

Prepared by Dr. Weam Nasan Agha

REA625  
Real Estate Valuation

## Lecture 5



# Real Estate Management

## Lecture 5

REA625

Real Estate Valuation

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## Recap - Lecture 4

### Liquidation Value

The Definition of the Liquidation Value

Key Characteristics:

Practical Examples:

Reporting Requirements

Comparison Table: Market Value vs Liquidation Value

### Mortgage Lending Value (MLV)

The Definition of the Mortgage Lending Value (MLV)

Key Characteristics:

Practical Examples

Reporting Requirements

Comparison Table: Market Value vs Mortgage Lending Value

## Recap - Lecture 4

### Insurable Value

The Definition of the Insurable Value

Key Characteristics:

Practical Examples:

Reporting Requirements

Comparison Table: Market Value vs Insurable Value

### Taxation Value

The Definition of the Taxation Value

Key Characteristics:

Practical Examples

Reporting Requirements

Comparison Table: Market Value vs Taxation Value

## Recap - Lecture 4

### Compensation Value

The Definition of the Compensation Value

Key Characteristics:

Practical Examples:

Reporting Requirements

Comparison Table: Market Value vs Compensation Value

Comparative Overview of Value Bases

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- ***The Professional Framework of the Valuation Process***
  - ✓ **The Definition of the Professional Framework**
  - ✓ **Fundamental Principles of the Professional Framework**
  - ✓ **Professional Competence and Ethics**
- ***The Valuation Process Lifecycle***

## The Professional Framework of the Valuation Process

### ➤ The Definition of the Professional Framework :

The professional framework of valuation refers to the integrated system of professional standards, ethical principles, and competency requirements that regulate the work of the valuer from the moment an engagement is accepted until the final valuation report is issued. The primary objective of this framework is to ensure that the resulting opinion of value is:

Objective

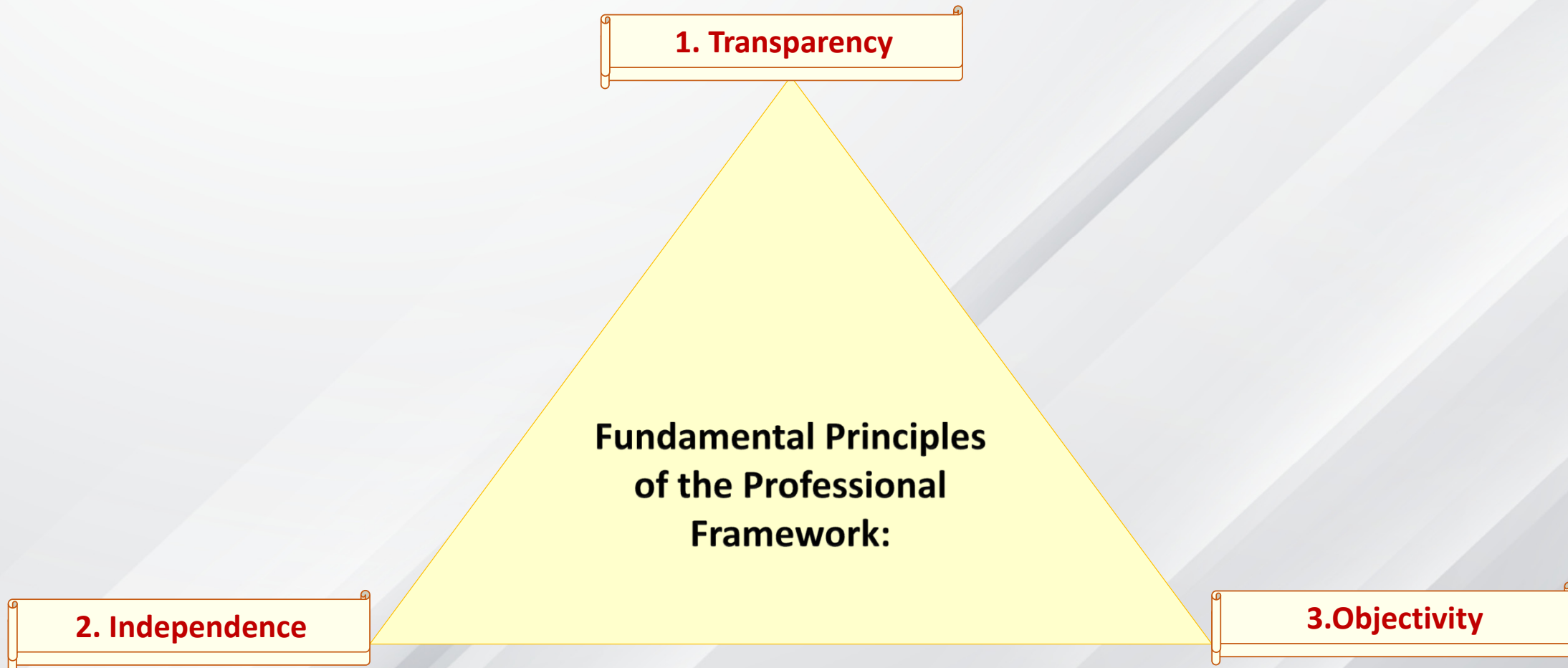
Independent

Transparent

Professionally and legally defensible

## The Professional Framework of the Valuation Process

### ➤ Fundamental Principles of the Professional Framework:



## The Professional Framework of the Valuation Process

### ➤ Fundamental Principles of the Professional Framework:

#### 1. Transparency

**Transparency** refers to the full disclosure of all material information, assumptions, and limitations that may affect the valuation or the user's understanding of it.

#### Example of Transparency in a valuation report:

- “This valuation has been conducted based on an external inspection only, as access to the leased units was not permitted.
- It has been assumed that the internal condition of the inspected units is representative of the remaining units.
- Any material variation may affect the concluded value.”

#### Example of lack of Transparency:

- “The property has been fully inspected and valued.”
- (This statement is vague and potentially misleading.)

## The Professional Framework of the Valuation Process

### ➤ Fundamental Principles of the Professional Framework:

#### 2. Independence

##### Levels of Independence

| Level of Independence       | Description                              | Example                                          | Required Action                         |
|-----------------------------|------------------------------------------|--------------------------------------------------|-----------------------------------------|
| <b>Full Independence</b>    | No prior relationship exists             | External valuer appointed for the first time     | No specific disclosure required         |
| <b>Limited Independence</b> | A prior professional relationship exists | Valuer has previously worked for the same client | Disclosure of the relationship required |
| <b>Lack of Independence</b> | Direct financial interest exists         | Valuer owns shares in the client company         | Engagement must be declined             |

**Maintaining independence** is essential to preserve professional credibility and impartial judgment in accordance with international valuation standards.

## The Professional Framework of the Valuation Process

### ➤ Fundamental Principles of the Professional Framework:

#### 3.Objectivity

**Objectivity** requires the valuer to provide an independent professional opinion based solely on market evidence, analytical methods, and professional judgment, regardless of the client's expectations or desired outcomes.

#### Example of Breach of Objectivity

#### Incorrect scenario:

- **Client:** "We need the value to be at least 10 million in order to obtain financing."
- **Valuer:** "I will try to reach that number."

#### Correct Professional Response

- **Client:** "We need the value to be at least 10 million to secure the loan".
- **Valuer:** "I will provide an independent professional opinion based on market evidence and accepted valuation methodologies."

**Objectivity** protects the integrity and credibility of the valuation process.

## The Professional Framework of the Valuation Process

### ➤ Professional Competence and Ethics:

#### Professional Competence Requirements

**Professional competence** refers to the valuer's knowledge, experience, technical skills, and professional capability to undertake a valuation assignment appropriately.

#### IVS (2024) – Competence

“Possessing the technical knowledge, experience, and skills necessary to perform the valuation competently for the specific type of asset.”

#### RICS (PS 2) – Competence

“The ability to perform a valuation assignment to an appropriate professional standard, taking into account the complexity of the task.”

#### EVS 3 – Qualified Valuer

“A person who possesses the qualifications, ability, and experience necessary to perform an objective, unbiased, and competent valuation.”

# The Professional Framework of the Valuation Process

## ➤ Professional Competence and Ethics:

### Professional Competence Requirements

#### Self-Assessment Competence Matrix

| Competence Criterion | Self-Assessment Question                                        | Yes | No | Action if “No”                        |
|----------------------|-----------------------------------------------------------------|-----|----|---------------------------------------|
| Asset Type Knowledge | Do I have experience with this type of property?                |     |    | Consult a specialized expert          |
| Market Knowledge     | Am I familiar with the local market?                            |     |    | Conduct comprehensive market research |
| Purpose of Valuation | Have I previously undertaken valuations for this purpose?       |     |    | Study specific requirements           |
| Resources            | Do I have sufficient time and tools to complete the assignment? |     |    | Reschedule or decline                 |
| Professional Updates | Is my knowledge aligned with the latest standards?              |     |    | Attend professional training          |

## The Professional Framework of the Valuation Process

### ➤ Professional Competence and Ethics:

#### Professional Ethics

**Professional ethics** represent the fundamental code of conduct governing the behavior of valuers.  
**Five core ethical principles** are commonly emphasized.

1. Integrity

2. Objectivity

3. Professional  
Competence

4. Confidentiality

5. Professional  
Behavior

## The Professional Framework of the Valuation Process

### ➤ Professional Competence and Ethics:

#### Professional Ethics

#### 1. Integrity

**Honesty and straightforwardness in all professional and business relationships.**

- ✓ **Positive Example:** Refusing to modify a valuation report under client pressure.
- ✓ **Negative Example:** Accepting gifts or incentives in exchange for inflating the value.

#### 2. Objectivity

**Maintaining impartial judgment without bias, conflict of interest, or undue influence.**

- ✓ **Positive Example:** Applying the same valuation standards to all clients.
- ✓ **Negative Example:** Providing preferential treatment to a major client.

## The Professional Framework of the Valuation Process

### ➤ Professional Competence and Ethics:

#### Professional Ethics

#### 3. Professional Competence

**Maintaining the knowledge and skills necessary to ensure that clients receive professional services based on current standards and practices.**

- ✓ **Positive Example:** Participating in continuing professional development (CPD).
- ✓ **Negative Example:** Using outdated or superseded valuation standards.

#### 4. Confidentiality

**Respecting the confidentiality of information acquired during professional engagements.**

- ✓ **Positive Example:** Not disclosing valuation details to third parties.
- ✓ **Negative Example:** Publishing a client's property valuation on social media.

#### 5. Professional Behavior

**Compliance with relevant laws, regulations, and professional standards.**

- ✓ **Positive Example:** Refusing to undertake valuation services without a valid professional license.
- ✓ **Negative Example:** Misrepresenting professional qualifications or experience.

## The Valuation Process Lifecycle

**Valuation** is not merely the production of a numerical figure; rather, it is a **structured professional process**.

**The value conclusion reached by the valuer** represents the outcome of a systematic sequence of professional steps designed to ensure:

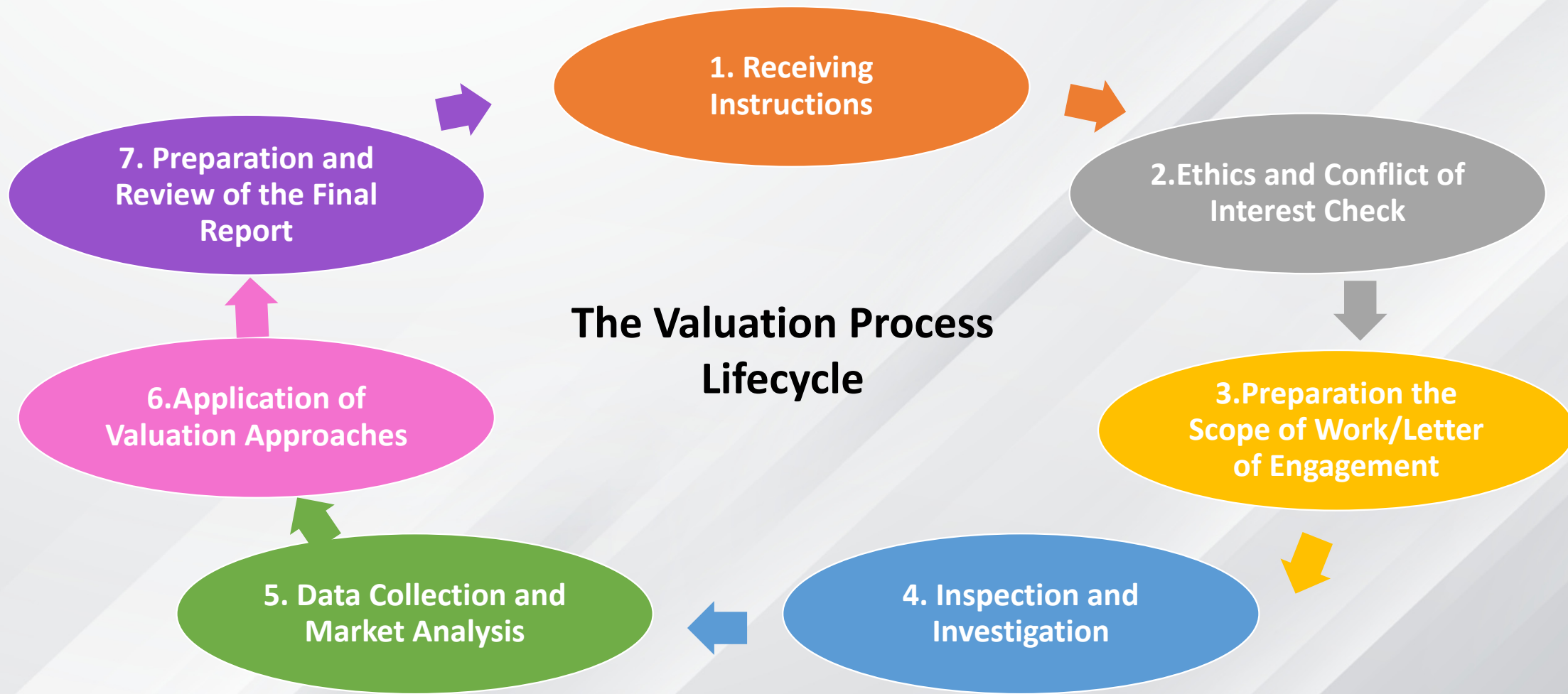
Transparency

Independence

Objectivity

Compliance with professional competence and ethical standards (RICS & IVS)

## The Valuation Process Lifecycle



# The Valuation Process Lifecycle

## 1. Receiving Instructions

**Receiving instruction stage** represents the critical starting point of the valuation process. It involves the initial communication between **the client and the valuer** in order to clearly define the valuation requirements.

**The client** is the party instructing the valuer to undertake a valuation assignment. The client may be:

- **Internal**, where the valuation is prepared for the benefit of the organization employing the valuer.
- **External**, where the valuer is appointed by an independent third party.

## The Valuation Process Lifecycle

### 1. Receiving Instructions

#### Difference Between Internal and External Clients

| Aspect              | Internal Client                                                                         | External Client                                                                                    |
|---------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Definition</b>   | A department within the same organization where the valuer works                        | An independent party outside the valuer's organisation                                             |
| <b>Relationship</b> | Internal employment relationship                                                        | Independent contractual relationship governed by a formal engagement letter                        |
| <b>Example (1)</b>  | A bank valuer assessing a property for the credit department to support a loan decision | An independent valuation firm appointed by an investment company to value an office tower for sale |
| <b>Example (2)</b>  | A valuer within a development company assessing a project for financial reporting       | A valuation expert appointed by a court to determine the value of a disputed property              |

## The Valuation Process Lifecycle

### 1. Receiving Instructions

#### Key Elements of the Instructions

| Element                     | Description                                                                                                                                                     |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Client</b>               | The individual or entity requesting the valuation                                                                                                               |
| <b>Asset to be valued</b>   | The property or group of properties subject to valuation                                                                                                        |
| <b>Purpose of valuation</b> | The reason for conducting the valuation, such as financial reporting, taxation reporting, litigation support, transaction support, or secured lending decisions |
| <b>Valuation date</b>       | The date at which the valuation applies. If different from the inspection date or the report date, this must be clearly disclosed                               |
| <b>Intended users</b>       | The parties who are expected to rely upon the valuation report                                                                                                  |

# The Valuation Process Lifecycle

## 1. Receiving Instructions

### Assignment Considerations

- The client's requirements are clearly understood
- All instructions are documented in writing
- Any constraints or special assumptions are identified
- Additional relevant information is requested when necessary

## The Valuation Process Lifecycle

### 2. Ethics and Conflict of Interest Check

Before accepting a valuation assignment, the valuer must assess two fundamental aspects:

**A. Conflict of Interest**

**B. Competence**

#### **A. Conflict of Interest**

Valuers must ensure **clear separation between valuation services and advisory services** within professional firms, particularly regarding the use of valuation data and client instructions.

In addition, professional standards require **mandatory rotation policies** when valuing the **same property**, in order to mitigate conflicts of interest and reinforce professional objectivity, generally:

- Maximum **5 years** for an **individual valuer**
- Maximum **10 years** for a **valuation firm**

# The Valuation Process Lifecycle

## 2. Ethics and Conflict of Interest Check

### Conflict of Interest Assessment

| Type of Conflict                         | Description                                              | Risk Level              | Required Action                                                       | Example                                                                     |
|------------------------------------------|----------------------------------------------------------|-------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------|
| <b>Direct financial interest</b>         | Ownership or direct investment in the subject asset      | Very high               | Decline the assignment                                                | Valuer owns shares in the property-owning company                           |
| <b>Indirect financial interest</b>       | Potential financial benefit that may affect impartiality | High                    | Full disclosure and written consent                                   | Valuer plans to purchase nearby property                                    |
| <b>Close personal relationship</b>       | Immediate family or close personal ties                  | High                    | Decline or disclose and obtain approval                               | Property owned by valuer's sibling                                          |
| <b>Previous professional involvement</b> | Prior valuations of the same property or related parties | Moderate                | Disclosure and consideration of timing restrictions                   | Valuer assessed property for seller one year earlier                        |
| <b>Ongoing commercial relationship</b>   | Business dealings with the client or related parties     | Moderate                | Full disclosure and evaluation of influence                           | Valuer rents office space from the client                                   |
| <b>Institutional conflict</b>            | Multiple departments within the same firm                | Low (if controls exist) | Application of <b>Chinese Wall</b> and Functional Separation Controls | Brokerage department selling the asset while valuation department values it |

## The Valuation Process Lifecycle

### 2. Ethics and Conflict of Interest Check

#### B. Competence

- **The Valuer** must be an individual within an organization—whether an internal employee or an external contractor—who possesses the necessary qualifications, ability, and experience to conduct the assessment objectively, impartially, ethically, and efficiently, and who has the appropriate technical skills, experience, and knowledge of the subject matter of the assessment, the market in which they operate, and the purpose of the valuation.

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

This stage represents the **legal and professional foundation** of the valuation assignment.

#### Scope of Work

**The Scope of Work** is the **technical framework** of the valuation assignment prepared by the valuer based on the client's instructions. It defines:

- **What will be valued**
- **Why the valuation is being conducted**
- **How the valuation will be undertaken**
- **When the valuation applies**
- **What assumptions and limitations apply**

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Mandatory Components of the Scope of Work

| Item                                        | Detailed Description                                   | Good Example                                                                             | Bad Example             |
|---------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------|
| <b>1. Identity and Status of the Valuer</b> | Name, qualifications, license number, and independence | "Abdullah Al-Saeed, MRICS, License No. 1234, Independent External Valuer"                | "Certified Valuer"      |
| <b>2. Client Identity</b>                   | Full name and legal status                             | "ABC Development Company (LLC), represented by the Chief Financial Officer"              | "Mr. Ahmed"             |
| <b>3. Intended Users</b>                    | All parties who will rely on the report                | "The client and Banque Saudi Fransi only"                                                | "Any interested party"  |
| <b>4. Asset Being Valued</b>                | Precise and comprehensive description                  | "Residential villa, 500 m <sup>2</sup> , Plot 123, Plan 456, Al-Narjis District, Riyadh" | "A villa in Riyadh"     |
| <b>5. Currency</b>                          | Currency of valuation                                  | "Saudi Riyal (SAR)"                                                                      | Not specified           |
| <b>6. Purpose of the Valuation</b>          | The specific reason for the valuation                  | "Obtaining real estate financing from Banque Saudi Fransi"                               | "For internal purposes" |
| <b>7. Basis of Value</b>                    | Definition of the value used                           | "Market Value in accordance with the IVS 2024 definition"                                | "Fair Value"            |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Mandatory Components of the Scope of Work

| Item                                 | Detailed Description                | Good Example                                                                 | Bad Example                                  |
|--------------------------------------|-------------------------------------|------------------------------------------------------------------------------|----------------------------------------------|
| <b>8. Valuation Date</b>             | The specific date of the value      | "31 December 2024"                                                           | "Year-end"                                   |
| <b>9. Level of Inspection</b>        | Scope of inspection and examination | "External and internal inspection, without structural examination"           | "Full inspection"                            |
| <b>10. Nature of Information</b>     | Data sources                        | "Client data, Ministry of Justice records, local market indicators"          | "Available information"                      |
| <b>11. Assumptions</b>               | Reasonable assumptions              | "Assuming the accuracy of the documents provided by the client"              | Not specified                                |
| <b>12. Special Assumptions</b>       | Unreal or hypothetical assumptions  | "Assuming approval of an additional building permit"                         | Not specified                                |
| <b>13. Limitations</b>               | Limits of the valuation             | "The valuation does not include movable furniture"                           | Not specified                                |
| <b>14. Compliance with Standards</b> | Applicable standards                | "Valuation conducted in accordance with the RICS Red Book 2023 and IVS 2024" | "In accordance with international standards" |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### 11. Assumption

- Something we **assume** because it is **reasonable and customary**, since it cannot be verified with absolute certainty, and it is presumed to reflect reality.
- It is **used** in almost **every valuation report**.

#### Examples:

- ✓ “It is assumed that the building is structurally sound as no visible cracks were observed.”
- ✓ “It is assumed that the property is free from environmental contamination.”
- ✓ “It is assumed that the title deed is legally valid.”

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### 12. Special Assumption

- An **assumption** where we explicitly state that the condition differs from the current reality.
- It is **used** to simulate a **future or hypothetical scenario**.

#### Examples:

- ✓ **Vacant land:** We value it under a special assumption “**that construction has been completed on the land**” (to evaluate the project feasibility).  
*Reality:* It is vacant land.
- ✓ **Leased building:** We value it under a special assumption “**that the property is vacant**” (for sale to an investor who intends to occupy it).  
*Reality:* It is currently leased.
- ✓ **Change of use:** Valuing a villa under the special assumption “**that approval has been obtained to convert it into a restaurant.**”  
*Reality:* The license is residential.

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Fundamental Difference Between Assumptions

| Criteria            | Assumption                                                   | Special Assumption                                                         |
|---------------------|--------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Definition</b>   | A condition assumed to be true without detailed verification | An assumption that differs from the actual situation at the valuation date |
| <b>Realism</b>      | Reasonable and likely                                        | Not currently true                                                         |
| <b>Verification</b> | Can be verified but verification is not required             | Known to be currently incorrect                                            |
| <b>Impact</b>       | Usually limited                                              | May be significant                                                         |
| <b>Disclosure</b>   | Included in the assumptions section                          | Clearly disclosed with a separate warning                                  |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Letter of Engagement

**The Letter of Engagement** is the **formal contractual document** that sets out the **scope of work** together with the legal and regulatory terms.

The **valuer** prepares the **Letter of Engagement** after **defining the Scope of Work**.

#### Key Elements of a Letter of Engagement

| Item                                          | Detailed Description                                                                      | Good Example                                                               | Poor Example               |
|-----------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------|
| <b>1. Nature of the Legal Relationship</b>    | Clarifies whether the valuer is independent or an internal employee                       | "Independent external valuer; no ownership relationship with the client."  | "Certified valuer."        |
| <b>2. Scope of Legal Responsibility</b>       | Defines the limits of the valuer's responsibility toward the client and any third parties | "Reliance is limited to the client and the financing bank only."           | Not specified              |
| <b>3. Restrictions on Use and Publication</b> | States whether the report is confidential or can be circulated                            | "The report may not be published or circulated without written consent."   | "May be used when needed." |
| <b>4. Financial Liability Cap</b>             | Specifies the maximum compensation in case of professional error                          | "Maximum liability is limited to the amount of the professional fee paid." | Not specified              |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Key Elements of a Letter of Engagement

| Item                                       | Detailed Description                                                     | Good Example                                                                    | Poor Example  |
|--------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------|
| <b>5. Professional Indemnity Insurance</b> | Confirmation that valid professional liability insurance exists          | "The valuer is insured under a professional indemnity policy of SAR 5 million." | Not mentioned |
| <b>6. Conflict of Interest</b>             | Declaration that no conflict of interest exists or disclosure if it does | "No conflict of interest exists following independence checks dated ..."        | Not specified |
| <b>7. Basis for Fee Calculation</b>        | Payment method, amount, and taxes                                        | "SAR 15,000 fixed fee + VAT."                                                   | "As agreed."  |
| <b>8. Payment Terms</b>                    | Timing and mechanism of payment                                          | "Payment due within 15 days from invoice date."                                 | Not specified |
| <b>9. Complaints Procedure</b>             | Mechanism for submitting and handling complaints                         | "Complaints must be submitted in writing within 30 days to ..."                 | Not mentioned |
| <b>10. Termination of Engagement</b>       | Conditions under which either party may terminate the engagement         | "Either party may terminate the engagement with 7 days' written notice."        | Not specified |
| <b>11. Governing Law</b>                   | Specifies the jurisdiction or applicable law                             | "This agreement is governed by the laws of the Kingdom of Saudi Arabia."        | Not specified |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/Letter of Engagement

#### Key Elements of a Letter of Engagement

| Item                                              | Detailed Description                           | Good Example                                                                                            | Poor Example                                  |
|---------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| <b>12. Data Protection and Confidentiality</b>    | Commitment to protecting information           | "The valuer shall maintain confidentiality of all data in accordance with data protection regulations." | Not specified                                 |
| <b>13. Statement of Compliance with Standards</b> | Explicit statement of the applicable standards | "Valuation conducted in accordance with RICS Red Book 2024 and IVS 2025."                               | "In accordance with international standards." |
| <b>14. Acknowledgment and Acceptance</b>          | Signature of both parties before work begins   | "Approved and signed on ..."                                                                            | Work started without signature                |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Comparison: Scope of Work vs. Letter of Engagement

| Comparison Element                                 | Scope of Work                                        | Letter of Engagement                                  |
|----------------------------------------------------|------------------------------------------------------|-------------------------------------------------------|
| <b>Nature</b>                                      | Technical / Professional                             | Contractual / Legal                                   |
| <b>Objective</b>                                   | Defines what and how the valuation will be performed | Regulates the legal and financial relationship        |
| <b>When prepared</b>                               | First, after receiving instructions                  | After defining the scope of work and before execution |
| <b>Requires signature?</b>                         | Not always required under IVS                        | Yes (mandatory before issuing the report under RICS)  |
| <b>Identifies the asset and purpose?</b>           | ✓                                                    | ✓                                                     |
| <b>Includes basis of value and valuation date?</b> | ✓                                                    | ✓                                                     |
| <b>Includes inspection scope and assumptions?</b>  | ✓                                                    | ✓                                                     |

## The Valuation Process Lifecycle

### 3.Preparation the Scope of Work/ Letter of Engagement

#### Comparison: Scope of Work vs. Letter of Engagement

| Comparison Element                           | Scope of Work                       | Letter of Engagement          |
|----------------------------------------------|-------------------------------------|-------------------------------|
| Includes fees?                               | ×                                   | ✓                             |
| Includes liability limits?                   | ×                                   | ✓                             |
| Includes professional insurance?             | ×                                   | ✓                             |
| Includes payment and termination conditions? | ×                                   | ✓                             |
| Protects what?                               | Quality of the professional opinion | Legal liability of the valuer |

## The Valuation Process Lifecycle

### 4. Inspection and Investigation

**Inspection** is not merely “looking”; it is an investigation.

**Levels of inspection** are part of the scope of work and must be defined before the valuation begins.

**The inspection level** determines the strength of the foundation on which the valuation is based, not merely a procedural step before writing the report.

## The Valuation Process Lifecycle

### 4. Inspection and Investigation

Inspection Levels Table (According to RICS)

| Level                      | Description                                     | Includes                                                                                                                                                            | Does Not Include                                                                                                                          | Typical Use                                |
|----------------------------|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| <b>Full Inspection</b>     | Comprehensive internal and external examination | <ul style="list-style-type: none"> <li>• All rooms and spaces</li> <li>• Roofs and basements</li> <li>• Visible systems</li> <li>• Detailed measurements</li> </ul> | <ul style="list-style-type: none"> <li>• Specialized structural testing</li> <li>• Opening walls</li> <li>• Laboratory testing</li> </ul> | Valuations for purchase or financing       |
| <b>External Inspection</b> | External observation only                       | <ul style="list-style-type: none"> <li>• Building façades</li> <li>• Site location</li> <li>• Surroundings</li> <li>• Visible condition</li> </ul>                  | <ul style="list-style-type: none"> <li>• Any internal inspection</li> <li>• Finishing details</li> <li>• Condition of systems</li> </ul>  | Valuation updates or taxation              |
| <b>Limited Inspection</b>  | Inspection of specific areas only               | <ul style="list-style-type: none"> <li>• Accessible areas</li> <li>• Sample units</li> </ul>                                                                        | <ul style="list-style-type: none"> <li>• Leased units</li> <li>• Closed areas</li> </ul>                                                  | Fully leased properties                    |
| <b>Desktop Valuation</b>   | Office-based valuation only                     | <ul style="list-style-type: none"> <li>• Document analysis</li> <li>• Available photographs</li> <li>• Databases</li> </ul>                                         | <ul style="list-style-type: none"> <li>• Any physical inspection</li> </ul>                                                               | Preliminary valuations or large portfolios |

## The Valuation Process Lifecycle

### 4. Inspection and Investigation

**ESG** factors (**E**nvironmental, **S**ocial, and **G**overnance) should now be considered as a mandatory element in engagement terms and valuation reports.

According to IVS 2024 and EVS 2020, valuers should observe sustainability indicators during inspection, such as:

➤ Energy efficiency

➤ Insulation quality

➤ Flood risk

➤ Environmental conditions

The **lower** the level of **inspection**, the **higher** the **professional risk**, and the **greater** the need to **disclose limitations clearly**.

## The Valuation Process Lifecycle

### 5. Data Collection and Market Analysis

After completing the inspection, the valuer moves to the **data collection and market analysis** stage, which is a critical phase that directly affects the reliability of the valuation.

IVS 102 states that investigations necessary to support a valuation must be sufficient considering the **purpose of the assignment**. To support these investigations, adequate evidence must be assembled by the valuer and/or reliable third parties. **All market data** used as **inputs** in the **valuation process** must be understood and verified when necessary.

**There is no correct valuation method without correct data.**

**Quality of value = Quality of data × Quality of analysis.**

## The Valuation Process Lifecycle

### 5. Data Collection and Market Analysis

#### Classification of Data Sources

#### Primary Data



**Advantage:**  
Most accurate but time-consuming to obtain.

| Source                                  | Nature of Data                                  | When Is It Important?   |
|-----------------------------------------|-------------------------------------------------|-------------------------|
| <b>Direct field inspection</b>          | Physical condition, actual use, occupancy       | All valuations          |
| <b>Interviews with relevant parties</b> | Operational information, development intentions | Investment assets       |
| <b>Specialized surveys</b>              | Market trends and expectations                  | Large portfolio studies |

#### Secondary Data



**Advantage:**  
Fast and accessible but requires **verification of reliability**.

| Source                       | Type of Data                       |
|------------------------------|------------------------------------|
| <b>Government records</b>    | Ownership, permits, urban planning |
| <b>Real estate databases</b> | Comparable sales, rents            |
| <b>Economic reports</b>      | Market indicators, forecasts       |
| <b>Sector studies</b>        | Supply and demand analysis         |

## The Valuation Process Lifecycle

### 5. Data Collection and Market Analysis

#### Classification of Data by Use in Valuation Approaches

| Data Type              | Sources                                      | Use                                    |
|------------------------|----------------------------------------------|----------------------------------------|
| Comparable Data        | Recent sales transactions, listing offers    | Sales Comparison Approach              |
| Income Data            | Lease agreements, market yield rates         | Income Approach (Capitalization / DCF) |
| Cost Data              | Construction costs, depreciation rates       | Cost Approach                          |
| Macroeconomic Data     | Interest rates, inflation, GDP               | General market analysis                |
| Supply and Demand Data | Transaction volume, inventory, vacancy rates | Market balance analysis                |
| Regulatory Data        | Planning laws, taxes                         | Analysis of regulatory impact          |

### 5. Data Collection and Market Analysis

**Not all data** have the same **level of strength**.

**Each data point should be evaluated in terms of:**

- ❖ Recency
- ❖ Comparability
- ❖ Reliability
- ❖ Verifiability

**The valuer** does not **create value**; the **valuer reveals** it through **market data analysis**.

**Any weakness in the data** will directly affect the **strength of the professional opinion**.

## The Valuation Process Lifecycle

### 5. Data Collection and Market Analysis

#### Steps of Market Analysis

- 1) Defining the Relevant Market:** Classifying the property within its sub-market (luxury residential, Class A offices, retail, etc.).
- 2) Supply and Demand Analysis:** Assessing current and future supply compared with actual demand.
- 3) Trend and Price Analysis:** Evaluating trends in prices, rents, and investment returns.
- 4) Competition Analysis:**
  - Direct competing properties
  - Relative advantages and disadvantages
  - Market positioning

## The Valuation Process Lifecycle

### 5. Data Collection and Market Analysis

#### Steps of Market Analysis

**5) Highest and Best Use Analysis (HABU):** In most cases, valuers confirm that the highest and best use is the same as the current use. In some situations, an alternative use with higher value may be identified.

**6) Screening and Adjusting Comparables:** Adjusting comparable data to reflect differences with the subject property.

**Adjustments** refine the **comparables** rather than **excluding them entirely**

## The Valuation Process Lifecycle

### 6. Applying Valuation Approaches

#### The Three Main Approaches

| Approach                         | Description                                           | Best Use                             |
|----------------------------------|-------------------------------------------------------|--------------------------------------|
| <b>Sales Comparison Approach</b> | Comparing with similar properties that have been sold | Residential properties and land      |
| <b>Income Approach</b>           | Capitalization or discounted cash flow (DCF)          | Investment and commercial properties |
| <b>Cost Approach</b>             | Replacement cost minus depreciation                   | Specialized and new properties       |

## The Valuation Process Lifecycle

### 7. Preparation and Review of the Final Report

#### A. Report Structure

| Main Section                       | Detailed Contents                                                                 |
|------------------------------------|-----------------------------------------------------------------------------------|
| <b>1. Executive Summary</b>        | • Final Value • Valuation Date and Purpose • Key Assumptions                      |
| <b>2. Introduction and Scope</b>   | • Instructions Received • Basis of Value Applied • Inspection and Valuation Dates |
| <b>3. Property Description</b>     | • Location and Surroundings • Physical Description • Legal Status                 |
| <b>4. Market Analysis</b>          | • Current Market Conditions • Supply and Demand • Future Outlook                  |
| <b>5. Valuation Methodology</b>    | • Applied Approaches • Data Used • Detailed Calculations                          |
| <b>6. Valuation and Conclusion</b> | • Application of Approaches • Reconciliation of Results • Final Opinion of Value  |
| <b>7. Appendices</b>               | • Photos and Plans • Supporting Documents                                         |

## The Valuation Process Lifecycle

### 7. Preparation and Review of the Final Report

#### B. Review and Quality Process

| Level                    | Scope                                  | Responsible Party              |
|--------------------------|----------------------------------------|--------------------------------|
| <b>Self-review</b>       | Accuracy of data and calculations      | Lead valuer                    |
| <b>Technical review</b>  | Methodology and standards compliance   | Senior valuer / expert         |
| <b>Compliance review</b> | Compliance with professional standards | Quality manager                |
| <b>Final approval</b>    | Authorization and signature            | Partner / responsible director |

## The Valuation Process Lifecycle

### 7. Preparation and Review of the Final Report

#### C. Final Checklist

- All report sections completed
- Accuracy of data and calculations
- Clear assumptions and limiting conditions
- Compliance with professional standards (IVS / RICS / EVS)
- Signature and seal of the certified valuer
- Archiving a complete copy of the file

## Lecture Summary: Quick Review

### The Professional Framework of the Valuation Process

The Definition of the Professional Framework

Fundamental Principles of the Professional Framework

Professional Competence and Ethics

### The Valuation Process Lifecycle

1. Receiving Instructions

2. Ethics and Conflict of Interest Check

3. Preparation the Scope of Work/Letter of Engagement

4. Inspection and Investigation

5. Data Collection and Market Analysis

6. Application of Valuation Approaches

7. Preparation and Review of the Final Report



Thank You