

SELECTED ASPECTS OF REAL ESTATE APPRAISAL METHODOLOGY: COMPARATIVE ANALYSIS OF BULGARIA AND POLAND

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Pursuant to the effective legislation, appraisers of real estate in Bulgaria can be either natural persons or legal entities. In the cases, in which legal entities carry out such activity, at least one of the managers, or a member to the management body, should hold an appraiser's certificate in one's capacity of a natural person¹. As at the fourth quarter of 2014, there are 2194 natural persons, holding certificates of real estate appraisers. The number of companies, holding such certificates and appraise such assets are considerably less in number (170 companies in total)².

In general, an appraiser's certificate in Bulgaria is awarded upon successful completion of a special tests, following undergoing a preparatory course, or self-study preparation on part of candidates. The procedure does not set any restrictions regarding the type of higher education the candidates for appraisers might have completed. An exception to that rule applies to candidate appraisers of land plots in forest areas, where a higher education in forestry is a prerequisite³.

Pursuant to the law, the only operating professional organization of appraisers across the country, is the Chamber of Independent Appraisers in Bulgaria⁴ (CIAB). It was established in 2009, according to the Independent Valuers Act⁵ (IVA), which had been passed an year earlier. CIAB is a member to the European Group of Valuers' Associations⁶ (TEGoVA), as well as to the International Valuation Standards Council⁷ (IVSC). The Professional Organization of the Appraisers keeps a Public Register of independent valuers, in which entries are made of all persons certified to appraise real estate, as well as evaluate other types of assets (including plant and equipment, intellectual and industrial property rights, trade companies and receivables, financial assets and financial institutions, agricultural lands and perennials, land plots in forest areas, other types of assets). Currently, membership to CIAB is not mandatory, while its structure includes a total of 8 regional colleges.

¹ Закон за независимите оценители. // ДВ, № 98, 2008, посл. изм. № 19, 2011.

² <http://ciab-bg.com>.

³ Костов, И. Развитие на дейността по оценяване на недвижими имоти в България. София: Дайрект Сървисиз, 2013.

⁴ <http://ciab-bg.com>.

⁵ Закон за независимите оценители. // ДВ, № 98, 2008, посл. изм. № 19, 2011.

⁶ <http://tegoval.org>.

⁷ <http://ivsc.org>.

The basic principles of appraisers, pursuant to art. 4 of the IVA are as follows: independence, objectivity, professional expertise, confidentiality, professional conduct, honesty and responsibility. These principles constitute the foundations of the Code of Professional Ethics of Appraisers⁸.

The profession of valuers have developed dynamically in the last twenty years, whereas the first valuation reports were elaborated in relation to the privatization processes in Bulgaria, going on mainly in the 90s of the last century. Ever since then, those making extensive use of the appraisers' services are the governmental institutions (including ministries, agencies, municipalities, courts, etc.), banks and other types of financial institutions, private and state companies of all sectors of economics, as well as individual natural persons. The appraiser's profession has been constantly improving through the years, both through the CIAB's activities and the workshops, round tables, discussions and qualification courses organized by it, as well as through implementing the new worldwide valuation standards⁹.

The real estate appraisers in Poland are natural persons with professional qualifications in the field of real estate appraisal. Such qualification entitles them to determine the value of all types of property, as well as machinery and equipment which is permanently fixed to the ground¹⁰. The professional qualification of the appraisers in Poland was introduced in 1992. Shortly after that the professional rules in this field were elaborated and introduced into the Real Estate Act of 21 August, 1997. Pursuant to the Polish legislation, a real estate appraisal can only be performed by a person having that specific professional qualification (under the threat of putting under arrest or fine, envisaged by the law¹¹). Both business organizations as well as natural persons are entitled to provide appraisal services. The entrepreneur may provide property valuation services, if he employs at least one valuer.

The format and the contents of the appraiser reports in Poland have been provided for by an Ordinance of the Council of Ministers on real estate appraisal and preparation of valuation reports dated 21 September, 2004.

The main rules applying to appraisers in Poland are: independence, professional objectivity, responsibility, adherence to principles of preparation of valuation reports, special diligence and expertise¹².

The stages on acquiring a professional qualification in the field of valuation in Poland are the following: completing a higher education; postgraduate qualification with specialization in the field of valuation; undergoing a six-month internship; sitting for a state final written and oral certification examination. As at the fourth quarter of 2014, 6077 natural persons in Poland are holders of real estate appraiser's certificate¹³.

Appraisers across the country may be members to various professional organizations, such as associations, chambers and others. Such membership is not obligatory, based on a free choice of membership to a professional organization. Being a member of one organization does

⁸ Кодекс за професионалната етика. КНОБ. // <http://ciab-bg.com>.

⁹ Костов, И. Развитие на дейността по оценяване на недвижими имоти в България. София: Дайрект Сървисиз, 2013.

¹⁰ Cymerman R., Hopfer A., System, zasady i procedury wyceny nieruchomości, Polska Federacja Stowarzyszeń Rzeczoznawców Majątkowych, Warszawa, 2010.

¹¹ Dydenko J. red., Szacowanie nieruchomości. Rzeczoznawstwo majątkowe, LEX a Wolters Kluwer business, Warszawa, 2012.

¹² Dydenko J. red., Szacowanie nieruchomości. Rzeczoznawstwo majątkowe, LEX a Wolters Kluwer business, Warszawa, 2012.

¹³ <http://www.mir.gov.pl>.

not preclude a possibility of membership to a different one. Most operating appraisers would join regional valuers' associations, which, on their part, are members to the Polish Federation of Valuers' Associations (PFVA). It includes 24 regional organizations, representing over 3500 members. The main objective of PFVA is creating conditions for improving the skills and qualifications of the appraisers. The Federation also represents its members before public institutions, legislative bodies, observing the implementation of ethical principles in striving after transparency and working towards facilitating concluding real estate deals across the country¹⁴. PFVA is a member to the following international organizations: The European Group of Valuers' Associations¹⁵ (TEGoVA), The International Valuation Standards Council¹⁶ (IVSC), The Central European Real Estate Associations Network¹⁷ (CEREAN), The World Association of Valuation Organizations¹⁸ (WAVO), Northern Virginia Association of Realtors¹⁹, USA (NVAR) [the honorary membership]²⁰.

The established regional valuers' associations have the following main tasks: integrating the appraisers' society, organizing training and workshops, conducting preparatory courses for acquiring professional qualifications and internships, etc.

The aim of the herein report is to consider the underlying aspects of real estate appraising in Bulgaria and Poland, to analyze a part of the methodology applied in this process in both countries, and to come up with some conclusions and brief recommendations.

The valuation practice in Bulgaria is based mainly on the International Valuation Standards (IVS), supported by the International Valuation Standards Council (IVSC), and which are known as the 'White Paper'. However, when it comes to prepare valuation reports in relation to privatization processes, the Legal Analysis and Privatization Valuations Ordinance of July 10, 2012 is applied. Making use of the European valuation standards of TEGoVA ('The Blue Paper') is also an appropriate option in performing real estate appraisals across the country.

Pursuant to IVS the basis of valuation can fall in one of the following categories: market value, investment value, special value and fair value.

- The 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.
- The investment value is the value of an asset to the owner or a prospective owner for individual investment or operational objectives. It is often used for measuring the effectiveness of the investment. The difference between the investment value of an asset and its market value determines the motives of the sellers or buyers to enter the market.
- The special value is an amount that reflects particular attributes of an asset that are only of value to a special purchaser. A special purchaser is a particular buyer for whom a particular asset has special value because of advantages (physical, geographical, economic or legal) arising from its ownership that would not be available to other buyers in a market.
- The fair value is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties,

¹⁴ <http://pfsrm.pl>.

¹⁵ <http://tegoval.org>.

¹⁶ <http://ivsc.org>.

¹⁷ <http://cerean.com>.

¹⁸ <http://wavoglobal.org>.

¹⁹ <https://nvar.com>.

²⁰ <http://pfsrm.pl>.

taking into account the advantages and the disadvantages for them in relation to the deal. Usually this value is resorted to in a legal context.

- The term synergistic value defines an additional element of value created by the combination of two or more assets or interests where the value of the combined asset or interest is worth more than the individual sums of the original asset or interests. Provided such synergies are available only to one particular purchaser, it would constitute an example of a special value.

Following the specifics of the Polish legislation, and, in particular, article 150 of the Real Estate Act, the value of real estate can be the market value, replacement value, cadastral value, or other types of value.

The market value²¹ is determined in relation to properties which can be traded. This value is the most probable price that could be obtained on the real estate market, having taken into account the price levels of realized deals, as well as making the following assumptions: the parties are independent from each other, do not act under pressure and are willing to conclude a deal; the parties have sufficient time to negotiate, according to the market conditions. The market value is determined without taking into consideration the property related sale-and-purchase costs, as well as any additional taxes and fees.

The replacement value is determined with respect to the current condition of real estate in use, taking into account the fact, that they cannot be traded on the market, whereof some specific regulations have to be resorted to. The replacement value is equal to the price that would be paid for an asset's recovery, taking into account its level of wear and tear.

The cadastral value is related to the provisions on determining the taxes payable with respect to a real estate. This value will be determined on the basis of estimates of the real estate representative for various types of properties in the area of the municipality.

The other types of values in Poland may include²²: mortgage loan value, investment value (depending on the specific requirements of a particular investor), fair value for accounting purposes, etc.

The methodology of real estate appraisal in Poland includes applying various approaches, methods and techniques. The legal provisions in relation to this methodology include the following three hierarchical levels²³:

- the Real Estate Act - providing regulation on various types of values, the related terminology, as well as evaluation approaches;
- ordinance of the Council of Ministers on real estate appraisal and preparation of valuation reports dated 21 September, 2004 - determines the methods and techniques of valuation, providing detailed instructions on the various types of appraisals and valuations, as well as on the format and contents of the appraisers' reports;
- Professional Valuation Standards - provide the rules on practicing the appraiser's profession.

²¹ Cymerman R. i in., Szacowanie nieruchomości, Politechnika Koszalińska, Koszalin, 2012; Cymerman R., Cymerman J., Zasady szacowania nieruchomości, Politechnika Koszalińska, Koszalin, 2013; Konowalczyk J., Wycena nieruchomości do celów kredytowych, Wydawnictwo Poltext, Warszawa, 2014; Wilkowska-Kołąkowska D., Wycena nieruchomości. Operat szacunkowy. Rzeczoznawstwo majątkowe, LexisNexis, Warszawa, 2012.

²² Żak M., Wycena nieruchomości, Wydawnictwo C.H. Beck, Warszawa, 2012; Dydenko J. red., Szacowanie nieruchomości. Rzeczoznawstwo majątkowe, LEX a Wolters Kluwer business, Warszawa, 2012.

²³ Dydenko J. red., Szacowanie nieruchomości. Rzeczoznawstwo majątkowe, LEX a Wolters Kluwer business, Warszawa, 2012.

Currently, the implementation of the majority of professional standards in Poland is not mandatory, except for the standard 'Valuation for Securing Debts', which is compulsory to all appraisers pursuant to an Ordinance of the Minister of Infrastructure, dated January 8, 2010.

Three main valuation approaches are recognized worldwide: market approach, income approach and cost approach.

The definition on these approaches, provided by IVS can be accepted as accurate. Based on IVS definition, the market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

The income approach provides an indication of value by converting future cash flows to a single current capital value.

The cost approach provides an indication of value based on the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction.

However, unlike the IVS approaches on real estate appraisals, the so called combined approach is also applied in Poland. It is resorted to whenever impossible to implement any of the above considered valuation approaches. The underlying methods related to this combined approach are: the residual method (about land plots with prospects for future development), demolition costs method (applied to real estate for demolition, whereas the value of land is deducted from the demolition costs of real estate components, while adding the value of materials, remaining after demolition), method of estimated land indicators (appropriate to valuations in the field of agriculture and forestry, in the absence of information on market deals; the method involves a sample ratio of a unit of land to the price of unit of crops of production).

The approaches applied in both countries, considered above, have identical basic valuation methods, namely: the method of comparison (under the comparison approach); an investment method (under the income approach); depreciated replacement cost method (under the cost approach). The definitions of those methods are similar in both Bulgaria and Poland.

The comparison method is based on immediate comparison against verified market information on transactions²⁴ (Poland) with/or offers for sale of real estate (Bulgaria), having comparable characteristics²⁵, similar to those of the object of valuation²⁶. Following a selection of comparable properties, in a similar area and of characteristics, similar method of construction and other comparable attributes, the significant similarities and/or differences are established, making adjustments to determine a market price, based on which the estimate value of the real estate under valuation is determined.

The comparison approach in Poland has three forms: the method of pairwise comparison; method of average price adjustment; method of statistical market analysis.

Under the method of pairwise comparison, the prevailing market conditions in relation to transactions with properties similar to the appraised subject estate shall be obtained, such comparable properties providing grounds for direct comparison.

The method of the average price adjustment makes use of a group of properties, similar in characteristics to the appraised real estate, that have been a subject of market transactions. Under

²⁴ Rącka I., Sales of Residential Properties Illustrated with the City of Kalisz in: *The Journal of International Studies*, Vol. 6, No 2, 2013.

²⁵ Palicki S., Rącka I., Ceny poznańskich i kaliskich nieruchomości lokalowych w percepcji studentów. Wybrane wyniki badań znajomości rynku i preferencji potencjalnych nabywców, in: *Biuletyn Stowarzyszenia Rzeczoznawców Majątkowych Województwa Wielkopolskiego*, NR 1-2 / (39-40), 2014.

²⁶ Palicki S., A Valuation of Public Spaces: Selected Research Results, *Real Estate Management and Valuation*, Volume 21, Issue 1, 2013.

this method an average price adjustment is applied in relation to comparable properties, using weighted coefficients depending on the individual characteristics of the real estate.

The method of statistical market analysis makes use of a marketing sampling on real estate in general, in a certain period of time. This method can be applied in relation to mass appraisals (it is dedicated to determination of the cadastral value).

The investment method in both Bulgaria and Poland is applied as a result of capitalization of the forecast net annual profit from a real estate. The main component in relation to this method is the market lease price of comparable properties, similar to the subject real estate²⁷.

In certain cases, under the income approach, the method of discounted cash flows can be applied, in which a discount rate is applied to updated future expected income streams (of forecast and post-forecast periods) to estimate the present value.

With respect to real estate, for which the intended purpose of use is inappropriate or impossible to change (such as gas stations, cinemas, theatres, etc.), as well as due to limited market information the profit method can be applied. Under this method, an estimate of the income is made as a share of the profit which belongs to the owner of the appraised real estate.

Under the depreciated replacement cost method the replacement value is determined, based on acquisition costs of a similar asset offering equivalent utility, but which is of a current design and functionality, or the costs for reproducing an exact copy of the asset subject of appraisal. The replacement cost is adjusted by depreciations, reflecting the physical, functional and economic obsolescence of the subject asset in comparison to an equivalent asset.

Table 1 shows the possible sources of information in relation to appraisal of real estate in Bulgaria and Poland.

Table 1

Main sources of information related to the process of real estate appraisal in Bulgaria and Poland

Bulgaria	Poland
<ul style="list-style-type: none"> - appraisal standards (IVS, EVS, etc.); - documents evidencing ownership and additional certificates; - information from state agencies and specialized institutes; - publications in newspapers, specialized magazines and Internet sites; - practical experience of the appraiser in charge of the particular valuation; - data from completed real estate transactions (from real estate agencies); - data on current construction costs (from 	<ul style="list-style-type: none"> - land plot registers; - cadastral data; - registry of network utilities; - registry of monuments; - appraisal tables and charts (currently unavailable); - data on spatial planning; - information from tax authorities; - information from government agencies; - authenticated deeds (including held by housing cooperatives, for the sale of property and cooperative rights to premises;

²⁷ Илиев, Пл. Оценяване на недвижими имоти. Варна: Наука и икономика, 2011.

construction companies), etc.;	- energy-saving certificates, etc. - additionally: all the sources used in Bulgaria
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Source: Authors' own researches based on: Костов, И. Развитие на дейността по оценяване на недвижими имоти в България. София: Дайрект Сървисиз, 2013; Сутерман Р., Норфер А. (red.), Źródła informacji w gospodarowaniu nieruchomościami, Polska Federacja Stowarzyszeń Rzeczoznawców Majątkowych, Warszawa, 2009; Dydenko J. red., Szacowanie nieruchomości. Rzeczoznawstwo majątkowe, LEX a Wolters Kluwer business, Warszawa, 2012.

Table 2 shows a summary of the information regarding the possibilities for applying the appraisal approaches in both Bulgaria and Poland. Based on the data provided, a conclusion can be arrived at, that the comparison and market approaches are most often made use of in both countries, whereas the cost and combined approaches are less frequently used.

Table 2

Applicability of real estate approaches in Bulgaria and Poland

Comparison Approach	Income Approach
Residential properties	Office premises/buildings
Studios	Retail premises/buildings
Garages	Warehouses
Retail premises	Hotels
Office premises	Gas stations
Warehouse premises	Theaters
Unattached land plots, etc.	Cinemas, etc.
Cost Approach	Combined Approach
Fences and improvements in relation to grading and leveling land plots	Land plots with potential for development
Worn-out buildings	Real estate with buildings to be demolished, etc.
Water-supply sources, etc.	

Source: Authors' own researches.

Based on the data and results represented in the herein research, the following summary and more important conclusions can be made.

The profession of the real estate appraiser is a comparatively recent one in both Bulgaria and Poland, taking into consideration the practices established worldwide, in countries of longer-established market economy.

The procedure on acquiring appraiser's certificate in Poland is more complex than that in Bulgaria, mainly as a result of the requirement for undergoing a six-month internship, as well as sitting for a specialized written and oral examination.

Seemingly, the appraisers (natural persons) of real estate in Poland are higher in number than those in Bulgaria, (taking into account the absolute numbers). However, should the ratio of the number of real estate appraisers per 1000 people of the population be established, a conclusion can be made, that appraisers in Bulgaria are twice more in number than those in Poland, taking into account the following aspects: population of Poland – 38,5 million people; population of Bulgaria – 7,2 million people; number of real estate appraisers in Poland – 6077 people; number of real estate appraisers in Bulgaria – 2194 people; ratio of the number of real estate appraisers to 1000 people of the population in Poland – 0,15; ratio of the number of real estate appraisers to 1000 people of the population in Bulgaria – 0,30. It would be appropriate to remark at this point, that based on CIAB data, a considerable number of certified appraisers in Bulgaria do not constitute a going concern.

The Chamber of Independent Appraisers in Bulgaria and the Polish Federation of Valuers' Associations (PFVA) have similar functions and carry out similar activities. However, unlike the Bulgarian organization, the Polish organization is a member to more international valuers' associations, which can also be considered an advantage.

The appraisal practice principles in both countries are almost identical, with fewer differences. This accounts for being claimed that the activities of appraisers worldwide is very similar, which in turn renders the implementation of unified appraisal standards possible. For these same reasons, collaboration among individual appraisers organizations worldwide is of significant importance to their general welfare and development.

The Polish legislation in the field of valuation activities is more extensive and of larger scope than the Bulgarian. Should the regulations in Poland be followed closely, it would become clear that a strict hierarchical structure exists in this respect. First, the Real Estate Act has determined the foundations of the appraising process (various value bases, appraisal approaches, terminology, etc.). Second, the Ordinance of the Council of Ministers on real estate appraisal and preparation of valuation reports dated 21 September, 2004 determines the specific methods and techniques of valuation, provides various instructions, as well as the format and contents of the valuation reports. Third, Professional Valuation Standards have been introduced across the country. The aspects emphasized can also be introduced in Bulgaria.

The effective valuation standards in both countries are recommendatory in nature, while in relation to the difference of the methods used, a distinctive marks is the regulated combined approach to valuation activities in Poland, as well as the use of subcategories (methods and techniques) of the comparison approach.

The main sources of information used in the process of real estate appraisal in Bulgaria and Poland generally are similar, excluding two differences: in Poland there is a legal obligation to use authenticated deeds as the one and only source of information about the market prices. Appraisers have access to information of all the transactions that have taken place (access fee). A specific phenomenon in Polish methodology of appraisal is the mixed approach.

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Keywords: real estate, appraisal, methodology, Bulgaria, Poland.