

What's New in Valuation in Europe

- 1) Definition of Market Value
- 2) Highest and Best Use and Hope Value

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Definition of Market Value EVS 2020

European Valuation Standard 1 - The EU Capital Requirements Regulation Definition

“The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.”

Definition of Market Value EVS 2020 (For translation purposes)

Due to diverging non-English language versions of the CRR definition, TEGoVA has a universally usable common guidance-definition:

"The estimated amount for which the property should exchange on the date of valuation between a buyer and a seller acting independently of each other after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion."

Highest and Best Use and Hope Value - An Example



New Extended Definition of Highest and Best Use Incorporating Hope Value

In EVS 2020, EVS 1.5.3.4 to 5.3.12 will be replaced by:

5.3.4 *The concept of 'highest and best use' (HABU) is integral to Market Value and is characterised as the use of a property that is physically possible, reasonably probable, legal or likely to become so, and that results in the highest value of the property at the date of valuation.*

New Extended Definition of Highest and Best Use Interpretation

- ***'physically possible'***: There can be a reasonably probable and legal use which offers the highest value for the property, but is inoperable if, for instance, poor soil quality means that the foundations could not bear the size of the construction envisaged
- ***'reasonably probable'***: disregarding specialist uses that might occur to a single bidder. It also allows consideration of uses thought likely to become possible, as for example, where existing infrastructure constraints or other physical limitations are currently in place but are likely to be eased in the future (for example by the building of a new road or a flood alleviation scheme).

New Extended Definition of Highest and Best Use Interepretetion continued

- ***‘legal or likely to become so’***: potential buyers perceive that:
a planning authority is likely to allow a change of use or permit a proposed development in the foreseeable future, or legislation is likely to change to render a currently illegal use or development legal. Other situations might concern a use thought likely to be decriminalised or where a licensing regime is considered likely to become more or less stringent.
- ***‘the highest value’***: *It will reflect an appraisal of the probability that the market places on the highest value use or development being achieved, the costs likely to be incurred and, where relevant, the return on investment likely to be earned in doing so, the time scale and any other associated factors in bringing it about. A valuation taking into account a ‘likely’ or “reasonably probable” use will only reflect an element of the uplift in value that is expected to result once such use is fully permitted or where relevant, other constraints have been lifted.*

New Extended Definition of Highest and Best Use Concluding Remark

5.3.5 *In most cases valuers will quickly ascertain that HABU is the same as existing use. Sometimes they may identify a more valuable use but conclude that the costs of such change of use would be too great and therefore HABU would still equal value in existing use at the date of valuation.*

Highest and Best Use – the EU IFRS 13 Definition

IFRS 13 Paragraph 28 states *“The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:*

- (a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).*
- (b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).*
- (c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.*

Thank You!

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