The Official Real Estate Appraisal in Germany

Christoph JOCHHEIM-WIRTZ\textsuperscript{1*}, B.Eng. Geodesy
Ambero-Icon Consulting, Representative Office Belgrade, Serbia

Abstract. The Real Estate Appraisal in Germany is regulated by the articles 192-199 of the German Construction Law. Technical guidelines, including the appraisal methods, are defined in bylaws. For the purpose of official real estate appraisal, Expert Appraisal Committees were founded in counties and large cities. The Committees are comprised of real estate experts doing a honorary service, coming from such professions as land surveying engineers, architects, civil engineers, Tax Office employees, experts from the banking sector, agronomists and real estate agents. The chairman of the Committee is also the director of the Cadastral Office and/or the Surveying Office. Every Committee has its own office within the Cadastral Office or the Surveying Office. The main task of the Committees is to establish and guarantee the transparency of the real estate market, by means of the publication of approximate plot value maps on the Internet as well as the publication of the reports on the real estate market. Apart from that, the Expert Appraisal Committees provide reports on the market value of real estate objects, available upon request. Reports on the market value of real estate objects are also made by publicly appointed and sworn experts. Based on the steady rise in the requests for superregional information about the real estate market in the recent years, the working group comprised of the representatives from the Expert Appraisal Committees from the whole country published its first report on the real estate market in Germany in 2008, and the second one in 2011.

Keywords: approximate plot value, approximate real estate value, collection of purchase prices, map of purchase prices, committee of valuation experts, report on the real estate market

\textsuperscript{*} Christoph Jochheim-Wirtz > christoph.jochheim-wirtz@icon-institute.de
1 Introduction

Transparency of the real estate market\(^1\), encompassing the whole territory, is a basic necessity not only for a country, but also for its citizens as well as for the businesses present in the market. A stable, transparent real estate market is a necessary precondition for the economic development and stability of any country. Potential investors are ready to invest only if there are sufficient realistic, precise, comparable and preferably territorially all-encompassing data about the market value of the real estate objects. The financial crisis that originated in the United States of America in 2007 and 2008 is above all a consequence of a lack of reliable information on real market value of real estate objects for the purposes of issuing bank loans. On the other hand, the financial crisis did not affect, or affected only to a very small extent, the markets of those few countries that have a valid, standardized, state-regulated real estate appraisal, such as Germany, whose loss of the real estate value was minimal, in the area of 5%. Unlike Anglo-Saxon appraisal methods, German methods are based on empirically collected data stemming from real purchase prices in the market, whereby any speculative elements must not be taken into account. The German legal framework for real estate appraisal almost excludes the creation of bubbles in the real estate market.

2 Legal Basis

Real estate appraisal in Germany is regulated by the provisions 192-199 of the Construction Law. Technical guidelines, including the appraisal methods, are defined in bylaws\(^2\). The Construction Law contains basic definitions and a description of the Committee of Valuation Experts, including their tasks, the market values, a collection of purchase prices and approximate valuation of the plots. It also contains the powers for the ratification of provisions and guidelines.

3 Elements of the Real Estate Appraisal

3.1 Experts Committee

For the purpose of official real estate appraisal in counties and large cities (more than 50,000 inhabitants), the Committees of Valuation Experts were founded. The Committees are independent bodies comprised of the chairman and other members of the Committee, whose service is honorary. Both the chairman and the other members of the Committee of Valuation Experts must possess professional qualifications and experience in the valuation of the real estate objects and other objects, and are usually land surveying engineers, architects, civil engineers, Tax Office employees, experts in banking, agronomists, as well as real estate agents. The chairman of the Committee of Valuation Experts is also the chairman of the Cadastral Office and the Surveying Office. Every Committee of Valuation Experts has its own office within the premises of its Cadastral Office or Surveying Office.

Tasks of the Committee of Valuation Experts:

Committee of Valuation Experts issues the reports on the market value of built-up and non-built-up plots, as well as on the legal issues upon requests by courts and legal institutions, other institutions for the purposes of determining the compensation value, as well as the real estate object owners and legal proprietors. The reports are not legally binding unless it is stated or agreed.

The Committee of Valuation Experts also keeps the collection of purchase prices (see 3.3) and its appraisals. Based on these information, approximate prices of the plots (see 3.4) are determined, as well as all other data necessary for the real estate appraisal (see 3.5).

3.2 Market Value

Market value is determined based on the value that, according to the legal circumstances and real characteristics, as well as other characteristics and the location of the real estate object, can be obtained in the usual business sales, whereby unusual or personal circumstances must not be taken into account.

3.3 Collection of Purchase Prices

All real estate purchase agreements must be validated by the notary. Notaries must provide the Committee of Valuation Experts with a copy of every contract. The Committee of Valuation Experts evaluates purchase agreements and keeps the collection of the purchase prices in the electronic database. The most important data entry fields are: cadastral data, address, location coordinates, type of object, year of construction, construction style, number of storeys, purchase price, habitable surface, amenity standards, useful surface, yard, garage (garages). The number of possible fields in one collection of purchase prices can be up to 300, with not more than 40 fields per purchase agreement. The collection of purchase prices can only be sent to the authorized Tax Office unit, for the purpose of determining the tax. The data from the collection of purchase prices can be issued if there is a justified interest.

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\(^1\) In Germany, object built on a plot is considered an integral part of the plot. In that respect, this paper does not discriminate between plots and real estate objects.

\(^2\) The federal system of the Federal Republic of Germany includes some minor provision differences in different states. This paper presents the general legal provisions.
3.4 Approximate Plot Prices

Based on the collection of purchase prices, average values of construction plots are determined for the whole territory, taking into account the degree of the development. These are the approximate plot prices. Approximate plot value in a built-up area is the value that would be determined if the plot had not been built-up. Approximate value zones are formed for the areas with identical circumstances in terms of value, style and extent of the construction. All the relevant characteristics of each area are given. Approximate plot values are determined at least once at the end of every two calendar years. Approximate plot values are published and sent to the authorized Tax Office unit. Everyone has the right to request the information on the approximate plot value from the Committee of Valuation Experts office.

Figure 1. Extract from the approximate ground value maps

Internet Calculator for Determining Real Estate Value

An internet calculator for determining real estate value is currently being developed. In some states there are already such electronic calculators, like for example www.boris.nrw.de. The state’s central computer database holds the basic data from the collections of purchase prices made by the local Committees of Valuation Experts. The user can enter the characteristics of the real estate in certain area, such as:

- type of object
- location
- amenities
- useful surface
- plot surface
- etc.

Based on that, a selection of the purchase objects is made from the database, based on which the approximate value of the specified real estate object type is then calculated.

3.5 Other Data Necessary for Real Estate Appraisal

Other data necessary for real estate appraisal include, first of all, the capitalisation rates for various real estate object types (objects for residential, commercial and mixed use). Capitalisation rates are such interest rates in which real estate objects’ market values are subject to the usual market rates (real estate interest rates). Other necessary data include the factors for the adjustment of material value to the appropriate situation on the real estate market (material value factors). These necessary data are determined and published at least once at the end of every two calendar years, and are sent to the authorized Tax Office units for the purpose of tax determination.

3.6 Technical Guidelines

Technical guidelines are defined in the provisions, most of all in the ‘Provision on the Real Estate Appraisal issued on May 19th 2010.’ For the appraisals the comparative method is used, as well as the profit method, cost method or a combination thereof. The methods are chosen according to the type of the object.
whose value is being determined, taking into account the usual practices in business dealings as well as other circumstances pertaining to the specific case, above all the available data. The decision needs to be explained. Market value is determined based on the results of the method or methods applied, taking into account its or their conclusiveness. When using the appraisal methods, either through deductions or additions for market adjustment or in some other way, the following factors should be taken into account:

1. general value-related circumstances in the real estate market (market adjustment)
2. special case-specific characteristics of the real estate object being appraised.

Comparative Method is based on the comparison with real purchase cases from the collection of purchase prices, which can be compared with the object being appraised. Comparative method is used always when there is a sufficient number of comparative objects, such as family houses of the same type in one construction area, or apartments within one multiple-family residential object. Profit Method is based on the annual profit that can be obtained for the real estate appraised, and is often applied in case of rented houses, apartments or commercial real estate objects, or rented agricultural land. Cost Method is based on the costs of the construction of the object, taking into account the amortization deduction. The value of the plot is added to the value of the object.

### 4 Example: Märkischer Kreis County

In the following paragraphs, the report by the Committee of Valuation Experts of the Märkischer Kreis County is given:

The Märkischer Kreis County is situated in the western part of Germany, in the state North Rhine-Westphalia. It borders Ruhr Region to the north, which is one of the most important industrial regions in Germany.

Figure 5. Märkische Kreis County, Germany

On the one hand, in terms of economy, this region is known for industrial cities and light industry, especially automotive industry suppliers. There is probably not a single car in the world that does not possess at least one part produced in this region. On the other hand, this region is also known for agriculture and forestry. It spans the area of 1,000 square kilometers, has a population of 450,000 and includes 15 cities with population between 7,000 and 100,000.

The Märkischer Kreis County Committee of Valuation Experts has 20 members. The chairman of the Committee is the director of the Cadastral Office. All the members of the Committee of Valuation Experts are doing a honorary service, and are land surveying engineers, architects, Tax Office employees, experts in banking, agronomists and real estate agents. The office has eight employees and functions as a part of the Cadastral Office. The collection of purchase prices contains around 60,000 purchase agreements, and each year grows by another 2,500 to 3,000. The Committee of Valuation Experts annually issues between 25 and 50 reports on the real estate object market value. Approximate plot values are determined every year for a total of 1,300 zones and published on the Internet, in the Geographic Information System (GIS) [http://ris.maerkischer-kreis.de/website/internet/brw2013_ETRS/](http://ris.maerkischer-kreis.de/website/internet/brw2013_ETRS/). Once a year, a report on the real estate market is also published [http://ris.maerkischer-...](http://ris.maerkischer-...).
Figure 6. Market adjustment in 2013, given in %, for single-family and two-family houses

5 Conclusion

Official real estate appraisal in Germany had its roots in the Federal Construction Law from 1960. Over the past 60 years, law provisions and technical guidelines have been constantly being adjusted to the developments in the area of civil engineering and the real estate market. Committees of Valuation Experts, using their structured purchase prices database, have a complete insight into the real estate market. According to the legally regulated obligations for publishing these information about the market and establishing the highest level of transparency possible, eventually a highly stable market has been created, which did not collapse even during the past crises in the real estate market. Methods for real estate appraisal have been tested and improved for many years, ensuring high reliability in terms of the precision in determining market values.

References