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AGRICULTURAL  
VALUATION IN  
A CHANGING  
WORLD



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# #04

## The specificities of real estate valuation in the agricultural sector



Angelo Donato Berloco

European agriculture is facing increasingly complex challenges matched only by the new development opportunities they create. It is a top EU priority to make European agriculture increasingly modern, innovative and sustainable, all of which must be matched by objective real estate valuations because in the agricultural sector just as much as elsewhere, quality valuation provides a solid basis for financial decisions, investments and real estate transactions. It requires compliance with a series of estimation postulates among which the application of the comparative method is fundamental.

There is an intuitive simplicity to the comparative method. However, though it is simple and intuitive to understand *why* it is necessary to compare, the same cannot be said about *how* to concretely apply this principle in valuation practice, especially in the agricultural field<sup>1</sup>. This is because

agricultural properties have “*strong individual characteristics*”<sup>2</sup>. As prof. Giuseppe Medici observed, valuers in the agricultural sector frequently find themselves verifying how complicated the valuation procedure is as we move from the few uniform and standardised properties to the many highly differentiated ones. In addition, agricultural valuers find themselves operating with “uncontemporary” sales data compared to the date of valuation.

“It is a top EU priority to make European agriculture increasingly modern, innovative and sustainable, all of which must be matched by objective real estate valuations”

<sup>1</sup> The transition from the theory of the comparative principle to professional practice has also been discussed in A. D. Berloco and G. Grittani, 1989, *La comparazione quale presupposto logico dei giudizi di stima*, *Genio Rurale* n. 9, pp. 37-44.

<sup>2</sup> In 1934 Prof. Medici published his famous *Introduction to Agricultural Appraisal*, which led to the *Principles of Appraisal* of 1948, a text that went through many editions and was adopted in numerous schools. His studies in the field of appraisal also made him known abroad and many foreign universities invited him to hold courses and conferences.

As a consequence, there is a need to “adapt” the *law of price indifference* to real situations, using all the tools made available by valuation methodology (postulates, procedures, valuation standards, etc.). The law of price indifference (also known as *Jevons’ law*) is general and can be summarised as “*identical goods, at the same time and in the same (perfect) market, can only have the same price.*”

It must be said that this theoretical valuation approach is not always put into practice correctly, with the resulting operational uncertainty often producing *expertise* rather than scientific *valuation* proper.

More specifically, *expertise* is a professional practice that estimates the market value of real estate through a synthetic and subjective judgment, without the detection of a sample of market prices and consequently is neither demonstrable nor verifiable.

On the other hand, *professional valuation* is that carried out by a qualified valuer, i.e. a professional who knows

the phenomena investigated and is able to measure them, to detect market data and arrive at estimations of value made objective (verifiable) by using recognised valuation standards such as EVS as a yardstick.

## The special characteristics of agricultural property

Agricultural properties are complex assets, as they consist of the original land and the endowments of buildings, infrastructures, temporary and permanent crops, plant and machinery, livestock and agricultural industries for the processing of agricultural products.

In general terms, the characteristics of agricultural real estate can be divided into quantitative (e.g. usable agricultural area) and qualitative (e.g. degree of soil fertility) characteristics.

Some groups of agricultural real estate features are:

1. **surface characteristics** (distinguished by type of crop, annual or perennial);
2. **location** (relating to the location of the property in the territorial context, in relation to infrastructures, services, etc.);
3. **positional characteristics** (relating to altitude, slope, position and exposure of the terrain);
4. **typological characteristics** (relating to soil fertility, presence of irrigation water, land investments, topsoil, presence of livestock and processing industries);
5. **contractual characteristics** (relating to conditions and limitations of use of the property – e.g. vacant or rented).

“Agricultural properties are complex assets”

## Good valuations for informed decisions in a context of higher scarcity of comparables

In the agricultural sector as elsewhere, estimation of value means predicting what probability the market value has of occurring in the context of two extreme situations ranging from 0 (no probability that the value to be estimated coincides with the selling price) to 1 (exact coincidence).

An estimate as close as possible to 1 must incorporate appropriate procedures and real estate data (consisting of the prices and real estate characteristics of the reference sample) representative of the investigated property. Through the judicious use of appropriate procedures, agricultural valuers operating in a context of scarcity of information higher than that of residential or commercial valuation are able to objectively apply the comparative method, measuring the effect on the formation of the price of the main real estate characteristics.

Having objective and clear assessments enables clients (farmers, banks, funds, etc.) to make informed decisions consistent with the economic and financial context in which they operate. This applies both to entrepreneurs envisaging a new investment and to public and private financiers supporting entrepreneurs in this journey.

## The high impact of geopolitics on agriculture and its valuation

Even more than in other sectors, agricultural valuers are faced with growing uncertainty. The actual and foreseeable agricultural macroeconomic impacts of the current extraordinary geo-political situation are even higher than macroeconomic impacts generally and this necessarily shrouds estimates of value in greater uncertainty as by definition valuations are "forward looking". Yet the valuation report must incorporate the elements known and knowable at the specific date of the valuation (which is necessarily a "point in time").

## Agriculture in EVS 2025

Clearly, the dissemination and application of these procedures requires an unequivocal description and cataloguing of the real estate characteristics to be used in investigating the variability of market prices. Precisely to encourage the dissemination at a European level of a common language for agricultural valuation, TEGOVA has fostered the European Valuation Standards Board's drafting of specific guidance in EVS 2025. An outline of the work was presented at the TEGOVA General Assembly last October in Bologna, but the key event will be the "EVS 2025 European Agricultural Valuation Conference" on 22 March 2024 in Lisbon. That conference will be the first structured presentation of a draft of the EVS 2025 Guidance Note on Agricultural Valuation and an opportunity for conference participants to debate and influence the final outcome. I hope to see you there.

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