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Transparency through the use of international standards

Luc Hermans
Ruud Kathmann
Marco Kuijper

Netherlands Council for Real Estate Assessment



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Transparency through the use of international standards

- Transparency is key to a well-functioning real estate assessment process. Whether it is standardization of data quality control or the standardization of measurement practices, standards will improve the transparency of the different subprocesses. This paper will give an overview of standards used in the Netherlands. The Netherlands tries to adopt international standards as much as possible. Furthermore, the Netherlands participates in keeping these standards up to date. Important standards are the international standard on valuation information (ISO/AWI 19152-4, Geographic information, Land Administration Domain Model (LADM), Part 4: Valuation information) and the standards developed by the International Association of Assessing Officers (IAAO). The paper will identify benefits and challenges that are intertwined with the use of international standards.
- Special interest will be given to the IAAO Standard on Ratio Studies, which is used for the quality control of automated valuation models. In combination, the standard on automated valuation models will be addressed. Furthermore, the Dutch national standard on property measurement will be addressed in relation to the International Property Measurements Standards (IPMS).

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Presenter introductions

- **Luc Hermans**

- Data Scientist @Netherlands Council for Real Estate Assessment
- Senior Research Fellow @Center for Appraisal Research and Technology
- PhD-Researcher @Ulster University
- Member of the IAAO Research and Standards Committee



- **Ruud Kathmann**

- Management Team @Netherlands Council for Real Estate Assessment
- Information technology
- Valuation methods
- Techniques for quality control



Introduction

- A common understanding of concepts has always been necessary
- Measurement of arable land of Nile flood plains in ancient Egypt
- Dimensions of sea transport containers
- International Standards Organization (ISO) & National standards
- "Great things happen when the world agrees"

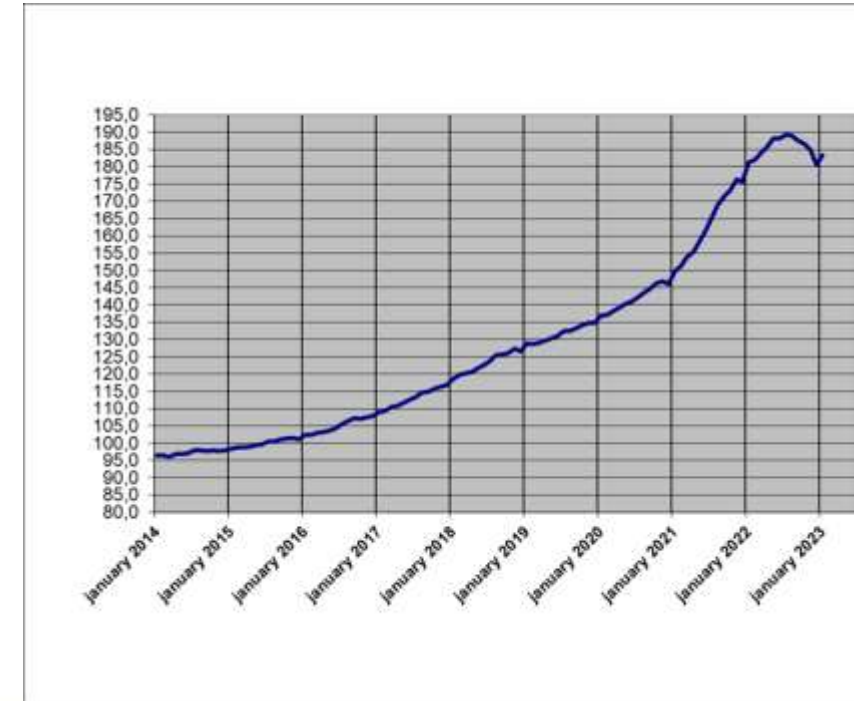
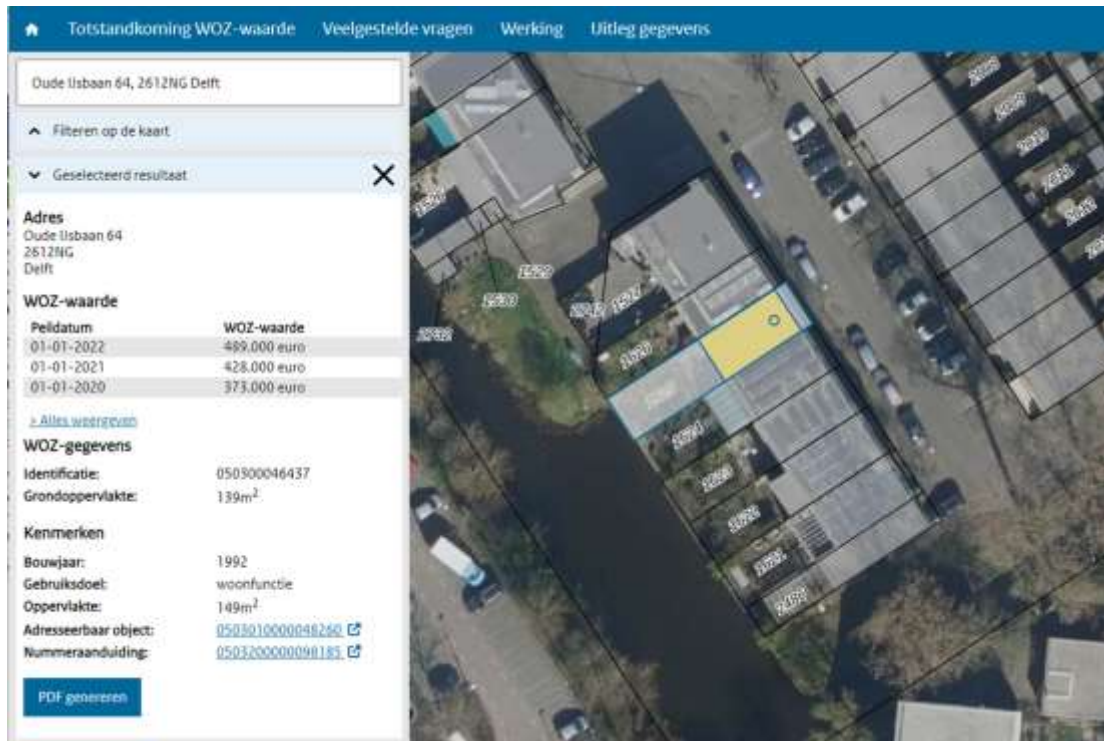


A short introduction to the Netherlands

- Kingdom
- 17.3 million inhabitants
- Area: 41,526 km² (16,221 sq mi)
- 342 municipalities
- 9 million real estate properties
 - 8 million residential / 1 million non-residential
- Annual valuation of all properties
- Total value: € 2,750 billion



Transparency of valuation result (residential)



The Netherlands' policy towards international standards

- Applying international standards where possible
- Applying national standards for specific purposes
- Active involvement in the standard setting process
 - International
 - National

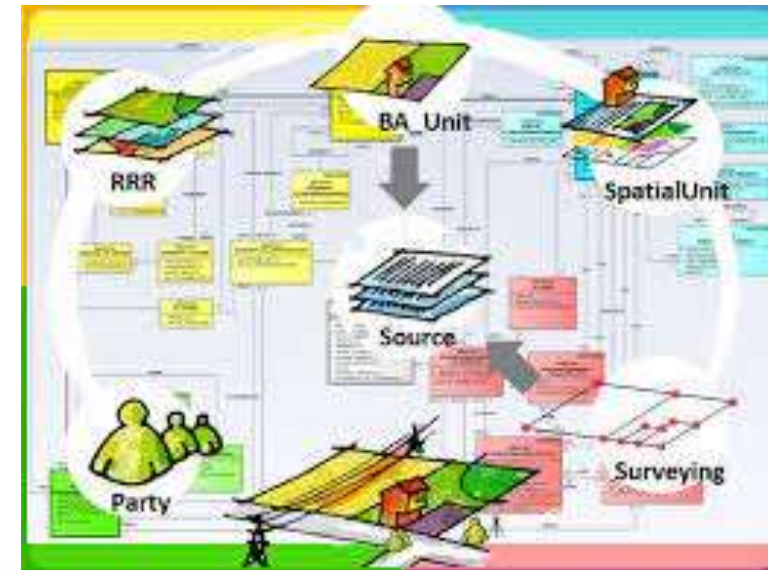
International (European) Valuation Standards

- IVSC
- TEGoVA
- Most important: definition of market value:
 - *“The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion”*
- Total immovable property (land and improvements)
- Valuation assumptions
 - “full and unencumbered ownership” and “full and immediate use”



Land Administration Domain Model (LADM)

- ISO 19152:2012 standard on Geographic information - Land Administration Domain Model (LADM):
 - Defines basic components of land administration
 - Provides an abstract conceptual model:
 - People and organizations
 - Ownership rights
 - Spatial units
 - Spatial sources & spatial representations



LADM, extension for valuation

- Enables the combining of land administration and valuation information
 - Data needed for (mass) valuation
 - Data to use results of mass valuation
 - Base for information modelling for value based property tax
- Provides a basis for national and regional profiles
 - Links international concept to system of base registers in the Netherlands
 - Links Netherlands information model system for mass valuation tot international developments
 - Proof of feasibility of 3D information on real estate objects for valuation
 - Netherlands country profile

Standards by the International Association of Assessing Officers

- Standard on Data Quality
- Standard on Automated Valuation Models
- Standard on Ratio Studies

- Focussed on North America, but applicable in many more contexts
- Official translation available made by the NCREA



Standard on Automated Valuation Models (AVMs)

- Preliminary data AVMs
- Interactive valuation applications AVMs
- Repetitive AVMs
- Blended AVMs
- Research AVMs



Standard on Ratio Studies

- Quality control of mass appraisal results
- Assessment to sales price ratio = assessment/sales price
- Accuracy (Market level) -> measured by the median ratio
- Precision -> measured by the coefficient of dispersion (COD)
- Consistency
 - Horizontal equity -> between like properties
 - Vertical equity -> between value strata

International Property Measurement Standard (IPMS)

- Dutch national standard on property measurement:
 - NEN2580 → very formal and often very hard to understand for a laymen
- Informal measurement standard through partnerships (residential):
 - Real estate agents
 - Municipalities / register of buildings
 - NCREA
- International Property Measurement Standard (IPMS)
 - Especially interesting for international comparison



Conclusions

- Standards improve transparency
- Standards help in communication
 - Between colleagues
 - Between other stakeholders
 - In building trust
- Standards have to be well considered
 - what we include has consequences



#171212267

Questions & Contact information

- Questions?
- Contact information:
 - L.hermans@waarderingskamer.nl
 - R.kathmann@waarderingskamer.nl

