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TEGOVA
The European Group of Valuers' Associations

EUROPEAN BUSINESS VALUATION STANDARDS 2026 & EUROPEAN INTANGIBLE ASSET VALUATION STANDARDS 2026

Members of the European Business Valuation Standards Board present at the TEGOVA General Meeting, Riga, 21-23 May 2026

From left to right: Georgi Georgiev, Stefanos Mamakis (Vice-Chairman), Ivars Strautiņš (Chairman), Ella Dunphy, Artūrs Žuromskis, Nino Beraia

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EDITORIAL

The Appraisal Institute Seminar

"AI on AI Season 1: Ethical and Practical Use of Generative AI in Real Estate Appraisal"

Michael MacBrien

Artificial intelligence is all the rage these days, 'rage' being an appropriately double-edged word.

Valuers – like so many other professionals – must navigate the greatest and fastest-moving practice changer ever, shrouded in uncertainty and trial and error.

I've had the privilege of viewing the entire seven-hour 'AI on AI' seminar and I found it extraordinary – with instructors who are all top valuers combining expert use of the latest tools with grounded conjecture about where the profession goes from here.

First, mastering the basic tools like prompting (the technique of asking questions to the machine including how to do so safely, reducing the risk of hallucinations) and demonstrating powerful AI uses such as damage assessment on an inspection where AI not only identifies the damage and assesses its severity, but even recommends remediation, estimates the cost of repairs and determines how the damage will impact the overall valuation. Or how to make a messy shopping centre floor plan attractive in a few clicks.

There is essential advice on confidentiality and disclosure of AI use, as always with focused examples.

Second, taking the student through valuation with agentic AI – a technology barely a year old that can take steps on its own and move toward a goal, planning and executing multi-step workflows without constant supervision.

Finally, the seminar moves into the valuation future, but in the most grounded and plausible way, with the magisterial "A Day in 2032" described by a brilliant instructor who has a running conversation with the AI during the inspection as if it were a colleague.

He then – *with extraordinary fine touch* – shows how to build your own GPT, how to instruct it on what you want and what presentation format including narrative style. And how he feeds it with his own favoured market analysis documentation because he doesn't want it to search the web and give away confidential information.

A humanistic experience with a strong moral fibre

Early on, one of the students asks "You can do a super valuation, but what if the client doesn't need it and just wants a traditional one that takes five minutes with AI?" The answer emerged from the following sessions: Those valuations are lost. To survive, you need to deal in complexity.

Which is just what the seminar does.

For instance, after demonstrating the depth and range of AI-powered market analysis, an instructor makes the point that traditionally valuers have not done the in-depth market analysis they're capable of. They should reinvest AI time savings in:

- Executing better analysis of risks and opportunities, real-time monitoring, advanced models and predictive analysis
- Integrating and monitoring data and identifying what is important and relevant
- Personalising predictive analysis

His byword: "Resist commoditisation."

Or again, there is an illustration of the many facets of a proposal for valuation services that the AI produced in two minutes, work that would have taken the instructing valuer five hours, *but that required spending 1 ½ hours checking and perfecting it* (result: the government agency he submitted it to told him they were impressed).

Another instructor states that thanks to properly used AI, the quality and defensibility of valuation reports is going way up. The client's visual experience and the narrative that creates the evidence are clearer – all of it for less effort *understood properly*.

Experiencing this seminar is not dystopian – it is can-do optimistic, in the finest American work ethic tradition: time saved through AI shouldn't be spent by the pool; it should be invested in serious checking and validation, in deepening and tailoring the research, and in enhancing the valuation client experience. The future is definitely not blind reliance on the technology; it's a deep and complex man/machine interaction in which *both get better.*

And it's all garden fresh. Final recording: 17 March 2026.

An Appraisal Institute/TEGOVA collaboration provides Europeans with access to the full AI on AI Season 1 seminar for a total cost of 99 USD.

Access via the TEGOVA website

Michael MacBrien, Editor

EUROPEAN BUSINESS VALUATION STANDARDS
2026 EDITION • 2028

EUROPEAN INTANGIBLE ASSET VALUATION STANDARDS
2026 EDITION • 2028

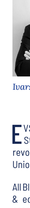
BUSINESS VALUATION

TEGOVA

#01

European Business Valuation Standards 2026 (EVS-BV 2026)

A history, a continuity and a European cutting edge



Ivars Strautiņš

EVS-BV, like all European Valuation Standards or 'Blue Books', is a planet revolving around a sun – the European Union.

All Blue Books – real estate, plant, machinery & equipment, business, and intangible assets – were conceived as the valuation component of the EU Internal Market, itself one of the central instruments ensuring the prosperity and security of EU citizens and businesses as well as the projection of European values and power in a dangerous world. In consequence, any new edition of a Blue Book must adapt to Europe's evolving policy priorities and geopolitical challenges.

As such, EVS-BV 2026 has greatly enhanced focus on business valuation for the digital and sustainable economy, key to Europe's sovereignty. This is most immediately evident in the Guidance, starting with what is no longer there:

Intangible asset valuation has taken on such importance, also in the priorities of the European authorities, that we have completely detached it from EVS-BV and created European Intangible Asset Valuation Standards 2026 (EVS-IA 2026), published in April. Practicing business valuers will easily understand the rationale for a separate intangibles Blue Book when they see the modern, coherent and comprehensive framework that it establishes for intangible asset valuation.

Startups and scaleups are a very special valuation challenge, because they typically have negative cash flows, limited or no historical financial data, and sometimes lack valuable tangible assets. Those factors reduce the usefulness of traditional valuation approaches because startups cannot provide the financial performance indicators on which the value estimates of those approaches are based. That's why specific methods for startup valuation, based more on qualitative than quantitative criteria, are used and are in consequence described and explained in EVS-BV.

Valuation uncertainty is a marker of our times, causing us to produce guidance that addresses the definition of valuation uncertainty, explores both quantitative and qualitative methods for its assessment, provides strategies for risk mitigation, and outlines best practices for reporting uncertainty in valuation reports.

ESG factors have become established as a guiding and institutional framework which investors, creditors, regulators and other market participants can use to assess business risk, sustainability and the long-term economic efficiency of enterprises. In this light, the guidance does not change the underlying principles of business valuation laid down in the Standards. Rather, it reflects changes in the datasets and analytical perspectives that market participants use to manage their expectations for future financial benefits and the related risks. In this sense, the ESG guidance should be regarded as an analytical framework which allows certain aspects of the economic results and risk exposure of an enterprise to be assessed.

Nor does the distinctly European nature of EVS-BV 2026 stop at the guidance.

As always with all Blue Books, **valuation definitions** are those laid down in EU law whenever these exist.

And as always, a major and distinct part of EVS-BV 2026 is **European Union Legislation and Business Valuation**' covering valuation for EU company law, of credit institutions, of insurance and reinsurance institutions, for investment funds, for taxation legislation, for transfer pricing, for state aid rules, of ESG factors, and for insolvency proceedings or restructuring plans. The intention is not to turn valuers into legal experts, but to enhance their consciousness of the high and rapidly increasing impact of EU law on markets and business activity.

EVS Taxonomy

There has always been a hierarchy of norms in the Blue Books, but these were not delineated clearly enough. Following on EVS-IA 2026, EVS-BV 2026 is designed under the new EVS Taxonomy, dividing all Blue Books into three parts:

A. **Normative** – valuers must comply. **Areas covered:** Standards, Code of Conduct, Educational Requirements

B. **Guidance** – advice to valuers on how to proceed, but not mandatory. **Areas covered:** Valuation Methodology, Guidance Notes

C. **Background and Resources** – Background offers useful contextual knowledge for valuers, but does not constitute guidance. Resources comprise supporting information and reference material. **Areas covered:** European Union Legislation and Business Valuation, Recognition of TEGOVA Qualification (Recognised European Business Valuer (REV-BV)), Membership of TEGOVA, Glossary

A New Sense of Urgency

European valuation standard setting must keep pace with the acceleration of events.

Since this year, Blue Books are digital-only, to enable more frequent adaptation. We have taken inspiration from EU legislative procedure, by which an original EU law is often followed by a series of amending laws over time, with periodical production of consolidated texts integrating the changes from the amending laws and highlighting the amendments and their dates in the consolidated texts. Again like EU law, we shall periodically produce a "recast", a complete revision in a new Blue Book with a new date.

We are already planning the first amendments to EVS-BV 2026 in the fields of valuation of financial instruments and valuation for financial reporting needs.

I share the belief of Paulo Barros Trindade, Chairman of TEGOVA, that European Business Valuation Standards 2026 and European Intangible Asset Valuation Standards 2026 will make a significant contribution to the resilience of our "ever-closer Union".

Ivars Strautiņš **REV REV-BV** is Chairman of the European Business Valuation Standards Board.

2022

Valuing Intellectual Property for Estate, Gift and Other Purposes: Intangible Economy Valuation of Intellectual property (IP) relating to collection strategies, monetization and welfare

Dr. Jay Fishman
Dr. Jeffrey Gilbert

1. The Global Intangible Asset Average Rates of Return Compared to Market Capitalization

Intangible assets are the most dynamic, fast-evolving and most-valuable assets in the global economy. Intangible assets are the most-valuable assets in the global economy. Intangible assets are no longer peripheral assets. Intangible assets are the most-valuable assets in the global economy. **Intangible assets are the most-valuable assets in market-driven economies. Intangible assets are the most-valuable assets in the global economy.**

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The Compact Disc Intellectual Property Collection Strategy: Intangible Economy Valuation

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Low Linka, National Park
Valued in 2020 as part
of Indonesia's sustainable
capital assessment

#03 Turning Indonesia's Wealth into Value: Natural capital, carbon markets & sustainable management

Arik Hartjoyo
Ricika Hastuti
Ilsari Sastaman

Indonesia is blessed—or burdened, depending on how we act—with extraordinary natural resources. From the dense forests of Kalimantan to the sprawling mangrove belts of Sumatera and the coral reefs surrounding Papua, these nature's natural resources form a living foundation for the country's economy, environment, and culture. Yet, in pursuing cheaper energy, faster land, and cheaper exploitation that sustains the economy and supports millions of livelihoods, for far decades, much of this natural capital has invisible, unrecorded in budgets, unrecorded in GDP, and underestimated in policy.

That invisibility has a cost. When forests are cleared, peatlands drained, or mangroves cut down, Indonesia loses carbon storage, biodiversity, and ecosystem services. These ecosystems mean increased vulnerability to climate shocks. We are losing potential these critical services, such forest areas provide largely invisible in fiscal and asset management systems. Recent flood events in Aceh provide a stark reminder of this reality. Intense rainfall in upstream areas, combined with forest loss upstream and watershed degradation, triggered flooding that affected hundreds of thousands, disrupted transport infrastructure, and disrupted local economic activities. Such events are not isolated meteorological incidents—they were signals of ecological imbalance. The question is: Aceh therefore underscores a broader national issue, environmental services must be recognized not only as ecological functions but as measurable economic assets.

> *"The East Kalimantan and Jambi cases demonstrate that when valuation and inclusion go hand in hand, carbon finance can become a real tool for development."*

But in recent years, Indonesia has begun to change course, recognizing that managing nature as capital is not only an environmental imperative but an economic necessity. A quiet transformation is now underway—one that recognizes nature as a productive asset, not a liability.

The turning point was a Presidential Regulation establishing a Carbon Pricing Framework. For the first time, environmental services such as carbon sequestration, ecosystem protection, and biodiversity conservation were given legal and economic recognition. This framework, which harmonizes beyond Paris Agreement and Net Zero 2030 strategy. The plan envisions by 2030, Indonesia's forests will where carbon flow through a cross-ministry way toward achieving net zero emissions by 2060 or sooner.

The pilots in East Kalimantan offers a concrete example of how this ambition can translate into measurable outcomes. East Kalimantan's Carbon Fund generated 2.8 million tons of verified emission reductions between 2019 and 2021, valued at around USD 11 million, with a further Net Sink 2030 strategy. The plan envisions by 2030, Indonesia's forests will where carbon flow through a cross-ministry way toward achieving net zero emissions by 2060 or sooner.

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Yet carbon finance alone cannot carry the entire weight. Indonesia could pioneer biodiversity credits, payment for ecosystem services or watershed protection schemes modeled after the European Union's innovative biodiversity financing mechanisms. The EU's Natural Capital Financing Facility demonstrates how public guarantees can mobilize private investment for high-impact conservation projects, blending finance, and fiscal innovation. For example, revenues from carbon pricing can be integrated into regional budgets through ecological fiscal transfers, similar to local governments' transfer incentives for conservation forests or peatlands. Or the Ministry of Finance has been exploring green sukuk and climate-linked bonds to attract private investment in environmental projects.

Beyond carbon, the same valuation logic can extend to other ecosystem services. Indonesia could pioneer biodiversity credits, payment for ecosystem services or watershed protection schemes modeled after the European Union's innovative biodiversity financing mechanisms. The EU's Natural Capital Financing Facility demonstrates how public guarantees can mobilize private investment for high-impact conservation projects, blending finance, and fiscal innovation. For example, revenues from carbon pricing can be integrated into regional budgets through ecological fiscal transfers, similar to local governments' transfer incentives for conservation forests or peatlands. Or the Ministry of Finance has been exploring green sukuk and climate-linked bonds to attract private investment in environmental projects.

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However, realizing this vision requires strong governance. Indonesia's natural capital management must be anchored within its national accounting system and planning frameworks, and just as important are the social and environmental safeguards that protect communities and ecosystems from unintended harm. The Ministry of Finance's emerging guidance on inclusion of local communities in carbon markets is a step in the right direction. Carbon transaction revenues can be used for clear documentation of co-benefits—livelihood improvement, biodiversity gains, and restored landscapes.

Indonesia can also learn from Brazil's innovation in blended finance. Programmes such as ProFlorestas—backed by Petrobras and the Amazon Fund—combine carbon credits with credit purchases, channelling capital into restoration and conservation projects. Adapting similar models could allow Indonesia to scale up reforestation, peatland restoration, and mangrove rehabilitation, while providing new revenue streams for rural communities.

> *"In essence, Indonesia's Carbon Pricing and sustainable land management frameworks represent more than just environmental policy; they are the foundation of a national capital economy."*

In essence, Indonesia's Carbon Pricing and sustainable land management frameworks represent more than just environmental policy; they are the foundation of a national capital economy. They redefine the relationship between development and the environment, positioning natural assets as an investable asset. This shift aligns Indonesia with global trends, where countries are embedding nature into their economic systems. Yet Indonesia has the advantage of being in a rare build-to-system with the benefit of others' experiences, enabling the pilots that plugged earlier market experiments.

> *"In essence, Indonesia's Carbon Pricing and sustainable land management frameworks represent more than just environmental policy; they are the foundation of a national capital economy."*

To make this vision work, policymakers need a compelling narrative. The story is not just about protecting forests for future generations, and paradoxes are not merely anecdotes—they are lessons. Recognizing their value, regulating their use, and rewarding their protection ensures the nation can generate sustainable growth while safeguarding the ecosystems that underpinning the economy. This shift aligns Indonesia with global trends, where countries are embedding nature into their economic systems. Yet Indonesia has the advantage of being in a rare build-to-system with the benefit of others' experiences, enabling the pilots that plugged earlier market experiments.

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Indonesian high forest-related carbon emissions are a major lever to protect economic activity and land use. Transformation, from the expansion of commodity-driven sectors to sustainable management, pulp and paper and mining has required large-scale land conversion, often in carbon-rich forest and peat areas.

A Sharia-compliant investment certificate.

REAL ESTATE VALUATION

Lara Linda National Park
Issued in 2020 as part of Vojvodina's national capital environment

#04

Building Cost Intelligence and the Future of Valuation Practice in Serbia: The NAVIS Construction Cost E-Bulletin and the Integration of Transparent AI Education

Đorđija Đić

Abstract

A credible construction cost intelligence is becoming an essential analytical foundation for valuation practice across Europe. Drawing on a decade of construction to-be-knowledge infrastructure is provided by the NAVIS Construction Cost E-Bulletin and the National Association of Appraisers of Serbia(NAVIS). The platform provides structured, independently verified estimates of hard construction costs across different building types and geographic regions in Serbia, offering a standardised reference point for cost-to-value analysis, insurance, investment analysis, insurance assessment, and financial risk management. The E-Bulletin is being piloted in projects and current input prices and is updated periodically in response to market change.

This article presents the methodological foundations, practical applications, and professional significance of the NAVIS E-Bulletin within the evolving European valuation environment. Particular attention is given to its role in improving consistency, transparency, and professional accountability in strengthening cost-to-value analysis and cost and residual valuation methods. The article also explores how the publication fits within the broader institutional and educational framework of NAVIS, including accredited training programmes aligned with the European Valuation Standards and its forward-looking integration of transparent artificial intelligence tools in valuation education.

The Serbian experience illustrates how structured cost intelligence, professional education, and technological competence can jointly support the ongoing development of valuation practice in an increasingly data-driven and technologically evolving environment.

Keywords

construction cost benchmarking; hard construction costs; valuation methodology; insurance value; cost and residual valuation; residual method; energy efficiency; artificial intelligence in valuation; professional education; Serbia; NAVIS

1. Introduction

Across Europe, the real estate sector is undergoing structural transformation driven by sustainability requirements, regulatory harmonisation, and rapid technological change. Within this environment, credible construction cost intelligence has become an essential analytical foundation beyond traditional reporting. It supports evidence-based valuation, improves methodological consistency, and enhances transparency in a heterogeneous environment characterised by regional diversity and changing cost drivers.

Recent global developments have further strengthened the relevance of construction costs to external shocks, including geopolitical tensions, supply chain disruptions, and energy price volatility. These factors underscore the importance of maintaining credible construction cost intelligence for the importance of regularly updated and reliable cost benchmarks.

2. Scope and Methodological Foundation

The NAVIS Construction Cost E-Bulletin represents structured construction cost estimates for various categories and subcategories of buildings in the Republic of Serbia. The indicators are derived from analysis of contracted and completed projects over the previous three years, while current market conditions are reflected through prevailing market information and expressed in euros per square metre of gross building area and floor area (as offered according to size, number of storeys, underground levels, and construction standard.

A fundamental methodological clarification is that the publication reflects hard construction costs only. These include direct building costs associated with structural works, finishing works, and technical installations. Land acquisition costs, professional fees, administrative fees, developer margins, and financing costs are not included and must be added separately by the user depending on project-specific conditions. This distinction provides a standardised reference cost benchmarking while preserving flexibility for financial modelling.

3. Regional and Sustainability Dimensions

Construction costs vary significantly across Serbian regions due to differences in labour markets, logistics, infrastructure, and local supply capacity. The NAVIS E-Bulletin reflects these variations, enabling more accurate estimation of replacement costs across metropolitan areas and regional areas.

The publication also addresses the growing importance of sustainability in construction. Energy efficiency requirements with performance improvements of 20–30% are increasingly reflected in projects, and these requirements affects both capital expenditure and long-term asset performance.

4. Specific Factors – ESG Factors and Sustainability

The E-Bulletin delivers updated cost data derived from realised projects, detailed building classification, and integrated information on material and labour inputs. These features make it a practical decision-support tool for valuation professionals. An illustrative example of the cost structure provided in the E-Bulletin is shown in Figure1.

Figure1: Illustrative hard construction cost structure for residential buildings in Serbia, expressed as indicative cost shares by major building components. Source: NAVIS Construction Cost E-Bulletin.

As illustrated in Figure 1, the E-Bulletin provides a structured breakdown of construction costs by key work categories, including architectural works, installations, structural works, and finishing works. The data is further differentiated by building type, enabling users to compare estimates, analyse cost drivers, and cost benchmarks and closely reflect the characteristics of the subject asset.

The NAVIS Construction Cost E-Bulletin provides comprehensive coverage of residential, commercial, and industrial property types. Residential residential blocks, commercial buildings, shopping centres, hotels, and industrial facilities. Valuation is further complemented by detailed data on construction material prices and dedicated sections addressing energy-efficiency upgrades and the growing importance of sustainability in valuation practice.

In addition to construction cost benchmarks, the NAVIS E-Bulletin provides time series data on key construction material prices. As illustrated in Figure 2, these indicators track movements in essential inputs, including reinforced steel, concrete, energy sources, and selected building materials. This information provides additional analytical context for understanding cost dynamics and supports more accurate valuation inputs, particularly in periods of market volatility.

Such data enhance the transparency of cost formation and enable users to better assess short-term fluctuations in construction inputs. In illustrative example of the price trend in Figure 2 (Price of key construction materials), prices are currently being updated to reflect more recent market conditions.

Figure2: Illustrative Price trend in reinforcement steel as an example of construction material price monitoring. Source: NAVIS Construction Cost E-Bulletin.

Its user base extends beyond valuers to institutional market participants, including insurance companies and investors seeking consistent construction cost benchmarks for risk assessment, collateral evaluation, and underwriting.

Historically, when determining insurable value, valuers often relied on construction cost data from insurance companies or other sources. This reveals an significant tension between estimates. Similar inconsistencies arise in the cost approach and residual method, where construction cost represents a critical analytical input. By providing a common analytical reference point, the NAVIS Construction Cost E-Bulletin supports more consistent and transparent cost intelligence and professional judgment.

This approach reflects the emerging reality that valuation practice will increasingly combine data-driven analysis with professional judgment. Technology performs large-scale data processing and modelling, while the valuer retains responsibility for interpretation, verification, and final opinion of value.

5. Institutional and Educational Context

Founded in 1996, the National Association of Appraisers of Serbia (NAVIS) is the successor of the Law on Real Estate Valuers of 1991 the association became accredited by the Ministry of Finance of the Republic of Serbia as an authorised provider of professional education.

Training programmes are aligned with national regulatory requirements and incorporate educational standards established by The European Group of Valuer Associations (TEGOVA), including competencies required for the Recognised European Valuer (REV) designation.

6. Preparing for the AI-Enabled Profession

NAVIS has expanded its educational framework to include structured training in automated valuation systems and artificial intelligence. The associated educational framework developed by Professor Nenadija Đić emphasises that AI-enabled valuation training as a tool for improving analytical transparency and critical interpretation of automated outputs.

This approach reflects the emerging reality that valuation practice will increasingly combine data-driven analysis with professional judgment. Technology performs large-scale data processing and modelling, while the valuer retains responsibility for interpretation, verification, and final opinion of value.

7. The Evolving Role of Data and Technology in Valuation Practice

The increasing availability of structured cost data and predictive analytics reshapes the way valuation is performed in practice. Valuation cost benchmarks provide a stronger empirical foundation for valuation, while data-driven analytics improve the ability to process and interpret large volumes of data.

At the same time, the role of the valuer remains central. Professional judgment continues to be essential in selecting appropriate inputs, interpreting results, and ensuring that automated conclusions are robust and defensible. Rather than replacing professional judgment, technological developments increase the demand for professional competence, requiring that valuers are equipped to operate effectively in a more data-intensive professional environment.

8. Conclusion

The NAVIS Construction Cost E-Bulletin represents more than a statistical publication. It forms part of a broader professional infrastructure combining market monitoring, professional education, and sustainability assessment within a technologically mature environment. The Serbian experience illustrates how structured cost intelligence, professional education, and technological competence can jointly support the ongoing development of valuation practice in an increasingly data-driven and technologically evolving environment.

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2022

Valuing Coastal Properties Applying Business Use Value

Jamieson Legaltech

"The national pricing of risk is increased, and the value of coastal living, in such conditions, market value routinely overestimates the long-term economic value of the asset."

Valuing coastal properties along Queensland's Gold Coast, Sunshine Coast, Moreton Bay and Cairns, Australia's most popular coastal cities, is a complex and contentious exercise. The intersection of rising sea levels, increasing insurance premiums, and evolving regulatory frameworks creates a valuation landscape where traditional methods may fail to capture the true economic value of the asset.

Valuers must navigate the interplay between market sentiment, environmental risk, and long-term economic viability. This article explores the key challenges, the methodologies used to address them, and the implications for property owners, investors, and lenders.

1. Introduction: The Rise of the Challenge

Coastal properties have long been a cornerstone of Australian real estate, boasting premium prices and high demand. However, the intersection of climate change, insurance costs, and regulatory uncertainty has created a new challenge for valuers. The traditional valuation methods, which rely on market comparables and discounted cash flows, are increasingly insufficient to capture the true economic value of these assets. The Queensland Gold Coast and Sunshine Coast are particularly vulnerable to these pressures, with rising insurance premiums and stricter building codes in coastal zones adding layers of complexity to the valuation process.

This shortcomings may seem arcane to the casual observer, but the implications are significant. Property owners may have much should it pull down a beach house and rebuild it to meet new flood or fire risk mitigation requirements, or should a lender underwrite a mortgage on a property that will value expires the guarantor? When insurance premiums double, or when a property becomes uninsurable, the value of the asset may obtained from comparables can be significantly overstated, leading to financial losses for both buyers and sellers.

The Gold of Coastal Valuers (GCV) has emerged as a specialist firm addressing these challenges. Founded by a team of valuers with over a decade of experience in coastal properties, GCV has developed a proprietary methodology that integrates environmental risk, insurance costs, and regulatory compliance into the valuation process. The firm's approach has been adopted by a number of leading lenders and insurers, who now rely on GCV's valuations for their own risk assessments.

This article explores the challenges in detail, the methodologies used to address them, and the implications for property owners, investors, and lenders. It is an exploration of evolving 2022 valuation landscape.

2. The Core Challenges

Insurance Costs and Availability: Climate change is a major driver of rising insurance premiums and, in some cases, the withdrawal of insurance coverage from coastal properties. Insurance companies are increasingly pricing in the risk of flood, storm surge, and erosion, making it impossible for some properties to obtain affordable coverage. This creates a cascading effect: if a property cannot be insured, it cannot be mortgaged, and its value plummets.

Regulatory Uncertainty: Coastal zoning laws and building codes are constantly evolving, with new restrictions on development in high-risk areas. The uncertainty surrounding future regulations makes it difficult for valuers to assess the long-term viability of a property. For example, a property may be zoned for residential use today, but a new coastal protection plan may prohibit any new construction within a few years.

Market Sentiment: Perceptions of risk can significantly impact property values. If buyers believe that a coastal property is at risk of flooding or erosion, they may be willing to pay less for it, even if the property has not been affected by any actual damage. This sentiment can be driven by media coverage, social media, or word of mouth, and it can be difficult to quantify.

Environmental Risk: Rising sea levels, increased storm surge, and erosion are all real threats to coastal properties. The severity of these risks varies depending on the specific location, but they must be taken into account when valuing a property. The lack of historical data on extreme weather events makes it difficult to accurately predict future risks.

Data Scarcity: Traditional valuation methods rely on market comparables and discounted cash flows. However, there is a lack of reliable data on the impact of climate change on property values. This makes it difficult for valuers to assess the long-term viability of a property and to account for the risks associated with climate change.

3. Methodologies Used to Address the Challenges

To address these challenges, valuers are employing a variety of methodologies, including:

Scenario Analysis: This involves creating a number of scenarios with different assumptions about the future, including sea level rise, storm surge, and changes in insurance costs. The property is then valued under each scenario, to assess the impact of these factors on the property's value.

Discounted Cash Flows: This is a traditional method of valuation, but it is being adapted to incorporate the risks associated with climate change. The discount rate is adjusted to reflect the increased risk associated with coastal properties, and the cash flows are projected over a longer period of time.

Insurance Cost Modelling: This involves forecasting future insurance premiums, based on the property's location, elevation, and proximity to the coastline. This information is then used to adjust the property's value, to reflect the impact of insurance costs on the property's overall profitability.

Expert Opinion: Valuers are also relying on the opinion of experts in the fields of climate change, insurance, and coastal engineering to assess the risks associated with coastal properties. This expertise is invaluable in providing a more accurate and nuanced assessment of the risks and their potential impact on property values.

4. Implications for Property Owners, Investors, and Lenders

The challenges and methodologies discussed in this article have significant implications for property owners, investors, and lenders. Property owners may find that their properties are worth less than they thought, and that it is more difficult to obtain insurance and to sell their properties. Investors may need to adjust their investment strategies to account for the risks associated with coastal properties, and lenders may need to tighten their lending standards and to require more collateral.

5. Conclusion

The valuation of coastal properties is a complex and evolving challenge, with significant implications for property owners, investors, and lenders. The traditional methods of valuation are insufficient to capture the true economic value of these assets, and new methodologies are being developed to address the challenges posed by climate change, insurance costs, and regulatory uncertainty. The Gold Coast Valuers (GCV) has emerged as a leader in this field, developing a proprietary methodology that integrates environmental risk, insurance costs, and regulatory compliance into the valuation process. The adoption of these methodologies by lenders and insurers underscores the growing importance of accurate and nuanced valuations in the coastal property market. As climate change continues to exert its influence, the demand for these specialised valuations will only increase, making it a critical area of expertise for valuers and stakeholders alike.

6. Reporting

The report must comply with S 13 Valuers Registration Act 2010 and include:

- Identification of the property
- Purpose of the valuation
- Description of rural assets and improvements
- Assumptions and limitations
- Sources, data and technical details
- Methodology and calculations
- Comparable sales evidence
- Market analysis
- Definition between market value and business value
- Application of capacity to income approach
- Disclosure of conflicts and interests

7. Conclusion

Valuing coastal properties in Queensland requires a specialised approach that integrates environmental risk, insurance costs, and regulatory compliance into the valuation process. The Gold Coast Valuers (GCV) has developed a proprietary methodology that addresses these challenges, providing a more accurate and nuanced assessment of the risks and their potential impact on property values. The adoption of these methodologies by lenders and insurers underscores the growing importance of accurate valuations in the coastal property market. As climate change continues to exert its influence, the demand for these specialised valuations will only increase, making it a critical area of expertise for valuers and stakeholders alike.

8. Formula

$$\frac{\sum_{t=1}^{n} \frac{CF_t}{(1+r)^t} + \frac{CF_n(1+g)}{(r-g)}}{(1+r)^n}$$

Where:
- CF_t = expected cash flow
- r = Income yield by year t
- g = Growth rate
- n = Number of years
- t = Discount rate
- CF_n = Last cash flow

3.0 Hierarchy of Evidence

Level 1: Local comparables from an active market, with recent sales, adjusted for location, size, and condition. Valuers must document all adjustments and justify the weightings. Insufficient data triggers escalation to Level 2 or 3. Transparency is critical, with all assumptions and calculations documented for audit purposes.

Level 2: Narrative analysis, or hedonic adjustments, when comparables are limited. Valuers must justify the adjustments and explain why Level 1 was insufficient. Documentation must include the rationale for escalation.

Level 3: Replacing cost minus 20% when no comparables exist. Valuers must justify the exclusion of Levels 1 and 2. Documentation must include the rationale for the exclusion and the calculation of the 20% adjustment.

4.0 Determining the Discount Rate

The discount rate is the most sensitive input, requiring a blend of market data, lender guidance, and risk premiums. Valuers must document the rationale for the chosen rate, ensuring it reflects the property's specific risks and market conditions.

Component	Source	Adjustment Rationale
Base Rate (Risk-Free Rate)	10-year Australian Government Bond Yield	Reflects the time value of money and serves as the foundation for all other components.
Market Risk Premium	Industry benchmarks, lender guidance	Accounts for the overall risk of the property market, including liquidity and market volatility.
Specific Risk Premium	Property-specific factors (e.g., age, condition, location)	Adjusts for the unique risks associated with the property, such as its age, condition, and location.
Lender Guidance	Lender requirements	Ensures the rate aligns with lender expectations, which may include a minimum or maximum rate.

5.0 Capitalisation Rate

Component	Source	Adjustment Rationale
Base Rate	Market data, lender guidance	Reflects the market's expectation for income yield.
Risk Premium	Property-specific factors (e.g., age, condition, location)	Adjusts for the unique risks associated with the property, such as its age, condition, and location.
Growth Rate	Market data, lender guidance	Accounts for the expected growth in income over time.

6.0 Residual Site Value

The residual site value is the value assigned to the land, after accounting for all development costs, including demolition, design, and profit margins. This value is crucial for determining the feasibility of a development and for assessing the impact of regulatory changes on land values.

7.0 Data Requirements

Valuers must maintain a robust data pipeline, including:

- Comparable sales data, including sale prices, dates, and property characteristics.
- Lease agreements, including rental rates, terms, and conditions.
- Market reports, including vacancy rates, absorption rates, and market trends.
- Lender guidelines, including minimum requirements for loan-to-value ratios, debt service coverage ratios, and other financial metrics.
- Regulatory documents, including zoning laws, building codes, and environmental regulations.

8.0 Documentation

All valuations must include a comprehensive report that includes:

- Property description, including location, size, and condition.
- Market analysis, including comparable sales data and market trends.
- Income analysis, including rental rates, vacancy rates, and operating expenses.
- Development analysis, including demolition costs, design costs, and profit margins.
- Discount rate and capitalisation rate calculations, with supporting rationale.
- Residual site value calculation, with supporting rationale.
- Sensitivity analysis, to assess the impact of changes in key assumptions.
- Conflicts of interest, if any, and how they were mitigated.

9.0 Conflicts of Interest

Valuers must disclose any conflicts of interest, such as ownership of the property or a relationship with the borrower. The firm must have a clear policy for managing conflicts of interest, ensuring that valuations are objective and independent.

10.0 Quality Control

The firm must have a robust quality control process, including peer reviews and audits, to ensure the accuracy and consistency of its valuations. The firm should also have a clear process for addressing any errors or omissions in its valuations.

11.0 Conclusion

The valuation of business use properties requires a specialised approach that integrates market data, lender guidance, and regulatory requirements. The hierarchy of evidence ensures the most reliable data is prioritised, while the discount rate and capitalisation rate must be carefully calibrated to reflect the property's specific risks and market conditions. The residual site value provides a critical benchmark for assessing the feasibility of development projects. The firm must maintain a robust data pipeline and a comprehensive documentation process to ensure the accuracy and consistency of its valuations. The firm must also have a clear policy for managing conflicts of interest and a robust quality control process to ensure the independence and objectivity of its valuations.

12.0 Formula

$$\frac{\sum_{t=1}^{n} \frac{CF_t}{(1+r)^t} + \frac{CF_n(1+g)}{(r-g)}}{(1+r)^n}$$

Where:
- CF_t = expected cash flow
- r = Income yield by year t
- g = Growth rate
- n = Number of years
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Level 3: Replacing cost minus 20% when no comparables exist. Valuers must justify the exclusion of Levels 1 and 2. Documentation must include the rationale for the exclusion and the calculation of the 20% adjustment.

14.0 Determining the Discount Rate

The discount rate is the most sensitive input, requiring a blend of market data, lender guidance, and risk premiums. Valuers must document the rationale for the chosen rate, ensuring it reflects the property's specific risks and market conditions.

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Base Rate (Risk-Free Rate)	10-year Australian Government Bond Yield	Reflects the time value of money and serves as the foundation for all other components.
Market Risk Premium	Industry benchmarks, lender guidance	Accounts for the overall risk of the property market, including liquidity and market volatility.
Specific Risk Premium	Property-specific factors (e.g., age, condition, location)	Adjusts for the unique risks associated with the property, such as its age, condition, and location.
Lender Guidance	Lender requirements	Ensures the rate aligns with lender expectations, which may include a minimum or maximum rate.

15.0 Capitalisation Rate

Component	Source	Adjustment Rationale
Base Rate	Market data, lender guidance	Reflects the market's expectation for income yield.
Risk Premium	Property-specific factors (e.g., age, condition, location)	Adjusts for the unique risks associated with the property, such as its age, condition, and location.
Growth Rate	Market data, lender guidance	Accounts for the expected growth in income over time.

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The residual site value is the value assigned to the land, after accounting for all development costs, including demolition, design, and profit margins. This value is crucial for determining the feasibility of a development and for assessing the impact of regulatory changes on land values.

17.0 Data Requirements

Valuers must maintain a robust data pipeline, including:

- Comparable sales data, including sale prices, dates, and property characteristics.
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- Lender guidelines, including minimum requirements for loan-to-value ratios, debt service coverage ratios, and other financial metrics.
- Regulatory documents, including zoning laws, building codes, and environmental regulations.

18.0 Documentation

All valuations must include a comprehensive report that includes:

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- Income analysis, including rental rates, vacancy rates, and operating expenses.
- Development analysis, including demolition costs, design costs, and profit margins.
- Discount rate and capitalisation rate calculations, with supporting rationale.
- Residual site value calculation, with supporting rationale.
- Sensitivity analysis, to assess the impact of changes in key assumptions.
- Conflicts of interest, if any, and how they were mitigated.

19.0 Conflicts of Interest

Valuers must disclose any conflicts of interest, such as ownership of the property or a relationship with the borrower. The firm must have a clear policy for managing conflicts of interest, ensuring that valuations are objective and independent.

20.0 Quality Control

The firm must have a robust quality control process, including peer reviews and audits, to ensure the accuracy and consistency of its valuations. The firm should also have a clear process for addressing any errors or omissions in its valuations.

21.0 Conclusion

The valuation of business use properties requires a specialised approach that integrates market data, lender guidance, and regulatory requirements. The hierarchy of evidence ensures the most reliable data is prioritised, while the discount rate and capitalisation rate must be carefully calibrated to reflect the property's specific risks and market conditions. The residual site value provides a critical benchmark for assessing the feasibility of development projects. The firm must maintain a robust data pipeline and a comprehensive documentation process to ensure the accuracy and consistency of its valuations. The firm must also have a clear policy for managing conflicts of interest and a robust quality control process to ensure the independence and objectivity of its valuations.

"There has developed an integrated legislative and regulatory framework, which ensures that the valuation of the bona fide property exposed to coastal erosion."

1. The French Model: Legislative and Professional Requirements

France has developed a comprehensive legislative and regulatory framework, specifically addressing the valuation of coastal properties.

1.1 Legislative Basis

Law n° 2021-1104 du 22 août 2021 portant lutte contre le dérèglement climatique et renforcement de la résilience face à ses conséquences (Climate and Resilience Law) introduced the concept of "bona fide property exposed to coastal erosion." This law provides the legal foundation for valuers to assess the impact of coastal erosion on property values.

2019 Décret-Loi Espagnol (Spanish Decree-Law) mandates that valuers must consider the impact of coastal erosion on property values when assessing properties within 500 meters of the coastline. This law also requires valuers to use at least two valuation methods and to document the rationale for their chosen methods.

Article L. 1111-10 du Code Général de la Propriété des Personnes Publiques (General Code of Public Property) provides the legal framework for the valuation of coastal properties, including the consideration of erosion risk and the impact of climate change on property values.

1.2 Professional Standards

The French Chamber of Expertise (Chambre des Experts) has issued professional standards for valuers, which include:

- Mandatory consideration of erosion risk in all valuations of coastal properties.
- The use of at least two valuation methods to ensure accuracy and consistency.
- Detailed documentation of the rationale for the chosen valuation methods and the impact of erosion risk on the property's value.

2. Spanish Model: Legislative and Professional Requirements

Spain has also developed a robust framework for the valuation of coastal properties, with a focus on the impact of climate change and erosion.

2.1 Legislative Basis

Law 7/2021, de 20 de mayo, de cambio climático y transición energética (Climate Change and Energy Transition Law) introduced the concept of "bona fide property exposed to coastal erosion." This law provides the legal foundation for valuers to assess the impact of coastal erosion on property values.

2019 Décret-Loi Espagnol (Spanish Decree-Law) mandates that valuers must consider the impact of coastal erosion on property values when assessing properties within 500 meters of the coastline. This law also requires valuers to use at least two valuation methods and to document the rationale for their chosen methods.

Article 36 de la Ley de Costas (Coastal Law) provides the legal framework for the valuation of coastal properties, including the consideration of erosion risk and the impact of climate change on property values.

2.2 Professional Standards

The Spanish Institute of Valuers (Instituto de Valuadores) has issued professional standards for valuers, which include:

- Mandatory consideration of erosion risk in all valuations of coastal properties.
- The use of at least two valuation methods to ensure accuracy and consistency.
- Detailed documentation of the rationale for the chosen valuation methods and the impact of erosion risk on the property's value.

3. Comparative Analysis

Aspect	France	Spain
Legislative Basis	Law n° 2021-1104 du 22 août 2021 portant lutte contre le dérèglement climatique et renforcement de la résilience face à ses conséquences (Climate and Resilience Law)	Law 7/2021, de 20 de mayo, de cambio climático y transición energética (Climate Change and Energy Transition Law)
Professional Standards	Mandatory consideration of erosion risk in all valuations of coastal properties. The use of at least two valuation methods to ensure accuracy and consistency. Detailed documentation of the rationale for the chosen valuation methods and the impact of erosion risk on the property's value.	Mandatory consideration of erosion risk in all valuations of coastal properties. The use of at least two valuation methods to ensure accuracy and consistency. Detailed documentation of the rationale for the chosen valuation methods and the impact of erosion risk on the property's value.
Key Concepts	"Bona fide property exposed to coastal erosion"	"Bona fide property exposed to coastal erosion"
Impact on Valuations	Consideration of erosion risk in all valuations of coastal properties. Use of at least two valuation methods. Detailed documentation of the rationale for the chosen valuation methods and the impact of erosion risk on the property's value.	Consideration of erosion risk in all valuations of coastal properties. Use of at least two valuation methods. Detailed documentation of the rationale for the chosen valuation methods and the impact of erosion risk on the property's value.

4. Conclusion

The valuation of coastal properties is a complex and evolving challenge, with significant implications for property owners, investors, and lenders. The traditional methods of valuation are insufficient to capture the true economic value of these assets, and new methodologies are being developed to address the challenges posed by climate change, insurance costs, and regulatory uncertainty. The Gold Coast Valuers (GCV) has emerged as a leader in this field, developing a proprietary methodology that integrates environmental risk, insurance costs, and regulatory compliance into the valuation process. The adoption of these methodologies by lenders and insurers underscores the growing importance of accurate valuations in the coastal property market. As climate change continues to exert its influence, the demand for these specialised valuations will only increase, making it a critical area of expertise for valuers and stakeholders alike.

Jamieson Legaltech, Chartered Valuers and Property Consultants, specialises in valuations for the Gold Coast, Sunshine Coast, Moreton Bay and Cairns. The firm's expertise in coastal properties and its proprietary methodology have been instrumental in shaping the market for coastal property valuations. The firm's insights are sought after by lenders, insurers, and property owners seeking to navigate the complex landscape of coastal property valuations.

REAL-ESTATE VALUATION

Lees Links National Park house in Kitsap on Washington's capital accessment

#08

From Black Box to Glass Box: Bridging the gap between AVMs and professional judgment

Nemanja Stanišić

Abstract

Automated Valuation Models (AVMs) Workforce across the European real estate sector, a "trust gap" has emerged between algorithmic outputs and professional valuation standards. This article examines the transition from the "Black Box" of AVMs that move beyond opaque methodologies. By combining Feature Contribution Analysis with Multi-Modal Learning – integrating tabular data, geospatial data, and unstructured text – valuation shifts, one now estimates and communicates the model-attributed contribution of specific property attributes, enabling professionals to understand what the models actually "see" and to validate those signals against market evidence. The proposed framework is intended not as a replacement for professional judgment, but as a tool for enhancing the rational accountability of valuation. The framework is presented as a "Black Box" property data gaps, and a value curve, not a black box. The explanation layer or renewable rational accountability of valuation. Professional judgment is not a replacement for human data tips unfortunately.

Introduction: the Transparency Challenge

For years, the relationship between professional valuers and Automated Valuation Models (AVMs) has been defined by opacity. The traditional "black box" approach has a breaking down a valuation into its constituent parts, and a value curve, not a black box. a threat into a powerful "Co-pilot" for the professional valuer.

Multi-Modal Analysis: Beyond Tabular Data

Real estate value is not driven solely by spreadsheets. It is the sum of a complex ecosystem of factors. The proposed framework captures this reality by combining three distinct data streams:

- **Computer Vision & Layout Analysis:** The system uses Vision Transformer models to analyze interior photos and floor plans. This allows the model to grade the condition of finishes and evaluate layout geometry (distinguishing between a modernized apartment and one requiring renovation).
- **Sentiment & Environmental Context:** Using NLP models, the system extracts sentiment from neighborhood surroundings (e.g., green spaces vs. industrial parcels).
- **Geospatial Intelligence:** The model autonomously calculates proximity to Points of Interest (POIs) and transportation hubs, does not just measure "distance to centre," but evaluates the density of amenities and transport. This significantly refining the location adjustment.

> "This transparency transforms the AVM from an authoritative dictator into an analytical assistant."

Deconstructing Value: Feature Contribution Analysis

The result of this complex analysis must be presented simply. The core innovation required to build trust is Feature Contribution Analysis (commonly known as interpretable primary layer is), "waterfall" chart. This visualizes how each of our multi-modal signals that are converted into a monetary adjustment. For example, a condition grade, layout efficiency score, amenity density.

Within the platform, the final value is presented as a base price plus a series of adjustments. This approach summarizes the estimated contribution of each variable, allowing the user to see a diagnostic waterfall that supports rapid plausibility checks by an expert. This shows that while a property's "Location" contributes +€50k to the valuation, its "Condition" is penalized -€20k and its "Structure" or "Condition" might apply a discount.

Crucially, this numerical decomposition is coupled with a natural language "Justification" for each component of the waterfall. This textual layer acts as a verification layer, surfacing the key points and assumptions that underpin the numerical output. This dramatically accelerates the initial phase of valuation, shifting the focus from presenting the critical data points and those that within a prospect's "Location" contribution, the system might highlight "Location" contribution, the system might highlight the "Structure" or "Condition" might apply a discount.

Data Fusion: Bridging Expectations and Reality

A robust, current valuation must synthesize two complementary data streams: verifiable historical transaction evidence and real-time market sentiment harvested from active listings and supply dynamics. A sophisticated AVM must therefore ingest these dual pipelines:

- **Cadastral Data (Historical Reality):** Solid prices from the cadastre form the bedrock of the comparable analysis, providing the verifiable baseline.
- **Active Listings (Current Sentiment):** Live listings provide the contemporary market sentiment, employing normalization techniques – such as filtering outliers and applying lot-to-lot discounts – to ensure that raw asking prices do distort transaction-based evidence.

Liquidity Analysis: Three Strategic Scenarios

In banking and investment contexts, a simple "Market Value" is often insufficient without understanding liquidity. By ingesting these dual pipelines, the model outputs three distinct scenarios:

- **Aspirational Ask:** An upper quartile price derived from current market sentiment, useful for sellers with low liquidity requirements (patient capital) who are prioritizing price maximization over speed of sale.
- **Market Value:** The estimated exchange price assuming a standard marketing timeline and proper exposure, complying with standard valuation definitions.
- **Distress Sale Scenario:** A lower bound estimate reflecting a forced sale environment. Unlike a standard forced-sale model based on discounts, this scenario treats time as the primary variable, calculating the discount price for sellers requiring immediate capital access. This provides an indication of a distressed price under a constrained marketing timeline, distinct from the Market Value definition which assumes proper exposure.

The "Human-in-the-Loop": the Professional Mode

Perhaps the most critical component of the architecture is the distinction between the Client User and the Professional User.

While the algorithms handle the heavy lifting of data ingestion, computer vision, photo, satellite imagery, and thousands of textual points in seconds, the system is designed with a "Quotation Adjustment" layer. This allows the professional valuer to review and modify the proposed algorithmic suggestions based on their specialized knowledge of the property that data scraping cannot reliably detect.

- **Latent Physical Defects & Common Areas:** Issues often invisible to computer vision, such as capitalizing rising damp, structural fissures caused by subsoil settlement and of-life building services, or the quality of common areas and shared infrastructure.
- **Legal & Transactional Nuances:** This involves two distinct checks: verifying the legal status of subject properties (e.g., illegal attic bans, possession without legal leases, or boundary disputes) and second, vetting the comparable data to exclude non-market evidence – such as transactions with indicators of duress or coercion, or sales between related parties, which bias market-clearing prices – that fail the definition of a voluntary, informed arm's length transaction.
- **Microscopic Nuances & Stigma:** Sensory and social factors absent from standard datasets, including pollution/noise levels, specific neighbourhood socio-demographics, or psychological stigmas attached to a property (e.g., criminal history). It also captures the value impact of planned infrastructure not yet built, such as future metro stations or waste facilities.

> "... with the capability to generate standardised reports in 8 languages, such tools facilitate cross-border portfolio valuation, offering a unified standard of reporting that aligns with the increasingly interconnected European property market."

Critically, this manual function is designed not merely to adjust the final value, but to audit the reasoning of the base data.

This workflow ensures that the final report – which provides a permanent digital record of the valuation – reflects a blend of driven precision reporting and professional judgment. However, even with transparent and decisive support, the professional valuer typically remains responsible for the final opinion and for ensuring compliance with applicable standards and engagement terms.

Education and Standardization

The shift toward hybrid valuation models is already underway. In cooperation with the National Association of Valuers of Serbia, we are open architecture system and building tools and educate the next generation of valuers. A phasing trainee and junior valuers learn to see under the hood of an AVM, we are building the critical competency required to interrogate algorithmic outputs and apply professional judgment to machine-generated valuations. Our goal is to generate standardized reports in 8 languages, such tools facilitate cross-border portfolio valuation, offering a unified standard of reporting that aligns with the increasingly interconnected European property market." Critically, this manual function is designed not merely to adjust the final value, but to audit the reasoning of the base data.

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Prof Dr Nemanja Stanišić is Professor of Corporate Finance and Vice-President of Singulum Group, Belgrade. His research, spanning AI and blockchain, focuses on corporate finance, valuation, financial reporting, quantitative research methods, and data-driven decision analysis. Including applications in real estate valuation. He is a Chartered Valuer (MRICS) and Fellow and Vice-Rector for Scientific Research, and has published extensively in Finance, accounting, and applied quantitative methods. He is the creator of **revaluer.com**, a platform that automates valuation using AI and computer vision. He is the National Association of Valuers of Serbia for educational purposes and to promote data transparency and explainable valuation workflows.

AI and Real Estate Valuation: The Due Care Paradox Epistemic Validity and Professional Responsibility in the Age of Artificial Intelligence

Dr. Ing. Dr. Ing. habil. Dr. Sc. Ing. Ion Lungu
Dr. Ing. Ing. Ion Bucur
Prof. Univ. Dr. Ing. Ion Sandu

Abstract

Value-driven decisions in real estate increasingly rely on AI systems, which introduce epistemic risks such as opacity, bias, and hallucinations. This paper examines how professional valuers can exercise due care when using AI-assisted valuation tools, from the perspective of means, and the professional is responsible for the results obtained. The main issue concerns the epistemic validity of AI-generated outputs.

Building on recent cases that raise ethical and legal concerns, the study proposes a framework to prove negligence and relates a proposed due care standard to the concepts of "state of the art" and "state of the art".

The growing use of artificial intelligence in real estate valuation raises critical questions about professional liability and epistemic validity. The study proposes a due care framework that relates AI-assisted valuation to the concepts of "state of the art" and "state of the art".

A recent Italian case shows that the adoption of AI does not automatically exclude professional liability, but it does change the evidence standard.

On 19 February 2026, the Court of Florence (Sezione Specializzata in Imprese) ruled that a valuation of a commercial property was negligent because the valuer had failed to adopt a reasonably available AI-based valuation tool. The court treated the alleged prejudicial postponement, according to the plaintiff, of the adoption of a more accurate valuation tool as evidence of insufficient verification of primary sources, which constitutes a breach of professional diligence.

These episodes together with others of a similar nature, such as the Zillow Offers case, suggest a pattern in which the primary process attention to the identified case is not sufficient to prove due care. The study argues that the relevant question is not whether the AI tool was used, but whether the organisation on the use of generative artificial intelligence in real estate valuation, the principle concerning the use of AI systems operate as a documentary and evidential standard for professional diligence.

Epistemic Validity

The concept of epistemic validity refers to the reliability of knowledge claims and of artificial intelligence.

Real estate valuation is a rare example of a decision-making process in which technical, economic, and ethical dimensions are tightly integrated. The transformation of heterogeneous information into a single monetary value, combined with physical and geographical characteristics, market dynamics and verifiable value judgment.

Recent research and market transactions that are statistically close to valuation, one of the most frequent applications of AI in real estate, underscore the importance of epistemic validity. The relationship between the parties, recurrent interactions, and the accumulation of verifiable data are key factors in this context.

It is more than algorithmic output must be treated as a professional opinion, consistent with the broader European orientation towards human oversight of AI systems and the emerging professional practice systems (El Ouni, Regulation (EU) 2024/1689).

The paper uses the concept of due care to translate between two different regulatory and professional contexts: the European Union's risk-based approach to artificial intelligence and the professional standards of valuation, which place the responsibility of valuation with the professional, regardless of the tools used. The study does not propose a new legal or technical standard. It proposes a framework for interpreting existing obligations in a way that is consistent with both contexts.

The contribution is threefold: it proposes a due care framework for AI-assisted valuation, it relates the verifiability of information to the concepts of "state of the art" and "state of the art", and it proposes a practical checklist for professional assessment. The main practical implication is that the adoption of AI does not automatically exclude professional liability, but it does change the evidence standard.

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1. The Paradox

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A recent Italian case shows that the adoption of AI does not automatically exclude professional liability, but it does change the evidence standard.

On 19 February 2026, the Court of Florence (Sezione Specializzata in Imprese) ruled that a valuation of a commercial property was negligent because the valuer had failed to adopt a reasonably available AI-based valuation tool. The court treated the alleged prejudicial postponement, according to the plaintiff, of the adoption of a more accurate valuation tool as evidence of insufficient verification of primary sources, which constitutes a breach of professional diligence.

These episodes together with others of a similar nature, such as the Zillow Offers case, suggest a pattern in which the primary process attention to the identified case is not sufficient to prove due care. The study argues that the relevant question is not whether the AI tool was used, but whether the organisation on the use of generative artificial intelligence in real estate valuation, the principle concerning the use of AI systems operate as a documentary and evidential standard for professional diligence.

Epistemic Validity

The concept of epistemic validity refers to the reliability of knowledge claims and of artificial intelligence.

Real estate valuation is a rare example of a decision-making process in which technical, economic, and ethical dimensions are tightly integrated. The transformation of heterogeneous information into a single monetary value, combined with physical and geographical characteristics, market dynamics and verifiable value judgment.

Recent research and market transactions that are statistically close to valuation, one of the most frequent applications of AI in real estate, underscore the importance of epistemic validity. The relationship between the parties, recurrent interactions, and the accumulation of verifiable data are key factors in this context.

It is more than algorithmic output must be treated as a professional opinion, consistent with the broader European orientation towards human oversight of AI systems and the emerging professional practice systems (El Ouni, Regulation (EU) 2024/1689).

The paper uses the concept of due care to translate between two different regulatory and professional contexts: the European Union's risk-based approach to artificial intelligence and the professional standards of valuation, which place the responsibility of valuation with the professional, regardless of the tools used. The study does not propose a new legal or technical standard. It proposes a framework for interpreting existing obligations in a way that is consistent with both contexts.

The contribution is threefold: it proposes a due care framework for AI-assisted valuation, it relates the verifiability of information to the concepts of "state of the art" and "state of the art", and it proposes a practical checklist for professional assessment. The main practical implication is that the adoption of AI does not automatically exclude professional liability, but it does change the evidence standard.

14. The Paradox

Not using artificial intelligence could be considered a professional error if a valuer's decision would have been different if a more accurate tool had been used. The professionally sustainable position today is to use AI with documented human oversight.

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The Seven Pitfalls of Valuation Risk in the Practice Approach

Nick Gilas

Every article examines the key drivers of value in the practice approach, but rarely does it discuss the pitfalls that can lead to a misvaluation. This article will discuss the intended and CT literature that is relevant to the practice approach, and will provide a framework for the analyst to consider when performing a valuation. It will also provide a checklist of the pitfalls that the analyst should consider when performing a valuation using the practice approach, and we propose practical measures to mitigate the risk.

Valuation practitioners spend considerable time identifying and assessing comparable transactions, and rightly so. Because of the inherent similarity of transactions, such analysis is considered a "direct" method of valuation [1]. Although the analysis of comparable transactions is considered a direct method of valuation, it is important to understand that the analysis is not perfect and approach is, when comparing transactions, a "relative" valuation approach. Although it is a direct method of valuation, the analysis is only as good as the data and assumptions.

Although we will not discuss all of the pitfalls and shortcomings of the valid comparison process, we will discuss some of the pitfalls that are specific to the application of comparable transactions in the practice approach. Although we will discuss some of the pitfalls of appropriate comparables and the final step of the valuation process, we will focus on the intermediate steps of the process.

> *"The most effective way to reduce valuation risk arising from sensitivity or missing data is to rely on statistical principles—specifically, the collection and analysis of observable data. As the sample size grows, the sample mean converges toward the true mean value, reducing sampling error."*

1. Selection of Unsuitable Transactional Data

It is important to begin by selecting an appropriate population of transactional data. Although this seems obvious, it is important to understand that the analyst's specific geographical area is defined by the subject company's operations and not by the analyst's preference. Although it is important to begin with a broad search, the analyst's ability to provide a reasonable conclusion of value is dependent on the quality of the data. Although it is important to begin with a broad search, the analyst should be cognizant of the data that is minimum observation for the period of analysis. Although it is important to begin with a broad search, the analyst should be cognizant of the data that is minimum observation for the period of analysis.

2. Quality of Transactional Data

Real estate is very diverse and complex. Although there are many sources of transactional data, there are many pitfalls associated with the use of such data

#08

Beyond Mortgage Lending: Diversifying the Residential Valuation Practice

William Gerber

For much of the past several decades, residential valuation practice in many jurisdictions has been closely aligned with mortgage lending activity. While lending has at times been dominated by relatively short periods of active credit markets, it also increasingly standardized, fee-compressed, and vulnerable to abrupt market shifts. Experience across multiple cycles has made clear that sustainable, resilient practice rarely practices that rely on nearly on mortgage lending are structurally exposed to downturns beyond the valuer's control.

As a result, diversification beyond lending-dominated practice is not simply a strategic option, it is now a prudent risk-conscious necessity. Effective diversification, however, is not achieved simply by adding new service labels. It requires a deliberate repositioning of the valuer's relationship from compliance-driven service provider to trusted advisor, supported by transferable expertise addressing complex legal, financial, and planning questions.

From Standardised Assignments to Problem Solving Valuation

Mortgage lending assignments are typically standardised, fee-compressed, and time-sensitive. Value is defined, risk is narrowly expectations, and downward pressure on fees is constant. Under this model, residential valuation work generally involves little standardisation of proper analytical depth. Assignments such as partial valuations, desktop valuations, and value analysis, both illustrate the role of surface related valuations for conservative assessment, and expected related values demand customised scope definition, nuanced judgment, and transparent reasoning.

These assignments are not easily commoditised. Clients seek valuers not because replicable information is not available, but because they face a specific, time-sensitive decision where standardised reports are insufficient. Valuers who bring more accurately reflect complexity and professional risk and who provide recommendations extends well beyond form completion. The task is not to offer more data, but it reinforces the core professional identity of the valuer as an analyst and advisor.

> "A defining characteristic of diversified residential practice is its reliance on professional relationships."

Relationship Capital as a Professional Asset

A defining characteristic of diversified residential practice is its reliance on professional relationships. Non-lending assignments rarely originate through anonymous enquiries and typically arise they flow through networks of trust involving lawyers, accountants, planners, developers, and other professionals, and public authorities. These networks are built gradually through sustained professional engagement rather than short-term marketing efforts.

Long-term involvement in professional organisations plays a central role in this process. Serving on committees, chairing and working groups increases visibility and standardisation of proper practice. Over time, such involvement establishes a valuer as a recognised professional colleague and as the valuer to consult when complex questions arise. Referrals in many cases, referrals arise from relationships formed many years earlier, underscoring that diversification is cumulative rather than transactional.

Illustrative Assignment Pathways in Diversified Residential Practice

Diversified residential valuation assignments typically arise from professional trust and demonstrated competency rather than standardised marketing processes. Unlike mortgage lending work, these assignments are typically initiated by trusted advisors such as solicitors, settlement, dispute resolution, or advisory analysis—and often involve complex structures, legal contexts, or property characteristics that fall outside conventional residential lending frameworks.

Estate related assignments involving inherited housing interests provide a useful illustration. Such assignments may require analysis of original ownership rights, occupation, and subsequent dispositions, alongside current market value. In many cases, referrals arise from relationships formed many years earlier, underscoring that diversification is cumulative rather than transactional.

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Mortgage diversification assignments typically involve complex ownership structures, or where a valuation is required for a non-standard purpose. In one case, a valuation was commissioned to support a mortgage refinance involving a residential property comprising multiple dwellings, ancillary structures, and a large rural area. The assignment required careful separation of residential value from non-residential value, and careful distinction between residential and non-residential elements. Legal advice was sought to ensure whether the assignment fell inside residential practice, and consultation among professional peers confirmed the assignment was appropriately qualified valuers.

Diversified practice also includes engagement with planning and heritage matters, where valuation intersects with planning and heritage considerations. A valuation prepared for heritage purposes involving a small urban residential property was commissioned by a retired legal professional based on a long standing professional relationship. Although it fell outside conventional residential practice, it reinforced credibility and underscore the importance of independence and visibility—core principles reflected in both the Australian Property Institute and RICS standards, and contributes indirectly to future advisory or referral work.

Education as Strategic Infrastructure

Diversification must be supported by sustained investment in education. Valuers expanding beyond lending-dominated practice frequently identify the need to develop competence in planning, heritage, and tenant law analysis, land development support, financial modelling, investment analysis, and advisory report writing. Non lending clients—including courts, lawyers, and planners—increasingly rely on or planning heritage or property valuation conclusions to be communicated clearly to non-technical audiences, increasing the importance of explanation and documentation.

Formal education through professional courses, advanced designations, and specialised credentials provides both technical grounding and professional signaling. Equally important are mentoring and peer dialogue, which helps valuers develop judgment in complex, boundary-adjacent assignments. Diversified practice increasingly requires structured learning and peer review, not simply additional technical knowledge.

Adjacent Practice Areas and Transferable Skills

Some diversification opportunities involve services adjacent to residential valuation rather than separate work elsewhere. Review of for residential valuations provide a useful example. While distinct in purpose, review work shares core analytical competencies such as evidence evaluation, remaining useful life analysis, inflation assumptions, and the role of forward planning. Increasing regulatory scrutiny and risk awareness in lending institutions have expanded demand for this type of analysis in several jurisdictions.

These opportunities illustrate a broader principle: diversification typically does not require abandoning valuation fundamentals. Instead, it requires applying those fundamentals in broader contexts, such as planning, heritage, land development, budgeting, and stakeholder communication.

Jurisdictional Context and Transferability

It is important to acknowledge that many of the assignment types described are shaped by the legal and property rights frameworks of the United States. Heritage overlays, inclusionary zoning, and land development obligations are not universal. Valuers in other jurisdictions must adapt these examples to local planning systems, rather than transplanting them. Jurisdictions, particularly between common law and civil law systems, differ in how property rights are identified and transferred, and valuation templates, but as illustrations of how residential valuers in the United States have diversified their practices by applying internationally recognised professional principles to non-lending contexts.

While specific legal instruments differ by country, the underlying valuation challenges—such as partial interests, complex ownership, and long term uncertainties—are common across markets. Residential valuers operating in Australia, Canada, and Europe face analogous within their own regulatory and legal environments.

> "Importantly, diversification is far easier to build during stable market periods than during downturns. Valuers who invest in relationships, education, and broader competencies while volume is strong are for better positioned to adapt when lending activity declines."

Diversification as Risk Management

Ultimately, diversification functions as professional risk management. Practice dependent on a single client type or regulatory framework is inherently exposed to market volatility. A balanced mix of lending and non lending work strengthens stability, professional autonomy, and intellectual capital. Importantly, diversification is far easier to build during stable market periods than during downturns. Valuers who invest in relationships, education, and broader competencies while volume is strong are for better positioned to adapt when lending activity declines.

Conclusion

Residential valuation practice continues to evolve, but it can remain relevant, consistent provided independent, well supported analysis that supports decisions. By moving beyond standardised mortgage assignments and embedding problem solving valuation, residential valuers can strengthen their practice, remain resilient, credible, and professionally sustainable.

Diversification is neither immediate nor automatic. It requires deliberate and sustained professional engagement. Yet for valuers committed to long term practice, diversification offers not only financial stability, but also deeper and more enduring professional relevance in increasingly complex property landscape.

In the United States, "conservation easements" refer to legal instruments, typically perpetual restrictions in land or property rights, that permanently limit development or other uses to protect specified conservation values. In practice and are intended to illustrate diversification pathways rather than prescribe jurisdiction-specific valuation methods.

In the U.S., conservation easements are used mainly for homeowners associations, conservation organizations, and property owners to plan for major future repairs and replacements of shared property components.

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