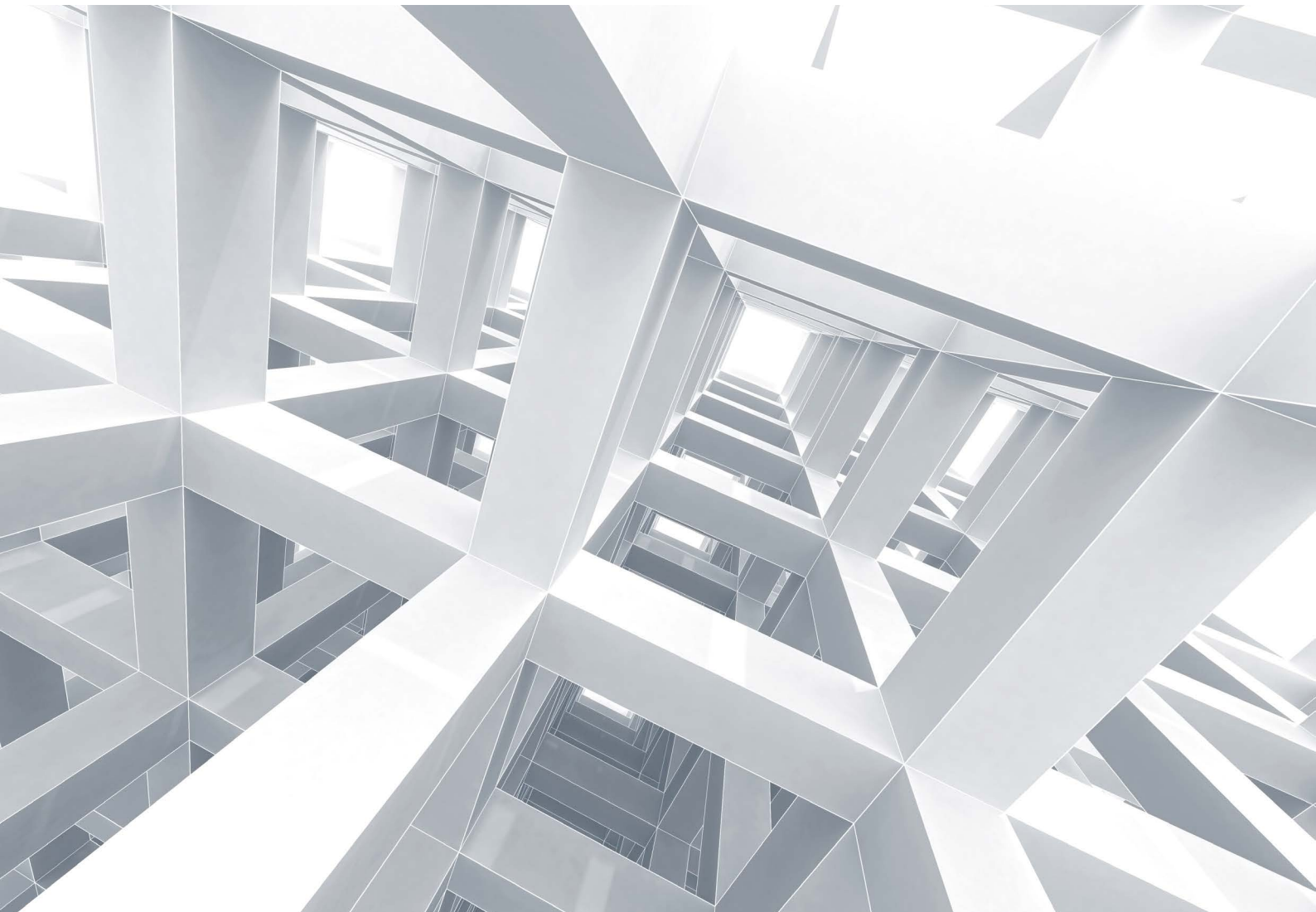




RICS professional guidance, Sweden

Application of the RICS Valuation - Professional Standards in Sweden

1st edition, April 2016



Application of the RICS Valuation – Professional Standards in Sweden

RICS guidance note, Sweden

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Client Guidelines: Valuation for the Property Index and Financial Reports

(developed in cooperation with Samhällsbyggarna, the Swedish professionals for the built environment)



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The Guidelines have been prepared in cooperation with Samhällsbyggarna (the Swedish professionals for the built environment) and, for the convenience of RICS members, include the relevant references to the Red Book.

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RICS professional guidance

International standards

Globally recognised high-level valuation principles and definitions are now embodied in the International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC). RICS has long been a supporter of the development of such universal standards, and not only fully embraces them itself, but also proactively supports their adoption by others around the world. Also *Samhällsbyggarna* supports and applies IVSC fully.

RICS Valuation – Professional Standards 2014, commonly referred to as the Red Book, formally recognises and adopts the IVS by requiring members to follow them. It also complements the IVS by providing detailed guidance and specific requirements concerning their practical implementation.

Member and firm conduct is underpinned through the application of the Rules of Conduct and the Global Professional and Ethical Standards and is assured through a well-established system of regulation. The whole ensures the positioning of RICS members and regulated firms as the leading global providers of IVS-compliant valuations.

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent 'best practice', i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the guidance note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this guidance note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each member to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice

recommended in this guidance note, they should do so only for good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In some cases there may be existing national standards that may take precedence over this guidance note. National standards can be defined as professional standards that are either prescribed in law or federal/local legislation, or developed in collaboration with other relevant bodies.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

This guidance note is believed to reflect case law and legislation applicable at its date of publication. It is the member's responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document.

Document status defined

RICS produces a range of professional standards, guidance and information documents. These have been defined in the table below. This document is a guidance note.

Publications status

Type of document	Definition	Status
Standard		
International standard	An international high-level principle-based standard developed in collaboration with other relevant bodies.	Mandatory. RICS has adopted these and they apply to the profession.
Professional statement		
RICS professional statement (PS)	A document that provides the profession with mandatory requirements in the form of technical requirements or conduct rules that members and firms are expected to adhere to. An RICS professional statement sets out the expectations of the profession. RICS-qualified professionals must comply with the professional statement applicable to their area of practice or be able to explain any departure from it. The relevant professional statement will be used by RICS and other legal and regulatory authorities in judging complaints and claims against RICS-qualified professionals. This category may include documents approved by RICS but created by another professional body/stakeholder, such as industry codes of practice.	Mandatory on the basis of ‘comply or explain’. Professional statements set out how the profession is expected to meet the requirements of the international standards.
Guidance and information		
RICS guidance note (GN)	Document that provides users with recommendations or approaches for accepted good practice as followed by competent and conscientious practitioners.	Recommended best practice but not deemed by RICS to be in category of ‘mandatory’ for all practitioners.
RICS information paper (IP)	Practice-based information that provides users with the latest technical information, knowledge or common findings from regulatory reviews.	Information only.
RICS insights	Issues-based input that provides users with the latest information. This term encompasses Thought Leadership papers, market updates, topical items of interest, reports and news alerts.	Information only.
RICS economic/market reports	A document usually based on a survey of members, or a document highlighting economic trends.	Information only.
RICS consumer guides	A document designed solely for use by consumers, providing some limited technical advice.	Information only.
Research	An independent peer-reviewed arm’s-length research document designed to inform members, market professionals, end users and other stakeholders.	Information only.

1 Introduction

1.1 The purpose of the Client Guidelines is to create clear and consistent guidance both for valuation providers and valuation users. The Guidelines have been prepared primarily for financial reporting purposes, in order to comply with International Financial Reporting Standard 13 (IFRS 13), but also for reporting purposes to the IPD Sweden Annual Property Index (the 'Property Index'). The aim is to ensure that valuations of properties for these purposes are based on common definitions and uniform valuation practice, which is something that is necessary to achieve credibility. However, the Guidelines are not intended for smaller privately-owned companies that only use the valuation for internal use. The Guidelines are not intended to be used for lending.

The Guidelines are compatible with the Royal Institution of Chartered Surveyors' *RICS Valuation – Professional Standards* (Red Book) and the definitions and value concepts stated in *International Valuation Standards 2013* (IVS 2013) established by the International Valuation Standards Council (IVSC).

1.2 The Client Guidelines are suitable for property valuations undertaken either by external or by internal valuers.

1.3 Reference may be made in valuation reports to the use of the Client Guidelines in connection with a valuation only if the entirety of the Guidelines have been followed.

1.4 The Client Guidelines do not give a detailed description of the way in which properties are valued or of the assessments that form the basis of the valuation. Assessment and analysis of the rental and property markets that are crucial to the formation of an opinion of market value are for the individual valuer to determine.

1.5 The effective date of these Guidelines is 1 May 2016.

2 Valuers' competence requirements

2.1 The valuations must be carried out by valuers who have the required competence. This means that the valuer must be a member of RICS or satisfy the competence and experience requirements set by *Samhällsbyggarna* for the authorisation of general property valuers.

2.2 External and internal valuers

Valuations can be carried out by external or internal valuers. However, the competence and experience requirements must be fulfilled.

The concepts of external valuer and internal valuer are defined as follows.

2.2.1 External valuer:

'A valuer who, together with any associates, has no material links with the client, an agent acting on behalf of the client or the subject of the assignment.'
(See the Red Book Glossary.)

An external valuer must be a member of RICS (FRICS or MRICS) or authorised by *Samhällsbyggarna*.

2.2.2 Internal valuer:

'A valuer who is in the employ of either the enterprise that owns the assets, or the accounting firm responsible for preparing the enterprise's financial records and/or reports. An internal valuer is generally capable of meeting all the requirements of independence and professional objectivity required ... but, for reasons of public presentation and regulation, may not always be able to satisfy any additional criteria for independence ...'

An internal valuer must be a member of RICS or a *Samhällsbyggarna* authorised internal property valuer.

2.3 Membership of RICS and *Samhällsbyggarna*'s authorisation of property valuers involves a declaration of competence that generally applies to all types of property. However, the valuer must also have competence and experience in relation to the relevant type of property and submarket. (See Red Book PS 2 section 3, Member qualification.)

3 General concepts and definitions

3.1 Basis of value

These Guidelines are concerned with three recognised bases of value:

- market value
- market rent and
- fair value (as defined in IFRS 13).

3.1.1 Market value

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.’ (See IVS Definitions, the Red Book Glossary and VPS 4 paragraph 1.2, Market value.)

3.1.2 Market rent

Market rent is:

‘the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.’ (See IVS Definitions, the Red Book Glossary and VPS 4 paragraph 1.3, Market rent.)

This is the rent that would probably be received when signing a new lease contract for the premises at the valuation date. The market rent will assume the appropriate lease terms that reflect the current market practice in the market in which the property is situated. In Sweden, the market rent would assume that the tenant in addition pays the property tax (Sw: fastighetsskatt). The practice that has developed in Sweden is that the tenant is responsible for interior maintenance for the duration of the contract.

3.1.3 Fair value as defined in IFRS 13

‘The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.’

Where the entity has adopted IFRS, the basis of value for financial reporting purposes will be fair value. For most

practical purposes, the concept of fair value as defined in IFRS 13 is consistent with that of market value, and so there would be no difference between them in terms of the valuation figure reported. (See the Red Book VPS 4 paragraph 1.5.3.)

3.2 Reporting valuations for the Property Index

The basis of market value must be used in valuations for the IPD Sweden Annual Property Index. As stated in 3.1.3, this will normally be the same valuation figure as that reported under IFRS 13.

The valuations must relate to the market value of each individual asset (property), and not the value of a portfolio.

Market rent must normally be assessed since it constitutes one of the important value-contributing parameters.

3.3 Net operating income

Consideration of net operating income is essential when assessing the value and production capacity of properties. This means that a uniform definition of the net operating income is necessary.

The net operating income for the property constitutes the annual residual surplus once outgoing operation and maintenance payments, including property tax (Sw: fastighetsskatt) and ground rent, have been deducted from the gross incoming payments. The net operating income does not include any other activity for which the property owner uses the property, such as running a business service centre or another business service that is offered to lessees. Capital expenditure is not included in the net operating income.

The actual net operating income is calculated on the basis of the outgoing rent, including all supplements (although not VAT charged) and also takes into account rental discounts. Market-related net operating income is based on market rent with supplements for property tax and deductions for assessed market-related vacancies.

The outgoing payments that are related to the operation and maintenance of the property are shown in Appendix B.

3.4 Valuation date and date of the report

3.4.1 Valuation date

The valuation date is the date on which the opinion of value applies (see IVS Definitions, the Red Book Glossary and VPS 3 paragraph 7(f), Valuation date).

- For the annual Property Index, year-end constitutes the valuation date.
- For the quarterly index, the end of the quarter constitutes the valuation date.

- For annual report valuations, the final day of the fiscal year constitutes the valuation date.
- For interim report valuations, the final day of the reporting period constitutes the valuation date.

3.4.2 Date of the report

The date of the report is that on which the valuer signs the report. For financial reporting purposes the date of the report cannot be earlier than the valuation date. However, for practical reasons, valuations for the Property Index and financial reports do take place before the final valuation date, as a draft report.

4 Documentation

Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose (see Red Book VPS 2).

According to Swedish practice, valuations for Property Index and financial reporting should also be based on the following regarding inspection, investigations and documentation.

4.1 Inspection

4.1.1 For valuations executed by an *external valuer*, all properties need to have been inspected by the responsible valuer or another person who was employed by the same valuation firm at the time of the inspection and who satisfies the requirements for external valuers.

4.1.2 For valuations executed by an *internal valuer*, the inspection needs to have been executed by a person who satisfies the competence requirements for internal valuers as shown in section 2.

4.1.3 The principal aim of the inspection is to assess the property's market position on the basis of its geographical location and on the technical standard and attractiveness of the building compared with the competing rental market. At the inspection, the condition, maintenance and the need for re-investment and tenants' improvements must be noted. A suitable range of apartments and commercial premises must be inspected. However, all vacant areas should be inspected. The inspection provides important evidence for the assessment of market rent.

4.1.4 An inspection is required at least every three years. However, properties that have undergone major physical or market-related changes since the previous inspection must then undergo another inspection. In cases where no inspection takes place in connection with the valuation, the property manager must always be contacted so that the valuer always obtains details of changes to the property.

4.2 Other documentation

4.2.1 The documentation for the valuations must be the same for external and internal valuers. The following documentation should be provided to the valuer by the property owner, prior to the valuation.

4.2.2 General information about the property

- Net lettable area (Sw: BRA:E) – which constitutes the residential floor area (BOA) and premises floor area (LOA), divided among different types of premises
- details of joint facilities (Sw: gemensamhetsanläggning) – purpose, shares, annual cost/income
- the latest determined assessment for property tax
- details of known contaminations, environmentally-hazardous materials and other environmental risks
- environmental classifications
- details of terms in any leasehold agreements, including ongoing negotiations
- for residential properties, information may be needed in some cases on whether a tenant-owners' association has been formed and registered, and the relevant negotiation position as regards any sale to a tenant-owners' association.

4.2.3 Rental information

- Full details of signed rent contract. Appendix A may serve as a guideline.

4.2.4 Costs/capital expenditures

- Operation and maintenance cost statistics for the property for the past three years, including property upkeep, etc., heating and the provision of other services, costs of snow clearance, planned maintenance, insurances and VAT that cannot be offset. A more detailed description of what is included in these subitems can be found in Appendix B.
- Capital expenditure, including tenant improvements, that has not been reported as maintenance costs, for the past three years. Planned capital expenditure and tenant improvements.

5 Sustainability and environmental matters

5.1 It is important for valuers to be aware of sustainability factors and take into account the way in which environmental matters affect the market value of the property in the short and the long term. The Red Book, in VPS 4 section 2, Assumptions, sets out guidelines for its members on the range of factors to be taken into account.

5.2 To the extent that the valuer is given information stating that a building is classified in accordance with LEED, BREEAM, Green Building, Environmental Building (Sw Miljöbyggnad) or any other environmental rating or

classification system, the valuer must observe this to the extent that the valuer believes that the market participants have regard to this and that the classification thus affects the market value.

5.3 The valuer must take into account the impact on the property's value of contamination, environmentally-hazardous material and other environmental risks if advised of such matters by the client or if the valuer has received such knowledge in some other way.

6 Valuation principles

6.1 Valuation methods

The valuer's task is to estimate the values of the properties by applying recognised approaches and methods. The method selected must be deemed to be the one that is the most suitable with regard to the type and scope of the market information.

The following valuation approaches are generally recognised:

- market approach
- income approach
- cost approach.

The cost approach is never relevant for valuations for the Property Index and rarely for valuations for financial reports.

6.1.1 Market approach/direct yield calculation

The market approach means that the market value is assessed in the light of prices paid for equivalent properties on a free and open market within the location. Access to relevant market data is crucial to the quality of the result. Following established Swedish practice, in order to undertake analyses, the prices paid are related to some factors that affect the value, e.g. to the property's net operating income, rent, leasable area, land area or planning permission. Relating the prices paid to the net operating income is the most common approach adopted when valuing commercial properties. The method is then called the net capitalisation method or direct yield calculation. In the end, even a calculation that is based on the yield constitutes a market approach.

Using the market approach requires the analysis of several comparable acquisitions. The value is adjusted to take into account the deviations of the valuation object compared with the comparison objects for differences in vacancies, over-rent or under-rent, etc. When analysing direct yields in connection with transactions, the net operating income must be calculated on the basis of the definition in section 3.3.

With good access to market information, the valuer can benefit from applying market approaches. Where the valuation is of land, single-family houses and properties that do not produce any income, the market approach is usually the most suitable method.

6.1.2 Income approach/DCF (discounted cash flow) calculation

On most of the submarkets, relatively few sales take place and the term of any letting can vary tremendously. Finding transfers of directly comparable properties and obtaining necessary information on these is often the most difficult for commercial properties. In such situations, cash flow calculations are commonly adopted.

Even when income approaches are applied, the valuer must base his or her assessments on market information through both analyses of the sales that are available and information from the rental market. Most of the valuations that take place for Property Indexes and financial reports are based on DCF calculations.

A detailed description of estimations and conditions as basis for a valuation based on a DCF calculation, based on common practice in the Swedish market, can be found in Appendix C.

6.2 Rounding off the market value

Given the nature of property market information and the individuality of every property, there is no expectation that a particular property interest will necessarily sell for the precise figure resulting from its valuation calculation. A rounding off of the final figure is normal. When undertaking valuations for the Property Index it is recommended that the calculated value of each property be rounded off to an accuracy of three digits. This process of rounding off may be distinguished from more general considerations of valuation certainty or uncertainty (see the Red Book VPGA 9).

7 Requirements regarding the valuation report

Content in the valuation report

7.1 The valuation report should contain, as a minimum, all the following information in order to comply with the IVS/Red Book VPS 3, Valuation reports. However, when valuing property portfolios for the Property Index or financial reports, some of the following minimum reporting requirements may be satisfied by referring to a main document that is common to the portfolio:

- client
- purpose
- subject of valuation
- tenure
- type of asset/property
- basis of value
- valuation date
- disclosure of any previous assignment concerning the asset
- responsible valuer, statement of qualifications, authorisation
- assumptions/special assumptions
- scope of inspection and documentation
- restriction on use, distribution or publication
- confirmation that a specific standard has been complied with and conformity with IVS/Red Book
- statement of valuation method
- value assessment/market value
- date of the report and signature.

7.2 In accordance with established Swedish practice, the additional details set out below are required for annual valuations for financial reports – from which the valuations will be forwarded to the Property Index. Where more frequent valuations are required, the interim reports may be abbreviated by reference to the annual report.

- inspection day
- name of the person who carried out the inspection

- notes from the inspection on factors affecting the value
- areas, residential areas and premises floor areas
- outgoing rent and rental terms in accordance with the lease contract
- other incomes
- market rent for each premises and in total for the property
- estimations of operation and maintenance costs
- long-term vacancies
- needs for capital expenditures/reinvestments and needs for tenant improvements that will not be reported as maintenance costs and thus are not included in the net operating income
- regarding estimated capital expenditures that will increase the net operating income, it must also be stated what impact on the future net operating income they will have, e.g. through increasing rental income, lower vacancy or decreasing costs.

If a DCF method has been adopted for calculating the value, the following must also be reported:

- DCF calculation including calculation of net present value
- estimations and assumptions and assessments regarding inflation, market rent trend, cost trend
- discount rate and exit yield
- market information regarding rental market and investment market as justification of essential parameters such as market rent assessment, discount rate and exit yield.

If a market approach/direct yield calculation is used the following must also be reported:

- sales comparables
- net operating income and direct yield requirement, if applicable
- analysis of transactions and conclusion.

Appendix A: Rental information

The following list may serve as a guideline as to which contract information should be available:

- base rent according to contract
- percentage index
- basic index number
- start date and end date of the contract
- cancellation time
- extension terms
- if there are options to break the contract early
- if rental discounts are given
- any agreement regarding step up rents
- terms for the way in which turnover-based rents/supplements are calculated
- whether any rental supplements for property tax, heating, ground rent, conversion or similar are charged and the way in which these supplements are calculated
- whether services consumption is included in the rent
- whether VAT applies
- departures from normal division of liability between the lessee and the lessor
- current rent that is charged
- whether the contract has been terminated by the lessor or the lessee and for what reason
- if the lessee has moved out during the contract period and the premises are empty or have been sublet
- if the lessee is not paying rent, has become bankrupt or there is a dispute regarding the rent.

Appendix B: Operation and maintenance

The outgoing payments that are related to the operation and maintenance of the property follow ordinary definitions. The following items are divided up during the companies' reporting in connection with the Property Index. However, the company's central administration is not included (see definition below).

- 1 Property care, etc. – this includes supervision and guarding of the property, clearing of common areas, operation monitoring, cleaning, snow clearance, waste handling, inspection costs, chimney sweeping, repairs (acute maintenance), excesses, security contracts, emergency call-outs and service contracts. Apart from wage expenses for own personnel, it also includes car expenses, local expenses and the purchase of consumables and fees to external suppliers.
- 2 Provision of services – heating.
- 3 Provision of services – miscellaneous. This includes cooling, electricity (for the property but not businesses) water and garbage collection/sanitation.
- 4 Planned maintenance – this refers to both exterior and interior maintenance that takes place at certain intervals with intermediate periods of more than one year and which aims to restore the function of a structural part. This also includes obligatory ventilation control (OVK) inspections and related measures.
- 5 Tenant improvements – for measures in the property that take place following agreement with lessees or in connection with a new lease or the renegotiation of a contract.
- 6 Administration – this includes management, continuous financial administration, financial control, leasing, contact with lessees, handling of databases and contracts, technical planning and follow-up, and personnel administration.
- 7 Insurances for the property.
- 8 VAT that cannot be offset.
- 9 Property tax.
- 10 Ground rent and leaseholds.

Central administration – central expenses for the company that can be attributed to portfolio management are not included among investment expenses that must be observed when calculating the net operating income of the properties. Central administration expenses include expenses at overall group level for the board, the MD and personnel in other management positions such as Head of Finance, Head of Personnel, Information Manager and expenses for the finance function.

Appendix C: Estimations and conditions, DCF calculation

The discounted cash flow (DCF) calculation is based on market-related data and is performed as an investment calculation for the investor who seems the most likely. The results obtained from the DCF calculation must always be checked against different types of key ratios from the market, such as direct yield and value per square metre to ensure that they are reasonable.

The DCF calculation is based on estimations of incoming and outgoing payments during the calculation period. A residual value is attributed to the property at the end of the calculation period. A present value of the anticipated future cash flow is calculated in the same way as in an investment calculation. This calculation is made without consideration of funding.

The calculation is based on terms in existing lease contracts and assessments of market rent, vacancy level and operation and maintenance expense level based on a likely investor's point of view. The discount rate and exit yield that are assumed in the calculation must be market-adapted. This means that analyses must also take into account market information and the turnover on the relevant submarket, as well as the prevailing situation for the rental market in the submarket, as regards to vacancies and rent levels.

- The DCF calculation is performed in the nominal monetary terms.
- The calculation period should be long enough to allow the important value-impacting factors to be adapted to the market. The calculation period should normally be at least five years. A longer calculation period is applied if:
 - a larger premises lease contract runs for longer than five years
 - ground rent is adjusted later or
 - other major analysed changes or capital expenditures are expected after the five-year period.
- Commercial rent contracts are taken into account on an individual basis in the calculation. Current lease terms are assumed to apply until the rent contract expires unless another development is more likely following an assessment of the lessee. After the contract has expired, it can be assumed that it will be extended on unchanged terms, premises will be leased once again to the current lessee, leased to a new lessee or will become vacant for a certain period. The most likely development forms the basis of the value assessment. The actual outgoing rent is related to the market rent.
- The concept of market rent is defined in section 3.1 of these Guidelines. If it is assumed that the contract will be extended or leased once again to the current lessee, the rent level achieved then can be expected to increase or drop compared to the rent achieved by leasing to a new lessee, depending on the market situation. If the contract has already been cancelled or if the lessee has moved early, particular attention must be paid to this when assessing future leasing and rent level.
- Assumptions regarding the rent development for each individual object (residential and commercial premises) are based on existing and expected contracts. Fundamental to future rents is the market position of each individual property and the development of the economic base at the location. The concept of market position includes an assessment of the individual property's vacancy situation in relation to that of the submarket.
- The rent supplements paid by the lessee are included in the calculation even if these are based on consumption, e.g. supplement for heating, and are observed when assessing the property owner's operation and maintenance expenses. The property tax supplement is also included in the calculation and the whole of the property tax is included in the property owner's expenses.
- The same principle for gross reporting should also be applied to shopping centre facilities where rent supplements are common, e.g. for centre managers, the clearing of common areas, surveillance, advertising, etc. On the other hand, when valuing the property, other types of servicing operation offered by the property owner, such as income and expenses for mail services and reception services for office lessees, must not be taken into account.
- Residential rent contract plus parking and garage spaces can be calculated and reported collectively.

- The vacancies for residential units and commercial premises that are indicated at the valuation date are expressed as both vacant area and economic vacancy.
- The items that are included in the property's operation and maintenance expenses are shown in Appendix B. Payments for operation and maintenance must include VAT in cases where the VAT cannot be offset.
- Operation and maintenance expenses must not be assessed too routinely but must be adapted to the property in terms of its age and condition. The assumptions regarding operation and maintenance expenses are made on an individual basis and must be based on an analysis of historical expenses. Maintenance expenses can vary considerably in historical terms from year to year and should reflect an average long-term level in the valuation.
- Payments for tenant improvements must *regularly* be taken into account in the calculation for both vacant premises and for premises that will probably become empty during the calculation period. Reinvestment needs and deferred maintenance ascertained at the time of the inspection must be reflected in the calculation.
- Payments for property tax/municipal charges for residential (Sw: fastighetsskatt/kommunal avgift för bostäder) and ground rent is specified in the calculation. The valuation is based on valid rules on property tax for commercial premises and industrial properties, municipal charges for residential and the attributed tax assessment values. Future change of the tax assessment values should be consistent with the assumed value development. For leasehold, a new ground rent must be assessed following readjustment. This ground rent should also be consistent with the assumed value development. If the ground rent is not at market level at the end of a normal calculation period, consider whether the calculation period should be extended so that it is long enough for the readjustment to take place within the calculation period.
- The present value of annual net operating income and capital expenditures and a residual value at the end of the calculation period must be calculated. This residual value is based on the net operating income year following the last calculation year.
- The discount rate on the total capital for an individual asset can be justified on the basis of a relevant, long-term bond rate with supplements for property-related risk. However, when assessing the market value, the discount rate and direct yield requirements must refer to transactions on the relevant submarket. The discount rate is assessed with regard to the property's market position. For properties with commercial premises, the risk is partly linked to the terms for the existing contracts and types of lessee. There may therefore be grounds for applying a different discount rate when calculating the present value of net operating income during the current contract period and for calculating the present value of residual value.



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers valuation and commercial property practice; property finance and investment; project management, planning & development; quantity surveying as well as facilities management.

From environmental assessments to real estate transactions, if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres in the world, we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all. We are proud of our reputation and we sustain it, so clients who work with an RICS professional can have confidence in the quality and ethics of the services provided.

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