

European Valuer



Emmanuelle Gauthier offers a warm welcome to Marseille for TEGoVA delegates



On 27th October 2017, the **TEGoVA European Valuation Conference** will be held in Marseille, followed by the organisation's autumn **General Assembly**. The

Chambre des Experts de Immobiliers de France FNAIM (CEIF-FNAIM), one of the main French association of valuers, boasting more than 800 members, will be delighted to greet the delegates to France's second city. Marseille, on the Mediterranean Sea, will be again declared **"City of Culture"** in 2018. The President of the Chamber of Commerce, Jean Luc Chauvin, will highlight the developments and the strength of the Mediterranean city, his aim being to push forward Marseille/Aix to the classification of the first twenty cities at European level.

Marseille has benefitted from a huge real estate development over the past ten years, in terms of urbanism as well as commercial property. For example, the event itself will be hosted in one of the more symbolic places of Marseille, the former hospice, **Hôtel Dieu**, dating from the 16th century and totally refurbished into the five star hotel, The Intercontinental. Many different issues will be raised under the main theme of **"Is the real estate valuer the market compass?"** There will be special emphasis on the real estate valuer, who has to be the way forward when valuation is at stake!

The profession of the real estate valuer is not a regulated profession and needs to be recognised and protected. As a result, the CEIF-FNAIM created this year the **"Carte E"**, the real estate valuer's card. This card will be

provided to any valuer who can demonstrate regular training, an insurance policy, adherence to the standard – in particular the **European Valuation Standards** – and the national standards (Charte de l'Expertise en Evaluation Immobilière), acting of course according to a code of ethics. This Carte E will be a passport which will ensure clients benefit from greater compliance with standards, ethics and competences. In France, anyone carrying out property management needs to have the **Carte G**, the same for the brokers, who need to have the **Carte T**, otherwise they are not permitted to practice.

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To go further, the CEIF-FNAIM has created its own training institute, called **le Campus de l'Expertise**, a key tool for our members.

In France, there are 15 French national associations of real estate valuers. In order to enforce some key issues in terms of ethics, methodology, marketing development, education and standards, the French organisations have decided to align themselves with TEGoVA France. This year, TEGoVA France is managed by the CEIF-FNAIM and represented by **Denis Pelouse**,

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Chairman's message



Dear Colleagues,

Since our Spring General Assembly in Belgrade, I have had the privilege of participating at valuation conferences organised by our members in Italy, Canada, Georgia, Bulgaria, Romania, Ukraine and Poland. The experience has reinforced my growing belief that the valuation profession in Europe is in good shape – in terms of competence if not wealth.

TEGoVA's latest European Valuation Standards 2016 have gained traction across the continent, not only providing valuable guidance to professionals on the ground but also to our member associations and governments developing national standards, as required under the Mortgage Credit Directive. Valuers are also actively engaging in the debate, initiated by TEGoVA, on methodological issues (income and comparative approaches, the accuracy of automated valuation models, statistical methods and residential valuations).

The forthcoming European Valuation Conference and TEGoVA Autumn Assembly organised by the CEIF-FNAIM in Marseille on 27th and 28th October, will provide a further opportunity for an exchange of ideas and experiences amongst over 100 delegates, from our 67 member associations from 36 countries.

I wish all TEGoVA delegates, guests and conference participants a fruitful stay in Marseille. ●

Krzysztof Grzesik REV, Chairman TEGoVA.

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the Chairman. The body includes seven associations of valuers – CEIF-FNAIM, IFEI, CSN, SNPI, AFREXIM, CEF and CNEI – of which four are authorised to deliver TEGoVA's **REV** and **TRV** recognition. The idea was to be stronger in front of the public organisations, to empower our activities of real estate valuation, especially when **European Directives** are at stakes, for example the **Mortgage Lending Value**.

To promote the education of REV and TRV valuers, TEGoVA France organises, at least twice a year, a training day on the

methodology of linking valuation and real estate issues. It is a collaboration with all the associations to answer the requirements of their members. We also work hard on marketing TEGoVA in France. This can be though our various training events throughout France (CEIF-FNAIM organised 100 events in 2016, with an even greater number the target for 2017) where we talk about the influence and the lobbying of TEGoVA in the EU banking system or automated valuation models, for example. Representatives of TEGoVA occasionally attend to present on current issues, too.

Turning back to the forthcoming event,

we will have very constructive and rich exchanges during this European conference – a time for the exchange of views with European colleagues who fight to achieve the same common requirements. **Philippe Conté**, chairman of the CEIF-FNAIM, will be delighted to talk with you on these key issues. We look forward to seeing you all in October! ●

Emmanuelle Gauthier MRICS REV, CEO of Euroflemming Expertise, is a member of the board of the Chamber of Real Estate Valuer of France and a member of TEGoVA's Recognition Committee.

Krzysztof Grzesik explores the shifting positions on Hope Value

In recent years there has been much discussion about the concept of **Hope Value**. There has also been some misunderstanding amongst practitioners and academics alike about its true meaning and its connection with another often misunderstood valuation assumption, that of **Highest and Best Use**. Unfortunately, shifting positions amongst the internationally recognised standard setting bodies (IVSC, TEGoVA and RICS) has contributed to some of the confusion.

“Hope Value is often mistaken for a value in the future, which it is not. It is always a part of the market value of the property at the date of valuation.”

Hope Value is not a new concept, particularly in the United Kingdom, where it is well understood given the specific nature of the country's planning system, which often leaves developers at the mercy of local authority planners. Where planning consent for a proposed development is absent, at the date of valuation, the market value will reflect the additional value arising out of the hope that such consent will be forthcoming in the future, the amount of such “hope value” being dependent on the market's perception of the likelihood of such planning consent being granted.

Hope Value is often mistaken for a value in the future, which it is not. It is always a part of the market value of the property at the date of valuation. Furthermore it is not the value reflecting in full the benefit of the desired planning or building consent. Rather it is an element of value which until the publication of IVS 2017, was considered as lying somewhere between the

so called “Highest and Best Use” value of a property at the date of valuation and the value assuming that an even more valuable use which, whilst at the date of valuation was not legally permissible, was assumed to have become so. The actual amount of Hope Value would have depended on the respective negotiating strength of the parties to the transaction, as well as to the extent of the perceived likelihood of planning consent for the desired development becoming reality and the expected length of time of a positive planning decision being made. To understand this fully, one needs to examine what is meant by “Highest and Best Use”.

Highest and Best Use

TEGoVA's 2009 edition of European Valuation Standards stated that Market Value is “... in principle based on the highest and best use of the property” defined as “The most probable use of the property which is physically possible, appropriately justified, **legally permissible**, financially feasible, and which results in the highest value of the property being valued”. The latter definition was taken from IVS 2007 (8th Edition), published by the IVSC.

The words “legally permissible” gave rise to most of the problems with interpretation. In particular, valuers in countries with local master plans and formal zoning systems became uncertain about the assumption to be made about the value, of a use which whilst not legally permissible through lack of zoning, at the date of valuation, was likely to become legally permissible some time in the future. For example, in the case of a site suitable for office development but zoned residential, or land zoned agricultural but suitable for warehousing or retail development. Whilst at the time the concept

of Highest and Best Use was considered fundamental to the interpretation of the definition of Market Value, the RICS in its own “Red Book” – RICS Valuation Standards – Global 2011 (7th Edition) – made no reference to it. Instead it stuck to the familiar British Hope Value concept, whilst avoiding American Highest and Best Use terminology, as exemplified by the passage below concerning the exclusion of special value when assessing market value.

“... where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the property in the future, this element of ‘hope value’ is reflected in Market Value. Examples of where the hope of additional value being created or obtained in the future may impact on the Market Value include: the prospect of development where there is no current permission for that development; and the prospect of synergistic value arising from merger with another property or interests within the same property at a future date”.

Subsequently TEGoVA, in its 7th edition of EVS, published in 2012, had moved away from its previous position of endorsing the concept of Highest and Best Use in favour of a less restrictive interpretation of the definition of market value which could reflect Hope Value. Such a position has remained unchanged in the latest 8th edition of EVS, published in 2016.

Hope Value

EVS 2016 considers that the market value of a property reflects its full potential in so far as it is recognised by the market place. As stated in paragraph 5.3.4 “... it may reflect

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any “hope value” that the market may place on such prospects and as such, should be distinguished from an assessment of market value limited by the “highest and best use” assumption.”

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EVS 2016 paragraph 5.3.5 continues, **“Hope Value** is used to describe an uplift in value which the market is willing to pay in the hope of a higher value use or development opportunity being achievable than is currently permitted under development control, existing infrastructure constraints or other limitations currently in place. It is an element within the Market Value of the property being considered ... It will reflect an appraisal of the probability that the market places on that higher value

use or development being achieved, the costs likely to be incurred in doing so, the timescale and any other associated factors in bringing it about. Fundamentally, it will allow for the possibility that the envisaged use may not be achieved. While descriptive of that uplift, it does not exist as a separate value but helps explain the Market Value of the property which must be judged from the available evidence just as much as any other part of the valuation. Hope Value is not a special value as it represents the market place’s reasonable expectations as to the opportunities offered by the property”.

As mentioned above, the RICS in its 2011 Global Edition of the Red Book made no reference at all to Highest and Best Use. Indeed it had never mentioned the concept in its succession of Red Books since the 1970s. That all changed with the publication of the 2014 edition of the Red Book, which now included several references to Highest and Best Use. At the same time, whilst there was no longer any mention of Hope Value, VPS 4 paragraph 1.2.7 provided that “... where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, **the impact of that expectation is reflected in market value.** Examples of where the expectation of additional value

being created or obtained in the future may have an impact on the market value include: the prospect of development where there is no current permission for that development ...”. These words have been repeated in the 2017 edition of RICS Valuation – Global Standards.

Significantly also, the recent publication of IVS 2017 seems to have fallen in line with both European Valuation Standards and the RICS Red Book by adopting a more flexible interpretation of Highest and Best Use with these words:

*“To reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, e.g. zoning designations, need to be taken into account **as well as the likelihood that these restrictions will change.**”*

And so it seems that under all three internationally recognised valuation standards, Hope Value should be reflected in the assessment of Market Value. ●

The above is an edited extract of a paper by Krzysztof Grzesik REV and Prof dr hab Sabina Zróbek, appearing in the Journal of Real Estate Management and Valuation published by the Polish Real Estate Scientific Society.

TEGoVA – from small beginnings. François Isnard picks up the story



TEGoVA’s origins in the seventies are a poor indicator of what today’s organisation has become, because in the beginning it was just another international valuation standard

setting body, whereas today it is the setter of valuation standards and qualifications for the European Union and the many countries in the Union’s orbit.

TEGoVA’s modern activity is defined by the increasing political, economic and financial integration of the EU and by the EU political demand for high level valuation standards and qualifications generated by the financial crisis. The EU wants valuation to be a pillar of the safety and security for its financial and real estate markets and not a component of systemic risk – and TEGoVA has transformed itself by taking up this challenge. **European Valuation Standards (EVS)** distinguish themselves

from international valuation standards by systematically integrating EU law and legal definitions into EVS standards, guidance notes, codes and technical documents. They contain an important stand-alone section on EU legislation and property valuation, so as to educate valuers to the body of EU law that governs real estate and their profession.

“This policy has brought TEGoVA EU recognition and a thriving membership. EVS were cited as reliable standards for the valuation of residential immovable property for mortgage lending purposes in the EU Mortgage Credit Directive.”

TEGoVA has provided the EU with a **valuation elite** – Recognised European Valuer (REV) and TEGoVA Residential Valuer (TRV), which are of great market advantage to the title holders, even with their local

clients, but which also provides pan-European investor clients with a body of local valuers qualified to a recognised high European level, a pillar of the EU internal market for real estate. This is crucial in an environment in which pan-European investment flows are already higher than the high pre-market levels and growing quickly, especially in high-growth urban and agricultural property markets.

This policy has brought TEGoVA **EU recognition** and a **thriving membership**. EVS were cited as reliable standards for the valuation of residential immovable property for mortgage lending purposes in the **EU Mortgage Credit Directive**. The standards were given primacy over all other standards by the European Central Bank in its **Asset Quality Review Manual, for the updating of banks’ real estate capital values**. Membership has grown very strongly, reaching 67 national valuers’ associations from 36 countries and representing 70,000 valuers.

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An organisation with such responsibilities and growth must constantly adapt. The European Valuation Standards Board will soon receive new terms of reference and be opened up to new and more numerous membership so as to be equipped to face increasing and evolving standards. A **European Practice and Valuation Methodology Board** has now been established, methodology being the new frontier for European valuation integration. The Recognition Committee has the significant responsibility for controlling REV and TRV awarding bodies, and the European Valuation Qualifications Board charts

TEGoVA's valuation qualification policy. All standards and qualifications bodies report to the eight person Board of TEGoVA, which has the final say – the TEGoVA General Assembly's approval being necessary for a number of statutorily-specified matters. The Board has a term of three years, the latest election having taken place earlier this year.

Communication with TEGoVA members and outside bodies is assured by the **two annual General Assemblies** and the **EU-focused valuation conferences** attached to them, news on the **website**, the TEGoVA magazine **"European Valuer"**, and numerous visits and participation in European and world events by the members of the Board and Secretariat.

Apart from servicing the Board and General Assembly and ensuring the day-to-day running of TEGoVA, the Brussels-based Secretariat has the special responsibility of ensuring TEGoVA's constant relations with the European authorities – European Commission, Council of Ministers and Parliament. ●

François Isnard is Managing Director with the TEGoVA Secretariat.

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Artūrs Lezdiņš extols the virtues of REV accreditation



I have been working in real estate for a decade, with half of that time devoted almost entirely to valuation. However, unlike most of my peers, my exposure to the profession has

been international from the start. I initially completed the **MSc Real Estate course at Nottingham Trent University** in the United Kingdom. After studying, I returned to Latvia to start my professional career. Along the way I became a member of the **RICS** and the **IRRV** and have recently also attained the **REV** designation while pursuing MBA and LL.M. Law and Finance degrees at local universities. Currently, at CBRE Baltics, I am responsible for valuation and advisory services in **Latvia, Lithuania and Estonia**, working with international clients on a daily basis in both domestic and cross-border valuation.

As we have moved from an age of industry and manufacturing through an age of banking and financial services and now into an age of investment banking and securitisation of debt obligations, the valuation profession has become fundamental in ensuring the stability of the economy. Clearly the profession is heading towards a higher degree of international integration, as evidenced by ever-increasing demand for multinational consultancy services and almost ubiquitous globalisation of large real estate portfolios. In the light of this, initiatives such as REV status play an important role in reducing barriers to cross-border valuation, without compromising professional standards.

For example, in the Baltics, the most

prominent commercial property and nearly all major shopping destinations are owned by foreign investment funds. Frankly, work without REV and MRICS designations for me would be **unimaginable**, as they provide my international clients with the confidence to consider my services.

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REV status in particular demonstrates that I have fulfilled the requirements deemed most crucial by consensus of leading valuation professionals accross Europe. It effortlessly communicates to potential clients that I use best practice methodology, guaranteeing comparability of results, ensuring that I am bound by widely recognised professional ethics standards, in addition to the prerequisite knowledge and experience to carry out their instructions to a high standard, in line with EU legislation.

Moreover, being internationally recognised allows me greater professional mobility within the EU and beyond, opening doors to networking and career opportunities. It is quite telling that at international conferences, national titles seem to fade into the background as everyone identifies on the basis of designations such as REV. There is a sense of camaraderie and mutual respect that transcends nationality – it becomes easier to be united by similarities instead of being

bogged down in differences, helping us all to work together towards a more favourable future for everyone.

It seems clear that both mounting regulatory pressures and increasing demand from clients for the emergence of a truly **"international appraiser"** necessitate a greater effort towards unification of education, standards and practices. I would like to highlight the issue of the lack of practical cross-border access to transaction data as crucial and yet to be wholeheartedly addressed, despite the EU legal framework being largely in place.

I feel TEGoVA will continue to be indispensable going forward as it can effectively liaise with the EU and represent the supranational interests of the profession as a whole. That being said, national differences can and unfortunately do get in the way. At worst there can be a sense of protectionism reminiscent of mercantilist policies of the 17th century as national associations seem reluctant to embrace further integration! Nevertheless, I am glad to be part of the REV family and look towards the future of the profession with optimism, largely due to the commendable efforts of TEGoVA. ●

Artūrs Lezdiņš MRICS REV is Senior Valuer with CBRE Baltics Valuation and Advisory.

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