

European Valuer



Appraisal Institute of Canada and TEGoVA sign Mutual Recognition Agreement for standards and qualifications of valuation professionals



Daniel Doucet and Krzysztof Grzesik display the agreement

On 9th June 2016, the Appraisal Institute of Canada (AIC) and The European Group of Valuers' Associations (TEGoVA) signed a **historic agreement** which mutually recognizes the professional valuation standards and qualifications of each organisation.



Welcome ...

to the summer edition of TEGoVA's *European Valuer*. At the time of publication, Europe is still coming to terms with the groundbreaking decision of the United Kingdom to leave the European Union.

As the effects of this decision unfold, we will keep readers informed of those that impact on the world of land and property.

Turning to matters of a more "celebratory" nature, we are pleased to illustrate how **the launch of revised European Valuation Standards (EVS 2016) are already having a positive effect throughout Europe and further afield.**

Of course, the "post-Brexit" world only reiterates the need for an increased level of professionalism and consistency, and EVS 2016 will ensure that TEGoVA is as ever at the forefront in developing this theme. And don't forget that we're still keen to attract new contributors. Whether you want us to publish articles on a new topic of interest to our readers, or you simply want to comment on what others are saying, contact me on jcroberts54@hotmail.com ●

John Roberts, Editor.

The agreement, signed at AIC's annual conference in **Winnipeg**, signifies that European clients can confidently engage AIC-designated appraisers – Accredited Appraiser Canadian Institute (AACI™) and the Canadian Residential Appraiser (CRA™) – to complete valuation assignments of the same quality as those of holders of TEGoVA titles – Recognised European Valuer (REV) and TEGoVA Residential Valuer (TRV). Similarly, Canadian clients can engage a valuation professional with an REV or TRV designation, knowing that a **comprehensive approach and analysis will be delivered** on an appraisal assignment required in Europe.

"TEGoVA's recognition of AIC's professional standards, ethics and qualifications is a significant opportunity for our members," said Daniel Doucet, AACI, P.App, President of the Appraisal Institute of Canada. "It enables AIC-designated appraisers to further advance their reputation as the professional appraisers of choice within Canada and for clients from around the world." Krzysztof Grzesik REV, Chairman of TEGoVA, added, "TEGoVA's European Valuation Standards are entrenched in EU legislation and, like AIC's Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP), are heavily relied upon by regulators and lenders. REV and TRV designated valuers are recognized as leading professionals throughout Europe. AIC's recognition of REVs

and TRVs will provide the numerous and growing Canadian investors in European real estate with the assurance that European valuers work to the highest Canadian standards."

Prior to this agreement, both valuation organisations reviewed and compared their respective professional standards – CUSPAP and the European Valuation Standards (EVS) – as well as their education programme and designation requirements. This thorough review resulted in the conclusion that each organisation achieves a **high level** of qualifications, competencies, ethics and professionalism.

About the AIC

The AIC is a leading real property valuation association with over 5,000 members across Canada. Established in 1938, the AIC works collaboratively with its ten provincial affiliated associations to grant the distinguished Accredited Appraiser Canadian Institute (AACI™) and Canadian Residential Appraiser (CRA™) designations. AIC Designated Members are highly qualified, respected professionals who undertake comprehensive curriculum, experience and examination requirements. They provide unbiased appraisal, appraisal review, consulting and reserve fund study services on all types of properties within their areas of competence. For more information, go to AICCanada.ca. ●

European Valuer provides a pictorial summary of all the action from PROVADA 2016, as TEGoVA maintains its presence at this key real estate gathering in Amsterdam, during which TEGoVA Chairman Krzysztof Grzesik presented REV certificates.



EVS 2016 launched on the Italian market



The event host and presenters take time for a celebratory photocall

June 16th 2016 was the day on which European Valuation Standards (EVS) 2016 were launched on the **Italian market**, during an event held at **Milan's Chamber of Commerce**. Reliable standards, the pivotal role of property valuations, transparency and adequate professional level of the appraisers were the keywords of the event.

TEGoVA Board Member and Vice President of Italian property valuation association ASSOVI, **Silvia Cappelli**, introduced the presentation of the new version of EVS, highlighting that such standards have to be seen in a broader picture, which includes very relevant developments on the Italian property market towards alignment with European standards. Such developments involve the adoption of the **Mortgage Credit Directive**

(Directive 2014/17/EU), the Asset Quality Review and the Italian Banking Association's (ABI) "*Guidelines for the valuation of assets for banking purposes*", aimed at defining the compliance of the Italian mortgage credit market in relation to European standards.

“Such standards have to be seen in a broader picture, which includes very relevant developments on the Italian property market towards alignment with European standards.”

Cappelli also underlined that the issue of EVS follows a line of continuity with the previous version – the only standard which exclusively concerns property valuation, and one which holds a privileged relationship with European institutions, as this has been the European Central Bank preferred standard for the Asset Quality Review. **Raimondo Lucariello**, representing ABI, outlined the key

points of the guidelines, which are focused on market value, the independence of the valuer, fair compensation and the professionalism requirements. Lucariello acknowledged ASSOVI as **an important representative of property valuation companies** in Italy, together with the body's contribution to the development and implementation of standards in Italy.

Professional requirements were highlighted by other speakers, who stressed the strong need for a higher qualification of appraisers, in order that they can be distinguished from more than 500.000 individuals that are currently authorised to value a property in the context of a non-regulated profession. Finally, **Antonio Campagnoli**, hosting the event as representative of Italian property appraisal body ISVI, remarked that TEGoVA's REV recognition has been introduced (alongside ISO 17024 accredited certification) for valuers to demonstrate their **competence and experience**. This status offers a unique opportunity to demonstrate qualification, experience, competence and the excellence that the banking sector demands. ●

Chairman's message



Dear colleagues,

The big TEGoVA stories since the publication of the spring edition of European Valuer have been the successful launch of European Valuation Standards

2016 and the signing of a mutual recognition agreement between the Appraisal Institute of Canada and TEGoVA. There are reports of both in this summer edition.

“Of course, the other big story has been “Brexit”. Questions have already been asked about its effect on TEGoVA. In the strictest sense, my answer is none at all.”

Whilst the TEGoVA Board has afforded itself a gentle pat on the back and a summer break, come September it will hit the ground running with the establishment of the much awaited European Valuation Practice and Methodology Board (EVPMB). Following the Board's finalisation of the latter's terms of reference, a call will be made for nominations to the EVPMB. The TEGoVA Board will choose some eight or nine valuers from amongst the

candidates put forward. I hope that all of our members will put forward a candidate who is seen in his or her home country as an authority in the field of property valuation. At the same time, we will take the opportunity to call for **nominations for a remodelled European Valuation Standards Board (EVS)**.

We are anxious to populate TEGoVA Boards and Working Groups with broader talent following significant membership growth over the last few years. To help facilitate this **we will seek to employ a technical writer** to assist both EVSB and EVPMB. This should free up the respective board members for in depth thought, analysis of trends and new initiatives, including the development of dedicated standards for residential valuation. The employment of a technical writer will also mean that whilst a good understanding of English will continue to be important, potential candidates for membership need no longer feel excluded because of any doubts they may have over their English writing skills.

Of course, the big story has been **“Brexit”**. Questions have already been asked about its effect on TEGoVA. In the strictest sense, my answer is, **none at all**. Today, TEGoVA boasts a membership of 63 valuers' associations from 34 countries, both within and outside the EU. The British, through the efforts of the Institute of Revenues, Rating and Valuation (IRRV) and Central Association of Agricultural Valuers (CAAV), have contributed immensely

to the success of TEGoVA. I have no doubt that **such support and involvement will continue**. Indeed, the IRRV has most recently been instrumental in winning EU funding for the development of EVS across the continent. Furthermore, EVS will continue to focus on EU law and through the new EVPMB promote the "European" school of valuation.

In the wider sense, it is clear that the departure of the United Kingdom from the EU will have **immense fallout** on EU politics in general and on real estate markets in particular. Thanks to a decade of effort and reorganisation putting EU policy and law at the centre of TEGoVA activity, we are superbly placed to play a leading role in the changes to come, to the benefit of all our members.

Preparations are now well under way for our next European Valuation Conference and TEGoVA General Assembly hosted by the Institute of Professional Auctioneers and Valuers (IPAV) in **Dublin (Malahide) from 20th to 22nd October**. The conference theme will be *“Valuation Quality, a Pillar of Financial Stability in Europe and Beyond”*. The TEGoVA autumn meeting brochure will be posted on www.tegova.org in due course.

Attendance at the European Valuation Conference is open to all, not just to TEGoVA delegates, and a separate conference flyer may now be downloaded from the TEGoVA web page. I wish you all a restful and enjoyable summer break. ●

Krzysztof Grzesik is Chairman of TEGoVA.

TEGoVA plays host at the European Real Estate Society's Regensburg Annual Conference



June 2016 saw TEGoVA host a session at the European Real Estate Society's annual conference in Regensburg. Chaired by **Jeremy Moody**, vice chairman of the European Valuation Standards Board (EVS),

the four chosen papers covered questions relevant to some of the challenges facing valuation, from more concrete issues of energy efficiency and flooding to the analysis of market risk and approaches to hope value. A common theme was **tackling the limits on knowledge for valuation in a changing world**.

A Conceptual Framework for Property Risk: Known, Unknown and Unknowable – Treshani Perera, RMIT, Melbourne

Risk (unknown outcomes) was distinguished from uncertainty (known outcomes with uncertain probabilities). As with Donald Rumsfeld, risks could be classified as:

- known issues with a clear enough future for which risks can be judged, as with insurance risks
- issues that we know we do not know (the unknown), as with alternative futures, but also where people forget or suppress information or a model, or analysis fails to be accurate
- those of which we are ignorant (ideally, the unknowable), unknown futures.

For property, risks may turn on the mix of socio-cultural shifts, economic and regulatory changes, changes in finance and technological developments. Facing the limits of knowledge of these issues makes it more important to focus on **resilience against the unknown** than prediction. Discussion considered the role of human factors in failing to recognise or control changes in risk while the choice of time horizon was also relevant.

The Market Value of Energy Efficiency in Housing and Mode of Tenure – Andreas Mense, FAU Erlangen-Nürnberg

This paper looked at how energy efficiency improvements appear to be capitalised into property values for owner occupied and let properties in Berlin. Its core finding was that such work had a greater effect on owner occupied property than let property, demonstrated in various ways:

- each kWh of improvement seeing a 0.5% increase in owner occupied values but 0.2% increase for let property
- the cost/saving ratio for energy improvement was 15.5 for owner occupiers (compared with an average length of ownership of 15 years) but 27.1 for landlords (close to the 27.7 property value/rent ratio) – figures consistent with other studies showing a 15 year investment horizon for owners but a 31 year one for landlords.

Overall, the value of future energy cost savings exceeded tenants' willingness to pay by a factor of 2.5, so **landlords could not secure the increases in rents needed to warrant such investment**.

The energy efficiency of let properties was less than that of owner occupied ones (the age of the property was also more important for owner occupied properties). Discounting the limited impact on rents as a sign of tenants having market power, explanations could be:

- the landlord/tenant dilemma making such investment irrational for both parties
- different investment rationales and horizons for landlords and tenants
- tenants being uncertain about their length of occupation and so having a high discount rate for property work.

In discussion, it was suggested that the effect on the value of let property might be more marked in countries where landlords could foresee the opportunity of **vacant possession**. Might the investment horizon be linked to the basis of funding, such as mortgage periods?

Impact of Flooding on Property Values – Philippe Belanger, Université Laval, Quebec

Previous work on this subject has been limited by small samples and limited areas which tend to show flooding having at most a brief impact,

disappearing with time, or only arising where people are aware of it from direct experience.

Initially intending to compare the UK and Quebec, this paper used the scale and detail of data for England since 1995 to consider **flood risk** and **property values**, using 100,000 transactions with another 200,000 being worked on.

One critical issue is the interaction between proximity to water supporting property values (200' was found to be the key distance) and flooding reducing them. Several relevant effects were identified:

- property values tend to rise near water but the reverse applies in poorer areas
- people do not naturally perceive flood risk for properties further from water.

Among the issues raised in discussion were:

- the need for an agreed standard methodology, so that studies could be more comparable
- that experience and sensitivity to flooding had been changing over time in England, with the sense that it was an increasing risk.

Valuation of Hope Value of Vacant Land Using Real Option Theory – Maurizio d'Amato, Technical University Politecnico di Bari, Italy

This paper, presented by an Italian REV, took the 2012 EVS 1 commentary on hope value in the context of potential development land. IVS 2011 and 2013 allowed that option pricing, as used in the financial world, as a possible tool to find a value where there are differing, uncertain potential outcomes that might be poorly assessed by discounted cash flow techniques.

D'Amato applied a relatively simple option model to identify hope value for land in various districts of Rome, taking current and development values in €/m² from local agents. As an initial rough model, it did not allow for more than two options, but **offered an initial insight revealing differing levels of market value above existing use value**, so revealing hope value in 17 of the 22 districts considered, but no uplift in five. ●

European Journal offers its thanks to CAAV's Jeremy Moody for this report.

And now ... the launch of EVS 2016 in Ireland! Pat Davitt reports



The timing of the launch of EVS 2016 was particularly helpful to the Institute of Professional Auctioneer and Valuers (IPAV) in Ireland in mid-June, just a few weeks before our annual conference. The number

of delegates at the events in Dublin in mid-June was **the highest ever**, with **185** attending

the CPD session and over 250 participating in the conference that followed the Annual General Meeting, where **Alan Redmond** TRV was elected President. **John Hockey** was on hand to launch TEGoVA's EVS 2016 in Ireland. There is no doubt that the impressive attendance was in part due to the two sessions relating to the **"Blue Book"** and the fact that John Hockey, as editor of EVS, provided an in-depth explanation of the contents and framework of the book. It was equally

important that **Frances Fitzgerald**, Tánaiste (our Deputy Prime Minister) and Minister for Justice Equality and Law, addressed the members during the conference, as her ministry has responsibility for the regulation of auctioneers in Ireland. The release of EVS 2016 confirmed IPAV's commitment to embracing the revised standards.

Amongst the many elements of the new standards that were reviewed, the fact that failure to issue written terms of engagement



IPAV President Alan Redmond is pictured sharing the good news of EVS 2016 with John Hockey

that are agreed by the client would result in non-compliance with EVS 2016 stands out as one of the main taking points. IPAV valuers realised that they would need to revise their terms to comply with EVS 2016 and issue new terms immediately, otherwise any report would not be compliant. John Hockey stressed **the need to confirm the independence of the valuer**, to include a statement as to whether the valuer has had previous dealings with the property or the parties and to confirm that the valuer has sufficient knowledge of the particular market and the skills and understanding to undertake the valuation competently. As John stated, *“This requires that a valuation is undertaken by a qualified valuer with sufficient knowledge of similar property in*

that location”.

With an increasing requirement from lenders to provide a valuation on a **“desktop”** basis, it was **reassuring** that EVS 2016 provides **clarification** that a first valuation of a property on such a basis, i.e. with no inspection, **will not be EVS compliant**. It is equally clear that repeat valuations on this basis can be EVS compliant if the valuer is satisfied that there have been no changes to the surrounding area since the last inspection that would have a material impact on value. John qualified this by confirming that irrespective of whether the requirement related to any form of **“desktop”** report, this can be used as a tool to provide an opinion of value, subject to receiving the client’s written confirmation that there have been no material changes to the property itself since the last inspection was carried out.

As a significant number of IPAV members are providing valuations of residential property to banks and other lenders, it is most helpful that EVS is clear that valuations provided in a format determined by the client will be compliant with EVS on the presumption where the valuer has written agreement of EVS compliant Terms of Engagement and the requirements set out in EVS 1-5 are

met. John stressed the need to record all material information and retain that data after the valuation report has been submitted, highlighting the fact that material matters that have an appreciable impact on value should be reported, irrespective of the limitations of the formatting to ensure compliance with EVS.

“With an increasing requirement from lenders to provide a valuation on a “desktop” basis, it was reassuring that EVS 2016 provides clarification that a first valuation of a property on such a basis will not be EVS compliant.”

The general consensus of our members is that EVS 2016, while requiring valuers to be more explicit and sometimes more detailed in their reporting, provides clarity of expectation and support with additional guidance and information. ●

Pat Davitt REV is Chief Executive of the Institute of Professional Auctioneers and Valuers (IPAV).

CAAV welcomes the launch of the new European Valuation Standards

The Central Association of Agricultural Valuers (CAAV) has been quick to respond positively to the launch of EVS 2016. *“Property valuation requires agreement on recognised standards and definitions,”* said Jeremy Moody, vice chairman of the European Valuation Standards Board (EVS) and CAAV Secretary. *“These standards bring professional discipline to the very practical task of providing sound valuations on which clients can rely. Those clients may be lenders, borrowers, investors, sellers, businesses, families, landowners or tenants looking for professional support.”*

EU law has a great impact on property, from the regulation of mortgage lenders to environmental rules, whether imposed directly or through national laws. *“This is compounded by the EU’s new powers of economic governance,”* Jeremy continued. *“EVS 2016 responds by giving a review of the key EU directives, regulations or policies bearing on property and so its valuation.”*

The European Central Bank gives EVS primacy over all other standards and the Mortgage Credit Directive recognises it as a reliable standard for mortgage lending decisions.

“TEGoVA’s pre-eminence stems not only from adapting to EU policy and law, but from foreseeing the need for common European approaches and guiding European policy makers,” said John Hockey, chairman of the EVSB. *“Valuers need to be conscious of the*

EU origin of many of the local rules that shape their practice, but this unique document is also of great value to all academics, researchers, civil servants and advisers involved in the real estate aspects of EU policy.”

“The European Central Bank gives EVS primacy over all other standards and the Mortgage Credit Directive recognises it as a reliable standard for mortgage lending decisions.”

As the CAAV new release confirms, the five standards set out in EVS 2016 give commentary on the core subjects of:

- market value, including market rent
- other bases of value
- the qualified valuer, with a stress on independence, experience and ethics
- the valuation process
- the valuation report, with the benefits of commentary to aid the client’s understanding.

The standards contain guidance on many other issues, **including codes of measurement, sustainability and property, valuation for lending and energy issues**. With the experience of recent years, it tackles the issues of valuation uncertainty and market risk, and

discusses longer term values.

John Hockey concluded, *“With growing cross border property investment, this common approach to ensure reliable standards is increasingly important.”*

About the CAAV

The Central Association of Agricultural Valuers (CAAV) is a specialist professional body representing, qualifying and briefing over 2700 members practising in a diverse range of agricultural and rural work throughout England, Wales, Scotland and Northern Ireland.

CAAV members are agricultural and rural valuers who provide professional advice and valuation expertise on issues affecting the countryside from tenancy matters to sales and purchase of farms and land, from taxation and compulsory purchase to auctioneering, and from conservation issues to farming structures. ●

To contribute to this journal, contact the Editor, John Roberts, on jcroberts54@hotmail.com