PRACTICAL GUIDELINE FOR DUTCH COMMERCIAL PROPERTY VALUATIONS
To the reader: Wherever this publication refers to the male personal pronouns “he”, “him” or “his” in a context that would just as easily warrant the use of female personal pronouns, please read “his” or “her” at your own discretion. The foregoing also applies mutatis mutandis to the use of male professions and similar designations.
Property valuation is not guesswork. An opinion on the value, let alone the price, of an object should always be well-founded and substantiable. Otherwise, the valuation loses its credibility. Therefore, it is understandable that the quality of valuations are being scrutinised, as it should be. Professionals are, more than anyone, able to render account of both their working method and their valuation advice. After all, that is what they have built up their expertise for, which they have every right to be proud of. Clients that have to make important and far-reaching decisions want to know how to weigh the various factors. It is undisputed that reliable valuations are essential in that respect. So, how important is it for a valuer, as an expert, to give an independent, objective and well-founded opinion that can be tested against national, European and international guidelines?

In 2014 the European Central Bank (ECB) presented an asset quality review (AQR) to facilitate assessment of high-risk assets. That AQR places the European Valuation Standards (EVS) at the top of its list of standards that are widely considered authoritative. After all, the international monetary and goods transactions - i.e. also the international banking business - needs generally accepted and unambiguously interpretable guidelines. Especially now that, as from 1 November 2014, the European banking union will tighten its central supervision of the various 'significant' national banks. Therefore, it is paramount that every participant in the transactions referred to above understands and uses the same language.

For the Dutch practice, which is increasingly internationalising, three standards set the tone: 1) the International Valuation Standards (IVS), 2) the EVS, and 3) the NVM valuation standards. Three guidelines dealing with the same themes? That calls for conversion, harmonisation, and comparison. Hence this publication, which will make clear what the most important differences are between the various standards. The starting point for the comparison is the EVS. And it will soon become clear that uniformisation and transparency are certainly not superfluous.

Now, there are definitely similarities between the basic principles of the IVS and those of the EVS. The European guideline focuses on the European practice and legislation and the standard that extensively follows on from EU laws and regulations. The IVS provide a global standard which, by definition, has to be more generic in nature, because there is not one single model that fits all those different national and regional practices, one of which is the NVM guideline. Nevertheless, it is important to give the recognised high level of expertise of the Dutch property valuers and brokers profession the impulses it deserves. Therefore, NVM supports its members in this respect by initiating numerous projects in which any self-respecting expert can find the raw materials that he deems necessary to continue and optimise his expertise. The formation of Taxatie Management Instituut (the Dutch Valuation Management Institute - TMI) and Nederlands Woning Waarde Instituut (the Dutch House Value Institute - NWWI) are appealing examples, while the present practical guideline can also be considered a useful reference work for the relevant experts.

Prof. dr. Tom Berkhout MRE MRICS and drs. ing. Sebastiaan Roggeveen transparently outline the differences in the valuation guidelines and provide an explanation where necessary in this practical guideline. In other words: this is a handy and useful tool for property valuers and brokers who want to give their opinion a slightly more solid foundation. The editors welcome remarks, additions and other reactions.

Nieuwegein, January 2015
Marcel de Boer, Chairman NVM Business
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INTRODUCTION AND ACKNOWLEDGMENTS

This Practical Guideline for Dutch Property Valuations is intended for property valuers operating in a Dutch context and carrying out property valuations according to market value for Dutch companies and Dutch investors. Consequently, more specialised valuations using non-market value terms and for other purposes are not covered by this guideline.

We intend to provide as practical and concise a summary of several themes, reflecting various differences as compared to other national and international standards and guidelines for property valuations.

The standards that provide guidance for Dutch valuations are the International Valuation Standards (IVS), the Red Book of the Royal Institution of Chartered Surveyors (RICS), and the European Valuation Standards (EVS).

NVM has requested us to use the EVS as the starting point. Although those standards are not yet widely known in the Netherlands, they are expected to be increasingly used as Platform Taxateurs en Accountants (the Dutch platform for valuers and accountants - PTA) refers to them, and various trade associations grant the title of Registered European Valuer (REV) on behalf of The European Group of Valuers’ Associations (TEGoVA). Knowledge of the EVS is a condition for obtaining that title.

When we started working on this publication, we realised that, for the sake of clarity, we had to limit ourselves to the outlines. That means that we cannot go into too much detail, and that we can never pretend to be comprehensive.

What is important is to provide the professionals with information to help them find their way through the complexity of rules, guidelines, recommendations, regulations, etc.

It would be inappropriate to bother experts from day-to-day practice with pedantic instructions. Particularly valuers who are familiar with the concepts that form the basis for property valuations will be able to properly weigh relevant information elements. Being experts in their field, they know what they must, may, can and cannot do.

We conclude with a few remarks. First of all, we would like to thank the members of the focus group who were prepared to comment on this practical guideline.

Secondly, it should be noted that the English-language version of the guidelines prevails over the Dutch, since the English-language EVS have been used as the starting point.

Thirdly, we welcome any questions and remarks that you may have on the basis of this publication. After all, any clarification of the text and its interpretation will help.

Finally, we expressly disclaim any liability for adverse consequences of the use of this Practical Guideline.

Tom Berkhout and Sebastiaan Roggeveen

1 For an explanation of these concepts, please refer to Van Arnhem, Berkhout & Ten Have, Taxatieleer Vastgoed 1 (2013).

2 The focus group consisted of: drs. Peter C. van Arnhem MRE RT FRICS, Marcel de Boer MRICS, mr. Corne J.P.G. van Hout MSRE RT, Philippine Vinke RMT, and Arjan Bilderbeek MSRE MRICS RT RRV.
1. BALANCE BETWEEN STANDARDS, GUIDELINES AND GOOD PRACTICE

No matter how experienced a professional driver, a commercial pilot or a merchant navy captain is, he will not want to depart without a road, nautical or geographic map, or a reliable navigation system.

Still, he will never want to sail, drive or fly ‘blind’ on his maps. Good judgment, a well-founded assessment and logical decision-making are always the basis for sound conduct.

For no plan or nautical map, no street or flight plan can indicate where unforeseen obstacles may occur. They will merely give an abstract impression of how, ideally, to set out the best route from A to B.

Experienced valuers also know this like no other. Guidelines are based on theory, generalities and abstractions, but actual practice is made up of particulars and concrete situations: buyers who want to acquire an object, no matter what, at an unrealistic price, the craze of the day, a whimsical market that goes in a direction that was not deemed possible, against all rules or predictions.

Of course, a guide such as this, with its guidelines and explanations, can never prevent that. It provides a picture, like a kind of aerial photograph, based on which the valuer can determine his own route.

This guideline does not do anything more or less than outline the context in which the modern valuer operates, who is not afraid to look beyond the literal and figurative boundaries of his profession.

For the Dutch professional wants to know what international and supranational standards there are, and mostly how to interpret and apply them.

Of course, there are differences in emphasis because local markets always have their own particulars. And it should not remain unsaid that the instructions given are sometimes contradictory. But a valuer who is aware of that, and is able to place and interpret the nuances in their context, can provide a solid and balanced substantiation to his opinion.

Every professional will recognise and acknowledge the age-old adage: test all things; hold fast what is good. Or to put it in more modern terms: analyse the relevant information and use it to your advantage.

1.1 Rules for commercial property valuations

The fact that the consequences of ambiguity or equivocality can be disastrous is something that we can learn from the builders of the Tower of Babel. After all, unclarity of intentions usually leads to problems: the numerous court proceedings on differences in interpretation in contracts that are conducted around the world every day are proof of that.

And that is not all. After all, that truth had also been applied to the property valuation practice with its numerous descriptions of the term ‘market value’ and related terms for quite some time.

So, it was to be expected that order needed to be created in the chaos and that valuation definitions would be standardised. Waarderingskamer (the Dutch Council for Real Estate Assessment) and the largest trade associations for brokers and valuers, including NVM, accepted the challenge.\(^3\)

They asked themselves: when defining ‘market value’, can we link up to the market value standard of the International Valuation Standards (IVS)? Based on a study by Nyenrode Real Estate Center and a consultation round in the sector, it was decided to introduce this standard in the Netherlands to replace the various market value definitions (Berkhout & Hordijk, 2008).

RICS incorporated the IVS in its Red Book. In 2010 the brochure Marktwaarde als waarderingsgrondslag (Market value as a basis of value) was published. Aansluiting bij

\(^3\) NVM, Vereniging Bemiddeling Onroerend Goed (VBO), Nederlandse Vereniging van Rentmeesters (NVR), Royal Institution of Chartered Surveyors (RICS), VastgoedPRO, The European Group of Valuers’ Associations (TEGoVA).
International Valuation Standards (Linking up to International Valuation Standards) (IVS), which was published by the Waarderingskamer and the trade associations.

National and international standards, guidelines and good practice have played an important role in the Dutch valuation practice since.

NVM now links up to the IVS with the Commercial Property Valuation Guidelines (Taxatierichtlijn Commercieel Vastgoed - TCV), the Agricultural Property Valuation Guideline (Taxatierichtlijn Agrarisch Vastgoed - TAV), and the valuation reports of Taxatie Management Instituut (TMI).

1.2 Annual reporting rules
Over the past few years, the increasing demand for stability, transparency and harmonisation has influenced standardisation of reporting rules. For example, on 1 January 2005, the International Financial Reporting Standards (IFRS) came into effect for listed companies, an event that was more significant than it would seem.

Despite the restriction to rules for financial reporting regarding a limited segment of international business and industry, it has already become impossible to overrate the influence on national regulations, other financial and economic segments, and standards other than those for financial reporting.

The introduction of those standards has also affected the elements of reporting where auditors base their opinions on external reports, such as property valuations.

This has boosted the development of the IVS. The close cooperation between the International Accounting Standards (IASB) and the IVS Committee (IVSC) has further streamlined definitions and standards worldwide, which eventually is reflected in the Dutch valuation practice.

In May 2011 the 'IFRS 13 Fair Value Measurement' (IFRS 13) was published, which adopted the IVS, not in so many words, but certainly noticeably. The high degree of similarity becomes particularly apparent when we consider the most important elements of the IVS value concepts of ‘market value’ on the one hand and ‘fair value’ on the other. In addition, the IFRS adopted the HABU concept from the IVS.4

1.3 Platform Taxateurs en Accountants (PTA)
In various publications, the Netherlands Institute of Chartered Accountants (NBA) expressly refers to the IVS, the RICS Red Book, and the EVS, where property valuations for annual reporting purposes are concerned. We mention two NBA publications from 2011: Zeg waar het op staat. Hoofdpunten uit de publieke managementletter over het commercieel vastgoed en de Praktijkhandreiking 1117. Risicoanalyse accountantscontrole vastgoed.5

In the public management letter for the property industry, NBA makes recommendations for property valuers, advocating unambiguous international guidelines for the valuation of commercial property, as well as the formation of a professional organisation of valuers, with binding professional rules and its own disciplinary law. Following up on that, Platform Taxateurs en Accountants (PTA) was formed, which, after a consultation round in 2013, presented the Goed gewaardeerd vastgoed – 28 aanbevelingen voor taxeren en taxatierapporten report6, followed in 2014 by a report containing ‘good examples’ providing guidance in actual practice.7

1.4 Balance between standards, guidelines and good custom
The stormy developments of the past few years have raised questions among property valuers as to the balance of it all. Is there a certain hierarchy? Is there a standard that prevails over all other rules?

Well now, let it be clear that, in our opinion, there is no strict, formal hierarchy: in fact, there does not have to be any. Standards, guidelines, recommendations and examples of good custom do, however, highly influence each other.8 There are authoritative valuation standards with a global scope of application (IVS), authoritative standards with a more European scope of application (the TEGoVA Blue Book, EVS), and the RICS Red Book.

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4 HABU: highest and best use.

5 NBA, 2011a; NBA, 2011b.

6 PTA, 2013.

7 PTA, 2014a [consultation version]; PTA, 2014b.

8 Berkhout, 2011a; Berkhout, 2011b; Berkhout, 2011c; Berkhout, 2011d; Berkhout, 2012; Berkhout & Van Hout, 2012.
Many concepts and processes in the IVS and EVS are highly similar, but there are differences in emphasis, for example as a result of (alignment to) national or European laws or guidelines. Of course, legal frameworks prevail over valuation standards. The client, the valuer and the user of the report must be aware of that.

It is up to the client and the valuer to decide what standard will be used in the valuation. Therefore, it is important to know exactly what that standard means, to keep any misunderstandings to a minimum. So, after choosing a standard, the valuer is to conform to the definitions, explanations and guidelines of that specific standard.\footnote{Supervisors may express a preference for a certain standard. For example, in the Asset Quality Review Phase 2 Manual, the ECB requires that the EVS be used in the event of a conflict with the RICS Guidelines: ‘Real estate should be valued in line with European Standards EVS-2012 (Blue Book) and other international standards such as the Royal Institute of Chartered Surveyors (RICS) guidelines – where a conflict is seen EVS2012 will apply (for the avoidance of doubt – this should be considered to apply throughout the document)’ European Central Bank, Asset Quality Review Phase 2 Manual, Frankfurt: ECB, 2014, p. 144.}

The financial statements of companies are subject to the IFRS and the Dutch Accounting Standards. In addition to the concept of market value, those standards contain numerous value concepts that are used in the specific context of the financial statements.

Furthermore, the standards and guidelines include quite some explanation requirements. The Dutch Valuation at Current Cost Decree (Besluit actuele waarde) works out the details of, and explains, value concepts. EVS and IVS valuations may be used for annual reporting purposes.

The PTA publications make the connection between property valuations and valuations for annual reporting purposes. In that sense, there is a strong connection between the standards, the guidelines and ‘examples of good practice’.

The professional, well-trained property valuer should always be aware of the context of his valuation and will always have to use the correct standards and guidelines, and accurately report them. That way, it is clear to the client, the users and the readers of the report what can be expected of the valuer and what the use value of the report is.
2. INTRODUCTION TO EUROPEAN VALUATION STANDARDS (EVS)

The EVS are related, and refer, to EU laws, and define terms used in those supranational laws. The EVS provide more than just a guideline for property valuation.\(^{10}\) For example, the definition of market value not only applies to the concept of property, but to all assets. In addition, the guideline also focuses on valuation of financial assets.

The EVS manual comprises three volumes:
1. European Valuation Standards and Applications, divided into standards (EVS) and applications, the 'European Valuation Applications' (EVAs).
2. European Union Legislation and Property Valuation.
3. Other Technical Documents.

In the first volume, we read that the EVS work out the details of a professional valuation standard, comparable with the IVS. This volume contains essential definitions, such as those of market value, fair value, and highest and best use (HABU, a widely used concept). The EVS contain numerous instructions for professional working methods, reporting and value measurement.

An important element of EVS 1-5 is EVS 3: The Qualified Valuer. This chapter sets out the requirements to be met by a qualified valuer. According to the EVS, that expert is characterised by the 'highest standard of honesty and integrity'. His professional skills, knowledge and competencies make him suitable for the type and the scope of the valuations for which he is engaged. The valuer must be transparent about the circumstances and factors known to him that might compromise an objective valuation. The emphasis is placed on the minimum requirements to be met by valuers: lifelong learning and continuing professional development. A valuer must always operate independently and report any conflict of interest. In addition, it is important to limit the liability outside the client. The valuer must make, record and accurately follow clear arrangements as to the scope of the valuation engagement, thoroughly inspect the property, systematically document his inspection, and only then determine the value.\(^{11}\) Finally, the valuation must be recorded in a professional - i.e.: well-documented, well-founded, unambiguous and comprehensible - report.

The EVA also focuses on the application of the standards under specific circumstances, such as: determination of the reinstatement value, international valuations, and value determination for securitisation purposes. In this practical guideline, we will focus on valuations for financial reporting purposes (EVA 1).

Volume 2 focuses on the method of valuation according to various laws and guidelines on, e.g., VAT, state aid, contaminated soil and environmental damage. The discussion thereof goes outside the scope of this practical guideline.

Volume 3 contains eleven documents related to the EVS, such as the TEGoVA Minimum Educational Requirements and documentation on valuation aspects of sustainability and the systematic processing of risks. That documentation is informative in nature, but does not go to the core of the EVS standards. In addition, this volume contains guidelines for apportionment of the value between land and buildings (Information Paper - Apportionment of Value between land and Buildings; EVS 2012, p. 197), which may be important, e.g. for the determination of depreciation and replacement cost.

\(^{10}\) We understand the term 'property' as immovable property and the rights in rem relating thereto.

\(^{11}\) It should be noted that value is not synonymous with price. A valuation based on market value is about estimating a price that may be obtained in the market under certain conditions. Slightly more tightly formulated in accordance with the market value definition of the International Valuation Standards: The estimated amount for which the asset should exchange on the valuation date 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 compulsion. A valuation is an estimate of an amount that is realised in a hypothetical transaction. The valuer is estimating, which is a subjective process (Berkhout, 2013).
3. VALUE DEFINITIONS AND CONCEPTS: EVS AND IVS

This chapter departs from the EVS 1 Market Value standard. We will introduce EVS definitions and concepts, translate them, compare them - where useful - to IVS definitions, and supply them with points for attention.

3.1 Market value

In the table we will compare the market value definitions of the EVS 2012 to IVS 2013, the most recent versions, and supply them with comments.

<table>
<thead>
<tr>
<th>MARKET VALUE — MARKTWAARDE</th>
<th>EVS 2012</th>
<th>IVS 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>The estimated amount for which the asset should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and wherein the parties had each acted knowledgeably, prudently and without compulsion.</td>
<td>The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (IVS Definitions).</td>
<td></td>
</tr>
<tr>
<td>Het geschatte bedrag waarin vastgoed zou worden overgedragen op de waardepeildatum tussen een bereidwillige verkoper en een bereidwillige koper, waarbij de partijen zouden hebben gehandeld met kennis van zaken, prudent en niet onder dwang.</td>
<td>Het geschatte bedrag waarin vastgoed zou worden overgedragen op de waardepeildatum tussen een bereidwillige verkoper en een bereidwillige koper, waarbij de partijen zouden hebben gehandeld met kennis van zaken, prudent en niet onder dwang.</td>
<td></td>
</tr>
</tbody>
</table>

**Comment**

- The two English-language definitions are virtually identical and, in essence, have the same purport. There are no significant differences (EVS 5.2).
- For purposes of Dutch property valuations, we translate the term ‘asset’ as ‘vastgoed’. We understand ‘vastgoed’ as immovable property and the rights in rem relating thereto. The EVS specifically discuss the application of the term ‘market value’ for ‘property’ (EVS 2.2).
- The scope of application of the IVS is wider: ‘assets or liabilities’. The term ‘liabilities’ is more relevant for purposes of financial reporting (EVS 5.2).
- In the ‘Summary of key definitions’, the PTA presents the IVS market value definition (PTA, 2014b, p 97). In the EVS it is stated that:
  - the definition is in line with most definitions of market value used in the EU Member States, so that this definition can generally applied as a basic definition,
  - the application of the market value specifically relates to property that is physically and legally saleable (EVS 2.2).

3.2 Market value

In the following tables we will provide the other EVS definitions of the term market value, albeit in a specific context: EU legislation. In our opinion, a Dutch valuer operating in the national context is not very likely to be confronted with this. That is why we will only briefly address the definitions. For a further explanation, we refer to the relevant paragraphs of the EVS.

**CAPITAL REQUIREMENTS DIRECTIVE DEFINITION**

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 compulsion (EVS 1 Market Value, par. 4.2).

**Comment**

- EU legislation has defined the term market value in order to estimate the value of a property as collateral for a financing institution, as part of the implementation of the Basel II Accord. 12

**STATE AID COMMUNICATION AND INSURANCE ACCOUNTS DIRECTIVE**

Market value shall mean the price at which land and buildings could be sold under private contract between a willing seller and an arm’s length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of the sale (EVS 1 Market Value, par. 4.3).

Onder marktwaarde verstaat men de prijs waarvoor het terrein en de gebouwen op de waardepeildatum kunnen worden verkocht in een onderhandse transactie tussen een bereidwillige verkoper en een zelfstandige koper, met als uitgangspunt dat het object openbaar op de markt wordt geplaatst en de marktcondities een ordelijke vervoering toelaten en, gelet op de aard van het object, de gebruikelijke periode die beschikbaar is om de verkoop tot stand te brengen (EVS 1 Market Value, par. 4.2).
3.3 Market rent

The table compares the EVS and IVS definitions of market rent.

<table>
<thead>
<tr>
<th>MARKET RENT</th>
<th>MARKET RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EVS 2012</strong></td>
<td><strong>IVS 2013</strong></td>
</tr>
<tr>
<td>The estimated amount of rent at which the property should be leased on the valuation date between a willing lessor and a willing lessee on the terms of the tenancy agreement in an arm’s length transaction, after proper marketing and wherein the parties had each acted knowledgeably, prudently and without compulsion.</td>
<td>The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and wherein the parties had each acted knowledgeably, prudently and without compulsion (IVS Definitions).</td>
</tr>
</tbody>
</table>

**Comment**
- For purposes of Dutch property valuations, we have narrowed the term 'leasing' in both definitions to 'rent'. The term 'leasing' has various manifestations, which may include financing and lease forms (financial and operating lease). The market rent value is typically expressed as an annual amount (EVS 3.3).
- The definition is not worked out in further detail in the EVS.

3.4 Assumptions

In property valuations the valuer formulates ‘assumptions’ and ‘special assumptions’,\(^\text{13}\) which must be clearly described as such. Van Arnhem, Berkhout & Ten Have distinguish between common and special assumptions.\(^\text{14}\) According to them, common assumptions are suppositions that are included in the valuation report and are deemed to be accurate without any further investigation. These are typically assumptions made by a valuer to avoid time-consuming and expensive investigations. An example of a common assumption is the assumption, without any soil survey being conducted, that the soil is free of contamination. If the circumstances allow it and there is no indication to the contrary, there is generally nothing to prevent this type of assumption. Special assumptions, however, are fictions that are clearly and essentially different from the facts as at the valuation date. An example of a special assumption is the situation where a building is considered to be leased, whereas in reality it is vacant. This type of assumptions may be made only if substantiated and on the condition that they are realistic and that their effect on the value without that assumption is indicated. Special assumptions must at all times be substantiated.

\(^{13}\) In actual practice, valuers also refer to ‘assumptions’ and ‘notes’. However, we prefer ‘assumptions’ to promote uniform terminology in the Netherlands.

\(^{14}\) Van Arnhem, Berkhout & Ten Have, 2013, pp. 57-58, pp. 84-85.
In the tables below we will compare the terms ‘assumptions’ and ‘special assumptions’ for the EVS and IVS.

**ASSUMPTIONS — UITGANGSPUN TEN**

<table>
<thead>
<tr>
<th>EVS 2012</th>
<th>IVS 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>The valuer makes an assumption where he assumes (or is instructed to assume) something on a matter of fact which he does not or cannot know or reasonably ascertain (EVS 5.10.1).</td>
<td>In addition to stating the basis of value, it is often necessary to make an assumption or multiple assumptions to clarify either the state of the asset in the hypothetical exchange or the circumstances under which the asset is assumed to be exchanged. Such assumptions can have an significant impact on value (IVS Framework par. 48).</td>
</tr>
</tbody>
</table>

De taxateur hanteert een uitgangspunt wanneer hij uitsluitend (of opdracht krijgt uit te gaan) van een bepaald feit dat hem onbekend is, of hij niet of dat redelijkerwijs niet door hem kan worden vastgesteld (EVS 5.10.1). Behalve het vermelden van de grondslag voor de waarde is het vaak noodzakelijk een of meer uitgangspunten te hanteren ter verduidelijking van de staat van het object bij een hypothetische overdracht of de omstandigheden waaronder het object wordt geacht te zijn overgedragen. Dergelijke uitgangspunten kunnen van aanzienlijke invloed zijn op de waarde in de hypothetische overdracht of de omstandigheden waaronder het object wordt geacht te zijn overgedragen (IVS Framework par. 48). |

**Comments**

- The EVS require that a valuer cannot formulate unrealistic assumptions about market conditions, or assume a market value that exceeds a level that can reasonably be obtained (EVS 5.5.2).
- The IVS state that assumptions and special assumptions must be plausible and relevant and relate to the purpose for which the valuation is requested (IVS Framework, par. 51).
- The RICS (2012, Glossary) defines an assumption as a supposition taken to be true. ‘An assumption involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, needs not be verified by the member as part of the valuation process. Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true.’
- The PTA recommends that all the relevant assumptions and special assumptions be recorded if the assignment is accepted. It gives several recommendations in respect of the requirements of explanation for valuation reports (PTA, 2014b, recommendations 13 and 14). |

**EXAMPLES OF ASSUMPTIONS — VOORBEELDEN VAN UITGANGSPUN TEN**

The following is an indicative, but not exhaustive, list of matters that may be reported as matters where assumptions have been made in arriving at an opinion of value:

(i) A detailed report on title that sets out any encumbrances, restrictions or liabilities that may affect the value of the property may not be available. In such a case, the valuer would have to assume the position he considers most likely, also stating that he accepts no responsibility or liability for the true interpretation of the legal title.

(ii) The extent of the inspection should be clearly set out in the report, consistent with the nature of the instruction and type of property. It may be necessary to make the assumption that while any obvious defects have been noted, other defects may exist requiring a more detailed survey or the appointment of experts to report on their findings. This may be followed by comment that the opinion of value stated is based on the condition as reported and that any additional defects that exist may require the figures to be amended.

(iii) Assumptions may be needed with regard to the necessary statutory consents for the current buildings and use together with reference to any policies or proposals by statutory bodies that could impact positively or adversely on the value.

(iv) The competence of the valuer to report on any potential risk of contamination or the presence of hazardous substances will need to be considered. It may be necessary to make assumptions in providing an opinion of value that either no risks exist or that the valuer will rely on information prepared by specialist consultants.

(v) The valuer, on occasion, need to assume that all mains services provided are operational and sufficient for the intended use.

(vi) It may be necessary to make an assumption as to whether the property has not, or will not be expected to flood or whether other environmental matters may bear on the opinion of value.

(vii) Where the property is let, it may be necessary to assume that detailed enquiries about the financial status of tenants would not reveal matters that might affect the valuation.

(viii) The valuer may need to assume that there are no planning or highway proposals that might involve the use of any statutory powers or otherwise directly affect the property.

Examples of additional assumptions in common use include, without limitation (IVS Framework par. 49): an assumption that assets employed in a business are transferred without the business, either individually or as a group, an assumption that an individually valued asset is transferred together with other complementary assets, an assumption that a property that is owner-occupied is vacant in the hypothetical transfer.

Continued on the next page
The valuer may need to assume that items of plant and equipment normally considered to be part of the service installations to a building would pass with the property.

The assumptions required where a valuation without an inspection is required are considered in EVS4 at 6.4.

The following is an indicative, but not exhaustive, list of matters that may be reported as matters where assumptions have been made in arriving at an opinion of value:

(i) A detailed report on title that sets out any encumbrances, restrictions or liabilities that may affect the value of the property may not be available. In such a case, the valuer would have to assume the position he considers most likely, also stating that he accepts no responsibility or liability for the true interpretation of the legal title.

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Comments

- Both the EVS and the IVS provide a non-exhaustive list of examples.
- The EVS provide more practical examples than the IVS. The EVS clearly indicate that the valuer is to make the necessary statements as to facts and circumstances that he has not investigated or has not been able to investigate.
PTA, 2014, RECOMMENDATION 13, ASSUMPTIONS AND SUPPOSITIONS 32-35)

The PTA distinguishes the good practice examples with respect to the assumptions and suppositions in assumptions and suppositions (including reference transactions).

1. Assumptions

The use of assumptions is subject to the following:
- All the relevant assumptions must be communicated in advance to the client and expressly recorded in the assignment confirmation.
- All the relevant assumptions are identified in the valuation together with an explanatory statement as to why the assumption is reasonable.

2. Assumptions (including reference transactions)

The use of suppositions is subject to the following:
- All the suppositions that have significant impact on the value measurement are identified in the valuation.
- The suppositions that are particularly relevant to the value measurement are specifically explained as follows:

<table>
<thead>
<tr>
<th>Element</th>
<th>Particular relevance</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent value</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>Rental income</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>Operating costs</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>NAR (purchasing costs payable by the vendor based on rent value)</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>CW rent differences</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>Vacancy/incentives/lease costs</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>Overdue maintenance/renovations</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>Leasehold effects</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>Discount rate</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
<tr>
<td>‘Exit yield’</td>
<td>Yes/No</td>
<td>Yes, because [explanation]/Not applicable</td>
</tr>
</tbody>
</table>

Table: example for clarification of suppositions of particular relevance

- To the extent possible, it will be indicated what sources of market information have been used.
- It will be indicated where the valuer has adjusted the market information.
- To the extent possible, every valuation will include three relevant comparative transactions with respect to the lease and purchase transactions.

Reference transactions with respect to lease and purchase transactions will be included in the valuation report, together with a qualitative analysis in comparison to the valued object.

This qualitative analysis should in any event address the differences between the valued object and the reference transaction in terms of:
- Location (better, worse or similar location).
- Lease situation (vacant or let for a longer, shorter or similar period of time).
- Lessee (better, worse or similar lessee(s)).
- Building (better, worse or similar building).
- Size (larger, smaller or equivalent).
- This will usually consist of a diagrammatical representation, e.g.: ++, +, 0, -, –.

Recommendations on the level of explanation requirements and valuation reports (PTA, 2014b, pp. 34-35)
- The value is to identify, quantify and substantiate the relevant assumptions, suppositions and estimates. They should be reasonable and their reasonableness should be substantiated. The valuer should thereby clearly indicate the extent to which noticeable market information has been used.
- The same holds true for the reference transactions/objects used to substantiate the valuation. It is highly important that the report pay extensive attention to the relation between the reference transactions/objects and the object to be valued. This can be done by explicitly identifying the qualitative characteristics and the differences therein, so that, even if there is little market evidence, a less comparable reference can still be made comparable.
- If, as a result of market conditions (oversupply) or object conditions (vacancy, overdue maintenance), assumptions are used that will materially impact the value measurement, this should be extensively explained in the valuation report, addressing the suitability of the assumptions used and taking into account the purpose of the valuation.
- If specific risks have been incorporated in the yield used, this should be explicitly indicated.
- Implicitly, the valuation work should consider the highest and best use. For IFRS 13 valuations, the valuation should explicitly be based on this principle and explain and substantiate this. The explanation should thereby indicate, among other things, that the suppositions and assumptions are suitable to come to a valuation based on the assumption of highest and best use.
- If the HABU valuation leads to a different use than the existing use, it should be indicated what assumptions have been taken into account and how they have been weighed (e.g. what the chances are that the zoning plan will be adjusted to make changes). If the chance of changes is minimal, it is no use for the valuer to take this into account in his value measurement.

3.5 Special assumptions

SPECIAL ASSUMPTIONS — BIJZONDERE UITGANGSPUNTEN

EVS 2012 | IVS 2013

In distinction to an assumption the valuer has to make to undertake his task, the valuer makes a special assumption when he assumes, usually on instruction, a fact or circumstance that is different from those that are verifiable at the valuation date. The result will be a market value on that special assumption (EVS 5.10.2). An assumption that either assumes facts that differ from the actual facts existing at valuation date or that would not be made by a typical market participant in a transaction on the valuation date (IVS Definitions). Special assumptions are often used to illustrate the effects of possible changes on the value of an asset. They are designated as ‘special’ so as to highlight to a valuation user that the valuation conclusion is contingent upon a change in the current circumstances or that it reflects a view that would not be taken by market participants generally on the valuation date (IVS Framework par. 50).

Continued on the next page
In distinction to an assumption the valuer has to make to undertake his task, the valuer makes a special assumption when he assumes, usually on instruction, a fact or circumstance that is different from those that are verifiable at the valuation date. The result will be a market value on that special assumption (EVS 5.10.2).

An assumption that either assumes facts that differ from the actual facts existing at valuation date or that would not be made by a typical market participant in a transaction on the valuation date (IVS Definitions).

Special assumptions are often used to illustrate the effects of possible changes on the value of an asset. They are designated as ‘special’ so as to highlight to a valuer user that the valuation conclusion is contingent upon a change in the current circumstances or that it reflects a view that would not be taken by market participants generally on the valuation date (IVS Framework, par. 50).

Comments
• The EVS and IVS make it clear that these are assumptions of facts and circumstances that differ from existing or verifiable facts and circumstances on the valuation date.
• In addition, the IVS indicate that ‘special assumptions’ may also be assumptions that would not be taken generally on the valuation date.
• The IVS emphasise that special assumptions are made to indicate that the market value measured depends thereon.
• In PTA recommendation 14 (PTA, 2014b, p. 36) we read that the valuer is to explain 1) why a special assumption differs from the known facts, 2) why it is not unrealistic or misleading, and 3) how it is relevant to the client. Furthermore, for a good understanding it is important also to carry out a valuation based on the factual circumstances in the existing condition.

PTA, 2014, RECOMMENDATION 14 (PTA, 2014b, PP. 36-38)

The use of special assumptions is subject to the following good practices:
• All the special assumptions must be communicated in advance to the client and expressly recorded with the latter in the assignment confirmation.
• All the special assumptions are identified in the valuation report together with an explanatory statement as to why the assumption is special in the relevant situation (i.e. differs from the existing facts on the balance sheet date).
• The valuer explains why it is not unrealistic or misleading to use the special assumption and how it is relevant to the client.
• The valuation report quantifies the effect of the special assumption and also reports the value without the special assumption playing a role.

Recommendations on the level of explanation requirements for valuation reports:
• Identify special assumptions in the valuation report.
• Describe what a special assumption is.
• Indicate that it fits the purpose of the valuation (report).
• Indicate the effects on the valuation if the special assumption had not been taken into account.

Examples (non-exhaustive) of special assumptions (i.e. differing from the factual situation):
• Valuation of a vacant room as if it has been let on an arm’s length basis.
• Valuation after expansion of the existing floor area of a retail object, in which that floor area is given in lease.

3.6 HABU (highest and best use)

In addition to Hope Value, the EVS distinguish HABU. The IVS only refer to HABU. For the purpose of measuring the market value in the Dutch valuation practice, we recommend not to use the EVS concept of hope value as part of the EVS HABU concept, but to base the valuation on the IVS HABU concept that comprises changes to the property that are deemed realistic and feasible. In other words: expectations that are deemed realistic and feasible in respect of the property are incorporated in the market value concept. Or: realistic expectations that translate into market prices if the transaction is effected are included in the value. The valuer is to explain a derogation from the existing opportunities.

HABU (HIGHEST AND BEST USE)

EVS 2012

The use that is permitted at the valuation date that offers the highest value based on reasonable expectations. On analysis, that excludes the hope value that the market might place on a property’s potential opportunities that are not currently available. While it is an assessment of the property as it is on the valuation date it is not an assessment of the best use that the market might at that date reasonably envisage could be possible for it (EVS 5.4.6).

IVS 2013

The market value of an asset will reflect its highest and best use. The highest and best use is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset’s existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid (IVS Framework, par. 33).

The marktwaarde van een actief vertegenwoordigt de hoogste waarde die de markt kan hechten aan de potentiële mogelijkheden van het object die zich nu nog niet openbaren. Hoewel het hier gaat om een oordeel over het object op grond van de marktvoordelen, is het geen oordeel over het beste gebruik dat de markt op die datum voor dat object zou hebben (EVS 5.4.6).

De marktwaarde van een actief vereenvoudigt het meest doeltreffende gebruik ervan. Dit is het gebruik van het vastgoed dat zijn productiviteit maximaliseert, dat mogelijk is, wettelijk toelaatbaar en financieel haalbaar. Het meest doeltreffende gebruik kan een voorziening van het bestaande gebruik of een alternatief gebruik betreffen. Dit wordt bepaald door het gebruik van hetactief waarmee een marktpartij rekening houdt als zij de prijs bepaalt die zij bereid is te bieden (IVS Framework, par. 33).

Continued on the next page
HABU (HIGHEST AND BEST USE)

Comments
- Both the EVS and the IVS emphasise that this is about the highest value, based on the (use) possibilities of the property.
- The IVS distinguish HABU and Hope Value. EVS-HABU is strictly based on the current (physical, legal, financial) status of the property. The EVS hope value is based on opportunities that may manifest themselves in the future.
- IVS-HABU immediately makes it clear that the valuer is to remain within the current physical, legal and financial opportunities of the valuation object. Changes deemed feasible may be involved.
- In order to determine what may be taken into account, the IVS recommend that the valuation be based on the purpose envisaged by possible bidders for the property.
- PFA recommendation 1.3 (PFA, 201-46, p. 35, see also par. 3.4)
- If the HABU valuation regards a different use than the current use, the assumptions taken into account, and the way they have been taken into account should be indicated. If the chance of changes is minimal, it is no use for the valuer to take this into account in his value measurement. The valuer is to explain in his report what has, and what has not, been taken into account.

KEY COMPONENTS — BELANGRIJKE ELEMENTEN

Key components of the usual definitions for the concept of highest and best use, to be assessed as at the valuation date, are:
- it is the most reasonably probable use - so disregarding the specialist uses that might occur to an individual bidder;
- legal - this is perhaps the critical point with regard to market value. While a common definition requires the use to be “legally permissible”, the commentaries make it clear that this is within existing zoning or permissions and so disregards any hope value or future value that the market might pay for the possibility of achieving new permissions. While most discussion is in terms of currently permitted developments, the same legal constraint applies where the property is let but the market might perceive that possible future re-lettings or new uses offer a potential hope value that is excluded by the constraints of the highest and best use assumption;
- physically possible - again this appears to assess the property’s physical circumstances as at the valuation date and not take account of possible developments (such as a new road or flood alleviation scheme) which might occur and all other prospects for which some bidders would pay extra value;
- supported by evidence;
- financially feasible;
- that offers the highest value for the property. This final point is sometimes discussed in terms of the use that offers the highest net return, as where the benefit of a higher value is offset by higher costs when a lower value use may support a higher bid.

The determination of the highest and best use involves consideration of the following:
(a) to establish whether a use is possible, regard will be had to what would be considered reasonable by market participants;
(b) to reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, e.g. zoning designations, need to be taken into account;
(c) the requirement that the use be financially feasible takes into account whether an alternative use that is physically possible and legally permissible will generate sufficient return to a typical market participant, after taking into account the costs of conversion to that use, over and above the return on the existing use. (IVS Framework par. 34).

Comments
- An important assumption in the HABU concept is what the average market party - not exceptional, individual bidders - would consider reasonable.
- The assumptions for the legal, physical and financial requirements are similar on outlines.
- The EVS require “proof” of the use possibilities presented. Specialist use is excluded and the focus is on the use offering the highest net return.
Points for attention
• The EVS hope value is not a separate value concept. According to the EVS, the concept is intended to help substantiate the market value.
• As EVS-HABU comprises all the possibilities within the legal, physical and financial frameworks, it does not cover hope value.

Recommendation
For the purpose of measuring the market value in the Dutch valuation practice, we recommend not to use the EVS concept of hope value as part of the EVS HABU concept, but to base the valuation on the IVS HABU concept that comprises changes to the property that are deemed realistic and feasible. The valuer is to explain a derogation from existing possibilities. PTA recommendation 13 on highest and best use excludes non-promising changes (PTA, 2014b, p. 35).

3.7 Forced sale

A sum that could be obtained for the property where, for whatever reason, the seller is under constraint requiring the disposal of the property (EVS 1, par. 5.10.4.1).

The term ‘forced sale’ is often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible (IVS Framework 52).

Continued on the next page
FORCED SALE VALUE — GEFORCEERDE VERKOOP

Comments
- ‘Forced sale’ is not a basic value (EVS 1, par. 5.10.4.3; IVS Framework 52), but is included as a special assumption (EVS 1, par. 5.10.4.3; IVS Framework 53).
- ‘Forced sale’ is also translated in Dutch as ‘geforceerde verkoop’.
- The valuer uses a market value based on the special assumption of ‘forced sale’. For example, where the seller is under pressure to sell an object in the short term, which renders the marketing period too short to receive the best bids, the valuer can determine a market value based on the special assumption of forced sale. In such event the valuer states the period of time taken into account and the relevant constraints on the part of the seller.
- ‘Forced sale’ is not a basic value (EVS 1, par. 5.10.4.3; IVS Framework, par. 52). This is included as a special assumption (EVS Framework, par. 53).

3.8 Alternative use

ALTERNATIVE USE VALUE — ALTERNATIEF GEBRUIK

EVS 2012

The market value of the property without presuming the continuation of its present use.

IVS 2013

De marktwaarde van het object zonder tot uitgangspunt te nemen dat het huidige gebruik wordt gecontinueerd.

Comments
- The EVS view this as a market value (EVS 1, 5.10.3.2). No definition has been given.
- The IVS view this as a special assumption (EVS 2, par. 6).
- A forced sale is a description of a situation in which a transfer is effected, not a basic value (IVS Framework, par. 52). This is included as a special assumption (IVS Framework, par. 53).

4. REPORTING REQUIREMENTS: EVS AND IVS

4.1 Comparison of text

VALUATION REPORTS: REQUIREMENTS

EVS 2012

1. Introduction
The valuation, as determined by the valuer, must be clearly and effectively conveyed to the client. The Valuation Report will be the document on which the client will rely in taking decisions, making it important that it be exact both as to what it says and as to the qualifications to which it is subject.

2. Scope
This Standard reviews the Valuation Report in which the valuer advises the client of the value determined.

3. Valuation Reporting – Definitions
3.1 Having defined both Market Value and Mortgage Lending Value, Capital Requirements Directive 2006/48/EC provides in the next sentence of the same paragraphs that: ‘The market value shall be documented in a transparent and clear manner’ and ‘The mortgage lending value shall be documented in a transparent and clear manner.’

3.2 That is done in the Valuation Report or, occasionally, a Valuation Certificate.

3.3 A Valuation Report means a document detailing the scope, key assumptions, valuation methods, and conclusions of an assignment. The report provides an informed opinion of value supported by a recognised basis or bases of valuation within the framework of European Valuation Standards.

3.4 The terms ‘valuation certificate’, ‘certificate of value’ and ‘statement of value’ have specific meanings in certain States in designating statutory documents. One common factor is that the documents require a simple confirmation of price or value, without any requirement to describe the context, fundamental assumptions or analytical processes behind the figure provided.

Reports on the outcome of a valuation review whether printed on paper or transmitted electronically. For certain asset classes or applications there may be variations from this standard or additional requirements to be reported upon. These are found in the relevant Asset Standard or Valuation Application.

4. The purpose of the valuation, the complexity of the asset being valued and the users’ requirements will determine the level of detail appropriate to the valuation report. The format of the report and any exclusion from the content requirements of this standard should have been agreed and recorded in the scope of work.

General Principle
1. The final step in the valuation process is communicating the results of the assignment to the commissioning and other intended users. It is essential that the report communicates the information necessary for proper understanding of the valuation or valuation review. A report shall not be ambiguous or misleading and shall provide the intended reader with a clear understanding of the valuation or other advice provided.

2. To provide comparability, relevance and credibility, the report shall set out a clear and accurate description of the scope of the assignment, its purpose and intended use and disclosure of any assumptions, special assumptions, material uncertainty or limiting conditions that directly affect the valuation.

3. This standard applies to all valuation reports or reports on the outcome of a valuation review whether printed on paper or transmitted electronically. For certain asset classes or applications there may be variations from this standard or additional requirements to be reported upon. These are found in the relevant Asset Standard or Valuation Application.

Report Contents

Continued on the next page
4. The Valuation Report or Certification

4.1 General

4.1.1 A valuation report must be in writing, prepared and presented in a reliable and comprehensible manner for the users and clients. This is required by the definition of Market Value in EVS1 and is appropriate to all other bases of valuation, giving certainty between valuer and client.

4.1.2 The Valuation Report should record the instructions for the assignment, the basis and purpose of the valuation and the results of the analysis that led to the opinion of value, including, where appropriate, details of comparables used. It may also explain the analytical processes undertaken in carrying out the valuation, and present the supporting information.

4.1.3 The Valuation Report must provide a clear and unequivocal opinion as to value, as at the valuation date (see EVS1 5.6.3) with sufficient detail to ensure all matters agreed with the client in the terms and conditions of engagement and all other areas covered and that no misunderstanding of the real situation of the property can be construed.

4.1.4 The Report or Certificate must be objective. Decisions may be made and finances committed or withdrawn on the strength of it. The valuation must not be influenced by pressure brought by the client or a third party to produce a particular result in terms of the valuation or any other associated advice. In appropriate cases the valuer must refuse to act where his reputation for objectivity is likely to be put at risk. Where the valuer has been instructed despite a conflict of interest that conflict should be stated with a record that it was notified to the client.

4.1.5 The Report or Certificate must not be ambiguous, must not mislead the reader in any way nor create a false impression. For this and other reasons it needs to be written in terms which a person with no knowledge of the property or of valuations can understand.

5. All reports shall include reference to the matters listed below. Items (a) to (k) in this list relate to matters that should be recorded in the scope of work (see IVS 101 Scope of Work). It is recommended that the scope of work be referred to in the report. In the following list of requirements relates to a valuer include a valuation reviewer and references to a valuation assignment include a valuation review.

a) Identification and status of the valuer
   The valuer can be an individual or a firm. A statement confirming that the valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation assignment shall be included. The respondent shall include the signature of the individual or firm responsible for the valuation assignment. If the valuer has obtained material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance shall be referenced in the report.

b) Identification of the client and any other intended users
   The party commissioning the valuation assignment shall be identified together with any other party whom it is intended may rely on the results of the assignment (see also j) below).

c) Purpose of the valuation
   The purpose of the valuation assignment shall be clearly stated.

d) Identification of the asset or liability to be valued
   Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset.

If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation assignment, excluded but assumed to be available or excluded and assumed not to be available (see IVS Framework paras 23 and 24).

4.2 Contents of a Valuation Report

4.2.1 The form and detail of the Report used will be a matter for the valuer’s discretion but must meet the specific instructions from the client to the valuer and have regard to the purpose of the valuation and the use that the client proposes to make of the valuation.

4.2.2 A Valuation Report must adequately report all matters set out within the terms of engagement (see EVS4, 5.2).

4.2.3 A Valuation Report should generally include:
   • the instructions for the assignment;
   • the valuer’s qualifications;
   • the basis and purpose of the valuation;
   • the valuation date (see EVS1 5.6.3…);
   • a description of the property, including a note as to the basis on which areas have been measured;
   • a summary of the legal context (tenure, tenancies, development control, etc);
   • a commentary on the market for the property;
   • a description of the valuation methodology and analysis;
   • any assumptions that have been made;
   • any limitations on the report;
   • any advice on making of the valuation.

h) Nature and source of the information relied upon
   The nature and source of any relevant information relied upon in the valuation process and the extent of any steps taken to verify that information shall be disclosed. To the extent that information provided by the commissioning party or another party has not been verified by the valuer, this should be clearly stated with reference, as appropriate, to any representation from that party.

i) Assumptions and special assumptions
   All assumptions and any special assumptions made shall be clearly stated.

j) Restrictions on use, distribution or publication
   Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this shall be stated.
VALUATION REPORTS: REQUIREMENTS

4.2.4 Valuations for commercial secured lending and other asset types need to take into account additional or alternative requirements of the lender including reference to the suitability of the subject property for the intended loan. Where the terms of the loan have not been disclosed the valuer should provide an opinion based on normal lending terms having regard, as appropriate, to the profile for risk-related criteria for valuations published by the European Mortgage Federation (see Part 3 below).

4.2.5 Assumptions and special assumptions relating to secured lending valuations, as recorded within the terms of engagement, will usually require reference to (inter alia):

- the existing permitted use, any planning permission or potential planning consent for an alternative use, including any potential or actual impact on value at the specified valuation date;
- any marriage, special or synergistic value that exists and, where present, whether such value is available to the borrower and, if necessary, to the lender on taking possession;
- market conditions at the specified valuation date and whether any valuation uncertainty relating to low volumes of reliable comparable evidence, marked volatility or other specified factors had been taken into account or ignored in reaching an opinion of value; and
- any recent or proposed changes to the property, the immediate or local environment or legislation that might have an impact on value, and where such an impact is reported, the extent of that impact. Matters that might be included within this category include potential or actual contamination, deleterious materials or title.

k) Confirmation that the assignment has been undertaken in accordance with the IVS

While confirmation of conformity with IVS is required, there may be occasions where the purpose of the valuation assignment requires a departure from the IVS. Any such departure shall be identified, together with justification for the departure. A departure would not be justified if it results in a valuation that is misleading.

l) Valuation approach and reasoning

To understand the valuation figure in context, the report shall make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached.

Where the report is of the results of a valuation review it shall state the reviewer’s conclusions about the work under review, including supporting reasons. This requirement does not apply if it has been specifically agreed and recorded in the scope of work that a valuation report shall be provided without reasons or other supporting information.

m) Amount of the valuation or valuations

This shall be expressed in the applicable currency. This requirement does not apply to a valuation review if the valuer is not required to provide their own valuation opinion.

n) Date of the valuation report

The date on which the report is issued shall be included. This may be different from the valuation date (see (f) above).

Effective date

6. The effective date of this standard is 1 January 2014, although earlier adoption is encouraged.

4.2.6 The report will need to include additional relevant material where the property is, or is to be, held as an investment (see EVA5), fully equipped as a trading entity or the subject or potential for actual development, refurbishment or retro-fitting.

4.2.7 The valuer should confirm whether in undertaking the instruction he has become aware of matters that could affect the figures reported. Such matters might include potential contamination on or nearby the subject property, the presence of deleterious materials or title.

4.2.8 Where the market for the property being valued is affected by uncertainty and this is relevant to the valuation, the valuer should proceed with caution and comment on the issue to the client.

4.2.9 The valuer may wish to consider and state the period after which the valuation will be deemed to have expired. This may be particularly important in times when values are volatile. This may be specified by national legislation in some countries or by the requirements of the contract.

4.2.10 It is recommended that all valuation reports include a statement to the effect that the Qualified Valuer responsible for the valuation to the client has conformed to the requirements of these European Valuation Standards and the extent and reasons for any departure or why any key part of the valuation process has been omitted.

4.3 Valuation Certificate

(…)

4.4 Draft Reports

There may be circumstances where it is appropriate to provide an advance draft of a valuation or an update in abbreviated form that does not comply with this European Valuation Standard. In such cases the existence of, and reference to, a future detailed report or an earlier comprehensive certificate must be made.
Continued on the next page
4.2.3 A Valuation Report should generally

4.2.2 A Valuation Report must adequately

4.2.1 The form and detail of the Report will be

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**VALUATION REPORTS: REQUIREMENTS**

4.1.4 The Report or Certification must be objective. Decisions may be made and finances committed or withdrawn on the strength of it. The valuer must not be influenced by pressure brought by the client or a third party to produce a particular result in terms of the valuation or any other associated advice. In appropriate cases the valuer must refuse to act where his reputation for objectivity is likely to be put at risk. Where the valuer has been instructed despite a conflict of interest, that conflict should be stated with a record that it was notified to the client.

4.2 Contents of a Valuation Report

4.2.1 The form and detail of the Report will be a matter for the valuer’s discretion but must meet the specific instructions from the client to the valuer and have regard to the purpose of the valuation and the use that the client proposes to make of the valuation.

4.2.2 A Valuation Report must adequately report all matters set out within the terms of engagement (see EVS4, par. 5.2).

4.2.3 A Valuation Report should generally include:

- The instructions for the assignment;
- The valuer’s qualifications;
- The basis and purpose of the valuation;
- The valuation date (see EVS 1, par. 5.6.3);
- A description of the property, including a note as to the basis on which areas have been measured;
- A summary of the legal context (tenure, tenancies, development control, etc.).

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d) Identification of the asset or liability to be valued.

Further classification may be required to make a distinction between property and an interest in that asset or the right to make use of it.

If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation assignment, excluded but assumed to be available or excluded and assumed not to be available (see IVS Framework, paras. 23 and 24).

e) Basis of value

This shall be appropriate for the purpose. The source of the definition of any basis of value used shall be cited or the basis explained.

Some common valuation bases are defined and discussed in the IVS Framework.

f) Valuation date

The valuation date may be different from the date on which the valuation report is issued or the date on which the investigations are to be undertaken or completed. Where appropriate these dates shall be clearly distinguished in the report. The requirement does not apply to a valuation review unless the reviewer is required to comment on the valuation date used in the valuation under review.

The valuation date may be different from the date on which the investigations are to be undertaken or completed. Where appropriate these dates shall be clearly distinguished in the report. The requirement does not apply to a valuation review unless the reviewer is required to comment on the valuation date used in the valuation under review.

g) Extent of investigation

The extent of the investigations undertaken, including the limitations on those investigations set out in the scope of work, shall be disclosed in the report.

h) Nature and source of the information relied on

The nature and source of any relevant information relied upon in the valuation process and the extent of any steps taken to verify that information shall be disclosed. The nature and source of any relevant information relied upon in the valuation process and the extent of any steps taken to verify that information shall be disclosed.

i) Assumptions and special assumptions

All assumptions and any special assumptions made shall be clearly stated.

j) Restrictions on use, distribution or publication

Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this shall be stated.

k) Confirmation that the assignment has been undertaken in accordance with the IVS

While confirmation of conformity with the IVS is required, there may be occasions where the purpose of the valuation assignment requires a departure from the IVS. Any such departure shall be identified, together with the justification for the departure. A departure would not be justified if it results in a valuation that is misleading.

l) Valuation approach and reasoning

To understand the valuation figure in context, the report shall make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusion reached.

Where the report is of the results of a valuation review it shall state the reviewer’s conclusions about the work under review, including supporting reasons. This requirement does not apply if it has been specifically agreed and recorded in the scope of work that a valuation report shall be provided without reasons or other supporting information.

Continued on the next page
4.2.9 The valuer may wish to consider and state the period after which the valuation will be deemed to have expired. This may be particularly important in times when values are volatile. This may be specified by national legislation in some countries or by the requirements of the contract.

4.2.10 It is recommended that all valuation reports include a statement to the effect that the Qualified Valuer responsible for the valuation to the client has conformed to the requirements of these European Valuation Standards and the extent and reasons for any departure or why any key part of the valuation process has been omitted.

4.3 Valuation Certificate

(...)

4.4 Draft reports

There may be circumstances where it is appropriate to provide an advance draft of a valuation or an update in abbreviated form that does not comply with this European Valuation Standard. In such cases the existence of, and reference to, a future detailed report or an earlier comprehensive certificate must be made.

4.5 Value added tax

Where relevant, the valuation should identify the rate of VAT, if any, which applies to the property as of the valuation date. It should state that any VAT that may be due on any transaction in the property will be in addition to the valuation reported.

Comments

- The EVS and IVS emphasize that the valuation report should be crystal clear: clear, unambiguous, sufficiently detailed, comprehensible for the client and other users. The client must be able to rely on it.
- There cannot be any misunderstandings about the contents of the text and the report cannot be misleading in any way whatsoever.
- The IVS and EVS reporting requirements are similar on the most essential points.

Continued on the next page
• The IVS are much more abstract and theoretic, with a focus on investigation (scope, reliability), identification of the client, and possible use of the valuation.
• The EVS much rather focus on the understanding of the report, the intended use and fulfillment of the assignment.
• The EVS emphasise that one single value is to be issued. In addition, several aspects of the valued object must - compulsorily - be addressed (legal context, determination of surface area, comparable objects and market conditions).
• The EVS identify the relation between a valuation certificate and a valuation report, and describe the draft reports and reports for lending purposes. Furthermore, the EVS stress the importance of independence on the part of the valuer.
• It is striking that the IVS, too, apply a number of criteria for valuation reports to valuation certificates. By expressly setting these requirements for valuation certificates as well, it intends to make these certificates more comparable with valuation reports. On the other hand, the Red Book, which is based on the IVS, expressly rejects the use of valuation certificates, unless there is a statutory requirement to that effect, even if the Red Book is based on the IVS. This is a distinct difference between the Red Book and the IVS.
• The IVS distinguish between valuation and reference dates, whereas the EVS do not.

4.2 Comparison between EVS and IVS based on keywords

<table>
<thead>
<tr>
<th>VALUATION REPORTING REQUIREMENTS</th>
<th>EVS 2012</th>
<th>EVS POINTS FOR ATTENTION</th>
<th>IVS 2013</th>
<th>IVS POINTS FOR ATTENTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality requirements</td>
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<tr>
<td>Clear</td>
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<td>Unambiguous</td>
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<td>Sufficiently detailed</td>
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<td>Not misleading</td>
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<td>Should not create the wrong impression</td>
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<tr>
<td>Comprehensible for the client</td>
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<tr>
<td>Comprehensible for someone without prior knowledge of the valued object or of valuations</td>
<td>✓</td>
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<tr>
<td>No misunderstandings as to the actual condition of the property</td>
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<tr>
<td>Accurate descriptions</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>Accurate qualifications</td>
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Continued on the next page
3.3 A valuation report is a document that contains the purport, the key assumptions, valuation methods and conclusions of the valuation assignment. The report provides a reasoned determination of value supported by one or more recognised bases of valuation in the context of the EVS.

The report is to provide unambiguous and accurate details of the conclusions of the valuation, in a manner that is not misleading and does not create the wrong impression. Moreover, all issues agreed between the client and the contractor in the terms of engagement must be addressed and, unless the report is to be supplied in a form provided by the client, at least the following information should be included: this list (...) comprises all the requirements of IVS 103 ‘Reporting’.

4.3 The valuation certificate or the valuation summary is to meet the same fundamental requirements as the valuation report.

The reporting requirements do not refer to depreciated replacement cost. Valuation for annual reporting purposes is not discussed in the reporting requirements. A valuation report is separate from an annual report.

Continued on the next page
5. THE VALUATION PROCESS

EVS4 requires that the terms of engagement and the basis for the valuation be set forth in writing and explained before issue of the valuation. The valuation is to be prepared and presented according to professional standards. Below, we will follow the order of the standard. The following subjects will be addressed successively: introduction (5.1), scope (5.2), terms of engagement (5.3), liaison with client’s advisers, auditors and others (5.4), commentary (5.5), supporting the valuation and inspection (5.6), and valuation reviews (5.7).

5.1 Introduction

A valuation must be professionally prepared and with the property appraised and all the available evidence considered so that the result can be sustained under challenge.

5.2 Scope

The standard considers the procedural steps followed in preparing the valuation report, starting with terms of engagement, continuing with the appraisal and inspection of the object and then reviewing the valuation report. Finally, it discusses what may be considered when instructed to review an existing valuation.

5.3 Terms of engagement

Detailed terms of engagement should be recorded in writing. In respect of lending, other financial or receivership instructions, terms must be agreed in writing before the valuation is submitted to the instructing client. It is best practice to obtain the client’s written agreement to the terms of engagement before submitting any valuation.
5.4 Liaison with client's advisers, auditors and others

The valuer may need to liaise with the client's other advisers to secure necessary information. Where the valuation is required for inclusion in financial statements, it will be important to liaise closely with the auditors to ensure that the work undertaken is what is required, and ensuring consistency and the use of appropriate bases of value.

5.5 Commentary

Valuers have a responsibility to ensure:
- that they are, and can be seen to be, competent, qualified and not debarred by reason of any actual, potential or perceived conflicts of interest or have otherwise declared, and taken steps to remedy, any real or apparent deficiency so that they may carry out the proposed assignment;
- that their appointment is clearly set out in unambiguous wording, covering all heads of terms that are relevant to the instruction and corresponding to the client's needs and the requirements of statute, regulation, deemed fiduciary responsibility and professional ethics; the appointment should be explicitly agreed by both parties prior to acceptance of new or repeated instructions; and
- that any departure from the Standards that is required by the client is unambiguously expressed in the letter of instruction and the Valuation Report. Additionally, it is important to ensure that any such departure is not likely to mislead or confuse the user of the Report because of the qualifications imposed or assumptions made.

The valuer should establish the client's needs and requirements with precision as a matter of good business practice. The agreed written terms of engagement should be included as an appendix to the report. Terms must include reference to:
- the client's identity, specifying a corporate or personal identity;
- the purpose of the valuation and the importance of restricting the use of the valuation to the stated purpose;
- the precise extent of the property/interest being valued with reference to a plan or other fixed object;
- the basis or bases of value;
- a specific valuation date, not "as of the date of valuation";
- any previous involvement with the object or the parties involved;
- the status of the valuer, clarifying whether acting in an external and independent capacity, specifying a corporate or personal identity; or as an internal valuer;
- all assumptions and special assumptions that will be made in preparing the report;
- the scope and extent of investigations that will be undertaken and any verification that will be required by the client or his representatives, together with confirmation of the valuer's competence to undertake the instruction;
- reliance placed on information provided by the client, the client's representatives or third parties;
- any restriction placed on publication of part or all of the valuation produced;
- the extent to which a duty of care will be provided, stating any exclusions as to parties or matters as determined by the valuer or requirements of insurers;
- compliance, where appropriate, with European Valuation Standards (7th edition); and
- the basis of fee to be charged, as determined by the valuer or prescribed by third parties or statute.

Matters arising following the submission of terms of engagement that require amendment to the terms submitted must be recorded in writing to avoid misunderstanding and consequential dispute. Unexpected events such as legal disputes may occur many years after the original valuation instructions have been completed. The historic context and reasoning behind any special terms and conditions may then
be difficult to recall unless they were contemporaneously recorded in writing. Such a record will also show if the valuation has been used for purposes other than that for which it was prepared.

Apart from the benefits to the valuer of a clear and concise record which has been prepared and agreed in advance of the assignment, it also ensures that the client and the client’s professional advisers know what to expect and are able to judge whether what they receive is what they wanted and expected.

Sub-contracted valuations
Prior approval must be obtained from the client where work is sub-contracted to other specialist valuers or where substantial third party professional assistance is necessary. This must also be disclosed in the valuation report.

Valuations passed to third parties
There is a risk that valuations prepared for one purpose may be passed to a third party and used for another unrelated purpose. The conditions of engagement must therefore exclude all third party liability and must specify the restricted nature of the valuation which is for the sole purpose of the client.

Valuations which are inconsistent with the Standards
Where a valuer is asked to carry out a valuation on a basis that is inconsistent with, or in contravention of, the Standards, the valuer must advise the client at the beginning of the assignment that the report will be qualified to reflect the departure from the Standards.

Valuations carried out with limited information
A situation may arise where there is limited information, inadequate inspection opportunities, or restricted time available to the valuer. In some cases the report may be required for the internal purposes of the management, in others the report may be required in relation to a takeover or merger where time is of the essence. In such cases, the valuer must ensure that the report will not be published by arriving at an agreement at the beginning of the assignment.

Valuations for which special assumptions are necessary
A valuer may need to make special assumptions or be required by the client to value on the basis of special assumptions. Such situations could include:
- assuming vacant possession when the property is tenanted;
- to value on an assumed planning consent which differs from the actual consent;
- assumptions to provide a basis for the valuation of fire-damaged property;
- special assumptions when valuing trading property. In such circumstances it is essential that the conditions of engagement state clearly that the valuation report, and any publication based on it, will set out in clear terms:
  - the instructions relating to the valuation;
  - the purpose and context of the valuation;
  - the extent to which enquiries have been restricted;
  - the assumptions that have been made;
  - the dependence that has been placed on the accuracy of the sources of information used;
  - the opinion that the valuation represents; and
  - the extent of non-compliance with the Standards.

Publication of valuations
Exceptionally, it may be appropriate and expedient to sanction publication of valuations containing appropriate qualifications in instances where the limited circumstances set out below apply:
1. the valuer has already inspected the subject property and is familiar with it and with the market and the locality;
   or:
2. the valuer has received sufficient detailed supplementary information from management and/or Internal Valuers to the undertaking, to make up for the deficiency in the valuer’s own enquiries.
5.6 Supporting the valuation and inspection

A professional valuation relies on the valuer appraising the subject property in its context, researching and verifying all matters with a bearing on the value of the property. The quality of the valuation will, in part, rely on the quality of the information used to prepare it and so the valuer will need to verify any sources and the date of that information. Market conditions relevant to the subject property should also be reviewed as, where soundly appraised, these form part of the basis on which decisions may be made.

As part of obtaining a personal knowledge of the subject property, the valuer should make his own visual inspection of it. This will usually include the interior of the buildings, the locality and the environment to record all matters which appear relevant to the value of the property. Exceptionally, if instructed or agreed by the client, there may be a more limited inspection or the valuer may be authorised to rely on an inspection report prepared by a third party. In each case, this should then be recorded in the valuation report. A valuation relying on a third party inspection carries risks as to the quality of that inspection and the interpretation that the valuer has made of it. The valuer should draw attention to the fact that his conclusion may have been different if he had made a personal and proper inspection.

The nature of the on-site inspection will depend upon the property and national legislation, custom and practice, but the valuer should record the main characteristics of the property which affect the value.

5.7 Valuation reviews

A valuer may be asked to review a valuation prepared by another valuer for a variety of reasons which may concern potential litigation or other sensitive issues. In some instances these may be retrospective valuations. As a result the valuer will need to exercise special care before agreeing to undertake a review of another valuer’s work. There are also circumstances where such a review can give confidence or remove or reduce doubt.

The nature and scale of the property inspection(s) will depend on the purpose of the valuation and the basis agreed with the client. There may be circumstances, such as the provision of a portfolio valuation, where it is appropriate to restrict the inspection(s), for example, to the exterior and locality only or a desk valuation. If an inspection has not been made, or it was not carried out in a proper way to gather all necessary information, this fact and the reason for the restriction must be recorded in the valuation report or certificate as factors which could significantly affect the property’s value may not have been identified.

Consideration should also be given to establishing relevant financial, legal and regulatory points regarding the property, including Energy Performance Certificates required by Directive 2010/31/EU on the energy performance of buildings and other factors arising under environmental regulation.

Having inspected the property, valuers should seek out and consider available comparables (for sale or for rent as appropriate) and analyse them comprehensively on a common basis as to evidence of prices and/or yields.

Where the valuer is aware of market uncertainty, volatility or other issues putting the value at risk, these should be considered and reported in the assessment.
Circumstances where the valuer may be involved in review include:

- where the valuation is to support a valuation carried out internally;
- where the valuer is seeking to co-ordinate the work of teams of independent valuers; and
- where a representative sample of properties provides a check as to the overall accuracy of the valuation.

The instructions to the reviewing valuer may vary from a need for general comments on methodology and compliance with standards to a specific and thorough review of an individual valuation.

On occasion, a valuer may be required to review a valuation carried out by management, a valuation internal to the client or another party, or to carry out a revaluation of properties already known to the valuer. In such cases, the valuer must set out in writing, in advance and by mutual agreement, the conditions of engagement, the limitations imposed and the resulting nature of the qualification to the valuation report. It is normally advisable for the valuer to discuss the case with the original valuer though this may sometimes not be possible, for example, in litigation. The reviewing valuer should clarify with the client, in the conditions of engagement, whether or not he may do so. It must be made clear in the Report whether or not discussions with the original valuer have taken place.

A valuation report for such a review may sometimes be limited to comments on the appropriateness of the basis adopted or, following a sample valuation of a representative cross section, to a more general statement as to the overall accuracy of the aggregate valuation or whether European Valuation Standards have been observed.

The reviewing valuer should be in possession of (at least) all the facts and information relevant to the valuation date on which the first valuer relied. As with an initial valuation, it will be more robustly supported if he has carried out a personal inspection and made all proper inquiries. If he does not have this information then, while his views may be of use to the client, any such limitation should be noted and the resulting views should not be disseminated further (unless required by a dispute resolution process). Critical comments that are not properly justified could be defamatory.
6. ANNUAL REPORTING AND PTA

When preparing their financial statements, organisations are bound by national and international rules. For Dutch companies the Dutch Civil Code (hereinafter: DCC) and the Dutch Accounting Standards are relevant. Of course, Dutch regulations on annual reporting, too, are affected by the trend of internationalisation. So, Dutch companies, too, increasingly have to comply with European directives and the International Financial Reporting Standards (IFRS). International financial reporting standards are often translated and incorporated in the Dutch rules. The Dutch Accounting Standards Board has based its standards, inter alia, on the IFRS, which, in their turn, are related to the IVS. The provisions that are relevant to the valuer are those regarding the valuation of property, plant and equipment. The Dutch Valuation at Current Cost Decree [Besluit actuele waarde] works out the details of value concepts used in the Accounting Standards. European Valuation Application (EVA) 1 sets forth the application for valuations for IFRS reporting purposes. We will only briefly address EVA1, because we want to limit ourselves to Dutch accounting.

6.1 Accounting Standards

Valuation of assets and liabilities

This is where the legal entity is to choose its bases for valuation of the assets and liabilities. The legislator has indicated the bases for valuation of an asset and a liability from which he can choose (Art. 2:384(1) DCC). As a basis, historic cost (acquisition or production cost) qualifies for tangible and financial fixed assets, and for inventories also the current cost. According to Art. 2:366(1) DCC, immovable property comes under the category of property, plant and equipment, so that they can be recognised in the financial statements based on historic cost or based on current cost.

PRACTICAL GUIDELINE FOR DUTCH COMMERCIAL PROPERTY VALUATIONS

Definition of owner-occupied and investment property

Property, plant and equipment also include owner-occupied property. This is an immovable property that is held for use in the production or delivery of goods or services or for administrative purposes in the normal course of business. Investment property is held for purposes of rental income and/or value increase.

Valuation bases for owner-occupied and investment property

The law does not expressly indicate when which valuation basis should be used. A basis may freely be chosen, but the chosen basis must be used consistently. Owner-occupied property and investment property may be valued, at the reporting entity’s discretion, on the basis of historic cost or on the basis of current value, although the details of the current cost basis for both types of property contains considerable differences.

Valuation bases

Owner-occupied property \[\text{historic cost basis or current cost basis}\]

Investment property \[\text{current cost basis}\]

The historic cost basis may consist of the acquisition cost or the production cost. This is subsequently depreciated and occasional value impairments are written off. The current value basis provides an estimate to which, in principle, four value concepts are linked, i.e. 1) replacement cost, 2) value in use, 3) market value and 4) the net realisable value.

6.2 Valuation at Current Cost Decree

The Valuation at Current Cost Decree provides rules as to the substance, the limitations and the method used to apply valuation at current cost in the financial statements. The Valuation at Current Cost Decree is based on Art. 2:384(4) DCC, and provides what categories of assets and liabilities can be valued at current cost and how their current cost is determined. The Valuation at Current Cost Decree labels the concepts of market value, fair value and economic value as
Fair value
Fair value is a value concept that originates in the IFRS and was introduced into the Dutch legal system. For now, the concept is not included in the Valuation at Current Cost Decree or in the DCC. The Definitions in the Dutch Accounting Standards (Standard 940) define fair value as follows: "Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction (in the Valuation at Current Cost Decree referred to as “market value”)."

Market value
Art. 4 of the Valuat at Current Cost Decree defines market value as the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The term market value is one of the manifestations of the concept of current cost. Instead of the term market value, the term 'fair value' is often translated in Dutch as 'reële waarde'. According to the Valuation at Current Cost Decree, maintaining the term market value would be preferred over the other manifestations of current cost (replacement cost, value in use and net realisable value).

The terms market value, fair value, net realisable value and economic value are based on the price on the sales market. This is the ‘value concept’. The Explanatory Memorandum to the Valuation at Current Cost Decree notes that in the past the distinction between market value and net realisable value was often not made, but there is a difference: when valuing at sale value, possible selling costs are deducted. Furthermore, the term market value excludes purchasing costs. Therefore, according to the Valuation at Current Cost Decree, this term better links up to international practice, where purchasing and selling costs are not taken into account. In addition, it is noted that international rules are accepted for investment property that provide for the valuation of those assets at current cost. Illiquid investments may be valued based on the economic valuation standard, i.e. discounted cash flow, as an approximation of the market value. In such event, the market value is equal to the value in use. This method of valuation is common for let immovable property, according to the Explanatory Memorandum to Art. 11 of the Valuation at Current Cost Decree. The Decree does not provide a very extensive explanation to the concept of market value.

Synonymous. The concept of market value is used to link up to the increasing use, both nationally and internationally, of the concept of fair value. If assets, not being financial instruments, which may generate income as an investment, are valued at current cost, the market value qualifies; the same holds true for property investment.

The term market value, fair value, net realisable value and economic value are based on the price on the sales market. This is the ‘value concept’. The Explanatory Memorandum to the Valuation at Current Cost Decree notes that in the past the distinction between market value and net realisable value was often not made, but there is a difference: when valuing at sale value, possible selling costs are deducted. Furthermore, the term market value excludes purchasing costs. Therefore, according to the Valuation at Current Cost Decree, this term better links up to international practice, where purchasing and selling costs are not taken into account. In addition, it is noted that international rules are accepted for investment property that provide for the valuation of those assets at current cost. Illiquid investments may be valued based on the economic valuation standard, i.e. discounted cash flow, as an approximation of the market value. In such event, the market value is equal to the value in use. This method of valuation is common for let immovable property, according to the Explanatory Memorandum to Art. 11 of the Valuation at Current Cost Decree. The Decree does not provide a very extensive explanation to the concept of market value.
Accounting Standard 213.802 Investment property

Furthermore, a legal entity is to state the following: (…)

d) the methods, relevant suppositions used in determining the fair value of (use rights in) investment property and the discount rate used (pursuant to Article 11 of the Valuation at Current Cost Decree), including a summary showing whether the assumptions have been substantiated based on market data or are rather based on other factors as a result of the nature of the property and the absence of comparable market data; these factors should be explained by the legal entity;
e) the extent to which the fair value of (use rights in) investment property is based on a valuation by an independent and expert valuer; if the valuation has not come about according to this method, this fact should be explained.
f) the amounts included in the profit and loss account for: 1) rental income from investment property, 2) direct operating expenses (including repairs and maintenance) of investment property that has generated rental income over the past reporting period, and 3) direct operating expenses (including repairs and maintenance) of investment property that has not generated any rental income over the past reporting period.
g) the existence of any restrictions on the applicability of investment property or the collectability of proceeds (in the event of operation or disposal), as well as the scope of any such restrictions;
h) key contractual obligations for the purchase, construction or development of investment property, or for repairs, maintenance or enhancements.

6.3 Explanation requirements
The Dutch Accounting Standards provide explanation requirements regarding property, plant and equipment valued at current cost and investment property valued at fair value. The Accounting Standards and the explanation requirements focus on the organisation preparing the annual report rather than on the valuer. Some explanation requirements can be derived from the EVS valuation report. Such as: special suppositions ((special) assumptions), reference dates, and restrictions on applicability.

Accounting Standard 212.705 Property, plant and equipment

‘If property, plant and equipment are valued at current cost, the following explanation is to be included: (…) c. the methods and key suppositions applied to the estimate of the current cost of the property, plant and equipment. d. the extent to which the current cost of the property, plant and equipment is directly derived from observable prices in an active market or from recent arm’s length transactions, or has been estimated using other valuation techniques.’

• the depreciated cash flow based on reliable estimates, supported by the provisions in existing lease and other contracts and (where possible) by external evidence, such as rent prices for similar immovable property in the same location and in the same condition, using a discount rate reflecting the uncertainty as to the amount and the time of realisation of the cash flow.

Accounting Standard 212.705 Property, plant and equipment

‘If property, plant and equipment are valued at current cost, the following explanation is to be included: (…) c. the methods and key suppositions applied to the estimate of the current cost of the property, plant and equipment. d. the extent to which the current cost of the property, plant and equipment is directly derived from observable prices in an active market or from recent arm’s length transactions, or has been estimated using other valuation techniques.’
Independence in appearance and in essence is an absolute condition because, that way, the valuer can give an opinion that is acceptable to everyone, without bias, conflict of interest or any third-party pressure.

A strict segregation of the duties of a property agent and a valuer in respect of the same object is essential, since an agent will, by definition, act partially - in the interest of his client - while a valuer should, in fact, act impartially, irrespective of the interest of his client.

The reports contain references to, and elaborations of, EVS valuation practices and reports:

**Recommendations**

The PTA report provides recommendations for, inter alia, the explanation requirements of valuation reports. They are not compulsory, as they are labelled 'good practices'. The qualification 'good' here does not mean 'compulsory'. The introduction states that valuations have various analyses, with a varying depth. The PTA distinguishes several types of valuation products, each requiring its own analytical depth. This is clearly contrary to what the IVS and EVS state in this respect. After all, those standards refer to a number of basic requirements that every valuation should meet.

**References to IVS and EVS**

The IVS and EVS are, in fact, competitors, because they are both standards that may be observed. PTA recommendations are separate, because they, in fact, recommend observing either IVS or EVS. The PTA refers to the definitions of the IVS and EVS (recommendations 13, 14, 21, annex 9, 10).

**Focus on practical application**

The PTA report uses a practical approach by paying a great deal of attention to crucial variables. Some examples are the extensive discussion of the scope (recommendation 10), the substantiation of methodologies (recommendation 11), and the discount rate (recommendation 12). Here, various alternatives are defined, discussed and compared. Other recommendations are less extensively discussed, such as the valuer’s independence, the agreements with the client or education.
The recommendations give many practical tips and examples, which we will not find in IVS or EVS. One example is that a qualitative analysis can be described as plus, minus or neutral. In addition, recommendation 21 (Inhoud taxatierapporten en overige toelichtingen) states that the current situation already has several standards, so that a new recommendation for the exact contents of a valuation report is ‘not at hand’. It does, however, come with an attached checklist to give some guidance.

**Scope of work and assignment confirmation: less agent, more auditor**
The PTA provides several practical recommendations to safeguard the valuer’s independence. For example, recommendations 7, 8 and 9 recommend that a scope of work and an assignment confirmation be drawn up stating that the client is responsible for the accuracy and completeness of the information provided by it to the valuer. The auditors’ profession uses similar documents. Another purpose of the scope of work is to describe the depth and method, so as to formally record this (recommendation 10).

**Assumptions**
Assumptions and special assumptions are to be recorded in advance in the scope of work. This means that the valuer will have to have some knowledge of the object under valuation in advance in order to confirm assumptions and special assumptions with the client before commencement of the valuation. This does come with a number of requirements, as can be seen in recommendations 13 and 14.

**Added value**
The added value of the PTA recommendations is found in the explanation requirements formulated and the elaborations of the valuation method to be used, the scope of the review and the discount rate. These are worked out and defined more exactly than in EVS and IVS. The PTA recommendations are directly practically applicable, unlike EVS and IVS. That makes them not only a good addition to EVS or IVS but also an elaboration of those standards. In addition, the PTA recommendations also focus on contractual independence, organisational aspects of valuers, and quality control within the organisation.

### 6.5 PTA example valuation report table of contents

1. Valuer’s name and status
   - Education
   - Professional qualifications by area of expertise
2. Names of the client and other intended users, if any
3. Purpose of the valuation/scope
4. Subject of the valuation
5. Basis of value
6. Valuation date
7. Scope of the inquiries
8. Nature and source of the information relied on
   - Sources input (‘track record’)
9. Assumptions, suppositions and special assumptions
10. Lease incentives
11. Inspections
12. Sensitivity analysis (if necessary in a separate letter)
13. Back testing
14. Restrictions on use, distribution or publication
15. Confirmation that the valuation will be carried out in accordance with IVS
16. Valuation approach and rationale
   - Method substantiation (DCF, BAR/NAR, etc.)
   - Net initial yield, discount rate and exit yield
17. Amount of the valuation or valuations

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In the past decade, the property market has seen quite some changes. The developments have resulted in a recalibration of the NVM vision on valuation of agricultural and commercial property. At the time, an attempt was made to link up to the international regulations (IVS and EVS). The TAV and TCV Valuation Guidelines are the next step in the direction of a minimum standard for assignment, performance and reporting in respect of valuations of agricultural and commercial property. The table below shows a comparison between the key concepts as discussed by EVS, TCV/TAV, IVS and PTA.

<table>
<thead>
<tr>
<th>SUBJECT</th>
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<th>TAV/TCV©</th>
<th>IVS 2013</th>
<th>PTA, 2014B</th>
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<tbody>
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<td>Conformity to TCV</td>
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<tr>
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<tr>
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<td>EVS 3, 4.1</td>
<td>4.7</td>
<td>IVS 101 (a ii)</td>
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<tr>
<td>Internal circulation</td>
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<td>Signature</td>
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<tr>
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<td>5.5</td>
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<td>13</td>
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</table>

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### Subject | EVS 2012 | TAV/TCV© | IVS 2013 | PTA 2014 B
--- | --- | --- | --- | ---
Post-valuation date events/material changes | EVS 4, 5.3 | 5.6 | | 20
Draft reporting guideline | EVS 5, 4.4 | 5.7 | | 25
Fair value/reële waarde | EVA 1, 6 | 5.8 | Framework (38) | 11
Transaction costs | EVS 1, 5.11.3 | 5.9 | Framework (35) | 9.5
Business-related elements | | | | 9
Assignment confirmation/scope of work | 6.2 | | 7 | 10
Identification of the valuer | EVS 4, 5.2 | 6.2 A | IVS 101.2 A | 9
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Full Evaluation/volledige taxatie | | | | Annex 4
Revaluation | | | | Annex 4
Market Update/marketupdate | | | | Annex 4
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Discount rate and exit yield, net initial yield | | | | 12
Reference date of the valuation | EVS 1, 5.6.3 | 6.2 F | IVS 101.2 F | 12
Scope of investigation conducted | EVS 1, 5.10.4.1 | 6.2 G | IVS 101.2 G | 12
Nature and description of sources | EVA 1, 6.4 | 6.2 H | IVS 101.2 H | 12
Riders, addendums & side letters | EVA 1, 6.4 | 6.2 I | IVS 101.2 I | 12
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Statement as to performance in accordance with the standard | EVA 5, 4.1 | 6.2 K | IVS 101.2 K | 12
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Critical review | | | | 12
Sensitivity analysis | | | | 12
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Literature

Berkhout & Hordijk, 2008

Berkhout, 2011a

Berkhout, 2011b

Berkhout, 2011c

Berkhout, 2011d

NBA, 2011a

NBA, 2011b

Berkhout, 2012

Berkhout & Van Hout, 2012

EVS 2012

Van Arnhem, Berkhout & Ten Have, 2013

Berkhout, 2013

IVS 2013

PTA, 2013

Richtlijnen 2014

PTA, 2014a

PTA, 2014b

RICS-taxatiestandaarden, 2014
RICS-taxatiestandaarden 2014, Londen, Royal Institution of Chartered Surveyors
Checklist Dutch property valuation reports EVS, IVS 2013, PTA

This summary is merely a comparison of the standards and guidelines on keywords. We do not intend to impair their spirit and rules. There may be some overlap. In the end, the common goal and relevance of the standards and guidelines is to offer an accurate report of the valuation process and its outcome. The summary may serve as a checklist for a valuation report.

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<tr>
<th>SUBJECT</th>
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<th>PTA 2014</th>
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<td>103.1</td>
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<tr>
<td>Should not create the wrong impression</td>
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<tr>
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<td>103.1</td>
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<td>4.1.5</td>
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<tr>
<td>No misunderstandings as to the actual condition of the property</td>
<td>4.1.3</td>
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<td>Accurate descriptions</td>
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LIST OF ABBREVIATIONS

AQR  asset quality review
BAR  bruto-aanvangsrendement (gross initial yield)
BAW  Besluit actuele waarde (Valuation at Current Cost Decree)
DCC (BW)  Burgerlijk Wetboek
CW   contante waarde (present value)
DCF  discounted cash flow
ECB  Europese Central Bank
EVA  European Valuation Application
EVS  European Valuation Standards
FRICS  Fellow of the Royal Institution of Chartered Surveyors
HABU  highest and best use
IASB  International Accounting Standards Board
IFRS  International Financial Reporting Standards
IVS  International Valuation Standards
IVSC  International Valuation Standards Council
MRE  Master of Real Estate
MRICS  Member of the Royal Institution of Chartered Surveyors
MSRE  Master of Science in Real Estate
NAR  netto-aanvangsrendement (net initial yield)
NBA  Nederlandse Beroepsorganisatie van Accountants
(Netherlands Institute of Chartered Accountants)
NVM  Nederlandse Vereniging van Makelaars
(Dutch Association of Real Estate Brokers)
NVR  Nederlandse Vereniging van Rentmeesters
(NDutch Association of Estate Managers and Valuers)
NWWI  Nederlands Woning Waarde Instituut (Dutch House Value Institute)
PTA  Platform Taxateurs en Accountants
(RE)  (Dutch platform for valuers and accountants)
REV  Recognised European Valuer
RICS  Royal Institution of Chartered Surveyors
RJ   Richtlijnen voor de jaarverslaggeving (Dutch Accounting Standards)
RT   Register Taxateur (Registered Valuer)
RRV  RICS Registered Valuer
TAV  Taxatierichtlijn Agrarisch Vastgoed
(NDutch Agricultural Property Valuation Guideline)
TCV  Taxatierichtlijn Commercieel Vastgoed
(NDutch Commercial Property Valuation Guideline)
TEGoVA  The European Group of Valuers' Associations
TMI  Taxatie Management Instituut
(NDutch Valuation Management Institute)
VBO  Vereniging Bemiddeling Onroerend Goed (VBO)
(Association of Estate Agents in the Netherlands)

Colophon

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