EUROPEAN VALUATION STANDARDS 2020

Krzysztof Grzesik REV FRICS
Chairman TEGOVA

ASAVAL Webinar 15th June 2021

TEGOVA

THE EUROPEAN GROUP OF VALUERS’ ASSOCIATIONS (TEGOVA)

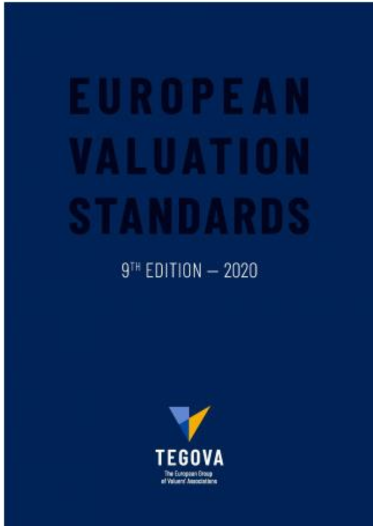
- Europe’s property valuation standards setter since 1977
- 72 member associations (including ASAVAL)
- 39 countries (including Argentina, Canada, USA, UAE)
- 70 000 qualified valuers

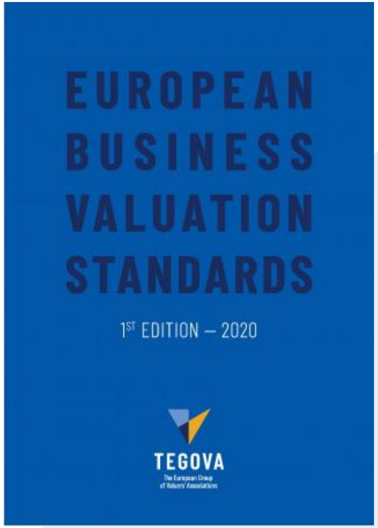
Outputs

- European Valuation Standards
- European Business Valuation Standards
- Late 2021: European Plant, Machinery & Equipment Valuation Standards
- Pan European REV Designation (Also now for Business Valuers)
- TEGOVA Residential Valuer (TRV)

TEGOVA

EUROPEAN VALUATION STANDARDS
EUROPEAN BUSINESS VALUATION STANDARDS





RECOGNISED REV EUROPEAN VALUER

RECOGNISED TRV RESIDENTIAL VALUER

TEGOVA

EUROPEAN VALUATION STANDARDS 2020 HIGHLIGHTS

- Definition and Interpretation of Market Value
- Methodology – Comparative and Income Methods

MARKET VALUE

Definition of Market Value

EU CAPITAL REQUIREMENTS REGULATION defines Market Value as

"The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion."

MARKET VALUE EVS 2020

Due to diverging interpretation of 'arm's length transaction' in the various language versions of the CRR definition, EVS 2020 provides a universally usable common guidance-definition:

"The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller acting independently of each other after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion."

HIGHEST AND BEST USE AND HOPE VALUE PREVIOUS TEGOVA POSITIONS

EVS 2009 stated that Market Value is

"... in principle based on the highest and best use of the property" defined as *"The most probable use of the property which is physically possible, appropriately justified, **legally permissible,** financially feasible, and which results in the highest value of the property being valued".*

But subsequently EVS 2012 and 2016 considered that the above was too restrictive and that market value also reflected so-called Hope Value

TEGOVA

WHAT IS HOPE VALUE ?

Future Value of Property assuming a change to a more valuable **use not currently legally permitted**

minus

Value of Property assuming Highest and Best **legally permitted** Use

X

Appropriate percentage (Valuers' Expertise and Intuition)

RECOGNISED REV EUROPEAN VALUER

RECOGNISED TRV RESIDENTIAL VALUER

HOPE VALUE - AN EXAMPLE

Land for Shopping Centre
EUR 100 per sq m

Not yet legally permited

100 – 50 = Euro 50 x % = HOPE VALUE

Land for Warehousing
EUR 50 per sq m

Per Local Master Plan
Highest and Best Use

Agricultural Land
EUR 1 per sq m

HIGHEST AND BEST USE
THE NEW EVS DEFINITION

EVS 2020 has done away with the words *Hope Value* by expanding the highest and best use definition as follows:

5.3.4 *The concept of 'highest and best use' (HABU) is integral to Market Value and is the use of a property that is physically possible, reasonably probable, legal* ***or likely to become so,*** *and that results in the highest value of the property at the date of valuation.*

EVS 2020, HIGHEST AND BEST USE – INTERPRETATION *“PHYSICALLY POSSIBLE”*

- *‘physically possible’: There can be a reasonably probable and legal use which offers the highest value for the property, but is inoperable if, for instance, poor soil quality means that the foundations could not bear the size of the construction envisaged.*

EVS 2020, HIGHEST AND BEST USE – INTERPRETATION *"REASONABLY PROBABLE"*

- *'reasonably probable': disregarding specialist uses that might occur to a single bidder.* ***It also allows consideration of uses thought likely to become possible, as for example, where existing infrastructure constraints or other physical limitations are currently in place but are likely to be eased in the future (for example by the building of a new road or a flood alleviation scheme).***

EVS 2020, HIGHEST AND BEST USE – INTERPRETATION *"LEGAL OR LIKELY TO BECOME SO"*

- *'legal or* ***likely to become so': potential buyers perceive that a planning authority is likely to allow a change of use or permit a proposed development in the foreseeable future, or legislation is likely to change to render a currently illegal use or development legal. Other situations might concern a use thought likely to be decriminalised or where a licensing regime is considered likely to become more or less stringent.***

EVS 2020, HIGHEST AND BEST USE – INTERPRETATION *"THE HIGHEST VALUE"*

- *"the highest value': It will reflect an appraisal of the probability that the market places on the highest value use or development being achieved, the costs likely to be incurred and, where relevant, the return on investment likely to be earned in doing so, the time scale and any other associated factors in bringing it about.*
- *A valuation taking into account a 'likely' or "reasonably probable" use will only reflect an element of the uplift in value that is expected to result once such use is fully permitted or where relevant, other constraints have been lifted.*

HIGHEST AND BEST USE, EVS 2020

At the end of the day however EVS 2020 recognises that

“In most cases valuers will quickly ascertain that HABU is the same as existing use. Sometimes they may identify a more valuable use but conclude that the costs of such change of use would be too great and therefore HABU would still equal value in existing use at the date of valuation.”

TEGOVA

VALUATION METHODOLOGY - EVS SECTION II

The Valuation Hierarchy

- **3.2 - Valuation approach:**
  - The fundamental way in which, having regard to the available evidence, the valuer considers how to determine the value of the subject property
- **3.3 - Valuation method:**
  - The particular procedure, based on one or more valuation approaches, used by the valuer to arrive at an estimate of value
- **3.4 - Valuation model:**
  - A specific technique of data treatment conducted within a valuation method

VALUATION APPROACHES

- ***Income*** *- The income approach provides an indication of value by converting future cash flows to a single current capital value*
- ***Cost*** *- The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction*
- ***Market*** *- The market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available*

VALUATION METHODS

- *Comparative Method (Market Approach)*
- *DRC/Construction Method (Cost Approach)*
- *Investment Method (Income Approach)*
- *Residual Method (Income Approach)*
- *Profits Method (Income Approach)*

The actual calcuations undertaken are “models” or “techniques”.

COMPARATIVE METHOD

Previous editions of EVS allowed only consideration of actual transaction prices

But EVS 2020 II 6,2:

"Ideally the Comparative Method assesses Market Value through an analysis of prices obtained from sales or lettings of properties similar to the subject property followed by adjustment of unit values to take account of differences between the comparable properties and the subject property. ***However valuers should also have regard to other relevant market information and data upon which they may need to place greater reliance particularly in those markets or situations where information about transactions is either unreliable or simply not available.****"*

See Pricing to Market – An investigation into the use of comparable evidence in property valuation by Nick French June 2020

INCOME METHOD

EVS 2020 II 7.4:

The income method used within the Income Approach can be divided into two types of model:

- Traditional income growth-implicit models, known as Capitalisation methods, including direct capitalisation, term and reversion, layer (hardcore and top slice) and growth-implicit discounted cash flow models; and
- Income growth-explicit models usually known as Discounted Cash Flow (DCF). The main feature of the growth-explicit discounted cash flow method (explicit DCF) is that anticipated growth in income and costs is explicitly incorporated into the model by the valuer.

Thank you!

www.tegova.org