

Mass Valuation in the Netherlands From Fiscal Valuation to Multi-Purpose Valuation

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SUMMARY

In 1995 the system of valuing real estate for taxation was started in the Netherlands. The values are used by municipalities, polderboards and the national revenue office. About seven million residential and one million non-residential properties are valued every four years. Based on these values the three types of government collect nearly € 5.000.000.000 on taxes each year.

Because of the economical importance since 1995 the quality of the estimated values has been improved by optimizing the object data, optimizing the valuation models and increasing efforts for market data-analysis. The quality improvement was intended for the fiscal purposes of the valuation. Taxpayers and taxjudges expect a high accuracy for the assessed value as well as for the valuation report that should be available for each taxpayer.

However this improved quality made it possible that nowadays the estimated values are used not only for taxation but also for insurance purposes and for stating the value of the property to get a mortgage when buying or renovating property. This is a kind of use in which the owner of the property can use the valuation for other purposes. With these kinds of uses the taxpayer is not longer only interested in the lowest value possible.

The values are also used to calculate the economic costs of environmental measures (for instance flooding an area in cases of high water). This is a kind of use in which authorities can use the generalized estimated values for decision support.

The last kind of use mentioned in this paper is the fact that the estimated "sales" values of residential properties are even used to calculate an economic rent price and in future perhaps even to calculate the maximum rent price for social housing.

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1. ACT FOR REAL ESTATE ASSESSMENT

The special Act for Real Estate Assessment in the Netherlands regulates that for several taxes the same assessed value is used. With intervals of four years all properties are assessed once and these values are available for all tax levying authorities.

The assessment and appraisal are conducted under the responsibility of the 489 municipalities in the Netherlands. The appraisals have to be carried out every four years. So the assessed value of a property will be used during a period of four years. The appraisal is based on the market situation on January 1st two years before the start of the period in which the assessed value is used.

For taxation during the years 2001 - 2004 the assessment is based on the market situation of January 1999. The appraisals have been carried out during the years 1999 and 2000.

The Act for the assessment of real estate puts the responsibility on the municipalities to:

- accomplish an entire appraisal every four years;
- officially inform all owners and users of real property of the assessed value;
- handle objections to the assessed values if any;
- transfer the assessed values and other essential data to one or more polderboards;
- transfer the assessed values and other essential data to the national revenue office.

Only a limited number of the municipalities, mostly the larger municipalities, will carry out the appraisal under their own control. Most of the municipalities contract parts of the appraisal process or the entire project out to a private company or to private valuers.

2. REAL ESTATE TAXATION IN THE NETHERLANDS

In the Netherlands there are several taxes in which the market value of real property is an essential element for the levying of tax.

The 489 municipalities levy rates on real property from the owners as well as from the users of the property based on the market value of the property. Nearly all property is taxed by the municipalities. Nearly seven million residential properties are included, but also nearly a million non-residential properties. Not only commercial properties like office-space, shops, agricultural buildings and industrial plants are taxed but also non commercial properties like schools, hospitals, theatres etc. The revenues for municipalities are about € 3 billion each year.

The in the Netherlands very important polderboards levy tax on built property on the basis of the market value from the owner. Unbuilt land is taxed according to the area of the land. The revenues of the tax based on the value of built property by the polderboards are smaller, about € 300 million. These tax revenues are however more important for the polderboards, because polderboards do not get any financial means from central government. The municipalities get more than 80% of their financial means from central government.

The central government levies tax from the owner occupier of residential property in the income tax (imputed income). Revenues from this tax are also about € 3 billion.

3. REVALUATION 1999

The revaluation 1999 was the first revaluation based on the Act for Real Estate Assessment with a fixed valuation date for all properties in the Netherlands. The results of this revaluation were informed to the taxpayers early 2001 and these assessed values are used for taxation purposes during the years 2001, 2002, 2003 and 2004.

On this moment the revaluation 2003 has been started and the final results will be available early 2005.

4. ALTERNATIVE APPLICATIONS BY THE TAXPAYERS

The assessed value that is informed to the taxpayer for taxation purposes may be used by the taxpayer for other purposes. The assessed value based on the Act for Real Estate Assessment gives the real market value. Because this is a very general value concept, the assessed value is suitable for other applications. The two most important alternative applications by taxpayers are insurance and finance.

A number of insurance companies in the Netherlands ask their clients with a fire and burglary insurance for their house and/or their belongings (furniture etc.) to state the assessed value for the Act of Real Estate Assessment. With other data this assessed value is used to calculate the insurance premium as well as the maximum benefit after fire or burglary. The assessed value is a uniform estimate of the value of the house (and the value of the other belongings in the house are considered to be in accordance with this value) that is available for all residential properties. It is also a major advantage that these assessed values are available for this purpose free of charge, because the taxpayer already has paid for the valuation in his tax bill. To force the insured to hire an appraiser to value his property will lead to much higher costs. Even to ask the insured to fill in a questionnaire on which the insurance company can estimate the value of the property and belongings is much more time consuming (and therefore more expensive) for as well the insured as the insurance company.

The fact that the available market value is not recent, but somewhere between two to six years old is not considered to be a large problem for this application.

A large number of taxpayer has taken advantage of another application of the assessed value during the last years. Some mortgage banks accepted the assessed value for the Act of Real Estate Assessment as a valuation on which a mortgage could be based. Because of the rapid increase in housing prices between 1990 and 2000 it was possible for a lot of home owners to get a second mortgage on their house to improve the house or even to finance other investments (car, boat etc.). The interest on a mortgage is in general less than the interest on other types of loans. However it is more expensive to fix up mortgage, mostly because of the costs of the notary deed and the costs of the obligatory valuation of the property. When no additional valuation of the property is needed, the costs for fixing up a mortgage will decrease.

Also for this application it is not a large problem that the estimated value is between two and six years old. The mortgage bank has to estimate its risks in general for the next 30 years. In estimating the expected future developments the actual market value is only a base for the expected future value of the property. The fact that the available assessed value is some years old does make the estimation of risks just slightly harder especially in a increasing market. The taxpayer who was able to use is assessed value for the purpose of fixing up his mortgage, feels that some of the taxes he paid was returned to him.

Of course sending information on the market value of property also increases the knowledge on the value of real estate for owners and potential owners of residential property. This knowledge is furthermore increased by the fact that some municipalities give additional information on market prices by internet. This additional information is intended to explain the assessed values and to make it possible that taxpayers check the quality of assessed values. It can be expected that this kind of information has helped buyers and sellers of residential property in setting up a sound price for a property.

From the point of view of efficiency and quality the fact that taxpayer can also use the assessed value for other purposes are of great importance. When the assessed value is only used for tax purposes, every taxpayer has only one interest: an assessed value that is as low as possible. Even when the assessed value is correct a taxpayer can try to decrease the value starting an appeal. But for the alternative applications it is not in the interest of the taxpayer to have an assessed value that is below market level. It is even possible that a taxpayer will inform the municipality when the assessed value is too low because of a mistake made by the municipality.

5. ASSESSED VALUES FOR DECISION SUPPORT

The Act for Real Estate Assessment has made assessed values available for nearly all real property in the Netherlands. Only agricultural land, public roads and nature are exempted from this valuation. When decisions have to be made on investments in real estate or decisions on (physical) planning information on the actual value of real estate can be of importance.

Until now there are two major examples of decisions in which the assessed values of a large number of objects have been used. Both examples are decisions on national level dealing with problems of water management. Water management is of course a great issue in a country that for more than half of its area is below sea level.

The first example was dealing with the influence of sea level rise on the Northsea coast. Some alternatives for strengthening the dunes along the coast where analyzed by the Ministry of Traffic and Watermanagement. For analyzing the economic effects the assessed values of several thousands of properties within a number of municipalities along the coast where used. These assessed values where rather easily available, because the Central Bureau of Statistics has all the assessed values. The Central Bureau of Statistics is not allowed to publish these values, but when the municipality agrees the data are available for research like this example.

A similar type of analysis was made to select areas that could be used as emergency outlet areas in case of extreme high water level in one of the major rivers in the country. There is a risk that these outlet zones will be flooded once every hundred years. All real property in the zone will be damaged and the assessed values were used to decide which zones would lead to the least damage in economical terms.

The availability of these assessed value at the Central Bureau of Statistics made it possible to do these kind of economical analyses to support important national decisions on planning. In the past these decisions were made on very inaccurate estimates of economical damage or it was necessary to perform a very expensive research. It is expected that in future for more of these national decisions the assessed values will be used in the evaluation of alternatives.

6. MARKET VALUES FOR SOCIAL HOUSING

Nearly half of all residential property in the Netherlands is rented property and most of these three million rented dwellings are part of a subsidized social housing program. For these houses the maximum rent price allowed is regulated. The maximum rent price can be calculated using several characteristic of the dwelling (size, number of rooms, neighborhood, etc.). For each of these characteristics the influence on the maximum rent price is part of the regulations. The Ministry of Housing is now trying to modernize these regulations. The mutual relations between the maximum rent prices for different houses should be more in accordance with market differences. The try to define a system in which the maximum rent price is partly based on the assessed market value of the house.

It is not the intention to derive the maximum rent price allowed entirely from the assessed market value. When the rent price for social housing should be entirely based on the market value the rent prices in for instance the capital Amsterdam would be too high for most of the people living there.

While the change in the regulation for the maximum rent price is still a research project, a number of social housing organizations already base the actual rent price on the assessed value of the houses they exploit. The actual rent price for a house is calculated as a percentage of the assessed market value of that house. The percentage is for instance calculated by dividing the total rental income needed from a complex of houses by the total sum of the assessed value of all the houses within the complex. As long as this rent price calculated using the assessed value is not higher than the maximum rent price, this is way of calculating rent prices is allowed. Organizations using this way of calculating rent prices experience more understanding from the tenants, because they understand they way the calculation is made.

This alternative use of the assessed values results in an interest for the social housing organization in correct (not too low) assessed values and not only an interest in the lowest value (lowest tax) possible.

7. CONCLUDING REMARKS

On this the market values estimated and assessed based on the Act for Real Estate Assessment are used for a larger number of purposes than could be imagined when the Act was placed into force by parliament in 1994. For some other possible alternative purposes however the fact that the assessed value is outdated in the years it is used, is a larger problem. For instance in 2004 the assessed value based on the revaluation 1999 is used and this is a value based on the market nearly six years earlier.

A more frequent revaluation can increase even more the alternative purposes of the assessed value. A higher frequency for revaluations has already been discussed in parliament. Until now a higher frequency was not decided because of the fear for higher costs. However the Council for Real Estate Assessment in the Netherlands has already stated that it is possible and even expected that a yearly revaluation is in the long run cheaper than revaluations every four years, mainly because of lower cost for appeal procedures.

It is possible that the actual situation on the Dutch real estate market will stimulate the introduction of yearly revaluation. The revaluation 2003 that is done now seems to give just the top of the market and in several market segments prices are decreasing. This will mean that when the results of the revaluation 2003 will be informed to the taxpayers in 2005 the actual market values will be lower than the newly assessed values based on the market situation in 2003. It is not likely that politics will agree with using the assessed values 2003 for another four years when taxpayers feel these values are too high. So the actual real estate market can stimulate a higher valuation frequency and this higher frequency can stimulate the use of the uniform assessed value for different purposes.

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