Governments Versus Competitiveness: A Checklist

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<th>SUMMARY CHECKLIST</th>
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<td>Many heritage agencies are called to respond to “economic” crises among heritage buildings, but which are artificially induced by negligent system-wide government policies, including:</td>
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<td>refusal to research systemic problems which threaten the entirety of the building stock;</td>
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<td>refusal to face the implications of “sustainable development” and the “built environment”;</td>
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<td>insistence on the notion that heritage buildings are primarily “artifacts”</td>
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<td>formulation of policies exclusively in negative terms (i.e. what cannot be done for the site);</td>
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<td>excluding restoration from the definition of “repair” for tax purposes;</td>
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<td>building/safety codes which ignore restoration technology, and which impose expensive requirements on restoration/renovation projects;</td>
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<td>training programs which fail to convey restoration/renovation expertise to that industry, and which hence fail to disseminate cost-cutting measures;</td>
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<td>government leasing and occupancy practices which discriminate against older buildings – sometimes even the government’s own older buildings;</td>
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<td>tax rules which provide major pay-offs for the demolition of investment properties;</td>
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<td>property taxes which discriminate in favour of vacant land and which penalize restoration;</td>
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<td>tax depreciation rules which posit short life expectancies for buildings – and which penalize the property owner if the building outlives that projected lifespan;</td>
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<td>government school subsidies which provide more generous funding for the replacement of older schools than for their repair (the same question applies to hospitals, universities and other property which may be government-subsidized);</td>
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<td>state banks which refuse to provide mortgages to heritage properties on principle, on the premise that heritage designation makes them bad collateral;</td>
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<td>tax rules which provide less favourable treatment for philanthropic expenditures (e.g. the donation of heritage properties or covenants/easements/servitudes for their protection) than for business expenditures;</td>
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<td>programs which are unduly vulnerable to cutback because they smack artificiality;</td>
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<td>failure to develop a national strategy to assess these disincentives and restore a “level playing field”.</td>
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1. AD HOC METHODOLOGIES

1.1 Site-Specific Solutions

Most countries with heritage policies have a fundamentally “site-specific” approach to heritage. In other words, despite attempts to put identification and listing of heritage sites onto a footing to provide substantial lead-time before critical decisions must be made on the property, many situations must still be dealt with on an ad hoc basis; that is not perceived as fatal, however, because the site is reputedly dealt with "on its own merits"; and by the same token, the solutions for the site also tend to be dealt "on their own merits", with ad hoc remedies tailored to that specific site. For example, if it is discovered that legislation of general application impedes the conservation or restoration of the site....

....an exemption would be sought, to waive the application of the legislation to this site. [The heritage agency may even attempt to secure an exemption for all designated sites.]

Similarly, if various economic forces appear to be militating against the property, these may reputedly be compensated by:

a special grant or subsidy for the site [and possibly even a series of unusual tax incentives applicable to an entire sub-class of designated heritage properties].

Looking Beyond the “Site-specific”; the “Systemic Approach”

The above governmental methodology suffers from fundamental liabilities:

If legislation threatens older buildings, the long-term solution is not just to secure an exemption on elite properties; it is to amend the legislation. "The objective is not just to react to the symptom, but cure the disease".

If economic forces threaten older buildings, the long term solution is not to "compensate" for them in isolated cases; it is to redirect those economic forces [same rationale as above].

Governmental intervention on a site-specific basis should be only a last resort, when there has been a failure of the general real estate system of the country to adequately protect its important building stock. This intervention, is, for buildings, what hospitals are for people; an emergency response to sick cases. The equipment for that intervention should be as advanced as possible; but the higher priority remains preventive medicine, i.e. creating a healthy context for the population (or building stock) as a whole.

As long as legal or economic factors are stacked against older buildings, heritage authorities will always be in a reactive position in their attempt to cope with crises rather than a proactive position to control the agenda. If one wishes to move beyond “crisis management”, the only recourse is to redirect overall legal/economic forces to a posture more favourable to the re-use of older buildings.

This interest, in whether “the deck was stacked” against older buildings generally, compels consideration of the fate of the entirety of “the built environment”, i.e. 100% of the existing building stock. That line of research, however, has exposed some heritage agencies to warnings from their colleagues:

the agency's mandate reputedly did not extend to factors affecting the rest of the building stock, but only those which immediately affected the 1-5% of the building stock which was on their list as being designated (or "designatable") as "national heritage".

there was nothing among the generalized legal or economic forces affecting the entirety of the building stock, which would...
necessarily be fatal to them; these legal or economic forces could be compensated (in relation to the 1-2% of the designated "heritage" building stock), through ad hoc exemptions, waivers and subsidies; exploration of the issues affecting the larger building stock (up to 100%) would not only carry heritage officials out of their realm of expertise, but would expose them to ridicule from other agencies.

In any event, heritage agencies lacked the resources (nor should they have any fundamental interest) to pursue issues which affected buildings with no heritage characteristics.

In short, one problematic governmental policy was to rein in any thinking on how "heritage issues" were intertwined with "the built environment" more broadly defined. That led to a re-articulation of a heritage agency's supposedly "proper" focus, as discussed below.

2. THE RETRENCHMENT OF GOVERNMENT FOCUS

2.1 Heritage Buildings as "Artifacts"

In some locations, the curtailing of discussion of "systemic" issues has occurred under the pretext of a "return to basics", starting with a reiteration of the traditional definition of "heritage" itself. Heritage buildings can supposedly be equated with artifacts: those buildings whose educational/cultural dimensions have artifact quality. A "representative" sampling of buildings and districts of artifact quality may amount to 1-5% of a country's total building stock (in industrialized countries, the latter typically amounts to one building for every three inhabitants).

that is the predominant working mandate which has been delivered to most governmental heritage programs. In day-to-day practice, this is exemplified by detailed documentation which must, by law or practice, accompany selections of property for the "heritage" label.

The articulation of criteria becomes a crucial component of policy.

The primary purpose of the exercise is the collection of a representative sampling of buildings. Although some redundancy is prudent (e.g. 2-3 examples of a given class of buildings), more wide scale conservation (e.g. 50-100 examples of a given class) is superfluous (except where a grouping constitutes a unit in its own right).

The overwhelming objective of legislative intervention is to prevent tampering. Artifacts are accepted in their as-is condition; even restoration should begin only after correct recording, to assure no loss of cultural information on the artifact:

2.2 "The Built Environment" as a set of "Sustainable" Investments

The above view is at the opposite end of the spectrum from that of many non-governmental organizations which support a broadening of perspective. Their view is that it is a mug's game to view buildings as "artifacts".

buildings are working components of the "built environment" which should be subjected to the same principles of "sustainable development" which the Brundland Commission recommended for the environment as a whole.

By that reasoning,

National policies of "sustainable development" need to be developed for 100% of the existing building stock, not just the 1% of artifact value.

"sustainable development" theory would posit that buildings should be viewed first as "investments" whose economic lifespan should be extended, even if only for that
The notion of creating these investments, then replacing them at every third generation would be rejected on the ground that it is "non-sustainable".

There is no need to establish a pedigree (cultural or otherwise) for buildings to enjoy the benefits of "sustainable development" (e.g. extension of "life expectancy" and periodic upgrading).

"Superfluity", among buildings targeted for "an extension of economic life expectancy", is irrelevant.

The overwhelming objective of legislative (and other) intervention, in the case of these "investments", is the same as for all investments: it is "to optimize the investment", "Ask not what you shouldn't do with the property, but what you should do with it".

Advocates of the "built environment" argue that in most countries, people are mostly indoors, and the "environment" of a predominantly indoor population is necessarily a "built environment". Its replacement value is massive and hence a national "resources management" strategy for it was expected. The rehabilitation of the existing building stock is, in many respects, an environmentalist's ideal "sustainable" industry: not only does it extend the economic lifespan of existing investments, but it is a large employer which allows cities to incur a major value-added (residential renovation spending in many countries exceeds new construction) without a corresponding draw on natural resources, and without adding extra pressure on urban infrastructure, sewers, roads, refuse disposal etc. Furthermore, the destruction of buildings creates its own environmental problems, (e.g. one of every six cubic metres of waste entering Canada's overcrowded landfill sites is "used construction material"). The reuse of older buildings, according to these groups, is therefore a bona fide environmental issue.

2.3 Strategic consequences

The above situation creates a dilemma: in some countries (e.g. North America) and within ICOMOS itself.

The advocates of "artifact buildings" and of the "built environment" all purportedly gather under the same banner of "the heritage movement"; but at the core of their respective objectives lie fundamentally different philosophies which can cause awkward situations for a heritage agency caught between the confines of its own administrative mandate and the urgency of "curing diseases instead of reacting to symptoms".

For example, a heritage agency may feel torn in how it frames its argument for stronger interdepartmental support for its efforts:

- the advocates of "artifact buildings" within the agency may believe that the growth of "cultural tourism" shows that there is still a huge untapped level of public support for their educational/cultural publicity which can translate into growing support for heritage artifacts (hence promising political benefits for larger heritage budgets).

Advocates of the "built environment" may disagree. They argue that in many locations, surveys indicate roughly the same percentage of public support as there was twenty years ago. That leads them to a critical strategic decision: "If we are going to grow at all, it will only be if we play the environmental card".

2.4 A Hybrid View

Some organizations have attempted to fuse these views into a hybrid position, i.e.

- The entirety of the existing building stock is a "built environment" to which rules of sustainable development must be applied on a systemic basis.
A part of that continuum, in addition, constitutes "heritage" which should enjoy special site-specific treatment.

However, society must be capable of addressing both of these dimensions.

2.5 Summary of the Three Philosophies

In summary, three distinct views have quietly emerged:

the "artifact" view: society must identify protect its buildings of education/cultural value; this view is reflected in most legislative apparatus.

the "environmental" view: society must entrench rules of "sustainable development" for the entirety of its building stock in order to extend its "investment" value (quite independently of educational/cultural considerations); this view would get a sympathetic ear among associations representing the repair industry.

a "hybrid" view: society must develop rules for the entirety of its built environment, plus certain special adjustments for its properties of educational/cultural values.

This division of opinion has elicited some behind-the-scenes acrimony at certain heritage conferences:

The advocates of the "artifact" philosophy have sometimes treated advocates of the "built environment" as slumming, or at least of diluting the subject-matter of heritage beyond recognition;

the latter accuse the former (and their site-specific focus on the top strata of buildings) of taking such a narrow view as to marginalize heritage right off the political agenda, ignoring systemic issues and confining themselves to the ad hoc. Furthermore, they argue that even in countries where 10% of the building stock is protected, that still leaves 90% of the building stock exposed and dooms the movement to a perennially reactive posture.

In most countries (including many industrialized countries), the problem is that the heritage movement is not so powerful that it can afford the luxury of fragmenting itself. A resolution of these issues remains indispensable. There should be no illusions, however, as to the task ahead.

3. PROPRIETORS AND THE QUESTION OF NEGATIVISM

Many conferences have also addressed whether a proper balance has been struck between the "limits on a property-owners' freedoms" and "the increase in their costs". This thorny issue underlines, in perhaps the most dramatic terms, the difference in perspective between the "artifact" view and the "investment" view.

If one starts from the premise that a heritage building is an artifact, then there is a duty to tamper with its "as is" condition as little as possible;

all existing features (including, perhaps, even its deterioration) are testimonies to its history, and any tampering must be viewed with great circumspection, for fear of altering the authenticity of the cultural experience.

Of necessity, the thrust of legislative intervention will be negative: it will focus on restraining those who hold the property from tampering with it inappropriately.

If the property is viewed primarily as an "investment", the reverse is true: the objective, with investments, is for them to be "optimized";

it would follow that the role of governmental intervention, at least as popularly perceived, would not be negative (i.e. restraining something), but rather positive (i.e. promoting something).
In this case, the objective would be to draw maximum “benefit” (however defined) from the “resource” in question.

In a real estate context, that would translate into directives which are less focused on regulation than on instruction as to *what best to do* (positively) with the property.

That is not the orientation of many governmental programs or planning systems. It is argued that this has represented a gigantic liability for the movement, for two reasons:

Property owners resent instructions on what *not* to do with their property, more than suggestions on *what to do* (which, indeed, are often welcomed).

Furthermore, any marketing expert will agree that it is immeasurably more difficult to “sell” an idea which is *phrased* in the negative than one which is *phrased* in the positive.

It follows that governmental strategy, which is formulated exclusively in the negative, imposes a political liability upon itself.

4. **DE FACTO PROTECTION VERSUS DE JURE PROTECTION**

4.1 Relevance and Status Quo

Most buildings (not only in western countries) enjoy *de facto protection* through the free market: they are already *competitive* (with replacement structures or uses) in their existing condition. Many would, of course, be even *more competitive* if properly renovated or restored.

On the other hand, in most countries less than 5% of the building stock enjoys *de jure protection*, under any of the heritage statutes in the country. This applies to both buildings and districts. Many of those which are so protected were chosen precisely because there were fears that the restoration of the buildings was *intrinsically uncompetitive* from an economic standpoint, and that such governmental intervention was therefore essential to conserve and/or upgrade the resource.

Any focus on *de facto protection* (through competitiveness) excludes many sites where the topic is *inappropriate* (churches, archaeological sites etc); but even *public buildings* like government headquarters, courthouses and the like must “compete” in their own way with offers of newer space. In the private sector, where the overwhelming majority of older buildings are located (in most non-communist countries), competitiveness is the lifeblood of survival.

4.2 The Regulation/Subsidy Trap

The assumption that heritage buildings are uncompetitive led many governments into the logical trap of assuming that—

the regulatory mechanism was the appropriate way for governments to intervene on a site-specific basis.

Alternatively, governments could launch subsidy programs to artificially compensate for intrinsic uncompetitiveness, again on a site-specific basis.

Relatively less attention addressed to solving the competitive problem by making the heritage conservation/restoration option *more competitive*, either on a site-specific or generalized basis.

Advocates of the “built environment” might argue that this overlooking of competitiveness was predictable, on the part of the fans of “artifact buildings”.

“Competitiveness” is not an issue for most artifacts. The government role, in relation to the latter, is usually to regulate the items and/or to subsidize them (grants, loans, etc.)

Among “investments”, however, the role of government is usually perceived differently. If the item is uncompetitive, one of the first questions is typically whether the government itself is partly to blame. 
for its uncompetitiveness. In most heritage meetings there has been almost no attempt to address the question of whether uncompetitiveness is caused by anything other than “normal market forces”, e.g. by the government itself. If that analysis were done, some observers might be startled by the results.

This opens up a vast area of enquiry, namely the scope of governmental policies which (advertently or inadvertently) artificially undermine the competitiveness of older buildings, render them unable to enjoy *de facto* protection, and hence force them into a crisis position which the heritage agencies are then *called upon to “solve”* (with their own meagre budgets).

5. GOVERNMENTAL ASSAULTS ON THE COMPETITIVENESS OF OLDER BUILDINGS

5.1 The Definition of “Repair” and “Restoration”

In many countries, the “economic realities” are heavily affected by artificial government systems which militate against the free market competitiveness of the older building stock. Some of these have been buried deep in the country’s accounting system. For example, most countries have an income tax system which taxes the profit from the occupancy of real estate (rental residential, commercial, industrial, agricultural). The rules which define how to calculate profit can be crucial: in most systems, "repairs" are considered to reduce taxable profit, but "additions" are not.

Is restoration a “repair” or an “addition”?

If it is a “repair”, its cost would be deductible from taxable profit— which is usually far more attractive than when the cost must be entirely borne by the owner (i.e. without any significant tax deductions).

In a country like Canada, the courts have issued definitions of the word “repair” which encompass most restoration projects. Tax officials, however, have so far refused to comply. The dispute over these definitions (which were decided for legal reasons, not because of any sympathy for heritage) is perhaps the largest single economic issue in which the Canadian government is artificially discouraging restoration activity. Other countries would have a similar interest in re-examining their own counterparts.

5.2 renovations/
frustrated by
building standards/codes,

5.3 Education programs and guarantees of competence

The cost-efficiency of the conservation/renovation/restoration of heritage property can fluctuate depending on the knowledge/skills/planning of the team responsible for the work. The choice of the wrong technology can not only increase costs, but threaten the building. In the short term, training and information programs are crucial at the level of professionals; entrepreneurs; trades and workmen.

In some countries, there is a careful system to assure the availability of
trained personnel for restoration projects on the tiny minority of government-listed heritage buildings – but on nothing else. Any citizen who wishes to assure the de facto conservation of his/her building is left with a high level of risk in the selection of competent personnel for the project.

This risk is compounded when there is no reliable system of warranties for work conducted. That risk constitutes not only a deterrent, but also fosters a breeding-ground for black market renovations – often resulting in disproportionately low quality for the money spent.

5.4. Government occupancy of heritage Buildings

As difficult as it is for private sector heritage buildings to obtain anchor tenants (and hence economic prospects), the situation is usually worse in the public sector. Many industrial countries (and some notable third world countries) are littered with instances of governments refusing to use space in their own heritage buildings, and refusing to lease renovated buildings because these were not what “prestigious governmental space was supposed to look like.

The US Congress felt compelled to legislate (1974) its own bureaucrats into using their own heritage space – but even that legislation failed. This is an issue of “bureaucratic culture” which not only restricts the market (artificially) for heritage property, but also discredits the government’s own heritage agency: for how can a government agency persuade the private sector of the virtue of reusing heritage buildings, if its own colleagues refuse to do so?

5.5 Income Tax give-aways for demolition

In many countries, the tax rules affect how the country’s accounting system will deal with a building which has been demolished. If the building was held for investment purposes, how should its disappearance be entered in the taxpayers’ ledger?

In some countries (e.g. Canada and U.S.A.), the fact that the building was there one day and is absent the next is (on the instruction of the tax statute) entered as a “loss”; and all (or part) of the supposed value of the building (at the time of this “loss”), is entered in the ledger as having been similarly “lost”. Some countries (e.g. Canada and the U.S.A.) then provide that since the investor has now suffered an investment “loss”, this destruction will result in all (or part) of the asset’s value (as listed in his ledger immediately prior to demolition) being deducted from taxable income.

In countries where the tax laws adopt this approach, it represent a massive national tax giveaway for the demolition of buildings.

5.6 Other Tax give-aways for demolition, notably property taxes

Independently of taxes on income, many countries have a tax system applicable to the value of property, i.e. its market value (or a proportion thereof), its “deemed rental” value, its role in accumulated “wealth” etc.

The question is whether this system, in a given jurisdiction, penalizes individuals who restore property, and/or rewards those who convert it to vacant land.

For example, parking lots enjoy among the most preferential kinds of treatment in terms of business taxes under the typical provincial assessment legislation in Canada (Ontario’s Assessment Act imposes a business tax on retail buildings of three times the amount charged for a parking lot assessed at identical value). On the
other hand, renovation/restoration often increases property taxes, which is not perceived as much of an incentive for “doing the right thing” with one’s property.

5.7 Tax Systems which insist on short life expectancies for buildings

In some tax systems (e.g. the U.K.) there is no system of “depreciation” which would allow the building’s accountants to devalue the building annually on the proprietor’s ledger.

In the absence of “depreciation”, if an investment property was worth £100,000 on the owner’s ledger in 1980, it would still be listed at £100,000 on the ledger in 1990.

[In real life, that accounting system can indeed acknowledge that the building has lost value – for whatever reason – since £100,000 in 1990 has less value (because of inflation) than £100,000 had in 1980. That tax system is saying, in effect, that the erosion in market value is no greater than the erosion in the value of money, and hence that the two figures remain equal to each other.]

In other tax systems (e.g. U.S.A. and Canada), the tax system provides an automatic right to claim that the building has been devalued beyond a figure corresponding to inflation. For example, in Canada an investment building which was entered in the owner’s ledger in 1980 at a value of $100,000 would be listed, by 1990, as having a remaining value of approximately $66,000;

the other $34,000 was treated as the depreciation/devaluation of the building, and

was tax-deductible.

In other words, the building was treated as having lost one third of its value before adjusting for inflation; after adjusting for inflation and the decline in the value of money, the building was treated as having lost (in “constant dollars”) two-thirds of its value.

In real life, buildings in Canada lost almost no value at all; and this created a catastrophe. Owners who had routinely reduced their taxes (every year) by deducting depreciation faced a dilemma: as soon as they sold their buildings (at more than their depreciated figure on their ledgers),

the unreality of their “depreciation” would be exposed, and the system provided that tax authorities could reclaim tax retroactively on all the unjustified depreciation which came to light.

The primary way to avoid this tax liability was by demolishing the building prior to sale.

This tax avoidance at demolition, combined with the tax treatment of “losses” incurred at demolition (described at s. 5.5 above), became a powerful (albeit artificial) rationale for the destruction of buildings for redevelopment, instead of their reuse. Any country which has a comparable system for tax-deductible depreciation of buildings may similarly be planting fiscal time-bombs in its architectural heritage.

5.8 Discriminatory subsidies to public buildings

There are numerous examples of government subsidy programs for Schools, Hospitals, universities and other public institutions which vigorously discriminate against repair and renovation, in favour of demolition and replacement (e.g. by providing disproportionately higher subsidies for replacement than repair). This clearly distorts the economics of older public buildings and threatens their legitimate life expectancy.
5.9 Artificial restrictions on Financing

Some countries have an overwhelmingly private-sector banking system; others have a nationalized state bank, purportedly to assist national objectives. Some countries have a combination of both. At least one state bank is known to have advised applicants that it is unlikely to finance projects secured by mortgages on listed heritage property, because it considers such collateral security as essentially worthless. The reason, says the Bank, is that it does not like the “red tape” involved once those properties have been listed.

This is clearly a serious obstacle to any such restoration project.

5.10 Disregarding Philanthropic Expenditures

The income tax system of most countries acknowledges that:

*business* disbursements are *totally* tax deductible.

In many countries, however, philanthropic or charitable expenditures are treated much worse than business expenses:

- a donor cannot claim the whole disbursement as a tax deduction if he donated it for the public good.

In countries like Canada, the charitable deduction is eroded by fiscal fictions; in the U.K., the deduction is non-existent. In short, a taxpayer receives more favourable treatment when *squandering* an asset for (mistakenly) avaricious motives than when giving it away for idealistic motives.

This imbalance is a deterrent to any taxpayer who wanted to save property by donating it to conservation agencies, or by reaching some other arrangement which voluntarily relinquished part of his/her property rights.

6. THE PROSPECTS

6.1 “The Market” and the role of heritage agencies

On one hand, there will always be a minority of buildings which are outside the operation of commercial market forces (e.g. churches etc.). On the other hand, a much larger segment of the threatened older building stock may not need “incentives”, “perks”, “subsidies” etc. to be competitive:

- it simply needs a level playing field.
- If it were to obtain that level playing field, a much larger percentage of the building stock would enjoy de facto protection, and

- the cumbersome processes of applying de jure protection would not even be necessary, except in a minority of cases.

This can be compared with the argument that a more generous system of government grants should be made available for the repair/re-use of heritage buildings. That argument has been criticized for three reasons:

- All subsidy systems are already under attack for budgetary reasons, particularly in view of the world economy.
- The subsidy systems contemplated are tied to heritage designations – which excludes the overwhelming majority of older buildings, including many worthy of repair (at least in the minds of some).
- Perhaps most conclusively, so-called “artificial” economic instruments, like subsidies and tax incentives, are almost always the most vulnerable to cutback during a recession: to rely upon them is to invite an artificial boom and bust cycle in the renovation/repair sector.

This last point is perhaps the largest single reason why the focus, in some countries, has shifted to methods to encourage the competitiveness of older buildings, via long-term systemic adjustments which could be synthesized with the overall economic system, without any taint of artificiality.
The first step was clearly to identify and eliminate the existing governmental disincentives affecting the built environment. That is further described below.

6.3 National Strategies

In some countries, the process of re-establishing a fair economic treatment of older buildings begins by reconsidering the building repair/renovation/restoration industry as a whole, and undertaking a strategy for its health in the 21st century.

For example, the Canadian residential renovation industry is developing a detailed gameplan to develop a better context for work on older buildings. Although the execution of that gameplan is still in its earliest stages, it encompasses a list of highly specific goals including the development of a multi-decade strategic plan for personnel training to improve cost efficiency, feasibility studies for comprehensive warranty programmes on workmanship, codification of intelligent "alternate measures" for safe rehabilitation of buildings (as opposed to the current construction codes which often prove extremely awkward and potentially counter-productive on renovation projects), the curtailment of the black market in renovations (which often prove shoddy) etc.

Itemization of other "external variables" which will affect the well-being of the industry, including a list of artificial governmental disincentives to be addressed and eventually resolved.

This is merely an acknowledgement of reality. Whether the professional community likes it or not, the patterns of the early twenty-first century are already clear: there will be far fewer worthy buildings whose fate is in the hands of architects or government officials than those which are in the hands of accountants.

The primary question is how the conservation community proposes to influence government policy in light of this reality, to assure that even if governments are not "part of the solution", they at least stop being "part of the problem".