

RED BOOK GLOBAL STANDARDS

RICS Valuation – Global Standards: Poland national supplement

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RICS VALUATION – GLOBAL STANDARDS: POLAND NATIONAL SUPPLEMENT

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Part 1 Introduction

This national supplement sets out supporting guidance for *members* on the application of *RICS Valuation – Global Standards* (Red Book Global Standards) to *valuations* undertaken subject to Polish jurisdiction.

It places fresh emphasis on the fact that the content is supplemental to that in Red Book Global Standards, and not in substitution for it. This removes the need for an overall Introduction reproducing that in Red Book Global Standards.

Scope

- 1 This national supplement complements Red Book Global Standards, which incorporates the latest *International Valuation Standards*, and local statutory requirements in respect of the *valuation of real estate* property.
- 2 This document is intended to highlight only the significant differences in terminology and in the content or coverage of *valuation* standards.

The following conventions are adopted throughout:

- Terms defined in the Red Book Global Standards *Glossary* are shown in italics.
- References to Red Book Global Standards use the relevant global section identifier only, e.g. **PS 1**, **VPS 1**, VPGA 1, etc.

Status of this RICS national supplement

3 This national supplement includes mandatory Polish professional standards (PPS) and valuation technical and performance standards (PVPS), as well as advisory valuation practice guidance applications (PVPGAs). Members must comply with mandatory requirements and are strongly encouraged to follow PVPGAs as a matter of best practice when undertaking valuation assignments subject to Polish jurisdiction.

More specifically:

- 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.
- *Members* conforming to the practices recommended in this national supplement should have at least a partial defence against an allegation of negligence.
- In the event of a legal dispute, a court or tribunal may require a *member* to explain why they deviated from best practice recommended in this national supplement. Also, if *members* have not followed this national supplement and their actions are questioned in an RICS disciplinary case, they will be asked to explain their actions, and this may be considered by the RICS Panel.
- In addition to this national supplement, professional statements and guidance notes are relevant to professional competence in that each *member* should adhere to and have

knowledge of relevant RICS standards and guidance within a reasonable time of their coming into effect.

4 This national supplement reflects case law and legislation as at its date of publication. *Members* are responsible for establishing whether any changes in case law or legislation after the date of publication have an impact on the guidance in this document.

Effective date

5 This national supplement takes effect immediately upon publication.

Naming conventions explained

Description	Status	Inclusions	Comments
Standards	Mandatory	<ul style="list-style-type: none"> • <i>International Valuation Standards (IVS)</i> as issued by the International Valuation Standards Council (IVSC). • RICS professional standards – denoted by the prefix PS. • RICS valuation technical and performance standards – denoted by the prefix VPS. 	The IVS are adopted and applied by RICS in Red Book Global Standards, being cross-referenced throughout.
Guidance	Advisory	<ul style="list-style-type: none"> • RICS valuation practice guidance applications – denoted by the prefix VPGA. 	VPGAs are advisory and not mandatory in content. However, they alert <i>members</i> (where appropriate) to relevant mandatory material contained elsewhere in this Red Book supplement, including to the relevant IVS, by the inclusion of appropriate cross-references.

RICS also separately publishes guidance from time to time on other valuation topics in the form of guidance notes. Such material is advisory in nature. It is available on the RICS website.

Part 2 Valuation standards

Overview

- 1 The purpose of this document is to assist valuers who are members of RICS in ensuring that a valuation undertaken in accordance with *RICS Valuation – Global Standards* is also compliant with any applicable legislation, regulation and professional practice in Poland.
- 2 Globally recognised high-level *valuation* principles and definitions are now embodied in the IVS, published by the IVSC. RICS has long been a supporter of, and contributor to, the development of such global standards, and not only fully embraces such standards but also proactively supports their adoption by others around the world. Before considering how these shared objectives are put into practice on the ground, it is helpful to explain the derivation and purpose of Red Book Global Standards in more detail.

Applicable RICS standards

- 1 *RICS Valuation – Global Standards*, commonly referred to as Red Book Global Standards, formally recognises and adopts the latest IVS, therefore requiring *members* to follow them. It also complements the IVS by providing detailed guidance and specific requirements concerning their practical implementation.
- 2 Expectations regarding *member* and *firm* conduct are set through the application of the *RICS Rules of Conduct* and the *RICS Global Professional and Ethical Standards*, and such conduct is assured through a well-established system of regulation. This ensures the positioning of *members* and *firms* as the leading global providers of IVS-compliant *valuations*.
- 3 To assist *members* working in different countries or under different jurisdictions with the practical application of Red Book Global Standards in individual national or local contexts, RICS issues a number of jurisdiction-specific national supplements, highlighting additional steps that may be taken to make a *valuation* that is compliant with both locally required standards and Red Book Global Standards.
- 4 *Members* are reminded that:
 - All *members* who undertake *valuations* are required to comply with the RICS Valuer Registration requirements. Full details of the requirements can be found at www.rics.org/vrs
 - All *members* who are RICS Registered Valuers are obliged to follow Red Book Global Standards as the primary *valuation* standard. *Departures* from Red Book Global Standards are permitted in certain specified circumstances (see **PS 1 sections 4 and 6**). Compliance with jurisdictional standards (which may extend to matters not covered in Red Book Global Standards, such as compulsory acquisition) is also recognised as proper in the circumstances described in **PS 1 section 4**.

- When an allegation of professional negligence is made against a *member*, a court or tribunal may take into account the contents of Red Book Global Standards in deciding whether or not the *member* acted with reasonable competence.
- *Members* are reminded to ensure, when conducting their professional activities in Poland, that they are also following any appropriate country-, state- or municipality-specific regulations and guidance.

Part 3 Glossary of English and Polish real estate terms

Red Book Global Standards term	Polish equivalent in valuation legal regulations and/or commentary
Date of the report	Polish regulations (Ordinance) emphasise the importance of the valuation report date.
Departure	The Polish Loan Security Standard only refers to departures in point 6, which states that a valuer is allowed to depart from the standard, but any departure must be justified. A departure is not possible if it does not comply with the law or if it could be misleading.
Depreciated replacement cost (DRC)	Depreciated replacement cost or depreciated reinstatement cost (<i>koszt odtworzenia</i>). Note that <i>wartość odtworzeniowa</i> is the sum of the land value (usually assessed via the comparable approach) and the cost of replacing the building (less depreciation).
Guidance note (GN)	Not defined in Polish law. General National Valuation Principles by PFVA are not legal requirements.
Investment value, or worth	Individual value (<i>wartość dla indywidualnych potrzeb inwestora</i>).
IVS	Not recognised in Polish law. Valuations of Polish property are therefore not required to comply with the IVS.
Market approach	Sales comparison approach (<i>podjęcie porównawcze</i>).
Market value	Market value (<i>wartość rynkowa</i>).
Real estate	Real estate (<i>nieruchomość</i>).
Registered valuer	The Polish equivalent is qualified valuer (QV). In Poland, a QV will have completed a recognised programme of studies. Practicing QVs who are RICS members will also be registered valuers under the RICS scheme.
Valuation date	Not defined precisely in legally binding regulations, though the valuation report should contain essential dates for estimation of the property value.
Valuation report	Valuation report (<i>operat szacunkowy</i>) which must be in the legally required format summarised in PVPS 1.

Part 4 National background and standards

Background

- 1 Where *valuation* assignments are performed under Polish law or in a Polish jurisdiction, it should be noted that Polish laws, ordinances, guidance notes and regulations may exceed the requirements laid down in Red Book Global Standards and the IVS.
- 2 Red Book Global Standards recognises that it is proper for members to comply with other, additional valuation standards where these apply within a particular jurisdiction, provided it is clear which standards are being adopted. This does not preclude the valuation being declared as performed in accordance with Red Book Global Standards.
- 3 It is mandatory to comply with the minimum terms of engagement set out in **VPS 1**, which adopts IVS 101, but additional detail regarding the scope or the depth of the valuation assignment may be included in a contract. These adjustments are intended to ensure that clients and employers of *members* receive the highest possible level of service, in accordance with Red Book Global Standards and Polish law.

Valuation regulations – summary

- 1 In general, compliance with the Red Book Global Standards will meet or exceed the requirements of Polish law, which are outlined below. In some instances, compliance with Polish law will involve a departure of the type recognised in **PS 1** because Polish law can affect the valuation methodology to be adopted in various circumstances or for particular asset types.
- 2 Polish law requires compliance with the following specific regulations:
 - Property Management Act of 21 September 1997 (*ustawa o gospodarce nieruchomościami*; unitary text Dz.U. 2021 item 1899, ‘the Property Management Act’)
 - Ordinance of the Council of Ministers of 21 September 2004 on property valuation and preparing valuation reports (*rozporządzenie w sprawie wyceny nieruchomości i sporządzania operatu szacunkowego*) (Dz.U. No. 207, item 2109 of 2004 with further amendments; ‘the Ordinance’) and
 - Professional Standard for Property Valuers: Valuation for Loan Security Purposes (*Standard zawodowy rzeczoznawców majątkowych: wycena dla zabezpieczenia wierzytelności*; ‘the Loan Security Standard’) prepared by the Polish Federation of Valuers Association (PFVA) and approved by the Ministry of Infrastructure.
- 3 There are also national professional standards, the most relevant of which are the General National Valuation Principles (‘the Local Standards’) set up by the Polish Federation of Valuers Associations (PFVA). Currently, the Local Standards are not approved by the regulator (the Ministry of Infrastructure) with the exception of the Loan Security Standard, which is

obligatory and in principle is not in conflict with RICS standards and guidance. The Local Standards can therefore be treated as Polish guidance notes.

4 Ethical standards are not covered by the Polish regulations; they are set individually by local Polish valuers' associations (*lokalne organizacje rzeczoznawców majątkowych*) and are obligatory for those members only. RICS principles in this area, set out in **PS 2**, are very similar to points 1–3 of Article 175 of the Property Management Act.

5 While RICS recognises IVSC as the body responsible for the International Valuation Standards (IVS), the Property Management Act, Ordinance and Local Standards do not make any reference to IVS. A valuer providing valuations subject to Polish regulations is therefore not required to comply with IVS.

Qualification requirements

1 The property valuation profession is regulated by Polish law as described above. Therefore, in accordance with the Property Management Act Section V, Article 174 point 6 and Article 175 point 6, only QVs can provide valuation services and produce valuation reports, which must be in the required *operat szacunkowy* format. The standard qualification procedure includes a requirement for a master's degree or postgraduate studies and a formal exam, governed by Article 177 of the Property Management Act.

2 QVs are obliged to comply with all Polish regulations relating to property valuation in Poland. RICS regulations (including Red Book Global Standards) are in addition obligatory for RICS members, or for those who agree to carry out valuation reports in accordance with RICS standards.

Other matters

1 Independence, objectivity and conflicts of interest: Polish law stresses that the valuer should be independent (Property Management Act, Article 176) and must not disclose confidential information. However, detailed guidance such as that in Red Book Global Standards does not exist in Polish regulations, which only include general statements about the independence of valuers.

2 Terms of engagement: Apart from the Civil Code, which comprehensively regulates the core areas of private law (including concluding contracts), there are no specific terms in the Polish regulations setting out how valuation instructions, or valuation contracts, should be concluded. RICS members must comply with the requirements of **VPS 2**.

3 Reviewing another valuer's valuation: Red Book Global Standards provides for one RICS *member* to review the valuation of another valuer. In Poland, a review of a valuation may be undertaken by a member of any of the professional associations of qualified valuers (*organizacja zawodowa rzeczoznawców majątkowych*).

4 Regulated firms: While **PS 1** refers to RICS-regulated firms, Polish law does not have an equivalent.

Part 5 Polish professional and valuation standards – mandatory

Professional standards

PPS 1 Compliance with valuation standards within Polish jurisdiction

1 *Members* must take care to ensure compliance with Polish law and any other authoritative requirements when providing valuation services (as defined in **PS 1**) that are subject to Polish jurisdiction. For the avoidance of doubt, the requirements and supporting guidance set out here modify or supplement Red Book Global Standards, with which members undertaking or supervising valuation services must otherwise continue to comply at all times.

Implementation

2 It is important that *members* are aware not only of their general obligations under Polish law, but are also alert to specific requirements that may arise according to the particular valuation assignment on which they are engaged, under secondary legislation or regulation or other authoritative requirements.

3 Compliance with such requirements will often be a matter for a valuer's client in the first instance, but the valuer is expected to provide the necessary professional advice to support the client in the discharge of that responsibility. Occasionally, however, a responsibility or duty may be placed directly on the valuer.

Polish valuation technical and performance standards (PVPS)

PVPS 1 Valuation reports

1 In accordance with the Ordinance, a valuation report (*operat szacunkowy*) must be in writing and must include all information necessary for the valuer to prepare his or her opinion of value including, among other matters:

- a** identification of the asset and scope of valuation
- b** purpose of the valuation
- c** identification of the client (reference to formal instruction), and nature and source of the information relied upon
- d** date of the valuation report and other relevant dates
- e** description of the state and condition of the property
- f** description of zoning relevant for the property

- g** market analysis and description relevant to the purpose of the valuation and valuation approach
 - h** bases of value, valuation approach and method/technique, and
 - i** calculations, property value and justification.
- 2** The value of the property must be expressed in Polish Zloty (PLN), which can be rounded to the nearest thousand PLN (as specified Ordinance).
 - 3** Each valuation report must be signed, and must include the printed or stamped name of the valuer and their qualification number (Ordinance). If a valuation report is prepared by more than one valuer, all of them must sign the report and all take responsibility for the valuation.
 - 4** The valuation report must include clauses/caveats indicating all relevant circumstances that have influenced the valuation (Ordinance).
 - 5** Documents that are important and relevant to the valuation must be appended to the report (Ordinance).
 - 6** The *Property Management Act* states the market value is valid on the specified date of valuation, in line with the definition of *market value* in Red Book Global Standards. However, it also states that a valuation report is valid for 12 months unless changes have occurred in the legal environment defining the basis of valuation for a specific purpose, in the state/condition of the property or in the market itself. After a lapse of 12 months, the valuer may confirm the validity of the report by providing a signed clause that should be appended to the valuation report.
 - 7** In addition to estimating *market value*, a QV is permitted to prepare a range of other reports under the terms of the *Property Management Act*. Those covered by Red Book Global Standards are:
 - changes to *market value* arising from the implementation of, or changes to, zoning plans. Any financial consequences arising from changes to zoning plans are calculated by the relevant authorities
 - estimation of value for individual investor's purposes (investment value or worth)
 - valuation of properties held as investments on the basis of the *Accounting Act (ustawa o rachunkowości)* and
 - valuation of properties held as fixed assets on the basis of the *Accounting Act*.
 - 8** The valuer may produce personal copies and notes from original documents for the purposes of the valuation report (*Property Management Act*).
 - 9** The valuer does not bear any liability if the valuation report is used for any purpose other than the purpose for which it was originally prepared, without the valuer's consent (*Property Management Act*).
 - 10** RICS members must follow Red Book Global Standards regarding valuation reports (**VPS 3**), supplemented if necessary by Polish legal requirements. Any reason for departure from Red Book Global Standards must be stated (**PS 1**). In Polish legislation, only the *Loan Security Standard* allows the possibility of *departures*. Any such *departures* must be described and justified, and are not permitted if:

- they would be misleading or
- they fail to comply with legal regulations.

PVPS 2 Bases of value

Recognised bases of value

1 As at the date of this document, the only bases of value recognised under Polish law (*Property Management Act*) are:

- market value
- depreciated replacement cost (*koszt odtworzenia*) – equating to the cost of reinstating or replacing the building after allowance for depreciation, and
- cadastral value for real estate tax purposes – value estimated in the public taxation process (*powszechnej taksacji nieruchomości*) outlined in the Property Management Act (note: cadastral value has been defined in law but is not currently used).

2 Other categories of valuation that can be affected by specific Polish requirements are:

- valuations for an individual investor's specific purposes and
- valuations for inclusion in financial statements.

Market value

3 Market value is defined in the *Property Management Act* as:

'The estimated amount which can be achieved on the valuation date in an arm's length transaction between a buyer and a seller who are committed to conclude a contract and where the parties had each acted knowledgeably, prudently and without compulsion.'

4 According to the definition adopted by IVS and RICS, *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.'

While the definitions are not identical, both refer to the same concept of *market value*.

Valuation for an investor's specific purposes

5 In the *Property Management Act* and Ordinance, estimating value for an individual investor's needs is mentioned but not clearly defined. According to the law, when valuing a property for this purpose, the valuer should take into account the investor's requirements and plans for further development of the property. Such estimated value can only be used as an assessment of potential value of the specific use of or investment in the property, and an appropriate clause should be included in the report.

6 In this context, estimation of individual value should be treated as *investment value* (worth) according to the Red Book Global Standards definition in **VPS 4**:

'the value of an asset to a particular owner or a prospective owner for individual investment or operational objectives.'

Valuations for inclusion in financial statements

7 Valuations for inclusion in financial statements must comply with financial reporting standards adopted by the entity. If the entity follows the *Accounting Act (Ustawa o rachunkowości)*, the basis of value will be fair value, defined in the *Accounting Act* as follows:

‘The amount for which a given asset could be exchanged, or a liability settled, in an arm’s length transaction, between willing, well-informed and non-related parties.’

8 If the entity has adopted IFRS, the basis of value will be fair value 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.’

9 It is important to recognise that the two definitions of fair value, although not identical, refer to the same concept. Valuations on either basis should produce the same result. Nevertheless, valuers must establish the correct definition and set it out in full in the terms of engagement and the valuation report.

10 The only reference to valuations for inclusion in financial statements in the *Property Management Act* states that Polish qualified valuers may conduct property valuations for tangible fixed assets and investment properties, reporting in the form of an expert opinion rather than in the form of a valuation report (*Operat Szacunkowy*). However, a Red Book Global Standards valuation undertaken for inclusion in financial statements must be in accordance with **PS 1** and **PS 2** and **VPS 1-5**.

PVPS 3 Investigations, assumptions and special assumptions

Investigations and assumptions

1 Under the terms of the *Property Management Act*, the valuer is required to check the state of the property, covering the following areas:

- improvements and developments
- legal title
- use and condition
- existing technical infrastructure and
- neighbourhood.

2 In a Red Book Global Standards valuation, **VPS 2** requires the valuer to undertake inspections and investigations to the extent necessary to produce a valuation. Guidance on the extent of investigations and assumptions required, which exceeds the legal requirements of the *Property Management Act*, is included in *VPGA 8*.

3 Assumptions are not referred to in Polish law and the Local Standards. In practice, valuers identify assumptions and caveats in valuation reports, covering issues that are usually beyond the valuation instructions (e.g. environmental issues, soil-bearing capacity, restitution claims, etc.).

4 The Ordinance advises that any assumptions made in the valuation should be specifically identified in the report. All relevant documents underlying the report should be included as an appendix to the report.

Special assumptions

5 *Special assumptions* are not explicitly identified in Polish law. The Loan Security Standard, however, mentions that a valuer may estimate the market value of a development project as if completed, reflecting the current legal state and pricing, but assuming the condition of the property upon completion.

6 Red Book Global Standards deals with special assumptions in **VPS 4**, which is mandatory for *members*. A Red Book *valuation* of a Polish property must include a clear explanation when providing an opinion of value subject to *special assumptions*, despite the fact that it is not required under Polish law.

PVPS 4 Valuations for secured lending

1 As indicated in Part 4, in the case of valuations for secured lending in Poland, the valuer is required to comply with the Loan Security Standard. *Members* should also be aware of the guidance in Red Book Global Standards under VPGA 2 ('Valuations of interests for secured lending').

2 Specific matters to be considered when valuing property for secured lending in Poland are as follows:

- *Market value* should generally be the *basis of value* for secured lending purposes. In Poland, a lender may request alternative *bases of value*, including mortgage lending value (for German banks), discounted replacement cost, vacant possession value and forced sale value. These should be clearly defined and highlighted to avoid any misinterpretation. They should be identified as a *departure* from Red Book Global Standards or as a *special assumption*.
- A valuation report that has been previously prepared for the purpose of financial reporting cannot be used for secured lending.
- Valuers should apply any guidelines for the valuation from the particular lending institution, in addition to the requirements of Red Book Global Standards. Where the lending institution's guidelines are not applied, the valuer should highlight this in the valuation report and explain the reasons.
- The valuer should comment on risk areas that have been identified and anticipated in a particular market, as well as those identified in relation to the specific property, and evaluate their effect on the property's value in the foreseeable future. These must also be drawn to the attention of the lender in the form of an appendix to the valuation report.
- Where appropriate, the valuer should provide additional evaluation of the lending risk. For example, sensitivity analysis can be prepared as an additional element to the valuation report and presented as an attachment.

3 Valuers should also comply with the following requirements:

- The valuer should meet the criteria relating to qualifications, independence, experience and conflicts of interest.
- The valuation report can be prepared in the form and in accordance with the internal procedures of the lender, unless these are contrary to Polish law and/or to **VPS 3** in Red Book Global Standards.

- In the case of portfolio valuations, each property in the portfolio should be valued individually. In addition, the valuer can be asked to provide his or her opinion on the assumption that the properties are transacted as a portfolio.
- Vacant possession valuations should be prepared in the case of owner-occupied properties. All profits of the current property owner generated by the particular business activity that is being run by the property owner should be disregarded.
- For valuation of properties under construction and development:
 - Existing, or potential and possible, planning and building consents should be taken into account.
 - Any special assumptions concerning possible future development (e.g. highest and best use) should be agreed with the lender prior to the valuation.
 - The property should be valued as at the valuation date, in the current market conditions and taking account of the stage of development. Where the property is to be valued under the special assumption that construction and development of the property is completed, the current market conditions should be assumed.
 - On the request of the lender, the valuer should present their opinion concerning the required development budget for completion of the development, on the basis of documentation provided by the lender or investor. The valuation report must clearly set out all the *assumptions* that the valuer has made, including the development costs.

PVPS 5 Valuation methodology – application in Poland

Valuation of income-producing properties

- 1** According to Polish law (*Property Management Act and Ordinance*), income-producing properties should be valued using an income approach. This is based on the assumption that a buyer will pay a price that is related to the expected income from the property. The law recognises two income valuation methods: investment and profit (*Ordinance*).
- 2** The investment method should be used for the valuation of properties that can generate rental income.
- 3** The profits method is for valuing specialised properties that can produce other types of income. Such income is usually based on profit share in the business that can be undertaken in the property. Examples of this type of property include hotels, petrol stations and cinemas.
- 4** For each method of valuation, income capitalisation or discounted cash flow (DCF) techniques can be used. The *Ordinance* requires the income capitalisation technique to be used for the valuation of properties that generate stable income, and DCF for those with variable income.
- 5** In the Red Book Global Standards glossary, the *income approach* is defined as ‘an approach that provides an indication of value by converting future cash flows to a single current capital value.’ This definition and method are similar to those set out in Polish law.
- 6** In some countries, a range of approaches can be used when valuing an investment property that provides a variable income, for example hard core/top slice or term and reversion, but Polish law only defines direct capitalisation and DCF in these circumstances. This is a significant factor when undertaking a valuation in the Polish market.

7 For investment property, *members* are therefore advised to include DCF analysis in their valuation reports in order to fulfil Polish law requirements.

8 While a wide range of yield definitions for investment methods have been identified (initial yield, equivalent yield, core yield, reversionary yield), in Polish law only the all-risks yield is recognised.

9 *Members* are therefore advised to provide a full explanation of the adopted methodology and definitions used.

Cost-based valuations

10 Polish law (*Property Management Act* and Ordinance) defines replacement value as equal to the cost of replacement of the property, less the amount of depreciation. Replacement value is used in the case of properties that, due to their type, current use or designation, cannot be sold in the market. Replacement value may also be required under certain regulations.

11 To calculate replacement value, the cost approach must be used. This is based on the assumption that the value of the property is equal to its replacement cost. The approach has two components: the value of the land, and the construction cost of the existing structures on it at the date of valuation. Polish law recognises two valuation approaches: replacement cost and reinstatement cost (Ordinance).

12 Estimating the **building replacement cost** is based on the cost of replacing existing buildings and structures using current technology and materials.

13 Estimating the **building reinstatement cost** is based on the cost to reinstate the buildings and structures using original materials.

14 To assess either replacement cost or reinstatement cost, three alternative techniques can be used: detailed technique, aggregated elements technique and indicator technique.

15 The **detailed technique** is based on the amount of construction work to be completed and the cost of each element of the work.

16 The **aggregated elements technique** uses aggregate construction works and the prices of such works.

17 The **indicator technique** is based on an indicative unit price obtained from a construction cost index multiplied by the number of units.

18 To comply with Polish law (Ordinance), *members* who perform cost valuations are required to use the *depreciated replacement cost* (DRC) method of valuation only, unless instructed otherwise by the client.

Sales comparison approach

19 According to Polish law, the sales comparison approach should be applied when prices and features of comparable properties are known (*Property Management Act* and Ordinance). Definition of comparable property is included in the *Property Management Act* and Ordinance. In some cases, the application of the sales comparison approach is mandatory under Polish law, such as in valuations for tax purposes.

20 Polish law (Ordinance) recognises three different sales comparison valuation methods as follows:

- The **comparison in pairs** method is based on an individual comparison of the valued property with each comparable property that was the subject of a transaction (Ordinance).
- The **average price adjustment** method is based on a sample of at least 11 transactions of comparable properties. The value is derived from an adjustment of an average price from the sample of transactions by an application of relevant corrections (Ordinance).
- The **statistical analysis** method is based on statistical methods (Ordinance).

21 Red Book Global Standards recognises the sales comparison valuation approach, naming it the 'market approach'. It is defined in **VPS 5**, and further guidance has been published in **Comparable evidence in real estate valuation**, RICS guidance note.

22 Polish law and Red Book Global Standards have similar foundations for the comparison approach. Evidence of comparable transactions is the basis in both cases. However, when using this approach for the valuation of property in Poland, *members* are advised to indicate clearly in the report which of the three methods outlined above has been employed. The report should also clearly indicate the features differentiating the subject property from comparable properties and explain their impact on the reported opinion of value.

Mixed approach

23 According to Polish law, the mixed approach is applicable when circumstances do not allow the application of the sales comparison or income approaches (*Property Management Act* and Ordinance). The result of a mixed approach is the *market value* (*Property Management Act* and Ordinance).

24 The **mixed approach** contains elements of the comparison, income and/or cost approaches (*Property Management Act* and Ordinance).

25 The mixed approach recognises three different valuation methods: the residual valuation method, the liquidation cost method and the estimated land indicators method (Ordinance).

26 The **residual valuation method** is applied to calculate the market value when the property is to be the subject of development, redevelopment, extension, modernisation, etc. (Ordinance). The value is calculated as the difference between the value on completion and the total development costs plus developer's profit (Ordinance). The method can be adopted only when:

- comparison and income approaches cannot be applied due to existing circumstances
- the type and scope of development is known, and
- the adopted valuation elements correspond to market conditions (Ordinance).

27 The reasons for applying the residual method must be explained in the valuation report (Ordinance).

28 Polish legal guidance on the residual method is in line with internationally recognised practice.

29 The **liquidation cost method** is applicable when onsite constructions are designated for demolition (Ordinance). The method is based on a deduction of appropriate demolition costs

for the onsite constructions from the land value (Ordinance). Any potential benefits from the sale price of demolition material is added to the value (Ordinance). The reasons for applying the liquidation cost method require appropriate commentary in the valuation report (Ordinance).

30 The **estimated land indicators method** applies to valuation of rural or forest land where comparable sales transactions are not available (Ordinance). The method is based on relevant indicators presented in the Ordinance, as well as the prices of rye or timber.

Valuation for specific purposes

31 Valuation for specific purposes such as right of perpetual usufruct payments, master plan changes, listed properties, etc. are defined by Polish law (Ordinance) but are not covered by Red Book Global Standards.

32 *Members* are required to follow Polish legal regulations if instructed to value properties for such purposes in Poland.

Part 6 Polish valuation practice guidance applications – advisory

VVPGA 1 Valuation of businesses and business interests

1 Any future economic benefit arising from a business or an interest in a business (goodwill) in the case of the valuation of trade-related properties valued using the profits method should be disregarded.

2 Polish law does not require that valuations of businesses and business interests are carried out by members of certain professions (e.g. Polish qualified valuers). However, **PS 2** ('Member qualification') in Red Book Global Standards must be complied with.

VVPGA 2 Valuation of individual trade-related properties

1 There are no references to valuation of individual trade-related properties in the *Property Management Act* or the Ordinance. The information in the Ordinance relates only to the profit methodology, which is also described in VPGA 4 in Red Book Global Standards.

2 The Loan Security Standard contains guidance on the valuation of trade-related properties such as hotels, petrol stations, hospitals, medical centres and recreational properties, which can be valued based on their income and the valuation of similar properties.

VVPGA 3 Valuation of plant and equipment

1 Polish law requires that plant and equipment permanently affixed to real property must be valued by Polish qualified valuers, with punitive measures imposed by the *Property Management Act* for a breach of this condition. There is no reference to the valuation of plant and equipment not affixed permanently to real property in the *Property Management Act*.

VVPGA 4 Valuation of intangible assets

1 There are no references to valuations of intangible assets either in the *Property Management Act* or the Ordinance. However, *members* must comply with **PS 2** in Red Book Global Standards.

VVPGA 5 Valuation of personal property including arts and antiques

1 Polish law does not require that valuations of antiques and works of art are carried out by members of certain professions. However, RICS valuers must comply with **PS 2** in Red Book Global Standards.

VVPGA 6 Valuation in markets susceptible to change: certainty and uncertainty

1 There are no references to this in Polish law. In Red Book Global Standards, guidance is included in VPGA 10.

Delivering confidence

We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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