



*Ministerio de Planificación Federal
Inversión Pública y Servicios
Tribunal de Tasaciones de la Nación*

RULE TTN 1.4

February 23rd, 2009

PRINCIPLES AND CONCEPTS OF VALUE - APPRAISAL VALUE

Valuating is to determine the economic value of a property or a group of property on a precise date, for an established purpose.

I – PRINCIPLES

According to the information set above, three fundamental principles can be formulated:

Principle of replacement:

A property value is equivalent to other assets values of similar characteristics which replace the former.

Principle of temporality:

A property value is fixed according to the appraisal date and may vary throughout the time.

Principle of purpose:

The approach, the method and techniques to follow are conditioned by the valuation purpose.

II. BASES OF VALUATION AND CONCEPTS OF VALUE.

1. Market value:

It is the net amount which reasonably could receive a seller for the sale of a property on the date of valuation, having been technically verified its characteristics and assuming a suitable marketing, where there is at least a potential buyer and a seller correctly informed, both acting freely for an economic interest and without a particular conditioning during the transaction.



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A property market value is always determined by the intersection of its demand and supply curves. The demand curve emerges from the replacement cost for the potential buyers.

The market value can be obtained:

Comparing the physical and technical characteristics with those of similar property, which value is already known, then considering the impact that the detected differences may have on their market value.

According to the net income that it could generate and to the return rate obtained within that market with similar property.

2. Replacement cost value (CR):

The replacement cost value may be:

2.1 Gross or new (CRB): It is the sum of necessary investments to replace one property by another new one of the same characteristics, on the appreciation date.

2.2 Net or depreciated (CRD): It results from deducting from the CRB (gross replacement cost) the physical and/or functional depreciation on the date of valuation.

In case of real property, the lot value must be added.

3. Value of use:

It is the economic value which certain property has for its owner due to the use the latter makes of it. Thereby, it is recommended to limit its use only for those cases required by the principal, since the result does not represent an objective value.

III. APPRAISAL VALUE

It will be the value determined by the purpose of the appraisal:

- Valuation for expropriations (objective value).
- Technical-countable valuation (for valuation of assets)



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- Valuation for sale or purchase of property.
- Valuation for lease of property or concession.
- Valuation for guaranty.
- Valuation for auction.
- Valuation for insurance.
- Valuation for taxes matters or land registries.
- Valuation for easements.

The purpose of appraisal will determine the pertinence of a concept of value (market value, new or depreciated cost, value of use) and according to that concept, the methodology provided by the respective rule for the determination of the required appraisal value will be adopted

Now it is defined:

VALUATION FOR EXPROPRIATION.

In case of appraisals for expropriation, it will be appropriate to determine the property objective value, understood – according to the Act N° 21.499 – as the sum of money which permits the party subject to expropriation to get compensation for the value of the affected property and for the damages which are a direct consequence of the expropriation, in equivalent conditions to those which were previous to the expropriation, without taking into account personal circumstances, emotional values, hypothetical profits or the greater value which the works to be carried out may confer.

Therefore, the objective value can square with the market value when it may be determined or with the depreciated replacement cost (CRD) instead.

TECHNICAL – COUNTABLE VALUATION.

The purpose of technical – countable valuations with assets aims is to obtain the realization net value or the depreciated replacement value.

The appraisal value for these purposes, will be preferably calculated from the market value obtained through the Comparative Method, affected by a realization coefficient which will take into account the hypothesis of the property sale in a



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relatively short term, lower than the one assumed as a usual market period and even the discount of the direct additional costs which could be generated until its commercialization.

Real property specialized due to their design, size, location, etc, used by a principal in the pursuance of his specific duty, without which the possessor's management is affected or paralyzed and which in case of destruction should be inevitably replaced by others of equal characteristics that market cannot provide, will be appraised by their depreciated replacement value.

The value of use mentioned by countable rules will be determined by the depreciated replacement cost or in exceptional cases, by the cost of its logical substitute according to technological progress.

Regarding real property, the Technical – Countable value is composed of the lot value and the building value, both discriminated, since they are different registers according to Countable Rules.

In case of personal property, a linear depreciation will be carried out.

The International Countable Rules NICSP 17, regarding the determination of fixed assets value, provide the following: 40. The fair price of the items of fixed assets is usually the market value set by appraisal. An appraisal of assets value is usually made by a member of the appraisal profession, who has an important and recognized professional suitability.

RECOVERABLE VALUE:

The value of assets in financial statements, as part of any property capable of being valued, is called recoverable value and must always be obtained with appraisal technical criteria.

For its obtaining, it must be applied criteria concerning obsolescence, wear, corrective maintenance, use intensity, design criteria and useful life estimated by the manufacturer, etc.

According to the aforementioned, it is recommended to use the depreciation parameters of the Rule TTN 4.x for real property and the ones of the Rule TTN 11.x for personal property.



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To clear up, the so called recoverable value usually used in accounting records is due to a proper convention of the countable discipline and must not be used to determine the objective value of assets for the purpose of an appraisal.

That proceeding adjusts the property value by indexes through a convention which only takes into account the property age, in a linear way, without considering the state, and adds up the improvements or repairings to value with a criterion absolutely foreign to the market reality.

Within the concept of Recoverable Value, improvements are considered as an isolated record or as a value which increases the property value. This criterion is wrong, because a property improvement cannot be considered as a property itself or as part of the appraised property, but as a maintenance cost necessary to preserve the value of the main property.

Finally, the value of property, the improvements costs and their depreciation by age and state, must be determined by an architecture or engineering expert (in all its specialties) with professional incumbencies granted by the Higher Education Act.

VALUATION FOR SALE OR PURCHASE OF PROPERTY.

The appraisal value for these purposes, will be the market value, preferably obtained by the comparative method.

VALUATION FOR LEASE OF PROPERTY OR CONCESSION

The appraisal value for these purposes will be the market value, obtained through the comparative method of leasing or concession background, through well founded deduction from the property market value, by revenue capitalization or another appropriate financial method.

VALUATION OF PROPERTY UNDER LEASING

The appraisal value of property under leasing, is the property market value at the time of its appraisal, affected by a coefficient which reflects the percentage of the property which has been paid to the date of its appraisal, without taking into account the interests paid in relation to the leasing contract.

VALUATION FOR GUARANTY

The appraisal value for guaranty purposes, including mortgage securities, will be the realization value, understood as the market value deducting a percentage



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which takes into account the sale hypothesis within a relatively short term, shorter than the one supposed as a usual market period, and direct additional costs which could be generated till its commercialization.

VALUATION FOR AUCTION

The appraisal value for these purposes will be the market value or depreciated replacement cost, affected by a coefficient of reduction in order to fix the base of the auction which will be determined by the principal according to the legislation currently in force.

The National Court of Appraisals does not determine the base value of auction of public property.

VALUATION FOR INSURANCE

The appraisal value for these purposes will be the depreciated replacement cost, without including the lot value in case of real property.

VALUATION FOR TAXES MATTERS OR LAND REGISTRIES

The appraisal value for these purposes will be the market value or the depreciated replacement cost, affected by a coefficient which will be determined by the competent authority.

VALUATION FOR EASEMENTS

The appraisal value for these purposes will be the market value, affected by restriction coefficients as appropriate.

IV. DEFINITIONS:

APPRAISER:

Appraisers may be classified according to their training and activity:

1) In order to act in all kinds of appraisals, according to the scope of their professional degree:

- A) University professionals with university degree in Surveying, Architecture, Engineering in all its specialties, Computer Science and Geology Science, with incumbencies or scopes of degrees concerning personal and real property appraisal and who do not participate under



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any character in commercial transactions of property valued by themselves and exercise their valuation tasks, according to the scopes of their respective degrees and to the requirements of the Sections number 42 and 43 of the Higher Education Act N° 24.521.

By their knowledge in physics and chemistry sciences, of structural performances, of designs, manufacturing and production, with capacity to make economic, technical and scientific developments; with authority to make projects, planning designs, manufacturing, building works management, testings and to start operating buildings, installations, rural property, personal property, airplanes, vessels, software and hardware. And the evaluation of scientific and technological progresses.

By their degree of specialization and by the complexity of the valuation tasks, these professionals are part of and may be representatives at the National Court of Appraisals.

- B) For appraisals of property limited by their construction and manufacturing capacity:
Experts who have the right to appraise according to decisions of the Ministry of Education.

2. To act in marketing and auction appraisals:

Professionals with university degrees such as Auctioneers and Real Estate Brokers, affected by the Sections 8 and 34 of the Acts N° 20.266 and 25.028, who not only give information about market values of property subject to auction or sale legal acts, but also develop commercial activities related to them, according to legal rules in force.

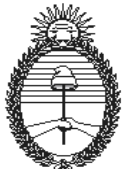
TEMPORAL VALIDITY OF APPRAISALS:

Each appraisal is made for a certain date, according to the principle of temporality. The market variability in time, has influence on the temporary validity of appraisals; this is the reason whereby it is necessary to make a new appraisal. It cannot be estimated a priori a time of validity because there are many factors that have influence on property value, even in a period of economic stability.

UPDATING OF AN APPRAISAL:

Appraisals must not or cannot be updated by any index. According to the prior definition, another appraisal to the new date must be made.

TIME REQUIRED FOR AN APPRAISAL:



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It cannot be estimated a priori, a time for making an appraisal, because it changes according to the case which is being studied, to the degree of complexity of the property to be appraised, to the ease or difficulty of background in the market, to the preparation of reports, to the times for inspection, to the analysis of results and other administrative tasks.

The inspection to the property to appraise is basic for the appraisal, in order to determine and corroborate its technical and security characteristics.

SOURCES OF INFORMATION:

For all appraisal proceedings, it must be used background or data as closer as possible to the date of appraisal.

This information is obtained from the market and accounting records values must not be used, because when they are adjusted by indexes they do not reflect the true market value of the real or personal property.

Also, it must not be used the so called witness prices, which are not appraisals, but prices of a property in the market. For an appraisal, it is required a greater degree of technical analysis for the determination of value.

MINIMUM DOCUMENTS FOR MAKING AN APPRAISAL:

For real property: data pertaining to location and land registry of the property, its up to date plans with existing improvements and photographs of the examined property.

For real property subject to condominium, moreover, it is necessary to have the subdivision plan and copy of the respective title deed.

For personal property: data concerning property location, the inventory with details about location, state and photographs of the examined property.

For installations: location data, the inventory with details about location, state, technical data of constructive and functioning characteristics, their plans and photographs of the examined property.

Each specific rule determines the necessary additional documents.

SUPERVISION ON APPRAISALS

Supervision on appraisals, will be made by professionals who have scope of degree or incumbency stated in the definition of appraiser of this rule.

APPRAISAL AND VALUATION

Appraisal and valuation are considered synonyms for the purpose of this rule.



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V. RULES NUMBERING

The rules of the National Court of Appraisals will be designated by a correlative number, followed by a full stop and the number that corresponds to the version of the rule in question, then the date of approval.

References among rules will be stated with the rule number and with an "x" which represents the version in force (for example: Rule TTN 00.x).

VI. GENERAL RULE DIAGRAM

