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TEGOVA
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EUROPEAN BUSINESS VALUATION STANDARDS 2026

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EUROPEAN INTANGIBLE ASSET VALUATION STANDARDS 2026

Members of the European Business Valuation Standards Board present at the TEGOVA General Meeting, Riga, 21-23 May 2026

From left to right: Georgi Georgiev, Stefanos Mamakis (Vice-Chairman), Ivars Strautiņš (Chairman), Ella Dunphy, Artūrs Žuromskis, Nino Beraia

EDITORIAL

BUSINESS VALUATION

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EDITORIAL

The Appraisal Institute Seminar

"AI on AI Season 1: Ethical and Practical Use of Generative AI in Real Estate Appraisal"

Michael MacBrien

Artificial intelligence is all the rage these days, 'rage' being an appropriately double-edged word.

Valuers – like so many other professionals – must navigate the greatest and fastest-moving practice changer ever, shrouded in uncertainty and trial and error.

I've had the privilege of viewing the entire seven-hour 'AI on AI' seminar and I found it extraordinary – with instructors who are all top valuers combining expert use of the latest tools with grounded conjecture about where the profession goes from here.

First, mastering the basic tools like prompting (the technique of asking questions to the machine including how to do so safely, reducing the risk of hallucinations) and demonstrating powerful AI uses such as damage assessment on an inspection where AI not only identifies the damage and assesses its severity, but even recommends remediation, estimates the cost of repairs and determines how the damage will impact the overall valuation. Or how to make a messy shopping centre floor plan attractive in a few clicks.

There is essential advice on confidentiality and disclosure of AI use, as always with focused examples.

Second, taking the student through valuation with agentic AI – a technology barely a year old that can take steps on its own and move toward a goal, planning and executing multi-step workflows without constant supervision.

Finally, the seminar moves into the valuation future, but in the most grounded and plausible way, with the magisterial

"A Day in 2032" described by a brilliant instructor who has a running conversation with the AI during the inspection as if it were a colleague.

He then – *with extraordinary fine touch* – shows how to build your own GPT, how to instruct it on what you want and what presentation format including narrative style. And how he feeds it with his own favoured market analysis documentation because he doesn't want it to search the web and give away confidential information.

A humanistic experience with a strong moral fibre

Early on, one of the students asks "You can do a super valuation, but what if the client doesn't need it and just wants a traditional one that takes five minutes with AI?" The answer emerged from the following sessions: Those valuations are lost. To survive, you need to deal in complexity.

Which is just what the seminar does.

For instance, after demonstrating the depth and range of AI-powered market analysis, an instructor makes the point that traditionally valuers have not done the in-depth market analysis they're capable of. They should reinvest AI time savings in:

- Executing better analysis of risks and opportunities, real-time monitoring, advanced models and predictive analysis
- Integrating and monitoring data and identifying what is important and relevant
- Personalising predictive analysis

His byword: "Resist commoditisation."

Or again, there is an illustration of the many facets of a proposal for valuation services that the AI produced in two minutes, work that would have taken the instructing valuer five hours, *but that required spending 1 ½ hours checking and perfecting it* (result: the government agency he submitted it to told him they were impressed).

Another instructor states that thanks to properly used AI, the quality and defensibility of valuation reports is going way up. The client's visual experience and the narrative that creates the evidence are clearer – all of it for less effort *understood properly*.

Experiencing this seminar is not dystopian – it is can-do optimistic, in the finest American work ethic tradition: time saved through AI shouldn't be spent by the pool; it should be invested in serious checking and validation, in deepening and tailoring the research, and in enhancing the valuation client experience. The future is definitely not blind reliance on the technology; it's a deep and complex man/machine interaction in which *both get better.*

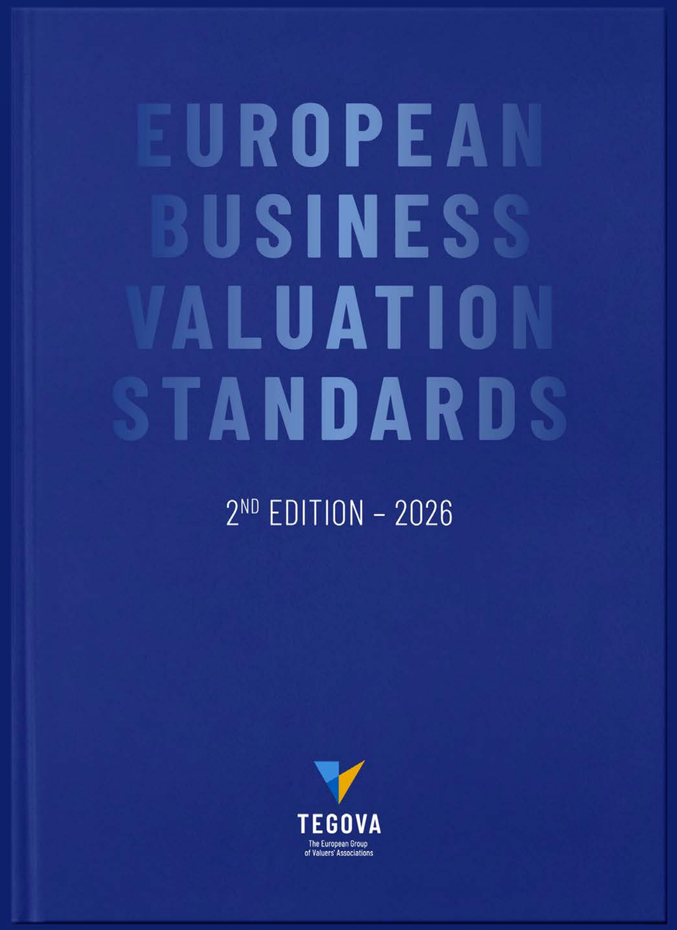
And it's all garden fresh. Final recording: 17 March 2026.

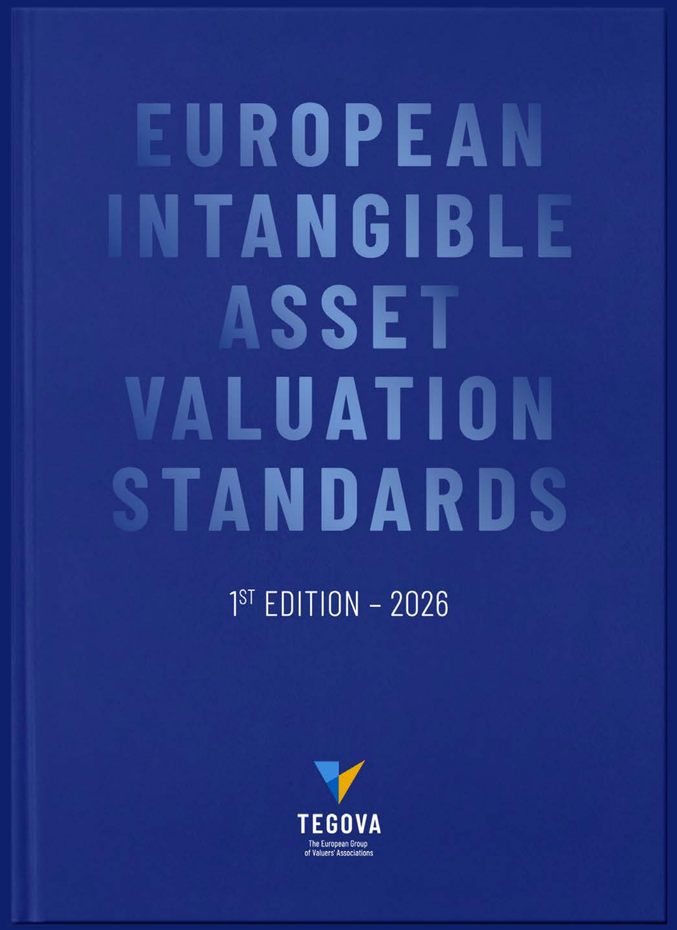
An Appraisal Institute/TEGOVA collaboration provides Europeans with access to the full AI on AI Season 1 seminar for a total cost of 99 USD.

Access via the TEGOVA website

Michael MacBrien, Editor

BUSINESS VALUATION





#01

European Business Valuation Standards 2026 (EVS-BV 2026)
A history, a continuity and a European cutting edge

Ivars Strautiņš

EVS-BV, like all European Valuation Standards or 'Blue Books', is a planet revolving around a sun – the European Union.

All Blue Books – real estate, plant, machinery & equipment, business, and intangible assets – were conceived as the valuation component of the EU Internal Market, itself one of the central instruments ensuring the prosperity and security of EU citizens and businesses as well as the projection of European values and power in a dangerous world. In consequence, any new edition of a Blue Book must adapt to Europe's evolving policy priorities and geopolitical challenges.

As such, EVS-BV 2026 has greatly enhanced focus on business valuation for the digital and sustainable economy, key to Europe's sovereignty. This is most immediately evident in the Guidance, starting with what is no longer there:

Intangible asset valuation has taken on such importance, also in the priorities of the European authorities, that we have completely detached it from EVS-BV and created European Intangible Asset Valuation Standards 2026 (EVS-IA 2026), published in April. Practicing business valuers will easily understand the rationale for a separate intangibles Blue Book when they see the modern, coherent and comprehensive framework that it establishes for intangible asset valuation.

Startups and scaleups are a very special valuation challenge, because they typically have negative cash flows, limited or no historical financial data, and sometimes lack valuable tangible assets. Those factors reduce the usefulness of traditional valuation approaches because startups cannot provide the financial performance indicators on which the value estimates of those approaches are based. That's why specific methods for startup valuation, based more on qualitative than quantitative criteria, are used and are in consequence described and explained in EVS-BV.

Valuation uncertainty is a marker of our times, causing us to produce guidance that addresses the definition of valuation uncertainty, explores both quantitative and qualitative methods for its assessment, provides strategies for risk mitigation, and outlines best practices for reporting uncertainty in valuation reports.

ESG factors have become established as a guiding and institutional framework which investors, creditors, regulators and other market participants can use to assess business risk, sustainability and the long-term economic efficiency of enterprises. In this light, the guidance does not change the underlying principles of business valuation laid down in the Standards. Rather, it reflects changes in the datasets and analytical perspectives that market participants use to manage their expectations for future financial benefits and the related risks. In this sense, the ESG guidance should be regarded as an analytical framework which allows certain aspects of the economic results and risk exposure of an enterprise to be assessed.

Nor does the distinctly European nature of EVS-BV 2026 stop at the guidance.

As always with all Blue Books, **valuation definitions** are those laid down in EU law whenever these exist.

And as always, a major and distinct part of EVS-BV 2026 is '**European Union Legislation and Business Valuation**' covering valuation for EU company law, of credit institutions, of insurance and reinsurance institutions, for investment funds, for taxation legislation, for transfer pricing, for state aid rules, of ESG factors, and for insolvency proceedings or restructuring plans. The intention is not to turn valuers into legal experts, but to enhance their consciousness of the high and rapidly increasing impact of EU law on markets and business activity.

EVS Taxonomy

There has always been a hierarchy of norms in the Blue Books, but these were not delineated clearly enough. Following on EVS-IA 2026, EVS-BV 2026 is designed under the new EVS Taxonomy, dividing all Blue Books into three parts:

A. **Normative** – valuers must comply. **Areas covered:** Standards, Code of Conduct, Educational Requirements

B. **Guidance** – advice to valuers on how to proceed, but not mandatory. **Areas covered:** Valuation Methodology, Guidance Notes

C. **Background and Resources** – Background offers useful contextual knowledge for valuers, but does not constitute guidance. Resources comprise supporting information and reference material. **Areas covered:** European Union Legislation and Business Valuation, Recognition of TEGOVA Qualification (Recognised European Business Valuer (REV-BV)), Membership of TEGOVA, Glossary

A New Sense of Urgency

European valuation standard setting must keep pace with the acceleration of events.

Since this year, Blue Books are digital-only, to enable more frequent adaptation. We have taken inspiration from EU legislative procedure, by which an original EU law is often followed by a series of amending laws over time, with periodical production of consolidated texts integrating the changes from the amending laws and highlighting the amendments and their dates in the consolidated texts. Again like EU law, we shall periodically produce a "recast", a complete revision in a new Blue Book with a new date.

We are already planning the first amendments to EVS-BV 2026 in the fields of valuation of financial instruments and valuation for financial reporting needs.

I share the belief of Paulo Barros Trindade, Chairman of TEGOVA, that European Business Valuation Standards 2026 and European Intangible Asset Valuation Standards 2026 will make a significant contribution to the resilience of our "ever-closer Union".

Ivars Strautiņš REV REV-BV is Chairman of the European Business Valuation Standards Board.

#02

Making the Invisible Evident: EVS-IA 2026 and Europe's Intangible Asset Economy

From intellectual property (IP) visibility to valuation evidence, financeability and welfare

Stefanos Mamakis

1. The Global Intangible Race: Europe Moves From Recognition to Market Operability

The debate on modern intangible assets has moved quickly. Their economic importance is now widely recognised: artificial intelligence models, proprietary data, software systems and similar intangible resources are no longer peripheral inputs, but increasingly operate as core productive resources and value drivers. The more difficult issue now is **whether such assets can be made operational in market terms** - not merely recognised, but identified, evidenced, valued, financed, and scaled within Europe's economy.

In a previous article kindly hosted in the pages of this Journal, I argued that Europe's challenge was not the absence of innovation, but the absence of a continuous and coherent framework enabling modern intangible assets to move from early development to market-based growth within the EU*.

Although Europe has not yet matched the scale and concentration of the leading global ecosystems, it has not ignored the challenge. The EU **Startup and Scaleup Strategy** aims to strengthen Europe's capacity to launch, retain and scale technology-driven innovative companies, focusing on innovation-friendly regulation, access to finance, market uptake, talent and access to infrastructure, networks and services. The **Scaleup Europe Fund** is intended to support major European investment rounds in strategic deep-tech areas, while the broader policy agenda seeks to reduce the incentives for innovative companies to relocate outside Europe.

* NdIr "Modern Intangibles and Europe's Competitiveness Challenge" – EVJ n° 38 – February 2026

In parallel, **the EU is investing in the technological infrastructure** required for modern intangible asset creation. Through the **European High Performance Computing Joint Undertaking (EuroHPC JU)**, researchers, public sector users, industry, small and medium-sized enterprises (SMEs) and startups can apply for access to European supercomputing resources and AI-optimised infrastructure through dedicated access schemes. AI Factories build on this infrastructure by offering computing capacity, data-related support and expertise for the development of advanced AI models and applications. The Commission reports that 19 AI Factories and 13 Antennas are operational, while the **InvestAI initiative** includes a €20 billion facility to support up to five AI Gigafactories. These initiatives are not merely technology projects. They are attempts to create the productive conditions under which modern intangible assets and know-how can become scalable European assets.

The **European Union Intellectual Property Office (EUIPO)** has also brought the issue closer to finance. Together with the **European Commission**, EUIPO is working towards a **framework for IP-backed financing**, supported by work on valuation methodologies, tools and market-relevant policy alignment.

These developments show that **Europe is moving from recognition to market operability**. It is no longer enough to make intangible assets visible, or to acknowledge that they matter. Visibility is necessary, but it is not the same as value evidence. A register, a right, a dataset, a model or a software system may establish that something exists, but it does not by itself answer the valuation questions on which markets depend: **what exactly is being valued, what economic benefits are attributable to it, how reliable is the evidence, what uncertainty remains, and under what conditions could value be realised?**

This is where **EVS-IA 2026** enters the discussion.

Responding to the extraordinary development of intangible assets, their growing importance to economic activity and the need to support a viable and competitive European intangible asset ecosystem, **EVS-IA 2026 represents TEGOVA's contribution to a wider European objective: turning intangible potential into valuation evidence that markets, financiers, institutions and professional valuers can rely on.**

The question that follows is therefore direct: **what does EVS-IA 2026 change in the professional treatment of intangible assets, and how does it help Europe move from intangible visibility to reliable value evidence and, ultimately, market operability?**

2. A Blue Book For a New Frontier: TEGOVA's Valuation Discipline Enters the Intangible Economy

The publication of EVS-IA 2026 is part of a broader strategic evolution within TEGOVA. For decades, TEGOVA's European Valuation Standards have been closely associated with valuation practice across Europe, most visibly in real estate. They have been tested in professional use, recognised by market participants and embedded in the working culture of a large European valuation community. That institutional strength matters. It gives **TEGOVA** the credibility to **extend and deepen its established valuation discipline in business valuation** and, now, **to give intangible asset valuation its own dedicated European framework.**

This move is not a departure from TEGOVA's core mission, but an extension of it. EVS-IA 2026 does not start from a blank page. **It carries into intangible asset valuation the professional architecture that has long underpinned valuation practice**: defined bases of value, competence requirements for the intangible asset valuer, a structured valuation process, disciplined reporting and the European Valuers' Code of Conduct. It applies those principles to assets whose boundaries may be technical, legal, economic and operational all at once.

More broadly, **EVS-IA 2026 confirms TEGOVA's strategic engagement with the business world**. Intangible asset valuation cannot remain a peripheral specialism when modern enterprise value is increasingly driven by assets that are difficult to see, difficult to evidence and difficult to separate from the businesses that use them. Together with the just released **2nd edition of European Business Valuation Standards (EVS-BV 2026)**, the dedicated Blue Book for intangible assets reinforces a wider professional architecture and signals TEGOVA's strategic commitment to business valuation and intangible asset valuation as core areas of European professional practice - not through improvisation, but through standards, judgment and professional discipline.

3. From Standards to Market Confidence: How EVS-IA Makes Intangible Value Work

Having established that EVS-IA 2026 builds on TEGOVA's long-tested and market-accepted valuation discipline, the next question is practical: what does it actually change in the professional treatment of intangible assets? Its contribution can be understood through four connected functions.

- It defines the asset before valuing it.
- It turns evidence into valuation discipline.
- It provides recognised methods with a disciplined application framework.
- And it connects valuation with financeability and accountability.

A. Defining the Asset Before Valuing It

The first discipline introduced by EVS-IA 2026 is not methodological. It is conceptual. Before selecting a valuation method, the valuer must identify what is being valued.

In traditional asset valuation, the subject is often apparent. In modern intangible asset valuation, it rarely is. An artificial intelligence model may depend on training data, model architecture, software code, deployment infrastructure, contractual rights, know-how and continuous improvement by a specialised team. A database may derive its value not only from the data it contains, but also from access rights, exclusivity, curation, interoperability, regulatory compliance and integration into business processes. A platform may be valuable because of network effects, user behaviour and embedded processes, none of which can be treated automatically as a separately transferable asset.

EVS-IA 2026 responds by requiring the valuation exercise to start with substance rather than labels. **The valuer must distinguish between identifiable intangible assets, intellectual property rights, broader intangible economic positions, composite intangible assets and goodwill.** This matters because different forms of intangible value have different economic characteristics, different evidence requirements and different degrees of transferability. A legal right may be identifiable, but it may not capture the full economic position. A business may generate significant

intangible value, but part of that value may belong to goodwill rather than to a separable asset. A technical capability may be promising, but it may not yet be a market-operational asset. This is also where the intangible-specific application of highest and best use becomes relevant: potential can affect value only where the relevant use is technically feasible, legally permissible and reasonably probable from a market-participant perspective.

In this sense, EVS-IA 2026 changes the starting point of the assignment. It makes clear that valuation cannot begin with a model. It begins with the disciplined identification of the valuation subject.

B. Turning Evidence into Valuation Discipline

Once the asset is identified, the second contribution of EVS-IA 2026 is to **discipline the evidence behind the value conclusion**. This is crucial as intangible asset valuation often takes place in markets where direct evidence is incomplete, confidential or difficult to compare.

A royalty benchmark may appear relevant, but it may relate to a territory, legal scope, exclusivity structure, bargaining position or stage of commercial maturity that is not comparable. A comparable transaction may include bundled assets, services, customer relationships or strategic motives that cannot be separated reliably. A cost base may indicate development effort, but not necessarily future economic utility. A forecast may show potential, but potential is not value unless it is supported by evidence, probability and risk analysis.

In this context, **EVS-IA 2026's dedicated European legal and regulatory reference layer** becomes part of the evidence discipline itself. The value of an intangible asset may depend on whether the rights or economic position underpinning it are legally recognised, and on their scope, enforceability, transferability and regulatory constraints arising from intellectual property law, data regulation, competition rules and reporting obligations.

These factors affect the reliability and interpretation of valuation evidence: they may determine whether a benchmark is comparable, whether a licence is transferable, whether expected cash flows are legally achievable, whether compliance costs should be reflected, and whether regulatory risks attach to commercial exploitation.

EVS-IA 2026 addresses these issues by **placing data reliability and valuation uncertainty at the centre of the process**, introducing **a disciplined evidentiary hierarchy**.

> *"EVS-IA 2026 does not eliminate uncertainty; it makes uncertainty visible."*

It requires the valuer to assess the quality, relevance and limitations of available evidence, and to explain how that evidence supports the conclusion. This prevents intangible asset valuation from becoming a purely model-driven exercise. A sophisticated discounted cash flow calculation, a royalty rate or a cost estimate is not persuasive simply because it is technically elaborate. It is persuasive only if the **underlying evidence can be understood, tested and reconciled with the asset, the market, the legal environment and the purpose of the valuation.**

The result is a more disciplined form of professional judgment. EVS-IA 2026 does not eliminate uncertainty; it makes uncertainty visible. It requires the valuer to explain what is known, what is assumed, what is uncertain and how those elements affect value. That is precisely what markets need if intangible value is to become reliable value evidence.

"...this is the bridge EVS-IA 2026 provides: from asset visibility to value evidence, from value evidence to financeability, and from financeability to more disciplined investment in Europe's intangible asset economy."

C. Recognised Methods, Disciplined Application

The third contribution of EVS-IA 2026 is methodological. The Blue Book does not invent a separate valuation universe for intangible assets. It works with recognised valuation approaches - income, market and cost - but gives them a disciplined application framework adapted to the characteristics of intangible assets. This matters because, in this field, the choice of method is rarely mechanical. It depends on the nature of the asset, the basis of value, the purpose of the valuation, the available evidence, the expected economic benefits, the useful life, the role of contributory assets and the degree of uncertainty.

EVS-IA 2026 therefore gives **practical guidance on the core methods used in intangible asset valuation**, ensuring that each method is applied for the right reason and with assumptions that are internally consistent. This methodological guidance is important for market confidence. A discounted cash flow model may be sophisticated, but if the earnings attributed to the asset are not properly separated from the business, the conclusion is weak. A royalty rate may appear market-based, but if the benchmark is not comparable, the conclusion is misleading. A cost approach may be useful, but if it ignores obsolescence or future economic utility, it cannot substitute for value.

EVS-IA 2026 strengthens the valuation process by requiring not only **appropriate method selection**, but also the **proper application of each method**. Assumptions, inputs, discount rates, cross-checks and reasonableness testing must be consistent with the asset being valued, the basis of value, the available evidence and the market-participant perspective. Only then can the method support a coherent professional judgment.

D. Connecting Valuation With Financeability and Accountability

The fourth contribution of EVS-IA 2026 is that it connects the valuation conclusion with the conditions under which intangible assets may support **finance, transactions, restructuring or insolvency processes.**

This is where **the distinction between value and financeability** becomes important. A value conclusion may be useful, but financeability raises further questions. Can the asset be transferred, licensed or enforced? Are the expected economic benefits attributable to the asset itself, or do they depend on owner-specific synergies? Is there sufficient market depth? Could a third party realise value under changed conditions? What happens if the asset has to be monetised outside the current owner's business model?

EVS-IA 2026 brings these questions into the valuation framework. This is particularly important for **collateral and insolvency contexts**, where the relevant issue is not only what the intangible asset may be worth in continued use, but **what value could reasonably be recovered under realisation conditions**. In such cases, the valuer must distinguish between transferable economic benefits and advantages that pertain only to the current owner. Not every benefit generated by a business is value of the asset. Not every intangible value driver can support financing. Not every promising asset can be relied upon by a lender.

Taken together, these disciplines improve accountability. They help businesses understand which intangible assets can credibly support growth. They help financiers distinguish between innovation potential and recoverable value. And they help the European economy allocate resources more rationally, supporting the development of valuable intangible assets within the EU rather than allowing them to remain invisible, underfunded or forced to scale elsewhere.

In practical terms, this is the bridge EVS-IA 2026 provides: from asset visibility to value evidence, from value evidence to financeability, and from financeability to more disciplined investment in Europe's intangible asset economy.

4. The Valuer's Shield: Boundaries, Reliance and Professional Protection Under EVS-IA

EVS-IA 2026 is not only a framework for producing better valuation conclusions. It also **protects the professional integrity of the valuer** by requiring the assignment to be properly defined, the evidence relied upon to be documented, and the limits of the work to be made clear.

This is particularly important in intangible asset valuation, where **the valuer may face uncertain legal boundaries, specialised technical issues, limited market evidence and future cash flows dependent on assumptions about scalability, regulation, competition and adoption**. In such cases, professional risk often arises less from the valuation method itself than from ambiguity: what was valued, who may rely on the report, what information was available, what expertise was assumed, and what limitations affected the conclusion.

EVS-IA 2026 addresses this through written terms of engagement. For intangible assets, these are not a formality; they are the first line of professional protection. They define the client and intended users, purpose, valuation subject, rights being valued, basis of value, valuation date, scope of investigations, reliance on information or experts, restrictions on use or publication, and duty of care. They also help prevent misuse: a valuation prepared for one purpose should not automatically be relied upon for another, and a value conclusion based on continued use should not be confused with recoverable value under enforcement conditions.

The same discipline applies to **reliance and expertise**. The valuer is not expected to act simultaneously as lawyer, engineer, data scientist and market specialist. Where ownership, enforceability, software architecture, data rights, AI performance, regulation or market behaviour require external expertise, EVS-IA 2026 supports clear identification of that expertise and transparent disclosure of the reliance placed upon it.

Finally, **EVS-IA 2026** protects both user and valuer through its treatment of assumptions, special assumptions and uncertainty. It **requires assumptions to be disclosed, limitations to be explained and uncertainty to be addressed rather than hidden behind complex modelling**. The valuer remains responsible for the valuation opinion, but within defined boundaries of competence, independence, scope, evidence, reliance and reporting.

In that sense, EVS-IA 2026 provides the valuer with a professional shield - not a shield against responsibility, but a shield made of clarity. For a field as complex and fast-moving as intangible asset valuation, that clarity is essential to accountability and market confidence.

5. Europe's Valuation Moment: From Intangible Potential to Welfare

EVS-IA 2026 arrives at a moment when Europe is trying to convert intangible potential into economic scale. That is the real context of the Blue Book. Its importance lies in the creation of a professional valuation framework capable of serving a wider European objective: better capital allocation, a more supportive environment for business growth, improved competitiveness and broader welfare.

Modern intangible assets will not strengthen Europe simply because they exist. An artificial intelligence model, a dataset, a software system, a brand, a platform or a body of know-how becomes economically meaningful only when it can be identified, evidenced, valued, financed and scaled. EVS-IA 2026 contributes to that chain **by giving the valuation profession a disciplined way to translate intangible economic potential into reliable value evidence.**

This does not mean that valuation alone can solve Europe's scale-up challenge. It cannot replace legal recognition, public support, credit assessment, capital market development or industrial policy. But without a credible valuation layer, those elements remain harder to connect. Rights may be visible, but not financeable. Innovation may be promising, but not investable. Technical progress may exist, but remain trapped inside firms unable to scale.

That is why EVS-IA 2026 matters beyond the valuation profession.

- It helps **businesses** understand which intangible assets can credibly support growth.
- It helps **financiers** distinguish between innovation potential and recoverable value.
- It helps **professional valuers** operate with discipline, transparency and protection.

And it helps the **European Union** pursue a more rational allocation of resources, supporting the development and scaling of valuable intangible assets within Europe rather than allowing them to remain invisible, underfunded or forced to scale elsewhere.

The success of Europe's intangible asset economy will depend on many institutions and many instruments of which EVS-IA 2026 is one. It gives Europe's valuation profession a common language for turning invisible potential into credible value, credible value into investment, and investment into competitiveness, resilience and welfare.

"EVS-IA 2026 arrives at a moment when Europe is trying to convert intangible potential into economic scale. That is the real context of the Blue Book. Its importance lies in the creation of a professional valuation framework capable of serving a wider European objective: better capital allocation, a more supportive environment for business growth, improved competitiveness and broader welfare."

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REAL ESTATE VALUATION

Lore Lindu National Park
Valued in 2025 as part of Indonesia's
natural capital assessment

#03

Turning Indonesia's Wealth into Value: Natural capital, carbon markets & sustainable management

Arik Hariyono

Rizka Hutami

Hari Sutarmin

Indonesia is blessed—or burdened, depending on one's lens—with extraordinary natural resources. From the dense forests of Kalimantan to the sprawling mangrove belts of Sumatera and the coral ecosystems of eastern Indonesia, the nation's natural resources form a living infrastructure that quietly generates enormous economic value by providing clean water, fertile land, and carbon sequestration that sustains the economy and supports millions of livelihoods. Yet for decades, much of this value has remained invisible, unrecorded in budgets, unrecognised in GDP, and undervalued in policy.

That invisibility has a cost. When forests are cleared, peatlands drained, or mangroves converted, Indonesia loses both biodiversity and economic resilience. Degraded ecosystems mean increased vulnerability to climate shocks. Yet despite providing these critical services, such forest areas remain largely invisible in fiscal and asset management systems. Recent flood events in Aceh provide a stark reminder of this reality. Intense rainfall in upstream areas, combined with land-use pressures and watershed degradation, triggered flash floods that affected downstream communities, damaged infrastructure, and disrupted local economic activities. These events were not merely hydrological incidents—they were signals of ecological imbalance. The recent floods in Aceh therefore underscore a broader national issue: environmental services must be recognised not only as ecological functions but as measurable economic assets.

"The East Kalimantan and Jambi cases demonstrate that when valuation and inclusion go hand in hand, carbon finance can become a real tool for development."

But in recent years, Indonesia has begun to change course, recognising that managing nature as capital is not only an environmental imperative but an economic necessity. A quiet transformation is now underway—one that recognises nature as capital: measurable, valuable, and investable.

The turning point was a Presidential Regulation establishing a Carbon Pricing framework. For the first time, environmental services such as carbon sequestration, emission reduction, and ecosystem protection were given legal and economic recognition. Through Carbon Pricing, Indonesia began building the architecture for a carbon economy, anchored by systems of measurement, reporting, and verification and a national registry to ensure transparency and accountability. This framework links emission reductions directly to measurable value, transforming them from abstract environmental benefits into tradable economic assets. The Forestry and Other Land Use (FOLU) sector has become the test bed for this transformation. Accounting for nearly 60 percent of Indonesia's emission reduction potential, it sits at the heart of the FOLU Net Sink 2030 strategy. The plan envisions that by 2030, Indonesia's forests will absorb more carbon than they emit[1]—a crucial step toward achieving net-zero emissions by 2060 or sooner.

The province of East Kalimantan offers a concrete example of how this ambition can translate into measurable outcomes. East Kalimantan's Carbon Fund generated 22 million tons of verified emission reductions between 2019 and 2024, valued at around USD 110 million. What makes this case remarkable is not just the amount of carbon reduction, but the way benefits were distributed. Forty percent of the payments were shared directly with 441 villages in 10 regencies and cities across the province through a performance-based benefit-sharing plan. This approach recognised local stewardship, ensuring that communities were not just consulted but truly included in the management of their natural capital. In Jambi, a similar approach has taken root in collaboration with the World Bank. The province committed to reducing emissions by 14 million tons of CO_2 between 2020 and 2025, valued at approximately USD 70 million.

The East Kalimantan and Jambi cases demonstrate that when valuation and inclusion go hand in hand, carbon finance can become a real tool for development. It turns forest protection from a moral argument into an economic proposition, aligning local livelihoods with national and global climate goals. Importantly, it offers a model of climate justice, showing that the people who protect ecosystems should also reap tangible short-term benefits. East Kalimantan and Jambi have a critical commonality: success began with strong political will from regional leaders and was reinforced by collaboration with local communities.

[1] Indonesia's high forest-related carbon emissions are closely linked to patterns of economic activity and land-use transformation. Over the past decades, expansion of commodity-driven sectors such as palm oil, timber plantations, pulp and paper, and mining has required large-scale land conversion, often in carbon-rich forest and peatland areas.

This domestic progress echoes lessons from abroad, particularly from Brazil, a country that, like Indonesia, sits atop immense forest wealth. Brazil's Amazon Fund, managed by the national development bank BNDES, has attracted billions of dollars in donor contributions to support forest conservation, monitoring, and sustainable livelihoods. Programmes such as Bolsa Floresta, which provides conditional cash transfers to forest communities, and BVRio Environmental Exchange, a marketplace for environmental assets, have shown that it is possible to channel both public and private finance into conservation while generating tangible social benefits. More recently, Brazilian states have launched programmes that issue carbon credits at the state level, helping scale up credible, accountable carbon finance.

But Brazilian experience also offers a cautionary lesson: without strong institutions and transparent rules, carbon markets can falter. Cases of double counting, unclear land tenure, and fraudulent projects undermine credibility and erode public trust.

Indonesia's Carbon Pricing framework incorporates some of these lessons. Its design is multi-layered, combining legal certainty with flexibility. Carbon trading is allowed both domestically and internationally, through mechanisms such as emissions trading systems, carbon offsets, and result-based payments. The government has also created space for public–private partnerships, blended finance, and fiscal innovation. For example, revenues from carbon trading can be integrated into regional budgets through ecological fiscal transfers, giving local governments tangible incentives to maintain forests and peatlands. Similarly, the Ministry of Finance has begun exploring green sukuk[2] and climate resilience bonds to attract private investment in environmental projects.

Beyond carbon, the same valuation logic can extend to other ecosystem services. Indonesia could pioneer biodiversity credits, payment for ecosystem services or watershed protection schemes modelled after the European Union's innovative biodiversity financing mechanisms. The EU's Natural Capital Financing Facility demonstrates how public guarantees can de-risk conservation investments, while ecological fiscal transfers—a tool already used in Brazil and India—could be adapted domestically to reward provinces that maintain high forest cover or reduce deforestation. These instruments collectively illustrate a future in which conserving nature is not a cost, but a revenue-generating enterprise.

"Beyond carbon, the same valuation logic can extend to other ecosystem services. Indonesia could pioneer biodiversity credits, payment for ecosystem services or watershed protection schemes modelled after the European Union's innovative biodiversity financing mechanisms."

[2] A Sharia-compliant investment certificate

However, realising this vision requires strong governance. Indonesia's natural capital management must be anchored within its national accounting system and planning frameworks, and just as important are the social and environmental safeguards that protect people and ecosystems from unintended harm. The East Kalimantan model provides a strong foundation of local participation to ensure that communities are not left behind. Every carbon transaction should be accompanied by clear documentation of co-benefits—livelihood improvements, biodiversity gains, and restored landscapes.

Indonesia can also learn from Brazil's innovation in blended finance. Programmes such as ProFloresta+, launched by Petrobras and BNDES, combine low-interest loans with carbon credit purchases, channelling capital into restoration and conservation projects. Adapting similar models could allow Indonesia to scale up reforestation, peatland restoration, and mangrove rehabilitation, while providing new revenue streams for rural communities.

In essence, Indonesia's Carbon Pricing and sustainable land management frameworks represent more than just environmental policy; they are the foundation of a natural capital economy. They redefine the relationship between development and the environment, positioning natural wealth as an investable asset. This shift aligns Indonesia with global trends, where countries are embedding nature into their economic systems. Yet Indonesia has the advantage of timing—it can build its system with the benefit of others' experiences, avoiding the pitfalls that plagued earlier market experiments.

To make this vision work, policymakers need a compelling narrative. The story is simple yet powerful: Indonesia's forests, mangroves, and peatlands are not merely landscapes—they are living balance sheets. By recognising their value, regulating their use, and rewarding those who protect them, the nation can generate sustainable growth while safeguarding the environment. This is not about selling nature; it's about ensuring that its worth is visible, protected, and reinvested for future generations.

The transition from potential to performance is underway. The journey will not be easy; it demands coordination across ministries, transparent systems, and unwavering political will. But if Indonesia stays the course, it can offer the world a new model, one where the guardians of forests and coasts are also the shareholders of the nation's sustainable prosperity.

In this way, Indonesia's natural wealth can finally be seen for what it truly is: not a stockpile of resources waiting to be exploited, but a living endowment that, if managed wisely, will yield dividends of stability, resilience, and shared prosperity for generations to come.

"In essence, Indonesia's Carbon Pricing and sustainable land management frameworks represent more than just environmental policy; they are the foundation of a natural capital economy."

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#04

Building Cost Intelligence and the Future of Valuation Practice in Serbia:
The NAVS Construction Cost E-Bulletin and the Integration of Transparent AI Education

Danijela Ilić

Abstract

Reliable construction cost intelligence is becoming an essential analytical foundation for valuation practice across Europe. In Serbia, a significant contribution to this knowledge infrastructure is provided by the Construction Cost E-Bulletin prepared by the National Association of Valuers of Serbia (NAVS). The platform provides structured, empirically grounded estimates of hard construction costs across different building types and geographic regions in Serbia, offering a standardised reference framework that supports valuation practice, investment analysis, insurance assessment, and financial risk management. The E-Bulletin is based on realised projects and current input prices and is updated periodically in response to market change.

This article presents the methodological foundations, practical applications, and professional significance of the NAVS E-Bulletin within the evolving European valuation environment. Particular attention is given to its role in improving consistency in insurable value assessments and in strengthening cost inputs within the cost and residual valuation methods. The article also explains how the publication fits within the broader institutional and educational framework of NAVS, including its accredited training programmes aligned with European professional standards and its forward-looking integration of transparent artificial intelligence tools in valuer education.

The Serbian experience illustrates how structured cost intelligence, professional education, and technological competence can jointly support the ongoing development of valuation practice in an increasingly data-driven and technologically evolving environment.

Keywords

construction cost benchmarking; hard construction costs; valuation methodology; insurable value; cost approach; residual method; energy efficiency; artificial intelligence in valuation; professional education; Serbia; NAVS

1. Introduction

Across Europe, the real estate sector is undergoing structural transformation driven by sustainability requirements, regulatory harmonisation, and rapid technological change. Within this evolving environment, reliable construction cost intelligence has become an essential analytical foundation for investment planning, valuation practice, and risk assessment.

One of the most significant contributions to this knowledge infrastructure in Serbia is the Construction Cost E-Bulletin developed by the National Association of Valuers of Serbia (NAVS), which in 2026 celebrates twenty years of professional activity.

The E-Bulletin provides a structured and regularly updated reference framework for understanding construction costs across different property types and geographic regions within Serbia. Its importance extends beyond statistical reporting: it supports evidence-based valuation, improves methodological consistency, and enhances transparency in a development environment characterised by regional diversity and changing cost structures.

Recent global developments have further highlighted the sensitivity of construction costs to external shocks, including geopolitical tensions, supply chain disruptions, and energy price volatility. These factors can significantly affect the availability and pricing of key construction materials, reinforcing the importance of regularly updated and reliable cost benchmarks.

2. Scope and Methodological Foundation

The NAVS Construction Cost E-Bulletin presents estimated construction costs for various categories and subcategories of buildings in the Republic of Serbia. Cost indicators are derived from analysis of contracted and completed projects over the previous three years, while current unit prices for materials and labour reflect prevailing market conditions. Values are expressed in euros per square metre of gross building area and buildings are classified according to size, number of storeys, underground levels, and construction standard.

A fundamental methodological clarification is that the publication reflects hard construction costs only. These include direct building costs associated with structural works, finishing works, and technical installations. Land acquisition costs, financing expenses, professional fees, developer overhead, and other soft costs are not included and must be added separately by the user depending on project-specific conditions. This distinction provides a standardised baseline for cost benchmarking while preserving flexibility for financial modelling.

3. Regional and Sustainability Dimensions

Construction costs vary significantly across Serbian regions due to differences in labour markets, logistics, infrastructure, and demand intensity. The E-Bulletin reflects these variations, enabling more accurate estimation of replacement costs across metropolitan areas and regional areas.

The publication also addresses the growing importance of energy efficiency in construction. It identifies cost implications of technical measures such as advanced insulation systems, high-efficiency glazing, renewable energy integration, and modern building services. By linking investment requirements with performance improvements, the E-Bulletin supports a more refined understanding of how sustainability affects both capital expenditure and long-term asset performance.

4. Specific Factors – ESG Factors and Sustainability

The E-Bulletin delivers updated cost data derived from realised projects, detailed building classification, and integrated information on material and labour inputs. These features make it a practical decision-support tool for valuation professionals. An illustrative example of the cost structure provided in the E-Bulletin is shown in Figure 1.

Residential Building Construction Costs (€/m² GBA)*

Categories

- (●) 01_Up to 400 m² | G+1+A
- ( ) 02_Up to 2,000 m² | G+4+A
- ( ) 03_Up to 20,000 m² | G+2+8+A
- ( ) 04_Over 20,000 m² (with basement levels)

Region

- (●) Belgrade
- ( ) Southern and Eastern Serbia
- ( ) Central and Western Serbia
- ( ) Vojvodina

* Costs shown are indicative for the gross building area.

Work Category	Standard (EUR/m²)	Premium (EUR)
Architecture	180	300
Installations	180	270
Structural Works	190	210
Finishing Works	120	170
Total	**670**	**950**

* Costs shown are indicative for the gross building area. Source: NAVS Construction Cost E-Bulletin

Costs are expressed per square metre of gross building area and refer to hard construction costs only, excluding land, financing, and other soft costs.

Source: NAVS Construction Cost E-Bulletin

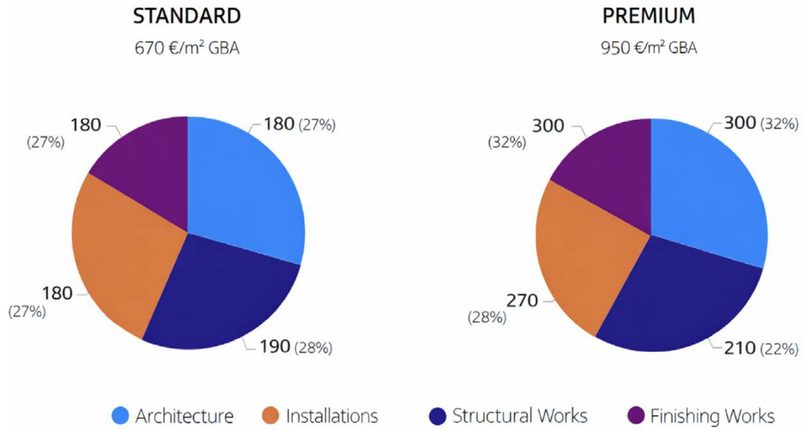

Figure 1: Indicative hard construction cost structure for residential buildings in Serbia (€/m² of gross building area), differentiated by construction standard and building characteristics. Source: NAVS Construction Cost E-Bulletin.

As illustrated in Figure 1, the E-Bulletin provides a structured breakdown of construction costs by key work categories, including architectural works, installations, structural works, and finishing works. The data is further differentiated by building size, number of floors, and regional location, enabling users to select cost benchmarks that closely reflect the characteristics of the subject property.

The NAVS Construction Cost E-Bulletin provides comprehensive coverage of construction costs across multiple property types, including residential buildings, commercial buildings, shopping centres, hotels, and warehouses. The publication is further complemented by detailed data on construction material prices and dedicated sections addressing energy efficiency, reflecting the growing importance of sustainability in valuation practice.

In addition to construction cost benchmarks, the NAVS E-Bulletin provides time-series data on key construction material prices. As illustrated in Figure 2, price trends are monitored for a range of essential inputs, including reinforcement steel, concrete, energy sources, and building materials. This information provides additional analytical context for understanding cost dynamics and supports more accurate valuation inputs, particularly in periods of market volatility.

Such data enhance the transparency of cost formation and enable valuers to better assess short-term fluctuations in construction inputs. An illustrative example of the price list is shown in Figure 2, price of Reinforcement steel. The data are currently being updated to reflect more recent market conditions.

Prices of key construction materials

Figure 2 illustrates the price trend of reinforcement steel, as an example of time-series monitoring of construction input prices within the NAVS Construction Cost E-Bulletin.

Its user base extends beyond valuers to institutional market participants, including insurance companies and banks, which rely on consistent construction cost benchmarks for risk assessment, collateral evaluation, and underwriting.

Historically, when determining insurable value, valuers often relied on construction cost data from non-transparent or unspecified sources. This resulted in significant variation between estimates. Similar inconsistencies arise in the cost approach and residual method, where construction cost represents a critical analytical input. By providing a common empirical reference grounded in observed market data, the NAVS E-Bulletin helps reduce methodological divergence and improve comparability of valuation outcomes.

5. Institutional and Educational Context

Founded in 2006, NAVS marks its twentieth anniversary in 2026. Following the adoption of the Law on Real Estate Valuers in 2017, the association became accredited by the Ministry of Finance of the Republic of Serbia as an authorised provider of professional education.

Training programmes are aligned with national regulatory requirements and incorporate educational standards established by The European Group of Valuers' Associations (TEGOVA), including competencies required for the Recognised European Valuer (REV) designation.

6. Preparing for the AI-Enabled Profession

NAVS has expanded its educational framework to include structured training in automated valuation systems and artificial intelligence. The automated valuation framework developed by Professor Nemanja Stanišić is integrated into professional training as a tool for developing analytical transparency and critical interpretation of algorithmic outputs.

This approach reflects the emerging reality that valuation practice will increasingly combine data-driven analytics with professional judgment. Technology performs large-scale data processing and modelling, while the valuer retains responsibility for interpretation, verification, and final opinion of value.

7. The Evolving Role of Data and Technology in Valuation Practice

The increasing availability of structured cost data and analytical tools is reshaping the way valuation is performed in practice. Reliable cost benchmarks provide a stronger empirical foundation for valuation, while technological tools enhance the ability to process and interpret large volumes of data.

At the same time, the role of the valuer remains central. Professional judgment continues to be essential in selecting appropriate inputs, interpreting results, and ensuring that valuation conclusions are robust and defensible. Rather than replacing professional expertise, data and technology serve to support and strengthen it.

NAVS training programmes reflect this development by combining traditional valuation principles with enhanced analytical competencies, ensuring that valuers are equipped to operate effectively in a more data-intensive professional environment.

8. Conclusion

The NAVS Construction Cost E-Bulletin represents more than a statistical publication. It forms part of a broader professional infrastructure combining market monitoring, methodological standardisation, sustainability awareness, and technological readiness. Reliable cost data improve the accuracy of valuations, analytical tools support data processing, and professional judgment ensures credibility. Together, these elements support the continued development of valuation practice in line with European market expectations.

Danijela Ilić FRICS is President of the National Association of Valuers of Serbia (NAVS, member of TEGOVA).

#05 Valuing Coastal Erosion
Applying Residual Use Value

Quentin Lagallarde

Abstract

Coastal erosion threatens hundreds of thousands of properties across Europe, yet no European valuation framework specifically addresses the case of assets with a physically limited and foreseeable economic life. This is potentially one of the key factors that will have the most significant economic impact on real estate over the coming decades. This paper introduces Residual Use Value (RUV) as a structured methodology for the valuation of properties exposed to coastal erosion. RUV calculates the present value of the income that the property is likely to generate over its remaining occupancy period, net of risk-related costs and including terminal costs. The paper proposes a European framework compatible with existing European Valuation Standards (EVS). It draws on the experience in France, where RUV began to be envisaged long before national legislation was introduced *(Climate and Resilience Act 2021)* and where it has already been incorporated into professional standards (*Charte de l'Expertise en Évaluation Immobilière*, 6th edition, 2025). It posits that RUV is not a new value base, but an application of EVS in market conditions distorted by special circumstances, enabling valuers to use a specific methodology when faced with these valuations.

1. Introduction: the Scale of the Challenge

European coastlines are retreating. A combination of rising sea levels, increasing storm intensity and reduced sedimentary input is accelerating the erosion of shorelines that have remained stable for centuries. What used to be a local concern for a few clifftop villages has become a continental challenge with far-reaching implications for property markets, public finances and the valuation profession.

In France, a study by Cerema in February 2024, commissioned by the French Ministry of Ecological Transition, quantified the exposure with remarkable accuracy. Under a realistic scenario to 2050, **5,200 homes and 1,400 business premises** would be affected, worth a total of **€1.2 billion**. Under an unfavourable scenario to 2100 — assuming the disappearance of all coastal defence structures and a 1-metre rise in sea level — the figures skyrocket: **449,000 homes and 53,000 business premises**, worth around **€94 billion**. These estimates cover mainland France and its overseas territories, and include 41,000 hectares of urban areas, 1,765 kilometres of major roads and 243 kilometres of railways.

"The rational pricing of risk is drowned out by the lure of coastal living. In such conditions, market value routinely overestimates the long-term economic value of the asset."

Similar dynamics are at play across Europe. In Wales, the village of Fairbourne faces a managed realignment by 2050. On the North Sea coasts of the Netherlands, Germany and Denmark, soft shorelines are receding. The Mediterranean coasts of Spain, Italy and Greece are increasingly vulnerable to flooding aggravated by rising sea levels. However, nowhere in the EVS, RICS Red Book or International Valuation Standards (IVS) can we find a specific operational methodology for the valuation of a property whose useful life is physically limited and foreseeable.

This shortcoming may soon pose a problem. When a local authority exercises its purchase option on a coastal property, how much should it pay? When a bank assesses the mortgage risk of a beachfront home, how should the loan-to-value ratio reflect a 15-year time horizon before the cliff edge reaches the garden? When an insurer calculates its reserves for a portfolio of seaside homes, what residual value should it use? Traditional market value, obtained from comparisons, can be unreliable or misleading in these situations, because the market itself fails to properly account for terminal risk.

The work of Eugénie Cazaux (2023) illustrates precisely this paradox: properties on the coastal front line in France benefit from a premium of up to 30% compared with identical properties located more inland, even when they are in zones officially mapped as being exposed to erosion and flooding. The rational pricing of risk is drowned out by the lure of coastal living. In such conditions, market value routinely overestimates the long-term economic value of the asset.

This paper proposes Residual Use Value (RUV) as a structured, transparent and auditable methodology able to address these challenges. It is intended for all European jurisdictions, based on existing EVS principles, and is informed by the experience in France, which has Europe's most advanced legislative and professional framework for the valuation of coastal erosion risk.

2. Why Conventional Methods Fail

Standard valuation methods are based, explicitly or implicitly, on the assumption that the physical substrate of the property – the land – has an indefinite useful life. The comparative method relies on transactions between willing buyers and sellers who share this assumption. But is there really an identifiable market? Capitalisation methods project income streams in perpetuity or over extremely long time horizons. Even the depreciated replacement cost method treats land as a durable asset on which reconstruction is possible.

Coastal erosion undermines each of these assumptions. The land itself will cease to exist within a known period of time. Income streams are not perpetual but degressive: the letting potential decreases, the vacancy rate increases, insurance becomes unavailable or prohibitively expensive, and maintenance costs skyrocket. The terminal value is not just low – it is generally negative, involving demolition, evacuation, decontamination and rewilding. There is no residual land value to anchor the calculation.

In addition, comparable references are rare or biased. In areas where there is a known risk of erosion, transactions may reflect speculative behaviour (buying on the cheap for short-term seasonal use) and distressed or off-market sales. In areas where risk is not yet priced in, comparables will overestimate the value. In both cases, the traditional market value obtained from these references is unreliable as a basis for public acquisition, financial reporting or prudential valuation.

Synthetic Comparison

CRITERION	CONVENTIONAL METHODS	RUV
References	Random and heterogeneous	Inadequate or non-existent
Lifespan	Long and stable (50+ years)	Limited and predictable (< 30 years)
Income	Long-term, stable yield	Degressive, higher rate
Terminal value	High (land as a durable asset)	Negative or zero
Land	Perpetual value	No future value
Costs	Stable or predictable	Increasing, demolition costs

3. Residual Use Value: a Structured Framework

3.1 Definition

Residual Use Value (RUV) is the value obtained from the total discounted net income, excluding terminal value, that a property is likely to generate over its remaining period of safe, lawful and economically viable occupancy, net of specific risk-related costs and including terminal (exit) costs.

RUV is not another value base to be added to market value, investment value or fair value: it is an *application* of existing EVS principles in distorted market conditions.

3.2 The Four Components

- **Remaining useful life (n).** Estimated number of years during which the property may be occupied safely and legally. This is determined from authoritative sources: geotechnical studies (municipal studies); risk mapping; regulatory zoning (ZERTC, see below); Intergovernmental Panel on Climate Change (IPCC) projections of sea-level rise; in-situ observation of coastal defences. If in doubt, the valuer will adopt conservative assumptions in line with the precautionary principle. A phased approach with progressive risks is also possible.
- **Income or utility (R_t).** For rental properties: projected net rental income, taking into account the likely trend in rents, expected vacancy periods and the gradual decline in letting potential. For main residences: equivalent rent (market rent that the owner avoids paying) minus occupancy costs.
- **Risk-related costs (C_t).** Extra maintenance caused by exposure, higher insurance premiums or exclusions from cover, temporary protective equipment and gradual decline in value due to the reduced letting potential and fall in rental value. These costs are on an upward trajectory, accelerating as the end date approaches.
- **Terminal value (D).** Recoverable values (reusable building materials, removable equipment, technical components) minus exit costs (demolition, removal of rubble, decontamination, land restoration, administrative costs). In almost all coastal erosion scenarios, the terminal value is negative.

3.3 Formula

$$RUV = \sum_{t=1 \rightarrow n} [\ (R_t - C_t) / (1 + a)^t\ ] - D$$

Where:

n = remaining useful life

R_t = income/utility in year t

C_t = risk-related costs in year t

a = discount rate

D = net terminal cost.

3.4 Hierarchy of Evidence

Level 1: Local comparables from an active market where the risk of erosion is transparently reflected in prices. The Welsh village of Fairbourne offers an example: despite the managed realignment until 2050, it maintains an active property market where buyers purchase property in the knowledge that occupancy will be time limited.

Level 2: Pairwise analysis or hedonic analysis controlling for exposure, distance to the shore, altitude and risk perception. This approach nevertheless runs the risk of overly subjective and economically unjustified assessments.

Level 3: Modelling estimation (RUV) when the market is distorted or non-existent.

The hierarchy of levels 1 and 2 matches the one codified by French law in Article L. 219-7 of the French Planning Code. The legislator never considered level 3 (reliable economic assessment).

4. Determining the Discount Rate

The discount rate is the most sensitive parameter of the RUV model. Valuers should not apply a normative European rate, but should derive a rate using the following components, which they should be transparent in disclosing:

COMPONENT	BASIS OF CALCULATION	INDICATIVE RANGE
Risk-free rate (rf)	Government bonds	2% to 4%
Inflation premium	Expected inflation over the residual term	1% to 3%
Environmental risks	Erosion rate, extreme events, effectiveness of defences	+2% to +4%
Regulatory uncertainty	Change in coastal policies, restrictions on use, purchase option	+1% to +2%
Market risk	Negative perception, difficult resale, decline in insurability	+1% to +3%
Indicative total	Sum of the components	6% to 13%

The French *Charte de l'Expertise* (6th edition, 2025) also provides for incremental adjustments according to the remaining useful life:

RESIDUAL TERM	RISK LEVEL	RATE ADJUSTMENT
More than 20 years	Low	Base rate
10 to 20 years	Moderate	+1% to +2%
5 to 10 years	High	+2% to +4%
Less than 5 years	Very high	+4% to +6%

In general, it is better to integrate the risk into income streams and residual term, rather than overloading the discount rate. Where transactions exist in comparable risk environments, an implicit rate may be obtained by calibration.

"France has developed an integrated legislative and regulatory framework, specifically designed to address the issue of property exposed to coastal erosion."

5. The French Model: a Legislative and Professional Ecosystem

France has developed an integrated legislative and regulatory framework, specifically designed to address the issue of property exposed to coastal erosion.

5.1 Legislative Basis

The cornerstone is the French Climate and Resilience Act of 22 August 2021 (Act No. 2021-1104, Articles 236 to 250), supplemented by Ordinance No. 2022-489 of 6 April 2022. Together, these texts provide an integrated toolkit:

ZERTC (Zones Exposed to Coastal Retreat). In their planning documents, local authorities define two zones: a zone exposed over a 30-year time horizon and a zone exposed over 30 to 100 years. In the 0- to 30-year zone, new builds must be moveable and cannot increase housing capacity; in the 30- to 100-year zone, financial projections of the demolition and restoration costs are mandatory from the planning permission stage.

DPRTC (Purchase Option for the Adaptation of Territories to Coastline Retreat). This is a special purchase option for the competent local authority, automatically applicable in the 0- to 30-year zone, and applicable in the 30- to 100-year zone subject to approval. It replaces conventional purchase options and takes precedence over the purchase option of the agricultural development authority (SAFER), but not over the one for sensitive natural areas. Cooperation with the SAFER is envisaged for agricultural properties.

Article L. 219-7-9 of the French Planning Code. This article is crucial for valuers. In the absence of an amicable agreement, the purchase price is set by the expropriating jurisdiction "taking into account the exposure of the property to coastline retreat", excluding any compensation for reuse. There is a two-level valuation hierarchy: first, reference is made to properties with the same classification and similar exposure; failing this, a rebate is calculated according to the period that has elapsed since the zone was first established, relative to the total estimated period. This method also applies to expropriations for natural risk. The tax authorities can advise on the valuation method and rebate.

BRAEC (Property Lease for Adaptation to Coastal Erosion). This is a property lease with a term of 12 to 99 years, determined according to the expected pace of coastline retreat. It automatically terminates when personal safety can no longer be guaranteed. On expiry, the land is rewilded.

The full cycle: **ZERTC** (zoning) → **DPRTC** (purchase option) → **RUV** (valuation) → **BRAEC** (transitory management) → **Rewilding** (exit). Each stage has its own specific legal instrument.

5.2 Professional Standards: the French *Charte de l'Expertise*

The 6th edition of the *Charte* de l'*Expertise en Évaluation Immobilière* (November 2025), endorsed by 17 professional bodies, recognises RUV as a full-fledged valuation concept (Section 1.22). It codifies the four components, the calculation formula, the incremental rate adjustments and a three-step approach: risk diagnosis, economic valuation and actuarial calculation.

5.3 Statutory Discount Versus RUV

Article L. 219-7 of the French Planning Code provides for a rebate that is potentially *linear* over time, whereas the RUV produces a *convex* curve (discounting effect). The two approaches share the same principle but differ on the type of depreciation. The discount mentioned in the legislation, which is straightforward and applied by the tax authorities, represents a floor, although the quantification of the discount is unpredictable since it is not defined. This is at odds with the search for an estimate that befits the expert valuer. The RUV, which is more granular, is recommended for in-depth valuations. It also makes up for shortcomings in the methodology of the French Planning Code, where the overly haphazard approach could open the door to numerous legal challenges. Moreover, French public law lays down the principle of good management of public funds. This prevents the local authority from paying over the odds when exercising its purchase option, bearing in mind that this is not compensation, since coastline retreat is not a natural disaster.

[1] Net working capital at beginning of projection period

6. Relationship With EVS

EVS remain the gold standard. Market value may still be used if supported by reliable comparable evidence (levels 1 or 2). Where the market is distorted or where the coastal proximity premium masks terminal risk, RUV is the obvious alternative.

RUV is particularly relevant for public acquisition (purchase option, expropriation), asset management and impairment tests, insurance reserving, prudential valuation and strategic decision support, subject to restrictions on future use.

7. The Qualified Valuer

A valuer conducting a valuation based on RUV must meet the requirements of EVS 3 "The Qualified Valuer". Additional skills are required: familiarity with climate science; ability to interpret risk maps and geotechnical studies; solid understanding of DCF modelling with scenario building; understanding of insurance, regulatory and planning implications; ability to communicate uncertainty. The valuer may work with external specialists, but bears sole responsibility for incorporating the findings into the valuation.

8. Quantified Examples

8.1 Case Study 1: Coastal Villa — Severe Scenario

120 m^2 detached house built in 1990, 15 metres from the shoreline. Erosion: 1 m/year. No protection. Residual term: 12 years.

The difference between the two case studies illustrates the sensitivity of the RUV to discount rate, residual life and cost assumptions.

PARAMETER	VALUE
Annual equivalent rent (Year 1)	€24,000
Annual decline in utility	-3% per year
Specific costs (growth +5%/year)	€3,000 (Year 1)
Discount rate	10%
Net demolition costs	€35,000
Calculated RUV	**≈ €145,000**
Traditional market value (excluding risk)	*€280,000*

8.2 Case Study 2: Modest Dwelling — Moderate Scenario

100 m^2 house, moderate risk area, erosion 1.5 m/year. Residual term: 15 years.

PARAMETER	VALUE
Equivalent net rental income	€12,000
Specific annual costs	€3,000
Discount rate	6%
Net demolition costs	€20,000
Calculated RUV	**≈ €79,000**
Traditional market value (excluding risk)	*€140,000*

The difference between the two case studies illustrates the sensitivity of the RUV to discount rate, residual life and cost assumptions.

9. Sensitivity Analysis and Scenario Building

The valuer should model three scenarios: **optimistic** (longer term, lower costs, base rate), **median** (central estimates) and **conservative** (shorter term, higher costs, premium rate). In practice, the residual term and discount rate are the two most powerful levers: a variation of ±2 years or ±1% can lead to a 10–20% shift in RUV. These sensitivities should be presented transparently.

10. Reporting Requirements

The report must comply with EVS 5 "Reporting the Valuation", and include:

- details of the property and the timeframe used, supported by evidence;
- description of risk exposure and data sources;
- substantiated assumptions for income, costs and terminal value;
- construction of the discount rate;
- RUV calculation and sensitivity results;
- distinction between market value/RUV;
- indication of reliability of methods; and
- disclosure of uncertainties and limits.

11. Conclusion

Residual Use Value provides a fair, transparent and auditable basis for the valuation of assets whose economic life is limited by coastal erosion. It is anchored in existing EVS principles and does not require new value bases – simply the recognition that distorted markets require appropriate methodologies.

France has shown that this is not a theoretical exercise. With the French Climate and Resilience Act, DPRTC, BRAEC, Article L. 219-7 of the French Planning Code and Section 1.22 of the *Charte* de *l'Expertise*, the French ecosystem offers a comprehensive operating model, from risk identification to rewilding. This model is available for study, adaptation and adoption by other European jurisdictions.

The statistics speak for themselves. In France, €1.2 billion in assets are threatened by 2050, and €94 billion by 2100. On a European scale, the stakes will be much higher. The valuation profession has both the opportunity and the responsibility to provide the tools that governments, courts, financial institutions and citizens need to manage this transition.

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#06 From Black Box to Glass Box: Bridging the gap between AVMs and professional judgment

Nemanja Stanišić

Abstract

As Automated Valuation Models (AVMs) proliferate across the European real estate sector, a "trust gap" has emerged between algorithmic outputs and professional valuation standards. This article explores a new generation of "Explainable AI" (XAI) tools that move beyond opaque methodologies. By combining Feature Contribution Analysis with Multi-Modal learning – integrating tabular data, computer vision, and geospatial analysis – modern AVMs can now estimate and communicate the model-attributed contribution of specific property attributes, enabling professionals to understand what the model is reacting to and to validate those signals against market evidence. Using the revaluer.com platform – currently used for educational purposes in cooperation with the National Association of Valuers of Serbia (NAVS) – as a case study, we examine how fusing cadastral data with visual analysis and professional "human-in-the-loop" adjustments creates a hybrid workflow that empowers rather than replaces the valuer.

Introduction: the Transparency Challenge

For years, the relationship between professional valuers and Automated Valuation Models (AVMs) has been defined by skepticism. The traditional AVM functions as a "Black Box": property data goes in, and a value comes out, often without a clear explanation layer or reviewable rationale for how key drivers influenced the estimate. For a valuer, a chartered surveyor, a bank risk officer, or a regulator, an unexplained number is a liability, even if its statistical accuracy appears sound.

However, the demand for speed and data processing in the European market is undeniable. The solution lies not in simpler models, but in "Glass Box" architecture - systems that expose their internal logic. By breaking down a valuation into its constituent parts, we can transition AVMs from a threat into a powerful "Co-pilot" for the valuation professional.

Multi-Modal Analysis: Beyond Tabular Data

Real estate value is not driven solely by spreadsheets; it is driven by the physical and environmental reality of the asset. To capture this, modern AVMs must move beyond simple regression and employ Multi-Modal Analysis, processing diverse data types simultaneously.

The revaluer.com model illustrates this evolution by ingesting visual and geospatial data alongside traditional metrics:

- **Computer Vision & Layout Analysis:** The system uses image recognition to analyse interior photos and floor plans. This allows the model to grade the condition of finishes and evaluate layout geometry, distinguishing between a modernised apartment and one requiring renovation.
- **Satellite & Environmental Context:** By parsing satellite imagery, the model evaluates the immediate surroundings (e.g., green space vs. industrial density).
- **Geospatial Intelligence:** The model automatically calculates proximity to Points of Interest (POI) and transportation hubs. It does not just measure "distance to centre," but evaluates the density of amenities and connectivity options, significantly refining the location adjustment.

"This transparency transforms the AVM from an authoritative dictator into an analytical assistant."

Deconstructing Value: Feature Contribution Analysis

The result of this complex analysis must be presented simply. The core innovation required to build trust is Feature Contribution Analysis presented through an interpretable pricing layer (e.g., hedonic-style components) built on top of multi-modal signals that are converted into explicit, human-readable features (e.g., condition grade, layout efficiency score, amenity density).

Within the platform, the final value is not presented as a static figure but as a dynamic waterfall chart. This visualisation summarises the estimated contribution of each attribute within the model, shown as a diagnostic waterfall that supports rapid plausibility checks by a valuer. It might show that while a property's "Location" (bolstered by POI and transport analysis) contributes a premium of +€1,853/m^2, its "Structure" or "Condition" might apply a discount.

Crucially, this numerical decomposition is paired with a narrative "intelligence brief" for each component of the waterfall. This textual layer acts as an automated briefing, surfacing the key data points and assumptions the professional should verify. This dramatically accelerates the initial phase of an assessment by aggregating and presenting the critical data points professional valuers would need to investigate, allowing them to focus their expertise on verification and analysis rather than raw data collection.

For the professional valuer, this decomposition is vital. It allows for a rapid "sanity check" of the algorithm. If the AI claims a premium for "Amenities" based on satellite data, valuers can verify this against their local knowledge. This transparency transforms the AVM from an authoritative dictator into an analytical assistant.

Data Fusion: Bridging Expectation and Reality

A robust, current valuation must synthesise two complementary data streams: verifiable historical transaction evidence and real-time market sentiment derived from active listings and supply dynamics. A sophisticated AVM must synthesise these dual pipelines:

- **Cadastral Data (Historical Reality)**: Sold prices from the cadastre form the bedrock of the comparable analysis, providing the verifiable baseline.
- **Active Listings (Current Sentiment)**: Live market data are used to contextualise the valuation, employing normalisation techniques – such as filtering outliers and applying list-to-sale discounts – to ensure that "asking" signals do not distort transaction-based evidence.

Liquidity Analysis: Three Strategic Scenarios

In banking and investment contexts, a single "Market Value" figure is often insufficient without understanding liquidity. By analysing Days on Market (DoM) trends, the model outputs three distinct scenarios:

- **Aspirational Ask:** An upper-quartile price point derived from market positioning analysis, suitable for sellers with low liquidity requirements ('patient capital') who are prioritising price maximisation over speed of sale.
- **Market Value:** The estimated exchange price assuming a standard marketing timeline and proper exposure, complying with international valuation definitions.
- **Quick-Sale Scenario Estimate:** A scenario analysis reflecting a constrained marketing timeline. Unlike a standard forced-sale model based solely on distress, this scenario treats time as the primary constraint, serving as a liquidity proxy for sellers requiring immediate capital access. This provides an indication of achievable price under a constrained marketing timeline, distinct from the Market Value definition which assumes proper exposure.

The "Human-in-the-Loop": the Professional Mode

Perhaps the most critical aspect of the architecture is the distinction between the Public User and the Professional Valuer.

While the algorithms handle the heavy lifting of data crunching – processing photos, satellite imagery, and thousands of cadastral points in seconds – the system is designed with a "Qualitative Adjustments" rubric. This feature allows the professional valuer to review and qualitatively adjust algorithmic suggestions based on three specific categories of 'blind spots' that data scraping cannot reliably detect:

- **Latent Physical Defects & Common Areas:** Issues often invisible to computer vision, such as capillary rising damp, structural fissures caused by **structural settlement**, end-of-life building services (electrical/plumbing), hazardous materials (e.g., asbestos), or the devastation of communal spaces (entrances, lifts) which materially impacts marketability.
- **Legal & Transactional Specificities:** This involves two distinct checks: first, identifying burdens on the subject property (e.g., alienation bans, possession without legal basis, or boundary disputes); and second, vetting the 'comparable' data to exclude non-market evidence – such as transactions with indicators of being non-arm's length (e.g., sales between related parties, transfers below market-clearing price) – that fail the definition of a voluntary, informed arm's length transaction.

"... with the capability to generate standardised reports in 11 languages, such tools facilitate cross-border portfolio valuation, offering a unified standard of reporting that aligns with the increasingly interconnected European property market."

- **Microlocation Nuances & Stigma:** Sensory and social factors absent from databases, including localised pollution (odours/noise), specific neighbourhood socio-demographics, or psychological stigmas attached to a property (e.g., criminal history). It also captures the value impact of planned infrastructure not yet built, such as future metro stations or waste facilities.

Critically, this override function is designed not merely to adjust the final value, but to audit the veracity of the input data itself.

This workflow ensures that the final report – which provides a permanent digital audit trail – is a hybrid product: data-driven precision tempered by professional judgment. However, even with transparency and decision support, the professional valuer typically remains responsible for the final opinion and for ensuring compliance with applicable standards and engagement terms.

Education and Standardisation

The shift toward this hybrid model is already underway. In cooperation with the National Association of Valuers of Serbia (NAVS), this open-architecture approach is being used to educate the next generation of valuers. By allowing trainee and qualified valuers to see 'under the hood' of an AVM, we are building the critical competence required to interrogate algorithmic outputs and apply professional judgment with confidence. Furthermore, with the capability to generate standardised reports in 11 languages, such tools facilitate cross-border portfolio valuation, offering a unified standard of reporting that aligns with the increasingly interconnected European property market. Moreover, this architecture supports GDPR transparency and contestability expectations. Where GDPR Article 22 applies (i.e., decisions based **solely** on automated processing with legal or similarly significant effects), the workflow facilitates meaningful human review and the ability to challenge or contextualise the model's output.

Conclusion

The future of valuation is not manual, nor is it fully automated. It is augmented. By integrating computer vision, geospatial analysis, and transparent decomposition, we provide valuers with the tools to work faster and with greater accuracy, without sacrificing the professional responsibility that defines the profession. The machine calculates statistical possibilities; the valuer verifies physical realities - and accepts the legal accountability that follows.

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#07

AI and Real Estate Valuation: The Due Care Paradox

Epistemic Validation and Professional Responsibility in the Age of Artificial Intelligence

Angelo Donato Berloco

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Abstract

A valuer who does not use artificial intelligence risks falling behind. A valuer who uses it without being able to control it risks even more. This article examines the paradox of professional due care in the age of AI: real estate valuation is an obligation of means, and the professional is required to use the best tools available. But the best tools require greater, not lesser, competence.

Building on recent case law, the article shows how uncritical use of AI may amount to gross negligence, and raises a provocative question: could non-use eventually do so as well?

The growing use of artificial intelligence tools in valuation practice opens significant opportunities in terms of efficiency, analytical capacity and access to data, but it also raises new issues of professional responsibility.

The article introduces the concept of epistemic validation in real estate valuation: the valuer as guarantor of the cognitive quality of conclusions, not merely of their formal correctness. In a context in which AI produces outputs that are statistically plausible but not grounded in documentation and methodology, this validating function becomes the non-automatable core of the profession.

1. The Paradox

Not using artificial intelligence could become a problem for the valuer, just as using it without the competence required to control it could. The more prudent and professionally sustainable position today is to use AI with the preparation needed to verify its outputs.

A recent Italian case shows that the unverified use of algorithmic outputs can translate into a serious breach of professional duties.

On 20 February 2026, the Court of Syracuse (Sicily) ordered a lawyer to pay more than EUR 30,000 for citing four Supreme Court judgments that did not exist. Real judgments, invented contents. The most plausible explanation, according to the judge who issued the ruling, was the use of a generative artificial intelligence system without verification of primary sources. The Court qualified that conduct as gross negligence.

These episodes, together with others of a similar kind in Italy, Europe and the United States, suggest growing judicial and disciplinary attention to the unverified use of generative outputs. For this reason as well, the CCBE (Council of Bars and Law Societies of Europe) has issued specific guidance on the use of generative artificial intelligence by European lawyers. But the principle concerns all professions that operate on a documentary and evidential basis, including real estate valuation.

2. The Epistemic Tension

There is a structural tension between two different ways of producing knowledge in professional practice.

Artificial intelligence systems - in particular generative models and machine-learning systems - produce outputs on the basis of probabilistic inferences (Bender et al., 2021). The result is a statistically plausible configuration, but not necessarily knowledge grounded in verifiable sources.

Regulated professions operate according to the opposite logic: every statement must be traceable to an identifiable and controllable primary source. This is the documentary-evidential regime that characterises law, medicine, and of course real estate valuation as well.

The confusion between these two epistemic regimes - the algorithm's probabilistic regime and the profession's documentary regime - is precisely what produced the Syracuse case. And it is what can produce analogous failures in valuation practice.

A valuer who uses AI to identify comparables may receive a list of transactions that appear coherent in terms of type, size and location. The output is formally plausible. Yet some of those transactions may be related-party sales, forced disposals, or deals that are not representative of the market. AI cannot know this. It has no access to the actual conditions of the transaction. It does not interpret the economic context; it merely produces statistically plausible sequences - nothing more.

The output becomes a valuation only when it passes through the professional's verification, interpretation and acceptance of responsibility. That passage - epistemic validation - cannot be automated.

"Real estate valuation is not a mere exercise in technical calculation. It is a knowledge process through which the professional transforms heterogeneous information - transactional data, market signals, physical and planning characteristics, and economic context - into a justified and verifiable value judgment."

3. Epistemic Validation

The concept of epistemic validation describes the valuer's core function in the age of artificial intelligence.

Real estate valuation is not a mere exercise in technical calculation. It is a knowledge process through which the professional transforms heterogeneous information - transactional data, market signals, physical and planning characteristics, and economic context - into a justified and verifiable value judgment.

A system may suggest transactions that are statistically close in location, size or type. Yet real comparability is never a purely numerical fact: it may be compromised by extraordinary sale conditions, relationships between the parties, micro-market dynamics, or planning and leasing factors that the model does not adequately interpret.

It is here that algorithmic output must be subjected to epistemic validation, in line with the broader European orientation towards transparency, human oversight and responsible use of artificial intelligence systems (AI Act, Regulation (EU) 2024/1689).

This gives rise to a potential epistemic tension between two different logics: on the one hand, algorithmic plausibility generated by probabilistic systems; on the other, the verifiability of information that characterises the professional valuation process. Understanding and managing this tension is one of the principal challenges posed by the integration of artificial intelligence into valuation practice. For this reason, it is useful to introduce the concept of epistemic validation into valuation practice.

This process entails cognitive activities that go beyond statistical processing: it requires what the Greeks called phronesis - practical wisdom, the ability to judge the particular case.

From this perspective, the valuer takes on the role of epistemic validator: the professional who verifies the reliability of the selected comparables, interprets the economic context, assesses the plausibility of the analytical results produced by models, and assumes intellectual responsibility for them.

The signature on a valuation report is not a formal act. It is an act of epistemic validation: it attests that the conclusions derive from verified evidence and from autonomous professional reasoning. It attests not only to formal correctness, but also to the cognitive quality of the conclusions, thereby respecting the principles of professional judgment, accountability and explainability.

This is the professional's epistemic responsibility: the obligation - not delegable to any algorithmic tool - to answer for the soundness of what is being certified.

"... the most advanced models reduce the frequency of errors but increase the formal quality of the residual errors - making them more plausible and harder to detect."

4. Concrete Risks

The integration of AI into the valuation process entails three categories of risk that the valuer must understand and manage.

Algorithmic Opacity

Many AI systems operate as "black boxes": their internal decision-making mechanism is difficult to interpret. A valuer who cannot explain how a conclusion was reached will struggle to defend it in litigation.

Bias in Data

AI systems are trained on historical data that may reflect structural distortions. A model trained on transactions in an area that has historically been undervalued[1] will perpetuate that undervaluation. It does not "make a mistake"; it faithfully replicates what it has learned. Yet the result may be unfair and indefensible.

Automation Bias

The tendency to place excessive trust in algorithmic results. The more sophisticated the output appears, the more the professional lowers his or her guard (Parasuraman & Riley, 1997). As some authors have observed (Lazzaroli and Bozzo, 2026), the most advanced models reduce the frequency of errors but increase the formal quality of the residual errors - making them more plausible and harder to detect.

In summary: generative artificial intelligence excels in form, but professional responsibility consists in tracing every form back to its source. Where that traceability is missing - where epistemic validation does not occur - we are faced with a rupture in the relationship of trust with the client, which is fundamental to the profession.

[1] For example, if an area has historically been undervalued because of stigma, exclusion, or chronic underinvestment, an AI model trained on those transactions will tend to reproduce that discount. The output may be statistically consistent, but it may also be substantively unfair, because it converts historical distortion into present valuation logic.

5. Non-Delegable Functions

Responsibility for the value conclusion rests entirely with the valuer who signs the valuation report. The use of AI tools does not alter this principle.

Some phases of the valuation process remain intrinsically non-delegable:

- critical analysis of primary market evidence
- selection of the appropriate valuation methodology
- reconciliation of results from different approaches
- final value determination.

Accordingly, the relationship between AI and the valuation process can be articulated on three levels:

LEVEL	ROLE OF AI	ROLE OF THE VALUER
Data	Collection, processing, pattern recognition	Verification of primary sources
Model	Statistical inference, correlations	Methodological control
Judgment	Possible but not determinative	Epistemic validation

At the first two levels, AI offers significant contributions: analytical capacity, speed, and breadth of data. At the level of judgment, its algorithmic contribution is structurally limited. A probabilistic system cannot assume epistemic responsibility for certifying that a conclusion is grounded in verified evidence.

6. The Due Care Question

One issue deserves particular attention. In continental legal systems, real estate valuation gives rise to an obligation of means: the professional does not guarantee the result, but undertakes to employ the diligence and tools appropriate to the achievement of the purpose.

If artificial intelligence reaches a level of reliability capable of significantly reducing the risk of error - and the evidence suggests that, for certain phases of the valuation process, this is already happening - a relevant question arises: is the valuer who chooses not to make use of it, despite having the competence to do so, still fully complying with the duty of due care?

It's an open question, suggesting a possible selective evolution of the standard of professional due care, at least in certain data-intensive phases of the valuation process.

Artificial intelligence does not deprive the valuer of anything. On the contrary, by freeing the professional from repetitive activities, it offers the opportunity to do better and faster what truly matters: analyse, interpret, judge.

But this opportunity comes at a price: it requires greater, not lesser, preparation. Detecting the errors of a system that produces formally impeccable outputs is harder than detecting the mistakes of a junior trainee. AI does not lower the bar of competence - it raises it.

One might therefore say that the valuer who does not use AI risks falling behind. But the valuer who uses it without adequate preparation risks even more.

"If artificial intelligence reaches a level of reliability capable of significantly reducing the risk of error - and the evidence suggests that, for certain phases of the valuation process, this is already happening - a relevant question arises: is the valuer who chooses not to make use of it, despite having the competence to do so, still fully complying with the duty of due care?"

7. Implications for the Profession

This analysis of AI use in valuation has concrete consequences on three levels.

Training

AI literacy for valuers cannot be limited to the ability to use tools. It must include the critical competence to assess their limits, recognise biases, and verify the consistency between algorithmic output and primary market evidence. This training requires programmes specifically designed for the valuation profession, integrating technical competence and epistemological awareness.

Professional Governance

Professional bodies - and TEGOVA in particular - are called upon to define explicit standards that distinguish the phases of the valuation process in which algorithmic support is admissible from those in which the valuer's responsibility for validation remains central and irreplaceable.

Quality of Reports

This paper has outlined the conceptual framework of professional responsibility in the age of AI. What remains open is the need to translate these principles into operational tools: verification checklists, supervision protocols, and criteria for documenting the use of AI in the valuation report. Theoretical reflection must find concrete application in everyday practice.

Ultimately, a number of key points emerge for the valuer's professional practice:

Minimum controls for AI-assisted valuation

TITLE	DESCRIPTION
Clearly identify the role of AI in the assignment and Disclose to the client	The valuer should specify the function for which AI is being used in the valuation process, distinguishing between different uses that entail different levels of risk. Where relevant, whether, where, and for what purpose AI has been used.
Carry out proportionate due diligence on the tool used	This should include, at a minimum, identifying the provider, understanding the intended use of the system, assessing whether its data basis is relevant to the case.
Test the plausibility of the output	AI-generated output should be subject to critical review by comparing it with market evidence, professional judgment, and, where necessary, conventional valuation methods.
Ensure meaningful human oversight	Final judgment and professional responsibility remain with the valuer, who must be able to review, challenge, or reject the output produced by the system.
Keep a brief record of the material checks performed	Where AI has materially influenced the valuation, it is appropriate to keep a concise record of the tool used, the checks carried out, and the reasons for accepting or rejecting the output.

Conclusion

In valuation, artificial intelligence is not the problem; it can expand analytical capacity, accelerate data processing, and improve the valuer's operational efficiency. The real problem is the illusion that AI can replace professional judgment - that it can perform the function of epistemic validation that lies at the heart of the profession.

Valuation is not what a model calculates. It is what a professional assesses.

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#08

The Seven Drivers of Valuation Risk in the Market Approach

Boris Tuma

This article examines the key drivers of valuation risk within the market approach. Valuation risk refers to "the possibility that the value is not appropriate for the intended use" [1]. Valuation risk is an enduring and deeply rooted issue in the valuation profession that is often underestimated but rarely confronted. Failure to address valuation risk is the leading cause of biased valuation outcomes [2]. We explore why three valuers can produce four different value estimates for the same asset, and we propose practical measures to help reduce this risk.

Market-approach valuations typically rely on identifying and analysing comparable market transactions, adjusting them for relevant elements of comparison, and ultimately reconciling the resulting value indications [3]. Although the analysis of comparable market data is central to the market approach, similar comparative techniques can also be used in the income approach (e.g., when comparing rents or capitalisation rates) and the cost approach (e.g., when comparing construction costs). While our analysis focuses on real estate valuation, the insights may also be applicable to other asset classes.

Drivers of valuation risk can arise at every stage of the sales comparison process—from the initial analysis of market data and the adjustment of comparables (or comps) for differences, to the selection of appropriate comparables and the final reconciliation of value indications. We have identified the following seven drivers of valuation risk, which are discussed below.

"The most effective way to reduce valuation risk arising from unreliable or missing data is to rely on statistical principles—specifically, by increasing the volume of observable data. As the sample size grows, the sample mean converges toward the true mean value, reducing sampling error."

1. Selection of Observable Transactional Data

It is essential to begin by selecting an appropriate pool of transactional data from which comparable transactions can be drawn. Valuers too often limit their research to a specific geographical area, a defined time period, and/or particular types of real estate. However, if the dataset is too small, suitable comparables may be overlooked, leading to unreliable or misleading results. Experience shows that a robust valuation typically requires the consideration and analysis of several hundred transactions. In order to minimise valuation risk, the valuer should make full use of all relevant and observable market information whenever possible.

2. Quality of Transactional Data

Real estate is very diverse and available data is often unreliable or misleading. For example, information about the size of comparable properties may be incorrect, as can other details about their physical characteristics. In some cases, the areas of auxiliary rooms are included in the usable area, making it difficult to compare properties accurately. Parts of a property may also be used for purposes different from those stated in public databases. The layout—especially for commercial properties—is frequently unclear. This includes, for example, how retail and storage space are divided in a shop, or how production areas, warehouses, and offices are allocated within an industrial property. Inaccurate information leads to incorrect adjustments, and even more problematic, if price per square meter is used as the comparison unit while the size of a comparable property is misstated, the resulting value estimate can be completely wrong.

In addition to unreliable data, missing data pose an even greater challenge. Many important details about comparable properties are simply unavailable or unobservable—especially at the time of the transaction. These may include special property features such as built-in equipment, micro-location advantages or disadvantages, illegal or non-compliant construction, missing permits, construction defects or environmental issues. Special conditions of sale are also typically unknown to the valuer. A property might be sold at a lower price due to a seller's urgent need to dispose of the asset (a fire sale), or, conversely, at a higher price due to buyers' strategic motivations. Thus, reported "market prices" may actually reflect investment, liquidation, or synergistic values rather than true market value. The driving forces behind the transaction—the negotiating positions and motivations of both buyer and seller—are rarely, if ever, known to the valuer.

The valuer must first and foremost remain aware of untrustworthy data and account for its limitations when estimating value. Given the complexity and size of most datasets, it is impossible for the valuer to verify every data point. Verification efforts will therefore often focus on identifying and excluding outliers, transactions that deviate significantly from the rest of the dataset, and other unusual or suspicious sales.

The most effective way to reduce valuation risk arising from unreliable or missing data is to rely on statistical principles—specifically, by increasing the volume of observable data. As the sample size grows, the sample mean converges toward the true mean value, reducing sampling error. A larger sample better reflects the diversity and underlying structure of the market and lessens the influence of outliers or atypical transactions that could disproportionately affect results in smaller samples.

3. Comparable Adjustments for Determinable Elements of Comparison

Adjustments of prices are made on each comparable, reflecting how it differs from the subject property. At this stage, we consider data-supported, determinable elements of comparison such as property size, construction year, transaction date, location, and similar. Adjustments are normally calculated using various regression models. Such calculations are often beyond the reach of an average valuer. Valuers therefore often use supporting analytic valuation tools, AVM or other precalculated data. Valuers must document how these adjustments were quantified. Some might also apply subjective adjustment based on "experience".

Whatever method for assessing adjustments is used, they are an important source of valuation risk, especially when adjustments are high. It is therefore logical to select comps that differ the least from the subject of valuation. This however cannot be guaranteed all the time, because comps might be very similar in some elements of comparison and differ greatly in others. This is the case in less liquid markets with few transactions – especially when valuing large commercial real estate.

An effective way to mitigate valuation risk resulting from adjustments is to use "bracketing" [4]. Bracketing means selecting comps that are both better (superior) and worse (inferior) than the subject property. If an adjustment is mis-specified, and we use two comps one superior and the other inferior, the two mis-specified adjustments – one positive, the other negative – will offset each other. Once again, using a larger set of comps helps mitigate errors caused by mis-specified adjustments.

4. Comparable Adjustments for Non-Determinable Elements of Comparison

While valuation risk arising from adjustments to well-documented, determinable elements of comparison is generally manageable, valuation risk related to adjustments for non-determinable elements of comparison presents a substantial challenge. These risks include special property characteristics or risks that cannot be reliably observed or quantified—such as unique built-in features, ESG considerations, insufficient construction or technical documentation, and micro-location advantages/disadvantages or similar.

How can adjustments be made for features of comparable properties when such characteristics are unknown or cannot be determined? Many property owners consider their property to be exceptional due to perceived attributes they believe have a significant impact on its value. As a result, they may pressure valuers to apply extraordinary adjustments that cannot be adequately substantiated. Such adjustments inevitably rely heavily on subjective judgment and therefore represent a significant source of valuation risk.

Recently introduced ESG factors by IVS illustrate this issue well, as they often lack objective, market-based evidence and compel valuers to incorporate them in ways that may unnecessarily increase valuation risk.

Valuers should avoid adjusting values for non-determinable elements of comparison, or at least exercise great caution. Paired data analysis is often suggested as an appropriate technique in such cases. This method is based on the premise that if two properties are identical in all respects except one, the value impact of that single difference can be inferred from the price difference between the two properties. In practice, however, such perfectly matched pairs are virtually impossible to identify, as other differences invariably exist. A possible potential approach to addressing this challenge will be discussed later in this article.

5. Number of Comparables

There are two opposing approaches to determining the optimal number of comparable properties ("comps") when estimating value [5].

The first approach argues that the number of comps used in the valuation process should be kept as low as possible. The rationale is that, as additional comps are included, each new comp tends to differ more from the subject property, thereby increasing valuation risk. This approach assumes that the primary source of valuation risk arises from incorrectly specified adjustments for determinable elements of comparison. Under this view, the ideal scenario would involve using only a single comp—the property most similar to the subject in terms of required adjustments.

The second approach, by contrast, contends that the number of comps should be as high as possible. Increasing the number of comps is believed to narrow the range of uncertainty, reduce the standard error, and improve the likelihood of identifying the true value, thereby lowering valuation risk. This approach assumes that each comp contains an inherent error due to the inability to adjust for non-determinable elements of comparison.

When determining the optimal number of comparable properties, both approaches must be considered. In current practice, it is common to rely on a relatively small set of three to five comps, reflecting the assumption that valuation risk arising from adjustments to determinable elements of comparison outweighs the risk associated with missing adjustments for non-determinable elements. This widely applied assumption, however, may be incorrect.

In practice, using a limited number of comps (for example, three) can result in significantly different estimated values, particularly when high-quality comparable data are scarce [6]. Based on practical experience, we recommend using a larger set of comparables whenever possible, typically in the range of 10 to 15. Valuations based on a broader set of comps tend to be much more stable and less prone to bias [6].

Adding further comps beyond this range appears to offer little additional benefit and may not improve the reliability of the final estimate. On the contrary, including increasingly dissimilar comps may actually increase valuation risk (as suggested by the first approach).

6. Selection of Comparables

Real estate assets are highly heterogeneous, and market conditions can change rapidly, leading to significant variation in observed transaction prices. The final value estimate depends heavily on the selection of comps used in the analysis. As a result, choosing the right set of comparables is perhaps the most challenging task for any valuer —requiring both analytical rigour and professional judgment, science and art.

Clearly, comparable properties should be selected based on their reliability and similarity to the subject of valuation. However, the concept of "most comparable" is inherently difficult to define: a comp may closely resemble the subject in certain elements of comparison while differing substantially in others. In addition, as noted earlier, comparable properties may possess specific characteristics that are unknown to the valuer.

"The range of transaction prices serves as a key indicator of valuation risk and the reliability of the final estimated value. A wider range implies lower reliability and higher valuation risk. Valuers should not attempt to exclude unfavourable comps solely to artificially narrow the range and create the appearance of greater precision. It is not the valuer's fault when the available data is of limited quality."

It is therefore essential to systematically identify and assess all potential comps that share similar observable characteristics. In practice, valuers may selectively choose ("cherry-pick") comps that appear suitable, while intentionally or unintentionally overlooking other transactions that could be equally relevant to the final value estimate. Moreover, the comp selection process is often not disclosed to the intended users of valuation reports.

To mitigate these valuation risks, the selected set of comps should be balanced by: (1) applying the bracketing principle, (2) excluding apparent outliers with obvious strong special (non-determinable) features, and (3) avoiding unnecessary restrictions on selection criteria. For example, the scope should not be limited to an overly small geographic area if high-quality comps are available elsewhere, nor should it be restricted to a narrow time frame if transaction prices have remained stable and suitable comps exist from more distant periods. In general, the less sensitive transaction prices are to specific features or elements of comparison, the wider the scope for selecting comps can be—and conversely, the more sensitive prices are, the narrower the selection should be. Many very useful scientific approaches have been developed to optimise the selection process [7].

The outcome of the analysis will be a set of comparable properties with varying (adjusted) transaction prices. The range of transaction prices of comps is predominantly a result of the inability to make adjustments for non-determinable elements of comparison - the variance of the range remains unexplainable. The range of transaction prices serves as a key indicator of valuation risk and the reliability of the final estimated value. A wider range implies lower reliability and higher valuation risk. Valuers should not attempt to exclude unfavourable comps solely to artificially narrow the range and create the appearance of greater precision. It is not the valuer's fault when the available data is of limited quality.

7. Reconciliation of Various Value Indicators into One Final Estimated Value

Once a set of comparables has been selected and their prices adjusted to the subject property, these adjusted values must be reconciled into a single final estimated value. The reconciliation process itself represents an additional source of valuation risk.

The final (single-point) estimated value will naturally fall within the range of adjusted prices of the selected comparables. It can be calculated using the median, the arithmetic or geometric mean, or a form of weighted average. In a weighted average approach, comparables requiring smaller overall gross adjustments—calculated as the sum of single absolute adjustments relative to the sale price—are typically assigned greater weight. This approach is particularly useful when the number of selected comps is small (e.g. 3–5). However, when a larger set of comps (e.g. 10–15) is used in the reconciliation, different measures of central tendency—median, mean, or weighted average—tend to produce very similar results.

Some valuers choose not to rely on a measure of central tendency and instead base their final estimated value on a single comparable—typically the one requiring the least adjustments or the property they consider the "most trusted" comparable [8]. However, this single comp may be unreliable, with numerous uncertainties and unknowns described earlier that can lead to a misleading value indication. The reported data for this one property or transaction may be inaccurate, adjustments may be mis-specified, or the property may possess unique characteristics unknown to the valuer (non-determinable elements of comparison). By doing so, fundamental statistical principles, such as the law of large numbers, which help reduce estimation error, are completely ignored. Such an approach clearly represents a significant source of valuation risk.

The range of transaction prices among the selected comparables can also provide valuable guidance when adjusting the subject property for non-determinable elements of comparison that were not accounted for earlier in the valuation process. Higher priced comparables typically reflect the presence of special, non-determinable features—often not fully identifiable by the valuer, and vice versa. It is therefore reasonable to use the size of this range as a measure for adjustments for similar special features of the subject of valuation.

In doing so, the central tendency value is adjusted upward or downward. These adjustments can be expressed, for example, as one standard deviation above or below the mean, or as the value of the first or third quartile. While such adjustments are inherently subjective, they at least ensure that the magnitude of the adjustment remains somehow aligned with observed market behaviour.

For example, if ten comparable properties are identified with adjusted prices ranging between 2,000 and 2,500 €/m^2, and the median value equals 2,200 €/m^2, the subject property may be adjusted for a special characteristic—such as a recent comprehensive renovation—toward the upper end of the distribution, for example to the third quartile or 2,350 €/m^2.

DRIVERS OF VALUATION RISK	RISK MITIGATION MEASURES
Selection of observable transactional data	▸ Maximise observable data (suggested several hundred transactions)
Quality of transactional data	▸ Verify data: exclude outliers, unusual and suspicious data
Comparable adjustments for determinable elements of comparison	▸ Use support analytical tools to assess adjustments ▸ Apply bracketing principle
Comparable adjustments for non-determinable elements of comparison	▸ Avoid making subjective arbitrary adjustments ▸ Consider making adjustments during reconciliation stage that deviate from central tendency
Number of comparables	▸ Increase comparables to the optimal number (suggested 10-15 comps)
Selection of comparables	▸ Consider all suitable comps, no cherry picking ▸ Select most similar and most reliable comps ▸ Select a well-balanced unbiased set of comps
Reconciliation of various value indicators into one final estimated value	▸ Use of an appropriate measure of central tendency ▸ Avoid estimating property value based on a single comp

Recent studies examining overvaluation bias demonstrate that selected comparables tend to be upwardly biased in price and that there is an increased likelihood of selecting higher-priced comparables [2][9][10]. Moreover, comparables are often chosen from restricted candidate pools, limiting their overall quality. These studies arrive at broadly similar conclusions.

Conclusion

To enhance the reliability of property valuations and reduce valuation risk, valuers should make maximum use of observable market data and avoid cherry-picking data in all stages of the valuation process. Adjustments for determinable elements of comparison can be carried out with reasonable accuracy using statistical methods, such as regression models. The main challenge, however, lies in assessing non-determinable property characteristics, which represent a significant source of valuation risk. The number of selected comparables should be sufficiently large, and their selection should be balanced, unbiased and undertaken with careful judgment.

Mainly due to unreliable or missing comparable data, it is never possible to estimate the exact value of a property with complete accuracy, but it is entirely feasible to calculate a reliable value range—a range of likely transaction prices—for a property. This range also serves as a useful indicator of valuation risk. For heavily traded properties, such as apartments, the range typically lies within ±5% of the mean value, whereas for less frequently traded properties, such as large industrial assets, it can extend up to ±30% around the mean value.

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#09

Beyond Mortgage Lending: Diversifying the Residential Valuation Practice

William Garber

For much of the past several decades, residential valuation practice in many jurisdictions has been closely aligned with mortgage lending activity. While lending work can provide dependable volume during periods of active credit markets, it is also increasingly standardised, fee compressed, and vulnerable to abrupt market shifts. Experience across multiple valuation cycles has demonstrated a recurring reality: practices that rely too heavily on mortgage lending are structurally exposed to downturns beyond the valuer's control.

As a result, diversification beyond traditional mortgage lending has become less a strategic option and more a professional necessity. Effective diversification, however, is not achieved simply by adding new service labels. It requires a deliberate repositioning of the valuer's role—from compliance driven service provider to independent valuation professional whose expertise addresses complex legal, financial, and planning questions.

From Standardised Assignments to Problem Solving Valuation

Mortgage lending assignments are typically characterised by uniform reporting formats, high volume, strict turnaround expectations, and downward pressure on fees. In contrast, diversified residential valuation work generally involves less standardisation and greater analytical depth. Assignments such as partial interest estate valuations, diminution in value analyses, marital dissolution matters, tax related valuations for conservation easements[1], and insurance related valuations demand customised scope definition, nuanced judgment, and defensible reasoning.

These engagements are not easily commoditised. Clients seek valuers not because regulation obliges them to obtain a valuation, but because they face a specific problem requiring an independent and well supported opinion. In these contexts, fees more accurately reflect complexity and professional risk, and the valuer's contribution extends well beyond form completion. The work itself is often more demanding, but it reinforces the core professional identity of the valuer as an analyst and advisor.

"A defining characteristic of diversified residential practice is its reliance on professional relationships."

Relationship Capital as a Professional Asset

A defining characteristic of diversified residential practice is its reliance on professional relationships. Non lending assignments rarely originate through anonymous ordering platforms. Instead, they flow through networks of trust involving lawyers, accountants, trustees, fiduciaries, real estate professionals, and public authorities. These networks are built gradually through sustained professional engagement rather than short term marketing efforts.

Long term involvement in professional organisations plays a central role in this process. Serving on committees, boards, and working groups increases visibility while reinforcing professional credibility. Over time, such involvement establishes a reputation that extends beyond immediate colleagues and into adjacent professions. In many cases, referrals arise from relationships formed many years earlier, underscoring that diversification is cumulative rather than transactional.

[1] In the United States, "conservation easements" refer to legally enforceable, typically perpetual restrictions on land use, often voluntarily granted and frequently associated with tax or charitable donation purposes. In many European jurisdictions, analogous restrictions are more commonly described as "perpetual easements" or arise through public law planning instruments rather than private agreements. While the legal mechanisms differ, valuation assignments in both contexts require analysis of restricted use, partial interests, and the impact of long term encumbrances on value. The examples referenced here reflect U.S. practice and are intended to illustrate diversification pathways rather than prescribe jurisdiction-specific valuation methods.

Illustrative Assignment Pathways in Diversified Residential Practice

Diversified residential valuation assignments typically arise from professional trust and demonstrated competency rather than standardised procurement processes. Unlike mortgage lending work, these engagements are driven by clearly defined valuation purposes—such as estate settlement, dispute resolution, or advisory analysis—and often involve ownership structures, legal contexts, or property characteristics that fall outside conventional residential lending frameworks.

Estate related valuations involving cooperative housing interests provide a useful example. Such assignments may require analysis of atypical ownership rights, transfer restrictions, and marketability considerations that differ materially from the simple interests commonly encountered in mortgage lending. In one instance, an SRA Designated member of the Appraisal Institute was engaged to undertake valuations of multiple cooperative apartments for estate settlement purposes. The engagement followed a professional referral rooted in long standing participation in real estate organisations and service on industry boards. This pathway illustrates how sustained professional involvement can position residential valuers to address complex estate related valuation needs that demand specialised judgment and clear reporting.

Marriage dissolution assignments similarly demonstrate the breadth of residential valuation beyond standardised categories. In one case, a valuation undertaken for marital dissolution involved a rural residential property comprising multiple dwellings, ancillary structures, and substantial land area. The assignment required careful consideration of property classification, highest and best use, and the interaction between residential and non residential elements. Legal counsel initially questioned whether the assignment fell inside residential practice, but consultation among professional peers confirmed the valuer's competency for the engagement. This example highlights the role of peer recognition and professional networks in aligning complex residential assets with appropriately qualified valuers.

Diversified practice also includes assignments undertaken on a limited fee or pro bono basis, particularly where professional trust and independence are paramount. A valuation prepared for insurance claim purposes involving a small urban residential property was requested by a retired legal professional based on a long standing professional relationship. Although nominal in fee, such engagements reinforce professional credibility and underscore the importance of independence and reliability—core principles reflected in both EVS and IVS. These assignments often contribute indirectly to future advisory or litigation related work by strengthening professional reputation.

Across these examples, the unifying factor is not property type, fee level, or assignment size, but clarity of valuation purpose, appropriate scope of work, and demonstrated competency. Diversified residential practice depends on the valuer's ability to apply core valuation principles to a wide range of legal and economic contexts while maintaining independence, transparency, and professional judgment.

Education as Strategic Infrastructure

Diversification must be supported by sustained investment in education. Valuers expanding beyond mortgage lending frequently identify the need for stronger competencies in areas such as highest and best use analysis, land valuation, litigation support, financial modeling, investment analysis, and advanced report writing. Non lending clients—including courts, tax authorities, trustees, and conservation or planning bodies—often require valuation conclusions to be communicated clearly to non technical audiences, increasing the importance of explanation and documentation.

Formal education through professional courses, advanced designations, and specialised credentials provides both technical grounding and professional signaling. Equally important are mentorship, peer dialogue, and applied research, which help valuers develop judgment in less standardised valuation environments. Diversified practice rewards those who view education not as a credentialing exercise, but as ongoing professional infrastructure.

Adjacent Practice Areas and Transferable Skills

Some diversification opportunities involve services adjacent to traditional valuation rather than appraisal work alone. Reserve studies[2] for residential associations provide a useful example. While distinct in purpose, reserve studies draw on valuation related competencies such as cost estimation, remaining useful life analysis, inflation assumptions, and long term financial planning. Increasing regulatory scrutiny and risk awareness in residential communities have expanded demand for this type of analysis in several jurisdictions.

These opportunities illustrate a broader principle: diversification does not require abandoning valuation fundamentals. Instead, it often involves applying those fundamentals in broader contexts, with greater emphasis on collaboration, budgeting, and stakeholder communication.

Jurisdictional Context and Transferability

It is important to acknowledge that many of the assignment types discussed are shaped by the legal and property rights frameworks of the United States. Ownership structures, valuation purposes, and legal mechanisms vary significantly across jurisdictions, particularly between common law and civil law systems. The examples presented here are therefore not intended as universal templates, but as illustrations of how residential valuers in the United States have diversified their practices by applying internationally recognised valuation principles to non lending contexts.

While specific legal instruments differ by country, the underlying valuation challenges—such as partial interests, restricted use, complex ownership, and long term encumbrances—are common across markets. Residential valuers operating under EVS and IVS can adapt these principles within their own regulatory and legal environments.

[2] In the U.S., a financial planning report used mainly by homeowners associations, condominium associations, cooperatives, and property managers to plan for major future repairs and replacements of shared property components.

"Importantly, diversification is far easier to build during stable market periods than during downturns. Valuers who invest in relationships, education, and broader competencies while volume is strong are far better positioned to adapt when lending activity declines."

Diversification as Risk Management

Ultimately, diversification functions as professional risk management. Practices dependent on a single client type or regulatory framework are inherently exposed to market volatility. A balanced mix of lending and non lending work provides income stability, professional autonomy, and intellectual engagement. It also allows valuers greater control over workload composition and fee structures.

Importantly, diversification is far easier to build during stable market periods than during downturns. Valuers who invest in relationships, education, and broader competencies while volume is strong are far better positioned to adapt when lending activity declines.

Conclusion

Residential valuation practice continues to evolve, but its core purpose remains constant: providing independent, well supported analysis that informs important decisions. By moving beyond standardised mortgage assignments and embracing problem solving valuation, residential valuers can build practices that are resilient, credible, and professionally sustainable.

Diversification is neither immediate nor linear. It requires time, curiosity, and sustained professional engagement. Yet for valuers committed to long term practice, diversification offers not only financial stability, but also deeper and more enduring professional relevance in an increasingly complex property landscape.

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