Kingdom of Bahrain

Real Estate Regulatory Authority

Bahrain Valuation Standards 2019

Contents

Introduction

The Bahrain Valuation Standards (BVS) fully adopts and implements the International Valuation Standards (IVS).

The BVS consist of mandatory requirements that must be followed in order to state that a valuation was performed in compliance with the BVS. Certain aspects of the standards do not direct or mandate any particular course of action but provide fundamental principles and concepts that must be considered in undertaking a real estate valuation.

In circumstances where the BVS is silent on a matter, Valuers should refer to the IVS. In circumstances where BVS contradicts or specifies additional requirements to IVS then the requirements of BVS must be followed as under IVS this would be defined as mandatory "Departures", are required for valuation(s) to be in compliance with IVS. (See BVS Framework, Section 1).

In this respect, the principle law governing real estate valuation in the Kingdom of Bahrain is the Royal Decree (69) for 2017 with respect to the organization of the Real Estate Regulatory Authority (RERA), which states that RERA shall be regulated in accordance with Article No 3 of the Regulation Sector Act enacted by Law No. (27) of 2017 Promulgating the Real Estate Sector Regulation Law.

Relevant laws and regulations in Bahrain in relation to real estate valuation are as follows;

- Civil and Commercial Procedures Act, promulgated by Legislative Decree No. (12) of 1971, as amended;
- Legislative Decree No. (14) of 1971 with respect to Notarization;
- Legislative Decree No. (3) of 1972 with respect to Judicial Fees, as amended;
- Legislative Decree No. (14) of 1973, with respect to the Regulation of Advertisements;
- Penal Code, promulgated by Legislative Decree No. (15) of 1976, as amended;
- Legislative Decree No. (21) Of 1976 with respect to regulating the Real Estate Brokerage profession;
- Law for the Regulation of Buildings, promulgated by Legislative Decree No. (13) of 1977, as amended;
- Legislative Decree No. (2) of 1994 with respect to Urban Planning, as amended by Law No. (6) of 2005;
- Legislative Decree No. (3) of 1994 with respect to the Division of Lands Intended for Construction and Development, as amended by Law No. (6) of 2005;
- Legislative Decree No. (40) of 1999 with respect to the Ownership by Citizens of GCC Countries of Built Properties and Lands in the Kingdom of Bahrain;
- Legislative Decree No. (2) of 2001 with respect to the Ownership by Non-Bahrainis of Built Properties and Land;
- Civil Code promulgated by Legislative Decree No. (19) of 2001;

- Commercial Companies Law promulgated by Legislative Decree No. (21) of 2001, as amended;
- Municipalities Law, promulgated by Legislative Decree No. (35) of 2001, as amended;
- Judicial Authority Law, promulgated by Legislative Decree No. (42) of 2002, as amended;
- Criminal Procedures Law, promulgated by Legislative Decree No. (46) of 2002, as amended;
- Central Bank of Bahrain and Financial Institutions Law, promulgated by Law No. (64) of 2006, as amended;
- Legislative Decree No. (30) of 2009 with respect to the Bahrain Chamber for Resolution of Economic, Financial and Investment Disputes, as amended by Legislative Decree No. (64) of 2014, and Property Registration Law promulgated by Law No. (13) of 2013;
- Law No. (28) of 2014 with respect to Real Estate Development;
- Law No. (51) of 2014 with respect to the Regulation of the practice of Engineering Professions,
- Legislative Decree No. (25) of 2015 with respect to Recovering the Costs of the Establishment and Development of Infrastructure in Urbanized Areas;
- Article No 3 of the Regulation Sector Act enacted by law 27 of 2017;
- Law No. (27) of 2017 on Promulgating the Real Estate Sector Regulation Law;
- Decree No. (69) of 2017 on the Organization of the Real Estate Regulatory Authority;
- Decision No. (5) of 2018 on the Determining Fees for the Services, Applications and Licenses of the Real Estate Sector in accordance with the Provisions of the Regulation on the Real Estate Sector Law

The BVS are arranged as follows:

BVS Framework

This serves as a preamble to the BVS. The BVS Framework consists of general principles for Valuers following the BVS regarding objectivity, judgement, competence and acceptable departures from the International Valuation Standards (IVS).

BVS General Standards

These set forth the RERA requirements for the conduct of all valuation assignments including establishing the terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting. They are designed to be followed in conjunction with the IVS applicable to valuations of all types of assets and for any valuation purpose.

IVS

The International Valuation Standards are contained in full at the rear of this document and the Bahrain Valuation Standards (BVS) fully adopts and implements the International Valuation Standards (IVS). IVS consist of mandatory requirements that must be followed in order to state that a valuation was performed in compliance with the IVS. Certain aspects of the standards do not direct or mandate any particular course of action but provide fundamental principles and concepts that must be considered in undertaking a valuation.

IVS comprises of General Standards and Asset Standards. The Asset Standards include requirements related to specific types of assets. These requirements must be followed in conjunction with the General Standards when performing a valuation of a specific asset type. The Asset Standards include certain background information on the characteristics of each asset type that influence value and additional asset-specific requirements on common valuation approaches and methods used. In the case of real estate valuation, BVS should be read in conjunction with the IVS General Standards and the IVS Asset Standards "IVS 400 Real Property Interests" and "IVS 410 Development Property".

RICS Valuation – Global Standards (the "Red Book 2017")

The Red Book fully adopts and applies the International Valuation Standards (IVS) and contains mandatory rules, best practice guidance and related commentary for all Real Estate Valuers. The Red Book includes professional statements covering ethics, skills and conduct and including express requirements regarding the maintenance of confidentiality and the avoidance of conflicts of interest.

Section 1

BVS Definitions

In addition to the definitions contained within IVS which are fully adopted by BVS the following additional definitions;

10. Appraiser: See Valuer.

20. Articles of Association of the Owners' Union: The rules and regulations that govern the Owners' Union, issued in accordance with the provisions of this Law.

30. Authority: The Real Estate Regulatory Authority established in implementation of the provisions of Article (3) of this Law.

40. Board of Directors or Board: The Authority's Board of Directors.

50. Bureau: The Survey and Land Registration Bureau.

60. Bylaws: The terms and conditions that regulate the development and management of a Common Property.

70. Central Owners' Union: A union established by a group of Main Owners' Unions in a Real Estate Development project in accordance with the provisions of this Law.

80. Certificate: Property Valuation Certificate.

90. Chairman: Chairman of the Board of Directors.

100. Chief Executive: Chief Executive Officer of the Authority.

110. Common Parts: The parts of a Common Property that are held in common and are allocated for common use by all the owners and Occupants of the Property Units on the Property Location Plan.

120. Common Property: An entire building, or any part thereof, or the land, or both, which is divided into Units allocated for ownership or usufruct. Part of such building or land shall be designated as Common Parts.

130. Department: Department of Urban Planning and Municipalities.

140. Depositors: Owners of the cash shares, such as the Developer, financier, buyer, bank or a credit finance institution of a Real Estate Development project.

150. Developer: The main Developer or Sub-Developer.

160. Escrow Account: A bank account in the name of a Real Estate Development project to deposit amounts received from the Developer and Depositors and is allocated for the construction and execution of the specified Real Estate Development project.

170. Escrow Account Agent: A bank licensed by the Central Bank of Bahrain (CBB) that undertakes the management of manages the Escrow Account.

180. Evaluator: See Valuer.

190. BVS: Bahrain Valuation Standards.

200. Kingdom: Kingdom of Bahrain.

210. Land Register: The register created pursuant to the provisions of the Property Registration Law promulgated by Law No. (13) of 2013.

220. Long Term Lease: A property right of not less than ten-years and not more than ninety-nine years, unless agreed to be renewed.

230. Main Developer: A natural or corporate person licensed to engage in various Real Estate Development activities, such as the construction and Off-Plan Sale, and who entrusts one Sub-Developer or more to develop one independent part, or more, of a Real Estate Development project.

240. Main Owners' Union: A union established by a group of Owners Unions of a Real Estate Development projects in accordance with the provisions of this Law.

250. Minister: A Minister designated by an edict issued by the Prime Minister.

260. Mortgage: A contract whereby a creditor acquires a real right over an existing property or off plan property, whereby he takes priority over ordinary creditors, and creditors who come after him in rank, in collecting his rights from the proceeds of such property, irrespective of who is in possession of it.

270. Mortgagee: A creditor who acquires a real right over an existing property or an off-plan property to secure the payment of his debt.

280. Mortgagor: An owner of a property or holder of a real right or a buyer of a Property Unit of an Off-Plan Sale project and is registered in the register of Real Estate Development projects.

290. Musataha Right: A right that authorizes its holder the right to construct facilities or buildings on a land belonging to another for a limited period of time.

300. Occupant: A tenant of a Property Unit or a resident or worker in it who is not the owner or the holders of the real estate rights.

310. Off-Plan Sale: Sale of Property Units on the map before the construction or completion of its construction.

320. Owners' Union: A union established by the owners of the Property Units located in a Common Property in accordance with the provisions of this Law, which aims to ensure good use of the Common Property and Property Units, and the use and maintenance of the Common Parts by the owners in accordance with the provisions of this Law.

330. Property: All references to property within the BVS relate to the property that is the subject of the valuation.

340. Property Location Plan: A plan registered in the Land Register that specifies the Units and the Common Parts thereof.

350. Property Unit or Unit: An apportioned part of a Common Property, which includes any allocated off-plan part, or any apartment, or storey or part of a land or house (villa) whether attached to another house or detached, which is located within a Common Property.

360. Real Estate Brokerage: Brokerage with a view to conclude contracts of constructed and unconstructed properties, in accordance with the provisions of this Law.

370. Real Estate Development project: Off-Plan Sale projects and Real Estate Development works' as specified by an Edict of the Council of Ministers which shall be published in the Official Gazette.

380. Sub-Developer: A natural person or corporate entity licensed to engage in Real Estate Development projects who is entrusted by a Main Developer, pursuant to an agreement between them, to develop part of a Real Estate Development project.

390. Real Estate Valuation: The process of evaluating and identifying the market value of constructed or unconstructed properties, in accordance with the provisions of this Law. LAW No. (27) of 2017

400. Usufruct Rights: A property right that authorizes its holder to use the property or Property Unit and exploit it in accordance with the provisions of this Law.

410. Utility Services: Includes water, gas, electricity, air conditioning, telephone services, computer cables, television, internet, sewerage, rainwater drainage and removal or disposal of refuse or waste, delivery of mail, parcels or goods services and any other system or service designed to improve the facilities in the Units and Common Parts.

420. Valuation: an established, ethical and evidence-based process for assessing the monetary value of a real estate asset at a specified date, that is legally defensible and undertaken by a qualified, professional Valuer.

430. Valuer: A "Valuer" is an individual, group of individuals or a firm who possesses the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased and competent manner. Furthermore, in the Kingdom of Bahrain the "Valuer" is the natural or legal person licensed to carry out valuation business in the Kingdom (Resolution No 2 of 2019 on Licensing of Real Estate Valuers).

440. Valuer Register: the register established by the Authority pursuant to the provisions of this Resolution to record details of Valuers.

BVS Framework

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10. Compliance with Standards

10.1 When a statement is made that a valuation will be, or has been, undertaken in accordance with the BVS, it is implicit that the valuation has been prepared in compliance with all relevant standards issued by the Kingdom and the International Valuation Standards Council (IVSC).

20. Assets and Liabilities

20.1 The standards can be applied to the valuation of both assets and liabilities. To assist the legibility of these standards, the words asset or assets have been defined to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

30. Valuer

30.1 A "Valuer" is a licensed individual, group of individuals or a firm who possesses the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased and competent manner. Furthermore, in the Kingdom the "Valuer" is the licensed individual, who is contained on the valuation register. Because a valuation reviewer must also be a Valuer, to assist with the legibility of these standards, the term Valuer includes valuation reviewers except where it is expressly stated otherwise or is clear from the context that valuation reviewers are excluded.

40. Objectivity

40.1 The process of valuation requires the Valuer to make impartial judgements as to the reliability of inputs and assumptions. For a valuation to be credible, it is important that those judgements are made in a way that promotes transparency and minimizes the influence of any subjective factors on the process. Judgement used in a valuation must be applied objectively to avoid biased analyses, opinions and conclusions.

40.2 It is a fundamental expectation that, when applying these standards, appropriate controls and procedures are in place to ensure the necessary degree of objectivity in the valuation process so that the results are free from bias as required by the RERA Code of Conduct. The IVSC Code of Ethical Principles for Professional Valuers and the 10 International Ethical Principles issued by the Internal Ethical Standards Coalition (www.iesc-coalition.org) provides an example of an appropriate framework for professional conduct.

50. Competence

50.1 Valuations must be prepared by an individual or firm having the appropriate license, technical skills, experience and knowledge of the subject of the valuation, the locality within the Kingdom in which it trades and the purpose of the valuation.

50.2 If a Valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation, it is acceptable for the Valuer to seek assistance from licensed appropriately qualified specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work (see BVS 101 Scope of Work) and the report (see BVS 103 Reporting). Please refer to Valuer Classifications as issued by RERA.

50.3 A Valuer must have the technical skills, experience and knowledge to understand, interpret and utilize the work of any specialists.

60. Departures

60.1 A “departure” is defined with the IVS Framework as “a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a Valuer must comply with legislative, regulatory and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to be in compliance with IVS. A Valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances.”

60.2 The requirement to depart from IVS pursuant to the BVS legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.

Aim and Scope of BVS

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10. Overview

10.1 The aim of the BVS is to provide further details on the application of IVS within the Kingdom. BVS provides further details on practical implementation and adoption of IVS where necessary and in accordance with IVS comprises "standards for undertaking valuation assignments using generally recognized concepts and principles that promote transparency and consistency in valuation practice."

10.2 The Real Estate Regulatory Authority call for International Valuation Standards to be adhered to throughout the Kingdom. These standards though largely centered around tangible asset valuations also relate to the valuation of intangible assets and the valuation of financial instruments such as Real Estate Investment Trusts (REIT's) and Initial Public Offerings (IPO's).

10.3 In addition to the above the BVS aims to achieve the following objectives;

1) Place clear procedures and policy for real estate valuation.
2) Establish a reliable database for the property prices to be considered as historical documentation which can be referenced to when necessary to know information about a certain area.
3) Provide a legislative framework which enables the real estate Valuer to appraise the proprieties at an accurate and certified manner.
4) Enhance confidence with the Valuers, leading to avoiding the random valuation.
5) Enhance the transparency in dealing with the concerned persons in the market and ensuring their rights.
6) Assist the Valuers in submitting a reliable valuation and complete reports containing the required data and requirements, which will provide greater transparency for the investor and resulting in reduced risk.
7) Instruct all Valuers in the Kingdom to adopt both the "Bases of Value" and "Valuation Approaches and Methods" as contained in IVS in order to achieve the highest possible degree of accuracy and transparency in practicing their duties and enhance the national and international perception of real estate market in the Kingdom.

Section 2

BVS 101 Scope of Work

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10. Overview

10.1 BVS 101 Scope of work (sometimes referred to as terms of engagement) fully adopts "IVS 101 Scope of Works", which describes the fundamental terms of a valuation engagement, such as the asset(s) being valued, the purpose of the valuation and the responsibilities of parties involved in the valuation.

10.2 As stated in "IVS 101 Scope of Work" all valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose. The Valuer must also ensure that the intended recipient(s) of the valuation advice, understand(s) what is to be provided and any limitations on its use before it is finalized and reported.

10.3 Furthermore, the Valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(a) Identity of the Valuer,
(b) Identity of the client(s) (if any),
(c) Identity of other intended users (if any),
(d) Asset(s) being valued,
(e) The valuation currency,
(f) Purpose of the valuation,
(g) Basis/bases of value used,
(h) Valuation date,
(i) The nature and extent of the Valuer's work and any limitations thereon,
(j) The nature and sources of information upon which the Valuer relies,
(l) The type of report being prepared: The format of the report, that is, how the valuation will be communicated
(m) Restrictions on use, distribution and publication of the report,
(n) That the valuation will be prepared in compliance with IVS and that the Valuer will assess the appropriateness of all significant inputs."

10.4 In addition to the mandatory requirements contained within "IVS 101 Scope of Works" and further requirements arising from the Authority procedure under "Article 43; Obligations and Duties of Real Estate Valuation Licensees" the Valuer must "perform his work based on a written agreement entered into by himself and a customer. The agreement shall stipulate the obligations and duties of the Valuers and the fee that he is entitled to for his work."

10.5 Furthermore under Article 44 of the Law No. (27) of 2017 on Promulgating the Real Estate Sector Regulation Law the Valuer must not;

a) Act for a client if the Valuer is or becomes aware of a conflict of interest, such as undertaking a valuation for a family member (to the 4th level) or undertaking a valuation where their company will also undertake the brokerage of the property or any other situation that which would hinder the Valuer's ability to conduct the services with integrity and without bias.

b) Receive any personal benefit in any transaction performed for the benefit of a client, other than the remuneration or contracted fee.

BVS 102 Investigations and Compliance

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10. Overview

BVS 102 refers to investigations conducted by the Valuer and their compliance with the standards.

10.1 BVS fully adopts IVS 102 and is in accordance with the general principle contained within "IVS 102 Investigation and Compliance", which states that; "to be compliant with IVS, valuation assignments, including valuation reviews, must be conducted in accordance with all of the principles set out in IVS that are appropriate for the purpose and the terms and conditions set out in the scope of work.'

10.2 Furthermore as stated in IVS 102 Investigations and Compliance section 20.5: "In considering the credibility and reliability of information provided, Valuers should consider matters such as:

(a) the purpose of the valuation,
(b) the significance of the information to the valuation conclusion,
(c) the expertise of the source in relation to the subject matter, and
(d) whether the source is independent of either the subject asset and/or the recipient of the valuation (see IVS 101 Scope of Work, paras 20.3 (a))."

10.3 In addition to the requirements contained within "IVS 102 Investigation and Compliance" the Valuer must verify the data of the Real Estate being valued according to the following;

1. Verify that the applicant for the Valuation has the authority and the power with respect to the Real Estate by virtue of a valid document;
2. Obtain the register for the Property
3. Audit all the data contained in the register and compare the data against the data submitted by the applicant and submit a copy of the Property ID card and confirm that the property number and address is in accordance with the register.
4. Ensure that any information in relation to the Property owned by – relevant entities matches the information contained on the title deed.
5. Review any procedures imposed on the Property such as the deposit mortgage and consider the effect of these procedures on the Property appraisal.
6. Obtain the relevant urban development approved plans for the Property
7. Prepare a detailed description of the Property from the collected data and documents.

10.4 Furthermore, when inspecting a property, in addition to the requirements contained within "IVS 102 Investigation and Compliance" the Valuer must carry out the following mandatory requirements as part of the BVS;

1. Obtain the owner's approval for the inspection and perceptual examination of the Property and agree the date and time of inspection.
2. Inspect the Property physically, describing its condition and preparing a detailed report including the following;
   a) Valuation Method or Methods adopted by him.
   b) Date of application for the valuation.
   c) Type of materials forming the property, as for example, being stone or walls reinforced with steel or any other materials and percentage of each material forming the property.
   d) Accessories included in the Property, represented for example, in the ornament columns and decorations.
   e) The building age with regard to the foundation and each part of the Property.
   f) General appearance of the building as for its decaying in comparison with surrounding properties.
   g) Efficiency of establishment and guards being responsible for the Property.
   h) Determining the geographic description of the Property with regard to easiness to access for it and other descriptions.
   i) Taking the complete measurements of the Property in accordance with the International Property Measurement Standards (IPMS) if there is no official data or provided data demonstrating the same.
   j) Taking notes about the level of property finishing from the interior and exterior and the type of materials used.
   k) Taking notes about the property general condition and demonstrating any present internal and external defects.
   l) Taking notes about the systems with which the property is provided (air-conditioning, firefighting, security systems etc.).
   m) Taking notes about the surrounding and nearby properties.
   n) Taking notes about the factors affecting positively and negatively the property.
3. Enclosing the illustrative photos of the property from all corners.
4. Arranging the property file, provided that it shall contain, for example, official data such as the land plan, buildings completion certificate and a document illustrating the property from the interior.
5. Providing the devices required for the inspection and physical examination of the property and taking the dimension (measuring device and photographing camera).

BVS 103 Reporting

10. Overview

10.1 BVS adopts "IVS 103 Reporting" and as stated in Section 20.1 General Requirements: "The purpose of the valuation, the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report. The format of the report should be agreed with all parties as part of establishing a scope of work (see IVS 101 Scope of Work)."

20. Valuation Reports

20.1 Furthermore, as stated in IVS 103 Section 30 Valuation Reports: "Where the report is the result of an assignment involving the valuation of an asset or assets, the report must convey the following, at a minimum:

(a) the scope of the work performed, including the elements noted in para 20.3 of IVS 101 Scope of Work, to the extent that each is applicable to the assignment;
(b) the approach or approaches adopted;
(c) the method or methods applied;
(d) the key inputs used;
(e) the assumptions made;
(f) the conclusion(s) of value and principal reasons for any conclusions reached, and
(g) the date of the report (which may differ from the valuation date)."

20.2 Furthermore, when issuing a valuation report, in addition to the requirements contained within "IVS 103 Reporting" the Valuer must issue a certificate called the Real Estate Valuation Certificate, which must include the following information;

1) Date of issuance of certificate of Valuation;
2) Purpose (Basis) of the Valuation;
3) Valuation Approach and Method used;
4) Type of Real Estate being valued;
5) The scope of work performed;
6) Particulars (Key Inputs) of the Real Estate being valued;
7) Property value;
8) Valuer's signature;
9) Any other requirements as defined in BVS.

20.3 Moreover, under BVS the Valuer "may not disclose a Valuation report, in whole or part, nor may he disclose any reference or estimated figures, except upon instructions from the applicant for the Valuation or at the request of the Authority."

30. Valuation Review Reports

30.1 In respect of the above IVS requirements in relation to Valuation Review Reports it should be noted that some of the above requirements may either be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.).

BVS 104 Bases of Value

Contents	Paragraphs

10. Overview

10.1 BVS adopts "IVS 104 Bases of Value" and "compliance with this mandatory standard requires a Valuer to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of this standard (for IVS-defined bases of value) or not (for non-IVS defined bases of value)."

10.2 BVS fully adopts the following basis of value and their definitions contained in IVS and outlined below;

I. Market Value
II. Market Rent
III. Equitable Value
IV. Investment Value/Worth
V. Synergistic Value
VI. Fair Value (International Financial Reporting Standards)

10.3 As stated in IVS 104 "Valuers must choose the relevant basis (or bases) of value according to the terms and purpose of the valuation assignment. The Valuer's choice of a basis (or bases) of value should consider instructions and input received from the client and/or its representatives. However, regardless of instructions and input provided to the Valuer, the Valuer should not use a basis (or bases) of value that is inappropriate for the intended purpose of the valuation."

10.4 Furthermore, in accordance with BVS 101 Scope of Work, the basis of value must be appropriate for the purpose, and the source of the definition of any basis of value used must be cited or the basis explained.

20. IVS-Defined Basis of Value – Market Value

20.1 Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

30. IVS-Defined Basis of Value – Market Rent

30.1 Market Rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

30.2 Market Rent may be used as a basis of value when valuing a lease or an interest created by a lease. In such cases, it is necessary to consider the contract rent and, where it is different, the market rent.

40. IVS-Defined Basis of Value – Equitable Value

40.1 Equitable Value is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

40.2 Equitable Value requires the assessment of the price that is fair between two specific, identified parties considering the respective advantages or disadvantages that each will gain from the transaction. In contrast, Market Value requires any advantages or disadvantages that would not be available to, or incurred by, market participants generally to be disregarded.

50. IVS-Defined Basis of Value – Investment Value/Worth

50.1 Investment Value is the value of an asset to a particular owner or prospective owner for individual investment or operational objectives.

50.2 Investment Value is an entity-specific basis of value. Although the value of an asset to the owner may be the same as the amount that could be realised from its sale to another party, this basis of value reflects the benefits received by an entity from holding the asset and, therefore, does not involve a presumed exchange. Investment Value reflects the circumstances and financial objectives of the entity for which the valuation is being produced. It is often used for measuring investment performance.

60. IVS-Defined Basis of Value – Synergistic Value

60.1 Synergistic Value is the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then Synergistic Value will differ from Market Value, as the Synergistic Value will reflect particular attributes of an asset that are only of value to a specific purchaser.

70. Other Basis of Value – Fair Value (International Financial Reporting Standards)

70.1 IFRS 13 defines Fair Value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

80. Premise of Value/Assumed Use

80.1 BVS also adopts the following Premise of Value or Assumed Use contained within IVS.These Premises of Value or Assumed Uses describes the circumstances of how an asset or liability is used. Different bases of value may require a particular Premise of Value or allow the consideration of multiple Premises of Value. Some common Premises of Value are:

(a) highest and best use,
(b) current use/existing use,
(c) orderly liquidation, and
(d) forced sale.

BVS 105 Valuation Approaches and Methods

Contents

10. Overview

10.1 BVS adopts "IVS 105 Valuation Approaches and Methods" and in accordance with IVS Valuers must give consideration **"**to the relevant and appropriate valuation approaches. The three approaches shown below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution. The principal valuation approaches are:

(a) market approach,
(b) income approach, and
(c) cost approach.

10.2 In additional to the IVS valuation requirements Valuers must give regard to the following valuation methods;

(a) The Comparison Method
(b) The Discounted Cash Flow Method
(c) The Cost Method
(d) The Profits Method
(e) The Residual Method

20. The Comparison Method

20.1 The Valuer must follow the requirements contained within "IVS 105 Valuation Approaches and Methods" and Section 20 on the Market Approach and Section 30 on the Market Approach Methods.

20.2 The key steps in the comparison method as stated in "IVS 105, Section 30.6" are:

(a) identify the units of comparison that are used by participants in the relevant market,
(b) Identify the relevant comparable transactions and calculate the key valuation metrics for those transactions,

(c) Perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject
(d) make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the comparable assets (see IVS 105 30 .12 (d)),
(e) apply the adjusted valuation metrics to the subject asset, and
(f) if multiple valuation metrics were used, reconcile the indications of value.

20.3 The Valuer should analyze and make adjustments for any material differences between the comparable transactions and the subject asset. Examples of common differences that could warrant adjustments may include, but are not limited to:

(a) Material characteristics (age, size, specifications, etc.),
(b) Relevant restrictions on either the subject asset or the comparable
(c) Geographical location (location of the asset and/or location of where is likely to be transacted/used) and the related economic and regulatory environments,
(d) Profitability or profit-making capability of the assets,
(e) Historical and expected growth,
(f) Yields/coupon rates,
(g) Types of collateral,
(h) Unusual terms in the comparable transactions,
(i) Differences related to marketability and control characteristics of the comparable and the subject asset, and
(j) Ownership characteristics (e.g., legal form of ownership, amount percentage held).

30. The Discounted Cash Flow Method

30.1 The Valuer must follow the requirements contained within “IVS 105 Valuation Approaches and Methods” and Section 50 on the Income Approach Methods and the Discounted Cash Flow Method.

30.2 As stated in IVS “although there are many ways to implement the income approach, methods under the income approach are effectively based on discounting future amounts of cash flow to present value. They are variations of the Discounted Cash Flow (DCF) method and the concepts below apply in part or in full to all income approach methods.”

30.3 The key steps within the DCF method, as stated in “IVS 105, Section 50.4” are:

(a) choose the most appropriate type of cash flow for the nature of the asset and the assignment (i.e., pre-tax or post-tax, total cash flows or cash flows to equity, real or nominal, etc.),
(b) determine the most appropriate explicit period, if any, over which the cash flow will be forecast,
(c) prepare cash flow forecasts for that period,
(d) determine whether a terminal value is appropriate for the subject asset at the end of the explicit forecast period (if any) and then determine the appropriate terminal value for the

nature of the asset,
(e) determine the appropriate discount rate, and
(f) apply the discount rate to the forecasted future cash flow, including the terminal value, if any.

40. The Cost Method

40.1 The Valuer must follow the requirements contained within "IVS 105 Valuation Approaches and Methods" and Section 60 on the Cost Approach.

40.2 As stated in IVS "the cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence."

40.3 The key steps within the Cost method as stated in "IVS 105, Section 70.2 to Section 70.7" are:

"(a) calculate all of the costs that would be incurred by a typical participant seeking to create or obtain an asset providing equivalent utility or an exact replica of the subject asset,
(b) determine whether there is any deprecation related to physical, functional and external obsolescence associated with the subject asset, and
(c) deduct total deprecation from the total costs to arrive at a value for the subject asset."

50. The Profits Method

50.1 As stated in "IVS 400 Real Property Interests" Section 60.2 "for some real property interests, the income-generating ability of the property is closely tied to a particular use or business/trading activity (for example, hotels, golf courses, etc.). Where a building is suitable for only a particular type of trading activity, the income is often related to the actual or potential cash flows that would accrue to the owner of that building from the trading activity. The use of a property's trading potential to indicate its value is often referred to as the "profits method". "

50.2 It should also be noted that "when the income used in the income approach represents cash flow from a business/trading activity (rather than cash flow related to rent, maintenance and other real property-specific costs), the Valuer should also comply as appropriate with the requirements of IVS 200 Business and Business Interests and, where applicable, IVS 210 Intangible Assets. The Valuer must follow the requirements contained within "IVS 105 Valuation Approaches and Methods" and Section 50 on the Income Approach Methods'. (400 Real Property Interests - Section 60.3)

60. The Residual Method

60.1 The Valuer must follow the requirements contained within "IVS 105 Valuation Approaches and Methods" and IVS 400 Real Property Interests and "IVS 410 Development Property, Section 90" on the Residual Method.

60.2 As stated in IVS 410 Section 90.1 "the residual method is so called because it indicates the residual amount after deducting all known or anticipated costs required to complete the development from the anticipated value of the project when completed after consideration of the risks associated with completion of the project. This is known as the residual value. The residual value, derived from the residual method, may or may not equate to the market value of the development property in its current condition."

60.3 The following basic elements require consideration in any application of the residual method to estimate the market value of development property and if another basis is required, alternative inputs may be required.

(a) Completed property value,
(b) Construction costs,
(c) Consultants fees,
(d) Marketing costs,
(e) Timetable,
(f) Finance costs,
(g) Development profit,
(h) Discount rate.

Section 3

BVS 400 Real Property Interests

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10. Overview

10.1 The principles contained in the BVS and IVS General Standards apply to valuations of real property interests. This standard contains additional requirements for valuations of real property interests.

20. Property Interests

20.1 BVS adopts "IVS 400 Real Property Interests" and in accordance with IVS defines "A real property interest is a right of ownership, control, use or occupation of land and buildings."

20.2 Property interests are defined in "Law No. (27) of 2017 on Promulgating the Real Estate Sector Regulation Law" within the Kingdom there are five main types of interest;

a) Freehold, this is an absolute right of possession and control of the land and any buildings upon it in perpetuity, subject only to any subordinate interests and any statutory or other legally enforceable constraints,
b) Usufruct, this is a subordinate interest. which must not exceed 99 years, that gives the holder rights of exclusive possession and control of a defined area of land or buildings for a defined period, e.g., under the terms of a lease contract without the right to reconstruct, and/or
c) Musataha, this is a subordinate interest, which must not exceed 99 years, that gives the holder rights of exclusive possession and control of a defined area of land or buildings for a defined period, e.g., under the terms of a lease contract and includes the right to construct buildings, and/or
d) Long Term Lease Rights, this is a contractual right to use property for a period of over 10 years.
e) Lease contract, this is equivalent to a contract of hire and is not an interest in land.

20.4 Valuers must be aware that the provisions of laws related to the ownership of properties by non-Bahrainis shall apply to the ownership of Common Properties.

30. Registration

30.1 A Valuer must carry out the necessary due diligence to ensure whether the land or leases, which are subject of the valuation are contained in the Land Register.

40. Bases of Value

40.1 In accordance with BVS 104 Bases of Value, a Valuer must select the appropriate basis(es) of value when valuing real property interests. Under most bases of value, a Valuer must consider the highest and best use of the real property, which may differ from its current use (see IVS 104 Bases of Value, para 30.3). This assessment is particularly important to real property interests which can be changed from one use to another or that have development potential.

50. Valuation Approaches and Methods

50.1 The three valuation approaches described in the IVS 105 Valuation Approaches and Methods and five valuation methods can all be applicable for the valuation of a real property interest.

50.2 When selecting an approach and method, in addition to the requirements of this standard, a Valuer must follow the requirements of IVS 105 Valuation Approaches and Methods, including para 10.3 and 10.4.

60. Rent

60.1 Market rent is addressed as a basis of value in IVS and BVS 104 Bases of Value.

60.2 When valuing either a superior interest that is subject to a lease or an interest created by a lease, Valuers must consider the contract rent and in cases where it is different, the market rent.

60.3 As stated in IVS 400 Real Property Interests "the contract rent is the rent payable under the terms of an actual lease. It may be fixed for the duration of the lease or variable. The frequency and basis of calculating variations in the rent will be set out in the lease and must be identified and understood in order to establish the total benefits accruing to the lessor and the liability of the lessee."

Kingdom of Bahrain
Real Estate Regulatory Authority

BVS 410 Development Property

Contents | **Paragraphs**

10. Overview

10.1 The principles contained in the General Standards IVS and BVS 101 to BVS 105 apply to valuations of development property. This standard only includes modifications, additional requirements or specific examples of how the General Standards apply for valuations to which this standard applies. Valuations of development property must also follow IVS and BVS 400 Real Property Interests.

20. Introduction

20.1 In the context of this BVS, development properties are defined as interests where redevelopment is required to achieve the highest and best use, or where improvements are either being contemplated or are in progress at the valuation date and include:

(a) the construction of buildings,
(b) previously undeveloped land which is being provided with infrastructure,
(c) the redevelopment of previously developed land,
(d) the improvement or alteration of existing buildings or structures,
(e) land allocated for development in a statutory plan, and
(f) land allocated for a higher value uses or higher density

30. Bases of Value

30.1 In accordance with IVS and BVS 104 Bases of Value, a Valuer must select the appropriate basis(es) of value when valuing development property.

30.2 The valuation of development property often includes a significant number of assumptions and special assumptions regarding the condition or status of the project when complete. For example, special assumptions may be made that the development has been completed or that the property is fully leased. As required by IVS and BVS 101 Scope of Work, significant assumptions and special assumptions used in a valuation must be communicated to all parties to the valuation engagement and must be agreed and confirmed in the scope of work. Particular care may also be required where reliance may be placed by third parties on the valuation outcome.

40. Valuation Approaches and Methods

40.1 The three principal valuation approaches described in IVS and BVS 105 Valuation Approaches and Methods may all be applicable for the valuation of a real property interest.

40.2 There are two main approaches in relation to the valuation of development property. These are:

(a) the market approach (see IVS 105 Valuation Approaches and Methods section 30), and
(b) the residual method, which is a hybrid of the market approach, the income approach and the cost approach. This is based on the completed “gross development value” and the deduction of development costs and the developer’s return to arrive at the residual value of the development property

40.3 When selecting an approach and method, in addition to the requirements of this standard, a Valuer must follow the requirements of IVS and BVS 105 Valuation Approaches and Methods.

50. Residual Method

50.1 When using the residual method of valuation, the Valuer must comply with IVS and BVS 105 Valuation Approaches and in the Kingdom the Valuer must use the residual method in the following circumstances;

1) Prior to commencing construction for a development project.
2) Prior to commencing redevelopment.
3) When valuing land for development purposes.
4) When calculating the potential profits of development in terms of building the project and costs resulted therefrom in terms of the fees and profits.

Section 4

- **The International Valuation Standards:**

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Section 5

- **RICS Valuation – Global Standards (Red Book 2017):**

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