TEGoVA Autumn General Meeting, Sofia, Bulgaria – 10th-12th October 2019. Go to tegova.org

TEGoVA
THE EUROPEAN GROUP OF VALUERS' ASSOCIATIONS

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European Valuer

Welcome to Sofia

Dear friends and colleagues,

The Chamber of Independent Appraisers in Bulgaria (CIAB) has great pleasure in welcoming top representative valuers from 36 countries to TEGoVA's Autumn General Assembly at the Sofia Hotel Balkan on 12th October 2019. The meeting will mark the culmination of TEGoVA's work over the last three years in updating and streamlining European Valuation Standards, which after being approved by the delegates in Sofia, will be launched as a new 9th Edition in May 2020. The delegates will also be asked to approve the text of the 1st Edition of European Business Valuation Standards, which will also be launched next year.

The General Assembly will be preceded on 11th October by a European Valuation Conference, entitled **"European and National Standards – The Two Pillars of EU Valuation"**. The Conference, which is open to all valuers and property professionals, will be held at the Central Military Club in Sofia. We are pleased to have been able to secure top speakers from Bulgaria and other countries, including the USA.

We hope you will find participation at the above events informative and constructive in furthering the development of the European valuation profession and that you also find time to admire the beauty of the historic city of Sofia.

With kind regards,

Svetla Dermendzhieva is Chair of the Board of CIAB.

Valuing the valuer, by Konstantinos Pallis

A lot of controversial discussion has developed lately about the reliability of valuers in the performance of their duties. Are the valuers impartial, are they trustworthy and efficient enough, or are machines (Automated Valuation Models – AVMs) **"better"** to perform the task?

The banking sector throughout Europe and the US is particularly interested in these issues, and at least one EU member state has started implementing policies enabling the replacement of valuers by AVMs, undermining consumer protection and the stability of mortgage lending, as numerous studies have shown.

"National/international certification schemes – TEGoVA's REV or TRV – and local professional licences obtained through a sound system assessing the academic background and work experience of the applicants are easy and rather safe ways to obtain the necessary confidence that you are talking to a Qualified Valuer."

This article focuses on the evaluation of a valuer as a professional, giving some guidelines for assessing performance which can be useful for individual/corporate clients and valuers' associations. Interestingly, a true understanding of the qualities needed for good valuation sheds light on the many key aspects of the valuation process that machines cannot replicate.

For anyone seeking a definition of a **"good"** valuer, TEGoVA's European Valuation Standards (EVS) provide the basic attributes that a valuer must have: EVS 3 defines the Qualified Valuer and clearly states that each valuation performed in accordance with EVS must be carried out by, or under the strict supervision of, a Qualified Valuer. So to start with, clients should seek the proof of qualification of the valuer they intend to employ. National/international certification schemes – TEGoVA's REV or TRV – and local professional licences obtained through a sound system assessing the academic background and work experience of the applicants are easy and rather safe ways to obtain the necessary confidence that you are talking to a Qualified Valuer.

It should be noted, though, that if a local professional licencing or certification system does not incorporate educational requirements reflecting TEGoVA's Minimum Educational Requirements (MER), it is better to look for valuers who, on top of the local professional licence, can exhibit a relevant European recognition, such as REV or TRV.

Quite apart from formal qualifications, a **"good"** valuer must demonstrate qualities

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and characteristics that are not usually captured by any licencing or certification scheme. Let's examine some of them:

- **Competence:** the valuer must have competence and experience corresponding to the assignment. A rich track record of valuations of similar assets is a good sign to the prospective client that the valuer has the necessary experience to handle the case. Clients should not hesitate to ask for proof of such credentials.
- **Responsiveness:** the valuer must always react expeditiously, submitting an offer, accepting the assignment and performing the valuation in a timely manner. Responsiveness affects the overall time needed for the completion of a valuation and is of great importance for the customer. The adage, **"If you want something done, ask a busy person to do it"**, applies to valuations as well.
- **Discretion and confidentiality:** both are of paramount importance for valuers as they are attributes that all customers demand of them. Information and data protection can be included in this. It is a very demanding and regulated field, so all valuers must be familiar with it and able to prove compliance.
- **Impartiality and objectiveness:** are the most basic attributes of a valuer and the very essence of the profession. A practitioner with questionable impartiality and objectivity is not a valuer. The market usually knows the players who are prone to biased opinions. Clients avoid them.
- **Trustworthiness:** the relationship between the valuer and the customer must be sincere and honest. Any conflict of interest (existing or potential) must be raised by the valuer with the client. For a valuer, it is better to lose an assignment than to jeopardise trustworthiness.

"Valuers must discipline themselves to describe the property for non-specialist eyes, as the recipient of the valuation is very often not familiar with the terminology of the real estate market."

- **Accuracy:** valuation is a science and an art. It requires mastery of valuation standards and methodology, an understanding of computational tools' use of market data so as to judge the degree of their usefulness, relevance and reliability for the task at hand and an experience-based **"feel"** for market trends and prospects.
  (Absolute accuracy is not of this world, but a good valuer can assess the value of a property with minimal deviation from the market's expectations. Clients should be cautious that the market value assessed by a valuer is by no means a guarantee of the sale price of the asset.)
- **Descriptiveness:** the valuer must be able to describe clearly and comprehensively the asset under valuation, the market characteristics and of course explain any limitations and assumptions adopted during the valuation process. Valuers must discipline themselves to describe the property for non-specialist eyes, as the recipient of the valuation is very often not familiar with the terminology of the real estate market.
  (The report's photographic documentation is of great importance to the description. The valuer must be a clever photographer, able to picture all the essential issues characterising the property.)
- **Politeness and communication:** asking for data and dealing with delicate issues, such as other people's properties, requires certain qualities that are not given to everyone. They can be acquired with effort and training, and, once gained, can truly enhance performance of valuation duties. Usually these qualities come into play from the initial stages, before the client decides on the assignment.

All of the above characteristics can be measured by quantitative and qualitative performance indicators. They can also be improved, if found below expectations, by training and harder effort. This is the essence of the CPD program that every valuer should follow. They are by no means exhaustive attributes characterising a **"good"** valuer, but nevertheless constitute a good checklist for clients and should serve to remind them that they discard the **"human"** nature of the valuation process at their peril. ●

Konstantinos Pallis is a member of the Board of TEGoVA, Treasurer of the Association of Greek Valuers (AVAG) and Manager of the Technical and Financial Studies Division, Alpha Astika Akinita S.A.

The Union will have a carbon-neutral building stock by 2050 and valuers should surf that wave, not paddle after it, says Michael MacBrien

On the climate, Europe is shifting into high gear, gunning for climate neutrality by 2050 with a major milestone in 2030. Buildings are the dominant factor, accounting for 40% of the EU's energy consumption and 36% of its GHG emissions (not to mention half of all material extraction, one third of generated waste and one third of water consumption).

Were it only the latest political initiative, skepticism could be justified. But you can feel it all around you. Europeans want decisive action, now. It's this exceptional Zeitgeist, never seen in thirty years of climate talk, that guarantees political momentum for transformation of the building stock.

You could think, *"Yes, but the EU lacks the full trappings of a State, and doesn't have the 'command-and-control' power to push through such a radical transformation."* I think now it does, because it can build on the world-leading achievements of the last twenty years, and because the way the EU gets things done, the much maligned and mocked institutional mechanics, is in fact a very efficient way of working when the goal is high priority for most EU citizens.

"Were it only the latest political initiative, skepticism could be justified. But you can feel it all around you. Europeans want decisive action, now. It's this exceptional Zeitgeist, never seen in thirty years of climate talk, that guarantees political momentum for transformation of the building stock."

Building on world-leading achievements

The Union sits on the most advanced corpus

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of climate law in the world, including the energy efficiency of products and processes. For buildings, laws cover every aspect of the energy equation, including technical systems, metering, adaptation to electromobility, renewables, public purchasing, energy distributors, energy audits and management systems, energy services, HVAC inspection and – surprise, surprise – the qualifications and independence of experts and certifiers.

The game-changers are:

- energy efficiency renovation of all buildings undergoing **"major renovation"**, i.e:
  - costing more than 25% of the value of the building; or
  - covering more than 25% of the building envelope
- all new buildings to be nearly zero-energy as of 2021 (government buildings as of 2019)
- energy efficiency renovation of 3% of central government building stock every year (since 2014)
- Energy Performance Certificates (EPCs) for almost all buildings up for rental or sale.

Try finding a major power anywhere in the world coming anywhere near that.

Thanks to that and to everything else it regulated, the Union has already surpassed its goal of 20% GHG reduction by 2020 and will deliver on the Paris Agreement of 40% by 2030. On current trajectory, it'll hit 45% by 2030 and 60% by 2050! Which means we all fry, as this is far short of carbon-neutrality.

The European Commission states that at this late stage, the only way to achieve net-zero emissions by 2050 is by tackling everything at once, using every disposable tool – energy efficiency, renewables, clean mobility, circular economy, smart infrastructure, carbon sinks and carbon capture. **But energy efficiency is absolute number one, with special emphasis on buildings, especially transformation of the existing stock to near-zero energy.**

And they'll get there, with two new 2030 targets – a 32.5% improvement in energy efficiency and a 32% share of final consumption for renewables. How each member state gets there is its business, as long as it can demonstrate to the Commission and the other member states that it truly has a plan. And no more vague claims on an A4 sheet every now and then. There's a powerful Brussels agora where civil servants of national ministries meet continuously to brainstorm and agree on what to do.

Anyway, it's not rocket science. The advantage of urgency is that it limits the options. Colloquia on "solving the energy saving split incentive between landlord and tenant" are out. Allowing rental only if the building has a high energy rating is in, as can be seen in the Netherlands (minimum EPC 'C' for offices as of 2023) or in France for residential.

Valuation has become a prime EU energy concern

The new revised Energy Performance of Buildings Directive (EPBD) instructs the Commission to "ensure better energy and finance performance data by examining how energy efficiency investments improve underlying asset values." They're talking to the banks because they can't find savvy valuers.

> ***"Valuers need to first be conscious of all that's happening and then develop methods for integrating it into value."***

The Directive further instructs the Commission to do a feasibility study on a **Building Renovation Passport** that charts out optimal "trigger points" for tailored renovation. The owner is supposed to keep it on file and it's **a great tool for valuers** – they'll be able to see what works are needed and when, along with estimated costs and savings and indication of available subsidies. Surely knowing the detail of future costs and savings should impact the valuer's estimate of market value? Surely clients will increasingly want to know? Banks offering **"green mortgages"** certainly will.

The EPBD also empowers the Commission to produce a common Union scheme for a **Smart Readiness Indicator (SRI) serving to rank how well "wired" the building is to improve energy efficiency,** demand management, IAQ, electromobility, etc. I'm part of a Commission-nominated group advising the designers of the technical support study underpinning the EU SRI. They've inserted valuers into the study as a prime potential audience for the scheme. No wonder! Surely valuers capable of understanding the essence of an SRI score and its accompanying explanations of what the building's **"smartness"** enables it to do, should be able to integrate this into their estimation of market value, at least once a certain critical market mass has been achieved.

In my view, valuers need to first be conscious of all that's happening and then develop methods for integrating it into value. All new build is now near-zero energy. What does that mean for existing stock? What if new building X is not near-zero? What kind of trouble will come with that and what does that say about its market value? If it's a potential rental property with an **"E"-rated EPC** in a place where rent regulation imposes minimum **"B"**, what does that say about value?

After all, in the new EVS, Highest and Best Use (**HABU**) will be integral to Market Value. Surely, the ***"reasonable probability"* of ever tighter energy efficiency regulation** combined with ever greater knowledge of buildings' energy status and capabilities should enable the profession to find ways of integrating these variables into their estimation of value. ●

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

BEYOND EUROPE

Valuation practice in New Zealand, as witnessed by Patricia Kuczynska

Despite progress over the last few decades in harmonising real estate valuation practice worldwide, the insight I have gained as a valuer who qualified and practised in the diverse markets of Poland and Ireland (and most recently settled and seeking to qualify in New Zealand) leads me to conclude that our profession is indeed, as proclaimed by many commentators, first and foremost governed by local custom, laws and market practice.

New Zealand is one of the most urbanised countries in the world. Around 85% of its five million population lives in urban centres, with Auckland accounting for more than one third. The rapid population

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growth in these centres has had a massive impact on housing supply and affordability, land supply, infrastructure provision and use of valuable resources. New Zealand's planning systems play a crucial role in achieving government objectives – economic as well as environmental but also cultural and social. Economic indicators are positive, with a 2.5% annual growth of GDP, an unemployment rate of 4.2% and CPI annual inflation at 1.7%.

New Zealand's property market is strongly influenced by an increasing number of migrants, leading to greater housing demand, notably in the Auckland region. At 70%, New Zealand has one of the highest ratios of home ownership. Low real interest rates and household income growth have led to increases in borrowing capacity. Housing construction in New Zealand is the fifth largest sector by employment. In May this year the median house price was $578,000 according to The Real Estate Institute of New Zealand (REINZ), up from $560,000 a year ago.

"In New Zealand only a "Registered Valuer" may undertake or supervise valuation work. The general qualification requirement is a Bachelor of Property (or similar) degree and at least three years' full-time training."

New Zealand's top five trading partners are Australia, China, the European Union, USA and Japan. Besides national investors, they play key roles in the New Zealand property market, whose stock of residential and commercial buildings was worth approximately $489 billion in 2016 (Property Council NZ/Urban Economics, 2016), albeit after the implementation of a law banning foreign buyers in 2018, the country has started to reduce speculative investments and house price rises. Nevertheless the signs are positive in terms of an active valuation profession.

In New Zealand only a "Registered Valuer" may undertake or supervise valuation work. The general qualification requirement is a Bachelor of Property (or similar) degree and at least three years' full-time training. Furthermore, a candidate must submit 20 valuation reports to an independent Valuation Registration Board (VRB) and the final stage of the qualification process is a written and oral examination set by the VRB.

As in my case, the training period is covered by a valuer's full-time employment (40 hours per week), but with all the reports having to be supervised and co-signed by a New Zealand Registered Valuer.

Market Value is typically assessed on the basis of a market approach – Comparable Transactions Method and the Income Approach, Discounted Cash Flow (DCF)/Capitalization Method. In the case of development land, courts favour the application of more than one method (inter alia a Hypothetical Subdivision Method) of valuation to arrive at the Market Value (*Boat Park Ltd v Hutchinson* – [1999] 2 NZLR 74) with the Comparable Transaction Method being the most preferred.

The valuation of residential property is also based on more than one method. The typical house in New Zealand is freestanding, less often duplex or terrace townhouse. The Market Value of a dwelling is estimated by reference to comparable transactions and what is known as the **Net Rate Analysis Method.** The latter involves treating separately the subject property's land value from the value of site improvements, buildings and chattels on the basis of an analysis of sales prices of comparable properties from which a "net rate" per square metre of dwelling floor area is calculated. The net rate of each sale property is compared with the dwelling being valued, with adjustment for its special features, views, condition, quality, layout, facilities, size, number of bedrooms, etc. The assessed net rate is then multiplied by the floor area of the home and the result added to the assessed value of other buildings (e.g. garage, shed, sleepout, workshop, decking), site improvements, land value and chattels to arrive at the Market Value.

"The latter involves treating separately the subject property's land value from the value of site improvements, buildings and chattels on the basis of an analysis of sales prices of comparable properties from which a "net rate" per square metre of dwelling floor area is calculated."

Valuation for insurance purposes is also very common with the valuer required to arrive at Reinstatement Value, Indemnity Value and Functional Value for cover, loss/damage or Fire Service Levy purposes.

Whilst the Property Institute of New Zealand (PINZ) and New Zealand Institute of Valuers (NZIV) have adopted International Valuation Standards (IVS), Australian and New Zealand Valuation and Property Standards plus Guidance Notes and Technical Information Papers specific to New Zealand also regulate valuation practice in New Zealand.

Valuation practice in New Zealand is of a high standard, influenced by local custom and laws but developing in line with the profession worldwide. ●

Patricia Kuczynska MRICS MPINZ MIPAV REV is a valuer with Prendos New Zealand Limited.

News news news ...

Save the dates in 2020!

2020 will be a momentous year for TEGoVA. On 24thMarch, the 1st Edition of European Business Valuation Standards (EBVS) will be launched in Warsaw at a special international conference aimed at business as well as real estate valuers, accountants, auditors, financial analysts, investors and bankers. The event, which will be hosted by the Polish Federation of Valuers' Associations, will feature top speakers – all prominent practitioners of business valuation from across Europe and North America. Participation is also expected from representatives of academia and leading organisations delivering education in the field of business valuation.

Then in May, to coincide with TEGoVA's Spring General Assembly, a new 9th Edition of European Valuation Standards (EVS) will be launched at a European Valuation Conference in Brussels. The new edition will be more streamlined compared to previous editions and include improved interpretation of the definitions of market and fair values and a new definition of Highest and Best Use. It will also include an enlarged chapter (guidance note) on valuation methodology, with improved commentary on the Income and Cost approaches.

More details of both events with registration forms will be posted on ***www.tegova.org*** in the near future. ●