

# European Valuer



## TEGoVA General Assembly endorses new European Valuation Standard on Automated Valuation Models

During TEGoVA's General Assembly in Marseilles on 28th October last, 95 delegates representing 52 valuers' associations from 29 countries overwhelmingly endorsed a new European Valuation Standard (EVS 6) concerning the use of Automated Valuation Models (AVM). The key message of EVS 6 with immediate effect is that:

***"AVMs cannot be used to produce a valuation report that complies with EVS independently of a valuation process founded, inter alia, on inspection of the property by the valuer and the application of valuation judgment by the valuer. Where***

***used, an AVM is never more than a tool contributing to the valuer's estimation of value, for which he remains responsible."***

EVS 6 emphasises that an AVM is not a valuation. It can serve as a starting point for some buyers and sellers in considering a property's value. It can be used by the qualified valuer as one input in his comprehensive analysis of the market provided he is satisfied with his knowledge of the AVM's input data and model.

The need for such a standard had become evident over the last few years, during which AVMs have become much more widespread as a result of a drive

towards rationalisation in the property and financial sector. But abusive use of AVMs was one of the reasons for the financial crisis, as was stated in the final report of the parliamentary committee of inquiry of 27th January 2016 regarding the Irish banking crisis: *"More widely, however, the demand for asset valuations increased significantly as the property boom took hold and reliance on informal valuation standards, such as 'desktop' and 'drive-by' valuations, became more prevalent. These did not involve any physical inspection of the property, but were*

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### Chairman's message



**Dear Colleagues,**

Ahead of another agenda-filled year for TEGoVA, it is perhaps worth taking stock of its achievements to date. 2017 marked the 40th anniversary year of TEGoVA (originally TEGoVoFA). From a founding membership of associations from nine countries, today TEGoVA boasts a membership of **71 valuer associations** from **37 countries**, representing some 70 000 real estate valuers across Europe. TEGoVA also feels proud and privileged to include observer members from North America (Appraisal Institute, Appraisal Institute of Canada and International Association of Assessing Officers) and the United Arab Emirates (Taqyeem, Dubai). The active participation of our friends from beyond Europe has

certainly enriched our guidance to valuers in what is now the eighth edition of European Valuation Standards (EVS) published in 2016 and enlarged last year with the addition of EVS 6 on **Automated Valuation Models** and guidance notes EVGN 11 on **Statistical Methods of Valuation**.

Over the last decade, Europe's valuation standard setter has become the Pan-European valuer qualifications body as well. The Recognised European Valuer (REV) and TEGoVA Residential Valuer (TRV) designations are now well established, with a total of 35 Awarding Members Associations having certified almost 3500 REVs or TRVs in 20 countries. This is a clear sign that after 40 years the European valuation profession is at last truly harmonising in line with the original aims of TEGoVA.

In my view, the success and growth of TEGoVA can be attributed to the fact that first and foremost it focuses on guiding individual practising valuers on the ground - each being able though his or her

TEGoVA member association to influence its programme and standards. TEGoVA does not pander to specific lobby groups which seek to impose their will on the decision-making process. TEGoVA's programme is democratically approved by its entire membership.

During the year ahead, the various TEGoVA Boards will focus on improving existing guidance on valuation methodology, streamlining EVS in preparation for **a new edition due in 2020** and pursuing its dialogue with the European Commission on the illegal use of Automated Valuation Models in some EU countries. The development of the **REV** and **TRV** programmes will also feature heavily in our agenda. Preparations are also underway for the **Spring Meeting in Estoril, Portugal** on 17th-19th May, hosted by ASAVAL.

On behalf of the TEGoVA Board, I thank you all for your continuing support and wish you all a successful and happy 2018. ●

**Krzysztof Grzesik REV, Chairman TEGoVA.**

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a limited (and sometimes fully automated or computer generated) process of estimating value. A Central Bank review of financial institutions found that many used these informal valuations as if they were formal valuations ...”.

Article 19 of the Mortgage Credit Directive, and Article 229(1) of the Capital Requirements Regulation in particular, imply that AVMs cannot be used to provide property valuations independently of professionally competent internal and external valuers. The opinions and guidelines of the European Banking Authority (EBA) and the Financial Stability Board (FSB) both mirror and justify this requirement. Whilst the Mortgage Credit Directive does not address AVMs as such, the limitations on their use follow from the

Directive’s insistence on the use of reliable valuation standards by “professionally competent internal and external appraisers” (Article 19). The Capital Requirements Regulation is also very clear that property valuation needs to be done by a qualified valuer and on the question of statistical methods of valuation states: “Institutions may use statistical methods to monitor the value of the property and to identify property that needs revaluation.” (Article 208(3), last sentence). According to that provision, the application of statistical methods (including the use of AVMs) can only be engaged to monitor the value of the property and to identify property that needs revaluation. The use of such methods is not allowed for the actual valuation of the immovable property. This applies *a fortiori* to the original or first-time valuations where no value has yet been established and can

be monitored.

To complement EVS 6, the General Assembly also endorsed a new **Guidance Note EVGN 11**, entitled “**The Valuer’s Use of Statistical Tools**”. Both EVS 6 and EVGN 11 have been added to and constitute an enlarged part of the existing EVS 2016 (Eighth edition). They may be downloaded from the TEGoVA webpage at [www.tegoval.org](http://www.tegoval.org) ●

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## The United Kingdom’s property tax reform agenda is unpicked by Roger Messenger



Recurring property tax (as opposed to transactional taxes) can trace history in the United Kingdom back to at least 1601. A tried and tested system, you may think, but one

that faces modern challenges, as the tax is under increasing pressure from the tax administrators, valuers, collectors and the judiciary.

Recurring property tax is divided into two main areas in the United Kingdom – with **domestic properties**, houses, flats and the like contributing more than 25 billion GBP to the total tax taken every year and with **business properties** contributing currently a further amount of almost 25 billion GBP on an annual basis.

For domestic properties, local government set the tax, collect the tax and spend the tax, but the parameters of what can be charged are set by the central government. Despite various suggestions for a revaluation, and indeed some by the European Union, the domestic tax base remains historic, based upon the last revaluation, which was in 1992.

Any tax base of 35 years’ vintage will have its problems, and the United Kingdom is no exception. The tax is based on **capital values at the 1992 date** and banded or grouped into value bands A, B, C, D, E, F, G and H. New properties are brought into the tax base by applying a notional historic value and band.

The bands are subject to differential tax rates set by the local government locally, but again within parameters. Excessive increases in the tax year on year can be the subject of central government penalties levied on local government.

**“Obviously, in 35 years, there has been structural change in the type of residential accommodation in the market and a huge value shift in capital values, not at all evenly spread throughout the country – so, one size definitely does not fit all.”**

Obviously, in 35 years, there has been structural change in the type of residential accommodation in the market and a huge value shift in capital values, not at all evenly spread throughout the country – so, **one size definitely does not fit all**. Most commentators recognise, as well, that the addition of some extra bands – maybe one or two at the low-value end of the scale and two or three at the top end – would improve the progressive nature of the tax.

Politically, all this is highly charged, with the perceived threat of major tax increases and subsequent rebellion by taxpayers. In practice, of course, most of this would take the form of re-balancing the system

where there may be winners and losers in the tax to be paid, but on a fairer, more equitable modern tax base. Were there the local and national political will to facilitate a wholesale revaluation, this could, in large part, be undertaken by an Automated Valuation Model (AVM) which has been historically tracked for just this purpose.

For non-domestic or business premises, there is the prospect of a **much more radical change**, which most other jurisdictions applying a property tax have not yet considered. In England and Wales (excluding Scotland – which has a slightly different system), there are currently about 1.9 million properties that need to be valued for tax purposes. The most recent valuation became effective from 1st April 2017, with a valuation evidence date for the valuation list of 1st April 2015 – two years before the effective date. Currently, the revaluations are supposed to occur every five years, although the current one (2017) extended to seven years, from 2010.

There are fundamental issues of concern in the valuation list. For business premises, the tax assessment is based on the **annual rental value** of the property, or more strictly correct the value of the occupation, which might be less than a whole property.

Dramatic changes in the property market have unfortunately coincided with valuation dates. For the previous rating period, the 2010 base was calculated on 2008 values, right at the peak of the market before the crash. This resulted in the valuation list containing unsustainable values for a long period of years, exacerbated, some would

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argue, further by extending the life of the tax base from five years to seven years, to 2017.

Revaluations are set to achieve the same tax yield as the preceding tax year, so if the taxable value base increases, the tax rate comes down, and *vice versa*. The downside to this is that with tax never actually going down, there is a built-in increase every year. The tax charge is set by government with some very minor local discretion. Currently, the tax rate is approximately **50% of the annual rental value** – so a substantial liability.

There are a number of reliefs built into the system for charities and small businesses who *pro rata* pay less. The change for the future is moving to a **three-year revaluation cycle commencing in 2022**, and is as yet not announced, but we shall assume a valuation date one year before the tax base is live.

The valuations are currently undertaken by a national organisation, which is a central government agency called the **Valuation Office Agency (VOA)**. They are tasked with all of these 1.9 million tax valuations, which will now be more frequent. Currently the values are not grouped or banded, but are individual rental value assessments.

Given the relatively high tax rate, there has historically been a high appeal rate against the tax assessment valuations, which has, for 2017 and onwards, been made more difficult for the taxpayer to undertake. It remains to be seen whether that change will result in reduced overall appeals, releasing VOA resources for dealing with the appeals, to focus on the next more frequent revaluation. Regrettably, all of this coincides with the need to shrink the size of the government machine, in order to obtain the lower cost of running government as part of

the wider agenda. Accordingly, the VOA has seen annual cuts in its budget allocation, resulting in staff redundancies, local office closures and a greater reliance on digital platforms.

***“This has led to perhaps the most radical suggestion so far seen in any major property tax regime – self-assessment.”***

For the time being, the use of AVMs is not necessarily thought to be the way forward because of the need to value each occupation on an accurate individual basis. This has led to perhaps the most radical suggestion so far seen in any major property tax regime – **self-assessment**. The taxpayer (with or without professional valuer advice) would be requested to provide its valuation base figure. Those deciding to under-assess would be subject to potential penalties, where the VOA would move more to an audit role. Less work for government employed valuers, and maybe much more for the private sector representing the client taxpayer. The challenge for valuers would be to have sufficient private sector capacity to undertake this exercise in a comparatively short time period and to avoid the accountancy profession attempting to control the process, linking it only to tax rather than real estate valuation.

A three-year revaluation with self-assessment – I do not believe this has yet been tried anywhere else yet. In theory, you could then move that to an annual self-assessment. There are a large number of issues for taxpayers’ tax administrators, collectors and those wishing to spend the money on local service to consider. The tax yield is sacrosanct to maintain services already under financial pressure, and self-

assessment needs to avoid what might be seen by some as an opportunity for a race to the bottom. At the same time as all this is going on, it will be no surprise that those occupiers who are suffering the most in the economy usually complain about the high level of property tax. Structural changes in the retail sector with online trading have caused many in out-of-town retail to reconsider the amount of space occupied, which has a direct consideration in reducing the property tax. That space, if vacant, then bears the same tax liability for the landlord – again, not without issues!

A very important tax that raises a lot of money each year to fund local services, it has had since 1601 to evolve, but I think the next few years may see significantly greater and **more radical change** than in the preceding 400-plus years.

A number of other jurisdictions have taken the United Kingdom property tax as a shining example of how to do it and implemented not dissimilar methods. Will they follow with such changes? I suggest that the jury is still out on that one! ●

**Roger Messenger BSc (Hons) FRICS FIRRV REV MCI Arb Hon. CAAV MIPAV (Hon) RICS Registered Valuer is Vice Chairman of TEGoVA.**

*Note: At the TEGoVA General Assembly in Autumn 2017, members present were invited to submit details of individuals within the Associations who would be interested in participating in a Europe-wide, TEGoVA-facilitated, property taxation forum. In this connection, Roger Messenger kicks off with a summary of developments in the United Kingdom which boasts the oldest property taxation system in the world, dating back to Queen Elizabeth I.*

## As the REVASE project draws to a close, Pat Davitt looks to the outcome



The REVASE project is financed from the Strategic Partnerships budget of the Erasmus Plus programme of the European Commission, commenced in January 2016 and due for completion at the end

of April 2018. The funding was won on the basis of **developing learning material in the form of training modules** which will be used both in a training context for an ever

more demanding professional environment which is supported by the **“Blue Book”** of European Valuation Standards (EVS).

Crucial to the success of the project is the fact that four of the partners, the Institute of Professional Auctioneers and Valuers (IPAV) Ireland, the Institute of Revenues, Rating and Valuation (IRRV) England, Polska Federacja Stowarzyszen Rzeczoznawcow Majatkowych (PFVA – Poland), Latvijas Ipasumu Vertetaju Asociacija (LIVA – Latvia) are members of TEGoVA – indeed a fifth partner is TEGoVA itself.

TEGoVA’s Blue Book is a very impressive valuation document, but it does not provide practical information on how to conduct a property valuation, nor does it provide associated training material. The REVASE project will now supply this training material. There are three **“Intellectual Outputs”** to the project:

- **writing the training modules** – this output has been completed
- **a Training Needs Analysis Tool**, which has been developed and is now being piloted by the partners. This tool is a first for use in valuation practice, and aims to assist users in assessing their strengths and weaknesses, their knowledge, their

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interests and their aspirations. In achieving this, it helps to provide a focus for career development

- **project marketing and dissemination activity.** All the testing and evaluation has been completed and questionnaires completed by all partners, and this is enabling any outstanding work on the modules to be completed. Dissemination activity is continuing and will continue beyond the life of the project.

The project has been supported by a programme of “**multiplier events**”, or local promotional activities. Events were held in Riga, Latvia in October 2017, in Roscommon, Ireland in November 2017, and in Brussels in May 2016. Future events will be held in Warsaw, Poland on 27th February, and in London, England prior to the formal conclusion of the project, which has been extended for two extra months.

There are **two additional modules**, which will be covered by the training modules following the decision of the TEGoVA autumn meeting in Marseilles that, where used, Automated Valuation Models should never be more than a tool contributing to the estimation of value for which the valuer remains responsible. Although the project will shortly come to an end, collaboration will be ongoing. Examples of how the work will continue for the remainder of the project and beyond include:

- ongoing training and dissemination sessions organised by partners to promote

the project to their own members – very important to the project as a whole

- the development of plans to enable the updating of the outputs from this project, thus ensuring sustainability into the future after the period of project funding comes to an end
- ongoing dissemination activities to enable the project to be promoted beyond the partners involved in developing the material for the project. Promotional activity is now gaining momentum.

The Irish partners have taken this aspect very seriously and have engaged with banks and financial institutions in Ireland to offer their mortgage and valuation managers training in the Blue Book standards. The modules supplied by the project are unique and easy to use for training purposes because they provide a simple link to the relevant sections of the Blue Book. When valuation managers request a **Blue Book valuation** they will have a **clearer understanding** of the complex set of parameters and issues involved and how the valuation should be presented, and mortgage managers will be more likely to attribute greater credibility to a Blue Book valuation.

In the short term, it is expected that the project, on completion, will make available to partners a comprehensive training resource pack which will enhance the understanding and the application of EVS. In the longer term, the pack will be available to each TEGoVA member, reaching a potential audience of **over 200,000** individual valuation practitioners.

However, the overriding objective is that the resource pack will give participants the knowledge and understanding of the application of EVS, which will improve their skills and competence, as valuers enhance the status of valuation as a profession, and widen the base of career opportunities for valuers.

The project will develop and enhance the overall understanding and application of EVS across Europe, and the wider use of the standards will be an inevitable outcome of this understanding. This will in turn increase the number of policy areas in which the standards will become influential. Looking further ahead, the establishment of the standards will provide **cross-border consistency** in the practice and delivery of valuations of land and buildings, which will assist the client in the valuation process.

This project is a great example of how members of TEGoVA can work together for the enhancement of EVS of the Blue Book and help other members across Europe with training requirements. This must surely be encouraged, so many other members can take part in projects like REVASE.

This will be particularly evidenced in the property market, where a transnational approach for valuation is important to ensure consistent transacting of properties across borders. ●

**Pat Davitt FIPAV REV MCEI is Chief Executive Officer with the Institute of Professional Auctioneers and Valuers.**

## New TEGoVA observer members IAAO explore the means of increasing AVM competency

A general Automated Valuation Model (AVM) is a mathematically based computer application that estimates the value of a property that mathematically models or replicates market behaviour.

**Many valuers see AVMs as a threat to take their business away from them.**

Others see AVMs as an opportunity to diversify their activities. How can valuers prepare themselves to take advantage of these opportunities? By increasing their AVM education and training opportunities, valuers can take advantage of the strengths of AVMs, which will lead to an increase in

their efficiency and productivity.

**AVMs are here to stay.** They should not be viewed as “**man versus machine**”. Being competent in AVMs is an additional tool in your valuer toolbox. Improving your ability to understand how to use robust analytical techniques and becoming more aware of the meaning of data is paramount to your long term success.

The good news is that you don't have to be a statistician to be competent in AVM basics. No matter how much you hated statistics in college, you can develop a basic understanding of how an AVM works! It's not necessary to know or to be able to explain the AVM's algorithm. However, you should be able to explain the overall process and verify that the AVM is producing credible results.

The bright side is that valuers can improve their skills to negate the risks of obsolescence. Look at valuation modeling for what it really is – an enhancement and reorganisation of the valuation skills that

you already have. By embracing technology, valuers can interact with the valuation modelling process. Valuer judgment will always be required in the valuation process. The interaction of valuer judgment and statistical analysis offers the best of both worlds, providing a better valuation estimate. **Statistics helps improve, not replace, the judgment of valuers.**

As technology continues to be increasingly sophisticated and present in all aspects of valuations, valuer professionals will see a shift towards more strategic and analytical roles. This automation will produce new skilled jobs in the long run, and increase adaptability to change. Valuers willing to invest in themselves will become smarter and stronger. Those who choose to become competent in AVMs will be those who survive and thrive. ●

**Randy Ripperger CAE is the 2017 President of the International Association of Assessing Officers (IAAO).**