

Content of question – The revaluation of a given real estate property segment

Piece of law	Decree No. 123/2007 Coll. (as amended) (hereinafter the "Decree")
Provision	• Annex 15/A/II.1/b/4
Question	Is it possible to carry out an overall revaluation of a given real estate property segment on the basis of the statistical monitoring of market prices?
Answer	<p>Decree No. 123/2007 Coll., as amended (hereinafter the "Decree") in accordance with Directive 2006/48/EC (hereinafter the "CRD") provides that "Statistical methods may be used to monitor the value of the property and to identify property that needs revaluation." Under a strict interpretation of this regulation, statistical methods might be used exclusively for monitoring and identifying the property to be revalued, not for the revaluation as such.</p> <p>We believe that if conditions change throughout the segment (region, property type, etc.), revaluation need not necessarily be performed individually if the change in prices is driven by a factor equally affecting all properties in this segment. However, neither the Decree nor the CRD provide details as to which procedure should be adopted if the option to use statistical methods is utilised.</p> <p>We believe that an overall statistical model-based revaluation is acceptable if the value is being decreased. If the value is being increased, however, it is necessary to take a cautious approach and to act in a very conservative manner.</p> <p>In the case of institutions with the IRB approach, the appropriateness of the use of statistical methods should be assessed as early as in the validation process itself. In particular, it is always necessary to assess the granularity of the segment and the relevance of the choice of the factors affecting the price of the property.</p>
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Further information for the recipient of the answer:	The answer reflects views of the staff members of the Czech National Bank. A court of law, or possibly the Bank Board of the Czech National Bank, may take a different point of view. However, a liable entity's practices that adhere to the answer will be considered, within the limits of the answer and its assumptions, to be in harmony with legal regulations, unless the inapplicability of the answer to the case in question follows from circumstances particular to the case.