Valuation of properties in Europe

THE European Community Mortgage Federation has published a study in comparative law, *Study on the Valuation of Property in the EC countries,* based on a meeting held in Munich, West Germany, in January 1988.

At that meeting national experts noted that they all used three methods of valuation, either individually or in a complementary fashion—

(a) *The comparative value procedure.* This involves finding the greatest possible number of examples of recent sales of property comparable to that valued, and taking a common measure between those comparable properties and the one to be valued. This method is applied predominantly to residential properties.

(b) *The real value procedure, or historic method or estimate of land and building.* The property is considered as a durable good, and the value comprises the costs of the basic elements, that is, land value, building costs and cost of renovation.

(c) *The value of yield procedure.* The property is considered as a capital good, and the value is the current value of the income stream in the future after deduction of financing costs. This method is used principally for industrial and commercial buildings.

The experts agreed to recommend to the European Commission a definition of the "lasting market value", which is important for granting long-term credit —

"The lasting market value is determined by the price which could be obtained at the time to which the valuation refers, in the context of normal business transactions, according to the current legal provisions, the individual characteristics, the general condition and the situation of the real property (market value). Appropriate deductions are to be made if characteristics determining the value of the real property are not lastingly ensured or its yield, in the case of proper management by any occupant, cannot be obtained on a permanent basis."

They also recommend that the valuing of properties be described in a concise document using three valuation methods —

'The lasting market value'

(a) An estimate by comparison (sufficient if a standard property is involved which is not rented out, and for which there is a substantial demand).
(b) An indication of the cost price, separating the cost of the land and the cost of the building.
(c) An estimate based on the current rent or the normal rental value.

The book largely comprises chapters covering the 10 countries studied: Belgium, Germany, Denmark, Spain, France, United Kingdom, Greece, Italy, the Netherlands and Portugal. The country studies have a common format, thus facilitating comparison between countries. Following is a brief summary of the sections of the report dealing with the application of valuation procedures to one-family houses.

In *Belgium* the comparative value procedure and real value procedure are used. However, the property is only one element among others which contribute to the assessment of the credit. Consideration is currently being given to the use of credit scoring techniques. A valuation is mandatory —
(a) For tax purposes where the purchase or construction of a first home is involved in order to be able to determine whether the housing is low cost housing, which enables the capital repaid to be deducted in full for tax purposes, or middle class housing, which enables only partial deduction of the capital repaid for tax purposes.
(b) For the purposes of determining the proportion of a building to be used for professional purposes where a loan is involved which is the subject of interest subsidies.

Mortgage companies can grant loans of up to 100%, but where loans exceed the normal loan to value ratio (60% to 80%) they will require additional guarantees.

In *Germany,* one-family houses are valued primarily according to the real value procedure. The value of the yield is used as a control. However, older one-family houses, especially larger ones, are subject to substantial depreciation if their design and equipment no longer fully correspond to current requirements. In such cases there will be a corresponding abatement in the real value. Owner-occupied flats are judged and valued roughly according to comparative values (that is, the value per square metre of useful area). The value of the yield is more important for the valuation of owner-occupied flats than for one-family houses. In less desirable areas it corresponds to the market value. Here, owner-occupied flats are traded at 10 to 14 times the gross annual rate, whereas in better areas the multiple is between 18 and 28.

In *Denmark* the valuation of newly built owner-occupied houses cannot exceed the stated actual construction costs, including site costs and other costs, unless own work is included in the valuation. Where houses are built with a view to sale the valuation cannot exceed the expected price, including sale costs. The valuation of a newly built house has to be within a reasonable original price for which the institution estimates such a house can be built using rational construction methods.

In *Spain,* for one-family houses the market value is calculated as the value of the capitalised yield (in the case of housing being rented), and the maximum legal value (if the house comes under the system of official protection). For houses in the process of being built it is possible to calculate future value according to the time needed to complete the work and the market trend.

In *France* the comparative value procedure and the real value procedure are preferred for one-family houses. Under the comparison procedure examples of recent sales are looked at in relation to the house under consideration. The registered sale prices are converted either into a figure per square metre of habitable or surface area, or into a figure per square metre of the external dimensions of the developed surface area, where it is appropriate. Under the real value procedure the cost price is taken for a similar or comparable house to the one to be valued.

In the *United Kingdom* the comparative basis of valuation is generally used for residential property. In times when the property market is stable, and as long as there is sufficient turnover across the range of property to allow hard evidence to be collected, the method is straightforward. The problem in England and Wales is that there is no open public record of prices achieved on property sales. In an unstable market the position is different and valuation can become an art rather than a science.

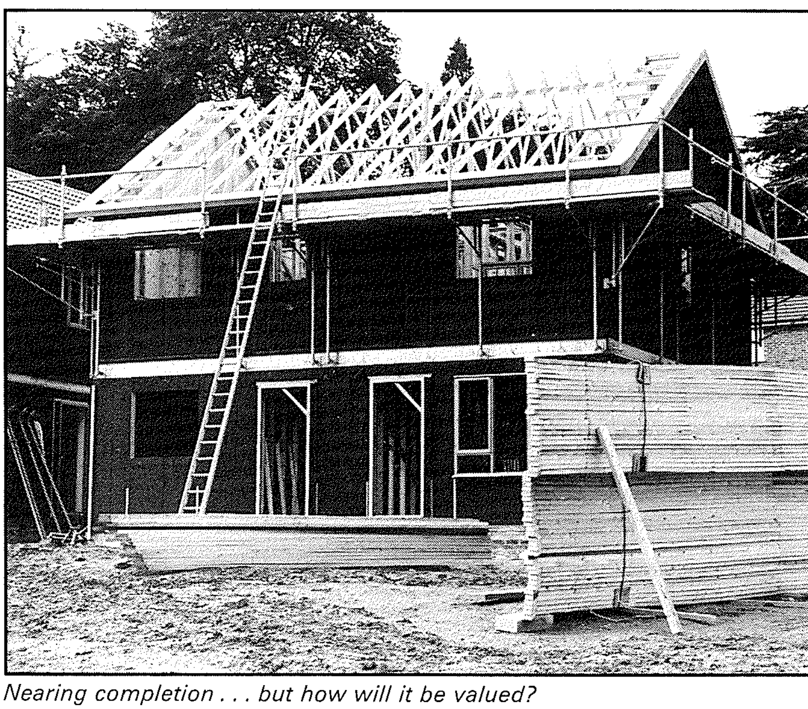
In *Greece,* one-family houses have assigned to them a lending value which is computed by multiplying the total payable rent per month by an index ranging from 140 to 220. Monthly rents are determined by considering information about rents paid for smaller properties in the same area.

In *Italy* the position is complicated. In the case of loans for house purchase the valuation of the property is based on research of the most likely market value being performed by a synthetic comparative estimation (unit value per square metre or for each room, etc) which must be based on the best updated market-derived data. This has to be confirmed by the addition of the various items which contribute to form the final sale price.

In the *Netherlands,* the definition of the lending value is the price that the property will fetch at an auction. Proceeds from selling by auction are always lower than a sale in normal market conditions because buying and selling by auction is costly, and the buyer does not have the same guarantees concerning the property as with a normal transaction. The lending value is of importance for the supervision by the Dutch central bank of the solvency of the lending institution.

In *Portugal* the comparative value procedure is used. ■

Study on the Valuation of Property in the EC Countries, English, German and French editions, can be obtained at the price of BEF450 per copy (postage included) from ECMF, Avenue de la Joyeuse Entrée, 14/2, B-1040 Brussels, Belgium.



Nearing completion . . . but how will it be valued?