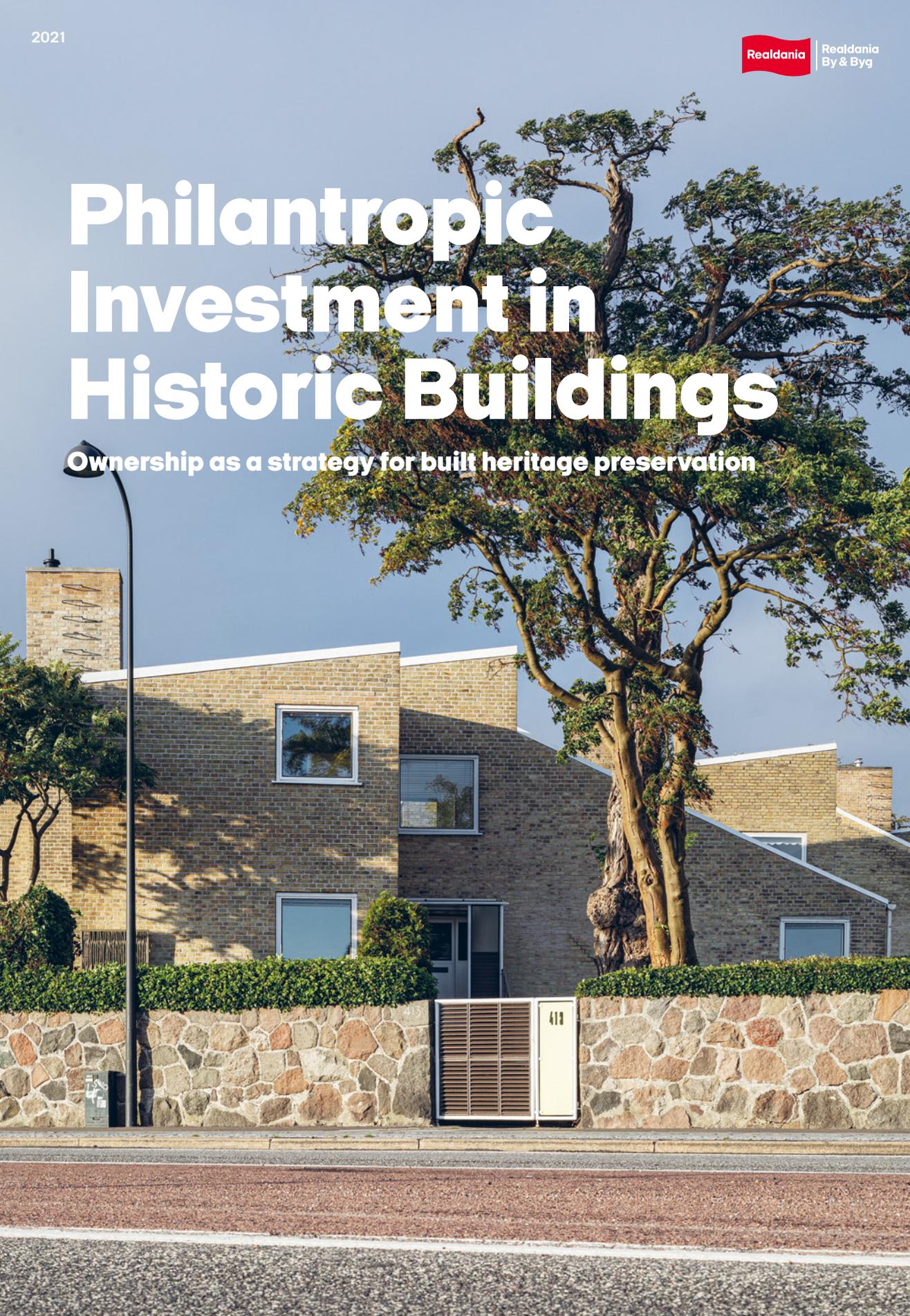


Philanthropic Investment in Historic Buildings

Ownership as a strategy for built heritage preservation





Introduction

This publication serves as an introduction to Realdania By & Byg's work with philanthropic investment in historic buildings and ownership as a strategy for built heritage preservation. It is also an invitation to international colleagues to get in touch for more information, networking, co-organization of events or private tours in the historic buildings.

Since our foundation in 2003, Realdania By & Byg has accumulated a portfolio of more than 50 important historic buildings situated all over Denmark, all of which have been – or will be – updated through gentle restoration, and which, with their present-day usage, constitute a living built heritage. The historic buildings are rented to private individuals or businesses.

Today, the property portfolio illustrates Danish architectural heritage over a 500-year period. Three to five historic properties are purchased and added to the portfolio every year.

Realdania By & Byg's aim is to inspire home-owners, municipalities and private developers to sustainable development of the built environment. At the same time, Realdania By & Byg's philanthropic

investments generate revenue that can be used for further investments.

Realdania By & Byg operates in Denmark and the company only makes philanthropic investments in properties located in Denmark. However, Realdania By & Byg is happy to share the experiences as a philanthropic investor with international professionals working with preservation of built heritage.

Through websites, films and books, Open House events and the Realdania By & Byg Club, Realdania By & Byg shares the many stories the properties have to tell.

Go to www.realdaniabyogbyg.org to find the full property list, publications and videos in English.



Philanthropic Investment in Historic Buildings

In recent years, international colleagues focussing on financially viable philanthropy have requested a description of the 'philanthropic business model' and the lessons learned from Realdania By & Byg's work with philanthropic investment in property, and particularly in historic buildings.

In particular, questions have revolved around the special combination of philanthropy and business on which Realdania By & Byg bases its activities. This represents an alternative to the more traditional conservation models that rely on philanthropic grants or the establishment of museums in historic properties.

In the following, the insights Realdania By & Byg has gained will be outlined with emphasis on the strategic considerations that could inform work with philanthropic investment in property – be it in Europe, the United States or Japan.

What are philanthropic investments in property?

Philanthropic investments in property are investments in which a certain loss or reduced return on the investment is deemed acceptable to fulfil a philanthropic purpose.

For Realdania By & Byg, any considerations regarding the purchase of a property will therefore begin with the question of whether there is a philanthropic task in terms of conserving important cultural heritage. Situations where the commercial market cannot, or will not, solve a task, and where public authorities are also unwilling to step in, may be suitable philanthropic projects for Realdania By & Byg.

Unlike traditional donations, philanthropic investments give ownership of the properties invested in – and thereby both long-term commitment and guarantee that the properties will be continuously maintained at a stable and high level, and preserved for posterity. In some cases, philanthropic investment may be preferable to philanthropic donations to properties in private ownership. This is primarily because with ownership comes command over the property and thus the opportunity to actively pursue conservation and development ambitions for the property – provided one is willing to accept a financial disadvantage or risk.

Such an ambition could be to obtain a certain level of quality in a restoration and transformation, but also to ensure the preservation of original



↑ Erik Christian Sørensen's family home, Charlottenlund, Greater Copenhagen
 ↓ Poul Henningsen's (PH) family home, Gentofte, Greater Copenhagen



↑ Edvard Heiberg's family home, Virum, Greater Copenhagen



details and qualities, to test new solutions, or to investigate operational consequences.

The starting point for restoration – retention or transformation

For Realdania By & Byg, restoration starts with giving a building a function to ensure that it remains in use and to help generate rental income to finance its future upkeep. Many buildings can be conserved through continued usage for the purpose for which they were originally built. Buildings created for residential purposes can continue to be used as homes, although they will often require careful updating and restoration to function as attractive homes today. This may be a matter of upgrading kitchens and bathrooms, installing more electrical outlets and internet connections, and making the building more energy efficient to improve comfort and reduce operating costs.

Other buildings require a new function to ensure continued use. This may involve a major restoration of the property. In terms of restoration and architecture, the challenge is to ensure that the building's fundamental values remain intact. There is often greater risk associated with renovations of this scale. Often, a key consideration

regards the degree to which the individual tenant should be considered when transforming a building that has been acquired as part of a portfolio of historic properties with an "infinite" lifetime.

Most importantly, there is a risk of the tenant simply backing out after a short period of time. This could mean that choices in relation to architecture and restoration will need to be revised when a replacement tenant is to be found. It will therefore often be necessary to work with solutions that are reversible.

The extent to which a building is customised to individual tenants is therefore also a strategic consideration. In addition, there are the commercial considerations. Customised solutions are often costly, resulting in higher rents and therefore a higher risk for the landlord. A certain degree of caution is therefore crucial; both in relation to restoration and from a commercial perspective.

The important dialogue with tenants

Historic buildings of high architectural quality differ to some extent from the wider commercial real estate market. Space utilisation is often less effective than in new properties, and sometimes energy efficiency and operating costs cannot compete with newly constructed buildings.



↑ Glasalstrup, Aarhus, Mid Jutland [administration building]

Furthermore, in our experience, the segment of tenants who wish to rent a historic property is more limited, given that these properties differ from new buildings in terms of floor plan, kitchen size etc. This demands that the operating organisation distinguish itself through close communication with tenants prior to move-in, as well as ongoing personal contact regarding maintenance work and outreach activities in relation to the property. For example, Realdania By & Byg includes a fixed requirement in all rental agreements regarding access to properties in connection with guided tours.

The philanthropic investor in the property market

The property market is highly cyclical, with frequent fluctuations, and clearly it will always be better to purchase property during downturns than during upturns. Access to capital is therefore crucial, also during periods of recession. Furthermore, the property market is a heterogeneous market, where even short geographical distances can have a major impact on prices. This means that strong business acumen is essential to avoid buying properties above market price. This may be particularly challenging

in areas of high volatility such as major cities. Business acumen and experience are also necessary to ensure that the present-day use of a property can dampen rather than amplify market fluctuations. For example, residences and liberal professions are generally less sensitive to market fluctuations than cafés, hotels and restaurants. The property market also depends on wider trends in society such as demographics, so it is important to think long-term.

Building a property portfolio

For the philanthropic investor, it is essential to establish a robust strategy for building a portfolio that develops over time. A central consideration here is at what point the return on the portfolio will be sufficient to sustain an independent operating organisation. It may make sense to outsource parts of property management to external operators to keep fixed costs down. Another key consideration to build the portfolio with a certain degree of financial robustness. The number of properties is important, as are the function and geography of the individual property. A robust strategy also makes it possible to acquire properties with greater uncertainty.



↑ The Dyrehave Mill, Nyborg, Funen
→ The Foundaries, Præsto, Sealand



Each year, we receive proposals for property purchases from a wide range of players, including conservation associations and estate agents, and each year many properties are rejected because they do not meet our criteria. At the same time Realdania By & Byg itself is actively engaged in the search for the right properties for the portfolio.

The business model

Realdania By & Byg purchases properties at market value and on the basis of local estate agent valuations. Subsequently, given its aim to conserve and develop buildings, Realdania By & Byg typically invests more money in a property than private buyers would have done. On average, 30%-50% of restoration costs are written off as a philanthropic grant. Over time, in by far most cases, devalued properties will increase in value with inflation.

Hence, in theory, over several years the direct investment will be offset by an increase in value. This has been the case for many of the properties Realdania By & Byg has purchased and restored over the past fifteen years. However, there are also a few properties where very large write offs have been made and where depreciation and appreciation in value does not balance out.

A steady return

Right from the beginning, Realdania By & Byg has had the principle that a steady return on an individual property is necessary to ensure that the building can be maintained in the future. In other words, the individual building must as a minimum be able to generate a rental income sufficient to ensure its ongoing upkeep and operation.

A hypothetical example [in €1000]

Acquisition:	500
Restoration:	400
Total investment:	900
Market value after restoration:	700
Loss/philanthropic grant:	200
Annual rental income:	38
Annual operating and maintenance costs:	10
Annual net operating income:	28
Return on market value after restoration of €700,000	4%
Return on total investment of €900,000	3,1 %

Before a property is purchased, the estimated average annual expenses and rental income are calculated. If the result is negative, the property will not be bought. In very exceptional cases, a near-zero return on the property value after completion of restoration is accepted. The average rate of return over the years has been approx. 2% of gross investment at portfolio level.

Property rents also follow market trends, and Realdania By & Byg therefore obtains an external valuation of the rent level for the specific property from local estate agents. There are several reasons why rent prices are set at market rates. Firstly, Realdania By & Byg's main mission is to conserve architectural heritage. Rental income should also support this objective, and not be artificially low to subsidise organisations, special causes and the like. Secondly, Realdania By & Byg does not wish to influence the rental market downwards.

So, while both acquisitions and rents are at market levels, restoration and the associated costs are typically higher than the value appreciation after restoration. The loss is considered a grant consisting of the difference between the cost of restoration and the increase in property value.

As a philanthropic player in the commercial property market, it is therefore vital to have a clear strategy, access to patient capital, a comprehensive understanding of the property market, and a long-term perspective.



↑ Kaline's House, Læsø, North Jutland [one of the island's few remaining seaweed-thatched houses]

→ The Grey Lighthouse, Skagen, North Jutland

Lessons learned from managing a property portfolio

There are many advantages being a philanthropic investor with a wide-ranging property portfolio. One advantage is that, over time, a wealth of knowledge is acquired and retained regarding restoration and the specific solutions chosen. This also applies for the subsequent operation of the buildings.

1. Maintenance is cheaper than restoration

One of the most important lessons is that it is economically advantageous to do a comprehensive restoration immediately after acquiring a property and before it is rented out. This helps to reduce overall costs by consolidating expenses for consultants, construction site, workers etc. at one time. In addition, subsequent maintenance becomes easier to plan. Furthermore, it is not necessary to rehouse tenants or have frequent tenant turnover because the property does not meet a certain standard.

2. Energy efficiency matters

Realdania By & Byg has also found that energy costs must conform to market levels to maintain

rental prices. Very high utility costs, e.g. for heating, are not sustainable – environmentally or financially.

Over the years, Realdania By & Byg has therefore had special focus on this in the engagements with conservation authorities, and a number of solutions has been developed and subsequently recommended to other owners. In the most recent evaluation of the organisation, this was highlighted as a positive impact of the company's work.

3. Impact on surrounding buildings

A third lesson is that restorations have a rub-off effect on surrounding buildings. An example of this is the restoration of the old town hall in St. Heddinge, a small Danish provincial town, which led to the restoration of surrounding privately owned properties. This gave the otherwise languishing main street a boost at a time that was critical for the town's retailers.

A philanthropic investor making a long-term investment in an area can have considerable impact, helping to inspire optimism for the future and a belief in the possibility of pushing development in a positive direction.

Poul Egede's House, Ilimanaq, Greenland



Property Portfolio in Denmark



The properties are listed chronology, beginning with the oldest first.

- | | | | |
|---|---|---|--|
| Year: 1504 and later | Year: 1858 | Year: 1929/1931 | Year: 2009- |
| 1 Secular Convent for Noblewomen, Odense | 20 Skagen's Grey Lighthouse, Skagen | 39 Arne Jacobsen's Family Home, Charlottenlund | 62 Køge Kyst, Køge |
| Year: 1542-2007 | Year: 1858 | Year: 1934 | Year: 2010-2015 |
| 2 Nørre Vosborg, Vemb | 21 Dyrehave Mill, Nyborg | 40 The State-Funded Smallholding, Skovbølling | 63 The Car Park - Dokk 1, Aarhus |
| Year: 1580 | Year: 1860 | Year: 1936 | Year: 2011- |
| 3 Taarnborg, Ribe | 22 Meldahl's Town Hall, Fredericia | 41 Arne Jacobsen's Private Holiday Cottage, Gudminderup | 64 Naturbydelen, Ringkøbing |
| Year: 1586 and later | Year: 1865 | Year: 1939 | Year: 2012-2013 |
| 4 The Maternal House of Oluf Bager, Odense | 24 Kaline's House (Seaweed House), Læsø | 43 Viggo Møller-Jensen's Family Home, Kgs. Lyngby | 66 Philanthropy House, Bruxelles |
| Year: 1690 | Year: 1871 | Year: 1954 | Year: 2012-2013 |
| 6 Prior's House, Ærøskøbing | 25 Højgården, Sejerø | 47 Esken - Svenn Eske Kristensen's Private Holiday Home, Fårevejle | 67 The Mini CO2 Houses, Nyborg |
| Year: 1757-1770 | Year: 1880 | Year: 1956 | Year: 2013 |
| 8 Poul Egedes House, Ilimanaq, Greenland | 26 Tvede's Town Hall, Sorø | 49 Bertel Udsen's Family Home, Kgs. Lyngby | 68 The Modern Seaweed House, Læsø |
| Year: 1767 | Year: 1887 | Year: 1958 | Year: 2013- |
| 9 Nørre Sødam farm, Møgeltonder | 27 The Foundries, Præstø | 51 Halldor Gunnløgsson's Family Home, Rungsted Kyst | 69 Nærheden, Hedehusene |
| Year: 1775 | Year: 1892 | Year: 1958 | Year: 2013-2015 |
| 10 Stine's House, Lolland | 28 Amberg's Courthouse and Jail, Esbjerg | 52 Knud Friis' Family Home, Brabrand | 70 BOLIG+, Søborg |
| Year: 1777-1779 | Year: 1901 | Year: 1958 | Year: 2016-2017 |
| 11 Digegreven's House, Tønder | 29 The Jensen Family Farm, Korup | 53 The Roman House, Helsingør | 71 Healthy Homes, Holstebro |
| Year: 1784-1785 | Year: 1905 | Year: 1958 | Year: 2016-2019 |
| 12 Hindsgavl Castle, Middelfart | 30 The Harbour Master's House, Skagen | 54 Inger and Johannes Exner's Family Home, Skodsborg | 72 Oluf Bagers Square, Odense |
| Year: 1795 | Year: 1906 | Year: 1967 | Year: 2016-2020 |
| 13 Bent Madsen's Farmhouse, Dreslette | 31 Marskgården, Højer | 55 GlasAlstrup, Hasselager | 74 Communal Housing for the Elderly, Ringkøbing |
| Year: 1823 | Year: 1910 | Year: 1969 | Year: 2018- |
| 14 Højergård, Højer | 33 The County Governor's Residence, Hjørring | 56 Poul Erik Thyrring's Family Home, Herning | 75 Healthy Homes - Renovation, Randers |
| Year: 1827 | Year: 1917 | Year: 2008-2010 | Year: 2018-2019 |
| 15 Gammelby Mill, Fredericia | 35 Bakkekammen 40, Holbæk | 60 Home Energy, Tilst | 76 Out-of-place Buildings in Danish Towns and Cities, Faaborg |
| Year: 1838 | Year: 1918 | Year: 2008- | Year: 2019- |
| 16 Koch's Courthouse, Store Heddinge | 37 Country House designed by Kay Fisker, Snekkersten | 61 Kanalbyen, Fredericia | 77 The Icefjord Centre, Illulissat, Greenland |
| Year: 1843-1845 | Year: 1924 | | Year: 2020 |
| 17 Kornerup's Town Hall Vordingborg | 38 Edvard Heiberg's Family Home, Virum | | 78 The Efficient and Sustainable Apartment Blocks, Fredericia |
| Year: 1853 | | | |
| 18 Bindesbøll's Town hall, Thisted | | | |



↑ Bindsøll's Town Hall, Thisted, North Jutland
↓ Taarnborg, Ribe, South Jutland



↑ Hindsgavel Castle, Middelfart, Funen
↓ Bakkekammen 40, Holbæk, Sealand





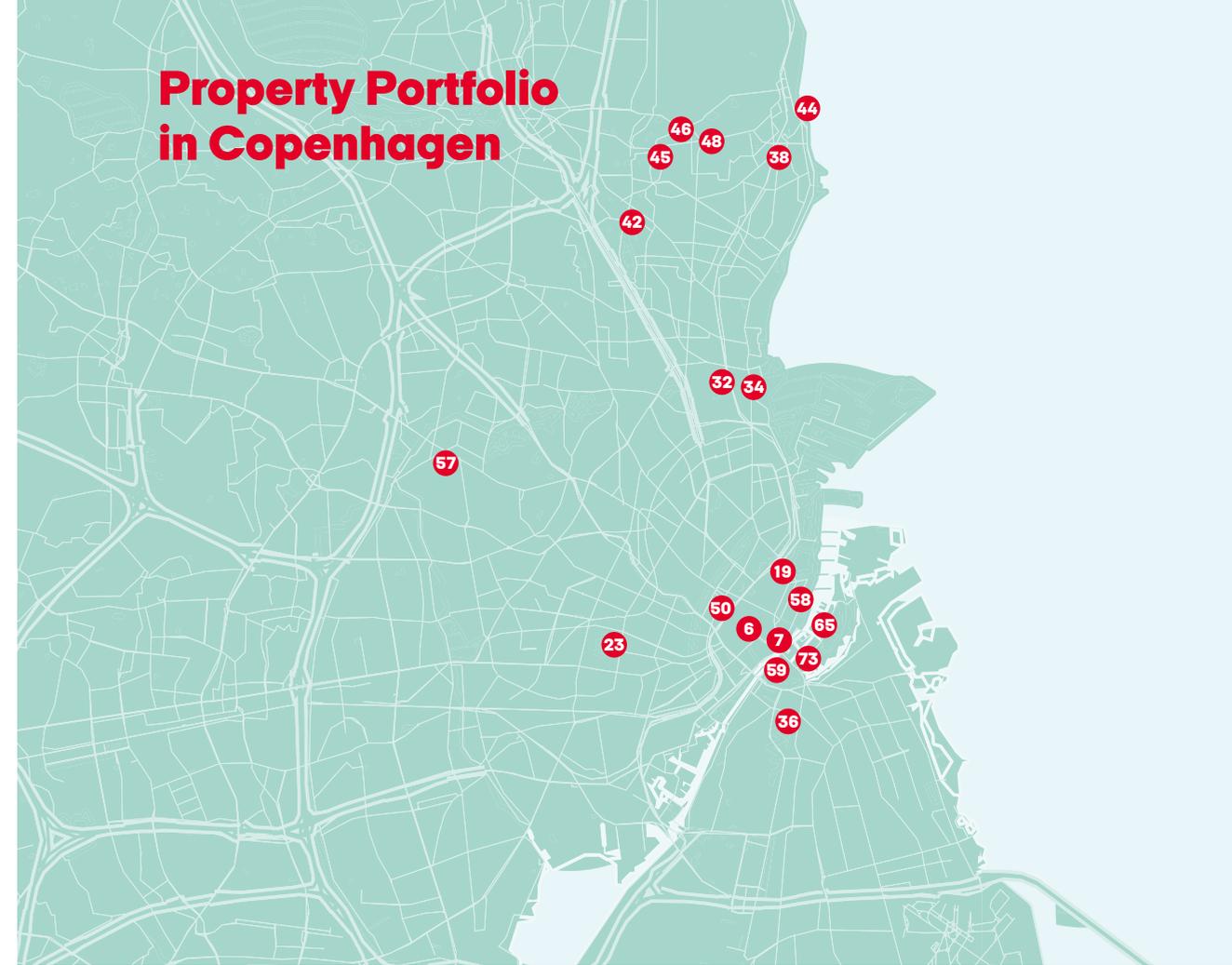
↑ Jarmers Plads, Copenhagen
(administration building)
↓ The Rose House, Copenhagen
(former administration building of the
Danish brewery Tuborg)



→ The Balloon Hangar,
Copenhagen



Property Portfolio in Copenhagen



Year: 1663-1669:

6 The Harboe Widow's
Convent, Copenhagen

Year: 1742 and later

7 The Fortification Depot,
Copenhagen

Year: 1854

19 The Navy Girls' School,
Copenhagen

Year: 1860

23 Riise's Country House,
Frederiksberg

Year: 1907-1908

32 J. F. Willumsen's Family
Home, Hellerup

Year: 1913

34 The Rose House,
Hellerup

Year: 1917

36 The Balloon Hangar,
Copenhagen

Year: 1937

42 Poul Henningsen's (PH)
Family Home, Gentofte

Year: 1951

44 Arne Jacobsen's Family
Home, Klampenborg

Year: 1952

45 Varming's Family Home,
Gentofte

Year: 1953

46 Clemmensen's Family
Home, Gentofte

Year: 1955

48 Erik Christian
Sørensen's Family
Home, Charlottenlund

Year: 1956-1959

50 Jarmers Plads,
Copenhagen

Year: 2004-2006

57 Bispebjerg Bakke,
Copenhagen

Year: 2006-2010

58 Tietgen's Agony,
Copenhagen

Year: 2006-2018

59 BLOX,
Copenhagen

Year: 2011-2016

65 The Kvaesthus Pier and
the Sankt Annæ Square,
Copenhagen

Year: 2016-2019

73 Lille Langebro,
Copenhagen



Guided tours and visits

For Realdania By & Byg, sharing knowledge and information about properties has been a priority from the beginning. Public dissemination follows as a natural part of the philanthropic mission that underpins all of Realdania By & Byg's work. Moreover, increased awareness of a property also raises the value of the property, and communication activities generate documentation of the individual property investment, which can be useful for portfolio management in the future.

Although the buildings are not museums and access to them is limited, visitors can take tours and experience a historic building in use as a home, office or exhibition space, and with certain properties it is also possible to spend the night or host a conference.

Since 2007, Realdania By & Byg has had a public club programme, which allows the public to gain access to the portfolio of historic buildings.

Members of the club pay a symbolic annual fee, and in return they can purchase tickets for property tours at half price. Tours are given by Realdania By & Byg's own guides, who have extensive

knowledge of the individual building and overall portfolio.

Today, the club has about 5,000 members, and each year approximately 200 tours of the properties are given by Realdania By & Byg's communications team. When there is a change of tenant, the public is invited to free open house events, which are often very popular. In recent years, Realdania By & Byg has had around 20,000 visitors annually.

Once or twice a year, Realdania By & Byg visits all the properties with our club members. You are welcome to participate in such visits. If you are not a member, you will have to pay full price for each participant.

See all the planned visits in our online calendar (in Danish only): realdaniabyogbygklubben.dk/arrangementer

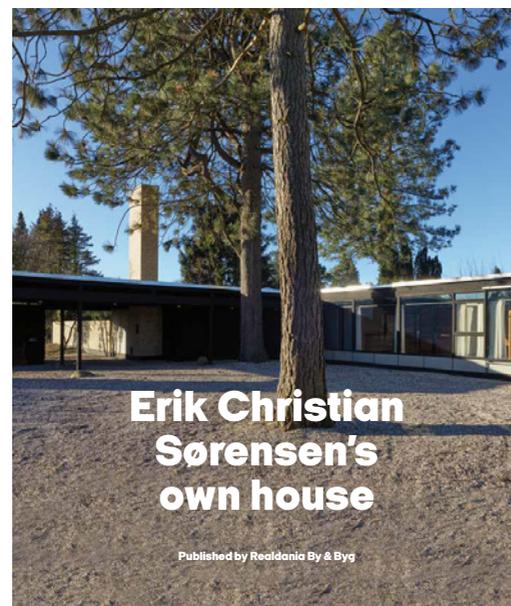
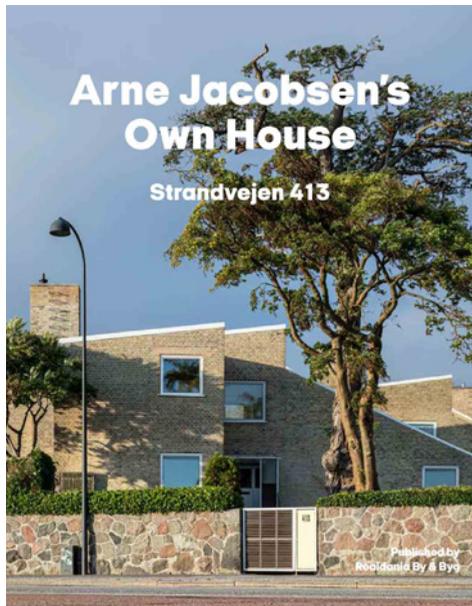
Please contact our Club Team if you have questions regarding our guided tours and visits.

klub@realdaniabyogbyg.dk

Publications

Realdania By & Byg publishes material about all its properties, explaining the background for the acquisition and restoration. You can download them for free or buy printed copies at:

www.realdaniabyogbyg.org/publications
www.realdaniabyogbygklubben.dk/bøger



Videos

Realdania By & Byg also produces videos about the properties, texted in English – often produced by Realdania By & Byg, but sometimes they are produced in collaboration with regional and national television stations.

You can find all our videos at
www.realdaniabyogbyg.org/videos



Go to www.realdaniabyogbyg.org to find the full property list containing a summary, photos, publications and videos about the properties.

Get in touch

Realdania By & Byg is a member of several international networks, e.g. Iconic Houses and the European Foundation Center. Realdania By & Byg participates in international conferences and is always interested in building new professional relationships that can contribute to sustainable development of the built environment in and outside of Denmark.

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Photos

Page 1: Anders Sune Berg

Page 2: Per Munkgård Thorsen

Page 4: Kira Ursem

Page 6: Anders Sune Berg (top), Kurt Rodal Hoppe (bottom)

Page 7: Kira Ursem

Page 8: Peter Gramstrup

Page 9: Helene Høyer Mikkelsen (top), Kurt Rodal Hoppe (bottom)

Page 11: Helene Høyer Mikkelsen (top), Jan Knudsen (bottom)

Page 13: Jan Knudsen

Page 16: Lars Gundersen (top), Kira Ursem (bottom)

Page 17: Kurt Rodal Hoppe (top), Kurt Rodal Hoppe (bottom)

Page 18: Jens Markus Lindhe (top), Kurt Rodal Hoppe (middle), Lars Gundersen (bottom)

Page 22: Realdania By & Byg

Page 27: Lars Gundersen

Print

OAB

Stickers (sustainable production)



Development and preservation

Realdania By & Byg is a subsidiary of the philanthropic association Realdania. Realdania's purpose is to improve the quality of life in the built environment. Realdania By & Byg contributes to realising Realdania's purpose through philanthropic investment in, and ownership of, historic buildings, experimental new buildings and urban development projects.

Since our foundation in 2003, Realdania By & Byg has accumulated a portfolio of more than fifty important historic buildings situated all over Denmark, all of which have been – or will be – updated through gentle restoration, and which, with their present-day usage, constitute a living built heritage.

Today, the property portfolio illustrates Danish architectural heritage over a 500-year period. Three to five historic properties are purchased and added to the portfolio every year.

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