

# INTERNATIONAL VALUATION STANDARDS (TEGOVA, RICS AND IVSC)

## COMPARATIVE ANALYSIS

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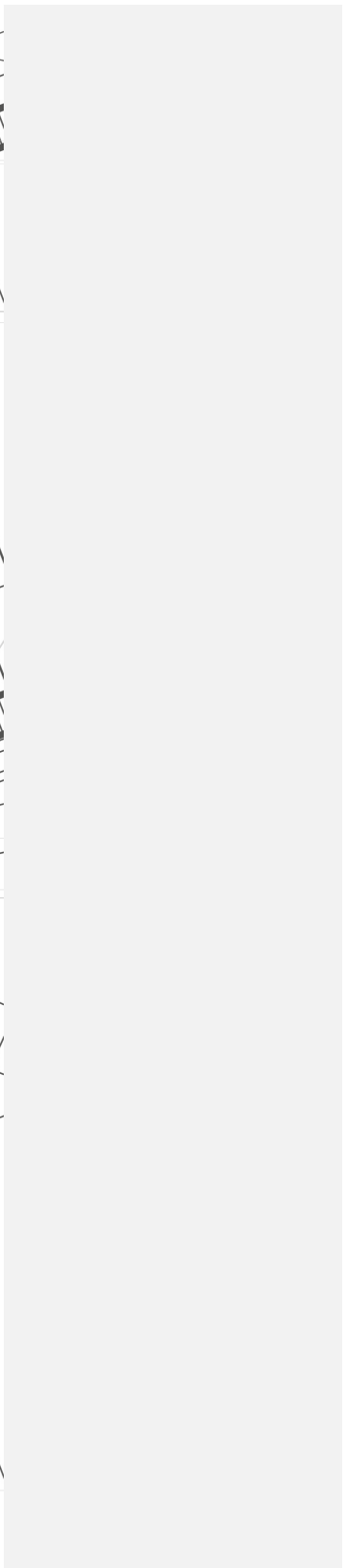
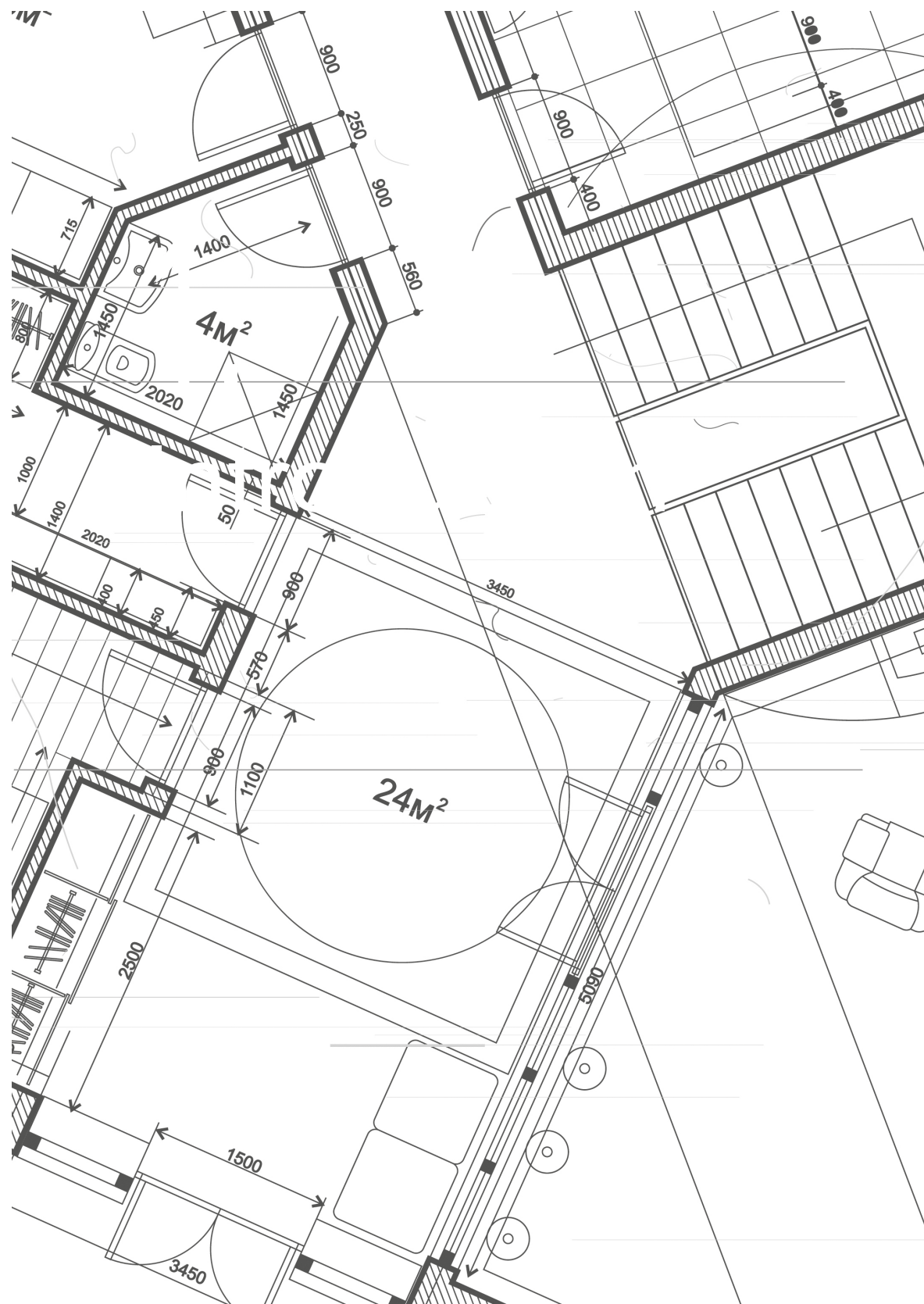
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# ABSTRACT

*This publication aims to systematize and organize the most relevant information about the international standards published by The European Group of Valuers' Associations (TEGOVA), by the Royal Institution of Chartered Surveyors (RICS) and the International Valuation Standards Council (by IVSC), making a comparative analysis and their suitability to Portuguese legislation in the area of Property valuation, identifying differences and points of convergence, with the aim of qualifying property valuation professionals, guiding them to the global market. The position regarding the valuation standards of those international entities was also consulted and a survey was carried out among the Portuguese professionals, with the goal of understanding their degree of familiarity with international property valuation standards.*

This publication is part of a *Roadmap* for Innovation and Qualification developed by ANAI - Associação Nacional de Avaliadores Imobiliários, within the scope of the **HIGH VALUE - INNOVATION AND SUSTAINABILITY** project, which aims at increasing professional and business skills of Expert Valuers in Portugal, promoting the qualification and diversification of the services offered.



# 1. INTRODUCTION

Asset valuations, whether of tangible or intangible assets, are used as an instrument for investment analysis, as a mechanism to ensure the compliance with rules and regulations, as a support for granting of loans, in short, as an element of support for decision making by the various players in the real estate markets. The trust placed in valuations by all parties involved (buyers, tenants, developers, banking institutions, investment funds, among others) implies that they must be prepared in a reliable, transparent and clear manner, using universally recognised and accepted concepts, principles, approaches, procedures and methodologies. This proves the valuation's importance since it will be, many times, the support element for decision making, being the risk of the operation deeply correlated with its quality and assertiveness. The valuation report is, therefore, a key piece of communication of the valuation work and should clearly and unequivocally expose to all parties the assumptions made, the approaches and methodologies used, in essence, the path taken to obtain the asset value.

The European Central Bank's Report *Valuation Processes in the Banking Crisis - Lessons Learned - Guiding the Future* of 18th December 2012 systematises the imperative nature of performing valuations with a high level of reliability for the purposes of measuring the implicit risk in mortgage lending, however, this reasoning can be extrapolated to all areas of valuation:

*"Valuations exert significant impact on a financial institution's credit risk management. As mitigation against risk, it is imperative that the valuation process is robust and that the value attributed to the underlying assets can be relied upon when fully assessing the risk of a credit decision or the ongoing management of the loan. For that reason, a reliable valuation document is central to the credit risk decision."*<sup>1</sup>

During the sixties and seventies of the last century various national valuation bodies developed valuation standards and, in some countries, Codes of Professional Ethics appeared. At the same time, the globalisation of international markets determined the need for the development of harmonised international property valuation standards. Thus, in 1981 The International Assets Valuation Standards Committee (TIAVSC) was created, which changed its name in 1994, becoming the International Valuation Standards Committee (IVSC). The objectives which led to the creation of this organisation were the development and publication of international property valuation standards, the promotion of their international acceptance and the harmonisation of valuation standards between countries, identifying and disseminating differences in local or regional legislation and their applications. Valuers submit to the standards by their own decision or by legal requirement, or by specific instruction from the client or future end users of the valuation and/or national companies or organisations (García Meca, 2001).

<sup>1</sup> Central Bank Report, *Valuation Processes in the Banking Crisis - Lessons Learned - Guiding the Future*, 18 December 2012, PUB00252-016 - cited in EVS 2020

The aforementioned authors refer to the importance of the explanation of the valuation methodologies in the IVS standards, highlighting that “IVSC recommends that they are diffused to all professionals performing valuations, in the same way as it recommends to clearly explain the methodology followed in the valuation. In any case, these standards establish what the valuers must do rather than how to apply specific procedures or methodologies, whose solution depends on the valuer’s capacity to select the relevant techniques and apply his knowledge”, and the same can be transposed to the other valuation standards published.

Roger Messenger, in the foreword of the EVS 2009 (TEGOVA, 2009) justifies the need for European standards with the necessity for standards that lead to consistent, adjusted, reliable valuations in order to establish a common ground for investors, financial sector and valuers throughout the European Union.

According to the article *Normas Internacionales de valoración: la opinión de los profesionales en España* (García Meca, Martínez Conesa, & Laffarga Briones, 2009), the interest in the adoption of international standards is related to the mandatory compliance with *International Financial Reporting Standards* (IFRS) and the growing need of end users to obtain valuation reports that guarantee them consistent and comparable asset analyses, denoting that the imposition of financial and accounting reporting standards is closely related to the development and adoption of property valuation standards, in an attempt to eliminate the lack of consistency between accounting approaches and on the appraisers value determining.

In the article *Red, White or Blue? Colouring Valuers’ Perceptions, concerning valuers’ perceptions of the international standards* published by RICS - Red, IVS - White and TEGOVA - Blue (Sayce & Connellan, 2001), it is stated that the main goal of the IVS (International Valuation Standards) is to produce truly international valuation and reporting standards that meet the needs of financial reporting, the international property markets and the international business community, with ambitions for consistency and harmonisation of valuation. The authors also refer in the quoted article that the objective of international accounting standards is that the determination of the value of assets is made in a fair and consistent manner, so that investors have access to reliable and quality information on which to base their decisions and control their investments risk.

There is currently a diverse range of valuation standards whose aim is to establish valuation methodologies and procedures globally or regionally accepted and adopted by all valuers, establishing a harmonised practice founded on the same basic criteria. These include the IVS international valuation standards of the IVSC (which defines itself as the international voice of the property valuation profession, based in London), the European EVS standards of the TEGOVA group of surveyor associations (based in Brussels), those of a British association called RICS (Royal Institution of Chartered Surveyors, based in the United Kingdom) and those published by the America valuation Foundation, the Valuation Foundation.

The *Appraisal Standards Board* - ASB of the *Valuation Foundation* - AF of the United States was designated by the United States Congress as the entity responsible for issuing and disseminating Valuation Standards and valuation practice. The AF has as its mission:

*"to promote professionalism and ensure public confidence in the valuation profession. It is achieved through the promulgation of standards, requirements for the performance of the valuer and guidance about valuation methods and techniques".<sup>2</sup>*

The ASB publishes its valuation standards, the *Uniform Standards of Professional Valuation Practice* - USPAP, annually. These standards (ASB, 2020) represent the generally accepted and recognised valuation principles and methods in valuation practice in the United States. In addition to the USPAP standards, the ASB publishes guidance notes in which it compiles frequently asked questions from its members, illustrating the applicability of the USPAP standards in concrete situations, providing guidance and advice aimed at resolving questions regarding the application of the standards. This publication is based on questions asked orally at conferences organised by AF or on informal queries sent by valuers to the ASB exposing their doubts regarding particular cases.

This interactive question/answer process is a proactive method to bring valuers and the body that establishes the valuation rules closer together, changing the way valuers relate to the regulator, which does not only intervene in situations of dispute and as an imposer of rules and standards, but advises professionals in their daily activity, solving in advance possible future problems that could occur as a result of misinterpretation or misapplication of USPAP standards.

The *Appraisal Practices Board* (APB) also provides voluntary advice to valuers, regulators and also users of valuation services recognised by APB and of valuation methods and valuation techniques for all valuation disciplines.

Valuation standards aim to regulate and control the process of producing valuations, promoting transparency and good practices in the valuation sector through the harmonisation of basis of value, approaches, procedures, valuation methods, among others, and also by standardising the communication of the valuation by means of standardised valuation reports in order to be understandable by all types of valuation users, whether they are private clients, financial entities, mediators, developers or any other users and whether they are more or less familiar with the area of property valuation. On the other hand, to the adoption of valuation standards is also intrinsic the principles of ethics and codes of conduct that the valuer must respect in the performance of his profession.

In accordance with the above, the adoption of valuation standards by professionals in the valuation sector results in the promotion of clarity and transparency of valuations, as opposed to the opacity that has historically characterised the valuation practice, also increasing the degree of reliability and the level of interpretation of the valuations by all those involved in the business or operation, whether valuers, property developers, public entities or any other end users of the valuation.

<sup>2</sup> <http://www.valuationfoundation.org/>

Several international bodies have developed and published Valuation Standards, and the following three are widely recognised in valuation practice:

- **TEGOVA** - *The European Group of Valuers' Associations*. It is a European body headquartered in Brussels that publishes the *European valuation Standards* (EVS). These are Europe-wide standards, aligned with European legislation, seeking to establish a biunivocal relationship with the EU, so that the EVS prevails over other international standards on the European continent;
- **IVSC** - *International Valuation Standards Council*. It is an international body which issues standards of global scope, the *IVS General Standards*, based on the assumption of applicability to all types of assets and all valuation purposes, also developing the *IVS Asset Standards* applicable to different types of assets such as real estate, intangible assets, companies and businesses. The IVSC recommends the development of *Guidance Notes* and *Information Papers* relating to the specificities of each country and the compliance of the IVS standards respecting local regulatory requirements;
- **RICS** - *Royal Institution of Chartered Surveyors*. RICS publishes its international valuation standards in the *Red Book*, incorporating the principles defined in the IVS. It establishes and applies international standards and also guides to good practice in processes related to the real estate industry in various areas, such as valuation, management, development, consultancy, inspection, mediation and others. Its main goal is to guarantee the continuous demand and knowledge by its members.

The document *The Valuation and Appreciation of Real Estate - An Integrated Approach for the Portuguese Financial System*, published in 2013 by *Banco de Portugal* states, in response to the question "Should compliance with international standards be required in the valuation of real estate?" the following:

*"Internationally, there are three organisations representing real estate professionals relevant to property valuation, these are: TEGOVA - The European Group of Valuers' Associations; RICS - Royal Institution of Chartered Surveyors; and IVSC - International Valuation Standards Committee. These entities are responsible for issuing the following international valuation standards, respectively: European valuation Standards; RedBook; International Valuation Standards.*

*Despite the existence of the said standards, it is considered that one of them should not be indicated as the reference to be followed by expert valuers, insofar as none prevails over the others in international terms.”*

It should be noted that the issue of the absence of a single internationally accepted standard for property valuation has been debated at European Union level, namely within the European Commission. As far back as 2004, for the banking sector, consumer representatives in the *Forum Group on Mortgage Credit* recommended that the European Commission should define the use of internationally accepted property valuation standards. The following year, again for the banking sector, the European Commission reiterated its concern about the existence of different property valuation systems, making it difficult to compare properties within the European area, and advocated the adoption of a single standard as the most effective way of solving this issue. In turn, in 2008, member states were encouraged to accept valuation reports made in other countries, while at the same time advocating the development and use of reliable valuation standards. Also, the *International Accounting Standards Board (IASB)* has indicated that it intends to promote the international convergence of property valuation standards, and this convergence would naturally lead to changes in the international accounting standards themselves.

The referred document makes a recommendation for the future:

*“that property Valuers follow internationally recognised valuation standards (including the rules as to the three eligible valuation methods described above) but these are not imposed”.<sup>3</sup>*

The recognition of the importance of the existence of principles, concepts, approaches, guidelines, rules of ethics and conduct, bases of value, methods, report structures and terms of engagement that are recognised and accepted by all parties in property valuation practice has led to the development of Valuation Standards. Historically, valuation standards have developed most urgently in periods of great uncertainty associated with crises, whether caused by falls in the real estate, financial or any other sector, such as the current crisis caused by the COVID-19 pandemic.

Framing the adoption of valuation standards in the European context, Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) n° 1093/2010 recommends that Valuer Experts should always perform their profession bearing in mind international standards, noting in its Recital (5) - *Union legal framework adequately harmonised in several areas*, that it is important to develop harmonised legislation in the European Union while taking into account the specificities of regional and national real estate markets. Similarly, in its Recital (26) - *valuation standards*, it refers to property valuation standards, drawing attention to the need for reliable valuation standards, referring specifically to the EVS and RICS standards:

3 [https://www.bportugal.pt/sites/default/files/anexos/documentos-relacionados/consultapublicacnsf\\_avaliacaovalorizaca\\_imoveis.pdf](https://www.bportugal.pt/sites/default/files/anexos/documentos-relacionados/consultapublicacnsf_avaliacaovalorizaca_imoveis.pdf)

*“It is important to ensure that the residential real property is appropriately valued before the conclusion of the credit agreement and, in particular where valuation affects the consumer’s residual obligation in the event of default. Member States should therefore ensure that reliable valuation standards are in place. In order to be considered reliable, valuation standards should take into account internationally recognised valuation standards, in particular those developed by the International Valuation Standards Committee, the European Group of Valuers’ Associations or the Royal Institution of Chartered Surveyors. Those internationally recognised valuation standards contain high level principles which require creditors, amongst others, to adopt and adhere to adequate internal risk management and securities management processes, which include sound valuation processes, to adopt valuation standards and methods that lead to realistic and substantiated property valuations in order to ensure that all valuation reports are prepared with appropriate professional skill and diligence and that appraisers meet certain qualification requirements and to uphold adequate valuation documentation for securities that is comprehensive and plausible. In this regard it is desirable to ensure appropriate monitoring of residential real property markets and for the mechanisms in such provisions to be in line with Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013, regarding the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. The provisions of this Directive relating to property valuation standards can be complied, for example, through legislation or self-regulation.”<sup>4</sup>*

In the same sense, the *Mortgage Credit Directive*, in its Article 19 - Property Valuation, states about the importance of the existence of reliable property valuations and the implementation of valuation standards:

*“1. Member States shall ensure that reliable standards for the valuation of residential property for mortgage lending purposes are developed within their territory. Member States shall require creditors to ensure that those standards are used where they carry out a property valuation or take reasonable steps to ensure that those standards are applied where a valuation is conducted by a third party. Where national authorities are responsible for regulating independent appraisers who carry out property valuations, they shall ensure that they comply with the national rules that are in place.*

<sup>4</sup> <https://eur-lex.europa.eu/legal-content/PT/TXT/?uri=CELEX%3A32014L0017>

Regarding the application of valuation standards and in case of a judicial conflict, it is established in point 5, *Collateral and property valuation* of the *Asset Quality Review Manual* issued by the European Central Bank (ECB, 2018), that EVS take precedence, according to the European Mortgage Credit Directive, over other international standards:

*“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, with EVS2012 taking precedence in the event of any conflict (for the avoidance of doubt, this should be considered to apply throughout the document).”*

## A NEW PARADIGM

The valuation practice is at a key moment in its history, a real turning point, requiring valuers to quickly adapt and update their knowledge and professional skills in view of the torrent of regulatory impositions and legislative changes that are emerging in the area of sustainability of the real estate sector and which have a considerable impact on the activity of asset valuation.

A paradigm shift is underway in the construction sector globally and therefore in Portugal, as a result of climate-related policies and agreements such as those inscribed in the *United Nations Sustainable Development Goals* (SDGs)<sup>5</sup> in the *Paris Agreement*<sup>6</sup> on climate change (signed in 2016) and in the *European Green Deal*<sup>7</sup>, among others.

The Sustainable Development Goals, adopted by the United Nations in 2015 and also known as *Global Goals*, are, according to the United Nations, a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity, imposing in the 2030 Agenda 17 Global Goals with the aim of achieving them before the year 2030. Although the Global Goals are interconnected, goals 7 - Clean and Accessible Energy, 11 - Sustainable Communities and Cities and 13 - Climate Action are the ones that relate to the construction sector and consequently to the Property Valuation sector.

In the same sense, there is a commitment among EU countries for Europe to be the first continent to achieve carbon neutrality, meeting the goals set by the European Ecological Pact and having 2050 as the deadline. To this end, each member state has developed a long term strategy to mitigate carbon emissions, having LTRS - Long Term Strategy for Building Renewal<sup>8</sup> - as its base document.

5 <https://www.undp.org/sustainable-development-goals>

6 <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

7 <https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal>

8 <https://dre.pt/application/conteudo/156295372>

The LTRS stems from the provisions of Article 2-A of Directive (EU) 2018/844 (*Energy Performance of Buildings Directive*) of the European Parliament and of the Council of 30/05/2018 and aims to support the renovation, by 2050, of the national park of residential and non-residential buildings, public and private, by improving their energy and environmental performance, converting it into a decarbonized park and high energy efficiency and promoting the transformation of existing buildings in *Nearly Zero-Energy Buildings* (NZEB).

In Portugal, to achieve the objectives proposed in the LTRS will require concerted efforts among all those involved in the construction sector, from public and government entities, technicians and designers, real estate promoters to the private sector. The objective set for 2030 is highly ambitious: to intervene in 69% of the Portuguese building stock.

According to the Portuguese LTRS, "The goal is to renovate 363 million square metres by 2030, which is 69% of the total existing building stock compared to 2018. The target is to reach 635 million square metres by 2040 and 747 million square metres by 2050."

LTRES establishes as primary energy saving objectives in Portugal the percentages of 11% for 2030, 27% for 2040, and 34% for 2050 and the reduction of discomfort hours in housing, the percentages of 26% for 2030, 34% for 2040, and 56% for 2050.

In order to achieve the objectives proposed in the LTRS it is estimated a total investment until 2050 of more than 143 billion euros, with public subsidies to support the renovation of buildings available through specific measures, namely those included in the RRP - *Recovery and Resilience Plan*<sup>9</sup>.

According to the *World Green Building Council - WGBC* ([worldgbc.org](http://worldgbc.org)), buildings are responsible for 39% of global energy-related carbon emissions, of which 28% as a result of the energy consumed in the use of the building (heating, cooling and electrical energy) and the remaining 11% result from the ecological footprint of materials and construction.

Thus, one of the biggest challenges currently facing the valuation sector is to quantify and integrate new factors that determine value by adapting existing approaches and methods, specifically ESG (Environmental, Social and Governance) factors and in particular the environmental (E) factor, which relates to the energy performance of the building throughout its life cycle.

The decarbonisation of the real estate sector, according to the report *Net Zero by 2050 - A Roadmap for the Global Energy Sector* of the *International Energy Agency - IEA*, will be based on the electrification and energy efficiency of buildings and also on the change of consumption behaviours by users, aiming to reach carbon neutrality in 2050. Figure 1 shows the expected evolution of the distribution of CO2 emissions by sector, according to the implemented emission reduction measures. The emissions will have a more accentuated fall in the energy sector, with the real estate, transport and industry sectors having a smoother decline over time.

<sup>9</sup> [https://www.portugal2020.pt/sites/default/files/planoderecuperacaoeresiliencia\\_consultapublica.pdf](https://www.portugal2020.pt/sites/default/files/planoderecuperacaoeresiliencia_consultapublica.pdf)

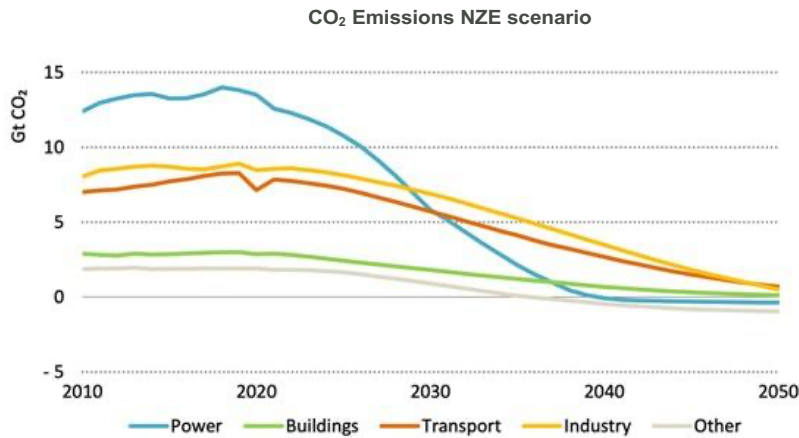


Figure 1 - CO2 emissions by sector in the zero emissions scenario - NZE. Source: NetZero by 2050, International Energy Agency - IEA <sup>10</sup>

The emission reduction strategy in the real estate sector, with the aim of achieving carbon neutrality in 2050, presents the following time reference points, as illustrated in Figure 2:

- 2025 - end of sales of fossil fuel boilers;
- 2030 - universal energy access; all new buildings are zero carbon buildings; 40% drop in emissions by this date; 20% of housing stock is renovated;
- 2035 - most household appliances and cooling systems sold have maximum energy ratings;
- 2040 - 50% of renovated buildings are zero carbon;
- 2050 - Over 85% of buildings are zero carbon buildings; over 95% emissions fall by this date; 66% of energy supplied to buildings is electric; use of natural gas for heating falls 98% by this date.

<sup>10</sup> [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

Key milestones in the pathway to net zero

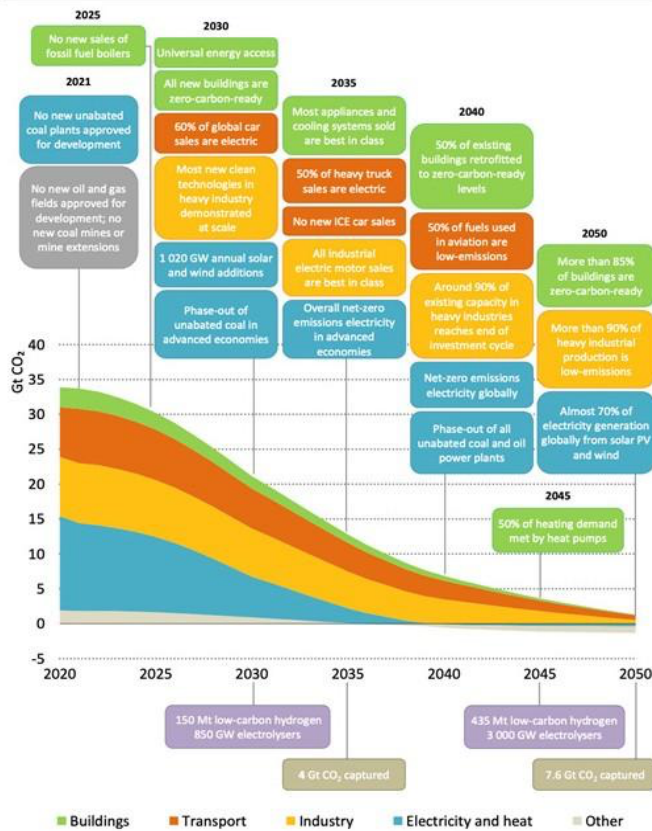


Figure 2 - Reference dates on the pathway to zero emissions. Source: NetZero by 2050, International Energy Agency - IEA11

11 [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf)

According to *the Direção Geral de Energia e Geologia - DGEG*, “Europe has a built stock of around 25 billion m<sup>2</sup> of useful floor area, of which around 25% is for non-residential use. The buildings sector in Europe consumes about 40% of the energy needs - the largest share among all sectors - 27% are residential buildings and 13% are services buildings. Buildings are also responsible for 36% of carbon dioxide (CO<sub>2</sub>) emissions. The energy efficiency of buildings is therefore a central element of the European Union's energy efficiency policy”<sup>12</sup>. The environmental certification of buildings aims to assess the environmental impacts of the building and to try to quantify the impact that buildings have on the environment, not only in their design phase, but also in their construction phase, in their operation and use and at their life end, i.e. throughout the entire life cycle. There are around 30 “green”, environmental or energy efficiency certification systems for buildings around the world whose objective is to attribute a rating, that is, to categorise the building's environmental performance. These certification systems are very much aimed at new buildings or buildings that have undergone a major renovation. Currently in Portugal, the Energy Certificate (EC) is required, which is issued by an expert registered with the Energy Agency (ADENE) - the public body which regulates energy certification of buildings (SCE), with no other environmental certification being required.

About EPBD directive ADENE states that “The transposition of the European Directive on *Energy Performance of Buildings - EPBD* to the Portuguese legislation, in 2006, introduced important changes regarding the energy performance of buildings in Portugal, being especially relevant the obligation to issue an energy certificate that assigns an energy class to buildings on a scale ranging from A+ (very efficient) to F (poorly efficient), “as a function of the ratio of primary energy consumption for the regulated uses, taking into account the contribution of renewable energy sources, between the planned and reference buildings, expressed through an indicator of annual primary energy per unit of useful indoor floor area. For this purpose, the energy needs are determined considering reference conditions in order to guarantee the indoor air quality, thermal comfort and health of the spaces”.<sup>13</sup>

However, environmental certifications aim to go further than the EC since they take into account the complete life cycle of the building, from the extraction of raw materials, to transportation, through construction, use and maintenance ending with recycling, reuse or treatment of construction waste, also including parameters of health and well-being of building users (such as those concerning indoor air quality and pollutants, for example). Each certification system (LEED, VERDE, DGNB, BREEAM, HPIU, LEVELS, among others) has its own methodology, varying also the scopes of interest and the relative importance of each item, being the classification or rating scale of each one also different. These tools allow for analyses of operating costs in use, occupancy rates of rented properties, environmental costs related to the entire life cycle of the property, allowing for much more in-depth analyses than those based only on the property's EC.

<sup>12</sup> <https://www.dgeg.gov.pt/en/areas-sectoriais/energia/eficiencia-energetica/diretiva-do-des-performance-energetico-dos-edificios/diretiva-dos-edificios/>

<sup>13</sup> SCE Manual - ADENE, Order No. 6476-H/2021, 1 July. <https://www.sce.pt/wp-content/uploads/2021/07/Manual-SCE.pdf>

The EPBD directive was amended in 2018 by Directive (EU) 2018/844 of the European Parliament and of the Council to accelerate the renovation of buildings in the Union, including accelerating the renovation of existing buildings by 2050 and supporting the modernisation of all buildings with smart technologies and a clearer connection to clean mobility. The EPBD is again under revision<sup>14</sup> (until 11 February 2022 in Comment Period), with a view to incorporating the strategy arising from the Renovation Wave which, according to the European Commission, “contains an action plan comprising: i) regulatory, financial and enabling measures and ii) the goal of at least doubling the annual energy renovation rate of buildings by 2030.”, focusing on key provisions to drive the renovation of buildings, being expected that there will be new legal requirements aimed at reducing carbon emissions and meeting the 2030 and 2050 targets for the construction sector. According to reports and positions issued by various bodies working in the area of sustainability in construction at an European level, namely the *Buildings Performance Institute Europe* (BPIE)<sup>15</sup>, the review of the EPBD should be used to update and articulate EU legislation in order to speed up the implementation of the measures contained in the directive, responding not only to climate but also to societal challenges, namely energy poverty, and to extend the analysis of carbon emissions to the entire life cycle of buildings, from extraction of materials to demolition waste and recycling of materials.

Another hot topic in the area of property valuation and therefore frequently addressed in articles, books, discussion forums, webinars and conferences, concerns the viability and reliability of Automated Valuation Models (AVM) and whether their use is consistent with valuations performed in compliance with Valuation Standards. Another aspect to be discussed has to do with the reliability of AVM models in a transition phase in property valuation, in which the incorporation of ESG factors is still at an embryonic stage, since AVM models depend on the constant feeding of the algorithm with large amounts of information from comparable properties, something that makes the use of AVMs unfeasible at this stage.

The recurring discussion regarding AVMs concerns, firstly, the disclosure of the calculation algorithm by the software supplier, since most AVM software is “closed in itself” to avoid copies of the algorithm that supports it, leading, in a second level, to the issue of compliance with the valuation standards, since the valuer does not know or master the calculation procedures underlying the algorithm of the AVM model that is being applied. On the other hand, questions arise as to the quality, reliability and usability of the databases that support the estimation of the value and also their constant need for the addition of updated information, the criteria for the selection of comparable properties and the homogenisation of the features of the comparable properties.

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<sup>14</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12910-Energy-efficiency-Revision-of-the-Energy-Performance-of-Buildings-Directive\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12910-Energy-efficiency-Revision-of-the-Energy-Performance-of-Buildings-Directive_en)

<sup>15</sup> [https://www.bpie.eu/wp-content/uploads/2021/08/BPIE\\_Making-EPBD-fit-for-2030\\_Final.pdf](https://www.bpie.eu/wp-content/uploads/2021/08/BPIE_Making-EPBD-fit-for-2030_Final.pdf)

According to the above and the current global environment, the most pressing issues at present that may have serious implications for property valuation standards, and may even lead to changes or revisions, are:

- the incorporation of ESG factors in the formation of property values;
- the opportunities and limitations of using AVM - Automated Valuation Models.



## 2. EUROPEAN VALUATION STANDARDS (EVS) - TEGOVA



### 2.1 FRAMEWORK

The European Group of Valuers' Associations (TEGOVA) is composed, according to its official website - [www.tegova.org](http://www.tegova.org) - of a group of 70 national associations of valuers from 38 different countries, representing approximately 70,000 qualified valuers (working individually or under contract for specialist consultancies, public sector companies, government agencies or financial institutions, locally or internationally). It is responsible for the publication of the European valuation Standards - EVS since the early 1980s. Formerly known as TEGOVOFA (The European Group of Fixed Assets - published its first edition of Guidance Notes on property valuation in 1977) and EUROVAL, the designation TEGOVA was adopted in June 1997 and has remained in use to the present day. Figure 3 shows the key moments of TEGOVA and the publication of the EVS.



Figure 3 - TEGOVA time bar. Source: Prepared by the authors

According to TEGOVA, "The main objective of TEGOVA consists of the creation and spreading of harmonised standards for valuation practice, for education and qualification as well as for corporate governance and ethics for valuers." In another area of the TEGOVA's website it is stated that "The main goal of TEGOVA consists of the scientific and educational promotion of the profession of valuer and the harmonisation of European valuation standards."

In addition to the EVS standards related to property valuation that it has been publishing for the past four decades, TEGOVA has recently published the *European Business Valuation Standards - EBVS 2020*, being in its final phase of implementation, with publication date scheduled for the Spring General assembly of 2022, the *Plant, Machinery and Equipment Valuation Standards - EVS PME*. In order to make up for the lack of standardisation in valuation in specific areas, TEGOVA is discussing the creation of a European Standard for the Valuation of Rural Property.

The theme European Union Legislation and Property Valuation introduced in the 2012 edition (the 7<sup>th</sup> edition of the EVS) - at the time it was in Chapter 2, currently in Chapter VII -, evidences the close relationship that EVS has been maintaining with European legislation, transposing concepts and adapting and reformulating the valuation standards in accordance with the constant European legislative changes. It should be noted that the EVS standards have a European scope of application, contrary to the other international standards, such as the RICS or IVS, which have a global scope, having as a basic principle the constant adaptation and adequacy to the European legislative context and market.

The proliferation of robust and adequate valuation standards for each member of the EU is beneficial to the European authorities. This implies a rapid adaptation of the standards to the frequent developments in European legislation, with the financial area being one of the most fruitful recently in terms of regulation, specifically in banking supervision.

The first reference to EVS in EU legislation occurs in the EU Mortgage Credit Directive published on 04 February 2014 and whose transposition into member states' legislations took place in March 2016. In the preface of the 9<sup>th</sup> EVS edition dated 2016, Krzysztof Grzesik, chairman of TEGOVA, states that this moment was fundamental for the valuation profession: the publication of an article (and respective Recital) on property valuation in the EU Mortgage Credit Directive, which introduced EVS in the European legislation as internationally recognised valuation standards, serving as a model for the valuation standards in the member states, also recognising the importance of valuation for the stability of the financial and real estate markets and in consumer protection.

In the preface of EVS 2020<sup>16</sup> reference is made to the confirmation of the European authorities' reliance on EVS standards which, according to point 5, *Collateral and real estate valuation of the Asset Quality Review Manual* issued by the European Central Bank (ECB, 2018), take precedence over other international standards. Also, in the press release produced by TEGOVA regarding the launch of EVS 2020, the European valuation Standards are cited in the EU Mortgage Credit Directive as reliable standards for the valuation of residential real estate for mortgage credit purposes, being preferred over all other standards.

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<sup>16</sup> <https://tegovalogic.org/static/1a3ffa1d9dadb9492cf6e4fd8090796/EN.pdf>

## 2.2 GOVERNANCE STRUCTURE

TEGOVA's governance structure is presented below and is summarised in Figure 4:

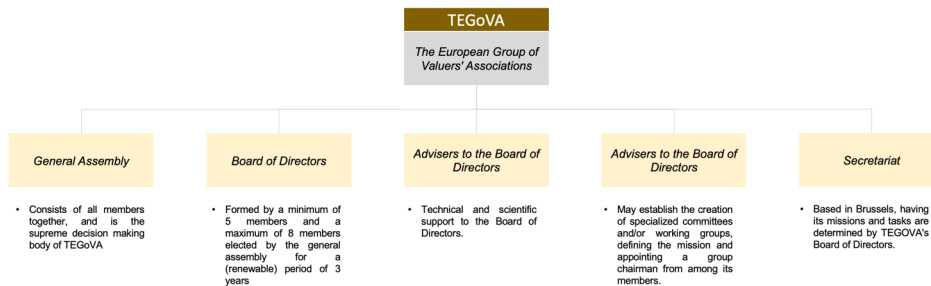


Figure 4 - TEGOVA Governance Structure. Source: Prepared by the authors.

**General Assembly** - formed by all members, it is the supreme decision-making body of TEGOVA, and the Chairman of the Board of Directors presides the general assemblies. TEGOVA meets in a general assembly twice a year, in the Spring Assembly and in the Autumn Assembly. During the General Assemblies there is also a scientific valuation conference, where current valuation-related topics are addressed.

**Board of Directors** - composed of a minimum of 5 and a maximum of 8 members elected by the general assembly for a (renewable) term of office of 3 years. The Chairman of the Board of Directors is elected by the Board of Directors following its election by the general assembly for the same period, also renewable.

**Advisers to the Board of Directors** - their role is to provide technical and scientific support to the Board of Directors.

**Advisory Committees & Working Groups** - the Board of Directors may establish the creation of specialised committees and/or working groups, defining its mission and appointing a Chairman of the group from among its members. Currently the following are established:

- **European valuation Standards Board (EVSBS)**. TEGOVA's EVSBS is the board for the preparation and constant update of standards, guidance notes, codes and technical documents, in order to adapt them to the current reality and circumstances, so as to reinforce good practices, quality and accuracy of valuations, paying particular attention to compatibility with European regulations. The EVSBS also has as mission to advise TEGOVA about the publicity and dissemination of EVS standards, the advice to the European authorities and the maintenance of institutional relations between TEGOVA and other standards issuing bodies, such as RICS and IVSC;
- **European valuation Practice and Methodology Board (EVPMB)**. The EVPMB is a technical body whose mission is to develop a harmonised European approach to valuation methodologies. Its tasks are to review, update and develop the valuation methodologies defined in the EVS and to respond to emerging issues related to valuation methodologies;
- **Recognition Committee**. The Recognition Committee is appointed and supervised by the TEGOVA Board of Directors and was specifically set up to monitor the Recognised European Valuer (REV) and TEGOVA Residential Valuer (TRV) recognition and their recognition associations (AMA and R-AMA);
- **European valuation Qualifications Board (EVQB)**. The EVQB has the mission of promoting, disseminating and overseeing the REV and TRV programmes, and is also responsible for updating and reviewing the assumptions related to TEGOVA international recognitions, managing complaints to the Recognition Board from AMA or R-AMA associations, managing the relationship with academia, assisting members in the provision of training and CPD, and developing certifications or qualification programmes in specialised areas or sectors;
- **European Business Valuation Standards Board (EBVSB)**. The EBVSB is a technical body whose mission is to develop the European Business Valuation Standards, a publication that is independent from the EVS, not part of the Blue Book. It is TEGOVA's understanding that property valuation and business valuation, although related in many aspects, require distinct knowledge, experience and skills.

**Secretariat** - the secretariat is based in Brussels and its missions and tasks are determined by TEGOVA's Board of Directors.

### 2.3 TEGOVA INTERNATIONAL RECOGNITIONS - REV AND TRV



Regarding international accreditations, TEGOVA grants, through its AMA (Awarding Member Association) associations - AMA (TEGOVA Awarding Member Association) or Residential Awarding Member Association (R-AMA), in the case of associations that are only qualified to grant TRV certification, the titles of Recognised European Valuer - REV and TEGOVA Residential Valuer - TRV, recognitions that aim to assure the valuers' contractors, especially from other countries in the case of the REV valuers, of their competence, knowledge, qualifications and professional experience, of the compliance with the EVS standards and the respective Codes of Conduct and Minimum Education Requirements (MER), in addition to a constant updating and recycling of knowledge, according to the requirements defined for *Continuous Professional Development* (CPD) by TEGOVA.

In EVS 3 - The Qualified Valuer, it is stated that "A valuation must be undertaken by a Qualified Valuer delivering the professional skills, knowledge, competence and independence consistent with the requirements of EVS including the European Valuers' Code of Conduct", highlighting that valuations performed in compliance with the education, professional skills, technical knowledge, competence and independence requirements of the EVS standards result in quality valuations.

The TEGOVA European Valuation Qualifications Board (EVQB) is in charge of the promotion, coordination and supervision of the attribution processes of the international certifications. The Recognition Committee of TEGOVA is the committee responsible for auditing the AMA and R-AMA associations and for supervising and approving AMA and R-AMA applications.

In order to obtain REV and TRV recognitions, a competent and independent jury will be constituted, composed by elements of recognised knowledge and professional or academic competence in the area of valuation, having the expert valuers to prove their competences and professional experience (in order to apply for the recognitions the experts have to prove they have the MER for REV or TRV as defined by the AMA or R-AMA valuers association). They are subsequently submitted to written and oral exams that deal with the contents of the EVS, more specifically those included in the Syllabus defined by the AMA member association for which the expert is applying for REV or TRV certification. REV and TRV certifications are valid for 5 years, during which the valuer will have to undertake training and knowledge recycling courses, according to the CPD. At the end of the 5-year period REV and TRV certifications must be renewed.

REV and TRV certifications aim to recognise professional qualifications and guarantee the use of the same principles, approaches and methodologies by valuers in the European countries, contributing to the free circulation (internationalisation) of the valuation practice among European professionals.

## 2.4 EVS 2020

*“Valuation practice is the conciliation of a paradox: deriving value from hard evidence while also identifying market phenomena with a lasting impact on value.”*

*[Krzysztof Grzesik, introduction of EVS 2020]*

### 2.4.1 EVS 2020 FRAMEWORK

The European valuation Standards - EVS 2020 or European valuation Standards (TEGOVA, 2020), also known as “The Blue Book”, corresponds to the 9<sup>th</sup> edition of the European valuation Standards that The European Group of Valuers' Associations – TEGOVA<sup>17</sup> has been publishing since the early 80's and its application became effective as of 1 January 2021. According to Michael Reinberg, at the time Chairman of TEGOVA's European valuation Standards Board - EVSB, in the introduction of the document, EVS 2020 was developed with the aim of providing relevant and easily understandable standards for valuers, clients and public entities, and all its sections have been revised and new content added following that principle. Michael Reinberg also states that the professionals responsible for carrying out valuations should be aware of the real added value that quality valuations bring to markets and society and that they should imbue their clients and public authorities with the importance of knowing how the valuer has determined the valuation figure.

TEGOVA's Chairman, *Krzysztof Grzesik*, noted in an interview at the time of the publication of the EVS 2020 that “the EVS were developed in line with the EU legal order and 2020 was the year the Union set the goal of carbon neutrality by 2050 and a 55% reduction in Greenhouse Gas (GHG) emissions by 2030. The fact that buildings account for 36% of the European Union's GHG emissions has led to EU mandated long-term national renovation strategies, several of which contain legal obligations to renovate buildings to higher levels of energy efficiency by a fixed date or at a certain tipping point (e.g. when renting, selling) creating an inevitable impact on property value.”

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<sup>17</sup> European Group of Valuers' Associations.

About the objectives of the EVS 2020, in the preface of the EVS 2020, TEGOVA's Chairman states that "A key purpose of valuation standards is to alert valuers to change and provide them with the tools for integrating it into their determination of value. Mirroring this, EVS 2020 is both a continuation and a disruption". Disruptive is also the new European legislation regarding the real estate sector, being expected in the short term the incorporation of sustainability factors in property value formation, a recurring theme in EVS 2020. However, despite warning about the responsibility of valuers in the constant updating of knowledge and sensitivity to emerging factors in the valuation, EVS 2020 does not yet define guidance for the incorporation and measurement of the referred E factor in valuations, and the emphasis given to environmental factors in this version of the EVS results from delays in the publication of the standards due to the COVID-19 pandemic and from European regulatory determinations, published in the meantime.

To fill this gap, a working sub-group is currently being set up by the EVSB to produce Guidance Notes for EVS 6 which will be published as soon as possible in order to address the lack of practical guidance for the incorporation of environmental factors in the valuation.

#### 2.4.2 EVS 2020 STRUCTURE

The Blue Book is divided into 7 chapters, the first of which is devoted to the European valuation Standards (EVS) and Guidance Notes (EVGN):



Comentado [UdM01]: Traduzir quadro

Figure 5 - Structure Chapter I of the EVS. Source: Prepared by the authors

#### EVS 1 - MARKET VALUE

Establishes the definition of Market Value and Market Rent and its scope and application assumptions.

Given the multiplicity of definitions adopted in the activity, the goal is to have a uniform concept applicable to most property valuation work, generally accepted by all entities with an interest in the valuation area.

#### **EVS 2 - VALUATION BASES OTHER THAN MARKET VALUE**

Defines, explains and characterises the bases of value that are different from the Market Value, so that the Valuer understands what distinguishes them, as well as the effects that these differences have on the valuation methods used and the results obtained.

#### **EVS 3 - THE QUALIFIED VALUER**

Identifies and establishes the minimum training requirements in order to guarantee that the Expert Valuer holds the qualifications, capacity and the experience necessary to carry out the activity of Expert Valuer.

#### **EVS 4 - THE VALUATION PROCESS**

The valuation of a property is a process that begins with the client's valuation request and ends with the delivery of the valuation report. This standard establishes all the phases that the qualified expert valuer must go through in the process of preparing the valuation report.

#### **EVS 5 - REPORTING THE VALUATION**

The purpose of the standard is to establish the rules for the presentation of the valuation report, in which the qualified Valuer transmits the result of the valuation process and his professional opinion of the value, duly substantiated.

#### **EVS 6 - VALUATION AND ENERGY EFFICIENCY**

Incorporation in the formation of the Market Value of the impact of regulatory impositions regarding the energy performance of buildings and associated climate risks.

The second chapter of the EVS is dedicated to *Valuation Methodologies*, chapter III exclusively dedicated to *Valuation and Sustainability*, chapter IV to *European valuation Information Papers (EVIP)*, chapter V to the *European Code of Measurement, Education and Qualifications*, chapter VI to the *European Valuers' Code of Conduct* and chapter VII to *European Union Legislation and Property Valuation*.



Comentado [UdMO2]: traduzir

Figure 6:: EVS structure (Chapters II to VII). Source: Prepared by the authors

For a deeper understanding of the EVS 2020 standards we recommend, in addition to reading the referred standards, the book *European Valuation Standards 2020 – Guia Interpretativo*, published by ANAI and available for download at [www.high-value.pt](http://www.high-value.pt).

### 2.4.3 EVS 2020 MAIN CHANGES

The **main novelties and changes that the EVS 2020** constitute in relation to the previous edition, the EVS 2016 (8<sup>th</sup> edition of the EVS) are listed below:

- **Redefinition of the Market Value concept.** EVS 2020 dedicates EVS 1 - Market Value to the Market Value in line with the definition set forth in the Capital Requirements Regulation of the European Banking Authority<sup>18</sup> - EBA (European Banking Authority), in order to bring EVS 1 closer to the language in the European regulations and to eliminate the linguistic inconsistencies resulting from the translations into the different European Union languages of the definition of market value set forth in the EVS 2016, namely the expression “in an arm’s length transaction” whose translation into the different European languages caused different interpretations. Market value is the basic concept for determining value under the EVS;
- **Introduction of the Highest and Best Use concept - HABU in EVS 1 - Market Value.** EVS 2020 no longer makes reference to “Hope Value”, introducing the concept of Highest and Best Use - HABU, considering that this concept is intrinsic to Market Value and consists in considering for valuation purposes the most probable use, physically and legally possible (or which is likely to be) and which results in the highest value at the date of valuation;

<sup>18</sup> <https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/504>

- **Definition of a common European valuation Report template for residential property.** Following EVS 5 - Reporting the Valuation, the EVS Valuation Report for Residential Property annex is new in the 2020 version of the EVS, establishing a basic structure of the valuation report for residential property and the mandatory contents and information to be incorporated. The implementation of a common model is important for transparency and ease of reading by all interveners in the valuation process, increasing the degree of comparability of valuation reports made by different valuers, for different contracting entities and for different end users, regardless of geographical location (in the European context). In Portugal, the content and structure of the valuation reports are defined, for the scope of valuations for entities of the national financial system, in Law 153/2015, not addressing, in comparison with the model proposed in the EVS, issues such as the terms of engagement and any special assumptions made in the valuation;
- **Creation of a new standard, EVS 6, on Valuation and Energy Efficiency**, whose goal is to reflect in the Market Value the impact of national regulatory impositions on the energy performance of buildings. Regarding the valuation of energy efficiency, the Chairman of TEGOVA, states that:

*“Accordingly, EVS 2020 upgrades energy efficiency valuation to Standard status and advises valuers to integrate these costs into their determination of Market Value. It is only the beginning of a complex valuation process, but it is a radical change for a necessarily conservative profession. We have a duty not to politicise the value determination process, but if in three years’ time the energy rating on your building literally takes you off the market, you have a valuation problem.”*<sup>19</sup>
- **Revision and reorganisation of the Guidance Notes, European Codes and Information Papers**, giving emphasis to relevant themes in the current valuation reality such as portfolio valuation with the alteration of EVGN 1 - *Portfolio Valuation*, the alteration of EVIP 1 - *Sustainability and Valuation* to EVIP 1 – *The Impact of the Energy Performance of Buildings Directive on Property Valuation* and the creation of a new chapter dedicated to sustainability - Part III. *Valuation and Sustainability*;

<sup>19</sup> Regulatory impositions arising from the Long-term Strategy for the Renewal of Buildings published in the Resolution of the Council of Ministers No. 8-A/2021, of 3 February as a result of the transposition of Directive (EU) 2018/844 of the European Parliament and of the Council, of 30 May 2018, on the energy performance of buildings - EPBD (Energy Performance of Buildings Directive)

- **Definition of the scope of application of Automated Valuation Models - AVM** in property valuation in line with the guidelines established by the European Banking Authority - EBA. It is established in EVIP 7 - Advanced Statistical Models of EVS 2020 the conditions for the use of AVM models in valuation;
- **Introduction of chapter II - Valuation Methodology** (in the EVS 2016 this subject was only analysed in EVIP 5 - Valuation Methodology), discussing in depth the valuation approaches, methods and models, not imposing, however, the use of any specific methodology, leaving it up to the valuer to select the appropriate to the property under valuation approaches, methods and models and its context and also the objective and nature of the valuation;
- **EVS increasingly aligned with the European Union Legislation.** The 2020 edition of the EVS includes a comprehensive approach to the European legislation and policies related to real estate and property valuation, using definitions and concepts in accordance with EU legislation and policies, relevant both to valuers and other players in the real estate market such as buyers, tenants, financial entities, real estate agents and others, as well as to European and national supervisory authorities, policy makers and academics. Very important in this respect, and once again related to the E (Environmental) factor, will be the legislation applicable to each member state produced based on the Energy Performance of Buildings Directive (EPBD), in particular the Long Term Renovation Strategy - LTRS) that each member state will have to define and implement in order to comply with the CO emission reduction targets for the 2030 and 2050 deadlines, which will impose deep changes in the construction sector, implying huge repercussions in the value of property. There is also a strong focus on the impacts of EU legislation on real estate markets and valuation, listing the different European regulations and directives and separating them into five main themes: EU internal market; health and safety; energy; environment; common agricultural policy.

#### 2.4.4 EVS 2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS

ESG (Environmental, Social and Governance) factors are used to determine the impact of policies and practices of companies and other entities regarding environmental, social, ethical and financial factors and attractiveness to investors. The E (Environmental) factor relates, in the real estate sector, to the energy sustainability of buildings and assumes great prominence in the EVS 2020, being considered highly relevant in determining the property value.

Associated to ESG factors emerges Corporate Social Responsibility (CSR) that has been emphasizing the environmental concerns of companies that intend to demonstrate to their clients, competitors and the market in general their environmental concerns, which include minimizing the environmental footprint of their buildings, also revealing concerns with the internal environment of their work spaces, namely with regard to aspects of indoor air quality, thermal, acoustic and lighting (regarding natural and artificial lighting) comfort and also with regard to minimising pollutant emissions resulting from their activity. This factor also has an influence on the property value, as a property with a certain environmental certification may be valued or appreciated, while a similar property that does not have requirements that guarantee environmental certification may be depreciated. The rise or depreciation may also be verified in respect of the classification of the energy certificate or other environmental certification that two properties in comparison possess.

The previous edition of EVS dedicated EVGN 8 - *Property Valuation and Energy Efficiency* and EVIP 1 - *Sustainability and Valuation* to the theme of Sustainability and Energy Performance of buildings and its relation with valuation, based on the EPBD 2010/31/EU, giving relevance to the need to reduce the energy consumption of buildings - responsible for a large share of energy consumption and greenhouse gas emissions -, on the Energy Certificate of the property and the concept of Major Renovation, with the owner deciding whether or not to renovate the property, there being no regulatory imposition that would require energy renovation of the property, except in the case of a deep intervention, the greatest obligation being the issuance of an Energy Performance Certificate (EPB), in the case of a new lease or ownership transfer, with a common feeling among real estate market players that the intrinsic value of sustainability was not reflected in market values, that is, that the market did not value the sustainability component positively or negatively.

The introduction of the new standard EVS6 - *Valuation and Energy Efficiency*, Chapter III - *Valuation and Sustainability* and EVIP1 - *The Impact of the Energy Performance of Buildings Directive on Property Valuation*, new features in the 2020 version of EVS, reflects in the European Valuation Standards the paradigm shift that is taking place in the European Union regarding the requirements in terms of energy performance throughout the life cycle, moving towards zero energy balance buildings (all new buildings from 2020 should be NZEBs) and towards mandatory energy rehabilitation interventions of buildings in the case of major renovations<sup>20</sup> or change of

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<sup>20</sup> The directive sets out two options for defining Major Renewal, allowing member states to choose between them:

- a) The total cost of renovation related to the building envelope or technical building systems is more than 25% of the value of the building, excluding the value of the land on which it is located;
- b) More than 25% of the surface of the building envelope is renovated.

In Portugal, Article 3(a) of Decree-Law 101-D/2020, of 7 December, defines major renovation as "the renovation of a building in which the estimated total cost of the work, including all the renovated units, where applicable, related to the components, is greater than 25% of the value of the building as a whole, for which purpose the average construction value per square metre for the purposes of Articles 39 and 62 of the Municipal Property Tax Code shall be considered.

tenant, in the case of rental properties, also denoting the growing importance that has been attributed to the commitment made by the European Union to effectively reduce carbon emissions in national and European legislation arising from the EU EPBD directive, it can even be said that we are facing a “game changer”, such will be the extent of the implications that this new regulations will have in the real estate sector and, consequently, in property valuation.

The current edition of the EVS refers to the need to incorporate sustainability as a variable to be taken into account in the property value composition model. Considering that the formation of property value results from the relative weight that market players attribute to the various tangible and intangible characteristics of the properties, it would be expected that valuers would be tempted to wait for the referred market sentiment regarding the sustainability component to emerge naturally, i.e. that the adaptation of the models for assessing value would result from the passage of time, as has historically been the case for all the variables that make up the property value at a given moment in time.

However, it is expected that in this case the transition will be made with high speed due to the weight already exerted by the sustainable financing obligations that the EBA imposed on banks, the obligation for all new buildings to be NZEB (Nearly Zero Energy Building) - maintaining the obligation to improve the energy rating in used properties in the case of major renovations - and the inflection points arising from the EPBD-based legislation (i.e. change of tenant or sale of the property) that will occur in the life of the properties and will enforce their owners to carry out a relevant intervention with a Major Cost and that will improve the EPC classification of the property, in order to comply with the regulations currently in force or others even more incisive regarding the improvement of the energy performance of the properties that may be implemented.

It is worth mentioning, regarding the market sentiment on the E factor, in two studies ('ESG Guide for occupiers: Environmental, Social and Governance Agenda in Property Occupancy' and 'ESG & Real Estate: 10 key facts investors need to know'), recently published by real estate consultancy CBRE on ESG - Environmental, Social and Governance - factors, that a large percentage of investors - 83% - anticipate an increase in tenant demand for sustainable buildings and that over 54% intend to change their portfolio strategy to ESG, denoting the recognition of these factors as determinants of property value. This shows that “investors are beginning to incorporate ESG considerations at all stages of the property lifecycle, from due diligence to acquisitions, and from leasing to asset management”.

In relation to market sentiment on ESG factors, it is noted that the gap between green bonus and brown discount is widening: “While carbon reduction efforts may not generate higher investment returns, they will play an important role in preserving asset value as occupiers increasingly avoid properties with sub-standard environmental performance. ‘Green leases’ between landlords and tenants to meet certain environmental objectives will become a more common tool for investors to monitor and drive the environmental performance of their property assets.”

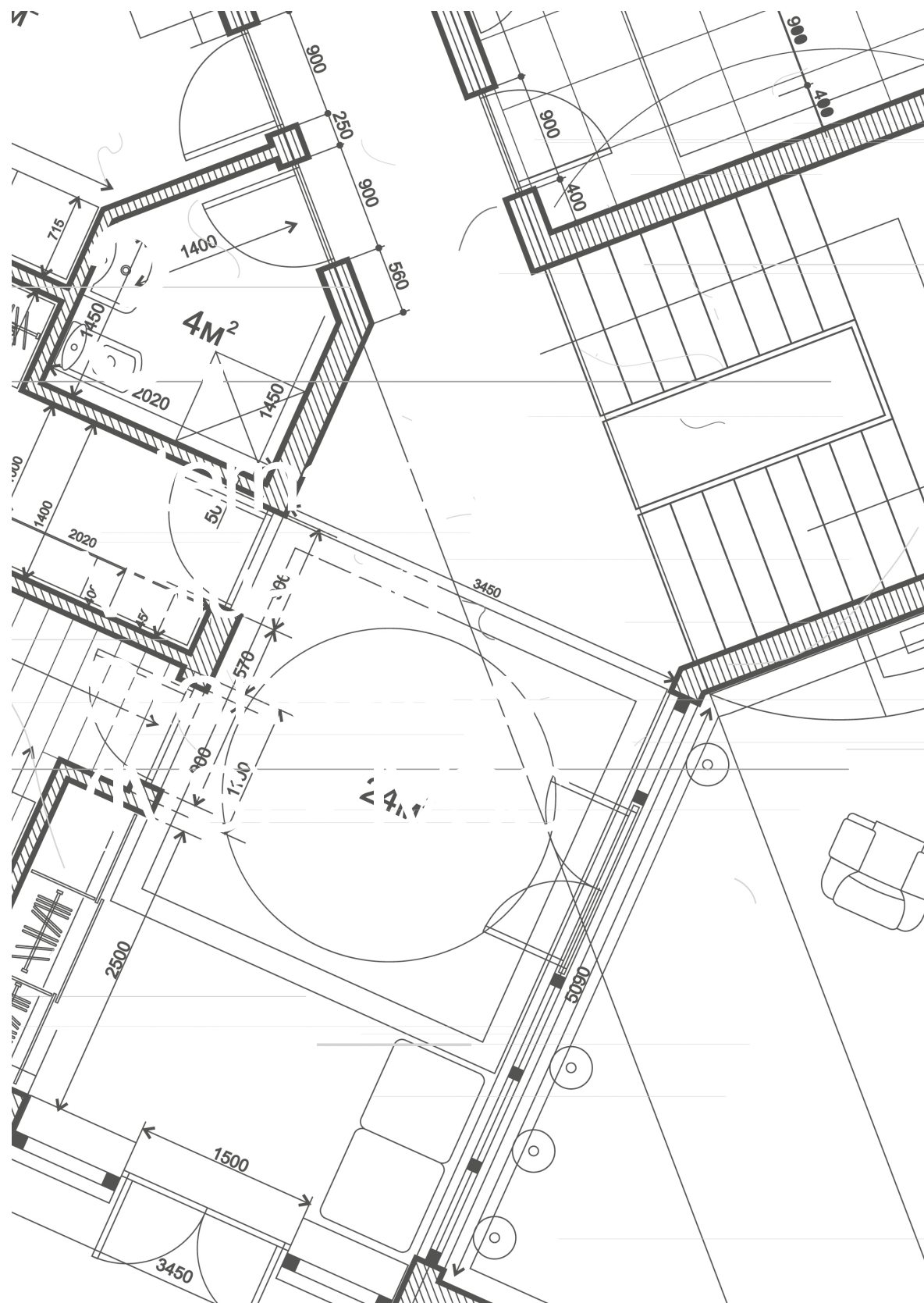
According to the studies presented by CBRE, there is sufficient evidence that buildings with better energy performance generate higher incomes than properties with poor energy performance, indicating considerable potential for a 'brown discount' and that green buildings have the potential to generate higher rents and capital values, incurring lower monthly operating and maintenance costs<sup>21</sup>.

Transposing what was referred to above to property valuation, an increase in value will certainly be attributed to the real estate with the best energy performance, while the real estate with low energy performance will be penalised. It may reach the point where a real property that does not comply with the energy performance requirements or that has a high climatic risk will be highly depreciated, losing all or almost all of its market value. Another increased risk factor consists in the high difficulty or even impossibility of establishing an insurance contract for a property with low energy performance and/or high climate risk. Also, in the EVS 2020 is given enormous relevance to the use of updated Energy Performance Certificates (EPC), reliable and valid and also the reports on the technical systems of the property as crucial documents to be consulted by the valuer in the valuation process. From this it can be inferred that the energy performance of the building will constitute a fundamental factor in the formation of the property value, and the valuers should incorporate it in the property valuation process.

#### 2.4.5 EVS 2020 AUTOMATED VALUATION MODELS (AVM)

EVS 2020 defines the scope of application of Advanced Statistical Models in property valuation, in line with the guidelines established by the *European Banking Authority* - EBA. EVIP 7 - *Advanced Statistical Models* of EVS 2020 establishes the conditions for the use of AVM models in valuation, based on the assumptions that an estimate of value obtained from an AVM model cannot be considered a valuation since the value obtained does not correspond to a Market Value according to the terms defined by EVS 1 and that a valuation for mortgage lending purposes for financial institutions must be performed by an internal or external appraisal expert and interior and exterior inspection of the property must be performed. However, the EVS 2020, in line with the EBA Guidelines on loan origination and monitoring (EBA, 2020), AVM models can be used in residential valuations in mature and transparent markets by internal or external valuers, with the caveat that the responsibility remains with the valuer. Thus, the AVM models are only a support tool for the valuation and do not replace the valuer, the confidence interval presented by the model being very important and the valuer must be familiar with the information (inputs) that feeds the model, but also with the algorithm that makes it up, on the basis of being able to defend the valuation value in case of contest. The EBA also refers in article 225 to the issue of periodic revaluations of real estate given as collateral in a financial transaction, a situation in which the valuer may use advanced statistical models, and financial institutions should not use AVM models by themselves as the only means of valuation, foregoing the intervention of a qualified valuer.

<sup>21</sup> <https://executivedigest.sapo.pt/mais-de-80-dos-investidores-espera-uma-procura-crescente-por-edificios-sustentaveis/>



## 3. INTERNATIONAL VALUATION STANDARDS (IVS) - IVSC



### 3.1 FRAMEWORK

The IVSC was founded in Melbourne, Australia, as The International Assets Valuation Standards Committee (TIAVSC) by 20 national professional valuation organisations. Today, the IVSC comprises over 170 member organisations and the IVS are referenced and used by valuers in over 100 countries.



Figure 7 - IVSC timeline bar. Source: Prepared by the authors.

The IVSC originated from The International Assets Valuation Standards Committee (TIAVSC), formed in 1981 with the aim of developing internationally consistent standards. The founding members were professional institutes in the field of property valuation. The TIAVSC changed its name in 1994 to the International Valuation Standards Committee and, from the late 1990s, included member organisations from other areas.

Following a restructuring of the organisation in 2008, its name was changed again, to the current one, International Valuation Standards Council (IVSC). By 2019, the IVSC had more than 120 member organisations worldwide. The member organisations accredit and regulate the conduct of individual valuers who specialise in the valuation of many different types of assets and liabilities, such as real estate, intangible assets, equipment and financial instruments.

IVSC, according to itself, has as its mission the development of consistent International Valuation Standards, with quality, in order to globalise the valuation practice.

Currently the governing structure of the IVSC is structured as follows:

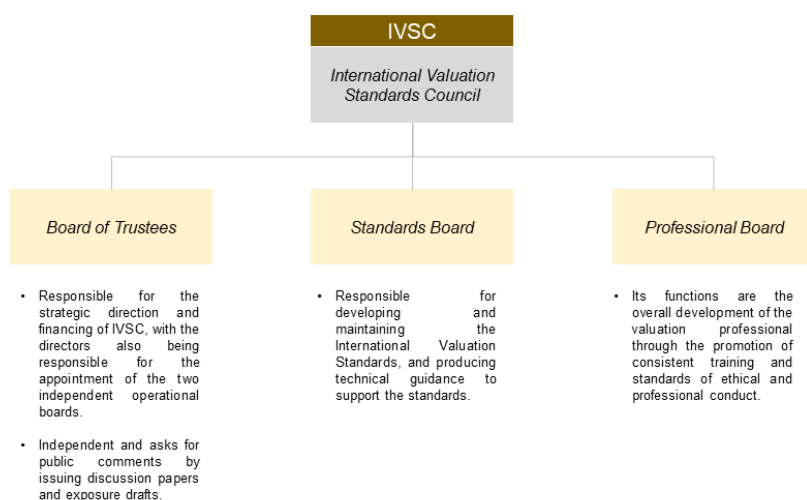


Figure 8 - IVSC Governing Structure. Source: Prepared by the authors

The IVSC regularly publishes the International Valuation Standards (IVS), which are aimed at valuation professionals around the world and underpin the consistency, transparency and confidence in valuations that are fundamental to investment decisions, financial reporting and financial market stability.

The Standards are prepared by independent professionals and published following a consultation process involving a range of valuation professionals’ organisations, regulatory authorities, other standard-setting organisations, valuation service providers, independent professionals, and end clients of valuation and academics.

The IVSC does not support the need to define separate valuation standards for financial reporting. Valuation concepts, definitions and principles should be universal, however they can be applied in different ways.

There are several advantages to converging financial reporting rules globally, however, this process brings significant challenges arising from the application and interpretation of the same standards in different jurisdictions. For this to happen, the various international organisations should work together to homogenise the valuation rules. We identify below a global outline of the international standards.

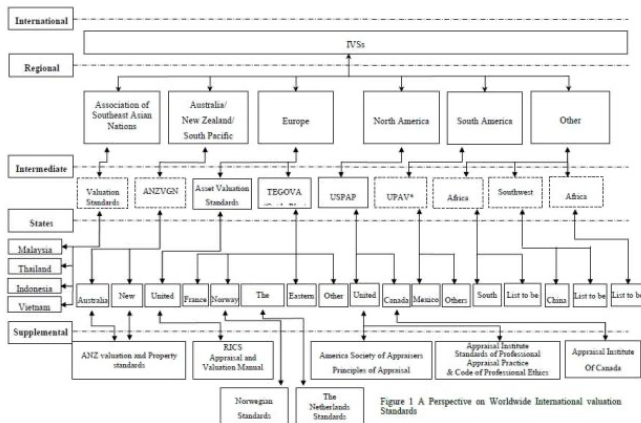


Figure 9 - International regulation in the world. Source: John Dorbester & Joseph Vella (2000), "Valuation and the appraisal institute in a global economy", The appraisal journal, 72-85

Regarding the IVS, its structure is divided between five general and eight asset-specific Standards.

General standards establish the requirements for conducting a valuation, including establishing the terms of engagement, bases of value, valuation approaches and methodologies, and reporting. Asset-specific standards include basic information on the features of each asset type that influence value, and additional asset-specific requirements specify the common valuation approaches and methods used.

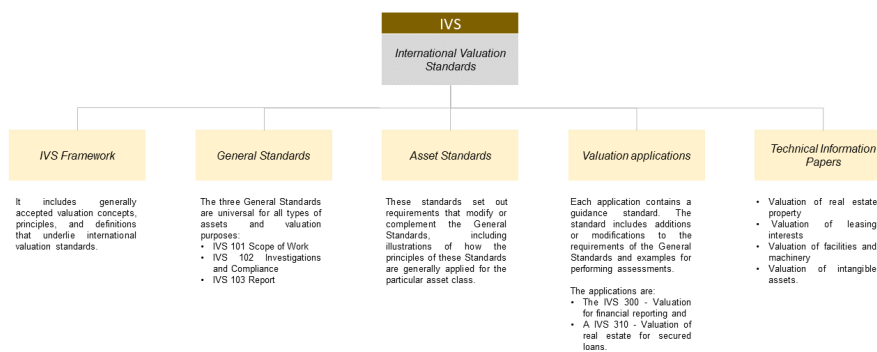


Figure 10 - Structure of the IVS. Source: IVSC, Source: Prepared by the authors

## 3.2 STRUCTURE OF THE IVS

The IVS framework consists of establishing general standards for valuers regarding:

- Compliance with standards: The valuation is carried out on the basis of the IVS
- Assets and liabilities: Identification of the concepts of the object of valuation
- Valuer: Mandatory requirements and skills of a valuation professional
- Objectivity: Need for transparency and not resorting to subjective assumptions
- Competence: skills and experience needed to carry out the valuation
- Divergences: Cases of divergence between the IVS and specific local legislation

## 3.3 IVS GLOBAL STANDARDS

The general standards establish requirements for a valuation, including establishing the terms of engagement, bases of value, valuation approaches and methods, and reporting. These standards have been developed to be applicable to valuations of all types of assets and for any valuation purpose.

### IVS 101 SCOPE OF WORK

This standard mentions the main valuation contract terms agreed between both parties. It is the valuer's responsibility to communicate the following points to the client before work begins:

- Identification of the valuer
- Identification of the client(s)
- Identification of other potential users
- Identification of the asset to be valued
- Valuation currency
- Purpose of the valuation
- Value basis(es) used
- Date of valuation
- The nature and extent of the valuer's work and any limitations thereon
- The nature and source(s) of information on which the valuer relies
- Special significant assumptions and conditions
- The type of report to prepare
- Restrictions on use, distribution and publication of the report
- Confirmation that the valuation will be carried out in accordance with the IVS

#### **IVS 102 INVESTIGATIONS AND COMPLIANCE**

This standard mentions the principles to comply with the general requirements of the IVS, of investigations, of recording a copy of the report and ancillary calculations, and of compliance with the terms of engagement.

Research must always be consistent with the purpose and value basis of the valuation. This must be supported by concrete evidence that supports the assumptions made.

The valuer must save a copy of all information or documentation supporting the valuation process for an appropriate period.

Where a valuer has to follow local legislation that differs partially from the IVS standards, the valuer must follow it, and the valuation still complies with the IVS standards.

#### **IVS 103 REPORTING**

This standard identifies the terms of engagement agreed with the client and the structure of the report content:

- Agreed terms of engagement
- Identification of the use of the report
- Identification of the recipients of the report
- Purpose of the valuation
- Approach(s) used
- Value basis(es) adopted
- Valuation method(s) used
- Main data and information used
- Main assumptions made
- Conclusion of value and principal reasons for any conclusions reached

This standard also refers to the precautions and restrictions within the scope of work to review valuations.

## IVS 104 BASES OF VALUE

This standard mentions that it is the valuer's responsibility to ensure that the bases of value adopted are appropriate and consistent with the purpose of the valuation. The most common bases of value defined in IVS 104 are:

- **Market value**

*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.*

- **Market Rent**

*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 where the parties had each acted knowledgeably, prudently and without compulsion.*

- **Investment Value**

*The value of an asset to a particular owner or prospective owner for individual investment or operational objectives.*

- **Fair Value ("Fair Value" for IFRS 13)**

*The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

- **Synergistic Value**

*The result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.*

- **Liquidation Value**

*The amount that would be realized when an asset or group of assets are sold on a piecemeal basis, in an orderly transaction or a forced sale.*

The IVS also identifies other definitions of fair value applied by different entities, such as IFRS, OECD, among others.

This standard mentions the main value assumptions to be adopted:

- **Best use**

This assumption assumes the use that results in the highest market value of the asset, and it may be necessary to analyse a change in the current use. This change will have to be physically, financially and legally feasible.

— **Current use**

This assumes that the valuation is performed based on the current use of the asset.

— **Orderly Liquidation**

This assumption describes the value of a group of assets that could be realised in a liquidation sale, given a reasonable period of time to find a purchaser, with the seller being compelled to sell on an as-is, where-is basis.

— **Forced sale**

This assumption is used in circumstances where the seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible. This assumption can only be used and the asset price estimated, if, the valuer has the information of the reasons of the circumstances constraints to a forced sale.

The IVS also identifies other value assumptions such as entity-specific factors and synergies.

With regard to the type of assumptions, these vary between assumption and special assumption. An **assumption** is an assumption considered to be true, which includes conditions, situations or facts that affect the object, or the approach, of a valuation which, by agreement, do not need to be verified by the valuer as part of the valuation process and a **special assumption** is assumed by the valuer whenever an assumption differs from the actual facts existing on the valuation date, or which would not be assumed by a typical market participant in a transaction on the valuation date.

**IVS 105 VALUATION APPROACHES AND METHODS**

This standard mentions the approaches and methodologies to estimate the base for value of a valuation. Three valuation approaches are identified:

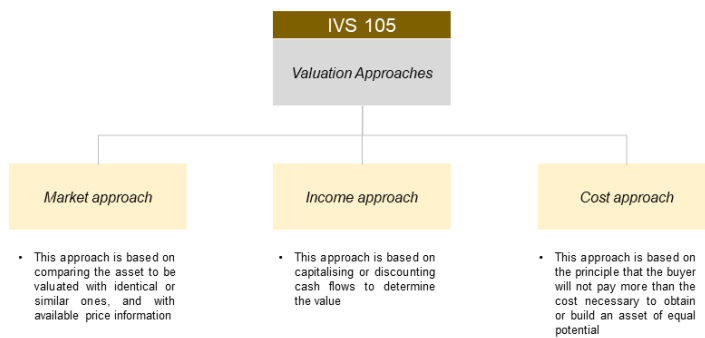


Figure 11 - IVS Valuation approaches Source: Prepared by the authors

Each of the approaches has different valuation methods associated with them. The following valuation methods are identified:



Figure 12- IVS Valuation methods Source: Prepared by the authors

In each section of this standard the components and their definitions in each of the methodologies are specified.

### 3.4 THE IVS SPECIFIC ASSET STANDARDS

Asset Standards include specific requirements relating to specific uses and types of property. These requirements should be followed in conjunction with the General Standards when performing a valuation of a specific asset type. Asset Standards include information on the features of each asset type that influence value and additional asset-specific requirements on common valuation approaches and methods used.

#### IVS 200 BUSINESSES AND BUSINESS INTERESTS

This standard provides information on the valuation of companies and shareholdings in companies or businesses. The definition of a company or business is associated with a commercial, industrial, service or investment activity, where all the legal structures of business entities are included.

The base for values of company valuations are aligned with IVS 104 Bases of Value. The approaches and methodologies of business valuations are aligned with IVS 105 Valuation Approaches and Methods.

Relevant topics on:

- Property rights
- Business information
- Economic and industrial considerations
- Operating and non-operating assets and
- Considerations on capital structures.

## **IVS 210 INTANGIBLE ASSETS**

This standard provides information on the valuation of intangible assets. An intangible asset is defined as having no physical evidence, but which generates rights and economic benefits for the owner. The differences of this type of assets are the type of ownership, market positioning, image and function.

The categories identified for this type of assets are:

- Marketing-related
- Customer-related
- Artistic-related
- Contract-related
- Technology-based

This standard defines goodwill as any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which has not been separately recognised in another asset. The value of goodwill is typically measured as the residual amount remaining after the values of all identifiable tangible, intangible and monetary assets, adjusted for actual or potential liabilities, have been deducted from the value of a business or the excess of the price paid over its assets and liabilities.

Goodwill includes:

- Synergies with other companies or businesses
- Opportunities to expand the business into new markets
- The benefit of an assembled workforce
- The benefit to be derived from future assets
- Assemblage

The base for values of company valuations are aligned with **IVS 104 Bases of Value**.

The approaches and methodologies of business valuations are aligned with **IVS 105 Valuation**

**Approaches and Methods.**

## IVS 220 NON-FINANCIAL LIABILITIES

This standard provides information on non-financial liabilities. Non-financial liabilities are defined as those liabilities requiring a non-cash performance obligation to provide goods or services. These liabilities may include:

- Deferred revenue
- Contract liabilities
- Warranties
- Environmental liabilities
- Contingent consideration obligations
- Purchase and sale pre-contract agreements
- Reserves
- Litigation
- Indemnification

The base for values of company valuations are aligned with **IVS 104 Bases of Value**.

The approaches and methodologies of business valuations are aligned with **IVS 105 Valuation Approaches and Methods**.

## IVS 300 PLANT AND EQUIPMENT

This standard provides information on the valuation of plant and equipment. These are considered tangible assets that are usually held by an entity for use in the manufacturing/production or supply of goods or services, for rental by others or for administrative purposes and that are expected to be used over a period of time.

Factors to consider within the topics related to are identified:

- Asset-related
- Environment-related
- Economic-related

The base for values of company valuations are aligned with **IVS 104 Bases of Value**.

The approaches and methodologies of business valuations are aligned with **IVS 105 Valuation Approaches and Methods**.

#### **IVS 400 REAL PROPERTY INTERESTS**

This standard provides information on real property interests. These are usually defined by laws and regulated at local or national level and are considered as rights of ownership, control, use or occupation of land or buildings.

The three main types of rights are identified:

- The superior right over the use and occupation of a particular plot of land or building until perpetuity;
- The right over the use and occupation of a specific plot of land or building for a specific period in accordance with a lease agreement;
- The right to use land or a building without having control of exclusive use and occupation.

The base for values of company valuations are aligned with **IVS 104 Bases of Value**.

The approaches and methodologies of business valuations are aligned with **IVS 105 Valuation Approaches and Methods**.

#### **IVS 410 DEVELOPMENT PROPERTY**

This standard provides additional information to **IVS 101** to **IVS 105** and **IVS 400** on the valuation of development properties. These are defined as interests where redevelopment is required to achieve the highest and best use. Where improvements are either being contemplated or are in progress at the valuation date and include:

- the construction of buildings;
- previously undeveloped land which is being provided with infrastructure;
- the redevelopment of previously developed land;
- the improvement or alteration of existing buildings or structures;
- others.

These valuations may be required in various circumstances such as:

- when establishing whether proposed projects are financially feasible;
- to support engagements for acquisition and loan security;
- for tax purposes;
- for litigation;
- for financial reporting purposes;
- others.

Given the subjectivity of the assumptions made in these valuations, the valuer must include a duly justified sensitivity analysis in the report.

The base for values of company valuations are aligned with **IVS 104 Bases of Value**.

The approaches and methodologies of business valuations are aligned with **IVS 105 Valuation Approaches and Methods**.

## **IVS 500 FINANCIAL INSTRUMENTS**

This standard provides information on financial instruments. These are defined as contracts that create rights or obligations between specified parties to receive or pay cash or other financial consideration. These can be derivatives, hybrid instruments, bonds among others.

These types of valuations can be carried out for different purposes such as:

- Acquisitions, mergers and business transactions;
- Purchase and sale;
- Financial reporting;
- Legal or regulatory requirements;
- Risk management;
- Tax;
- Litigation.

The base for values of company valuations are aligned with **IVS 104 Bases of Value**.

The approaches and methodologies of business valuations are aligned with **IVS 105 Valuation**

**Approaches and Methods.**

### 3.5 MAIN CHANGES TO THE IVS 2020

The main changes to the previous edition of the IVS 2020 are:

- A list of principles for valuations has been added in the introduction chapter;
- Definitions have been added to the glossary;
- An explanation has been added in the framework of what it means to have procedures that comply with the standards and when we cannot;
- In IVS 101 scope of work, valuers performing valuations for their employer are identified as “employed valuers” and “engaged valuers” when performing valuations for a client;
- A section on “allocation of value” has been added to IVS 104 Bases of value;
- In IVS 105 Valuation approaches and methods, the text has been amended to clarify that the market, income and cost approaches are not exclusive and can be used together;
- In IVS 200 Business and business interests, the introduction has been changed to better describe the scope of work;
- A new standard, IVS 230 Inventory, has been added, which addresses the valuation of assets that will be used in future production, either already started or awaiting sale;
- In IVS 400 Real Property Interests, an amendment was introduced to clarify the content of the standard, including the valuation of agricultural land and unregistered land.

### 3.6 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

The IVSC has created working groups dedicated to the topic of sustainability and recently, in October 2021, a guide, “ESG and Property valuation” by Alexander Aronsohn, was published.

Currently, it is already mandatory to consider the ESG issue in the valuation process of tangible assets under the IVS. According to **IVS 101 20.1**, the investigation during the valuation process has to be appropriate for the purpose of the valuation and the base for value. Additionally, it is stated in **IVS 105 50.36 to 50.4**, that adjustments for additional risks should be considered in the cash flow projections, where **ESG** is included. In section 100 of **IVS 410 Development Property** the following requirements are identified:

*“(c) whether there are other non-financial obligations that need to be considered (political or social criteria),*

*(k) sustainability and any client requirements in relation to green buildings.”<sup>22</sup>*

<sup>22</sup> ESG and Real Estate Valuation perspectives paper (2021)

### 3.7 AUTOMATED VALUATION MODELS (AVM)

The IVSC working groups initiated the analysis of this topic due to market feedback on technological disruption and the growing need for Automated Valuation Models (AVMs) in many sectors, particularly banking and for the valuation of residential properties for the purpose of mortgage guarantees.

The current definition of *Automated Valuation Model (AVM)* is:

*“A system that provides an indication of value of a specified Asset at a specified date, using calculation techniques in an automated manner. An AVM may not be a Model as defined in this glossary”.*<sup>23</sup>

It is IVSC's opinion that users of these models still do not understand the purpose, functioning or limitations of their models and that they are not aligned with the requirements of the IVS, with the valuer having to take responsibility for the output of the model.

IVS 105 mentions that a valuation model should:

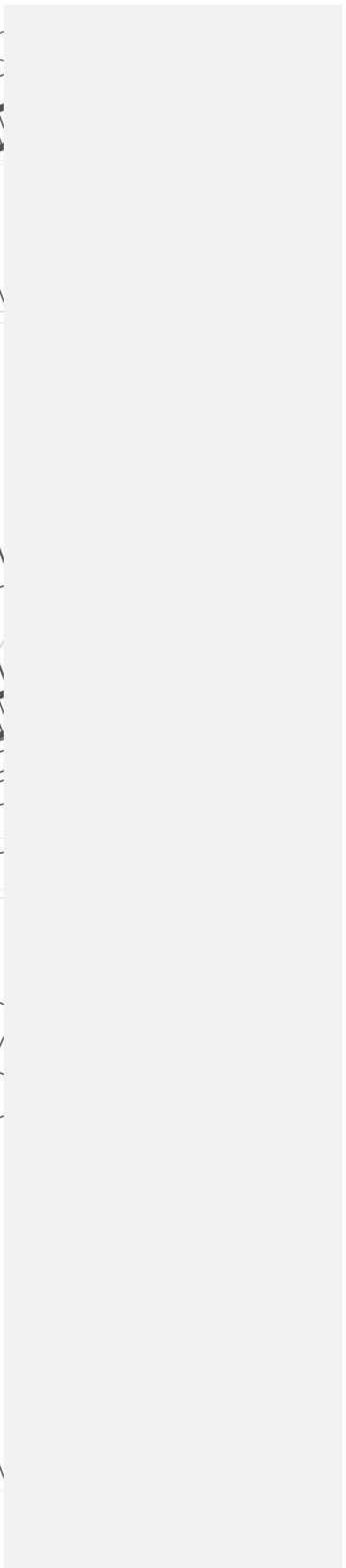
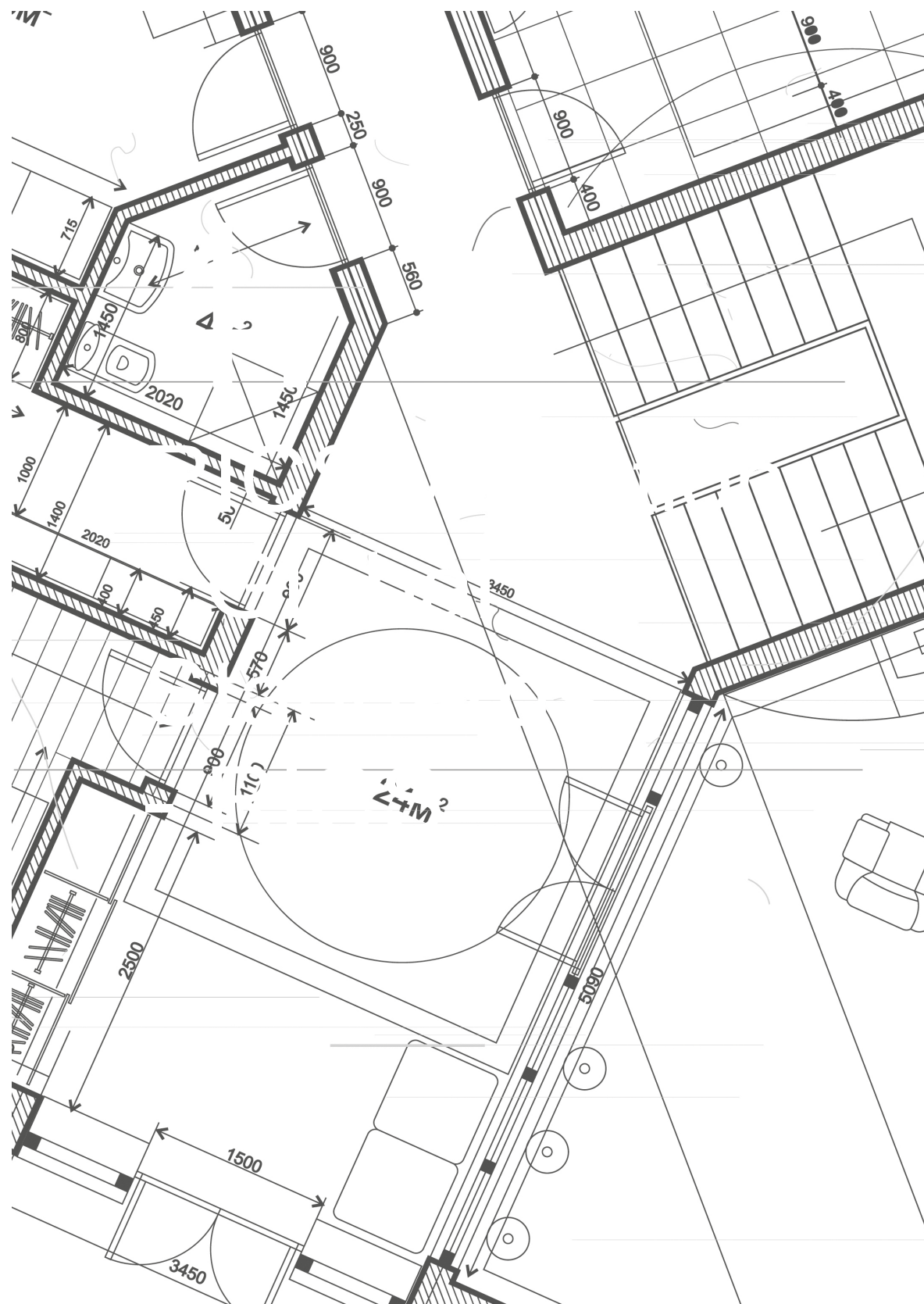
- Refer to quantitative methods, systems, techniques and opinions for estimating and documenting value;
- Record the selection of assumptions about the creation of the model;
- Understand and ensure the output of the valuation model, assumptions and limitations are consistent with the valuation value basis;
- Consider the main risks associated with its assumptions.

Regardless of the nature of the valuation model, to be in compliance with the IVS, the valuer must ensure that the valuation is in compliance with all other requirements contained in the IVS.

The working group is examining whether to incorporate this concept into IVS 101 to IVS 105 or whether it should remain outside the IVS.

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23 1 IVS Agenda Consultation 2020: Invitation to Comment



# 4. RICS VALUATION - GLOBAL STANDARDS - RICS



## 4.1 FRAMEWORK

The Royal Institution of Chartered Surveyors (RICS) was founded on 5 June 1868<sup>1</sup> and was subsequently incorporated by Royal Charter on 26 August 1881 by Queen Elizabeth II. Over the years, its names have undergone several changes until the present one.

RICS is a professional body promoting and enforcing international standards and guides to good practice within the scope of processes related to the real estate sector in various areas, such as valuation, management, development, consultancy, inspection, mediation, among others. Its main goals are to ensure the continuous demand and knowledge of its members.

Currently its governing structure is structured as schematised in the figure below, with its Chairman, Clement Lau, elected in September 2021.

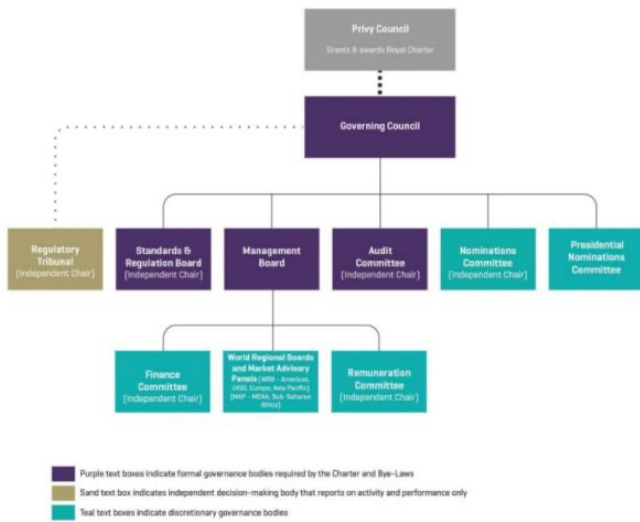


Figure 13 - RICS governance structure. Source: RICS

The number of registered members has been increasing over the years, with 112,026 RICS members currently registered globally. Of these, 76,378 members are registered in the United Kingdom, representing approximately 70% of the total. In Portugal only 110 members are registered.

RICS adopts and applies the International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) complementing them with additional standards and good practice guides, covering the areas of ethics, knowledge and code of conduct, through the Red Book manual.

The RICS Valuation - Global Standards, in layman's terms known as the Red Book, have been published by the Royal Institution of Chartered Surveyors since 1976 and have begun to be applied to virtually all valuations since the mid-1990s and have been mandatory for RICS members to apply since 1991. The latest version of the RICS standards incorporates the International Valuation Standards of the International Valuation Standards Council (IVSC) and was published in November 2021, becoming effective from 31 January 2022.



Figure 14 - RICS Valuation Standards timeline bar. Source: prepared by the authors

The *Red Book* refers to consistency, objectivity and transparency as crucial to the quality of a valuation. To this end, valuers must possess and apply their knowledge, experience and appropriate ethical behaviour in order to have the basis and justifications for issuing their opinion of value in a clear and unambiguous manner to clients and other users of the valuation, always in compliance with the IVS.

Due to demands from governments and regulators, global valuation standards have evolved and now comprise three interlinked forms:

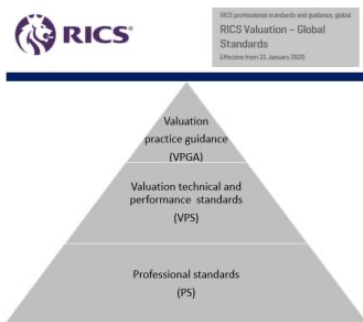


Figure 15 - Structure of the REd Book Manual. Source: Prepared by the authors

### **PROFESSIONAL STANDARDS (PS)**

Professional standards (PS) set out the mandatory requirements for the property valuer and identify the professional codes of ethics and conduct.

These standards are mandatory.

### **VALUATION TECHNICAL AND PERFORMANCE STANDARDS (VPS)**

The technical standards (VPS) are based on common concepts, duly supported, for the consistent and homogeneous application of recognised valuation methods, containing requirements and corresponding implementation guides.

These standards are mandatory.

### **VALUATION PRACTISE GUIDANCE (VPGA)**

The valuation practice guidance applications (VPGAs) are based on the rigour and objectivity of the analysis, supported by proper documentation.

These standards serve as a guide and advice on specific topics.

It is identified in the Red Book manual, and illustrated in the table below, the coverage of the standards and guidance for members of mandatory and advisory application.

Description	Category	Coverage	Comment
Standards	Mandatory Application	<p><i>International Valuation Standards (IVS) as published by the International Valuation Standards Board.</i></p> <p>RICS Professional Standards - designated by the prefix PS in this edition</p> <p>Technical standards for valuation and performance designated by the prefix VPS in this edition</p>	The IVS are adopted and applied by RICS in the current edition of the Red Book (see Introduction, paragraph 4) and are fully referenced and reproduced in part 6
Guidelines	Advised Application	RICS Global Valuation practice Guidelines - Applications - designated by the prefix VPGA in this edition	The content of VPGAs is advisory and not mandatory. However, they alert members (where necessary) to relevant mandatory material contained elsewhere in this edition of the Red Book, including the relevant SVIs, through the inclusion of appropriate cross-references

Figure 16 - Standards and explanatory guides to naming conventions. Source: Red Book

We set out in detail below the Red Book structure with brief comments, further detail and information can be found in the latest version of the document, "RICS professional standards and guidance, global RICS Valuation - Global Standards" dated November 2021 and effective from 31 January 2022.

## 4.2 PROFESSIONAL STANDARDS - PS

### PS 1 - COMPLIANCE WITH STANDARDS WHERE A WRITTEN VALUATION REPORT IS PROVIDED

This standard applies **IVS 102 Section 10 “General Principles”** and **Section 40 “Compliance with other standards”**, which mention the general principle of valuation to comply with the requirements of the IVS and the terms of engagement. An individual valuer or company must always respect and comply with the PS and VPS.

The ethical principles published by the International Ethics Standards Coalition (IES Coalition), an international coalition of which RICS is a member, which is dedicated to developing and implementing International Standards of Ethics for the real estate industry and related services by setting mandatory standards, must also be observed.

Additionally, RICS is a member of an international coalition, the International Property Measurement Standards Coalition (IPMSC), which is dedicated to the development and transparent implementation of International Property Measurement Standards (IPMS). IPMS have been developed for Retail (2013), Office (2014), Residential (2016) and Industrial (2018) uses.

### PS 2 ETHICS, COMPETENCY, OBJECTIVITY AND DISCLOSURES

This standard applies the **general principles of the IVS**, where the high professional standards of RICS members are referred to, in line with the IVSC guidelines.

It states that members must comply with the RICS Rules of Conduct manual and the RICS professional statement, Conflicts of interest, where they must act with integrity, provide excellent service, act in a manner that promotes the profession, take responsibility and treat everyone with respect.

A RICS member must not represent a client if doing so would result in a conflict of interest or a significant risk of a conflict of interest occurring, except where all those who are or may be affected have given him or her informed consent.



## 4.3 VALUATION TECHNICAL AND PERFORMANCE STANDARDS - VPS

### VPS 1 TERMS OF ENGAGEMENT

This standard applies **IVS 101 “Scope of Work”**, where the main terms of the valuation contract agreed between both parties are mentioned. It is the valuer’s responsibility to communicate to the client before the start of the work the following points:

- Identification and status of the valuer
- Identification of the client(s)
- Identification of any other potential users
- Identification of the asset or liability to be valued
- Valuation (financial) currency
- Purpose of the valuation
- Basis(es) of value adopted
- Valuation date
- Nature and extent of the valuer’s work - including investigations - and any limitations thereon
- Nature and source(s) of information upon which the valuer will rely
- All assumptions and special assumptions to be made
- Format of the report
- Restrictions on use, distribution and publication of the report
- Confirmation that the valuation will be undertaken in accordance with the IVS
- The basis on which fees will be calculated
- Where the firm is registered for regulation by the RICS, reference to the firm’s complaints handling procedure, a copy of which is available on request
- A statement that compliance with these standards may be subject to monitoring under RICS disciplinary and conduct regulations
- A statement setting out any limitations on liability that have been agreed

In addition, it specifies other mandatory requirements for RICS members designed to enhance the client’s understanding of the service provided, with clarity regarding the basis on which the fee is calculated, provide assurances that the work undertaken by RICS members meets the highest standards of quality met by effective regulations and address particular aspects of implementation that may arise in certain cases.

## VPS 2 INSPECTIONS, INVESTIGATIONS AND RECORDS

This standard applies **IVS 102 “Investigations and compliance”**, where the requirements to conduct a professional inspection and investigation, appropriate to the terms of engagement defined in **VPS 1** and **IVS 101**, are addressed.

The valuer has to check the documentation of the asset, identify the level of inspection to be carried out, carry out measurements, if applicable, in accordance with the International Property Measurement Standards and verify the need to identify any additional assumptions or assumptions.

A copy of the notes and records of the inspections and investigations carried out must be recorded in an appropriate and easily accessible form.

This standard mentions and refers to the section “IVS Framework”, that when a valuer has to follow some legislation that partially differs from the IVS standards, the valuer should follow it, being that, the valuation still complies with the IVS.

## VPS 3 VALUATION REPORTS

This standard applies **IVS 103 “Reporting”**, is based on and meets the requirements previously set out in VPS 1, through the agreed terms of engagement. The content of the report should include:

- Identification and status of the valuer
- Identification of the client and any other intended users
- Purpose of the valuation
- Identification of the asset or liability valued
- Basis(es) of value adopted
- Valuation date
- Extent of the investigation
- Nature and source of the information relied upon
- Assumptions and special assumptions
- Restrictions on use, distribution and publication of the report
- Confirmation that the valuation has been undertaken in accordance with the IVS
- Valuation approach and reasoning
- Amount of the valuation(s)
- Date of the valuation report
- Commentary on any material in relation to the valuation where it is essential to ensure clarity on the part of the valuation user

A statement setting out the limitations on liability that have been agreed<sup>25</sup>.

In addition, it specifies other mandatory requirements for RICS members designed to improve client understanding of the report itself and its use, and addresses particular implementation aspects that may arise in certain cases.

#### VPS 4 BASES OF VALUE, ASSUMPTIONS AND SPECIAL ASSUMPTIONS

This standard applies **IVS 104 “Bases of value, assumptions and special assumptions”**, which mentions that it is the responsibility of the valuer to ensure that the base for values adopted are appropriate and consistent with the valuation objective. The base for values defined in IVS 104 and most common are:

- **Market value**

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.

- **Market Rent**

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 where the parties had each acted knowledgeably, prudently and without compulsion.

- **Investment Value**

The value of an asset to a particular owner or prospective owner for individual investment or operational objectives.

- **Fair Value (“Fair Value” for IFRS 13)**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- **Synergistic Value**

The result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

- **Liquidation Value**

The amount that would be realized when an asset or group of assets are sold on a piecemeal basis, in an orderly transaction or a forced sale<sup>26</sup>.

With regard to the type of assumptions, these vary between assumption and special assumption. An assumption is an assumption considered to be true, which includes conditions, situations or facts that affect the object, or the approach, of a valuation which, by agreement,

do not need to be verified by the valuer as part of the valuation process and a special assumption is assumed by the valuer whenever an assumption differs from the actual facts existing on the valuation date, or which would not be assumed by a typical market participant in a transaction on the valuation date.

Additionally, it specifies other mandatory requirements for RICS members designed to address particular aspects of implementation that may arise in certain cases.

### VPS 5 - VALUATION APPROACHES AND METHODS

This standard applies **IVS 105 “Valuation approaches and methods”**, where the approaches and methodologies to estimate the agreed base for value are mentioned.

Three valuation approaches are identified:

- Market approach: based on comparing the subject asset with identical or similar assets, for which price information is available;
- Income approach: Based on the capitalisation or conversion of cash flows to determine value;
- Cost approach: Based on the principle that the purchaser will pay no more for an asset than the cost to obtain one of equal utility.

The Red Book refers the valuation methods to be applied to IVS 105, where the following are identified:

- Comparable (based on transactions or published advertisements);
- Discounted Cash Flows (DCF);
- Direct Capitalisation (when cash flows are stabilised);
- Replacement or replacement cost;
- Residual.

The valuer is responsible for the choice of approach and methods to be used in the valuation, whenever permitted by law or other specific legislation.



## 4.4 VALUATION PRACTICE GUIDANCE - APPLICATIONS - VPGAS

### VPGA 1 - VALUATION FOR INCLUSION IN FINANCIAL STATEMENTS

This guidance provides information regarding the valuation of property, assets and liabilities for inclusion in financial statements, where they should strictly comply with applicable financial reporting standards adopted by the entity.

Valuers should clarify from the outset which accounting standards are adopted by their clients, International Financial Reporting Standards (IFRS) being the most common option today. Other standards for financial reporting may continue to be applicable in certain jurisdictions.

If the financial reporting is in accordance with IFRS, specifically IFRS 13, the valuation basis to be used is Fair Value (see "VPS 4 Bases of value").

### VPGA 2 - VALUATION OF INTERESTS FOR SECURED LENDING

This guidance provides additional information on the valuation of mortgage security interests or rights in secured lending, where the following issues are addressed: receiving instructions and disclosures, independence, objectivity and conflicts of interest, basis of value and special assumptions and reporting and disclosures.

In order to ensure the necessary transparency the valuer should mention that he has had no previous involvement, approximately 2 years, with either the borrower or the asset.

If a special valuation assumption is applied, the market values with and without the assumption should be indicated.

### VPGA 3 - VALUATION OF BUSINESSES AND BUSINESS INTERESTS

This guidance provides information on the valuation of businesses and business interests and the application of **IVS 200 "Business and Business Interests"**. See definition of business or company in the IVS 200 chapter.

In the terms of engagement, it is mandatory to define: i) the legal structure of the business entity, ii) if the valuation is of the whole asset or a stake, iii) if there is exclusion of some assets or liabilities: iv) the type (or types) of shares in question.

The most common bases of value in company valuations, recognised by RICS are: fair value, market value and investment value.



Valuation should only be carried out if there is an understanding of the company's financial history and activities, as well as a thorough knowledge of the sector of activity and all macroeconomic factors that may affect the business. The documentation to be required is:

- “most recent financial statements and details of current and prior projections or forecasts;
- description and history of the business or asset, including legal protections;
- information about the business or asset and supporting intellectual property and intangibles (for example, marketing and technical know-how, research and development, documentation, design graphics and manuals, including any licences/approvals/consents/permits to trade, etc.);
- articles of association, company memorandum, shareholders' agreements, subscription agreements, other collateral agreements;
- precise activities of the business, and its associated companies or subsidiaries;
- class rights of all share and debenture classes (security over assets);
- previous valuation reports;
- product(s) dealt in, supported or extended by the business and intangibles;
- company's market(s) and competition, barriers to entry in such markets, business and marketing plans, due diligence;
- strategic alliances and joint venture details;
- whether contractual arrangements can be assigned or transferred in any *intangible asset* or royalty agreement;
- major customers and suppliers;
- objectives, developments or trends expected in the industry and how these are likely to affect the company or asset;
- accounting policies;
- strengths, weaknesses, opportunities and threats (SWOT) analysis;
- key market factors (for example, monopoly or dominant market position, market share);
- major capital expenditure in prospect;
- competitor positions;
- seasonal or cyclical trends;
- technological changes affecting the business or asset;
- vulnerability of any source of raw materials or supplier arrangement;

- whether there have been any recent acquisitions or mergers in the sector around the *valuation date*, and the criteria that were applied
- whether there have been any significant developments or changes to the business since the latest accounting date (for example, management information, budgets, forecasts);
- offers to acquire the business, or discussions with banks and other sponsors to go public;
- management of research and development (for example, non-disclosure agreements subcontractors, training and incentives);
- valuations of underlying assets<sup>27</sup>.

There are four recognised approaches to stock and company valuation:

- the market approach (or market comparison or comparison approach);
- the income approach;
- the cost approach;
- the asset-based approach.

The valuation report should include the following sections:

- introduction;
- purpose and basis of value;
- assumptions and special assumptions;
- subject of valuation;
- description and history of the business;
- accounting and accounting policies;
- financial statement analysis;
- business and marketing plan analysis, and prospects;
- search results for comparables and comparative transactions;
- industry in which the business operates, economic environment, yields and risk assessment;
- environmental constraints;
- valuation methods and conclusion;
- caveats, disclaimers and limitations<sup>28</sup>.

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27 RICS Valuation - Global Standards

28 RICS Valuation - Global Standards

#### VPGA 4 - VALUATION OF INDIVIDUAL TRADE RELATED PROPERTIES

This guidance relates to the valuation of an individual property that is valued on the basis of the income potential of a commercial activity, such as hotel units, shopping centres, casinos, cinemas, restaurants, etc.

Valuation of assets using the income method involves the following steps:

Step 1: an assessment is made of the turnover that can be generated by the property with a reasonably efficient operator.

Step 2: an assessment is made of the potential gross results that may result from sustainable turnover.

Step 3: an assessment is made of the operating profit.

Step 4:

- To assess the market value of the property, the operating profit is capitalised at an appropriate rate of return reflecting the risk and rewards of the property and its trading potential;
- To assess the market rent on a new letting, the rent payable on a rent review an allowance should be made from the operating profit to reflect a return on the tenant's capital invested in the operational entity.

It is important to mention that the valuation of fully equipped properties necessarily presupposes the sale of the property, together with the fixed assets, licences, etc., necessary for it to continue in business.

#### VPGA 5 - VALUATION OF PLANT AND EQUIPMENT

This guidance provides information on the valuation of facilities and equipment and the practical application of **IVS 300 "Plant and Equipment"**.

Plant and equipment are considered tangible fixed assets, we identify below the main definitions:

— **Plant:**

Assets that are combined with others and that may include items that form part of industrial infrastructure, utilities, building services installations, specialised buildings, and machinery and equipment forming a dedicated assemblage.

— **Machinery:**

Individual, or a collection or a fleet or system of, configured machines/technology (including mobile assets such as vehicles, rail, shipping and aircraft) that may be employed, installed or remotely operated in connection with a user's industrial or commercial processes, trade or business sector (a machine is an apparatus used for a specific process).

— **Equipment:**

An all-encompassing term for other assets such as sundry machinery, tooling, fixtures, furniture and furnishings, trade fixtures and fittings, sundry equipment and technology and loose tools that are used to assist the operation of the enterprise or entity<sup>29</sup>.

The valuer should include the following topics in the valuation report:

- introduction
- purpose and basis of value
- assumptions and special assumptions
- subject of valuation
- description and history of the asset(s) and the business(es) in which it (they) was (were) used
- accounting and accounting policies
- financial statement analysis, if appropriate
- business and marketing plan analysis, and prospects;
- search results for comparables and comparative transactions
- industry in which the asset is used
- economic environment, yields and risk assessment
- valuation methods and conclusion
- caveats, disclaimers and limitations<sup>30</sup>.

**VPGA 6 - VALUATION OF INTANGIBLE ASSETS**

This guidance provides information on the valuation of intangible assets and the practical application of **IVS 210 "Intangible assets"**.

RICS classifies an Intangible Asset as:

*A non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner. It is therefore an asset that is capable of being separated or divided from a business entity and sold, transferred, licensed, rented or exchanged individually or with a related asset, liability or contract. Non-identifiable intangible assets arising from contractual or legal rights that may or may not be separable from the entity, or other rights and obligations, are generally termed "goodwill"<sup>31</sup>.*

The most common bases of value in these valuations, recognised by RICS, are fair value and market value.

The valuer should not carry out any valuation if the valuer does not have knowledge and understanding on issues such as:

- the rights of the owners of the asset(s);
- the history of, and activities associated with, the asset(s);
- as appropriate, the state of the industry concerned, the general economic outlook and political factors<sup>32</sup>.

Three valuation approaches are identified:

- Market;
- Income;
- Cost.

#### **VPGA 7 - VALUATION OF PERSONAL PROPERTY, INCLUDING ARTS AND ANTIQUES**

This guidance provides additional commentary on assets classified as personal property, having the following objectives:

- insurance coverage;
- damage or loss;
- taxation (charitable contribution, gift tax, estate tax, casualty loss);
- financial reporting;
- business transactions;
- litigation, including claims of fraud;
- estate planning, equitable distribution and probate;

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31 RICS Valuation - Global Standards

32 RICS Valuation - Global Standards

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31 RICS Valuation - Global Standards

30 RICS Valuation - Global Standards



- pre-nuptial agreements;
- dissolution of marriage;
- dissolution of businesses;
- advice on the acquisition or disposition of property;
- loan collateral;
- bankruptcy;
- inventory valuation<sup>33</sup>.

#### **VPGA 8 - VALUATION OF REAL PROPERTY INTERESTS**

This guidance provides additional commentary to inspections and investigations in the property valuation process, and are supplementary to **IVS 400 “Real Property Interests”**, **IVS 410 “Development Property”** and **VPS 2**.

Listed below are some crucial aspects that can impact the value of the asset:

- Characteristics of the locality and surrounding area;
- Characteristics of the property and its use;
- Characteristics of the site;
- Potential for development or redevelopment.

There are questions regarding the extent of research at the level of:

- Title;
- Condition of buildings;
- Services;
- Planning (zoning);
- Environmental matters.

#### **VPGA 9 - IDENTIFICATION OF PORTFOLIOS, COLLECTIONS AND GROUPS OF PROPERTIES**

This guidance provides additional commentary regarding portfolios and property groups in accordance with **VPS 3**.

- Physically adjoining properties that have been purchased separately by the current owner;
- Physically separate properties that are occupied by the same entity and where there is a functional dependence between the properties;
- Properties with an advantage to a single owner;
- Property being an essential component of an operation covering a large geographical area.

It should be noted that the valuer should not carry out the valuation based on an allotment file that does not exist, however in some circumstances he may make use of a special assumption.

If a portfolio transaction occurs and has a large expression in the local market, it may affect the price and the investor's premium. However, if the valuation is made for accounting purposes, this is not the case.

The valuer has to justify the impact on valuation of the aggregated portfolio versus the individual sum of the properties.

#### **VPGA 10 - MATTERS THAT MAY GIVE RISE TO MATERIAL VALUATION UNCERTAINTY**

This guidance provides additional comments as to matters likely to give rise to uncertainty in the valuation in accordance with **VPS 3 paragraph 2.1(o)**.

This is the case whenever:

- the valuer does not have information or documentation that the valuer considers sufficient, nor with the use of assumptions;
- the market is disturbed by external and unusual factors, such as economic, legal, natural or political variations.

The valuer must mention in the report the risk associated with any material uncertainty identified in a qualitative way.

## 4.5 MANAGEMENT BETWEEN NATIONAL LEGISLATION AND THE RED BOOK

In August 2016, RICS published the 1<sup>st</sup> edition of a professional guidance, “Application of the RICS Valuation - Professional Standards in Portugal”, which addresses the compliance of RICS members with Law No. 153/2015 of 14 September - Property Valuers (*Peritos Avaliadores de Imóveis* - PAI's).

Recently, in July 2021, the document “RICS Valuation - Global Standards: Portugal national supplement” was published, which identifies the mandatory regulations to be followed from the International Valuations Standards (IVS) and which prevail over Portuguese legislation in the sense that they represent a professional guide of good practices.

A valuation that complies with the Red Book standards and the aforementioned supplement, meets the requirements of Law No. 153/2015, provided that it is carried out by a RICS member who is also registered with the Portuguese Securities Market Commission (*Comissão de Mercado de Valores Mobiliários* - CMVM) as a property valuer (PAI).

It is important that the valuer is aware of his obligations to comply with the Portuguese legislation in force and alert to any requirement arising within the scope of a valuation, where the valuer has a duty to comply with secondary legislation or any other mandatory requirement. It is the valuer's responsibility to professionally advise the valuer's client so that no future liability will arise from having to comply with the requirements identified above.

**PVPS 1 - Portuguese Valuation technical and performance standards 1**, refers to valuations for the Portuguese Financial System (SFP), where it identifies as main points:

- PAIs undertaking valuations for the SFP must act in compliance with Law no. 153/2015. This law identifies requirements for registration, qualifications and experience, and also covers supervision, regulation and disciplinary matters;
- The SFP's rules are designed to ensure confidence in the financial system, its stability and soundness, and the efficiency of its operation;
- The categories of property valuation that subject to the mentioned law are those of valuations of interests for secured lending and valuation for inclusion in financial statements of different entities;
- The minimum content of a valuation report;
- The requirements related to ethics, independence, professional qualifications, professional methodologies and practices to ensure quality of service, transactions on a personal basis, conflicts of interest, calculation and justification of remuneration and confidentiality of work.

The **PVPS 2 - Portuguese Valuation technical and performance standards 2**, refers to valuations for compulsory purchase, where it identifies as main points:

- The valuation process is regulated by Law No. 168/99 of 8 September and the valuer must be familiar with the specifications of the legislation in force;
- Comply with articles 10, 20 45 and 62, on minimum academic requirements and the code

of conduct published through the Decree of Law No. 125/2002 of 10 May.

**PVPS 3 - Portuguese Valuation technical and performance standards 3**, refers to valuations for taxation purposes, where it identifies as main points:

- The valuation process is regulated by Decree Law No. 287/2003 of 12 November 2003 regarding the Municipal Property Tax (IMI) and the associated Stamp Tax;
- The valuer must be familiar with the scope of current legislation and the mandatory requirements for property valuations or for tax dispute purposes.

#### 4.6 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

RICS understands that the topic of sustainability increasingly plays a relevant role in the Property Market and therefore influences or can influence a valuation.

Sustainability covers a wide range of physical, social, environmental and economic factors that can affect value and valuers must understand their impact.

Although there is not yet a universal definition for this concept, the RICS defines it as:

*“Sustainability is taken to mean the consideration of matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and corporate responsibility that can or do impact on the valuation of an asset. In broad terms it is a desire to carry out activities without depleting resources or having harmful impacts.”<sup>34</sup>*

Sustainability includes major environmental risks such as flooding, energy and climate efficiency, current land use, design issues, layout of spaces, accessibility, legislation, management and taxation.

The valuer should consult with the client on the use and applicability of sustainability metrics and benchmarks, describe the sustainability-related features and attributes of the property, include a commentary on the associated benefits and risks, and share their opinion on the potential impact of these benefits or risks on the value of the property over time.

A guide, RICS - Sustainability and commercial property valuation, 2<sup>nd</sup> edition (2013), has been published with guidance on identifying, assessing and impacting sustainability issues in commercial valuations.

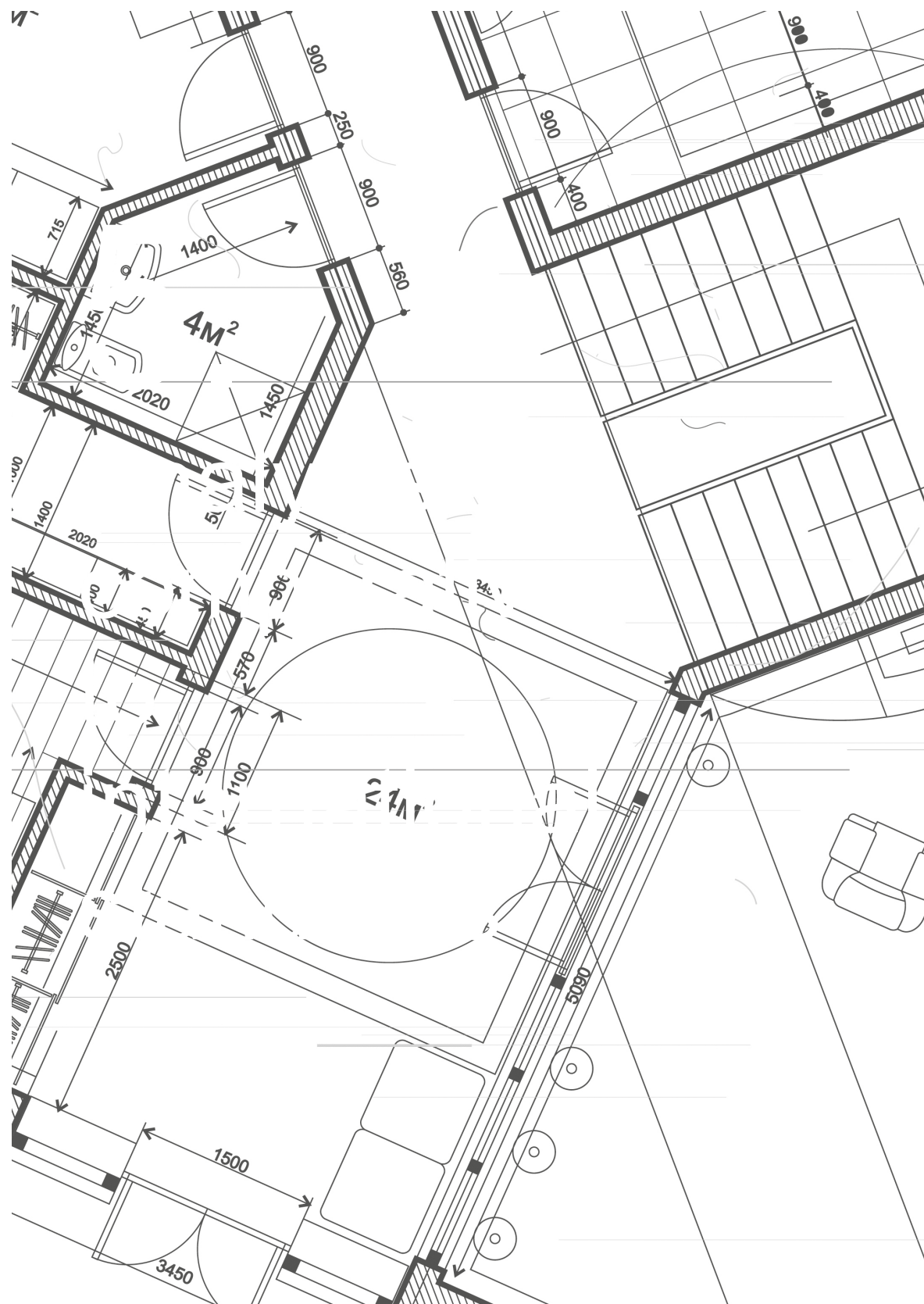
#### 4.7 AUTOMATED VALUATION MODELS (AVM)

The RICS identifies and comments on the subject of AVMs as the preparation of a written valuation for the purposes of PS 1, paragraph 1.4. Consequently, valuers should be aware of the implications of accepting or manually modifying an AVM. This provision of services is restricted and will also include any limitations on the assumptions made in accordance with VPS 2.

The valuer should understand whether the restriction to be applied is reasonable with regard to the purpose for which the valuation is required. The valuer may consider accepting the instruction subject to certain conditions, for example that the valuation is not published or disclosed to third parties.

Valuation based on an automated valuation model (AVM), which may include analytical tools or techniques, with advanced numerical and statistical practices, is considered the provision of services of a written valuation for the purposes of these standards.

It should be noted that the more advanced the model, the greater the degree of supervision required to ensure that there are no internal inconsistencies, for example in relation to the assumptions adopted.



# 5. COMPARATIVE ANALYSIS TO THE INTERNATIONAL STANDARDS

In the previous chapters, the main international references in the valuation sector were analysed individually: TEGOVA, IVSC and RICS. We now proceed to the comparative analysis between the EVS, IVS and RICS standards regarding the following topics:

- structure of the respective valuation manuals, “International Valuation Standards”, “European valuation Standards” and “RICS Valuation - Global Standards”;
- minimum terms of engagement to be guaranteed between the valuer and the client before the start of the valuation process;
- minimum contents to be included in the valuation reports;
- main Bases of value, Market Value and Fair Value concepts.

## STRUCTURE

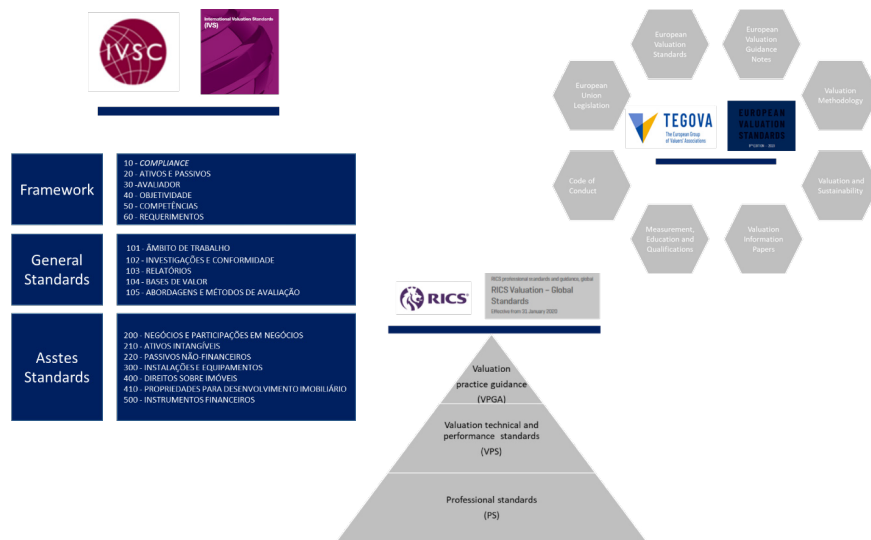


Figure 17 - Structure of international standards, IVSC, TEGOVA and RICS  
Source: Prepared by the authors

The structure of the manuals, as shown in the figures above, are different, but throughout the respective documents the themes are generally common and addressed by all, and there is convergence in the standards analysed. As previously mentioned, the RICS is governed by the mandatory application of the IVS standards. The content of the structure of each manual was analysed in chapters 2, 3 and 4.

As an example, we identify the similarity between the contents regarding the code of conduct, where the entities identify as main rules to be complied with:

- principles of professional responsibility;
- guaranteeing professional skills to carry out the work;
- guarantee of quality and fair service;
- respect; and
- accountability.

#### MINIMUM TERMS OF ENGAGEMENT




RICS 	IVS 	EVS 
Identification and status of the valuer	Identification of the valuer	Identification and status of the valuer
Identification of the client(s)	Identification of the client(s)	Identification of the client(s)
Identification of any other potential users	Identification of any other potential users	
Identification of the asset or liability to be valued	Identification of the asset to be valued	Identification of the physical property under valuation
Valuation (financial) currency	Valuation currency	
Purpose of the valuation	Purpose of the valuation	Purpose of the valuation
Value basis(es) adopted	Value basis(es) used	Value basis(es) adopted
Date of valuation	Date of valuation	Date of valuation
The nature and extent of the valuer's work - including research - and any limitations on these	The nature and extent of the valuer's work and any limitations on these	The nature and extent of the work; Declaration of the non-existence of conflicts of interest and of any previous involvement with the property and or related parts
The nature and source(s) of information on which the valuer will rely	The nature and source(s) of information on which the valuer relies	Basis of valuation and valuation information shared by the client
All assumptions and special assumptions to be taken into account	Special relevant assumptions and conditions	Special Assumptions and Assumptions not Exceptions to the EVS
Report format	The type of report to produce	
Restrictions on use, distribution and publication of the report	Restrictions on use, distribution and publication of the report	Restrictions on publication of the report
Statement that the valuation will be carried out in accordance with the IVS	Statement that the valuation will be carried out in accordance with the IVS	Statement that the valuation will be carried out according to the EVS
Basis on which fees will be calculated		Basis on which fees will be calculated
Where the firm is registered for regulation by the RICS, reference to the firm's complaints handling procedure, a copy of which is available on request		
Statement of compliance with these standards may be subject to monitoring in accordance with the RICS disciplinary and conduct regulations		
Statement setting out any limitations on liability that have been agreed.		The limitations on responsibilities that have been agreed.
		Disclaimer

Table 1 - Details of the minimum terms of engagement for the RICS, IVS and EVS standards. Source: Prepared by the authors

The minimum terms of engagement consist of the specific terms of the contract between the valuer and the Valuation Company or client for each particular valuation, and have to be agreed between the parties prior to the commencement of the provision of services, are mostly similar between the requirements of each entity.

It is identified that both the RICS and EVS standards establish as a minimum requirement the limits of liability on each valuation, in addition to the mandatory insurance, protecting the valuer from possible future liability beyond those assumed in the terms of engagement.

### VALUATION REPORTS MINIMUM CONTENTS

		
Identification and status of the valuer	The scope of work performed including agreed terms of engagement	The form and detail of the valuation report
Identification of the client and other recipients	Objective of the appraisal	Declaration of the execution of the work according to the agreed terms of engagement
Valuation objectives	Approach(es) used	Valuation objectives
Basis(es) of value adopted	Date of valuation	Identification of characteristics that may affect the value of the property
Date of valuation	Main assumptions made	Comment on whether the market is affected by any material uncertainty which may affect property value
Extent of the investigation	Identification of the use of the report	Evaluation date and validity of the valuation
Nature and origin of the information on which the valuation will be based	Justification of values and conclusions reached	Confirmation that the task was carried out according to the EVS
Special assumptions and assumptions		
Restrictions on use, distribution and publication of the report		
Confirmation that the task has been carried out in accordance with the IVS		
Approach and justification of the valuation.		
Valuation(s) value		
Date of the valuation report		
Comment on any material uncertainty for which it is essential that clarity is provided to the recipient of the valuation		
A statement setting out any agreed liability limitations.		

Table 2 - Detail of the minimum contents of a valuation report, RICS, IVS and EVS.  
Source: Prepared by the authors

The minimum contents of a valuation report that the valuer has to include in the valuation are mostly similar between those required by each entity. IVSC and TEGOVA refer some topics to the agreed terms of engagement and RICS details the mandatory items.

It should be noted that EVS refer specifically to the valuation date, while the remaining entities refer only comments regarding potential market uncertainties. The interpretation of the Date of Valuation (EVS1 4.5) in the EVS assumes importance in the context of the portability of valuation reports,

since according to EVS 2020 the estimated value may be incorrect or inappropriate at another time since the estimated value reflects “the actual state of the market and circumstances on the date of valuation, and not on a past or future date.” However, the adoption of the portability of valuation reports implies that a valuation performed on a certain date remains valid on a future date, contrary to the assumptions of the EVS:

*“4.5.2 Market Value is quite expressly not an assessment of value over the longer term but only at the time of the hypothetical transaction. “*

### DEFINITION OF MARKET VALUE

The definition of market value is currently similar among the entities analysed, the only difference being the denomination between “property” by TEGOVA and “asset or liability” by IVSC and RICS.

<p>The estimated amount for which the <b>property</b> should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion</p>	<p>The estimated amount for which an <b>asset or liability</b> 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</p>
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Figure 18 - Definition of the base for value Market Value, EVS, IVS and RICS

### DEFINITION OF FAIR VALUE

The concept of fair value originated in the international accounting standards (except for the United States of America), on which real estate assets should be recorded, when a revaluation occurs.

At European level, in May 2011, the *International Accounting Standards Board* published **IFRS 13 Fair Value Measurement**, which defines fair value and replaces the requirement in the individual Standards.

Below is a scheme showing the base for values identified by the entities analysed, with reference to the definition of the International Accounting Standards Board (IASB).

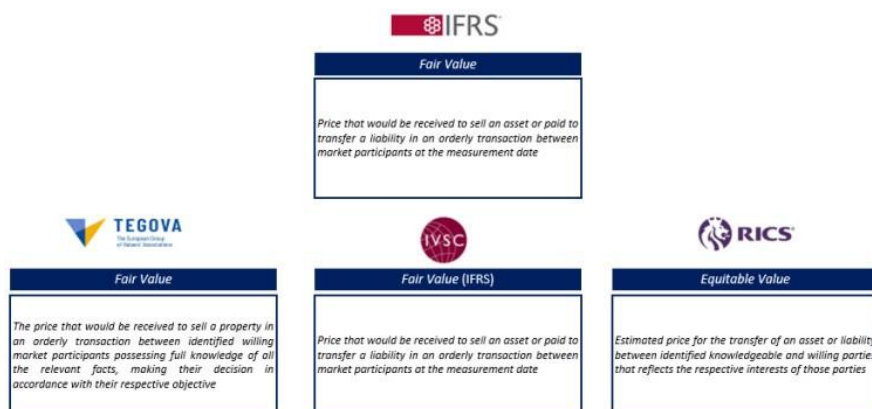
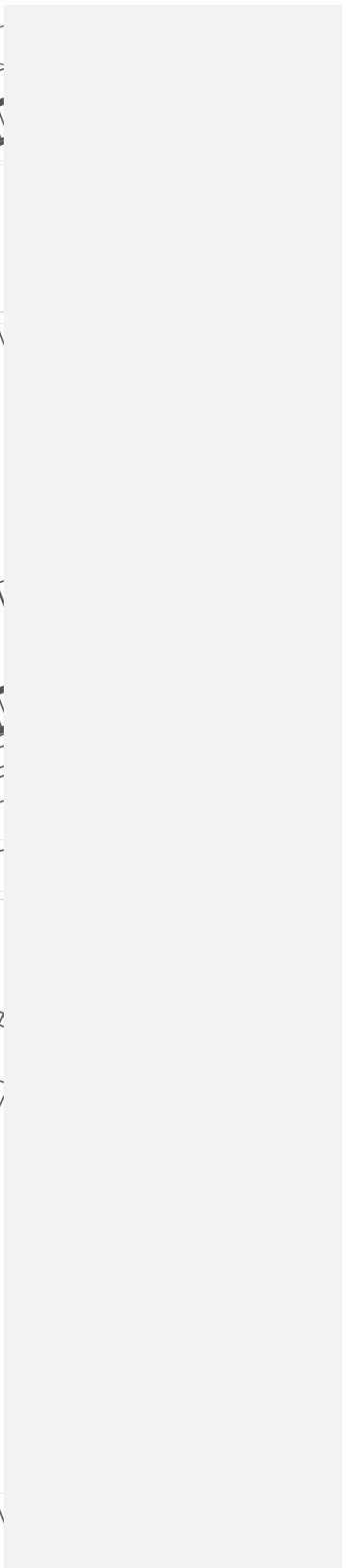
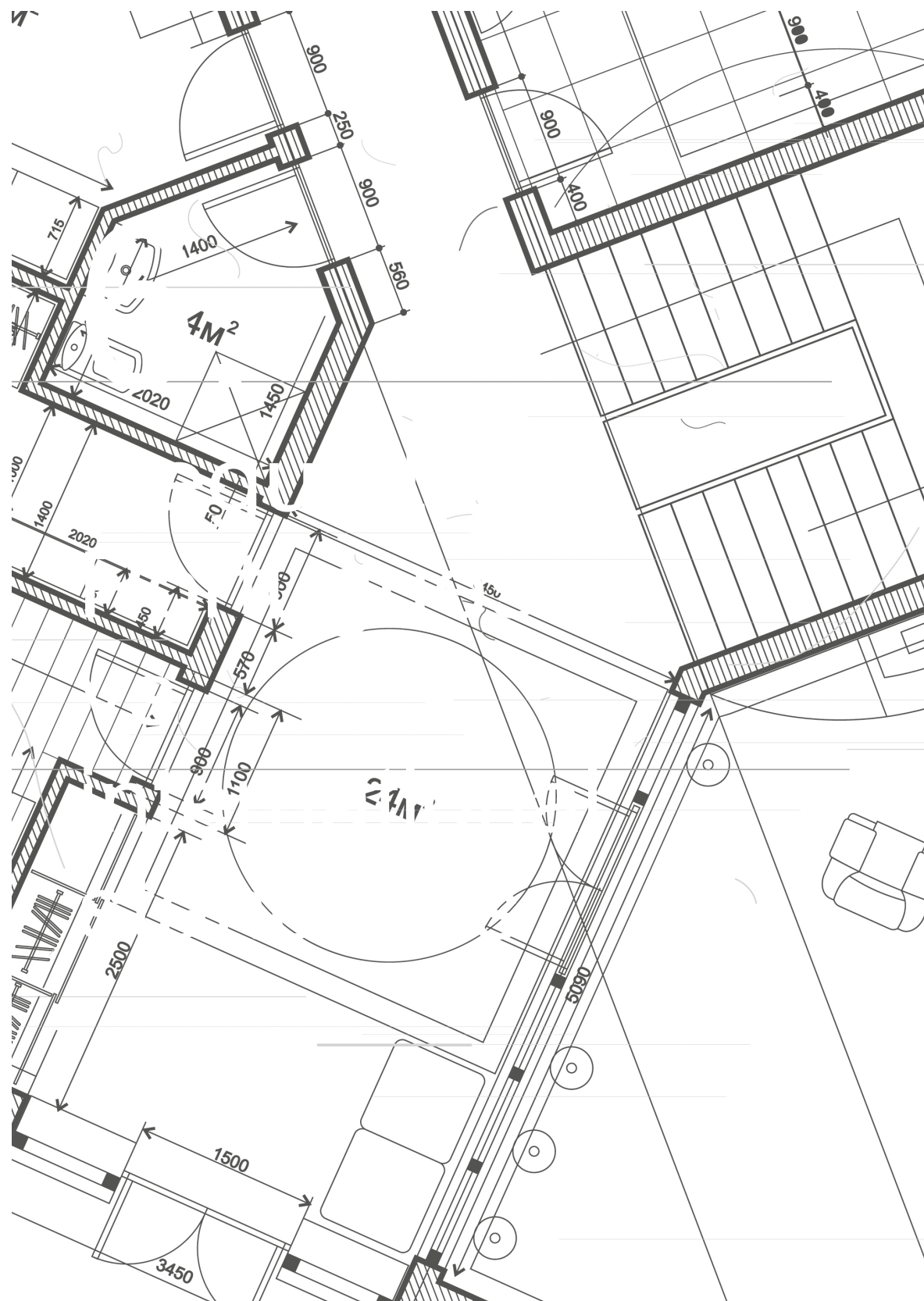


Figure 19 – Definition of the basis of fair value, IFRS, EVS, IVS and RICS

Both the IVSC and RICS refer the concept to IFRS 13, with TEGOVA additionally mentioning a generic concept of fair value. The RICS identifies the base for value “Fair Value”, as the previous concept of fair value of the IVS.



## 6. PORTUGUESE REGULATIONS VS. INTERNATIONAL STANDARDS

### 6.1 PROPERTY VALUATION REGULATIONS IN PORTUGAL

Property valuers must follow and respect the national legislation in force depending on the scope and purpose of the valuations. We identify below the main regulations and legislation in force, being the focus of the analysis the valuation reports and the assumptions for the estimation of values or prices.

#### LAW Nº. 153/2015 OF 14 SEPTEMBER



Figure 20 - Legislation to be applied in valuations for CMVM, *Banco de Portugal* and ASF

This law regulates the access and performance of the profession of property valuers who provide services to entities of the financial system in the banking, securities, insurance and reinsurance and pension funds areas. It succeeds the previous legal framework contained in CMVM Regulations No. 8/2002, and Regulatory Rule No. 7/2007-R, of 17 May.

It should be noted that only registered property valuers (PAI) can provide property valuation services to the entities of the financial system.

With regard to the valuation report, the following points should be incorporated:

**Identification elements<sup>35</sup>:**

- a. Identification of the entity that owns the property;
- b. Identification of the property valuers preparing the valuation report, and the corresponding registration number attributed by the CMVM. Where applicable, identification of the corporate name of the legal entity on behalf of which the property valuers act and the registration number attributed by the CMVM;
- c. Complete and accurate identification of the property subject to valuation, namely if it is an urban, rural or mixed building;
- d. Identification of the entity that requested the valuation;
- e. Indication of the following dates:
  - i. The service contract signed for the preparation of the valuation report;
  - ii. The request by the entity to evaluate the property;
  - iii. The completion of the property valuation work;
  - iv. The completion of the property valuation and the valuation report;
  - v. The previous valuation carried out on the property, if applicable.

**Valuation elements:**

- a. Description of the property, with the features of its location, state of conservation, type of construction and use, and other circumstances or facts that are determining and justifying the valuation value;
- b. Clear identification of the scope of the inspection carried out on the property assessed;
- c. Justification of the choice of the valuation method or methods and detailed description of its application;
- d. The value of the rent as of the date of valuation and identification of the respective tenants, if the property is leased or, if not, an estimate of the rents that it can be expected to generate, if applicable;
- e. Estimate of upkeep, maintenance and other charges essential to the proper economic operation of the property;
- f. Analysis of the market environment of the property, namely in terms of its geographical location and the existence of surrounding infrastructures that could influence its value;
- g. Description of the steps taken, studies and sector data used and other information relevant to determining the value of the property;

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35 Law No 153/2015 of 14 September

- h. Justification of the use of update rates, remuneration, capitalisation, depreciation and other parameters used, identifying how the effects of short-term market volatility or temporary market conditions have or have not been considered;
- i. Identification of any actual purchase transactions or offers used in the valuation, relating to properties with identical features;
- j. Identification and justification of other variables used in the valuation method and that contribute to its result;
- k. Identification of the valuation value(s) for each of the independent units of the property, if applicable;
- l. Unequivocal identification of the final value attributed to the property.

**Accountability elements:**

- a. Identification of any limitations on the value determined for the property;
- b. Express declaration by the property valuer that the valuer is not covered by any incompatibility set forth in Article 19 of this law;
- c. Declaration that it has carried out the valuation according to the legal requirements;
- d. Indication of the insurance against third-party liability policy, the respective insurance company and the duration of the insurance contract;
- e. Signature of the property valuer and date of delivery of the valuation report to the contracting authority.

**CMVM REGULATIONS NO. 2/2015**

These regulations establish the rules of the General Framework for Collective Investment Undertakings that invest in financial and non-financial assets and for open, free and individual subscription pension funds.

With regard to property valuation rules we highlight the following articles:

**Article 28**

General principles

1 - The assets comprising the portfolio of the collective investment undertaking are valued with the minimum periodicity of calculation and disclosure of the value of the respective investment units.

#### Valuation of other assets

1 - The valuation of the assets comprising the portfolio of alternative investment undertakings in non-financial assets referred to in Article 218.1(a) of the General Framework shall comply with the valuation methods used and recognised in the respective relevant markets, with the criteria and methodologies stated in the instruments of incorporation.

2 - Notwithstanding the provisions of the preceding paragraph, the CMVM may request the valuation based on:

- a) Transactions executed on comparable assets;
- b) Benchmarks;
- c) Opinions from at least two specialised entities, which are recognised for their independence and credibility.

3 - The entity responsible for management shall send to the CMVM the opinions referred to in subparagraph c) of the preceding paragraph which present values that differ from each other by more than 20%, with reference to the lowest valuation.

4 - Should the situation referred to in the previous paragraph occur, the asset shall be re-valued by another entity with the features referred to in paragraph 2(c), at the expense of the entity responsible for management.

5 - Whenever there is a third valuation, the asset is valued by the simple average of the two valuation values that are closest to each other or by the value of the third valuation if it is the average of the previous ones.

#### Article 34

##### Properties

1 - Properties purchased under co-ownership shall be recorded in the assets of the collective investment undertaking in proportion to the share purchased.

2 - Properties purchased under an exchange regime are valued in the assets of the collective investment undertaking, and the liability arising from the respective exchange must be entered in the liabilities of that undertaking.

3 - The contribution of the properties purchased under the terms of the preceding paragraph, for the purposes of compliance with the limits provided for by law, shall be measured by the difference between the value entered as assets and that entered as liabilities.

4 - Properties undertaken to be sold are valued at the price stated in the purchase and sale pre-contract agreement, updated by the interest rate appropriate to the counterparty's risk, when, cumulatively:

- a) The collective investment undertaking:

- i) Receives the financial flows associated with the transaction in a timely manner, in accordance with the terms of the pre-contract agreement;
- ii) Transfers to the promising buyer the risks and advantages of ownership of the property;
- iii) Transfers possession to the promising buyer;
- b) The price of the promised sale is objectively quantifiable;
- c) The financial flows due, under the terms of the pre-contract agreement, are quantifiable.

#### Article 35

##### Construction projects

1 – When valuing construction projects, a significant change in the value of the property is considered to be the incorporation of a value greater than 20% in relation to the estimated initial cost of the project, in accordance with the statement of measurement of the status of the work prepared by the inspection company.

2 - The periodicity of the measurement reports shall be adequate for compliance with the requirement defined in the previous paragraph.

3 - For the purposes of valuing construction projects, the measurement reports on the status of the work shall be made available to the property valuer and included in the respective valuation report.

4 - Construction projects can be developed in partnership with suitable entities with recognised technical competence and experience in the real estate sector.

5 - Relations between the real estate investment undertakings or the undertakings for investment in non-financial assets and the entities referred to in the preceding paragraph shall be governed by a written contract, which shall take into account the best interests of the collective investment undertaking and of the respective unit-holders.

6 - The entity responsible for management exercises active control over the development of construction projects and cannot advance amounts that are not unequivocally related to the costs of carrying out the work.

#### Article 36

Rehabilitation projects and works for the improvement, extension and requalification of properties of significant value

Rehabilitation projects and works for the improvement, extension and requalification of properties are considered to be of significant value when they represent at least 50% of the final value of the property.

### Article 37

#### Valuation methods

1 - Property valuers must use at least two of the following methods of valuation, choosing, in each case, those which prove to be most appropriate for the valuation of the property in question:

- a) Comparative approach;
- b) Cost approach;
- c) Yield approach.

2 - Whenever the property valuer considers that there are special circumstances that do not allow for the adequate determination of the value of the properties based on the methods mentioned in the preceding paragraph, the valuer may resort to alternative methods.

3 - Subject to the provisions of the preceding paragraph, the expert valuer shall present in the valuation report the value of the property resulting from the application of the method provided for in paragraph 1 that proves to be the least inappropriate.<sup>36</sup>

#### LAW NO. 168/99 OF 18 SEPTEMBER

This law approved the Compulsory Purchase Code, which defines the criteria for the compulsory purchase of immovable property and the rights inherent thereto for public utility included in the attributions, purposes or object of the purchasing entity, upon payment of compensation, maintaining the principles of legality, justice, equality, proportionality, impartiality and good faith. We identify and briefly comment below on the main contents of the law for determining the value of a compulsory purchase.

Several types of compulsory purchases are defined in the legislation:

1. Amicable, when the purchasing entity tries to reach an agreement with the purchased party on the amount of compensation;
2. Litigious, when the process is litigious and the compensation will be fixed by arbitral award;
3. Urgent, which immediately grants the purchasing entity administrative possession of the property; this urgency nature may be attributed in the act declaring public utility and this attribution of urgency must always be justified.

Property rights are the legal form in which the human power to use, enjoy and fully dispose of property are leased and purchased by contract, succession by death, acquisitive prescription, accession and other modes provided by law.

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36 CMVM Regulations No. 2/2015

As identified in Article 24 of the law, calculation of the amount of compensation is made with reference to the date of the declaration of public utility and varies according to the classification of the land.

Soil can be classified as suitable for construction and soil for other purposes. The definition of suitability for construction implies that it has road access and a water supply, electricity and sanitation networks with features suitable for serving the buildings therein existing or to be built, that it is inserted in an urban nucleus or that it has an allotment permit or construction licence in force. Situations not included in these cases are classified as land for other purposes.

According to Article 26(2) the calculation of the value of the land fit for construction is:

*The value of the land fit for construction shall be the result of the updated arithmetic average of the unit prices of purchases, or tax valuations that correct the reported values, made in the same parish and in the neighbouring parishes in the last three years, amongst the last five, with the highest annual average, regarding buildings with identical features, taking into account the parameters established in the territorial planning instrument, corrected by weighting the urban surroundings of the purchased property, namely in what concerns the type of existing construction, in a maximum percentage of 10%.<sup>37</sup>*

If it is not possible to apply this provision, the value of the land fit for construction is calculated according to the construction cost, under normal market conditions, to the amounts set administratively for the application of the controlled cost or conditional rent housing schemes or to a percentage of the construction costs that vary according to several factors.

For soils suitable for other purposes, the value to be estimated is *the result of the updated arithmetic average between the unit prices of acquisitions or tax valuations that correct the reported values carried out in the same parish and in the neighbouring parishes over the last three years, amongst the last five, with the highest annual average, in relation to buildings with identical features, taking into account the parameters established in the territorial planning instrument and their specific aptitude.<sup>38</sup>*

Articles 29 to 32 of the law mention respectively the form of calculation: of the value of buildings or constructions and the respective areas of implantation and gardens, the calculation of the value in partial compulsory purchases, the compensation for rent, the compensation for the interruption of commercial, industrial, liberal or agricultural activity and the compensation for the compulsory purchase of rights other than full ownership.

37 Law No. 168/99 of 18 September

38 Law No. 168/99 of 18 September

**DECREE-LAW N° 287/2003 OF 12 NOVEMBER**

This law reformed taxation on assets, and amended the Personal Income Tax Code (*Código do Imposto sobre o Rendimento das Pessoas Singulares - CIRS*), the Corporate Income Tax Code (*Código do Imposto sobre o Rendimento das Pessoas Colectivas - CIRC*), the Stamp Duty Code (*Código do Imposto do Selo - CIS*), the Tax Benefit Regulations (*Estatuto dos Benefícios Fiscais - EBF*) and the Notary Code (*Código do Notariado - CN*).

With regard to property valuation rules we highlight the following articles:

**Article 13**

## Taxable value of immovable property

1 - The value of the property is the taxable value as set out in the land registry in accordance with the CIMI (Property Municipal Tax Code) at the date of transfer or that determined by valuation in the cases of properties that are omitted or registered without a patrimonial value.

**Article 38 CIMI**

## Determination of taxable net asset value

1 - The determination of the taxable value of urban buildings for dwelling, commerce, industry and services results from the following expression:

$$Vt = Vc * A * Ca * Cl * Cq * Cv$$

where:

Vt = taxable net asset value;

Vc = base value of buildings;

A = gross construction area plus the area exceeding the implantation area;

Ca = allocation coefficient;

Cl = location coefficient

Cq = quality and comfort coefficient;

Cv = age coefficient.

**Article 39 CIMI**

## Base value of buildings

1 - The base value of buildings (Vc) corresponds to the average construction cost per square metre plus the value of the square metre of land on which the buildings stand, fixed at 25% of that cost.

For 2021, this value was defined in the Portuguese Official Journal (*Diário da República*) through Ordinance No. 289/2020:

#### Article 1

##### Fixing the average construction value

The average construction value per square metre, for the purposes of article 39 of the *Municipal Property Tax Code, effective in 2021*, is set at 492 euros.

The coefficient A is defined by the following article:

#### Article 40 CIMI

##### Types of areas of the buildings

1 - The gross construction area of the building or unit and the area exceeding the implantation area (A) result from the following expression:

$$A = Aa * Ab * Ac * Ad$$

where:

**Aa represents the private gross area:**

Total surface area, measured by the external perimeter and the axes of the walls or other separating elements of the building or unit, including private balconies, cellars and private attics with the same use as the building or unit to which the coefficient 1 applies.

**Ab represents the dependent gross areas:**

Covered areas for exclusive use, even if located outside the building or unit, whose uses are accessory in relation to the use for which the building or unit is intended. To this effect, garages and car parks, storage rooms, animal housing, accessible attics or basements, as long as they are not integrated in the private gross area, and also other private areas with a different function from the previous ones, to which a coefficient of 0.30 is applied.

**Ac represents the free land area up to a limit of twice the floor area;**

**Ad represents the free land area that exceeds the limit of twice the floor area.**

Free land area: "Resulting from the difference between the total area of the land and the implantation area of the construction or constructions and includes gardens, parks, playing fields, swimming pools, backyards and other patios, to which a coefficient of 0.025 is applied up to the limit of twice the implantation area (Ac), and in the area exceeding the limit of twice the implantation area (Ad), a coefficient of 0.005".

## Allocation coefficient

The allocation coefficient (Ca) depends on the type of use of the buildings, according to the following table:

Utilização	Coefficientes
Comércio .....	1,20
Serviços .....	1,10
Habitação .....	1
Habitação social sujeita a regimes legais de custos controlados .....	0,70
Armazéns e actividade industrial .....	0,60
Estacionamento coberto .....	0,40
Prédios não licenciados, em condições muito deficientes de habitabilidade .....	0,45
Estacionamento não coberto .....	0,08

## Article 42 CIMI

## Location coefficient

1 - The location coefficient (Cl) varies between 0.4 and 2, and may be reduced to 0.35 in situations of dispersed housing in rural areas and increased to 3 in areas with a high property market value.

## Article 43 CIMI

## Quality and comfort coefficient

1 - The quality and comfort coefficient (Cq) is applied to the base value of the building, and can be increased up to 1.7 and decreased up to 0.5:

Urban buildings intended for dwelling:

Elementos de qualidade e conforto	Coefficientes
<b>Majorativos:</b>	
Moradas unifamiliares .....	Até 0,20
Localização em condomínio fechado .....	0,20
Garagem individual .....	0,04
Garagem colectiva .....	0,03
Piscina individual .....	0,06
Piscina colectiva .....	0,03
Campo de ténis .....	0,03
Outros equipamentos de lazer .....	0,04
Qualidade construtiva .....	Até 0,15
Localização excepcional .....	Até 0,10
Sistema central de climatização .....	0,03
Elevadores em edifícios de menos de quatro pisos .....	0,02
<b>Minorativos:</b>	
Inexistência de cozinha .....	0,10
Inexistência de instalações sanitárias .....	0,10
Inexistência de rede pública ou privada de água .....	0,08
Inexistência de rede pública ou privada de electricidade .....	0,10
Inexistência de rede pública ou privada de gás .....	0,02
Inexistência de rede pública ou privada de esgotos .....	0,05
Inexistência de ruas pavimentadas .....	0,03
Existência de áreas inferiores às regulamentares .....	0,05
Inexistência de elevador em edifícios com mais de três pisos .....	0,02
Estado deficiente de conservação .....	Até 0,10

Urban buildings intended for commerce, industry and services:

Elementos de qualidade e conforto	Coefficientes
<b>Majorativos:</b>	
Localização em centro comercial .....	0,25
Localização em edifícios destinados a escritórios .....	0,10
Sistema central de climatização .....	0,10
Qualidade construtiva .....	Até 0,10
Existência de elevador(es) e ou escada(s) rolante(s) .....	0,03
<b>Minorativos:</b>	
Inexistência de instalações sanitárias .....	0,10
Inexistência de rede pública ou privada de água .....	0,08
Inexistência de rede pública ou privada de electricidade .....	0,10
Inexistência de rede pública ou privada de esgotos .....	0,05
Inexistência de ruas pavimentadas .....	0,03
Inexistência de elevadores em edifícios com mais de três pisos .....	0,02
Estado deficiente de conservação .....	Até 0,10

#### Article 44 CIMI

##### Age coefficient

The age coefficient (Cv) is a function of the whole number of years that have elapsed since the date of issue of the use permit, if any, or the date of conclusion of the building works, in accordance with this table:

Anos	Coefficiente de vetustez
Menos de 3 .....	1
3 a 5 .....	0,98
6 a 10 .....	0,95
11 a 15 .....	0,90
16 a 20 .....	0,85
21 a 30 .....	0,80
31 a 40 .....	0,75
41 a 50 .....	0,65
51 a 60 .....	0,55
61 a 80 .....	0,45
Mais de 80 .....	0,35

#### Article 45 CIMI

##### Taxable value of land fit for construction

1 - The taxable value of land fit for construction is the sum of the value of the implantation area of the building to be built, which is the area located within the perimeter of the building's attachment to the ground, measured from the outside, plus the value of the land adjacent to the implantation.

2 - The value of the implantation area varies between 15% and 45% of the value of the authorized or foreseen buildings.

3 In establishing the percentage of the implantation area value, the features referred to in article 42(3).

4 - The value of the area adjacent to the construction is calculated in accordance with paragraph 4 of Article 40

Taxable value of buildings from the «Other» category

1 - In the case of buildings, the taxable value shall be determined under the terms of Article 38, with the necessary adaptations.

2 - In case it is not possible to use the rules of Article 38, the valuer shall use the cost plus value of land method.

3 - In the case of land, its unit value corresponds to that resulting from the application of the coefficient of 0.005, referred to in no. 4 of article 40, to the product of the base value of the built-up buildings by the location coefficient.

4 - The taxable value of urban buildings in ruins is determined as if they were land fit for construction.<sup>39</sup>

It should be noted that in this chapter only a few standards or legislation in force in Portugal are indicated, which are directly linked to the work of a property valuer.

## 6.2 MAIN DIFFERENCES BETWEEN PORTUGUESE AND INTERNATIONAL STANDARDS

Property valuers must follow and comply with national legislation in force depending on the scope and purpose of the valuations, however, if they are members or certified by RICS or TEGOVA they must take into consideration the indications and obligations of compliance with the IVS and EVS, respectively.

One of the references in Portugal at the level of regulation of the property valuation practice is Law No. 153/2015 of 14 September. As referred to in chapter 7.5, a valuation which complies with the Red Book standards and the referred supplement, meets the requirements of Law 153/2015, provided that it is carried out by a RICS member registered also with the Portuguese Securities Market Commission (*Comissão de Mercado de Valores Mobiliários - CMVM*) as a property valuer (PAI).

Law No. 153/2015, in article 37 thereof, identifies the three valuation methods, comparative, yield and cost, which internationally, in IVS 105 Valuation approaches and methods and in point 4. of chapter II Valuation methodologies for EVS, are recognised as valuation approaches. Internationally, each approach includes different valuation methods as indicated in the previous chapters.

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<sup>39</sup>Decree-Law No. 287/2003 of 12th November

### Article 37

#### Valuation methods

1 - Property Valuers shall use at least two of the following valuation methods, choosing in each circumstance those that prove to be most appropriate for the valuation of the property in question:

- Comparative method;
- Cost method;
- Income method.<sup>40</sup>

The standard specifies the use of two approaches, internationally recognised as such, without identifying the valuation methods derived from each of the approaches.

For example, the RICS specifies that:

*Valuers are responsible for adopting, and as necessary justifying, the valuation approach(es) and the valuation methods used to fulfil individual valuation assignments. These must always have regard to:*

**Article 46 CIMI**

- *The nature of the asset (or liability);*
- *The purpose, intended use and context of the particular assignment; and*
- *Any statutory or other mandatory requirements applicable in the jurisdiction concerned.*
- *Valuers should also have regard to recognised best practice within the valuation discipline or specialist area in which they practise, although this should not constrain the proper exercise of their judgment in individual valuation assignments in order to arrive at an opinion of value that is professionally adequate for its purpose. Unless expressly required by statute or by other mandatory requirements, no one valuation approach or single valuation method necessarily takes precedence over another. In some jurisdictions and/or for certain purposes more than one approach may be expected or required in order to arrive at a balanced judgment. In this regard, the valuer must always be prepared to explain the approach(es) and method(s) adopted<sup>41</sup>*

In this case, the RICS specifies that, when faced with a local regulation (such as law 153/2015) that requires the use of more than one valuation method, this may be followed provided that it is justified, although the valuer may only present one valuation method for estimating the base for value in question. In terms of final value, in said regulations, the assets are recorded by the average of the two independent valuations, representing a value that none of the valuers estimated.

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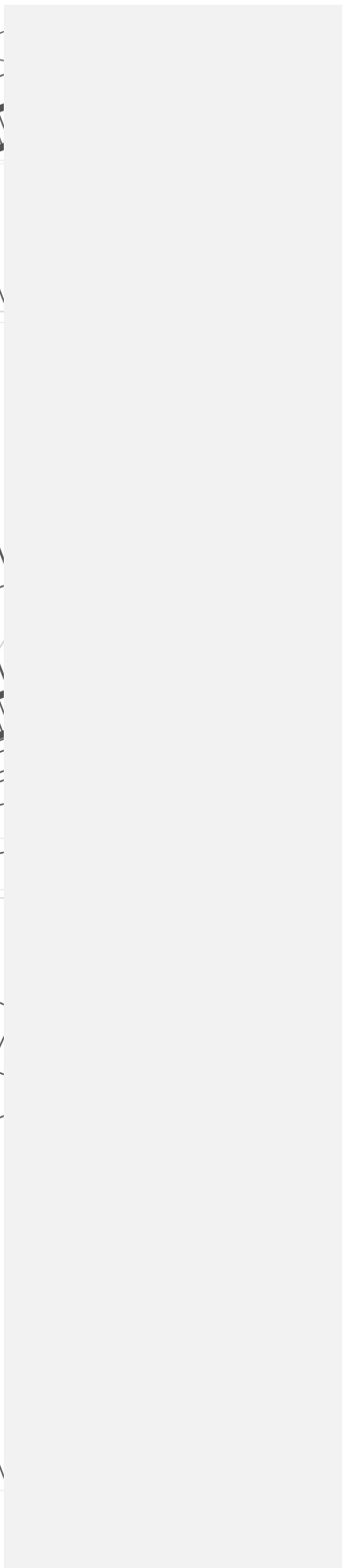
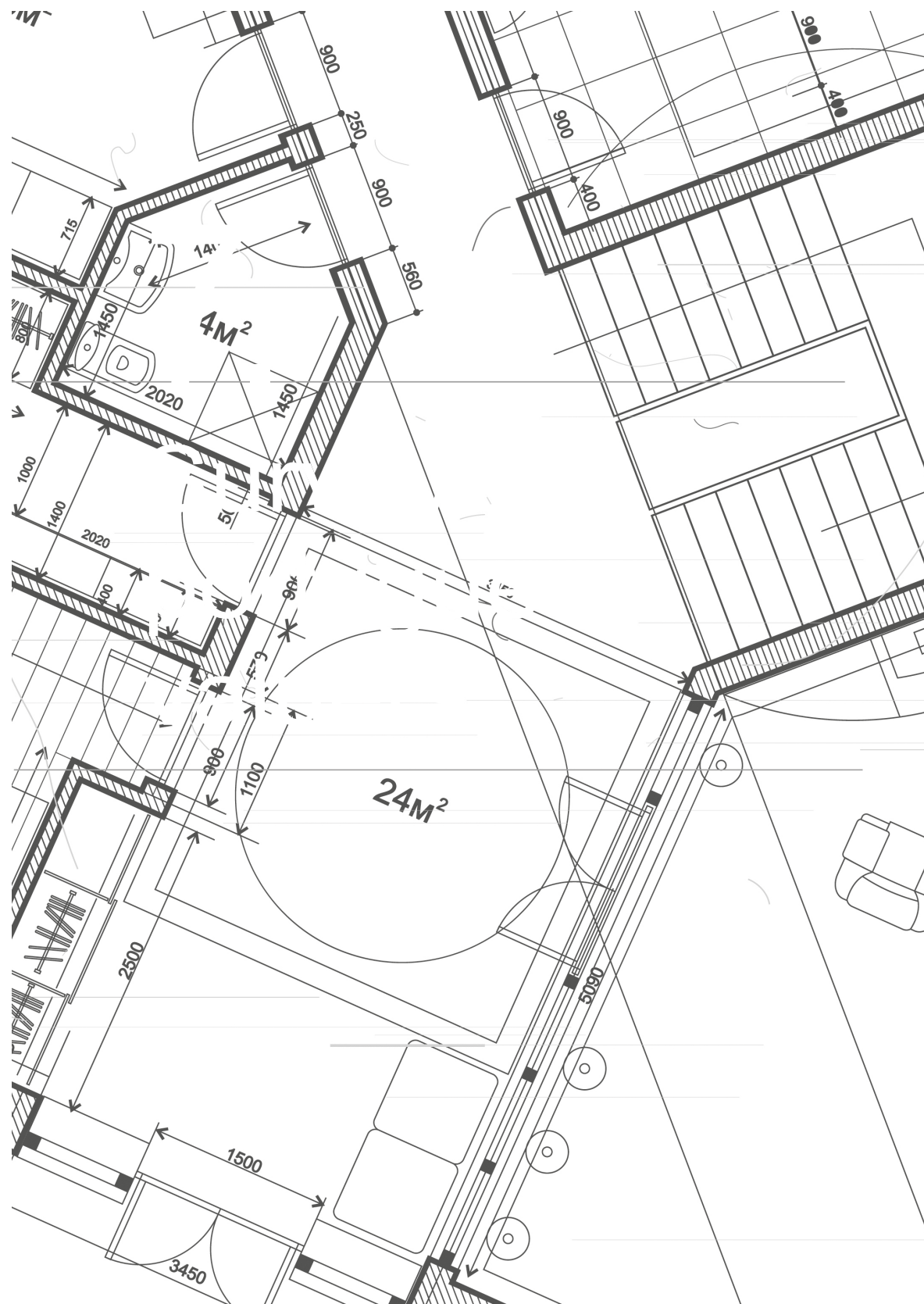
40 Law No 153/2015

41 RICS Valuation Global Standards

Regarding the minimum structure in valuation reports, we identify in the table below the requirements set out in Law 153/2015:

Law 153/2015	
	
A) Identification elements	<ul style="list-style-type: none"> <li>a) Identification of the entity that owns the property;</li> <li>b) Identification of the property valuers preparing the valuation report, and the corresponding registration number assigned by the Portuguese Securities Market Commission (Comissão de Mercado de Valores Mobiliários - CMVM). Where applicable, identification of the corporate name of the legal person on behalf of which the property valuers act and the registration number assigned by the CMVM;</li> <li>c) Complete and accurate identification of the property subject to valuation, namely if it is an urban, rustic or mixed building;</li> <li>d) Identification of the entity that requested the valuation;</li> <li>e) Indication of the following dates:               <ul style="list-style-type: none"> <li>i) Of the service contract entered into for the preparation of the valuation report;</li> <li>ii) Of the request by the entity to assess the property;</li> <li>iii) Of the completion of the property valuation work;</li> <li>iv) Of the completion of the valuation of the property and the valuation report;</li> </ul> </li> </ul>
B) Valuation elements	<ul style="list-style-type: none"> <li>a) Description of the property, including its location, state of conservation, type of construction and use, and other circumstances or facts that determine and justify the valuation value;</li> <li>b) Clear identification of the scope of the inspection carried out on the property assessed</li> <li>c) Justification of the choice of the valuation method(s) and detailed description of their application;</li> <li>d) Value of the rent at the date of valuation and identification of the respective tenants, if the property is leased or, otherwise, an estimate of the rents that it can be expected to generate, if applicable;</li> <li>e) Estimate of upkeep, maintenance and other charges essential for the proper economic operation of the property;</li> <li>f) Analysis of the market environment of the property, namely in terms of its geographic location and the existence of surrounding infrastructures that could influence its value;</li> <li>g) Description of the steps taken, studies and sector data used and other information relevant to determine the value of the property</li> <li>h) Justification for the use of update rates, remuneration, capitalisation, depreciation and other parameters used, identifying how the effects of short-term market volatility or temporary market conditions have or have not been considered;</li> <li>i) Indication of any actual purchase transactions or others used in the valuation, relating to properties with identical features;</li> <li>j) Identification and justification of other variables used in the valuation method and that contribute to its result;</li> </ul>
C) Accountability elements	<ul style="list-style-type: none"> <li>a) Identification of any limitations on the value determined for the property;</li> <li>b) Express declaration by the real estate valuer that the valuer is not covered by any incompatibility set forth in article 19 of this law;</li> <li>c) Declaration that the valuation was carried out in accordance with legal requirements;</li> <li>d) Indication of the insurance against third-party liability policy, the respective insurance company and the duration of the insurance contract</li> <li>e) Signature of the property valuer and date of delivery of the valuation report to the contracting authority</li> </ul>

Table 3 - Content of the valuation report according to law 153/2015



## 7. PORTUGUESE VALUERS - SURVEY

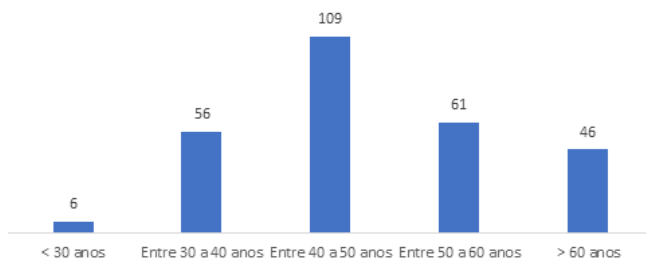
The current situation of property valuation in Portugal is a widely discussed topic among professionals in the sector, as well as its difficulties, limitations, challenges and opportunities, and it is often addressed in get-togethers, conferences, meetings and assemblies of associations representing property valuers. However, these forums do not offer a broad perspective of the sector based on concrete answers and opinions from property valuers.

Therefore, a survey was developed in June 2021, within the scope of the HIGH VALUE Project - Innovation and Sustainability in the sector of Property Valuation and in collaboration with ESAI - *Escola Superior de Atividades Imobiliárias*, addressed to professionals in the property valuation market with the objectives of obtaining an overview of the valuation sector in Portugal and, specifically, to assess the degree of knowledge and adoption of the European and International Valuation Standards and their usefulness in the development of the valuers' profession. On the other hand, it was sought to determine the opinion of Portuguese valuers regarding the professionalization of the sector, the responsibility of the valuer and the regulation, supervision and monitoring of the valuation practice. The survey had as population all the professionals that develop the activity of valuation in Portugal, with the main goals of identifying the vision of the property valuer regarding the valuer's professional market, identify the current procedures and the opportunities in order to contribute for the improvement and development of the sector.

The survey was made available for 33 days between 16 June and 18 July 2021 and 279 responses were obtained. The structure of the survey prepared is divided between: i) characterisation of the sample with regard to their professional activity and ii) valuers' opinion on procedures to be improved.

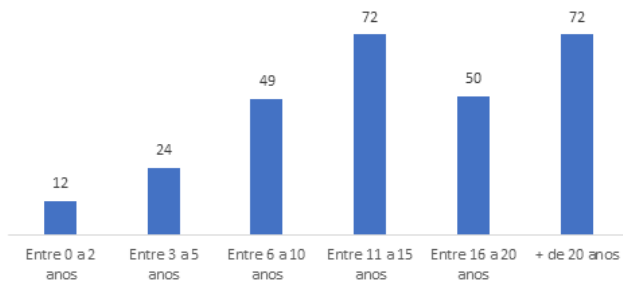
The most relevant questions in the survey are identified below and their results are commented on.

— How old are you?



Approximately 80% of the sample is over 40 years old, and only 6 of the respondents are under 30 years old. In the short term it will be necessary to invest in training and to encourage the development of career progression for the sustainability of property valuer profession.

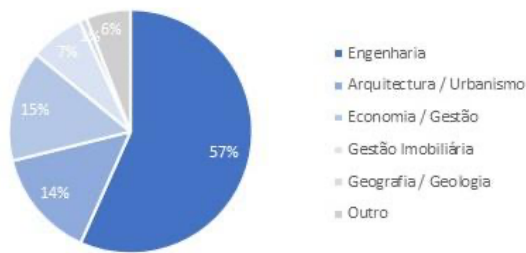
— How many years of experience do you have as a property valuer?



Approximately 70% of the respondents have more than 10 years of experience as a property valuer, a market characterised by professionals with plenty of experience.

When relating this question to the previous one, in which 80% of the valuers are over 40 years old, we understand that this is a profession in which the beginning of the career has already occurred during the course of their professional experience and not in the period following the completion of the academic step that allows access to the profession.

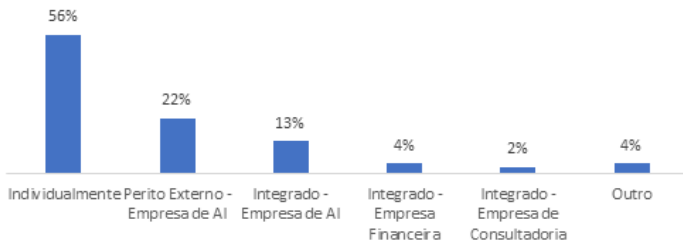
— What is your education background?



Most Portuguese valuers, 57%, have a background in Engineering, mostly Civil Engineering, followed by Economics/Management with 15% and Architecture with 14%.

The construction sector, during the 2008 financial crisis, was greatly affected, with construction companies in financial difficulties and in need of reducing the number of workers and international expansion, mostly to PALOP countries, which led to an increase in demand for Civil Engineers for the profession of property valuer.

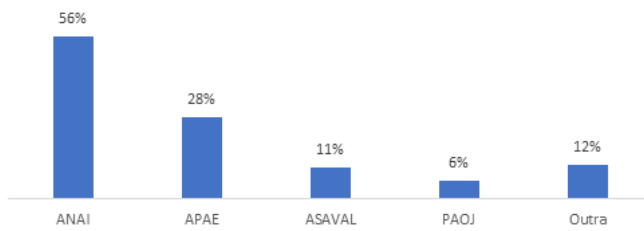
— How do you develop the profession of property valuer?



It can be seen that more than 75% of the surveyed valuers work in an individual way and only 13% work in teams.

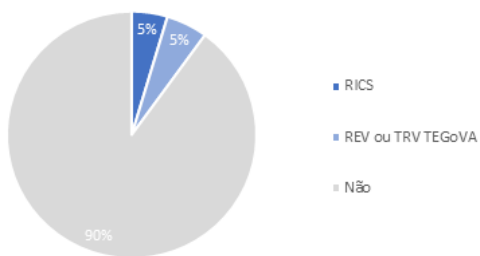
These indicators become extremely relevant in the field of continuing professional training, forcing valuers to do so in a proactive and individual way, if they are not members of an international institution such as RICS or TEGOVA.

— Are you a member of any property valuation professional association?



The majority of property valuers are members of a real estate association, ANAI being the most represented, with 56% of the respondents.

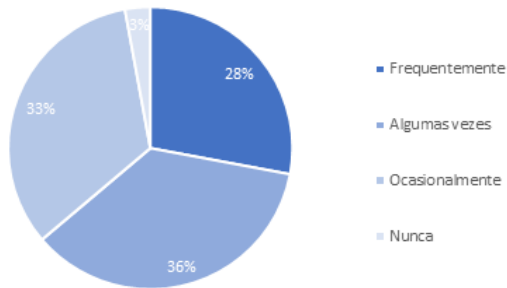
— Do you have any real estate certification in property valuation?



Of the total respondents, only 28 are RICS or TEGOVA members, representing approximately 10% of the sample.

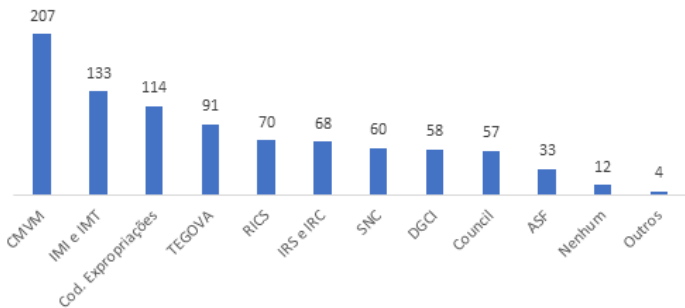
The real estate market is constantly growing and the presence of international entities is increasing, which value international certifications.

— How often do you attend training valuation issues?



We can see that more than 70% of the respondents occasionally or never attend training actions with themes related to property valuation. Being a profession in continuous development and with a wide range of technical subjects, continuous training should be part of a property valuer's activity.

— What codes or manuals do you use in your work as a property valuer?



Property valuers develop their activity in various fields and for different entities. The largest activity of the respondents is as property valuers under the supervision of the CMVM and under the regulation of **Law No. 153/2015 of 14 September** - Regulation property valuers to perform services for the banking sector, investment funds, insurance and pension funds.

### What is the scope or purpose of the property valuations you carry out?



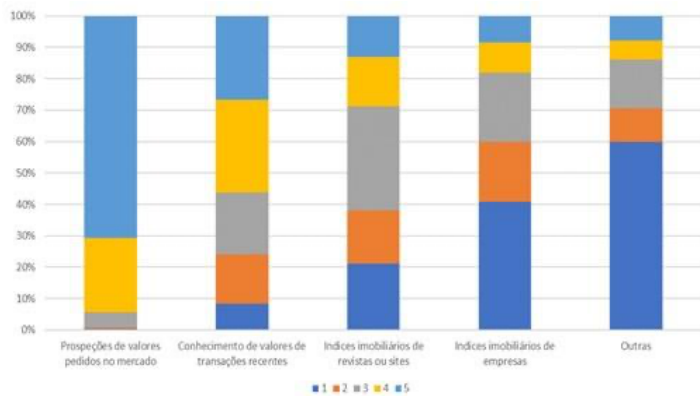
As analysed by the diversity of the answers, the scope of real estate appraisal activity is quite widespread in the real estate market, with valuations for mortgage credit being the purpose with the most weight in the activity.

— Do you consider that you have adequate training and experience to carry out valuations for the following purposes?

TRAINING / EXPERIENCE REQUIRED	AVERAGE BETWEEN 1 AND 5
Private Individuals' Assets	4,74
Mortgage Credit - Housing	4,65
Mortgage Credit - Real Estate Companies	4,29
Investment Funds Assets	4,16
Company Assets	4,13
Credit - Non Real Estate Companies	4,05
Judicial	3,91
Assets of Insurance Companies and Pension Funds	3,86
Fiscal	3,77
Compulsory purchase proceedings	3,37
Machinery and Equipment	2,06

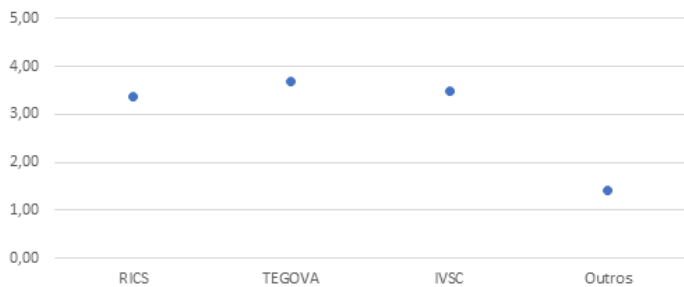
From the respondents' answers above 4 (where 5 represents the most prepared) we understand that property valuers are more prepared and trained to carry out property valuations for transaction or accounting purposes, being less prepared to carry out valuations for fiscal, compulsory purchases and machinery and equipment purposes.

— Which information sources do you use most to monitor the real estate market?



Being 5 options the most representative only in the prospection of asking market values, we see that most valuers resort only to public portals to identify the comparables that support their valuations. The real estate market, in order to be more dynamic and transparent, should provide the access to transaction value databases in order to help valuers in their valuation activity.

— Do you consider it relevant to incorporate the regulations of the following entities?



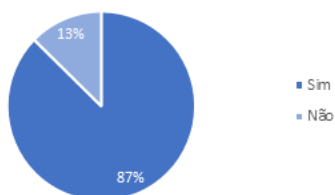
The majority of respondents, assume as fundamental to homogenise and standardise concepts, definitions and procedures in topics related to their profession, in order to increase transparency, credibility and reliance in valuations, this being an increasingly global market, especially at a European level. The results show similar values among the main international entities.

— **What is the relevance of including the following content in the valuation report?**

IMPORTANCE OF CONTENT IN VALUATION REPORTS	AVERAGE BETWEEN 1 AND 5
Assumptions/limitations of the valuation	4,72
Limitations/conditions to the valuation	4,65
Justification of the values adopted in the valuation	4,61
Bases of Valuation	4,51
Declaration of non-incompatibility	4,47
Documents submitted/consulted	4,44
Steps/procedures of the valuation process	4,37
Justification of the rates adopted in the valuation	4,35
Insurance against third-party liability	4,18

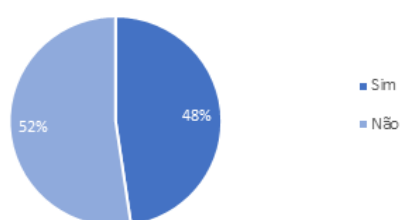
The respondents assume as fundamental all the contents identified in the question, with assumptions and limitations being the most considered.

— **Should the civil and/or criminal liability of a property valuer be regulated?**



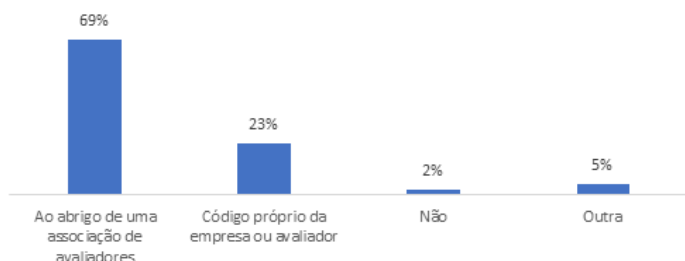
The respondents consider it fundamental to regulate and supervise all property valuation activities, as well as their accountability to the competent authorities.

— Are you subject to any kind of monitoring as a property valuer?



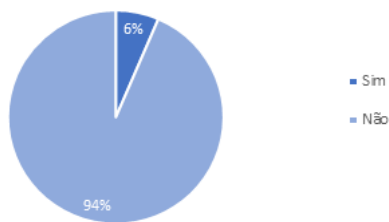
As the sample is characterised by a high representation of property valuers (PAI) under CMVM (Portuguese Market Securities Commission) supervision, the majority of the valuers are monitored in the course of their professional activity.

— As a property valuer are you subject to any code of ethics?



The majority of respondents, more than 80%, are subject to a code of ethics, which is compulsory when carrying property valuation activities under CMVM supervision, according to Law No. 153/2015 of 14 September.

— As a property valuer (PAI), have you ever been audited by the CMVM?



As observed in the graph above, only 6% of the respondents, were audited by CMVM, which demonstrates the need for the regulator of one of the main areas of property valuation to increase the scope and regularity of its supervision.

— Have you ever had to trigger Liability insurance as a property valuer?

Only one of the respondents had to activate the insurance against third-party liability. Being at the outset a sign of enormous professionalism, the property valuation sector is a profession characterised by very experienced professionals, but with little supervision by the regulators, according to the previous question, only 6% of the respondents have ever been supervised by the CMVM.

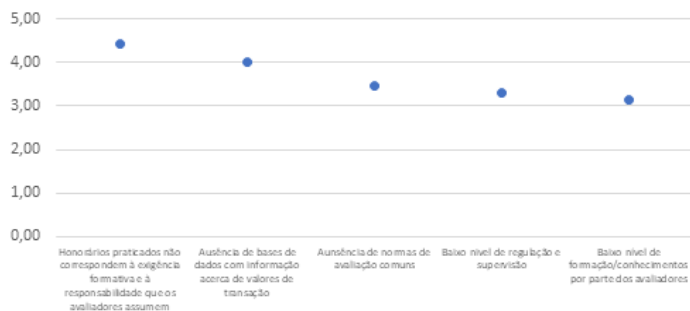
— How do you rate the following statements about the property valuation market?

CHARACTERISTICS OF THE PROPERTY VALUATION MARKET IN PORTUGAL?	AVERAGE BETWEEN 1 AND 5
The client/contracting entity does not interfere in the valuation value	3,38
There are rules that are universally applied in valuations carried out in Portugal	3,14
Access to the activity is well defined and regulated	2,98
Regulated professional activity	2,93
Other	1,64

The valuers' view on whether the client interferes in the valuation value, the average value being 3.38, is quite high, 5 being the rating that characterises that the client interferes severely in the valuation value. This is a subject that concerns all entities involved and that must be fought against in order for the opinion of value of the valuer to be totally exempt.

Access to the activity should, in the view of the valuers, be more controlled and demanding, in order to guarantee the quality of its professionals.

— What are the biggest problems/challenges currently facing the activity of property valuation in Portugal?

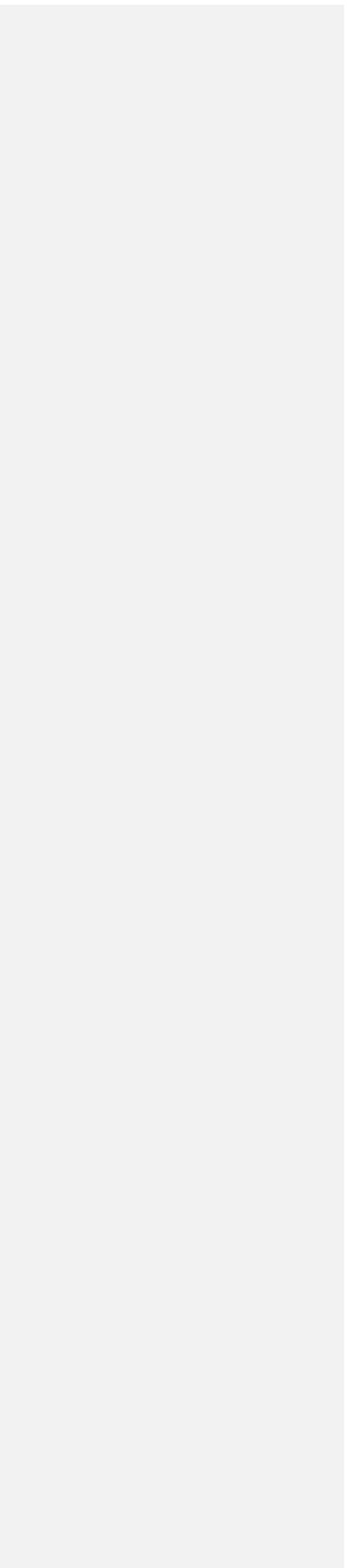
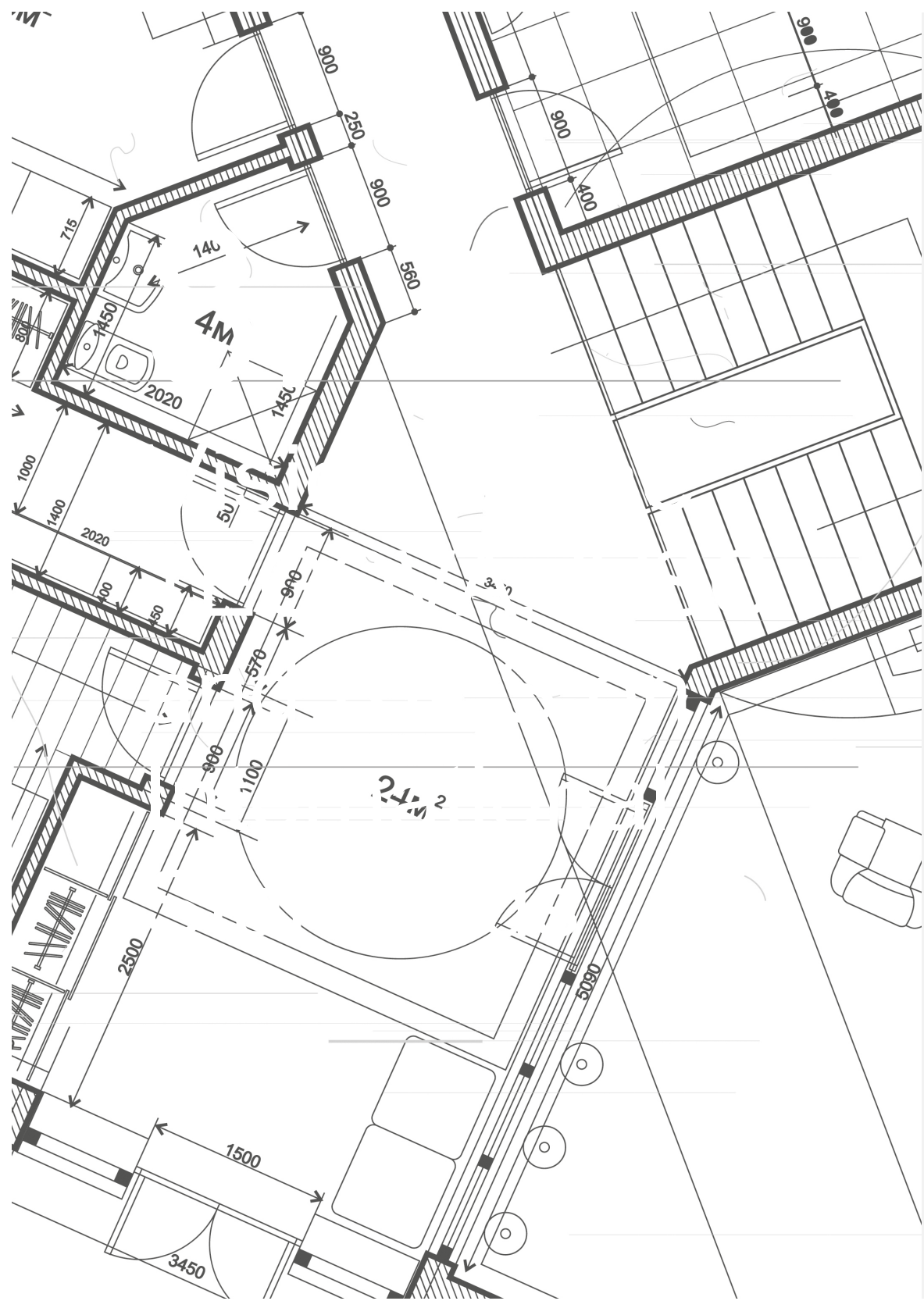


We have identified in the chart above the main challenges on the part of property valuers, with the fees charged and absence of transaction databases being the most relevant.

All entities involved in the property valuation industry should work together to create solutions to ensure that property valuers receive fees in line with the demands and responsibility of their work.

As noted in a previous issue, access to transaction databases is relevant to the objectivity of the opinion of value by property valuers, and that, would bring greater transparency and trust for all stakeholders.

We conclude the analysis, reinforcing the need to face the challenges identified and to improve the various areas of the property valuation sector, in order to increase the demand and quality of the work of all the professionals involved.



## 8. TEGOVA, IVSC AND RICS VISION ON INTERNATIONAL STANDARDS

In order to obtain the particular vision of the valuation standard issuing entities analysed in this document, they were asked to respond to a survey concerning the importance of adopting valuation standards and the most pressing issues currently concerning valuation practice and future developments of valuation standards. The vision of each of the international bodies - TEGOVA, IVSC and RICS - is presented below.

### 8.1 TEGOVA'S VISION

TEGOVA PRESIDENT, KRZYSZTOF GRZESIK, 25NOV21

— **What are the advantages of adopting European valuation Standards (EVS)?**

*For valuers, mastery of EVS is the only way to become a Recognized European Valuer or TEGOVA Residential Valuer. The standards provide the most comprehensive guidelines for valuers in Europe.*

— **In a global context (political, social, and geographic), what are the major limitations or difficulties for the markets and countries in adopting the valuation standards?**

*In Europe, there are no limitations, as EVS are designed for valuation on today's European real estate markets, with flexibilities enabling adaptation to local conditions such as allowing valuers to use asking prices on markets where sales prices are too few or unreliable.*

— **Which markets/countries are more open to adopt European valuation Standards (EVS)? In these markets, what type of real estate assets (financial, tax, judiciary, investments, others) are more commonly appraised according to the valuation standards?**

*All member states of the European Union, all EU candidate or pre-candidate member states and all other European countries with strong economic ties to the Union. The standards are applied in the valuation of properties in all real estate sectors and for all purposes.*

- **Valuation often depends on national legislation and specific aspects of national legislation. In what extent does this affect the adoption of valuation standards? If so, how can this limitation be surpassed?**

Valuers in any member state must follow national rules. However, as the impact of EU law on real estate markets and valuation grows, there is less and less room for divergence between national standards and EVS.

- **Are government institutions, states, real estate companies and developers willing to accept and implement European valuation Standards (EVS)? What are the main issues presented?**

They often don't have a choice, especially financial institutions, as the European Central Bank gives EVS precedence over all other standards.

- **Are EBA's recommendations for mortgage valuations in line with European valuation Standards (EVS)?**

EVS is in lock-step with EU law, not the other way around. EVS 2020 specifically states that "EVS adheres to the European Banking Authority's Guidelines."

- **What are, in your opinion, the main challenges for the valuation area?**

Energy efficiency valuation in the light of the European Climate Law and Green Deal.

- **The Real Estate Appraisers face a new that is to incorporate ESG factors (specially the "E" factor) on the valuation process. What are the new qualification requirements and which procedures on the valuation process are identified by TEGOVA?**

EVS 6 Valuation and Energy Efficiency: A legal obligation to renovate a building to a higher level of energy efficiency by a fixed date or at a certain inflection point (e. g. rental, sale) creates an unavoidable major cost that impacts Market Value, as the owner at that date or inflection point will have to pay for renovation works. Valuers must check for these legal deadlines and inflection points and when they appear, must estimate the cost of a renovation deep enough to meet the required new level of energy efficiency or future requirements that are sufficiently close to coming into force and consider the extent to which these costs affect the Market Value at the date of valuation.

- **According to European Valuation Standards (EVS), what are the main professional incompatibilities for the valuers?**

Conflicts of interest.

- **According to international valuation standards, what are the main professional incompatibilities for the valuers?**

(No answer)

## 8.2 IVSC's VISION

IVSC TECHNICAL DIRECTOR FOR TANGIBLE ASSETS, ALEXANDER ARONSOHN, 10DEZ21

- **What are the advantages of adopting international valuation standards?**

Valuations are widely used and relied upon in financial and other markets, whether for inclusion in financial statements, for regulatory compliance or to support secured lending and transactional activity. The International Valuation Standards (IVS) are standards for undertaking valuation assignments using generally recognised concepts and principles that promote transparency and consistency in valuation practice. The IVSC also promotes leading practice approaches for the conduct and competency of professional valuers.

- **In a global context (political, social, and geographic), what are the major limitations or difficulties for the markets and countries in adopting the valuation standards?**

There are no major limitations or difficulties with countries adopting International Valuation Standards (IVS). IVS has been developed as a principle based overarching standard and as stated in the IVS Framework on Departures: "Departures are mandatory in that a valuer must comply with legislative, regulatory and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to be in compliance with IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances. " Furthermore the Framework also states that "The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements. " The only issue may be in relation to emerging markets where a valuation profession does not yet exist and in these instances the IVSC can provide guidance in relation to developing a Valuation Professional Organisation.

- **Which markets/countries are more open to adopt international valuation standards? In these markets, what type of real estate assets (financial, tax, judiciary, investments, others) are more commonly appraised according to the valuation standards?**

*Our experience has been that there are no particular markets which are more open to adopting International Valuation Standards as IVS has been developed to be applicable to all markets and across all soecilisms (business valuation, financial instruments valuation and tangible and intangible assets valuation). In some markets where national standards are already developed and in place IVS will act as the overarching standard whereas in other less developed markets IVS will be adopted as the valuation standard for that market and the market will develop their own best practice guidance to provide further details on the adoption and implementation of IVS within their markets.*

- **In what extent are emerging countries (e. g. China) adopting international standards?**

*The China Valuation Society is a member of the International Valuation Standards Council and have a representative on the IVSC Board of Trustees and are committed to adopt and implement international valuation standards as are HKIS in Hong Kong. IVS membership is continually growing across markets as the adoption of IVS is in the Global public interest. A full list of IVSC member organisations comprising valuation professional organisations VPO, Associates (AVPO) corporate members, institutional members and academic members is contained on the IVSC website. (<https://www.ivsc.org>).*

- **Valuation often depends on national legislation and specific aspects of national legislation. In what extent does this affect the adoption of valuation standards? If so, how can this limitation be surpassed?**

*As stated in our response to question two national legislation does not affect the adoption of IVS as in order to be compliant with IVS it is mandatory to comply with national legislation. In fact, the IVS Framework states that “The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.”*

- **Are government institutions, states, real estate companies and developers willing to accept and implement International Valuation Standards? What are the main issues presented?**

*There are no issues with government institutions, states, real estate companies adopting IVS. The only issues tend to relate to the development of the profession within their country and the training of local valuers being sufficiently trained to supply IVS compliant valuations. This is particularly relevant for developing markets.*

- **Are EBA's recommendations for mortgage valuations in line with international valuation standards?**

IVSC are in regular communication with the EBA and other banking authorities and are currently engaged in discussions on the development and quantification of prudential value to comply with future EBA regulation in relation to Basel III.

- **What are, in your opinion, the main challenges for the valuation area?**

The main challenges within valuation are the integration and quantification of new concepts within the existing valuation approaches and methods such as the quantification of ESGs (Environmental, Social and Governance). The other main challenges relate to the continued development of new valuation technologies such as automated valuation models and ensuring that the valuer is part of both the development and valuation stage and that his professional judgement is issued to provide IVS compliant valuations.

- **The Real Estate Appraisers face a new that is to incorporate ESG factors (specially the "E" factor) on the valuation process. What are the new qualification requirements and which procedures on the valuation process are identified by IVSC?**

IVSC has been issuing a number of perspective papers on ESG and valuation and over the past year have published perspectives paper on ESG and Business Valuation, framework to assess ESG Value Creation and most recently a perspective paper on ESG and Real Estate Valuation. The IVSC Perspectives Papers often act as a precursor to standard setting and though IVSC currently includes implicit standards in relation to the quantification of ESG, future edition of IVS will include more explicit standards in relation to the quantification of ESGs. In terms of the specific requirement for the quantification of E within the valuation process the perspective paper on ESG and Real Estate Valuation already provides some initial guidance and further guidance will be contained within subsequent perspectives papers within this series, which are due to be published over the next few years.

- **According to international valuation standards, what are the main professional incompatibilities for the valuers?**

IVSC are not aware of any professional incompatibilities for members and this is shown by the number of valuation professional organisations who are members of the IVSC.

## 8.3 RICS'S VISION

RICS REGIONAL MANAGER IBERIA - EULÁLIA PENSADO 29NOV21

— **What are the advantages of adopting international valuation standards?**

*Ensuring consistency and transparency. It is important that valuations are conducted in a manner which is consistent and transparent across the valuation profession. Application of consistent standards helps build valuation expertise and capacity. It ensures that the environment in which businesses operate is fair and encourages healthy competition within and across borders, thus levelling the playing field. Helps companies develop a high level of credibility. Consistency provides financial stability and instilling trust in the marketplace. Adoption of consistent valuation standards is vital as economic globalization drives the need for alignment in our systems and approaches.*

— **In a global context (political, social, and geographic), what are the major limitations or difficulties for the markets and countries in adopting the valuation standards?**

*Institutional issues. In some countries, it requires the governments to mandate and adopt the standards before it is followed in the markets. Inconsistency in Application of Valuation Methodology. Informational barriers. Technical barriers.*

— **Which markets/countries are more open to adopt international valuation standards? In these markets, what type of real estate assets (financial, tax, judiciary, investments, others) are more commonly appraised according to the valuation standards?**

*Due to the various advantages known for the adoption of international valuation standards, there is generally a general openness to adopt said standards, regardless of geographical location. The example that there are 170 member organizations of IVSC operating in 137 countries worldwide demonstrates this. Valuation standards are used in valuation of all types of real estate assets.*

— **In what extent are emerging countries (e. g. China) adopting international standards?**

*The China Valuation society is a member of the IVSC. Hong Kong Institute of Surveyors is also a member of the IVSC. There are more than 170 member organisations of the IVSC, operating in 137 countries worldwide, so adoption of the standard is quite widespread.*

- **Valuation often depends on national legislation and specific aspects of national legislation. In what extent does this affect the adoption of valuation standards? If so, how can this limitation be surpassed?**

*In some countries such as on the African continent, the governments tend to draft their own national valuation standards but based on international valuation standards and the RICS Red Book.*

- **Are government institutions, states, real estate companies and developers willing to accept and implement International Valuation Standards? What are the main issues presented?**

*This depends on countries. Challenges and barriers to implementation of IVS as mentioned in Q2 could be the main issues.*

- **Are EBA's recommendations for mortgage valuations in line with international valuation standards?**

*IVS is a global standard but the IVSC are looking at long term value as a concept.*

- **What are, in your opinion, the main challenges for the valuation area?**

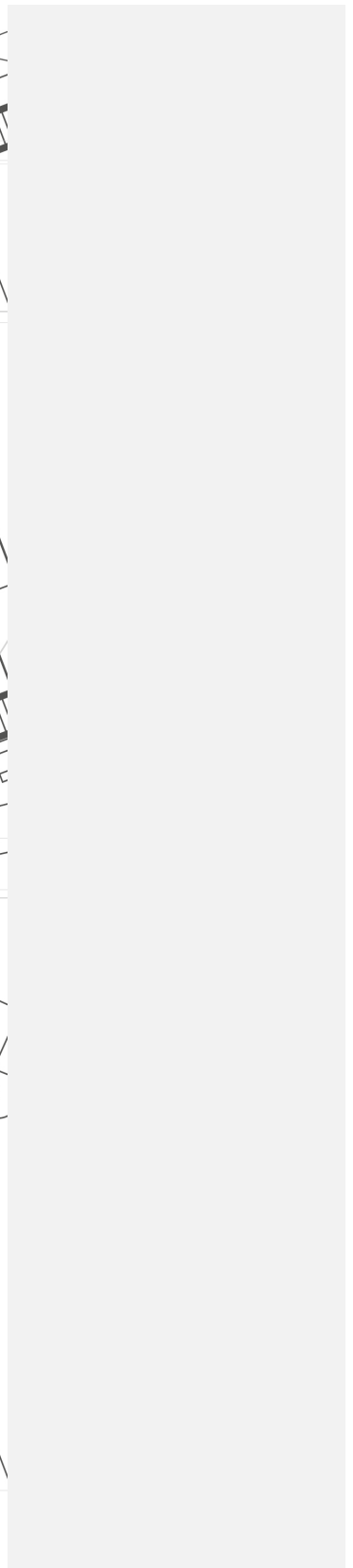
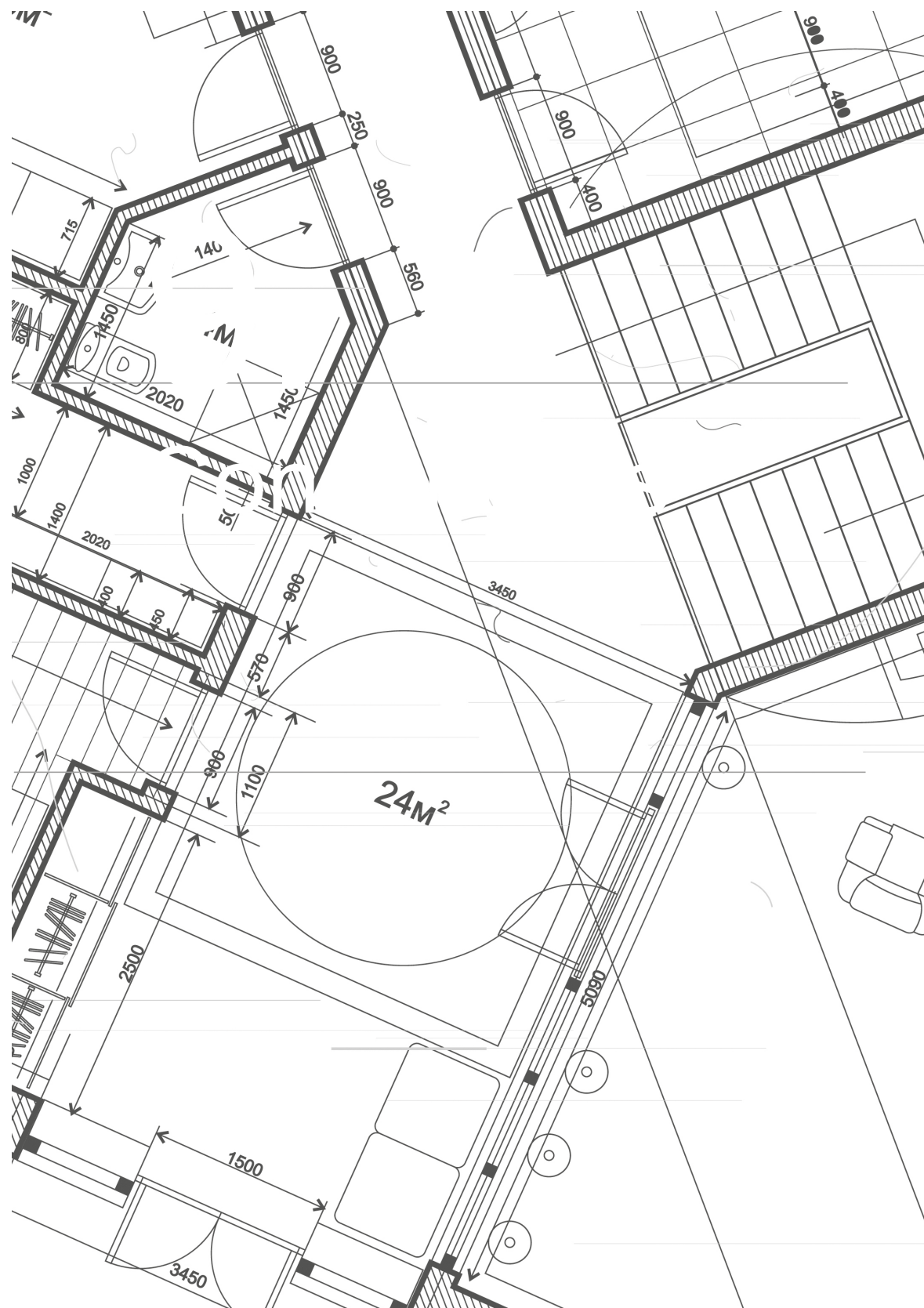
*Data and benchmarking. Lack of universal rating matrix. Application of explicit valuation technique. Reflecting cost for retrofit.*

- **The Property valuers face a new that is to incorporate ESG factors (specially the "E" factor) on the valuation process. What are the new qualification requirements and which procedures on the valuation process are identified by IVSC?**

*At the moment, the IVSC has published two perspectives papers on ESG and social value to initiate discussion and debate on the topics. The new RICS Valuation - Global Standards ('Red Book Global Standards') due to be published before the end of this calendar year will define ESG and bolster considerations around ESG. RICS is also publishing a new guidance note Sustainability and ESG in commercial property valuation and strategic advice (due to be published in Dec2021/ Jan 2022).*

- **According to international valuation standards, what are the main professional incompatibilities for the valuers?**

*Please refer to answer on Q8.*



## 9. CONCLUSIONS

The recognition of property valuation practice as a highly relevant factor in the stability of financial markets means that the regulation of real estate markets is now at the heart of European policies, changing the non-interventionist position that the EU defended in the pre-subprime crisis period. Jan Olbrycht, Chairman of the URBAN Intergroup of the European Parliament, in the preface of the European valuation Standards 2012 (TEGOVA 2012) pointed out that the EU real estate markets were affected by the crisis and, in some areas, were part of the systemic problem, due to the dependence on bank financing, also stating that “valuation is clearly a key component of the security and stability of the real estate market” and that the importance of adequacy and responsiveness of the European Valuation Standards to the EU Services Directive and Alternative Investment Fund Managers Directive should be highlighted.

Likewise, the current pandemic crisis has demonstrated the importance of the valuation practice due to the enormous uncertainty that this crisis has introduced into the markets, praising the professional competence and capacity for adaptation and response on the part of the valuers at a time when historical data is of little relevance due to the high uncertainty that has characterised the markets since the beginning of the COVID-19 pandemic.

The need to establish globally accepted common bases for property valuation has led to the preparation and publication of international property valuation standards, which are intended to be accepted internationally (some standards at a global level and others at a European level), with the aim of harmonising and regulating the practice of valuation in an increasingly global world and with cross-border real estate transactions, not forgetting their suitability to the specific contexts and standards of each country or region.

Valuers adopt the valuation standards by their own choice, for considering that the compliance with international standards adds value to their professional activity and/or defends it in case of legal action that challenges the work developed, or by legal or regulatory requirement, according to a specific instruction from the client (compliance with a certain valuation standard may be an engagement requirement). As an example, it is recurrent in European Union legislation to refer to the international TEGOVA, IVSC and RICS standards, which denotes the recognition by the EU of the quality and reliability of the valuations performed in compliance with such standards.

Regulation of property valuation practice can be considered at three levels: international, regional or local. Each country has specific legislation regarding property valuation that may interfere with the applicability of the valuation standards. However, the architecture of the valuation standards takes this aspect into consideration, allowing the subsidiary application of the valuation standards whenever the national legislation has provisions different from those expressed in the standards, being necessary in these cases to make adaptations in the application of the valuation standards.

According to the organizations themselves, the IVS and RICS standards have a global scope of application and the EVS standards have a regional - European scope, being the EVS more adapted and directed to the European context and legislation since the concepts and definitions used in the EVS are consistent with the language used in the European regulations which, in turn, have been increasingly influencing the financial and real estate markets, highlighting the importance of regulatory convergence. While RICS and IVSC value the standards produced by them highlighting their universal application, TEGOVA highlights the European application of the EVS and justifies its relevance by stating that "European authorities want robust and adequate valuation standards for each EU member state, which implies a quick adaptation of the standards to the fast changing European legislation and, more specifically, in banking supervision"<sup>42</sup>.

There is international consensus on most valuation concepts and bases, in particular in regard to valuation approaches (cost, market and income approaches) but there is a tendency for the valuation methodologies applied to reflect local customs and practice, in accordance with national legislation or the guidelines offered by professional associations, and the terminology and application of methods may vary according to the transparency of the market and the volume of information relating to actual transactions of comparable properties. Valuers must be aware of regional differences between different jurisdictions and how these may affect valuation. In this way, valuation standards take into consideration the national regulations applicable to property valuation, introduced to reflect the specific characteristics of the local market, whether relative to property rights, loan structure or good practices. Although the existence of two levels of regulation may lead to contradictions, the high global acceptance of international standards provides high consistency in the definition of value and in the valuation bases (Crosby, Hutchison, Lusht, & Yu, 2015).

According to the standards analysed (EVS, IVS and RICS), whether or not there are regional or national differences, the purpose of the valuation, the basis for value and also the legal and market contexts in which the valuation is carried out must be established between the valuer and the client, and the end users of the valuation must clearly understand the context of the valuation and the approach(es) used.

In Portugal, valuers shall comply with the national legislation depending on the scope and purpose of the valuations, however, if they are members or certified by RICS or TEGOVA they shall take into consideration the indications and obligations of compliance with the IVS and EVS, respectively. As previously mentioned, one of the references in Portugal at the level of regulation of the property valuation practice is Law No. 153/2015 of 14 September, and in 2016 and 2021 RICS published guidelines for Portuguese members to comply with both national and international standards.

<sup>42</sup> EVS 2020 - Part VII. European Union Legislation and Property Valuation. This is a change from the 8<sup>th</sup> edition of the EVS, where this topic was addressed in Part 3 - European Union and Property Valuation, having been introduced for the first time in the 2012 - 7<sup>th</sup> edition of the EVS.

## 9.1 PORTUGUESE VALUERS - SURVEY

The conclusions drawn from the survey addressed to property valuation professionals allow us to get a broad vision of the perspective of the Portuguese valuers about the *status quo* of the valuation sector in Portugal, drawing conclusions and confirming, based on objective data, some suspicions that existed in the sector, often discussed in private or in small forums. Some of the conclusions were gauged from the responses obtained in the open questions, where respondents were able to expand their response by expressing their opinion on the issue under consideration. The conclusions arising from the analysis of the results obtained in the survey are presented below:

- The high age average of the expert valuers working in Portugal, as well as the high number of years of experience, is a reminder of the need to introduce “new blood” into valuation practice, and it is up to valuers’ associations and professional bodies to attract new professionals;
- the low internationalisation of the profession in Portugal: 90.3% of respondents work exclusively for Portuguese entities and only 9.7% for foreign entities;
- the high adherence of the Portuguese valuers to the professional associations of the sector, with only 12% of the respondents not belonging to a valuation professional association and standing out the representativeness of ANAI with 56% of the respondents;
- the small number of valuers with international certifications (REV, TRV or RICS), corresponding to only 10% of the respondents. There is, therefore, a way to go for Portuguese valuers in terms of training and certification of their activity, since international certifications are increasingly appreciated by the contracting entities. One barrier mentioned by the valuers to obtaining international certifications is the cost associated with the certification, adding to the current costs inherent to the valuation practice, which may be: CMVM supervision commission, insurance against third-party liability, professional association fees, other costs associated with the activity;
- the need to reinforce the training activities of Portuguese valuers, with more than 70% of the respondents occasionally or never attending continuous professional development (CPD) actions. In the current scenario of rapid transformation of the profession and constant governing and regulatory novelties, continuous training is essential to ensure the quality of valuations;
- the greatest activity of the respondents is the professional performance as property valuers under the supervision of the CMVM and under the regulation of Law No. 153/2015 of 14 September - Regulation for property valuers to perform services for the banking sector, investment funds, insurance and pension funds.
- valuers consider that they have adequate (or moderately adequate) training and experience to carry out valuations for all types of purposes, except for the valuation of machinery and equipment. The incorporation of ESG factors in the valuation highlights the importance of considering in the valuation the machinery and equipment that are part of the properties and impact on their environmental and energy performance;

- the almost exclusive use of on-line public real estate portals to identify the comparables that support their valuations, based on offer values and not on transaction values, which denotes the opacity of the market in Portugal. Only a small number use recent transaction values or real estate indexes;
- the valuers' awareness of the need to incorporate information in the valuation reports concerning the assumptions/limitations of the valuation, Limitations/restrictions on the valuation, Justification of the values adopted in the valuation, Basis for the valuation, Declaration of non-incompatibility, Documents presented/consulted, Steps/procedures of the valuation process, Justification of the rates adopted in the valuation or Insurance against third-party liability, meeting the requirements of the valuation standards;
- the disproportionality between what is required from the valuer - professional liability, codes of conduct, costs inherent to the activity, insurance and supervision, excessively short deadlines for carrying out valuations, among others - and the fees charged, especially at a time when the demands will certainly increase, a factor that has caused several qualified experts to abandon the activity;
- the need to regulate the civil liability of the valuer (87% of responses in this regard);
- the level of monitoring of the activity of the valuers. 52% of the respondents do not have any type of monitoring of their activity. Also with regard to audits by the CMVM, only 6% of the respondents replied that they had already been audited, and an increase in the level of supervision is beneficial to the activity;
- that only one of the respondents has so far had to take out insurance against third-party liability, which may indicate, on the one hand, enormous professionalism (the property valuation sector being a profession characterised by very experienced professionals) and, on the other hand, low levels of monitoring and supervision of the activity;
- that with regard to the use of international standards, 33% of the respondents use EVS standards, 25% use RICS standards and 20% use IVS standards. The need for higher levels of regulation of the profession and supervision is noted by the surveyors;
- that there is great openness on the part of the valuers to professionalise the sector and to adhere to international standards in order to establish common ground, standardise methodologies, increase transparency, quality, credibility and reliability of the valuation sector. The survey results do not point to a preference on the part of the valuers for a particular standard (EVS, IVS or RICS).
- the independence of the valuer is questioned, with a rating of 3.38 out of a maximum of 5 pointing to the interference of the contracting entity in the valuation value, especially when the contracting entities are from the financial sector, with the vast majority of respondents stating that they are responsible for the valuation process and the final value, without supervision;
- access to the activity should, in the view of the valuers, be more controlled and demanding in order to guarantee quality;

- the absence of databases with information on transaction values;
- the absence of common valuation standards;
- the almost non-existence of complaints/reports to CMVM, only 2 respondents had had complaints/reports to CMVM or *Banco de Portugal*, 277 had never had any, indicating the low level of regulation and supervision of the activity;
- the reference by the valuers to the low fees of their activity, mentioning that the fees charged do not correspond to the training requirements and the responsibility assumed by the valuers, the very short time taken to carry out the work and also alerting to the high level of control imposed from some valuation companies and financial entities.

## 9.2 TEGOVA, IVSC and RICS PERSPECTIVES

### ADVANTAGES IN THE ADOPTION OF VALUATION STANDARDS

According to TEGOVA, IVSC and RICS, the adoption of valuation standards, applying concepts and principles accepted and recognised universally by all stakeholders in the valuation process, provides consistency, reliability, clarity, transparency and coherence to the valuation sector, and it is a common position that valuations carried out in compliance with valuation standards are more reliable and easily understood by end users.

In this respect, TEGOVA highlights as an added value for the valuation sector the establishment of common bases and concepts followed by all European valuers.

Also about the advantages in adopting standards, RICS argues that consistent and transparent standards help build a capable and competent valuation profession, providing a fair environment (levels the playing field), fostering competition across borders and increasing credibility and global acceptance of valuation work.

### DIFFICULTIES IN ADOPTING STANDARDS

The IVSC states that there are no limitations to the implementation of the IVS, in the sense that they were designed on the assumption that their adoption would not conflict with local legislative specificities - on this point TEGOVA's position is very similar, in reference to the adoption of EVS in European territory -, further clarifying that the IVS Departures are mandatory and that valuers must comply with the legislation, regulations and other regulations applicable to that jurisdiction and purpose of the valuation to be in compliance with the IVS. The question may arise in emerging markets where the profession is not yet developed.

The RICS points to institutional issues whereby in some countries the adoption of international standards implies that governments adopt them first and then do so in the markets. It also points out inconsistencies in the application of valuation methodologies, technical barriers and access to information and that the RICS and IVS standards are used globally in the valuation of all types of property.

### 9.3 MAJOR CHALLENGES FACED BY INTERNATIONAL STANDARDS

TEGOVA and IVSC state that the major challenges faced by the valuation sector, and consequently valuation standards, are those related to the integration and quantification of new concepts in existing valuation approaches and methods, such as ESG factors. Associated to this problematic is the issue of the continuous training of the valuers, who should equip themselves with knowledge and tools to ensure the appropriate performance of their profession.

IVSC also addresses the ongoing development of automated valuation methodologies, the AVM models.

RICS points out as challenges the availability of information and the establishment of a benchmark as a basic reference that defines a standard in the valuation. It also mentions the determination of the costs of adapting to the current and future energy performance requirements of buildings and the inexistence of a universal rating matrix.

### 9.4 AUTOMATED VALUATION MODELS (AVM)

AVM models use advanced data analysis techniques, resorting to a large volume of information that is processed and systematised by means of an algorithm that makes use of machine learning models and artificial intelligence to estimate the value of a property.

The use of AVM models in asset valuation raises questions regarding compliance with valuation standards.

AVMs are normally used for massive valuation processes, such as tax valuations in Spain or in revaluation processes of assets given as collateral to financial entities acting as guarantees in mortgage processes. If, in the case of valuations for tax purposes the estimation of value is not in line with valuation standards, the issue is different in the case of mortgage revaluations. The position of valuation standard setters on the use of AVM models is as follows:

- **TEGOVA:** EVS address the concept of AVM (Automated Valuation Models), referring that they are valuations based on computer programs using a mathematical algorithm which analyses large amounts of information contained in one or more databases, with prices and features of the real estate properties, omitting however the valuer's judgment and specific valuation and the indispensable inspection of the property to verify the characteristics, conservation status and other relevant elements for the formation of the opinion of value. Therefore, a value determined by these statistical methods can never be considered a market value as defined in EVS1, nor a mortgage lending value as defined in EVS2, and it is also defined in EVS1 that an inspection must be carried out from the inside and the outside of the property.

Regarding the use of AVM in the current environment of uncertainty and paradigm shift in valuation, TEGOVA's Chairman states in the preface of the EVS 2020 that the figure of the valuer is strengthened (due to the valuer's in-depth knowledge of the local market and the expectations of its agents, in the valuer's experience, in the ability to interpret the environment and its probable evolution/variation, as opposed to the reliance on statistical methods of value estimation, which are based on historical data and which do not reflect the changes in the environment because the necessary time gap to incorporate such changes does not yet exist). According to the EVS, AVMs can be used, but as a support tool to the valuation, not abdicating the intervention of a qualified valuer who remains the ultimate responsible for the valuation;

- **IVSC:** The definition of AVM in the IVS states that an AVM model cannot be defined as a valuation model in terms of IVS 105, as the users of these models do not yet understand the purpose, functioning or limitations of AVM models and they are not aligned with the requirements of the IVS, and the valuer has to take responsibility for the output of the model.

When asked about the current and future challenges of valuation, IVS points out, among others, the continuous development of new valuation technologies such as AVM models, ensuring that the valuer is an integral part of both the development of the models and the valuation process, emphasising that the professional judgment of the valuer in the valuation process is necessary in order to ensure valuations in compliance with the assumptions established in the IVS standards, a position similar to that of RICS and TEGOVA.

- **RICS:** the position of the RICS in relation to the application of AVMs is similar to that of the IVSC and TEGOVA, in the sense that by establishing a comparison between a so-called traditional valuation in compliance with the RICS standards and a valuation using AVM models, both must comply with the same assumptions in order to be considered valid under the terms of the RICS, with the responsibility for the valuation being indorsed to the valuer in either case.

## 9.5 ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE)

The prominent importance given globally to factors associated with sustainability, more specifically to ESG factors, in defining investment and financing strategies by companies, governments and financial institutions is reflected in the real estate markets, affecting expectations of value and profit, occupancy rates and longevity of leased property contracts and the risk of depreciation due to obsolescence of properties that do not meet environmental requirements, introducing new parameters both in investment decision and in the equation for composition of property value. A study was recently carried out in Portugal (and echoed in several other European countries), requested by an international investment fund, with the purpose of determining which regulatory requirements in force and likely to become effective in the near future may have substantial impacts on real estate ownership, addressing the most distinct legislative areas related to building and urbanism (energy, CO2 emissions, physical risks, water, renting, pollution, construction waste, biodiversity), constituting a support tool in real estate investment decisions.

The increase in the probability of occurrence of meteorological phenomena that escalate climatic risks in real estate is causing a huge change in real estate insurance, resulting in an increase in insurance premiums and, in the limit, the refusal to insure a property with a high climatic risk. The property's resilience to climate risks and potentially increasing energy, water and waste management costs is also an important factor in the property's valuation.

On the other hand, the legal obligation to improve the energy classification at a particular moment of a building's time horizon constitutes a major cost that will have repercussions on the market value of the property, and may impact positively or negatively on the value, depending on the temporal distance from the mandatory renewal/energy improvement date and/or on the energy performance of the property at the time of the valuation. It is up to the valuer to incorporate in his property value formation model both the market sentiment regarding the sustainability factor and the effects that the new legal provisions regarding the improvement of the energy performance of buildings will have in determining the valuation figure.

The article 'ESG-compliant property valuation - status quo and outlook'<sup>43</sup> published in April 2021 argues that the value added by ESG factors can be reflected in two dimensions, the first concerning the quality of the property itself in terms of the materials used, the location, the design and its resilience and adaptability and the second the environmental classification or rating that the property has. If we can gauge value from the first dimension, the second will certainly influence the perception of market value. In the current context, the low supply of environmentally certified properties means that the sustainability factor results in a valuation of the property, and it is expected that the market standard will be a high level of energy and environmental performance, the valuation will be reduced and a brown discount will be applied to properties with low energy and environmental performance.

The requirement for transparent and standardised reporting is a growing trend over the last few years, denoting the equally growing trend for sustainability on the part of companies, government entities and private individuals. Several countries are requiring transparent and standardised reporting on ESG parameters and sustainability-related risks. For example, India will require it for listed companies from 2022. The Hong Kong stock exchange requires listed companies to report according to specific guidelines on ESG factors.

The Sustainability Report<sup>44</sup> published in Q2 2021 by RICS shows the increasing relevance attributed by the market to sustainability and ESG factors as "Globally, approximately 50% of respondents believe that green/sustainable buildings achieve an appreciation in rent or sale value compared to non-green/sustainable buildings. More than 1/3 believe that rental and market value appreciation can reach 10% of the value; 15% of the respondents think that the

43 <https://www.wuexpert.com/ch-en/2021/04/18/esg-compliant-real-estate-valuation-status-quo-outlook/>

44 <https://www.rics.org/globalassets/wbef-website/reports-and-research/q2-2021-rics-sustainability-report.pdf>

valuation may be higher than 10%. Additionally, over 30% of respondents suggest that even if there is no appreciation in rent or asset value, non-green/sustainable buildings are subject to brown discount.

The repercussions of the ESG factors are also being felt in the property valuation sector, with international bodies becoming aware of the need to incorporate these factors into property value composition models, having already set up working groups whose objective is to produce Guidance Notes (GN) in this respect:

- **TEGOVA** is currently forming the working group to develop and publish the GNs of EVS 6 - Energy Valuation and Efficiency. The EVS 6 published in EVS 2020 does not yet incorporate any guidance note, and a group is currently being formed by EVSB, the Board responsible for drafting, reviewing and updating EVS standards, whose mission will be to establish the guidance notes for valuers to incorporate the sustainability factor in the value composition model.

At the conference under the theme EU Climate Law will transform Real Estate and Valuation that took place at the Autumn General assembly 2021 held in Brussels, TEGOVA presented the European Plant, Machinery and Equipment Standards (EVS - PME) that will be published in the first half of 2022, referring to them as a tool to equip EU valuers for carbon emission reduction regulation.

- **IVSC** has an ESG Working Group, which has already published the Perspective Papers: '*A Framework to Assess ESG Value Creation*', '*ESG and Business Valuation*' and '*ESG and Real Estate Valuation*', and the publication of further Perspective Papers on this topic is expected. IVSC Perspective Papers often serve as precursors to the introduction of new themes or methodologies in IVS standards. The Perspective Paper '*ESG and Real Estate Valuation*'<sup>45</sup> provides initial guidance and the current edition of the IVS already implicitly includes assumptions on the quantification of ESG factors, and the future edition of the IVS will include more specific guidelines, in order to assist appraisers in quantifying these factors. Thus, it is established in IVS 105 50.36 to 50.4 that adjustments to cash flow projections due to additional risks require careful analysis and should include ESG factors, also addressing political or social factors and green buildings in IVS 410, section 100.

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45 <https://www.ivsc.org/wp-content/uploads/2021/10/PerspectivesPaperESGandRealEstateValuation.pdf>

In the article *'ESG and Property valuation'* published by IVSC, it is established that the valuer is required at this stage:

*"Monitor the continued evolution of ESG and what building aspects result in higher or lower ESG ratings.*

*When evaluating a building in its market, be aware of applicable governmental ESG measures.*

*Maintain a keen understanding of leasing and other market requirements to accurately reflect supply and demand considering ESG.*

*Liaise with construction and build cost professionals to understand components that enhance ESG factors and their cost.*

*Understand ESG features of comparables used and determine how much emphasis market participants place on such features.*

*Understand whether favourable financing is available for buildings with a higher ESG rating. "*

According to the same GN, the valuer should be aware of market and property development trends, and the industry should make a significant contribution to the implementation of ESG factors to facilitate their incorporation in a transparent manner in the valuation process.

The IVSC Trustees, the IVSC Standards Review Board and the Technical Asset Boards (Business Valuation Board, Financial Instruments Board and Tangible Assets Board) have established the quantification of ESG factors in the valuation process as a priority in order to meet market expectations and the public interest.

In respect of valuation methodologies, the IVSC GN argues that these have, over previous decades, been well developed and tested and are currently appropriate to reflect market participants' sentiment towards ESG factors, with valuers being expected to be aware of market preferences. At present, due to the small number of transactions, market sentiment can be determined through the income approaches. However, as it is expected that sustainable real estate transactions will increase (the number of comparables will increase), it will make sense to apply the market approach.

- In January 2022 **RICS** will publish the Guidance Note for the valuation of commercial property, 'Sustainability and ESG in commercial property valuation and strategic advice - 3<sup>rd</sup> edition', and further publications on this subject are expected shortly. Although it is aimed at commercial property valuation, extrapolations and guidance can be made for other types of property, providing a basis for the introduction of ESG factors into valuation, although this GN does not cover life cycle considerations or circular economy principles in detail. It presents 2 appendices of particular relevance:

- **Appendix A** - listing of sustainability/ESG ratings, benchmarks and measurement schemes;
- **Appendix B** - checklist for observation at the property of potential sustainability related issues when inspecting the property.

Also this GN, in line with the EVS, states that Machinery and Equipment installed in a building are relevant in the sustainability and ESG analysis of a property and the valuer should be familiar with the general principles of PME valuation.

In the Red Book Global Standards VPGA 8 section 2.6 (c) it is established that the role of the valuer is to assess and report the value as a result of the evidence collected, and valuers should reflect and not lead the markets, being aware of sustainability factors and their implications on the property value in the short, medium and long term. Sustainability can impact the property value from the physical, legislative or political dimension or from the needs and vision of the market, being the valuer responsible for analysing the market and assessing its impact, not disregarding issues such as obsolescence, utility and risk.

The ICMS Coalition, which includes several entities including RICS, recently published the 3<sup>rd</sup> edition of the *International Cost Management Standard*<sup>46</sup>, arguing that it is the first globally applicable standard that covers carbon emissions, and is a tool to help valuers measure environmental impacts.

According to what was previously mentioned, valuers should follow both the regulatory novelties regarding the energy performance of buildings, as well as the developments and novelties regarding equipment, techniques, materials and construction solutions and also the perception that consumers have about the sustainability component, in order to be able to incorporate the “sustainability value” in valuation.

Likewise, valuers should be aware of the dynamics and identify changes in the real estate markets that will impact property value. Conscientious valuers should be aware of legislative changes regarding environmental factors associated with real estate and to what extent they will affect real estate values, being relevant at this stage the changes related to sustainability in construction, and valuers should equip themselves with the tools and knowledge that allow them to adapt to the new requirements.

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46 [https://icmscblog.files.wordpress.com/2021/11/icms\\_3rd\\_edition\\_final.pdf](https://icmscblog.files.wordpress.com/2021/11/icms_3rd_edition_final.pdf)

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