الهيئة السعودية للمقيّمين المعتمدين
Saudi Authority for Accredited Valuers

The Regulatory Framework of **Real Estate Valuation** in Saudi Arabia and the International Valuation Standards

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This note is a reference only to the trainees of the Saudi Authority for Accredited Valuers.

It aims to provide a basic understanding of the regulatory and ethical framework for practicing real estate Valuation in Saudi Arabia, and an introduction to the International Valuation Standards adopted in the Kingdom of Saudi Arabia. It contains two training modules:

Unit 1: The regulatory framework for practicing real estate valuation in KSA:

- Chapter I: The Accredited Valuers Law and the Implementing regulations of the real estate sector.
- Chapter II: Code of Ethics and Conduct of the Valuation Profession.

Unit 2: Introduction to the International Standards of Valuation:

- Chapter I: General Framework (Definitions, Principles, Concepts)
- Chapter II: General Standards (IVS 101, IVS 102, IVS 103, IVS 104, IVS 105)
- Chapter III: Asset Standards (IVS 400)

Objective:

This course aims at introducing trainees to The Accredited Valuers Law, the Implementing regulations of the real estate sector, and the Code of Ethics and Conduct of the Valuation Profession, thus enabling them to apply this knowledge in valuing real estate.

After completing the program, the participant is expected to be able to apply the information when conducting valuation assignments.

Notice:

- Taqeem shall make all reasonable efforts to ensure the accuracy and completeness of the information contained in this Note.
- Given the nature of the changing scientific material and the possibility of human or non-human error, we urge the reader to refer to the original sources as being of absolute authenticity in this subject.
- Please note that the examples in this text are for illustration purposes only. Actual values may vary greatly in different regions, countries, or countries and cities.

Original sources:

- Accredited Valuers Law.
- The Implementing Regulations of the Accredited Valuers Law.
- Taqeem Membership Regulations.
- General Rules for Taqeem Fellowship Certificate.
- Code of Ethics and Conduct of the Valuation Profession - Issue 30/6/2015.
- International Valuation Standards (2022 Edition).

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The Regulatory Framework of Real Estate Valuation in KSA

Chapter I: Accredited Valuers Law & the Implementing Regulations

1.0 The Saudi Authority for Accredited Valuers

The Saudi Authority for Accredited Valuers "Taqeem" is the entity responsible for setting standards and controls necessary for valuation activities of real estate, economic entities, equipment, movable properties and the like in accordance with the Accredited Valuers Law issued pursuant to Royal Decree no. (m/43), dated (09/07/1433H) and its amendments. Taqeem aims to promote the valuation profession, improve the proficiency of valuers, set the general provisions for memberships, and organize continuous professional education courses to raise its members to the highest level of practice and international standards. Taqeem is a non-profit corporate personality that has an independent budget and operates under the supervision of the Ministry of Finance.

Taqeem considers the valuation profession a promising profession in KSA and shall contribute to create many excellent job opportunities. The Authority aims to develop the valuation profession to reach a level par with notable professions, such as medicine, engineering and the like, through setting forth the necessary standards for the valuation assignments of real estates, economic establishments, equipment and movable property and so on. In addition to developing the valuation profession, raising the level of employees operating in such profession in terms of the ethical, technical and professional aspects, qualifying the young cadres via specialized programs as well as accrediting qualified valuers to practice the profession in all valuation sectors.

1.1 Taqeem Role

The Authority shall endeavor to achieve the objectives stated in this Law, and shall in particular

1. prepare, develop and adopt uniform standards for valuation sectors combined and standards for each of its sectors.
2. set general rules for fellowship examination in each valuation sector
3. organize continuous professional education courses to raise the proficiency of valuers and participate in symposiums as well as local and international valuation committees
4. conduct research and studies and publish periodicals and books on valuation-related topics; and
5. set appropriate measures for field monitoring to ensure compliance of accredited valuers with valuation standards.

2.0 Definitions

Ministry: The Ministry of Finance.

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Taqeem: The Saudi Authority for Accredited Valuers

Council: Taqeem's board of directors.

Profession: Real Estate Valuation.

Law: Accredited Valuers Law, issued by the Royal Decree Number M/43 and dated 9/07/1433.

Regulations: Implementing Regulations for the Accredited Valuers Law (Real Estate sector).

Code: Taqeem's Code of Ethics and Conduct for the Valuation Profession.

Registry: The Registry where Taqeem-accredited valuers in the real estate sector are registered at the Ministry.

Valuation standards: The standards approved by Taqeem.

Manual: Real estate valuation guidance that Taqeem issues for enhancing the quality of valuation and raising the professional competence of valuers.

Real Estate: All interests, rights, and obligations related to the possession of real estate together with all permanent improvements and extensions, such as acquisition and disposition of property, mortgage, insurance, expropriation, easement and utilization.

Real Estate Valuation: The act or process of determining the value of real estate properties or interests according to a purpose and basis of value.

Accredited Valuer: Natural or legal persons authorized to practice the valuation profession.

Subscriptions: The predetermined amount of money required for membership designations, Firm Account and other services provided by Taqeem.

Valuation firm: A place the Accredited Valuer takes as headquarter for valuation operations and meets the regulatory requirements whether it is an individual office or a professional company.

Experience hours: The acquired hours of professional valuation practice. The Manual shall determine the process of calculating the hours. Equivalent hours shall be allocated to attend seminars, conferences, workshops and other related valuation events.

Firm account: An online account created by an Accredited Valuer in Taqeem's Electronic System where the valuer uploads a summary of valuation reports issued by the Valuation Firm. This Account allows the user to calculate Experience Hours for the Accredited Valuer and other valuers, associate and student members affiliated to the Firm.

Valuation report: The document issued by an Accredited Valuer to the Client, which includes conclusion of value, adheres to the Accredited Valuer requirements in the Law and Regulations and complies with the adopted valuation standards.

Valuation summary: Online forms in Qima Portal the Accredited Valuer uses to summarize valuation reports issued by the Valuation Firm, it includes valuation information such as who participated in the valuation assignment and the nature of their participation.

Client: The beneficiary of the valuation assignment whether a natural or legal person.

Electronic systems: The online systems Taqeem utilizes to regulate valuation practice, and it includes:

- Qima Portal: An online portal that provides services to Taqeem members where they can organize and document their work as well as register their experience hours.
- Any other system or means adopted by Taqeem to regulate the profession.

2.0 Membership designations

1. Taqeem memberships shall be categorized as follows:
   I. Basic members:
   a) Those exempted under Article (40) of the Law, and they include the following designations:
      – Provisional Basic Member.
      – Basic Member.
   b) Holders of an academic degree in any discipline approved by Taqeem, provided they obtain the Fellowship Certification and promoted to "Basic Fellow Member".

   Second: Associate Members: Holders of an academic degree in any discipline approved by Taqeem without obtaining the Fellowship Certification.

   Third: Honorary Members: An Honorary Membership is granted to natural or legal persons in recognition for their achievements or services to valuation profession.

   Forth: Student Members: Students who are studying to obtain an academic degree in any specialization related to any of Taqeem's sectors.
2. All "Provisional Basic Members" shall commit to meet the requirements of "Fellow Basic Members" by the end of the, original or extended, period stipulated in Article (40) of the Law.
3. Associate and Student Members can acquire experience hours by working at Valuation Firms. Student members are required to pass the First Level of the fellowship exams in the same sector that of the membership before working in a valuation Firm.

The Regulation determines the conditions and requirements for obtaining any membership mentioned in this Article in any valuation sectors, except for the Honorary Membership.

2.1 General Conditions to obtain Taqeem Membership:

Without prejudice to the conditions related to any sector, the requirements for Members are as follows:

1. To be legally competent.

2. To be of good conduct.
3. To attach all documents required by The General Secretariat with the membership application.
4. To pass interviews conducted by The General Secretariat to verify the fulfillment of the membership conditions under this Regulation.
5. To pay annual membership fees.

2.2 Conditions to Obtain Taqeem Membership in the Real Estate Valuation Sector:

The conditions for obtaining Taqeem Membership in the Real Estate Valuation Sector are as follows:

I. Basic Member:

1. Provisional Basic Member: This membership is given to those who practiced Real estate valuation before the Law is effective.
2. Basic Member: This membership is given to who has practiced real estate valuation for at least 25 years before the Law is effective and passed Taqeem's qualification exams.
3. Fellow Basic Member: The applicant must fulfil the following:
    a) The Fellowship Certificate in the Real Estate Valuation Sector.
    b) A bachelor's degree in any specialization from a recognized university, unless they are an exempted Basic Member under Article (40) of the Law.

Second: Associate Members: They are required to have a bachelor's degree in any specialization from a recognized university, provided they pass the first level of fellowship exams in the Real Estate Valuation Sector.

Third: Student Member: The applicant must fulfil the following:

1. Must be a student studying to obtain a bachelor's degree from one of the recognized universities.
2. Be a Saudi national.

2.3 Conditions for granting the Fellowship Certificate:

To obtain a Fellowship Certificate, the applicant must fulfill the following conditions:

1. Has an academic degree in any recognized specialization and according to the valuation sector and Membership Regulations, unless the applicant is an exempted basic member under Article (40) of the Law.
2. Pass all fellowship certification exams according to each valuation sector.
3. Complete the required experience hours to obtain the Fellowship Certificate, provided that at least 50% of hours of professional practice are gained from valuation work. The required hours of experience according to each valuation sector is as follows:
   - Real Estate Valuation Sector: 3000 hours of experience registered in the valuer's account in Qima system.
4. Pass interviews conducted by The General Secretariat to verify the fulfillment of requirements under these Rules.

2.4 Fellowship Certificate Exams:

Fellowship certification exams according to each valuation sector are as follows:

First: Fellowship Certificate Exams in the Real Estate Valuation Sector. It includes passing four levels, as follows:

1. First Level: It includes the Regulatory framework and approved valuation standards for the real estate valuation profession in the Saudi Arabia, and basic real estate valuation principles and procedures.
2. Second Level: It includes real estate valuation using the main valuation approaches, market studies, highest and best use, real estate regulations and principles of urban planning and sustainability.
3. Third Level: It includes advanced methods in real estate valuation, studies in land economics, analysis of real estate finance and investment, principles of accounting and property taxes.
4. Fourth Level: It includes the implementation of integrated projects to value and discuss commercial and specialized properties.

3.0 The Valuation Profession

3.1 Practice Requirements

- Be a Basic member in Taqeem.
- A natural or corporate person may not practice the profession in any sector without obtaining a license to practice in that sector.
- No company may practice the valuation profession unless the partners are Basic members of Taqeem. Valuation activities shall be separated from the other activities of the company by a separate record.

3.2 Registration conditions

- be a Saudi national;
- be legally competent;
- be of good conduct, and not convicted of "hadd" [Sharia prescribed punishment], or of a crime impinging on honor or integrity, unless rehabilitated;
- have practical experience in valuation in the sector in which he applies for a license, according to the Implementing Regulations; and
- be an active member in the Authority.

The Ministry shall keep the Register in accordance with Article 4 of the Law and shall contain the following Member's data:

- Name.
- Address.
- The date of registration.
- The authorized valuation sector to practice the profession.
- The date of suspension, dismissal or resignation.
- Any other data that the Ministry considers relevant to be included in the Register.

3.3 Registration Procedures

- Pursuant to a decision by the Minister, a committee named "Valuers Registration Committee" shall be formed at the Ministry, consisting of three members as follows:
    - An official from the Ministry whose rank is not lower than “Grade Fourteen”, (Chairman).
    - A legal consultant, (Member).
    - A practicing valuer from each valuation sector nominated by the Authority's board of directors, (Member).

The Minister shall designate a substitute for an absent member. The committee membership term shall be three years, renewable for similar periods.

The committee shall convene with all members present and its resolutions shall pass by majority vote, provided representation of valuers in the meeting be limited to valuers practicing in the relevant sector as indicated in the registration application. The committee shall decide on the registration application according to this Law and its Implementing Regulations, provided the decision be reasoned if the application is denied. In case of denial, an applicant may appeal before the Board of Grievances according to its Law.

3.4 After Registration

Upon registration in the Registry, the Ministry shall issue the license to practice valuation in the sector indicated in the application according to the Implementing Regulations. The license shall be valid for five years, renewable for similar periods upon an application submitted at least ninety days prior to the expiry date of the license. A natural person shall pay a fee of one thousand (1000) riyals for the issuance or renewal of the license and upon every renewal.

4.0 Valuation Practice and Licensing Conditions

An Accredited Valuer shall practice valuation according to the following:

(1) Comply with the provisions of the Law, Regulations, Code of Ethics, and Manual;
(2) Practice valuation though a Valuation Firm;
(3) Display the valuer's information at the Firm's main office and other subsequent branches, if any, including the name of the Accredited Member, license number, authorized sector and phone number;

(4) Indicate the authorized sector and Basic Membership designation when signing valuation reports;
(5) Create a Valuation firm account and pay the required subscription for the service;
(6) Upload a Report Summary -on the Firm Account- for every valuation issued by the Firm as well as register experience hours. The summary shall provide details of who participated in the valuation assignment and the percentage of the Accredited Valuer's, and other valuers -who have acquired Basic Memberships-, associate members and students;
(7) All valuers at the Firm shall be active Basic Members and work under the supervision and responsibility of the Accredited Member according to legal written contracts;
(8) All valuers at the Firm shall be of good behavior and conduct and has not been convicted to a penalty or punishment of a crime that is against integrity or honesty, unless rehabilitated;
(9) Considering the provisions, regulations and other decisions related to the Saudi Labor Law, the Accredited Valuer shall commit to have no less than 30% Saudi professionals in the Firm who have basic membership, associate membership or student membership of total valuers.
(10) Train associate and student members according to the arrangements determined by Taqeem.
(11) Renew Taqeem membership and practice license before its termination. This obligation is demanded by all partners if the Accredited Member is a legal person.
(12) Ensure that the valuers at the Firm -who have a Basic Membership- and trainees such as associate and student members shall renew their Taqeem membership before its termination;
(13) Work according to the rules and instructions provided by Taqeem;
(14) Notify Taqeem of the Firm's address within (30) days of obtaining a practice license as well as any change in the address within a period not exceeding thirty (30) days. The notification shall be via electronic systems or in writing;
(15) Use the approved electronic systems to regulate valuation practice.

(16) A. Accredited Members shall not accept a real estate valuation assignment in any condition stipulated in the Code, especially the following:

1. Valuing properties that the valuer own, co-own, have an interest in - directly or indirectly - as an intermediary, investor or a financier for their ownership or leasehold.
2. Properties in which the valuer is a relative, to the third degree, of the founder or a member of the Board of Directors.
3. Properties of companies where the valuer provides services that conflict with one's valuation of either of the assets, either directly or indirectly.

4. Properties of organizations in which the valuer has shares of ownership during the period of valuation. If the valuer accepts to undertake such a valuation, the shares shall be disposed of before the valuation.
5. Properties where the valuer is a partner of one the employees, a senior partner, or a partner of the company itself.
6. Properties owned by organizations where the valuer is an administrator of an endowment or a guardian of patrimony.

B. Before accepting the valuation assignment, the Accredited Valuer shall ensure that all valuers participating in the valuation assignment are adhering to paragraph (A) of this item and replace who cannot commit to such conditions.

(17) The following procedures shall be followed when an Accredited Valuer ceases to work, either temporarily or permanently for any reason:

1. The Ministry and Taqeem shall be notified of the reasons and the duration of the cessation within thirty (30) days following the cessation.
2. Taqeem shall be notified of the assignments affected by the cessation, as well as the procedures taken to preserve the rights of clients and staff for the thirty (30) days following the date of the cessation; and the steps to be taken to deal with the consequences of the cessation.
3. If one partner ceases to work, the remaining partners of a professional company shall amend the Company Contract in accordance with the Law of Professional Companies. Taqeem shall be notified of the steps taken to reassign the assignments supervised by the departing partner to other partners.

5.0 Violations and Penalties

1. In case of issuance of a final decision imposing the penalty of suspension, license revocation, or striking the name off the Registry, all pending matters as well as rights and obligations resulting therefrom shall be settled at the expense of the person against whom the decision was issued. The Implementing Regulations shall determine measures to be taken in this regard.

2. A competent court shall consider cases arising from committing any of the following violations:

- Practicing the profession without a license.

- Practicing the profession after revocation, striking off the Registry or expiration of the license without taking necessary steps for renewal.
- Establishing and operating an office for practicing the profession without a license.
- Providing false data or using unlawful means that result in granting him a license to practice the profession or in renewal of the license.
- Using a means of advertising that misleads the public into believing that he has the right to practice the profession.
- Falsely claiming a title used normally by practitioners of the profession.

Taqeem shall, in case of violation of any of the provisions of the Regulations, carry out the following:

(1) Notify the Basic Member of any breach thereof and inform the Accredited Valuer who supervises their work of such violations.

(2) If the Basic Member's violation is repeated or the act is contrary to the principle of good conduct, the Council or its representative may issue a decision to cancel their Taqeem membership.

- The Basic Member shall be notified of the decisions issued via electronic systems or registered letters, and the Accredited Valuer who supervises their works shall be provided with a copy thereof via abovementioned means.
- The cancellation of the Basic Membership shall result in ceasing all real estate valuation activities and the Accredited Valuer who supervises the work of the valuer shall take the necessary legal measures.
- The Basic Member who has cancelled his membership has the right to submit legal defenses to Taqeem within (30) thirty days from the date of the resolution.

7.0 General provisions

1. All members of the Authority must comply with all laws and regulations applicable in the Kingdom of Saudi Arabia.
2. Any person hired by others to perform a task that involves valuation shall obtain valuation from one or more registered valuers. The Implementing Regulations shall determine cases subject to this Article and the effective date.
3. The relation between accredited valuers – licensed under this Law – and non-Saudi accredited valuers shall be regulated in accordance with this Law and the Professional Companies Law.
4. Any person whose license is revoked, or his name is stricken off the Registry may apply for a new license or have his name reinstated upon the lapse of three years from the date of the decision to revoke the license or strike the name off the Registry, following the same conditions and procedures applied for granting a license or registration.
5. The valuer shall be responsible for his associates, advisers or employees' commitment to all principles, provisions and requirements of this Code.
6. Members shall not prepare or participate in a valuation service that violates the laws, regulations or complementary decisions of this Code.
7. The valuer shall report any unprofessional or unethical behavior or any breach of the provisions of this Code.
8. When a member is exposed to any suspicious situations or conditions not stated explicitly in the provisions of this Code, the valuer must refer the matter to the Authority to determine the procedures to be followed.
9. The valuer shall refrain from using undeserved titles to promote himself such as the titles of "accredited valuer" or "licensed valuer" unless granted by the Authority. The valuer shall conduct services with the licensed title granted by the Authority as displayed in the membership card. The valuer must sign valuation reports issued by his office or his company himself. The valuer shall not assign anyone to sign the valuation report on his behalf unless he is a provisional or accredited member.

Chapter II: Code of Ethics and Conduct

The Saudi Authority for Accredited Valuers emphasizes the importance of professional conduct on valuation and is committed to set and maintain (the Code of Ethics and Professional Conduct for Valuers) which contributes to the development of the valuation profession and consolidates the public trust.

1.0 The scope of the Code

1. Compliance with laws and regulations and the application of standards is achieved by the adherence to this Code. Therefore, all valuers licensed by the Authority to practice valuation whether temporarily until their approval or accredited members, natural or corporate persons must comply with this Code.
2. The valuer shall also require the compliance with this Code from his subordinates or associates in the valuation process.
3. When conducting any valuation service, this Code applies to all internal and external valuers as well as valuers excluded from the Law. The Code also applies to all valuation, review and consultation services and to all sectors of valuation included in the Law which are real estate, economic entities, equipment, movable properties and the like. Furthermore, the Code applies to all active, associate, honorary and student members once they join the membership of the Authority as specified by the Law and implementing regulations.
4. All valuers shall comply with the general provisions of this Code and pursue its aims and objectives, realize the scope of its application and the dimensions of the process and related parties of the valuation profession.
5. Valuers shall meet the valuation and valuer's requirements, as well as always follow the fundamental principles and ethical behavior of this Code and in all transactions with related parties.
6. Valuers shall conform to understanding the Guidance for this Code, including the issued General Concepts and the subsequent further guidance, as well as the disciplinary actions for Code violation.

1.1 The Objectives of the Code

- Developing the valuation profession and maintaining continuous and constant improvement.
- positively affect the clients and other beneficiaries trust in valuation services only, but also extends it effect to include the public trust in the valuation profession.

1.2 Code Goals

- Uphold public interest.
- Gain public trust.
- Pride in profession and quality of performance.

1.3 Fundamental Principles:

Article (1): Integrity

1. A valuer shall be straightforward and honest in all professional and business relationships.
2. A valuer shall not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
3. A valuer must be content and abstain from self-desires and avoid doubtful matters, as he must "give up what is doubtful for that which is not doubtful". The valuer might hold for something permissible for fear of falling into that which is prohibited.
4. A valuer shall not knowingly be associated with reports, returns, communications or other information where the valuer believes that the information:
    a. contains false, misleading or biased information, analyses or results.
    b. Withhold or omit required information that might lead to misleading results.
5. When a valuer becomes aware that he has been associated with such information, he shall take necessary steps to be disassociated from that information. For example, issue a modified version of the valuation or report.
6. In marketing and promoting themselves and their work, valuers shall be honest and truthful and not:
    a. Make exaggerated claims about the qualifications they possess, experience they have gained, or neglect the correction of such claims.
    b. Use incorrect or misleading information or exaggerated declarations for the services they provide.
    c. Make disparaging references or unsubstantiated comparisons to the work of others.
7. A valuer shall not conduct his job in a way that leads to error.
8. A valuer shall not be involved in providing valuation services that most valuers refuse for logical reasons.
9. A valuer must act consistently in a way that emphasizes his compliance with applicable and related regulations and legislation.
10. The valuer must avoid any action that a reasonable and informed third party would likely to conclude that it adversely affects the valuer's integrity and compromises his professionalism.
11. A valuer shall not accept gifts, donations or unusual exceptions before accepting the valuation assignment, during the assignment or after its completion based on the result of his work.

Article (2): Independency:

1. The valuer shall not compromise his professional or business judgment because of bias, conflict of interest or the undue influence of others.
2. A valuer shall not to act for two or more parties in the same matter without the written consent of both parties.
3. A valuer must take all necessary precautions to prevent the emergence of conflict of interests between the interests of his clients.
4. When valuing a subject, the valuer shall take all necessary precautions to ensure there is no direct or indirect interest for him, his company, his relatives, his friends, or his partners in the subject asset. Indirect interest includes everything that the subject asset affects. When there is such a conflict, the valuer must disclose this information.
5. The valuer must disclose his state as an internal or external Independent valuer.
6. The valuer must disclose potential conflicts in writing before accepting the assignment, or later conflicts that the valuer discovers later.
7. The valuer must disclose conflicts discovered after the completion of the valuation immediately after the discovery of those conflicts.
8. The valuer shall execute each assignment independently and impartiality without regard to personal interests.
9. When valuing a subject, a valuer must not let personal preferences affect the valuation.
10. A valuer shall not accept a valuation assignment or prepare any valuation that involves a predetermined or pre-planned opinions or views.
11. Valuation fees must not depend on the results. For example, the fee is a percentage of the value or the fee will be paid after the execution of the transaction.
12. A valuer shall not accept an assignment based on assumptions unlikely to be achieved in a time span logically consistent with those assumptions.
13. Assumptions must be logical, for example, valuing a land as decontaminated, provided that the assumption is accompanied by a study on its possibility and the value if it cannot be achieved.
14. A valuer shall not use or rely on unsubstantiated conclusions or conclusions built on basis of prejudice of any kind or conclusions that reflect a prejudiced opinion the report relies on or increases its value.
15. A valuer must work with various clients and not depend totally on a limited number of clients which threatens his objectivity.

16. When a valuer reviews a report prepared by another valuer, as in security lending or other purposes, the valuer must always be impartial, make fair judgments and justify the reasons for his agreement or disagreement with the report's conclusions.

Article (3): Competence:

1. The valuer must ensure that clients or employers receive competent professional service.
2. Valuation shall not be practiced by persons who do not apply to the definition of "valuer" contained in this Code and those who do not meet the conditions and requirements.
3. The valuer must be certain that he possess the professional knowledge and skill required to ensure competent professional service.
4. Valuers must act diligently in accordance with applicable technical and professional standards when providing professional services.
5. The valuer must exercise sound judgment and skill in applying professional knowledge and performing such service.
6. The maintenance of professional competence requires continuous awareness and understanding of relevant technical, professional and business developments. Continuing professional development enables the valuer to develop and maintain the capabilities to perform work competently.
7. A valuer shall take reasonable steps to ensure that those working under his authority in a professional capacity have appropriate training and supervision.

8. Where appropriate, a valuer must be aware of his limitations. If the valuer does not have sufficient professional knowledge and experience to carry out the valuation service or does not have the ability to acquire it before the job is done, he must require the assistance of someone experienced in this type of assignment or to withdraw from the assignment altogether.

Article (4): Professional Behavior:

The valuer shall commit to working with professionalism and diligence and present work in a timely manner in accordance with the regulatory requirements and applicable technical and professional standards and avoid any actions that discredit the profession. These includes.

A. Accepting Assignments:

Before accepting any assignments or engagements, a valuer must:

(1) Understand the dimensions of the required assignment; this includes identifying the parties involved in the assignment, the subject asset, the purpose of the assignment and the basis of value, to agree with the client on the scope of work.

(2) Ensure that the scope of work is sufficient to achieve credible results.

(3) Ensure that the assignment does not pose any threats to compliance with this Code, if any, the valuer must use safeguards to eliminate the threats or reduce them.

(4) Receive precise instructions from the client and document it in writing in accordance with the International Valuation Standards before engagement to avoid any misinterpretation of meanings or scope of work.

The valuer shall refuse any assignments that do not meet the previous points. If the valuer accepts an assignment then later discovers a threat to compliance with the principles of this Code, he shall disclose this to the client, and determine how to deal with the assignment.
There might be cases when the valuer withdraws from the assignment after accepting it.

The valuer must not accept an assignment if the circumstances do not permit the achievement of accurate and reliable high-quality results. This usually leads to the disappointment of the client and valuer alike and affects the reputation of the profession.

B. External sources:

(1) When recruiting the help of third parties to complete the set of skills needed in the valuation assignment, the valuer must conform that the required skills and ethical principles are applicable.

(2) The valuer must obtain the consent of the client when requiring the help of external sources. The third party should disclose the identity of the assistants and their role in the preparation of the valuation report.

(3) The contributions of each person shall be mentioned in the report as well as how the valuer used the information, they have provided in the valuation report. This helps the client to understand the role of each person and reduce confusion.

C. Efficiency and Diligence:

(1) The valuer must work effectively to execute the client's instructions and notify them regularly of the assignment developments.

(2) The valuer must work according to the requirements of the assignment carefully, diligently and in a timely manner.

(3) The valuer must work hard to provide the best services for clients and exercise due care to ensure that the provided service is in accordance with all applicable professional and technical regulations and standards of the valuation subject, the purpose of the valuation or both.

(4) The valuer must treat clients and the public with courtesy and respond quickly and effectively to reasonable instructions and complaints.

D. Confidentiality:

(1) A valuer must handle the client's information sensitively all times and must not disclose confidential information or results relevant to an assignment for, or would be beneficial to, another party or person.

(2) The valuer shall not use confidential information gained as a result of professional relationships for the personal advantage of the valuer or third parties.

(3) A valuer shall maintain confidentiality of information disclosed by a prospective client or employer.

(4) A valuer shall maintain the confidentiality of information within the firm or employing organization.

(5) A valuer shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to business colleagues or family members.
(6) A valuer shall take reasonable steps to ensure that staff under his control and persons from whom advice and assistance is obtained respect the duty of confidentiality.
(7) The valuer shall comply with the principle of confidentiality even after the end of relationships between the valuer and a client or employer.
(8) The valuer is entitled to use prior experience when the valuer changes employment or acquires a new client. The valuer shall not, however, use or disclose any confidential information either acquired or received as a result of a previous professional or business relationship.

E. Disclosure:

Disclosure is essential for valuation users to understand the major issues and ensure that the valuation report is not misleading. However, disclosure alone is not sufficient to meet ethical standards. Without prejudice to the principle of confidentiality, the following are circumstances where valuers are or may be required to disclose confidential information or when such disclosure may be appropriate:

(1) Disclosure is permitted or authorized by the client or the employer;
(2) Disclosure is permitted by law.
(3) Disclosure is required by law, for example:
- Production of documents or other provision of evidence in the course of legal proceedings; or
- Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(4) There is a professional duty or right to disclose:
- To comply with the quality review of the Saudi Authority for Accredited Valuers,
- To respond to an inquiry or investigation by the Authority,
- To respond to the regulatory procedures in accordance with the Authority such as to disclose to the Violation Commission,
- To protect the professional interests of a valuer in legal proceedings; or
- To comply with technical standards and ethical requirements.

(5) In deciding whether to disclose confidential information, relevant factors to consider include:

- Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the valuer.
- Whether all the relevant information is known and substantiated, when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment shall be used in determining the type of disclosure to be made, if any; and
- The type of communication that is expected, to whom it is addressed and whether it is appropriate.

F. Information and Documentation:

(1) A valuer must verify the data used in the valuation and identify the extent of its reliability.

(2) When the valuer receives information from the client, he must reasonably verify and document the extent of the client's confidence in this information and ensure its accuracy.

(3) A valuer shall not rely on information presented by the client or any other party without verification of their eligibility or source, unless the valuer specifies the nature and extent of the information as a restriction, i.e. a limit imposed on the valuation.

(4) A valuer must prepare a work file for each assignment. The file shall contain a hard or soft copy of every written report, correspondence, note, and document in addition to the information, data and procedures adequate to support the valuer's opinion such as inquiries, inspections, sources, methods, analyses, and calculations.

(5) Every file shall contain supporting information for the valuer's work, even when the valuer only provides a brief report to the client.

(6) The work file must be prepared in a way that someone who does not have any previous relationship with the assignment can determine the stages underpinning the valuation process up until the conclusions, and this is the main purpose of the work file.

(7) The valuer shall keep the work file of each assignment for at least ten years after the assignment is completed. If the assignment includes litigation, the year count starts after the end of the litigation, including appeals.

Guidance:

Further guidance shall be issued as appendices to this Code. The guidance shall aid the valuer and explain some of the general concepts or provide examples of threats to complying with the Code. The guidance will address these threats because of the wide range of relationships, circumstances, and safeguards to be taken into consideration to eliminate these threats or reduce them to an acceptable level. Guidance on complaints or disciplinary action for the violation of this Code shall be provided, or further guidance in response to any new requirements for the valuers, market or clients.

International Valuation Standards

At the end of the program, participants will understand the general framework of international valuation standards, definitions, principles and concepts as well as general standards of international valuation standards and asset standards for the valuation of real estate.

Contents:

- The General Framework of International Valuation Standards
  - Definitions and terminology
  - Principles and concepts
  - Purpose of the general framework and its contents

- General standards
  - IVS 101 - Scope of work
  - IVS 102 - Compliance with standards, research and investigation
  - IVS 103 - Reporting
  - IVS 104 - Value Basis
  - IVS 105 - Valuation Approaches and methods

- Asset standards
  - IVS 400 – Real Property Interests
  - IVS 410 – Development Property

Chapter I: IVS General Framework

1.0 Introduction

The International Valuation Standards Council (IVSC) is an independent, not-for-profit organization that acts as the global standard setter for valuation practice and the valuation profession, serving the public interest. It is a leader in the mission to raise standards of international valuation practice. Its core objectives are to develop high quality International Valuation Standards (IVS) which underpin consistency, transparency and confidence in valuations across the world, and encourage the adoption of IVS across the globe, along with professionalism provided by Valuation Professional Organizations.

2.0 Defined Terms

2.1 Asset or Assets

To assist in the readability of the standards and to avoid repetition, the words “asset ” and “assets” refer generally to items that might be subject to a valuation engagement. Unless otherwise specified in the standard, these terms can be considered to mean “asset, group of assets, liability, group of liabilities, or group of assets and liabilities”.

2.2 Basis (bases) of Value

The fundamental premises on which the reported values are or will be based (see IVS 105 Valuation Approaches and Methods, para 10.1) (in some jurisdictions also known as standard of value).

2.3 Client

The word “client ” refers to the person, persons, or entity for whom the valuation is performed. This may include external clients (i.e., when a valuer is engaged by a third-party client) as well as internal clients (i.e., valuations performed for an employer).

2.4 Cost(s) (noun)

The consideration or expenditure required to acquire or create an asset.

2.5 Discount Rate(s)

A rate of return used to convert a monetary sum, payable or receivable in the future, into a present value.

2.6 Equitable Value

This is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

2.7 Fair Market Value

1. The Organisation for Economic Co-operation and Development (OECD) defines "fair market value" as the price a willing buyer would pay a willing seller in a transaction on the open market.

2. For United States tax purposes, Regulation §20.2031-1 states: "The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts" .

2.8 Fair Value (International Financial Reporting Standards)

IFRS 13 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.9 Intended Use

The use(s) of a *valuer's* reported *valuation* or *valuation* review results, as identified by the *valuer* based on communication with the client.

2.10 Intended User

The *client* and any other party as identified, by name or type, as users of the *valuation* or *valuation* review report by the *valuer*, based on communication with the *client.*

2.11 Investment Value

The value of an asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as worth).

2.12 Jurisdiction

The word “jurisdiction” refers to the legal and regulatory environment in which a valuation engagement is performed. This generally includes laws and regulations set by governments (e.g., country, state and municipal) and, depending on the purpose, rules set by certain regulators (e.g., banking authorities and securities regulators).

2.13 Liquidation Value

The amount that would be realised when an asset or group of assets are sold on a piecemeal basis. Liquidation value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation value can be determined under two different premises of value (see IVS 104 Bases of Value, section 80):

(a) an orderly transaction with a typical marketing period; or

(b) a forced transaction with a shortened marketing period.

2.14 Market Value

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

2.15 May

The word “may ” describes actions and procedures that valuers have a responsibility to consider. Matters described in this fashion require the valuer’s attention and understanding. How and whether the valuer implements these matters in the valuation engagement will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards.

2.16 Must

The word “must” indicate an unconditional responsibility. The valuer must fulfill responsibilities of this type in all cases in which the circumstances exist to which the requirement applies.

2.17 Participant

The word “participant” refers to the relevant participants pursuant to the basis (or bases) of value used in a valuation engagement (see IVS 104 Bases of Value). Different bases of value require valuers to consider different perspectives, such as those of “market participants” (e.g., Market Value, IFRS Fair Value) or a particular owner or prospective buyer (e.g., Investment Value).

2.18 Price (noun)

The monetary or other consideration asked, offered or paid for an asset, which may be different from the value.

2.19 Purpose

The word “purpose” refers to the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions.

2.20 Should

The word “should” indicates responsibilities that are presumptively mandatory. The valuer must comply with requirements of this type unless the valuer demonstrates that alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards. In the rare circumstances in which the valuer believes the objectives of the standard can be met by alternative means, the valuer must document why the indicated action was not deemed to be necessary and/or appropriate. If a standard provides that the valuer “should” consider an action or procedure, consideration of the action or procedure is presumptively mandatory, while the action or procedure is not.

2.21 Significant and/or Material

Assessing significance and materiality require professional judgement. However, that judgement should be made in the following context:

- Aspects of a valuation (including inputs, assumptions, special assumptions, and methods and approaches applied) are considered to be significant/material if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of users of the valuation; and judgments about materiality are made in light of the overall valuation engagement and are affected by the size or nature of the subject asset.
- As used in these standards, “material/materiality” refers to materiality to the valuation engagement, which may be different from materiality considerations for other purposes, such as financial statements and their audits.

2.22 Subject or Subject Asset

These terms refer to the asset(s) valued in a particular valuation engagement.

2.23 Synergistic Value

The result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer, then synergistic value will differ from market value, as the synergistic value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as marriage value.

2.24. Valuation

The act or process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS. A “valuation” refers to the act or process of determining an estimate of value of an asset or liability by applying IVS.

2.25 Valuation Approach

In general, a way of estimating value that employs one or more specific valuation methods (see IVS 105 Valuation Approaches and Methods).

2.26 Valuation Method

Within valuation approaches, a specific way to estimate a value.

2.27 Valuation Purpose or Purpose of Valuation

See “Purpose”.

2.28 Valuation Reviewer

A “valuation reviewer” is a professional valuer engaged to review the work of another valuer. As part of a valuation review, that professional may perform certain valuation procedures and/or provide an opinion of value.

2.29 Value (noun)

The opinion resulting from a valuation process that is compliant with IVS. It is an estimate of either the most probable monetary consideration for an interest in an asset or the economic benefits of holding an interest in an asset on a stated basis of value.

2.30 Valuer

A “valuer ” is an individual, group of individuals or a firm who possesses the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased and competent manner. In some jurisdictions, licensing is required before one can act as a valuer.

2.31 Weight

The word “weight ” refers to the amount of reliance placed on a particular indication of value in reaching a conclusion of value (e.g., when a single method is used, it is afforded 100% weight).

2.32 Weighting

The word “weighting” refers to the process of analyzing and reconciling differing indications of values, typically from different methods and/or approaches. This process does not include the averaging of valuations, which is not acceptable.

3.0 IVS Framework

3.1 Compliance with Standards

When a statement is made that a valuation will be, or has been, undertaken in accordance with the IVS, it is implicit that the valuation has been prepared in compliance with all relevant standards issued by the IVSC.

3.2 Assets and Liabilities

The standards can be applied to the valuation of both assets and liabilities. To assist the legibility of these standards, the words asset or assets have

been defined to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

3.3 Valuer

Valuer has been defined as “an individual, group of individuals, or a firm possessing the necessary qualifications, ability and experience to undertake a valuation in an objective, unbiased and competent manner. In some jurisdictions, licensing is required before one can act as a valuer. Because a valuation reviewer must also be a valuer, to assist with the legibility of these standards, the term valuer includes valuation reviewers except where it is expressly stated otherwise or is clear from the context that valuation reviewers are excluded.

3.4 Objectivity

The process of valuation requires the valuer to make impartial judgements as to the reliability of inputs and assumptions. For a valuation to be credible, it is important that those judgements are made in a way that promotes transparency and minimizes the influence of any subjective factors on the process. Judgement used in a valuation must be applied objectively to avoid biased analyses, opinions and conclusions.

It is a fundamental expectation that, when applying these standards, appropriate controls and procedures are in place to ensure the necessary degree of objectivity in the valuation process so that the results are free from bias. The IVSC Code of Ethical Principles for Professional Valuers provides an example of an appropriate framework for professional conduct.

3.5 Competence

Valuations must be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation. If a valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation, it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work (see IVS 101 Scope of Work) and the report (see IVS 103 Reporting). valuer must have the technical skills, experience and knowledge to understand, interpret and utilise the work of any specialists.

3.6 Departures

A “departure” is a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a valuer must comply with legislative, regulatory, and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to be in compliance with IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances.

The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.

Chapter II: General Standards

1.0 Introduction

A scope of work (sometimes referred to as terms of engagement) describes the fundamental terms of a valuation engagement, such as the asset(s) being valued, the purpose of the valuation and the responsibilities of parties involved in the valuation.

This standard is intended to apply to a wide spectrum of valuation assignments, including:

a) valuations performed by valuers for their own employers ("in-house valuations"),
b) valuations performed by valuers for clients other than their employers ("third-party valuations"),
c) valuation reviews where the reviewer may not be required to provide their own opinion of value.

General Requirements All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose. valuer must ensure that the intended recipient(s) of the valuation advice understand(s) what is to be provided and any limitations on its use before it is finalized and reported. valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(a) Identity of the valuer: The valuer may be an individual, group of individuals or a firm. If the valuer has any material connection or involvement with the subject asset or the other parties to the valuation assignment, or if there are any other factors that could limit the valuer's ability to provide an unbiased and objective valuation, such factors must be disclosed at the outset. If such disclosure does not take place, the valuation assignment is not in compliance with IVS. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of must be made clear.

(b) Identity of the client(s) (if any): Confirmation of those for whom the valuation assignment is being produced is important when determining the form and content of the report to ensure that it contains information relevant to their needs.

(c) Identity of other intended users (if any): It is important to understand whether there are any other intended users of the valuation report, their identity and their needs, to ensure that the report content and format meets those users' needs.

(d) Asset(s) being valued: The subject asset in the valuation assignment must be clearly identified.

(e) The valuation currency: The currency for the valuation and the final valuation report or conclusion must be established. For example, a valuation might be prepared in euros or US dollars. This requirement is particularly important for valuation assignments involving assets in multiple countries and/or cash flows in multiple currencies.

(f) Purpose of the valuation: The purpose for which the valuation assignment is being prepared must be clearly identified as it is important that valuation advice is not used out of context or for purposes for which it is not intended. The purpose of the valuation will also typically influence or determine the basis/bases of value to be used.

(g) Basis/bases of value used: As required by IVS 104 Bases of Value, the valuation basis must be appropriate for the purpose of the valuation. The source of the definition of any basis of value used must be cited or the basis explained. This requirement is not applicable to a valuation review where no opinion of value is to be provided and the reviewer is not required to comment on the basis of value used.

(h) Valuation date: The valuation date must be stated. If the valuation date is different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed then where appropriate, these dates should be clearly distinguished.

(i) The nature and extent of the valuer's work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry and/or analysis in the valuation assignment must be identified (see IVS Framework, paras 60.1-60.4) If relevant information is not available because the conditions of the assignment restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 104 Bases of Value, paras 200.1-200.5) made as a result of the restriction must be identified.

The nature and sources of information upon which the valuer relies: The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation must be identified. Significant assumptions and/or special assumptions: All significant assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified.

(l) The type of report being prepared: The format of the report, that is, how the valuation will be communicated, must be described.

(m) Restrictions on use, distribution and publication of the report: Where it is necessary or desirable to restrict the use of the valuation or those relying on it, the intended users and restrictions must be clearly communicated.

(n) That the valuation will be prepared in compliance with IVS and that the valuer will assess the appropriateness of all significant inputs: The nature of any departures must be explained, for example, identifying that the valuation was performed in accordance with IVS and local tax regulations. See IVS Framework paras 60.1-60.4 relating to departures.

1.2 IVS 102 Investigation and Compliance

- Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value.
- Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported.
- Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.
- When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration should be given as to whether the information is credible or that the information may otherwise be relied upon without adversely affecting the credibility of the valuation opinion. In cases where credibility or reliability of information supplied cannot be supported, such information should not be used.
- A record must be kept of the work performed during the valuation process and the basis for the work on which the conclusions were reached for a reasonable

period after completion of the assignment, having regard to any relevant statutory, legal or regulatory requirements. Subject to any such requirements, this record should include the key inputs, all calculations, investigations and analyses relevant to the final conclusion, and a copy of any draft or final report(s) provided to the client.

- As noted in the IVS Framework, when statutory, legal, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS, a valuer must follow the statutory, legal, regulatory or other authoritative requirements (called a “departure”). Such a valuation has still been performed in overall compliance with IVS.
- Most other sets of requirements, such as those written by Valuation Professional Organizations, other professional bodies, or firms’ internal policies and procedures, will not contradict IVS and, instead, typically impose additional requirements on valuers.

1.3 IVS 103 Reporting

The purpose of the valuation, the complexity of the asset being valued, and the users’ requirements will determine the level of detail appropriate to the valuation report. The format of the report should be agreed with all parties as part of establishing a scope of work (see IVS 101 Scope of Work).

Where the report is the result of an assignment involving the valuation of an asset or assets, the report must convey the following, at a minimum:

(a) the scope of the work performed, including the elements noted in para 20.3 of IVS 101 Scope of Work, to the extent that each is applicable to the assignment,

(b) the intended use.

(c) the approach or approaches adopted,

(d) the method or methods applied,

(e) the key inputs used,

(f) the assumptions made,

(g) the conclusion(s) of value and principal reasons for any conclusions reached, and

(h) the date of the report (which may differ from the valuation date).

Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.).

1.4 Valuation Review Reports

Where the report is the result of a valuation review, the report must convey the following, at a minimum:

(a) the scope of the review performed, including the elements noted in para 20.3 of IVS 101 Scope of Work to the extent each is applicable to the assignment,

(b) the valuation report being reviewed and the inputs and assumptions upon which that valuation was based,

(c) the reviewer's conclusions about the work under review, including supporting reasons, and

(d) the date of the report (which may differ from the valuation date).

Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (e.g., engagement letters, scope of work documents, internal policies and procedures, etc.).

1.5 IVS 104 Bases of Value

- Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value.

- Valuer may be required to use bases of value that are defined by statute, regulation, private contract or other document. Such bases have to be interpreted and applied accordingly.
- Most bases of value reflect assumptions concerning the parties to a transaction and provide a certain level of description of the parties. In respect to these parties, they could include one or more actual or assumed characteristics, such as: (a) hypothetical, (b) known or specific parties, (c) members of an identified/described group of potential parties…etc.

1.5.1 IVS-Defined Basis of Value

Valuers must choose the relevant basis (or bases) of value according to the terms and purpose of the valuation assignment. The valuer's choice of a basis (or bases) of value should consider instructions and input received from the client and/or its representatives. However, regardless of instructions and input provided to the valuer, the valuer should not use a basis (or bases) of value that is inappropriate for the intended purpose of the valuation (for example, if instructed to use an IVS-defined basis of value for financial reporting purposes under IFRS, compliance with IVS may require the valuer to use a basis of value that is not defined or mentioned in the IVS).

A) Market Value

Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

The definition of Market Value must be applied in accordance with the following conceptual framework:

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

(b) “An asset or liability should exchange” refers to the fact that the value of an asset or liability is an estimated amount rather than a predetermined amount or actual sale price.

(c) “On the valuation date” requires that the value is time specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time.

(d) “Between a willing buyer” refers to one who is motivated, but not compelled to buy. This buyer is neither over eager nor determined to buy at any price.

(e) “And a willing seller” is neither an over eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market.

(f) “In an arm’s length transaction” is one between parties who do not have a particular or special relationship, e.g., parent and subsidiary companies or landlord and tenant, that may make the price level uncharacteristic Bases of Value of the market or inflated.

(g) “After proper marketing” means that the asset has been exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition.

(h) “Where the parties had each acted knowledgeably, prudently” presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses, and the state of the market as of the valuation date.

(i) “And without compulsion” establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

The concept of Market Value presumes a price negotiated in an open and competitive market where the participants are acting freely. The market for an asset could be an international market or a local market. The market could consist of numerous buyers and sellers or could be one characterized by a limited number of market participants. The market in which the asset is presumed exposed for sale is the one in which the asset notionally being exchanged is normally exchanged.

The Market Value of an asset will reflect its highest and best use. The highest and best use is the use of an asset that maximizes its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.

Market Value does not reflect attributes of an asset that are of value to a specific owner or purchaser that are not available to other buyers in the market. Such advantages may relate to the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any such element of value because, at any given date, it is only assumed that there is a willing buyer, not a particular willing buyer.

B) Market Rent

Market Rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Market Rent may be used as a basis of value when valuing a lease or an interest created by a lease. In such cases, it is necessary to consider the contract rent and, where it is different, the market rent. The conceptual framework supporting the definition of Market Value shown above can be applied to assist in the interpretation of Market Rent.

C) Equitable Value

Equitable Value is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. Equitable Value requires the assessment of the price that is fair between two specific, identified parties considering the respective advantages or disadvantages that each will gain from the transaction. In contrast, Market Value requires any advantages or disadvantages that would not be available to, or incurred by, market participants generally to be disregarded. Equitable Value is a broader concept than Market Value.

D) Investment Value/Worth

Investment Value is the value of an asset to a particular owner or prospective owner for individual investment or operational objectives.
Investment Value is an entity-specific basis of value. Although the value of an asset to the owner may be the same as the amount that could be realized from its sale to

another party, this basis of value reflects the benefits received by an entity from holding the asset and, therefore, does not involve a presumed exchange. Investment Value reflects the circumstances and financial objectives of the entity for which the valuation is being produced. It is often used for measuring investment performance.

E) IVS-Defined Basis of Value – Synergistic Value

Synergistic Value is the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

F) IVS-Defined Basis of Value – Liquidation Value

Liquidation Value is the amount that would be realized when an asset or group of assets are sold on a piecemeal basis. Liquidation Value should consider the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation Value can be determined under two different premises of value:

(a) an orderly transaction with a typical marketing period, or

(b) a forced transaction with a shortened marketing period.

The valuer must disclose which premise of value is assumed.

1.5.2 Other Basis of Value (non-exhaustive list):

- Fair Value (International Financial Reporting Standards)
- Fair Market Value (Organization for Economic Co-operation and Development (OECD))
- Fair Market Value (United States Internal Revenue Service)
- Fair Value (Legal/Statutory) in different jurisdictions

1.5.3 Premise of Value/ Assumed use

A Premise of Value or Assumed Use describes the circumstances of how an asset or liability is used. Different bases of value may require a particular Premise of Value or allow the consideration of multiple Premises of Value.

Some common Premises of Value are:

(a) highest and best use,

(b) current use/existing use,

(c) orderly liquidation, and

(d) forced sale.

A. Highest and Best Use

Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. Although the concept is most frequently applied to non-financial assets as many financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered.

The highest and best use must be physically possible (where applicable), financially feasible, legally allowed and result in the highest value. If different from the current use, the costs to convert an asset to its highest and best use would impact the value.

B. Current Use/Existing Use

Current use/existing use is the current way an asset, liability, or group of assets and/or liabilities is used. The current use may be, but is not necessarily, also the highest and best use.

C. Orderly Liquidation

An orderly liquidation describes the value of a group of assets that could be realized in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis.

The reasonable period of time to find a purchaser (or purchasers) may vary by asset type and market conditions.

D. Forced Sale

The term "forced sale" is often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible, and buyers may not be able to undertake adequate due diligence. The price that could be obtained in these circumstances will depend upon the nature of the pressure on the seller and the reasons why proper marketing cannot be undertaken. It may also reflect the consequences for the seller of failing to sell within the period available. Unless the nature of, and the reason for, the constraints on the seller are known, the price obtainable in a forced sale cannot be realistically estimated. The price that a seller will accept in a forced sale will reflect its particular circumstances, rather than those of the hypothetical willing seller in the Market Value definition. A "forced sale" is a description of the situation under which the exchange takes place, not a distinct basis of value.

While confirmed “forced sale” transactions would generally be excluded from consideration in a valuation where the basis of value is Market Value, it can be difficult to verify that an arm’s length transaction in a market was a forced sale.

1.6 **Assumptions and Special Assumptions**

In addition to stating the basis of value, it is often necessary to make an assumption or multiple assumptions to clarify either the state of the asset in the hypothetical exchange or the circumstances under which the asset is assumed to be exchanged. Such assumptions can have a significant impact on value.

These types of assumptions generally fall into one of two categories:

(a) assumed facts that are consistent with, or could be consistent with, those existing at the date of valuation, and

(b) assumed facts that differ from those existing at the date of valuation. Where assumed facts differ from those existing at the date of valuation, it is referred to as a “special assumption”.

1.7 Transaction Costs

Most bases of value represent the estimated exchange price of an asset without regard to the seller’s costs of sale or the buyer’s costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction.

1.6 IVS 105 Valuation Approaches and Methods

Consideration must be given to the relevant and appropriate valuation approaches. The three approaches described and defined below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution.

The principal valuation approaches are: (a) market approach, (b) income approach, and (c) cost approach. Each of these valuation approaches includes different, detailed methods of application.

The goal in selecting valuation approaches and methods for an asset is to find the most appropriate method under the particular circumstances. No one method is suitable in every possible situation. The selection process should consider, at a minimum:

(a) the appropriate basis(es) of value and premise(s) of value, determined by the terms and purpose of the valuation assignment,

(b) the respective strengths and weaknesses of the possible valuation approaches and methods,

(c) the appropriateness of each method in view of the nature of the asset, and the approaches or methods used by participants in the relevant market, and

(d) the availability of reliable information needed to apply the method(s).

Valuers are not required to use more than one method for the valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method, given the facts and circumstances of the valuation engagement. However, valuers should consider the use of multiple approaches and methods and more than one valuation approach or method should be considered and may be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion.

A. Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. The market approach should be applied and afforded significant weight under the following circumstances:

(a) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value,

(b) the subject asset or substantially similar assets are actively publicly traded, and/or

(c) there are frequent and/or recent observable transactions in substantially similar assets.

B. Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset. The income approach should be applied and afforded significant weight under the following circumstances:

(a) the income-producing ability of the asset is the critical element affecting value from a participant perspective, and/or

(b) reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

A fundamental basis for the income approach is that investors expect to receive a return on their investments and that such a return should reflect the perceived level of risk in the investment.

C. Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

Chapter III: Asset Standards

IVS 400 Real Estate Interests

The principles contained in the General Standards apply to valuations of real property interests. This standard contains additional requirements for valuations of real property interests[1].

Introduction

Property interests are normally defined by state or the law of individual jurisdictions and are often regulated by national or local legislation. Before undertaking a valuation of a real property interest, a valuer must understand the relevant legal framework that affects the interest being valued. A real property interest is a right of ownership, control, use or occupation of land and buildings. There are three main types of interest: (a) the superior interest in any defined area of land, (b) a subordinate interest and (c) a right to use land or buildings but without a right of exclusive possession or control.

Intangible assets fall outside the classification of real property assets. However, an intangible asset may be associated with, and have a material impact on, the value of real property assets. It is therefore essential to be clear in the scope of work precisely what the valuation assignment is to include or exclude. For example, the valuation of a hotel can be inextricably linked to the hotel brand. In such cases, the valuation process will involve consideration of the inclusion of intangible assets and their impact on the valuation of the real property.

Valuations of real property interests are often required for different purposes including secured lending, sales and purchases, taxation, litigation, compensation, insolvency proceedings and financial reporting.

1.2 Valuation Approaches and Methods

The three principal valuation approaches described in IVS 105 may all be applied to the valuation of real estate assets depending on the nature of the assets, the information available, and the facts and circumstances surrounding the valuation.

[1] This chapter contains excerpts from Standard 400, refer to IVS, p. 81 for the full standard.

1.2.1 Market Approach

Property interests are generally heterogeneous (i.e., with different characteristics). Even if the land and buildings have identical physical characteristics to others being exchanged in the market, the location will be different. Notwithstanding these dissimilarities, the market approach is commonly applied for the valuation of real property interests.

In order to compare the subject of the valuation with the price of other real property interests, valuers should adopt generally accepted and appropriate units of comparison that are considered by participants, dependent upon the type of asset being valued. Units of comparison that are commonly used include:

(a) price per square meter of a building or per hectare
(b) price per room, and
(c) price per unit of output, e.g., crop yields.

The reliance that can be applied to any comparable price data in the valuation process is determined by comparing various characteristics of the property and transaction from which the data was derived with the property being valued. Specific differences that should be considered in valuing real property interests include, but are not limited to:

(a) the type of interest providing the price evidence and the type of interest being valued,
(b) the respective locations,
(c) the respective quality of the land or the age and specification of the buildings,
(d) the permitted use or zoning at each property,
(e) the circumstances under which the price was determined and the basis of value required,
(f) the effective date of the price evidence and the valuation date, and
(g) market conditions at the time of the relevant transactions and how they differ from conditions at the valuation date.

1.2.2 Income Approach

Various methods are used to indicate value under the general heading of the income approach, all of which share the common characteristic that the value is based upon an actual or estimated income that either is, or could be, generated by an owner of the interest. In the case of an investment property, that income could be in the form of rent.

For some real property interests, the income-generating ability of the property is closely tied to a particular use or business/trading activity (for example, hotels, golf courses, etc.). Where a building is suitable for only a particular type of trading activity, the income is often related to the actual or potential cash flows that would accrue to the owner of that building from the trading activity. The use of a property's trading potential to indicate its value is often referred to as the "profits method".

1.2.3 Cost Approach

This approach is generally applied to the valuation of real property interests through the depreciated replacement cost method. It may be used as the primary approach when there is either no evidence of transaction prices for similar property or no identifiable actual or notional income stream that would accrue to the owner of the relevant interest.

In some cases, even when evidence of market transaction prices or an identifiable income stream is available, the cost approach may be used as a secondary or corroborating approach.

The first step requires a replacement cost to be calculated. This is normally the cost of replacing the property with a modern equivalent at the relevant valuation date. An exception is where an equivalent property would need

to be a replica of the subject property in order to provide a participant with the same utility, in which case the replacement cost would be that of reproducing or replicating the subject building rather than replacing it with a modern equivalent. The replacement cost must reflect all incidental costs, as appropriate, such as the value of the land, infrastructure, design fees, finance costs and developer profit that would be incurred by a participant in creating an equivalent asset.

The cost of the modern equivalent must then, as appropriate, be subject to adjustment for physical, functional, technological and economic obsolescence (see IVS 105 Valuation Approaches and Methods, section 80). The objective of an adjustment for obsolescence is to estimate how much less valuable the subject property might, or would be, to a potential buyer than the modern equivalent. Obsolescence considers the physical condition, functionality and economic utility of the subject property compared to the modern equivalent.

IVS 410 Development Property

The principles contained in the General Standards IVS 101 to IVS 105 apply to valuations of development property. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies. Valuations of development property must also follow IVS 400 Real Property Interests[2].

In the context of this standard, development properties are defined as interests where redevelopment is required to achieve the highest and best use, or where improvements are either being contemplated or are in progress at the valuation date and include:

(a) the construction of buildings,

(b) previously undeveloped land which is being provided with infrastructure,

(c) the redevelopment of previously developed land,

(d) the improvement or alteration of existing buildings or structures,

(e) land allocated for development in a statutory plan, and

(f) land allocated for a higher value uses or higher density in a statutory plan.

Valuations of development property may be required for different purposes. It is the valuer's responsibility to understand the purpose of a valuation.

A non-exhaustive list of examples of circumstances that may require a development valuation is provided below:

(a) when establishing whether proposed projects are financially feasible,

(b) as part of general consulting and transactional support engagements for acquisition and loan security,

(c) for tax reporting purposes, development valuations are frequently needed for ad valorem taxation analyses,

(d) for litigation requiring valuation analysis in circumstances such as shareholder disputes and damage calculations,

[2] This chapter contains excerpts from Standard 410, refer to IVS, p. 88 for the full standard.

(e) for financial reporting purposes, valuation of a development property is often required in connection with accounting for business asset acquisitions and sales, and impairment analysis, and

(f) for other statutory or legal events that may require the valuation of development property such as compulsory purchases.

When valuing development property, valuers must follow the applicable standard for that type of asset or liability (for example, IVS 400 Real Property Interests).

2.2 Bases of Value

In accordance with IVS 104 Bases of Value, a valuer must select the appropriate basis(es) of value when valuing development property.

The valuation of development property often includes a significant number of assumptions and special assumptions regarding the condition or status of the project when complete. For example, special assumptions may be made that the development has been completed or that the property is fully leased.

As required by IVS 101 Scope of Work, significant assumptions and special assumptions used in a valuation must be communicated to all parties to the valuation engagement and must be agreed and confirmed in the scope of work. Particular care may also be required where reliance may be placed by third parties on the valuation outcome.

In situations where there has been a change in the market since a project was originally conceived, a project under construction may no longer represent the highest and best use of the land. In such cases, the costs to complete the project originally proposed may be irrelevant as a buyer in the market would either demolish any partially completed structures or adapt them for an alternative project. The value of the development property under construction would need to reflect the current value of the alternative project and the costs and risks associated with completing that project.

2.3 Valuation Approaches and Methods

The three principal valuation approaches described in IVS 105 Valuation Approaches and Methods may all be applicable for the valuation of a real property interest. There are two main approaches in relation to the valuation the development property. These are:

(a) the market approach, and

(b) the residual method, which is a hybrid of the market approach, the income approach and the cost approach. This is based on the completed "gross development value" and the deduction of development costs and the developer's return to arrive at the residual value of the development property.

The valuation approach to be used will depend on the required basis of value as well as specific facts and circumstances, e.g., the level of recent transactions, the stage of development of the project and movements in property markets since the project started and should always be that which is most appropriate to those circumstances. Therefore, the exercise of judgement in the selection of the most suitable approach is critical.

2.3.1 Market Approach

Some types of development property can be sufficiently homogenous and frequently exchanged in a market for there to be sufficient data from recent sales to use as a direct comparison where a valuation is required.

In most markets, the market approach may have limitations for larger or more complex development property, or smaller properties where the proposed improvements are heterogeneous. This is because the number and extent of the variables between different properties make direct comparisons of all variables inapplicable though correctly adjusted market evidence (See IVS 105 Valuation Approaches and Methods) may be used as the basis for a number of variables within the valuation.

For development property where work on the improvements has commenced but is incomplete, the application of the market approach is even more problematic. Such properties are rarely transferred between participants in their partially-completed state, except as either part of a transfer of the owning entity or where the seller is either insolvent or facing insolvency and therefore unable to complete the project. Even in the unlikely event of there being evidence of a transfer of another partially-completed development property close to the valuation date, the degree to which work has been completed would almost certainly differ, even if the properties were otherwise similar.

The market approach may also be appropriate for establishing the value of a completed property as one of the inputs required under the residual method, which is explained more fully in the section on the residual method.

2.3.2 Income Approach

Establishing the residual value of a development property may involve the use of a cash flow model in some markets.

The income approach may also be appropriate for establishing the value of a completed property as one of the inputs required under the residual method, which is explained more fully in the section on the residual method below.

2.3.3 Cost Approach

The cost approach may also exclusively be used as a means of indicating the value of development property such as a proposed development of a building or other structure for which there is no active market on completion.

The cost approach is based on the economic principle that a buyer will pay no more for an asset than the amount to create an asset of equal utility. To apply this principle to development property, the valuer must consider the cost that a prospective buyer would incur in acquiring a similar asset with the potential to earn a similar profit from development as could be obtained from development of the subject property. However, unless there are unusual circumstances affecting the subject development property, the process of analyzing a proposed development and determining the anticipated costs for a hypothetical alternative would effectively replicate either the market approach or the residual method as described above, which can be applied directly to the subject property.

2.3.4 Residual Method

The residual method is so called because it indicates the residual amount after deducting all known or anticipated costs required to complete the development from the anticipated value of the project when completed after consideration of the risks associated with completion of the project. This is known as the residual value. The residual value, derived from the residual method, may or may not equate to the market value of the development property in its current condition. It is considered one of the advanced Income Approach methods.

The models used to apply the residual method vary considerably in complexity and sophistication, with the more complex models allowing for greater granularity of inputs, multiple development phases and sophisticated analytical tools. The most suitable model will depend on the size, duration and complexity of the proposed development.

In applying the residual method, a valuer should consider and evaluate the reasonableness and reliability of the following:

(a) the source of information on any proposed building or structure, e.g., any plans and specification that are to be relied on in the valuation, and

(b) any source of information on the construction and other costs that will be incurred in completing the project and which will be used in the valuation.

The following basic elements require consideration in any application of the method to estimate the market value of development property and if another basis is required, alternative inputs may be required.

(a) Completed property value.

(b) Construction costs.

(c) Consultants fees.

(d) Marketing costs.

(e) Timetable.

(f) Finance costs.

(g) Development profit.

(h) Discount rate.