is publicly recognizable (with cultural and economic importance), is inscribed in the World Heritage List or other recognizable registers, can be officially unlisted, and may comply with at least one of the cultural heritage criteria (defined in the UNESCO World Heritage Convention) and the test of authenticity. The Convention has set the criteria for awarding world heritage site status and recording a site in the UNESCO World Heritage List. Since 2004 a set of ten cultural and environmental criteria has been used for recording subject heritage sites therein; the subject heritage site must meet at least one of the ten criteria (UNESCO n.d.).

The Convention states that the protection, management, authenticity, and integrity of properties are also important, and since 1992 these considerations have been recognized as significant interactions between people and the natural environment for cultural landscapes (see IVSC 2012a). The process for valuing cultural property in urban areas, in addition to common characteristics, requires collecting a large number of characteristics relating to specific features of cultural objects (table 1).

This information is collected and used in the application of valuation approaches and the reconciliation of values (determination of value added/discount factors and their values, usually as a percentage, for performing comparisons).

The IVSC standards support the application of three valuation approaches and, as a principal approach for valuation of historical buildings, recommends the cost approach because of considerations of older (unique) construction methods and materials no longer applied; building, renovation, and remodeling standards; and use of modern materials in older construction.

Therefore, according to the IVSC standards, information on restoration, restrictions, and maintenance shall be collected, scrupulously analyzed, and applied in the valuation of historical buildings. The standards recommend the use of knowledge and expertise from other heritage-related spheres to study the symbolic (unique) status (e.g., museums, monuments, historical event places), service potential (restrictions in use), and originality (unique style and materials requiring high financial contributions).

Alongside the cost approach, states the standard, the income approach shall be applied when historic property is fully utilized for commercial purposes (produces income) and when its distinctive physical features may contribute to the production of future income. The market approach, which considers subject historical property with (several) comparable sales, is recommended for the estimation of land value, for the reconsolidation of estimated value, and when information on costs and financials are not available. In case of the complete remodeling of a building (more than 50 percent), both current construction costs and cash flows may be used.

In theory, application of the cost approach may bring the most precise value (probably the highest and most representative of comparable properties in a relevant market area) of older (unique) construction than the application of other approaches. The questions still arise: Does it represent market value for older (unique) construction? and What are the criteria and to what degree should they be used to reconcile value? In real markets many sales of non-renovated historical buildings take place, requiring additional major investment from the new owners for restoration and future maintenance to keep the buildings *in authentic shape*. These investments are probably far larger than the real market value (probable sale price). For public buildings (e.g., churches, cemetery chapels) that are not subject to sale, the cost approach would reach a value that would represent the investment needed for restoration.

Table 1. Characteristics and information required for valuation of cultural property

Common Characteristics	Specific Required Factors	Information for Application of Valuation Approach	Other Important Factors That May Limit or Restrict Use
Historic, architectural, and/or cultural importance; statutory or legal protection to which it may be subject (restraints, limitations on use, disposal)	Legal and statutory protections to which they are subject; various restraints on their use, disposal, possible financial grants; potential income; tax rate; tax relief	Costs of restoration; costs of maintenance; comparable sales; potential cash flows (for income-producing properties)	Legal measures to safeguard historic property; intensity of use; alteration of historic property Restrictive covenants that apply to the land regardless of the owner Preservation easements to prohibit physical changes Conservation easements that limit future use

An as yet unanswered question in valuation is, Can special value (probably cultural value for a special buyer or owner) also be a valuation attribute (e.g., value reconsolidation factor) and how (to what degree) can it be measured? Many countries (e.g., Lithuania, France, the United Kingdom, and Russia) have specific recommendations (manuals or guidelines) describing the methodology for considering the features of cultural value in their national appraisals.

The use of the cost approach in mass appraisal is questionable; public databases do not contain complete information on the quality of buildings and required data on construction costs of historical buildings for developing computer-assisted mass appraisal (CAMA) models.

The Historic Centre of Riga and Its Protective Zone

The capital city of Latvia, Riga, is currently facing a new challenge: how to prepare a new city development plan that would be sustainable, that would satisfy all the interested parties, and that would solve the most urgent urban design problems, that is, de-urbanization, polarized economic growth, increased pollution, conversion of brownfields into greenfields, maintenance of historical sites and buildings, insufficient funding for fulfillment of public needs, and so forth. The city of Riga encompasses the Historic Centre of Riga (HCR, mostly identified as a compact territory of Old Riga, or downtown) and its protective zone (PZ, adjacent vicinities, mostly built prior to 1940). This territory is a typical example of shrinkage and loss of liveability in Riga.

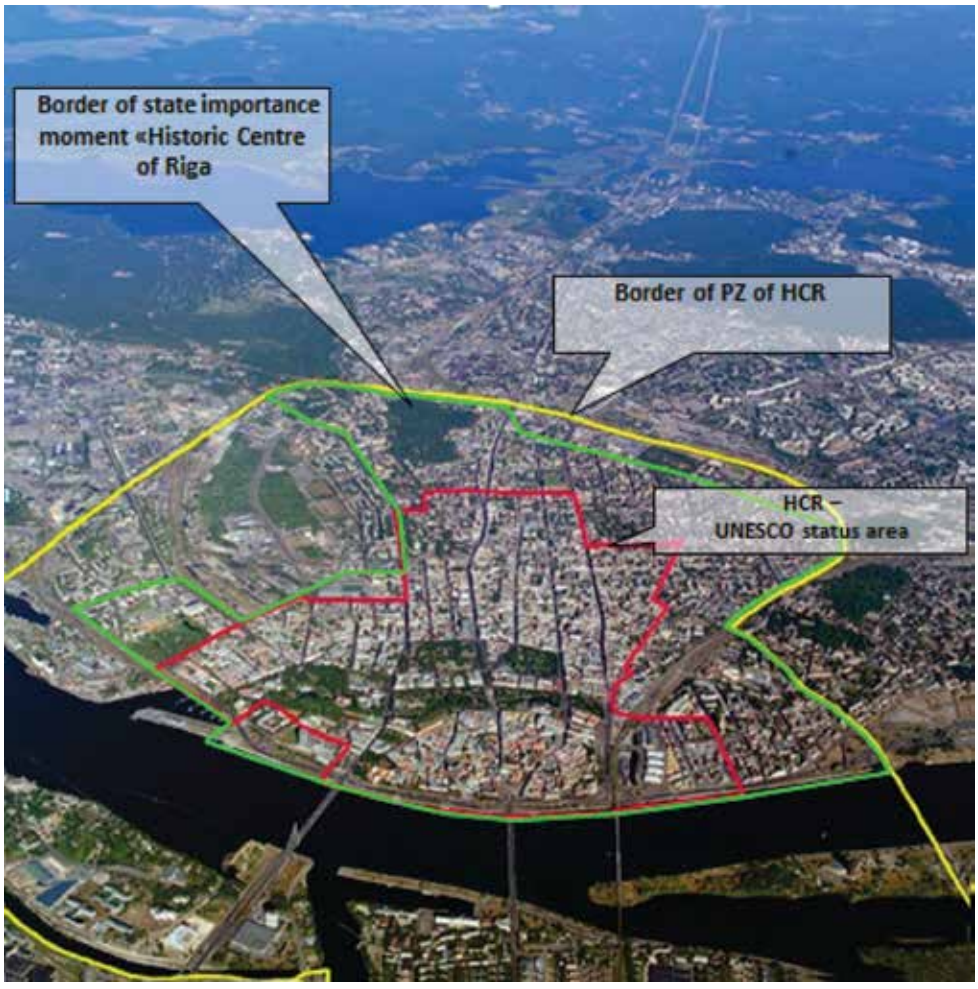
The HCR (1.43 percent of the 307 sq km of territory of Riga; see figure 1) is a unique World Heritage Site, listed in UNESCO's World Heritage List (n.d.) because of its outstanding composition of urban space and art nouveau and nineteenth-century wooden architecture, encompassing in total in 2011 about 62,000 inhabitants and 4,000 buildings of various age, style, and use (e.g., residential and commercial).

Land use planning for the HCR and its PZ is well supported by solid normative regulations because of its status: The Master Plan of Riga (2006–2018), the Master Plan of HCR and Its PZ, and supplementary by-laws of the Riga City Council. The Law on Preservation and Protection of the Historic Centre of Riga (Коллектив авторов 2005) prescribes the status of the HCR and the PZ; procedures for preservation, protection, and utilisation; implementation of development projects; and requirements for spatial planning (Riga City Council 2006a,b).

These regulations have been applied to the development of new plots, reconstruction and remodeling of current structures (e.g., size, parameters, distribution and use of area, interior and exterior materials, interior and exterior architectural features), and planning and organizing of public space (to ensure its historical qualities and promote its use).

Functional zoning (plan of permitted land use) allows mixed use in the entire HCR and its PZ to promote diversity in prospective land use and in the remodeling of current structures. It sets provisions for public space, parking lots, and street area (proportions in percentage). In mixed-use territories, land and

Figure 1. Borders of territory of UNESCO status of HCR (red line area: 438.3 hectares, 1.43% of city of Riga); state importance monument of urban design of HCR (green line area: 908.4 hectares, 2.95% of city of Riga); and territory of PZ (yellow line area: 1,574.2 hectares, 5.13% of city of Riga)



buildings (mainly multistory buildings) can be used for apartments, businesses, services, and administration. In several territories, business and service spaces are allowed on the lower stories of buildings. The proportions of the different types of use vary in different locations and can be irregular. In some territories the proportion for residential function is 40 percent or less, and in other territories, dwellings account for 40 percent or more, which provides a high standard of living; see figure 2.

A breakdown of permitted use in the territories in 2006 shows that approximately 20 percent of building space can be used as residential; 2 percent as green areas (parks and squares); 4 percent as free (unbuilt plots or plots with poor construction). This makes it difficult to develop new green areas and new construction (also increasing the demand for and the prices of vacant land).

According to the 2011 Census, since 1989 the number of residents in the HCR has decreased by almost 40 percent (down by 11,790 residents in 1989, 70,192 in 2000, 62,000 in 2012). However, the current distribution of residents in the HCR is regular in all locations; see figure 3.

There are vicinities with extremely low habitation (e.g., Central, Old Riga part, more than 40 percent) and large numbers of empty flats; 21,340 dwellings (26 percent) in the HCR and its PZ are empty. In Riga 54,823 dwellings (17 percent) are empty, confirming that livability is a very important problem (see figure 4).

Historical Buildings

The RHC and its PZ contain about 4,000 buildings with approximately 70,000 different use groups of premises, including residential. More than 200 with the status of "monument of state and local significance" are concentrated within the limits of the HCR and its PZ (a total of 8,584 registered units in the entire country). It has been estimated that the register of cultural heritage contains almost 1,700 different values (typological groups) of historical heritage objects in the HCR and its PZ. However, other types of construction also contribute to forming the historical landscape.

Latvia allows shared ownership; that is, buildings and the land underneath can have different owners. This makes property market and construction activities more complicated and increases the administrative burden. After denationalization, many residential buildings were emptied of tenants and then sold and converted to commercial use (figure 5).

Figure 2. Distribution of current use of land for residential purposes in the HCR (background material, cadastral map, 2014)

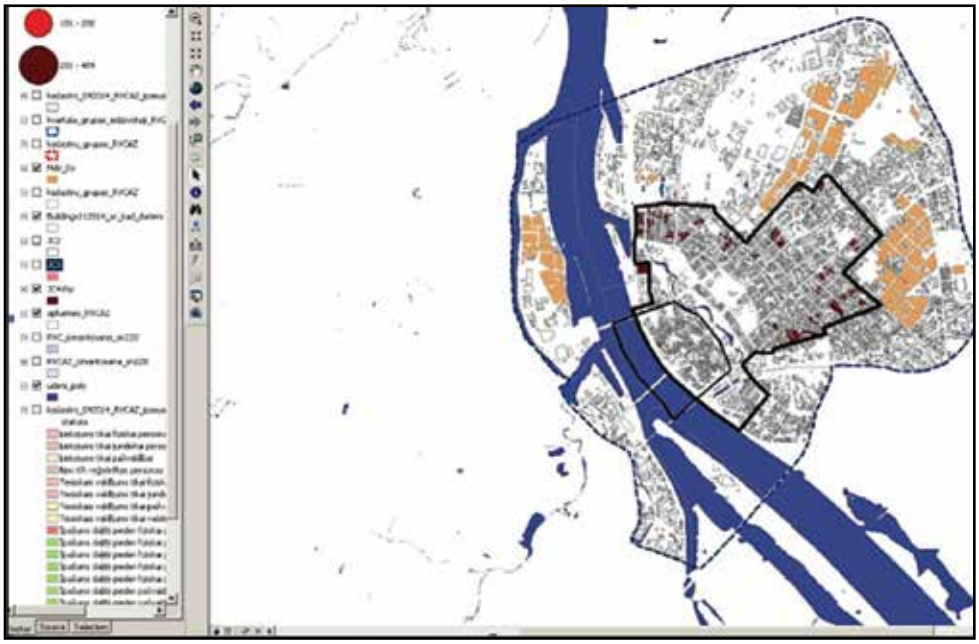
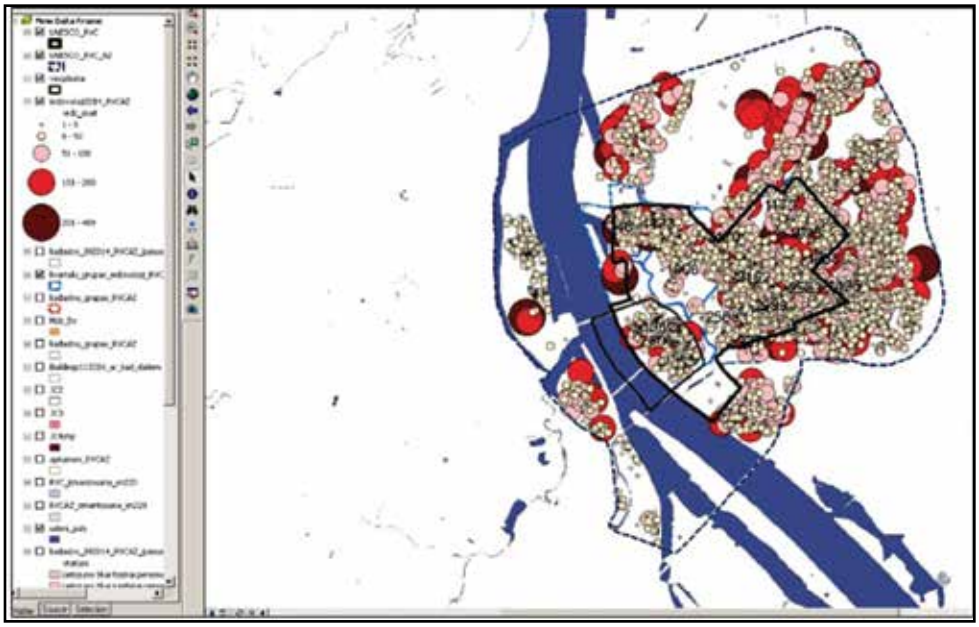


Figure 3. Distribution of residents and changes (2006 against 2011) in the HCR and its PZ



(Source: The Office of Citizenship and Migration Affairs, Population Register, 2014; Census 2011; background material, cadastral map, 2014)

Complete statistics on buildings' current physical condition, use, and occupancy, particularly in the HCR and its PZ, are very difficult to access. Overall in Latvia, 25 percent of all residential buildings were built before 1945 (and 25 percent of them were built before 1919); these have the potential of being compliant with heritage criteria (e.g., age) and being assigned heritage status. Only 60 percent of buildings have had their physical condition prior to 2004 updated. The average depreciation of buildings in the HCR is more than 50 percent; almost 80 percent of them were built before 1940; less than 1 percent of all construction has taken place since 1990. Cadastral statistics show that Riga's building stock contains a large number (about 50 percent) of unclassified (probably small, old, poor-quality) buildings, which have a lower value, often contribute to the poor aesthetic quality of open spaces, and decrease the value of adjacent properties. Public databases do not contain actual data on occupancy, present use, or rental of buildings and spaces.

Figure 4. Distribution of occupied and empty premises (apartments) in Riga and HCR and its PZ (Source: Census 2011)

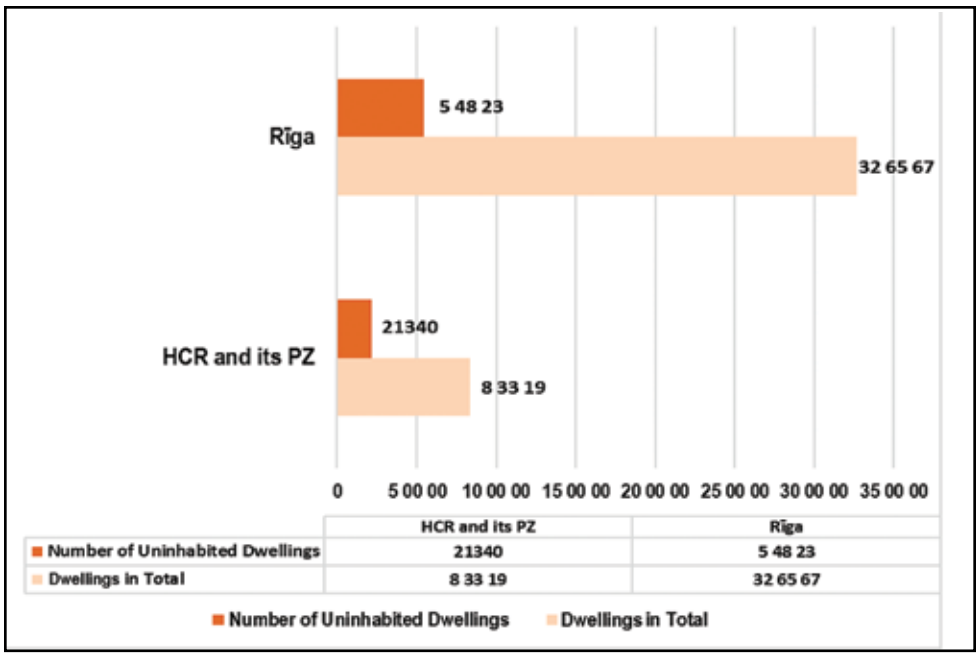
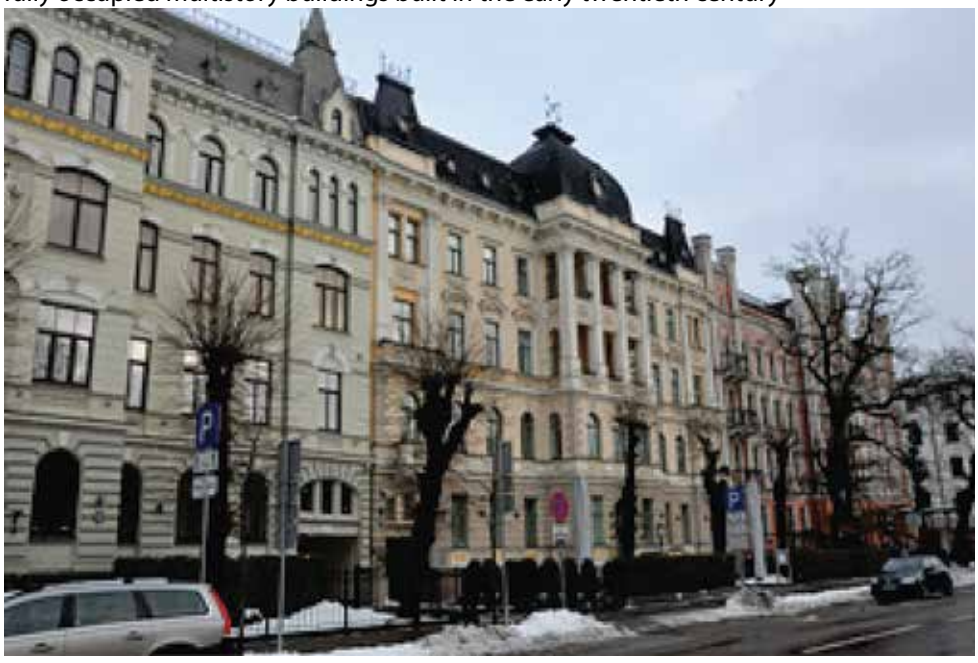


Figure 5. A typical mixed use area in the HCR (Elizabetes Street) with well-maintained, fully occupied multistory buildings built in the early twentieth century



A survey of public opinion regarding the condition of residential building stock (in 2013) found that although 29 percent of respondents were not satisfied with the size of the living area, the amenities of their residence, and the building's physical condition, 62 percent responded that they were considering moving to the suburbs for environmental reasons (e.g., air pollution, noise, unsafe place for children, lack of green areas, high crime, and poor parking) (Rīgas vēsturiskā 2014). In 2013 the Riga City Council estimated that in Riga

- 109 buildings were unsafe (had "slam status" with an average depreciation of 80 percent).
- 138 buildings were not well-maintained and only partially occupied.
- 40 buildings were not occupied and were recognized as "a degraded object of public space."
- 165 buildings had undergone activities to ensure their structural strength.
- Almost 500 buildings (in both private and municipal ownership) met only minimum maintenance criteria, had poor visual quality, and were not fully occupied.

At the same time, municipalities continue to struggle with the shortage of social housing. Public databases do not contain information on construction costs (new buildings, restoration) in particular territories, and this lack of information makes it impossible to assess overall financial investment in building maintenance.

Large numbers of privately owned historical buildings (e.g., multistory art nouveau buildings) in the HCR and its PZ are refurbished, well maintained and occupied (e.g., rented to a wide range of tenants, local and international businesses, foreigners). These buildings represent the most prestigious sector of the real estate market; most of them are too expensive for local buyers and are sold to foreigners from East Europe and Asia. Realtors prefer not to invest in wooden (low-story) heritage buildings, because they are difficult to maintain and expensive to remodel and they cannot be demolished or their physical size changed.

According to the 2011 Census, the HCR contains 38,598 dwellings; 14,714 (apartments) are owner occupied, and 16,872 are rented (see figure 6). Almost 50 percent of current residents in the HCR have lived there less than 10 years, and the average household size is fewer than 2 people.

Marketability of Historical Properties

In real markets many sales of non-renovated historical buildings occur, requiring additional substantial investment from the new owners for restoration and future maintenance to keep the buildings *authentic.* These investments are probably far greater than the real market value (sale price).

The selling period for historical properties may be longer than that for other (mass-produced) real estate; however, current owners expect it and are able to wait and negotiate discounts. Frequently the physical condition of a selected item is not taken into account, but movable items (historical interior pieces, furniture, porcelain, art) can be the subject of negotiation. Buyers who are able to invest for their personal needs, however, are also looking for returns, such as changing the current use (e.g., converting mansions and castles into hotels or guest houses) or completely remodeling to modernize the shape and engineering features of structures and focusing on culture as a profit-producing resource.

Since the 2008 economic crisis, the composition of purchasers of European historical real property has changed, attracting more and richer buyers from Eastern countries, the Middle East, and Asia. Real property continues to be the most trusted long-term investment in which the cultural feature may be a "growing through time," value-added factor. Nevertheless, numerous historical properties are listed but still not sold. Statistics, evidence, and research regarding property market activities, particularly in the RHC and its PZ, are not freely available.

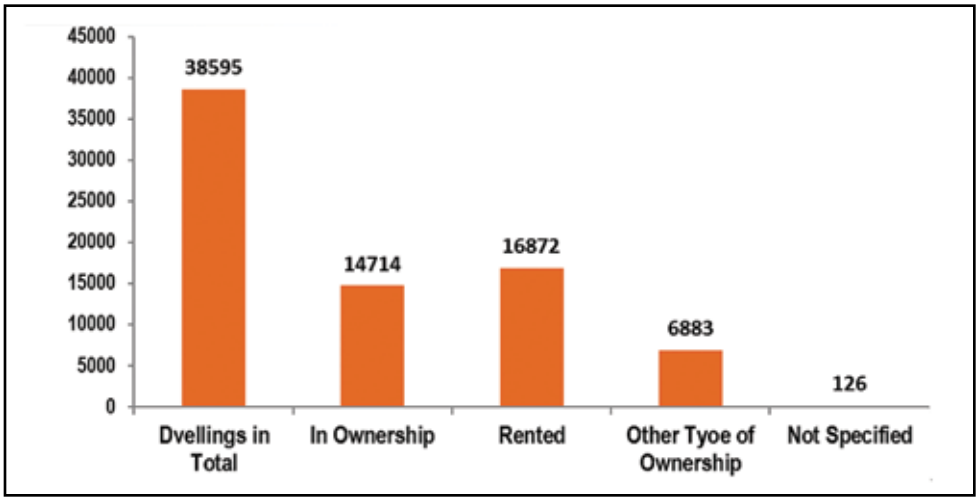
The global recession has also affected the real property market in Latvia: sales decreased by 40 percent from 2008 to 2011 because of Latvia's socioeconomic decline (international debt, rising unemployment and insolvency, decrease in salaries, shrinking construction activity and internal demand). Since 2011, however, the Latvian property market has experienced moderate and stable growth (an average of 2–3 percent annually).

Furthermore, analysis of 2011–2012 sales has shown that very often older buildings (built before 1920, located in the central part of Riga, with a depreciation of 60 percent or more) have a higher value than younger ones, confirming the assumption that in an exclusive location, cultural content should probably be considered a factor that increases value.

In 2011 amendments to the Immigration Law were adopted that allow foreigners to obtain resident status by purchasing residential property. In Riga the property value must be no less than 142,288 euro, but since 2014 the minimum value has been increased to 250,000 euro and since 2015 two properties can be purchased for a total investment of 250,000 euro. This has contributed to the recovery of the residential market, especially in Riga and its metropolitan area, raising public discussion about its risks and consequences. In 2011–2012 the total revenue from real property sales in Riga was 1,000,229 euro (foreigners were involved in 20 percent of the income from these transactions).

Analysis of buyer preferences has shown that the most expensive properties are located in a compact area of the HCR (downtown and art nouveau territory).

Figure 6. Distribution of dwellings according to affiliation status in the HCR (Source: Census 2011)



Sale prices for apartments in the centre of Riga are within the limits of 800–5,000 euro per square meter, depending on the location, physical condition, and remodeling option of the property. The second most common type of sale, after agricultural use, is apartment sales. The area with the highest demand is the art nouveau territory. The average area for listed apartments in the central part of Riga is about 60 to 100 square meters. However, a survey of current demand has shown that potential local buyers would prefer less expensive (less than the average amount in the HCR), refurbished, small (1 to 2 rooms) living spaces, which are very rare in the HCR. This finding confirms the assumptions that most sold properties in the HCR are exclusive, do not comply with average current local demand, and target richer (probably international) buyers. Potential local buyers usually are single persons (young professionals) whose current preferences are work, education, and (probably) entertainment.

Also, mass (cadastral) values, which conceptually are based on officially registered sale prices, confirm that commercial and residential real estate (buildings and spaces) located in the central part of Riga have the highest values in the entire country. Furthermore, analysis of 2011–2012 sales has shown that very often older buildings (built before 1920, located in the central part of Riga, with a depreciation of 60 percent or more) have a higher value than younger ones, confirming the assumption that in an exclusive location, *cultural content* should probably be considered a factor that increases value.

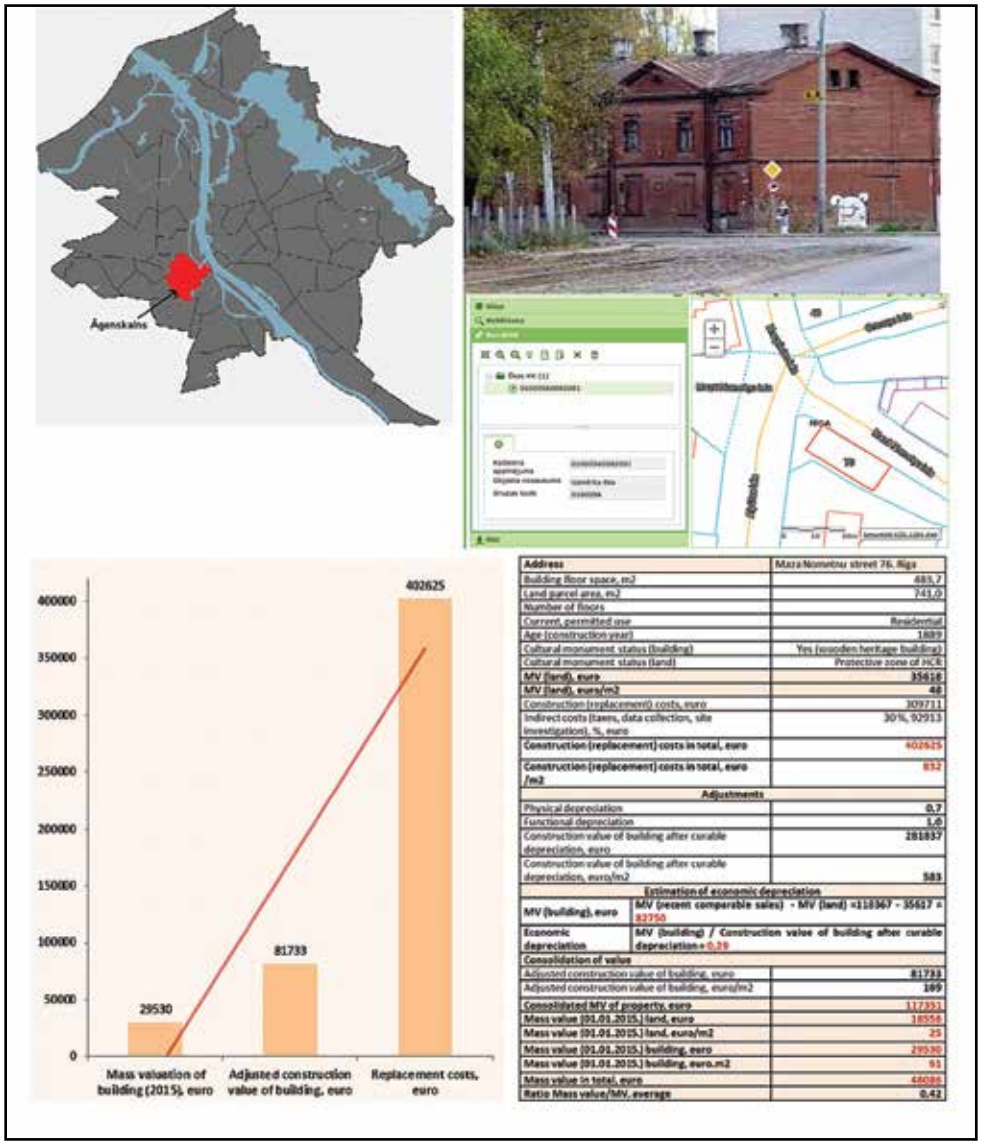
Large numbers of privately owned historical buildings (e.g., multistory art nouveau buildings) with high, well-recognized aesthetic value are refurbished, well maintained, and occupied (e.g., rented to a wide range of tenants—local and international business, foreigners, and the like). However, real estate investors prefer not to invest in wooden (low-story) heritage buildings: they are difficult to maintain and expensive to remodel and cannot be demolished or remodeled.

The results of an experimental market valuation of an old wooden building (built in 1901) performed by a student at Riga Technical University (Gulko 2013) are shown in figure 7. The research confirmed large discrepancies between mass value and adjusted construction and replacement costs. It also identified an urgent need to improve public databases (cadastral data, income, construction costs, and so on), to have more holistic cooperation in capturing the value of cultural heritage, and to improve valuation techniques and models for old construction.

Conclusions

Considerations of culture and elements of cultural space, as well as considerations of its positive socioeconomic impact, should be fully integrated into the modern framework (from the international level to the local) of strategies, concepts, policies, and normative regulation (responsibilities) of valuation. The purpose is to preserve cultural heritage (e.g., a limited number of unique historical sites and structures)

Figure 7. Results of valuation of old wooden building in Riga's Agenskalns vicinity using cost approach



Address	Mazā Nometņu street 76, Riga
Building floor space, m2	485,7
Land parcel area, m2	741,0
Number of floors	
Current, permitted use	Residential
Age (construction year)	1889
Cultural monument status (building)	Yes (wooden heritage building)
Cultural monument status (land)	Protective zone of HCR
MV (land), euro	35618
MV (land), euro/m2	48
Construction (replacement) costs, euro	309711
Indirect costs (taxes, data collection, site investigation), %, euro	30%, 92913
Construction (replacement) costs in total, euro	402625
Construction (replacement) costs in total, euro /m2	832
Adjustments	
Physical depreciation	0,7
Functional depreciation	1,0
Construction value of building after curable depreciation, euro	281837
Construction value of building after curable depreciation, euro/m2	583
Estimation of economic depreciation	
MV (building), euro	MV (recent comparable sales) - MV (land) =118367 - 35617 = 82750
Economic depreciation	MV (building) / Construction value of building after curable depreciation = 0,29
Consolidation of value	
Adjusted construction value of building, euro	81733
Adjusted construction value of building, euro/m2	169
Consolidated MV of property, euro	117351
Mass value (01.01.2015.) land, euro	18558
Mass value (01.01.2015.) land, euro/m2	25
Mass value (01.01.2015.) building, euro	29530
Mass value (01.01.2015.) building, euro.m2	61
Mass value in total, euro	48086
Ratio Mass value/MV, average	0,42

Table 2. Problems affecting the HCR and its PZ (research of residential function and protection of heritage).

Category	Specific Problem	Cause	Solution
Global (common, socioeconomic)	Global (local) political and economic instability Cultural differences (e.g., corporative culture and planning culture, conflicts of civilizations) Depopulation Mobility of work and people (e.g., refugees) Change in living standards Change in personal values and preferences (technological impact) Unbalanced development of property markets (insufficient, adequate, residential market supply for local purchasers) Insufficient purchasing power of residents Limited alternative work options (e.g., distance to work) Internationalization of local market	Global, national, local socioeconomic and political impact, its trends	Global, national, local socioeconomic recovery; common political stability
Technological	ICT impact on common (people and institution) manner of use Consume, collect, update, exchange information Change in manner of planning (application of GIS solutions)	Global ICT development trends, its implementation state in national (local) land administration	Adoption of global ICT trends in national property data maintenance, exchange, update, and publishing; use of GIS solutions in planning
Spatial planning problems (urban design, public space and its infrastructure)	Unbalanced development of territories (empty buildings, irregularly developed infrastructure) Unbalanced supply and demand of residential space (e.g., in size, financially available for local clients) Deserted buildings (high administrative burden in planning, construction, remodelling, and removal) Insufficient social infrastructure (lack of places for kindergartens, parking, playgrounds, parks) Insufficient family-friendly open space (risk for children's safety; lack of children's playgrounds) Pollution (air quality, noise) Unsafe public space (crime risks, low trust in police)	Local spatial planning (zoning) in connection with local real property market trends (demand and supply) and common (national) housing policy	Monitoring of implementation of spatial regulation (GIS-based solutions); public involvement (use of bottom-up planning)
Political (institutional and systemic problems)	Complicated (nontransparent) building conditions (long planning phase, complicated building demolishing involving property data updating) Non-integrated property data system (e.g., limited amount of information about architectural heritage available online) Complicated property rights (difficult property transaction, investment, remodelling) Insufficient policies in support of the owner in cultural monument maintenance and renovation No tax relief for owners who maintain, occupy, and invest in cultural residential property (less income tax, discounts for loans) Slowing housing policy (e.g., first residence for young families)	Current state of national land administration and real property policy	Adjustment of land administration instruments (legislation) and its supportive system (institutions and registers) to current internal demand, as well as international trends
Cultural (institutional) and political (corporate) culture)	Low common public trust in institutions, politicians, spatial planning and construction process, property market activities and efficient use of public resources (e.g., use of collected taxes) Unfair social policy (access to social residence and distribution of financial support)	Common socioeconomic environment regarding publicly supported and shared values	Changes in common value system (from political to individual)

by taking into account not only people's rights to maintain their identity and to share and enjoy their culture, but also the potential of the culture's resources on behalf of society's spiritual and economic needs. However, practical implementation of cultural valuation faces problems such as

- Insufficient administrative and financial capacity
- Incomplete information on cultural objects
- Unforeseen global risks (common socioeconomic decline, political instability, shifts in priorities and preferences, and so forth)
- Technological impacts (e.g., use of technologies for heritage data collection, process, and use); see table 2.

There is a link between cultural value and market value: sales of heritage properties take place in property markets around the world, and professional guidelines (e.g., valuation standards, methodical applications) have been developed for assessing the value of properties when valuations are undertaken in "the interests of historic real property."

The market area of outstanding architectural heritage properties is usually wider than the local market and can cross borders and be applied to international (exclusive) property market share.

In the sale of unique (mostly in poor physical condition) architectural her-

itage properties, such factors as symbolism, unique style, prestige location, and the like have been considered the most important effects on value. Also important is the sale promotional factor for buyers whose personal preferences put a premium on the aesthetic value (special or cultural value) of an object or location. Prestige location is probably a sale-facilitating factor for old, out-of-date, buildings (e.g., in the HCR).

The cost approach may produce the most precise (probably the most representative of comparable properties in a relevant market area) value of older (unique) construction than other valuation approaches. The practical application of the cost approach faces such problems as an insufficient amount (or lack) of trustworthy information on expenses and costs of maintenance and restoration of older buildings. Also, mass valuation models fail when cultural aspects are involved. In 2013 the Latvian National Certification body, the Latvian Association of Property Appraisers, adopted the 2012 IVSC standards as a Latvian national valuation standard; it also adopted recommendations for valuing cultural heritage. However, the use of the cost approach in valuation applications is still questionable; public databases do not contain complete information on the quality of buildings or the required data on construction costs of historical buildings.

The problems of the survival of cultural heritage buildings in the HCR and its PZ can be divided into two basic groups: spatial planning-related problems (the design of urban space and its infrastructure) and other (socioeconomic, systemic, and institutional culture) problems. Declining population is a complex (common or global) problem whose solution is more complex than can be provided by spatial planning.

Currently, unused historical buildings are at risk of not being preserved and occupied.

The consequences in areas such as the HCR are low demand for residential space (low market and construction activity), the necessity to attract international capital (investment) to support local property markets, a decrease in the quality of building stock (unpopulated buildings), a decrease in the quality of architecture and public space (loss of cultural values), the heterogeneous development of public infrastructure, growing pollution, and less security (rising crime and violence).

Mechanisms for capturing the value of architectural heritage in buildings in the HCR and its PZ exist, but they have not been fully implemented because of insufficient funds (e.g., lack of state funding for the restoration of historical buildings, slow implementation of housing policy) and other priorities (e.g., fiscal stability) in the country's socioeconomic development. Activities that should be implemented to support preservation of residential architectural heritage include housing policy, tax relief for owners of cultural monuments, and promotion of local residential markets.

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