

Country-Specific Legislation and Practice

Country Chapter



Denmark

Introduction

One of the guiding principles of TEGoVA is to promote consistency of standard definitions of value and approaches to valuation trans-Europe. The publication of European Valuation Standards (EVS) provides the state, investors, the financial industry, valuers and their clients with a common benchmark which can be consistently applied, irrespective of the location of a real estate asset.

Whereas harmonisation of valuation standards enable recognised bases of valuation to be reported, the preparation and publication of a valuation must also respect client need, national legislation and custom. Customary differences, particularly in respect of valuation methodology, may result from the requirements of statute or regulation.

This Country Chapter illustrates differences that currently exist across Europe and. The Country Chapters are not intended to provide definitive advice. The text that follows has been provided by TEGoVA Member Associations (TMAs) to outline country-specific legislation and practice.

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Denmark

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DANSK EJENDOMSMAEGLERFORENING (DE)

The Danish Association of Chartered Estate Agents

The Real Estate Market

The Danish real estate market can in broad outline be divided into the following segments:

1. Owner-occupied dwellings and second homes
 - 80,000 subjects sold per year
2. Co-operative apartments/houses
 - 2,000 subjects sold per year
3. Commercial properties
 - 5,500 subjects sold per year
4. Agricultural properties
 - 4.500 subjects sold per year

The market for owner-occupied dwellings, second homes, and co-operative apartments are subject to a very strict and consumer-friendly legislation: The Law Regulating Real Estate Transactions (LOFE in Danish). The law sets up strict demands on the activities of the real estate agents and among these, their duty of information towards the consumers. Furthermore, demands are made as to who is allowed to work within the real estate market. To work as a mediator of owner-occupied dwellings, second homes, and co-operative apartments you have to be a qualified and trained real estate agent or lawyer and you have to be registered in a public real estate register. This does not count for valuers. Anyone and everyone can, in theory, legally take on the practice of valuing owner-occupied dwellings etc. but it naturally follows that only those who act within the real estate market are capable of performing this task.

The market for commercial properties and agricultural properties are not subject to the same legislation and is therefore more liberal. Accordingly, there are no requirements of education within this field. Everyone can take on the task to sell, let or value commercial properties.

Within the market of owner-occupied flats, the demand for valuations is limited (leaving out of account the sales valuation which is made when the property is set for sale). Valuations like these are typically a consequence of a division of property, the handling of an estate of a deceased person, bankruptcy, or lending purposes.

Within the market of commercial property, the field of valuation is considerably larger. In this field, valuations are made for the purpose of being included into the annual report and for transactions between involved interest parties etc.

Real estate is mostly funded through mortgage credit institutions. The principal rule is that the mortgage credit institutions can only finance 80% of the purchase price when it comes to owner-occupied dwellings. They can finance 60% of the purchase price when dealing with second homes. When dealing with an all commercial property they can finance 60% while rental properties and co-operative apartment/houses can be financed with 80 % from a mortgage credit institution and agricultural properties with 70%, with respect of the actual positive cash-flow.

The rest of the purchase price is, in most cases, financed by a loan in the bank or through private mortgage deeds.

When financing rental properties there is to some extent a special opportunity for cheap funding through “the landowners’ investment fund” (in Danish “Grundejernes Investeringsfond”).

The mortgage credit market generally offers the cheapest type of funding. This is primarily due to the fact that mortgage credit institutions are refinancing by selling bonds to private or institutional investors through the Stock Exchange. These bonds have a very low risk since they have an indirect security in all the properties to which a loan is given within the series of bonds in question. Because of the high degree of security the investors accept a relatively low interest rate.

Property Valuations

Valuations on the Danish market can be divided into the following categories (valuations made by public authorities excluded):

- Sales valuations (valuations made to determine the supply price in case a property is to be sold).
- Valuations for lending purposes (is used for the lender’s valuation of the security’s value).
- Valuations for annual reports.
- Valuations for creditor’s valuation on his position in case of a compulsory sale of the real estate.
- Valuation for the intending purchaser’s possible bid at a foreclosure auction.
- Valuation for the housing co-operative’s fixing of the co-operative’s value (Danish law has set that co-operatives cannot be sold at a price that surpasses the estimated maximum

prices. This calculation might include a valuation of the housing cooperative's property which has to be carried out by a real estate agent who is also a valuer).

- Other valuations
- Valuations for the division of property and partner withdrawal.

Valuations of real estate – for any other purpose than sale – are made primarily by real estate agents, who are also valuers, but other professionals are also employed for this purpose, for example Danish registered land surveyors or RICS accredited Chartered Surveyors.

There are no norms made by public authorities as to how a valuation has to be performed, except in a few specific situations. This could be in case of valuation of real estate owned by a financial institute in which case the Danish Financial Supervision (Finanstilsynet) has worked out a valuation norm.

The Danish Association of Chartered Estate Agents has worked out a guide for valuation of housing co-operative's housing properties. This guide is being broadened with an actual norm.

When valuing owner-occupied dwellings no fixed principles for valuation are set. These are valued individually with regard to similar properties with similar position, furnishing, building material, etc. In this matter a detailed knowledge of the local tendencies is extremely important as the prices can vary greatly from one area to another – also within the same city.

On the other hand, the valuation of commercial property's primary point of reference is the principle of yield calculation; that is which amount of yield a given investor will claim for his investment when purchasing the property in question. In this context the ever-lasting annuity method, also referred to as the first years yield method, is usually used. When valuing larger commercial properties the DCF method or the like is used.

When valuing stock- and production properties an appraisal on the basis of the "brick method" is used too; i.e. how much would it cost to establish a similar building and plot. For this purpose, an adjustment taking changes into account, such as potential defects compared to the requirements of today etc., is made.

Often you will have to add a building licence if the site area allows for it. This counts for the yield method as well as the brick method.

In that way, the value is the highest value of the two methods.

In certain areas – primarily in Copenhagen – a tendency to focus more on square metre prices than on the yield when dealing with rental properties is showing amongst the investors. This

happens because they have an understanding that the profit made on the property lies more in the long-term perspective than in a yield here and now. The long-term perspective relies upon the expectation that the property can be improved which will make it possible to increase the rental income and/or that the legislation will be liberalized so that higher rental incomes will be possible, as rental units, build before 1966, are under rent control.

Types of valuers

The primary organization for valuers is The Danish Association of Chartered Estate Agents (DE). The majority of Danish estate agents are members (95%).

As mentioned earlier Land Surveyors are to a certain extent also used for the valuation of real estate.

In addition to this, there is another influential player on the market; RICS-Denmark, who organizes the Danish Chartered Surveyors.

A few valuers are ISO-certified. These were earlier organized in the Danish Association of Valuers but the organization no longer exists and neither does registration of these valuers.

The education for valuers used to be an education conducted by the commercial schools and controlled by the Ministry of Education. This education was closed down a couple of years ago and for the present no formal education for valuers exists in Denmark. The Danish Association of Chartered Estate Agents works hard to establish a new education for valuers under the control of the Ministry and is hoping to make this possible by August 2009, at a Bachelor level.

The valuers are selected by the client, their advisers or appointed by DE. If the valuer is to be used as an expert witness, he will be appointed by the court of justice, often on DE's proposal.

Future prospects

DE understands that continuous valuations will play a larger role. This has to be seen in the light of the global crisis as to which the association's point of view is that it could not have been avoided but that it could possibly have been reduced to a certain extent when it comes to a few loan suppliers if, for example, external valuers had been appointed instead of the loan institutes' own internal valuers.

The Danish Association of Chartered Estate Agents is aware of the fact that valuers will very easily find themselves in a state of dependence to the client, due to the small domestic market. This problem, we probably find the largest challenge for the valuation organization in the years to come.