الهيئة السعودية للمقيّمين المعتمدين
Saudi Authority for Accredited Valuers

تقييم
TAQEEM

Real Estate Valuation

Manual

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بسم الله الرحمن الرحيم

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Preface

The Saudi Real Estate Valuation Manual is TAQEEM's initiative to create guideline for valuation in the field of real estate. This guideline complies with the Accredited Valuers Law, TAQEEM's code of Ethics and Professional Conduct and the Implementing Regulation for Real Estate Sector as well as the International Valuation Standards (IVS) 2022. Due to the need for a local reference source for the valuation of real estate in the Saudi market, the need for publication of this guidance became a priority.

The Manual's main objective is to clearly explain the procedures and set standards for real estate valuation practice in line with the valuation assignment lifecycle. This manual contains four chapters and appendices, beginning with the Pre-Engagement stage and ending with engagement Closure. The manual aims to harmonize real estate valuation procedures throughout the Kingdom, to ensure that valuation services are homogeneous in terms of working procedures, quality of output, data analysis, timelines, and reporting of valuation opinion among practising valuers.

The Manual is a reference book, designed to provide guidance on Real Estate valuation. It should be used in conjunction with TAQEEMs accreditation programme for real estate valuers. Additionally, the Manual standardises the use of relevant, technical definitions.

It is the hope of TAQEEM that this guidance will assist our members in their practise of real estate valuation, on par with international best practice, and standardise the quality of valuation services for the benefit of all stakeholders. Ultimately, this will increase stakeholder confidence and drive investment in the Kingdom's real estate market, in line with Saudi Vision 2030.

Saudi Authority for Accredited Valuers (TAQEEM)

Introduction

Saudi Authority for Accredited Valuers (Taqeem) is the pre-eminent valuation institution in the Kingdom of Saudi Arabia established by a Royal Decree to regulate and improve the standards of the valuation industry in the Kingdom. Since its inception in 2012, Taqeem has put in place the requisite regulatory, licensing, standard-setting and academic framework aimed at advancing the valuation profession and raising public trust and confidence in the profession. Over the past few years Taqeem has also rolled out a raft of initiatives in this regard, including adoption and promulgation of the International Valuation Standards (IVS) in Arabic, strategic partnerships with leading professional organizations from around the world and facilitation of several high-profile stakeholder forums on various topical issues.

As part of its continuing efforts to advance and align local valuation practice, and to raise public trust and confidence, Taqeem is pleased to present this second edition of the Saudi Real Estate Valuation Manual. The manual provides best practice guidance on the valuation assignment, from client engagement through assignment planning, development and delivery of the valuation report and retention of work files. In developing the manual, Taqeem has had regard to the latest edition of the IVS, leading professional practice and standards in other parts of the world, local practice, laws and regulations and the idiosyncrasies of the Saudi market.

Reforms and initiatives under Saudi Vision 2030 have led to an increasing number of international investors tapping into Saudi Arabia's more open and streamlined business environment, with significant growth opportunities identified across a range of non-oil sectors.

Key to these opportunities is a well-regulated and trusted real estate sector, which is attracting increased funding through, among others, the Real Estate Development Fund (REDF), in collaboration with the Ministry of Municipal, Rural Affairs and Housing (MOMRAH). The National Transformation Programme (NTP) 2020 – together with the revisions to the programme, NTP 2.0 and the Vision Realization Programs (VRPs) – serve as a vehicle to establish and put into motion initiatives that help achieve Saudi Arabia's strategic objectives under Vision 2030. The NTP aims, among other things, to double both the real estate sector's contribution to overall GDP and the percentage of real estate financing to non-oil GDP. Various mega-projects and giga-projects, under the Public Investment Fund (PIF) umbrella, and a raft of housing schemes, are expected to drive real estate sector activity. The Kingdom's growing tourism industry is also expected to be a force in construction (re)development projects.

The considerable value of these assets is (or will be) underpinned by valuations, to be undertaken by accredited valuers regulated by TAQEEM – be they for sale or purchase, loan security valuations, government grants, feasibility studies and development appraisals, valuations for audited accounts and financial reporting, estimating net asset values (NAVs) for investment portfolios and business enterprise valuations, among others. As such, there is significant stakeholder expectations on the competence, and the duty of care, of the accredited valuer. Accordingly, the publication of the manual is regarded as both imperative and timely.

The manual is primarily aimed at valuers operating in the Kingdom who, at a minimum, have a basic working knowledge of valuation theory and techniques. It is not intended as a textbook on valuation, neither is it intended as a substitute for the mandatory Taqeem modules, which candidates are required to pass to qualify as an accredited valuer. The manual highlights applicable best practice, taking into consideration the provisions of IVS and the peculiarities of the KSA market. The manual does this by combining international standards with local market custom, laws and regulations. It is intended to complement the IVS, within a local context, rather than replacing any of the IVS provisions.

Taqeem recognises that valuation is a relatively nascent profession in the Kingdom. But consistent with the style in the IVS, use of the words must and/or shall within the manual signify a requirement for valuer compliance with the specific instruction. In this regard, valuers operating or providing valuations in the Kingdom are expected to comply with the cited requirements of the manual, together with the IVS and Taqeem's Code of Ethics and Professional Conduct. Compliance is enshrined in the Implementing Regulations of the Accredited Valuers Law.

Taqeem recommends valuer consideration of, and compliance with, all provisions of the manual, including those that may not be mandatory; except where the valuer can reasonably justify that an action taken by him, contrary to the manual's recommendations, was more appropriate given the circumstances.

The manual comprises four sections, matching the chronological stages in a typical valuation assignment, as follows:

Pre-engagement – this section discusses the essential requirements, that is, for the valuer to: understand the client's needs at the outset (identify the valuation problem), assess client and assignment risks, and ascertain the valuer's independence, competence and capabilities prior to documenting, agreeing and committing to a scope of work with the client. Local statutory and regulatory requirements in this regard are highlighted alongside those of the IVS. Sample tools and templates which assist compliance with such requirements are provided for guidance only.

Execution – the section outlines the level of diligence expected of the valuer in site inspections (where applicable) and market analyses required to determine the subject property's highest and best use and to support the application of the various valuation approaches and methods. A discussion of the traditional valuation approaches and methods follows, with guidance provided on their suitability and practical application. Illustrative examples are provided, as appropriate.

Reporting – this section outlines valuation report formats, and the minimum disclosures required by the IVS. Samples are provided.

Closing – the concluding section provides guidance on the minimum requirements and good practice for establishing and maintaining records, handling client complaints and closing engagements.

Glossary

The following definitions apply to this manual. Except for a few of the terms, the definitions have been carefully selected from a variety of leading sources to match as closely as possible the meaning of the terms intended in the manual.

Accredited valuer	A natural or corporate person licensed to practice the profession according to this Law (Accredited Valuers Law 1433H).
All risks yield (ARY)	Capitalisation rate that considers all the risks and rewards associated with ownership of an investment and reflected in the purchase price of that investment.
Assets	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” (International Valuation Standards, Effective 31 January 2022).
Assumption	A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, do not need to be verified by the valuer as part of the valuation process. Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true (Valuation; RICS-Global Standards 2022).
Basis of value	Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. (IVS effective 31 January 2022) (S104; Para 10.1).
Capitalisation	The conversion of income into a valuation indication through the application of an appropriate capitalisation rate.
Client	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) (International Valuation Standards, Effective 31 January 2022).

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 (International Valuation Standards, Effective 31 January 2022).
Date of the report	The date on which the valuer signs the report (RICS Valuation - Global Standards 2022).
Discount rate	A rate of return used to convert a monetary sum, payable or receivable in the future, into a present value(Appraisal Institute).
Engagement	An agreement between a valuer and a client to provide a valuation or valuation review.
Equivalent yield	The single capitalisation rate which when applied to both the term and reversion parts in a traditional income capitalisation technique would produce the same overall value indication as when different rates are used for the individual parts.
Fee simple interest	Also, Fee simple estate: Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat (Appraisal Institute).
Firm	The firm or organisation for which the valuer works, or through which the valuer trades (Adapted from (RICS Valuation – Global Standards 2022).
Freehold interest	Also, Freehold estate: An estate or possessory interest in land that lasts for an indeterminable length of time, such as for a lifetime or forever. Examples include fee simple (also called an indefeasible fee), defeasible fee, and life estates. The first two continue for an indefinite period and are inheritable by the heirs of the owner. The life estate terminates upon the death of the person on whose life it is based (The Dictionary of Real Estate Appraisal, 6th ed.).

Goodwill — Generally, goodwill is any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which has not been separately recognised in another asset (International Valuation Standards, Effective 31 January 2022) (S.210-para.20.6)

Highest and best use — Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. The highest and best use must be physically possible (where applicable), financially feasible, legally allowed and result in the highest value (International Valuation Standards, Effective 31 January 2022) (S.104-Para.140.1,140.2).

Income approach — An approach that provides an indication of value by converting future cash flows to a single current capital value (International Valuation Standards Effective 31 January 2022)(S.105-para.40.1).

Inspection — Personal observation of the exterior or interior of the real estate that is the subject of an assignment performed to identify the property characteristics that are relevant to the assignment, such as amenities, general physical condition, and functional utility. Note that this is not the inspection process performed by a licensed or certified building inspector (Appraisal Institute).

Intangible asset — A non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner (International Valuation Standards Effective 31 January 2022)(S.210; Para-20.1).

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 (IVS effective 31 January 2022; Glossary – para 20. 9).

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 (IVS effective 31 January 2022; The Glossary – para 20. 10)

Leased fee interest — Also, Leased fee estate. The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires (Appraisal Institute).

Leasehold interest	Also, Leasehold estate. The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease (Appraisal Institute).
Letter of Engagement (LoE)	The contract that defines and affirms the service that the valuer will provide in the assignment, the responsibilities of both the valuer and the client in the assignment and conditions that will govern the use of the valuation report.
Market approach	An approach that provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available (International Valuation Standards Effective 31 January 2022) (S.104 Basis of Value-para.20.1).
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 (International Valuation Standards, Effective 31 January 2022) (S.105 Basis of Value-para.30.1).
Machinery and equipment	It includes, for example, transport equipment, construction equipment, office equipment, contents of facilities and all interests, rights and obligations related thereto (Accredited Valuers Law). Examples include but are not limited to machinery, equipment, tools, furniture and fixtures, and mobile assets such as vehicles.
Personal property	It means assets (or liabilities) not permanently attached to land or buildings: • including, but not limited to, fine and decorative arts, antiques, paintings, gems and jewellery, collectables, fixtures and furnishings, and other general contents; • excluding trade fixtures and fittings, plant and equipment, businesses or business interests, or intangible assets (Royal Institution of Chartered Surveyors (RICS) 2022).
Profession	Profession of valuation (Accredited Valuers Law 1433H).
Profit method	Method of valuation that provides an indication of value for a trade related property based on the potential turnover and profit that could be realized through the carrying out of a specified business in the property.

Property	Something tangible or intangible to which its owner has legal title (Appraisal Institute). **Unless otherwise qualified or specified as to type, "property" is generally used in the manual interchangeably with "asset" to refer to the real estate that is the subject of valuation.**
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 (IVS effective 31 January 2022; Glossary – para 20. 19)
Real Estate	Land and all things that are a natural part of the land, e.g. trees, minerals and things that have been attached to the land, e.g. buildings and site improvements and all permanent building attachments, e.g. mechanical and electrical plant providing services to a building, that are both below and above the ground (International Valuation Standards 2022).
Real Property Interest	A real property interest is a right of ownership, control, use or occupation of land and buildings. A real property interest includes informal tenure rights for communal/community and or collective or tribal land and urban/rural informal settlements or transition economies, which can take the form of possession, occupation and rights to use (International Valuation Standards, Effective 31 January 2022) (S.400 Real Property Interests – para.20.2).
Report	See valuation report. Except where stated otherwise, "report" in the manual refers to valuation report.
Residual valuation method	A hybrid of the market approach, the income approach and the cost approach that provides an indication of the residual value of a development property by deducting the estimated development costs and the developer's return from the estimated completed gross development value (adapted from (International Valuation Standards, Effective 31 January 2022) (S.410 Real Property Interests – para.40.1; 90.1).
Scope of work	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 (International Valuation Standards, Effective 31 January 2022) (S.101-para.10.1).

Special assumption An assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date. (Royal Institution of Chartered Surveyors (RICS) 2022).

Trade related property Any type of real property designed for a specific type of business where the property value reflects the trading potential for that business (Royal Institution of Chartered Surveyors (RICS) 2022).

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 (IVS, Effective 31 January 2022. Glossary – para 20.24)

Valuation of Real Estate The act or process of determining the value of real estate properties according to a specific purpose and basis of value. (Real Estate Implementing Regulations of the Accredited Valuers Law, Article 1-13).

However, a broader meaning of Valuation is intended hence the following definition is adopted for the purpose of the manual:

1. An opinion of the value of an asset or liability on a stated basis, at a specified date (RICS Valuation – Global Standards 2022);
2. The act or process of developing an opinion of value (Appraisal Institute).

Valuation approach The fundamental process by which the valuer develops the opinion of value for the subject asset or liability based on its nature, purpose and intended use of valuation, scope of work and regulatory requirements. The three most common valuation approaches are: market comparison, income capitalization, and cost approaches.

Valuation date The date on which the opinion of value applies. The valuation date shall also include the time at which it applies if the value of the type of asset can change materially in the course of a single day (International Valuation Standards 2022).

Valuation method

A specific means of estimating value (Appraisal Institute, The Dictionary of Real Estate Appraisal, 6th ed.).

Valuation model

A valuation model refers collectively to the quantitative methods, systems, techniques and qualitative judgements used to estimate and document value. (International Valuation Standards Effective 31 January 2022) (S.105 Valuation Approaches and Methods – para;90.1).

Valuation report

The document issued by the accredited valuer to its clients, including the outcome of the valuation, and complies with the valuer›s obligations set out in the Accredited Valuers Law and Implementation Rules of the Accredited Valuers Law, and is consistent with the approved valuation standards (Accredited Valuers Law 1433H).

Valuation review

The act or process of considering and reporting on a valuation undertaken by another party, which may or may not require the reviewer to provide their own valuation opinion (International Valuation Standards, Effective 31 January 2022).

Value

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. (IVS effective 31 January 2022; Glossary – para 20.29)

Value indication

A valuer's conclusion of value resulting from the application of a valuation approach, e.g., the value indication by the market approach.

Valuer

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 (International Valuation Standards, Effective 31 January 2022) (Glossary; para-20.30). See also Accredited valuer; firm.

Weighting

The word "weighting" refers to the process of analysing 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. (IVS, Glossary, 20.32).

Abbreviations

AC	Air-Conditioning
ADR	Alternative Dispute Resolution
AI	The Appraisal Institute
ARY	All-risks yield
AVL	Accredited Valuers Law
BOD	Board of Directors
CAPM	Capital asset pricing model
CEPC	Taqeem’s Code of Ethics and Professional Conduct
CEPPV	IVSC’s Code of Ethical Principles for Professional Valuers
CH	Commonhold
CHP	Complaint handling procedures
COD	Cash on delivery
CPD	Continuing Professional Development
CR	Commercial registration
Cu.M.	Cubic meters
DCF	Discounted cash flow
EBITDA	Earnings before interest, tax, depreciation and amortization
EDMS	Electronic Document Management Systems
FF&E	Furniture, fixtures, and equipment
FH	Freehold
GLA	Gross Leasable Area
HBU	Highest and Best Use
HVAC	Heating, Ventilation, and Air-Conditioning system
IPMS	International Property Measurement Standards
IRR	Internal Rate of Return
IR-RE	Implementing Regulations of Accredited Valuers Law- Real Estate Chapter

IVS	International Valuation Standards
IVSC	International Valuation Standards Council
KSA	Kingdom of Saudi Arabia
LH	Leasehold
NDA	Non-Disclosure Agreement
NPV	Net Present Value
PFI	Prospective financial information
PII	Professional Indemnity Insurance
RFP	Request for Proposal
RICS	The Royal Institution of Chartered Surveyors
SAR	Saudi Riyals
SCCA	Saudi Center for Commercial Arbitration
SoW	Scope of Work
Sq.M.	Square meters
SVP	Appraisal Institute’s Standards of Valuation Practice
TBD	To be determined
UK	United Kingdom
US	United States
USPAP	Uniform Standards of Professional Appraisal Practice
WACC	Weighted average cost of capital
WARA	Weighted average return on assets

Valuation Assignment Lifecycle: Illustration

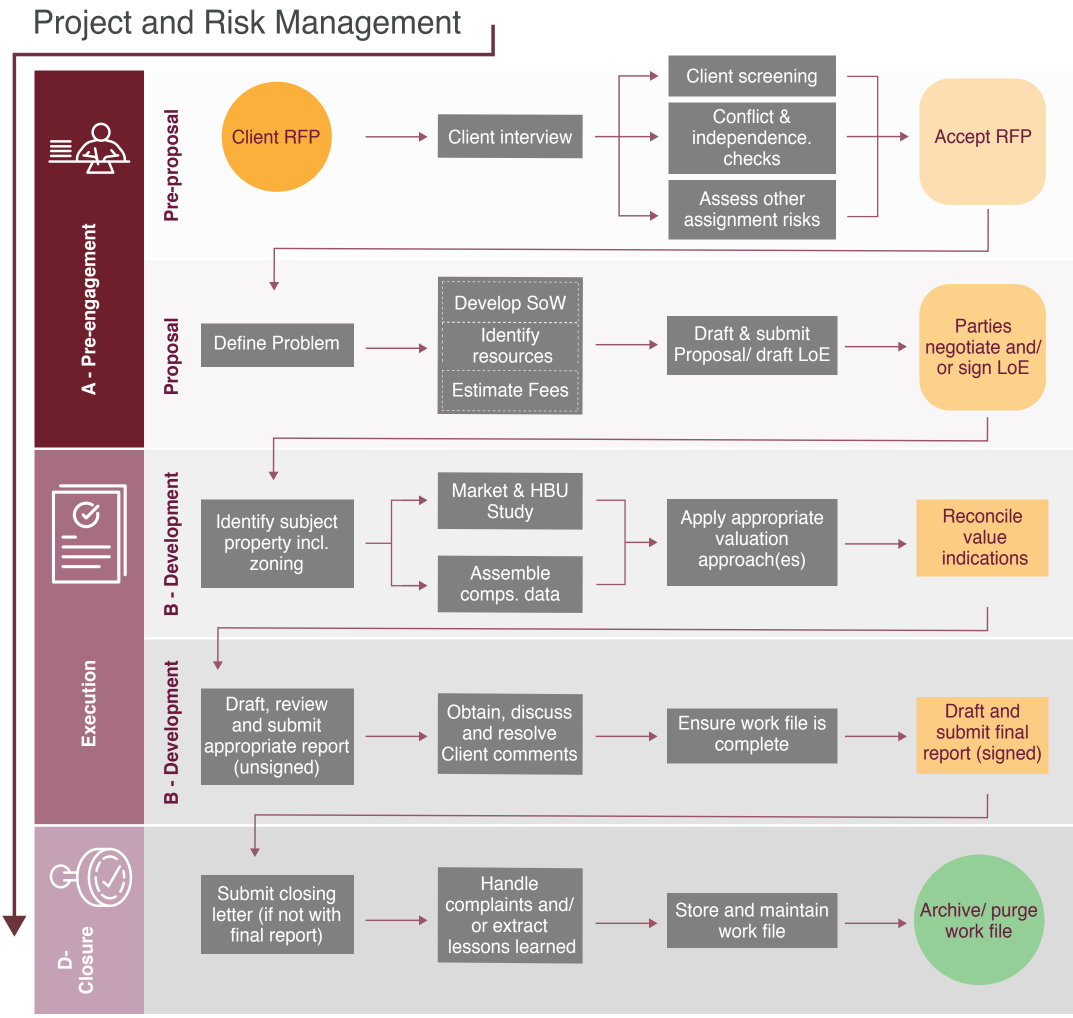


Figure (1): Valuation Assignment Lifecycle Illustration

A Pre-Engagement:

below is a flowchart of the key stages of the Pre-Engagement phase discussed in this section:

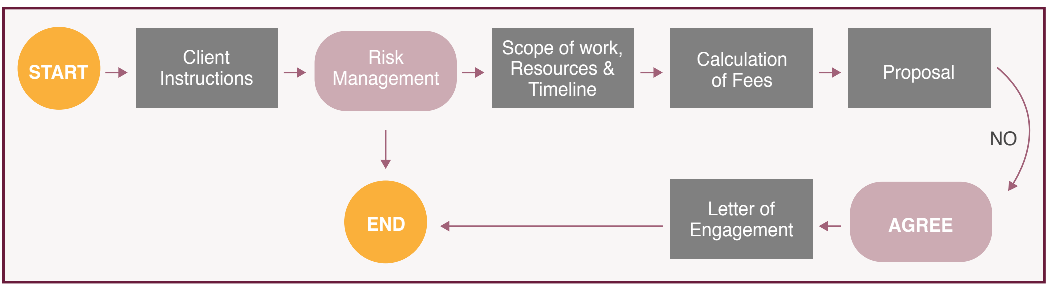


Figure (2): Pre-engagement Phase Key Stages

1.1 Client instructions

1.1.1 Introduction

When a client approaches a valuer for a potential valuation engagement, the valuer must at the outset obtain and evaluate important information for the purposes of:

a.Determining any conflict of interest relating to the client or the subject of the valuation (Accredited Valuers Law (AVL)- Article 20; Implementing Regulations of Accredited Valuers Law-Article 16; Taqeem's Code of Ethics and Professional Conduct (CEPC)- Article 2-4);

b. Determining the client's requirements (the valuation problem) and establishing the valuer's scope of work to solve the valuation problem (IVS 101; CEPC Article 4A-1); It is important to note that not all clients understand or can clearly articulate the valuation problem, and it is the valuer's responsibility to obtain salient information necessary to clearly define the problem and to provide an appropriate solution at a fee which properly prices in the time required together with the risks of the valuation assignment;

c. Determining that the valuer is appropriately qualified to undertake the requested valuation in terms of his qualifications, experience and competency in the type of valuation and the subject market (CEPC Article 3-3);

d. Determining the valuer's ability to undertake the valuation in a timely manner, and that adequate resources are available, within the firm or through co-partnering, to deliver a credible output (CEPC Article 4A-6)

e. Client screening: Assessing commercial and legal risks, such as the client's legal status and financial integrity.

f. Identifying and obtaining the necessary client consent regarding confidential information.

This information is captured through client interviews and the valuer's own due diligence.

Clients approach valuers through various means of communication. A prudent valuer would make himself accessible to clients through multiple channels of communication. Upon engagement, both parties must select and formalise the means of communication that are efficient and easy to document.

The valuer should have in place appropriate systems to capture and facilitate the efficient management, use and storage of client and assignment information required for the valuation engagement. Depending on the scale and sophistication of the firm, these may be as simple as traditional but well-organised manual filing or more complex electronic document management systems (EDMS).

Progressive firms also maintain effective and efficient client receiving/ response protocols designed to ensure that client instructions are coordinated and consistently handled professionally.

A simple Assignments Log which captures, documents and tracks client instructions is an important part of a valuation office's information management system. It is also vital for establishing the firm's database of projects which can be used in checking previous involvement or conflict with clients or subject assets. A simple example is provided in Appendix A-1.

1.1.2 Client Interview(s)

Client interview(s) should be undertaken by a valuer or a trained assistant with a background in valuations.

The interview may be carried out in person or remotely, depending on the nature of the assignment. A visit to the client's office for the initial interview is ideal and helps to corroborate the valuer's due diligence of the client (client ID, location, line of business, client's demeanour etc). It is good etiquette and helps to establish a good relationship with the client.

Even where initial contact with the valuer has been made by a representative of the client, the valuer should endeavour to have the meeting with the client directly to personally confirm his understanding of the client's requirements.

The template in Appendix A-2 (Client Interview) provides guidance to the valuer on the client information request process. The information is required to assess risks, define the valuation problem and prepare the Letter of Engagement (LoE) between the valuer and the client. The assignment stages are discussed further in other sections of this guide.

Except where the client's Non-Disclosure Agreement (NDA) is used, the client interview offers an opportunity for the valuer to discuss with the client his own confidentiality policy. Gathering client information should not proceed or should cease if the valuer ascertains that he cannot fulfil the client's instructions, for example, if the subject asset(s) are outside his valuation sector or expertise. If the valuer believes that he can fulfil the instructions, he should consider using:

1. Privacy notice – letting the client know how the valuer uses or intends to use and safeguard client information.
2. Opt-out notice – finding out from the client what information must be treated as confidential and cannot be shared, other than with regulatory authorities.

The valuer must maintain an audit trail of his interactions with, and make note of any documents received from, the client. Before developing the scope of work, the valuer should share the notes of his meeting or the completed interview form with the client to confirm his understanding of the client's instructions.

Not all the information the valuer requests from the client may be immediately available, or at all, and some of it may not be required until the valuer has been engaged. The valuer should check with the client about obtaining such information from other identified sources and use his judgement to decide whether he has sufficient information at this stage to adequately define the client's problem and determine a suitable scope of work and associated fees and timelines (discussed separately in this guide). For some large or complex properties, it is advisable for the valuer to drive by or casually visit the property to obtain a better understanding of the same before developing his scope of work.

1.1.3 client Screening

Client screening should ideally take place prior to the client meeting, subject to what information the valuer can gather independently about the client or subject of valuation. Prior screening also makes the subsequent meeting with the client more efficient by confirming or validating certain information not to mention affording the valuer an opportunity to convey a well thought out range of fees to the client.

If the valuer is somehow adequately familiar with the client and the subject of the valuation before the meeting, such as from a previous relationship, and the valuer does not want to take on the assignment for whatever reason, he must notify the client of his decision. Otherwise client screening can run in parallel or after the interview when the valuer has gathered enough information about the client and the subject of the valuation.

Client screening is an important process aimed at establishing that:

1. The relationship with the client will be a good fit for the firm;
2. The client is not a fraud or is unlikely to default on payment of fees;
3. The client is not taking on the wrong valuer or firm for his project;
4. There are no conflicts in undertaking the assignment for the client (further discussed in the next section);
5. There would be no undue delays in providing the valuation to the client;

If the valuer decides to take on the client, he should also confirm his decision to the client in writing, such as through acknowledgement and acceptance of instructions letter, and letting the client know of the next steps.

Some clients may be 'high maintenance', notoriously slow at providing promised information or incomplete one, creeping additional scope under the same contract, being difficult with payments or demanding unreasonable turnaround and effort for the fee. Other clients may constantly try to unduly influence the valuer's opinions. A valuer is under no obligation to accept any client and should be prudent in selecting his clients. Besides, ethically questionable assignments are not worthy any fee.

> Article 1-3
>
> 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 (Code of Ethics and Professional Conduct for Valuers 2015).

Valuers must also adhere to the requirements of the Saudi Anti-Money Laundering Law, including but not limited to:

1. Verifying the identity of clients. For corporate clients, that includes verifying official documents showing entity name, address, names of proprietors and authorized signatories;
2. Maintaining all records and documents of dealings with clients for a period of no less than 10 years;
3. Establishing precautionary measures and internal controls to discover and suppress crimes under the law;
4. Reporting transactions of a suspicious nature and purpose;

The valuer should carefully choose a wide variety of clients. It is risky in both a business sense and from a regulatory perspective to become too dependent on one or a few large-volume clients. The CEPC requires that:

Articles 2-15

A valuer must work with various clients and not depend totally on a limited number of clients which threatens his objectivity (CEPC).

Prior to proceeding with subsequent stages of the assignment, the valuer must also ensure that he has and can commit personnel that is best qualified to carry out the valuation upon appointment by the client. This is a critical consideration that he will also have to revisit at the scoping stage when the nature and scale of the assignment becomes clearer. In particular:

1. The valuer assigned to the job as well as the superior that will be signing off on the valuation must have the necessary practical experience in the sector or market;
2. The valuation team has in aggregate the necessary knowledge and skills in the type of asset, location, valuation type and range.

The CEPC stipulates the following in this regard:

Article 3-3:

The valuer must be certain that he possesses the requisite professional knowledge, technical skills and experience required to deliver competent professional service (CEPC)

Article 3-8:

A valuer must know his limitations; if he lacks the necessary professional knowledge and experience to carry out a valuation and does not have the ability to acquire such competence before completing the assignment, he must seek the assistance of someone who has the necessary experience in that type of assignment or decline the assignment (CEPC).

1.2 Risk Management

1.2.1 Introduction

Valuers are exposed to several risks at various stages of the engagement and beyond. The risks would vary across diverse types of valuation assignments and require different management techniques. Successful risk management is an ongoing process that spans all the stages of an assignment. Even then it is imperative that risks are identified or anticipated and evaluated early for every engagement and appropriate measures taken to avoid or mitigate them.

1.2.2 Risk Management Framework

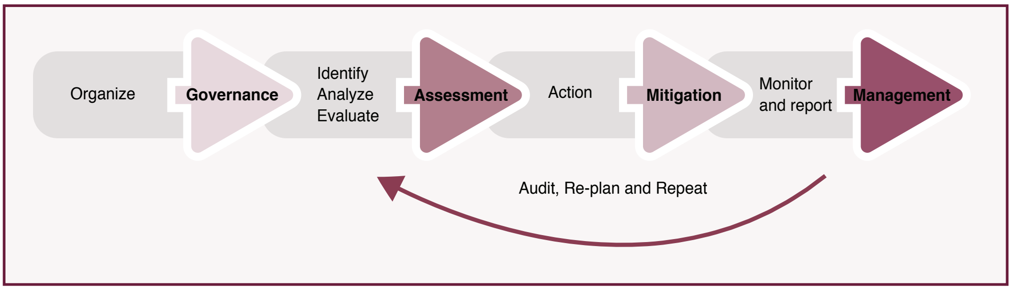


Figure (3): Risk Management Framework

A risk management program or framework in a firm would include a systematic set of policies, protocols and tools focused on identifying and managing risks. The above diagram outlines the basic elements of a risk management program and the key steps entailed in a risk identification and management process. Some large businesses operate an automated an enterprise-wide Risk Management (ERP) software, which may additionally use artificial intelligence to observe trends and predict patterns of risk events for better decision making.

At the very least however, a risk-minded firm would define and articulate its risk tolerance level(s), appoint a risk manager to design and/or maintain a firm's risk program however sophisticated or rudimentary it may be, train staff, promote a risk culture, oversee the entire risk identification and assessment process, ensuring compliance, monitoring and communicating the occurrence of key risk indicators and their impacts. The program would also include a risk register which records the risks identified, assesses controls and tracks actions and outcomes.

Briefly, the risk management process would commence with the identification and categorization of a comprehensive list of enterprise-wide or project-specific risks in a progressive process involving the project manager and team members. The risks are then analysed, assessed and measured in terms of likelihood and impact or severity of occurrence of the underlying events. Care is also taken to distinguish the root causes of risks from the symptoms thereof such that the real risks are effectively managed. Such assessment may be both quantitative and qualitative and may consider possible interactions of risks which together pose the danger of magnifying associated loss. The assessment provides for subsequent evaluation of the risks through rating, ranking and prioritization of individual risks and/or combination of risks with reference to pre-set risk tolerance levels. Ultimately appropriate risk responses or controls are planned, matched with the various risks and actioned to either avoid, mitigate or accept them. Integral to the risk management process is documentation of all the steps and monitoring the implementation and outcome of the controls with a view to assessing their effectiveness and maintaining, reinforcing or replacing them if necessary.

A risk management program is only as good as the professionals working under it. Notwithstanding the firm's ultimate contractual liability to clients and its risk management program, risk identification and mitigation is the responsibility of each valuation project team member.

1.2.3 Risks and Safeguards in Valuation

Like most other professionals, valuers face the risks of undervaluing or overvaluing their expertise and either receiving inadequate compensation or pricing themselves out of the market; lack of business and downtime; business interruption due to illnesses, accidents or disasters; scope creep, cost overruns, project cancellation and/or client default; and professional indemnity claims. Some of the discussion elsewhere in this manual related but not limited to client screening, scope of work, calculation of fees and terms of engagement would go some way in helping valuers mitigate some of these risks. The remainder of this section is focused on the last category of risks, namely professional liability.

The main risks facing valuers are related to their ability to comply with ethical and technical standards and to exercise reasonable skill and care, which may result in claims for breach of contract or duty of care by clients and/or third parties. Other risks revolve around compliance with various other laws and regulations including Anti-Money Laundering Law.

Broadly and in the context of the KSA, the main risks include threats to a valuer's ability to comply with the Accredited Valuers Law, Implementation Regulations and Taqeem's Charter of Ethics and Professional Conduct (CEPC) with respect to amongst others valuer's independence and objectivity, and confidentiality.

IVSC's guidance on its Code of Ethical Principles for Professional Valuers, which has similar provisions to CEPC, identifies the following categories of threats to the valuer's ability to comply with ethical principles:

a) **Self-interest threat** – also termed 'own interest conflict', this refers to the threat that a financial or other interest will inappropriately influence the valuer's judgement or behaviour;

b) **Self-review threat** – the threat that a valuer will not appropriately evaluate the results of a previous judgement made or service performed, or by another individual within the same firm, on which the valuer may rely when forming a judgement as part of providing a current service;

c) **Client conflict threat** – the threat that two or more clients may have opposing or conflicting interests in the outcome of a valuation;

d) **Advocacy threat** – the threat that a valuer will promote a client's or employer's position to the point that his objectivity is compromised;

e) **Familiarity threat** – the threat that due to a long or close relationship with a client or employer, a valuer may be too sympathetic to their interests or too accepting of their work; and

f) **Intimidation threat** – the threat that a valuer will be deterred from acting objectively

A wide range of actions or controls are available to safeguard against or mitigate some of the risks. Some of these operate at a higher level through regulation of the profession by the government or valuation professional organization, such as regulations on the corporate structure and governance of firms providing valuation services, statutory licensing of valuers for certain types of valuation, qualification and CPD requirements and monitoring of compliance with professional standards and disciplinary procedures.

On their part, valuation firms attempt to identify and deal with such risks through internal controls and procedures. The controls outlined below are normally used in combination and can vary between firms:

1.Maintenance of a register of the material personal interests of professional valuers: The firm would obtain, maintain and periodically update and review declarations of financial interests and employment relationships held by its valuers and their relatives (often to the third degree) with a view to identifying potential conflicts of interest related to any current or future client engagements.

2. Client screening and due diligence: As previously indicated, this entails enquiries and investigations into a client's reputation, integrity, financial standing and conflict of interest. Various sources of business information, credit rating agencies and data analytics such as Dun & Bradstreet, Zawya, Experian as well as the firm's internal databases are typically used to provide answers to much of the queries. Provided the client consents and no confidentiality obligations are breached, enquiries of previous valuers, solicitors and bankers may also be used for this purpose. Information obtained is evaluated to aid the firm's decision in accepting a new client or continuing with an existing client, often in accordance with a firm's pre-defined acceptance and continuance policies.

3. Vetting team members: Whether acquiring new talent for the firm or appointing a project team with the requisite knowledge, skills set and experience in the subject of an assignment, such an endeavour always involves assessing the qualifications, competencies, independence, conduct and attitudes of candidates and/or valuers in the firm.

4. Client notification and consent around potential sources of conflict:

CEPC (Article 2-2&3) requires valuers to obtain written consent from clients before acting for them in the same matter.

5. Information barriers ("Chinese walls") between service lines and/or project teams: Conflicted clients may consent to the firm using separate and distinct teams to advise on the same matter or asset at arm's length and strictly without communication or flow of confidential information between them on the matter.

6. Disclosure of potential sources of conflict in LoE's and reports, and what steps the valuer has taken to mitigate the risk of such conflict.

7. Internal peer review of valuations including panels, 'hot' and 'cold' reviews: Reviews are an important part of a firm's quality control program. In a 'hot' review, the report and working papers are examined by a more experienced valuer in the firm to ensure that all important professional matters and the firm's standard procedures have been complied with prior to report sign-off and submission; By contrast, 'cold' reviews operate sometime after the valuation has been completed and involve subjecting a random sample of valuations to reviews by partners or senior valuers that were not involved in the original assignments. Findings would be discussed with the concerned valuers and used to develop remedial training. They may also trigger more frequent reviews and/or ultimately removal of incompetent valuers.

8. Valuer rotation for recurring valuation assignments, to reduce valuers' over indulgence with repeat clients and/or assets, aimed at preserving valuer objectivity and the public's perception thereof. Also refer to RICS Valuation Global Standards PS 2 Section 5.4 Rotation Policy.

9. Privacy policies, confidentiality policies and use of NDAs.

10. Recruitment policies focused on certain professional designations

11. Use of standard terms and conditions of engagement, which are rarely negotiable

12. Use of Access letters and Reliance letters

13. Controls on the acceptance of gifts or hospitality from those commissioning valuations.

14. Complaints handling system- discussed separately in the manual.

15. Duty to report breaches

16. Supervision

17. Training

18. Use of industry certified models and software

19. Use of standard report templates and checklists

20. Focus/ specialization by sector, geography or client type

21. Professional Indemnity Insurance (PII)

22. Liability caps

The above list is by no means exhaustive or ranked, and apart from such standard controls as PII, not all the controls may be present in one firm. As also previously indicated, the application of some of the controls may vary with the circumstances of the situation at hand and the significance of the risk event. Significance of a risk event is usually assessed through assessment of the likelihood of such an event occurring and the impact or consequences of its occurrence.

Various risk management tools are used to assess and match risks with mitigating actions. An example of such a tool is shown in Appendix A-3.

It is important to note that Saudi laws and regulations governing valuers are relatively stricter regarding the actions that valuers must take to deal with certain threats, particularly the self-interest threat. Article16 of the Implementation Regulations of the Accredited Valuers Law requires valuers to **decline** any assignments in which they have a direct or indirect interest in the client or subject asset such as:

1. Valuing assets that the valuer own, co-own, have an interest in - directly or indirectly - as a broker, marketer, investor or a financier for their ownership.
2. Assets in which the valuer is a relative, to the fourth degree, of the founder or a member of the Board of Directors.
3. Assets of companies where the valuer provides services that conflict with one's valuation of either of the assets, either directly or indirectly.
4. Assets of companies in which the valuer has shares, or is a partner of one of its senior employees, one of the partners, one of its board members, or the overseer of one of its endowments.
5. Provide valuation services to more than one client on the same subject asset, except after obtaining written consent from all clients.

For all other less proximate interests in the client or subject of the valuation, and in light of various CEPC provisions, the valuer should carefully assess the threat to his objectivity and/or perception of possible bias from the users of his report. If reasonably convinced that his objectivity will not be compromised or there will be no appearance of bias to users, the valuer must disclose such interests in both the Letter of Engagement and report. Otherwise he must decline the assignment. Hence the following CEPC requirement:

Article 2-4:

When valuing an asset, the valuer shall take all necessary precautions to ensure that there exists no direct or indirect interest to him or his company, relatives, friends or partners in the subject asset. Indirect interest includes all that is affected by the valuation of the subject asset. When such conflict exists, it shall be disclosed (CEPC).

For client conflict threat where the valuer is acting on behalf of different clients regarding the same matter such as the same asset, opportunity or transaction, the valuer must, in addition to the above considerations for less proximate interests, obtain written approvals from the clients before accepting the assignment. While doing so, the valuer must take care not to breach any duty of confidentiality to the conflicted clients. Acting for different clients in the same matter might mean having to use different teams and information barriers or Chinese walls between them. A compliance officer who is a senior person in the firm and not a member of either team must oversee such an arrangement. The CEPC provides the following in this regard:

> Article 2-2&3
> The valuer shall not act for two or more parties in the same matter except with the written consent of all the parties.
> The valuer shall take all necessary precautions to ensure that there does not arise any conflict between the interests of his clients (CEPC).

> Article 4D-1&2
> The valuer must handle client's affairs with precaution and confidentiality. He shall not disclose any sensitive factual data obtained from the client, or assignment outcomes reached in the client's favour to any person or third party.
> The valuer must not use confidential information obtained as a result of professional relationships for personal purposes or for the benefit of a third party (CEPC).

Independence is at the heart of a professional valuer's ethos. Amongst the measures stipulated by the CEPC to safeguard the valuer's independence is the requirement that valuers must never agree to fees that are premised on a percentage of value, much less on a predetermined outcome. Valuers must also ensure that their fee income comes from a wide and diversified client base as opposed to just a few clients. However, what proportion of total valuation fee income from a single client is acceptable or material is not explicitly stated in the CEPC. Nevertheless, Taqeem advises that for all valuations that may be relied upon by others besides the client, the report should disclose:

i. Whether or not the proportion of the firm's income from the client exceeds %5 of the firm's total income during the last 12 months. Where a specific intended user of the report has been identified at the outset, that disclosure must also be made in the proposal and the LoE, which would give the user the opportunity to object to the valuer's appointment if they perceive potential bias.

ii. Payment of any referral fee by the valuer, in cash or in kind in connection with the procurement of the assignment.

An audit trail of the valuer's actions with regards to conflict of interest and independence checks and disclosures should be maintained in the valuation working papers for compliance and monitoring. A robust system of conflict checks that spots conflicts and documents the results of such checks through diligent recordkeeping goes a long way to demonstrate that the valuer acted properly.

Reliance on third parties

A valuer may be forced to use the technical expertise of a subcontractor specialised in a certain aspect of the valuation or hire the services of a peer, as well as rely on public information or data provided by third parties such as data vendors.

The valuer must agree with the client at the outset about his intention to employ the services of the subcontractor. The valuer would normally sign the valuation report and take full responsibility for the services provided by the subcontractor. It is thus crucial that the valuer carefully selects a reputable and appropriately qualified subcontractor, ensures the subcontractor is adequately covered, commits him to similar terms as those that the valuer has/would enter with the client and reviews the work of the subcontractor to ensure it has been completed competently and in compliance with IVS and any other applicable standards. An alternative arrangement, especially where the expert's role is outside the valuer's expertise, may be to transfer some of the risk involved by having the client sign up the expert directly and have the valuer and the expert either co-sign the valuation report, or incorporate the expert's findings in the valuer's report with appropriate references and disclaimers limiting the valuer's liability concerning such findings. The valuer should consult a legal expert to help him make the right decision regarding the cited options given the circumstances of each engagement.

As far as data from third-parties are concerned, the valuer must also agree with the client the extent to which such data may be verified and relied on. The valuer must use reasonable care and diligence to ensure that such data is accurate. In this regard, valuers are also reminded of the considerations required by IVS 102 Investigations and Compliance (para 20.5) when assessing credibility and reliability of information provided by others, particularly the significance of such information to the valuation conclusion, the expertise of the source and independence of the source in relation to the subject matter and subject asset, respectively. The source of third-party data used in the valuation and the extent to which it has been verified must also be stated in the report. Although the valuer is ultimately responsible for his decision to rely on such data, it is not uncommon for valuers to disclaim liability arising from the use of such data in both the letter of engagement and valuation report.

A flowchart mapping the major issues and decisions that the valuer or firm may have to consider in taking on a valuation client is provided in Appendix A-4.

1.3 Scope of Work

IVS 101 requires valuers to determine and clearly communicate to the client a scope of work that is appropriate for the intended purpose. The scope of work must be communicated to the client before the assignment is completed. Ideally the scope of work should be determined and communicated prior to entering the engagement, except where the scope only becomes clearer or must be modified during the engagement as the valuer goes about his valuation investigations and enquiries.

Taqeem's Charter of Ethics and Professional Conduct (CEPC) lays more emphasis to the above requirement and further stipulates that the scope of work must be agreed upfront and in writing between the valuer and the client.

> Article 4A-4:
> Prior to accepting any assignment or entering into an agreement to deliver such an assignment…. the valuer must be in receipt of specific instructions or mandate from the client, which must be documented **in writing** and in detail in accordance with International Valuation Standards **prior to** commencement of work; to avoid any misinterpretation to the meanings or **scope of the work.**

Scope of work undertaken in a valuation assignment is of fundamental importance as it has a direct impact on the credibility of the conclusion or value opinion. Its adequacy is typically judged having regard to the purpose of the valuation. No matter how much other compliance with IVS is had or purported by a valuation, an inadequate or incorrect scope of work that impinges on the credibility of such a valuation will render it non-compliant with all IVS.

> (IVS.-102 para,20.7)
> If, during the course of an assignment, it becomes clear that the investigations included in the **scope of work** will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate or limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation assignment will not comply with IVS.

In situations where the scope of work is so limited, or the valuer lacks information to render a credible valuation, the valuer must, after consultation with the client:

1. Adjust or expand the scope to include the gathering of missing information; or
2. Complete the valuation on the basis of a special assumption if the appropriate Asset Standard permits; or
3. Withdraw from the assignment.

According to IVS 101, the valuer needs to identify and disclose the following as part of his scope of work:

a) Identity of the valuer

b) Identity of the client

c) Identity of other intended users

d) Asset being valued

e) The valuation currency

f) Purpose of the valuation

g) Basis of value

h) Valuation date

i) The nature and extent of the valuer's work and any limitations thereon

j) The nature and sources of information upon which the valuer relies

k) Significant assumptions and/or special assumptions

l) The type of report being prepared

m) Restrictions on use, distribution and publication of the report

n) That the valuation will be prepared in compliance with IVS and that the valuer will assess the appropriateness of all significant inputs

However, in line with CEPC and an interpretation of other statements in IVS, it helps to think of the above items as comprising both problem definition and scope formulation. In other words, some items in the list such as parties to the valuation, purpose and asset are essentially 'givens' and provided by the client at the outset. These givens essentially constitute 'the problem' that the rest of the items in the list, particularly (i) to (n) are needed to address, and therefore generated as part of the valuation (i.e. valuer's scope).
The above division can clearly be seen in CEPC:

> Article 4A-1:
>
> Prior to accepting any (valuation) assignment or entering into an agreement to deliver such an assignment, the valuer must understand the dimensions of the assignment to be performed, including identification of the parties to the assignment, the asset that is the subject of the assignment, assignment purpose, and the basis of the required value; so as to be in a position to agree with the client on the **scope of the work.**

This suggested categorization between problem identification and scope formulation is for the sake of aiding the valuer's understanding of the items in IVS 101 and facilitating the valuer's focus on the more variable and technical aspects of the engagement in developing his scope of work. These aspects revolve around the valuer's inspection, investigations and analyses. That said, all the items outlined in IVS 101 must still be confirmed in writing between the valuer and the client and disclosed in both the engagement agreement and the valuation report.

Putting CEPC 4-1 and IVS 101 together then permits further structuring and categorization of the list as follows:

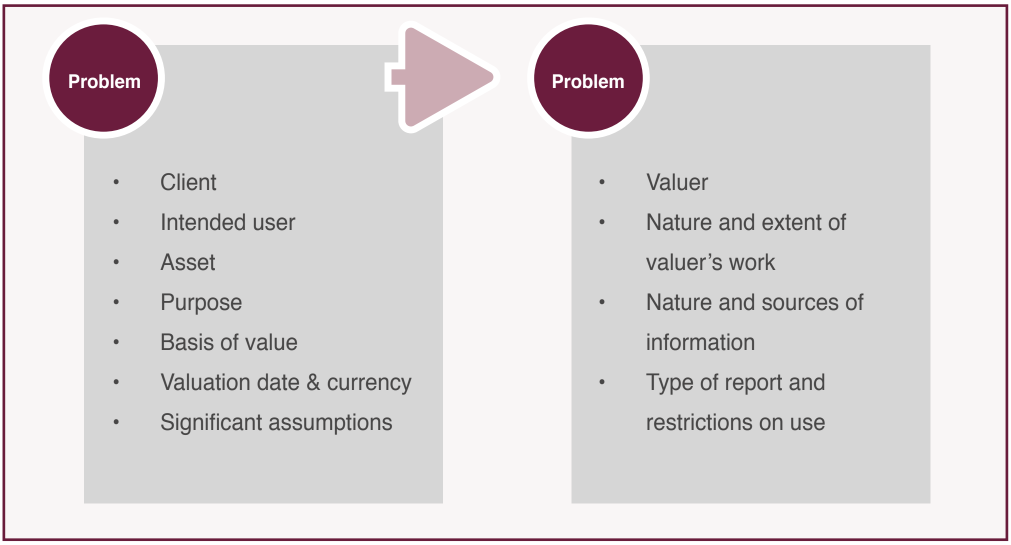


Figure (4): Scope of Work Categorization

Below is a brief description of each item summarized from IVS 101 which the valuer must understand in his definition of the assignment problem:

1. Client- the person or entity engaging the external valuer or employing the internal valuer
2. Intended user- the person or entity that the valuer intends will use the valuation he provides. This may also be suggested by the client but ultimately the valuer decides who relies on his report.
3. Asset- item that is the subject of the valuation.
4. Purpose- the reason(s) the valuation is performed e.g. for financial reporting, transaction support etc.
5. Basis of value- the type, definition and fundamental assumptions of value
6. Valuation date- The date on which the opinion of value applies i.e. the effective date.
7. Valuation currency- The monetary currency for the valuation
8. Significant assumptions- All significant assumptions and special assumptions that are to be made in the conduct and reporting of the valuation

Recall that the first chapter sets out the framework for capture of all the preliminary information from the client which allows the valuer to define and understand the needs of the client, or the problem, to be solved. The valuer can subsequently tailor the items under 'scope' in the diagram above to meet the client's needs. In other words, there is no one size scope of work that fits all valuations and the valuer has plenty of flexibility in choosing the right scope, which however he must do objectively, communicate to and agree with the client.

The right scope for any assignment is one that is appropriate for the purpose and results in a credible opinion of value.

IVS Framework- 40 (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 minimises 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.

IVSC CEPPV- Discussion of Fundamental Principles (A2.8)

In considering whether a situation creates a threat to their objectivity, a professional valuer should recognise that it is often **the perception of possible bias** by others that creates the threat to the credibility of the valuation.

An appropriate scope may therefore be said to be one which is:

1. Determined objectively and is free from perception of possible bias by peers and users of the valuation;
2. Expected by parties who regularly are intended users of such valuations; and
3. Likely to be selected by the valuer's peers i.e. other appraisers who have expertise and competency in a similar type of assignment;

Identification of the valuer in the scope of work relates to a confirmation that the selected valuer is suitably qualified and competent to carry out the valuation objectively and discloses the nature and source of any material assistance that he intends to seek from others. This requirement is further stressed by CEPC thus:

Article 3-3:

The valuer must be certain that he has the knowledge, technical skills and experience necessary to carry out the valuation competently, with a high level of professionalism and competence and to a decent level of quality.

Article 3-8:

The valuer must know the limits of his abilities; if he lacks the necessary professional knowledge and experience to carry out a valuation, and does not have the capacity to acquire such competence before completing the assignment, he must seek the assistance of someone who has the necessary experience in that type of assignment or decline the assignment.

As 'valuation work' entails inspection, research and analysis undertaken by a valuer to estimate value, scope selection thus involves deciding the[1] :

1. extent to which the asset is identified;
2. extent to which the asset is inspected;
3. type and extent of data researched;
4. type and extent of analysis carried out to arrive at opinions or conclusions.

1 Adapted from The Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2016- 2017 ed. (Washington DC), 14.

Based on the above parameters, the scope options may be presented as follows[2] :

Process	Physical	Legal (e.g. zoning)	Economic
Less intensive	No site visit	No research	Obtain from owner
	Drive-by visit	Examine zoning maps	Read lease(s)
	Drive-by, exterior-only site visit with exterior measurements	Talk to planning/ zoning department	• Read leases. • Verify with management company
More intensive	Site visit including examination of interior with interior measurements	• Talk to planning/ zoning department. • Obtain and read zoning ordinance	• Read leases. • Verify with management company and tenants

Less intensive	Cost Approach	Sales Comparison	Income Capitalization
	• Land valuation via extraction; • Comparable cost data from readily available sources	• Comparable data from files • No adjustments to comparables in analysis	• Comparable rental, expense, and vacancy data from files • Capitalization rates from readily available sources
	Verified comparable cost data from cost manual	• Comparable data from readily available sources, confirmed with one or more parties to the transaction • Adjustments supportable	• Comparable data, including capitalization rates from readily available sources, confirmed with one or more parties to the transaction
More intensive	• Land valuation via sales comparison approach with complete verification of sales data. • Comparable cost data obtained from local contractors	• Thorough search of all available data sources • Confirmation with one or more parties to the transaction • Adjustments via paired sales analysis	• Thorough search of all available data sources • Confirmation with one or more parties to the transaction • Local vacancy survey

Table (1): Scope of Work Options

With the scope now selected, a simple Assignment Plan/ checklist may also be completed (Appendix A-5)

2 Stephanie Coleman, Scope of Work, (Chicago, Illinois: Appraisal Institute, 56 ,(2016 and 57.

1.4 Valuation Fees

The valuer has many options to base the calculation of his fees provided they are not directly related to the valuation estimate or outcome of the valuation. CEPC states the following in this regard:

> Article 2-11
> It is prohibited to base valuation fees on the outcome of valuation, such as expressing the fees as a percentage of the value of the asset, or making it contingent on the execution of a transaction, for example.

The level of fee that a valuer can charge is a matter between him and the client. Prior to quoting a fee, a valuer should take time at the outset to gather as much information as possible about the needs of the client, the asset, the requisite scope of work, the type of report and how it will be used and so forth.
For valuers in the region, primary considerations in the calculation of valuation fees include:

1. Hourly rate x number of hours to complete the assignment
2. Estimated time in an assignment based on past projects
3. Experience and expertise in the asset type
4. Risk/ liability issues including reliance by third parties
5. Fees charged by peers/ competitors
6. Client perception of quality such as between a local and regional or global valuation firm
7. Current level or schedule of projects in the firm
8. Hiring other professionals such as home inspectors, surveyors, etc if included in the scope of Work.
9. Hiring other valuers competent in a special property, a specific region or a certain method of valuation.
10. The level of accessibility to related data

Similar to other professions, such as legal and accounting, valuers work within a general range of hourly rates. In general, the more experienced the valuer, the higher is his hourly rate. Alternatively, a valuer may work the rate backward from his typical or desired annual income after factoring business and staffing costs while taking into account the average number of assignments and time spent on such assignments.

For more risky assignments, where professional liability is relatively high, valuers tend to add a premium to their usual fees for the added responsibility, risk and stress. These assignments may involve assets that are large and complex; unusual or specialized; subject of litigation; or assets with environmental or structural issues. Clients that are perceived to be too demanding or 'high maintenance' would also attract a premium. They include clients that demand unusually short turnarounds or are given to scope creep.
Ultimately the fee that a valuer quotes is tempered by existing relationships and potential for future business from the same client, the level of fees charged by peers and what the market can bear.

The valuer should not forget to estimate and add to his fees any out of pocket expenses associated with the valuation at hand including travel, accommodation, translation, per diem etc.

There is no one standard way of presenting the fee estimate in the proposal or Letter of Engagement. Unless requested otherwise by the client, such as is usually the case by public clients, it is acceptable for the valuer to describe his basis for the calculation of the fee whilst showing an estimate of the total fee, with or without out of pocket expenses. However, it is more prudent for the valuer to provide a breakdown of the fees to permit a comparison with other quotes, and to avail a basis for charging for work done prior to cancellation or for extension of scope.

1.5 Proposal

Once a valuer has understood the client's requirements, figured out the client's problem and solution to it, and reasonably determined that he is well suited to take on the client and valuation, the next step would be to send a proposal to the client. The proposal would document the valuer's understanding of the client's requirements and his proposed scope of work, time, fee and information needed to fulfil such requirements.

As a persuasive selling document, the proposal would typically also present some colourful background about the valuation firm, its workforce, credentials and experience with similar valuations, and details of the team selected for delivery of the valuation. As such, a valuation proposal is unique to the firm issuing it. It is thus not uncommon for a firm to have a marketing department or dedicate practice teams that in some cases invest quite some time and effort generating proposals to differentiate the firm from its competition. Valuers must however have regard to the following provision of the CEPC:

> Articles 1-6
> It is prohibited for a valuer while advertising himself or marketing his work in order to win business, that he:(A) claims academic or professional qualifications or previous experience which he does not really possess, or refuses to correct information around them; (B) Uses incorrect information, misleading advertisements or exaggerated offers about his services; (C) Provides false allegations, flimsy comparisons or offensive references to the actions of other valuers.

Whilst there are no standards dedicated to proposals, the proposal should at a minimum clearly and honestly communicate much of the same terms upon which the valuer would endeavour to engage with the client once appointed. Unlike an offer, a proposal is not a promise or commitment but, if accepted by the client, the valuer is expected to follow through and negotiate for the creation of a binding contract. It is therefore good practice to let clients know of your standard terms at the proposal stage rather than leave anything to assumption or to the subsequent draft letter of engagement. Beside facilitating a broader comparison of your proposition with that of your peers, inclusion of the terms in the proposal might also save the parties time to negotiate the terms alongside any other aspect of the proposal before the opportunity is awarded. Failure to agree to some of the terms on a draft letter of engagement when all other bidders have been turned down can be very frustrating to clients.

The client's RFP may also dictate the structure and content of the proposal. It behoves the client to request a comprehensive proposal, and to share sufficient information himself for the valuers to submit such a proposal, Otherwise, it is not uncommon for some valuers to be economical with their terms until the draft engagement stage to counter any surprises by the client.

Through inclusion of their business terms in the proposal, some firms are able to combine the proposal with a draft contract in order to save time. In such cases the proposal would have a section where, if the client accepts to abide by the terms of the proposal, he could sign it, date it, and remit the first fee instalment.

Much may also be said about strategies to develop winning proposals and convert opportunities but that is beyond the remit of this guidance.

Appendix A-6 presents a proposal template in PowerPoint based on best practice for valuation proposal structure, content and logical flow. Some clients, particularly public and institutional ones, may stipulate that the proposal be submitted under 3 distinct covers, namely:

1. Submission Letter
2. Technical Proposal
3. Financial Proposal

The appended template clearly allows for such partition and illustrates the contents of each.
An outline of the proposal sections and contents can be found in Appendix A-6.

1.6 Letter of Engagement

Also referred to as variously as the Engagement Agreement and Agreement for Services, the Letter of Engagement (LoE) is essentially the contract that defines and affirms the service that the valuer will provide in the assignment, the responsibilities of both the valuer and the client in the assignment and conditions that will govern the use of the valuation report.

Although IVS does not require the LoE to be written, local regulations and the CEPC (Article 4-A4) do, and prior to commencement of the assignment:

> CEPC- Article 5 (4)-A421:
> Receive precise instructions from the client and document them in writing in accordance with the International Valuation Standards before engagement to avoid any misinterpretation of meanings or scope of work.

A written LoE serves to align expectations by clarifying the terms of the assignment and provides verifiable evidence of the parties' endorsement of those terms, thus mitigating disputes or facilitating their resolution. The LoE must include at a minimum the terms set out in IVS 101 Scope of Work, plus the assignment duration and fee basis. It must also include identification of the governing law and jurisdiction and any alternative dispute resolution mechanism:

1. Identity and status of the valuer
2. Identity of the client (if available)
3. Identity of other intended users (if available)
4. Intended user
5. intended use
6. Asset being valued, and specifically the interest
7. The valuation currency
8. Purpose of the valuation
9. Basis of value
10. Valuation date
11 .The nature and extent of the valuer's work and any limitations thereon
12. The nature and sources of information upon which the valuer relies
13.Significant assumptions and/or special assumptions
14.The type of report being prepared. It is important also to indicate format, number of copies and delivery method.
15.Restrictions on use, distribution and publication of the report, including confidentiality and third-party reliance.
16.That the valuation will be prepared in compliance with IVS (effctive31 January 2020); and that the valuer will assess the appropriateness of all significant inputs.
17.Assignment duration including schedule of any milestone deliverables, meetings and timeline for receiving and addressing client comments

18. Subcontract provisions
19. Valuer’s fee basis
20. Valuer’s complaints procedure, if any
21. Changes to agreement, cancellation
22. Governing law and jurisdiction

A description or specimen of each item is provided in the templates in the Appendix A-7.

Typically, the LoE would be drafted by the valuer, but client contract templates are acceptable as long as they cover all the terms above and are agreed to by the parties.
A valuer’s LoE should be attached to the valuation report.
A LoE would consist of the following documents:

1. Standard Terms of Engagement
2. Acknowledgement Letter
3. Supplementary Letter, in cases of changes or variations to the contract terms during the course of the assignment

The **Standard Terms** would contain the valuer’s general terms of business that are typically common to all engagements except where tailored to the current assignment. Although these documents are largely proformas or boilerplates, the valuer should review the terms and consider their appropriateness to each assignment.
The **Acknowledgement Letter** on the other hand is designed to serve as a cover letter acknowledging the client’s instructions and introducing the terms of engagement through an appropriate reference to the accompanying Standard Terms document.

However, some valuers prefer to include the scope of work, which is variable across different assignments, in the Acknowledgement Letter instead of showing it in the standard terms document. That way also, the valuer may only need to change the terms in the Acknowledgement Letter whenever he responds to new instructions from the same client under a long-term contract. As such the Acknowledgement Letter would also include:

1. The basis of value;
2. The extent of the valuer›s investigations;
3. The valuation date;
4. Assignment duration; and
5. Valuer’s fees.

In this case, the Acknowledgement Letter will normally take precedence over the Standard Terms. Even then the valuer must ensure that there is no contradiction between the terms in either document.

The valuer must make sure that all terms are included and agreed in the LoE. These include conditions limiting the use of the report, disclosure of conflicts, and significant assumptions. Their later inclusion only in the valuation report may not legally bind the client and may expose the valuer to claims from the client or third parties.

It is important to include a clause on third party access to and reliance on the report so as to restrict the valuer's exposure to claims from third parties. The default position must always be that third parties are not authorized to receive or rely on the report except where expressly stated otherwise in both the LoE and the report, or with written consent from the valuer. Some firms would append specimens of their standard 'Access' or 'Hold Harmless' Letters to the LoE. A third party could receive a copy of the report only after the client's and valuer's consents and upon signing the valuer's Access Letter. The letter disclaims any liability by the valuer to the third party and puts the onus on the third party of indemnifying the valuer against any claims that might arise from the third party sharing the report with others.

Repeat Instructions

Valuers typically have clients that come back regularly with new instructions for the valuation of the same property or other properties. Indeed, some firms thrive on repeat business from a few large clients with large inventories of properties requiring valuation throughout the year, such as home loan providers, real estate funds or master plan developers. For such clients, it may be frustrating, if not impracticable, for both the valuer and the client to negotiate new terms and draw up or review long multi-page contracts for every valuation assignment.

It is customary practice for valuers to have in place a retainer agreement or standard instructions governing all valuations for repeat clients during a specified period, often a year. The retainer agreement would set forth all the terms and conditions outlined previously under the LoE section and specify the nature and number, or frequency of valuations envisaged for the period, or a specific list of properties requiring valuation over the same period. The fee structure in retainer agreements may be based on total hours envisaged, which are later reconciled with the time spent on the valuations or expressed as fee per property.

Under a retainer, and provided the valuation problem (i.e. client, intended use, user and purpose of valuation) is the same as defined in the retainer, it is acceptable that subsequent instructions for the valuation of individual properties within the subject portfolio are formalized simply by email, a brief pro-forma letter or task order from the client providing details of the property to be valued and invoking the terms of business already contained in the retainer. But for the avoidance of doubt, the retainer should state the format of subsequent instructions and that they would bind both parties to the terms and conditions set forth in the retainer.

Repeat clients such as lenders typically have large volumes of valuation instructions involving the same asset class throughout the year and require relatively quicker turn arounds. Therefore, form or summary valuation reports tend to be the preferred report format under retainer arrangements. Regardless of the report format, valuers must ensure that they meet the disclosure requirements of IVS 103.

Retainers offer valuers a safety net by guaranteeing a set amount of revenue over the year. Stable income, consistent work schedule, long-term client relationships, and great credentials are the major reasons why some valuation firms would focus their business on mainly retainer work. For clients, retainers on the other hand mean the valuer(s) retained can become more familiar with the client's business model; save client the time to scour the market for consultants as well as retrain and rebuild relationships and secure fee rebates in exchange for regular assignments.

Existing relationships notwithstanding, clients and their ownership, key personnel or needs change over time. It is therefore imperative that valuers regularly conduct client due diligence, including conflict checks, regardless of the long-standing nature of their relationship with clients.

2.1 Data Collection and Analyses

2.1.1 Introduction

Data collection, verification and analyses are an integral part of the investigations that a valuer undertakes in completing a valuation. The credibility of a valuation depends to a considerable extent on the quantity and quality of data researched, as well as the appropriateness and quality of data analyses carried out to arrive at the value conclusion.
The valuer must determine what information or evidence will be necessary to provide a credible valuation, the type and extent of investigations necessary to obtain such information, the sources for the information and their reliability, and verification or corroboration that may be required of such information. Whilst the extent of a valuer's investigations will be a matter of his professional judgement, the decision will be influenced and judged primarily by amongst others: the purpose of valuation, the basis of value, the type of subject property and the terms of engagement.

Given the diverse nature of real estate value drivers and the wider context affecting real estate investment decisions, valuers often collect and analyse a similarly wide variety of data to develop and support their value opinion. This data typically includes macro-level data such as demographics, economic indicators and demand and supply data for market analysis; micro-level data such as property characteristics, zoning and alternative uses for highest and best use analysis; and sales and rental comparables, and yields, expense and cost surveys for the application of the market, income and cost approaches to value.

IVS Investigations and Compliance reckons that a valuer's investigations may comprise inspection, inquiry, computation and analysis. It also advises valuers to assess the credibility and reliability of data or information having regard to the purpose of valuation, its significance to the valuation conclusion, and the independence and expertise of the source of such information. The standard mentioned "Significant inputs provided to the valuer (eg, by management/owners) should be considered, investigated and/or corroborated. In cases where credibility or reliability of information supplied cannot be supported, consideration should be given as to whether or how such information is used" (International Valuation Standards Effective 31 January 2022) (S.102 – para 20.4). Besides client-supplied information and any relevant in-house data, much of the data required for a valuation comes from the valuer's inspection of the property, planning enquiries and from undertaking a market study. These sources of valuation data, along with the nature of such data, are further discussed below.

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 by relied upon without adversely affecting the credibility of the valuation opinion. Significant inputs provided to the valuer (eg, by management/owners) may require consideration should be considered, investigated and/or corroborated. investigation and/or corroboration. In cases where credibility or reliability of information supplied cannot be supported, consideration should be given as to whether or how such information is used. (S102,20.4)

2.1.2 Pre-inspection

Valuers typically obtain property data first-hand through inspection of the subject property and comparable properties. In most cases, inspections would be preferred over desktop acquisition of such data, especially where a valuer has no prior or recent experience with the property, since valuers can in the process also ascertain for themselves the extent, quality and conditions of both the subject and comparable properties.

Where a visit to the subject property is necessary and has been agreed with the client as part of the valuer's scope of work, the valuer must prepare adequately for the inspection, especially considering that only one visit to the site may practically be permitted. A thorough and diligent inspection impresses clients and lays the necessary groundwork for the selection and analysis of the right comparables, and the selection or validation and application of the most suitable valuation approach(es). Subject to adequate disclosure of its findings in the valuation report, a diligent inspection also highlights the property's strengths and weaknesses, including items of obsolescence present in the property, and minimizes the valuer's liability to the client and other intended or potential users of the valuation report.

Thus, in preparation for the inspection, the valuer is expected to:

1. Endeavour to obtain and review all property-specific information provided by the client, on file or accessible elsewhere, including but not limited to details of ownership or copy of title deed (Sakk), lease information, deed plan, site and building plans, rent rolls, operating statements, management forecasts/ budgets, maintenance schedules, management contracts, previous valuation, etc. This allows the valuer to identify in advance any matters for clarification or issues that need special focus during his inspection as well as facilitates a comparison between planned and actual aspects of the subject property;

2. Obtain and examine area maps (street maps, topographical maps, etc) and location plan to ascertain the location of the subject property, neighbourhood layout and access, and any notable geographical or man-made features or developments in the vicinity of the property that may contribute to or impact the property's marketability. A valuer must be trained in map-reading skills,

3. Be skilled in inspections, and reasonably familiar with construction materials and techniques prevalent in the market in which the property is located as well as the current building code;
4. Be reasonably acquainted with current market tastes and preferences with respect to location, design, layout, size, extent of accommodation, services and quality of the property type;
5. Make enquiries and document findings confirming details and source of current zoning regulations for the subject property and its immediate locality as well as the potential for change of use of the subject property or re-zoning of the area;
6. Make enquiries and document details and source of information regarding the availability and adequacy of mains utilities (sewer, water, electricity, telephone) to the subject property and its locality;
7. Based on the client's description of the property or the valuer's previous knowledge of the same, identify potential comparable sales, lettings or listings as appropriate and plan to visit them wherever possible after inspection of the subject property;
8. Assemble all the necessary tools and equipment that may be required for the inspection. These typically include inspection checklists, pen or pencil, note book/ipad/tablet or Dictaphone, measuring tape/measuring wheel/laser meter or ultrasonic measuring device, scale rule, camera, flashlight, calculator and other accessories. Valuers are only expected to report what they see, and in the case of the attic and basement/ crawl space level, the inspection is limited to what the valuer can see with only his head and shoulder accessing that space;
9. Except for a drive-by inspection, contact the property owner to arrange a suitable date and time for inspection of the property. Advise the owner the extent of the inspection and the estimated time it will take. Beside stating to the client or owner the purpose of the inspection (unless discreetness is required e.g. from a foreclosing lender), it is also advisable to clarify that the inspection will not be a building survey or home inspection typically undertaken by structural engineers or licensed home inspectors;
10. If the property entails several identical units or sets, such as apartment complexes or compounds, the valuer may select a reasonable representative sample of units to inspect from each type, provided that this has been agreed with the client and is prominently stated in the report. The valuer should preferably select the units for inspection himself and, to the extent possible, check with the occupants of the units to confirm lease terms and identify any repairs needed, in addition to his interview of the property manager.

Before beginning his inspection of the property, the valuer must check that he is at the right property or the actual location of the property is as shown in the official survey plan. If the property is a subdivision scheme, he must ensure that the actual layout matches with that shown in the approved plan. Sample the following incidents:

- A lender wishes to foreclose on a block of apartments whose valuation it relied upon for collateral purposes some time ago. The borrower is in default and a different valuer is now instructed to value the property for foreclosure purposes. The valuer is provided a copy of the previous valuation. The property is in an emerging area in the outskirts of town where there are only a few scattered developments, the roads are largely unmade and plot markers or beacons barely discoverable. Equipped with the survey plan for the scheme and pacing his way through the dimensions and bearings provided in the survey plan, the valuer manages with some difficulty to locate the property, a vacant plot, based on the plot ID given by the lender. It emerges that the previous valuation was for the apartment block next door which had just been completed at the time of the valuation and whose ownership had nothing to do with the borrower!

- A fund had partnered with a developer to develop the second phase of a large waterfront tract in the region. The development consisted several strips projecting into the sea as well as several rows of plots inland. Plots along the strips were priced differently based on amongst other factors their distance from the open sea. The sale of this second phase was not as successful as the first one, and after a few years the partners decided to dissolve the partnership and partition the unsold plots between them. An independent valuation was requested by the fund for that purpose. During his site visit, the valuer discovered discrepancies between the approved master plan, the plan shown in the marketing catalogues and sales agreements and the actual position of several of the waterfront plots. This meant that significant price revision was needed for the affected plots on account of these discrepancies, not mentioning exposure of the developers to existing buyers for potential mispricing and misrepresentation.

2.1.3 Inspection

There are no hard and fast rules for property inspections, which most valuers learn on the job, and valuers have different preferences regarding where to start and where to end the inspection. However, it is widely acknowledged that an inspection that flows from the exterior to the interior of the property, including measurements, provides the valuer with a better perspective of the property.

2.1.3.1 Inspection and Measurement

A valuer will inspect a property to determine the following:

Off-site:

i.Off-site improvements such as streets, including paving and width of adjacent street(s), sidewalks, street lighting, parking, etc.

Plot inspection:

1. Confirm that actual plot shape, orientation and abuttals are as described in the title and deed plan;
2. Note any discrepancies as well as encroachment across the plot's boundaries. Although not required to measure the plot area, the valuer must note and check any apparent discrepancies between the plot's actual dimensions and those stated in the krouki;
3. Note the plot's boundary markers or fencing type and entry points/gates and their condition;
4. Note the plot's gradient (level, gentle or steep slope, undulating), aspect, soil type and conditions;
5. Note utility connections and any alternative or supplementary facilities such as septic tanks, boreholes, water reservoirs, filtration plants, solar systems, wastewater treatment and recycling plants and their respective models and capacities;
6. Note on-site improvements including grading, landscaping, driveway, fountains, paving, drainage and irrigation systems, walkways etc;
7. Note site orientation and the plot's potential for subdivision (excess land);
8. Note any permanent outbuildings such as gatehouse, garage, diwaniyah, domestic staff or driver's quarters and pool house;
9. Note parking adequacy and access.

Improvements:

1. Note the building's architectural style, including house type (where appropriate) and its fit with the style or character of the neighbourhood;
2. Note number of levels or stories, including basements and lofts or attics;
3. Note the framing type and construction materials used for the external envelope (external wall, roof, foundation, doors and windows) including where appropriate their finish, cover, quality and condition. However, foundations may only be visible if the building has a basement foundation or is under construction. Similarly, the valuer may only be able to view a flat roof once inside the property;
4. For the interior inspection of the property, the valuer should start with the main entrance and walk through the property systematically noting:

a. Floor layout;

b .Number, type and capacity of accommodation e.g. for a residential unit: double-, single-, and master bedrooms, reception rooms (lounge, living room and dining room), kitchen, lavatories, etc;

c .Type of construction material, and type, quality and condition of finishes used in each room or space (including floors and walls;

d. Ceiling height, type and finishes;

e. Daylighting- number, type and sizes of windows;

f. Type, quality and condition of fixtures including doors, light fitments, closets, sanitary ware, heaters and so forth;

g. HVAC system;

h. System or type, number and capacity of vertical transportation (staircases, elevators, escalators)

i. Firefighting system;

5. While inspecting the property, the valuer must look out for and note the following, which he must also prominently highlight in the report:

a. Location issues- traffic, noise, air pollution, privacy issues, security issues, proximity to high voltage lines, transmission towers and so on;

b. Adverse site conditions such as encroachments, easements, apparent contamination, slides, waterlogs, ponding and so on;

c. Functional obsolescence e.g. insufficient number of full bathrooms, kitchen too big or too small for the house, no pantry, AC units over specified etc;

d. Leaning or bulging walls;

e. Cracks on walls including their extent, and pattern or direction;

f. Damp walls;

g. Faded, peeling or blistered paintwork;

h. Efflorescence;

i. Cracked or broken panes and exterior tilework;

j. Sticky doors and windows;

k. Rusty metal frames or casements;

l. Rotting or decayed wood;

m. Termite infestation;

n. Blocked, leaking or mouldy stacks, vent pipes gutters and down spouts;

o. Uneven roof;

p. Chipped, missing or curled roof tiles;

q. Evidence of moss on walls, roof or wood;

r. Any other sign of deterioration or hazard;

6. Take and include clear colour photographs of the property in the report. These should include at least the front and rear views of the property; a grab of the street frontage identifying the location of the subject property and showing neighbouring improvements; and a representative view of the property's interior, including any physical deterioration, amenities, conditions and other factors that may have a major impact on the property's value or its marketability;
7. The name of the person(s) carrying out the inspection and measurements, the date of the inspection, and any conditions that have affected the inspection must be noted and reported.

External measurements:

Except for commercial and retail properties which are typically transacted and valued based on their leasable areas, the valuer must have regard to the external area measurements of the buildings on the subject property. Where the terms agreed with the client require on-site measurements of the building, below are the guidelines for going about the measurements:

1. Make a sketch of the building outline at each level, clearly distinguishing any overhangs, voids or recesses;
2. Measure all the sides and note the dimensions on the sketch. A graph paper or a mobile sketching application and a tape measure or electronic device may be used for the purpose;
3. Check that measurements on opposite sides of the building are equal to ensure accuracy and completeness of measurements;
4. Use a consistent standard of measurement appropriate for each property type. Taqeem recommends adoption of the following measurement standards developed by the International Property Measurement Standards Coalition:
    a. Villas, townhouses, mansions, palaces- IPMS 1- Residential Dwelling
    b. Apartment complexes (single-ownership)- IPMS 1- Residential Apartment
    c. Apartment units (multiple-ownership or condos)- IPMS 3A- or 3B- Residential Apartment
    d. Offices- IPMS 3-Office
    e. Retail- Gross leasable area (TBD- IPMS Retail under development)
    f. Industrial- Gross internal area (TBD- IPMS Industrial under development)

The standard used must be identified, along with the areas, in the report.

5. Use a consistent unit of measurement based on market practice, being the Metric system in Saudi Arabia and specifically metres.
6. For comparable properties, the valuer should identify the bases for their areas and if necessary, adjust them to facilitate comparison with the subject property;

2.1.4 Market Study

Besides data specific to the subject property which would have been gathered prior to and/or upon inspection, valuers are required to be familiar with the forces that continually shape the real estate market in general and the subject property's sector in particular. These forces operate at both the local and regional levels and influence property uses and values to various extents. A market study entails the identification, collection and analysis of the macro- and micro-level data characterizing such forces that generally influence the performance of the related sector and eventually the subject property. Thus, whilst a property inspection determines what the property has to offer the market, a market study ultimately determines the market's likely view of the property's full potential i.e. its highest and best use, and the most probable price the market would pay for the property given such potential and the availability of other opportunities.

It must be noted that highest and best use is the premise that underlies most bases of value (IVS 400(30.2)), and some market analysis will therefore be necessary whatever the type or size of property being valued. Even where the zoning for a site is strictly for a single identified use, the valuation must have regard to the size of the relevant development that would be absorbed by the market, which only a market analysis could determine. Along with an analysis of the competition, the market study therefore provides not just answers as to use of the property, but also the size and timing for the identified use(s), the relevant inputs for the valuation approaches and evidence or basis necessary to support or justify the value opinion.

There are various levels or extents of market study necessary to support valuations depending on the type and size of the subject property and the volatility of the market. On the one hand the highest and best use of a single-family dwelling (villa or duplex) in an established neighbourhood would typically be its current use where that zoning designation is expected to endure for the foreseeable future and a reasonable numberof recent transactions of similar properties in the neighbourhood point to a steady market for such use. In such cases the market study may be limited to general trends and outlook in the city's residential sector, particularly the single-family segment, such as those periodically surveyed by reputable publications, in addition to demand for similar use as evidenced in recent transactions involving comparable properties in the subject's neighbourhood.

By contrast, the valuation of investment properties such as office properties, shopping centres, malls and hotels as well as sites zoned for mixed or alternative uses would invariably require a more extensive and forward-looking market study. However, there is no one single standardized scope or methodology for such a study. On the one hand, the highest and best use of an established and reasonably stabilized income-producing property may realistically appear to be the continuation of its current use (especially where conversion costs are expected to wipe out any value premium of the alternative use). In such a case the valuer may limit the market study or weight it more towards validating such use by ascertaining the quality and sustainability of the property's income stream, or the property's current and expected market share in the foreseeable future. On the other hand, a comprehensive market study is considered more critical in the valuation of vacant sites zoned for alternative uses or mixed-use development, as well as that of residential and agricultural properties in transitional areas and/or in rapidly changing markets. Such a study would include identification and tests of financial feasibility of probable uses, supported by demand and supply forecasts, to determine the highest and best use(s) for the subject site. The outcome would also include optimal mix and/or sizes of the best use(s) and the most probable or optimal timing for their delivery and absorption or stabilization.

Valuations of investment properties rely on forecasts of their future cashflows taking into account any leases in place, sustainability of their current income levels and their future absorption or occupancies driven by changing market conditions and competitive lease rates. It is therefore only logical that a market study for such properties must, at a minimum, include fundamental demand and supply forecasts specific to the subject property's submarket, as defined by both the segment(s) and the market area in which it operates (e.g. Class A offices in the CBD, regional malls within a radius of 20-15km, etc), as well as the subject's capture of such demand.

Moreover, knowledge of the phase of the market cycle prevailing at the date of value would be key to assessing risks and the direction and pace of rental growth, vacancy rates and capitalization rates to adopt in the valuation. Such knowledge also helps the valuer in his choice of suitable comparables transacted in a similar market phase and/or calculation of adjustments for market conditions for comparables transacted in different phases of the market cycle. Market cycles may be identified by examining the relative growth of key performance indicators including but not limited to rents, vacancies, capitalization rates and investor interest (e.g. sentiments, indices and marketing time).

Taqeem recognizes that all but a few of the valuations carried out in the Kingdom have historically had limited or cursory regard to market studies, let alone highest and best use analyses involving amongst others fundamental demand and supply forecasts, marginal demand analyses, and feasibility analyses. Traditionally such analyses have been provided as distinct assignments, albeit in much greater detail, and at relatively higher fees, by development advisory firms. Often though the latter studies work with client's target parameters such as hurdle rates and weighted average cost of capital which may be different from the market average for similar investments. They may also use or emphasize other investment evaluation criteria to the exclusion of present value.

Admittedly, time and cost implications as well as past market stability, the opaque nature of the market and the general lack of socio-economic data at more local levels may all have discouraged valuers from undertaking and explicitly disclosing the findings of market studies and highest and best use analyses in local valuations. However, these perceived obstacles need to be increasingly weighed against the potentially costlier risks of valuations that are based on inadequate market intelligence, including undermining client confidence in valuations and their relevance generally in the market. Understandably, imperfections in the market are not valuers' fault. However, it doesn't serve their course if valuers are seen to be altogether omitting even the most basic of market analyses based on what is available, accompanied with a disclosure of the associated risk inherent in their value opinion. Valuers should also realize that in many cases once a market study has been carried out it becomes part of their database for future assignments, whose update and use with successive engagements significantly reduces both assignment costs and the risk of incredible opinions.

The table below presents a list of the data that would typically be gathered and analysed in an inspection and market study, sequenced in line with the IVS definition of highest and best use, as well as some suggested sources for the data. The list is generic and not exhaustive, emphasizing instead factors that are market, sector, area and/or site specific whilst mainly excluding overarching macro-economic indicators such as GDP, inflation rates, budget allocations which nonetheless are important in providing a national context to the market studied. Some of the listed factors may also be multi-dimensional, such as where a physical or legal factor has social or financial implications affecting feasibility e.g. permit process or availability of alternative sites and associated costs or prices.

On data sources, it is vital that the valuer consistently obtains his data from authoritative and reliable sources. In many cases though the data from such sources is outdated, insufficient or too general geographically and/or segment-wise. These challenges notwithstanding, multiple sources coupled with the valuer's database and experience can be used to build upon, triangulate and project a reasonably narrow range of estimates that would closely reflect current realities and prospects. Sources used and extent of any corroboration of data must be stated in the valuation report, as must any reasonable assumptions in the absence of credible data. In this regard, valuers are also reminded of the considerations required by IVS 102 Investigations and Compliance (para 20.5) when assessing credibility and reliability of information provided by others, particularly the significance of such information to the valuation conclusion, the expertise of the source and independence of the source in relation to the subject matter and subject asset, respectively.

Dimension	Factor	Resi.	Office	Retail	Industrial	Source
Physical & environmental	Size and shape	✓	✓	✓	✓	Inspection + Krouki
	Visibility	✓	✓	✓	✓	Inspection
	Topography and soil conditions	✓	✓	✓	✓	Inspection/ Topographic map + soil survey
	Access (ingress, egress, adjoining traffic)	✓	✓	✓	✓	Inspection, area & traffic map
	Parking	✓	✓	✓	✓	Inspection, aerial map
	Transportation linkages	✓	✓	✓	✓	City map (A-Z), Google maps
	City and area growth patterns and corridors	✓	✓	✓	✓	City GIS, Google Earth (historical imagery)
	Utilities (sewerage, water, electricity, gas)	✓	✓	✓	✓	Inspection + city urban planning authority, utility companies
	Environmental impact and externalities	✓	✓	✓	✓	Inspection + city urban planning authority
	Impact on government services	✓	✓	✓	✓	City urban planning authority
	Availability of raw materials				✓	CCI, MEIMR
Legal	Tenure and encumbrances	✓	✓	✓	✓	Title, inspection
	Zoning	✓	✓	✓	✓	Krouki, city urban planning authority
	Development moratoria	✓	✓	✓	✓	City urban planning authority
	Permit process and building regulations	✓	✓	✓	✓	City urban planning authority, developers, contractors and project managers
	Surrounding uses and amenities	✓	✓	✓	✓	Inspection, city map, Google map

	Demand side determinants and indicators					
Socio-economic & financial	Employment- source, types, rate and stability	✓	✓		✓	GaStat
	Diversity of the city›s economic base	✓	✓		✓	CCI, MEIMR, GaStat
	Population and demographics	✓		✓		GaStat, CCI, Eskan
	Household size	✓		✓		GaStat, CCI
	Household formation	✓		✓		GaStat, CCI, MoJ (marriage and divorce register)
	Household income, distribution and spending patterns	✓		✓		GaStat, consumer research firms
	House ownership/rent ratio	✓				GaStat, CCI, Eskan
	Lending costs and requirements	✓				Eskan, lender survey/ websites, SAMA
	Vacancy rates		✓	✓		Market surveys, reputable thought leadership publications
	Prevailing attitudes	✓	✓	✓	✓	Survey of residents and investors
	Neighbourhood appeal	✓	✓	✓		Survey of residents and investors
	Area retention of retail sales			✓		CCI, survey of retailers and mall operators/ developers, local and regional shopping councils (e.g. MECSC)
	Viable retail sales volume per Sq. M			✓		Survey of retailers and mall operators/ developers, local and regional shopping councils (e.g. MECSC)

	Average office space per office worker		✓			Comparison of current and historical office employment numbers and total office GLA
	Non-resident retail purchases			✓		Survey of retailers and mall operators/ developers, local and regional shopping councils (e.g. MECSC), SCTH
	Freight volumes				✓	CCI, SPA, GACA
	Growth of other towns benefiting from local industry				✓	CCI, Modon, enquiries of industrialists
	Supply side determinants and indicators					
	Existing supply	✓	✓	✓	✓	GaStat, city urban planning authority, MoMRA, reputable thought leadership publications
	Projects under development	✓	✓	✓	✓	City urban planning authority, firms› database, developer enquiries, market reconnaisance
	Planned supply	✓	✓	✓	✓	As above
	Availability and cost of land	✓	✓	✓	✓	City urban planning authority, MoMRA, aerial maps/ city GIS, listings and broker enquiries
	Construction costs	✓	✓	✓	✓	Contractors, developers, const. cost publications, cost consultants, construction digests (e.g. MEED, Construction Week)

	Conversion possibilities and costs	✓	✓	✓	✓	Design and cost consultants, project managers, contractors, city urban planning authority
	Availability and cost of finance	✓	✓	✓	✓	Eskan, clients, developers, lender survey/ websites, SAMA, firm›s database
	Competitive environment	✓	✓	✓	✓	

Table (2): Site characteristics and market data analysed in a highest and best use analysis and their typical sources

2.1.5 Highest and Best Use Analysis

As indicated in Table (2) above, the objective of a market study is to provide the necessary data and information required to determine a subject property's highest and best use as well as the other inputs required for use in the approach(es) and methodologies adopted in the valuation of the property. Below is an illustration of the broad steps typically undertaken in a highest and best use analysis, whether for vacant land or improved properties. Data for such analysis is shown above, whereas the inputs for the valuation approaches including comparable prices, rents, vacancies, operating expenses and costs are integrated in the discussion of such approaches in the next section.

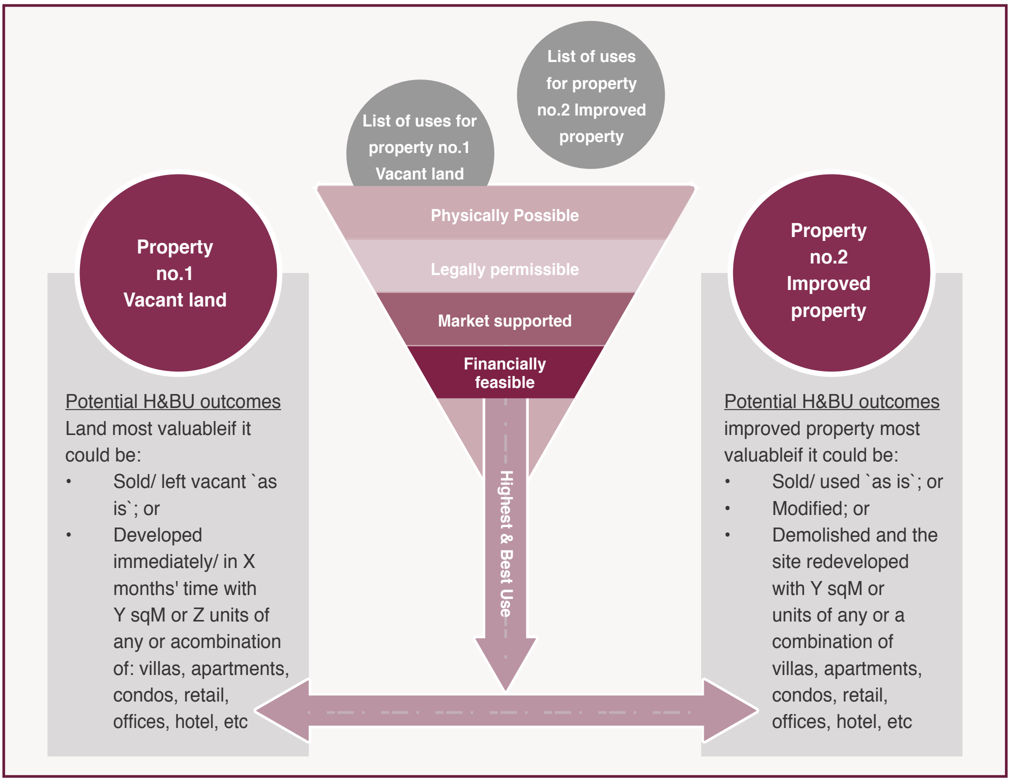


Figure (5): Highest and Best Use Analysis

Briefly, highest and best use analysis proceeds systematically through three broad filters which successively eliminate uses for the site that are determined to be physically impracticable, legally impermissible and the market would not sustain. Site and location analyses with respect to all the identified uses as well as checks of zoning conformity and constraints would normally be undertaken as part of these initial tests. Uses not currently zoned for but have reasonable prospect of being permitted on application or would likely qualify from an expected change in zoning may also be considered.

The initial two tests above refine and narrow down the list of uses to help focus the subsequent market study on identifying only those uses that the market is undersupplied with and would support through the foreseeable future. Analysis of the residual demand from absorption patterns in the market for such uses would then provide answers as to the optimal size (quantity and/or area of development) and timing for each use, having regard to the site area and entitlements and subject to financial feasibility. Where the site is large enough, multiple uses may be considered so as to fully utilize the site's productive capacity, diversify risks and/or induce demand from integrating them in the development. Finally estimates of construction costs, revenues and expenses from selling or operating each of the hypothetical developments would be analysed to indicate the profitability of each option and/or the net value contribution to the underlying land or existing property. The use(s) with the highest potential in terms of such profitability or value would normally be indicated as the highest and best use for the site or existing improvements.

Having identified the property's highest and best use, the valuer can now select and analyse comparables with similar highest and best use as the subject.

A highest and best use analysis need not always be as detailed as that outlined above. For instance, where a site is zoned for both residential and commercial uses and sales of similar sites in the area indicate that the site would sell for a higher price as a commercial site, then its highest and best use is commercial. That typically is the case also where the site is currently improved with a house whose price in the market is lower than the likely price of the underlying land as a commercial site, provided the costs for demolishing the house do not equate or exceed the value premium of the site's commercial use.

2.2 Approach/ Method of Valuation

2.2.1 Introduction

IVS 105 Valuation Approaches and Methods identifies the following principal valuation approaches available to the valuer:

a) market approach,

b) income approach, and

c) cost approach

The approaches are discussed in more detail below. However, common to all the approaches is the requirement to make comparisons with other properties, directly or indirectly, to derive, extract or corroborate relevant inputs under each approach. For instance: market approach relies on sales of comparable assets to provide an indication of value for the subject property; lease rates, capitalization rates and operating expense ratios used in the income approach are typically derived from or rationalized with those of other similar properties recently transacted in the market; and land value, construction cost and depreciation rates used in the cost approach normally have regard to comparable land sales, construction costs and depreciation profiles of comparable properties.

Comparability analysis is also implied in other provisions of IVS, including IVS 105 Valuation Approaches and Methods (para 10.7) which states the following:

"Valuers should maximise the use of relevant observable market information in all three approaches. Regardless of the source of the inputs and assumptions used in a valuation, a valuer must perform appropriate analysis to evaluate those inputs and assumptions and their appropriateness for the valuation purpose"

Regardless of the valuation approach used, the selection and use of comparable information not only affects a valuer's analysis and value conclusion, but also has a bearing on user's perception of the credibility of the valuer's opinion. So, what constitutes a 'comparable' or 'similar' property? As the following synopsis of the guidance offered by the Appraisal Foundation[3] in this regard shows, comparability considers more than just the physical characteristics of the properties:

1. The comparable should be what the valuer considers to be a competitive substitute for the subject property. The neighbourhood should be equally appealing and local market performance and characteristics similar to that of the subject.
2. The comparable should have the same highest and best use as the subject property.

3 Appraisal Practice Board Advisory 4#, "Identifying Comparable Properties", The Appraisal Foundation, 2014.

3. The valuer should identify significant elements of comparison and evaluate comparability between the subject property and the comparable based on these elements. Broadly, these elements comprise location, economic, legal, and physical aspects of both properties. Only relevant property characteristics within these broad classifications, based on importance assigned by market participants, are examined and weighed when selecting the most appropriate comparable properties. The characteristics may be any of those detailed below[4] :

Elements of Comparison	Description
Location (Market Area) Aspects	Would a potential buyer of the subject consider the comparable property as a potential substitute given its location within the market area?
Economic Aspects	Seller concessions, buyer's expected expenditures after sale, financing considerations to reflect "cash equivalent" pricing. In lease comparability, economic aspects might include reimbursement terms, landlord amortization of tenant improvements, etc. Also, includes market conditions: especially time, which is an element of all property analysis. Did the comparable transaction occur under similar market conditions as the subject property's date of analysis? What are the driving elements which differ and contribute to the adjustments necessary to infer pricing within the current market?
Legal Aspects	Comparability of property title and occupancy tenure, generally expressed as "interest appraised" Highest and Best Use: significant effort should be given to compare similar transactions based on the subject property's highest and best use.
Physical Aspects:	
Residential Homes	Home Size; Lot Size; Bedrooms/Baths; View, Amenities, Water-frontage, Garage, Basement, Architectural Style, Construction Quality\Finishes, Age, Type (Attached, Condo, Townhome, Detached), Special Features
Apartments	Unit Mix, Average Unit Size, Utility Metering and costs, proximity to demand drivers for rental demand, access and visibility, amenities; Age; Architectural Style, Construction Quality, Tenant Mix, Rent Control, Parking, Storage, On-Site Amenities
Office	Owner v. Tenant Occupied; Single/Multi-Tenant; Medical/Professional; Ownership Type (Condo, Fee, etc.); Date of Construction; Mechanical; Architectural Style/ Age; Construction Quality; Amenities, Tenancy Mix; Functionality; Floorplate Size; Land Size; Parking Suitability for Use

4 Ibid. 4.

Retail	Single/Multi-Tenant; Class of Retail (Grocery Anchor, Neighborhood Strip, etc.); Tenant Quality; Tenant Tenure, Visibility, Proximity to Residential, Parking Suitability; Age, Construction Quality, Amenities, Support Uses driving demand for retail use, Floorplan/Layout, Land Size, Signage
Industrial	Single/Multi-Tenant, Tenant Profile, Suitability to meet industrial user demand, ceiling heights, dock and loading door sufficiency, power sufficiency, Proximity to industrial demand generators, age, construction quality, land size, parking and loading circulation, floor loads, access to water/rail
Agricultural	Site Size, Topography, Soil Suitability, Crop Yield, Irrigation/Water Availability, Utility Availability, Age of farm buildings, Environmental regulations, Availability of subsidies, Plottage, Access to Storage, Farm House Divisible, Proximity to applicable markets

4. Where a significant element of comparison is missing in either of the subject or comparable property, the valuer should endeavour to use comparables that are superior and inferior to the subject for that element of comparison to validate the adjustments applied (also called 'bracketing').

5. The valuer should sufficiently explain and support the rationale for using the comparable properties selected in the valuation report, the basis for adjustments and reconciliation, and any limitations (such as where the valuer is forced to use old sales or listings in an inactive market).

IVS 105 further provides that the valuer may apply one or more of the valuation approaches depending on the purpose of valuation and underlying basis of value, the nature of the subject asset, customary approach used by participants in the relevant market, availability of reliable inputs and the relative strengths and weaknesses of the approaches. Although the valuation standards have put the full responsibility on the valuer to choose one method of valuation or more suitable for each valuation engagement, it also permits the use of other valuation standards if the engagement requires the usage of different standards other than IVS. Hence, the International Valuation Standards warned that this departure might have an impact on the required level of accuracy.

"In certain circumstances, the valuer and the client may agree on the valuation approaches, methods and procedures the valuer will use or the extent of procedures the valuer will perform. Depending on the limitations placed on the valuer and procedures performed, such circumstances may result in a valuation that is not IVS compliant". (S.105,10.9)

"A valuation may be limited or restricted where the valuer is not able to employ the valuation approaches, methods and procedures that a reasonable and informed third party would perform, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value could be material". (S.105,10.10)

Most valuations in the region are provided on the market value basis. These include valuations for secured lending, internal decision making. In such circumstances, certain assets lend themselves more to certain valuation approaches e.g. market approach for single-unit dwellings. IVS 105 further outlines the circumstances under which the respective approaches ought to be accorded significant weight in their selection and reconciliation of value, as well as the circumstances where valuers have greater discretion on such weights. These circumstances are related to availability and integrity of relevant information for each approach and the typical motivation of participants in the market.

In an active and perfect market where all transaction data can easily be accessed by valuers, application of the three valuation approaches would lead to similar value indications for the same property. However, the region's real estate market is maturing and is still largely characterized by relative lack of transparency. Considering the paucity of comparable transaction evidence for use with any or all the identified valuation approaches, valuers operating in the local market are encouraged to employ multiple valuation approaches or methods in any one valuation assignment whilst according appropriate weights based on their applicability or relevance to the type of property and purpose of valuation as well as the quantity, quality and reliability of market evidence obtained for each.

2.2.2 Market Approach

2.2.2.1 Definition

IVS 105 Valuation Approaches and Methods defines the market approach as one that "…provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available."

As far as real property is concerned, the key components of the above definition of market approach are 'comparability' and 'availability of price information'. Real properties or assets are heterogeneous, meaning no two properties are alike in every respect e.g. condition, location and aspect. IVS 400 Real Property Interests (para. 50.1) acknowledges this fact. However, as discussed in the Introduction, properties may be sufficiently similar to the subject property in their location, legal, economic and/or physical characteristics for a reasonable comparison to be made between them, and for the differences to be quantified and adjusted for in the valuation of the subject property.

'Price information' on the other hand is a broad term for information used to provide evidence of value and encompasses transaction details of comparable properties that have either been sold or leased, and/or listed for sale or lease. Hence both 'comparable transactions method' and 'comparable listings method' are espoused in IVS 105 alongside other valuation approaches and methods. The latter method is widely applied in in the region in the absence of reliable comparable sales data, especially in the valuation of vacant lands.

2.2.2.2 Underlying Principles

The market approach is predicated primarily on the principle of substitution which postulates that a rational buyer would pay no more for a property than the cost of acquiring an equivalent one in terms of utility and desirability, assuming no untimely delays. It is also the primary principle for the cost approach. Hence 'cost' here relates to the cost of constructing a similar property as well as the price that could be paid for a similar, existing property. Based on the substitution principle, a valuer assesses the value of the subject property considering the alternatives available to a potential buyer (i.e. other properties available for sale at the time of valuation) and the buyer's likely behaviour given recent sales of comparable properties.

The principle of substitution is quite broad and concerned with more than value or price. It applies to all data, including rents and rates for equally desirable properties that the valuer considers in developing his opinion of value.

IVS 105 also identifies other principles that underlie all valuation approaches, namely:

Equilibrium- This principle holds that property prices are established through competition. Property prices are stable when demand for, and supply of, properties are in balance. However, property markets are imperfect and along with asynchronous shifts in demand and supply, absolute or constant equilibrium is not attainable. Property prices tend to change overtime in response to amongst others changes in population, employment, household incomes, lifestyles, cost of finance, construction costs and trends, and performance of other economic sectors, all of which the valuer must be aware of when carrying out valuations. Competition also means that in an active market with many alternatives and buyer awareness, prices paid for comparable properties tend to be stable and consistent, and vice versa.

Anticipation of benefits- This principle relates property value to the expectation of future benefits from owning such property. Most if not all properties convey economic and/or other benefits to their owners, including residential properties, which are typically bought for occupation and valued by market approach.

For residential properties, the value of this expectation is inferred from the prices that average market participants pay for comparable properties. But no other valuation approach imbues the principle of anticipation as strongly as the income approach, where valuers forecast future streams of income and expenses accruing to a property to arrive at the present worth, or value, of income-generating assets such as offices and retail properties.

2.2.2.3 Steps in Applying the Market Approach

The steps of the comparison approach as taught in Taqeem's Qualifying Course 105 are re-illustrated in Figure (6) below. But rather than repeat or elaborate the detailed steps and mechanics of each valuation approach provided in the course, the ensuing discussion focuses on highlighting best practice in their practical application in light of both the provisions of IVS and the peculiarities of the KSA market. In other words, this guidance assumes that the valuer reviewing it has mastered all of the subject matter in Taqeem's courses including valuation basics, approaches to value and the overall valuation process.

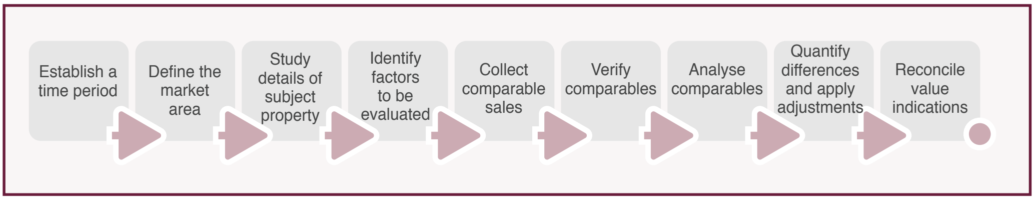


Figure (6): Comparison Approach Steps

Some of the above steps, especially (1)-(3), are common to all valuation approaches, while IVS 105 (para 30.6) identifies Steps (4)-(8) as key steps in the comparable transactions method. Moreover, some of the steps are iterative and inter-related, such as for instance collection of additional comparables when most of the original set of comparables could not be verified. Other steps may either be deferred or revisited, such as defining the market area only after a thorough understanding of the subject property has been gained from inspection.

Although only sales comparables are mentioned in the diagram, listings of comparables would be collected and analysed in a similar manner. IVS 105 (para. 30.3) provides that listings or offers for sale may be considered in a valuation alongside other methods, particularly where few transactions have occurred and details of such listings or offers are "clearly established, critically analysed and documented." Until recently, listings were used relatively more significantly in KSA due to the opaque nature of the market.

Valuers typically study listings of comparable properties:

1. To understand alternatives available to a potential buyer of the subject property;
2. For indication of the ceiling of the subject property's value. In other words, an adequately exposed comparable listing may not tell a valuer what the subject property is worth in the market, but it certainly indicates what the subject property is not worth;

3. To gauge the state of the property market. Numerous listings with longer than usual exposure period and price revisions may indicate a soft or declining market. In a stable market, comparisons of listings are used with historical sales turnover to estimate the inventory for sale (supply) and how long it might last in prevailing market conditions;
4. Consistently priced listings may be used to quantify differences between various elements of comparison for similar properties outside the comparable transaction data set.

The **time frame** in relation to which the valuer studies the market and comparable sales or listings is a matter for valuer's judgement considering the type of property and current conditions, level of activity, maturity and stability of the relevant market. For instance, considering the significant impact on the property market in KSA over the past two years as a result of the implementation of the vacant land tax, depressed economic growth prospects, low liquidity in the market, withdrawal of energy subsidies and expected departure of a large section of expatriates, some valuers might reasonably decide to only consider comparable transactions over the past 12 months. Some clients such as lenders may also impose a period for consideration, but ultimately it is the valuer's responsibility to advice or comment on the reasonableness of the period and rank the comparables considering any recent significant events affecting the market. In some more mature markets around the world, valuers, as a minimum typically obtain and analyse residential transactions and listings involving both the subject property and comparable properties over a three-year period prior to the valuation date.

A **market area** is defined to focus assessment of demand and supply of comparable properties, as well as market trends, in a relevant geographical area. This is typically an area with similar characteristics, performance and appeal to the potential buyer of the subject property. Depending on the type of property, the market area may encompass several neighbourhoods or even span a country or region (e.g. market for hotels). Thus, understanding the property's significant attributes and identifying the potential buyer in terms of a demographic (e.g. young, middle-income family for a two-bedroomed apartment) are key to defining the property's market area. A valuer may study a larger area if there are not enough comparables in the primary market area, although this often results in less comparable properties, more adjustments and potentially a wider range of value indications.

Factors to be evaluated, or elements of comparison, have been outlined under the introduction to valuation approaches above and are discussed at some length in Course 105. These are typically based on the valuer's knowledge and experience, but more importantly enquiries of recent buyers and brokers in that market. It is important to note that these elements may be different in different markets or for different types of properties or rank differently in terms of desirability and contribution to value.

A question that valuers often ask themselves relates to the **number and quality of comparables** needed for a credible analysis? The larger and more recent the comparable data set that can be verified, the better the analyses. Valuers typically use comparables to:

1. Quantify, or derive estimates of the average contribution of the respective elements of comparison to the value of the comparables studied;
2. Adjust the values of comparables in a grid for significant differences with the subject property based on the value contribution of each element derived in (i) above.

However, the dangers of using the same comparables for both tasks (i) and (ii) are two-fold:

1. Feeding back estimates for adjustments into the same comparables used to derive them in the first place is arguably circular logic capable of yielding uniform value indications for the subject property across all comparables used in the grid. This may be perceived as mathematical manipulation;
2. Any error in the details of one of the comparables will likely lead to wrong value indications developed from all the comparables.

To mitigate the above issues, valuers work with sufficiently large and relevant comparable sets that allow them to:

1. Derive estimates for adjustments off-grid (e.g. using supplementary comparables) and minimize inter-dependence of the primary comparables used in the adjustment grid;
2. More clearly discern, or where possible statistically derive, trends and price patterns, or relationships between prices and significant elements of comparison such as date or size.

On the quality of comparables, IVS 105 para 30.7 expects valuers to endeavour to select multiple comparables that (emphasis added in parenthesis):

1. Are very similar to the subject property *(and have similar highest and best use as the subject);*
2. Have transacted at 'arm's length' between unrelated parties;
3. Have transacted as close as possible to the valuation date for the subject property;
4. Have sufficient details for the valuer to assess evidence of value for the subject property;
5. Have been assembled from a reliable and trusted source;

It is considered best practice to plot and analyse comparable data graphically in terms of sale prices against units of comparison (e.g. size) with a view to revealing patterns, selecting the most appropriate unit of comparison, developing hypotheses around any unusual patterns for further investigation, and identifying and ultimately eliminating unsuitable comparables or outliers capable of biasing or skewing the valuation. Graphic analysis also allows for extrapolation of value indications where the primary data set may be of a limited range compared to the subject property, provided such extrapolation can be supported using supplementary data with a more extended range e.g. overlaying the analysis with comparables from a secondary location that bracket the subject property in terms of size.

For every new engagement, valuers must endeavour to obtain and analyse new comparable data and eliminate some or all of the old data in their analyses, especially where market conditions are changing.

In considering the credibility and reliability of comparable information provided, valuers are reminded of the provisions of IVS 102 Investigations and Compliance (para 20.5), namely to consider matters such as:

1. the purpose of the valuation,
2. the significance of the information to the valuation conclusion,
3. the expertise of the source in relation to the subject matter, and
4. whether the source is independent of either the subject asset and/or the
5. recipient of the valuation.

Standards of **confirmation and verification** of comparable data may also vary depending on the number of available comparables. Usually the fewer the comparables the higher the risk that an error in one comparable would seriously affect the overall outcome of the valuation analysis, hence the more rigorous the verification needs to be. In such cases confirmation would extend beyond just one party to a transaction to both parties thereto.

Valuers normally **source comparable** listings from a variety of sources, including driving around the subject's locality in search of postings, and visits to brokers' websites and offices, often posing as potential buyers. However, details available are often incomplete or outdated. Valuers are required to visit and profile the comparables they choose to rely upon as well as conduct broker interviews over such details as seller motivation, time in the market, price revisions, offers, buyer reactions, broker opinions etc to the extent possible.

Transparency in the local property market in general has improved significantly over the recent past buoyed by government efforts, increasing institutional investment in the real estate market, greater awareness by potential buyers and introduction of the land tax to curb speculation. For example, it is now possible to obtain area and price details for individual property transactions by city, district and property type on the Ministry of

Justice portal dating back to 2011. Valuers can now easily access this information to help generate or verify comparable data. In general, valuers in KSA are steadily moving from an era where finding transactional data of any kind may have been the single biggest challenge in valuation assignments to one in which they may increasingly require statistical tools to analyse available data. At present however, valuers still must locate and visit the comparables and the parties to the transaction for further details of registered transactions including physical, legal and economic attributes of the comparables and conditions of sale. Valuers are also encouraged to share such information, subject to any confidentiality constraints.

Valuers must explain in their reports the rationale for their choice of comparables as well as disclose the details and sources of comparable information, and the extent to which such information has been verified and applied in the valuation, including any limitations or challenges encountered and their impact on the value opinion.

2.2.2.4 Application of the Market Approach

Armed with verified comparable data and knowledge of both value-influencing elements of comparison and current market conditions, the valuer proceeds to compare the various attributes of the subject and comparable properties.

Prices must first be divided into suitable **units of comparison,** such as price per Sq. M. of land area or price per dwelling unit, that are commonly used by market participants (IVS 105 para. 30.4). Use of appropriate units of comparison also ensures that the valuer typically has a reasonably narrow range of unit prices to study and adjust in his comparable analyses.
The following are the widely used units of comparison in KSA:

Property type	Unit of comparison
Land	Price/Square Meter (Sq. M.) of land area or allowable building area
Residential- Apartments	Price/Square Meter (Sq. M.) of apartment area (variously gross or net)
Residential- Villas, Duplexes	Price/Dwelling Unit
Retail	Price/Square Meter (Sq. M.) of GLA
Offices	Price/Square Meter (Sq. M.) of GLA
Industrial-cold storages	Price/Cubic Meter (Cu. M.) of net storage space
Industrial- warehouses	Variously Price/Sq. M. or Cu. M.
Industrial- other	Price/Square Meter (Sq. M.)
Hotels	Price/Key
Hospitals	Price/Bed

Table (3): Units of Comparison

Units of comparison are not always size-related or expressed in terms of size e.g. hospital or nursing home beds. They may also be based on or expressed in non-physical terms e.g. throughput or business volume.

Where a market uses more than one unit of comparison for a particular type of property, the valuer should use the one with the greatest correlation with the sale prices of comparable properties.

The valuer can reasonably expect a pattern in his study of the units of comparison vis-à-vis the primary elements of comparison. For instance, in most markets, the price-size relationship for most property types, especially residential, is negatively curvilinear. In other words, buyers secure lower prices per unit (or wholesale price) as the properties get larger, albeit with the discount increasing at a declining rate to the added size. This is true for most land parcels, except for reasonably sized and largely development-ready sites in emerging or mature districts where homebuilders either don't have to commit significant investment in subdividing and servicing the sites or might enjoy increment in value through combining several parcels.

The comparables are then compared with the subject, typically in an adjustment grid, across significant elements of comparison. Depending on the elements that potential buyers would identify as significant in their purchase decisions, adjustments are made in percentage or dollar terms for differences in any or all the following transactional and property aspects[5] :

1. Property rights
2. Financing terms
3. Conditions of sale/ Concessions
4. Expenditures immediately after purchase
5. Market conditions

Transactional adjustments

6. Location
7. Physical characteristics
8. Economic characteristics
9. Zoning
10. Others

Property adjustments

Adjustments for differences in transactional elements ((1) to (5) above) should be addressed first, followed by property adjustments ((6) to (10)) which must be on the basis of the intermediate estimate arrived at post-transactional adjustments. Appendix B-2 provides an example of a sales comparison analysis grid. All details and estimates are fictitious and should not be relied upon for any valuation.

5 Appraisal Institute, The Appraisal of Real Estate, 14th ed. (Chicago, Illinois: Appraisal Institute, 404 ,(2013.

The grid can be shorter, focusing only on the relevant items of difference between the subject and the various comparable properties, or longer, including additional items relevant to a particular asset class and/or market. However, maintaining all possible elements of comparison in the grid beyond just the actual differences provides a useful checklist needed under most assignments. All adjustments must be supported, otherwise the comparable(s) should not be used.

Property rights are the bundle of rights such as freehold, leasehold or leased fee that are comprised in the asset which is the focus of the valuation. Ideally the rights conveyed in the comparables against which the subject property is analysed should be similar to the latter's. However, it may not be possible for the valuer to come across comparables with similar rights, hence the admissibility of comparables with relatively superior or inferior rights, provided the differences can reasonably be quantified from market evidence and adjusted for. For instance, adjustments may be needed where the subject is a leasehold whilst the comparable is freehold or leased fee, or where both are either leasehold or leased fee but the terms of the leases, level of occupancy, quality of tenants, and rental rates are different.

All else being equal, the adjustment between a leasehold and freehold may be based on deriving percentage differences between past sale prices of leasehold and freehold/ leased fee interests in otherwise similar properties. As for differences in operating income occasioned by different rental rates or occupancies between leased properties, the adjustment may be based on the capitalization of the difference in operating income.

IVS definition of market value requires exclusion of any "estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser" (IVS Basis of Value para 30.2 (a)). As such, any **financing arrangement** that is different from that generally available to buyers in the market and which the valuer reasonably believes to have influenced the price of a comparable must be adjusted for. Such atypical arrangements include but are not limited to seller financing (e.g. instalment sales contract and wraparound mortgage), buyer's assumption of the seller's mortgage which is at below-market terms (assumable mortgage), and loans at below market-rates extended directly to high net-worth buyers.

Adjustments for a typical financing, also called cash equivalency adjustments, involve estimating the difference in the present values of the atypical mortgage based on the interest rate and the market rate. However, such adjustments must not be different from what the buyers and sellers would estimate as the price difference resulting from such financing.

Any atypical motivations by buyers and/or sellers of otherwise comparable properties constitute special **conditions of sale** which are likely to have influenced the price of such comparables. These include but are not limited to situations where the seller's personal circumstances do not permit sufficient exposure of the property to the open market (e.g. quick house sales), transactions between related parties and seller incentives or concessions to buyers (e.g. sales that include house contents, vouchers, prizes or such; leases with rent-free periods to short-term tenants in the case of offices). The extent and direction of adjustment would be different under different circumstances. Concessions involving payments by sellers towards the purchase of a comparable would normally be adjusted through the deduction of the payment amount from the comparable's sale price. By contrast, an adjustment for a quick or distressed sale would be upward and for an amount or proportion of price that is extracted from interviewing the participants in the transaction, wherever possible.

Adjustments also need to be made for any **expenses incurred by a buyer in repairing a comparable property** immediately after its purchase, provided the valuer can reasonably confirm with the buyer about his prior knowledge of the need or plans for such repairs, as well as its influence on the price the buyer paid for the property. Such expenses should be added to the price of the comparable before carrying out further adjustments, including adjustments for date of sale/ market conditions. The magnitude of the adjustment should be based on the amount the buyer had anticipated to spend for the repairs before he decided to buy, rather than what he ended up spending after the purchase. On the other hand, if the subject property is the one in need of repairs relative to the comparable properties, then the amount that a potential buyer would anticipate spending on such repairs should be deducted from the prices of the comparable properties.

A **market conditions** adjustment is usually made to reflect appreciation or depreciation in the value of a comparable owing to different market conditions between the date of its sale and the subject property's valuation date. Resales of comparables in arm's length transactions over that interval are typically the best source for the magnitude and direction of such adjustments, barring any apparent change in the physical and economic attributes of the comparables. Alternatively, the estimate may be derived from sales of nearly identical properties over the interval in question. Obviously, the trend in sales price is extrapolated to the valuation date where movement is consistently in one direction. In the absence of sales, the adjustment may be based on the opinions of market participants or on capitalization of the difference in market rents for the comparables prevailing at the two cited dates at an appropriate cap rate. Changes in prices or rents may be specific to a market and/ or property type and must not be assumed to apply across the board.

Location is typically the most significant driver of a property's value. As such location tops the list of property adjustments after transactional adjustments have been addressed. A location adjustment would cover differences in access and visibility of the subject property vis-à-vis the comparable properties, as well as surrounding uses and desirability, character or reputation of their respective neighbourhoods. To derive an adjustment for location, sales prices of vacant lands in the various locations of the comparable properties are usually compared. Sales prices of nearly identical properties may also be used provided the improvements in some of the locations are not uniquely impacted by external obsolescence, such as proximity to airports or mining sites. Differences in rental rates between two locations for comparable properties may also be capitalized using appropriate location-specific cap rates to indicate location adjustments.

Differences in the **physical characteristics** such as size, topography, design, quality, age, condition, and utility of comparable properties may also be responsible for significant differences in their sale prices. As with the other adjustments, differences in physical characteristics may be dealt with in many ways including paired analysis or capitalization of differences in rental levels for say differences in accommodation; cost to cure for condition or curable obsolescence; opinions of participants for quality adjustments and so forth. Valuers should be careful not to double-count adjustments such as in the case of size and number of rooms, although an oversized property may warrant a negative adjustment for functional obsolescence.

Comparable income-producing properties may differ in value due to their **economic profiles** i.e. attributes directly affecting their incomes such as vacancies, operating expenses, quality of management, lease terms, tenant mix and covenants and so forth. Under the income approach these are naturally captured in the calculation of net operating income, cash flow forecasts and choice of cap or discount rates for the subject property. However, under the market approach the adjustments for differences in these attributes are not as straightforward. Valuers derive the relevant adjustments by comparing the sale prices of properties that are similar in all respects except for the economic attributes. However, finding suitable comparables for this purpose could be very challenging. Some valuers address this adjustment by first deriving a ratio between the net operating incomes per square meter of the subject and comparable properties which they then multiply with the sale price of the comparable property to indicate a value for the subject. However, this latter approach, also referred to as the net operating income multiplier analysis, has been faulted as simply a direct capitalization of the subject property's income, and takes away from the independence of the market and income approaches when they are both employed in the valuation.

As far as **zoning** is concerned, valuers are advised to use comparables with a similar highest and best use as the subject, which obviates the need for zoning adjustments. However, when only comparables with a similar use but different density entitlements from the subject are available, then the valuer may derive and apply adjustments on a price per allowable building area, or FAR basis.

2.2.3 Income Approach

2.2.3.1 Definition

The income approach is one of the three primary approaches of valuation identified in IVS 105 Valuation Approaches and Methods, which “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.” (IVS 105 para. 40.1)

2.2.3.2 Underlying Principles

As with the other valuation approaches, the income approach draws from the key economic principles of substitution, equilibrium and anticipation. Whilst anticipation of future benefits is the most fundamental premise of the approach, the other two principles are almost always in action as valuers typically derive or validate their baseline estimates and forecasts of income, expenses, absorption, occupancies and conversion factors for the subject property with reference to prevailing rates for substitute or competing properties as well as current and expected state of the market.

As earlier discussed, the principle of anticipation relates property value to the expectation of future benefits from owning such property. Most if not all properties convey economic and/or other benefits to their owners, which valuers attempt to quantify, forecast and convert into a lump sum expressed as an opinion of value.

The income approach is used globally to value income-producing or investment properties. Examples include commercial offices, retail properties, and residential and industrial properties held for investment purposes. IVS 105 (para 40.2) advocates primary use of the income approach where:

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.

2.2.3.3 Steps in Applying the Income Approach

Although there are a couple of methods (chiefly, income capitalisation, which Taqeem’s Course 105 discusses extensively as ‘the investment method’, and Discounted Cash Flow (DCF)) that may be distinctly identified and applied under the income approach, IVS 105 Valuation Approaches and Methods considers the same to be merely “variations of the Discounted Cash Flow (DCF) method” (IVS 105 para 50.1), inasmuch as they discount future income and/or terminal value of an asset to a present value on the valuation date.

The latest edition of IVS has clearly moved away from the distinct recognition of the income capitalisation as a separate method under the income approach, alongside DCF, as was the case in its previous editions (See for example IVS -2013 Framework para 60 and IVS 233-C6).

It is worth pointing out in this regard that, in the UK (and much of the Commonwealth), conventional income capitalisation methods originally evolved as simple or short-cut DCFs in the pre1950- era of relatively low rental and value growth[6] . At the time, the investment property market was dominated by long fixed-rent leases and, thanks to inter-war deflationary trends, property investors worried less about the long-term effects of inflation on their investments, which they saw as cyclical and conflict- or shock-related. They favoured security of income through long fixed-rent leases, which variously spanned 21 ,42 and 63 years. In such an environment, valuers made straight comparisons with returns in other fixed-income investment markets, such as bonds, in their choice of capitalisation rates (cap rates) for property, consistently adopting cap rates with a premium of 2 % over government bonds (gilts) for tenant default and generic property risks but excluding inflation risk. The point to remember here is that the pricing model used in valuations then was an investment model using cap rates based on required rates of return whilst having regard to returns of alternative investments.

However, the post-war recovery of the 50's and 60's ushered in a long period of sustained inflation in the UK and for the first time reversed the yield gap between gilts and property. The perceptions of equity investors, including property investors, towards inflation had changed, lease durations gradually shrank and institutional leases with -5yearly upward-only review cycles emerged. This gradually forced valuers to limit their choice of cap rates to comparison with sales of similar properties and to forsake comparison with returns on alternative investments such as bonds and equities. Hence the income approach became a comparison model based upon an income rate or the all-risks yield (ARY), rather than an investment model based on the overall rate of return that encompasses both income and value growth.

To this day, the ARY is calculated by dividing a representative single period's income of a comparable property by its sale price (i.e. income rate) and adjusting it for the valuer's assessment of risks and growth potential unique to the subject property, including security of income and capital, rental growth, marketability and cost of selling, collateral quality, management costs and so forth. The magnitude of such adjustment, (typically between 1%-3%) is however intuitive, as the subject's risks and growth potential are wrapped up implicitly or hidden in the valuer's choice of cap rate. The overall rate of return is rarely inferred or adduced in such valuations. Generally, higher cap rates are adopted for assets with more uncertain future incomes or growth, and vice versa.

6 Baum, A. and Crosby, N. (2008) Property Investment Appraisal, 3rd ed., Blackwell, London, UK

Traditionally, valuers employing income capitalisation divide their valuations vertically into two stages: a ‘term’, or the lease duration in which the contracted rent is typically below market rent, and a ‘reversion’ to full market rent, applying two different cap rates according to the relative risks of the income receivable under either stage. Later, a variation of this approach slicing the incomes horizontally between top and bottom or core slices emerged to better address the prevalence of upward-only rent review leases, over-renting as well as statutory rent freezes.

The strength of the income capitalisation methods lies in their simplicity and their use of actual property transactions to derive the cap rates. They thus rely on an active and transparent market and the valuer’s ability to obtain and properly analyse and apply transaction details to the valuation. However, they are arguably of more limited application in inactive or non-transparent markets, and in the case of properties with volatile or irregular cash flow patterns. Their failure to explicitly specify future cash flows and identify income risks has been widely cited as a key weakness[7].

The 1990 property crash in the UK (and to some extent the German open-ended fund crisis at the end of 2005) led to a clamour from clients, especially lenders and financial institutions, for improved valuation standards and greater disclosures in valuation reports, as well as pressure on valuers to modernize their valuation methods, making them more consistent and explicit. The RICS-commissioned Mallinson Report (1994) recommended greater use of DCF to reduce valuers’ dependence on the ARY methods, which echoed a similar recommendation of another RICS-commissioned report, the Trott Report (1980) following the property crash of the 1970s.

The DCF is a more versatile method (compared to income capitalisation), which beside being clearer in concept and presentation to investors and lenders, can incorporate regular and irregular cash flows as well as adjustments for obsolescence. However, as a DCF model attempts to explicitly simulate the analyses of potential investors, valuers frequently must make relatively more assumptions that force them to be well acquainted with national and local economic issues influencing property values in general and the value of the subject property in particular.

DCF’s broader framework premised on opportunity cost, overall rate return and the possibility of comparison with alternative investments makes it particularly useful in property markets that are not active or transparent, such as the Kingdom’s. The RICS Guidance Note Discounted Cash Flow for Commercial Property Investments states in this regard:

“Where there are no transactions, the explicit DCF model provides a rational framework for the estimation of Market Value not present in the ARY (capitalisation rate) approach, which relies on comparables for the identification of the ARY.”

7 Baum, Andrew; Mackmin, David; Nunnington, Nick. The Income Approach to Property Valuation (p. 135). CRC Press. Kindle Edition.

Except where the cash flow pattern from the subject property is expected to be constant, a reasonable number of comparable property transactions available, and the details thereof could be applied directly to the valuation of the subject property (such as for a simple, fully let freehold), valuers in the Kingdom should endeavour to carry out the valuation of investment properties (existing or under development) using the DCF method. However, employing direct comparable evidence from property transactions where available to inform DCF inputs takes precedence over other indirect evidence. For instance, initial yields from comparable properties may be used with the typical investor's required rate of return and rent review patterns to indicate the growth expected by investors in such transactions which could then be used explicitly in the DCF cash flow for the subject property.

Below is an outline of the key six steps of the DCF method described in IVS 105:

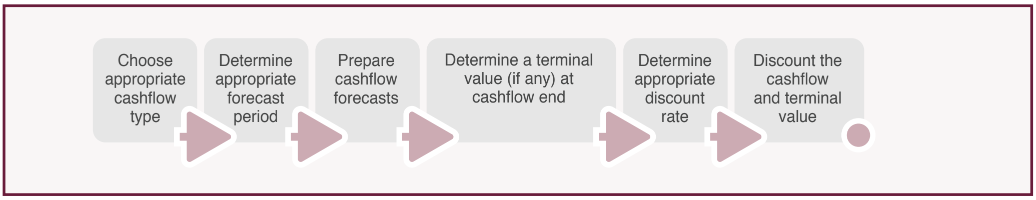


Figure (7): Key Steps of the DCF Method

2.2.3.4 Application of the Income Approach

A few techniques, or pricing models, may be employed to estimate the value of a property using the income approach. The valuer's choice of model between say income capitalisation and DCF would be influenced by amongst others the purpose of valuation, the nature of the subject asset, interest to be valued and its income profile, the nature and extent of available market evidence, and to a lesser extent the sophistication and expectation of the client.

However, regardless of the technique or model adopted, value indication by income capitalisation and DCF should broadly be similar in certain situations considering the fundamental premise of discounting future income streams to a present value common in all the income valuation techniques. For instance, where the subject property is a simple freehold property (such as a single-tenant office building) fully let at market rent and the valuer has access to relevant details of recent sales of comparable properties, capitalizing the net income from the property in perpetuity may be all that the valuer needs to get a reasonable indication of value for the subject property. This is also echoed in IVS 105 (para 50.10), thus:

"In some instances, particularly when the asset is operating at a stabilised level of growth and profits at the valuation date, it may not be necessary to consider an explicit forecast period and a terminal value may form the only basis for value (sometimes referred to as an income capitalisation method)."

The valuer then proceeds to thoroughly examine the details of all lease contracts and historical income and expenses for the subject property with a view to reconstructing its operating statement, identifying any recoverables, trends and relationships between the items, investigating any anomalies thereof and developing a proforma operating statement to arrive at a suitable net operating income expectancy for use in the valuation. For a property with an operating history, the valuer should examine the operating statements for at least the last three years, where available. Such statements are however only relevant to the extent that potential buyers would consider them to signify likely future streams. Depreciation and similar non-cash items would be excluded in the reconstructed statement, as would any debt service, tax or zakat, corporate expenses and one-off capital payments. However periodic replacement allowances may be included but the valuer must ensure that they are not double counted through inclusion in other items of expense or through his choice or adjustment of the discount rate.

The reconstructed statement should be structured in a meaningful way that begins with the potential gross income that could be realized from a full lease of the subject property at market rents, and breaks down income according to source, and expenses into clearly delineated categories by type and variability (fixed versus variable expenses).
Refer to Appendix B-6 for illustration

Application of DCF method

A DCF model is made up of four key components that must be developed or assumed explicitly by the valuer. These are:

1. Forecast period
2. Cashflow projections over the forecast period, including timing and growth
3. Terminal value, including exit capitalization rate
4. Yield, or discount rate.

Forecast Period:
This is the span in years over which future income streams of the subject property are projected and discounted for the purpose of valuation. This should be a reasonable period in line with investor expectations and over which the stabilized performance of the asset can be visualized. IVS 105 expects that the valuer, in his choice of the forecast period will have regard to the life of the asset, reliability of available data on which to base the cashflow projections and the need to for the forecast period to include an entire market cycle.

Forecast periods of 10 years are common in the market and typically meet most of, if not all the foregoing criteria. However, this may vary from property to property, and the nature, condition and tenure of the subject property may also have a considerable influence on the valuer's choice of forecast period. It is important to note that the longer the forecast period, the more the age-related risks (such as increased obsolescence and maintenance costs) as well as potentially greater future competition have to be reflected in the cashflow. Additionally, where it may be the case that some notable event such as the rollover of a significant tenant is expected, the forecast period should be extended a few more years to capture such an event and reasonable and explicit assumptions made about re-leasing probabilities and costs. For leasehold projects with relatively short terms of 20-25 years, such as BOT's, it makes more sense to extend the forecast period to the end of the unexpired term of the concession.

It is not uncommon for leases in the Kingdom to be consummated on the basis of the Hijra calendar, or to have a mix of both conventional and Hijra-dated leases in the same property. The valuer must however consistently work with one calendar system for the purpose of the valuation and factor in his forecasts the equivalent timing for any payments or events envisaged under contracts with a different calendar.

Cashflow Projections:

A valuer builds on the reconstructed operating statement in developing his time-series projection of the subject's future stream of income. He will typically have regard to the provisions of the leases currently in place, including review, escalation and renewal clauses; reasonable client forecasts and marketing plans, if any, and manager interviews; comparable rentals, leasing and inflation trends; and near- and longer-term market outlooks.

The valuer should simulate a potential investor's analysis of future income from the property and anticipate year by year variations in cashflow due to amongst others: lease-up of vacant space, rent escalations, cost inflation, changes in market rents, obsolescence, refurbishments, voids, and reletting costs. For multi-let properties, cashflow projection and discounting is essentially undertaken for every lease, building up to the overall valuation of the subject property.

It is customary for valuers in this market to apply growth factors to market-reviewable leases based on comparables or investor surveys, and to link the growth of expenses to inflation. That said, growth in income is not always the same as growth in value and the latter can be expected to be different on account of differences between initial or going-in cap rate and exit cap rate, assumed re-sale costs, and timing issues. Moreover, valuers need to be able to distinguish between inflationary growth, which leads to only nominal income and value growth, from real growth that is brought about by excess demand and which leads to real appreciation of income and values.

Valuers in the Kingdom typically work with yearly divisions of cashflow in line with yearly calendar divisions in most lease contracts, financial statements and investor expectations. Half-yearly or shorter interval cashflows may also be used in line with similar rent payment schedules provided corresponding time-adjusted discount rates are employed in the valuation. The valuer must be consistent in his division of cashflow when revaluing the same property. IVS 105 (para 50.14) also draws the valuer's attention to the nature of the asset, the pattern of the cashflow, the data available, and the length of the forecast period in his division of the cashflow.

Although rents in the Kingdom are payable periodically in advance, it is not uncommon for valuers to discount them in arrears as is the practice in many other markets. This reflects the reality of delayed payments by some tenants and the fact that in many cases profits from property operations are only drawn at the yearend after settlement of all expenses for the year.

IVS 105 (para 50.16) recognizes the possible use of any one of diverse types of cashflows in valuations based on their probability of occurrence. These include contractual, single-most likely, probability-weighted and multiple scenario cashflows. Whilst the level of uncertainty, nature of asset and purpose of valuation may influence the valuer's choice of cashflow type, the generally accepted practice in market valuations in the Kingdom mainly embraces the first two cashflow types.

As previously noted, cashflows used in valuations of real estate for market purposes should be gross of depreciation, amortization, zakat and taxes. The valuer should add back these items when developing his cashflow from prospective financial information (PFI) provided by the client. Further, if the valuation is of trade-related properties (such as hotels) the cashflow should include working capital changes.

Terminal Value:
Other than for a leasehold with cashflows projected to the end of the lease term, cashflow projections culminate in a terminal value which captures the value of the subject property beyond the forecast period. The terminal value assumes a re-sale of the property in the final year of the forecast period. Depending on the projected useful economic life of the buildings, buyback or tenant purchase arrangements and expected market conditions at the end of the forecast period, the terminal value may reflect only the value of the land, the probable value of the option to buy the property at a pre-determined price or formula, or the market value at the time estimated by any of the three approaches to value.

In most cases however, the terminal value is the estimated market value of the subject arrived at by capitalizing the projected net operating income for the subsequent period or year immediately following the forecast period at an appropriate rate, or exit cap rate. The exit cap rate used is typically higher than what

would be indicated as the going-in rate because of the expectation that, all else being equal, the property would have aged and become more obsolete by the end of the forecast period.
Terminal value is added to and discounted along with or separately from the net operating income in the final year of the cashflow forecast. The latter approach is typically taken if the valuer wishes to understand the contribution of the terminal value to the overall value, or NPV, indicated for the property.

Discount Rate:
An appropriate discount rate that reasonably reflects the physical, legal, economic and risk attributes of the subject property should be used toconvert the cashflow into a present value indication for the same. For market valuations, the discount rate should reflect the overall return on investment (incorporating both income and capital gain) expected by investors for comparable properties in the market. That expectation will also be influenced by levels of interest rate, inflation and rates of return expected by participants for alternative investments. Generally, the riskier the property, the higher the overall return it needs to offer to attract investors, and to some extent lenders. More than one discount rate may be applied to different items or streams in the same cashflow or to different properties in a portfolio depending on the valuer's assessment of their relative uncertainty or riskiness.

Several techniques may be used to develop or check the reasonableness of the discount rate, of which IVS 105 (para 50.30, 32, 33) outlines the following:

The discount rate must be consistent with the type of cash flow. 50.31. Valuers may use any reasonable method for developing an appropriate discount rate. While there are many methods for developing a discount rate or determining the reasonableness of a discount rate, a non-exhaustive list of common methods includes:

(a) the capital asset pricing model (CAPM),
(b) the weighted average cost of capital (WACC),
(c) the observed or inferred rates/yields,
(d) the build-up method. (generally used only in the absence of market inputs). 50.32. Valuers should consider corroborative analyses when assessing the appropriateness of a discount rate.

A non-exhaustive list of common analyses should include:
(a) an internal rate of return (IRR),
(b) a weighted average return on assets (WARA),
(c) value indications from other approaches, such as market approach, or comparing implied multiples from the income approach with guideline company market multiples or transaction multiples.

From the foregoing list, IVS 400 Real Property Interests (para 60.5 and 60.6) identifies the most relevant and widely used techniques to derive discount rates in the valuation of real estate as being: rates observed from actual transactions, target IRR's obtained from investor surveys, WACC and the build-up method. The latter technique involves building up the discount rate from a typical "risk-free" return such as interest on a government bond with long maturity, adjusted for the additional risks and opportunities specific to the particular real property interest.

Considering the general lack of transparency in the market, valuers are encouraged to use more than one of the above approaches to develop or determine the reasonableness of the discount rate. The valuer's professional judgement and knowledge of both the market outlook and investor sentiments will ultimately bear upon the choice of an appropriate yield for the valuation at hand.

As regards secondary investor surveys, the valuer needs to be aware of the following aspects of the survey to evaluate the relevance and credibility of the findings and his decision to rely upon them for the purpose of the valuation at hand:

1. the number and composition of respondents, and consistency of their profile with that of potential purchasers of the subject;
2. location and sector focus of the respondents or properties covered;
3. grade or positioning of the properties covered;
4. the basis used for deriving the various rates including discount rate, cap rate and growth rate;
5. the investment horizon or projection period;
6. inflation and growth assumptions for income and expenses over the projection period;
7. the basis for the terminal value and any selling cost assumptions.

Application of the Income Capitalization method

As previously mentioned, the income capitalization method divides a representative single period's income of the subject property by a market-derived cap rate or all-risks yield to indicate the subject's value. The income capitalization method is characterized by the following three key variables which are discussed further below:

1. Income/rent
2. Operating expenses/ outgoings
3. Capitalization rate

Income capitalization models vary according to the type of interest being valued and the structure and terms of the leases. These are discussed in detail in Taqeem's Course 105. Briefly however, the most direct capitalization model is used for owner-occupied or freehold properties improved with buildings having a reasonably long remaining economic life (say 30+ years) and fully leased at market rents and terms. The net income (after deducting operating expenses) receivable from such properties is simply capitalized in perpetuity at the all-risks yield to indicate the value of the freehold interest. A similar approach is taken for leasehold interests with long unexpired tenures using the profit rent and an appropriate cap rate that reflects the relatively inferior nature of the interest.

By contrast, the valuation of freehold properties with off-market rents has traditionally been divided into a number of stages, mainly two, either:

1. Vertical timewise division into a 'term', defined by the duration of the contracted annuity, which is typically below market rent, and a 'reversion' to full market rent, or deferred annuity, upon rent review or lease renewal. Multiple reversions may be incorporated into the model for properties with several 'stepped' rent revisions. Different cap rates reflecting the relative risks of the annuities are typically applied; and/or,
2. Horizontal slicing of the net income into a 'hardcore' or 'layer', which is that portion of the income that is expected to continue in perpetuity from the valuation date, and a 'top' slice, meaning the additional income receivable upon rent review or lease renewal. Both the continuing and additional incomes are capitalized in perpetuity, typically at different rates reflecting the uncertainty of the additional income, but deferred for the latter income for the interval until review or renewal.

Using the same cap rates, or equivalent yield, throughout both the 'term and reversion' and 'layer' methods produces the same value indication. However, some valuers prefer to use the traditional 'term and reversion' method to distinguish between the risk profiles of the annuities in a property that are centred around the tenant's ability to pay, and the 'layer' method for over-rented properties where the continuity of the excess rent is uncertain. In either situation valuers have traditionally used different cap rates within either model to reflect such risks. Short examples using these methods ae shown in Appendix B-8.

Income/ rent:

Unlike the DCF method, the various stages of an income capitalization model use a single estimate of net operating income that is representative of the periodic income receivable under each of the intervals or stages considered in the valuation model. This would normally be based on a constant rent or rent upon stabilized occupancy and after reconstructing the operating statement, as explained previously. It is important to note that the rent or income used is current and not a future projection of market rent.

In situations where the income is expected to change fairly frequently, such as may be the case in a new multi-tenanted property in its lease up stages or with atypically short-term or frequent review cycles, the income capitalization method should be used with caution and incorporate adjustments for any fill-up costs, or better avoided altogether.

As regards estimating the market value for owner-occupied property or space, the valuer must first estimate the subject's rental value having regard to recent lettings of comparable properties and/or parts of the subject property. Recent lettings in the same property normally provide the best evidence but should still be validated by comparison with recent lettings of comparable properties in the area. Lease details for the comparable space should be obtained and checked to confirm if they are in line with standard market practice or adjustments would be required in arriving at a market rental value estimate for the subject. Such details include area, area basis, lease term, lease rate, payment schedule, incentives or concessions, escalations and review cycle, break and renewal options, and liability for repairs, insurance and management or service charge, if any. For instance, where a comparable lease incorporates a longer than usual rent-free period, the effective rent under such a lease may be calculated by dividing the total rent payable over the entire lease term by the actual period in which rent is due.

Operating expenses/ outgoings:

To the extent they are not recoverable through a service charge, the same recurring or periodic items of operating expenses considered under the DCF method would be deducted from the rent adopted in the income capitalization method to arrive at the net operating income. These include but are not limited to normal voids, maintenance, utilities, cleaning, security, insurance and management. However, one-off or 'below-line' costs such as tenant improvements, leasing commissions and capital improvements would typically not be included in the single-period estimates of outgoings used in the capitalization model, therefore warranting adjustments to the cap rate or application of a sinking fund rate, or through deduction of their present worth from the capital value, as in the case of imminent repairs.

Cap rate:

As mentioned previously, the cap rate is used to convert a representative single period's income expectancy from a property into a capital value indication. The cap rate is ideally sourced from recent sale transactions of properties that are comparable to the subject in terms of tenure, location and quality, and with similar profiles of tenants, leases, rent, outgoings and risks as the subject property. The choice of cap rate for the subject including any adjustments thereof is typically influenced by amongst others security of capital and rental income, including tenant covenant, regularity of income, unexpired lease term and frequency of reviews, and rental and capital growth prospects; management costs; and marketability and disposal costs. At a broader level, general influences on cap rates would include market volatility and general levels of interest rates. All else being equal, the greater the security of capital and income, and the easier and less costly to sell the property, the lower the cap rate a valuer would adopt for that property.

The cap rate is variously referred to as the initial yield, based on the practice of deriving it from sale transactions as the ratio of the first year's income to the sale price, or all-risks yield because it reflects all the upside prospects and downside risks of the investment.

Modified or shortcut DCF

As mentioned previously, the principle of discounting future streams of income common in both the DCF and income capitalization methods mean that the value indications from both approaches should be broadly the same. The relationship between the two methods is often illustrated in the following formula that relates the cap rate used in income capitalization with the discount rate used in the DCF through growth:

$$Y=R+g \text{ (or } R=Y-g)$$

Where:

Y= discount rate

R=cap rate

g=growth

Based on the above formula, the DCF outcome would theoretically match that of the income capitalization method if the entry and exit cap rates are the same, income and expense rates grow at the same constant rate, voids as a percentage of income are constant, and there are no selling costs on exit. In practice however, investment properties rarely exhibit such a pattern, and valuers are often challenged to rationally and logically justify their choice of cap rates or their use of more than one cap rate under the income capitalization method. It is partly for this reason that valuation by income capitalization is best limited to freehold properties fully leased at market rents and expected to enjoy a level constant stream of income, and for which readily available transaction evidence exists. In such circumstances valuation by either approach does yield similar results.

In all other situations, however the cap rate in the income capitalization approach has to reflect a clearly established or derived growth rate in income and/or value based on the expected rent review pattern and the expected or desired overall rate of return from the property (also variously termed IRR, discount rate or equated yield in the context of this discussion) for the results of the two methods to converge. In this regard, a DCF valuation may be structured as an income capitalization model, along with the use of property models/ mathematical models, to overcome most of the shortcomings of the traditional income approach. Examples of a shortcut DCF are shown in Appendix B-9.

2.2.3.5 The Profits Method

One of the methods within the income approach specifically used to value trade related properties is the profits method. A trade related property is a specialised property that is zoned, designed and constructed specifically to accommodate certain businesses and cannot practically be converted to alternative commercial uses such as offices and retail. Trade related properties typically enjoy some degree of monopoly in their locale, regulatory or otherwise. Examples of trade related properties include hotels, petrol stations, cinemas, theatres and golf courses.

Variously also called 'accounts method' and 'income and expenditure method', the profits method relates the value of a trade related property to the potential turnover and profit that could be realized through the carrying out of such business in the property. In other words, the trading potential of a trade related property drives both its rental and capital values alongside the other usual factors of value such as location, size and physical characteristics of the property.

Trade related properties are as diverse as the business they host, and their valuation tends to be both specialized and involving greater valuer subjectivity. Reasonable knowledge of the type of business or industry, regular practice in the valuation of the relevant class of trade related property, ability to interpret and project related operating and financial statements and analyse profits as well as comparable transactions are all pre-requisites for valuers engaged in trade related property valuations. Alternatively, real property valuers may work together with personal property valuers and/or business valuers in such assignments provided their work is coordinated and reconciled to ensure use of consistent value bases and financial projections to avoid double counting. However the challenge to this approach is that the going concern value of the business may be more or less than the sum of the individual values of the underlying real property, personal property and intangible property.

The 2022 edition of IVS does not have a standard dedicated solely to the valuation of individual trade related properties but valuers of such properties are expected to be familiar with the requirements of the other asset standards that specifically address the constituent parts of such properties. These standards are:

- IVS 200 Business and Business Interests
- IVS 210 Intangible Assets
- IVS 220 Non-Financial Liabilities
- IVS 300 Plant and Equipment
- IVS 400 Real Property Interests
- IVS 410 Development Property

As far as the valuation of an individual freehold trade related property is concerned, the profits method typically entails the following steps:

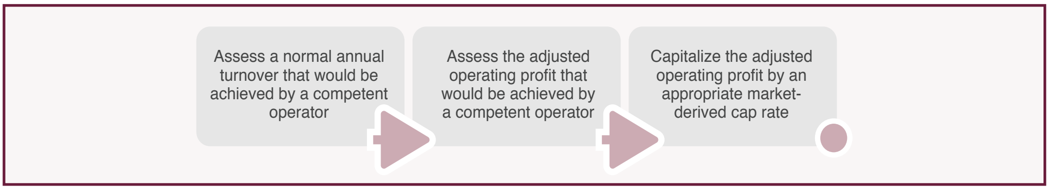


Figure (8): Profit Method Steps

In assessing turnover, the valuer estimates the trading potential that an efficient operator in the market would generate in the property assuming its properly equipped and maintained for the business. This may or may not be what the current operator is generating. In other words, when using the current operator's performance, adjustments would need to be made to the reported turnover for any over- or under-trading. Hence, in evaluating the current turnover and deciding on any adjustments, the valuer would need to consider amongst others the turnover of similar comparables if available, level of competition, product pricing, the trading style of the current operator and non-structural improvements to the property that could make it more attractive to customers or increase businessefficiency overall. If the valuation is of the freehold with vacant possession, personal goodwill of the current operator needs to be disregarded.

Although not separately shown above, calculating the gross profit is naturally a common intermediate step before assessing the adjusted operating profit. All operating costs are deducted from the gross profit to arrive at the EBITDA first, including but not limited to salaries, maintenance, utilities, insurance and other general and administrative expenses. Detailing the costs and assessing the EBITDA first allows for comparison between the actual operator's operating performance or valuer's estimates thereof with published industry benchmarks, and/or with valuer's experience with levels of operating costs for similar properties.

If the value of the business as a going-concern is what the client requires, and assuming it to be a single-asset business, the valuer would typically proceed with a capitalisation or multiplication of the EBITDA above using an appropriate market-derived cap rate or multiplier and adding the value of any financial assets and working capital.

Often however only an asset-based value with vacant possession is required such as for asset sale, as opposed to entity-based transaction, or for secured lending. In that case the valuer may proceed to isolate the portion of income that is purely attributable to the real property by deducting the contributions of any tangible personal property (trading inventory/ FF&E) and intangible property from the operating profit. An annual equivalent of the operator's cost of working capital and FF&E is calculated based on a reasonable rate of return or cost of money. Together with any royalties, franchise fees and management fees associated with the brand, chain and other intangible assets, these are deducted from the EBITDA to arrive at the adjusted operating profit. The adjusted operating profit is thought to represent the income that is purely attributable to the real property. This would then be capitalized or multiplied using an appropriate market-indicated cap rate or multiplier.

The above methodology is based on income capitalization approach, but the same principles underlie more progressive DCF techniques.

2.2.4 Cost Approach

2.2.4.1 Definition

Until fairly recently, residential properties in the region have been valued to a large extent using the cost approach. As the name implies, the cost approach relates the value of an asset to the current cost of either reproducing the asset (i.e. reconstructing existing structure(s) on the site 'as is') or replacing it with similar improvements of equal utility. 'Cost' includes the full spectrum of development costs necessary to replicate existing improvements or erect their modern equivalent and bring them to stabilized occupancy. As such 'Cost' includes but is not limited to material, labour, overheads, soft costs, land costs, capital costs, leasing costs and developer incentive. 'Utility' on the other hand refers to the capacity of the envisaged improvements to provide equivalent function and/or output as the existing improvements considering amongst others quality of construction, age and condition of the current improvements.

2.2.4.2 Underlying Principles

The cost approach is premised on several valuation principles, but more chiefly substitution, contribution and equilibrium.

Substitution- This principle holds that a rational buyer would pay no more for a property than the cost of acquiring a similar site and constructing similar improvements offering equivalent utility and desirability, assuming no untimely delays.

Contribution- A property is made up of various items or components whose individual values are determined by their contribution to the overall value of the property. Some items may cost more than their worth (or contribution) in the context of the property's overall value. Such items are often termed 'over improvements' which warrant a functional obsolescence adjustment in a valuation done using the reproduction cost approach However, contribution needs to be assessed in the context of a market at a point in time. What may have been considered a luxury or over improvement in the past may now be a standard e.g. internet capability in office buildings or individual plot-level supply of mains water in master-planned subdivisions.

Equilibrium- Lack of balance in a property in terms of its components or attributes as well as in relation to its neighbourhood may necessitate adjustments for underimprovements (deficiencies) or overimprovements (superadequacies) in its valuation by the cost approach. Similarly, a supply and demand imbalance in the wider market may lead to external obsolescence with implications on the property's value indication by the cost approach.

2.2.4.3 Steps in Applying the Cost Approach

Like other valuation approaches, the cost approach should simulate the deductive process of typical market participants. As far as the valuation of real property is concerned, IVS 105 Valuation Approaches and Methods and IVS 400 Real Property Interests identify two principal methods of the cost approach, namely replacement cost and reproduction cost methods. As can be inferred from their names, the former is based on the cost to construct improvements that are similar to the subject's in terms of utility, whereas the latter is based on the cost to recreate or reproduce a replica of the existing improvements.

The selected cost basis must be used consistently throughout the valuation. Valuers choice of the cost basis is partly influenced by the age and uniqueness of the improvements, nature of available cost data and purpose of valuation. The two cost bases should yield similar value indications provided they are applied logically and consistently. Whichever cost basis is used, the valuation report must disclose the cost basis and the rationale for it.

The steps under either method are similar and are illustrated below:

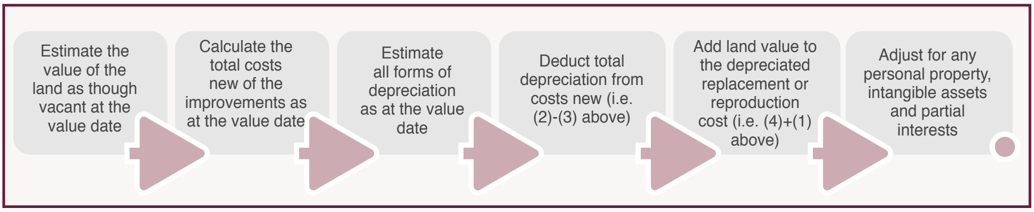


Figure (9): Cost Method Steps

2.2.4.4 Application of the Cost Approach

IVS 400 Real Property Interests provides that the cost approach may be employed as:

i. The primary approach to value when there is either:

    a. No evidence of transaction prices for similar property (as is usually the case with specialised property i.e. property that is rarely if ever sold in the market, except by way of sale of the business or entity of which it is part.),

    or

    b. No identifiable actual or notional income stream that would accrue to the owner of the relevant interest (e.g. fire station, mosque, other public facilities)

ii. A secondary or corroborating approach where evidence of market transaction prices or an identifiable income stream is available.

The cost approach may also be employed in quantifying adjustments for differences between the subject property and comparable sales in the sales comparable approach as well as in deriving cost to cure deductions, if necessary, in the income approach.

It must be pointed out that the cost approach yields a value indication of the fee simple or freehold interest in a property at market rent and stabilized occupancy. Thus a property rights adjustment would be required to the value indication where the cost approach is applied to a leasehold interest or a property that is leased at below market rent or is yet to achieve stabilized occupancy.

Land should be valued as though vacant and available for its highest and best use. The land is usually valued having regard to sales and/or listings of comparable sites either in the subject's locality, if available, or to a lesser degree in similar localities around the same town or city. The value indication arrived at this way would be for fee simple land, requiring adjustments where the subject interest is a leasehold. Where use of the land is sub-optimal or not compliant with current zoning designation, the cost approach is usually the least appropriate method to adopt. Should the value of the land in its highest and best use be greater than the overall value of the property in its current use then a re-development potential of the land is indicated, and current improvements may be disregarded in the valuation or allocated a negative value equivalent to their demolition and clearance costs.

Before the valuer develops a cost estimate for improvements, it is imperative that he reviews architectural/ floor plans and building specs and is reasonably familiar with the nature, extent, function, age, quality and condition of such improvements Beside inspection, a review of the property's maintenance program, history, schedule and budget normally goes a long way in aiding the valuer's assessment of the property's effective age and life expectancy.

The valuer must also be reasonably knowledgeable about the methods, styles, techniques, materials, finishes, and standards employed in the construction of such improvements and those of comparable properties in the area. Equally important for the valuer is keeping abreast of construction cost trends in the relevant market. Whilst the valuer may seek the assistance of a professional cost estimator in developing the cost estimate, the valuer ultimately retains responsibility for the review and use of the cost estimate in his valuation.

Valuers will typically be aware of the three main methods of estimating costs, namely the comparative-unit, the unit-in-place and the quantity survey methods. These methods are explained in reasonable detail in Taqeem's Course 104 and some valuation texts[8] . As in most markets, the comparative-unit method, which yields a replacement cost estimate based on cost per unit of area or volume of similar structures, is the most widely used by valuers in the region thanks to both its simplicity and the availability of local construction cost publications. On the other hand, the most detailed of the cost methods but least used by valuers is the quantity survey method which is almost invariably prepared only by cost consultants or contractors. The valuation report must disclose the cost method used, the rationale for its use, sources of area and cost data and the major assumptions underlying the cost estimates.

Sources of cost rates for the comparative-unit method include construction cost handbooks and enquiries of developers, contractors and cost consultants. When applying the comparative-unit method in their valuations, valuers are advised to:

i. Check that the cost rate is for a benchmark of similar type, class and size of structure, as well as being in a similar geography or market as the subject and, to the extent necessary, apply adjustments to the cost rate for any differences in the said factors. All else being equal, the larger the subject structure or project the greater would be the efficiencies and economies of scale in its construction and the more likely that the subject's cost per square metre would be less than the benchmark.

ii. Confirm the year or part of year to which the cost rate relates and if necessary factor any changes in costs since or trend the relevant cost to the effective valuation date for the subject property.

iii. Understand the area or volume basis for the benchmark cost as well as what the cost rate entails and the need if any for any indirect costs such as professional fees to be added or adjustments of area basis made for a more complete cost estimate for the subject property. Typically, published cost benchmarks do not include entrepreneurial incentive (owner's profit) on development, marketing and leasing costs, and financing costs all of which the valuer would need to account for separately and include in the cost estimate for the subject property. Sources for such additional costs include enquiries of developers, leasing agents and property managers.

iv. Corroborate the client's cost estimate with available cost handbooks and/or enquiries of independent cost consultants and/or contractors.

8 For example, The Appraisal of Real Estate (The Appraisal Institute, 2013)

The unit-in-place cost method, which derives and outlines construction cost by individual components or sub-components making up a structure, is not as commonly used by valuers in the region. However, a valuer may occasionally be presented with a component breakdown of budgeted or actual costs for the subject property i.e. essentially the subject's reproduction cost. The valuer must still determine what the unit costs entail. As with the comparative-unit costs, leasing and marketing costs and entrepreneurial incentive would typically not be included in the unit costs. In such cases also, and without the benefit of similar breakdowns for comparable properties, published or otherwise, the valuer may only be able to assess the reasonableness of the client's estimates in terms of total cost or through enquiry of independent cost consultants.

Unit-cost estimates of total cost however tend to be more accurate than comparative-unit estimates as they seek to enumerate all relevant costs related to a specific project and minimize double counting. Additionally, a breakdown of unit-costs enables the valuer to treat depreciation more explicitly through component-by-component segregation of costs and life expectancies and separate allocation of the various forms of depreciation.

As far as depreciation is concerned, the valuer is expected to be aware of, assess and measure all forms of depreciation affecting the property. These include physical depreciation, functional obsolescence and external obsolescence whose description is provided by IVS 80.2) 105) as:

i.Physical obsolescence: Any loss of utility due to the physical deterioration of the asset or its components resulting from its age and usage.

ii.Functional obsolescence: Any loss of utility resulting from inefficiencies in the subject asset compared to its replacement such as its design, specification or technology being outdated.

iii.External or economic obsolescence: Any loss of utility caused by economic or locational factors external to the asset. This type of obsolescence can be temporary or permanent.

Depreciation in all its forms is assessed through any of several methods, including the market-extraction method, the economic age-life or straight-line method and the breakdown method. These methods may be used singly or in combination in the same valuation. The first two methods are more common in the region and are applied to the whole property, lumping together all the forms of depreciation implicitly in one calculation. The breakdown method on the other hand is a more detailed but less common approach in the region that considers the different life expectancies of the various components in a building and separates the various forms of depreciation.

The market-extraction method derives depreciation estimates from the analysis of comparable sales with similar age and utility. The comparable sales are first adjusted for transactional elements and then deducted with their respective land values as at the time of sale to arrive at the contributory values of the improvements. The differences between these values and the estimated replacement costs of the improvements at the time of sale represent total depreciation pertaining to any physical, functional or external impairment affecting the comparables. Dividing the indicated total depreciation by the age of the improvements yields an annual rate of depreciation that may be applied to the valuation of the subject property, while the reciprocal of such a rate provides an indication of the market's perception of the economic or useful life of the improvements at the time of sale.

The straight-line or economic age-life method calculates total depreciation by multiplying the ratio of the actual or effective age of the subject improvements to their economic or useful life with the improvement's replacement cost at the valuation date. The valuer typically uses his judgement and assessment of the condition and upkeep of the improvements to estimate their effective age, which may be more or less than their actual age. Total economic or useful life on the other hand may be assumed based on the valuer's experience, analysis of demolition permits and/or enquiries of developers, contractors and property managers. Alternatively, economic or useful life may be derived from comparable sales using the market-extraction method.

As indicated above, the more detailed breakdown method is not commonly used in the region. Nevertheless, it is a more refined method that separately calculates and presents the various forms of depreciation (namely physical, functional and external) that may be affecting a property, and their causes. Using the method, it is also possible to break down such categories of depreciation into curable versus incurable items. Currently however, neither IVS nor clients in the region require that the valuer profile the various forms of depreciation separately when applying the cost approach. The valuer may also need more data than what is commonly available in the market, such as the property's unit-in-place cost estimates and property condition surveys to develop a meaningful breakdown method. At a time when the residential market in the region, and particularly in the KSA is witnessing significant demographic shifts, increased vacancies and depressed sale activity, both functional and market-wide obsolescence are more likely to impact property values than previously. Methods that isolate, quantify and analyse causes of such impacts on property values may find more favour amongst valuers and gain more acceptance by clients.

Appendix B-10: illustrations of cost approach

2.2.5 Residual Method

2.2.5.1 Definition

In the context of valuation, the residual method is a hybrid of the market approach, income approach and cost approach that is used to indicate land's contribution to the overall value of the property including any existing, proposed or ongoing development. The method derives the residual land value by either:

i. Deducting development costs, including developer's return, from the gross development value of the property, or

ii. Extracting the portion of the property's net rent or operating income that is attributable to the land and capitalizing it at an appropriate land capitalization rate.

In IVS, the residual method is described as a 'method' and not an approach, in terms of the first technique above and in the context of valuing 'development properties' (See IVS 410 Development Property para 40.1b). The first technique is also the more commonly used in the region.

IVS 410 (para 20.1) defines development properties 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.

2.2.5.2 Underlying Principles

As a hybrid of all the three major valuation approaches, the residual method is premised on all valuation principles underlying those approaches including substitution, anticipation, change, balance and contribution. These principles have been explained previously.

However, the method is based on the principle that the price to be paid for land that is suitable for development should not be more than the difference between the completed value of the highest and best use development and the total cost of carrying out that development.

The residual method is typically used in one or more of the following situations:

1. To determine the highest and best use of land where the residual land value indication under alternative uses is the principal basis for such determination;
2. To provide an indication of land value where comparable land sales may not be available;
3. To provide an indication of the value of ongoing development i.e. land plus incomplete improvements;
4. To provide an indication of land value for a tract of raw land with potential for subdivision, also called the subdivision development method;
5. As a check method where available land sales are only remotely comparable due to, for example significant variations in size and location or where only comparable land listings are available;
6. To assess the highest price that a developer can afford to bid or pay for a development site.

However, many valuers around the globe resist the primary use of residual method due to its reliance on a considerable number of uncertain variables as well as high sensitivity of the outcome to such variables. Small adjustments may have disproportionate effect on the value indication, thus rendering the method open to manipulation. In the US for instance, its use is “more often in highest and best use analysis to test the feasibility of various uses than to estimate land value as part of one of the traditional approaches to value”[9] , whilst in the UK, the Lands Tribunal is extremely sceptical about the method and would only accept it as a method of last resort[10].

It is also worth noting the lack of mention of the residual method in the previous IVS edition. In fact, its inclusion in the IVS 2022 edition is specifically in relation to the valuation of development properties, whose definition is reproduced above, for clearly outlined albeit non-exhaustive list of purposes, with the explicit requirement to use it with ‘caution’ and to provide sensitivity analyses for significant factors (IVS 410 Development Property paras 90.1-90.3).

A valuation model refers collectively to the quantitative methods, systems, techniques and qualitative judgements used to estimate and document value. (Para 90.2.) When using or creating a valuation model the valuer must:

a) Keep appropriate records to support the selection or creation of the model,
b) Understand and ensure the output of the valuation model, the significant assumptions and limiting conditions are consistent with the basis and scope of the valuation, and
c) Consider the key risks associated with the assumptions made in the valuation model. (para 90.2).
Regardless of the nature of the valuation model, to be IVS compliant, the valuer must ensure that the valuation complies with all other requirements contained within IVS. (para 90.3)

9 Appraisal Institute, The Appraisal of Real Estate, 14th ed. (Chicago, Illinois: Appraisal Institute, 44 ,(2013.

10 Ratcliffe, J. and Rapley, N.(1992) Development properties, in Valuation Principles into Practice, 4th edn (ed. W.Rees), Chap. 13, Estates Gazette, London.

As far as the type of land that may be considered development property, and hence valued by the residual method, the words or expressions “redevelopment”, “contemplated” and “in progress” in relation to potential improvements in the IVS 410’s definition of development properties (para 20.1) imply that such land should be one that is at least mature for immediate development and a scheme for such development exists, as opposed to any vacant land. This apparent position is also reinforced by the requirement to make assumptions that the project has been or will be completed in accordance with “the defined plans and specifications” when estimating market value on completion (para 90.8). This in part supports the widely held view that the residual method should only be used as a primary method in valuation when the full details of a development are available.

The purposes of valuation identified in IVS in respect of which residual method may be applied include:

a) for feasibility studies

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

c) for ad valorem tax analyses and reporting purposes,

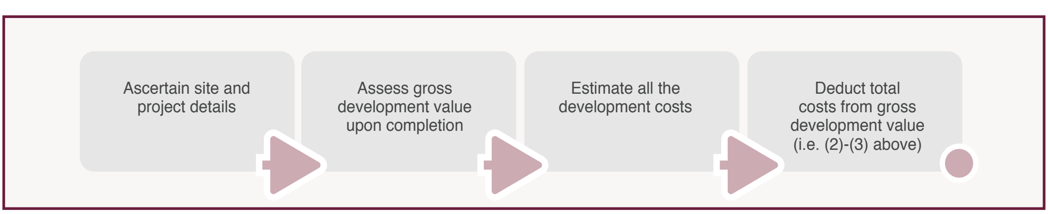
d) for litigation requiring valuation analysis in circumstances such as shareholder disputes and damage calculations,

e) for financial reporting purposes, valuation of a development property is often required in connection with accounting for business combinations, 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.

2.2.5.3 Steps in Applying the Residual Method

As far as its use in valuation of development properties is concerned, the residual method entails the following broad steps:



There are several formats or models of the residual method of which the main ones are:
Static model- the gross development value is assessed based on capitalization of stabilized income, and development costs are totalled as at the date of completion. The static model typically assumes no change in rents, prices and costs during the development period and is presented in a one-year, singular column fashion.

Dynamic model- a variation of the static model that stretches the model to allow for phasing of the project and potential changes in rent, prices and costs over the development period.

Discounted Cash Flow (DCF)- involves modelling a prospective cash flow of the project that maps out income, operational expenditures and development costs on a periodic basis over a period that usually extends up to, if not a few years beyond, the time expected for operations in the completed development to stabilize. All known or assumed sources of revenues and costs, including finance costs and interest payments are clearly enumerated and inflation or growth in any of the items is factored explicitly. The bottom line is discounted back to the valuation date or commencement of the project at an appropriate discount rate to provide an indication of land value in terms of the cash flow's net present value (NPV). The DCF is also the method around which much of the guidance in IVS 410 revolves.

2.2.5.4 Application of the Residual Method

"The valuer must be able to justify the selection of the valuation approach(es) reported, and should provide an "As Is" (existing stage of development) and an "As Proposed" (completed development) value for the development property and record the process undertaken and a rationale for the reported value» (see IVS 103 Reporting, paras 30.1-30.2)". (IVS para 120.3)

As indicated above, the residual method involves assessment of the completed development using either the sales comparison or income approaches to value, and estimation of the development costs using the cost approach. Valuers are referred to the guidance in this manual on the application of each of these three approaches including sourcing, verification and presentation of inputs, as well as to similar guidance in IVS 410.

The choice between formats or models of the residual method is a matter for the valuer's judgement based on the size, duration and complexity of the proposed or ongoing development (IVS 410 para 90.4). Typically, the static model is used for small sites, in initial calculations to assess feasibility and as a supplement or control of the DCF method. That said, Taqeem expects valuers undertaking valuation of development properties to be familiar with the models discussed above, and skilled in the DCF technique. In this regard, valuers are hereby reminded of the following guidance provided in the Income Approach section of the manual in relation to the income pattern of the subject property and application of the DCF approach:

Except where the cash flow pattern from the subject property is expected to be constant, a reasonable number of comparable property transactions available, and the details thereof could be applied directly to the valuation of the subject property (such as for a simple, fully let freehold), valuers in the Kingdom should endeavour to carry out the valuation of investment properties (existing or under development) using the DCF method.

Valuers may use industry-certified software or their own custom models for the DCF.

In ascertaining the project details, the valuer is expected to reasonably establish all the relevant details of the proposed or planned development or redevelopment/refurbishment including but not limited to the nature, size, market positioning and operating model of the completed development, legal and completion status, duration, timetable and the extent to which the development represents the highest and best use of the land or may need adapting thereto. Most of these details would be provided by the client. The valuer should assess the reasonableness and accuracy of such details and attempt, to the extent possible, to corroborate them with copies of title, approved plans and/or enquiries of the planning authority, review of available feasibility reports, contracts and completion certificates, inspection, and comparison with recently completed projects. Particular care should also be taken in identifying, verifying and using client's areas as often the area bases used for assessing gross development value and development costs would be different. The valuer must mention the project details, their sources and his related enquiries in the valuation report. Any assumptions made in lieu of missing legal documents or based on client information which the valuer has not been able to verify should be identified as such in the report and accompanied by a statement recommending the verification of such documents or information by the client's legal advisors.

In assessing the gross development value of the completed scheme and depending on the scope agreed with the client and availability of relevant data, the valuer may report either current gross development value as at the valuation date assuming that the project has been completed as at that date, or the estimated gross development value on the anticipated date of completion, provided that either value is consistently matched up with current or anticipated costs respectively. The valuation report must make it clear which of the two value and cost assumptions has been used. Any pre-lease or pre-sale agreements must be considered in the valuation to the extent they can be verified, are reasonable and in line with market rates. The valuer should estimate a reasonable marketing period taking into account any available and reasonable client marketing plans and budget. Where the valuer considers the scheme to be suboptimal for the site, then the value of an alternative project that represents the highest and best use of the site needs to be used (IVS 410 para 30.4).

The valuer must estimate all the development costs of the scheme which, depending on the stage of construction would include but not be limited to pre-construction costs (e.g. approvals, land preparation, off-site enabling works), construction costs, consultants' fees, contingencies, financing costs, marketing and leasing costs, and entrepreneurial incentive. Costs may be provided by the client but must be assessed for reasonableness given the planned specifications. Where available, existing contracts should be used to check the veracity of cost estimates provided by the client.

Financing is typically disbursed in tranches or may be structured as several loans over the development period or phases and it is important that the valuer understands and can correctly model the drawdown, interest and principal repayment schedules as per the project's requirements or loan agreement, into the cash flow. IVS 410 para 90.8 further advises that notional financing at market rates should still be factored in where a project is self-funded.

Moreover, IVS 105 para 10.4 notes that development property is an area where there is often "insufficient factual or observable inputs for a single method to produce a reliable conclusion". As such IVS 410 para 120.2 states the following;

"To demonstrate an appreciation of the risks involved in valuing development property for secured lending or other purposes, the valuer should apply a minimum of two appropriate and recognised methods to valuing development property for each valuation project, as this is an area where there is often "insufficient factual or observable inputs for a single method to produce a reliable conclusion" (see IVS 105 Valuation Approaches and Methods, para 10.4)".

Entrepreneurial incentive (developer's profit) would vary according to the scale, complexity, stage of completion, extent of pre-sale or pre-lease, and perceived riskiness of the project. It may be expressed as a lumpsum, or either a percentage of development costs or gross development value. The valuer must be careful to use the correct basis for development profit similar to that indicated for comparable projects or from his enquiries of developers.

Where DCF is used, the periodic net cash flows between operating and/or sale revenues on the one hand and development costs on the other are discounted to a net present value indication for the land and existing developments at an appropriate discount rate. More on the composition and sourcing of discount rates can be seen in the guidance provided under the Income (DCF) approach above. However, additional risks such as those associated with uncertainty in cost and revenue estimates and their volatility over the period of development would need to be further factored into the choice of a discount rate for a development property.

Overall, the assumptions that the valuer makes regarding the various variables in the cash flow require careful consideration of all the factors affecting them and must be made within acceptable parameters. Finally, the valuer should assess and highlight the sensitivity of the value outcome to changes in significant variables in his report.

2.2.6 Reconciliation

The last step in the application of one or more valuation approaches involves the valuer standing back from the detailed workings and reviewing the valuation logic and calculations, and subsequently using his professional judgement and experience in selecting or blending a final estimate of value from several value indications produced by such approaches. More than one value indication may result from even the application of a single valuation approach due to the different comparables, range of input data and assumptions that the valuer might employ in his valuation. However, differences in value indications may also result from mistakes in adjustments, computations and illogical or inconsistent use of data within and/or across the valuation approaches used. Where more than one valuation approach has been employed, the valuer would first reconcile the value indications under each individual approach before reconciling the final indications from each approach into a single opinion of value.

Valuers would apply different checks, including a secondary valuation approach, to evaluate the reasonableness of the value indications, and identify any anomalies in inputs, calculations and logic. In the case of a DCF valuation for instance, these might include converting the DCF result to a value per unit of gross or leasable area or room, deriving and comparing the going-in rate with market and subject's exit rate and IRR, deriving and comparing expense ratios with market norms, and so forth.

Next the valuer would reconcile between the value indications having regard to such factors as the comparability, relevance, veracity and completeness of data used in each approach. Rather than applying a simple average to the value indications, most weight would be allocated to the most relevant comparable or approach of value for the type of property with the least number of adjustments and for which sufficient market evidence exists. A discussion of the approaches used and the reason for emphasizing the outcome of one or more approaches in the final value opinion should be provided in the valuation report.

It is advisable to have another valuer not involved in the assignment, or a panel of valuers in the case of a large engagement, to review and critique the valuation before finalizing and reporting the opinion of value to the client.

3.1 Valuation Report

3.1.1 Requirement for Written Valuation Reports

Valuers communicate their assignment findings, conclusion and opinion to clients through valuation reports. Whereas in some parts of the world such reports may be oral, in Saudi Arabia valuation reports must be in writing to strictly be in compliance with local regulations. Article 14 of the Accredited Valuers Law for instance requires that valuers sign off on their valuation reports while the Implementation Rules of the Accredited Valuers Law describes the ‘Valuation Report’ as:

“The document issued by the accredited valuer to its clients, including the outcome of the valuation, and complies with the valuer›s obligations set out in the Accredited Valuers Law and Implementation Rules of the Accredited Valuers Law, and is consistent with the approved valuation standards.”

Furthermore, the Accredited Valuers Law and Taqeem’s CEPC require retention of a work file that includes a copy of the written report.

3.1.2 Contents and Formats of Valuation Reports

Taqeem requires valuation reports to comply with IVS 103 Reporting. The latter provides that the report must at a minimum clearly and accurately set out:

(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).

IVS 103 does not prescribe any particular format, degree of reporting detail or length of valuation report and provides that reports may range from comprehensive narrative reports to abbreviated summary reports. In other words, a report that complies with IVS 103 can be very brief and exclude such details as description of the building, pictures, location plans and the like. An IVS-compliant report may also refer to other documents (engagement letters, scope of work documents, etc) previously agreed with the client rather than include the information from such documents in the valuation report. However, based on other provisions of IVS 103 and generally accepted valuation practice in the region, the following four-point test for the appropriateness of the report format or detail is advised by Taqeem:

1. The report must provide the intended users with sufficient and clear understanding of the valuation, having regard to type of property and purpose of valuation.
2. The format of the report should be agreed with all parties as part of establishing a scope of work.
3. The report should also be sufficient for an appropriately experienced valuation professional with no prior involvement with the valuation engagement to review the report.
4. The report should be similar to what the valuer's peers would issue for similar engagements.

Based on the above test, a summary report may well satisfy the internal use purposes of a client and/or be issued by an internal valuer for his employer, but a more comprehensive report would generally be required for intended users beyond just the client, such as for financial reporting purposes. For the latter for instance, it is worth the while of the valuer to agree the format and detail of the valuation report in advance with both the client and its auditors.

Lenders on commercial property on the other hand may require that the report contains the valuer's assessment of whether the property is a suitable security for the contemplated loan, its marketability, stability of income, tenant covenant, factors affecting value, sources of risk, description of the building, details of leases, area schedules, location plans, photos, condition of repair and so on, in addition to the minimum reporting requirements above.

It is however not uncommon for some clients, including home lenders, to request valuers to compile their valuation reports on short-form templates issued by the client. Valuers need to carefully consider any intended use, purpose, definitions, assumptions, conditions, and limitations that are inherent in the form reports. A valuer must, when necessary, also supplement such forms with additional information to ensure that the minimum reporting requirements of IVS 103 are met and that the report is not misleading.

3.1.3 Other Reporting Considerations

In order that a report is not misleading, it may be necessary for the valuer to disclose in the report what he didn't do, especially where the intended user might think it should have been done. Omission from the valuation analysis of what might otherwise appear to the user to be a suitable comparable is a classic example of this. In such a case it is important for the valuer to discuss in the report his rationale for omitting the comparable as failure to do so could undermine the credibility of the valuation.

The scope of work that must be reported is one that the valuer ended up undertaking and upon which he based his valuation, not the one he planned at the outset of the engagement. As previously discussed, changes in scope are usual during a valuation due in part to missing information, but such changes must be agreed with the client before submission of the final report.

Special assumptions typically have material impact on the valuation and must be clearly and conspicuously disclosed in the report. Special assumptions may be requested by the client but must be reasonable and appropriate for the purpose of valuation. However, as with general assumptions, special assumptions may also arise due to limitation of scope that necessitates the valuer to make such assumptions in place of missing information. Whatever the source or type of assumptions, it is good practice to recognize and disclose scope limitations and assumptions separately in the report.

Identification and values of individual assets in a portfolio are best reported asset by asset but may be subtotalled for assets in the same tenure groups. If the assets are so reported in the appendix of the report, a summary of their values must be shown in the body of the report.

A valuer must confirm that valuations done by other valuers or firms for incorporation into his report have been prepared in accordance with the IVS.

A valuer must provide separately a draft statement to be published alongside any reference to his valuation report, such as valuations for listed entities. The statement must state at a minimum:

- his name and qualification, or the valuer's firm;
- his status (internal or external valuer);
- the valuation date and basis of value, together with any special assumptions;
- comment on the extent to which he determined the value(s) directly by reference to market evidence or he estimated using other valuation techniques;
- confirmation that the valuation has been made in accordance with IVS or the extent of and reason(s) for departure therefrom, and
- indication of any parts of the report prepared by another valuer or specialist.

Confidential information in the valuer's custody relating to other clients or assignments must not find its way in the valuation report.

A valuation report must confirm that the personnel involved in the valuation have sufficient knowledge, skills and experience in the relevant market and type of property valued. The report must be signed by an accredited valuer who accepts responsibility for the reported valuations. The valuer must also state the chapter of valuation practice in which he is licensed and his Taqeem membership class against his name in the report.

3.1.4 Draft Reports

It is acceptable to issue draft valuation reports to clients pending the valuer's completion of the final report. However, the valuer must state that:

- The draft opinion is provisional and subject to completion of the final report.
- The draft opinion is for the client's internal purposes only
- The draft report is not to be published or disclosed

The valuer should record the outcome of his discussions with the client in connection with his draft, indicating any information or suggestions made by the client, how he used that information and the reasons why he revised or did not revise his valuation.

Appendix C-1 posts an example of a **comprehensive narrative report** template prepared in accordance with IVS 103. The report has been designed with a summary part (Section 1.0-2.8) that can stand alone as IVS-compliant **abbreviated summary report.**

4.1 Filing and Archiving

4.1.1 Introduction

IVS 102-30 and Article 4 (f)(iv-vii) of the CEPC lay down the requirements for valuers to create and maintain valuation records or work files for assignments they undertake. A work file can be manual or electronic, or both, provided it meets the primary purpose of the work file as stated in the CEPC, namely:

The work file must be prepared in such a manner that a person with no previous involvement with the assignment can review the work file and reasonably determine and understand all the stages of work that the valuer went through to arrive at the (valuation) conclusions.

Based on the above and other provisions in the CEPC, a work file must be completed by the time the report is issued and have all the necessary components regardless of whether a summary or comprehensive valuation report is issued.

4.1.2 Minimum Requirements

Below is a list of the minimum components of a work file outlined in the CEPC:

1. Hard copy or electronic copy of the written valuation report
2. Correspondence, memos and supporting documents
3. Record of conflict checks, outcomes and actions thereof
4. Sufficient information, data and procedures necessary to support the valuer's opinion such as, but not limited to:
    a. Outcomes of enquiries,
    b. Sources of data
    c. Methods used, analysis, and calculations

Consequently, the contents of the work file, besides the valuation report, may encompass a wide variety of data and documents including contracts and agreements; drawings and plans; zoning maps; financial and operating statements; photographs and video recordings; email and voicemail messages; letters and other correspondence; memos; transcripts of meetings and presentations; profiles of comparables and electronic files of valuation software used.

With little local case law evidence establishing or sanctifying valuer-client privilege, a valuer must consider that their work file may in future be required in court where either the valuation itself is the subject of litigation or the suit relates to the property that is the subject of the valuation. As such the valuer must exercise care about what documents, notes or statements go into the work file and how the file is organized. Not only must the work file demonstrate the valuer's exercise of due care and skill in his valuation, the valuer should also consider not including other information that unnecessarily extends his exposure. In other words, the work file should include all the information that the valuer has carefully considered and supports his valuation conclusion. The valuer must document his rationale for excluding in his analysis any other information, such as additional comparables, that may be contained in his work file.

4.1.3 Storage Period

CEPC further requires that the work file must be maintained for a minimum period of 10 years. This is also the period stipulated by various other laws and regulations in KSA including the Anti-Money Laundering Law.

4.1.4 Electronic Filing

In modern times where email predominates official communication, the use of electronic filing systems by valuation firms is more the rule than the exception. Such a system may still exist alongside a paper-based system which it ultimately aims to replace, but it is increasingly part of a fully digitized electronic document management system (EDMS). EDMS essentially involves the use of computer and software technology to create, capture, organize, store, retrieve, manipulate and circulate data electronically.

EDMS confers users with significant benefits over paper-based filing including physical space savings, quicker and easier access to internal and external information, faster retrieval and response to client queries, use of multi-media, enhanced tracking of workflow documents for reviews and approvals, and remote or flexible working possibilities. Firms would also have guidelines and policies in place governing the use of such systems and the output thereof to ensure data verification and integrity and mitigate fraud, theft and breaches of confidentiality.

Efficient file organization is another important aspect of a valuer's recordkeeping, regardless of whether a firm uses paper-based or digital systems. Research has shown that office users can spend more time looking for information than reading it. Below are some guidelines for efficient electronic file organization with reference to a valuation practice setting:

1. Establish a logical folder structure by creating separate main folders for each valuation project. Within the main or project folder, create subfolders for related items and nest them into a hierarchy.
2. Use the property or portfolio ID as the main folder name for each valuation project. Property ID's or addresses are unique and their use as folder names (or secondary folder names in the case of portfolio folders) facilitates easier and quicker search for relevant project folders.
3. Maintain a consistent nomenclature for the subfolders and avoid overlap in what gets stored in each subfolder. The names used for the subfolders should be clear and understandable to those who will use the files.
4. Create a pre-set or template of the folder directory with a clear and standard outline of main and sub-folders to be replicated for every new valuation assignment.
5. Names for files stored within the subfolders should be sufficiently descriptive and independent of the folder in which they are stored.
6. Embed:
    a. the file's version in the file name, such as v.01, v.02 etc for better version control. The last official version may be marked 'FINAL' for easier identification.
    b. the file's date of creation or revision in the file name, since dates stored automatically by the operating system change with re-saving or movement of files among folders and users. The international standard date notation is YYYY_MM_DD, which allows for files to be sorted chronologically.
7. Draft and final versions of files or reports should be stored in separate sub-folders labelled accordingly. In other words, there should be two subfolders: 'Draft' and 'Final'. Aborted, outdated or incomplete versions or any other versions that don't fit into 'Draft' or 'Final' folders could be stored in a third sub-folder labelled 'Archive'.
8. Review-ready files or reports may be labelled further as 'draft', with appropriate status extensions 'to review', 'from review' as the case may be.
9. Work files should be maintained on a shared drive where they can also be backed up and access restricted as necessary. Access to 'confidential' and personal files must be restricted.
10. Maintain a 'master' or 'original' version of each project folder to ensure integrity and reliability of records. Future rework, edits or updates such as for repeat assignments should be on copied files.
11. Allocate a member of the project team to be responsible for project-specific filing. At the firm level, a coordinator familiar with valuation should be designated to oversee filing, regularly reviewing and tracking files to ensure completeness and orderly organization of valuation files.

4.1.5 Physical Filing

Much of the same principles and procedures for efficient organization of electronic files apply to physical filing. These include maintenance of a logical structure of folders, moving from general to specific sorting of documents into broad categories and subcategories, clear and unique labelling of files and so on. However, given the physical nature of the files and the fact that only a single file set is typically maintained, other important considerations need to be made with regards file management and location, layout, access and control of the files room or files cabinet, as the case may be (depending on the size of the firm).

The files room or cabinet should be in a secure and central location within the firm's premises that can be conveniently accessed by all that have the right of access. In a large firm, ideally a designated file coordinator should design the filing system, and oversee its implementation including access and file tracking.
Given its versatility and capacity for high-density storage, open shelving in the files room would make for more efficient and economical storage than say, vertical or lateral file cabinets. Moveable open shelves offer even more convenience and space savings but are typically more expensive than fixed ones.

Files within the filing room or cabinet should be arranged in a way that is most suitable for rapid retrieval. It is more practical to arrange valuation files primarily by either geography and/or land reference numbers especially where the land referencing system is predominantly uniform or sequential throughout the area. Files used should be of sturdy material, such as cardboard files, which are also large enough to accommodate most if not all the contents of a typical valuation work file. The files should have clearly labelled tabs and dividers to facilitate organization and retrieval of documents within the file. A checklist of the file contents, including summary details of the assignment should be kept at the beginning of the file on top of all other documents. To save space and reduce redundancy, documents that are common to more than one work file may be held in a separate file and a cross-reference made within the relevant work files.

Depending on the timing of repeat instructions, and changes in market and neighbourhood conditions and in the subject property itself, revaluations may use much of the information in the existing work file, warranting only an extension of the file to accommodate latest report and any additional information, but with appropriate cross-references to relevant existing documents.

A files inventory, listing files and their location within the files room or cabinet, should be developed and maintained to facilitate access and retrieval. Separate folios should be considered for more sensitive files. Similarly, a retention schedule should be maintained, clearly indicating how long a file must be kept, whether the file is archival or purgeable and the guidelines for moving or disposing of the same. Confidential files must be shredded.

Outcards should be used to monitor removal of files or folders from files. Outcards should contain file or folder title, borrower name, and the dates the file was charged out and returned. Whenever it is returned, the file or folder should be checked to see that it is complete, and the outcard removed and replaced with the file or folder. See example of electronic file or folder structure as Appendix D-1.

4.2 Closing Letter

Upon completion of the valuation assignment, it is best practice to send a transmittal letter to notify the client of the fact. The transmittal letter may be part of the final valuation report or it may be a separate document and should be on the firm's letterhead.

Beside asserting that the valuer has completed his contractual obligation, the transmittal letter typically also serves to:

- Recall:
  - o the client, intended use, users, and purpose of valuation and valuation date
  - o the client's business relationship with the valuer and the general terms governing that relationship exclusive of any unintended users;
- Disclose the scope of work completed for the valuation whilst pointing to any special assumptions or unusual limiting conditions

It is uncommon to restate the value opinion on the transmittal letter particularly if it is issued separately from the final valuation report, otherwise it may be misconstrued as a valuation report.

A sample transmission letter is provided in Appendix D-2.

4.3 Handling Client Complaints

4.3.1 Introduction

Valuation is a people business which is driven by client trust and confidence in the integrity and quality of the valuer's opinion. Good client service, continual improvement, potential for repeat business and the need to minimize the risk of both reputational damage and financial loss all dictate that valuers welcome and handle client complaints with caution, care and empathy.

CEPC also requires diligent and judicious handling of client complaints:

Article -4(iii)(4):

The valuer must act responsibly and courteously in all dealings with clients and the public, and respond promptly and effectively to all reasonable instructions and complaints

Client complaints come in many shapes and forms. They may relate to dissatisfaction with any or all of timeliness, quality, scope or outcome of the valuation. The complaints may also be directed to the project leader, senior management or regulatory authorities such as Taqeem.

No valuer or firm is completely immune to client dissatisfaction. Displeased clients may also share their experience with other existing or potential clients. It is therefore imperative that the valuer or firm has a structured approach to handling complaints directed internally by clients. Clients should be made aware of the existence of such a mechanism at the outset of the assignment. Upon receipt of a client complaint, the valuer should share the approach with the aggrieved client and demonstrate commitment to the approach with a view to resolving client concerns and retaining clients. In fact, diligent handling of complaints may impress some clients more than an error-free valuation.

4.3.2 Complain Handling Procedures Guidelines

The following guidelines represent just some of best practice in valuers' approach to handling client complaints:

1. The complaint handling procedures (CHP) should be commensurate to the size and structure of the firm. Designate senior staff or department to oversee the CHP.
2. Consider the CHP as not just a means to resolving client complaints but also as a tool for learning and continuous improvement. The firm's CHP may also influence future PII costs and cover.
3. The CHP should be agreed with the PII provider so as not to compromise the PII cover.
4. The CHP should be reviewed regularly by senior management and such reviews logged accordingly.
5. All staff should be trained on and have access to the CHP.
6. Disclose the existence of the CHP to clients and especially at the outset of the engagement.
7. Provide and publish more than one means of receiving client complaints e.g. toll-free customer service number, email or through the firm's website.
8. Maintain a complaints' log that allocates and tracks all complaints received and documents how, when and by whom they were handled and resolved.
9. Acknowledge client complaints promptly and appropriately, taking care not to agitate the client or compound the problem in your response. Share the CHP with the client and indicate the person who will be the client's single point of reference and when the client can expect his or her response.
10. Listen very carefully, patiently and objectively to the client's complaint if made on call or in person and establish the basis and motivation of the complaint first. Verify that the caller is a client. Educe specific problems and relevant details from the client. Do not admit any liability at this stage but show empathy and reassure the client of the firm's resolve to investigate and address the root cause of the complaint. If the complaint is likely to give rise to a legal claim, the PII provider should be notified of the complaint.

11.Upon investigation of the complaint, establish the background and specifics of the complaint. Alert, consult and share any written complaint with the valuer(s) whose work is the subject of the complaint with a view that every issue in the complaint is considered and the merits and course of action therefor determined.

a.Evaluate the basis and gravity of the complaint

12.The client must be informed of the outcome of the investigations:

a.Any refutation of the complaint must be reasonably, but tactfully, justified with reference to the terms of engagement, the client's role in the issue if any or to specific circumstances of the relevant valuation task (inspection, research, analysis etc).

b.If a reasonable basis of the client's complaint is established, and the need to repeat any of the valuation tasks becomes necessary and practicable, such action should be acknowledged and agreed with the client, subject to the provisions of the PII policy.

c.It may as well be that the issue (e.g. client misunderstanding) requires no more than an acknowledgment of the valuer's or firm's flaws, an apology and a resolve to undertake certain stated actions to prevent its future recurrence.

13. If a complaint remains unresolved, the client may escalate it to either Alternative Dispute Resolution (ADR) providers or a court of law, depending on what the CHP stipulates. Most valuers prefer the ADR route. It is thus important that the CHP should provide for alternative dispute resolution to the extent that it is agreed with the PII provider and does not compromise PII cover, and that both parties commit to the CHP at the time of engagement. ADR mechanisms recognized in the KSA are currently limited to arbitration and mediation which are administered under the rules set by the Saudi Center for Commercial Arbitration (SCCA).

Appendices

Appendices


Table of Contents

Assignment Log Sample (See excel file)

CURRENT	PREVIOUS								
FILE #	CLIENT	BORROWER/ OWNER	TYPE	LOT	STREET NAME	SUBDIVISION/ DISTRICT	CITY	PURPOSE	USE
1001	Bank Malyaan	Fulan bin Fulan	Villa	125	Manazel street	Anhaar District	Riyadh	Mortgage	Purchase
1002	Abu Nawas	Abu nawas	Land	32	Juhaa street	Qasas SD	Buraidah	Court	Divorce
1003	Samsoun bin Shater	Samsoun	Apt	52-Apt3	Afraah street	Harakat District	Jeddah	Insurance	Insurance

				AMOUNT	AMOUNT	DATE	
FEE	DATE IN	DATE OUT	VALUE	DUE	PAID	PAID	Comment Referral
SAR 1,500	25/10/2017	04/11/2017	SAR 2,000,000	SAR 0	SAR 1,500	07/11/2017	
SAR 1,000	27/10/2017	02/11/2017	SAR 550,000	SAR 0	SAR 1,000	03/11/2017	Attorney Shaatur
SAR 1,500	05/11/2017			SAR 750			

CLIENT INTERVIEW

Initial interview by: _______________ Date of interview: ________

(Name of Office personnel conducting interview)

Name of interviewee: _______________ Referred by: ________

Client name: _______________

Mailing address for client ordering report: _______________

Phone: _______________ Fax: ________

Email Address: _______________

Other intended users: _______________

Type of Asset:

☐ Vacant land ☐ Residential ☐ Commercial ☐ Industrial

☐ #of Spaces ☐ Multi Family - # of Units

Other: _______________

Brief physical description:

(Improvements and land area)

____

____

____

Subject property address: _______________

Legal name of Title Holder: _______________

Legal description: _______________

(Freehold/ Leased fee/ Leasehold/ Other)

Type of Opinion

☐ Valuation ☐ Review ☐ Review with value opinion

Purpose of Valuation:

☐ Mortgage ☐ Refinance ☐ Fin. Reporting ☐ Land Tax ☐ Sale

☐ Acquisition ☐ Litigation ☐ Relocation ☐ Eminent Domain ☐ Bankruptcy

☐ Estate Administration ☐ Insurance

Other/explain: ___________________________

Date of Valuation: ________

Have we valued the asset before: ☐ Y ☐ N Date of our valuation: ________

Items Available for Valuer:

Survey	☐ Y	☐ N				
Legal Description/ Title	☐ Y	☐ N	Source:			
Floor Plan/Blue Print	☐ Y	☐ N	Specifications	☐ Y	☐ N	
Old Valuation Report	☐ Y	☐ N	Income & Expense			
			if Rented	☐ Y	☐ N	
Tenants Schedule	☐ Y	☐ N				
Lease Document	☐ Y	☐ N				
Sale Agreement	☐ Y	☐ N				

Client's CR[11] certificate	☐ Y	☐ N
Client's BOD[12] list	☐ Y	☐ N
Client's Management team	☐ Y	☐ N
Intended user's CR certificate	☐ Y	☐ N
Intended user's BOD list	☐ Y	☐ N
Intended user's Management	☐ Y	☐ N

Details needed to carry out checks for valuer independence/ conflict of interest as per the Saudi Accredited Valuers' Law, as well as verifications under Saudi Anti-Money Laundering Law

If a Sale:

Borrower/ Buyer's name: ___________________________

Sale Price: __________ Loan amount: __________

Contract/offer to purchase included herein: ☐ Y ☐ N

Person to contact for access: __________ Phone: __________

11 Certificate of Registration

12 Board of Directors

If Leased:

Tenant's name: _ _ _ _ _ _ _ _ _ _ _ _ _ _

Amount of Rent SAR per month/ year

Lease contract included herein: ☐ Y ☐ N

Person to contact for access: _ _ _ _ _ _ _ Phone: _ _ _ _ _ _ _ _ _ _ _

Type of Valuation Report: (check one)

☐ Narrative ☐ Form ☐ Summary

No. of copies required: _ _ _ _ _ _ _ _ _ _ _

(if report is not to be emailed)

Delivery of Report: _ _ _ _ _ _ _ _ _ _ _

Express Mail: _ _ _ _ _ _ _ _ _ _ _ _ _ Email to: _ _ _ _ _ _ _ _ _ _ _

Pick up by: _ _ _ _ _ _ _ _ _ _ _ _ _ _ _

Courier using: _ _ _ _ _ _ _ _ _ _ _ _ _ _ Acct #: _ _ _ _ _ _ _ _ _ _ _

Fee Quoted for Valuation: _ _ _ _ _ _ _ _ _ _ _

Method of payment for valuation

1. ☐ COD[13] Name of person responsible for payment: _ _ _ _ _ _ _

2. ☐ Check will be mailed prior to inspection?

3. ☐ Invoice person ordering report? Approved by Management Y N

4. ☐ If overnight is required please include your account # and preferred company

☐ UPS ☐ ARAMEX ☐ FEDEX ☐ DHL ACCOUNT #

Special instructions:

Client ordered report ☐ Y ☐ N Date of order

Order followed up with a letter and contract: ☐ Y ☐ N

13 Cash on Delivery

Appendix A-3

Risk Assessment Matrix

	Medium	Medium	High	High	Extreme
	Medium	Medium	Medium	High	High
	Low	Medium	Medium	Medium	High
	Low	Low	Medium	Medium	Medium
	Negligible	Low	Low	Medium	Medium
Likelihood	1	2	3	4	5
Probability of occurrence within X years	Unlikely to occur or occur with negligible frequency	Unlikely to occur or occur with low frequency	Could occur or occur with moderate	Likely to occur or occur with high frequency	Highly likely to occur or occur with a very high
	0-20%	20-40%	40-60%	60-80%	80-100%

RISK MANA GEMENT TOOLKIT
Assignment Name: Delta
CONTROLS LIST

RISK CONTROL ASSIGNMENT
Risk
Select Risk Level

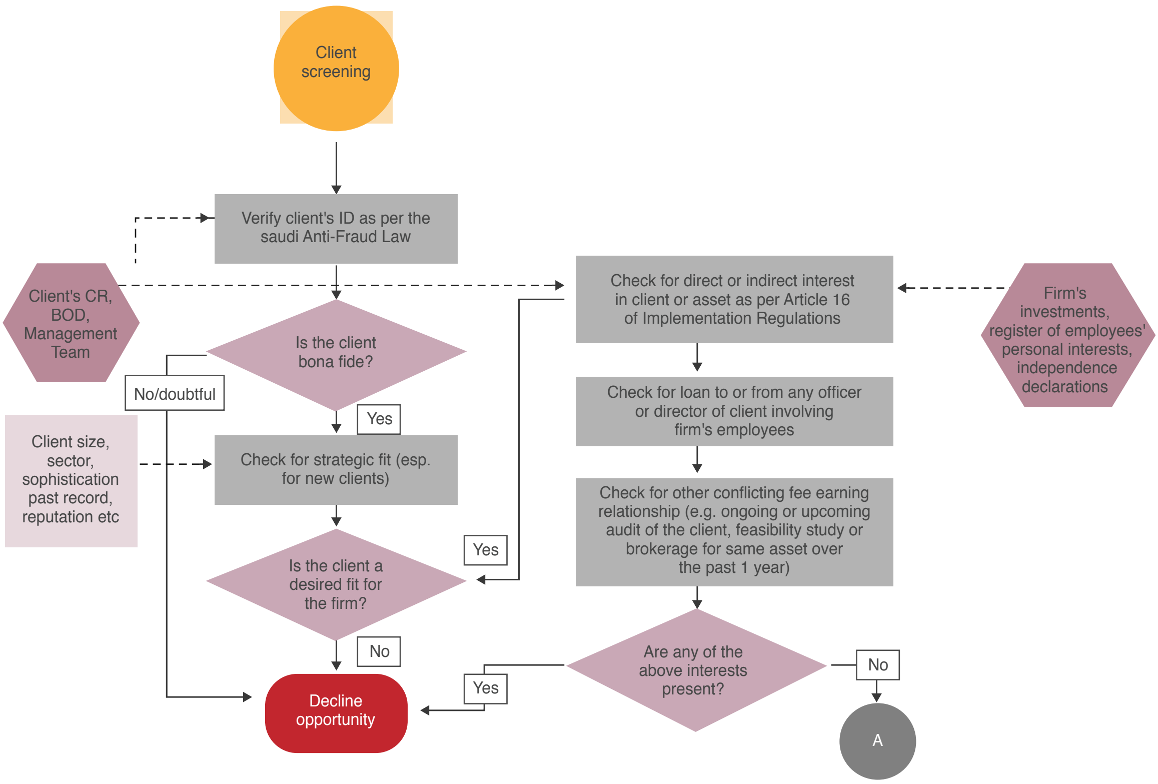
Control
Standard terms and conditions
Client notification and consent
Disclosure of potential sources of conflict
Vetting team members
Chines walls/ info barriers between service lines
Chines walls/ info barriers between project teams
Internal Peer reviews
Hot reviews
Periodic (cold) rewiews
Valuer rotation
NDA letter
Access letter
Reliance letters
Training

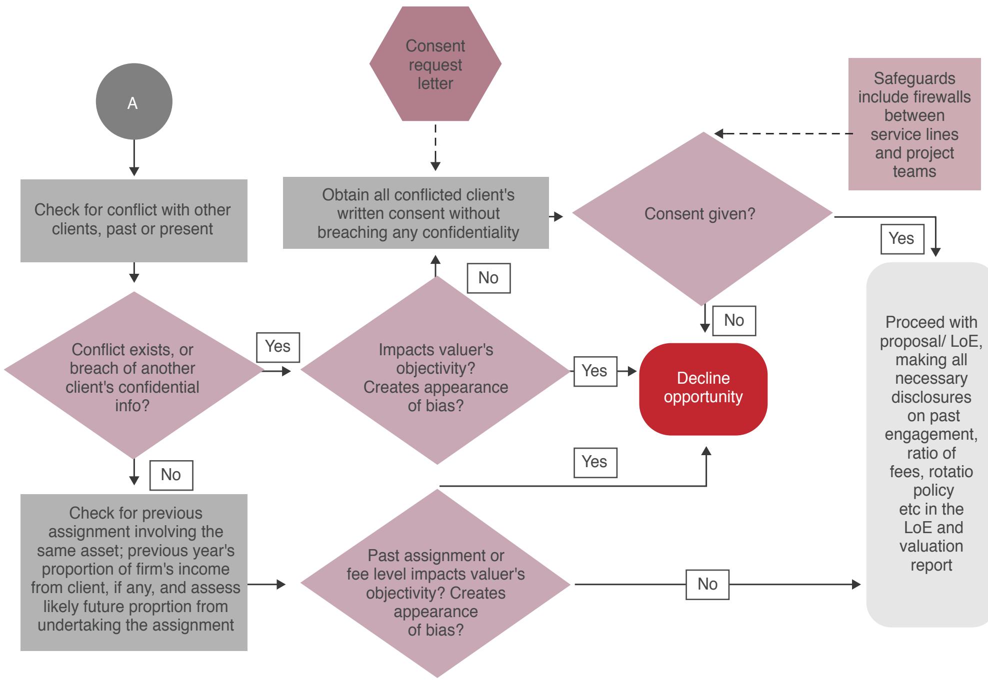
	Legal/Regulatory	Reputation	Financial	Operational
Impact	Breach that could lead to disciplinary action, fines, or revocation of license	Damage to the image of the firm or valuer	Financial loss for the firm (% of average revenues p.a.)	Loss/ reduction in business, increased management effort
5	Suspension or Expulsion	Major, long-lastin, national damage	>10%	Significant loss and significant management effort
4	Reprimand or Censure	Significant, national reputational damage	1.0 - 10%	Frequent major loss, majort management effort
3	Admonishment	Moderate, national impact	0.1 - 1.0%	Occasional major loss, moderate management effort
2	Significant breach of internal policy only	Moderate, regional impact	0.01 - 0.1%	Frequent minor loss, minimal management time
1	Breach of internal policy only	Local and short-lived impact	<0.01%	Occasional minor loss and management time

Default	Fraud	Scope Creep	Leakage	Self-interest	Self-review	Client-conflict	Advocacy	Familiarity	Intimidation	Negligence	Confidentiality
	1	1	1	1	1	3	5	4	1	1	2
✓											
							✓				
✓								✓	✓		
✓											
								✓	✓		
✓											
								✓	✓		
✓											

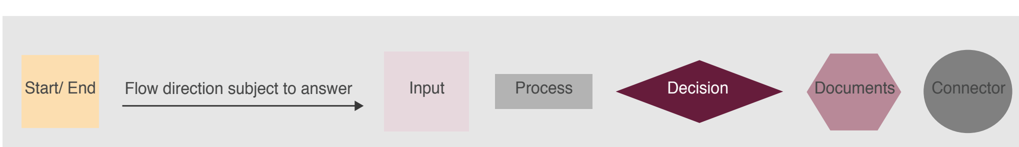
Appendix A-4

Independence and Conflict Check Flow Chart





Flow Chart Key



Assignment Plan

Valuation Scope Checklist/ Assignment plan

Client: Phone:

Address:

Other intended user(s): Phone:

Contact name:

Subject Asset:

Address:

Plot# House/ Unit #:

Street name: Subdivision/ District name:

City:

Interest to be valued:

☐ Freehold ☐ Leased fee ☐ Leasehold

☐ Other (please specify) ______________________

Asset type:

Size of building (s):

Age:

Land area:

Purpose of valuation:

☐ Mortgage ☐ Refinance ☐ Fin. Reporting ☐ Land Tax

☐ Sale ☐ Acquisition ☐ Litigation ☐ Relocation

☐ Eminent Domain ☐ Bankruptcy ☐ Estate Administration ☐ Insurane

☐ Other (please specify) ______________________

Basis of Value

☐ Marke Value ☐ Fair Value ☐ Investment Value ☐ Market Rent

☐ Other (please specify) ______________________

Valuation Date:

Special Assumptions:

Identify Asset (incl. legal attributes):

☐ Site visit ☐ MOJ Portal/ Notary Public ☐ Broker

☐ Client ☐ Municipal Records ☐ Firm Database

☐ Copy of sakk/ krouki ☐ Buyer ☐ Other (please specify) ____________

Inspection/ site visit (physical attributes):

☐ Desktop ☐ Drive-by ☐ Exterior only ☐ Walk-through

Economic attributes:

☐ Fron client ☐ Read Leases ☐ Enquire property manager ☐ Enquire tenants

Research:

☐ Desktop ☐ Field work/ market survey ☐ Database

Valuation Approach:

☐ Sales Comparison

☐ Other (please specify) ☐ Income Capitalization ☐ Replacement Cost

Valuation Report:

☐ Comprehensive ☐ Summary ☐ Form

☐ Other (please specify) ______________________

Due Date:

Fee:

Appendix A-6

Proposal Template

Slide 1

Proposal title

Date

Slide 2

Submission Letter

- Draft on firm’s official letterhead complete with address and commercial registration number
- Address to the Client (to the attention of the contact person or the recipient stipulated in the RFP)
- May contain unique reference number of the subject proposal
- Acknowledge and reference the Client’s RFP or email/ call/ meeting by subject, date and ref number where given
- Highlight the firm’s preparedness and competitive edge to address the Client’s requirements as explained in the ensuing proposal
- State whether the technical and financial proposals are provided as one document or separately
- Affirm the firm’s willingness to engage with the Client on the latter’s business terms as may be contained in the RFP, the firm’s terms as provided in the proposal or suggest negotiation of some of either party’s terms
- State the name, title and contact of the consultant who would provide clarification/ follow up Client feedback about the proposal
- Signature, name and title of the person who would typically be also the one signing off the engagement once the firm is appointed such as the firm’s CEO, managing partner or service line leader

Slide 3

Submission Letter

Section	Pages #	Suggested length
Technical Proposal		
Executive Summary	4	1 – 2 pages
Firm Profile	5	2 – 3 pages
Defining the Problem	6	1 – 2 pages
Approach and Methodology	7	2 – 3 pages
Project Team	8	1 – 2 pages
Project Calendar / Timeline	9	1 – 2 pages
Credentials	10	2 – 3 pages
Financial Proposal	11	1 – 2 pages
Appendices	12	2 – 4 pages
Disclaimer	13	1 – 2 pages

Slide 4

Executive Summary

- Project background
- Brief description of the client, subject and purpose of valuation and any other intended users
- State the purpose of the proposal
- Provide a summary of valuer's proposed approach including outline of the scope, methodology and project duration
- Brief profile of the firm, designated team, experience (with particular reference to similar engagements), quality standards and USPs
- Explain the organization of the proposal
- The Executive Summary provides an overview of the proposal and should be the last section to be drafted

Slide 5

Firm Profile

- State ownership of the firm in terms of company, partnership, proprietorship
- Describe firm's major business activities and state its locations
- Provide a brief history of the firm, past relevant accomplishments and major clients (subject to any confidentiality restrictions)
- Identify the firm's professional affiliations, values, ethical standards, quality program, industry awards and thought leadership.

Slide 6

Defining the Problem

- State the valuer's understanding of the Client's problem by identifying the:
  - Client
  - Intended user(s)
  - Asset and interest to be valued
  - Purpose of valuation
  - Basis of value
  - Valuation date and currency
  - Significant assumptions
- Subject to information at hand or specifically researched for the proposal, contextualize the problem in terms of market highlights and trends,
- statistics, regulation (e.g. move to IFRS, mortgage law, White Land Tax and timelines) etc.

Slide 7

Approach and Methodology

- Discuss (or at a minimum, state) the following:
    - The extent to which the subject property will be inspected and measured
    - Nature and extent of investigations to be undertaken including planning enquiries, title search, macro-economic data, market study and comparable data (listings and/or sales/ rentals)
    - Nature and sources of information (primary versus secondary, verification or limitations thereof)
    - Valuation methods to be applied.
    - Standards to be complied with.
    - Type and number of reports to be delivered.
- Indicate the Client's role, if any, in facilitating the above scope of work including when and what information would be required from the Client

Slide 8

Project Team

- State and profile the valuer(s) and analyst(s) proposed for the assignment in terms of their role in the firm and in the assignment, designations, qualifications and experience
- Provide the team structure including a highlight of those team members responsible for Client contact, report review and sign-off
- Provide contacts of key team members for follow up of proposal and those expected to drive the project

Slide 9

Project Calendar / Timeline

- Outline the time expected (in days, weeks or months) to complete the various aspects of the scope of work (milestones) and to submit both the draft and final valuations (including planned meetings and reviews).
- Provide any caveats (e.g. exclusions of public holidays, Client delays in availing documents or comments, unforeseen events etc).
- Depending on the complexity of the assignment (such as one involving a portfolio with diversified assets, plant and equipment, multiple work streams etc) it may be prudent, if not necessary, to propose a detailed project management and governance process and plan.

Slide 10

Credentials

- Provide case studies or brief descriptions of relevant project experience (without compromising clients confidentiality).
- Provide Client references (subject to consent from referees).

Slide 11

Financial Proposal

- Depending on the provisions of the RFP, outline the proposed:
- Professional fees:
  - As a total lumpsum/ flat fee (most common)
  - On a uniform hourly rate basis
  - On a variable hourly rate based on the seniority of team members or pegged to specific tasks
- 'Out-of-pocket' expenses to be billed at cost to Client but capped to a certain amount to cover travel, accommodation, courier, translation etc
- Payment schedule and terms
- Provisions for:
  - Out-of-scope services
  - Assignment cancellation, expense reimbursement and prorating of fees

Slide 12

Appendices

- Appendices containing lists of tables and detailed information, exhibits (e.g. CRE, PII certificate, Zakat certificate), firm's standard terms and conditions of business and other important references made in the proposal.

Slide 13

Disclaimer

- Indicate:
- A list of exceptions, or what the proposal does not include, especially with reference to the RFP, and reasons for such exclusions.
- Proposal's validity period Proposal access restrictions.
- Copy right restrictions.
- Limitations on accuracy, completeness or correctness of any private or public information used in the proposal.

Letter of Engagement

TEMPLATE COVER LETTER TO AGREEMENT FOR SERVICES

Valuer ______________________
Title ______________________
Company ______________________
Address ______________________

Date ______________________
Client ______________________
Title ______________________
Company ______________________
Address ______________________

Dear [Client contact person],

Thank you for choosing [company name] for your valuation services needs. We appreciate the opportunity to assist you and I am confident that you will be very satisfied with the services that we offer.

Enclosed please find our Agreement for Services, which describes the scope of the services, our fees and standard terms and conditions. If this Agreement is acceptable to you, please sign and return to us at your earliest convenience. Once we receive the signed Agreement from you, we will expedite your request.

If you have questions, please don't hesitate to contact me. I can be reached at [phone number].

Again, thank you for choosing [company name].

Sincerely,
[Valuer name]
[Title]
Enclosure

SAMPLE TEMPLATE FOR AGREEMENT FOR PROFESSIONAL VALUATION SERVICES

Valuation Assignment

(Suggestions on how the template may be adapted to a 'master', 'retainer' or 'lump sum' agreement are provided in blue font where appropriate)

DATE OF AGREEMENT: dd/mm/yyyyy

PARTIES TO AGREEMENT:
Client:
Client name
Client company
Address line 1
Address line 2
Phone
Fax
E-mail

Valuer:
Valuer's name
Valuation firm
Address line 1
Address line 2
Phone
Fax
E-mail

Client hereby engages Valuer to complete a valuation assignment as follows:

(A master/ retainer/ lump sum agreement may state: Client hereby engages Valuer to complete X (number) valuation assignments over X months from Date of Agreement as follows:)

PROPERTY IDENTIFICATION
Property address / Legal description

(A master/ retainer/ lump sum agreement may state: Property to be valued will be identified in sequential task orders issued by the Client to the Valuer («Task Orders»). A separate valuation is to be provided for each property identified in a Task Order).

PROPERTY TYPE

Existing / Proposed / Office xx SqM/ Retail xx SqM/ Industrial xx SqM/ Vacant land xx SqM/ Subdivision XX lots/ Single-family residence / Condominium / Multifamily residence - XX units / Manufactured home /Agricultural land/ Other

(Unless a specific property type has been identified agreed at the outset between the parties, a master/ retainer/ lump sum agreement may state: The type of property to be valued will be identified in sequential Task Orders issued by the Client to the Valuer).

INTEREST TO BE VALUED

Fee simple (Freehold) / Leasehold / Leased fee / Other

(Unless a specific interest has been identified agreed at the outset between the parties, a master/ retainer/ lump sum agreement may state: The interest to be valued will be identified in sequential Task Orders issued by the Client to the Valuer).

INTENDED USERS

Client and (state if other)

Note: No other users are intended by Valuer. Valuer shall consider the intended users when determining the level of detail to be provided in the Valuation Report.

(Often only one clearly identified user or set of users would be intended by a master/ retainer/ lump sum agreement and would not vary with individual valuation assignments).

INTENDED USE

To assist Client and intended users in: making a lending decision / negotiating a purchase price / establishing an asking price / litigation / determining just compensation / establishing a value for property tax purposes / tax planning / tax reporting / loan monitoring/ estate administration/ Other

Note: No other use is intended by Valuer. The intended use as stated shall be used by Valuer in determining the appropriate Scope of Work for the assignment.

(Often only one clearly identified user or set of users would be intended by a master/ retainer/ lump sum agreement and would not vary with individual valuation assignments).

BASIS AND PREMISE OF VALUE

Market value/ Market rent/ Equitable value/ Investment value/ Synergistic value/ Liquidation value: as defined by the International Valuation Standards Council/ Fair value as defined in the International Financial Reporting Standards / Fair Market value as defined by _______ / Use value as defined by _____ / Insurable value as defined by _______ / Fair value as defined by _______ / Other

(Often only one clearly identified purpose and basis of valuation would be spelt out by a master/ retainer/ lump sum agreement and would not vary with individual valuation assignments).

DATE OF VALUE

Current / prospective / retrospective /(specify date, if known)

(A master/ retainer/ lump sum agreement may state: The valuation shall be as of a date coinciding with the inspection of the property by the Valuer unless the Client has specified some other date of valuation in the relevant Task Order).

ADDITIONAL PROPERTY TO BE VALUED

None / Furniture, fixtures and equipment / Machinery and equipment / Trade fixtures / Business enterprise value / Art collection/ Other

(Unless a specific property type, including any personal property, has been identified and agreed at the outset between the parties, a master/ retainer/ lump sum agreement may state: Additional property to be valued will be identified in sequential Task Orders issued by the Client to the Valuer).

ASSUMPTIONS AND SPECIAL ASSUMPTIONS

Describe / See appendix / None anticipated

(Often an overarching set of standard assumptions would be spelt out in advance in a master/ retainer/ lump sum agreement to govern all subsequent individual valuation assignments. Even then, some assumptions, especially Special Assumptions may need to be added or modified on a case basis given property-specific or changing market circumstances. A master/ retainer/ lump sum agreement may thus state: Assumptions and Special Assumptions may be added or modified on a case by case basis by a Task Order).

APPLICABLE REQUIREMENTS OTHER THAN THE INTERNATIONAL VALUATION STANDARDS

Taqeem's Code of Ethics and Professional Conduct/ Taqeem's Real Estate Valuation Manual/ The RICS Valuation- Global Standards/ The Uniform Standards of Professional Appraisal Practice/ The Code of Professional Ethics and/or Standards of Valuation Practice of the Appraisal Institute / Other

ANTICIPATED SCOPE OF WORK

Site visit:
Interior and exterior observation, on-site / Exterior observation only, on-site / Exterior observation only, from curb / No site visit

Valuation approaches:
Market approach / Cost approach / Income approach – Direct capitalization / Income approach – DCF

Note: Valuer shall use all approaches necessary to develop a credible opinion of value.

(Often a uniform scope of work would be identified by a master/ retainer/ lump sum agreement to apply to all the individual valuation assignments, especially where a single asset class is to be valued).

VALUATION REPORT

Report option:
Comprehensive Narrative Report/ Summary Report/ Form Report

(Often a single report option would be identified by a master/ retainer/ lump sum agreement to be provided under all the individual valuation assignments).

CONTACT FOR PROPERTY ACCESS, IF APPLICABLE
[name, phone number]

(A master/ retainer/ lump sum agreement may state: The contact through whom the Valuer shall access the property to be valued shall be provided in sequential Task Orders).

PROPOSED IMPROVEMENTS
If the property to be valued consists of proposed improvements, Client shall provide to Valuer plans, specifications or other documentation sufficient to identify the extent and character of the proposed improvements.

PROPERTIES UNDER CONTRACT FOR SALE

If the property to be valued is currently under contract for sale, Client shall provide to Valuer a copy of said contract including all addenda.

ADDITIONAL DOCUMENTATION

Client agrees to provide Valuer with the documentation as indicated in Appendix A to this Agreement. Such documentation will be provided by (   )

DELIVERY DATE

Valuer shall deliver a draft version of the Valuation Report to Client by mm/dd/yyyy/ X days/ weeks from the date of signing this Agreement/ Task Order/ from the assignment kick-off date.

DELIVERY METHOD

Saudi Post / Registered Mail/ Overnight Private Courier/ Hand Delivery/ E-mail / Other

NUMBER OF COPIES

PAYMENT TO VALUER

Valuer's fees for services rendered pursuant to this Agreement shall be SAR__________ in aggregate/ per property/ per individual assignment.

PAYMENT SCHEDULE

Client shall pay X% of the fee upon signing this Agreement and the remainder of the fees upon delivery of the draft Valuation Report.

(A master/ retainer/ lump sum agreement may distinguish fees payable by property type, size or complexity, thus state: The Client shall pay the Valuer upon the submission to the Client of properly certified invoices for valuation reports submitted to the Client a fee computed in accordance with the attached Fee Schedule, Exhibit C).

PAYMENT DUE DATE

Valuer shall invoice Client for services rendered pursuant to this Agreement based upon the fees and payment schedule specified in this Agreement. Valuer's invoices are considered due upon receipt by Client and shall be deemed delinquent if not paid within XX days of the date of Valuer's invoice.

WHEN VALUER'S OBLIGATIONS ARE COMPLETE

Valuer's obligations pursuant to this Agreement are complete when the Valuation Report in the form specified in this Agreement is delivered to Client pursuant to this Agreement. Valuer agrees to be responsive to Client's legitimate inquiries regarding the contents of the report after delivery.

(A master/ retainer/ lump sum agreement may state: The term for this Agreement is (X) years/ months, following the Date of Agreement. Agreement may be renewed for a similar term by a separate written addendum signed by both parties. Either party may terminate this Agreement each year/term on the anniversary of execution with thirty (30) days' written notice prior to the end of that yearly term).

CONFIDENTIALITY

Valuer shall not provide a copy of the written Valuation Report to, or disclose the results of the valuation prepared in accordance with this Agreement to any party other than Client, unless Client authorizes, except as stipulated in the Confidentiality Section of Taqeem's Code of Ethics and Professional Conduct.

USE OF EMPLOYEES OR INDEPENDENT CONTRACTORS

Valuer may use employees or independent contractors at Valuer's discretion to complete the assignment, unless otherwise agreed by the parties. Notwithstanding, Valuer shall sign the written Valuation Report and take full responsibility for the services provided as a result of this Agreement.

SERVICES NOT PROVIDED

The fees set forth in this Agreement apply to the valuation services rendered by Valuer as set forth in this Agreement. Unless otherwise specified herein, Valuer's services for which the fees in this Agreement apply shall not include meetings with persons other than Client or Client's agents or professional advisors; Valuer's deposition(s) or testimony before judicial, arbitration or administrative tribunals; or any preparation associated with such depositions or testimony. Any additional services performed by Valuer not set forth in this Agreement will be performed on terms and conditions set forth in an amendment to this Agreement, or in a separate agreement.

TESTIMONY AT COURT OR OTHER PROCEEDINGS

Unless otherwise stated in this Agreement, Client agrees that Valuer's assignment pursuant to this Agreement shall not include Valuer's participation in or preparation for, whether voluntarily or pursuant to subpoena, any oral or written discovery; sworn testimony in a judicial, arbitration or administrative proceeding; or attendance at any judicial, arbitration or administrative proceeding relating to this assignment.

CHANGES TO AGREEMENT

Any changes to the assignment as outlined in this Agreement shall necessitate a new Agreement. The identity of the Client, intended users, or intended use; the date of value; basis of value; or property valued cannot be changed without a new Agreement.

CANCELLATION

Client may cancel this Agreement at any time prior to Valuer's delivery of the Valuation Report upon written notification to Valuer. Client shall pay Valuer for work completed on assignment prior to Valuer's receipt of written cancellation notice, unless otherwise agreed upon by Valuer and Client in writing.

GOVERNING LAW AND DISPUTE RESOLUTION

This Agreement shall be governed by, and construed in accordance with the laws of the Kingdom of Saudi Arabia.

VALUER INDEPENDENCE

Valuer cannot agree to provide a value opinion that is contingent on a predetermined amount. Valuer cannot guarantee the outcome of the assignment in advance. Valuer cannot ensure that the opinion of value developed as a result of this Valuation will serve to facilitate any specific objective of Client or others or advance any particular cause. Valuer's opinion of value will be developed competently and with independency, impartiality and objectivity.

NOTICES

Any notice or request required or permitted to be given to any party shall be given in writing and shall be delivered to the receiving party by: a) registered or certified mail, postage prepaid; (b) overnight courier, such as Federal Express, United Parcel Service or equivalent; or (c) hand delivery. The address for delivery of any notice shall be the address for the party as specified in this Agreement, or at such other address as party may designate by written notice to the other party in conformance with this paragraph. Unless otherwise specified herein, notice shall be effective the date it is postmarked or given to a third party for delivery to the receiving party, whether or not the receiving party signs for or accepts delivery of such notice.

NO THIRD-PARTY BENEFICIARIES

Nothing in this Agreement shall create a contractual relationship between Valuer or Client and any third party, or any cause of action in favour of any third party. This Agreement shall not be construed to render any person or entity a third party beneficiary of this Agreement, including, but not limited to, any third parties identified herein.

MEDIATION & ARBITRATION

In the event of a dispute concerning the subject matter of this Agreement, the parties shall in good faith attempt to resolve such dispute by negotiation between the parties' principals, or, if such negotiation is unsuccessful, by mediation conducted by a third-party mediator agreed to by both parties. If such mediation results in an impasse, the parties shall submit their dispute to binding arbitration. Such mediation or, if necessary, binding arbitration shall be conducted pursuant to the mediation procedures or the commercial arbitration rules of the Saudi Arabian Arbitration Act of 2012, any Implementation Regulations and the rules set by the Saudi Centre for Commercial Arbitration (SCCA). Any arbitration shall be conducted in the city in which Valuer's office as specified herein is located. The parties shall share equally the costs of any mediation. In the event of binding arbitration, the arbitrators shall, in addition to any relief appropriate to be awarded to the prevailing party, enter an award in favour of the prevailing party for that party's costs of the arbitration, including the party's reasonable attorneys' fees and arbitration expenses incurred in prosecuting or defending the arbitration proceeding. Subject to the right of the prevailing party to recover its share of the costs of the arbitration services pursuant to the arbitrator's award, the costs of the arbitration services shall be borne equally by the parties. If the prevailing party seeks judicial confirmation of any arbitration award entered pursuant to this Agreement, the court shall, in addition to any other appropriate relief, enter an award to the prevailing party in such confirmation proceeding for its reasonable attorneys' fees and litigation expenses incurred in confirming or successfully opposing the confirmation of such an award.

SPECIAL OR CONSEQUENTIAL DAMAGES

Neither party shall under any circumstances be liable to the other party for special, exemplary, punitive or consequential damages, including, without limitation, loss of profits or damages proximately caused by loss of use of any property, whether arising from either party's negligence, breach of the Agreement or otherwise, whether or not a party was advised, or knew, of the possibility of such damages, or such possibility was foreseeable by that party. In no event shall Valuer be liable to Client for any amounts that exceed the fees and costs paid by Client to Valuer pursuant to this Agreement.

ASSIGNMENT

Neither party may assign this Agreement to a third party without the express written consent of the other party, which the non-assigning party may withhold in its sole discretion. In the event this Agreement is assigned by mutual consent of the parties, it shall become binding on the assigning party's permitted assigns.

SEVERABILITY

In the event any provision of this Agreement shall be determined to be void or unenforceable by any court of competent jurisdiction, then such determination shall not affect any other provision of this Agreement and all such other provisions shall remain in full force and effect.

CLIENT'S DUTY TO INDEMNIFY VALUER

Client agrees to defend, indemnify and hold harmless Valuer from any damages, losses or expenses, including attorneys' fees and litigation expenses at trial or on appeal, arising from allegations asserted against Valuer by any third party that if proven to be true would constitute a breach by Client of any of Client's obligations, representations or warranties made in this Agreement, or any violation by Client of any national or local law, ordinance or regulation, or common law (a "Claim"). In the event of a Claim, Valuer shall promptly notify Client of such Claim, and shall cooperate with Client in the defence or settlement of any Claim. Client

shall have the right to select legal counsel to defend any Claim, provided

that Valuer shall have the right to engage independent counsel at Valuer's expense to monitor the defence or settlement of any Claim. Client shall have the right to settle any Claim, provided that Valuer shall have the right to approve any settlement that results in any modification of Valuer's rights under this Agreement, which approval will not be unreasonably withheld, delayed or conditioned.

CLIENT'S REPRESENTATIONS AND WARRANTIES

Client represents and warrants to Valuer that (1) Client has all right, power and authority to enter into this Agreement; (2) Client's duties and obligations under this Agreement do not conflict with any other duties or obligations assumed by Client under any agreement between Client and any other party; and (3) Client has not engaged Valuer, nor will Client use Valuer's Valuation Report, for any purposes that violate any national or local law, regulation or ordinance or common law.

EXTENT OF AGREEMENT

This Agreement represents the entire and integrated agreement between the Client and Valuer and supersedes all prior negotiations, representations or agreements, either written or oral. This Agreement may be amended only by a written instrument signed by both Client and Valuer. This Agreement includes the following Appendices, which are incorporated into, and made a part of this Agreement:

Appendix I: Assumptions and Special Assumptions

Appendix II: Information Request

Appendix III: Fee Schedule

Other documents as follows:

EXPIRATION OF AGREEMENT

This Agreement is valid only if signed by both Valuer and Client within XX days of the Date of Agreement specified.

By Valuer:	By Client:
________________	________________
(Signature)	(Signature)
________________	________________
(Printed name)	(Printed name)
________________	________________
(date)	(date)
________________	________________

Task Order Template

EXHIBIT C: SAMPLE TASK ORDER

Name of Project		Task Order No.	
Agreement No.		Task Assign. Name	
Agreement Date		Completion Date	

The Valuer hereby agrees to perform the valuation of the property identified herein in accordance with all the terms and conditions of the Agreement referenced above. The Valuer shall provide the necessary professional and technical personnel and materials required to complete this valuation. All provisions in the Agreement remain in effect except as expressly modified by this Task Order, and are incorporated herein by reference.

Property Identification	(Property address / Legal description)
Property Type	(Existing / Proposed / Office xx SqM/ Retail xx SqM/ Industrial xx SqM/ Vacant land xx SqM/ Subdivision XX lots/ Single-family residence / Condominium / Multifamily residence - XX units / Manufactured home / Agricultural land/ Other)
Interest to be valued	(Fee simple (Freehold) / Leasehold / Leased fee / Other)
Contact for Property access	(Name & tel/ cell/ email)
Scope of Work	(As per Agreement/ Attached)
Attachments	(Location image/ Survey Plan/ Floor Plans/ Copies of Title and Leases/ Tenants' Schedule/ Cost estimates/ Key team members/ Other)

The total amount authorized under this Task Order, inclusive of all fees and other costs is SAR ______________________ . No other payment shall be allowed unless a Task Order Supplement for changed Scope of Work has been signed and authorized before work is performed.

All work under this Task Order shall be performed pursuant to the terms, conditions, specifications, and limitations contained in the Agreement.

IN WITNESS WHEREOF, the parties have indicated their acceptance of the terms of this Task Order by their signatures below on the dates indicated.

For Client:
(Name and position)

____

Signature
Date

For Valuer:
(Name and position)

____

Signature
Date

Inspection Form Sample

GENERAL	
Valuation file #	Client name
Property type	Block/ Lot/ Other ID #
Street	District/ SD
City	**Client contact (name)**
Tel/Cell #	Inspection date
Inspection time: Arrival: Departure:	Inspection type
Conditions ☐ Wet ☐ Overcast ☐ Sandstorm ☐ Fog	
Inspection limitations ☐ None	

TENURE AND LOCATION DETAILS			
Tenure: ☐ FH ☐ LH ☐ CH	Ground rent: SAR	Unexpired term:	Service charge: SAR
Information provided by ☐ Vendor ☐ Agent ☐ Applicant ☐ Tenant ☐ Other			
Current mortgage lender	Original purchase price	Date of purchase	Sale agreed/ est. value is
Occupancy ☐ Occupied ☐ Vacant	Occupier: (/or see attached tenant's schedule)		
Location ☐ Est Res. area[14] ☐ Local authority ☐ Industrial ☐ Commercial ☐ Cons. area[15] ☐ Rural ☐ Other:			
Rear/side access ☐ Vehicle ☐ Pedestrian ☐ None ☐ Shared drive			
Location ☐ Industry ☐ Aircraft ☐ Traffic			
Contamination ☐ Mining ☐ Radon ☐ Pylon ☐ EMF[16]			

SITE DESCRIPTION			
Lot type ☐ Corner ☐ Interior ☐ Flag lot Through lot ☐ Reverse corner			
Lot Shape Lot Shape ☐ Rectangula ☐ Pie ☐ Irregular			
Primary Street typ ☐ Single carriage ☐ Dual carriage		Primary street width (m)	Primary frontage (m)
Land size (Sqm)	Topography	☐ Level	☐ Sloping
Utility connections ☐ Mains electricity ☐ Mains water Mains sewer ☐ Telephone			
Site works ☐ Perimeter ☐ Stone/ brick/ concrete wall ☐ Steel/ iron/ chainlink fence ☐ Other (specify) ☐ Guard/ Driver's Room ☐ Street lights ☐ Driveway/ Paving ☐ Curbing ☐ Sidewalks ☐ Garages (Single/ Double) ☐ Parking spaces (No.) _____ ☐ Garden ☐ Sewage Treatment Plant ☐ Underground tanks (Lts.) ___ ☐ Storm sewers ☐ Swimming Pool (Type/No.) _____/ ________			
Other observations on the site or adjoining properties warranting further investigations by other specialists ☐ Unlabelled containers/drums ☐ Pits/ponds/swamp ☐ Dumps/ash heaps ☐ Stained soil/ distressed ☐ vegetation ☐ Transmission towers ☐ Unusual odours ☐ Underground tanks ☐ Others (Specify)			

14 Established Residential Area
15 Constructed area
16 Electromagnetic field

MAIN BUILDING INFO

Type: ☐ Villa ☐ Duplex ☐ Traditional ☐ Condo ☐ Apt. Block ☐ Other (Specify)_________
☐ Detache ☐ Semi-det. ☐ Terraced ☐ End-ter. ☐ Purpose Built ☐ Converted

Year built: Floors: Fl Area (Sqm):

ACCOMMODATION DETAILS

Living: Male lounge: Female lounge: Family room: Patio/Terrace:	Bedrooms: Ensuites: Sharing:	Bathrooms: ¼ ½ ¾ Full	Lifts: Parking: Underground: (No.____) Parking deck: (No.____) Surface: (No.____)	Man. Co: Facilities: Furnished (No.___) Swimming pool (No. ____) Gym (Y/N) ____ Spa (Y/N) _____ Others (Specify):
Kitchens Pantry/ Store: Scullery: Kitchenette: Yard:	Dining:	Maid's room: Utility: Laundry: Other:	Apartment Mix: No. Living Baths.Area (m2) Type: Studios 1 B/R 2 B/R 3 B/R 4 B/R TOTAL	

CONSTRUCTION DETAILS

Exterior

Roofs Main	☐ Pitched	☐ Hipped	☐ Flat	☐ Ventilation		☐ Yes	☐ No
Cover	☐ Conc.	☐ Clay	☐ Slate	☐ Asb.	☐ Asphalt	☐ Other (Specify)__________	
Additions	☐ Pitched	☐ Hipped	☐ Flat				
Cover	☐ Conc.	☐ Clay	☐ Slate	☐ Asb.	☐ Asphalt	☐ Other (Specify) _________	
Condition	☐ Good	☐ Avg.	☐ Poor				
Gutters / Downpipes		☐ PVC	☐ Metal	☐ Asb.	☐ Conc.		
Condition	☐ Good	☐ Avg.	☐ Poor				
Eaves Joinery	☐ Fascias	☐ Soffits	☐ Barge boards		☐ Timber	☐ PC	☐ Asb.
Condition	☐ Good	☐ Avg.	☐ Poor				
Walls Main	___mm	☐ Brick	☐ Block	☐ Stone		☐ Precast	☐ Non-trad
Finish	☐ Render	☐ Tile	☐ Timber	☐ Solid			
Additions	___mm	☐ Brick	☐ Block	☐ Stone		☐ Precast	
Roofs Main	☐ Pitched	☐ Hipped	☐ Flat	☐ Ventilation		☐ Yes	☐ No
Cracks	☐ Yes	☐ No	☐ Not significant			☐ Location: __________	
Pointing	☐ Good	☐ Avg.	☐ Poor				
Air bricks	☐ Yes	☐ No					
DPC type	☐ Suitable height		☐ Bridged	☐ Not visible			
Condition	☐ Good	☐ Avg.	☐ Poor				
Windows	☐ SW	☐ HW	☐ Metal	☐ Alum.		☐ PVC	☐ Single glazed
	☐ Double glazed		☐ Shuttered				
Decorations	☐ Good	☐ Avg.	☐ Poor				

Interior							
Floors	Basement	☐ Solid					
Ground	☐ Solid	☐ Beam & block		☐ Suspended			
Upper	☐ Beam & block			☐ Suspended			
Finishes:							
Living Rooms	☐ Granite	☐ Ceramic	☐ Wood	☐ Terrazzo	☐ Screed	☐ Carpet	☐ PVC
Bedrooms	☐ Granite	☐ Ceramic	☐ Wood	☐ Terrazzo	☐ Screed	☐ Carpet	☐ PVC
Bathrooms	☐ Granite	☐ Ceramic	☐ Terrazzo	☐ Screed	☐ Other		
Kitchen	☐ Granite	☐ Ceramic	☐ Terrazzo	☐ Screed	☐ Screed	☐ Carpet	
Condition	☐ Good	☐ Avg.	☐ Poor	☐ Sulphate attack			
Sloping floors	☐ Yes	☐ No					
☐ Detail and location of defect(s)______________							
Walls	Finishes:						
Living Rooms	☐ Granite	☐ Panelling	☐ Textured	☐ Plaster	☐ Glazed	☐ Wallpaper	☐ Mosaic
Bedrooms	☐ Granite	☐ Panelling	☐ Textured	☐ Plaster	☐ Glazed	☐ Wallpaper	☐ Mosaic
Bathrooms	☐ Granite	☐ Ceramic	☐ Mosaic	☐ Plaster	☐ Other _		
Kitchen	☐ Granite	☐ Ceramic	☐ Mosaic	☐ Plaster	☐ Other _		
Condition	☐ Good	☐ Avg.	☐ Poor				
No evidence of		☐ Failure	☐ Displacement				
☐ Detail and location of defect(s)______________							
Ceilings							
Living Rooms	☐ Regular	☐ Tray	☐ Vaulted	☐ Domed	☐ Beamed	☐ Other _	
Bedrooms	☐ Regular	☐ Tray	☐ Vaulted	☐ Domed	☐ Beamed	☐ Other _	
Bathrooms	☐ Regular	☐ Tray	☐ Vaulted	☐ Domed	☐ Beamed	☐ Other _	
Kitchen	☐ Regular	☐ Tray	☐ Vaulted	☐ Domed	☐ Beamed	☐ Other _	
Condition	☐ Good	☐ Avg.	☐ Poor				
☐ Detail and location of defect(s)______________							
Doors	☐ Solid	☐ Hollow	☐ Casement	☐ Wood	☐ Glass	☐ Metal	
Condition	☐ Good	☐ Avg.	☐ Poor				
☐ Detail and location of defect(s)______________							
Roof spaces	☐ Traditional	☐ H&S insp.	☐ Full access	☐ No access	☐ Felt	☐ Insulation	
	☐ Bracing	☐ Ventilation					
Fittings Kitchen		☐ Good	☐ Avg.	☐ Poor	☐ No built-in cabinets		
Bedrooms		☐ Good	☐ Avg.	☐ Poor	☐ No built-in wardrobes		
Bathroom		☐ Good	☐ Avg.	☐ Poor			
Decorations		☐ Good	☐ Avg.	☐ Poor			
Hazardous materials		☐ Asbestos	☐ Lead	☐ Radon			
Site plan / comments:							

Sales Comparison Analysis Grid

Address		123/A Ahlaam, 1st Ave	129/A Ahlaam, 1st Ave		156/A Ahlaam, 1st Ave		201/B Ahlaam, 1st Ave	
Sale Price SAR		(Subject Property)		1,695,000		1,687,500		1,706,250
Sale Price SAR/ Sq.M GEA			5,140		5,170		5,170	
Data Source(s)		Inspection	Broker		Broker		Broker	
Verification Source(s)			Buyer		Buyer		MoJ	
				+(-)SAR		+(-)SAR		+(-)SAR
		Description	**Description**	**Adj.**	**Description**	**Adj.**	**Description**	**Adj.**
Adjustments								
Property Rights		Freehold	Freehold		Freehold		Freehold	
Financing Terms			Mortgage		Mortgage		Mortgage	
Concessions			No Concessions		No Concessions		No Concessions	
Post-sale Expenditure								
Date of Sale/Time	2.5%/Year		2 months ago	7,100	5 months ago	17,600	8 months ago	28,400
Location		Ahlaam SD	Ahlaam SD		Ahlaam SD		Ahlaam SD	
Site (Sq. M.)	SAR 1,800/ Sq.M.	380	370	18,000	390	- 18,000	380	----
View		Residential	Residential		Residential		Residential	
Aspect		Line lot/Northerly	Line lot/Northerly		Line lot/Northerly		Line lot/Northerly	
Design (style)		2-story townhouse	2-story townhouse		2-story townhouse		2-story townhouse	
Quality of Construction		Brick/Frame/Avg	Brick/Frame/Avg		Brick/Frame/Avg		Brick/Frame/Avg	
Actual Age	SAR 9,375/Yr.	6	6	---	6	---	5	
Condition		Average	Average		Average		Average	- 9,375
Gross Building Area	SAR 2,000/ Sq.M.	330	330	---	330	---	330	---
Unit Breakdown Total		Total Bdrms Baths	Total Bdrms Baths		Total Bdrms Baths		Total Bdrms Baths	
Room count		9 3 3	9 3 3		9 3 3		9 3 3	
Basement	SAR 800/Sq.M.	0	0	---				
Basement Finished	SAR 800/Sq.M.	0	0	---	0	---	0	---
Functional Utility		Average	Average		0	---	0	---
Heating and Cooling		EFA/Cent AC	EFA/Cent AC		Average		Average	
Energy Efficient Items		Standard	Equal		EFA/Cent AC		EFA/Cent AC	
Garage/ Carport		2-cer det	2-cer det		Equal		Equal	
Porch/Patio/Deck		Porch	Porch	---	Porch	---	Porch	---
Pool		Standard skimmer	Standard skimmer		Standard skimmer		Standard skimmer	
Other								
Net Adjustment				25,100		34,600		19,025
Adjusted Sale Price of Comparable				1,720,100		1,722,100		1,725,275
Net Adj. %				%1.48		%2.05		%1.12
Gross Adj. %				%1.48		%4.18		%2.21
Adj. Price per Room (adj. price# Comp. Rooms)				191,122		191,344		191,697
Adj. Price per bedroom (adj. price# Comp. bedrooms)				573,367		574,033		575,092

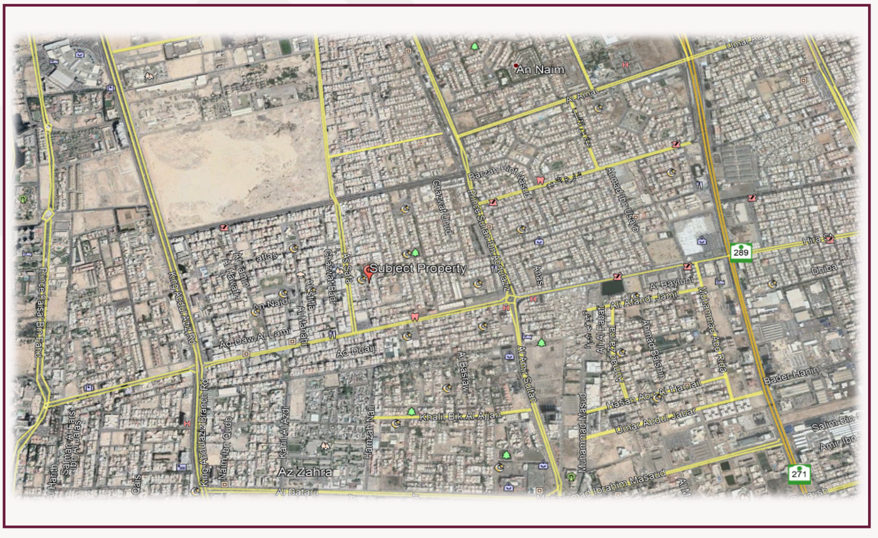
Location Map Sample

Guidelines for Location Maps used in Valuation Reports

The location map(s) should:

- Clearly show the macro location of the subject property with reference to named adjoining districts, major access routes and landmarks or key public installations;
- The above map should ideally be page-wide (A4) with a highlight or other clearly visible marker identifying the location of the subject property at or near the centre of the image;
- Clearly show a separate closer-up (and ideally page-wide) location plan of the property in the context of its immediate surroundings and the wider district;
    - o At least two named roads and surrounding properties should be shown and clearly numbered with their property ID's;
    - o The image should where possible capture the location of physical features, landmarks and amenities (educational, shopping, civic etc), and installations (e.g. high voltage lines) in the neighbourhood impacting the property's value.
    - o The subject property's boundaries should be clearly edged with a continuous red line;
- Where available, present the official deed plan or krouki showing site dimensions, abuttals and area;
- Show the compass orientation of the area(s) mapped;
- Have a title and cite the source of the map(s).

Sample Macro Location Map (Property in Nahdha District in the context of Jeddah's near north)



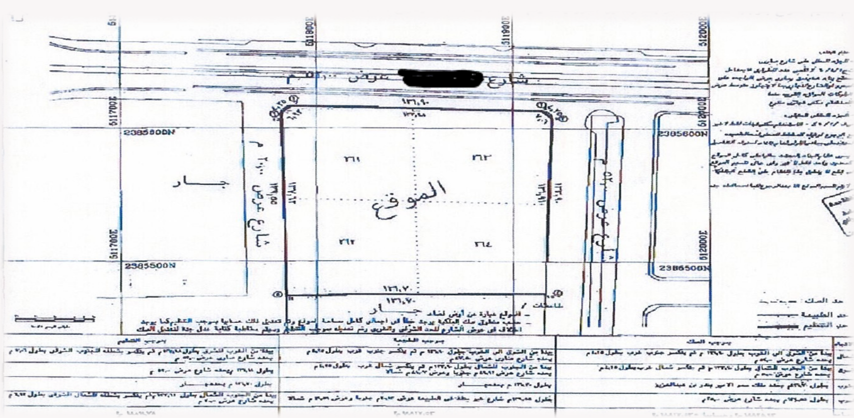
Source: Google Earth Pro V 7.3.1.4507 (February 2018 ,6). Jeddah, Saudi Arabia.

69 .28 '36 °21" N, 42 .51 '08 °39" E, Eye alt 6.56 km.

Sample Location Plan (Subject property in the context of its neighbourhood/ subdivision plan, Nahdha District, Jeddah North)

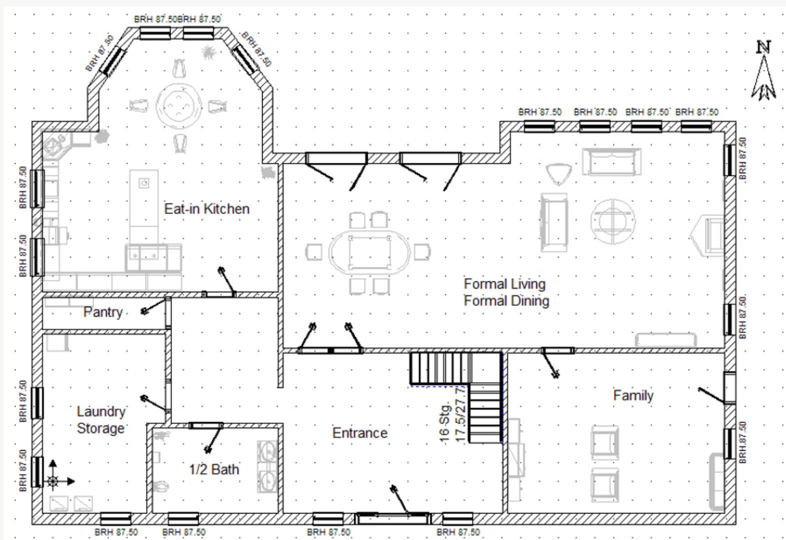
Source: Jeddah Municipality (http://maps.jeddah.gov.sa/)

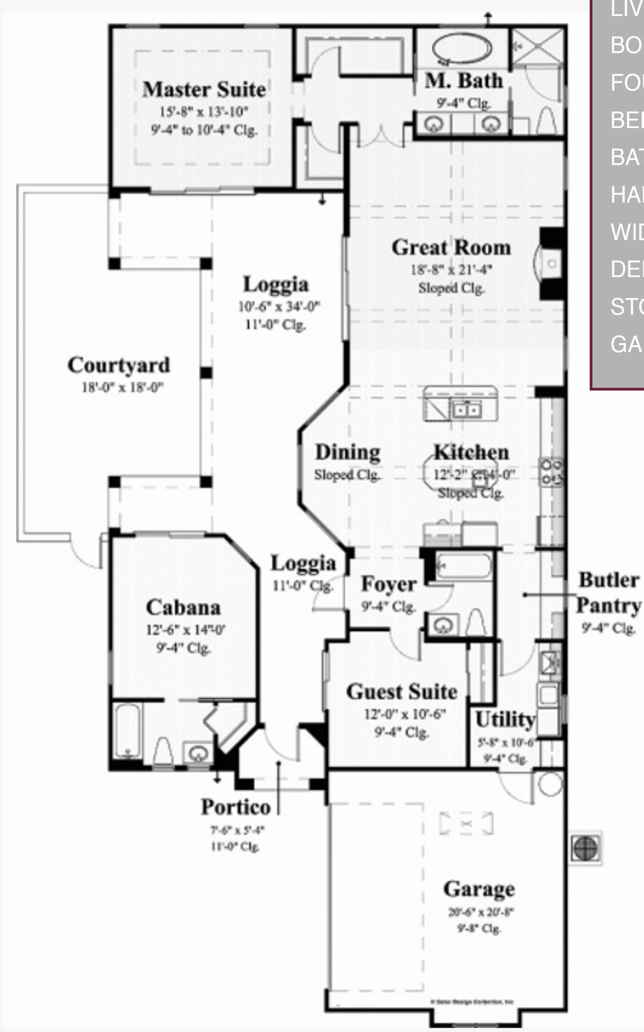
Sample Krouki



Source: Client

Building Plans Sample



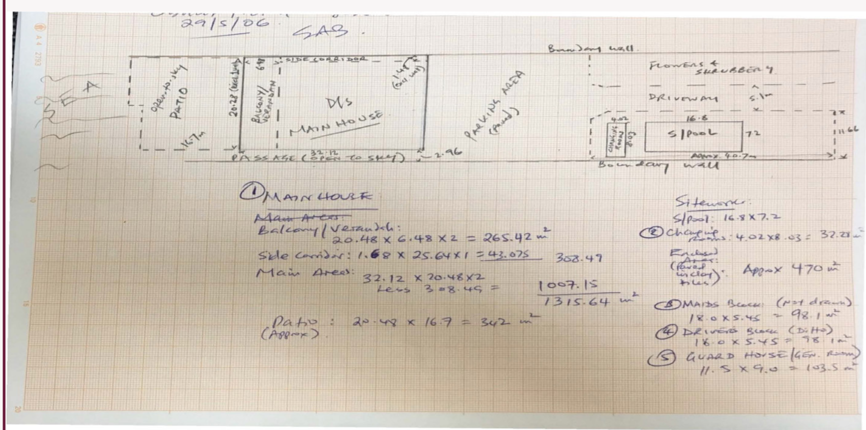


Level 1
PRIMARY
STYLE: Mediterranean
FIRST FLOOR: 1892 sq.ft.
LIVING AREA 1892 sq.ft.
BONUS SPACE: 0 sq.ft.
FOUNDATION: Slab
BEDROOMS: 3
BATHS: 3
HALF BATHS 0
WIDTH: 40'
DEPTH: 4 '87"
STORIES: 1
GARAGE BAYS: 2

Source: http://www.eplans.com/house-plans/epl/catalog/product/quickview/product/12085/categoryid/none/referrer/pdp/expand/2/1 /1

Building Area Calculations Sample

Field-sketched Floor (plinth) and Site Plans[17] and area calculations[18] of a water-front vacation home in Jeddah



17 In pencil

18 In blue ink

Sample Analysis of Data

A) 5-year residential demand-supply forecast and analysis

Segment: high-end villas/ duplexes (>SR 1.45mn) in a hypothetical town 'A'.

Given market financing terms:

Loan-to-value	70%
Interest p.a.	5%
Maturity (yrs	25
Limit on salary deduction	30%

Affordability analysis:

Socio-Economic Class	Income level Distribution	Household Monthly Income Range			Base Affordable Home Sale Price		
Low Income	34 %	SAR 0	-	6,000	SAR 0	-	SAR 440,000
Lower Mid-Income	15 %	SAR 6,001	-	8,000	SAR 440,000	-	SAR 590,000
Mid-Income	21 %	SAR 8,001	-	12,000	SAR 590,000	-	SAR 880,000
Upper Mid-Income	20 %	SAR 12,001	-	20,000	SAR 880,000	-	SAR 1,470,000
High Income	10 %	SAR 20,001	-	above	SAR 1,470,000	-	above

Cumulative villa demand-supply forecast and analysis	Current	End of Year 5
Demand for housing (Saudi households only)		
Population	976,446v	1,071,485
Household size	4.5	4.5
Households (Total housing demand in units)	216,988	238,108
Tenure and type segmentation		
Households owning villas/ duplexes (%)	50%	50%
Demand for owner-occupied villas/ duplexes (units)	108,494	119,054
Affordability segmentation		
Proportion able to afford units in target segment	%10.68	%10.68
Local demand for owner occupied units in target segment	11,585	12,713
Secondary home demand from outside the city (%)	5%	5%
Demand from outside the city (High-end villas/ duplexes)	579	636
Total demand for High-end villas/ duplexes (units)	12,164	13,348
Average demand/ year (High-end villas/ duplexes (units))		237
Current & Future Supply		
Current inventory (High-end villas/ duplexes (units))	11,450	11,450
U/C and planned supply (High-end villas/ duplexes (units))	0	1,250
Total supply (High-end villas/ duplexes (units))	11,450	12,700
Less: Frictional vacancy (5%)	(573)	(635)
Total supply (High-end villas/ duplexes (units)) net of frictional vacancy	10,878	12,065
Unsatisfied demand/ (over supply) of High-end villas/ duplexes (units)	1,287	1,283

B) <u>5-year office demand analysis</u>

Segment: Class-A offices in a hypothetical town ‘B’.

Workforce distribution (headcount) by economic activity

#	Economic Activity	Current	End of Year 5	5-yr demand	Percent in offices
1	Agriculture , Hunting ,Forestry & Fishing	37,049	49,608	12,559	5%
2	Petroleum & Minerals	4,753	3,641	(1,112)	5%
3	Manufacturing	76,960	108,449	31,490	15%
4	Electricity, Gas & Water	11,682	27,876	16,194	5%
5	Construction	156,674	199,697	43,023	15%
6	Wholesale & Retail Trade	269,002	254,106	(14,896)	10%
7	Restaurants & Hotels	56,037	70,618	14,582	10%
8	Transportation, Storage & Communications	93,396	78,893	(14,503)	30%
9	Banking & Insurance	12,534	18,328	5,794	80%
10	Real Estate & Business Services	64,340	85,786	21,446	60%
11	General Administration	162,549	201,702	39,153	30%
12	Education	128,256	147,659	19,403	30%
13	Community & Health Social Services	64,964	75,732	10,768	15%
14	Private House Holds	132,572	117,133	(15,439)	-
15	International Organizations	2,755	1,054	(1,701)	50%
16	Arts, entertainment and recreation	-	2,763	2,763	50%
	Total workforce	**1,273,520**	**1,443,041**	**169,522**	**27%**

Current office inventory	Total	Class-A Space
Current supply (SqM)Fishing	3,325,000	750,000
Currently occupied (SqM)	3,070,000	710,000
Vacancy rate	8%	5%
Office workers	341,004	78,864
Avg. space per worker (SqM)	9	

5-year residual demand analysis (Class A office space)	Citywide
Projected additional workforce	**169,522**
Workforce requiring office space (%)	27%
Workforce requiring office space	45,392
Office space required per worker (SqM)	9
Additional office space demand (SqM)	408,527
%age of Class A office space	23%
Additional Class A office demand (SqM)	**94,480**
Avg. annual demand (SqM)	18,896
Available Class A office space:-	
Current vacant space (SqM)	40,000
Under-construction space (SqM)	28,000
Planned space (SqM)	12,500
Available Class A office space (SqM)	80,500
Less: Frictional vacancy @5%	(4,025)
Net available Class A office space (SqM)	**76,475**
Unsatisfied Class A office space demand (SqM)	**18,005**

Layout- Reconstructed Operating Statement

	2016		2017		2018		Adopted	
Income	@SAR/unit/p.a.	SAR	@SAR/unit/p.a.	SAR	@SAR/unit/p.a.	SAR	@SAR/unit/p.a.	SAR
Potential gross annual income								
Rental Income	×	××	×	××	×	××	×	××
5 NO. 4 BR units	×	××	×	××	×	××	×	××
5 NO. 3 BR units	×	××	×	××	×	××	×	××
10 NO. 2 BR units		××		××		××		××
Subtotal		××		××		××		××
Other income		××		××		××		××
Total potential gross income @ 100% occupancy		××		××		××		××
Less vacancy and collection loss @ 4%		××		××		××		××
Effective gross income		××		××		××		××
Operation expenses		××		××		××		××
Fixed		××		××		××		××
Ground rent		××		××		××		××
Insurance		××		××		××		××
Fire and extended coverage		××		××		××		××
Other		××		××		××		××
Janitor's salary		××		××		××		××
Subtotal		××		××		××		××
Variable		××		××		××		××
Management		××		××		××		××
Electricity		××		××		××		××
Water		××		××		××		××
Sewer disposal		××		××		××		××
Repair and maintenance		××		××		××		××
Trash removal		××		××		××		××
Pest control		××		××		××		××
Supplies		××		××		××		××
Interior decoration		××		××		××		××
Other		××		××		××		××
Subtotal		××		××		××		××
Replacement allowance		××		××		××		××
Exterior paint		××		××		××		××
Kitchen and bath equipment		××		××		××		××
Carpeting		××		××		××		××
Roof		××		××		××		××
Subtotal		××		××		××		××
Total operating expenses		××		××		××		××
Operating expense ratio		××		××		××		××
Total expenses per unit		××		××		××		××
Net operating income								
Net operating income ratio								

DCF Valuation Example

Abstract for valuation of a leased fee estate:

Lease Term (years)	10	
Lease start	3	years ago
Contract rent (SAR/p.a.)	280,000	net and received half yearly in advance
Rent review year	5	i.e. 2 years from date of valuation
Rent review benchmark	Market rent	at the time of review
Current market rent (SAR/p.a.)	300,000	
Current market cap rate	7%	Based on initial yields for recently sold comparable properties and adjusted for subject
Expected growth rate (p.a.)	2%	
Forecast period (years)	7	
Target rate of return	9%	p.a.
Disc. Rate (semi-annual)	4.40%	

DCF Valuation

Year		1		2	
Quarter	**Total**	1	2	3	4
Cashflow for term		140,000	140,000	140,000	140,000
PV factor @4.40%		1	0.9580	0.9170	0.8790
Present value	**525,560**	140,000	134,120	128,380	123,060

Year		3		4		5		6		7	
Quarter		5	6	7	8	9	10	11	12	13	14
Cashflow for reversion		156,060	156,060	156,060	156,060	156,060	156,060	156,060	156,060	156,060	156,060
PV factor @4.40%		0.8420	0.8060	0.7720	0.7400	0.7080	0.6790	0.6500	0.6230	0.5960	0.5710
Present value	**1,090,391**	131,403	125,784	120,478	115,484	110,490	105,965	101,439	97,225	93,012	89,110

Terminal value		
Annual rent at end of lease (year 8)		344,606
Exit cap rate		7%
		4,922,939
PV factor @9%		0.5470
PV of Terminal Value	**2,693,016**	
Total value before purchaser's costs	**4,308,967**	

Example of Income Cap Valuation

Value the leased fee estate (i.e. lessor's interest) in a small single-tenant office property currently let at a net fixed rent of SAR 100,000 p.a. and with 4 years of lease to run. The net estimated rental value of the property is SAR 210,000 p.a. based on a comparable property next door that was recently let for the same net amount on 5-yearly reviews and sold for SAR 3,000,000 soon thereafter.

Other givens for the sake of simplifying presentation and comparisons of the traditional techniques:

i. All operating expenses in the subject and comparable properties are paid by the tenant. Hence the net operating incomes (NOI) imputed to the properties are the same as the net rents cited above.

ii. Selling/ purchasing costs ignored.

Analysis: Cap rate indicated by the comparable = 210,000/3,000,000 = 7%

<u>Valuation by Term and Reversion:</u>

Term NOI	SAR 100,000	
YP 4 years @6%	3.4651	
Value of term		SAR 346,511
Reversion NOI	SAR 210,000	
YP perp. @7%	14.2857	
PV 4 years @7%	0.7629	
Value of reversion		SAR 2,288,686
Valuation		**SAR 2,635,196**

Analysis:

Initial yield = 100,000/2,635,196 = 3.79%

Reversionary yield = 210,000/2,635,193 = 7.97%

Equivalent yield = 6.9815%

<u>Valuation by Layer Technique:</u>

Bottom slice	SAR 100,000	
YP perp. @7%	14.2857	
Value of term		SAR 1,428,571
Reversion to ERV	SAR 210,000	
Less Bottom slice	SAR 100,000	
Top slice	SAR 110,000	
YP perp. @8%	12.5000	
PV 4 years @8%	0.7350	
Value of reversion		SAR 1,010,666
Valuation		**SAR 2,439,237**

Analysis:
Initial yield = 100,000/2,439,237 = 4.10%
Reversionary yield = 210,000/2,439,237 = 8.61%
Equivalent yield = 7.4791%

Note: Equivalent yield is the single rate which when applied to both parts in the relevant valuation technique from which it is derived would produce the same overall valuation result as when different rates are used for the individual parts. It is essentially the subject's IRR assuming that the rent on reversion will be the same as the current market rent for the subject, and not a projected or inflated rent. As such it can be determined by calculating a non-growth DCF of the two annuities, by trial and error or through the 'goal seek' excel function.
It is also worth noting that applying the equivalent yield implied by the term and reversion technique throughout the layer technique or vice versa will produce the same result for both techniques. The examples below employ the layer equivalent yield throughout both the layer as well as the term and reversion techniques, producing a similar result.

Valuation by Term and Reversion using a uniform cap rate (equivalent yield derived from layer technique)

Term NOI	100,000	
YP 4 years @7.4791%	3.3509	
Value of term		335,090
Reversion NOI	210,000	
YP perp. @7.4791%	13.3706	
PV 4 years @7.4791%	0.7494	
Value of reversion		2,104,147
Valuation		2,439,237

Valuation by Layer Technique using a uniform cap rate (equivalent yield):

Bottom slice	100,000	
YP perp. @7.4791%	13.3706	
Value of term		1,337,065
Reversion to ERV	210,000	
Less Bottom slice	100,000	
Top slice	110,000	
YP perp. @7.4791%	13.3706	
PV 4 years @7.4791%	0.7494	
Value of reversion		1,102,172
Valuation		2,439,237

Shortcut DCF example

Lease details (as in previous example)		
Initial Rent (SAR)	100,000	
ERV (SAR)	210,000	
Term/ Review cycle (years)	5	
Current years to next review	4	
Cap Rate/ ARY	7%	from market evidence
Target overall rate of return	8.00%	

Knowledge of the overall rate of return (8% assumed above) expected by the market and the rent review cycle for similar investments allows us to work out the annual growth rate implied by the all-risks yield or initial cap rate and expected by investors based on the comparable transaction. This calculation is possible based on the relationship between cap rate and the overall rate of return or discount rate:

$$\mathbf{R = Y - g}$$

Where:

Y= discount rate

R=cap rate

g=growth

Expected growth over the holding period may be in income or value or both, of a constant or irregular pattern, and negative or positive. A factor such as a sinking fund factor (SF) is typically used to convert the change (Δ) into a periodic rate, thus the above formula may be expressed as:

$R = Y – (SF \times \Delta)$

$0.07 = 0.08 – (SF \times \Delta)$

SF for SAR 1 in 5 years at the target rate of %8 may be calculated or read off valuation tables as 0.1705 (rounded). Hence:

$0.1705\ \Delta = 0.01$

$\Delta = 0.0587$ or 5.87% overall over the review period

The periodic rate of change represented by Δ is then derived as follows:

$1+\Delta = (1 + g)^n$

Where:

g = periodic growth or change

n = review period

In our case the review period (n) is expressed in years and g is an annual rate of growth.

Thus:

$g = (1.0587)^{\wedge(5/1)}-1$

$g = 1.1464\%$

When this annual growth rate is used both in the DCF technique to inflate the rent at reversion and substituted for the implicit growth rate in the traditional technique, the results by the two techniques will be nearly the same. This is illustrated below:

DCF Valuation

Year	**Total**	1	2	3	4
Cashflow for term					
Term Rent (SAR)		100,000	100,000	100,000	100,000
PV factor @8%		0.9259	0.8573	0.7938	0.7350
Present value	**331,213**	92,593	85,734	79,383	73,503
Terminal value (on reversion):					3,139,991
Annual rent at end of lease (year 5)		219,799			
Exit cap rate		7%			
		3,139,991			
PV factor @8%		0.7350			
PV of Terminal Value	**2,307,987**				
Total valuation	**2,639,200**				

Shortcut DCF

Term rent			
YP 4 years @target rate (8%)	**8%**	100,000 3.31	
			331,213
Reversion to current ERV		210,000	
Amount of 1 in 4 yrs @growth rate (1.1464%)		1.0467	
Inflated ERV		219,799	
YP perp. @cap rate (7%)	**7%**	14.2857143	
PV 4 yrs @target rate (8%)	**8%**	0.7350	2,307,987
Valuation			**2,639,200**

Valuation by Term and Reversion:

Term NOI	SAR 100,000	
YP 4 years @ 5.85%	3.4768	
Value of term		SAR 347,678
Reversion NOI	SAR 210,000	
YP perp. @ 7%	14.2857	
PV 4 years @%7	0.7629	
Value of reversion		SAR 2,288,686
Valuation		**SAR 2,636,364**

Example of Valuation by Cost Approach

Below is an example of the valuation of a hypothetical house in Jeddah north.

	Years	SAR	SAR	SAR	SAR
Replacement cost[1] (675 Sqm @3,000)					2,025,000
Depreciation:					
Physical deterioration					
Curable (deferred maintenance)2					
Replace warped door		1,500			
Replace broken sink		600			
Total curable (needed repairs)			2,100		
Incurable (cost)					
Cost of remaining improvements3		2,022,900			
Actual age	25				
Effective age	20				
Lifespan	50				
Incurable deterioration			809,160		
Total physical deterioration				(811,260)	
Functional obsolescence:					
Functional curable (recommended improvements)					
Replace AC units4			20,000		
Functional incurable (super-adequacy)			-		
Total functional obsolescence				(20,000)	
Economic obsolescence					
Location			-		
Market			-		
Total economic obsolescence				0	
Total depreciation					(831,260)
Depreciated value of building improvements					1,193,740
Depreciated value of site works					25,000
Land value (450 Sqm@3,500)					1,575,000
Total value indication by cost approach					2,793,740
Rounded					2,794,000

Notes:
1. Inclusive of professional fees and developer incentive
2. These are broken or completely worn-out items requiring immediate replacement for the property to maintain its capital and/or rental value.
3. Cost of the rest of the improvements (i.e. excluding those requiring immediate replacement, which are %100 depreciated.
4. Most other houses in this area use split-AC units. Replacing the inferior AC's in the subject property with split-AC adds more to the property's value and marketability in relation to the costs for such replacement.

Sample Narrative Valuation Report

REPORT COVER DETAILS:

NARRATIVE VALUATION REPORT

(ADOPTED VALUE BASE e.g. Market Value)

(PROPERTY NAME OR NUMBER)

(DISTRICT, CITY)

(CLIENT NAME)

(VALUATION DATE --/--/20—)

LOGO OF VALUATION FIRM

CONTENTS

مؤسسة
خالد عبدالله

Valuation Firm Letterhead complete with firm name, full contact details and CR and Taqeem firm license numbers

Mr. xxxxxxxxxxxxxx
xxxxxx Enterprises
PO Box ##
Riyadh ##

Our Ref:

5 March 2021

Dear Sir,

MARKET VALUATION OF VILLA 10#A/19, AWHAAM SUBDIVISION, RIYADH

In accordance with your written instructions dated 15th February 2020, we are pleased to submit our valuation report of the property stated above.

1.0 TERMS OF REFERENCE

1.1 Client
xxxxxx Enterprises
PO Box ##
Riyadh ##

1.2 Intended Users
The client is the only intended user.

(Note: Intended users are those you have identified and intended to use the report at the outset of the engagement after discussions with the client).

1.3 Purpose of Valuation
To provide an opinion of market value for the stated interest in the subject property to assist the client and intended users in establishing a price at which to buy the said interest.

1.4 Subject Property
The land 600 m2 and improvements (3-bedroom villa and outbuildings, 400 m2) on Lot No. 10A, Block 19, Awhaam Subdivision, Riyadh. A more detailed description of the property is provided under Sections 4 and 5 below. Location and access routes to the property are highlighted in the map in Appendix III.

1.5 Interest Valued

Freehold interest in the subject property. Title ----------- , Deed ------------- , Date -----------

1.6 Basis of Value Adopted

Market value as defined by the International Valuation Standards Council in IVS 104 (31 January 2022 edition):

"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 Market Value basis has been applied in accordance with the conceptual framework stipulated in IVS 104 and reproduced in Appendix II to this report.

1.7 Valuation Date

25 February 2020 (same as Inspection Date).

1.8 Valuation Currency

Saudi Riyals

1.9 Status of Valuer

Our opinion of value is provided in our sole capacity as independent external valuers and without any material assistance from other third-party valuers.

The property was inspected on 20 February 2020 by Insan Ihsan, AR TAQEEM, and the valuation and report was prepared by Mr. Ihsan and Mshari Hashi, FR TAQEEM. Both valuers possess the appropriate technical skills, experience and knowledge to complete the valuation competently and objectively.

We confirm that we do not have any conflict of interest in connection to the client, the intended users, the subject property and its current owners which prevents us from rendering an independent and objective opinion of value for the subject property.

2.0 SCOPE OF WORK

2.1 Extent of Investigations

In preparing this valuation, we:

- Made a visual inspection only of the exterior and interior of the improvements on 20 February 2020.
- Measured and confirmed the external dimensions of the villa and outbuildings against the architectural floor plans during the said inspection.
- Toured and familiarized ourselves with the immediate neighbourhood in which the subject property is located, including existing and upcoming residential developments and listings, services and amenities.
- Reviewed the krouki and latest city zoning atlas but did not make any further planning enquiries.
- Assembled information on comparable land and improved sales and listings, construction costs, and accrued depreciation.
- Verified each comparable sale, listing and rental information with at least one of the parties to the transaction.
- Analyzed the data and applied the market and cost approaches to valuation.

2.2 Nature and Sources of Information

We have relied upon the following information for our valuation:

- A copy of title (sakk) for the property availed by the client.
- Client's copies of subdivision plan (mukhattat), deed plan (krouki), as-built floor plans (masaket), and area summaries for the property.
- City zoning atlas published on the Ar-Riyadh Development Authority's (ADA) official website.
- Our own enquiries of agents, property managers and developers of similar properties for comparable sales, listings, rents and operating expenses.
- Published market surveys and secondary research on the state of the market and outlook (average market rentals, vacancies, upcoming supply, demand drivers, absorption etc).
- Published cost handbooks and enquiries of contractors and facilities managers for current construction rates, cost trends and depreciation rates.

2.3 Assumptions

This valuation is based upon the information provided by the client (see list of information received outlined in section 2.2). The valuation is therefore subject to the reservation that there is no information which may affect value and has not been made available to us.

We recommend that reliance should not be placed on our interpretation of title or lease documents without verification by your legal advisors.

Unless notified to the contrary, we have assumed the following:

a) the property has a good and marketable title, free from any unusually onerous restrictions, covenants or other encumbrances and is free from any pending litigation.

b) except where otherwise stated, the property is subject to normal outgoings, and that the occupants are responsible for all repairs, the cost of insurance and payment of rates and other unusual outgoings, either directly or by means of service charge provisions.

This valuation is based on values and market information known as at 25 February 2020. Any event likely to affect the values between the date of this report and the valuation date would render our valuation void and we accept no responsibility in such a case.

The valuation does not employ any Special Assumption.

2.4 Valuation Standards

The valuation and report have been prepared in accordance with the International Valuation Standards (2022), and in conformity with Taqeem's Real Estate Valuation Manual.

2.5 Approach and Methodology

Market Approach (Comparable Transaction Method)

2.6 Market Value

We are of the opinion that the market value of the freehold interest in the subject property as at 25 February 2020 is:

SR 2,600,000.

(Saudi Riyals Two Million Six Hundred Thousand Only)

2.7 Limiting Conditions

The valuation and report have been prepared subject to the Limiting Conditions contained in our Engagement Letter dated 15 February 2020 and reproduced in Appendix A to this report.

2.8 Publication

Our report is confidential to the client and intended users and for the purpose specified in the report, and no responsibility whatsoever is accepted to any third parties. Publication of the report in whole or in part or reference thereto in any document, statement or circular, or in any communication with third parties without our prior written consent of the form and context in which it will appear is prohibited.

Signature

Valuer's name and professional designation

Taqeem Accredited Valuer (No. ##), Real Estate Chapter

For and on behalf of Business Valuation

Property Report

3.0 LOCATION

3.1 Location and Demographics

The subject property is located in Awhaam Subdivision in the north of Riyadh. As can be seen in the relevant map in Appendix III, 'North Riyadh' is unofficially classified as the area bounded by King Salman Road to the north, Northern Ring Road to the south, King Khalid Road to the west and Al-Jenadriyh Road to the east. It covers an area of approximately 36 Sq Km excluding Princess Nourah University and the King Khaled International Airport to the east.

North Riyadh lies astride the city's principal growth corridor to the north. Notable districts in North Riyadh include Al Ghadeer, Hitteen, Al Malqa and Awhaam. Most of the prestigious western compounds such as Arizona, Kingdom and Al Hamra are also located around this area of Riyadh.
The population in North Riyadh is estimated at roughly half a million people, about two-thirds of which are high income.

3.2 Situation

The subject property is situated at the heart of Awhaam Subdivision, which is towards the western limits of North Riyadh. The location is highlighted in the close-up map of North Riyadh in Appendix III.
The area is dominated by modern retail and residential developments, large avenues, prestigious schools, and various parks. This is a much sought-after and fashionable quarter of North Riyadh to reside. The area also hosts a few hospitals and colleges such Kingdom Hospital and Al Yamamah University.

3.3 Transportation and Access

The property is located approximately half a kilometre from the King Abdullah Financial District which will be served by a major metro station linking the north-south and west-east metro lines.
The property is currently accessed from King Fahd Road via a slip road approximately half a kilometre north of the King Fahd-Northern Ring Road junction that leads directly to the heart of Awhaam.
Awhaam has a good network of roads that also amplify its road connectivity to the city centre through its linkage to Northern Ring Branch Road and Prince Turki ibn Abdulaziz Road.

4.0 LEGAL

4.1 Planning Authority

Awhaam subdivision is located in the north of Riyadh and within the planning jurisdictional boundaries of Ar-Riyadh Development Authority (ADA). Please refer the relevant map in Appendix I.

4.2 District Plan

Awhaam subdivision and its environs are subject to the Northern Suburb Master Plan which classifies the said area as a self-contained, low-density residential community. Please refer the relevant map in Appendix I.

4.3 Designated Use

According to both ADA's current zoning atlas and the property's krouki, the subject property is designated as a single family residential development site with a floor area ratio (FAR) of 1.0.

4.4 Tenure

The property is held freehold named/______ as per the client's copy of Title No. 1/X123.

5.0 PROPERTY DESCRIPTION

5.1 Land and Site Works

The land comprised in the subject property is regular-shaped, level and extends to approximately 600 SQM, as shown on the attached krouki and excerpt of Awhaam's subdivision plan.

Siteworks include a high pre-cast concrete perimeter wall, smooth cobbled yard, and a small manicured garden.

5.2 Improvements

The property is developed with a -3bedroom detached double storey house, a double garage and other outbuildings. All developments are of masonry construction faced in yellow limestone. Photos of the buildings may be seen in Appendix IV.

5.3 Accommodation and Areas

Accommodation and area details for the subject property are set out below. Client's copy of the floor plan is included in Appendix C.

Description	Internal Area (Approx. SqM)
Ground Floor	
Foyer	20.0
Lounge 1	50.0
Dining Room	20.0
Lounge 2	30.0
Kitchen	20.0
Laundry Room	5.5
Toilet	4.0
First Floor	
Hall	20.0
Master Bedroom	40.0
Ensuite Bathroom	10.0
Bedroom 1	25.0
Ensuite Shower room 1	5.5
Bedroom 2	20.0
Ensuite Shower room 2	4.5
Bedroom 3	20.0
Ensuite Shower room 3	4.5

Summary of External Areas

Description	External Area (Approx. SqM)
Main House	350.0
Garage	80.0
Outbuildings (DSQ and Guardhouse)	50.0

Note: Both external and internal areas have been calculated from the client's copy of floor plans. External dimensions in the said plan were cross checked with on-site measurements during our inspection. International Property Measurement Standards IPMS 1 and IPMS 3C have been adopted for the reported external and internal areas respectively.

5.4 Finishes

The property has good quality finishes consisting of the following:

Description	Finish
Floors	Marble, tiles
Walls	Painted plaster, wood panelling
Wet area walls	Full height coloured tiling
Ceilings	Painted and textured plaster

5.5 Building Fixtures and Services

The property consists of the following:

- Split-unit Air-conditioning system
- Sliding double glazed windows in adonized aluminium
- Electric shutters on all windows
- Solid timber doors
- Granite kitchen top
- Eye level and base kitchen cabinets with built-in oven, and gas and electric hob
- Wall-mounted acrylic sanitary ware and glass shower cubicles
- 25-Litre Geyser unit for each toilet
- -10,000Litre underground concrete tank

5.6 Utilities

All mains utilities (water, sewer, electricity, telephone and fibre optic network) are connected to the property.

5.7 Condition

The property is in good condition and fairly good decorative order.

5.8 Environment

No apparent sources of contamination were identified or suspected during our inspection, and no further investigations are recommended.

5.9 Occupancy

The property is occupied by its current owner.

5.10 Property History

Construction of the property was completed in 2010.

The property is currently listed for sale and has been in the market for the past two months at SR 2,650,000.

There has been no transfer of the property in the three years prior to the effective date of this valuation.

6.0 MARKET OVERVIEW

Performance of the residential market continues to be subdued despite greater certainty with regards the implementation of the white land tax across the major cities of Saudi Arabia. Depressed economic growth prospects for the near term coupled with limited liquidity, expected departure of a large section of expatriates, cuts in energy subsidies and significant deliveries of houses by the Ministry of Housing are commonly cited by analysts as the principal reasons for the near stagnant state of the market. The market for villas is the hardest hit, registering growth in sales of less than 10% year-on-year during the last quarter of 2016 compared to about 20% for apartments.

However, based on our enquiries of developers and brokers, villa developments in some parts of the capital continue to hold their values. Interest in top of the range properties in much-sought after locations is still strong, particularly in the north of Riyadh which is characterized by good quality housing stock, excellent transport links, and abundance of high quality malls, schools and green spaces.

Awhaam is one of the more established and most prestigious suburbs situated north of Riyadh. It is characterized by wide tree-lined avenues, ample parks, and high-quality, low-density villa developments. Vacancies in the area have varied between 5%-2% on average over the past three years whilst very little vacant land remains for additional development. That said, villas here are predominantly owner-occupied. The subject property is located within an affluent and family-oriented quadrant of Awhaam within a short commute of shopping, educational and recreational amenities. The price per SqM for villas in Awhaam can vary between SR 7,000-8,000 per SqM.

6.1 MARKET EVIDENCE

To establish the Market Value for the subject property we have considered and analysed a number of sales and listings. Sales and listings of improved properties have been used as a basis for the Market Value and vacant land sales and listings have been used to assess the Land Value for the property. The most relevant market evidence is discussed below.

6.1.1 Comparable Sales of properties

6.1.1.1 Comparable Adjustments

A summary of the data on comparable improved sales and listings is tabulated below. Mapped locations and photos of the comparables are shown in Appendix C.

Serial	Address	Listed/ Sold	Market/ Date of Sale	Financing Term	Adj. After Financing	No. of rooms	External Area	Finishing	Adj. All	Price/ Sqm	Price/ after Adj.
	Property under Valuation		Jan. /2020	N/A		3	350	Super Delux			
1	Awhaam Lot18C, Block 10	Sold	Jun18-	N/A		4	380	Delux		7,368	6,244
	Adjustment		11.00%	0.00%	11.00%	2.00%	2.00%-	7.00%	18.00%		
2	Awhaam Lot7B, Block 14	Listed	Apr./ 2019	N/A		3	330	Super Delux		7,200	7,912
	Adjustment		7.00-%	0.00%	7.00%-	0.00%	2.00%-	0.00%	9.00%-		
3	Awhaam Lot12D, Block 8	Sold	Apr./ 2019	%90		3	360	Delux		7,638	7,138
	Adjustment		7.00%-	5.00%	2.00%-	0.00%	2.00%	7.00%	7.00%		
4	Awhaam Lot 15A, Block 20	Sold	Jan./ 2020	%70		3	340	Delux		7,794	6,777
	Adjustment		0.00%	6.00%	6.00%	0.00%	2.00%	7.00%	15.00%		

The table below shows the method of calculating the contribution of relative weights of each compared land after adjusting the settlement.

Comparison No.	1	2	3	4	Total
Price/Sqm	6,244	7,912	7,138	6,777	
relative weights for comparable properties	5%	30%	60%	5%	100%
Contribution Of Each Property to Price	312.2	2,373.63	4,282.99	338.87	
Weighted Average Sqm using comparables method					7,308

The contributions of the comparative properties are combined to estimate the weighted price per square meter of the real estate under valuation to 7,308 riyals / Sqm.

6.1.1.2 Land Adjustments

The table below provides a summary and analysis of land sales and listings. Refer to Appendix C for specific locations on the map and images for comparisons.

Sale No.	Address	Market/ sale status	Market/ sale date	financing terms	adj. after market and financing	External Area	land shape	land boarders	adj. all	price/ Sqm	Price/ Sqm after Adj
	Property under Valuation		January	N/A		600	Rectangular	Line Lot/ view			
1	Awhaam Lot 6C, Block 5	Sold	Feb 2018	%70		800	Squared	Line lot		2,800	2,523
	Adjustment		11.00%	%15.00	%26.00	%2.00	%7.00-	%10.00-	%11.00		

2	Awhaam Lot18C, Block 10	Listed	Oct 2018	N/A		650	Squared	Line lot/view		2,815	3,199
	Adjustment		%5.00-	%0.00	%5.00-	%2.00-	%5.00-	%0.00	- %12.00		
3	Awhaam Lot 15D, Block 9	Sold	Jan 2019	N/A		300	Rectangular/ deep	Line lot		3,000	3,333
	Adjustment		%2.00-	%0.00	%2.00-	%3.00-	%5.00	%10.00-	- %10.00		
4	Awhaam Lot 13C, Block 20	Listed	Aug 2019	N/A		525	trapezoid	Line lot/ Angle		2,900	2,458
	Adjustment		%8.00	%0.00	%8.00	%0.00	%5.00	%5.00	%18.00		

The table below shows the method of calculating the contribution of relative weights of each compared land after adjusting the settlements.

Comparison No.	1	2	3	4	Total in S.Ryal
Price/Sqm	2,523	3,199	3,333	2,458	
Weighted Average	10%	40%	40%	10%	100%
Contribution of Each Property to Price	252.25	1,279.55	1,333.33	245.76	
Weighted Average / Sqm					3,111

The contributions of the comparative properties are combined to estimate the weighted price per square meter of the real estate under valuation to 3,111 riyals / Sqm.

7.0 VALUATION APPROACH AND REASONING

7.1 Valuation Approaches

Considering the property type and available market evidence, the market and cost approaches to valuation have been adopted. As indicated earlier, properties in Awhaam are predominantly bought for owner-occupation and we came across little evidence of recent rental transactions or current yields. Hence the valuation omits the Income Approach and considers the other two approaches adopted appropriate and adequate for market value indication for the subject property.

7.1.1 Market Approach

The Comparable Transaction Method has been adopted under the Market Approach.

The main sales evidence on which this valuation is based are the improved and vacant sales listed previously in this report.

Four sales of similar villa developments in the subject's neighbourhood within the last year and handled by different brokers were analysed. Comparable No.2 is sited on a smaller, albeit corner plot, but all comparables conformed to the same FAR and had similar outbuildings and site works. The villas range in size from 330 to 380 SqM, and in age from 5 to 9 years. Sales prices range from approximately SR 2,600,000 to SR 2,800,000. Enquiries of the brokers connected with the sales and verified with one of the parties in each transaction, confirmed that all the sales were consummated at arm's length, which the typical marketing period for the area.

When minor adjustments are made for age, locale and condition, the sales indicate a market value of SR 2,557,600 for the subject property, or SR 7,308 per SqM of external area of the villa.

7.1.2 Cost Approach

As shown above, The Depreciated Replacement Cost Method (DCRM) has been adopted under the Cost Approach as a supplement method. The land has been valued as though "vacant land" using the sales comparison method. The comparables indicate a market value of SR 3,111 per Sqm for the land in the subject property.

Replacement cost information was assembled from recently constructed villas of similar quality in the north of Riyadh and corroborated with published construction cost rates. Accrued depreciation was extracted from the above sales of comparable properties. The depreciation rate is estimated on 14% inclusive all types of depreciation such as economic, external and functional. The value of the site was estimated having regard to the three sales and one listing of parcels with similar locations and zoning as outlined above.

Description	Cost Rate (@SR/Sqm)	SR
Villa (350 SqM)	2,500	875,000
Garage (80 SqM)	1,000	80,000
Outbuildings	1,250	62,500
Site works		60,000
Depreciated Replacement Cost New		1,077,500
Less: Accrued aggregate depreciation 14%		(150,850)
Depreciated Replacement Cost		926,650
Plus: Land value		1,866,536
Market Value using the cost approach		**2,793,096**

7.2 Value Weighting

The market approach using comparable transaction method is given the most weight because of the quality and quantity of the sales information available. Moreover, purchasers are more likely to base their purchase decisions on readily available sales evidence of similar improved properties in an area where vacant lots and new developments are scarce.

Therefore, we conclude the value using the market approach 100% (comparative method). The market value of the subject property, as of the valuation date, is therefore estimated to be SR 2,557,800. The value range is consistent with the price at which the property is currently listed.

The comparable villa sales indicated that exposure time (i.e., the length of time the subject property would have been exposed for sale in the market had it sold at the market value concluded in this analysis as of the date of this valuation) would have been about 8 months.

8.0 MARKET VALUE

We are of the opinion that the market value of the freehold interest in the subject property as at 25 January 2021 is:

SR 2,557,800. Say 2,600,000
(Saudi Riyals Two Million Six Hundred Thousand Only)

Signature
Valuer's Name
Professional Designation
Taqeem Accredited Valuer (No. ##)
Real Estate Chapter
For and on behalf of Company

APPENDIX A - Limiting Conditions
APPENDIX B - Market Value Framework
APPENDIX C - Maps and Plans
APPENDIX D - Photographs

Sample Assumptions and Limiting Conditions

1. Our Valuation and Report has been completed in accordance with the International Valuation Standards , and the Real Estate Valuers' Manual published by the Saudi Authority for Accredited Valuers (TAQEEM) by valuers who conform to the requirements thereof. Our valuations may be subject to monitoring by TAQEEM.

2. Except as may be otherwise stated in the letter of engagement, our Valuation and Report is confidential and may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. It may neither be published in whole or part, nor referred to in any document, statement, circular, nor conveyed in any other way to any other party or the public without our prior written consent.

3. No responsibility whatsoever is accepted to any other party save on the basis of written and agreed instructions and on payment of additional fee. No claim arising out of or in connection with this Valuation and Report may be brought against any member, employee, partner or consultant of (Firm's name). No personal duty of care to the client or any other party is assumed by any such member, employee, partner or consultant and any such claim for losses must be brought against (Firm's name).

4. If the Valuation and Report is referred to or included in any offering material or prospectus, the Valuation and Report shall be regarded as referred to or included for informational purposes only and (Firm's name), its employees and the valuer have no liability to recipients of such material or prospectus. (Firm's name) disclaims any and all liability to any party other than the Client that retained (Firm's name) to prepare the Report.

5. If a complaint should arise, we confirm that we have a complaints handling procedure, a copy of which will be provided on request.

6. In the event of a claim against (Firm's name) or its affiliates or their respective officers or employees or the valuer(s) in connection with or in any way relating to this Valuation and Report or this engagement, the maximum damages recoverable shall be the monetary amount actually collected by (Firm's name) or its affiliates for this Valuation and Report and under no circumstances shall any claim for consequential damages be made.

7. We neither undertake searches of title nor read title and lease documentation. Unless informed and stated otherwise, we assume that: each property has good and marketable title, that all documentation is satisfactorily drawn and that there are no onerous encumbrances, restrictions, easements or outgoings which affect the property, nor material litigation pending. The Valuation and Report may be based on lease summaries provided by the Client or third parties. We assume no responsibility for the authenticity or completeness of the lease information so provided. No reliance should be placed on any interpretation that we may have rendered relating to any such documentation availed to us without verification by your lawyers.

8. The information contained in the Valuation and Report or upon which the Valuation and Report is based has been obtained from the Client and other sources listed therein which we have considered reliable. Unless stated otherwise in the Valuation and Report, we did not verify such information and have assumed it to be complete, reliable and correct. We accept no responsibility whatsoever for the completeness and accuracy of such information. Any authorized user of the Valuation and Report is obliged to bring to our attention any inaccuracies or errors that it believes are contained in the Report.

9. We assume that the Property complies with all relevant statutory requirements including, but not limited to town planning, fire and building regulations, certificates of occupancy and other governmental consents. Any cited verbal or online enquiries of the relevant planning authorities have been undertaken strictly to assist us in developing an opinion of the Property's value. For reassurance and/ or reliance for any other purpose, we recommend that lawyers formally verify such information including the position with regard any legal matters referred to in our Valuation and Report.

10. The conclusions and opinions, including value opinion, and any forecasts of demand and supply, rental rates, income and expenses upon which such conclusions and opinions may be based are only as of the date stated in the Valuation and Report. They reflect our best opinion of current market perception on market outlook and the Property's performance in the foreseeable future under competent management. The real estate market is constantly fluctuating and we neither predict the future nor make any warranty or representation that the forecasts will materialize. Changes in market factors or in the Property can significantly affect such conclusions and opinions.

11. Except as may be otherwise stated in the letter of engagement, neither (Firm's name) nor any individual signing this Valuation and Report or associated with this engagement shall be required to give testimony in any court or legal proceeding relating to the Property or the Valuation and Report.

12. Where we inspect the Property as part of our stated scope of work, the Valuation and Report is based on a visual inspection and reflects readily evident defects or items of disrepair to the extent they are not explicitly excluded under a Special Assumption. Unless expressly instructed, we do not carry out site surveys, environmental assessments or structural surveys, nor test building services or investigate historical records to establish current or past contamination of the Property. We assume that there are no hidden or unapparent conditions of the subsoil, structures or services that affect the Property's value, including but not limited to structural defects, dysfunctional mechanical equipment, plumbing or electrical components, and the existence of potentially hazardous or toxic materials that may have been used in the construction, alteration or maintenance of the improvements or located at or around the Property.

13. Our Valuation and Report reflects our awareness of the market's likely perceptions of tenants' covenants. Unless specifically instructed, we do not undertake enquiries of the financial standing of tenants, and unless informed otherwise, we assume that they can meet their lease obligations.

14. Our Valuation and Report shall not be deemed as investment advice or a recommendation to borrow or lend on the Property. If the Valuation and Report is submitted to a lender or investor with our prior written approval, such party shall have regard to independent investment considerations and underwriting criteria in its overall investment decision. Such party is specifically advised to understand the Scope of Work generally, and all Special Assumptions and the Assumptions and Limiting Conditions incorporated in this Valuation and Report.

15. Unless indicated otherwise in the Valuation and Report, our valuations are normally expressed exclusive of any zakat, taxes and disposal costs. Moreover, properties are valued disregarding any mortgages or other liabilities.

16. Acceptance and/or use of this Valuation and Report constitutes acceptance of the foregoing Assumptions and Limiting Conditions.

Residential Valuation Report Form

Date of instruction			
Valuation Date		Client Ref.	
Date of submission		Valuation Ref.	

1	**Client** (Name & Address)				
2	**Purpose/ Intended Use**	☐ Mortgage	☐ Refinancing	☐ Fin. Reporting	☐ Sale
		☐ Acquisition	☐ Litigation	☐ Relocation	☐ Tax
		☐ Bankruptcy	☐ Insurance	☐ Estate	☐ Eminent Domain
		☐ Other (p/s specify below)			
3	**Intended User** (Name & Address)				
4	**Basis of value**	☐ Market Value	☐ Investment Value	☐ Fair Value	
		☐ Market Rent	☐ Liquidation Value	☐ Synergistic Value	
		☐ Equitable Value	☐ Replacement cost	☐ Reproduction	
		☐ Other (p/s specify below)			
	Basis as defined	☐ IVSC	☐ IFRS	☐ CECD	Other (p/s specify below)
		☐ Other (p/s specify below)			
	Has the valuation been completed in full compliance with the latest edition of IVS?	☐ Yes	☐ No (Describe departures and reasons thereof below)		
5	**Property Address**				
	a) Land reference number				
	b) Unit Number				
	c) Title Number				
	d) District				
	e) City				
6	**Tenure**				
	a) What interest is being valued?	☐ Fee simple (Freehold)	☐ Leased Fee (Lessor's interest)	☐ Leasehold (lessee's interest)	
	b) If leasehold:	☐ What is the term remaining?		☐ Years	
	c) If leasehold:	☐ What is the Ground Rent?		☐ SAR/p.a.	
	d) If leasehold:	☐ List any special lease provisions			
	e) Occupier	☐ Owner (of interest)	☐ Tenant (specify rent below)		☐ Vacant
	f) were any easement, or rights of way evident at the time of inspection?	☐ yes	☐ No		
	g) If "yes" please comment				

	h) Comment on any abnormal service or maintenance charge provisions								
7	**Zoning**								
	a) Designated use	☐ Villa		☐ Apartment		☐ Compound		☐ Other	
	b) Site Coverage			%					
	c) Floors allowed								
	d) FAR (floor Area Ratio)								
8	**Description of property**	☐ Villa		☐ Duplex		☐ Trad.		☐ Condo.	
		☐ Apt. Block		☐ Other (specify)					
		☐ Detached		☐ Semi-detached		☐ Terraced		☐ End-of-terrace	
		☐ Purpose-build		☐ Other (specify below)					
		☐ Completed		☐ Under construction (specify % complete)					
		No. of floors							
		Pictures attached		☐ yes		☐ No			
9	**Site and Utilities**								
	a) Area					Sq.M			
	b) Shape					M			
	c) Dimensions	Front		Depth		Other			
	e) Primary street width					M			
	f) View								
	g) Gradient/ topography								
	h) Electricity	☐ Public		☐ Other (Describe)					
	i) Water	☐ Public		☐ Other (Describe)					
	j) Sewer	☐ Public		☐ Other (Describe)					
	k) Others (e.g. telephone, fiberoptic)								
	l)Matters for further investigation	☐ Unlabeled containers		☐ Dumps/Ash heaps		☐ Transmission ☐ towers		☐ U/G. tanks	
		☐ Pits/ swamps		☐ Stained soil/distressed vegetation				☐ Unusual odours	
		☐ Other (Specify)							
10	**Accommodation**	Living rooms	Bedrooms	Bath/ shower	WC	Kitchen	Maids Room	Utility Room	Other (specify)
	a) Main building								
	Lower Ground								
	Ground floor								
	First floor								
	Second Floor								
	Third Floor								
	Other								
	Roof Space								
	b) Ancillary Buildings Facilities			Size (Sq. M.)				Size (Sq. M.)	
		Staff Quarters				S/pool			
		Garage				Sports room			
		Parking area				Car port			
		Other Building(s)							
		Are any Shared?							

	c) Floor Areas i) Main Building	☐ Gross (Fill as appropriate)	☐ Net internal	☐ External	Sq.M.
	ii) Ancillary Buildings (Total)	☐ Gross (Fill as appropriate)	☐ Net internal	☐ External	Sq.M.
11	**Construction**	**Exterior:**	Const. Material	Finish	
	(State construction material and finishes where appropriate)	walls			
		Roof			
		Gutters			
		Windows			
		Doors			
		Interior:			
		Walls			
		Floors			
		Kitchen floors			
		Bath floors			
		Bath/kitchen wainscot			
		Ceilings			
		Doors			
		Staircase			
		Fixtures & fittings	☐ Fitted wardrobes Other	☐ Kitchen units	
			☐ Split AC Central AC Other	☐ Split AC	☐ Window AC
		Sanitary Fittings	☐ White Other	☐ Colored	
12	Condition of the building(s)				
	a) Approx. age		Years		
	b) Briefly comment on the general condition of the property, having regard to its age				
	b) Briefly comment on the general condition of the property, having regard to its age				
	c) Is there any evidence of the following?	Damp	☐ Yes ☐ No	Land slide	☐ Yes ☐ No
		Structural defects	☐ Yes ☐ No	Floor slide	☐ Yes ☐ No
		Subsidence	☐ Yes ☐ No	Timber decay	☐ Yes ☐ No
		Settlement	☐ Yes ☐ No	Infestation	☐ Yes ☐ No
		Leakages	☐ Yes ☐ No	Electrical faults	☐ Yes ☐ No
		Other defects (specify)			
	d) Comment on the items ticked "yes" above.				
13	**Comment on the property (are there any other factors affecting value?)**				

14	**Repairs**	
	a) Are any repairs recommended as a condition of the mortgage?	☐ Yes ☐ No
	b) If yes, what repairs are required ?	
	c) Suggested retention	SAR
15	**New property under construction**	
	a) What stage has been reached?	N/A
	b) Is a Re-inspection necessary	☐ Yes ☐ No
	c) Is the drawdown schedule attached?	☐ Yes ☐ No
	d) Conditions (if any)	N/A
16	**Market and Highest & Best Use**	
	a) Location	
	i) Where is the property located?	
	ii) How would you describe the local area?	☐ City ☐ Sub-urban ☐ Town (provincial) ☐ Rural
	iii) What is the dominant local use?	☐ Residential ☐ Offices ☐ Industrial ☐ Retail ☐ Agricultural ☐ Other (Specify)
	iv) What is the quality of the location?	☐ Very good ☐ Good ☐ Average ☐ Poor
	v) Formal Location Plan attached?	☐ Yes ☐ No
	vi) How would you describe growth of the neighborhood?	☐ Rapid ☐ Stable ☐ Slow
	vii) What are the value trends for similar properties as the subject?	☐ Rising ☐ Stable ☐ Declining
	b) Demand for similar properties	
	i) For sale	☐ Excellent ☐ Good ☐ Fair ☐ Poor
	Comment	
	ii) To Rent	☐ Excellent ☐ Good ☐ Fair ☐ Poor
	Comment	
	iii) Is there any significant development or change of use in the neighborhood that could have an effect on the future value of the property ? Describe it.	

	Comment	
	iii) Is there any significant development or change of use in the neighborhood that could have an effect on the future value of the property ? Describe it.	

c) Comparable analysis

Listings

No. of current listings of comps in the neighborhood

Prices for listings range from SAR	To SAR	

Sale No.	Comp. Address	Sale Price	Sale Date	No. of BR's	Ext. Area (m2)	Site Area (m2)	Price per SqM
1							
2							
3							

Prior sale(s) of subject property and comparable properties

	Subject	Comp. 1	Comp.	2 Comp. 3
Sale date				
Price				
Source				

	d) H&BU Conclusion	The highest and best use of the subject property as improved (or as proposed per plans and specifications) is:	
		☐ Present use	☐ Other use (described below)
17	**Other Comments**		
	Highlight any significant assumptions and any unusual matters that require clarification or expansion?		

18	**Valuation Approach/ Method adopted**	☐ Market Approach	☐ Income Approach	☐ Cost Approach
		☐ Residual Method	☐ Other (Specify)	

	Value indications	Value indication by Market Approach	SAR	
		Value indication by Income Approach	SAR	
		Value indication by Cost Approach	SAR	
		Value indication by Residual Approach	SAR	
	Are valuation calculations attached to this report?	☐ Yes ☐ No		
	Value reconciliation, including weights applied to each approach employed			
19	a) Market value of the (fee simple, Leased Fee, Leasehold) interest in the property in its current condition is (select relevant interest)	Saudi Riyals	(in words)	

	b) Estimated maintainable Rental income		SAR	(in words)
	c) Investment value of the property in its current condition		SAR	(in words)
20	Estimated rebuilding cost for insurance purposes Loss of Rent/ Alternative accommodation for 18 months at SAR		SAR SAR	
	Total	Saudi Riyals		(in words)
	Valuer surveyed the property and that the information and opinion given in this report is correct to the best of our knowledge and belief and that we have no interest in the property, applicant or vendor.	Signed		
		Name and qualification		
		Taqeem Accredited Valuer	#	
		Signed		
		Name and qualification		
		Taqeem Accredited Valuer	#	
		Date		
		Address of inspecting valuer		
		Contact telephone number:		
		Contact Fax number:		

Limiting Conditions

The valuation and report has been prepared subject to the limiting Conditions contained in our Engagement Letter dated 15 January 2017 and reproduced in Appendix A to this report.

Publication

Our report is confidential to the client and intended users and for the purpose specified in the report, and no responsibility whatsoever is accepted to any third parties. Publication of the report in whole or in part or reference thereto in any document, statement or circular, or any communication with third parties without our prior written consent of the form and context in which it will appear is prohibited.

Electronic File Structure

- Riyadh
  - General Resources
    - City Planning Atlas
    - City Profiles
    - Comps Log
    - Cost Publications
    - Maps
    - Sector Reviews
  - Tafaul District
    - AlBasheer SD
      - Lot 55
        - 1.Admin
          - Client DD & Conflict Check
          - Emails & Minutes
          - Invoicing
          - Progress Updates
          - Project Plan
        - 2.Instructions
          - Client Data
          - Engagement Letter
            - Drafts
            - Final
          - Proposal
            - Drafts
            - Final
          - RFP
        - 3.Inspection
          - Areas
          - Notes
          - Photos
        - 4.Planning
          - Enquiries
          - Zoning atlas- Excerpts
        - 5.Research
          - Comps
        - 5.Research
          - Comps
          - Extracts from City and Sector Pr
          - Neighborhood Surveys
        - 6.Data Analysis
          - HBU Analysis
          - Market Analysis
        - 7.Valuation
          - Cost Approach
          - Income Approach
          - Market Approach
          - Reconciliation
        - 8.Report
          - Drafts
          - Final

Closing or Transmittal Letter

21 February 2XXX
Naqd Bank
Guroosh Street
Riyadh, Saudi Arabia

RE: The Mahallat Plaza, Lots 42-38, Block 19, Dakakeen Street, Riyadh

Dear [Mr. Client]:

Further to our letter of engagement dated 30 January 2XXX, we are pleased to submit the attached final report of our valuation of the head leasehold interest in the referenced property, as of 31 December 2XXX. The report presents our opinion of market value along with supporting data and analyses which form the basis of our opinion.

The value opinion reported is qualified by certain definitions, limiting conditions, and certifications which are set forth on pages 6 through 8 of the report. We particularly draw your attention to the special assumption disclosed on page 8 of the report, dealing with the possible existence of hazardous or toxic materials on the referenced property.

We also point out that the value reported is based on information received from the Client and the hypothetical condition that Riyadh Development Authority approved an extension to the property as of the date of value. Information received from the Client is outlined on page 19 of the report, while the hypothetical condition is addressed in detail on page 20 of the said report.

The report was prepared for and our professional fee billed to Naqd Bank. The report is intended only for use by your internal management, your auditor, and relevant regulatory authorities. It may not be distributed to or relied upon by other persons or entities without our written consent.

The property was inspected by Insan Ihsan, AR TAQEEM, and the valuation was developed by Mr. Ihsan and Mshari Hashi, FR TAQEEM.

If you have any questions concerning the report, please contact Mr. Hashi at [Tel].

Sincerely,

Mshari Hashi, TAQEEM Accredited Valuer
Managing Partner

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For communication and inquiries

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