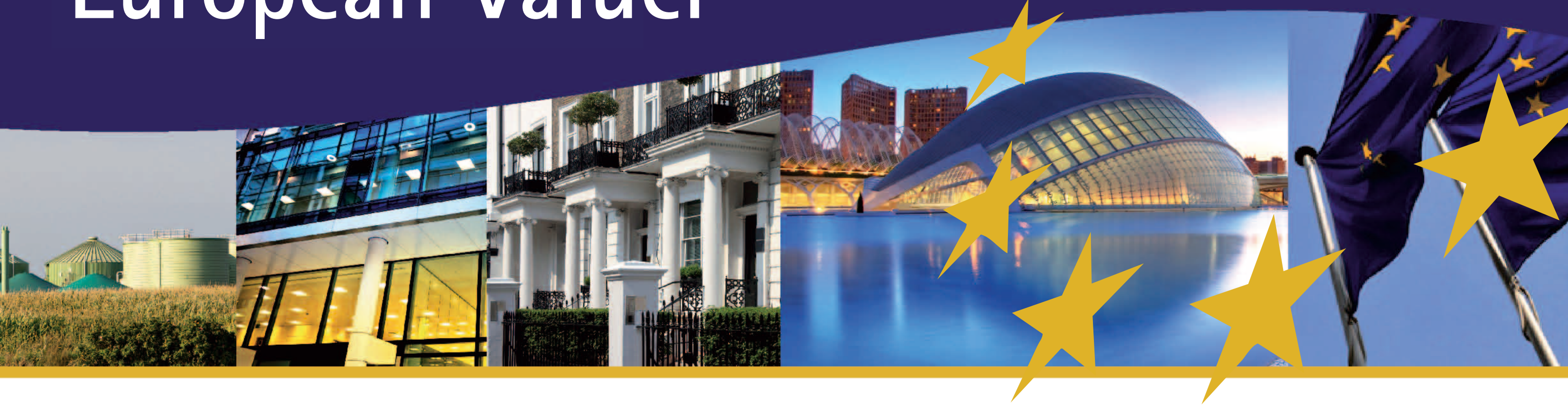
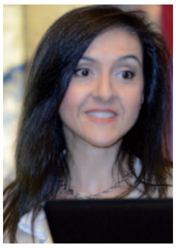
TEGoVA
THE EUROPEAN GROUP OF VALUERS' ASSOCIATIONS
European Valuer
January 2016 / Issue No. 2



European Valuation Standards gain traction in Italy. Silvia Cappelli explains.



December 14th 2015 was an important date for property valuation in Italy. In Rome, the Italian Banking Association (ABI) officially released the updated "Linee Guida per le valutazioni degli immobili in garanzia delle esposizioni creditizie" (Guidelines) that have been edited by a working group encompassing all professional bodies, including TEGoVA members the Association of Valuation Companies for Banks (ASSOVIB) and the National Council of Italian Surveyors (CNGeGL).

During the process, TEGoVA was asked to review the draft and submitted comments.

The first release of the Italian self-regulation initiative came in 2011, generating a very diversified market, with the most trustworthy professionals and valuation companies following standards and setting best practices, while less careful behaviour was still being tolerated. **Such tolerance is now shrinking,** considering the sector's need for additional transparency, cross border valuation opportunities offered by investors, the recognition of property valuation as a risk management tool for banks and the increased supervision exercised by national and international authorities within the Single Supervisory Mechanism (SSM).

"Perhaps the most decisive novelty of the 2015 Guidelines is the recognition that adequate time is needed to perform the valuation assignment and that this must be matched by adequate compensation."

The update of the Guidelines has also become necessary in view of recent EU Regulations and Directives, in particular the Capital Requirements Regulation and the Mortgage Credit Directive, the latter identyifing the internationally recognised valuation processes that reliable standards developed by Member States should comply with. Italy has decided to comply with International Valuation Standards and European Valuation Standards, attributing in the Guidelines a premier role to TEGoVA EVS. This decision was influenced by the recognition that the **European Central Bank** (ECB) gave to EVS above all other valuation standards during the Asset Quality Review in 2014. The Italian banking industry took heed of this message and decided to focus on maximising the compliance of the Italian Guidelines to TEGoVA's standards. As a clear sign of this preference, Recognised European Valuer (REV) recognition has been introduced alongside ISO 17024 accredited certification, allowing valuers to demonstrate their competence and experience.

"Verifiable" and "reproducible" are key words in a context where Europe requires creditors to ensure that reliable valuation standards are used where they carry out a property valuation, or to take reasonable steps to ensure that those standards are applied where a valuation is conducted by a third party. Italian banks are therefore making a clear choice to outsource this important function to valuation companies that are able to demonstrate independence, competence, objectivity and transparency through organised structures.

The Guidelines are flexible in terms of who can undertake valuation work for bank lending purposes, implying that such work can be done by individual valuers, as well as by valuation companies managing a group of valuers. **ASSOVIB's commitment is to guarantee that all its members implement structured processes that provide added value to banks,** when it comes to demonstrating the independence and quality of valuations performed, and that reputable valuation companies manage valuers in a professional and competent manner.

It has been stressed that the Guidelines' principles and methodologies have to be applied not only at mortgage origination, but during the entire life of the loan, including problematic situations like non-performing loans (that have boomed in Italy during recent crisis years). It has been made clear that when real estate assets have to be evaluated as mortgage collateral, it is crucial to perform a full valuation, including inside inspection of the property by a qualified and independent

Welcome …

… to the second edition of the *European Journal*, bringing you a collection of articles designed to keep readers up to date with the work of TEGoVA and the role the organisation plays in the valuation profession throughout Europe and beyond.

As you will see as you read on, we offer a diverse range of material, but it would be good to be able to offer more. My challenge to readers is to increase the range of contributions – **whilst it is good to see the expertise of the "same old faces", it is equally good to welcome some new ones too!** Whether it is a contribution sharing the value of TEGoVA membership, REV and TRV status, or an opinion on emerging valuation law, policy and practice in your country, we want to hear from you. The journal is produced with English as its first language, but once we have agreed with the contributor the nature and length of the proposal, we are happy to receive contributions in any language and arrange for translation, so don't let that be a barrier. Together we can make TEGoVA's *European Journal* bigger and better, so contact me on jcroberts54@hotmail.com to start the process. ●

valuer. For the purpose of monitoring, revaluation or verification of loan portfolios, drive-by and desktop valuations are also accepted.

Perhaps the most decisive novelty of the 2015 Guidelines is the recognition that adequate time is needed to perform the valuation assignment and that this must be matched by adequate compensation, since time and cost connected with this strategic task cannot be optimised beyond a certain level. This provision, requested by the valuation industry and accepted by banks, is a major sign of **the increased reliance on property valuation** by the risk management and banking supervision functions.

Italian Guidelines are an additional confirmation of the power of self regulation, at National as well as European level.

What's coming up next in the Italian regulatory pipeline?

In December, the Guidelines were officially sent to the **Bank of Italy** and to the **Minister of Finance** so that they can be considered as the guiding text during the transposition of the Mortgage Credit Directive in Italy, followed closely by ASSOVIB since 2014. TEGoVA EVS have therefore gained a key role in the implementation of the **Mortgage Credit Directive** in Italy.

For Italian real estate valuers, the way forward is clear, and it becomes crucial to distinguish them from the more than 500.000 individuals authorized to value a property in the context of a non-regulated profession. The REV status offers a unique opportunity to demonstrate qualification, experience, competence and the excellence that the banking sector demands. ASSOVIB will continue its commitment to promote high quality standards and robust structured processes that can effectively support Italian banks in managing risk and freeing resources to strengthen credit and economic growth. ●

Silvia Cappelli is Vice President of ASSOVIB and a member of the TEGoVA Board.

A message from the Chairman

Dear colleagues,

2016 will see the launch of a new edition of European Valuation Standards at the next TEGoVA General Assembly in Brussels on 12th to 14th May. **The Mortgage Credit Directive** highlights the importance of valuation standards and acknowledges three internationally recognised standards setting bodies, namely the IVSC, TEGoVA and the RICS. The latter organisations have been setting and harmonising standards for nearly four decades, the difference between them today being largely one of emphasis.

And so it is that **European Valuation Standards** guide valuers on European law, custom and practice relating to real estate valuation. Whilst they will continue to evolve over time, we have reached a mature point in the standard setting process. Thanks to the contribution of eminent practitioners and academics over the last 40 years, there will be no revolution in real estate valuation standards for the foreseeable future and the quest for **"one size fits all"** worldwide standards has proved unnecessary and futile.

The valuation profession is doing well to shake off its recent poor image – it is contributing to market transparency and moving beyond standards towards harmonising methodology, supporting educational initiatives, continuous professional development and focusing on the mutual recognition of qualifications – all in the interests of raising professional competence and status.

In this issue of European Valuer, Michael MacBrien, Adviser to TEGoVA, takes us beyond Europe in tackling the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US. In his article he points to the potential of a booming transatlantic business leading to increasing demand for valuations from property companies and banks with a consequent need for them " ... *to be able to recognise equivalent valuation elites using same-quality standards on each side of the water*". As a first step, the Appraisal Institute of Canada (AIC) and TEGoVA have agreed to **a project of mutual recognition of TEGoVA and AIC valuation standards and professional qualifications.** TEGoVA would like to see similar progress with the US Appraisal Institute.

In short, 2016 should prove to be another fruitful year for TEGoVA. I take this opportunity to wish you all a Happy New Year! ●

Krzysztof Grzesik FRICS IRRV REV is Chairman of TEGoVA.

The future of the REV in France is looking good, says Hervé Wattinne

At the end of 2013, France had 216 valuers holding REV status, representing 10% of the membership of TEGoVA's six French member associations, of which four are REV-Awarding Member Associations (AMA). Two years later, **there are now 370 French valuers with REV status, a 71% increase.**

To date, 21% of AMA valuers have REV status, 15% of all the valuers represented by TEGoVA France. But what are the reasons for this development? We have identified two very different explanations. Firstly, an explanation based on the "REV offer":

- our AMAs have undeniably stepped up their efforts to promote the REV to their members, seeing an opportunity to highlight a distinctive status that is useful to their members and clients
- it should be noted that in France, our regulatory context provides no protection for the title of real estate valuer
- only court valuers and agricultural and land valuers have a protected title
- no other valuers have distinctive status, which exposes them to competition, particularly those working independently, who cannot leverage the image of a reputable valuation firm or a large group
- the REV has thus been promoted with the aim of striking a fair balance between promotion of excellence and elitist impasse.

However, this shared demand for quality is expressed in a specific way by each of our approved AMAs.

Some of our associations have introduced specific prerequisites, such as attending prior training, **whereas others keep to the minimum requirements laid down by TEGoVA.** They are all, however, greatly committed to the creation of a specific continuous training offer for REVs.

This continuous training organised by certain member organisations is open to members from other organisations. The initiative offers the advantage of building a network of relations between REVs beyond the "borders" of each association.

The second explanation for REV development in our country stems from our valuers' "demand":

- we currently have some 2,500 French valuers represented by TEGoVA
- these professionals cover all areas of real estate valuation, from residential for private individuals to corporate real estate for large groups, via some very specific fields such as agriculture, wine growing, and forestry, etc.
- these valuers work either independently or for valuation companies, some of which are subsidiaries of international groups.

There is no doubt that the perception of REVs cannot be the same across such a diversified professional population.

A roundtable discussion organised at a meeting of TEGoVA France in December 2015 on how instructing clients perceive the REV status revealed the following two trends. First, **foreign clients increasingly ask for a REV to value their property in our country** and our members established in border areas naturally see more of this.

We thus have specific accounts from REVs in Perpignan (Pyrénées Orientales) who were contacted by a Spanish bank to value property in their region, and from professionals in the Nice area (Alpes Maritimes) for Italian and Swiss clients.

Second, and largely since the announcement of the Mortgage Credit Directive, French and foreign banks are anticipating its transposition into French law by explicitly including the following **questions in calls for tenders** they send out **to valuation firms:**

- do you belong to a professional organisation of valuers?
- **does your team include any REVs, and if so, how many?**

In this regard, it is interesting to note that, although the Directive mentioned EVS by way of illustration in its recitals, the final French draft transposing it should merely refer to the concept of **internationally recognised standards.**

The banking sector will therefore have to interpret this concept of international standards, something that certain banks have begun to do. Reference to EVS should naturally dominate as one of the most representative, while the more selective reference to REVs will remain at the discretion of clients.

On a more personal note, I have been fortunate to hold REV status for almost six years for my independent business in Marseille. I have always firmly believed in the value of such a label, considering firstly that the specific continuous training programme run by our organisations fully justified the initiative, and that secondly, although my clients did not directly voice any such expectation, the label could have a positive, albeit unquantifiable commercial impact. I have constantly spoken about it to my peers ever since my position enabled me to contribute to its promotion. ●

Hervé Wattinne is president of TEGoVA France, vice-president of CEIF-FNAIM (Chamber of Real Estate Valuers of France) and a former member of the TEGoVA Board.

Donal Buckley is on hand to report on a highly successful IPAV Summit, centring on the concept of Mortgage Lending Value

EU plans to improve standards for property valuations could have a serious impact on the Irish property market and further restrict the loan to value ratios available for purchasers. These were among the concerns raised by both European and Irish experts at the European valuation summit which the **Institute of Professional Auctioneers and Valuers** (IPAV) hosted in Dublin in November, attended by over 300 delegates from Ireland and Europe.

The summit was organised in response to EU proposals to introduce new valuation procedures based on the concept of Mortgage Lending Value (MLV) rather than the Market Value (MV) system, which is used for most property transactions in the UK and Ireland.

IPAV chief executive Pat Davitt opened the summit, stating that it aimed to tease out the ramifications of a system that could impact everyone, from consumers to property professionals to the banking system and indeed to the economy. There may be an Irish solution that can be put in place over time but this should not start with the German model.

IPAV member and DNG Chief Executive, Keith Lowe, feels that the German MLV methodology is very prescriptive in the way it assesses both costs and yields. He was especially concerned that it would be premature to introduce the new rules into Ireland until the Irish market was operating normally. He instanced how the Central Bank Residential Lending Rules had affected the Irish residential property market.

TEGoVA, to which IPAV is affiliated, intends to make submissions to the **European Banking Authority** (EBA), asking it to amend some of the aspects of the new system. **TEGoVA chairman Krzysztof Grzesik** explained to the summit the definitions of the two terms, pointing out that TEGoVA is advocating that the EU moves away from methodology which is too prescriptive.

"As well as assessment of the current use of the property, MLV should also assess, among other aspects, possible alternative appropriate uses, the income value and the depreciated replacement cost value."

Reiner Lux, General Manager of Berlin-based HypZert, explained that, as a result of the crash and negative equity, loan-to-value ratios in Ireland went from 80pc at the peak of the market in 2007 to 160pc in 2013. In countries such as Spain, which also experienced a property crisis, the rise in the loan-to-value ratio was much less severe and this may have been due to the use of MLVs.

German banks use MLV to support 25 to 30 year mortgages, so the value must be valid for this whole period. According to German law, MLV of a property "*must not exceed the value resulting from a prudent valuation of the future saleability of a property … speculative elements must not be taken into consideration.*" MLV is therefore always well below the MV. While during recessive market phases there may be a small gap between MLV and MV, in boom phases, especially in foreign sub-markets, MLV may be more than 40% below the market value.

But MLVs could restrict the amounts that can be borrowed through mortgages. Typically in Germany the MLV effectively limits LTVs to 60pc. Take for instance an 80% mortgage on property with a contract price of €300,000. With MV this would mean a mortgage would provide €240,000 towards the price and equity €60,000, ignoring transaction costs. But with MLV, the mortgage would provide only €204,000 and the purchaser would need €96,000 in equity.

As well as assessment of the current use of the property, MLV should also assess, among other aspects, possible alternative appropriate uses, the income value and the depreciated replacement cost value.

Special requirements for income properties include deducting at least 15% from gross income for operating expenses. Capitalisation rates range from at least 5% for residential and at least 6% for commercial properties.

Roger Messenger, TEGoVA Vice-Chairman and Chairman of the European Valuation Qualifications Board, gave what he called an "Anglo Saxon" view. He acknowledged the need for LTV based capital requirements to be linked to a long-term measure of collateral value that is insensitive to the investment cycle, and the shortfall in mortgage drawdown may be achieved from other sources in relation to the property or other properties owned by the mortgagee.

Lending bodies and clients have to choose between the discredited approach of MV and the alternative of trying to model for an uncertain future. Messenger believes that the MLV has led to more restricted trading in the German property market and while acknowledging that it is stable, he says it is also boring. He believes that MLV might lead to a 40% reduction in mortgage funds available per property. ●

Donal Buckley is former Property Editor of the Irish Independent.

CETA and TTIP: valuation fallout from the most ambitious economic integration ever attempted outside of Europe is under the microscope of Michael MacBrien

There's been a lot of hyperbole about the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US. Their supporters sometimes talk up "the greatest integration since the EU".

That's a bit over the top. Europeans, through thick and thin – and now blood and tears – are building themselves an increasingly operational political, economic, monetary, environmental, diplomatic, military, anti-criminal and anti-terrorist union. In contrast, CETA and TTIP are trade agreements, but they are the first comprehensive and imaginative attempt to address non-tariff barriers to the free flow of goods and services, and that's a game changer for the valuation profession.

A bold approach to non-tariff barriers

The very nature of non-tariff barriers makes them hard to address, especially in the modern world where many are not even designed to protect national industry or professionals – they are legitimate health, environment or consumer protection measures on both sides that end up imposing two sets of regulations on companies or professionals going cross-border. **The EU was only able to overcome this amongst its member states by minimum harmonisation of national rules,** mutual recognition of all the other rules, home country control of the business or professional going cross-border and primacy of EU law over national law. As CETA and TTIP have no such supranational tools for dismantling non-tariff barriers, the true opportunity for integrating the three economies and making business easier lies in the approximation of new or amended Canadian, US and EU regulation.

That is the breakthrough – the commitment by Canada and the EU and by the US and the EU to discuss their regulation even before it is tabled (comparing their regulatory methods, assumptions and cost-benefit analysis, conducting joint risk assessments and regulatory impact assessments) and to go on talking throughout the legislative pipeline on each side of the water. To get such sophisticated work done, **hundreds of elite Canadian, American and European civil servants will have to cooperate on a continuous basis,** bridging their administrative cultures. This is truly ground breaking, as no such agreement exists between Canada and the US. Their North American Free Trade Agreement (NAFTA; includes Mexico) is nowhere near as sophisticated.

Even so, the goals and tools of CETA and TTIP fall far short of an "EU internal market", because they lack the EU's enforcement muscle and democratic institutions but they are good enough, over time, to do away with vast amounts of overlapping and duplicative regulation. Over time, as the parties learn to use and perfect these tools, **what will emerge will be an imperfect but nonetheless highly integrated transatlantic economy for a billion people** (if you include all the states in the EU's sphere of influence who copy-paste its laws), representing half of world GDP.

Valuation aspects

Valuers are concerned by the chapter on mutual recognition of professional qualifications. There's a whole process for reaching Mutual Recognition Agreements (MRAs), to be carried out by the relevant authorities or professional bodies. But in this great CETA/TTIP adventure, recognition of qualifications may not be the lead husky. It was the Europeans who pushed this chapter, because it's part of their culture, but that is not at all so on the other side. It's hard in fact to think of a greater transatlantic divide. Europeans allow nothing to stand in the way of free movement of professions across the Union, while North Americans don't even think about it inside their own countries!

TEGoVA delegates in Thessaloniki will remember Apprasial Institute President Lance Coyle's account of how an American appraiser wanting to practice in an area where three US states meet would need to sit and qualify for three different licences! As one of the experts at a recent European Parliament CETA workshop said: "Are you a European engineer hoping to practice in Canada? Good luck!" And yet, Canadian and European architects are already at work on an MRA.

AIC and TEGoVA in the lead

But there are probably not large numbers of professionals wanting to cross the ocean to conduct valuations. The real valuation opportunity should come from the general CETA/TTIP fallout, in which transatlantic business will boom, causing property investment companies and banks to increase their transatlantic operations in sync with the interconnection and operational integration of their North American and European tenants and clients. Those property companies and banks need to be able to recognise equivalent valuation elites, using same-quality standards on each side of the water.

That is the wave that the Appraisal Institute of Canada and TEGoVA have chosen to ride. In agreement with the AIC, the TEGoVA Board at its last meeting agreed to a project of mutual recognition of TEGoVA and AIC valuation standards and professional qualifications. In coordination with the AIC standards and qualifications bodies, **John Hockey, Chairman of the EVSB,** will be in charge of comparing EVS to CUSPAP (Canadian Uniform Standards of Professional Appraisal Practice) and **Roger Messenger, Chairman of the EVQB** assisted by the TEGoVA Secretariat will compare REV with AACI (Accredited Appraiser Canadian Institute) and TRV with CRA (Canadian Residential Appraiser).

"To get such sophisticated work done, hundreds of elite Canadian, American and European civil servants will have to cooperate on a continuous basis, bridging their administrative cultures."

The outcome will not have CETA imprimatur. There will be no harmonisation of the two sets of standards, nor will REVs be entitled to the AACI designation and vice versa. But clients and banks will know that the different standards are of an equivalent level of excellence and rigour and an REV will be able to assure a Canadian property investor in Europe (of which there are many; often very large funds) that he has a level of competence similar to that of an AACI and vice versa for AACIs servicing European clients.

The TEGoVA leadership would like to see similar progress with the US Appraisal Institute in a triangular AI-AIC-TEGoVA relationship, enabling our members to reap the potential of transatlantic integration and address globalisation together. ●

Michael MacBrien is adviser to TEGoVA, director general of the European Property Federation and partner in the European Affairs firm MacBrien Cuper Isnard.