



THE PROFESSIONAL CENTRE  
SLIEMA ROAD  
GZIRA GZR 1633 - MALTA  
TEL./FAX. (+356) 2131 4265  
EMAIL. info@ktpmalta.com  
WEBSITE. www.ktpmalta.com

## K A M R A T A L - P E R I T I

*To support members of the profession in achieving excellence in their practice of architecture and engineering in the interest of the community*

May 21, 2012

Sir/Madam

### **Valuations of Immovable Property**

In response to the need for updated guidelines regarding real estate valuation, the Council of the *Kamra tal-Periti* had, mid last year, established a Committee to revise its publication "*Valuations Standards for Accredited Valuers*" which was published in 2004. Such Committee has now concluded its work and a revised version of the document is currently being printed.

This process was felt to be necessary due to the revisions in the local Rent Laws (Rent Law Act X of 2009) and the ever changing scenario of the local built environment and stock. The importance of accurately drawn up valuations cannot be overemphasized, particularly when such valuations are the basis on which the Banks, the Law Courts and the Inland Revenue Department base their respective assessments. The inclusion of immovable property valuation reports in audited Company accounts, in liaison with Auditors, also bear a responsibility on the Profession.

In order to keep Periti and others interested in the subject abreast with developments in the immovable property market, the *Kamra tal-Periti* is organising a **Conference** entitled "**Property Valuation Standards**" that will introduce the revised edition of the *Kamra tal-Periti* "*Valuation Standards for Accredited Valuers*". This Conference will be addressed by the Minister for Finance, the Economy and Investment, the Hon Tonio Fenech, by Mr John Zarb on behalf of the Malta Institute of Accountants, by Mr Chris Cuschieri on behalf of Elmo Insurance, by Mr Albert Frendo on behalf of the Bank of Valletta and by members of the Committee who were responsible for drawing up the revised edition of the publication. The Conference is open to Periti, Accountants, Bankers, Insurers, Notaries and any others interested in the subject. Further details about the Conference are given in the attached documentation.

In agreement with the Malta Institute of Accountants this event has been accredited with three (3) hours of structured CPE qualifying under Core Professional Development competency as per MIA Regulations (Accreditation reference 1254).

While trusting that you will be able to attend this conference, I would like to remind you to signify your interest by completing and forwarding the attached Registration Form to the Administrative Secretary, *Kamra tal-Periti*, together with payment as indicated in the same Form.

Simone Vella Lenicker  
Honorary Secretary

## Conference – Property Valuation Standards

Date: Tuesday, 29 May, 2012  
Time: 16:15 to 21:00 hrs  
Venue: The Westin Dragonara Resort

This Conference will introduce the revised edition of KTP's Valuation Standards 2012. Its primary aim is to give participants the opportunity to become familiar with the revised document and its contents. The new principles being introduced in this publication include the provisions of the Rent Law Act X of 2009, the Energy Performance Certificates requirement, the updated method of valuation measurements tying in with MEPA and the Land Registry requirements and also taking note of TEGOVA's European Valuation Standards 2009 sixth edition.

### CONFERENCE CONTENT:

The Conference will consist of a number of presentations by a panel of speakers:

- 4:15 – 4:40 Registration and Coffee
- 4:40 – 4:50 Introductory Address by Perit Vincent Cassar, President *Kamra tal-Periti*.
- 4:50 – 5:10 Address by the Hon. Minister of Finance, the Economy and Investment,  
Hon Tonio Fenech
- 5:10 – 5:30 Differing Bases of Market Value – as outlined in The Valuation Standards 2012;  
Perit Denis Camilleri, Chairman of the KTP Valuations Committee.
- 5:30 – 5:50 Definition & Duties of the Maltese Valuers:  
Perit Damian Vella Lenicker, Member of the KTP Valuations Committee.
- 5:50 – 6:10 The Valuer: an Accountant's perspective:  
Mr John Zarb, Malta Institute of Accountants.
- 6:10 – 6:55 Networking Coffee Break
- 6:55 – 7:15 Methods of Measurement for Valuations and Rebuilding Costs Estimates:  
Perit Nicholas Samut-Tagliaferro, Member of the KTP Valuations Committee.
- 7:15 – 7:25 Impact of Property Valuations on Insurance Policies:  
Mr Chris Cuschieri, Elmo Insurance
- 7:25 – 7:45 Property Valuation for Lending Purposes:  
Perit Ondre Camilleri-Gaglione, Member of the KTP Valuations Committee.
- 7:45 – 8:05 What does the Bank expect from Valuation Certificates:  
Mr Albert Frendo, Chief Credit Manager, Bank of Valletta
- 8:05 – 8:30 Legislative Implications on Real Estate Valuations – highlighting the relevant Laws:  
Perit Stephanie Cassar, Member of the KTP Valuations Committee.
- 8:30 – 9:00 Discussion from the floor and winding up.

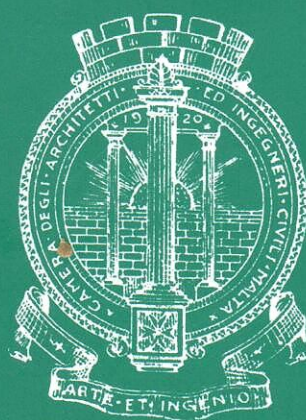
This Conference is open to Accountants, Bankers, Insurers, Notaries and any others interested in the subject at a participation fee of Euro 70.00 that includes a copy of the revised edition of the KTP's Valuation Standards 2012, a welcome coffee and a coffee break.

If you are interested in attending you are kindly requested to fill in the attached Registration Form, effect payment as instructed in the same Form and send the Form by email, fax or by post to Kamra tal-Periti, The Professional Centre, Sliema Road, Gzira GZR 1633

Further information may be obtained from Mr Anthony Cassar on tel. 21314265 or by e-mail to [kamratalperiti@go.net.mt](mailto:kamratalperiti@go.net.mt).

This event is  
sponsored by





**KAMRA TAL-PERITI**

# **VALUATION STANDARDS FOR ACCREDITED VALUERS**

**2012**



Kamra's Accredited Valuers role has shifted from the technical to the strategic.

Maltese Valuation Practice – Price, Value, Worth in the European Context of property valuations, property development, urban & rural economics together with property investment & finance.

The **Kamra tal-Periti** (Chamber of Architects and Civil Engineers), established according to the provisions of the *Periti Act* (Chapter 390 of the Laws of Malta), is the only recognised professional body representing the architectural and civil engineering profession in Malta. Its mission is to support members of the profession in achieving excellence in their practice of architecture and engineering in the interest of the community.

The administration of the **Kamra** is entrusted to its Council which consists of *periti* elected from amongst its members. The Council is supported by a Secretariat and several Standing Committees including those for the Built Environment, Professional Conduct, International Affairs, Education, Professional Practice, Events, Communications, Finance and one workgroup researching the establishment of a Centre for Architecture and the Built Environment.

The **Kamra tal-Periti** is an active member of the Architects' Council of Europe (ACE), the Union of Mediterranean Architects (UMAR) and the European Council of Civil Engineers (ECCE). It is affiliated with the International Union of Architects (UIA), the European Forum for Architectural Policies (EFAP) and the Commonwealth Association of Architects (CAA).

The **Kamra** has representatives on several bodies in Malta including the *Bord tal-Warrant tal-Periti*, the Building Industry Consultative Committee (BICC), DOCOMOMO (Malta), the General Services Board (GSB) and the Users' Committee (MEPA).

*Architecture Nights* and Civil Engineering Encounters a series of public lectures by internationally acclaimed architects, architecture critics and civil engineers are two of the **Kamra's** main activities aimed at its members and the public at large.

The **Kamra** also publishes *The Architect* on a quarterly basis and maintains its website [www.ktpmalta.com](http://www.ktpmalta.com).

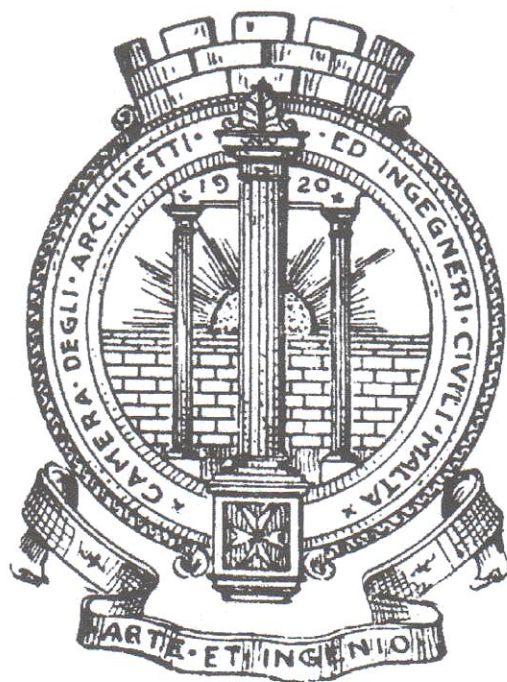


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Email: [info@ktpmalta.com](mailto:info@ktpmalta.com)





**KAMRA TAL-PERITI**

**VALUATION STANDARDS  
FOR ACCREDITED VALUERS - 2012**

Constitution of Working Group:

Perit Denis H. Camilleri	- Chairman
Perit Ondre Camilleri Gaglione	- Member
Perit Stephanie Cassar	- Member
Perit Nicholas Samut Tagliaferro	- Member
Perit Damian Vella Linicker	- Member
Perit Henri Portelli	- Member

Corresponding Member:

Perit Andre' Zammit	- (Perit retired, past lecturer in Valuation Theory & Author of "Our Architects" – A Private Archive Unveiled, Published in 2009)
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Secretary to the Working Group:

Mr. Peter Flood.

The compiling of this Valuation Standard has made considerable reference to European Valuation Standards (EVS) 2009, a publication by the European Group of Valuers' Association, TEGOVA ([www.tegova.org](http://www.tegova.org)) and we have obtained written consent from TEGOVA & the Estates Gazette for which we would like to express our gratitude.

Please note: References to the masculine, include where appropriate, the feminine.

The Kamra tal-Periti and the members who served on the Committee which produced these standards have endeavoured to ensure accuracy of its contents. However, the guidance & recommendations given should always be reviewed by the valuer in the light of the facts of their particular case and specialist advice obtained as necessary. No liability for negligence or otherwise in relation to these standards and their contents is accepted by the Kamra tal-Periti or member of the Committee.

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# **DIFFERING BASES OF MARKET VALUE**

## **As outlined in The Valuation Standards - 2012**

Valuation Maltese Practice - Price, Value, Worth in the European Context (Tegova) of property valuations, property development, urban & rural economics together with property investment & finance.

**Perit Denis H Camilleri**

**Chairman of KTP Valuations Sub-Committee**

**DENIS H CAMILLERI**  
**DHI PERITI - dhc@dhiperiti.com**

**KAMRA TAL-PERITI**

**MAY**  
**2012**



# DIFFERENT DEFINITIONS OF MARKET DERIVED AND NON MARKET DERIVED BASES OF VALUATION

I.	Market Value ...	CH 5
II.	Mortgage Lending Value ...	CH 6
III.	Fair Value – Market Value for existing use ...	CH 5
IV.	Value in Use ...	CH 5
V.	Alternative Use Value ...	CH 5
VI.	Negative Values ...	CH 5
VII.	Depreciated Replacement Cost ...	CH 5
VIII.	Social Cost Benefit Analysis ...	CH 5
IX.	Retrospective Valuation ...	CH 5



# PRICE/VALUE ARE MARKET DRIVEN – WORTH?

- Price is the actual observable exchange price in the open market
- Value is an estimate of the price that would be achieved if the property were to be sold in the market
- Worth is a specific investor's perception of the capital sum which he would be prepared to pay (or accept) for the stream of benefits which he expects to be produced by the investment





# OPEN MARKET VALUE – CH 5

**Market value shall mean the price at which land and buildings could be sold under private contract between a willing seller and arm's-length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period having regard to the nature of the property, is available for the negotiation of the sale.**



# FORCED SALE & LIQUIDATION VALUE – CH 6

**The forced sale value is identical to Market Value, with the exception that the time allowed for marketing is unduly short, and publicity and market exposure is inadequate. The seller may also be under duress or compulsion.**



# MORTGAGE LENDING VALUE – CH 6

- This means the value of the property by making a prudent assessment of the future marketability by taking into account long term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses. Speculative elements may not be taken into account.
- Mortgage lending value is thus close to Market value, but introduces a smoothing of market trends, rents and yields.





## FAIR VALUE (I) – CH 5

**Synonymous to Existing Use of an Asset should be adopted in relation to valuations to market of fixed assets for the purpose of financial statements. For most purposes regarded as synonymous with the Market Value**

**IAS 16.6 (Appendix D) defines it as:-**

***“the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.”***



## FAIR VALUE (II) – CH 5

**Article 30 of IAS 16 (Revised 1998) (Appendix D) deals with revaluations of assets and states as follows:**

***“The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers..”(IAS 16.32)***

**FAIR VALUE is also professionally used to provide a legal definition for attributing an equitable settlement between the parties to an action which is before the courts or is in contemplation of proceedings.**



# **VALUE IN USE (THE CONCEPT OF WORTH) – INVESTMENT VALUE – CH 5**

- **In real estate valuation reporting, it is good practice, in order to avoid misleading the recipient, to use the word “value” only when expressing an objectively established value in exchange at a given date, to use the word “worth” only in the context of value in use.**
- **Value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal. Value in use is calculated as the present value of estimated future cash flows. The discount rate should be a pre-tax rate that reflects current market assessments to the time value of money and the risks specific to the asset (DCF).**

**Refer to IAS 16 (Appendix D)**





## **WORTH (PART OF GROUNDBREAKING MALLISON REPORT 1995) BASED ON CLIENT'S CIRCUMSTANCES (VALUE IN USE) – CH5 & 8**

**Worth is the underlying investment value, as opposed to valuation being an estimate of the most likely selling price termed the open market value.**

**Individual worth is the maximum bid price of an individual purchaser who takes account of all available information in an efficient manner.**

**Market worth is the price at which an investment would trade on a market where buyers and sellers were using all available information in an efficient manner,**



# ALTERNATIVE USE VALUE – CH 5

Often required in the case of valuation and appraisal for security purposes or as part of a highest best use analysis.

Alternative Use Values, which cannot be realized except on liquidation, closure or removal of the business to other premises, are not suitable for inclusion in the accounts except where an intention is adduced, on the part of the directors, to dispose of the asset, when it may form part of the assessment of Market Value, and be separately classified in valuation certificate.

Where Alternative use Value differs materially from existing use value it must be reported to the client by the valuer.



# NEGATIVE VALUES – CH 5

Negative values arise where real estate assets are subject to physical, legal, financial or contractual obligations which are attached to the legal interest and which generate a negative real or hypothetical cash flow or which require substantial remedial works. The assets convert into a liability, or negative value.

If positive values are shown in accounts, then logic and principles of transparency require that negative values must also be reported. To report the value of a legal interest, which is actually a liability at a 'nil' valuation will fail to present a true and fair view of the company's overall position.

If a negative value is reported, the directors' attention must be drawn to the matter in notes to the valuation certificate.





# DEPRECIATED REPLACEMENT COSTS – CH 5

(using replacement or rebuilding cost suitably adjusted)

**Fire stations, power stations, chemical works fall into this category**

**Depreciated Replacement Cost (DRC) is a valuation procedure which is employed to arrive at existing use value, or value in use, of specialized properties which are rarely if ever sold or let in the market other than as a part of a business. This is not considered to be a market-derived method, except for the land element of the valuation.**

**In the absence of any market data, DRC is often adopted as a substitute for market generated analysis. It is, therefore, unsuitable for use in respect of properties that are held for the purpose of investment, or are surplus to the operational requirements of the company that owns them.**



# **SOCIAL COST BENEFIT ANALYSIS – CH 5**

**Previous research into public sector leisure properties revealed that extant valuation methods (e.g. DRC and trading-related valuations for capital accounting purposes produced unhelpful figures where those assets were owned and operated primarily for social purposes (i.e. value to the community) as opposed to investment (i.e. value to the owner)**

**This leads to a search for a social value methodology into the realms of social Cost Benefit Analysis (SCBA). This essentially measures direct and indirect gains and losses to the impacted individuals and aggregates them as an expression of net economic value.**



# RETROSPECTIVE VALUATIONS – CH 5

Retrospective valuations are required for a number of purposes including property tax, capital gains and wealth taxation, inheritance tax land compensation, and in connection with negligence and compensation. They may also be required for the purpose of reviewing existing valuations.

Whilst all this evidence may be relevant, it is important not to give too much weight to data that would not have been available to a valuer at the date of valuation, except, possibly to confirm or reject trends that would have been apparent at the time of the valuation.

Particular attention needs to be paid to valuations that require a review of other valuers' reports or could involve possible negligence claims. Available market reports, data bases, and valuation reports prepared at the time provide useful indicators of real market sentiment. This emphasizes the importance of keeping proper market and business records.





# TRADING PROPERTIES – CH 8

- The valuation of these going-concern properties makes reference to receipt & expenditure, with audited accounts over the past 3-years, where available to be delved into.
- Types of properties include hotels, bars, restaurants, private hospitals, private schools together with most types of leisure property.
- These properties have goodwill attached with them. Transferable goodwill is attached to the business unit as opposed to intangible personal goodwill which accrues solely from the personal skill, expertise or reputation of the existing operation.
- Trading properties may have an economic life say on average of 40-year span for a hotel. Its terminal value at the end of its life-span has to be capitalized.



# FORECASTS – CH5 & Appendix G

The assessment of future value will include:

- An analysis of market trends in respect of overall income, expenditure, rates of void occupation, capitalization and discount rates, as at the effective date of valuation;
- An analysis of economic trends which entails a review of the evolution of demographic and socio-economic patterns, employment co-efficients, and future competition;
- A study of business cycles, and macro and micro-economic climatic indicators;
- All limiting factors, agreed basis of forecasts and the exclusion of liability to the client and third parties for unforeseeable events must be pre-agreed when accepting instructions and in subsequent reporting;



# AFFORDABLE PROPERTY RATES €/SQM FOR THE MALTESE ISLANDS OVER A 30 YEAR PERIOD

DENIS H CAMILLERI  
DHI PERITI - dhc@dhiperiti.com

KAMRA TAL-PERITI

Locality	1982	1987	1992	1997	2002	2007	2012	%growth Pa 1982-2011
Fgura / Paola / Zabbar	105	128	256	408	466	987	893	8.26%
M'scala	116	175	373	373	505	1001	881	7.31%
Mosta / Naxxar	186	198	291	478	524	1242	1167	7.23%
San Gwann	151	175	256	431	557	1092	962	7.40%
Sliema inner prime	210	338	443	710	883	1373	1402	6.78%
St. Julians	186	233	408	547	687	1321	1186	7.06%
Swieqi	198	245	419	641	785	1473	1443	7.54%
Malta	163	212	349	512	629	1144	1134	7.23%
Trend	161	232	335	484	698	1007	1452	
Gozo						857	903	

Source: DHI Periti in-house valuations: Camilleri (2012) updated table

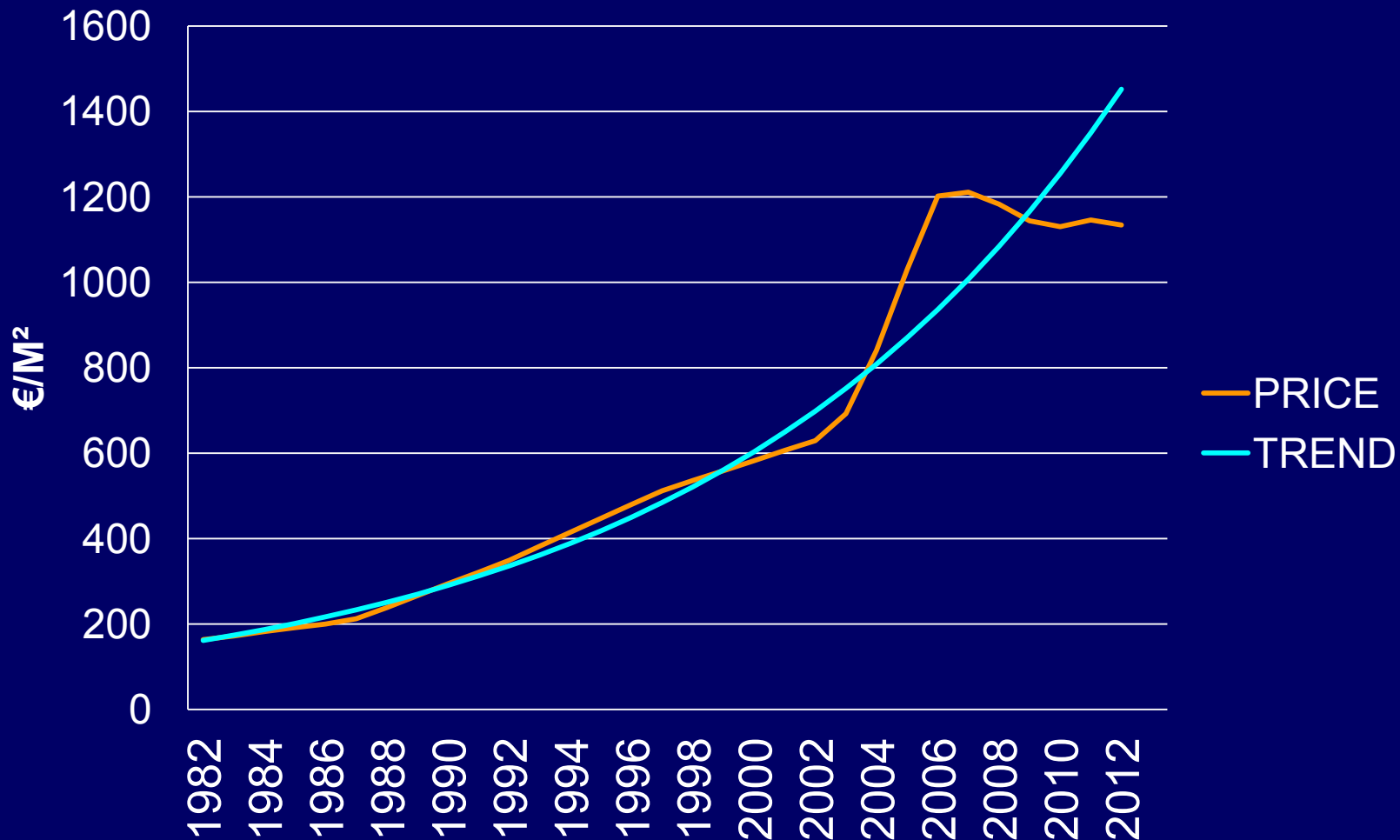
MAY  
2012



# MALTA AFFORDABLE PROPERTY RATES IN €/SQM OVER THE PAST 30 YEARS

DENIS H CAMILLERI  
DHI PERITI - [dhc@dhiperiti.com](mailto:dhc@dhiperiti.com)  
KAMRA TAL-PERITI

MAY  
2012



Source: DHI Periti in-house valuations: Camilleri (2012) updated table

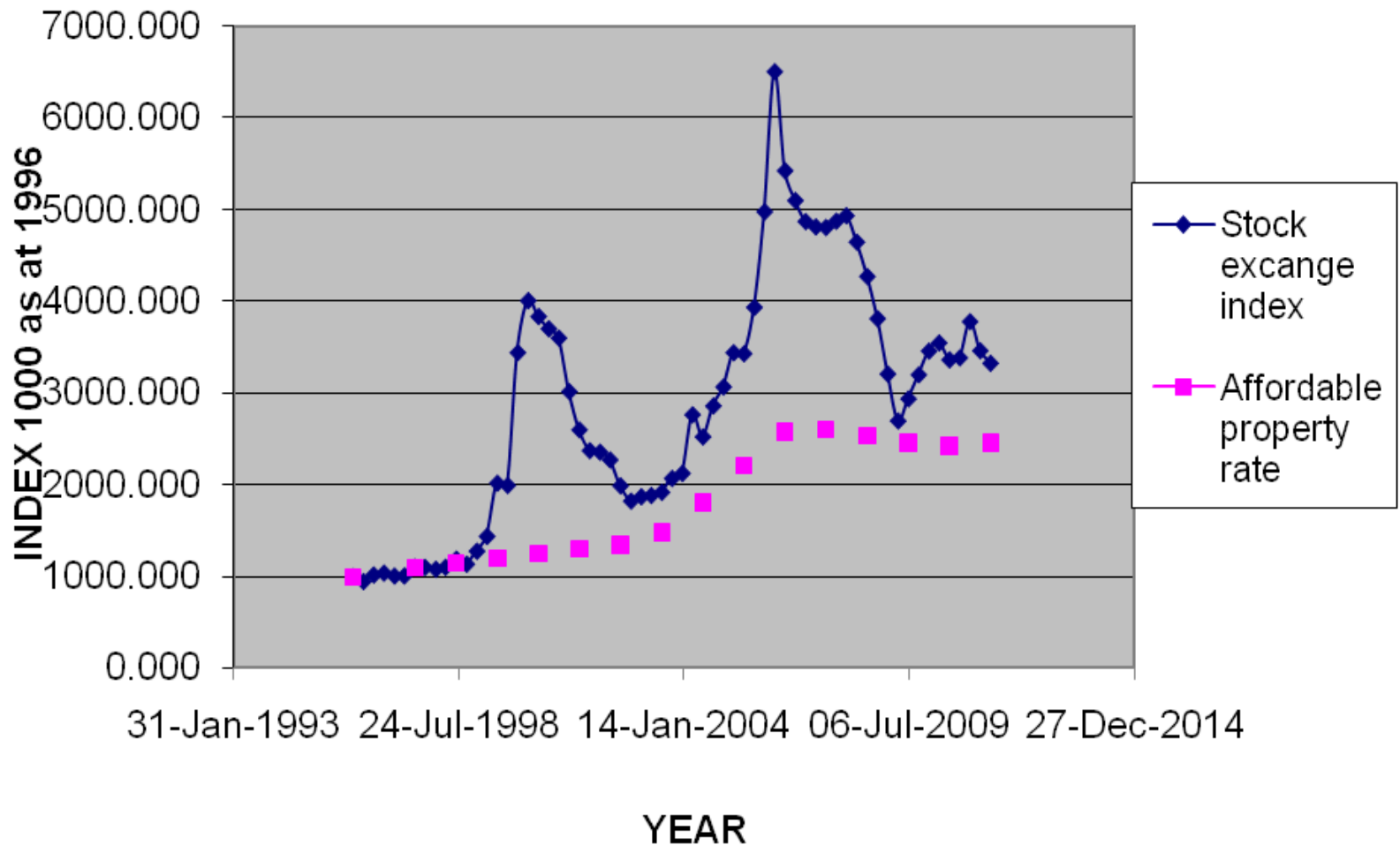




# PROPERTY vs STOCK EXCHANGE INDEX 1996 - 2011

DENIS H CAMILLERI  
DHI PERITI - dhc@dhiperiti.com  
KAMRA TAL-PERITI

MAY  
2012



Source: DHI Periti in-house valuations: Camilleri (2012) updated table



# AGRICULTURAL PROPERTY – CH 10

Land is a very scarce commodity in Malta and thus it is no surprise that agricultural land values have been increasing in Malta at double the residential property rate over the past 30 year-period.

Farmland in the UK averages out at €1,500/tomna as compared to Malta's bare agricultural land which has been valued at €9,250/tomna (@ 30,000 recreational). On the other hand the average yield of agricultural leases is taken at 1% for Malta, whilst this is given at 2.3% for the UK.



# HISTORICAL PROPERTIES – CH 11

**St. John's Co-Cathedral – what is the value of its loss if it collapses during an earthquake?**

**Auberge de Castille – Government may increase on its income by entering into a Sale-and-Leaseback agreement**



# VALUATION PERFORMANCE 2004 - 2012

**The Maltese valuer has shifted  
from the technical to the  
strategic**

Thank  
You...

DENIS H CAMILLERI  
DHI PERITI - [dhc@dhiperiti.com](mailto:dhc@dhiperiti.com)

KAMRA TAL-PERITI

MAY  
2012