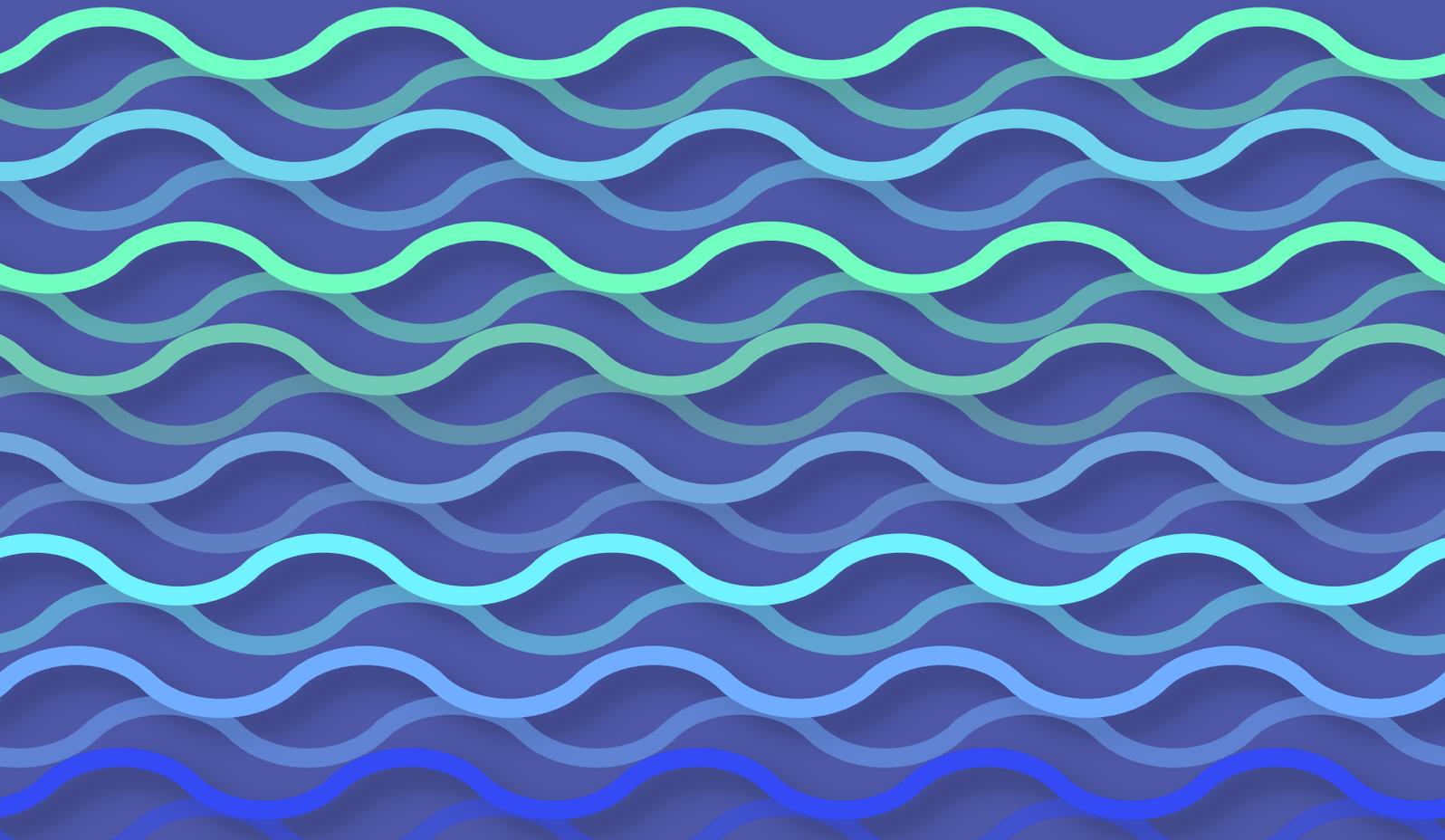


WATER VIEWS

HOW MUCH VALUE CAN WATER
ADD TO PROPERTY?



Water Views

by Jodie Walker

There's certainly something about water that makes us feel good, both physically and mentally, but how does water relate to real estate?

What part does water play in determining the perceived value and the actual price paid for a property?

Our relationship with water and the daily role it plays in defining our lives is well known. We recognise the vital importance of water as a natural resource in so many ways, from simple survival to social recreation and as a contributing element of our psychological well-being.

Despite the fact that water covers so much of our planet, a relatively small proportion of residential addresses can boast water frontage or water views. The benefit of being able to see or enjoy the water from where we live is widely acknowledged as highly desirable and it would be easy, even logical, to assume that water-side homes and apartments are considered more valuable than those that aren't accompanied by such a significant natural advantage.

In this report, Secret Agent will discuss water and the value it can add to property.

THE VALUE WE PLACE ON WATER

Our affinity for water is primal. If we didn't respond to water in a positive way and have a desire to move towards it, we wouldn't live. We can go weeks fasting but can't get through a week without water. Our brains are attracted to water for wellness and survival. We are fine-tuned to respond to anything that suggests water is available - the sound, the reflection, even the sparkle of light bouncing off it. (Nichols, 2018)

This attraction to water is consistent with Edward Wilson's biophilia hypothesis where it is thought that our deep connection to nature is ingrained in our genes as part of our evolution. Humans have a preference for views that are 'Savannah' like. (Wilson, 1984)



A study in the UK found that people living near the coast reported better health. (Photo by Brett Campbell / Unsplash)

“Most of the earth's surface is covered by water, and most of the human body is composed of water—two facts illustrating the critical linkages between water, health and ecosystems.” (WHO, 2017)

The health benefits of green space in our urban environment have been well documented and there is emerging research to suggest that blue space has a similar impact on our wellbeing.

Blue space includes all outdoor, natural visible surface water including canals and urban rivers but excluding swimming pools.

Although no long term studies currently exist on the impact of blue space on our wellbeing, a systematic review of the research to date has shown that participation of activities in blue space has a positive effect on health, especially the mental and psycho-social aspects. (Britton, 2018)

A study in Hong Kong surveyed residents asking what their health status was and how much time they spent around water. Of the 1000 residents who responded, 80% were over

50 years old. The study found that those residents who had a view of blue space from their home were more likely to have good health than those who didn't. Further, people who lived within walking distance of a body of water were more likely to go there when they had free time. These also reported higher wellbeing scores. (Garrett et al, 2019)

Another study in the UK found that those who live near the coast enjoyed better reported health. The researchers used 2001 census data to analyze how health varied across England. They found that people living by the ocean were more likely to report good health compared to those who lived inland, even after age, gender and economic status were accounted for. (Wheeler et al, 2012)

There is a growing trend whereby we are choosing to spend money on convenience and experiences. Areas that offer convenient access to the water and associated water based activities, (for example surfing or kayaking), are likely to continue to attract and retain those people who can afford to live there. (McGranahan et al 2008) More and more people are willing to go without large spaces and material objects in order to live somewhere that offers them a better quality of life. Being close to water or even having a view of it, is something many people rate highly when looking for their perfect home.

IMPACT ON PROPERTY VALUE

The ease with which we connect with nature and the positive influence this has on our mood are clearly key elements of enjoying a home with a water view yet applying a value to our intrinsic affinity for water is difficult to do. If something makes us feel good we are more likely to pay more for it and sacrifice other things that don't have such an effect on us, like number of bedrooms or car spaces. However, the exact amount an individual is willing to pay in order to secure a water frontage or water view property remains an entirely subjective matter.

Despite this, it is interesting to assess the premium that homes with a water view attract and many studies have attempted to quantify it. Based on these studies, it seems that the extent of the water related premium varies greatly depending on a number of factors.

No two water views are the same and thus it makes sense that some are more valuable than others. A study of ocean and lake views in the USA found that the price premium varied from 8% for the lowest quality view and up to 60% for the best view. (Benson et al, 1998)

Further, different types of water bodies are likely to attract different price premiums. For example, a house overlooking a lake wouldn't be expected to deliver the same premium as a house overlooking the ocean. A review of a number of studies investigating the price premium that is associated with a water view or even proximity to water found that the premium can be up to 60% for a seaside property, up to 25% for a lakeside property and up to 40% for other inland water bodies (e.g. canals). (Kauko et al, 2003)

A study examining the housing market in Tampa, Florida analysed sale price premiums for property located on different types of waterfront sites between 2000 and 2012. It found that property located directly on the bay had a premium of 107% compared to non-waterfront homes. Property on canals and rivers had similar premiums of 61% and 62% respectively. Properties which had views of a lake only obtained a premium of 15%. The study also found that the premiums varied year by year, with the peaks happening during the latter part of the boom period and the post-bust period of the cycle. The price premium decreased for all types of views during the bust period. (Dumm, 2014)

Property with a view of the water that includes a landmark (such as the Sydney Harbour bridge) is even harder to acquire and would likely attract an even higher price premium. Other things that can affect the price premium are the length of the frontage, the size of the body of water, the cleanliness and the visual appearance of the water.

It seems safe to conclude that the price premium associated with any water view is highly likely to be influenced by the aesthetic quality of that view – and numerous studies have shown this to be the case.

For example, a study in Florida assessed water clarity of 146 lakes and analysed the sales prices of a sample of homes within 1000m of these lakes. There were 1496 lakefront homes and over 53,000 non-lakefront homes in total. It found that water quality had a greater impact on sales prices of the homes directly on the lakefront.

In fact a direct correlation was observed. The impact decreased as distance from the waterfront increased. An increase in water clarity by 1 foot (measured as Secchi depth) resulted in a 1.2% increase in the price of the mean lakefront property. For homes not directly on the lakefront, this increase was only 0.3%. It also found that water quality was more important for larger bodies of water. (Walsh, 2009)



The price premium associated with a view of water is likely influenced by its aesthetic appeal. (Photo by Matiss Upenieks / Unsplash)

Another study in Rhode Island used chlorophyll concentrations as an indicator of water quality to measure the impact on house prices. Good water quality was defined as having a chlorophyll concentration of 7.2ppm or less. Homes that were directly on the lake had a 2.3% price increase above the standard 4.7% lakefront price premium if they were on a lake with good water quality. (Gorelick, 2014)

It seems that a home doesn't have to be directly on the waterfront to benefit in terms of value. Homes that don't have a water view but do offer proximity to water generally have higher prices. Since proximity to water can be measured objectively, it is easier to quantify the premium associated with being close to water. However this premium still varies considerably based on the factors above (type of water body and water quality). A study in Texas that looked at the effect of being located within 4000 feet of a lake found that for every 1ft. increase in distance from the lake, there was a 3.1% decrease in sales price. (Landsford and Jones, 1995)

Similar findings have emerged from studies in Europe. A Dutch study looked at house prices and the impact of water proximity in new residential developments in the Netherlands. The houses were almost identical in terms of their design and floor-plan. This allowed for the comparison of sale prices without having to account for many of the factors that can influence price (such as floor area and number of bedrooms).

Often houses located closest to water are more luxurious and therefore more expensive. This wasn't the case in this study. The only difference between the houses was the proximity to water. It was found that this added significant value to property prices but not at the magnitude expected (based on other studies). Property located nearest the water only achieved a 5% premium.

It was concluded that the "tendency to develop higher quality residential housing in close proximity to water may previously led to a positive bias in the estimated effect of proximity to water." (Rouwendaal et al, 2014)

NEGATIVE IMPACTS

Naturally one of the downsides of living close to water is the risk of flooding. In their review of the research on the impact of flood risk on property value, Kauko et al (2003) found that overall this negative impact can be up to 22%.

This means that if an area is subject to flooding, the premium of having a view or being close to water could be reduced by anywhere from 0% up to 22%.

A study in Sydney used planning schemes to identify potential flood prone areas and matched these with property sales data. They compared the sales over a 17 year period between homes that were flood prone to those that were flood free and found that there was a price difference which varied by year. The lowest difference was 6% and the highest was 22%. (Eves, 2002)

Another consideration to make is whether the water view is protected. If there is potential for the view to be blocked out by development in the future then it is likely that the premium for that water view won't be as high, or it might not exist at all. In addition, the projected impact of potential increases in water levels as a consequence of climate change may adversely affect property prices in some locations.

CONCLUSION

The desire to live close to water is strong. We have an innate affinity to water that is instinctive and persistent. Since there are limited homes with water views and demand is high, it makes sense that such homes attract higher sales prices than those without a view. A home that provides proximity to water is also likely to benefit and have a higher sales price than one that is further from the water. This has been confirmed by numerous studies around the world.

The extent of the price premium varies greatly depending on the type of water body, the quality of water and also the quality of the view (if measuring the impact of views alone). The risk of flooding or potential for a view to be built out can detract from this price premium.

In general however, the contribution made to property values by the presence of water and water views is well known, widely assessed and almost universally acknowledged as being positive. ♦

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