

# Expert Report

On the Economic Remaining Useful Life of a Property



**Economic Remaining Useful Life: 15 Years**

# Summary

## Client Information

Client	John Doe
Address	Sample Street XX ZIP Sample City
Order Number	C01
Order Date	09.07.2024

## Building Data

Year of Construction	1960
Year of Valuation	2023
Age of Building	63 years
Assumed Total Useful Life	65 years

## Modernization Level

Modernization Points	3
Fictitious Year of Construction	1973
<b>Modified Remaining Useful Life</b>	<b>15 years</b>

## Remaining Useful Life

The German Real Estate Valuation Ordinance (ImmoWertV) defines the remaining useful life of a property in Section 4 (3) as follows:

*(2) The total useful life refers to the number of years during which a building structure can typically be economically used from the year of construction, assuming proper management.*

*(3) The remaining useful life refers to the number of years during which a building structure can presumably still be economically used, assuming proper management. The remaining useful life is generally determined based on the difference between the total useful life and the age of the building structure at the relevant valuation date, taking into account individual circumstances of the valuation object. Individual circumstances such as renovations or modernizations carried out, or maintenance omitted, may extend or shorten the duration resulting from the difference according to sentence 2.*

The Asset Value Directive provides further specifications:

### 4.3.1 Total Useful Life

*The total useful life to be applied is a model parameter. Appendix 3 contains orientation values that take into account the type of building.*

### 4.3.2 Economic Remaining Useful Life

*(1) The remaining useful life is fundamentally determined from the difference between the total useful life and the age of the building at the valuation date. The result must be examined to determine whether it corresponds to the period during which the building can presumably still be economically used with proper management (economic remaining useful life), whereby the legal permissibility of the assumed use is presupposed.*

*(2) For buildings that have been modernized, a correspondingly longer economic (modified) remaining useful life may be assumed. For determining the economic remaining useful life of residential buildings, the model described in Appendix 4 may be used to account for any modernizations carried out. Omitted maintenance (Section 6(6) ImmoWertV) is generally treated as structural damage (see Section 6.2). In severe cases, the economic remaining useful life is reduced. The longer or reduced economic remaining useful life does not change the total useful life of the building.*

## Legal Basis

The basis for the depreciation rate is the German Income Tax Act (EStG). The provisions of Sections 7 ff. EStG determine the amount and duration of depreciation for real estate. The acquisition or production costs, excluding the portion for land, may be depreciated. Accordingly, the statutory regulation provides for a period of 50 years over which depreciation extends. This may vary depending on the year of construction (see Appendix 1). Conditions for special depreciation are also regulated.

## Shorter Actual Useful Life

If the actual remaining useful life of a property does not correspond to the standardized remaining useful lives according to Sections 7 ff. EStG, a shorter actual remaining useful life may be demonstrated. The basis for this is the ruling of the Federal Fiscal Court of July 28, 2021 (IX R 25/19). In response, the Federal Ministry of Finance issued a letter to the tax authorities on February 22, 2023, according to which the depreciation rates may deviate from the standardized rates if evidence of a shorter actual remaining useful life is provided.

Point 4 of the letter specifies the relevant criteria for estimating a shorter actual useful life as follows:

"According to established case law, the shorter actual useful life to be estimated is determined by certain influencing factors (so-called relevant determinants). These influencing factors include:

- technical wear,
- economic depreciation, and
- legal circumstances that may limit the useful life of an asset."

When determining the useful life, the technical useful life is generally decisive. "If the economic useful life is exceptionally shorter than the technical useful life, taxpayers may rely on this." (BFH judgements of July 28, 2021, of November 19, 1997, X R 78/94, BStBI II 1998 p. 59; and of September 18, 2003, X R 54/01, BFH/NV 2004 p. 474, with further references). The starting point for assessing technical wear is the useful life of the building's load-bearing structure (roof construction, load-bearing interior and exterior walls, floor slabs, and foundation) as the main component of the building. For the assumption of a shorter technical useful life, it is not sufficient that only individual dependent parts of the building are due for renovation or replacement. This also does not apply if the expenditure leads to a significant improvement in the building and is attributable to the production costs for tax purposes (Federal Ministry of Finance letter dated July 18, 2003, BStBI I p. 386). Rather, it is necessary that technical wear and tear of the load-bearing parts, i.e. in particular the supporting structure of the building, impairs the usability of the building as a whole ((Federal Fiscal Court decision of July 10, 2015, IX B 34/15, BFH/NVS. 1429).

A shorter actual useful life based on economic depreciation can only be used as the basis for depreciation if the building is objectively economically worn out before the end of its technical useful life, i.e. if the possibility of economically sensible (other) use or utilisation has been definitively ruled out (Federal Fiscal Court ruling of March 4, 2008, IX R 16/07, BFH/NV p. 1310).<sup>1</sup>

With its ruling of January 23, 2024 (IX R 14/23), the Federal Fiscal Court somewhat relaxed the requirements of the Federal Ministry of Finance for demonstrating a shorter actual remaining useful life. The evidence may also be provided using a model approach in accordance with Section 4(3) ImmoWertV. Assessment of the technical wear of building components is no longer required for demonstrating a shorter actual useful life.

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<sup>1</sup> See letter from the Federal Ministry of Finance dated 22 February 2023.

For maximum transparency and to validate the values, we determine the remaining useful life using two methods below. First, the remaining useful life is determined using the point-raster method, which models the modernization measures and weights them according to their impact on useful life. Second, we determine the remaining useful life based on the actual useful life and age of the individual components of the property, weighted in accordance with the ImmoWertV. This provides an even more precise result, particularly for partially renovated properties.

## General Information

<b>Subject of Assessment</b>	Sample Street XX, ZIP Sample City
<b>Purpose of Assessment</b>	Evidence of a shorter actual remaining useful life for submission to the tax authority
<b>Responsible Appraiser</b>	Jane Doe

## Building Description

<b>Property Type</b>	Office and residential building
<b>Year of Construction</b>	1960 (reconstruction)
<b>Year of Valuation</b>	2024

<b>Component</b>	<b>Condition Description</b>	<b>Renovation</b>
<b>Roof</b>	The roof is a wooden construction covered with red tiles. The hipped roof dates from the year of construction and has never been renovated or modernized.	-
<b>Exterior Walls</b>	The exterior walls were built solidly, plastered, and insulated. In 2014, the exterior walls were retrofitted with insulation. No further renovation or modernization work has been carried out.	2014
<b>Windows</b>	The windows are double-glazed plastic windows. According to the owner, they date from 1994.	1994

<b>Interior Finish</b>	Carpet or laminate flooring was used. According to the owner, this is approximately 25 years old. There have been no significant renovation or modernization work inside the property. The interior finish elements are in age-appropriate condition.	-
<b>Utilities</b>	The utilities have never been renewed. They are from 1960. However, there are no signs of damage or defects.	-
<b>Heating</b>	The property is heated by district heating. The heating system is from 1960. However, the pump was renewed approximately 4 years ago.	2019
<b>Bathrooms</b>	The bathrooms are partially tiled and, apart from minor repairs, are still at the standard of the year of construction. There are no signs of damage or defects.	-

## Total Useful Life (Section 23 ImmoWertV) / Remaining Useful Life (Section 6(6) ImmoWertV)

The total useful life is the typical economic useful life of building structures with proper management, not the technical lifespan, which may be considerably longer. The typical total useful life results from the building type selected for determining the standard production costs as well as the building equipment standard and is therefore assigned to the building type for valuation purposes. The remaining useful life is the number of years during which the building structures can presumably still be economically used with proper management; renovations or modernizations carried out, maintenance omitted, or other circumstances may extend or shorten the remaining useful life. The point-raster method is applied to determine the remaining useful life.

### Determination of Remaining Useful Life - Office and Residential Building

<i>Basis</i>	<i>Value</i>	<i>Explanation</i>
Year of Construction	1960	E1
Year of Valuation	2023	E2
Total Useful Life	65 years	E3
Age of Building	63 years	
Remaining Useful Life	2 years	

### Determination of Modernization Level - Office and Residential Building

<i>Modernizations</i>	<i>Max. Points</i>	<i>Points</i>	<i>Explanation</i>
Roof renewal / insulation	4	0	
Window modernization	2	0	
Utility systems modernization	2	0	
Heating modernization	2	1	E4
Exterior wall insulation	4	2	E5
Bathroom modernization	2	0	
Interior fittings modernization	2	0	
Floor plan improvements	2	0	
Σ	20	3	

### Determination of Modified Remaining Useful Life - Office and Residential Building

<i>Description</i>	<i>Value</i>
Modified Remaining Useful Life	15 years
└ Fictitious Year of Construction	1973
└ Fictitious Age	50 years
└ Age-Related Depreciation	77.00%

## Explanations for Remaining Useful Life Determination

E1	The year of construction was taken from the owner's information.
E2	The valuation is performed in the year 2023.
E3	In the present valuation case, an economic total useful life of 65 years is assumed (cf. SW-RL, Appendix 3). This total useful life results from the ratio of office space (2/3) and residential space (1/3) as well as the total useful lives specified in the Asset Value Directive for the respective type of use.
E4	One modernization point was awarded for the renewal of the heating pump.
E5	Two modernization points were awarded for the subsequent thermal insulation of the exterior walls.

For plausibility verification, the remaining useful life of essential building components was determined on a weighted basis. The weighting is based on the weighting of production costs according to the NHK 2010 of the Asset Value Directive. The different materials as well as renovation measures carried out are taken into account. Excessive wear can lead to a shortening of the remaining useful life.

### Determination of Economic Remaining Useful Life - Office and Residential Building

<i>Component</i>	<i>Year of Construction</i>	<i>Fictitious year of construction (year of renovation)</i>	<i>Year of Valuation</i>	<i>Lifespan in years</i>	<i>RUL in years</i>	<i>Weight</i>
Exterior Wall	<b>1960</b>	0	<b>2023</b>	<b>80</b>	<b>17</b>	23%
Roof	<b>1960</b>	0	<b>2023</b>	<b>90</b>	<b>27</b>	15%
Windows & Doors	<b>1994</b>	0	<b>2023</b>	<b>50</b>	<b>21</b>	11%
Interior Walls	<b>1960</b>	0	<b>2023</b>	<b>80</b>	<b>17</b>	11%
Ceiling Construction	<b>1960</b>	0	<b>2023</b>	<b>80</b>	<b>17</b>	11%
Floor Coverings	<b>1960</b>	0	<b>2023</b>	<b>30</b>	<b>0</b>	5%
Sanitary Facilities	<b>1960</b>	0	<b>2023</b>	<b>45</b>	<b>0</b>	9%
Heating	<b>1960</b>	0	<b>2023</b>	<b>50</b>	<b>0</b>	9%
Technical Equipment	<b>1960</b>	0	<b>2023</b>	<b>50</b>	<b>0</b>	6%
Σ			14,01			

This calculation results in a remaining useful life of 14 years.

This value appears too low. Taking into account the building condition, a remaining useful life of 15 years appears more realistic.

## **Remaining Useful Life**

The remaining useful life was determined based on information provided by the owner. The building is 63 years old at the valuation date. Minor modernizations have been carried out on the building. The modernizations to the heating system and exterior walls were accounted for with 3 modernization points. This results in a fictitious year of construction of 1973 for the building. Accordingly, the remaining useful life of the valuation object at Sample Street XX, ZIP Sample for the valuation year 2024 is:

**15 Years**

Walldorf, August 16, 2024

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# Appendix



# Legal References



The following German laws and regulations form the legal basis for this assessment. In the German version of this report, the original German legal texts are included.

**German Income Tax Act (EStG) - Section 7: Deduction for wear and tear or reduction in substance**

**German Income Tax Act (EStG) - Section 7b Special depreciation allowance for new rental housing construction**

**German Income Tax Act (EStG) - Section 10**

**German Real Estate Valuation Ordinance (ImmoWertV) Regulation on the principles for determining the market value of real estate and the data required for valuation - Section 6 Valuation procedure; determination of market value**

**German Real Estate Valuation Ordinance (ImmoWertV) Regulation on the principles for determining the market value of real estate and the data required for valuation - Section 4: Age, Total and Remaining Useful Life**