

# International Valuation Standards and Land Administration

Kauko Viitanen

FIG Working Week 2005

TS 30, Valuation and Real Estate  
Management II

Cairo, Egypt April 16-21, 2005

## Content

- Introduction
- International Valuation Standards
- Compulsory purchase and land management
- Compensation and property right owner
- Conclusions and recommendation

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005

Kauko Viitanen: International Valuation Standards and Land Administration

## Introduction

- 30 years ago 1/3 of the world's population lived in cities, now 1/2 and soon 2/3, and the population is heavily increasing
- This means urban areas will face severe problems in land use
- UN Habitat aims to break the growth of slums and FIG tries to help in the task
- The growth management in cities is a huge task for land management and land administration
- Land should be efficiently acquired but the rights of individuals should also not be violated
- Compulsory purchase is one tool which might be used besides voluntary means
- In both cases valuations have a key role
- IVS deals with valuations but not land management
- Here could FIG have an important role

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Viitanen: International Valuation Standards and Land Administration

## International Valuation Standards

- The main goal is to encourage international real estate investments and enhance the vitality of the international market
- The aim is to facilitate international real estate transactions and improve the market by encouraging the transparency of economic reports and the reliability of valuations for lending purposes, related not only to transfers of ownership but also to compulsory purchase and taxation.
- Further, to act as worldwide professional reference and thus assist the valuers in meeting the demand of the international real estate market and the requirements of economic reports
- IVS and national standards complete each other
- IVS presumes competence and proficiency from the valuers

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Viitanen: International Valuation Standards and Land Administration

## The Structure of IVS

- IVS 2005 (IVSC 2005) has three actual standards
  - IVS 1: Market Value Basis of Valuation
  - IVS 2: Valuation Bases Other Than Market Value
  - IVS 3: Valuation Reporting
- and two valuation applications
  - IVA 1: Valuation for Financial Reporting
  - IVA 2: Valuation for Lending Purposes
- Further, it presents general codes of conduct, guidelines for general valuation approaches and principles, explains topic concepts, and gives guidelines for special needs through 14 Guidance Notes

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Viitanen: International Valuation Standards and Land Administration

## Guidance Notes in IVS2005

- GN 1: Real Property Valuation
- GN 2: Valuation of Lease Interests
- GN 3: Valuation of Plant and Equipment
- GN 4: Valuation of Intangible Assets
- GN 5: Valuation of Personal Property
- GN 6: Business Valuation
- GN 7: Consideration of Hazardous and Toxic Substances in Valuation
- GN 8: Depreciated Replacement Cost (DRC)
- GN 9: Discounted Cash-Flow (DFC) Analysis for Market and Non-Market Based Valuations
- GN 10: Valuation of Agricultural Properties
- GN 11: Reviewing Valuations
- GN 12: Valuation of Specialised Trading Property
- GN 13: Mass Appraisal for Property Taxation
- GN 14: Valuation of Properties in the Extractive Industries

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Viitanen: International Valuation Standards and Land Administration

## What IVS is?

- IVS is not an actual textbook explaining the application of specific valuation techniques.
- Rather it describes what the valuer should do and how to perform in valuation tasks and reporting.
- It is greatly a matter of securing the quality of the valuation process.
- The standards reach out for professionally prepared high-quality, comparable, easily accessible, and reliable reports.
- [www.ivsc.org](http://www.ivsc.org)

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kaarlo Viltanen: International Valuation Standards and Land Administration

## Compulsory Purchase and Land Management

- In societies based on private ownership expropriation of private property for the public benefit has normally been enabled by legislation
  - Otherwise a landowner could use his monopolistic position and block development when refusing of a voluntary transfer of his land, or claiming for an unrealistically high compensation
  - The landowner may also be missing or legally incapacitated
  - There is also the need to ensure the efficiency of land acquisition, e.g. when acquiring areas for roads

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kaarlo Viltanen: International Valuation Standards and Land Administration

## The use of Compulsory Purchase

- It is normally not the primary method for land acquisition, but presumes that the land acquisition has not been possible in any other, i.e. voluntary or less injurious way
- In practice it is not a very widely used method
- It often seen as a complex process that takes long time and is expensive
  - There are yet examples of well functioning processes
- In addition interference with private ownership by compulsion is often not considered appropriate
  - The political decision-makers seem to fear the drop of their popularity if they are in favour for resorting to expropriation
- Furthermore assessment of compensations is often seen problematic

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kaarlo Viltanen: International Valuation Standards and Land Administration

## Compensation and property right owner

- The critical point is will the compensation statutes, valuation methods and manners really lead to full and just compensation?
- The main idea seems to be that the property right owner's financial situation shall remain the same despite the expropriation.
  - No one should be poorer because of expropriation but also not richer.
  - However, only economic values will be compensated but non-economic not.
- There seems not be strict rules that the owner has to be able to purchase a similar property for the same price as compensated although the basic idea of compensation strives to this, and normally this can even be excepted

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kaarlo Viltanen: International Valuation Standards and Land Administration

## Compensation

- Full compensation shall cover market value of the expropriated property, depreciation of value of the retaining property (severance), and other damages and costs which will weaken the financial situation of the expropriated owner
- The basic valuation method is the sales comparison method
  - This seems to mean that guidance in the IVS would be very practical in determining compensations
- However, rather serious discredit to the applicability of the market value method has been presented
  - The use of purchase prices systematically leads to too low values
  - During a low cycle the compensation may be so low that the expropriated owner is not able to buy a similar property with the compensation but will suffer a loss
- This seems to justify a use of certain margin of safety

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kaarlo Viltanen: International Valuation Standards and Land Administration

## General principles for compensation I

(Virtanen 1988)

- Economic principle
  - The loss must be economic, sentimental values are not compensated.
  - Luxury value may be compensated.
- Causality principle
  - The loss and the implementation of the expropriation project must have an acceptable causal connection.
- Legality principal
  - Interests protected by law are only compensated.
  - E.g. berry picking based on "everyman's right" is not compensated.
  - Compensation is paid only for such a way of use, which is permitted by the law.
  - Somebody has to be liable to compensation.
- Interested party principle
  - Entitled to compensation is only the party concerned.

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kaarlo Viltanen: International Valuation Standards and Land Administration

## General principles for compensation II

(Virtanen 1988)

- **Logicity principle**
  - The hypotheses and argumentations related to the compensation must be consistent.
- **Probability principle**
  - Should the compensation be determined on the basis of anticipated development, this shall be probable
  - Compensation must not be based on hopes or groundless arguments.
- **Ascertainability principle**
  - The loss must be clearly ascertained.
  - Minimal losses are not compensated.
- Further, the compensation must be based on what the conveyor loses, not on what the expropriator gets

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Virtanen: International Valuation Standards and Land Administration

## Problems with principles

- In many countries registration of proprietary rights and usufructs is still rather uncertain and various permissions are poorly documented or the need for such permissions is poorly understood among the citizens.
  - For example, within the informal settlement the compensations would remain totally non-paid.
- Practical examples show that compensations are not always paid or their payment is delayed e.g. due to the expropriator's lack of money.
  - People lose their dwellings and even their living necessities, i.e. their cultivated parcels, without being able to buy new ones.
- There are also regions where new viable pieces of land are not available, even though the compensation is paid. There is no supply and no functioning market.
- In situations like these expropriation based on compensation in money seems not to be applicable, but methods adaptable to the circumstances are required.

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Virtanen: International Valuation Standards and Land Administration

## Conclusions and recommendation

- Although expropriation may contain many favourable aspects and it is a necessary tool in some cases it also relates to many problems
- IVS technically give good initiatives for proper valuation approach also in expropriation situations, especially when the compensation is based on market value.
- Market value as the basis of compensation, however, relates to certain serious weaknesses, which at the worst may lead to the loss of proprietary and possessory rights at no compensation or at insufficient compensation. On the individual level this may be a tragedy.
- To these issues the IVS have no answers.

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Virtanen: International Valuation Standards and Land Administration

## Conclusions and recommendation II

- FIG has given many guidelines and recommendations, which are in favour of better land management and sustainable development (e.g. Marrakech Declaration 2004).
- Expropriation and the related determination of compensation seem to be an area, which is closely linked with land management, land development, effective infrastructure, and access to land, but where methodical and practical guidance seems to be small.
- FIG Com 7 to 9 are directly involved with this area, and also Com 1 as the coordinator of general affairs.
- This might be an area where FIG could take an active attitude and Commission 9 make an initiative proposal for furthering the case.

TS 30, Valuation and Real Estate Management II, FIG Cairo 2005  
Kauko Virtanen: International Valuation Standards and Land Administration

Thank you for your attention!