

Market Value in Relation to Assumed Use

The National Valuation Standard KSWP1 of the Polish Federation of Valuers' Associations (PFVA) entitled "Market Value and Replacement Value" requires the valuer to identify the most probable use of the property in order to establish the Market Value. Such use may be a continuation of a current use or other potential (alternative) use. Please note that National Valuation Standards of PFVA suggest that the analysis of the highest and best use may be treated as a separate study. However, if agreed with the client, such analysis can be included in the valuation report. Therefore it is worth noting that the National Valuation Standard of PFVA raise the importance of the highest and best use.

National Valuation Standards

The motion No. 26/07 of 12 December of the National Council of PFVA defines the type and scope of application of professional valuation standards in the transition period. Since 1 March 2008 the following standards constitute enforceable rules to be applied in performing the profession of a property valuer:

Basic Standards (BNVS)

BNVS 1: Market Value and Replacement Value,

BNVS 3: Valuation Reporting.

Special Purpose Standards (SNVS)

SNVS 1: Valuations for Public Purposes

SNVS 1.1. Valuation of Properties Left Behind the Current Borders of Poland for the Purpose of Indemnity Payment

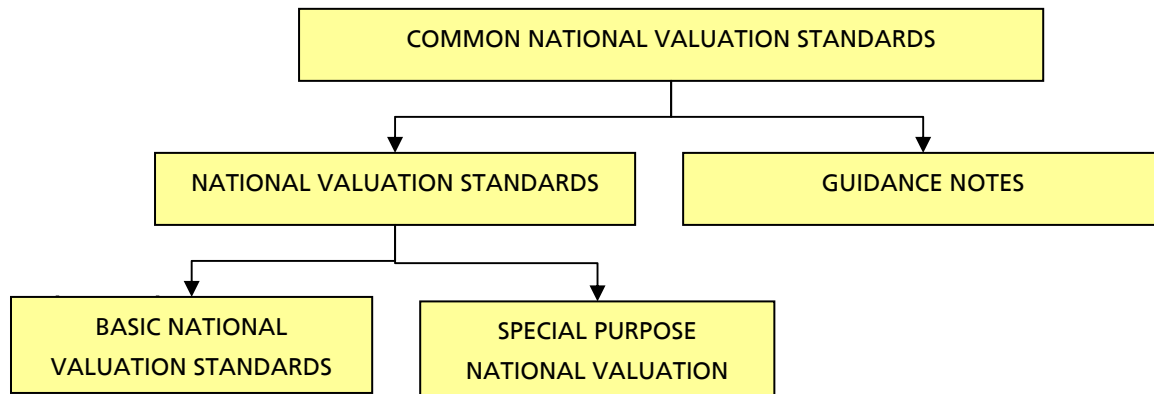
SNVS 2 Valuation for Financial Reporting in the Context of Polish Accounting Act

SNVS 3: Valuation for Debt Security

PFVA standards binding since 1995 (marked with symbols, e.g. III.6, V.4) have a status of temporary Guidance Notes, while binding standards are only those mentioned in the motion. Please note that some standards were repealed because they were replaced by new ones or because of negative assessment of their contents.

The following documents are currently under development: a National Valuation Standard marked BNVS 2: Values Other than Market Value, and three Guidance Notes: GN 1: Comparison Approach in Property Valuation, GN 2: Income approach in Property Valuation, GI 3: Cost Approach in Property Valuation.

Chart No 1: Structure of National Valuation Standards



In the BNVS 1 Standard “Market Value and Replacement Value” a considerable part is dedicated to the definition of the Highest and Best Use. The necessity to provide the definition ensues from general economic and social reasons. Developed and undeveloped properties, being a rare commodity, require that their uses are optimized. Furthermore, the highest and best use reflects the market pattern of behavior where a rationally thinking and acting investor is pursuing the most effective use of his/her property.

The definition of the Market Value of the property contained in the National Valuation Standards reads it is the most likely price for which the property would exchange on the market on the date of valuation with the two following assumptions:

- parties to the transaction are independent of each other, do not act under compulsion and are determined to close the deal; and
- sufficient time has elapsed for the property to be exposed on the market and to allow for negotiations of the deal.

According to the BNVS 1 Standard, the Highest and Best Use means the most probable use which is physically possible, appropriately justified, legally permissible, financially feasible and which results in the highest value of the property being valued.

The term “physically possible” denotes a requirement to verify whether such factors like: shape, size, topography, access to utilities, load capacity of ground, technical and functional condition of the improvements make the property under valuation unfit for the highest and best use considered.

The term “legally permissible” means that the property valuer must decide whether the contemplated use is legal. Some uses may be restricted or excluded by operation of provisions regarding town and country planning, zoning, environmental protection, nature protection, national heritage and monument protection, protection of arable and forest land and the building code.

A use that is not physically possible and legally permissible cannot be considered a highest and best use.

The term “financially feasible” means that the adopted use may generate income equal or higher than the amount needed to cover expenses and return initial equity.

Summary

Market Value is a fundamental concept in the property valuation. It is perceived and interpreted differently depending on economic, political, social and legal environment. The practice of

valuation in Poland evidences that in most case property valuers establish Market Value for the current use. However, opinions were expressed in the valuers' community that valuation should be preceded by the analysis of a highest and best use of the property. It is associated with utilizing potential hidden in development sites, developed properties and the need to optimize their use. Reasoning behind such opinions was strong enough to be included in BNVS 1.