



Impacts of Cultural Heritage on Real Estate Market

Executive Summary

The Gyula Forster National Centre for Cultural Heritage Management commissioned ELTINGA Centre for Real Estate Research to examine the impacts of cultural heritage on the real estate market in Hungary. Since such studies have not been carried out in Hungary before the researchers approached the task using different methods. In order to reveal as many impacts as possible the examinations were performed in three different ways:

- 1. Quantification of the price effect on residential properties at the level of individual properties, urban districts and entire settlements.*
- 2. Price effect on hotel room rates.*
- 3. Specific case studies on Gresham Palace, Gozsdu Court and Wekerle Estate in order to unveil special characteristics of cultural heritage and to reveal contributing qualitative factors*

*1. For the **quantitative** research on the **residential property** market we used the FHB Housing Price Index database as a main source, which is the largest housing transactional database in Hungary. The **individual property-level analysis** revealed that out of 760,000 real estate transactions concluded between 2000 and 2007, 17,000 items can be identified as either a national historic monument, a property under local protection or a property located in a historic environment. These properties were sold at a 30% higher price than other flats in the market. Apart from the architectural heritage aspect this price premium is also caused by several factors, particularly the location of the given property.*

Having filtered out other contributing factors we found that compared to the non-listed properties on the market, national monument protection causes a 1.9% price premium, local protection triggers a -4% discount while historic environment generates a significantly high, 8.2% price effect in Hungary. In Budapest, the price premium of national listed monuments is 2.1%, while local protection has negative affect, a -8.4% discount on property prices. Historic environment however, has a significant high 19.8% price premium in the capital. Historic properties tend to be sold with an estimated 2.6% price premium outside the capital as well, although we could not identify any significant historic environment premium in the countryside. The price effect of the historic environment remained unchanged in the recent years, whereas the price premium of the historic properties under national or local protection was somewhat higher at the beginning of the examination period (between 2000 and 2003).

*During the research we performed **time-series and cross-sectional comparative analyses** on the **residential property markets of a number of urban areas**. In the case of three historic environments of exceptional significance (The Castle District in Budapest and the downtown areas of Eger and Sopron) the property price trends in the last 15 years were investigated. During the years of the economic crisis the property prices both in Budapest's Castle District and Eger's downtown remained*

steady for a longer period than in the other parts of these cities. Depending on the time of the measurement, in case of Budapest's Castle District and Eger's downtown a 30 to 40% price premium was observed following the previously lower premiums from 2000 until 2004. In the case of Sopron, such a difference was not identified; the property market of the whole town performs much better than the national average. We carried out postcode-level examinations in the regional centres thus obtaining data based on a somewhat less accurate delineation. **The data analysis concerning five large towns situated in different areas of the country (Debrecen, Győr, Miskolc, Pécs, Szeged) shows that the historic downtown location definitely has an upward effect on the residential property prices, although it has varying factors.**

Our settlement-level examination showed that **if the proportion of listed historic buildings¹ is 1 percentage point higher compared to non-listed properties within the total housing stock in a given settlement, it entails 3% higher property prices and per-unit prices.** This coefficient can be regarded as robust but it is not exceptionally high. Its scale demonstrates the fact that the impact of listed heritage status on the property market is strongly tied to the location of the property. The data also shows that if we take tourism into consideration, which has the most obvious indirect positive impact on real estate prices, the coefficient drops by one third. Therefore if the listed historic buildings did not attract tourists, the premium impact would only be as high as 2%.

2. The **statistical examination of the travel accommodation market** was carried out based on the data of travel accommodation establishments advertised on booking.com. In the course of this analysis we looked into the quantity and the prices of the travel accommodation establishments in Hungary, located in listed historic buildings. We identified 109 buildings under national or local protection out of the roughly 3,000 collected accommodation establishments. We found that the room rates of the accommodations located in such protected buildings are 27% higher than the ones that are located in non-historic properties. In addition, the data also shows that the travel accommodation establishments in listed historic buildings are better equipped and rated higher than the average travel accommodation establishments. The effect of these characteristics was filtered out using a regression method. **As a final result room rates of a travel accommodation establishment located in a listed historic building are 12.7% higher compared to other accommodations with similar features, .**

3. We designed **case studies** on the impacts of listed historic buildings on the property market in order to deepen understanding about less measurable factors.

In the case study of the **Wekerle Estate** we examined local property market phenomena in one of the most unique architectural heritage areas of Budapest. We also took a closer look at what regulatory instruments and initiatives proved to be effective during the revitalization project of the neighbourhood. **The value of a building in Wekerle Estate is not only determined by its technical condition but also its environment, which is both historic and green topped by a well-developed community around it that is quite unique in the entire capital.** Compared to the similar residential properties of Kispest Garden District, the residential properties of **Wekerle Estate are generally sold at high premium prices** mainly due to its one-storey flat constructions. The majority of the inhabitants and the recent buyers seem to comply with the regulations to preserve the historic nature and sustain the values of the Estate, although we have encountered several instances where these

¹ listed historic buildings in this text refer to buildings under national or local protection.

regulations were violated. Nevertheless, the above-mentioned characteristics seem to represent a high priority value for those who decide to buy a property in this neighbourhood and they apparently contribute to the renewal of Wekerle Estate. It is partly caused by the fact that the last ten years' buyers generally represent a wealthier layer of society who, **owing to the local heritage preservation initiatives, tend to receive more information on the renovation possibilities complying with the regulations.** Unfortunately, in Wekerle Estate, these regulations have often been violated, the recovery from which needs plenty of time and dissemination of information. **Recent awareness raising programmes and local subsidy schemes for the preservation and maintenance of cultural heritage seem to be effective in supporting the preservation initiatives.**

In the case study of the **Gresham Palace** we aimed to uncover the factors that lead to the success of such a large scale restoration project, which eventually has given the building a new function in line with its glorious past. **Firstly, the renovation started in a favourable touristic and property market period.** The investor approached the project with a long-term view, mobilising his own financial resources to realize the project allowing for a flexible budget to work with. The co-operation with the Historic Monuments Authority during the implementation phase was virtually trouble-free **as it was the investor himself who set out the highest quality requirements possible and prepared very detailed restoration plans.** The Four seasons Gresham Hotel is regarded as one of the most emblematic buildings of Budapest.

Contrary to the previous examples, the restoration project of the **Gozsdu Court** was far from trouble-free. First of all, the restoration costs were vastly underestimated. Moreover, the investor had a direct basis for comparison between the restoration costs and the construction costs of new flats, which he had built on the adjacent parcel at a lower price. In the course of selling the flats of the Gozsdu Court it became clear that the apartments in the historic building could be sold at the same price level as the flats in the brand new blocks, although they attracted a partly different set of buyers. Some of the clients had already lived in architecturally valuable residential properties before so they specifically searched for a similar building. The Gozsdu Court, one of the epicentres of Budapest's newly emerged party district now mainly serves as an apartment building with a wide range of entertainment facilities on the ground floor – in harmony with the occupants' demands.

Summarizing, the real estate market analysis revealed that cultural heritage has a positive impact on real estate prices and creates a price premium in the temporary accommodation market. The case studies showed that the accurate estimation of costs for revitalizing a listed building is key to a successful restoration project. This can be facilitated by preparing detailed restoration plans and through developing close partnership with cultural heritage authorities all along the restoration process. On the individual property level, the dissemination of precise information on heritage protection practices can be a good tool for its sustainable upkeep and it is essential to involve the owners in heritage management. Both the quantitative analysis and the case studies revealed that there is a group of buyers who have preference towards historic buildings.

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