



Bank lending valuations and mortgage lending value

Europe

2nd edition, October 2025

Effective from 1 January 2026

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RICS standards framework

RICS' standards setting is governed and overseen by the Standards and Regulation Board (SRB). The SRB's aims are to operate in the public interest, and to develop the technical and ethical competence of the profession and its ability to deliver ethical practice to high standards globally.

The [RICS Rules of Conduct](#) set high-level professional requirements for the global chartered surveying profession. These are supported by more detailed standards and information relating to professional conduct and technical competency.

The SRB focuses on the conduct and competence of RICS members, to set standards that are proportionate, in the public interest and based on risk. Its approach is to foster a supportive atmosphere that encourages a strong, diverse, inclusive, effective and sustainable surveying profession.

As well as developing its own standards, RICS works collaboratively with other bodies at a national and international level to develop documents relevant to professional practice, such as cross-sector guidance, codes and standards. The application of these collaborative documents by RICS members will be defined either within the document itself or in associated RICS-published documents.

Document definitions

Document type	Definition
RICS professional standards	Set requirements or expectations for RICS members and regulated firms about how they provide services or the outcomes of their actions. RICS professional standards are principles-based and focused on outcomes and good practice. Any requirements included set a baseline expectation for competent delivery or ethical behaviour. They include practices and behaviours intended to protect clients and other stakeholders, as well as ensuring their reasonable expectations of ethics, integrity, technical competence and diligence are met. Members must comply with an RICS professional standard. They may include: • mandatory requirements, which use the word 'must' and must be complied with, and/or • recommended best practice, which uses the word 'should'. It is recognised that there may be acceptable alternatives to best practice that achieve the same or a better outcome. In regulatory or disciplinary proceedings, RICS will take into account relevant professional standards when deciding whether an RICS member or regulated firm acted appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards into account.
RICS practice information	Information to support the practice, knowledge and performance of RICS members and regulated firms, and the demand for professional services. Practice information includes definitions, processes, toolkits, checklists, insights, research and technical information or advice. It also includes documents that aim to provide common benchmarks or approaches across a sector to help build efficient and consistent practice. This information is not mandatory and does not set requirements for RICS members or make explicit recommendations.

1 Introduction

1.1 Scope and application

This professional standard applies to RICS members responsible for providing mortgage lending valuation services to banks in countries within or subject to EU jurisdictions. It may also assist other stakeholders – borrowers, lenders and regulatory authorities – to understand the issues involved.

It covers the regulatory framework, the application of mortgage lending value (MLV) and the role of the valuer.

This revised second edition incorporates the significant regulatory changes introduced by the Basel Committee on Banking Supervision's 2017 revised Basel 3.1 guidance for financial regulation ([Basel III: Finalising post-crisis reforms](#)). That guidance has been accepted in principle by the vast majority of financial jurisdictions globally. It includes provisions concerning property valuation at both loan origination and for the purpose of monitoring loan books. These provisions impact on both market and mortgage lending valuation bases.

Globally, the implementation of the Basel 3.1 valuation provisions is fragmented and variable. Basel 3.1 includes specific criteria concerning the valuation of property assets that do not accord directly with either market valuation or mortgage lending valuation criteria. There is a lack of guidance from regulatory authorities on the application of the criteria, and RICS has separated discussions surrounding the implementation of the Basel 3.1 criteria from the application of the two established valuation bases in bank lending: market value and mortgage lending value.

This revised professional standard addresses the MLV basis only and, given the current application of MLV, retains its European focus.

The current edition of RICS' [Bank lending valuations: Basel 3.1 prudently conservative valuation criteria adjustments](#) addresses the more uncertain environment surrounding the prudently conservative valuation criteria contained in Basel 3.1. The new criteria are the following ([Basel III: Finalising post-crisis reforms](#)).

'To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations on price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. National supervisors should provide guidance setting out prudent valuation criteria where such guidance does not already exist under national law. If a market value can be determined, the valuation should not be higher than the market value.'

RICS members and other stakeholders are advised to refer to both publications when undertaking instructions that include reference to prudently conservative valuation criteria and/or MLV.

1.2 Effective date

This RICS professional standard is effective from 1 January 2026.

2 Market valuation

The current edition of [RICS Valuation – Global Standards \(Red Book Global Standards\)](#), VPGA 2, paragraph 1.1 states that

‘Valuation practice, process and regulation for secured lending often has particular differences depending on the jurisdiction and asset type. Reference should therefore be made to relevant secured lending coverage in RICS national supplements, jurisdiction guides and any other relevant RICS or other professional standards and best practice guidance, in addition to adhering to local laws and regulation.’

Regional, national or local regulation takes precedence over [Red Book Global Standards](#) provisions where they conflict (PS 1, section 4). This is particularly pertinent to valuations for secured lending purposes as different jurisdictions globally regulate in different ways and may have different interpretations of the same regulations or guidance. Many jurisdictions are still forming their response to the ever-changing regulatory environment.

Market value is the primary definition of value for bank lending purposes. [Red Book Global Standards](#), VPGA 2, paragraph 5.1 states that:

‘Market value is the basis of value widely used for valuations or appraisals undertaken for secured lending. However, in some jurisdictions alternative bases may be recognised or expressly required, for example, as a result of statute or regulation, ‘mortgage lending value’ being one example. These alternative bases may, and often do, involve prescribed approaches or assumptions and may therefore result in a value for the purpose of secured lending that is quite markedly different from market value as defined in IVS 102 paragraph A10.01 and reproduced in VPS 2. While valuers can provide advice using these alternative bases of value, what is essential is that the particular basis of value adopted is always made clear.’

Market value is a widely understood concept and basis of valuation and remains an integral component of any assessment of the security of an individual property for secured lending purposes. Where an alternative basis of valuation is used, [Red Book Global Standards](#) does not mandate that market value is provided in all cases but does advise that alternative valuations are benchmarked against market value.

The use of market valuation in countries that adopt the Basel 3.1 criteria should remain largely unchanged, and the Basel 3.1 criteria have been widely interpreted as giving an adjusted market value (see the current edition of RICS’ [Bank lending valuations: Basel 3.1 prudently conservative valuation criteria adjustments](#)).

In the aftermath of the global financial crisis (GFC), the use of market valuations as the sole basis of valuation for bank lending purposes has been criticised, and this is also examined in more depth in the current edition of RICS' [Bank lending valuations: Basel 3.1 prudently conservative valuation criteria adjustments](#). Discussion revolves around the pro-cyclical nature of market value and examines the possibility of introducing a less cyclical valuation basis and method, often referred to under the generic title of long-term value, in order to identify any adjustments to market value.

3 Mortgage lending value (MLV) principles

3.1 Definition and EU regulation

The most well-known application and established long-term value basis and method is mortgage lending value (MLV). Although not defined in [International Valuation Standards](#), it is defined in legislation in some countries and is used in the [Basel Accords](#). A definition is set out in the [European Union Capital Requirements Regulation \(EU\) No 575/2013 \(CRR III\)](#), Article 4(74) as:

‘the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property’.

MLV is not an attempt to create a conservative market value or a market value under restrictive marketing conditions. It is a fully fledged alternative model with different underlying characteristics. It may, however, have many of the same or similar inputs as a market value and uses similar valuation methods, such as the investment approach and depreciated replacement cost.

CRR III was amended in 2024 for the new Basel 3.1 Accord, with implementation on 1 January 2025. Until its amendment, Article 229 of CRR III referred to market value and MLV for property valuation for lending purposes, allowing credit institutions to benefit from a preferential risk weight treatment of collateralised mortgages. Both approaches were replaced by the property valuation using prudently conservative valuation criteria, as defined in CRR III Article 4(74a) and Article 229(1).

As regards the valuation of real estate cover assets for the issuance of covered bonds, competent authorities may allow such assets to continue to be valued at the market value or the MLV as defined in CRR III in those Member States that have laid down rigorous criteria for the assessment of MLV in statutory or regulatory provisions (Article 129(3)).

Credit institutions could decide to use MLVs for bank lending as well, providing they comply with their domestic regulation. In such cases, the MLV becomes a property value in accordance with CRR III Article 229. Given the prescriptive nature of MLV, a property valuation using the prudently conservative valuation criteria cannot be presented as an MLV.

MLV takes different forms across the EU. Basel 3.1 includes mention of the use of MLV for loan-to-value calculations for covered bonds but does not define it or suggest any criteria. These depend upon national regulations or custom and practice.

There are transitional arrangements in CRR III for the existing portfolio. After implementation in January 2025, market value or MLV can be used until a review of the property value is required in accordance with Article 208(3) or until 31 December 2027, whichever is earlier (Article 495f).

Article 208 requires the lending institution to monitor the value of their property on a frequent basis: a minimum once per year for commercial and once every three years for residential, or more frequently when the market is subject to significant changes in conditions. Where that monitoring indicates that the value of the property may have declined materially relative to general market prices, a valuation review should take place. For larger loans of €3m or more (or 5% of the funds of the institution), the valuation should be reviewed at least every three years.

To summarise, the adoption by the EU of the revised residential and commercial property valuation criteria set out in Basel 3.1 within CRR III may have a significant impact on property valuations for bank lending purposes in EU countries or when acting for clients within the EU.

However, the Basel 3.1 framework is a set of global standards, not exclusive to the EU. While the EU implements these rules through CRR III, other European countries that are not part of the EU are also adopting the framework in their own legal and regulatory systems, although the main impacts on valuation are currently being exhibited in the EU.

By the end of 2027, MLV could be phased out for all purposes apart from the valuation of covered bonds. However, where jurisdictions with established MLV valuation criteria deem that MLV valuation practice satisfies the Basel 3.1 criteria, valuation practice could remain largely unchanged.

3.2 MLV in individual European countries

It is difficult to categorise countries into those that use market value and those that use long-term value, as many operate both practices according to valuation purpose and/or client. The [European Covered Bond Council Comparative Database](#) identifies the legislative framework and valuation practices across a wide range of countries, including some outside of Europe, to set loan-to-value (LTV) limits for covered bonds. The basis of valuation in different European countries is set out below.

Country	Property valuation basis
Armenian covered bonds	Market value
Austrian Pfandbriefe	Mortgage lending value
Belgian covered bonds	Market value
Bulgarian covered bonds	Market value
Czech covered bonds	Market value

Country	Property valuation basis
Danish covered bonds	Market value
Dutch registered covered bonds programmes	Market value. Also mortgage lending value. Both market value and mortgage lending value can be used but, in practice, the value of Dutch property is based on the market value
Estonian covered bonds	Market value
Finnish covered bonds	Market value. Also mortgage lending value
France – Caisse de Refinancement de l'Habitat Obligations à l'habitat, obligations foncières	Market value
German Pfandbriefe	Mortgage lending value
Greek covered bonds	Market value
Hungarian covered bonds	Mortgage lending value
Icelandic covered bonds	Market value
Ireland – asset covered securities	Market value
Italian obbligazioni bancarie garantite	Market value
Latvian covered bonds	Market value
Lithuanian covered bonds	Market value
Norwegian covered bonds	Market value
Polish Pfandbriefe	Mortgage lending value
Polish covered bonds	Mortgage lending value
Portugal – Regime Jurídico das Obrigações Cobertas	Market value. Also mortgage lending value
Romanian obligatiuni garantate	Market value
Slovak covered bonds	Market value
Spanish bonos garantizados	Mortgage lending value

Country	Property valuation basis
Swedish covered bonds	Market value
Swiss contractual law based covered bonds	Market value
Swiss Pfandbriefe	Mortgage lending value
UK covered bonds	Market value

Table 1: Property valuation basis by country. Source: European Covered Bond Council ([country comparison – covered bond label](#))

The purpose of this table is to identify where valuers are more likely to be asked for an MLV and where it is likely to be within a regulatory framework. In addition to this, due to cross-border activity, lender clients can be operating in many countries, meaning MLV could be requested from valuers in any country. This is the case especially for German banks.

It is beyond the scope of this professional standard to investigate the regulations underpinning the production of valuations in every country, other than to note that RICS members instructed to undertake MLV valuations **must** follow any country-specific rules and regulations. However, as MLV is a well-established concept in the covered bond market and mortgages make up a substantial proportion of that covered bond market, it is useful to identify those countries with substantial assets in those markets and the framework that exists for undertaking MLV valuations in those countries.

Where the Basel 3.1 prudently conservative valuation criteria are adopted, two changes will become relevant. The first is that market value will be subject to adjustment where appropriate, and the second is that adjusted market value may become adopted instead of MLV, even where MLV has been well established for covered bond valuations.

3.2.1 Germany

The German mortgage banks have the most well-established set of guidelines for undertaking MLV valuations. The Association of German Pfandbrief Banks dates MLV back to the German *Mortgage Bank Act (Hypothekbankgesetz)* 1900, but regulations were modernised through the [Pfandbrief Act 2005 \(Pfandbriefgesetz \(PfandBG\)\)](#) and the [Regulation on the Determination of the Mortgage Lending Value of Properties \(Beleihungswertermittlungsverordnung \(BelWertV\)\)](#) of 1 August 2006. These regulations set out how MLV should be undertaken and the rules by which valuers can undertake these valuations.

There are two main uses of MLV in Germany identified by the Association of German Pfandbrief Banks.

The first is by Pfandbrief banks who want to include real estate secured loans in the cover pool of a mortgage Pfandbrief (covered bonds). Under sections 12, 14 and 16 of PfandBG, these banks determine the MLV of the property, and not more than 60% of this MLV may be refinanced through the issuance of mortgage Pfandbriefe.

The second use relates to the CRR III provisions set out in [section 3.1](#) regarding the preferential risk weight treatment of mortgage loans.

The national banking supervisory authority has stated that two approaches are possible for the operationalisation of property value in Germany. The first is the MLV in accordance with section 16(2) sentences 1 to 3 of PfandBG in conjunction with BelWertV, which fulfils the requirements of CRR III Article 229(1) in all cases. Second, the market value can be used as a basis but must be adjusted for the prudently conservative valuation criteria.

Section 16 of PfandBG regulating German Pfandbrief banks defines the assessment of MLV as a value that cannot exceed the market value.

‘The mortgage lending value must not exceed the value resulting from a prudent assessment of the future marketability of a property by taking into account the long-term sustainable aspects of the property, the normal regional market condition as well as the current and possible alternative uses. Speculative elements must not be taken into consideration. The mortgage lending value must not exceed a market value calculated in a transparent manner and in accordance with a recognized valuation method.’

The German regulations not only define MLV, but they are also prescriptive over how it should be determined, even down to the prescription of specific inputs into the valuation. For example, Annexes 1, 2 and 3 of BelWertV (amended in 2022) set out criteria for individual inputs to be used in the valuation. Annex 1 deals with costs such as management, maintenance and loss of rental income, Annex 2 addresses the useful life for specific types of building, and Annex 3 sets out the criteria for minimum capitalisation rates to be used in the valuation, based on fixed risk premia above long-term federal bond rates.

3.2.2 Spain

Spain is the second-largest covered bond market adopting MLV. The legal framework for Spanish covered bonds (bonos garantizados) is established by [Royal Decree-Law 24/2021](#).

Ministerial Order [ECO/805/2003](#) (the Order) sets out detailed valuation principles and methodology, including consideration of long-term value (more generally referred to as mortgage lending value (MLV)). The Order has recently been amended by [Order ECM/599/2025](#) (effective from 12 August 2025), which significantly integrates sustainability criteria into mortgage lending valuations.

Under the Order’s definition, MLV (valor hipotecario) is the value of the property as determined by a prudent assessment of its future marketability, taking into account long-term sustainable aspects of the property, the normal conditions of the local market, the

use of the property at the effective date of valuation, and its alternative appropriate uses. The definition further provides that the determination of MLV shall not include speculative elements (Article 4).

This definition aligns with the EU definition of MLV. The recent amendment to the Order reinforces the long-term sustainable aspects by making the Energy Performance Certificate (EPC) a mandatory document for mortgage valuations and by requiring valuers to explicitly factor a property's energy performance into both the market value and MLV assessments.

The MLV may be established through various methods defined in the Order, namely the comparison method (Article 20), discounting methods (Article 24) and residual methods (Article 34).

Additionally, the recent amendment to the Order provides that MLV may also be estimated using automated valuation models (AVMs).

3.2.2.1 MLV based on the comparison method

Under the Order, when the market value of a property is determined by comparison the valuer shall apply any necessary downward adjustment to obtain an adjusted comparative value, which shall in turn be used as the MLV (Article 23).

The Order requires that a downward adjustment be applied where, on the basis of their technical expertise, the valuation firm considers that there is a high probability that the market value will undergo a significant reduction in nominal terms within the two years following the effective date of valuation (Article 12(3), as amended in 2025, and Article 23(2), first paragraph). This reflects the application of value-at-risk principles to real estate markets.

When the available data on market behaviour do not allow the reduction to be estimated with sufficient reliability, a reduction of 10% shall in any case be applied, increasing to 15% where particularly high price volatility is observed (Article 23(2), second paragraph).

In both cases (as per Article 12(3)), the valuation report is required to include a specific warning regarding the likelihood that the property's market value may decrease in the future, highlighting the available data on the characteristics and conditions of the relevant market (past cycles, prevailing expectations among experts, observed volatility in the prices of comparable properties, markets dominated by speculative elements, etc.).

Additionally, the report is required to include a further specific warning where there has been a significant and sustained decline in prices over the last ten years (Articles 12(1) and 12(2)). This requirement reflects the cyclical issues addressed by the prudently conservative valuation criteria under Basel 3.1.

3.2.2.2 MLV based on discounting methods and residual methods

The Spanish regulation also provides that the MLV may be established through discounting and residual methods, and it introduces three main sets of prudential constraints, which concern cash flows, discount rates and terminal values.

Firstly, under the Order, when the MLV of a property is determined using discounting or residual methods the valuer shall apply downward adjustments to the cash flows, taking into account only those circumstances that can reasonably be expected to persist in the medium and long term (Article 28(2)).

Thus, where contract rents exceed market rents, they may only be used if it is duly considered and justified that such amounts are not expected to change and provided that they cannot be attributed to speculative elements (Article 28(3)).

In the case of trade-related properties, cash flows shall generally be based on market ratios, unless the location or the particular characteristics of the property clearly influence the operational cash flows upward or downward. For the purposes of estimating the MLV, however, any upward adjustment is permitted only where it is foreseeable for at least five years (Article 30(3)(a), second paragraph).

Secondly, for mortgage lending purposes, discount rates are subject to lower bounds (Articles 32 and 38), which prevents excessively low discount rates from artificially inflating capital values. Minimum discount rates ensure that the present value of future cash flows reflects a prudent assessment of long-term market uncertainty and avoids over-optimistic projections.

Thirdly, terminal values are required to be determined on the basis of the depreciated replacement cost at the end of the valuation horizon (Article 31). Depending on the interaction between the length of the valuation horizon and the economic life of the property, such depreciation may be total or partial. This mechanism prevents the use of terminal capitalisation methods that could yield inflated exit values in buoyant markets, thereby ensuring consistency with the prudential nature of the MLV.

Taken together, these requirements (downward adjustments applied to cash flows, minimum discount rates and terminal values based on depreciated replacement cost) form a consistent prudential framework. They ensure that discounting and residual methods produce values aligned with the long-term, sustainable and non-speculative principles that underpin MLV.

3.2.2.3 MLV and automated valuation models (AVMs)

One of the most significant modifications introduced by the 2025 amendment to the Order is the possibility of estimating both market value and MLV through AVMs (Article 15 bis), with the following rules applying.

- a** AVMs may be used only for property types that are sufficiently uniform in their physical and market attributes and that trade within a reasonably active market. Before accepting any assignment, valuation firms are required to ensure that the data available for the relevant properties is adequate in both scope and quality.
- b** Any AVM-based valuation shall generate estimates of both market value and MLV.
- c** Valuation firms are required to employ a sound methodology, subject to regular review and proper validation, that allows them to produce reliable estimates of current real

estate prices in the relevant local markets, consistent with generally accepted valuation practice.

- d Valuation firms are required to maintain up-to-date documentation, to be provided to the Bank of Spain upon request, covering the methodologies used to construct and operate the models, the analytical procedures applied and the processes followed for calibration, validation and ongoing adjustment.

The Bank of Spain will establish, by means of a Circular, the specific requirements for AVMs. That Circular has not yet been published. However, the [Supervisory guidelines for the use of automated valuation models \(AVMs\) by appraisal companies](#) issued in 2019 set out the main requirements, based on the [Standard on automated valuation models \(AVMs\)](#) published by the IAAO in 2003 (as amended in 2018).

3.2.3 Regulations in other countries

As indicated by sections [3.2.1](#) and [3.2.2](#), valuations for secured lending and other financial purposes are underpinned by different regulatory frameworks in different countries and for different tasks. It is beyond the scope of this professional standard to identify these frameworks.

The [European Covered Bond Council database](#) sets out the regulatory framework for the countries identified in Table 1, including primary and any secondary legislation, issuers, loan-to-values, monitoring requirements and a wealth of other country-specific information.

There are varying degrees of prescription of the application of valuation approaches in jurisdictions adopting MLV, with the German MLV having the most highly developed framework. It may be more appropriate to use some of the more prescriptive inputs and applications of the model in one jurisdiction than in another, and clients may expect some crossover, especially owners from outside the home country who may be familiar with a particular approach.

There is some discussion about whether there are any circumstances under which MLV can exceed market value. It is not allowed in some jurisdictions (for example under the German *Pfandbrief Act* 2005). Some long-term valuations are designed to identify both under- and over-pricing so, in those cases, MLV could exceed market value quite regularly in cyclical markets. MLV is designed generally to be a risk management tool, and it is expected that it will very rarely exceed market value.

The Basel 3.1 criteria specifically include the proviso that the property valuation under their criteria cannot exceed market value.

4 MLV valuation practice

4.1 The role of the RICS member

It is the RICS member's responsibility to identify the appropriate inputs for the valuation and to manage clients' expectations. RICS members have, in some cases, raised doubts about their ability to act in response to requests from clients for advice on MLV.

It is expressly confirmed that there is no objection to suitably qualified and experienced RICS members providing advice on MLV, subject to their satisfying any relevant certification and competence requirements. Most aspects of MLV do not need specialist market knowledge not available to the suitably qualified RICS member.

Formal training and certification may be required under certain jurisdictions to carry out MLV valuations, and RICS-regulated firms **must not** provide or accept a valuation until they have satisfied themselves that valuers have met the necessary requirements. An obvious example is the [HypZert GmbH](#) certification of valuers carrying out valuations for German banks both inside and outside Germany.

MLV is a different concept of value to market value, and the RICS member **must** understand MLV valuation, the underpinning regulation where applicable and the required approach before accepting an instruction.

Where RICS members carry out an MLV valuation:

- the MLV definition used **must** be explicitly stated (for example, see the EU definition in [section 3.1](#)) in the terms of engagement and in the valuation report and noted as a departure (albeit an acceptable one) from [Red Book Global Standards](#) unless mandatory in the particular context or jurisdiction (see PS 1, section 4)
- the methodology applied **must** also be clear and explicit – the exact level of detail to be set out is a matter of judgement for the RICS member in individual cases, and
- it **must** be made clear that MLV is distinct from market value and is not to be confused with it. It is not a market value under special assumptions.

[Red Book Global Standards](#) applies to MLV work. VPS 2 confirms that bases of value not set out in [Red Book Global Standards](#) can be appropriate where there are mandatory requirements to use a particular basis.

The market value should be provided alongside any MLV if the RICS member believes it will help the client understand the MLV. RICS recommends that market value is assessed and reported on every occasion.

Where similar inputs are used in both market value and MLV, differences in interpretation of those inputs **must** be highlighted in the valuation report to document MLV in a clear and

transparent manner. For example, differences may occur between market rent, existing rent under leases and sustainable rent and between capitalisation rates used in the two methods.

RICS does not prescribe a valuation method. This may be prescribed in country-specific regulations or in the instructions of clients. In the absence of any prescription, the approach to MLV may vary depending on different interpretations and applications of methods.

Given these possible variations in approach, the MLV method adopted requires an increased level of description so the valuation can be understood by the user. In Germany the method has been subject to significant prescription, as outlined in [section 3.2.1](#). However, prescriptions in one country could be inappropriate for other countries, so additional MLV method guidance is required at a country-specific level. In many countries this guidance is not available, so this professional standard sets out some defining common factors.

4.2 Common features across all MLV methods

The usual internationally recognised methods of valuation apply to MLV. The three major applications identified from various sources for MLV are the:

- income method
- comparison method and
- depreciated replacement cost method.

MLV is often applied by reference to more than one approach for an individual property; for commercial property this would normally include an investment-based valuation method and a value based on depreciated replacement cost.

The approach requires the valuer to attempt to eliminate short-term market volatility, and this principle underpins all aspects of the method. Sustainability of any comparative values also needs to be taken into account. Information and references to the volatility in specific markets is a pre-requisite of a well-documented valuation.

Site values and building values are often assessed separately, with site values based on a market price, subject to an assessment of where land values are within any particular cycle. Building values are based on a limited life cycle and **must** be depreciated accordingly. These building lives can be prescribed within legislation, but where they are not prescribed it is the responsibility of the RICS member to take a view on the life cycle of the building and the age and quality of any existing buildings.

Capitalisation rates should also be based on long-term sustainable rates, and these are not necessarily the current market capitalisation rates. One approach is to use market capitalisation rates unless they fall below prescribed floors. Where they are not prescribed, the RICS member should be aware of how capitalisation rates have in the past fluctuated for the particular market and not use rates that are significantly below these longer-term trends.

Rents and rental values should be sustainable – they should be based on current market levels but reduced where letting markets appear to be under-supplied and market rents

unsustainably high. Over-renting is normally ignored in an MLV valuation. No attempt has been made to specify sustainable rental values in jurisdictions where other inputs have been enshrined in legislation. This may be because, in these jurisdictions, rental values have been historically measured to show low cyclical movements. In jurisdictions where markets have traditionally been measured as having more cyclical movement in rental values, the use of current market rents as a sustainable rent within an MLV valuation would produce significant volatility in the MLV through time. This is particularly apparent where any cyclicity in values is caused by demand and supply mismatches in occupier rather than investment markets. In cyclical rental markets, the basic economic indicators of demand and the supply-side characteristics of the location are particularly relevant and the rental value input should be reduced to a more sustainable level where rental markets are perceived to be over-priced.

As with all valuations, irrecoverable costs should be deducted. In some jurisdictions, these are specified in legislation, but these levels may be inappropriate for other international markets. Where they are not specified in any legislation, appropriate deductions should be based on actual lease structure and costs of occupation wherever possible.

MLV is normally based on the current use of the property. It should only be calculated on the basis of an alternative use when that permission has been obtained or if there is a proven intention to renovate or change the use. The valuation of land for MLV can be undertaken using the usual methods, including residual methods, but, given the added uncertainty surrounding some aspects of land valuation for development, inputs **must** be specified at a level that passes the test of 'taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property' (CRR III Article 4(74)).

5 Conclusion

At the time of writing, market value remains the most widely used basis of valuation for secured lending purposes, but it has limitations. Clients increasingly expect an alternative long-term valuation approach to be applied, and at present the only developed approach is MLV.

MLV is applied differently in different countries, and this professional standard has made reference to that. However, it has also identified some basic principles underpinning the provision of an MLV. Not all countries have a system for the determination of MLV or other form of long-term value in place, but due to cross-border investment and lending, RICS members in any country can be asked to provide an MLV.

There is no objection to suitably qualified and experienced RICS members providing advice on MLV in line with this professional standard and any relevant regulations. Members are reminded of the mandatory requirements in [section 4](#) to specify at all times which definition of MLV is used and document the approach taken in a clear and transparent manner.

However, MLV has also been heavily criticised. Alternative long-term value bases are being investigated by governments, central banks and valuer organisations worldwide, leading to an emerging regulatory environment that differs between jurisdictions. For example, the new Basel 3.1 criteria, adopted by the EU in full, may have profound implications for the application of MLV. RICS members should refer to the current edition of RICS' [Bank lending valuations: Basel 3.1 prudently conservative valuation criteria adjustments](#) and any subsequent guidance.

Currently, given that the most widely used and understood basis of valuation is market value, RICS recommends that where a long-term value is requested it should be provided in conjunction with a market valuation. However, the compulsion to provide a market value has been removed from VPGA 2 of [Red Book Global Standards](#).

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