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## **Real Estate Appraisal and International Valuation Standards**

The worldwide trend towards globalization of Businesses has pushed the need for International Standards in every sector of business. For the Appraisal and Valuation profession it has lead to the introduction of International Valuation Standards IVS. The paper is focused upon what stakeholders of valuations within a country might expect from the IVS when it will be introduced. It starts off with an overview of the work of the IVSC, followed by an explanation about the way in which the implementation process in the Netherlands is taking place. Aspects about how to deal with introduction, awareness, lobbying and education of the IVS in a country will be given. The paper will end with conclusions and recommendations for other countries who wish to implement the IVS.

*Key words: Valuation,  
International Valuation  
Standards, implementation*

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### **1. Introduction**

This article is about the International Valuation Standards IVS and its committee IVSC. It explains why the IVS are important and the impact of IVS on the valuers day to day work and in the communication with the stakeholders of valuation reports. Why should we have International valuation Standards anyway? First of all, globalisation of business and growth of cross-border markets needs common rules to ensure “fair play”. That means that reliable reporting of asset values and liabilities is important to analysis of business performance across borders. Also, there is an increasing pressure from governments, independent regulators and investors to standardize. That alone also requires consistency, transparency and credibility in the valuation reporting.

### **2. The IVSC**

The IVSC is a private sector organisation acting in the public interest. It was founded in early 1980s by a number of professional bodies involved in real estate valuation. The IVSC expanded during the 90s and early 00s to include institutes dealing with business valuation. In 2008 the IVSC was transformed and restructured to move away from an “organisation of organisations” model to a model consisting of independent boards (Standards and Professional) under oversight of

a Board of Trustees. The IVSC activities are funded partly from member subscriptions, partly by sponsorship.

The IVSC objectives are :

- developing high quality international standards and supporting their adoption and use;
- facilitating collaboration and cooperation among its member bodies;
- collaborating and cooperating with other international organisations;
- serving as the international voice for the valuation profession.

The IVSC has no powers, its authority comes from consulting with valuation users and regulators to identify their concerns; working with professional valuers to identify solutions; developing and promoting those solutions.

It also means that enforcement of and compliance with IVS is by those adopting the standards, e.g. regulators, professional bodies and clients.

The IVSC enjoys increasing recognition by stakeholders and governance bodies, shown by:

- Established relationships with IASB and FASB, collaboration on fair value guidance;
- Securities and Exchange Regulators, e.g. IOSCO, ESMA, SEC, FSA, AMF, etc;
- Prudential Regulators;
- Member of the G20 Private Sector Task Force on Regulatory Convergence in Financial Professions and Industries.

### 3. The IVSC Projects

Because of the background of the IVSC and the way it started the existing 2007 version of the IVS needed improvement, resulting in a completely revised IVS, which was published July 2011. The main objectives of the revision were: establish and promote consistent protocols for valuation delivery; reducing diversity by enabling convergence of different standards; increase users understanding of and confidence in valuations; creating greater confidence in the valuation process by those who rely on valuations for investment and other financial decisions.

The International Valuation Standards have been set up according to a specified framework:

- A. *Basic principles and concepts cover:* Valuation and Judgement; Independence and Objectivity; Competence; Price, Cost and Value; Markets, Market Activity and Market Participants (vs. Entity specific Factors).
- B. *Valuation Bases, Assumptions and Special Assumptions:* Valuation Bases (a.o. Market Value, Highest And Best Use, Investment Value, Future Value and Special Value); Additional Assumptions (State of assets + circumstances of exchange); Special Assumptions (Different from the actual/existing states); Transaction Costs; Forced Sales (under compulsion to sell + proper marketing is impossible).
- C. *Valuation Approaches, Methods and Inputs:* Valuation Approaches (Market, Income, Cost); Valuation Methods (IVS200 Series); Valuation Inputs (actual, assumed).

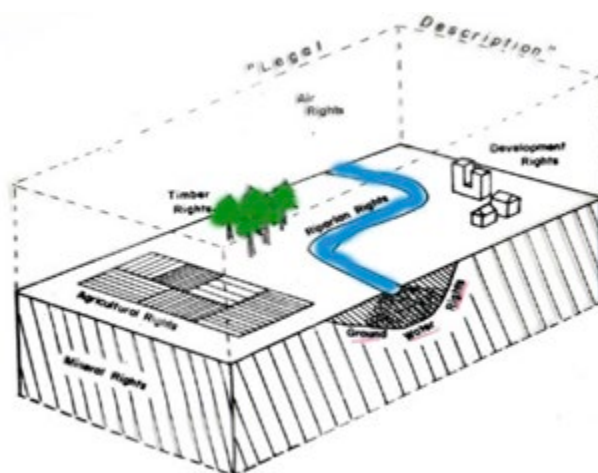
#### 4. A good example: IVS 200 series – Asset Standards

Separate Asset Standards have been developed for:

- Businesses and Business Interests;
- Intangible Assets;
- Plant and Equipment;
- Real Property;
- Financial Instruments.

Property is a legal concept encompassing all interests, rights and benefits. There is a distinction between Real estate – the physical entity – and Real property – a legal concept of ownership of real estate (property rights). These property rights are referred to as the “bundle of sticks”, where each stick represents a distinct and separate right. Figure 1 shows that property rights are as or even more important than the physical entity.

Figure 1. Real Estate and Property: rights and physical combined



#### 5. Another example: definition of Price, Cost, Market and Value

Fundamental underpinning are:

- Price: asked, offered, paid as then historic;
- Cost: price paid, total cost, when completed, historic fact;
- Market: geographical, products, number of buyers and sellers (efficiency);
- Value: the anticipated benefits to be obtained from an asset in the future, estimated at a particular date.

To avoid confusion Real Estate valuers do not use the word value alone – they refer to a specific value type like: Market value; Non-market value; Investment or worth value; Going-concern value; Insurable value.

## 6. A third example: the IVSC Definition of Market Value

*“Market Value is the estimated amount for which a property 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”*; IVSC adopted this definition in 1994. Market Value is precisely defined to provide clarity and avoid confusion; the essential elements are:

- the *estimated amount* (most reasonable price in the market place based on an hypothetical transaction, not a predetermined price);
- a *willing buyer* (motivated to buy but not over eager nor determined to buy at any price, buys in accordance with realities of current market );
- a *willing seller* (motivated to sell at best attainable market price, not a forced seller, not prepared to sell at any price );
- in an *arm’s-length transaction* (assumes unrelated parties, acting independent, not parent and subsidiary companies or tenant and landlord);
- after *proper marketing* (exposed in the most appropriate manner exposure time may vary with market conditions and type of property, sufficient to allow adequate exposure to number of potential buyers).

## 7. IVS implementation in NL: progress

In April 2009 the implementation document has been presented, highlighting the different definitions for market value which circulated among stakeholders like valuers, principals and government bodies. After the Valuers Conference in May 2009, start the translation and the implementation of IVS definitions with Professional Organisations. In 2009/2010 IVS standards and definitions education is carried out for Commercial Real Estate Brokers and Valuers as part of CPD. In 2010/2011 definition of Market Value has been adopted by professional organisations, Banks and Tax Authorities.

## 8. Conclusions for Italy

The IVS acceptance is impressive by countries like the USA, Australia, Canada and countries like China, India and Japan and several European Countries. Just recently an Italian organization CNDCEC member became member of the IVSC as of November 2011. It doesn’t mean that other Italian organisations cannot be a member of the IVSC as well. The importance of IVSC membership for Italy lies in:

- IVS compliance will be more and more worldwide required;

- IVS implementation is more and more required and emerging;
- Benefit from experience in other countries;
- TEGoVA and RICS are IVS compliant as well.

The next step for Italy should be to establish an IVS implementation plan by assembling all the stakeholders resulting in a realistic time frame to achieve IVS acceptance.

