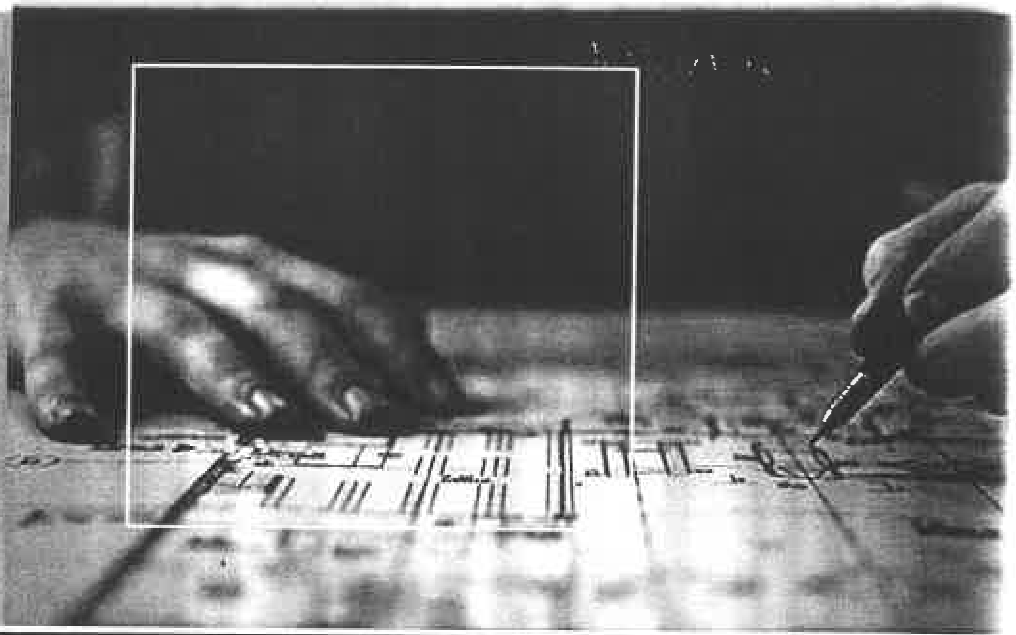

KAMRA TAL-PERITI

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"KAMRA TAL-PERITI VALUATION STANDARDS FOR ACCREDITED VALUERS" 2004

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"KAMRA TAL-PERITI VALUATION STANDARDS FOR ACCREDITED VALUERS" 2004

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The compiling of this Valuation Standard has made considerable reference to European Valuation Standards (EVS) 2000, a publication by the European Group of Valuers' Association, TEGOVA (www.tegova.org) and we have obtained written consent from TEGOVA & the Estates Gazette for which we would like to express our gratitude.

Please note: References to the masculine, include where appropriate, the feminine.

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VALUATION STANDARDS - KAMRA TAL-PERITI

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1. Introduction

1.01 It is the recommendation of the Kamra that these standards should be adopted and applied where valuations are to be incorporated into accounts or used for any other purposes which is in the public domain, or where there is significant public interest, and where such use is compatible. The purpose of these standards is:

(i) to assist valuers to prepare coherent reports for presentation to their clients by providing clear guidance;
(ii) to promote consistency by the use of standard definitions of value and approaches to valuation,
(iii) to enable users of valuations to know and understand more fully what is meant by particular terms and definitions so they are better able to utilise the valuations which have been prepared as a result of their instructions
(iv) to provide a quality standard in terms of a validation of accredited valuers (as defined in chapter 3) and best practice, as a benchmark for users of valuations;
(v) to provide an accurate basis for economic analysis of the efficient use of scarce land and building resources;
(vi) to inculcate in valuers, both a client-oriented and task-oriented approach to valuation
(vii) to increase the awareness of the role of the valuer,
(viii) to institute procedures which are likely to lead to clearly set out, accurate, unambiguous, certificates of value which are consistent with national and supranational legislation, and with valuation and accounting standards;
(ix) in the investment sector, to use procedures intended to promote consistency in valuations that are used to build indices which represent financial performance;
(x) promote coherence in national regulations and recommendations of best practice.

1.02 The scope of the Valuation Standards is to cover valuations and appraisals of the following types of property:

All forms of real estate including plant & machinery as per paragraph 8.04.8

1.03 These valuation standards are intended to cover situations of public record and interest particularly where publication of the valuation is involved. As they promote good practice, it is also recommended that they are adopted in respect of valuations for a variety of purposes which are outside of the public domain, but these high standards and consistency are of the essence. However, they are not designed to deal with matters which are specifically covered by national legislation, or national case law

1.04 Because of this, valuations for fiscal purposes and for compulsory acquisition of expropriation are not the subject matter of this standard. The general principles enunciated may, however, be applied where no other specific guidance exists.

1.05 The adoption and practice of certain widely employed, and recognised valuation methods and procedures are implicit in many of the Standards.

1.06 Keeping with The Kamra's code of ethics and professional behaviour is essential to the legitimate conduct of valuation work, and matters such as the keeping of proper records, confidentiality and disciplinary issues are dealt with wherever appropriate.

3. The Accredited Valuer (PERIT)

Covering the following:

***The Accredited Valuer** - definition, competence, and qualifications and relations with the Client.*
The Accredited Valuer's relationship with the Auditor
Conditions of engagement
Reviewing Valuations
Professional Competence
Relationship with fellow Valuers

3.01 Professional competence

(i) The Accredited Valuer must be a PERIT member of the Kamra
(ii) Valuers, particularly when reporting valuations in the public domain, are subject to State regulation.
(iii) Valuers must ensure that they meet requirements in respect of knowledge, competence and independence.
(iv) Full liaison, and co-operation with auditors prior to, and at the time of reporting valuations for the purpose of financial statements, is essential to ensure consistency and appropriateness of the basis adopted.
(v) The terms and basis of the valuers assignment must be clearly set out in writing before the valuation is reported.

3.02 The Accredited Valuer - definition, competence, and qualifications and relations with the Client

3.02.1 The basic definition and minimum requisite for an Accredited Valuer, responsible for preparing and/or supervising valuations for which he bears liability for inclusion in financial statements, is that he is a person of good repute, who can demonstrate that:

(i) The Perit is a warranted member of the Kamra, has at least two years post warrant experience, and can show that he has maintained and enhanced his professional knowledge through a relevant programme of continuing education; and
(ii) He has sufficient local knowledge and experience in valuing fixed assets in the location and category of the asset; or having disclosed the insufficiency to the client, before accepting the assignment, has obtained assistance from a competent and knowledgeable person(s), and
(iii) That he meets all legal, regulatory, ethical and contractual requirements related to the assignment demonstrated with appointments by the Courts, and
(iv) That he has appropriate professional indemnity insurance cover in relation to the responsibilities incurred on each assignment

3.02.2 In some complex cases the valuer, if he identifies that he lacks necessary specialist expertise for the proper completion of the assignment, must:

(i) Advise the client; and
(ii) Seek specialist professional assistance from, for example, geologists, environmentalists, accountants and lawyers to complete the assignment
(iii) Valuers are advised that the client should, wherever possible, instruct the expert directly, rather than the valuer instructing the expert himself. This gives a direct contractual arrangement and avoids the valuer being involved in contractual liabilities.

3.02.3 There are various circumstances, either because of legislation or professional codes of conduct where the fiduciary relationship with the client, makes it imperative that the valuer is, and is seen to be, not only competent to act, but also independent, and without any undisclosed potential conflicts of interest which are actual or possible and which could be foreseen at the time that the instructions are accepted.

3.02.4 It therefore follows that a valuer, who is asked to undertake an assignment, must make enquiries of the client as to the purpose of the valuation and the identity of any other interested or connected party so as to establish whether there is a possible conflict of interest for the valuer, or his partners, co-directors or close family. If such a conflict exists, then it is vital that the fact must be disclosed to the client. It is then open to the client to confirm the appointment, where a conflict exists, subject to a clear statement of the circumstances in any certificate or report that is produced by the valuer. There may be circumstances where the valuer, despite the client's wishes, will still decline to accept the instructions.

Internal Valuers, and Independent Valuers

3.02.5 The Accredited Valuer may be an Internal Valuer, or an Independent Valuer. In addition, it is possible for an external valuer not to be truly independent within the meaning of "Independent Valuer". An Independent Valuer is an external valuer who has not, either directly or indirectly through partners or co-directors or close family, a significant financial interest in the client company or vice versa and has no fee earning relationship (other than the current valuation fee) either at present or during the past twenty four months, or has disclosed in writing any present, past or future involvement with the subject property (or properties) or any interested or connected parties over the previous or following 24 months.

3.02.6 The case of an external valuer who is not truly independent is when the valuer is not an Internal Valuer, but otherwise does not fulfill any of the conditions set out in 3.02.4 above.

3.02.7 The Accredited Valuer may be an Internal Valuer, either as an administrator, director or employee, who is appropriately qualified, and who is without a significant financial or political interest, defined as:

(i) Either ownership by himself, direct family or through a trust, or a holding in excess of 5% (or such amount as would be expected by a reasonable person to influence the objectivity of the valuer) of the share capital in the concern, or

(ii) Remuneration, analogous share options or bonuses, linked to the results of the valuation; or

(iii) A position in a Public Authority where clear conflicts exist or may be perceived to exist by a reasonable third party.

3.02.8 In all cases the valuation report must state whether the valuer has taken on the assignment as an Independent Valuer, an External Valuer or an Internal Valuer. The definition of these terms, as given in this paragraph, must also be quoted in the report.

3.02.9 Where joint valuers are appointed, they are subject to the same requirements individually and severally as regards independence and objectivity, as above.

3.02.10 It is recommended that all valuations should include a statement to the effect that the Accredited Valuer responsible for the valuation to the client has conformed with the requirements of the present Kamra Valuation Standards, and exceptionally the extent and reasons for any departure.

3.03 **The Accredited Valuer's relationship with the Auditor**

3.03.1 The close working relationship, which can occur between a valuer and an auditor when valuations are prepared for the purpose of financial statements, gives rise to important issues and responsibilities, advice on which is given in the following paragraphs.

3.03.2 The shareholders normally appoint the auditor of financial statements or other parties as are named in the articles of association or constitution of an undertaking. He is independent of the directors and officers of the undertaking, and is subject to both regulatory and statutory obligations in the carrying out of his work. He is responsible for ensuring that the annual accounts give a true and fair view of a company's assets and liabilities, financial position and profit or loss.

3.03.3 In particular he may be required to verify, by detailed review, the objectivity, professional competence, resources, and qualifications of the valuer, and an assessment of the adequacy of the valuer's work as audit evidence. He may also need to ensure that the substance of the valuer's opinion is properly reflected in the financial statement, and that it is consistent with the basis adopted in earlier financial years.

3.03.4 Directors and other officers of an undertaking are under statutory obligation to comply with any requests for information by the auditor in order to prepare his report. An Internal Valuer will, therefore, have a similar obligation.

3.03.5 A valuer is often playing an important role as part of the audit process and an auditor may request information, and, in exceptional circumstances, may seek to inspect files, and otherwise review the valuer's work, although not carrying out a valuation himself. An Independent Valuer, appointed by and responsible to the directors of the undertaking, is not obliged by statute to respond, but failure to do so may be interpreted by the auditor as a limitation on his engagement, and if so, the auditor will have to qualify his report, and this qualification will refer to his inability to obtain the information or clarification which he has required.

3.03.6 Good practice in the proper maintenance of records will enable the valuer to comply with requests promptly and accurately, in compliance with the Kamra's Valuation Standards. In some cases, with the prior sanction of the directors of the undertaking, it will be good practice, for the valuer to consult the auditor before preparing and submitting his valuation report.

3.03.7 It is good practice that the instructions and agreed conditions of engagement should clearly set out the contractual obligations of the parties, regardless of any lack of overriding statutory duty imposed on the External or Independent Valuer. It is advisable that, such terms and conditions should include an explicit obligation to co-operate with the auditor to the undertaking, and the valuer would be bound legally to comply with this obligation.

3.03.8 By involving the auditor in the settling of the terms of the letter of instructions, the following may be avoided:

(i) The adoption of inappropriate bases of valuation;
(ii) Any possible double counting, such as might arise with properties relying on accounting data and
(iii) A lack of support for the valuer's position should the directors of the client company insist on a basis, that is not consistent with these standards, or with the professional opinion of the valuer.

3.03.9 Certain types of valuation, such as trading properties, need to rely on accounting data. While the directors and officers of the undertaking will provide background and the management's views on future prospects, the auditor may be in a position to provide further objective advice on interpretation of past results and the possible future income that can be generated from the subject property. The valuer will have to state in his report what is the substance and source of information and advice on which he is relying in order to prepare his valuation. Because of this, early liaison with the auditor concerning the consistency, accuracy and objectivity of that advice is advisable.

3.04 Conditions of engagement

3.04.1 Valuers have an absolute responsibility to ensure -

(i) That they are, and can be seen to be, competent, qualified, and not debarred by reason of any actual potential or perceived conflicts of interest or have otherwise declared, and taken steps to remedy, any real or apparent deficiency to carry out the proposed assignment *(see 3.02.1 – 3.02.4)*.

(ii) That their appointment is clearly set out in unambiguous wording, covering all heads of terms relevant to the assignment corresponding to the clients needs and the imperatives of statute, regulation, deemed fiduciary responsibility or professional ethics, and explicitly agreed by both parties prior to acceptance of new or repeated instructions and

(iii) That any required departure by the client from the Standards is stated as an unambiguous, express qualification in the letter of instructions, and the valuation report. Additionally, such departure is not likely to mislead or confuse the user of the report, because of the limits imposed or assumptions made;

3.04.2 The burden of responsibility on the valuer to agree written conditions of engagement is not only designed to establish precisely the client's needs and requirements as a matter of good business practice, but it could also be very important in any subsequent review or dispute.

3.04.3 Unexpected events such as legal disputes may occur many years after the original instructions, and the context and reasoning behind any special terms and conditions may be difficult to recall. Also, the valuation may have been used for purposes other than those for which it was prepared.

3.04.4 Apart from the benefits to the valuer of a clear and concise record prepared and agreed in advance of the assignment, it also ensures that the client, and his professional advisers know what they are getting and are able to judge whether what they have got is what they wanted and expected

3.04.5 The use of model conditions of Engagement as set out in Chapter 4 on Valuation Reporting at the outset of an appointment should ensure that all substantive matters relevant to the assignment are included or, in cases where this is inappropriate, the model clauses will serve as an aide-memoire, or framework for a specifically designed written contractual arrangement. If matters arise subsequent to the engagement that are relevant, they must be recorded in writing in order to avoid misunderstandings and subsequent disputes

3.05 Summary of what must be included in the conditions of engagement

3.05.1 The following matters, which are referred to extensively elsewhere, form the essential nucleus of any agreement as to the terms and conditions of engagement:

(i) The purpose, or if appropriate, purposes of the valuation or appraisal;

(ii) The date on which the value of the subject properties is to be established, which must always be the same as, or before, the final reporting date of the formal valuation;

(iii) The subject matter of the valuation(s) and agreed sources of information concerning tenure, land use planning and other technical and economic aspects of the properties, and extent of reliance that the valuer should place upon it. The treatment for valuation purposes of fixtures, fittings, plant and machinery normally valued with land and buildings;

(iv) The basis or bases of valuation, to be adopted and the treatment of different categories of property within the same portfolio;

(v) Compliance with the standards, or any special assumptions, particular relationship with the client or subject property, limited factors, remedial measures to be taken, or exceptionally agreed, but disclosed and not misleading, departure(s) from the standards,

(vi) Treatment of plant and machinery, and other similar technical equipment used in the business, and subject to hire purchase, financial lease or held in trust, other than that referred to in (iii) above

(vii) Provisions as to the text of and context within which publication appears, must be subject to prior sanction by the valuer, in accordance with the overriding requirement that the valuation neither misleads nor confuses the reader,

(viii) There is a correlative confidentiality undertaking by the valuer for the benefit of the client, who has the right to refuse or agree in part or in toto to any proposed press release or other publication to which the valuer may become a party;

(ix) The limits to the legal responsibility of the valuer to third parties must be stated;

(x) A statement must be made as to whether the valuation report is to be carried out on the assumption that there is no contamination, or whether a formal environmental assessment, structural, or other technical survey is to be carried out. Further, the extent to which the valuer is to take account of material factors adduced by the client or other professional advisers, or is to make any enquiries relevant to this or to the possible existence of special seismic, climatic or hazardous substances must be agreed. A prior visual superficial review following preliminary inspection by the valuer may be precursor to the appointing of specialist consultants able to establish the extent of the liability and costs of remedial works;

(xi) The extent, and agreed limitation if any, to financial responsibility to the client for the valuation and ancillary advice, and any mutually admitted dispute procedure;

(xii) The basis, quantum and timing of remuneration, including costs and expenses incurred, for the assignment when carried out by a valuer, otherwise than when acting, as director or employee of the undertaking, as an internal valuer

3.05.2 In addition to the above, there are various circumstances where the valuer needs to ensure that there is an understanding recorded in writing before the assignment commences.

Valuations carried out with limited information

3.05.3 A situation may arise where there is limited information, inadequate inspection opportunities, and/or restricted time available to the valuer. In some cases the report may be required for the internal purposes of the management; in others the report may be required in relation to take-overs or mergers where time is of essence.

3.05.4 In such cases it is essential that the valuer must ensure by arriving at an agreement at the beginning of the project, that the report must not be published. Exceptionally, it may be appropriate and expedient, to sanction publication of valuations containing appropriate qualifications, in instances where the limited circumstances set out below apply:

(i) The valuer has already inspected the subject property and is familiar with it, and with the market, and the locality; and

(ii) The valuer has received sufficient detailed supplementary information from management, and or internal valuers to the undertaking, to make up for the deficiency in his own enquiries.

3.05.5 In such circumstances it is essential that the conditions of engagement state clearly that the valuation report, and any publication based on it must set out in clear terms the instructions relating to the valuation, the purpose and context of the valuation, the extent to which enquiries have been restricted, the assumptions that have been made, the dependence that had been placed on the accuracy of the sources of information used, the opinion that the valuation represents, and the non-compliance with the standards.

Valuations which are inconsistent with the Standards

3.05.6 It follows that, for the avoidance of doubt, and as an inalienable principle of these standards, where a valuer is asked to carry out a valuation on a basis that is inconsistent with, or in contravention of, the standards he must advise the client at the beginning of the project that the report will be qualified to reflect the departure from the standards.

Reviewing other valuer's valuations

3.05.7 On occasions, a valuer may be required to review a valuation carried out by management, Internal Valuers or third parties, or to carry out a revaluation of properties already known to him. Similar difficulties apply as those set out above. In such cases it is imperative that the valuer adopts a robust approach towards the client, and sets out in writing in advance and by mutual agreement, the conditions of engagement, the limitations imposed and resulting nature of the qualification to the valuation report. The reviewing valuer should also clarify whether or not he may discuss the case with the original valuer; it is normally advisable for him to do so. A valuation report may be limited to comments on the appropriateness of the basis adopted or, following a simple valuation, of a representative cross section, by a more general statement as to the overall accuracy of the aggregate valuation. It must be made clear in the report whether or not discussions have taken place

3.05.8 In the case of the reviewing of valuations which have been carried out by other valuers, it must be agreed at the outset with the client that no publication of the views expressed, which could be potentially damaging to the reputation of the other valuer, should be made unless all the properties involved have been inspected and all usual enquiries have been carried out.

3.06 Reviewing valuations

3.06.1 There are two types of valuation reviews

(i) A "desk" review, which is completed without a field inspection, and comprises an analysis of the information in the valuation report. Such a report is clearly of limited use and undue reliance cannot be placed upon it; clients must be made aware of the shortcomings of such a report before the valuer undertakes the assignment.

(ii) A "field" review, which requires an inspection of the property which is the subject of the valuation; this type may also include the inspection of any comparable properties. This is the most normal and most reliable type of review.

3.06.2 The reviewer should demonstrate the same competence, professional skills and experience as were required for the original valuation (see 3.02.1 – 3.02.4)

3.06.3 The essence of reviewing a valuation report consists in examining the assumptions, methods and procedures adopted for the valuation and the reviewer must be satisfied that these are in accordance with the client's instructions, and that they have been carried out in a satisfactory and competent manner.

3.07 The valuation review

3.07.1 In carrying out a review the valuer should identify from the valuation report, the subject of the review, the effective valuation date, the date of the information which was used by the valuer at the time of valuation. The reviewer must not consider any subsequent information revealed between the valuation date and the reviewing date unless the information could have been made available to the valuer if he had made suitable enquiries

3.07.2 The valuer must identify the client and other possible users of the report, what is the purpose of the valuation, and what is the purpose and extent of the review. The interest, which is the subject of the valuation, must also be clearly identified.

3.08 The Review Report

The report should

(i) Set out the reason and opinion that led to the conclusions, which are then presented as the result of the review

(ii) The review process is separate from the valuation process, and the reviewing valuer should not sign the valuation report as, to do so will mean that the reviewing valuer accepts full responsibility for the valuation and report.

Sub-contracted valuations

3.09.1 Where work is subcontracted to other specialist valuers or where substantial third party professional assistance is obtained it is necessary to obtain prior sanction, which is recorded in writing from the client, and disclose this fact within the valuation report.

Valuations passed onto third party

3.09.2 There is a risk that valuations prepared for one purpose may be passed to a third party and used for another unrelated purpose, despite the inclusion of a clause excluding third party liability (see 3.04.5). The conditions of engagement must therefore, not only rely on such exclusion, but also on a clear exposition of the restricted nature of the valuation.

3.10 Kamra's Accredited Valuers

3.10.1 Having regard to the Regulations, Objectives & Codes of Conduct of the Kamra, all Valuers and their representative professional or technical organizations are expected to subscribe to this Code.

Qualification

3.10.2 Only warranted members of the Kamra able to conform to the definition of the accredited valuer set out in 3.02.1 – 3.02.5 may undertake such work.

Probity

3.10.3 It is all times the first duty of Valuers to represent the legitimate and ethical interests of their clients to the utmost of their ability, consistent with the high standard of professional behaviour towards other parties.

3.10.4 Valuers will not act for two or more parties in the same matter, save with the consent of the parties concerned. Valuers will at all times deal with clients' affairs with proper discretion. A valuer shall not use any confidential or other information obtained from a client or any other practitioner, or being an employee having left the employment, concerning any property or pending transaction relating thereto, to the prejudice of such client, other practitioner or former employer.

Acknowledgement of outside assistance

3.10.5 Valuers will acknowledge any outside assistance received from other practitioners and in normal circumstances will have advised their client and other interested parties of the joint involvement.

3.10.6 Valuers must take all reasonable precautions to ensure that no conflicts of duty arise between the interests of their clients and those of themselves, their firms, relatives, friends or associates. Valuers are not permitted to accept any appraisal/valuation assignment in connection with property in which they have or are planning to acquire an interest. Potential conflicts must be notified before accepting instructions on a specific written consent to proceed with the instructions.

3.10.7 Accredited valuers will not engage in or be connected with any occupation or business or carry on their practice under a name or style, or in a manner that would damage or tend to damage their professional reputation.

3.10.8 A valuer shall, in charging fees for professional work ensure that the amount charged is such that, in all circumstances, it is fair and consistent with the standing and reputation of the profession.

3.10.9 Valuers must ensure that the agreement or contract between the parties concerning the Valuation

Instruction contains, without any ambiguity, complete and thorough information so that both parties to the agreement are fully aware of the implications.

3.11 Professional Competence

3.11.1 Valuers must, at all times, remain conversant with current market conditions and legislation and all essential information or changes likely to influence their opinion on value.

3.11.2 Valuers are not permitted to accept any assignment that goes beyond the field of their expertise, except to ensure, with the consent of the client, the assistance of a specialist whose limits of intervention will be clearly defined. Valuers will acknowledge on the outside that assistance received from other practitioners and, in normal circumstances, will have advised their client and other interested parties of the joint involvement.

3.11.3 Valuers should thoroughly research all of the essential facts which relate to each valuation project for which they accept instructions in order to fulfill their obligation to provide the correct result. Each Valuer shall for so long as he remains in practice undergo in each year Continual Professional Development. This is the systematic maintenance, improvement and broadening of knowledge and skill and the development of personal qualities necessary for the execution of professional and technical duties throughout the practitioner's working life.

3.12 Relationship with Fellow Valuers

3.12.1 Valuers are not permitted to take the initiative in making unsupported criticism of the professional practices of fellow Valuers. However, in order to ensure that high standards are maintained, there may be circumstances in which the fiduciary responsibilities of the valuer require him to make private or public criticisms of the professional work carried out by other valuers.

3.12.2 Valuers, if asked for a second opinion, in relation to a case, which is being handled by a fellow Valuer, should give such opinion in keeping with integrity and with consideration for that fellow Valuer. This was developed in reviewing other Valuer's Valuations (para. 3.05.7 & 3.05.8).

3.12.3 Valuers should endeavour to promote the standing of the profession by encouraging and aiding where possible the various educational institutions which provide professional training, by encouraging the professional organizations/societies through their participation, to publish specialist reviews and journals. The result of such endeavors should be to ensure that the Valuation Standards are fully understood and undertaken by the profession with a view to providing the public with the correct information.

3.12.4 Valuers must refrain from any practice that is harmful to the good reputation of the profession and from any behaviour likely to cause moral or material injury to their fellow Valuers. They should share with their fellow Valuers, in order to contribute to the on-going improvement of the standards of the profession, the fruits of acquired experience so as to perfect the professional capacity of their associates with a view to their promotion and an improvement in the service rendered.

4. Valuation Reporting

Chapter 4 covers the following matters:
The form of certificate used
The contents of the certificate, including:
The instructions, time period, identification, basis of valuation, compliance statement, risk assessment, the treatment of process plant and machinery, publication and confidentiality clauses, third party liability, acquisition & disposal costs, financial liabilities, model clauses for the valuation certificate

4.01 Valuation Standard

- The valuation certificate by its layout and language must provide a clear unequivocal opinion with sufficient detail to ensure all key areas are covered and that no misunderstanding of the real situation of the asset(s) can be construed.

4.01.1 Valuation Certificates are frequently required for financial reporting and other commercial purposes, where a shortened form of a full valuation report is appropriate. The certificate must nevertheless contain sufficient information to set out clearly the basis of valuation and all other pertinent factors, so as not to mislead the user of the certificate.

4.01.2 The report must be objective, and the valuer must ensure that no conflict of interest exists, including any in-house verification procedure, and must be influenced by pressure brought by his client or third party to produce a particular result in terms of valuation or any other associated advice. In appropriate cases the valuer must refuse to act where his reputation for objectivity is likely to be put at risk.

4.01.3 The form of certificate used will have regard to the specific instructions from the client to the valuer and the use that the client proposes to make of the valuation. It is recommended that the valuation certificate must contain, as a minimum, the following matters.

(i) The instructions, date and purpose of the valuation;
(ii) The basis of the valuation, including appropriate definitions of value;
(iii) Tenure and classification of the assets which are subject of the valuation;
(iv) Identification of the assets and their locations, by means of a suitable site plan where appropriate, and the date and extent of the inspections which have been carried out;
(v) The regulatory framework under which the valuation has been made;
(vi) Any special assumptions and limiting conditions;
(vii) Any plant, machinery and equipment which is included in the valuation
(viii) Any other matters which may be relevant to the valuation

4.01.4 The instructions - the client's name and that of the instructing party if different, the purpose, or purposes of the valuation, plus any special assumptions and, as an annex, a copy of the terms of engagement.

4.01.5 Time period - the date of valuation and of inspection of the subject properties must be stated.

4.01.6 Identification - the subject matter of the valuation, and sources and nature of the information relied on, concerning tenure, legal charges, land use planning, licensing, statutory controls, and other technical and economic aspects of the properties. Any assumptions must be stated and explained, and any information that needs further verification must be indicated. The treatment for valuation purposes of fixtures, fittings, plant and machinery, which are normally valued with land and buildings, must be included as an annex to the report.

4.01.7 Addresses and values - if the valuation certificate relates to a number of properties, the valuer will probably find it convenient to show these in schedules to the certificate. In that event it is desirable to show a summary of the values within the body of the certificate. The addresses and identification of the subject properties should be illustrated. Negative values must be stated in the schedules and carried forward to the summary, and not set off against the previous values of assets in the same category. When the valuer's instructions include properties which are held as trading assets, their values must be separately scheduled. The schedules are normally subdivided for the purposes of certificates intended for financial statements in four principal categories as follows:

(i) Owner-occupied – for the purpose of the business
(ii) Investment – for the purpose of generating income or capital gain;
(iii) Surplus to the requirements of the business; or
(iv) Trading stock, designated as current assets

4.01.8 The basis of Valuation – the basis or bases of valuation, and the valuation methods adopted, together with the treatment of different categories of property within the same portfolio must be declared. Thus, whether the valuation is on a Market Value basis or another recognized basis, or is a calculation of Value in Use, this and the definitions adopted, must be clearly stated, together with any limiting conditions. **Additionally, the methodology used and, if appropriate, the inclusion of calculations with relevant sensitivity and risk and performance analysis must be clearly communicated;**

4.01.9 Kamra tal-Periti compliance statement – compliance with the standards, including the status of the asset valuer and any specialist or other advisor consulted, any special assumptions or particular relationship with the client or subject property, any limiting factors, remedial measures to be taken; exceptionally, any departure from these standards, which have been agreed and disclosed and are not misleading, must be made clear;

4.01.10 Risk assessment - in the case of valuations for loans or other cases where the volatility of the market is of major importance, the valuer should comment on this aspect, and on the suitability of the asset as security having regard to the terms proposed in the loan facility;

4.01.11 Process Plant and Machinery – the treatment of process plant and machinery, and analogous technical equipment used in the business, which is subject to hire purchase, financial lease or is held in trust, must be placed on the record;

4.01.12 Publication Clauses – provisions as to the text and context within which publication appears, must be subject to prior sanction by the valuer, in accordance with the overriding requirement that the valuation must neither mislead nor confuse the reader.

4.01.13 Confidentiality Clauses – there is a confidentiality undertaking by the valuer for the benefit of the client, who has the right to refuse or agree in part or in full to any proposed press release or any other form of publication to which the valuer may become a party;

4.01.14 Third Party Liability – the limits to the legal responsibility of the valuer to third parties must be stated;

4.01.15 Acquisition & Disposal Costs – The valuer must make it clear whether or not any allowance has been made for liability for taxation which may arise on any actual or notional disposal, and whether or not the valuation reflects costs of acquisition or realization. Market Value would normally be the contract sale price before adjustment for costs, but a replacement cost valuation would include the costs of creating the asset. Exceptions exist particularly in relation to assets held for disposal, trading properties and current assets subject to special accounting conventions;

4.01.16 Financial Liabilities – the extent of, and any agreed limitation to, financial responsibility to the client for the valuation and ancillary advice; any mutually- admitted dispute procedure must be stated and, also any special requirement of the valuer's professional indemnity insurance policy.

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

4.02 The Valuation Certificate – Model Clauses

The Valuer's Fiducial Responsibilities

4.02.1 Model clauses that include caveats, which qualify reports, should be used sparingly, and only where fully justified, as they may detract from the authority of the certificate or report. They must clarify what the client can reasonably expect, and, unless exceptional matters arise subsequently, conform with prior mutual agreement of the terms of engagement. The use of model clauses, where required, does not and must not replace the duty of care imposed on the valuer to draw the attention of the client to the issues which are germane to the establishment of Market Value, if there is any suspicion of the possible existence of substantive problems.

Environmental Factors

4.02.2 A recommended form of words, where no contamination is identified, is as follows:
Standard enquiries have not resulted in any indication that contamination, either naturally occurring or chemically derived, affects the subject property or neighbouring property which would impact on the value. If it is subsequently established that contamination exists at the property or on any neighbouring land, or that the premises have been or are being put to a use, which could contaminate, this may reduce the reported value.

4.02.3 If an absolute disclaimer of liability is more appropriate and is agreed by the client, the following is recommended for inclusion in valuation reports.
We have been instructed to assume for the purpose of this valuation that no contaminants exist or that the cost of decontamination work would be immaterial to value. We have not been made aware of any survey or report indicating the presence of contaminants or hazardous materials. We have not carried out any investigation into past or present uses, either of the property or of any neighbouring land, to establish whether there is any contamination to the subject property from these uses or sites, and the value is predicted on the assumption that none exists. No responsibility is assumed for the existence of any contaminant, nor for any expertise or scientific knowledge required to discover it. If it is subsequently established that contamination exists at the subject property or on any neighbouring land, or that the premises have been or are being put to a use, which could contaminate, this may reduce the reported value.

4.02.4 In relation to the impact o the presence of toxic deleterious and/or hazardous substances in buildings, the following statement may be appropriate where no survey is to be carried out, or form a basis for a more focused assertion:
We have not carried out any investigations into the presence or otherwise of toxic or hazardous substances, and can therefore not offer any assurance as to the potential impact on valuations. We have therefore assumed for the purpose of this valuation that no toxic, hazardous substances or any deleterious of any kind is present in or on the property. Any subsequent identification of such substances may have a significant effect on value.

4.02.5 Similar caveats may be applicable where no survey has been carried out in relation to the repair of buildings, settlement issues or soil surveys for construction purposes. The following model deals with state of repair.
We have carried out a cursory building structural survey, we have not inspected those part of the property that are covered, unexposed or inaccessible and such parts have been assumed to be in a good repair and condition. We cannot express any opinion about the condition of uninspected

parts and this report must not be interpreted as if it validates the integrity of the structure or fabric of the building

Publication & exclusion of liability to third parties

4.02.6 The standard recommendation in respect of publication, which is of particular importance if the valuer's report is qualified, is subject to special assumptions.
Neither the whole nor any part of this Valuation Report/Certificate nor any reference thereto may be included in any published document, circular or statement nor published in any way without the valuer's written approval of the form and context in which it may appear

4.02.7 Third party liability must be expressly excluded and this would typically be incorporated with a non-publication clause. A standard clause is included below:
This report is confidential to you and your professional advisers and is for the sole purpose stated above. We can accept no liability if it is relied upon by anyone else, whether for the stated purpose or any other.

5. Valuation Bases

Chapter 5 covers the following matters:
Valuation principles and reporting practice
The purpose of valuation and uniform bases of valuation
Definitions of value: Market Value, Market Rental Value.
Highest and Best Use Value, Fair Value, Market Value for Existing Use, Value in Use, Concept of Worth, Investment Value, Alternative Use Value, Depreciated Replacement Cost, Social Cost Benefit Analysis, Retrospective Valuations, Forecasts.

5.01 Valuation principles and reporting practice

5.01.1 Valuation principles, as articulated in uniform bases of valuation, and the use of established explicit valuation methodology, together form the bedrock on which clearly presented and accessible valuations are formulated. They set a model against which the work of a valuer will be judged. Increasingly, the use of recognized bases of valuation, which are based on EU Council Directives, or International Valuation Standards (IVS) are statutory or recommended requirements in the respect of financial statements.

5.01.2 The purpose of the valuation is crucial to the choice of valuation base, and this must be established in conjunction with the client and his professional advisors, when the conditions of engagement are agreed at the start of the assignment.

5.02 The purpose of valuation and uniform bases of valuation & Calculation of Worth

5.02.1 Whatever the purpose of valuation, the fundamental criteria is the definition and explanation of Market Value agreed by the International Valuation Standards Committee (IVSC), and adopted by the European Group of Valuers Association (TEGoVA). However, to avoid confusion, it is recommended that the term "Fair Value" should be adopted in relation to valuations to market of fixed assets for the purpose of financial statements. For most purposes Fair Value can be regarded as synonymous with Market value.

5.03 Definitions

5.03.1 To avoid confusion, care is needed over the use of the words *price, value and worth*. *Price/value* are market driven (value in exchange) whereas *worth* is subjective and based on a client's particular circumstances (value in use).

5.03.2 *Calculation of worth* means the provision of a written estimate of the net monetary worth at a stated date of the benefits and costs of ownership of a specified interest in property to the instructing party reflecting the purposes(s) specified by that party.

5.03.3 With the above in mind, the following definitions should be adopted.

- Worth is a specific investor's perception of the capital sum which he would be prepared to pay (or accept) for the stream of benefits which he expects to be produced by the investment.
- Price is the actual observable exchange price in the open market.
- Value is an estimate of the price that would be achieved if the property were to be sold in the market.

5.03.4 Worth is the underlying investment value, as opposed to valuation being an estimate of the most likely selling price termed the open market value. Individual worth is the maximum bid price of an individual purchaser who takes account of all available information in an efficient manner. Market worth is the price at which an investment would trade on a market where buyers and sellers were using all available information in an efficient manner.

5.03.5 The different definition of market derived and non-market-derived bases of valuation that are approved for use in respect of financial statements, and the appropriate circumstances for their exercise, together with recommendations as to the manner of their application are set out below.

5.03.6 Matters covered in this section, together with related concepts, issues and explanatory material, include definitions of:

I. Market Value;
II. Market Value for Existing Use;
III. Fair Value;
IV. Value in Use;
V. Selling Price;
VI. Alternative Use Value;
VII. Negative Values,
VIII. Depreciated Replacement Cost;
IX. Social Cost Benefit Analysis.

5.03.7 Other established bases, which are not generally appropriate for the purpose of financial statements, are described elsewhere in various parts of this Valuation Standard. Implicit in the definitions are valuation procedures, not all of which will give rise to an appraised value compatible with value in exchange manifest in the definition of Market Value.

5.04 Market Value

5.04.1 The preferred Market Value definition, set out in 5.04.5 is that established by the IVSC. The definition uses a different form of words to that forming part of European Union Law, as endorsed in Article 49 of the Council Directive on the Annual and Consolidated Accounts of Insurance Undertakings (91/674/EEC). It is considered by TEGoVA that the application of either definition as commented on below will result in the same valuation figure.

5.04.2 The definition in Article 49 (2) of the European Council Directive, referred to here as the EU definition, is:
Market Value shall mean the price at which land and buildings could be sold under private contract between a willing seller and arm's-length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period having regard to the nature of the property, is available for the negotiation of the sale.

5.04.3 It is a recommendation of TEGoVA that the definition, shown in 5.04.5 taken together with the detailed commentary which follows, must be interpreted as amplification of the text of the Directive. The IVSC definition is consistent with a rational interpretation and amplification of the EU, Article 49 (2) definition.

5.04.4 The European Council definition, which has some specific detailed requirements concerned with reporting for accounts purposes, does call for some additional comment, and is specifically required for valuations carried out for the insurance sector, and/or may be imposed by clients or their professional advisors, or required to be referred to, as representing the only European Union legal definition of Market Value.

5.04.5 The approved IVSC/TEGoVA definition, referred to as the definition, is:
Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(Note, "date of valuation" means the date at which the property is deemed to be sold)

5.05 **Market Rental Value**

5.05.1 The definition of Market Rental Value takes the same form as that for rental value, but substituting "estimated rent" for "estimated amount" and "lessor" and lessee" for "buyer" and the "seller" respectively, and setting out the specific lease terms which have been assumed for the purpose of the valuation.

5.06 **Commentary on the Market Value definition.**

5.06.1 The term "asset" is adopted to reflect, in these standards, the focus on financial statements. However, the term "property" may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.

5.06.2 "The estimated amount ..." refers to a price expressed in terms of money payable for the asset in an arm's-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the market Value definition. It is the best price reasonably obtained by the seller and the most advantageous price reasonably obtained by the buyer.

5.06.3 This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as financing which is not typical, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any elements of special value. Special Value is a term relating to an extraordinary element of value over and above Market Value, and could arise, for example, by the physical, functional, or economic association of a property with some other property such as an adjoining property or a property in the same ownership as the subject property. It is an increment of value, which is only applicable to a particular owner or user, or prospective owner or user, of the property rather than to the market at large; that is, to a purchaser with a special interest.

5.06.4 Special Value could be associated with elements of Going Concern Value. The Valuer must ensure that such criteria are distinguished from Market Value, making clear any special assumptions made.

5.06.5 "...an asset should exchange..." refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction to be completed on the date of valuation, which meets all the other elements of the Market definition.

5.06.6 "...on the date of valuation..." requires that the estimated Market Value is time-specific to a given date and this date is normally the date that the hypothetical sale is deemed to take place and is normally, therefore, different from the date when the valuation is actually prepared. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances at the effective valuation date, not at a past, or a future, date. The date of valuation and the date of the valuation report may differ, but the latter cannot precede the former. The definition also assumes the simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made in the market Value transaction.

5.06.7 "... between a willing buyer refers to one who is motivated but not compelled, to buy. This buyer is neither over-eager to buy, nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market, which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires him to pay. The present asset owner is included among those who constitute the "market:". A valuer must not make unrealistic assumptions about market conditions or assume a level of market value above that which is reasonably obtainable.

5.06.8 "... a willing seller ..." is neither an over-eager nor a forced seller who is prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price obtainable in the open market after proper marketing, whatever that price might be. The factual circumstances of the actual owner are not part of this consideration because the "willing seller" is a hypothetical owner.

5.06.9 "... in an arms'-length transaction..." an arms'-length transaction is one between parties, who do not have a particular or special relationship (for example, parent and subsidiary companies, or landlord and tenant), which may make the price level uncharacteristic of the market or make it inflated, because of an element of special value. The Market Value transaction is presumed to be between unrelated parties each acting independently.

5.06.10 "... after proper marketing ..." means that the asset would be exposed to the market in the most appropriate manner to effect it's disposal at the best price reasonable in accordance with the Market Value definition. The length of exposure may vary with market conditions, but must be sufficient to allow the asset to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

5.06.11 "... wherein the parties had each acted knowledgeable and prudently..." presumes that both the willing buyer and willing seller are reasonably well informed about the nature and characteristics of the asset, its actual and potential uses and the state of the market at the date of valuation. Each is presumed to act in their own self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with the benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell a property in a market, with falling prices, which is lower than previous market levels. In such case, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

5.06.12 "... and without compulsion..." establishes that each party is motivated to undertake the transaction, but is neither forced nor unduly coerced to complete it.

5.07 **Highest and Best Use Value or Market Value**

5.07.1 highest and best use is a term employed by the IVSC, and is widely used and understood in North America. It is synonymous with Market Value. Highest and best use is defined by IVSC as.
The most probable use of an asset which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the asset being valued.

5.07.2 Clearly, a use that is not legally permissible or physically possible cannot be considered a highest and best use. A use that is both legally permissible and physically possible may nevertheless require a cogent explanation to justify the adoption of such use as being reasonably probable or appropriately justified. Once analysis establishes that one or more uses are reasonably probable, then this conclusion can be validated by a feasibility study. The use that results in the highest value would be the highest and best use, and would be analogous with the Market Value definition.

5.07.3 The concept of highest and best use is inherent in the Market Value definition and it may also inform discussion related to market Value for Existing use, and market value for Alternative Use or Alternative Use Value, which are referred to below

5.08 **Fair Value**

5.08.1 Fair Value is an accounting concept encapsulated in International Accounting Standard 16 (IAS 16.6). It is defined as "*The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction*".

5.08.2 The above short definition is, on the face of it, consistent with the TEGoVA definition of Market value for Existing Use. The term is also used in some jurisdictions to provide a legal definition for attributing an equitable settlement between the parties to an action which is before the courts or is in contemplation of proceedings.

5.08.3 Article 30 of IAS 16 (Revised 1998) deals with revaluations of assets and states as follows:-
The fair value of land and buildings is usually its Market value. This value is determined by appraisal normally undertaken by professionally qualified valuers.

5.08.4 This sets the context in which a more detailed consideration, and consistent European Standards, defining Market Value for Existing Use, can be established.

5.08.5 The presumption that the business is an ongoing concern assumes the adoption of Market Value for existing use. Inherent in this is the concept of "deprival value", or net current replacement cost, that is to say the cost to an owner occupier of going into the market to purchase a replacement asset. Where such hypothetical assumptions apply, a valuation on the basis of Market Value for Existing Use may produce results, which could be misleading if they are reported in other contexts. It is, therefore, important that such valuations are always annotated explicitly so as to reflect the special circumstances of their applicability.

5.09 Market Value for Existing Use

5.09.1 The Market value for Existing Use of an asset, which should be regarded as synonymous with Fair Value, is defined as Market Value based on the continuation of its existing use, assuming the asset could be sold in the open market for its existing use on a vacant possession basis, and with the assumptions listed below, but otherwise is in accordance with the IVSC/TEGoVA definition. Although Market value for Existing Use is now adopted explicitly only on rare occasions, following its abandonment by the International Accounting Standards Committee, details of it are included here because of its close affinity with Fair Value

5.09.2 It must be distinguished from Going Concern Value, which relates to the total value of an enterprise based on financial performance of the business, which incorporates tangible as well as intangible assets, goodwill and other non property market considerations. The apparently similar term Value in Use is also used, but this is defined by the IVSC as being the value that a specific property contributes to the enterprise of which it is a part. It follows, therefore, that the aggregate of all the Value in Use assessments, of properties within an undertaking will equal its Going Concern value. Currently Value in Use or individual Going Concern Value is contrary to advice to valuers in certain European jurisdictions.

5.09.3 The presumption that the business is an on-going concern logically requires the adoption of Market Value for Existing Use. Inherent in this is the concept of "deprival value", or net current replacement cost, that is to say the cost to an owner occupier of going into the market to purchase a replacement asset. Where such hypothetical assumptions apply, a valuation on the basis of Market Value for Existing Use may produce results that could be misleading, if reported in other contexts. It is, therefore, important that such valuations are always explicitly annotate, to define in detail, the special circumstances in which they are applicable.

5.09.4 The approved TEGoVA definition of Market Value for Existing Use is:
Market Value for existing use is the estimated amount for which an asset should exchange on the date of valuation based on continuation of its existing use, but assuming the asset is unoccupied, between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

5.10 Commentary on the Additional Market Value for Existing Use definitions

5.10.1 "... on the date of valuation..." requires that the estimated Market Value is time-specific to a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances at the effective valuation date, not at a past, or a future, date. The date of valuation and the date of the valuation report may differ, but the latter cannot precede the former. The definition also assumes the simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made in the Market Value transaction.

5.10.2 "... based on continuation of its existing use..." dictates that only an exchange based on bids in the market to continue the existing use must be assumed. It follows that any higher value if the asset was to be sold on an open market or highest and best use basis is to be ignored.

5.10.3 "... but assuming the asset is occupied...," underlines the fact that no account must be taken of the actual occupation as a reason to adopt the fiction that a rent is paid by the actual owner. It is not to be assumed that an investment enhanced by the actual occupier's covenant is to be valued. The asset must be assumed to be vacant and available for sale or letting at the date of valuation. The potential bid of the actual occupier is not to be excluded, but neither must the occupier be assumed to bid over the level generally paid in the market.

5.10.4 The definition has use only in relation to reporting for the purpose of financial statements. Under EU Directives, national law, international and national accounting standards and practice, property assets are often required to be stated at cost on acquisition, or Fair value, that is Market Value for Existing Use.

5.10.5 The Existing Use Value basis is inapplicable to valuations required for investment properties, properties surplus to requirements, and current assets, when Market Value on a highest and best use basis must be adopted.

5.11 Additional Assumptions

5.11.1 Various additional assumptions and comments are set out below:

- There is an implicit assumption, which must be reasonable in all the circumstances, that the property can only be used by the undertaking for the foreseeable future for the existing use.
- That use must be one that accords with planning law, licensing and other regulations.
- That value derived may be the same as or lower than, but not higher than, (except exceptionally as set out below), of the value arrived at by the application of the principles of highest and best use. Examples of this exception include:

(i) In certain planning and analogous situations consents may be granted, although unavailable in general market and which will be taken into account in an existing use valuation, thus potentially giving rise to a super value over the above Market Value;
(ii) Similarly, environmental problems may adversely affect Market Value, but only if remedial works are statutory obligations and affect the ongoing business or the market value for existing use;
(iii) Restrictions in lease that have no consequence for the occupier are not relevant to this basis of valuation, although they would affect unrestricted Market Value; and
(iv) an appraisal on the Depreciated Replacement Cost basis which relates to cost and depreciation for obsolescence in respect to the actual operations on the land may, and often will, exceed value on an open market basis.

- Any possible alternative use is thus ignored, and any element of hope value, any value attributable to goodwill and any possible increase in value due to special investment or financial transaction, such as sale and leaseback, which would leave the company with a different interest from the one which is to be valued.

- The valuation can, however, take into account the value attributable to the position of the operational company, where the potential exists to extend or replace the existing building for the purposes of the undertaking, provided this can be done without major interruptions of the continuing business.

- Similarly, that part of goodwill that attaches to trading properties, which is normally valued in accordance with trading potential, and is applicable to the operations of a normally competent trading entity, will also be incorporated in an existing use valuation.

- It is to be assumed that any part of the property directly occupied for the purposes of the undertaking is vacant at the date of valuation, and thus the existence of the actual occupier is disregarded. Valuations on an existing use basis that adopt the Depreciated Replacement Cost approach to appraisal implicitly assume that the existing owner/occupier continues his actual operations on the site.

- Any part of a property asset that is let under contract, or otherwise occupied by a third party, will also be valued taking that fact into account.

- If the property is, or will become, surplus to operational requirements, then valuation by reference to market value, or highest and best use value, must be adopted. An exception to this would be an unused or obsolete asset, which cannot be separated from the ongoing business. In such cases the valuation must reflect the marginal additional value to the business of such surplus assets.

5.11.2 The valuation procedure known as depreciated replacement (5.15), which is a departure from market derived values, may be applied in respect of assets, which are rarely, if ever, sold or let in the market for their existing use, except by way of sale of the business. IAS 16, Art 31 specifically requires this method for plant and equipment, where there is no evidence of value, because of the specialist nature of the asset.

5.11.3 Where the application of procedures, which are based on Market Value or Alternative Use Value, would result in materially different valuation figures from the value for existing use, these must be reported together with the report on the basis of Market Value for Existing Use. In order to avoid misleading any possible readers of the reported valuations, it is essential that the form and content of the publication of the reported figures must be subject to explicit prior approval by the valuer who prepared the valuations.

5.12 The Concept of Worth (or Value in Use) – Investment Value

5.12.1 There is a risk of confusion between the terms value and worth. In real estate valuation reporting, it is good practice, in order to avoid misleading the recipient, to use the word "value" only when expressing an objectively established value in exchange at a given date, and to use the word "worth" only in the context of value in use. In fact, it is probably more helpful to use the expression *"value in use"* rather than the word *"worth"*.

5.12.2 The concept of *value in use* is based on a subjective, non-market derived, assessment of economic utility of an asset to an undertaking. It is sometimes referred to as Investment Value. The latter term is potentially liable to mislead, as it implies a market led assessment, which could be confused with Market Value. It is fundamentally different from an assessment of Market Value, but is a component that, in the aggregate, drives market activity, and is based upon individual estimates of *value in use* by the market participants.

5.12.3 The calculation of *value in use* may take the form of a subjective appraisal of estimated cost, and benefits accruing to the investor over time, discounted in accordance with the investors internally derived criteria, and based on a cocktail of different elements including, for example, an evaluation of economic trends, residual values, financial targets and risk analysis.

5.12.4 Calculations of *value in use*, although not strictly valuations, are very often part of the vital process of evaluating a project or comparing alternative investment opportunities. They are as intellectually demanding as valuations and the quality of assessment of the different elements can affect the performance by the investor.

5.12.5 The evaluation by an undertaking of an investment portfolio using internally generated, but consistent criteria which is applied to anticipated cash flow, can be argued to represent a more satisfactory long term judgement of a group's performance than Market Value which is based on spot figures derived from markets in rapid transition. It is not however a basis that can be justified objectively, or is capable of validation, excepting over time

5.13 Value in Use

5.13.1 Value in use must not be confused with market value for existing use, which is market-based valuation of property assets under particular assumptions.

5.13.2 In accountancy terms, value in use is the maximum amount recoverable from continuing ownership and ultimate disposal of the asset. A concept has been developed in accountancy standards, and adopted by the IVSC, where the intangible element of goodwill can be included in a valuation of an individual property, on the basis of value in use. This is described as Value in Use and the aggregate of the values in use of all the operational business units in a Going Concern equals the Going Concern Value. A Going Concern Value is a valuation of a business rather than a property valuation of individual business units. Such a valuation relates only to the special circumstances of the business that owns the operating units, and in large enterprises this will be more akin to an apportionment of business value, than a market based valuation of individual assets.

5.13.3 Where international accounting Standards are adopted IAS 16 on the valuation of fixed assets (land and buildings), IAS 36 on impairment of fixed assets and IAS 25 on investment properties would apply.

5.13.4 The benchmark basis for financial statements under IAS 16 is to incorporate cost or as a permitted derogation Fair Value. Special rules apply in the case of impairment. In this case the value of an asset should be measured at the higher of its net selling price and its value in use

5.13.5 Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of disposal.

5.13.6 Value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal. Value in use is calculated as the present value of estimated future cash flows. The discount rate should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

5.13.7 The value in use of an individual asset may be difficult to establish. Assets are then aggregated as a "cash generative unit", which is defined as "the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets"

5.13.8 As it is also intended to exclude the impact of financial gearing the use of the capital asset pricing model stripping out gearing is one way in which the applicable discount rate can be used.

5.14 **Alternative Use Value**

5.14.1 Alternative Use Value can be defined by reference to the core TEGoVA definitions, as representing the value for the highest and best use, excluding the use for which the property is actually currently used, or intended to be used; it can include redevelopment

5.14.2 Alternative Use Valuation are often required in the case of valuation and appraisal for security purposes or as part of a highest and best use analysis, when determining the economic deployment of assets, or the real return on capital employed by an undertaking

5.14.3 Alternative Use Values, which cannot be realized except on liquidation, closure or removal of the business to other premises, are not suitable for inclusion in the accounts under European accounting convention, except where an intention is adduced, on the part of the directors, to dispose of the asset, when it may form part of the assessment of Market Value, and be separately classified in the valuation certificate.

5.14.4 Where Alternative use Value differs materially from existing use value it must be reported to the client by the valuer irrespective of whether the existing use value has been established by reference to the market or to depreciated replacement cost.

5.14.5 In the case of personal planning consents, or other rights or user covenants in the lease, which are personal, when producing an existing use valuation, the valuer must always include, in a note to the valuation certificate, reference to the Market Value without the benefit of the rights, which are personal to the undertaking.

5.14.6 Land and buildings held as investments or for development will also be valued on a market basis, subject to relevant existing tenancies and will thus take into account any alternative use if appropriate.

5.14.7 In all cases, Alternative Use Value must be related to definite information as to statutory or other consents, (such as that from a superior landlord), regarding change of use or other matters which may affect the assessment of Alternative Use Value.

5.14.8 Alternative Use Value may be negative. Typically this may arise in the case of leasehold land, or where personal rights, considerations of the continuing nature of the business, and limitations on strict legal liabilities that would apply on sale in the open market, enhance existing use value.

Negative Values

5.14.9 Negative values arise where real estate assets are subject to physical, legal, financial or contractual obligations which are attached to the legal interest and which generate a negative real or hypothetical cash flow or which require substantial remedial works. The assets convert into a liability, or negative value.

5.14.10 Negative values may arise in the case of leasehold interest where the rent payable under the lease exceeds the market rental value. This may arise because there are covenants in the lease that are onerous for the lessee.

5.14.11 Freehold property may also be a liability, if there are costs of reclamation that are legally obligatory, or there are expenses of meeting statutory or contractual obligations, and these exceed the value of the property free of such obligations.

5.14.12 If positive values are shown in accounts, then logic and principles of transparency require that negative values must also be reported. To report the value of a legal interest, which is actually a liability, at a 'nil' valuation will fail to present a true and fair view of a company's overall position.

Any negative value must be reported separately and not be used as a set-off against the value of another property or class of assts

5.14.13 Where a right to insist on the acquisition, or other form of reparation, by the state exists in relation to an otherwise negative value property, (for example certain contaminated land, land affected by coastal erosion, land subject to planning blight, and historic/trophy buildings), this right to indemnity must not be taken into account in the valuation, unless the directors of the subject company intend to exercise the right. If a negative value is reported, the directors' attention must be drawn to the matter in notes to the valuation certificate. The negative value must be separately reported and not be aggregated with other valuation.

5.15 Depreciated Replacement Cost

5.15.1 Procedures using replacement, or rebuilding cost, suitably adjusted, are recognized as a basis for estimating value to a business for the purpose of financial reporting, in the limited circumstances set out in the following paragraphs. Gross replacement cost is also required for the purpose of insurance.

5.15.2 The concept of net current replacement cost is also used to arrive at deprival value to an ongoing business, and therefore forms part of the consideration of existing use value. Use of the term in this connection can cause confusion with the expression depreciated replacement cost which is better known; it is recommended, therefore, that it is only used with a full explanation

5.15.3 Depreciated Replacement Cost (DRC) is a valuation procedure which is employed to arrive at existing use value, or value in use, of specialized properties which are rarely if ever sold or let in the market other than as a part of a business. This is not considered to be a market-derived method, except for the land element of the valuation. However, some analysis, which is used to produce market valuations, is based on data that is itself derived from a DRC analysis of sales of properties. In the absence of any market data, DRC is often adopted as a substitute for market generated analysis. It is, therefore, unsuitable for use in respect of properties that are held for the purpose of investment, or are surplus to the operational requirements of the company that owns them.

5.15.4 Examples of properties which will fall into the category to be assessed on this basis include:

- Oil refineries and chemical works where most of the buildings are usually no more than structures or cladding for highly specialized plant and equipment;

- Steelworks, power stations and dock installations where the buildings and site engineering works are related directly to the business of the owner, and where it is highly unlikely that they would have a value other than to an enterprise which is acquiring the undertaking; and

- Properties which are located in particular geographical areas for special reasons, or are of such a size, design or arrangement as would make it impossible, or impractical, for the valuer to arrive at existing use value using evidence derived from market transactions.

Gross replacement cost

5.15.5 The DRC method is based on an estimate of the current gross replacement cost of all the buildings, plant and other site-works, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. To this is added the current market value of the land for its existing use. As a non-market procedure the result must always be stated to be subject to adequate potential profitability or long-term viability and service potential of the enterprise (or public body), compared to the value of the assets employed. The assessment must also be separately itemized in the certificate of valuation.

5.15.6 It follows, therefore, that in estimating the value of the land for the existing use, and the gross replacement cost of the buildings, plant and other site works or, alternatively, the value of a notional substitute property in the same general locality, the valuer will have to make adjustments to reflect the difference in value to the undertaking, between the property to be valued and a new installation (which is what the Gross Replacement Cost relates to). This stage of the valuation will involve having regard to the age and condition, the physical, economic, environmental and functional, obsolescence and the physical arrangement of the various buildings and plant items.

5.15.7 Estimates of the gross replacement cost will require close consultation between the valuer and the directors of the undertaking and other professional advisers, and must take account of the following:

(i) The cost of building and ancillary works, which are assumed to have been complete at the date of valuation. It is not an estimate of hypothetical future costs of redevelopment.

(ii) A modern substitute building might cost considerably less than a replacement of the existing building or groups of buildings, as a result of the use of improved design, new technology, or more modern materials. The cost of the modern substitute should be adopted.

(iii) The same principle applies to the scale of the building(s); if as a result of advanced contemporary technology, the same production or service capacity can be generated from a smaller modern substitute building, the latter and cheaper alternate should be adopted.

(iv) An exception to the above rule applies to buildings, which are subject to preservation or listing as historic or architecturally important buildings. In these cases, the replacement cost will relate to the legal requirement of retention of all or part of the fabric.

(v) The gross replacement cost must take into account all development costs necessary to provide a fully operational entity, including all site and infrastructure works, including drainage, pumping stations, effluent treatment and disposal, pipe-work and service ducting, fire protection and any additional environmental plant-work which would be required by statute or regulation when developing new facilities for the purposes of the undertaking.

(vi) Additional costs must include any professional fees or other charges normally incurred, and all costs associated with obtaining consents, licenses or environmental and other assessments required by statute or regulation. The cost of financing the construction must be included, and this should be based on the current borrowing cost of exceptionally on an internally adopted rate.

(vii) The availability of development grants, which may be treated differently according to accounting convention, are to be ignored by the valuer. The valuation must state explicitly what has been taken into account or excluded.

Land

5.15.8 With regard to the value of land there may be differences between the value for the existing use and the value of an undeveloped or green field site. Many properties that fall to be valued on a DRC basis, such as oil refineries and chemical works, include large tracts of land extending to several hundred *tmien*. If the site were to be offered for sale in the open market, the price would be discounted to reflect the extended period within which the site would be developed. This approach is not appropriate for a site that is already fully developed. The valuer in such cases must carefully consider the extent to which the site has been developed to its full potential, and reflect this in the figure adopted. However, most sales evidence will be derived from relatively small parcels of land, and due allowance must be made in the valuation to reflect that the price per *tomna* (refer to Appendix H) for extremely large sites would be heavily discounted.

5.15.9 It may be more satisfactory, where persuasive evidence is not available, to adopt the concept of a notional replacement site within the same locality and with characteristics appropriate to the existing use and the construction of a replacement or modern substitute building. It may therefore be appropriate to value a site that is smaller than the subject site, if adopted technological and operational requirements justify this approach. Conversely the site may be inadequate to enable the realization of the full potential for the operations on the land, and, if so, the value would have to be adjusted for that aspect of obsolescence.

5.15.10 There may be further consideration of what is the local treatment of and effectively which is considered surplus to operational requirements. Although that hypothetical surplus is not relevant to the assessment of existing use value under the DRC assumptions, it may, nevertheless, be an important management consideration that must be brought to the attention of the directors

Deductions from gross replacement cost

5.15.11 After having assessed the land and building element the valuer must then use his judgment, based on extensive discussion with management, as to the qualitative aspects of the facility and its effective future life, having regard to all aspect of economic, environmental and functional or strategic obsolescence.'

5.15.12 The deductions from gross replacement cost must therefore be made to allow for the following and any other elements germane to the continuance of useful economic use.

(i) Economic obsolescence – the age, condition (or the extent of physical wearing out), or degeneration resulting from the effluxion of time and past use, and the probable amount of future cost in use, and liability for maintenance compared to a modern substitute building;

(ii) Functional obsolescence – suitability for current use and prospect of its continuing use, or use for some other purpose by the business in occupation. For example, a building constructed or adapted for specialized uses, including particular industrial processes, may have an apparent useful life which is longer than that contemplated for the actual operation carried out.

(iii) Strategic obsolescence – a strategic decision by the business may render obsolete at any time a specific operation and the buildings used to house it. This can affect the part or whole of a complex, even if the buildings could have a value to another undertaking or the undertaking itself if that strategic decision had not been taken.

(iv) Environmental obsolescence – existing use and the technology currently adopted must be reviewed in the context of actual and reasonably anticipated local national and supranational regulation, statute, directive and/or planning and environmental and pollution control, and waste management policies.

(v) The arrangement of the various buildings and plant items one to another – most properties of this nature will have been developed over an extended period of time and, as a consequence, many of the buildings will not be in the best place, relative to one another, for the most efficient functioning of the property as a whole

5.15.13 It is frequently difficult, if not impossible, to put a precise life on a building or group of buildings and valuers may, therefore, have to resort to a "banding" of lives. Information should be available to identify buildings that are unlikely to remain beyond say 20 years, and, at the other extreme, buildings with a life of say 50 years should be noted as having a life of "not less than 50 years".

5.15.14 A broad banding is likely to be easier for the valuer and also satisfactory for the purposes of the company and the auditors. Where a company's premises comprise a number of separate buildings, for example, large factory premises, it is recommended that the buildings should be grouped, and a single life allocated to all buildings on the subject property. The justification for this approach is that the life of an individual building can normally be extended within reasonable limits by a higher standard of maintenance or improvement. At the same time it is normally uneconomic to carry piecemeal redevelopment.

5.15.15 The standard procedure to calculate the deduction from gross to net replacement cost on a straight line basis is derived either

(i) By dividing the age of the building by the age of the building plus the estimated future useful economic life, applying the factors outlined in 5.15.12 to the enterprise, or

(ii) Deducting from the useful economic life of the building if new, the estimated remaining useful economic life, and dividing the result by the estimated useful economic life if the building were new.

Whatever basis is adopted should result from discussion with the company's directors and auditors.

5.16 Replacement Valuation

5.16.1 Gross replacement cost is also required for the purpose of insurance. Estimates for insurance purposes are sometimes carried out at the same time as asset valuations

5.16.2 It is necessary to consult closely with the client and client's insurance broker to ensure compatibility with the building insurance policy, and that all relevant matters are included in estimates for insurance purposes. Estimates of building cost can include preliminary survey and investigations, demolition, temporary protection and enabling works, hoardings, public utility works, diversion of services, works to adjoining sites, accommodation works for other interested parties, etc.

5.16.3 A decision may have to be taken as to the form of building contract in liaison with the client. A projected out-turn cost including inflation or a day-one cost, comparable to an initial contract price of a fluctuating price building contract, could be adopted

5.16.4 It is beyond the scope of these Standards to consider detailed procedures for the estimation of building costs for insurance purposes, however refer to Appendix C for a standard format of a Rebuilding Cost format calculation for building premises.

5.17 Social Cost Benefit Analysis (SCBA)

5.17.1 Previous research into public sector leisure properties revealed that extant valuation methods (e.g. DRC and trading-related valuations for capital accounting purposes produced unhelpful figures where those assets were owned and operated primarily for social purposes (i.e. value to the community) as opposed to investment (i.e. value to the owner)

5.17.2 This leads to a search for a social value methodology into the realms of Social Cost Benefit Analysis (SCBA). This essentially measures direct and indirect gains and losses to the impacted individuals and aggregates them as an expression of net economic value.

5.17.3 Here the notion of "true cost commitment" (TCC) is introduced. This is a capitalized negative cash flow, as a measure of accepted cost for the provision of a required service, which, when considered together with opportunity cost of a public sector asset (OMV), arguably identifies the lower bracket and its social value.

5.17.4 It reveals that, in many cases, there is likely to be a high level of continuing *liability* attached to their committed ownership of leisure assets. Indeed, it could provide an argument *against* future provision. Conversely, it does demonstrate a potentially high level of social value.

5.18 Retrospective Valuations

5.18.1 Retrospective valuations are required for a number of purposes including property tax, capital gains and wealth taxation, inheritance tax, and in connection with negligence and compensation. They may also be required for the purpose of reviewing existing valuations.

5.18.2 Data will normally be available for the whole of the period under review and will include evidence from before the period when the valuation was done, during the period and after the date of the valuation. Whilst all this evidence may be relevant, it is important not to give too much weight to data that would not have been available to a valuer at the date of valuation, except, possibly, to confirm or reject trends that would have been apparent at the time of the valuation. Trends emerging subsequent to the valuation date may obscure objectivity in respect of the real situation at the valuation date.

5.18.3 Particular attention needs to be paid to valuations that require a review of other valuers' reports or could involve possible negligence claims. Available market reports, databases, and valuation reports prepared at the time provide useful indicators of real market sentiment. This emphasizes the importance of keeping proper market and business records.

5.19 Forecasts

5.19.1 A forecast or estimate of future value differs from a current retrospective valuation, which is, prima facie, susceptible to proof in a court of law. Forecasts, other than short-term assessments that are based on market sentiment and an appreciation of broadly based economic and market trends, must be based on an analysis of all relevant economic factors. Because this type of medium term projection will, if undertaken be a valuer, normally stem from the employment of research capability and/or specialist analytical skills, either in-house, or out-sourced. Such estimates can be a very important added-value service, both in respect of prospective value estimates, which are part of feasibility studies of development programmes, or are a component of discounted cash flow assessments, prospectuses, unitisation issues, or calculations of value in use, etc.

5.19.2 Estimates of future value are made in accordance with the available knowledge of current market expectations and available economic and market data. Forecasts must be given on the basis of the principle of transparency in that the assumptions reasoning, economic modeling and analysis must be explicit, and accessible to the client.

5.19.3 The assessment of future value will include:

- An analysis of market trends in respect of overall income, expenditure, rates of void occupation, capitalization and discount rates, as at the effective date of valuation;
- An analysis of economic trends which entails a review of the evolution of demographic and socio-economic patterns, employment co-efficients, and future competition.
- A study of business cycles, and macro and micro-economic climatic indicators.

5.19.4 The conclusions reached and the report provided must incorporate reference to the time frame over which the analysis was prepared, in order to clearly delineate the market conditions and points of reference from which the valuer has produced his estimates.

5.19.5 All limiting factors, agreed basis of forecasts and the exclusion of liability to the client and third parties for unforeseeable events or phenomena impacting on the actual value prior to the date of application of the prospective value must be pre-agreed, and clearly stated when accepting instructions and in subsequent reporting.

5.19.6 Publication must also be limited by agreement as to the express text and context in which any reference, quotation, or combination with any other matter may appear, and this must be stated to be subject to the prior, formal, written approval of the valuer.

6. Valuations for Bank Security Purposes and In Relation to the Issue of Asset and/or Mortgage Backed Securities

Chapter 6 covers the following matters:
Valuation standard
The valuation basis
Market Value
Mortgage Lending Value, including applicable valuation methods
Conditions of Engagement
Investments Properties
Owner occupied properties
Development properties
Properties usually valued on the basis of their trading potential
Wasting assets
Forced sale value, or liquidation value

6.01.1 Valuation standard

6.01.1 The Kamra's valuation standard is based on the European Valuation Standard, which states that "the examination of valuation issues for security for loans secured against property, which carry a high degree of fiduciary responsibility, must take account of the purpose of valuation, objective assessment of risk linked to the structure and duration of the proposed loan facility, and transparency in the reporting of valuation data, market context and cash flow."

6.02 The Valuation basis

6.02.1 The two bases of valuation and their respective definitions, are set out below.

6.03 Market Value

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

6.04 Mortgage Lending Value

6.04.1 Mortgage Lending Value shall mean the value of the property as determined by a valuer making a prudent assessment of the future marketability of the property by taking into account long term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. Speculative elements may not be taken into account in the assessment of the Mortgage Lending Value. The Mortgage Lending Value shall be documented in a transparent and clear manner.

6.04.2 The use of the Market Value concept is readily understood by valuers as representing a spot market assessment of value at a given point in time and accords with international standards. As part of the risk appraisal process, forced sale value, alternative use value and forecasts of future value, including explicit assumptions, with appropriate limitations to the valuer's responsibility should, subject to the specific circumstances, also be prepared.

6.04.3 The terms of issue of asset-backed securities can have an effect on the pricing of underlying direct property markets. Valuers need to understand the dynamics and the financial requirements of investors and criteria of the rating agencies in interpreting trends. For example multi-let securitised portfolios must be valued on the basis of the aggregate of individual values, as there is no cross-collateralisation of rental income in the event of a failure of individual tenants. Amongst matters that must be directly addressed is the impact of physical, regulatory and technological obsolescence, which must be considered in the light of the length of the term of the securitised notes.

6.04.4 The concept of Mortgage Lending has been found to be of particular value in some member countries in the context of long term lending programmes. It is a value-at-risk approach to manage risk exposure of credit institutions and is linked to banking supervisory issues. Mortgage Lending Value is not appropriate to establish the value at a given point in time of incomplete development projects and wasting assets. Presently, the Kamra recommends that the value should be the market value, with comments, which may reflect on the mortgage lending value. It is a recommendation, consistent with the Directive, that the valuer reports concurrently on the market value of the property, and explains carefully the difference in value, if any, that exists. Any divergence in excess of 20% between Mortgage Lending Value and Market Value will require a formal note to the report and a specific qualification to Mortgage Lending Value to the effect that specially volatile conditions exist with a concomitant risk of future pullback or breakout.

6.04.5 The concept of Mortgage Lending Value requires additional commentary. Issues discussed with the European Mortgage Federation include the establishment of the following principles.

- A prudent assessment of future marketability.
- Identification and elimination of speculative elements.
- Reflect normal and local market conditions.
- Prime regard to long term (sustainable) aspects of the property.
- Take account of current use and alternative appropriate uses of the property.
- Transparent and clearly stated valuation methods.
- Carried out by valuers with an appropriate level of competence.

6.04.6 In most respects Mortgage Lending Value is thus close to the definition of Market Value, but introduces, *inter alia*, a notion that could be described as 'smoothing' of market trends, rents and yields. The sustainability of the Mortgage Lending Value may require adjustments to or discounting of the actual rental income of the property, to the market capitalisation or discount rate and to the property administration and management costs.

6.04.7 It could be expected that an appraisal, carried out on a discounted cash flow basis[1] would satisfy the above principles. The valuer's dilemma is then to ensure an objective assessment of the elements of the sustainable cash flow forecast and discount rate to apply. A technical analysis of data is required to ensure a consistent approach to the valuation task and its articulation, including for example cluster analysis, and trend analysis using techniques such as bollinger bands[2]. Although in stable markets Mortgage Lending Value may be indistinguishable from Market Value more volatile markets introduce the need for sophisticated analytical tools and clear and detailed interpretation.

[1] The Basle Committee on Banking Supervision states in a recent consultancy paper: "Collateral should be valued on a prudent basis. For example, for significant commercial real estate loans, banks should obtain sound appraisals of the current fair value of the collateral from qualified professionals either internal or external to the bank. Management should review each appraisal's assumptions and conclusions to ensure timeliness and reasonableness. Typically appraisal assumptions are based on current performance of the collateral or similar properties. Many supervisors also expect appraisals to take into account on a discounted basis, the ability of the real estate to generate income over time based on reasonable and supportable assumptions".
[2] A procedure used in chartism defined as a pair of lines plotted above and below a moving

average to define a trend channel. The width of the channel is defined (mathematically) to accommodate changes in volatility, so as potentially to avoid false market signals.

6.04.6 The principles regarding Mortgage Lending Value are subject to recommendations, as to their interpretation, below:

(i) The value must be established prudently, as at the date of valuation, having regard to future marketability. Thus where current values reflect short term demand due to market inefficiencies such as is reflected in the boom and bust of the development cycle (shortage of supply of a property type followed by over-supply), or where identifiable factors such as consumer taste distort a market so that future marketability is at risk, this must be factored into Mortgage Lending Value.

(ii) The identification and elimination of speculative elements reinforces the above, but requires the valuer to explicitly identify those current market phenomena which are not sustainable, such as a 'blow off', where a rising trend no longer supported by fundamentals is magnified at the end of a cycle before markets fall back dramatically.

(iii) Reference to normal and local market conditions reflects the adjustment for unsustainable speculative elements, for example where properties are over-rented and/or where rents per square metre exceed sustainable EBITDA (earnings before interest, tax depreciation and amortisation) per square metre. It must also reflect the local conditions of demand and supply. Typically for the majority of property types collateralised by lending institutions, other than investment grade properties, the market is local.

(iv) The requirement to have prime regard to long-term (sustainable) aspects of the property is similar in specifically focusing the valuer on the aspect of sustainability of market levels. The valuer may need to examine the macro and micro economic fundamentals which might involve, *inter alia*, an analysis of demographics, patterns of wealth, income ratios, employment and socio cultural spending habits within the catchment area, transport infrastructure, legal and political risk, as well as the cost of finance and the inter relationship with capital markets, currency fluctuations and estimates of economic growth.

(v) It is not uncommon for property to have a higher alternative use value, and lenders should be made aware of any potential to improve value. However, the basis for Mortgage Lending Value is primarily the existing use of the property, unless there are special circumstances, such as imminent redevelopment, which may make alternative use value a more realistic basis of valuation.

(vi) As emphasised elsewhere, it is essential that there be confidence in the valuation process and that transparent and clearly stated valuation methods are adopted and expressed clearly in the valuer's report. Only well recognised valuation methodology must be used. The income or cash flow approach (investment method) is normally adopted or, on occasion, the comparative approach. Where limited market information is available a depreciated replacement cost (DRC) approach is a well-established procedure that is frequently used in some jurisdictions. The latter, although of assistance to valuers operating in stable markets in which owner occupiers predominate, is more appropriately employed as a benchmark or banking control parameter than a prime valuation method.

(vii) It is essential that the valuer has an appropriate level of competence in the property type and location or has, with the agreement of the client, obtained specialist assistance to make up for any knowledge lacunae. The valuer advising on matters relating to secured property lending has special fiduciary obligations and must not undertake such work unless, as a minimum, he or she can comply with the educational and experience requirements set out in 3.02 The Accredited Valuer. In particular the valuer must be competent to advise on comparative property and business sector risk. It is generally the role of the lender to assess risk as it relates to the financial status of the borrower or in the context of the overall geographical, business sector and client bias. The valuer may however be consulted on any of these matters because of his market knowledge

(viii) The above procedures must be carried out consistently and it is important that the valuer indicates any change to previously reported underlying assumptions. Similarly there will be a responsibility on valuers to develop or acquire and use an authoritative micro-economic local data bank of trends and sustainable values from which they would only exceptionally divert. If data bank figures are not available the valuer has nevertheless to demonstrate that his valuation is based on market data.

(ix) Implicit in the provision of an opinion of Mortgage Lending Value is a fiduciary responsibility for which the valuer must have adequate professional indemnity insurance cover.

(x) For the avoidance of doubt, a simple percentage adjustment to Market Value is not a proper response to the discipline of preparing Mortgage Lending Value.

6.04.9 The valuation methods applicable to Mortgage Lending Value, as typically applied, are based on the three main methods for valuing land and buildings (namely the comparative, income and cost approach). In respect of the income approach, the differences to the market value procedure is as follows:

- The income stream of the property is limited to its sustainable net rental income that the subject type of property usually produces over time in the specific local market, excluding any actual over-rented element and other additional unusual or extraordinary cash flows.
- All property administration and management costs incurred are deducted from the annual rental value of the property. Additionally discounts for obsolescence, reinvestment (maintenance capex. or annual maintenance and capital expenditure) and the tenant's deficiency risk should be deducted from the net rental income.
- Finally, the yield rate used for capitlisation is not based on the current or spot market (snapshot) market situation but reflect current judgment of the long-term evolution of the market. It should consider the sustainable income producing capacity of the property, multi-purpose or appropriate alternative uses as well as the future marketability of the property. A minimum rate for commercial and for residential property respectively should be provided.

6.05 Special responsibilities and obligations of a valuer

6.05.1 The valuer advising on matters relating to secured property lending has special responsibilities and obligations of a fiduciary nature and he must not undertake such work unless, as a minimum, he can comply with the educational and experience requirements set out in Chapter 3. In particular the valuer must be competent to give advice on comparative property and sector related risk if this is needed. It is generally the role of the lender to assess risk as it relates to the financial status of the borrower or in the context of the overall geographical, sector, and client bias. The valuer may however be consulted on any of these matters because of his specialised market knowledge.

6.05.2 The above matters are not only related to the financial status of the borrower but as far as valuation is concerned, they also relate (and depend on) the type of the property, on which the loan is to be secured, the property's geographical or sector context, client bias and, particularly, on the effects of liquidation procedures regulated by the legal system.

6.05.3 The management of loans portfolios and the valuer's part in the team applying risk management techniques, analysis of business and property cycles, and performance measurement will require further elaboration in function with the increased sophistication and convergence of property as an investment class with global capital markets.

6.05.4 This standard will apply to valuations prepared prior to, and in contemplation of a new loan, renewal or addition being provided, and in analogous cases where the lender is considering whether to repossess or appoint a receiver in case of default and/or instructions on disposal of a property are being formulated.

6.06 The Independence of the Valuer

6.06.1 The independence of the valuer, as set out in Chapter 3, from commercial and personal constraints is vital. The valuer can be either internal or external to the lender. It follows that in the case of an external valuer instructions must only be accepted from the lender, rather than the borrower or mortgage broker. Thus the report must always be addressed to the lender, who may however release a copy of the report to its customer. Direct involvement with raising finance, planning, brokerage or management of the subject property is an absolute bar to acting. Any conflicts of interest actual or imputed must be declared and reiterated clearly in the valuation report, if exceptionally the client agrees to proceed on the basis that the perceived conflict is regarded as de minimus in the context of the assignment.

6.06.2 Specialist knowledge may, as in other valuation types, be necessary before the valuer can accept the full extent of the instructions. This may have particular relevance for land or buildings affected by or susceptible to the presence of hazardous substances, where in addition to the impact on value, the lender could in certain circumstances, such as default of the borrower/polluter, repossess the property and become liable for remedial works. Any deficiency in knowledge or experience in dealing with this type of property must be disclosed. If additional specialist assistance is obtained, with the agreement of the client, a direct contract of engagement must be established with the party offering additional assistance. The extent and wording of the additional advice must be clear and reproduced in its entirety within or annexed to the valuation report.

6.06.3 It is essential that adequate insurance cover be put in place by an external valuer. For commercial valuations, a pre-agreed adequate cover in the opinion of the lender on a per claim basis, for the service to be provided, is recommended by the Kamra. The Kamra proposes that any additional insurance premiums required for a particular valuation should be at the lenders account.

6.06.4 The valuer must always consider the implications of the structure and duration of the proposed facility in terms of banking risk and capacity or potential to generate cash flow and capital accruals to match the borrower liabilities including the loan, rolled up interest (where appropriate) and other expenses such as costs of sale. Thus the report should go beyond valuation to a qualitative assessment of the suitability of the property as a security. A close working arrangement with the lender and his other professional advisors is advised, to ensure all the concerns of the client are met.

6.07 Conditions of Engagement

6.07.1 The procedure recommended in respect of valuation and advice to lenders, and parties to other financial or receivership processes, includes the prior establishment of detailed terms of engagement covering valuation assumptions, responsibilities of the valuer, and fee basis. If matters arise subsequent to the engagement they must also be recorded in writing to avoid misunderstandings and consequential dispute. The different categories of land and property, against which loans will be advanced, impose different valuation treatment, affect the memorandum of instructions and content of the final report and appraisal. The five different categories are:

- Investment properties
- Owner occupied properties
- Development projects

- Properties normally valued on the basis of financial projections
- Wasting assets – mineral assets, etc.

6.07.2 Specialist properties are not normally suitable as security for loans other than on an alternative use value basis.

6.08 Investment Properties

6.08.1 Revenue producing investment properties are valued individually, but in the case of a portfolio the valuation can additionally be valued and reported as an assessment of the current value of the subject property if it were to be sold as part of an investment portfolio to reflect the market discount or premium applicable. The distinction between the two values must be clearly explained.

6.09 Owner Occupied Properties

6.09.1 In respect of the valuation of owner-occupied properties they must be valued on the basis of the market or mortgage lending value, as if vacant and to let or for sale.

6.09.2 Where advice is to be given in respect of development land, and land and buildings in the course of development, the valuation and appraisal will depend upon whether the lender will advance funds only when planning permission has been obtained and whether the lender intends to finance the site purchase or subsequent development. In the latter case the current estimated value of the development, as proposed to be completed, will be required. The lender in such cases will need or may obtain a costing of the proposed works from a qualified assessor. The figures must be provided to the valuer to incorporate into his valuation

6.10 Development Properties

6.10.1 Development properties present a number of problems for valuers, and valuations must always contain a sensitivity analysis. The volatility of development sites to changes in any of the underlying assumptions of rent, yield, cost and timing must be explained to the lender, as part of the risk assessment service. It is advisable that methods of valuation are explicit, and that cash flow, DCF, residual valuations, and/or assessment by comparison purposes is shown clearly with appropriate explanatory memoranda

6.11 Properties usually Valued on the Basis of their Trading Potential

6.11.1 Properties usually valued on the basis of their trading potential, which would include hotels, public houses, private healthcare facilities, and most types of leisure facilities, are normally valued on the basis in accordance with the careful assessment of the sustainable level of income deriving from accounting data or projections. This will exclude any special goodwill derived from an operator with above average management skills. In such cases the lender must be made aware of the significant difference in value that will arise between an operating business unit and one whole either:

10 the business is closed;
11 the inventory is removed;
12 licences/certificates, franchise agreements, or permits are removed or are in jeopardy;
13 the property is vandalized; or there are
14 other circumstances that may impair future financial performance

6.11.2 The valuer must extend advice to cover potential future fluctuations in the status of the property as security, and vulnerability to changes of occupier, fashion, regulatory and/or cultural shifts. In certain cases an assessment on the basis of alternative use value or forced sale value may be appropriate. Where such operational properties are being developed or redeveloped by a line of bank finance, the time to obtain all necessary licences and to build up a sustainable level of trade and commercial risks, must be assessed, and the lender appraised to the dynamics of the industry.

6.12 Wasting Assets

6.12.1 Where this asset class is permitted as security special problems are associated with valuation. As a result mineral and other wasting assets, is not an asset class favoured by lenders. Where a loan is proposed, particular attention needs to be drawn to the duration of the profile of the loan including interest and capital repayment dates as they relate to the extent of the wasting asset and the planned programme for its extraction and/or productive use.

6.13 Forced Sale and Liquidation Value

6.13.1 Forced sale value, or liquidation value is sometimes required for the purpose of valuations of property, which is, or is intended, to form security for loan or debenture. The forced sale value is identical to the Market Value definition with the codicil that the time allowed for marketing is unduly short, and publicity and market exposure is inadequate, compared to the period and promotional measures necessary to achieve the best price in the market. The seller may also be under duress or compulsion.

7. Valuation for Investment Insurance companies,property unit trusts, and pension funds, for the purpose of financial reporting & standard apportionment between land & buildings

European Valuation Standard:

Only valuation procedures based on an assessment of current market Value, as defined, must be adopted for valuations where the current and future interests of policy holders and investors in schemes reliant in whole or in part on the performance of real estate assets, as an investment category in capital markets, are at stake.

Chapter 7 covers the following matters:
The EC Directive on the annual and consolidated accounts of insurance undertakings
The EU definition of Market Value
Categories of property
Reporting Practice
Transaction costs
Departure provisions
The Valuation Certificate
Methodology
Background Financial Reporting for
Classification of Assets
The Definition of Consistent Bases of Valuation
Standard Apportionment between Land and Buildings
Disclosure Provisions
Special Properties
Methodology

7.01 This sector and asset class is subject to different specific regulations in different jurisdictions and additionally, the European Council Directive on the Annual and Consolidated Accounts of Insurance Undertakings (91/647/EEC) is of particular relevance.

7.02 This Standard applies equally to internal, external and independent valuers although, as indicated below, there can exist in certain specified instances special requirements that must be observed. A fund may hold investments in companies, trusts or other entities, which in turn may own property assets. If valuers are instructed to provide a valuation of those property assets they must be valued and reported to the particular entity as separate valuations.

7.03 For most purposes where there is a public and/or stakeholder interest, the valuation basis will be Market Value and Market Value for Existing Use and DRC based valuations are incompatible with the purpose of these valuations. All properties that are owned by investment undertakings, whether they are used for their own occupation or are held as investments must be treated as investment properties. In the former case the properties must be assumed to be vacant

7.04 **The EU Definition of Market Value**

7.04.1 The definition in Article 49(2) of the European Council Directive, referred to here as the EC definition, is as follow:-
Market Value shall mean the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal

and that a normal period having regard to the nature of the property, is available for the negotiation of the sale.

7.04.2 It is recommended that the words in Article 49(2) should thus be taken to have the following sense when applied to the provision of any valuation carried out which falls within the ambit of this standard:-

- "...the price at which land and buildings could be sold under private contract ..." is to be constructed as referring to the monetary amount realized if the land and buildings were to be sold in the open market. The use of the words "private contract" excludes, on the face of it, sale by auction to the extent that this would realise a lower price than a sale between a willing seller and an arms length buyer, following proper marketing, and serves to emphasise that it is a realistic estimate at the date of valuation. Article 49(5) refers to the situation where land and buildings have been sold or are to be sold in the short term. The deduction for actual or estimated realization cost must, in this case, be a separate adjustment after the valuer has reported his opinion of market value.

- A specific mention of a "... willing seller and an arm's length buyer..." reinforces the dominance of economic reality, expressed through transactions in the open market, as the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. A willing seller is neither over-eager, nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The use of the term arm's length buyer excludes, additionally, the bid by a special purchaser prepared to outbid other prospective purchasers because of exceptional personal circumstances (e.g. parent and subsidiary companies, landlord and tenant or a sale of an adjacent owner).

- "... on the date of valuation..." refers to the specific nature of the valuation, and assumes that the terms have been negotiated and the transaction completed at the date of valuation. Market conditions may change and the market value as at another date may differ significantly. The definition assumes simultaneously exchange on completion of the contract for sale without any price adjustment for that special factor.

- "... it being assumed that the property is publicly exposed to the market ..." means that the asset would be exposed to the market in the most appropriate manner to effect its disposal at the best price which is reasonably obtainable in accordance with the market value definition. Circumstances will vary the length of the exposure time, but this must be sufficient to alert a sufficient number of potential purchasers for a market to be created. Market exposure will be assumed to have taken place prior to the valuation date.

- "...that market conditions permit orderly disposal, and that a normal period having regard to the nature of the property, is available for the negotiation of the sale..." This assumes that market participants are alerted, through market exposure, to the opportunity, but does not assume that a hypothetical, unreal or false market has been created or is to be assumed, neither is a forced sale or one subject to compulsion to be assumed by the definition, the sale is conducted in a manner appropriate to actual market conditions. A normal marketing period is one in accordance with market conditions that will vary for the type and class of property, land and buildings.

7.05 Categories of property

7.05.1 Properties owned by a fund should be categorised into four groups.

(i) properties held as investments for their performance as an asset for generating income and/or capital gains;

(ii) properties which are in the course of development;

(iii) properties held for future development; and

(iv) properties held for owner-occupation by the fund.

7.05.2 Properties held as investments will normally include those where construction work has been completed and which are owned for the purpose of letting, to produce a rental income which is negotiated at arm's length with third parties

7.05.3 Properties in the course of development will include properties that have been acquired with vacant possession, with the intention of seeking an early arm's length letting to a third party irrespective of whether works of repair or improvement are required. Apart from properties where work is actually in progress there must also be included in this category any property where the start of work is imminent, all the appropriate consents and permits having been obtained and a building contract exchanged.

7.05.4 Properties held for development will include those acquired with the intention of redevelopment at some future date (with or without any other properties which have not yet been acquired) and which do not form part of any of the other three categories.

7.05.5 Properties held for own use in owner-occupation will include any property that is subject to any form of inter-company lease or licensing arrangements between the fund and a subsidiary. The latter arrangement will be ignored for valuation purposes. Properties that are part occupied by the undertaking must be included in this category if the occupation comprises more than one third of the whole by value.

7.06 **Reporting Practice**

7.06.1 The proper basis of valuation is always Market Value and investment properties must be valued at Market Value that reflects any contracted lettings, terms of which must be provided in writing by the client or his representative.

7.06.2 Properties held for development must be valued on one or other of the bases set out below. Which basis is used will depend on the valuer's judgment of which is the most financially informative basis to be applied in all the circumstances, including the purpose of valuation:

(i) the Market Value of the land for the proposed use at the date of valuation, plus the current cost of the development at the date of valuation; or

(ii) the current Market Value – assuming the work had been completed with the benefit of any contractual lettings in existence, less, at current costs, the estimated expenditure needed to complete the development.

For the purpose of financial statements normal accounting convention will favour application of (i). There may be circumstances where, because of a prudent accounting policy and following consultation with the client and professional advisers, the lower of the results from two calculations is adopted. Basis (i) will not be appropriate where the purpose of the valuation of the property is to provide security for a loan

7.06.3 In assessing current Market Value it must be assumed that existing third party finance and building and related contracts remain in place. Except as set out in 7.07.2 below, if the finance is provided by the fund, the valuer must adopt an opportunity cost rate that is appropriate for the type and class of development, assuming the average strength of covenant for all borrowers, rather than the fund's own covenant strength.

7.06.4 In the case of Pension Funds, the valuer must inquire whether the valuation will be adopted for the purpose of an actuarial valuation and if so whether there are any special requirements of the property valuation depending on whether the actuary is making a continuing or solvency valuation. The valuer must adopt the stated policy of the fund on the treatment of fiancial carrying charges. In the absence of such a policy it would be normal to adopt the procedure in 7.07.1.

7.07 Transaction costs

7.07.1 Market value is understood as the value of an asset estimated without regard to the costs of sale or purchase, and without offset for any associated taxes. As indicated in the Commentary on the EC Market Value definition, in certain circumstances there is derogation from this general rule. Under both the Fourth Council Directive on Company Law of 25 July 1978 (78/660/EEC) and section 7, Article 49 of the 1991 EC Directive (91/674/EEC), it is stated that, "where on the date on which the accounts are drawn up land and buildings have been sold or are to be sold within the short term, the value arrived at… shall be reduced by the actual or estimated realization costs." When producing a report for a valuation prepared under these directives, it is important to state on what basis the value has been arrived at, i.e., it is not 'normal' Market Value.

7.07.2 It follows that, in general, valuations to gross value that include the additional amount that the investor would have to pay by way of VAT or transfer, registration or stamp duty on purchase, should not be adopted for the purpose of reporting for financial statements. It is, however, recognised that reporting net value represents problems in some jurisdictions where the costs of acquisition are significant. In those states where this is so, the valuation would result in an immediate reduction in value to arrive at Market Value or realisation value. It is recommended in these cases that, for long term investments, it may be appropriate for the company to add back to the valuer's Market Value uniform, acquisition costs with an appropriate note as an annex to the accounts. Where properties are to be sold in the near future the valuation would also have to be on a net value basis with a deduction for the vendor's costs of sale. The company must do this separate to the valuation.

7.08 Departure provisions

7.08.1 It is recommended that, all valuations should include a statement to the effect that the Accredided Valuer responsible for the valuation to the client has conformed to the requirements of the present Kamra and, exceptionally, the extent and reasons for any departure.

7.09 The Valuation Certificate

7.09.1 The valuation certificate must conform to the requirements of Chapter 4, but in addition the valuer should provide the aggregate totals of the net rental income, after deduction of all outgoings including ground rents and head rents (but not amortisation) passing at the date of valuation. The same exercise should be undertaken at yearly anniversary dates over a period of ten years in order to report future reversionary increases/decreases based on market values current at the valuation date.

7.10 Methodology

7.10.1 Under the terms of the EC Directive (91/674/EEC), the method of arriving at each separate land and buildings item must be in accordance with methods which are generally recognised or recognised by the Insurance Supervisory Authorities and, as with the EC Directive (78/660/EEC), that the breakdown by financial year of valuation must be disclosed in notes to the accounts. Such methods would not normally change between accounting periods.

7.10.2 Whilst methodology may change over time to reflect best practice in identifying value which is consistent with the principal influences on real estate markets, including contemporaneous corporate and capital market structures, it is recommended, that for the purpose of the valuation of the real estate assets of insurance undertakings and other analogous sectors where assets represent investment products or secure financial instruments, that methods are based on the most appropriate market derived valuation techniques. These may include the capitalization of revenue, discounted cash flow, and/or capital and rental value comparison. It will generally not be appropriate to provide a valuation based on depreciated replacement cost, which may be more appropriate in valuing the real estate assets of other categories of undertakings.

7.10.3 Valuations prepared for the purpose of financial statements must take account, in consultation with the directors and the auditor of the client company:

- the context of EC Directives, national law and regulation;
- the structures of national and international accounting standards;
- the strategy of the undertaking; and
- the operational purpose and resultant classification of the property assets.

7.11 Background for Financial Reporting

7.11.1 The bases for the valuation of fixed assets for financial statements accounting norms have evolved over an extended period. The basic rule is that fixed assets must be valued at purchase price or production cost. General principles of valuation include:

- the company must be presumed to be carrying on its business as a going concern; and
- the methods of valuation must be applied consistently from one financial year to another.

Article 33 provides a derogation from the purchase price/production cost general rule which, subject to subsequent co-ordination, permits or requires:

(i) valuation by replacement value method for tangible fixed assets with limited useful lives and for stocks;

(ii) valuation by methods other than that provided in (i) which are designed to take account of inflation for the items shown in the annual accounts, including capital and reserves;

(iii) revaluation of tangible fixed assets and financial fixed assets to take account, amongst other matters, of inflation accounting.

7.12 Classification of Assets

7.12.1 The classification of assets affects both the basis of valuation and the presentation of valuation reports. Land and buildings are normally classified for the purpose of financial statements as:

(a) Owner-occupied – for the purpose of the business;

(b) Investment for the purpose of generating income or capital gain;

(c) Surplus to the requirements of the business; or

(d) Trading stock, designated as current assets.

7.12.2 Category A assets are subdivided into two classes:

(a) Specialised Properties

These are properties that are specialised and are rarely (if ever) sold, except as part of the business in occupation.

Examples are steelworks, oil refineries, chemical works, buildings which are little more than cladding for plant, machinery and equipment, also buildings which due to their location, size design or construction are neither sold nor leased to third parties in the market – although such properties might be the subject of a sale and leaseback or finance lease.

(b) Non specialised Properties

These are properties which are not in Class (a), because they comprise normal types of buildings, such as shops, stores, offices, factories and warehouses that are usually bought and sold or leased in the market.

7.12.3 Category B – Investment Properties

These are properties that are held for the purpose of the financial return achievable from an arm's-length letting by reason of the rent accruing from third party lessees.

7.12.4 Category C – Property surplus to operational requirements

This is land with or without buildings, which is surplus to the foreseeable future operational uses of the undertaking, and will normally be held for sale.

7.12.5 Category D – Trading Stock

Certain Property may have been purchased for trading purposes and be classified not as fixed assets, but as current assets for balance sheet purposes.

7.12.6 The Definition of Consistent Bases of Valuation

Where a standard historic cost approach is not adopted the accounting concepts which are recommended to be applied by valuers in respect of fixed tangible assets, are only in the form of the four bases set out below:

- Market Value – where assets are held for investment or are surplus to operational requirements. In such cases the costs of sale are deducted from the selling price;
- Fair Value defined, only in this context, as Existing Use Value – for properties occupied for the purpose of the business;
- The definition only has use in relation to reporting for the purpose of financial statements or for other similar uses. Under EU directives, national law, or international and national accounting standards and practice, property assets are often required to be stated at cost on acquisition, or Fair Value, which approximates to the TEGoVA definition of Market Value for Existing Use.
- Where the application of procedures based on Market Value or Alternative Use Value would result in materially different valuation figures, these must be reported at the same time as the report on the Market Value for Existing Use basis, of the subject company's assets. In order to avoid the possibility of misleading the readers of valuation reports, the valuer must ensure that his explicit approval is obtained of the form and content of the reported figures, prior to their publication.
- Value in Use, or present value of the future cash flow deriving from the subject asset or Cash Generating Unit, or
- Depreciated Replacement Cost (DRC) for specialised properties, qualified as being subject to adequate potential profitability or service potential – where market-based values cannot be established. The bases are described and elaborated in the remainder of this Standard.

7.13 Standard Apportionment between Land and Buildings

7.13.1 An apportionment may be required to allow a proper accounting to be made for depreciation, and thus for the purpose of the preparation of financial statements. This technical task should be distinguished from valuation. EU Council Directives and International and National accounting standards all invariably require an apportionment for depreciation purposes although the actual depreciation practice under accounting convention may differ. Under the historic cost convention, assets may be stated at actual historic cost of purchase or production, aggregated with purchasing costs and the cost of subsequent improvements and modifications, or at a current professional open market valuation.

7.13.2 Depreciation is defined as the measure of the wearing out, consumption or other loss of value of a fixed asset whether arising from use, effluxion of time or obsolescence arising from technological or market changes. Depreciation of buildings and to a more limited extent, land is typically allocated so as to charge a fair proportion to each accounting period of the estimated amount of the asset consumed during the expected economic life of the asset. This necessitates an assessment to be made of the useful economic life to the business of the buildings and of their value or cost apportionment, known as the depreciable amount.

7.13.3 Generally, depreciation will not be applicable to investment properties or to freehold land other than where categorised as wasting assets, or where planning or other constraints limit useful economic life.

7.13.4 The exercise therefore involves the assessment of the depreciable amount, the residual amount or land element, and the remaining useful economic life. The responsibility for the assessment falls on the directors, or their equivalents in other organisations, who will normally consult with their valuers and other advisers.

7.13.5 The notional apportionment to assess the depreciable amount must be established by one of the following procedures, which must be consistently applied in each accounting period:

- by deducting from the cost or valuation of the asset the value of the land for its existing use at the relevant date. In many instances there will be ample evidence of land values upon which notional apportionment can be made. In cases where this does not apply, the method below should be adopted; and
- by making an assessment of the net current replacement cost of the buildings to reflect the value of the assets to the business at the date of valuation.

7.13.6 Where the exercise of establishing the deduction which has to be made to existing use value in order to arrive at the depreciable amount is based upon a prior valuation of the land, this is calculated in relation to the realisable existing use value. Alternative use value, if any, is only relevant if it is reflected in the reported value for existing use because of a time limit on occupation for the purpose of the undertaking. Exceptionally, with heavy industrial undertakings, demolition costs may be material, even after allowance for salvage values, and/or decontamination or clean up costs that are needed to facilitate future redevelopment.

7.13.7 The land element is considered to be the bare land which is in a developable state for the purpose of the undertaking, but it excludes all improvements such as roads, fences, paved areas and other site works which are incorporated in the building element and have to be depreciated.

7.13.8 Where the exercise of establishing the depreciable amount is derived from net current replacement cost, a similar exercise is applicable as is used when carrying out a DRC valuation. Where the valuation has been carried out on a DRC basis no problem of apportionment arises.

7.13.9 The valuer will therefore take into account the matters set out in 5.15.12 to 5.15.14

7.13.10 If consulted on the remaining useful economic life in the case of leasehold interests, the valuer will also have regard to the duration of the lease, any options to determine or extend, or the date of the next review and whether this is to full or a proportion of rental value

7.13.11 An exception to the above rule of a single life allocation is where different unconnected industrial operations and processes, giving rise to an independent functional space requirements, co-exist.

7.13.12 The standard procedure to calculate the deduction from gross to net replacement cost on a straight line basis is derived either

(i) By dividing the age of the building by the age of the building plus the estimated future useful economic life, or

(ii) Deducting from the useful economic life of the building if new, the estimated remaining useful economic life, and dividing the result by the estimated useful economic life if the building were new.

Whatever basis is adopted must result from discussion with the company's directors and auditors

7.14 Disclosure Provisions

7.14.1 Valuations for the purpose of financial statements must be clearly presented and contain at least the following information. More detail on the contents of the valuation certificate is contained in Chapter 4

Brief details of minimum requirements are as follows.

(i) the instructions, date and purpose of the valuation;
(ii) the basis of the valuation, including type and definition of value;
(iii) tenure of assets and classification of assets valued;
(iv) identification of the assets and their locations, and date and extent of the inspections;
(v) regulatory framework;
(vi) any special assumptions and limiting conditions;
(vii) plant, machinery and equipment;
(viii) compliance statement with European Valuation Standards;
(ix) methods of valuation employed, and
(x) other matters relevant to the valuation.

7.15 Methodology

7.15.1 Methodology may change over time in order to reflect best practice in identifying value, which is consistent with the principal influences on real estate markets (including contemporaneous corporate and capital market structures). However it is recommended that, for the purpose of the valuation of the real estate assets of insurance undertaking and other analogous sectors where assets represent investment products on secure financial instruments, the methods used are based on the most appropriate market derived valuation techniques. These may include the capitalization of revenue, discounted cash flow, and/or capital and rental value comparison. It will generally not be appropriate to provide a valuation based on depreciated replacement cost, which may be more appropriate in valuing the real estate assets of other categories of undertakings. The method of arriving at each separate land and buildings item must be in accordance with methods generally recognized and that the breakdown by financial year of valuation must be disclosed in notes to the accounts. Such methods would not normally change between accounting periods.

7.16 Special Properties

7.16.1 The same principles apply to special properties, such as those valued on the basis of financial projections, wasting assets including mineral valuations, plant, machinery and equipment, and public sector assets as set out elsewhere in this Standard. Detailed consideration of procedures and specific issues relevant to each asset class is contained in each separate Standard or Guidance Note and appropriate section, which must be read in conjunction with this Standard.

8. Valuation based on operational performance of Business Trading Properties

Chapter 8 covers the following matters:
Types of property and their valuation methods
Business Valuations
Wasting Assets
Process Plant, Machinery and Equipment
Public Sector Assets

8.01 Kamra Tal-Periti Valuation Standard

- The valuation of properties valued by reference to receipts and expenditure relies on close knowledge of the industry sector, a proper understanding of the dynamics of comparative profit margins and potential, and of the detailed regulatory and licensing background.

8.01.1 It has always been recognized that there are a wide variety types of property designed or adapted for particular use which invariably change hands in the open market for a limited use as fully operational business units, at prices based directly on trading potential.

8.01.2 The types of property which are normally valued on the basis of fully operational business units include hotels, bars, restaurants and other licensed premises, a wide range of private health care facilities and most types of leisure property from amusement arcades to squash courts.

8.01.3 The basis of valuation in respect of financial statements is market value for existing use as it is with other asset classes. The premises are valued as fully operational business units, except as referred to later. It follows, therefore, that the valuation will incorporate all land and buildings, trade fixtures, fittings, furniture, furnishings and equipment, goodwill attaching to the premises, but will exclude consumable stock. If any of the above is not owned by the business unit, such items will be excluded from the valuation and will be identified as such in the valuation certificate. Valuations arrived at by using the depreciated replacement cost method (DRC) are inappropriate for this class of asset.

8.01.4 Goodwill is classified if the company is presumed to be carrying on its business as a going concern, and that all the assts are being utilized on a continuing basis. It follows, that transferable goodwill attached to the business unit (which is therefore tangible) as opposed to intangible personal goodwill, is incorporated in Market Value for Existing Use of land and property.

8.01.5 The valuation will, therefore, include trading potential, and it must exclude personal goodwill. The benefit or liability of ongoing contracts for both the supply and provision of goods and services, together with an assumed ability to renew existing licences, consents, certificates and permits, must be incorporated. The valuer must state that an assumption has been made, that all actual and potential liabilities which are appropriate and necessary to the continuing business will persist or, if omitted from the management accounts, will be incorporated. This will include responsibilities under employment law, head office and owners or managers overheads or salaries, maintenance and training programmes.

8.01.6 The valuation of properties valued in accordance with trading potential thus requires the valuer to give thought to the extent that the trading results relate only to admissible valuation data i.e. transferable goodwill which attaches to the business unit irrespective of the identity and characteristics of the actual operator. The proper analysis of goodwill is often contentious. The valuer when assessing future trading potential needs to have the skill and experience to be able to exclude intangible "goodwill" in the strict accountancy sense, that is any turnover and resultant profit that accrues solely from the personal skill, expertise, reputation, and/or brand name attaching to the existing operator or management. The obverse is that any potential additional profit that would accrue to an averagely efficient operator would be added, whether or not this is likely to be achieved by the actual operator of the business unit.

8.01.7 The accuracy of valuation in the context of this class of asset depends partially on the quality of the accounting data and the knowledge and skill of the valuer in interpreting the data and in assessing the underlying efficacy of the current management. At least three years trading accounts (if available) should normally be scrutinized and, in certain undertakings and particularly in cyclical businesses, a significantly longer period will need to be assessed. The source of the information must be verified, and any doubts as to reliability stated and this will require referral to more reliable sources. Sources of information and the basis for all projections must be explicitly stated. The developed model based on sustainable trading by an averagely efficient operator must not extend beyond what potential purchasers would assume in making their bids.

8.01.8 In the case of new start-up businesses, it will be necessary for the valuer to simulate a probable future profit and loss account which contains appropriate risk deductions. He may have the benefit of the operator's own business plan, but he must exercise considerable critical faculties in appraising the weight that he should ascribe to it.

8.01.9 It follows, therefore, that the valuer must identify the forces driving the market for the subject business unit and class of asset, and have a close understanding of it. He will also need to be aware of changing cultural modes, current business trends, availability of debt and equity finance, and economics of supply and demand for the sector, the extent and distribution of any effective or proposed competition, any possible changes in transport infrastructure, geographical location, or socio-economic profile of the human population in the catchment area. All these elements must be included in the valuer's report to the client.

8.01.10 It is however dangerous, and potentially misleading to extend review of the physical attributes to comparison of such matters as unusable area, bed spaces, number of covers etc, with other entities are apparently similar and which have been the subject of relevant transactions, without taking account of the trading potential of the subject and the comparable units. Although a comparison of physical characteristics may be a useful check against error, greater weight must be accorded to proven trading data.

8.01.11 The adaptability of the premises and, if appropriate, the related cost of transforming them from the current business mix to a more appropriate and valuable use, must be taken into account, and must be recorded in the valuation certificate. Such changes could be in response to legislative, technological, environmental and fashion or other modification resulting from the make up of the end product demanded by the consumer. The process may require consideration of the physical attributes, size and layout of the subject premises.

Lack of appropriate experience

8.01.12 Where the Valuer believes that his lack of sufficient appropriate experience, or access to relevant data, render him unfit to act, he must refuse assignments or, with the prior agreement of the client, he should work on a joint basis with an appropriately experienced valuer or he should delegate responsibility for the valuations of special properties in a portfolio, to someone who has the relevant experience.

8.02 Business Valuations

8.02.1 A business may be valued as a Going Concern. The Going Concern Value of an enterprise is the value created by its proven business operation. It is an expression of the value of an established business, and is derived from capitalization of the profits of that business, reflecting turnover and contingent liabilities. The value so derived includes the contribution of land buildings, plant and machinery, goodwill and other intangibles.

8.02.2 A Going Concern Values is the valuation of a business rather than a property valuation of individual business units, even though, in carrying out the valuation, the methodology, used may be very similar. A concept has been developed and has been adopted by the IVSC, whereby the intangible element of goodwill can be included, on the basis of worth, in a valuation of an individual property. This is described as "Value in Use" in which the aggregate of the value in use of all the operational business units of a Going Concern is equal to the Going Concern Value. Such a valuation will only relate to the special circumstances of the business that owns the operating units and, in the case of large enterprises, will be more akin to an apportionment of business value, rather than a market based valuation of individual assets.

8.02.3 The valuation methodology must reflect the approach generally adopted by the market. This can comprise different methods of analysing profits, such as and applying capitalization factors to sustainable profits, to Discounted Cash Flow Techniques (DCF) or comparison of capital values, or a combination of these procedures.

Confidentiality

8.02.4 The valuation of properties forming a business unit formulated from financial projections are likely to be modeled on the analysis of confidential information which is commercially sensitive. Unless pre agreed, either by the client or another duly authorized source, such procedures, including internal rules and confidentiality undertakings that are externally verifiable, must be enforced to ensure that confidentiality is preserved. Similarly, any information relating to trading figures, which is not in the public domain and which could be accessible by third parties in respect of the subject unit or other entities, must also be in an un-attributable and anonymous form.

8.03 **Wasting Assets** – property assets the value of which is reduced by their commercial exploitation.

8.03.1 Wasting Assets can be defined as that class of asset, such as mineral bearing land, waste disposal tips and burial grounds, which have a determinate life for their existing use, in that the asset is exploited in such a way that the activity on the land, comprising the removal of the deposits, or the filling up of the resources, will gradually deplete the value of the remaining land to the point where it can no longer be used economically for the existing or proposed purpose, and will revert to a residual value of its then highest and best use. Clearly other assets, such as leasehold interests, licenses, concessions, land subject to environmental restrictions or properties with planning consents having a limited life will have similar characteristics, but can have less technical and specialized attributes. The latter are not considered here.

Lack of appropriate experience

8.03.2 Where the Valuer believes that his lack of sufficient appropriate experience, or access to relevant data, render him unfit to act in respect of these specialized types of property, he must refuse assignments or, with the prior agreement of the client, he should work on a joint basis with an appropriately experienced valuer or he should delegate responsibility for the valuations of wasting assets in a portfolio, to someone who has the relevant experience.

Valuation basis

8.03.3 When valuations of minerals for the purpose of financial statements are undertaken the normal presumption that the business is an on-going concern will lead to the adoption of market Value for Existing Use.

8.03.4 Market value for existing use of an asset is defined as Market Value based on the continuation of its existing use, assuming the asset could be sold in the open market for its existing use, and with the assumptions listed below. Inherent in the definition is the concept of "deprival value" or net current replacement cost, that is to say the cost of an owner occupier of going into the market to purchase a replacement asset. Where such hypothetical assumptions apply, a valuation on the basis of Market Value for existing Use may produce results, which could be misleading if they are reported in other contexts. It is, therefore, important that such valuations are always explicitly annotated in a way that reflects the special circumstances of their applicability.

Additional assumptions

8.03.5 Various additional assumptions, to which this loss of asset represents in one aspect at least, an anomalous exception, are set out below

- There is an implicit assumption, which must be reasonable in all the circumstances, that the property can only be used for the foreseeable future, by the undertaking, for the existing use,
- That use must be one that accords with planning law, licensing and other regulations;
- The Value derived may be the same as or lower than, but not higher than (except in exceptional cases as referred to later), the value arrived at by the application of the principles of highest and best use. Any possible alternative use is thus ignored, as is any element of hope value, any value attributable to goodwill and any possible increase in value resulting from a special investment or financial transaction, such as sale and leaseback, which would leave the company with all interest different from the one which is to be valued;
- It has to be assumed, that any part of the property occupied directly by, and for the proposes of, the undertaking, is vacant at the date of valuation, and thus the existence of the actual occupier is disregarded. Any part of a property which is let under contract, or otherwise occupied by a third party, will be valued taking that fact into account;
- If the property is surplus, or will become surplus to operational requirements, then valuation by reference to market value or the highest and best use must be adopted. An exception to this would be the case of an unused or obsolete asset, which cannot be separated from the on-going business. In such cases the valuation must reflect the marginal additional value to the business of the surplus assets.

Other considerations

8.03.6 There is an anomaly in relation to the existing use concept that arises with this class of asset, and this stems from the fact that the life of the asset for its existing use is limited. It follows that the residual value at the end of the period of use is only to be taken into account to the extent that the alternative future use is likely to be authorized, and the value attributable to that use is not so remote that it would not be evidenced by bids in the market.

8.03.7 In particular cases there may need to be detailed discussions with the client in order to ascertain the precise nature of the interest in land or in the minerals under the land.

8.03.8 It is necessary to discuss with the client the rate of anticipated extraction in relation to total reserves, in accordance with the economics of expected demand and the cost of removal, both for mineral strata being worked and for strategic reserves. Land which is held as reserves may also generate, or be capable of generating income, from a use prior to the commencement of mineral extraction. The period of interim use and the dates of commencing extraction must be consistent with one another, and also with the expected future life for extraction, the volume of annual take-up and the assumptions, timing and application of residual value.

8.03.9 The Value of an ongoing mineral operation will reflect the costs of exploration, identification of extent and quality of reserves, trial excavations, the running of any pilot plant and research and development. In addition to verifying these aspects in order to ensure that comparison is made on as similar basis it is also important to ensure that there is no double counting of matters, which might well be included under a separate heading in the accounts. Explicit and accurate reporting in the valuation certificate will also safeguard against the possibility of misleading accounts being inadvertently presented.

8.03.10 The buildings plant and equipment employed in the undertaking are subject to depreciation, which is calculated, in most cases, on a maximum economic life of the wasting asset, and this is a function of estimated annual optimal extraction rates. Buildings attached to undertakings of this nature are typically specialist buildings, which would be assessed on the basis of Depreciated Replacement Cost (see 5.15).

8.03.11 Process plant equipment will be valued as set out in 8.04. The scale of mining operations means that special attention will need to be given to the distance of the plant from working surfaces (which will increase over the life of the mine), the type and layout of the facility, and the compatibility of the various parts of the undertaking with one another (e.g. that the plant and machinery present matches the output of the mineral facility), the actual and potential output, and the relative technological and environmental obsolescence of the grouped plant and equipment. Similarly, regard must be had to:

(i) Expected capital expenditure which will be needed to meet future operational requirements;
(ii) Any optimization of production by new capital investment;
(iii) The condition and robustness of existing plant and planned maintenance programme of the undertaking and any other consideration;

8.03.12 The valuation procedures will typically involve an analysis of all comparable transactions, demand, and any competitive operations. It may also involve an analysis and assessment similar to those used when a valuation based on the accounts of an undertaking is carried out. Even where a comparative valuation method is adopted it will require an examination of market conditions, trends, selling prices and operational costs. A valuation based on profits accruing on a DCF or similar basis must exclude personal goodwill (as it would with other classes of property) and only that level of profit that would accrue to an operator of average efficiency must be taken into consideration. The procedures adopted must be consistent across valuation periods.

Residual values

8.03.13 The consideration of residual values at the end of the period of extraction, or using-up of the wasting asset, includes consideration of the potential costs and liabilities of all the planning, environmental or contractual obligations or commercial considerations to make good, restore, remedy or redevelop the subject or other land. This may include related costs attributable to the operational activities, and incurred liabilities, for which the operator is responsible. Care must be taken to ensure that there is no double counting by the inclusion of environmental or other related liabilities elsewhere in the balance sheet.

Confidentiality

8.03.14 The valuation of wasting assets, which is formulated from financial projections, is likely to be modeled on an analysis of confidential information that is commercially sensitive. Unless pre-agreed, either by the client or another duly authorized source, such procedures, including internal rules and confidentiality undertakings that are externally verifiable, must be enforced to ensure that confidentiality is preserved. Similarly, any information relating to trading figures, which is not in the public domain and which could be accessible by third parties in respect of the subject unit or other entities, must also be in an un-attributable and anonymous form.

8.04 Process Plant, Machinery and Equipment

8.04.1 Process plant, machinery and equipment, other than items of fixtures which are normally included in the value of the buildings as described in 8.04.5 - 8.04.9, will include tangible assets which form the processing plant and are designed to generate income to the operating concern, or are ancillary to the application of that process. Process plant, machinery and equipment form part of, and are often a material proportion by value of, the tangible fixed assets of a business, and are valued and recorded in a separate and detailed inventory.

8.04.2 As financial statements are prepared on the assumption that the undertaking will continue in operational existence for the foreseeable future, the plant machinery and equipment will be shown on the basis of cost or subsequent valuation. Plant, machinery and equipment are valued under the same principles that govern other classes of tangible assets, that is Market Value for Existing Use

8.04.3 Process plant, machinery and equipment will, in an ongoing operation, be valued on the basis of depreciated replacement cost (DRC). As a non market procedure the result, apart from the exceptions refereed to in 5.15 must always be stated to be subject to adequate potential profitability or long term viability and service potential of the enterprise or public body, when compared with the value of the assets employed. The assessment must also be separately itemized in the certificate of valuation. Where plant, machinery and equipment is surplus to requirements, items will be appraised at their recoverable amount, that is market value or, if appropriate, forced sale value

8.04.4 The DRC procedures will be the same as set out in 5.15. Deductions from gross replacement cost to net current replacement cost must allow for the following and any other elements which are relevant to the continuance of useful economic use:-

(i) Economic obsolescence – the age, condition (of the extent of physical wearing out), or degeneration resulting from the effluxion of time and past use, and the probable amount of future cost in use, and liability for maintenance compared to a modern substitute building;

(ii) Functional obsolescence – suitability for current use and prospect of its continuing use, or use for some other purpose by the business in occupation. For example, a building constructed or adapted for specialized uses, including particular industrial processes, may have an apparent useful life which is longer than that contemplated for the actual operation carried out;

(iii) Strategic obsolescence – a strategic decision by the business may render obsolete at any time a specific operation and the buildings used to house it. This can affect the part or whole of a complex, even if the buildings could have a value to another undertaking or to the undertaking itself if that strategic decision had not been taken;

(iv) Environmental obsolescence – existing use and the technology currently adopted must be reviewed in the context of actual and reasonably anticipated local national and supranational regulation, statute, directive and/or planning and environmental and pollution control, and waste management policies.

(v) The arrangement of the various buildings and plant items one to another – most properties of this nature will have been developed over an extended period of time and, as a consequence, many of the buildings will not be in the best place, relative to one another, for the most efficient functioning of the property as a whole.

Plant and machinery included in valuation of buildings

8.04.5 Certain plant, machinery and equipment are normally included within the valuation of buildings. A consistent approach to such inclusion must be adopted and it would be normal to include in an annexe to the valuation certificate a description of the criteria applied, so as to avoid any misunderstanding that could result in a valuation which is too high or too low as a result.

8.04.6 A valuation of land and buildings will include those building services installations which are normally provided by the owner to enable the best use to be made by an occupying business of the buildings or any open land which lies within the boundaries of the property. Such building services installations are often built into or secured to the fabric of buildings or open land. They are distinct from the plant, machinery and equipment which is used solely for the industrial or commercial processes carried out by the business in occupation; these must be valued separately as operational or process plant, machinery and equipment.

8.04.7 The boundary between these two categories is not always clearly definable and the criteria may vary according to the purpose of the valuation. Where there is doubt as to the correct classification, the general rule is that assets installed primarily to provide services to the buildings should be valued with the land and buildings and assets primarily serving the commercial, industrial or agricultural process should be included in the plant and machinery valuation.

8.04.8 The following list though not comprehensive, indicates those items of plant and machinery usually included in valuations of land and buildings, on the basis that they form part of the building services installations.

(i) Electricity – Main supply cables, transformers, switchgear, standby generating plant and wiring installed for non-process purposes. The exception to this is that electrical equipment primarily installed in connection with the industrial or commercial process should be valued separately as part of the plant and machinery.

(ii) Gas – Gas mains up to and within meter houses and distribution piping within the premises installed for non process purposes.

(iii) Water – Reservoirs, wells and boreholes together with pumps, water treatment plants, storage tanks and distribution piping within the premises that have been installed for non-process purposes.

(iv) Space Heating and Hot water – Boilers and associated plant, which are primarily installed for space heating and other non-process purposes, together with fuel tanks and distribution piping, radiators, radiant panels, unit fan heaters and similar environmental heating appliances. Independent fixed space heating units, domestic water boilers, and similar items that would normally be provided by the landlord in the case of a lease of property.

(v) Air Conditioning and Ventilation – Air Conditioning plant, trucking, fans and ventilators, except where primarily serving industrial or commercial processes.

(vi) Fire and Security – Fire alarm and burglar alarm systems, smoke detectors, sprinkler systems, hydrants, pumps and fire mains.

(vii) Drainage – Sewage disposal plants not primarily concerned with treating process water and trade effluent. Surface water and foul water drains and sewers.

(viii) Gantries and Lifts – Gantries and supports for overhead travelling cranes here forming an integral part of the structure of a building (Note: The travelers would normally be included in the plant and machinery valuation). Passenger and goods lifts, escalators and travelators installed to benefit the general occupation of the building.

8.04.9 Whether or not structures will be valued as separate items will depend on the practice in particular industries and the circumstances of each case. The decision as to how to treat them will depend on the degree of attachment, permanence and size. Structures which have been installed other than for industrial or commercial processes, will normally be included in the valuation of land and buildings, as will those which, whilst installed as supports for process plant, are effectively fulfilling the function of a building. Such items might include the following

- Support structures for process plant
- Plant staging and mezzanine floors;
- Plant housings,
- Conveyor bridges and housings for conveyors;
- Chimneys,
- Pits;
- Internal buildings;
- Permanent partitions;
- Railway track;
- Internal roads,
- Fences.

Structures which are ancillary to, or form part of an item of process plant and machinery, will normally be valued separately as plant and machinery.

Other Considerations

8.04.10 Normally operational or process plant, machinery and equipment will be valued as individual items. An exception to the above-recognized international treatment of this asset class in accounts is small items, which are considered de minimus, and may be aggregated, and/or carried as inventory and treated as a consumable expense. Certain items, such as computer software that has some of the attributes of intellectual property rights, must be the subject of careful consideration with the client, the auditor and other professional advisors, as to what is the appropriate classification.

8.04.2 The valuer will take into account the cost of installation, shipping, freight, import duties and other relevant taxes. The impact of regulation for this class of asset can be very important, whether it refers to safety or to environmental issues, and the valuer must make himself familiar with any relevant statutory and regulatory matters which are either in place – where the plant may be in continuing breach, or where there are pending changes which could effect the useful economic life or financial viability of the industrial process.

8.05 Public Sector Assets

8.05.1 There is a trend towards greater commercial accountability in central and local government, together with a need to be able to present a clear statement of the employment, viability and justification for the holding or disposal of publicly owned and managed assets. Valuers, may, therefore, be consulted on valuation issues by local or central government, regulatory agencies or higher bodies.

8.05.2 A consistent approach to the measurement, recording and reporting of public sector asset values is essential to the production of reliable and relevant financial information. Providing that these conditions are observed, then the consistent recording of valuation data on public sector assets enables interested parties to assess the accountability and ensure the quality of the management of the public assets which are entrusted to the state authorities.

8.05.3 The general principles elucidated elsewhere in this book of standards must also be applied wherever possible to the review of public sector assets. The relatively innovative and piecemeal development of requirements, which may arise from legislation, regulation, accounting requirements or precedents arising out of litigation may currently require departure from those standards under specific circumstances. Any such departure must be explained in the valuation certificate.

8.05.4 Assets can be classified in four classes as follows;

(i) Operational – infrastructure assets including publicly owned roads, docks, airports, and utilities and defense facilities.
(ii) Operational – non specialized publicly owned assets which have a readily ascertainable market value for existing use, (e.g government offices, transportation buildings etc).
(iii) Operational - specialized properties, including heritage or listed historic architectural row cultural artifacts, where there is no market other than that relating to a body with a similar range of public, statutory, community or social responsibilities as the occupier, or where the asset is held under the specific terms of a donation or in accordance with, and under the terms and stated public statutory reasons for, compulsory acquisition.
(iv) Non- operational properties – held for investment, development, disposal, or as security for loans, or some other commercial purpose unconnected to the statutory obligations of the authority.

8.05.5 Market value for existing use, as set out in 5.07 is the preferred basis for asset classes (i) and (ii). Non-operational properties in asset class (iv) will normally be valued using a highest and best use of Market Value criteria. In many cases asset classes (i) and (iii) will have to be assessed, after consultation as to the assumptions which are appropriate to the operational requirements of the agency or service provider, on the basis of depreciated replacement cost (DRC) 5.15 or more appropriately, Social Cost Benefit Analysis, 5.17, consistent with an assessment of viable life of the building, and a sufficient service potential represented by the present level of use by the community.

8.05.6 In DRC calculations, even in the case of heritage properties, it may be appropriate to consider whether an estimate of the cost of a modern substitute building which is suitable for the provision of the statutory or community service would be more appropriate than an identical replacement of a historic edifice which is inappropriate to modern requirements. There may be instances where the actual cost of running and maintenance of a historic building is such that the service provided does not justify those costs and that the value of the asset is, therefore, nil or negative

8.05.7 Special attention has to be given by the responsible public officers to preparing for public sector assets.

(i) A careful appraisal of the status of properties and their future usefulness as a service asset to the public.

(ii) A clear and unequivocal letter of instruction setting out the purpose and basis of valuation

8.05.8 In some cases, where a DRC approach has been adopted, it will be appropriate and may be requested, that the valuer should also provide an alternative use value for use in connection with an asset audit, and to facilitate consideration of future strategy. Where the valuer is aware of substantial alternative values being present, it is his responsibility to advise the officers of the public body of the fact.

8.05.9 Provisions should exist to ensure that public property is, in principle, not sold below its value.

8.05.10 The principles behind the recommendation are that the assets in question must either be sold through an unconditional bidding procedure or be the subject of an independent expert valuation. The valuation must take place prior to sale negotiations, so as to establish the market value on the basis of generally accepted market indicators and valuation standards. The market price fixes the minimum purchase price that can be agreed without granted State aid.

9. Valuations of Assets for Development, Joint Ventures & Limited Partnerships

Chapter 9 covers the following matters:
The volatility of intensively managed investments and development sites
Special assumptions including environmental factors
Methodology employed
The valuation of a portfolio

9.01 Volatility of intensively managed investments and development sites

9.01.1 The valuation of development and property trading companies does not differ in principle from other corporate entities. However the purpose of valuation will determine the service provided. In particular, because property company assets are normally classified as investments or current trading stock, valuations for the purpose of financial statements will be on the basis of Market Value on a highest and best use basis. Despite this, there may well be reason for adopting special assumptions regarding planning consents or future contracts. Valuations for internal management purposes or in contemplation of the purchase of a portfolio, or individual building or site may well be similar to calculations of worth.

9.01.2 The valuer needs to be sensitive to the volatility of intensively managed investments and development sites, and the implications of joint venture and partnership arrangements.

9.01.3 In the case of large-scale projects or schemes involving a relatively high degree of uncertainty, developers typically enter into a binding, non-assignable agreement with landowners and local or state government in which they agree to undertake a specified form of development. The responsibilities and risks are shared proportionately, and the ownership of the legal estate can either be transferred to a new enterprise, or to a third party. A valuer will often be involved directly in advising one or other of the parties in respect of the formulation of the equation to calculate the respective shares of the profit element. The instructed valuer must discuss the approach to adopt according to requirements with the directors and auditors of the client.

9.01.4 Thus although there is comparability in approach to valuations for investment purposes, typically not all (and sometimes not any) of the portfolio will be investment grade, and the assumptions which are made by the valuer will have a material effect on reported values. As a result it is necessary always to establish clearly in advance the criteria to be adopted and also to liaise closely with the directors of the client company.

9.01.5 Joint venture contracts or limited partnerships do not generally involve the holding of any legal estate by the developer or investor respectively, but may include an option or a license to acquire a legal estate and the non-owning participant may accept financial benefit or detriment arising directly or indirectly from this involvement. Such contracts often provide for a profit in accordance with a pre-involvement. Such contracts often provide for a profit in accordance with a pre-determined formula with in addition a management fee for the developer or partner.

9.01.6 The valuation of a joint venture contract will therefore involve the assessment of the value of the right to receive an uncertain monetary benefit at a future date, or at a date which is contingent upon the performance of the underlying project. The receipt by the developer of future financial benefits is contingent upon the fulfilling of all his obligations under the terms of the contract. In assessing the probable rewards of the different partners, the valuer must ascertain and interpret all relevant factors which may include amongst other matters, the political, financial, fiscal, legislative, social, economic, market and industry trends.

9.01.7 In practice, the experience and general abilities of the valuer in being able to appreciate all relevant factors, including an accurate interpretation of the contract, is critical to the valuation. This involves a calculation embracing all relevant factors, and discounting future receipts to the present value as at the date of valuation. The valuer's basic interpretation of the joint development agreement and any material assumptions made in respect of the deadlock provisions, Texas shoot outs (a colourful expression for concluding an impasse on a deal where the two parties make contemporaneously their best offers to settle), step-in rights, etc., and limits to the autonomous management powers of the party whose interest is to be valued must be clearly stated in the report and certification

9.01.8 The valuer must take account of the essential differences between:-

(i) A joint development contract, the successful performance of which will bring an entitlement to a sum of money.

(ii) A partnership, limited partnership or joint venture company in which the proceeds of a successful development or benefits of the resulting investment are shared;

(iii) A collective investment scheme where this vehicle is adapted to development purposes; and

(iv) The direct acquisition of a legal estate which gives the right to realize a sum of money, either in capital or income terms, linked to the underlying characteristics of the legal estate to which it is attached.

9.01.9 Whilst it is recognized that such agreements take any forms, the valuer who is requested to advise must clearly differentiate between property in which there exists a legal estate, and other forms of agreements.

9.01.10 Where a development is successfully completed and a real profit accrues to the developer, this can form part of a company's current assets, and these may be required to be shown in the company accounts. However, such a profit is distinct from the value of the fixed asset, the ownership of which is vested elsewhere.

9.01.11 A joint venture may be carried out by a company which owns the land and those shares are held by the former landowner and the developer, in stated percentages, it can be undertaken as a partnership between two or more parties, a party may have a general or limited liability, another method is a trust for sale. Such joint ventures will provide a formula for the percentage holdings of the parties and also for possible buy-out and put options.

9.01.13 Joint ventures with local or state governments may give rise to special valuation problems if part of the authorities return is in the form of intangibles or in the construction of special facilities e.g., library, swimming pool, etc for the benefit of the community. In the latter case the value of a benefit in kind, which may result from a successful joint venture may have to be valued on the basis of depreciated replacement cost 5.15, or the most appropriate Social Cost Benefit Analysis 5.17 which is consistent with an assessment of the viable life of the building, and a sufficient service potential represented by the present level of community utilization. Alternative use value 5.14 should also be reported as appropriate.

9.01.14 The assessment of a joint venture agreement is likely to involve an analysis of information which is confidential and commercially sensitive. Unless pre-agreed by the client or other duly authorized source, such procedures, including externally verifiable internal rules and confidentiality undertakings, must be enforced so as to ensure that confidentiality is preserved and that any reference to the contract, which is accessible by third parties and where the information is not in, or not intended to be in, the public domain, is also in an unattributable and anonymous form.

9.02 Special Assumptions

9.02.1 Special assumptions do not assume a reckless disregard of commercial reality and must be relevant and valid in the particular circumstances. In all cases the valuation must not be provided without a contemporaneous report under a Market Value basis. There are not circumstances in which Special Value is admissible for incorporation as a balance sheet item, although a note to the accounts may be appropriate in cases where there is a material difference between Market Value and Special Value.

9.02.2 Special assumptions are most frequently an issue in the case of development land. For example, planning consent should only be assumed to the extent that the market would assume it. The market, and thus the valuer, may also when making an assumption for planning consent, allow for:

(i) Risk of failure to obtain consent in the form of extent assumed;
(ii) The time delay inherent in processing the required planning applications.

9.02.3 Particular care must be taken to define and state assumptions such as the period required to obtain vacant possession of a site, or that a particular parcel of land can be acquired to complete a development site. If such assumptions fail the market test, then they are invalid for the purpose of valuations for financial statements, and must be classed accordingly as special assumptions.

9.03 **Environmental Factors** – the impact of the presence of toxic and hazardous substances

9.03.1 With regard to the applicability of special assumptions, there may be exceptional circumstances which could include for example, contaminants. Environmental factors, both of a negative and of a positive nature are amongst a range of factors which are habitually reflected in the preparation of valuations. In some cases there will be factors which affect a specific property and these will impact directly on the valuers computation, by the making of appropriate adjustments, to reflect the fact that the market data was obtained from comparable properties which are unaffected by these factors. In other instances all properties in an area will be similarly affected.

9.03.2 Environmental factors and contaminants which are relevant in the valuation context include three broad categories;

(i) Naturally occurring elements such as noise and air pollution;
(ii) Chemical contaminants resulting from actual and past processes on the land or leaching from neighbouring land;
(iii) Hazardous materials within the building;

9.03.3 The fiduciary responsibilities of the valuer impose a duty to disclose, and/or agree in advance with the client;

- His or her competence in respect of all aspects potentially affecting valuation of the subject property including environmental issues;

- The nature extent and result of enquiries made or to be undertaken and subsequently, as appropriately;

- To make a clear statement as to recommendations following the carrying out of due diligence within the competence of the valuer or additional qualified aid in respect of discovered environmental factors;

- To consult with the client, as to appropriate agreed action

9.03.4 Due diligence will normally include a variety of research, which will be dependent on an initial superficial physical survey, but will fall short of technical scientific assessment. Thus, where the valuer has been able to ascertain by information obtained from the client or elsewhere such as

- Physical inspection
- Local knowledge
- Scrutiny of Ordnance Survey
- Land Registry or local registers
- Planning enquiries and enquiries from statutory undertakers
- Verification of existing or previous use of the land or neighbouring land
- That the buildings are constructed using hazardous materials

- That the land is or may be expected to be contaminated

The valuer must recommend that an environmental assessment or land Quality Statement be prepared. The issue will require a revisit of the original instructions so as to set the limits of liability and the nature of any caveats appropriate to the subsequent valuation certificate.

9.03.5 In view of the technical nature of environmental audits (which are frequently controversial) and the liabilities that accrue from such reports, it is more appropriate for the client to directly instruct the experts. If the valuation report is to integrate the findings of environmental experts, then the full report, name of the experts and text of the instructions must be referred to in the certificate and also annexed to the valuer's report.

9.03.6 The valuer, subject to verification that his or her professional indemnity policy properly covers this area of advice, may, if asked, draw up a list of matters relevant to the valuation, that the environmental expert must address.

9.03.7 In those cases where it may be possible to eliminate the source, or rectify the effects, of the pollution, then the reported valuation may be assessed taking account of the relevant estimated costs of such elimination or rectification, together with other influences affecting values such as

- Inability to effect a total cure.
- Stigma;
- The risk of recurrence;
- The dynamics of change in the standards, liabilities and remedial measures applicable to environmental legislation;
- A reduced range of alternative uses of the site;
- Uncertainty.

9.03.8 In preparing a valuation for whatever purposes the simplistic approach of valuing by deducting from the value of the property, assuming no contaminations, the cost of remediation works, may not result in the market value as evidenced by possible bids in the market due to loss of marketability and other factors.

9.03.9 In certain cases where valuations are prepared for the purposes of financial statements, the existence of contaminants or hazardous material may have no effect on the operational capacity and economic efficiency of a plant for its continuing existing use, and thus on Market Value for Existing Use. Alternative or future residual value may, however, be materially affected, after appropriate discounting allowance has been made to provide for any possible latent liabilities.

9.03.10 In some cases the existence of the contamination may have influenced an authority, in granting planning consent for an operation which is inherently hazardous and polluting. Exceptionally, because of keen demand and limited supply, there may be a premium payable for affected land.

9.03.11 The core need is for the valuer to have the responsibility of preparing a transparent and coherent report, which does not mislead or confuse the recipient. In normal circumstances, where either no indication or the existence of hazardous materials or contamination has been identified from standard procedures or where an absolute disclaimer is warranted, it will be appropriate to issue an agreed caveat in the valuation report in respect of environmental issues. (See sections 4.02.3 & 4.02.4)

9.04 Methodology employed

9.04.1 Methodology employed to value development sites are direct comparison, residual valuation or discounted cash flow appraisal. Procedures that involve direct comparison are useful indicators and a check against the adoption of unrealistic assumptions. However this approach is most likely to be of use in simple cases where there is an active market for comparable sites. Residual valuations comprise an assessment of end value less all costs to complete (and let) the finished investment product. Both residual valuations and the more precise DCF calculations rely on a number of variables to which the result is highly sensitive. The greatest care must therefore be taken before reporting valuations which are based on these procedures and, in the case of financial reporting, the valuation methodology and assumptions must be explicitly stated.

9.04.2 The definition of Market Value excludes Special Value. However the valuer should draw attention to any situation where it is thought a special purchaser would bid materially more than Market Value. Exceptionally, a valuation can be prepared on this basis subject to a contemporaneous report on the market value of the subject property.

9.05 The Valuation of a Portfolio

9.05.1 Depending on market circumstances at the time, the valuation of a portfolio as a whole or in parts may produce a greater, or a lesser figure than the aggregate value of the properties it comprises, if they are valued separately. It is appropriate for the valuer to comment on any discount or premium applicable in the market, even though the valuation on a Market Value basis assumes that properties are valued individually. A valuation of the portfolio must not be prepared unless the values of the individual components are also reported on the Market Value basis. Care needs to be taken in respect of joint development contracts and joint ventures. Such contracts, would typically not involve the ownership of a legal interest in land although an option or a licence to acquire a legal interest may be included. Where no legal interest is involved, the value of the contract would not be included under the heading of fixed assets in the balance sheet. A valuation may, however be required for management purposes.

10. Agricultural Property

Farmland, farms and estates

Covering the following:
The general nature of agricultural property;
The distinction between categories – bare farmland, equipped farms (with houses and farm buildings), agricultural estates and agricultural investment property;
Important physical characteristics and other valuation factors relative to agricultural property valuations;
Tenure occupation and farming arrangements;
The relevant valuation methodology;
Likely sources of information;
Determination of market value.

10.01 Introduction – The general nature of agricultural property.

10.01.1 Farmland provides the base resource for all types of tangible property (residential, commercial and leisure) which is ultimately constructed on land. Farmland conversely to all other forms of property is therefore a diminishing resource.

10.01.2 The basic primary use of farmland is farming for the production of food. When basic food products are in over supply it is likely that market pressures will facilitate the change of use of some agricultural land for alternative non-agricultural uses. For example leisure and recreational uses and conservation uses.

10.01.3 The relatively close proximity of some farmland to main human population and commercial centres also provides demand for farmland for non-agricultural uses and Greenfield Development. There is a propensity for people to want to own land for amenity and recreation uses in addition to the base agricultural use. The strength of the local and national economy and the density of population are relevant market forces. The demand for farmland for non-agricultural sources will vary from area to area. Generally however there is a rippling of value into the agricultural hinterlands surrounding key urban areas. Good communication routes will also impact on values.

10.01.4 Farmland forms the primary resource for the majority of farm businesses. Fundamentally to own farmland, other than let farmland, involves the owner operating a farm trading business. There is very rarely any goodwill value to be considered by the valuer. There is however a recent trend, for many farm businesses to develop on farm processing and direct retailing strategies. If the valuer has to value property with these facets he should be careful to distinguish the base agricultural property value from any commercial processing and retailing elements.

10.01.5 In addition to the base agricultural property the valuer will very likely have to value growing crops, manure, cultivations, acts of husbandry, quotas, livestock, machinery and deadstock, crops in store and agricultural input commodities in store.

10.01.6 Agricultural land is sold on an area basis. The dominant measuring unit is m² or tumna (See Appendix H)

10.02 The distinction between categories – bare farmland, equipped farms (with houses and farm buildings), agricultural estates and investment property

10.02.1 A family or corporate farming business may well farm land which is freehold owned property together with other land which is occupied on a tenancy or farmed on a joint venture farming arrangement. In order to operate a farming business successfully it is usually necessary to occupy agricultural buildings for the storage of agricultural machinery, deadstock, livestock, input commodities and harvested crops.

10.02.2 In addition to agricultural buildings the valuer may well also encounter a Country House, farmhouses, secondary dwellings which may be owner occupied or let on different types of residential tenancies. Occupation is dealt with in 10.04.1 -10.04.2.

10.02.3 The valuer will therefore need to be skilled in the valuation of bare farmland and fully equipped farming units. Bare farmland may be classified as irrigated (Saqwi), dry (baghli) and wasteland (xaghri). Irrigated land may be irrigated through boreholes, the service of water by pipes or stored grips by gravity or natural source. Dry land is further sub-divided into yielding 1 or 2 annual crops. Wasteland considered to be suitable for bee-grazing has also a higher yield.

10.02.4 The valuer must also be familiar with agricultural investment property which could be a bare farmland holding or an equipped farming unit which is let on a tenancy or lease to a farmer and which is owned by a landlord investor.

10.02.5 It is also possible for the valuer to encounter the valuation of an agricultural estate which is comprised of say bare land farming units, equipped farming units, let agricultural units and also including some woodlands. The owner of the agricultural estate may well be farming some of the land himself as well as letting some of the land on the estate to agricultural tenants.

10.02.6 The valuer may also find that certain types of agricultural estates or fully equipped farming units which are comprised of many individual facets will be worth more on the open market when valued as a whole rather than in individual component parts.

10.02.7 Conversely certain types of agricultural estates and fully equipped units may be worth more when valued in component form. For example where the agricultural estate or fully equipped farming unit is comprised of quality land which is located in unattractive countryside, is dissected by public roads and surrounded by large successful farming neighbours.

10.02.8 The likelihood of higher alternative use values may also be an important factor in determining whether a property is worth more in marriage of the component parts or on break-up into potential alternative uses with part being potentially available for sale for amalgamation with nearby agricultural units.

10.03 Important physical characteristics and other valuation factors relative to agricultural property valuation.

10.03.1 Where the primary farmland use is commercial farming it is important for the valuer to assess the physical characteristics of the property and its potential for producing agricultural products. The valuer should inspect the property and also seek out information in relation to the farming history of the subject property.

10.03.2 The inherent quality of the farmland of:

- soil quality & depth – both top and sub soils;
- south facing slope/wind exposure;
- topography - accessibility to holding by footpath or heavy vehicle machinery;
- drainage – both natural and manmade systems.

10.03.3 The condition of the farmland:
- soil fertility including nutrient indices and organic content;
- condition of the land drainage systems.

10.03.4 The presence and condition of services and infrastructure:
- water systems;

- internal farm roads and access points onto highway networks;
- hedges, walls and boundaries;
- if the soils are of high quality and suitable for high value horticultural or fieldscale vegetable and root crop growing, are there irrigation facilities?;
- water abstraction sources – borehole, size of water reservoirs;
- transport of water by vehicle or pipes.

10.03.5 It is important for the valuer to assess the suitability of the subject property to modern farming techniques. The size of the holding is thus of importance.

- are the enclosure sizes suited to the use of modern large machinery?
- is there sufficient crop, livestock, machinery and general storage?

10.03.6 In assessing the previous history of the property the valuer should consider potential contamination issues such as:

- soil born diseases;
- soil born pests;
- heavy metal contamination following the application of human waste;
- chemical residues resulting from certain former intensive uses or former handling and storage areas;
- cross pollination from genetically modified organisms.

10.03.7 The above physical characteristics will determine the type of farmland use that the subject property can support. In practice the valuer is likely to find that horticultural crops (other than container growing), field scale vegetables and root crops are grown on the highest quality land, although these crops will be grown in conjunction with arable, oil seed and legume break crops. Perennial crops are also likely to be found on higher quality land. The majority of lowland farmland will be utilised for growing mainly arable crops including cereals, oil seeds and legumes. Where there is coincidence of heavier soils and higher rainfall levels the predominant use will be grassland for dairy and livestock consumption. It must be noted that the valuer will often find mixed farming systems particularly where the agricultural property includes mixed soils and land of varying quality.

10.03.4 In addition to its base agricultural use farmland is increasingly being sought for its amenity characteristics.

10.03.9 In addition to the primary farming use the agricultural property with the benefit of certain of the above amenity considerations may provide recreational purposes such as shooting, trapping and fishing potential. Certain agricultural properties or estates, even though their main income source may well come from farming, will be sought after for their special sporting characteristics. The valuer must therefore be careful to assess any additional value which must be allocated to an agricultural property over its base agricultural use value.

10.03.10 The presence of an attractive farmhouse will enable the owner to enjoy the special amenity characteristics more easily and again the valuer must be careful to assess potential for the agricultural property that will attract primarily the non-agricultural residential purchaser who wishes to own and enjoy land in attractive countryside surroundings.

10.03.11 It is very important for the valuer to establish whether the agricultural property is subject to or with the benefit of certain property environmental designations or management agreements which might have an influence on land use/practice. The farmland as a consequence may be liable to certain environmental constraints. Typically the designations to be aware of are:

- nitrate vulnerable zones – restriction on nitrate usage and the application of animal waste.

- countryside designations;

- areas of high landscape quality e.g. coastal and upland scenery,
- heritage and archaeological areas e.g. world heritage sites;
- rare flora and fauna sites;
- rare wildlife and bird areas e.g. saltmarsh wild fowl wintering areas:

- countryside management schemes;
- land that has undergone organic farming conversion.

10.03.12 The valuer should consider whether or not there are any suitable rock beneath the agricultural property, who owns the rights to extract and the likelihood of major disturbance. The valuer will also need to assess the local planning policies for the quarrying of rock. The quarries will be valued using the income approach. The two uses being for the quarrying of hardstone upper or lower coralline or building stone (franka) and their derivatives.

10.03.13 It is recognised that generally, in town planning terms, new development should be restricted to within or adjoining existing urban areas to facilitate sustainable development. Also there is a need for new and replacement agricultural buildings to be erected in the countryside to support evolving farming systems and structures. The valuer should always make enquiries with the relevant local and town planning authorities as to the prevailing policies. The location of the subject property within a sensitive environmentally protected area will potentially make it more difficult to obtain planning permissions for new buildings. Also the proximity of agricultural land to an urban area may well mean that the valuer will have to consider additional hope value relating to the expectation that the land will one day be granted permission for non-agriculture use development which in most instances has a much higher value than the bare farmland value.

10.03.14 Following the decline in farming incomes, coinciding with positive national economic conditions there is government support for the reuse of agricultural buildings for commercial and in some instances residential use. The valuer must therefore be aware of current planning policies relating to the countryside and be very careful to establish any additional value that should be allocated to potential non-agricultural uses for redundant farm buildings. In such circumstances there may well be non-agricultural purchasers who will be interested in purchasing certain farm building complexes for non-agricultural uses.

10.03.15 It is important for the valuer to be aware of the national and local system for distributing agricultural subsidies linked to the ownership and occupation of agricultural property. Where applicable as in the EU typically he may encounter:

- Livestock payments – these may be paid on a headage basis with maximum ceilings;
- Production quotas such as milk quota may well be attached to the land;
- Crop subsidies may also be paid on a production area basis.

10.03.16 The valuer should assess the eligibility of the agricultural property for subsidies of various types and should carefully consider whether or not there is any additional value to attach to the right to take these subsidies. Such rights may be attached to the land or may be saleable in a detached form. In some instances production quotas may be administered by processing organisations rather than government departments. The valuer should also be aware of any proposed changes to subsidy systems. Such changes might involve future capital compensation payments being made to landowners and farmers.

10.04 Tenure occupation and farming arrangements

10.04.1 Much of the farmland marketed is sold with a Vacant Possession available for the new owner-occupier to farm producing crops for sale in pursuit of a farming financial profit. The land tenure arrangements and system could range from very secure long-term life tenancies. See section 4

(2) of the Agricultural Leases (Reletting) Act 1967(Ch 199) to acquire the land and Section 3 (2)c to establish amount of lease payable (Refer to Appendix E).

10.04.2 It is important for the valuer to assess the actual and estimated rental or rental equivalent passing between the landlord and tenant or the farmer/landowner and share farmer/contractor. In addition the valuer should consider the term of such arrangements and potential breaks to enable the landowner to obtain possession. The legal implications of irrigable land should be considered.

10.05 The relevant valuation methodology

10.05.1 The comparable method is the primary method for all agricultural categories of property except agricultural investment property – land that is let on an agricultural tenancy/lease or some form of joint venture farming arrangement – which should be valued on the income approach unless there are breaks for early possession.

10.05.2 Owner occupied or vacant possession fully equipped farming units are very likely to have agricultural dwellings that are occupied by farm employees. These properties and any farm houses with the benefit of vacant possession should be valued in the context of local residential markets.

10.05.3 In most instances agricultural property that is available for sale with vacant possession will be worth more than equivalent agricultural investment property. Sale without vacant possession will involve compensation due to farmer as indicated in Section 4 (4) or 4 (5) of the Agricultural Lease (Reletting) Act 1967 (Ch 199) and possible legal costs (Refer to Appendix E).

10.06 Likely sources of information

10.06.1 The valuer should be aware of the following information sources or equivalents:

- survey maps;
- land quality maps;
- soil maps;
- environmental designations;
- agricultural subsidy regulations;
- town planning structure plans, policies and maps;
- on farm information:

  - cropping and livestock records;
  - soil indices surveys;
  - soil pest and disease surveys on high quality land;
  - drainage plans;
  - application forms and government issued agreements for subsidies;
  - crop sale contracts;
  - water abstraction permits/licences;
  - documentation for letting and occupation arrangements;
  - farm assurance certificates;
  - organic farming certificates;
- climatic information.

- meteorological maps and data;
- global warming projections for climatic variation.

10.06.2 The valuer should be aware that farming and the countryside is going through considerable structural change and he should endeavour to become aware of those resulting factors that are likely to influence changes in value.

10.07 Determination of the market value

10.07.1 It is important for the valuer when assessing the subject valuation agricultural property to consider the relevant category markets, both local and or national. The valuer will have special regard to the matters set out in 10.02.1 – 10.04.2 in establishing the type of agricultural property and the likely potential purchasers. It is important to realise that an equipped farming unit or agricultural estate or agricultural investment made up of many components may be attractive in part to a different market place or different buyers with the use of careful lotting. The valuer should therefore consider the appropriate marketing methodology in order to realise the best market value at sale.

10.07.2 Fundamentally the valuer will use the comparable method to establish as much comparable evidence in terms of capital values and income where the income approach is relevant. If an agricultural property is let on a medium term basis it may be relevant to value the property on an income approach for the term of the letting reverting to a vacant possession discounted value. The valuer will usually find that the resultant value is less than full vacant possession value.

10.07.3 The timing of the valuation is highly relevant in relation to the valuation of growing crops, cultivations and acts of husbandry and agricultural livestock, deadstock and produce in store and input commodities. It is also important to establish whether there are any quotas or subsidy benefits to be valued. The valuer should agree a valuation brief clearly with the client to establish whether or not these ancillary items should form part of the valuation. They should be itemised separately. In many countries specialist local valuation methodology and practices are in place. The valuer should clearly state the basis of valuation of any such items in the valuation report.

10.07.4 The valuer should clearly establish whether there are any property title matters relative to the agricultural property such as rights of way, easements and wayleaves. It should be established whether the mineral rights and sporting rights are owned with the land as if these rights are owned separately potentially there may well be disturbance complications attached to the ownership of the freehold.

10.07.5 All occupational arrangements whether documented or verbal including joint venture farming arrangements should be established by the valuer. He should ensure that he is valuing subject to the various occupancy and joint venture farming rights. This should include all residential tenancies and occupancies that might for instance involve agricultural service employees or lettings to third parties. It must be established whether the local valuation practice is to value the domestic properties subject to the long term residential tenancies on the income approach or a on a proportion of the vacant possession value. As a part of this valuation process it will be necessary to consider the tenants security of tenure rights and the occupants ages in order to consider reversionary potential.

10.07.6 The valuer should consider very carefully whether he should allow an element of additional hope value for alternative use potential over the base farm land value in arriving at the correct market value. This will be done after he has made careful checks with the appropriate planning and highway authorities and alternative use value comparable evidence databases. Any such hope value should be highlighted within the valuation report and be appropriately justified.

11. Valuation of Historical Properties

Chapter 11 covers the following matters:

Importance of awareness of both the financial and cultural value of historic buildings;

Recommendations for repair works or alterations;

The subject of the valuation.

11.01 Introduction

11.01.1 Historic buildings are formally recognised as having a positive value, culturally but not necessarily also economically – in terms of tourism, social status and commercial performance. Many historic buildings are provided with statutory/legal controls that protect the very qualities and characteristics that give them their architectural, cultural and/or historic value.

11.01.2 When providing advice, valuers need to be aware of both the financial and cultural value of historic buildings, the potentially negative consequences that their recommendations may have on the value, both financially and culturally, of these special buildings as well as the implications of any controls or protection. Valuers therefore need to identify and recognise historic buildings in the valuation process so that their financial, cultural, architectural and historic interest can be taken into account, along with any controls and protection, when assessing their value, their condition, and the need for any repairs.

11.01.3 The valuation of historic buildings therefore needs to be made in full knowledge of the special needs and requirements of these buildings, which can only be derived from an understanding of the manner of

- Construction.
- Performance (this expression relates primarily to the manner in which most historic/traditionally constructed buildings perform compared to modern buildings).
- Appropriate, and inappropriate, methods of repair.
- The extent and nature of any controls (legal and statutory).

11.01.4 Where recommendations for repair works or alterations are made within a valuation it is imperative that the valuer be confident that if these works were adopted that they would not be detrimental to the building's architectural or historic integrity, its future structural condition or the conservation of the building fabric. Where any doubts exist as to the potential influence and consequences of any recommendations for works or alterations the valuer needs to make a recommendation that further advice be sought from a suitably qualified person, who has no vested financial interest in their own recommendations, with appropriate specialist knowledge in the repair and maintenance of historic buildings. Adopting this simple approach will ensure that the valuer does not make inappropriate and damaging recommendations that erodes the value of this finite and valuable resource.

11.02 The subject of the valuation

11.02.1 This Standard concerns the valuation of historical properties. The term 'historical properties' includes, *inter alia*, properties:

(i) that are entered in a listed buildings register;

(ii) that are included in a historical buildings record;

(iii) are ones that, according to special legal provisions, are of particular importance to the cultural heritage

(iv) are generally recognised as being of historical or cultural importance.

11.02.2 Once a property has been identified as belonging to this category, then the normal methods of valuation will be employed, but reflecting the material conditions and factors which apply to historical properties. Where there is any doubt as to whether or not the building being valued is historic or not, it is advisable for the valuer to make the assumption that the building is historic and protected by relevant legislation/controls. This assumption needs to be expressly made within the valuation report, with a recommendation that the assumptions that have been made should be confirmed by legal searches etc.

11.02.3 The elements that differentiate historical properties from other ones include

(i) their increased legal protection;

(ii) their architectural, historical, scientific or artistic value;

(iii) limitations placed on their enjoyment, their transfer, any changes in their use, and modernisation works,

(iii) the obligation to make them accessible to society and for the purposes of science and education

11.02.4 As part of the process of valuing historical properties, the valuer will need to consider the criteria he should adopt in deciding what is the appropriate valuation approach, method and technique, paying particular attention to:

- Any decisions of the authorities that have responsibility for the care and conservation of historical properties,
- The provisions of local plans concerning the use of the historical property and its surroundings;
- The purpose for which the valuation and the valuation report will be used;
- The availability of market data and information;
- The state of repair of the property to be valued; and
- Any other circumstances pertaining to the historical character of the property.

Appendix A

Code for Measuring Practice

1. Gross External Area Applications:

- Building costs estimation;
- Site coverage plot ratio;
- Planning; and
- Zoning.

Measurement of a building taking each floor into account:

a. Each floor should be measured at all levels to include the outside faces and projections of the enclosing wall;
b. The measurement should include areas occupied by internal walls, partitions, columns, stairwells, lifts, escalators, toilets, air (or other) vertical ducts,
c. Lift motor rooms, central heating or air-conditioning (ventilation) plant rooms, fuel tank rooms, electrical transformer and/or low tension rooms;
d. Open-sided covered areas, ramps, enclosing parking areas, storage rooms, archive rooms (basement).

2. Gross Internal Area Applications:

- Building costs estimation;
- Industrial building, shop and warehouse agency, and
- Valuation practice

Measurement of a building taking each floor into account:

a. Each floor should be measured at all levels between internal surfaces of external building walls or to the glass line if at least 50% of the outer building wall is glass, and
b. Measurement to be taken at a height of 1.5m above the floor

3. Effective Floor Area or Rentable Area Applications:

- Agency and valuation practice; and
- Service charge apportionment

3.1 Definition of lettable area
The lettable floor area of an office building is defined as the sum of the areas of each floor of the building measured in accordance with the rules described below. The resulting calculations shall be classified in different types of lettable area set out in Section 3.3. Finally a presentation of the lettable area shall be presented as set out in Section 3.4

3.2 Rules for Measurement

3.2.1 General

3.2.1.1 Measurements shall be made in metres and taken to the nearest centimetre (i.e. five millimetres shall be regarded as one centimetre and less than five millimetres shall be disregarded). Calculations shall be made in square metres to two places of decimals (i.e. 0.555 shall be rounded up to 0.56 and 0.554 shall be rounded down to 0.55)

3.2.1.2 Measurements shall be taken horizontally at finished floor level.

3.2.1.3 Measurements shall be taken to the inside face of enclosing walls, ignoring skirting, dado rails, wall panelling, air conditioning units, radiators and their coverings and similar installations. In the case of fully glazed walls this means that measurements shall be taken to the inside face of the glass.

3.2.1.4 Mezzanines, internal balconies and floor slabs, the edges of which are not adjacent to external enclosing walls, are floors within the meaning of this code. They shall be measured to the inside face of the wall or balustrade that delineates their extent.

3.2.1.5 For the purpose of measurement, fitting out works carried out by or for the tenant, such as fixtures and fittings, cupboards, internal walls, wall linings and raised floors, are to be ignored.

3.2.2 **Deductions**

3.2.2.1 Deductions shall be made from the areas of the floors measured as set out above. These deductions are of two types, namely, those made necessary by virtue of the construction of the building and those resulting from the use to which the building is put.

3.2.2.2 Deductions by virtue of the construction of the building shall be made in respect of the following.

3.2.2.2.1 The area occupied by stairwells, lift shafts, escalators, openings in floors, vertical ducts, shafts, chimneys and the like, including in each case their enclosing walls;

3.2.2.2.2 The area occupied by structural or load bearing walls, columns, posts and the like (for the sake of clarity attention is drawn to the fact that no deductions shall be made in respect of the area occupied by non-load bearing walls, except those provided to sub-divide units of occupation);

3.2.2.2.3 Any area where the clear headroom measured vertically from the finished floor level to the finished ceiling level is less than 1.5 metres;

3.2.2.2.4 Any area which is only accessible via an area, the clear headroom of which is less than 1.5 metres; and

3.2.2.2.5 External balconies, terraces, flat roofs and the like.

3.2.2.3 Deductions by virtue of use shall be made in respect of non-useable circulation areas, operational areas, ancillary areas and non-useable areas as defined below.

3.2.2.3.1 Non-useable circulation area.

Non-useable circulation areas are those parts of a building provided for circulation with the building but which are not defined as "circulation areas" in section 3.1.5. Non-useable circulation areas, therefore, include stairwells, staircases, escalators, ramps, lifts and refuse shafts, as well as areas that are provided solely for emergency escape purposes, such as emergency escape staircases, lobbies, balconies, walkways and similar emergency escape provisions.

3.2.2.3.2 Operational areas

Operational areas are areas within a building used or provided for the operation of the building. These include, for example, lift machinery rooms, winding gear rooms, maintenance and refuse disposal areas, boiler rooms, heating and hot water supply, fuel storage areas, areas used for storing fire fighting equipment or used in respect of sewage disposal, water, gas, electricity, telephone communications and air conditioning plant as well as other plant rooms, rooms provided for use by employees of the owner or other maintenance or caretaker staff for repairs, maintenance and management of the building and, finally, areas exclusively used by authorities and utility suppliers (eg. Rooms for meters, electricity sub-stations, district heating converters etc.

3.2.2.3.3 **Ancillary areas**

Ancillary areas are areas not let to, used by or provided to be used by the tenants or the occupiers and not within the definition of operational area (see 3.2.2.3.2). Examples are radiation fall-out shelter rooms or other rooms for the protection of the civil population and areas within the building provided for the exclusive use of third parties, such as the occupiers or tenants of neighbouring buildings.

3.2.3 **Lettable areas**

Lettable areas are all the remaining areas in the building after the deductions set out above have been made from the areas calculation according to the rules for measurement in section 3.2.1.

3.3 **Categories of lettable area**

The lettable areas calculated in accordance with the foregoing rules are to be divided into two categories, namely areas of exclusive use to a particular tenant or occupier and areas of communal use (i.e. areas used or provided for the use of two or more tenants or occupiers). This categorisation shall be made according to the circumstances prevailing at the time of measurement or, if the building is not fully occupied, at the time of measurement or not yet completed, on reasonable assumptions to be made as to the units of occupation, these to be set out clearly in the presentation of lettable areas.

3.3.1 **Exclusive use**

The areas of exclusive office use are to be subdivided into the following categories:

3.3.1.1 Prime use areas

These are those areas having more than 2.30 metre clear height, which are or could both practically and legally be used as offices and directly associated uses, such as computer rooms, conference rooms, meeting rooms, libraries, post rooms and archives.

3.3.1.2 Restricted prime use areas

These are those prime use areas which are restricted in some way, for example, rooms with between 1.50 metre and 2.30 metre clear height.

3.3.1.3 Secondary Use Areas

These are areas that are used for purposes ancillary to the main office use, such as dining rooms, associated areas of food storage and washing up, leisure areas, gymnasia, swimming pools, sports rooms, associated changing rooms, toilets, washrooms, showers, tea kitchens, kitchens, canteens and similar.

3.3.1.4 Other areas

These comprise areas other than prime use areas, restricted prime use areas, secondary use areas, circulation areas (see 3.3.1.5), car parking (see 3.3.1.6) or communal areas (see 3.3.2). Examples of other areas are separate workshops, laboratories, warehousing, retail units, etc.

3.3.1.5 Circulation areas

Circulation areas are those parts of a building provided for access purposes but exclude such parts that are provided solely for the purpose of emergency escape. The following types of circulation area are to be included in the lettable area if they are, or could be, used exclusively by the tenant or occupier or a particular unit of occupation (see 3.4.4)

- Wind lobbies
- Entrance halls
- Waiting rooms
- Lift lobbies
- Connection corridors
- Ramps within the above-mentioned circulation areas

Circulation areas that are not or could not be used exclusively by a tenant or occupier of a particular unit of accommodation are to be included in the communal areas (see3.3.2).

3.3.1.6 Car Parking

This is to be expressed in terms of the number of spaces and categorised into the type of parking (e.g. basement parking, multi-storey car park, site parking etc.) with a note of any restrictions (e.g. double parkers or other patent parking systems).

3.3.2 Communal Areas

3.3.2.1 General

Communal areas are parts of buildings used or provided for use by two or more tenants or occupiers They are to be divided into the same categories of use as for areas of exclusive use so far as there is communal use of such areas (i.e. prime use areas, restricted prime use areas, circulation areas and car parking – see section 3.3.1)

3.3.2.2 Apportionment key

The communal area is to be apportioned amongst the tenants or occupiers in an equitable way, normally in proportion to the total area of exclusive use of each tenant or occupier or (if vacant) each unit of accommodation. The apportionment key used for each type of use is to be made clear

3.4. Presentation

The results of the calculations of lettable area shall be presented in the following categories each of which shall be subdivided into the different uses in question:

3.4.1 Areas of exclusive use (see section 3.3.1)

3.4.1.1 Prime use office areas (see section 3.3.1.1)
3.4.1.2 Restricted prime use office areas (see section 3.3.1.2)
3.4.1.3 Secondary use areas (see section 3.3.1.3)
3.4.1.4 Other areas (see section 3.3.1.4)
3.4.1.5 Circulation areas (see section (3.3.1.5)
3.4.1.6 Car Parking (see section 3.3.1.6)

3.4.2 Communal areas

3.4.2.1 Prime use areas (see section 3.3.1.1)
3.4.2.2 Restricted prime use areas (see section 3.3.1.2)
3.4.2.3 Secondary use areas (see section 3.3.1.3)
3.4.2.4 Other areas (see section 3.3.1.4)
3.4.2.5 Circulation areas (see section 3.3.1.5)
3.4.2.6 Car Parking (see section 3.3.1.6)

3.4.3 Apportionment key

The apportionment key used for allocating communal areas to the different tenants, occupiers or units of accommodation shall be provided for each category of use

3.4.4 Summary

A summary sheet be provided giving the total lettable area for each tenant, occupier or (if vacant)

Appendix B

Inspection and Valuation Report
RESIDENTIAL PROPERTY

CONDITIONS of ENGAGEMENT

1. The Perit will give the client a professional opinion of the condition, state of repair and value of the property specified by the client on the standard form of Inspection Report and Valuation for House Buyers published by the Kamra tal-Periti.

2. The valuation will take account of the condition and state of repair of the property, and of general property market conditions.

3. The Perit will exercise reasonable skill and care within the limitations of the inspection

4. The inspection will be visual, such as can be made from all floor levels, of those parts of the property which are readily accessible. Unless otherwise stated no parts of the structure which are covered, unexposed, or inaccessible will be inspected, and no tests will be made as to whether or not such parts of the property are free of defects. Those parts are assumed to be in good condition for the purposes of estimating the value of the property.

5. The report is provided for the sole use of the named client and is confidential to the client and to his or her professional advisers. The Perit accepts no responsibility to any person other than the client. Any such person relies upon the report at his or her own risk.

6. The title of the property will not be investigated and the Perit will make no inquiries to this effect.

7. The property will be valued as at the date of inspection. The valuation will take account of the property's condition as indicated in the Perit's report. Unless otherwise stated, fixtures and fittings are included in the valuation.

8. No inquiries will be made regarding the actual or potential use of other property in the area that may have an effect on the value of the inspected property.

INSPECTION REPORT and VALUATION for HOUSE BUYERS

This report is based on a visual inspection made on the terms set out in the conditions of engagement that appear on the opposite page. It relates to the general state of the property described below. It is not intended to be read as, or substituted for, a formal structural survey of the inspected property.The printed notes form an integral part of the report.

Client name and address	
Status	
Address of property inspected	
Purpose of inspection	
Date of inspection	
Weather conditions at Time of inspection	
Tenure/Possession (as reported by the client)	
Ground Rents (as reported by the client)	
General Description	
Type of property	
Physical Characteristics	Frontage metres Site Area square metres Gross external area square metres
Type of construction	
Age of Property	
Description of surroundings	
Additional features (e.g. views)	
Accommodation	
Planning considerations	
PA/PAPB Reference No.	
Variations	
Sanitary Regulations	Internal yards metres X metres Back yard metres X metres Side curtailage metres
Sanctionable variations?	

EXTERIOR

A visual inspection of the general condition of the exterior of the property has been made from ground level only. Roof areas, which cannot be seen from ground level, were not inspected. No foundations have been opened up for examination. Drainage has only been inspected only where it was reasonably possible to locate and raise the covers of inspection chambers.

Roof and drainage	
Roof covering	
Rain Water Drainage	
Gutters, downpipes, gullies and stormwater drainage	
Foul waste and drainage	
Main walls	
Condition of walling material & pointing	
Serious structural movement	
Damp-proof courses	
Window frames and external joinery	
Exterior decoration	
Common Areas	
Standard of finish	
Main entrance	
Maintenance charges/fees	
Lift	
Essential works to be carried out	

INTERIOR

A visual inspection of the general condition of the interior of the property was made from floor levels and from readily accessible roof spaces. "Flooring" refers to the upper most layer of floor covering. The flooring beneath fitted carpets, linoleum, and the like was not examined.

Ceilings, walls and partitions (dampness, rot, woodworm, etc.)	
Electrical system	
Interior decoration	
Flooring (dampness, rot, etc.)	
Joinery, including built-in cupboards and kitchen fittings (woodworm, rot, and other timber defects)	
Plumbing and sanitary fittings	
Hot water, heating and cooling systems	
Insulation (general comment on visible areas only)	
Roof spaces (where readily accessible)	
Cellars and basement areas (dampness, rot, etc.)	

SERVICES

Only readily accessible services have been visually inspected. No tests have been carried out

Water supply	
Foul water system	
Electricity	
Other (A/C, generator, lift, solar heating)	

OUTBUILDINGS AND SITE

The main defects found in garages and outbuildings, boundary walls and fences, footpaths, and drives are as follows.

Garages and outbuildings	
Site, including boundary walls, paths, and drives	
Environmental matters, including quarries, etc	
Pool, reservoir, wells, pump rooms, etc.	

STRUCTURAL CONSIDERATIONS

Readily accessible areas only have been visually inspected. No tests have been made. Main structural defects are indicated, noting whether or not such defects are normal in property of this type and age. Comments indicate whether further tests by specialists or consultants are required.

		Specialised test recommended?
Foundations		YES/NO
Walls		YES/NO
Ceilings		YES/NO
Outbuildings		YES/NO

Summary and recommendations

CURRENT MARKET VALUE OF PROPERTY

"Market value" is defined here, according to Article 49(2) of the European Council Directive, as follows.

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

The valuation is valid at the date of inspection. It takes account of the condition of the property as indicated in this report. Fixtures and fittings are included in the valuation unless otherwise stated. No inquiries have been made regarding the actual or potential use of other property in the area that may have an effect on the value of the inspected property. The title of the inspected property has not been investigated.

Current market value is estimated at **Lm**

Date of valuation	**Firm**	**Perit**

Appendix C

REBUILDING INSURANCE ASSESSMENT SUMMARY

CLIENT:

PROPERTY ADDRESS:

BUILDING CATEGORY:

DATE:

1.	Area	m^2	
2.	Basic Unit Cost	Lm	per m^2
3.	Adjustment to Basic Cost (list e.g. site works, demolition, outbuildings, garden works, common areas)		
4.	Adjusted Rate/Cost	Lm	per m^2
5	Total Reinstatement Cost (1 X 4)	Lm	
6.	Fees	Lm	
7.	Allowance for VAT – on fees % - on building costs %	Lm	
8	MEPA's Building Levy	Lm	
9.	Recommended Sum Insured at Today's Date (5 + 6 + 7+8)	Lm	
10.	Allowances for inflation, if applicable (from valuation date above) (a) Allowances for increasing costs during period of insurance at % per annum (b) Allowances for increasing costs during period of planning and design reinstatement at months at % per month (c) Allowances for 50% of increasing costs during the rebuilding period at months at % per month		
TOTAL ALLOWANCE FOR INFLATION		Lm	
11	Recommended sum insured including allowances for inflation (9+10)	Lm	

Appendix D

IAS REFERENCES

In the case of accounting standards the EU has decided to set upon a course of adopting International Accounting Standards (IAS) for all listed companies within the EU. The Regulation on the use of IAS by all EU listed companies including banks and insurance companies, takes direct effect in EU member states without the need to be transported into national legislation. The Regulation calls for the use of the IAS by 2005 at the latest.

Asset valuations are an option under IAS 16, property, plant and equipment (alternative measurement basis), IAS 40, investment property (fair value model although even if the cost model is chosen, the fair value should be disclosed), and IAS 20, Government Grants (grant of non-monetary assets). Asset valuations are required under IAS 22, business combinations (initial measurement of acquired identifiable assets), IAS 19, employee benefits (assets held by a long term employee benefit fund) and IAS 36, impairment of assets (not selling price).

International Accounting Standard 16 (IAS 16.6)), Fair Value is defined as.

"The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction".

Article 30 of IAS 16 (Revised 1998) deals with revaluations of assets and states as follows:-

The fair value of land and buildings is usually its Market value. This value is determined by appraisal normally undertaken by professionally qualified valuers.

IAS 16, Art 31 specifically requires this method for plant and equipment, where there is no evidence of value, because of the specialist nature of the asset.

Where International Accounting Standards are adopted IAS 16 on the valuation of fixed assets (land and buildings), IAS 36 on impairment of fixed assets and IAS 25 on investment properties apply.

Appendix E

Relevant Sections from AGRICULTURAL LEASES (RELETTING) ACT 1967

Agricultural Properties

Act No. XVI of 1967 - Agricultural Leases (Reletting) Act

Imposes severe restrictions on landlord's rights particularly as regards rents, tenure, irrigable land and conditions of lease. It also establishes criteria for compensation in the case of termination of leases.

3 (2) The Board shall not approve any new conditions contained in any application if it is proved that

(a) such new conditions would be justified only in view of improvements of a permanent character carried out in the agricultural land, during the period of eight years immediately preceeding the date of termination, by the tenant himself or by a member of the family, without their having been under any obligation to effect those improvements; or

(b) such new conditions would be justified only in view of improvements of a permanent character carried out in the agricultural land by the use of funds provided by the Government or on behalf of the Government in the form of grant or in any other form which, subject to compliance with the conditions governing the provision of such funds, does not involve repayment; or

(c) such new conditions would not be equitable by comparison with conditions of lease prevailing in comparable field in the same part of the Island, having regard principally to the average quality and depth of the soil, the nature of the subsoil, the direction in which sloping land is facing, the accessibility to the road, and its distance from the closest village.

3 (3) The board may, instead of rejecting the new conditions proposed by the lessor, modify and approve them to the extent justified by the application of the provisions contained in paragraphs (a), (b) and

(c) of the last preceding subsections: Provided that, in no case, shall such conditions be less favourable to the lessor than those of the last preceding lease.

4 (2) The Board shall allow the lessor's application if the lessor proves that.

(a) he requires the agricultural land to be used for agricultural purposes by himself personally or by any member of the family personally for a period of not less than four consecutive years starting immediately following the date of termination, or

(b) he requires the agricultural land, provided it is not irrigable land, for the construction thereon of buildings for dwelling, business or industrial purposes, or

(c) the agricultural land was sublet or the lease thereof transferred without the consent of the lessor to any person other than a co-tenant thereof or a member of the family; or

(d) during the two years immediately preceding the date of termination, the field was allowed to lie fallow for at least twelve consecutive calendar months; or

(e) during the two years immediately preceding the date of termination, the tenant has failed, in respect of two or more terms, to pay the rent, on each occasion, within fifteen days from the day on which the lessor has called upon him in writing for payment, or

(f) during the two years immediately preceding the date of termination, the tenant being bound to repair and maintain the walls of the agricultural land, failed to fulfil such obligation or habitually disregarded any other conditions of the lease or deliberately or through negligence caused or allowed to be caused damage, other than damage of small importance, to any fruit trees in the agricultural land.

Provided that the circumstances mentioned under paragraph (a) of this subsection shall not be a sufficient reason to allow the lessor's application, if the tenant proves that the agricultural land in question is an important source of his and his family's livelihood, and if the Board is satisfied that the tenant would suffer a greater hardship than the lessor, where the application to be allowed; and Provided further that, where the agricultural land included a farmhouse which is used by the tenant as his and his family's sole place of residence, the circumstance mentioned under paragraph (b) of this sub-section shall not be a sufficient reason to allow the lessor's application, unless the tenant is allowed to retain possession of such farmhouse at the rent and under conditions to be established by the Board, or is provided by the lessor alternative accommodation reasonably suitable to his means and the means of his family and to their needs as regards extent.

(Amended by ACT IX.1967.3 (b).

4. (4) Where the lessor resumes possession of agricultural land or a part thereof by virtue of a decision of the Board based on paragraph 9 (a) of subsection (2) of this section, he shall pay to the tenant a fair compensation in respect of any agricultural improvements carried out by the tenant or by a member of the family in the said agricultural land or part thereof during the period of eight consecutive years immediately preceding the date of termination.

(Amended by ACT XXVIII. 1969)

4 (5) Where the lessor resumes possession of the agricultural land or a part thereof by virtue of a decision of the Board based on paragraph (b) or subsection (2) of this section, he shall pay to the tenant a fair compensation as provided in the last preceding subsection, and, in addition, an amount equal to the value of the products gathered by the tenant or by a member of the family from the said agricultural land or part thereof, after deduction of the expenses incurred towards its cultivation, in the last four years immediately preceding the date of termination:

Provided that there shall not be deducted as part of such expenses the cost of the tenant's own labour or of the labour of any member of the family in the agricultural land or part thereof.

(Amended by ACT. XXVIII.1969)

Appendix F

MALTA'S SPECIFIC LEGISLATION & PRACTICE

PROFESSIONAL BODY
Kamra tal-Periti, (Chamber of Architects and Civil Engineers). Founded 1920. Self-regulatory.

HISTORY
The **Perit**, (Architect and Civil Engineer, originally **Land** Surveyor and Architect),has been the recognised professional valuer of real estate property for several centuries. Until the first part of the eighteenth century the number of "Periti" was limited to twelve, headed by a "Capo Maestro" (later more). Professional formation was originally by apprenticeship to warranted practitioners. In the eighteenth century two, later three-year formal courses were provided at the **Lyceum** followed in the early twentieth century by academic courses at University. The Law Courts for centuries, and more recently the Banks and Inland Revenue only recognise "valuations of real estate presented by a "Perit".

METHODOLOGY
Largely based on British practice but with local adaptations in view of certain traditional institutions particularly praedial easements and emphyteusis. The Comparative and Investment methods are most widely used.

SUMMARY RELEVANT NATIONAL LEGISLATION

Urban Properties

1. **Reletting of Urban Property (Regulation) Ordinance (Chap. 109)**

   Imposes severe restrictions on landlord's rights to repossession or to change conditions of lease of residential and commercial properties.

2. **Ordinance No. XVI of 1944 – Rent Restriction (Dwelling Houses) Ordinance**

   Establishes a notional "fair rent" for dwelling houses, distinguishing between "old", (pre 1939), and "new" houses, (post 1939), as well as limited increases in rent for alterations and improvements by landlord.

3. **Ordinance No. XIXA of 1959 – Housing (Decontrol) Ordinance**

   Establishes four conditions under which a dwelling house may be "decontrolled", i.e. exempted from the restrictions of the two preceding Ordinances. It also revises the permissible increase in rent for alterations and improvements in rent-restricted dwelling houses.

4. **Land Acquisition (Public Purposes) Ordinance (Chap.136)**

   Establishes "special" rules for the valuation of property, (in particular land), required for a public purpose. The definition of "building site" is particularly "special".

5. **Act XXIII of 1979 - Housing (Decontrol) Amendment Act**

   Brings back "decontrolled" dwelling houses under the restrictions of Ordinances at (1) an (2) above at slightly improved conditions. On the expiry of certain emphyteutical grants, it gives the emphyteuta, (or tenant), the right to convert the temporary emphyteusis into perpetual. This has been declared unconstitutional by the Courts but is still under appeal.

6. **Act XVIII of 1993 - Duty on Documents and Transfers Act (Chap. 364)**

Repeals a number of Acts, (not included above as superseded), and establishes rules for taxable and non-taxable capital gains from transfers of property and stamp duty thereon.

7. **Act No. XXXI of 1995 – An Act to Amend the Housing Laws**
Exempts contracts entered into after 1st June 1995 from the provisions of Ordinances (1), (2) and (3) and Act (5) above.

For details regarding para 1 – 7 refer below:

Urban Properties - Salient Clauses affecting Valuations

I. **Reletting of Urban Property (Regulation) Ordinance XXI of 1931. (Chap. 109)**

Duration of Ordinance	3. This Ordinance shall continue in force until the 31st Day of December, 1933. (N.B. After several yearly extensions the Ordinance was made permanent by Ordinance XXII of 1947)
Lessor not to refuse renewal of lease or raise the rent without permission of Board.	4. It shall no be lawful for the lessor of any premises at the expiration of the period of the tenancy (whether such period be conventional, legal, customary or consequential on the provisions of this Ordinance) to refuse the renewal of the lease or to raise the rent or impose new conditions for the renewal of the lease without the permission of the Board hereinafter referred to
Power of Board to permit increase of rent, etc.	5. (1) The Board shall grant the said permission in the following cases:- (a) if the lessor is bound to carry out or has reasonable cause for making any alterations or works other than ordinary repairs; (b) if the proposed rent does not exceed 40% over and above the fair rent (to be, where necessary, fixed by valuation), at which the premises were leased or could have been leased at any time prior to the 4th August, 1914; the Board may cause such fair rent to be fixed by the two Architects and Civil Engineers sitting on the Board in respect of the particular case.
Increase of rent.	6. (1) In the case referred to in paragraph (a) of subsection (1) of the last preceding section, the Board shall allow such increase as it may deem justified, having regard to the benefit resulting from the alterations or works
Application by lessor for resuming possession of premises.	9. (1) Where the lessor desires to resume possession of the premises at the termination of the lease he shall apply to the Board for permission to do so. (2) The provisions of this section shall not apply to premises belonging to or administered by the Government.
Cases in which application for resuming possession of premises may be granted.	10. The Board shall grant the permission referred to in the last preceding section in the following cases:- (a) if the tenant has in the course of the previous lease failed to pay punctually the rent due by him, or has caused considerable damage to the premises, or otherwise failed to comply with the conditions of the lease, or has used the premises for any purpose other than that for which the premises were leased, or has sublet the premises or made over the lease without the express consent of the lessor.

(b) if the lessor requires the premises (other than a shop) for his own occupation or for that of any of his ascendants or descendants, whether by consanguinity or affinity, or of a brother or sister, and (except as otherwise provided in this paragraph of this section), the Board is satisfied that alternative accommodation is available which is reasonably suitable to the means of the tenant and his family as regards extent, character, and proximity to place of work (if any):

Provided that the existence of alternative accommodation shall not be a condition for the grant by the Board of permission to recover possession of premises under this paragraph of this section where the Board is satisfied, having regard to all the circumstances of the case including any alternative accommodation available for the landlord or for the tenant, that greater hardship would be caused by refusing permission for the recovery of possession than by granting it.

Resuming possession of shops.

13. Where the premises consist in a shop the lessor shall not be entitled to resume possession thereof during the time in which this Ordinance shall be in force, except in the case mentioned in paragraph (a) of section 10 or where the premises belong to or are administered by the Government or are otherwise required by the Government for any public purpose.

Any clause excluding tenant from any benefit conferred by the Ordinance to be null and void.

16. (1) Any clause or condition excluding the tenant from any benefit conferred by this Ordinance whether conferred by the such clause or condition has been stipulated prior to the Ordinance to be commencement of this Ordinance or after such commencement, shall be considered as null and void.

2. Ordinance No XVI of 1944 – Rent Restriction (Dwelling Houses) Ordinance

Interpretation

2. In this Ordinance......."fair rent" means:
(i) in respect of an old house, the rent which might reasonably be expected in respect of an old house regard being had to the average rents prevalent on the 31st day of March, 1939, as shown on the Registers of the Land Valuation Office in respect of comparable dwelling houses in the same or in comparable localities:

Provided that where, after the 31st day of March, 1939, structural alterations or additions in a house, whether old or new, have been carried out which, in the opinion of the Board, have enhanced the rental value of the house and in respect of which or, as the case may be, of a part of which, no compensation has been paid or is payable under the provisions of the War Damage Ordinance, 1943, and no amount has been paid or is payable by way of a grant by the Government of Malta, the rent shall be increased by an amount which, in the opinion of the Board, corresponds to the enhancement of the rental value and which shall in no case exceed a return of 3 ½ % a year on the capital outlay on the alterations and additions (excluding any interest on loans or in respect of idle capital) as proven by the landlord to the satisfaction of the Board and

(ii) in respect of a new house, a sum equivalent to a return of 3 % a year on the freehold value of the site and of 3 ¼ % on the capital outlay of construction (excluding any sum which has been paid or is payable by way of grant by the Government of Malta and any interest on loans or in respect of idle capital) as proven by the landlord to the satisfaction of the Board.

(iii) ….. "new house" means any dwelling house which apart from fittings, decoration and alterations, even if structural, was not complete and ready for use on the 31st day of March, 1939;

"old house" means any dwelling house which, apart from fittings, decoration, and alterations, even if structural, was complete or ready for use on the 31st day of March, 1939.

3. Ordinance No XIXA of 1959 – Housing (Decontrol) Ordinance

Commencement 10th April 1959.

Registration of decontrolled dwelling houses

3. Subject to the provisions of section 6 of this Ordinance, decontrolled the Land Valuation Officer, on the application of an owner dwelling houses made in such manner as may be prescribed, shall register as a decontrolled dwelling house any dwelling house which:-
(a) is not completed or ready for use as a dwelling house on the appointed day, or
(b) although completed or ready for use as a dwelling house on the appointed day, has not been occupied as a dwelling house on or before that day; or
(c) is completed or ready for use after the appointed day by the making of structural alterations converting one or more dwelling houses in to a larger number of dwelling houses, or
(d) was on the 1st day of March, 1959, occupied by an owner as his ordinary residence and has continued to be so occupied up to and including the appointed day.

Exceptions

6. (1) The Land Valuation Officer shall not register as a decontrolled dwelling house under this Ordinance any house specified in paragraphs (a), (b) or (c) of section 3 of this Ordinance if funds are or have been provided by a war damage payment or by a Government grant towards its construction or towards the structural alterations referred to in paragraph (c) of section 3 of this Ordinance.

Exclusion of decontrolled dwelling houses from Housing Act

9. The Housing Act shall not apply to any house which is registered as a decontrolled dwelling house in accordance with the provisions of this Ordinance

Increase of the fair rent of controlled dwelling houses in respect of improvements.

10. (1) Notwithstanding anything to the contrary in sections 4, 5, 6 and 8 of the Reletting of Urban Property (Regulation) Ordinance and in sections 2, 3, 4 and 5 of the Rent Restriction (Dwelling Houses) Ordinance, if any improvements are carried out by the lessor, after the appointed day, to a dwelling house which has not been registered as a decontrolled dwelling house, the fair rent of such dwelling house shall be increased by the Board, on the application of the lessor to that effect, by an amount, hereinafter in this section referred to as "the appropriate increase", corresponding to 6% per annum of any amount up to five hundred pounds expended by the lesser on the improvements as proven to the satisfaction of the Board, or, in default, as assessed, if necessary after an inspection of the dwelling house, by the Board.

(2) An application for the appropriate increase under sub section (1) of this section shall not be allowed by the Board unless the tenant and any sub-tenant have agreed in writing, prior to the application, to the carrying out of the improvements and to the payment of the appropriate increase

4. Land Acquisition (Public Purposes) Ordinance (Chap 136).

Definitions

2. "public purpose" means any purpose connected with exclusive

Government use or general public use, or connected with or ancillary to the public interest or utility (whether the land is for use by Government or otherwise) or with or to town-planning or reconstruction or any purpose connected with the defence of these islands or connected with or ancillary to naval, military or air operations; and includes any other purpose specified as public by any enactment;

"built-up area" means any area which for a continuous stretch of one hundred and fifty yards – (circa 137.2m) of its frontage on either side of the street, if the street is developable on both sides, or three hundred yards (circa 274.3m) – if the street is developable on one side only, is at least 50% occupied by buildings.

Declaration to be conclusive

6. No person shall require any proof of the public purpose……..other than the declaration of the Governor *(President)*

Valuation of of land not being a building site

16. Any land which is not a building site shall be valued for the purpose of determining the compensation payable in the case of its compulsory acquisition as rural land or as waste land, as the case may be.

Building sites

17 (1) Land shall be deemed to be a building site for the purposes of this Ordinance if it has a frontage on an existing street and is situate within a built-up area or, subject to sub-section (2) of this section, within a distance of not more than one hundred yards - *(circa 91.4m)* - of a built-up area, measured along the axis of the street.

(2) In determining whether land is a building site by reason of the fact that it is situate within a distance of not more than one hundred yards of a built-up area regard shall be had to the probable immediate expansion of the built up area in the direction of the land in question

(3) Land falling within the definition of subsection (1) or (2) of this section shall be deemed to be a building site to a maximum depth of twelve canes - (circa 25.1 m)

Assessment of compensation by Board.

25. (1) Without prejudice to any special provision contained in this Ordinance, in assessing compensation the Board shall act in accordance with the following rules:-

(a) no allowance shall be made on account of the acquisition being compulsory;

(b) the value of the land shall, subject as hereinafter provided, be taken to be the amount which the land if sold on the open market by a willing seller might be expected to realize: Provided that –

(i) the value of the land shall be the value at the time when the notice to treat was served, without regard to any improvements or works made or constructed thereafter on the said land, and where the land was in the possession of the competent authority immediately prior to the service of the notice to treat no regard shall be had, in assessing the value of the

(2) Where the dwelling-house has been granted on temporary emphyteusis
(a) for a period not exceeding thirty years, if the contract was made before 21st June, 1979, or
(b) for any period, if the contract is made on or after the date aforesaid,
and on the expiration of any such emphyteusis the emphyteuta is a citizen of Malta and occupies the house as his ordinary residence, the emphyteuta shall be entitled to continue in occupation of the house under a lease from the directus dominus –

(i) at a rent equal to the ground-rent payable immediately before the expiration of the emphyteusis increased, at the beginning of the beginning of the lease of the house by virtue of this section, and after the lapse of every fifteenth year thereafter during the continuance of the lease in favour of the same tenant, by so much of the ground-rent payable immediately before such commencement or the commencement of each subsequent fifteen year period, being an amount not exceeding such ground-rent, as represents in proportion to such ground rent the increase in inflation since the time the ground-rent to be increased was last established:

(4) On the expiration of a temporary emphyteusis of a dwelling house occupied by a citizen of Malta as his ordinary residence at the time of such expiration, not being an emphyteusis mentioned in paragraphs (a) and (b) of subsection (2) of this section, the emphyteuta shall be entitled to convert the emphyteusis into a perpetual one under the same conditions of the temporary emphyteusis with the exception of those relating to the duration and the ground-rent. The ground-rent payable with effect of the conversion of the emphyteusis into a perpetual one and until fifteen years from that date shall be equal to six times the ground-rent payable immediately payable before such conversion, and shall thereafter be increased every fifteen years by so much of the then current ground-rent, being an amount not exceeding such rent, as represents in proportion thereto the increase in inflation since the time the said ground-rent was last established.

(5) If the emphyteuta does not exercise the right granted to him by subsection (4) of this section within six months from the date such right is exerciseable, such right shall, with the necessary modifications, pass to the occupier of the house who shall be entitled to demand, to the exclusion of the emphyteuta, that the dwelling-house be granted to him by the owner in perpetual emphyteusis under the same conditions as could have applied if the emphyteuta had converted the emphyteusis into a perpetual one.

(N.B. Some of the provisions of this Act have been found to be unconstitutional by the Courts but are still under Appeal.)

6. Act No XVII of 1993 – Duty on Documents and Transfers Act

Value of

3. (1) The value of any property subject to duty under the Act, transferred inter vivos or transmitted causa mortis, shall be the value of such property on the date of the said transfer inter vivos or on the date of death of the person from whom the transfer causa mortis originates, as the case may be, (hereinafter referred to as the "relevant date") and such value shall be established in accordance with the following provisions.

(2) The value of the full ownership of any property on the Relevant date shall be the average price which such property would fetch if sold on the

open market on that date, due regard being had to all circumstances affecting such property.

(3) The value of the usufruct of any property on the relevant date shall be established as follows: (a) where the duration of the usufruct is for the life of the usufructuary or for any other indefinite period, the value of the usufruct shall be the percentage of the value of the full ownership set out in the Second Schedule to these Rules reckoned according to the age of the usufructuary on that date, so however that where a usufruct devolves on several persons jointly or successively, or jointly and successively, and the provisions of the Act apply, the value of the usufruct shall be determined according to the age of the youngest of such persons on the relevant date.

(b) ...... where the duration of a usufruct is limited to a definite period, the value of a usufruct shall be one and a half per cent of the value of the full ownership of the property multiplied by the number of years, or the remaining number of years, (in all cases a fraction of a year being taken as one whole year), of the duration of such usufruct.

(4) The value of the nuda proprietas (bare ownership) on the relevant date shall be the difference between the value of the full ownership of the property on that date and the value on the same date of the usufruct encumbering it established in accordance with the provisions of paragraph (3) hereof.

SECOND SCHEDULE

Value of the usufruct as a percentage of the value of the full ownership

Where the usufructuary has not completed twenty years of age	70%
Where the usufructuary has completed twenty but not thirty years of age	60%
Where the usufructuary has completed thirty but not forty years of age	50%
Where the usufructuary has completed forty but not fifty years of age	40%
Where the usufructuary has completed fifty but not sixty years of age	30%
Where the usufructuary has completed sixty but not seventy years of age	20%
Where the usufructuary has completed seventy years of age	10%

7. Act NO XXXI of 1995 – Housing Laws Amendment Act, 1995

Amendment to the Reletting of Urban Ordinance

2. (1) The foregoing provisions of this Ordinance shall not apply to the lease of any premises entered Property into on or after the 1st June, 1995.

Amendment to the Rent Restriction (Dwelling Houses) Ordinance

3. (1) The foregoing provisions of this Ordinance shall not apply to the lease of any dwelling house entered into on or after the 1st June, 1995.

Amendment to the Housing (Decontrol)

4. (1) The provisions of subsections (2) to (5) of section 5, section 7, section 10 and section 11 of this Ordinance Ordinance, shall not apply to the lease of any dwelling house entered into on or after the 1st June, 1995.

Appendix G

MALTA'S INFLATION RATES/GROWTH DATA

(Base 1946 = 100)

YEAR	INDEX	INFLATION RATE (%)	YEAR	INDEX	INFLATION RATE (%)
1946	100.00	-	*continued*		
1947	104.90	4.90	1975	254.77	8.80
1948	113.90	8.58	1976	256.20	0.56
1949	109.70	-3.69	1977	281.84	10.01
1950	116.90	6.56	1978	295.14	4.72
1951	130.10	11.29	1979	316.21	7.14
1952	140.30	7.84	1980	366.06	15.76
1953	139.10	-0.86	1981	406.16	11.50
1954	141.20	1.51	1982	431.83	6.30
1955	138.80	-1.70	1983	428.06	-0.87
1956	142.00	2.31	1984	426.18	-0.44
1957	145.70	2.61	1985	425.17	-0.24
1958	148.30	1.78	1986	433.67	2.00
1959	151.10	1.89	1987	435.47	0.42
1960	158.80	5.10	1988	439.62	0.95
1961	164.84	3.80	1989	443.39	0.86
1962	165.16	0.19	1990	456.61	2.98
1963	168.18	1.83	1991	468.21	2.54
1964	172.00	2.27	1992	475.89	1.64
1965	174.70	1.57	1993	495.59	4.14
1966	175.65	0.54	1994	516.06	4.13
1967	176.76	0.63	1995	536.61	3.98
1968	180.42	2.07	1996	549.95	2.49
1969	184.71	2.38	1997	567.95	3.27
1970	191.55	3.70	1998	580.61	2.23
1971	196.00	2.32	1999	593.00	2.13
1972	202.57	3.33	2000	607.07	2.37
1973	218.26	7.75	2001	624.85	2.93
1974	234.16	7.28	2002	638.54	2.19

The Index of inflation (Base 1946 = 100) is compiled by the National Statistics Office on the basis of the Retail Price Index in terms of Article 13 of the Housing (Decontrol) Ordinance, Cap. 158.

Following the revision of the utility rates in November 1998, the index and the rate of inflation for the year 1997 were revised to 567.08 and 3.11% respectively. Consequently, the rate of inflation for 1998 would stand at 2.39%.

Source: Central Bank of Malta/National Statistics Office

RETAIL PRICE INDEX

(Base December 2002 = 100)

PERIOD	ALL ITEMS
1995	83.58
1996	85.66
1997	88.33
1998	90.43
1999	92.36
2000	94.55
2001	97.32
2002	99.45
2002	
JAN	99.24
FEB.	98.57
MAR.	98.67
APR.	98.83
MAY	99.44
JUNE	99.07
JULY	99.41
AUG.	99.80
SEPT.	100.03
OCT.	100.22
NOV.	100.13
DEC.	100.00
2003	
JAN.	99.12
FEB	99.60
MAR	100.36
APR.	100.40
MAY.	100.73
JUNE	100.88
JULY	100.54
AUG.	100.47
SEPT.	100.87

Note: The New Retail Price Index is based on the Household Budgetary Survey carried out by the National Statistics Office (NSO) during 2000 and 2001. Annual figures prior to 2003 were rebased using linking coefficient of 1.1914 specified in the NSO News Release No. 58/2003.

Source: Central Bank of Malta/National Statistics Office

MINIMUM WEEKLY WAGE

YEAR	Lm	% INCREASE
1988	29.88	
1989	29.88	-
1990	32.08	3.0%
1991	34.13	1.25%
1992	35.63	1.5%
1993	36.63	2.8%
1994	38.13	4.0%
1995	40.38	5.9%
1996	42.38	4.95%
1997	44.13	4.10%
1998	45.63	3.40%
1999	47.38	3.83%
2000	48.38	2.11%
2001	49.88	3.1%
2002	51.63	3.5%
2003	52.38	1.5%

Where Over the past 10 year period 1992 - 2002 :

The minimum weekly wage has increased	at 3.60% pa.
The median weekly wage has increased	at 4.0% pa from Lm63.72 up to Lm93.43.
The inflation index has increased	at 3.00% pa
The GDP at current market prices has increased	at 5.75% pa.
The affordable housing price has increased	at 6.10% pa.
The building plots price have increased	at 15.75% p.a

Appendix H

MALTESE LINEAR MEASURES

	Maltese	English	Metric
Length			
Pulzier		0.8594 ins	21.828mm
Xiber	(12 il-Pulzier)	10.3125 ins	26.1937cm
Qasba	(8 Xiber)	82.5000 ins	2.0955m
Area			
Xiber Kwadru		0.7385 sq ft	6.861 sq dm
Qasba Kwadra		5.2517 sqyds	4.391 sq m
Kejla	(4.267 Qasab Kwadrik	22.41 sq yds	18.735 sq m
Siegh	(10 Kejliet)	224.1 sq yds	187.354sq m
Tomna	(6 Sieghan)	0.2777 acres	11.2412 ares
Wejba	(4 Tomniet)	1.1111 acres	44.9648 ares
Modd	(4 Wejbiet)	4.4444 acres	1.7986 Ha