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AGRICULTURAL VALUATION IN A CHANGING WORLD

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EDITORIAL

Europe's transformation in the face of change

There is a common thread to much of this issue: Europe's transformation in the face of perilous change – climate change, of course, but also geopolitical change in the most primal sense, challenging Europeans' capacity to provide for their most basic needs.

Agriculture – the first common policy now sixty years old – encapsulates all of this. A policy originally devised by a generation that had known hunger is now pivotal to combating every one of the Biblical scourges facing the Union: hunger, drought, floods and war.

Today, Europeans have a renewed consciousness that satisfying the most basic of human needs is not a given in a hostile world and that food sovereignty is not negotiable. Of course, the EU is already an agricultural superpower, exporting even more massively than it imports and shaping farming worldwide. "EU laws determine how timber is harvested in Indonesia, how honey is produced in Brazil, what pesticides cocoa farmers use in Cameroon, what equipment is installed in dairy factories in China…[1]". That kind of soft power looked good in gentler times, less so as war rages in Europe's bread basket. The EU is striving for secure borders and ecological and technological excellence, and agriculture is part of that:

- Ukraine's accession to the EU will not only ensure freedom, security and prosperity for all citizens of the Union, old and new, it will be a giant leap for European food sovereignty.
- The greening of agriculture is one of the most crucial challenges of climate change. There will be no net zero without an EU-led agronomical revolution.
- Technology is crucial to the quality, yields and greening of European agriculture. It, too, is a question of sovereignty.

As agriculture returns to centre stage, so does its valuation. EVS 2025 will contain Guidance on agricultural valuation for the first time in twenty years and it will be more comprehensive, more sensitive to diversity of markets and valuation practice, greener and more high-tech than ever before.

A first complete draft of the Guidance will be presented at the TEGOVA-ASAVAL-CAAV agricultural valuation conference in Lisbon on 22 March. It is open to all, participants will be able to discuss and debate the draft with all the main authors while it is still modifiable, and an array of experts from across Europe will cover all the key valuation challenges for a sector that, perhaps more than any other, exemplifies a Europe "United in diversity".

"EU laws determine how timber is harvested in Indonesia, how honey is produced in Brazil, what pesticides cocoa farmers use in Cameroon, what equipment is installed in dairy factories in China…"

There is another transformation underway with immense impact on Europe's rural environment: the plethoric construction megaprojects serving to transfer electricity from renewable energy to points of use. In the first of a series, this issue's article describes the reshaping of owners' rights, of the public interest and of compensation that these projects entail and explores the valuation challenges and opportunities that ensue.

Michael MacBrien, Editor

[1] Anu Bradford, "The Brussels Effect – How the European Union Rules the World, p. xiv, par. 2, Oxford University Press 2020"

LISBON AGRICULTURAL VALUATION CONFERENCE 22 MARCH 2024

Agricultural valuation in a changing world

Registration and programme

#14 Functional obsolescence of real estate

Pawel Rogalski
Tomasz Gawlikowski

Summary 1

Functional obsolescence is one of the factors affecting the value of a building's elements, even though it is difficult to measure and quantify. The aim of this study is to determine the impact of functional obsolescence on the value of a building and distinguish two forms or functional obsolescence: functional obsolescence of the property and functional obsolescence of a specific asset. Functional obsolescence is divided into variable and fixed, depending on the possibility of eliminating it. The study also discusses the impact of functional obsolescence on the important or which are inadequate, for example, because of technological progress.

Keywords: functional obsolescence, real estate, property, asset, technical obsolescence, economic obsolescence, comparable transactions

1. Introduction

Functional obsolescence usually refers to loss of utility due to deficiencies in the property's design, which affect its functionality. Functional obsolescence is one of the factors affecting the value of a building. Functional obsolescence is a factor of a specific nature, which is difficult to measure and quantify, and which is difficult to distinguish from other factors affecting the value.

In real estate, functional obsolescence is a factor affecting the value of a building's elements, even though it is difficult to measure and quantify. The aim of this study is to determine the impact of functional obsolescence on the value of a building and distinguish two forms or functional obsolescence: functional obsolescence of the property and functional obsolescence of a specific asset. The study also discusses the impact of functional obsolescence on the important or which are inadequate, for example, because of technological progress.

The research is based on the analysis of the literature, on the analysis of transactions, on the analysis of the impact of functional obsolescence on the value of the property, on the analysis of the impact of functional obsolescence on the value of a specific asset, on the analysis of the impact of functional obsolescence on the important or which are inadequate, for example, because of technological progress, on the analysis of the impact of functional obsolescence on the important or which are inadequate, for example, because of technological progress, on the analysis of the impact of functional obsolescence on the important or which are inadequate, for example, because of technological progress.

2. Factors affecting the functional obsolescence of real estate

Generally, these are factors of functional obsolescence of real estate:

1. excessive capital cost,
2. excess operating cost of subject individual,

Both factors are caused by obsolete design or lack of the latest technical solutions.

Functional obsolescence is therefore an effect of the lack of the latest technical solutions, which affects the value of the property and the cost of its operation. The cost of operation is a factor of a specific nature.

Functional obsolescence is a factor affecting the value of a building's elements, even though it is difficult to measure and quantify. It is difficult to distinguish from other factors affecting the value. Functional obsolescence is a factor of a specific nature, which is difficult to measure and quantify.

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Functional obsolescence is not simply a matter of the construction but can certainly be considered in cases where a property's design does not generate sufficient profit or incurs excessive cost.

3. Types of Functional obsolescence of real estate

Functional obsolescence may be another factor affecting the value of a specific asset or property, which is difficult to measure and quantify.

- **Variable functional obsolescence** – functional obsolescence of the property, which can be eliminated by changing the operation, functionality or design of the property, which is a factor of a specific nature, which is difficult to measure and quantify. It is a factor affecting the value of a specific property, which is difficult to measure and quantify.
- **Invariable functional obsolescence** – functional obsolescence of the property, which cannot be eliminated by changing the operation, functionality or design of the property, which is a factor of a specific nature, which is difficult to measure and quantify. It is a factor affecting the value of a specific property, which is difficult to measure and quantify.

4. Functional obsolescence in the cost approach

Replacement costs are based on the assumption that the property is being valuated and, as such, they assume the use of the latest technical solutions in the existing building, which is not always the case in the real estate market. This concern is known as functional obsolescence of the property.

Functional obsolescence is characterized by additional investments in the property, which are necessary to bring the property to the standard of the latest technical solutions. This is an issue that is not taken into account in the cost approach, which assumes the use of the latest technical solutions.

Where the functional obsolescence of the property is significant, it may be necessary to make an adjustment to the value of the additional investment, which is made in the cost approach, in order to take into account the fact that the property is not being valuated in the most advantageous way, which is the case of an adjustment to the value of the additional investment, which is made in the cost approach, in order to take into account the fact that the property is not being valuated in the most advantageous way.

Certain differences in the functionality of the property, such as the lack of air conditioning, lack of fire protection, lack of parking, lack of efficiency, lack of flexibility, lack of ventilation, lack of heating, lack of lighting, lack of insulation, lack of soundproofing, lack of differences in electrical or gas supply, lack of differences in water supply, lack of differences in sewage, lack of differences in roofing, lack of differences in ceiling, lack of differences in flooring, lack of differences in walls, lack of differences in windows, lack of differences in doors, lack of differences in floors, lack of differences in ceilings, lack of differences in roofing

#02 Valuing in non-transparent markets

Isabela Bajko

A constantly determining the value of a property is crucial for the various parties operating in the real estate market: buyers and sellers, owners and investors, developers and brokers, as well as banks, the state and local authorities, and tax authorities.

The practice of appraisal is universal, but valuers, regardless of the country in which they operate, seem to access the best market evidence to serve the basis for the valuation. However, in each country, one can find legislation, rules and guidelines, and recommendations from professional bodies indicating what comparable market evidence is considered the best.

Equity market analysis for property valuation is based on transaction prices and characteristics of properties that have sales contracts or other documents. This is a valuation for comparable transaction prices properties are officially recorded.

The transaction price of a property is the reliable and actual (real) price of the property sold, derived from the reliable source, the notarial deed. Property transaction prices are recorded in the transfer prices.

The transaction price results from the equation of property supply and demand. **Supply** is usually represented by the sum of the number of available sales offers, that can be supply of real estate to be collected by public institutions, which usually only record the transfer of real estate. The supply of real estate is influenced by the number of transactions, property transaction costs (which concern price properties in key locations), the time required to obtain the permits, the time of building permits, the level of taxation, the level of VAT, the level of property taxes, the level of property transfer taxes (which concern price properties in key locations), the time required to obtain the permits, the time of building permits, the level of taxation, the level of VAT, the level of property taxes, the level of property transfer taxes, January 1 real estate is measured by the number of transactions, property transaction costs. The main factors shaping real estate demand include: price (rents, interest rates), specific needs and the level of their satisfaction, economic factors, the state of the labour market, demographic factors, migration processes, preferences, etc.

Unfortunately, real estate markets are not transparent in all countries. In transparent markets, valuers have access to direct transactional evidence. Often showing a tendency to dismiss office price information as being too subjective, valuers prefer office price information to be treated with caution. However, in markets where access to real transactions is difficult, office price information becomes useful. In some countries, there is a problem with the availability of transactional data contracts are not recorded or access to them is expensive, thus contributing to a lack of transparency. Transaction price information is generally not available in sales contracts is insufficient. The transaction price is not the only data that be actual prices (equal to the amount for which the property sold) and prices that may be "spurious". Actual prices primarily include market prices, but "anomaly" prices also appear, i.e. the actual amounts that are not the market prices, which may be the subjectivity of the seller and/or the buyer. Spurious prices, on the other hand, are when the parties to the transaction do not undertake or overstate the transaction price. Underpricing may occur, for example, tax base associated with the purchase of a property and overpricing may suggest an overvaluation of the mortgage security or, for example, the amount required to obtain a loan.

In addition, the information contained in notarial deeds is limited to basic address data and basic characteristics, which makes it impossible to identify the differentiating features of the property and to determine the value of the property. The value of individual features to price formation. Transaction prices are recorded in the transfer at a time lag and this is unknown, making it difficult to analyze price changes over time. There are instances when the market is static and then the transaction prices remains unchanged, but the market prices are falling or rise.

The disadvantages of using only transaction prices for market analysis and property valuation encourage the use of other prices. The lack of market transparency causes not disclosing the true consistency of sales prices makes it impossible to identify the use offer prices as a comparative element and one such element is the market appraisal.

The offer price of a property is the price that is determined by the seller and the price is taken of a valuer, real estate agent or other specialists. The offer price is usually higher than the prices on the market, the amount of demand, the technical and usable condition of the property, its location and other property characteristics. The offer price allows the seller to be able to lower it during negotiations with the buyer, but the price may also fluctuate over time, e.g. decrease if there is little interest in the property or increase if there is strong interest in the offer.

Observation of hidden transaction shows that in some market sections there is a certain minimum price and determine the decision to sell or, for sellers not in forced situation, to postpone the sale of the property and wait for a better price.

Due to the diversity of properties and sellers' expectations, the range of offer prices is large, often greater than that of transaction prices.

"The offer price is usually derived from the prices on the market, the amount of demand, the technical and usable condition of the property, its location and other property characteristics."

An obvious problem arising from the use of offer prices for market analysis and property valuation is (usually) the lack of transaction prices. Although in some countries, depending on the state of the market, asking prices are lower than asking prices. In others, the opposite is the case. This is not only due to the phase of the business cycle, but the market is at the time, but also to cultural factors. In some countries, buyers negotiate the price. In others, they make a non-negotiable offer. In the former, the difference between asking and offer prices is usually a value experienced in a given market can judge the relationship between offer prices and the likely sale prices of a property and therefore, in the absence of transaction price data, the use of offer price information is important and useful.

The international property valuation literature provides a number of ways of analyzing the relationship between asking prices and sales prices, based on the market for interpreting the market.

"By developing the market cycle and its degree of liquidity, a valuer experienced in given market can judge the relationship between offer prices and the likely sale prices of a property."

The state of transactions in the market relative to the size of the offer determines whether the market is in equilibrium or a seller's or buyer's market. Some analysts consider property prices to be relative equilibrium when the current number of listings equals the number of properties completed in the last four quarters. Others use the ratio of the number of properties offer in permanent residences, counted among other things, by the registry of offer prices. The lower the percentage, the high level of asking prices in a situation of excess supply causes long-term imbalances.

There are two types of market imbalance: overdemand (seller's market) and oversupply (buyer's market).

A seller's market occurs when the demand for properties is higher than the supply. This means a lower number of properties currently offered for sale than the number of property transactions. Because of a small or decreasing difference between asking and transaction prices, sellers are sensitive or impatient to price reduction. The buyer is in a situation where the ease of disposing of the property which manifests itself in the short time required to complete the transaction.

A buyer's market occurs when the supply of real estate is higher than the demand. This means a higher number of properties for financial capacity of potential buyers is reduced (e.g. tighter credit policies of banks, economic slowdown or crisis). Here the number of properties currently offered exceeds the number of property transactions concluded. A large or increasing difference between transaction and offer prices means a favourable position for buyers. In such a situation, potential buyers will expect price discounts (especially customers financing the purchase with their own funds). Sellers must then decide to reduce the price or postpone the sale, waiting for a better offer price and other transaction prices, combined with the reluctance of sellers to reduce the price or procrastination in doing so, prolongs the time required to sell the property on the market.

It should be noted that asking prices are not a tangible result of the forces of supply and demand and are therefore not a fully reliable source of information about the market. Transaction prices are a better reflect the expectations of the supply side of the market. Through comparison with transaction prices, however, they are helpful in identifying the phase of the market cycle.

In the case of a seller's market, we can analyze offers made by sellers in a given phase of the market cycle. Transaction price is a known phenomenon. The prevalence of asking prices over transaction price (prices) is a phenomenon of the prevalence of asking prices over transaction prices.

The price of real estate is subject to the forces, which are the result of the influence of factors, among other things, the economic and social, and non-neoconomic factors. Transaction prices inform market participants, i.e. they allow the allocation of resources they are making and achieve the goal their needs. They are therefore a signal indicating the direction of resources flow. In addition, due to the dispersion of the real estate market and the lack of transparency of property transactions, the time elapsing from the conclusion of the preliminary sale agreement to the moment when the buyer can obtain information on the transaction price included in the land register may be as long as half a year.

In an environment of dynamic market changes, it is therefore particularly important to keep track of property sales offers despite the fact that these are only a proxy for transaction prices.

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#03 Residential EPC assessor and valuer in Brussels – Two complementary activities

Eric De Keyzer

In Belgium, energy policy is regionalised: the energy performance certificate (EPC) is a regional matter, with three different versions (Flanders, Wallonia, Brussels) and Walloons. Not only are the ratings A to G, but the methodology, the software and the certificate method differ. It is impossible therefore to compare certificates from the three regions, and Brussels cannot be the pioneer in EPC directives.

This poses a problem in terms of transparency for prospective tenants or buyers in Brussels, who cannot compare the rating of the Flemish Region and the Walloon Region on very close to each other and in proportion, and who will be faced with a completely different rating, but the relative difference in the regional average must be **2 or 3 rating**, which corresponds to the heating cost or overall consumption, depending on the region.

Brussels: 10 to 250 kWh/m² per year
Wallonia: 250 to 500 kWh/m² per year
Flanders: 320 to 400 kWh/m² per year

The rules are much stricter in Brussels because the city predominantly consists of apartments and semi-detached houses (with a high EPC rating) and Brussels houses, which are less numerous than Flanders and Wallonia, in theory, therefore, the average rating is better even though the figures were calculated before the first certificates were produced.

If the calculation procedures were similar, the EPC ratings would be much better in Flanders, even for different ratings, but this is far from being the case. It is impossible to compare the ratings of the three regions, which is the major weakness Belgian surveyors!

Imagine a comparative buyer looking for a detached house in the southern suburbs of Brussels and comparing it with a house in Wavre, within 6 km as the crow flies, located in the Brussels-Capital Region's Sint-Genesius-Rode (Flanders) and Rixensart (Wallonia).

Even if the three houses are of similar construction, it is impossible to compare the EPCs and thus their energy performance. Unfortunately, the Brussels-Capital Region has been calculated according to three entirely different methods, which makes any comparison impossible.

As an assessor in the Brussels-Capital Region, I feel that the EPC assessor is a profession as important as appraiser in Brussels. In addition to **residential certificates**, I also carry out **PEB audits** (and apartments) that are more complex than procedures for the tertiary sector (offices with an area of more than 500 m²) and public buildings, which are not supplied with a certificate (the procedure is similar for construction and renovation works). For works) in this case, an **EPC advisor** will be required to monitor the work, which is linked to the so-called Office Visa (part of the EPC session).

Training to become a residential EPC assessor in 2011, when the EPC became a legal requirement, was very short, but it became more demanding in the 2020 (e-EPC, which was accredited as a training provider after putting together a course for the sector, a trainers' exam. Surveyor-valuers were given a choice between a shorter course and the opportunities that energy certification represented for their business.

At the time, you did not need a degree in construction or engineering, but it was compulsory to have a degree course in land or room. Since then, the law has changed, mainly as a result of which, some assessors weren't even visiting the properties they were supposed to be assessing.

You now need an architectural or engineering degree, or a degree in construction, or a field relating to building energy performance and have to go on a course before taking a central exam.

In 2019, all assessors had to undergo continuous training (12 hours) and pass a short exam (with a success rate). There are currently 224 accredited residential EPC assessors in the Brussels-Capital Region (2021).

The assessor must specify the floor surface and the use of the Protected Volume and of heat loss of various (roofs, facades, walls to unheated spaces, windows frames, doors, etc.) which their in-house software calculates the energy which hypothesises of the heat loss and heat gain, as specified, as well as cooling systems, solar panels, etc.

The software automatically generates the energy performance certificate, which is a "theoretical" energy performance, as well as a specification report containing the "Recommendations" and the "Details" of the specified data. The assessor has no influence over the content of the certificate (except the specified data).

The limitations of the software represent a significant weakness for the assessor, although some large firms charge for access to a more "complete" version. Some clients are factoring willing to pay for an assessor to do a thorough assessment, which is time-consuming, but the software is not. The software gives general recommendations generated by the software, such as insulation, heat pump, solar panels, etc. The assessor can also add details, such as insulation and how to improve the heating system, etc. Sometimes the assessor has to recommend a specialist in the matter of insulation, if he is not an expert, or even defeat values, which are extremely important for the overall rating, such as ventilation about insulation or even the insulation for myself, which improves the result.

The valuer assessor can produce the EPC, but the assessor can't do the valuation, as the valuer can do both. Given the growing importance of energy performance, the valuer can seize the property and see how it stands logically. The valuer has the advantage of being able to give possible improvements and calculate the resulting costs.

A certificate for an average-sized apartment usually requires an hour of on-site work and one to two hours of calculation and specification report. Detached houses are more complex and it can take from half an hour longer. The price charged therefore has to be proportionate to the time and the software of each category. For apartments, this will depend on the heating system, whether it is individual or collective. Detached buildings (in which the owner lives) will have to be inspected and information obtained about the heating and hot water system producer specifications, number of radiators, insulation, and whether or not non-insulated components, etc.

"The price charged has to reflect the complexity of the best-fare surfaces of each property."

It also takes time to compile the necessary evidence and it can be a while before some certificates are available. All data has to be accompanied by dated evidence. For example, if a wall is insulated, dated invoices must be provided, if the insulation and its thickness will have to be provided (invoice, signed estimate, specifications, etc.).

EPCs currently account for around a third of the work of the Brussels valuer, but they are not for valuations. They work perfectly well with those of EPC assessors, but valuers are not EPC assessors. The EPC assessor who does a thorough job and, more importantly, gives them useful tips on how to improve performance. Thus the certificate is physically represented, the data is correct and the property is valued. It is possible therefore to inform the client of the exact benefits of each proposed improvement.

A surge in demand is expected in the near future, as the Brussels-Capital Region has to be accompanied by dated evidence. Even if they are well-insulated, dated invoices must be provided, if the insulation and its thickness will have to be provided (invoice, signed estimate, specifications, etc.).

EPCs currently account for around a third of the work of the Brussels valuer, but they are not for valuations. They work perfectly well with those of EPC assessors, but valuers are not EPC assessors. The EPC assessor who does a thorough job and, more importantly, gives them useful tips on how to improve performance. Thus the certificate is physically represented, the data is correct and the property is valued. It is possible therefore to inform the client of the exact benefits of each proposed improvement.

A surge in demand is expected in the near future, as the Brussels-Capital Region has to be accompanied by dated evidence. Even if they are well-insulated, probably from 2024.

"My fees aren't competitive with those of EPC assessors, but some clients are prepared to pay for an assessor who does a thorough job and, more importantly, gives them useful tips on how to improve performance"

Renovation works with also become more complex, and some renovation or promotions failure to carried out every five years to achieve a theoretical consumption of 100 kWh/m² per year. This is an extremely ambitious goal that will be impossible to achieve for some buildings, even after major energy improvements, and it has to be carried out without achieving the desired result. Generous grants are available to help clients carry out the work. The measures have an impact.

There are also plans to harmonise the methodology and software, which is a huge undertaking, particularly for EPC works, etc) by creating a new set of EPC, PEB and EPB software, which will have to carry out of EPC assessors. Further training will be necessary in order to qualify as an EPC Expert.

Personally, I will have to decide whether to continue as a valuer-assessor or to offer activities as a specialist energy certification and use my skills in this field for other services, such as property valuation. It is a tough choice.

Brussels is a city-region the Brussels-Capital Region, which comprises 19 municipalities and covers 161 km². It is the city's Europe that has its own EPC certification system.

Note: Value and Expert Surveyor of Brussels (TEGOVA) member association of which the author is a member.

The Professional Services Review (www.rpsr.be) is an association that aims to promote the quality of the services provided by its members. The assessor-valuer mentioned in this article and the software does the rest. It is based on an approach that is independent, objective and prioritises clients' needs. Training courses are held in various venues in Belgium, mainly for members (in French and Dutch).

Eric De Keyzer RICS has been a property surveyor-expert since 1991. He is a member of the Bureau of Experts Belgium-Luxembourg and chairman of the Brussels-Capital Region's Expert Committee of the CNEJB (n.d. international RICS extension) for Brussels-Capital Region and European Building Expertise.

#04 The specificities of real estate valuation in the agricultural sector

Angelo Donato Berloco

European agriculture is facing increasingly complex challenges matched only by the new development opportunities they create. It is a top EU priority to make European agriculture *increasingly* modern, innovative and sustainable, all of which must be matched by objective real estate valuations because in the agricultural sector just as much as elsewhere, quality valuation provides a solid basis for financial decisions, investments and real estate transactions. It requires compliance with a series of estimation postulates among which the application of the comparative method is fundamental.

There is an intuitive simplicity to the comparative method. However, though it is simple and intuitive to understand **why** it is necessary to compare, the same cannot be said about **how** to concretely apply this principle in operation practice, especially in the agricultural field[1]. This is because agricultural properties have "*strong individual characteristics*"[2]. As prof. Giuseppe Medici observed, valuers in the agricultural sector frequently find themselves verifying how complicated the valuation procedure is as we move from the few uniform and standardised properties to the many highly differentiated ones. In addition, agricultural values find themselves operating with 'uncontemporary' sales data compared to the date of valuation.

> *"It is a top EU priority to make European agriculture increasingly modern, innovative and sustainable, all of which must be matched by objective real estate valuations"*

As a consequence, there is a need to "adapt" the *law of price indifference* to real situations, using all the tools made available by valuation methodology (quotations, procedures, valuation standards, etc.). The law of price indifference (also known as *Jevons' law*) is general and can be summarised as "*Identical goods, at the same time and in the same (perfect) market, can only have the same price.*"

It must be said that this theoretical valuation approach is not always put into practice correctly, with the resulting operational uncertainty often producing expertise rather than scientific valuation proper.

More specifically, **expertise** is a professional practice that estimates the market value of real estate through a synthetic and subjective judgment, without the detection of a sample of market prices and consequently is neither demonstrable nor verifiable.

On the other hand, **professional valuation** is that carried out by a qualified valuer, i.e. a professional who knows the phenomena investigated and is able to measure them, to detect market data and arrive at estimations of value made objective (verifiable) by using recognised valuation standards such as EVS as a yardstick.

The special characteristics of agricultural property

Agricultural properties are complex assets, as they consist of the original land and the endowments of buildings, infrastructures, temporary and permanent crops, plant and machinery, livestock and agricultural industries for the processing of agricultural products.

In general terms, the characteristics of agricultural real estate can be divided into quantitative (e.g. usable agricultural area) and qualitative (e.g. degree of soil fertility) characteristics.

> *"Agricultural properties are complex assets"*

Some groups of agricultural real estate features are:

1. **surface characteristics** (distinguished by type of crop, annual or perennial);
2. **location** (relating to the location of the property in the territorial context, in relation to infrastructures, services, etc.);
3. **positional characteristics** (relating to altitude, slope, position and exposure of the terrain);
4. **typological characteristics** (relating to soil fertility, presence of irrigation water, land investments, topsoil, presence of livestock and processing industries);
5. **contractual characteristics** (relating to conditions and limitations of use of the property - e.g. vacant or rented).

Good valuations for informed decisions in a context of higher scarcity of comparables

In the agricultural sector as elsewhere, estimation of value means predicting what probability the market value has of occurring in the context of two extreme situations *ranging from* (first probability that the value to be estimated coincides with the selling price) to 1(exact coincidence).

An estimate as close as possible to 1 must incorporate agricultural processes and real estate data (consisting of the prices and real estate characteristics of the reference sample) representative of the investigated property. Through the judicious use of appropriate procedures, agricultural valuers operating in a context of scarcity of information higher than that of residential or commercial valuation are able to objectively apply the comparative method, measuring the effect on the formation of the price of the main real estate characteristics.

Having objective and clear assessments enables clients (farmers, banks, funds, etc.) to make informed decisions consistent with the economic and financial context in which they operate. This applies both to entrepreneurs envisaging a new investment and to public and private financiers supporting entrepreneurs in this journey.

The high impact of geopolitics on agriculture and its valuation

Even more than in other sectors, agricultural valuers are faced with growing uncertainty. The actual and foreseeable agricultural macroeconomic impacts of the current extraordinary geo-political situation are even higher than macroeconomic impacts generally and this necessarily shrouds estimates of value in greater uncertainty as by definition valuations are "forward looking". Yet the valuation report must incorporate the elements known and knowable at the specific date of the valuation (which is necessarily a "point in time").

Agriculture in EVS 2025

Clearly, the dissemination and application of these procedures requires an unequivocal description and catalogizing of the real estate characteristics to be used in investigating the variability of market prices. Precisely to encourage the dissemination at a European level of a common language for agricultural valuation, TEGOVA has fostered the European Valuation Standards Boards drafting of specific guidance in EVS 2025. An outline of the work was presented at the TEGOVA General Assembly last October in Bologna, but the key event will be the "EVS 2025 European Agricultural Valuation Conference" on 22 March 2024 in Lisbon. That conference will be the first structured presentation of a draft of the EVS 2025 Guidance Note on Agricultural Valuation and an opportunity for conference participants to debate and influence the final outcome. I hope to see you there.

[1] The transition from the theory of the comparative principle to professional practice has also been discussed in A. D. Berloco and G. Ritzler, 1989. La comparazione quale presupposto logico dei giudizi di stima, Genio Rurale n. 9, pp. 37-46.

[2] In 1934 Prof. Medici published his famous Introduzione ai Apprezzi Agrari, which led to the Principles of Appraisal of 1944, a text that went through many editions and was adapted in numerous schools. His studies in the field of appraisal also made him known abroad and many foreign universities invited him to hold courses and conferences.

Angelo Donato Berloco is an agronomist, President of e-valuations Institute of Appraisal and Valuations – Italy (a TEGOVA member association) and Member of the European Valuation Standards Board co-opted for agriculture.

MAOS: Sustainable Framework for Agricultural land market evaluation. A tested Bulgarian model

Marija Georgieva*

"The model described, enables better justification of the adjustment approaches and methodologies."

Such a model is also an important complement for secure decisions by themselves, as well as for the preparation of the land markets. Country factors in demand, supply and market prices are the main factors that determine their necessary adjustment. Based on the analysis of the dynamics of the agriculture of a land market and the real new estate transactions, the model allows the adjustment of the market prices to be made in accordance with the specifics of the local agricultural and rural markets. Given the complexity of the factors and their dynamics, such an tool, integrating the necessary elements and factors, is essential to substantiate the adjustment of market values in the specific context. This is a prerequisite for the sustainability of the land market and the protection of the interests of farmers, organizations, landowners, etc.

"Land suitability analysis is primarily the analysis of data about the land in terms of realistic alternatives for different types of land use."

The article presents a tried and tested Bulgarian methodological framework for the analysis of the development and of the factors affecting the agricultural land market, including the assessment of land suitability, taking into account of local conditions.

Three groups of factors have been taken into account:

- Factors affecting the suitability of land for agriculture;
- Factors determining supply, demand and market prices;
- Factors affecting the development of the agricultural land market.

The model is based on the following principles:

Land suitability analysis for agriculture is a prerequisite for the development of the agricultural land market. It requires a multidimensional approach, taking into account the physical, chemical, hydrological, topographic, land area and other factors and their dynamics. The land suitability for agriculture is a prerequisite for the development of the agricultural land market because the needs for a particular type of land are determined by the suitability of the agricultural land. The factors affecting land suitability for agriculture determine the optimal area and conditions for agricultural production and determine the suitability of the land for agriculture. The factors affecting the land market are related to the suitability of particular areas, production and economic factors, and the dynamics of the market. The factors affecting land suitability for agriculture are: "Fitness" of a complex individual characteristic of the land for agriculture, taking into account the land area, the land area, and assessed by considering the intersection of the individual characteristics of the land and considering the land area.

Land suitability analysis is primarily the analysis of data about the land in terms of realistic alternatives for different types of land use. It requires a multidimensional approach, taking into account the physical, chemical, hydrological, topographic, land area and other factors and their dynamics, and the assessment of environmentally important crops for the specific agricultural land.

The second group of factors comprises the factors affecting supply, demand and market prices. The factors affecting the supply and demand are related to the production infrastructure, the degree of development of the market, the degree of exploitation of historic changes in the prices of land, etc.

In the part of the analysis, it is important to take into account the factors affecting the average and price average and rent, the factors affecting the average and price average and average rate of payment for land and the growth of land. These, in turn, should be taken into account when assessing land prices.

Fig.1. Change in the average price of agricultural land in Bulgaria for the period 2000-2022 in EUR/ha

For example, the analysis of the change in the price of agricultural land in Bulgaria shows that, on average, in the period 2000-2022, the price of land has risen by 2.5 times, compared to the beginning of 2000.

The differentiation between land prices and other factors affecting land prices, taking into account the factors affecting the average market price and land rent are the factors affecting the average market price and land rent, taking into account the factors affecting the average market price and the factors affecting fragmented land ownership. For example, the factors affecting the average market price are: Factor 1 - Land area; Factor2 - FTSE securities, and Factor3 - Land area. The factors affecting land rent are: Factor1 - Land area; Factor2 - Land area; Factor3 - Land area. The factors affecting fragmented land ownership are: Factor1 - Land area; Factor2 - Land area; Factor3 - Land area. The factors affecting land rent

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"Your engineering, my land: Property and value in re-electricfying Europe

The special characteristics of agricultural property

Introduction – As an undeveloped or at most lightly developed area, Europe was brought to all parts of Europe in the 19th century by the railway, the telegraph and electricity. In the rural landscape of Europe, with all that works entail, electricity pylons and wires are a fact of life. Compensation is based on the unobstructed use of land, and the presence of pylons and wires of electricity of the kind, it has been suggested, reduces the value of land. Compensation is based on the difference between the value of the land before and after the work. In generalisation of this rule and 'if' in particular, the value of land is not reduced.

Across Europe and much further afield, there are many examples of electricity pylons and wires, and there are many engineering projects to where it will be used in the future. The question is, what is the value of land with pylons and wires? The answer is, it depends on the land, and it depends on the land and the land alone. It depends on the land and the land alone. It depends on the land and the land alone.

"Valuation questions follow, whether for the value of rights needed for the cables, compensation for any loss in value of land adjoining pylons, or later losses from the fact of a power cut or maintenance and replacement statements of burdened property."

Valuation – Valuation questions follow, whether for the value of rights needed for the cables, compensation for any loss in value of land adjoining pylons, or later losses from the fact of a power cut or maintenance and replacement statements of burdened property.

The Transformation of Innovation – The twenty-strongest-minded energy revolution is underway, and it is transforming the way we live and work. Electricity is the energy source that will power the future, and it is not only one region or so as much further as it is the rest of the world. It is the energy source that will power the future, and it is the energy source that will power the future. It is a fighting, quadrilling or more of continent-wide electricity grid, and it is the energy source that will power the future. It is the energy source that will power the future. It is the energy source that will power the future. It

Michael MacBrien

Nikos Sotiriadis, 2002 Contemporary art collection of the European Parliament
© EP 2021

#07 Energy Performance of Buildings Directive – *Massive certification and renovation of the building stock will transform property markets and valuation*

Council and Parliament reached agreement on 7 December. Parliament still needs to vote in plenary, but that's a formality. The text will then go through legal and linguistic toilettage in the 24 EU languages and will then be published in the OJEU, most likely in the second quarter. It will enter into force twenty days after publication and from that date member states will have two years to transpose its provisions into national law.

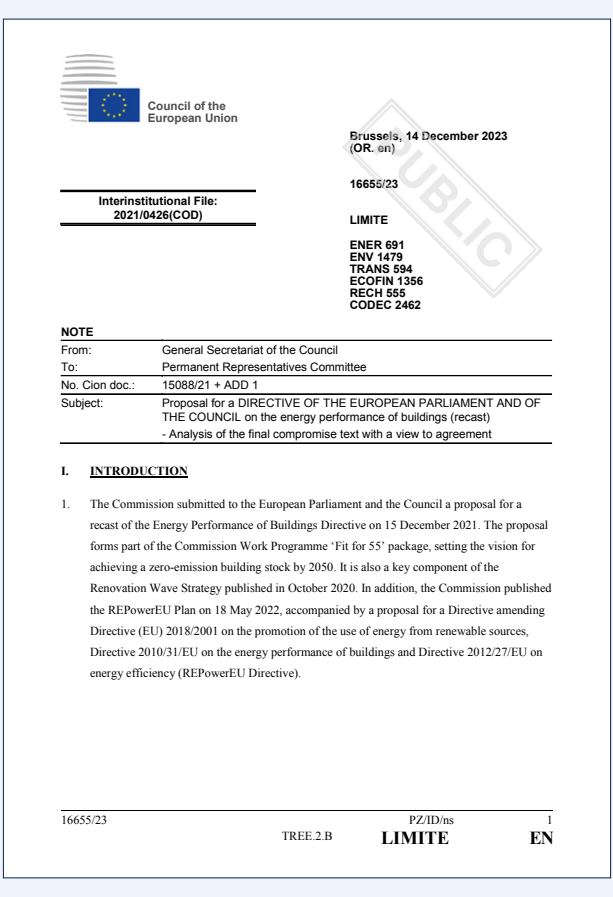
The Directive has existed in different iterations for over twenty years, yet until now none of its obligations caused a step-change to the rate of renovation, stuck stubbornly at 1-2% of the building stock per annum. The reason was owner sovereignty. None of the renovation obligations kicked in unless and until the owner freely decided to do a major renovation – defined by the Directive as either costing more than 25% of the value of the building or covering more than 25% of the building envelope, according to member state choice. The new Directive requires member states to organise the staged renovation of the building stock whether owners like it or not.

For the non-residential sector, the Directive's rules will lead to renovating the 16% worst-performing buildings by 2030 and the 26% worst-performing buildings by 2033. For residential, member states must establish a national trajectory that leads to reducing the average primary energy use of the residential building stock by 16% by 2030 and by a range of 20-22% by 2035.

Compliance by individual buildings with the percentage thresholds will mostly be checked on the basis of energy performance certificates (EPCs).

Each member state must produce a **national building renovation plan** with targets and measurable indicators for 2030, 2040 and 2050 regarding the annual energy renovation rate.

New buildings, which under the existing Directive have had to be near-zero energy since 2021, will have to be zero-emission by 2030 (by 2028 for public buildings).



Council of the European Union

Brussels, 14 December 2023 (OR. en)

16655/23

Interinstitutional File: 2021/0426(COD)

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee
No. Cion doc.:	15088/21 + ADD 1
Subject:	Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the energy performance of buildings (recast) - Analysis of the final compromise text with a view to agreement

I. INTRODUCTION

1. The Commission submitted to the European Parliament and the Council a proposal for a recast of the Energy Performance of Buildings Directive on 15 December 2021. The proposal forms part of the Commission Work Programme 'Fit for 55' package, setting the vision for achieving a zero-emission building stock by 2050. It is also a key component of the Renovation Wave Strategy published in October 2020. In addition, the Commission published the REPowerEU Plan on 18 May 2022, accompanied by a proposal for a Directive amending Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources, Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency (REPowerEU Directive).

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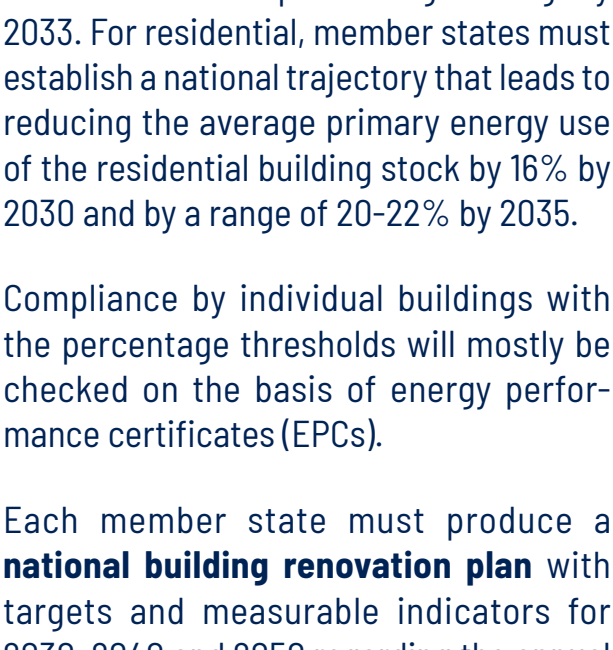


Solar energy deployment is now required by dates ranging from 2026 to 2029:

- for all new buildings public and private, non-residential and residential
- on all new roofed carparks physically adjacent to buildings
- for existing public buildings over 250m²
- for existing non-residential buildings over 500m² undergoing major renovation

Member states must introduce a **renovation passport** scheme based on a common framework set out in the Directive. Member states are free to decide whether to impose them on building owners and whether they must be issued jointly with the EPC. If they do so, it will be very useful for valuing energy efficiency impacts because there will be:

- an optimal sequencing of renovation steps
- the estimated costs for carrying out each step (unfortunately optional for member state schemes)
- and the estimated energy performance class of the EPC to be achieved following completion of the step

There are **recharging point and ducting** installation obligations for buildings varying according to building type, but these are likely to be surpassed by events.

The prevalence of EPCs is greatly increased. The existing obligation to issue EPCs when buildings or building units are constructed, sold or rented out to a new tenant is now extended to those that have undergone a major renovation or for which a rental contract is renewed. This will be very helpful for energy efficiency valuation.

#08

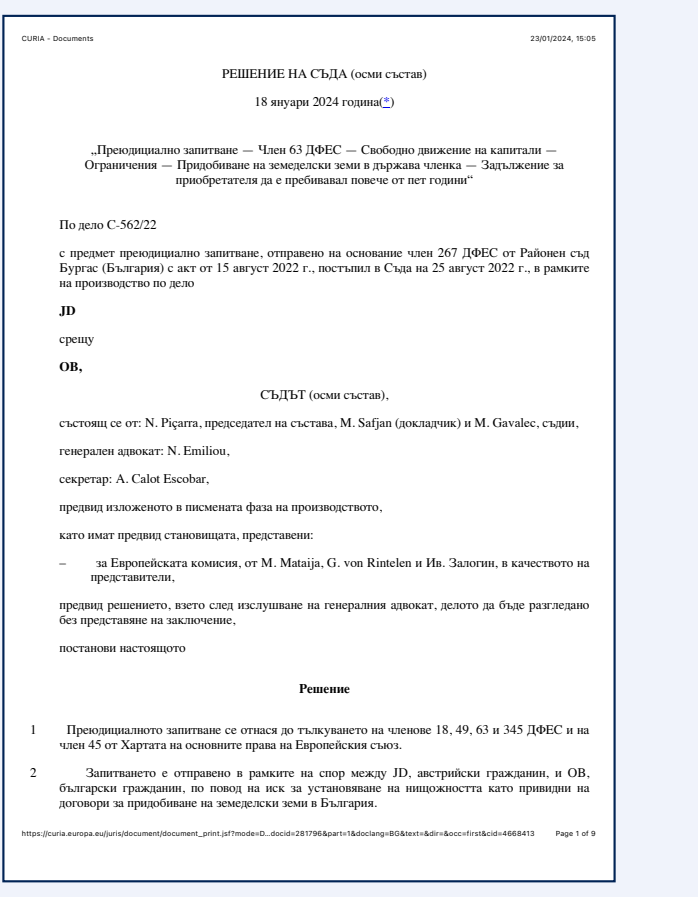
CJEU upholds the right of EU citizens to acquire agricultural land in a member state without restriction – *Judgment of the Court of 18 January 2024 Case C-562/22*

The "Four Freedoms" underpinning the EU internal market are free movement of people, goods, services and capital. The free movement of capital encompasses the freedom of all EU citizens to buy and sell land and buildings, urban and rural, without restriction anywhere in the Union.

Yet it is a politically sensitive issue and many countries have tried to get around it, resulting in myriad judgments of the Court upholding the freedom. When negotiating their accession to the EU, many countries obtained transition periods for secondary residences (usually five years after accession) and for farmland (usually seven years), but all that is now over.

Bulgaria has a law restricting the right to acquire ownership of agricultural land to natural or legal persons who have been resident or established in Bulgaria for more than five years. In a case in which this question arose, the District Court of Burgas, Bulgaria, stayed the proceedings and referred the case to the CJEU.

In its judgment, as always, the European Court states that "a measure such as the national legislation at issue in the main proceedings, which restricts the free movement of capital, is permissible only if it is justified by overriding reasons in the public interest and observes the principle of proportionality, a condition that requires the measure to be appropriate for ensuring the attainment of the legitimate objective which it pursues and not to go beyond what is necessary in order for it to be attained".



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РЕШЕНИЕ НА СЪДА (осми състав)

18 януари 2024 година(*)

„Преюдициално запитване — Член 63 ДФЕС — Свободно движение на капитали — Ограничения — Придобиване на земеделски земи в държава членка — Задължение за приобретателя да е пребивавал повече от пет години"

По дело C-562/22

с предмет преюдициално запитване, отправено на основание член 267 ДФЕС от Районен съд Бургас (България) с акт от 15 август 2022 г., постъпил в Съда на 25 август 2022 г., в рамките на производство по дело

JD

срещу

OB,

СЪДЪТ (осми състав),

състоящ се от: N. Piçarra, председател на състава, M. Safjan (докладчик) и M. Gavalec, съдии,

генерален адвокат: N. Emiliou,

секретар: A. Calot Escobar,

предвид изложеното в писмената фаза на производството,

като имат предвид становищата, представени:

– за Европейската комисия, от M. Mataija, G. von Rintelen и Ив. Залогин, в качеството на представители,

предвид решението, взето след изслушване на генералния адвокат, делото да бъде разгледано без представяне на заключение,

постанови настоящото

Решение

1 Преюдициалното запитване се отнася до тълкуването на членове 18, 49, 63 и 345 ДФЕС и на член 45 от Хартата на основните права на Европейския съюз.

2 Запитването е отправено в рамките на спор между JD, австрийски гражданин, и OB, български гражданин, по повод на иск за установяване на нищожността като привидни на договори за придобиване на земеделски земи в България.

https://curia.europa.eu/juris/document/document_print.jsf?mode=D...docid=281796&part=1&doclang=BG&text=&dir=&occ=first&cid=4668413 Page 1 of 9

When the European Court asked the referring court for information on the objectives pursued by the law, the referring court stated that the law "seeks to ensure that that agricultural land continues to be used in accordance with its purpose", the motivation being that speculative transactions relating to such agricultural land and the sale of that land to foreign investors who intend to use the land for other purposes, would lead to a significant reduction in arable land, together with the corresponding disappearance of large and small Bulgarian agricultural producers.

The CJEU judged that the residence requirement in the Bulgarian law constitutes an infringement of EU law on free movement of capital as it goes beyond what is necessary to attain the objectives pursued by that legislation because the objectives could have been pursued in manners less harmful to European free movement of capital:

"As the Commission pointed out in its written observations, the objectives pursued by the legislation at issue in the main proceedings relating, first, to agricultural land continuing to be used in accordance with its purpose and, second, to the prevention of the acquisition of such land for speculative purposes could be attained through the use of measures introducing, inter alia, higher taxation on resale of agricultural land occurring shortly after acquisition, or even the requirement of a substantial minimum duration for leases of agricultural land... Another measure that is less restrictive of the free movement of capital is the introduction of a right of first refusal to farming tenants, which would make it possible, where the latter do not acquire the property, for title to be acquired by natural or legal persons whose activity does not fall within the agricultural sector, but who must nevertheless maintain the agricultural use of the property in question."

TEGOVA

To contribute an article or to send a letter to the editor commenting on one, contact info@tegova.org

Editor: Michael MacBrien

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