

Introducing New European Valuation Standards (EVS) - *The Dutch Approach*

Valuation standards are developing at a dazzling pace. In January 2015, a practical guideline was published, dedicated to property valuations. Professor dr. Tom Berkhout MRE MRICS and NVM's valuation expert Sebastiaan Roggeveen MSRE BBE wrote this publication on behalf of Dutch Association of Real Estate Brokers and Real Estate valuers NVM. It is now being used for training sessions and educational purposes among other things, particularly as far as recertification processes are involved. It is also available in English, and therefore it has drawn international interest. A fully revised and extended version of this guide is due in early 2017. It will discuss the Dutch-NRVT legislation, EVS 2016 which were published only recently and the expected IVS 2017. Subjects such as professional commissioning and suppliership, ethics and sustainability will be covered as well.

In the 'Practical Guideline for Dutch Property Valuations' the differences between valuation guidelines are clearly presented to (potential) valuers, dedicating special focus to the *International Valuation Standards* (IVS) as well as the *European Valuation Standards* (EVS). Since 1998, Dutch property valuers have had to deal with an internationally harmonised market value concept based on the IVS. After 1998, the EVS and the recommendations as well as the 'good practices' of the Dutch Valuers and Auditors Platform (hereafter: PTA) came into play. Since 1 January 2016, a central Dutch register for property valuers was founded, introducing codes of conduct, professional rules, disciplinary rules and Chamber regulations. What should valuers bear in mind today in order to proceed professionally? Many rules exist already. In this article, we want to cover some of the themes of the new EVS, in anticipation of the new IVS and the new Practical Guideline.

TEGoVA's Blue Book

TEGoVA – the European Group of Valuers' Association – published a new version of the so-called Blue Book (EVS 2016) on May 14th. It will immediately replace the previous edition (EVS 2012). The EVS 2016 come in four chapters: European Valuation Standards and Technical Guidelines (1); European Codes (2); European Legislation and Property Valuation (3) and Technical Documentation (4). In the EVS 2016 full valuation reports, shorter reporting formats, desktop valuation reports and draft reports are now distinguished. Full valuation requirements are described more extensively and in more detail compared to the EVS 2012.

Market value

In the various international standards, the market value definition has been steady over the years. This is important for the market, the valuers and the clients. In the EVS, the word 'asset' (EVS 2012) has been replaced by the word 'property' (EVS 2016). The word 'property' refers to a *bundle of rights* and it is translated as 'real property': immovable properties and the real rights involved.

Market value EVS 2016

The estimated amount for which the property should be transferred 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 have each acted knowledgeably, prudently and without being under compulsion.

This definition is translated into Dutch and is the accepted definition for market value in the Netherlands since 2008.

Definition of market rent

EVS' market rent definition has been slightly adapted compared to EVS 2012.

Market rent EVS 2016

The estimated amount of rent at which the property should be leased on the date of valuation between a willing lessor and a willing lessee on the terms of the actual or assumed tenancy agreement in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.

The sentence 'of the actual or assumed tenancy agreement' is new. The EVS 2012 used to refer to the 'lease terms'. The market rent value definition is not specifically elaborated in the EVS; reference is made to the notes to the market value concept.

(Special) assumptions

The valuer proceeds, assuming a specific fact that is unknown to him, that cannot be known or that cannot reasonably be determined by him. The text of the EVS has remained unchanged. Valuers may not formulate any unrealistic assumptions regarding market conditions, or presuppose a market value beyond a reasonably feasible level. The PTA recommends laying down all relevant basic and special assumptions if the assignment is accepted.

The definition of 'special assumption' has slightly been adapted in EVS 2016, however the explanation has remained identical to EVS 2012. NRVT is consistent with the EVS and IVS: a special assumption either implies that the appraisal is based on facts and circumstances that are substantially different to the facts and circumstances that exist on the date of valuation; or which cannot reasonably be expected to be used by the potential buyer on the date of valuation.

In the EVS, attention is given to the special assumption 'forced sale value'. The conditions under which forced sale value takes place, are inconsistent with the market value definition, according to the EVS. Hence the market value is valued based on special assumption 'forced sale value'.

The registered valuer lays down his special assumptions in the project terms. Future (suspected) events after the date of valuation and report date that the registered valuer is aware of in advance, can be included in the valuation in consultation with the client. This is possible by using (special) assumptions. Please bear in mind that the word 'possible' has been used. We believe this should only involve future (suspected) events market parties would also take into account in their pricing.

HABU (highest and best use)

The EVS are turning HABU's concept into a different concept that is inconsistent with the IVS concept. Here, one seeks to put out a line for Europe, although the locally different views are recognised. According to the EVS, specific definitions of the most efficient and effective use can apply to the guidelines or practices of individual countries.

Within the EVS, HABU is considered a restriction (joining existing, current statutory and physical possibilities) for which an assumption needs to be formulated and the broad concept 'hope value' (expectations market parties cherish) is regarded as a part of the market value. We believe market parties' (promising, justified, reasonable) expectations when it comes to property and its uses should be included in the market value, both in theory and in practice; this is confirmed by the IVS. The EVS-HABU assumption might lead to a deviation with respect to the market value. Therefore we recommend using the IVS concept for the Netherlands.

In the EVS, one special assumption is 'alternative use value'. This is the market value of the property without taking into consideration the continuation of the current use. According to the EVS, this is a market value (with a special assumption).

Reporting formats and requirements

The EVS are dedicating a great deal of attention to how value is reported. In the report, the valuer justifies his work and substantiates the value.

The EVS distinguish five different reports with individual reporting requirements:

- | |
|--|
| <ul style="list-style-type: none">• Full Valuation Reports• Shorter Reporting Formats (e.g. update)• Summary Report or Valuation Certificate• Desktop Valuation Reports (not in conformity with EVS, unless further to a valuation with inspection and provided circumstances are unchanged)• Draft Reports (not in conformity with EVS) |
|--|

The length and details required depend on the clients involved as well as their goals, profiles and needs. The valuer needs to align and agree on matters with the client. The first desktop valuation is not in conformity with the EVS. Desktop valuations made further to a valuation can be in conformity with the EVS provided circumstances are the same.

The playfield and rules property valuers must bear in mind have changed drastically in recent years. Different standards, regulations and 'good practices' are in circulation. They basically come down to the same thing, however the details can be rather different with all the consequences of the reported value and valuation report. Property valuers and their clients should be aware of this. Hence it is important to remain familiar with the rules that are adapted on a regular basis.