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EU Energy Efficiency Regulation and Funding for Buildings

A step change to a new real estate economy influencing market values

'Green' or 'sustainable' buildings are still mostly an elite thing, prestige projects for corporate headquarters or the products of enlightened corporate governance as when the leading funds instruct their real estate managers to take on only cutting edge green buildings. But this is hardly a game changer given that the vast majority of the building stock doesn't belong to either funds or the big commercial property companies; it's made up of owner-occupied and private and social rental housing, and the vast 'lower' commercial building stock. To some extent, there is ecological trickle down from the top level, but it's a slow process.

The only game changer is mandatory regulation of the entire building stock of a large population backed by significant funding, hence the EU.

The clincher is hard law …

The EU has been targeting energy efficiency in buildings for over a decade. But motivated by the fact that buildings account for 36% of total EU carbon footprint, the EU, in its fumbling, bumbling, sound bite-free way, increasingly led by the European Parliament and working closely from the outset with the property industry has clocked up a series of Directives and Regulations setting mandatory requirements which, combined, could mean critical mass and step change:

- *All new build,* residential and commercial, *to be near-zero energy* by 2018 (public) or 2020 (private)
- *Public bodies must purchase only energy-efficient buildings.* If government purchase has to be energy efficient, won't that impact energy efficiency levels of buildings rented to the public sector and by knock-on to private tenants?
- *Energy efficiency renovation obligation now extended to the entire building stock* (until recently, only buildings over 1000 m²). But this is only triggered when the owner freely decides to do a major renovation, 'major' meaning that the renovation covers 25% of the building shell or costs at least 25% of the value of the building.
- *Obligation on member states to energy efficiency renovate 3% of the central government building stock every year.* This must be done whether governments were planning to or not.
- *Obligation on big companies to do energy audits*
- *Generalised smart metering and billing*
- *Energy supply companies to provide energy services that reduce clients' energy consumption by a sum equivalent to 1.5% of the energy companies' annual energy sales*
- *Energy Performance Certificates for all buildings put up for rent or sale* with the indicator (Grade A, B, etc.) appearing in all advertising
- *Heating, cooling and ventilation checks*
- *Obligation on member states to address the owner/tenant and multi-owner 'split incentive' issue* by which each party hesitates to make an energy efficient move for fear that the other will be the main beneficiary
- Member States have to set *energy saving targets* for 2020 that they have to present to the Commission in April 2013
- Member states must also come up with *a long-term strategy for mobilising investment in the renovation* of the national stock of residential and commercial buildings, public and private, including identification of cost-effective approaches to renovations by building type and climate zone and *policies and measures to stimulate deep renovations of buildings*
- *Minimum levels of energy from renewable sources in new or refurbished buildings*
- *Energy efficient construction works and raw and secondary materials*
- And soon high performance boilers and water heaters

All this being mandatory for a population of over 500 million people plus all EU candidate member states.

All these initiatives are backed by funding

The European authorities also recognised that the regulation requires funding, and despite the crisis, they're delivering:

1. *Funding directly from the Commission for multi-country projects via the Intelligent Energy Europe programme* with, for the 2014-2020 funding period, a big increase on the previous €730 million for projects that contribute to the practical implementation of the EU regulation.
2. *Financing from the European Investment Bank* recently doubled to €1.5 billion.
3. *EU Structural and Cohesion Funds:* In the 2014-2020 budget negotiations the Commission proposed ring fencing €17 billion for energy efficiency and renewables for which one of the investment priorities will be "public infrastructures and the housing sector". The latest news is that the European Parliament, which now shares power with Council on the budget, wants 20%

of the entire € 500 billion Structural and Cohesion Funds to be spent on the energy transition.

This sounds like big money, but is it enough for step-change? The Lithuanian government calculates it needs €13 billion to renovate the country's housing stock. At the moment, it gets € 227 million from the EU. The Head of the Commission's Energy Efficiency Unit says € 100 billion needs to be spent each year on energy efficiency of which € 60-70 billion for all types of buildings. *It looks like, even under the best budgetary scenario, funding bodies, banks, building owners and investors, developers and valuers need to all come together with a plan.*

We should indeed all try to reach an agreement on a united approach and guidelines that could filter down to regional level. We're working on it. Once that's in place, we could have lift-off. ●

Michael MacBrien is Director General of the European Property Federation and Adviser to TEGoVA

New Year Greetings

In many parts of Europe we face challenges to our professional lives as valuers. For many, valuation work has declined because of the modest level of transactions. Valuation instructions have as a result proved harder to "win" as there is more competition for less work. Some people have been quick to blame the valuers for the financial crisis and for valuing too high in good times. I constantly remind people that we react to market conditions and interpret the market – our role is not to make a market. Whatever the past, we must look forward and certainly professional real estate advice is part of the solution so we need to educate and inform what valuers can contribute to their clients which in turn may help for a better outlook. Hopefully the markets will show more activity in 2013. I should like to take this opportunity to wish all REVs and member organisations a happy, healthy and prosperous new year. ●

Roger Messenger REV, Chairman of TEGoVA

Interview with Tony Prior Hon REV, Chairman of the REV Recognition Committee Board

What exactly is REV?

REV is a certificate awarded to demonstrate competence in the valuation of real estate to European Valuation Standards. It is valid for a period of five years. At the end of the five year period all REVs are required to renew their certificate by confirming to their Association that they continue to meet the criteria required by TEGoVA.

What is the purpose of REV?

The TEGoVA Recognised European Valuer Scheme is designed to provide individual practising valuers in each member country with a high level indicator of ability in order to assure clients of their valuation proficiency.

Why was the REV Scheme created?

TEGoVA has always sought to provide leadership across the valuation profession in Europe. As membership of TEGoVA increasingly demonstrated the reliability and standing of its Member Associations (TEGoVA now comprises 48 Member Association's from 28 countries) it became clear that there was also a need for an indicator of the individual valuer's skills. Previous initiatives had not provided the assurance that was increasingly sought by clients. So in 2006 the TEGoVA Board decided to establish a means of demonstrating to prospective clients and investors that the valuer they were thinking of employing had the highest professional qualification for the valuation of real estate and thus the concept of a trans-European mark of quality that has become REV was born.

Who created REV to ensure that these stated objectives were met?

A working party was established in 2006, with representatives drawn from Austria, France, Germany, Italy, Poland and the United Kingdom – and with informal input from the wider membership to produce this high level indicator of an individual's ability. The aim was for REV to be created by valuers for valuers. It was endorsed by TEGoVA's General Assembly in 2008 and pilot projects to test the practical application of the scheme began in Poland (PFVA) and France (IFEI).

What are the key indicators of REV?

There are four essential components: a minimum qualifying period of experience; education to degree or diploma level or equivalent; adherence to a code of ethics and commitment to lifelong learning.

How are standards maintained across so many countries?

REV has a common, high level set of criteria for all members tied to a standard created and monitored by TEGoVA. At a national level, it is managed and administered by the Approved Awarding Member Association to ensure that the scheme respects the culture and practice in the relevant awarding country. REV does not impose a "one size fits all authoritarian stamp" and the local Association is responsible for the day to day administration and monitoring of the Scheme. Each Awarding TMA is also audited by members of the Recognition Committee on a regular basis to ensure continuing compliance with the requirements of the Scheme.

Who decides if a TMA is fit to award REV status at a national level?

Permission for a TMA to award REV is only granted following a successful rigorous assessment of an applicant organisation by two members of the Recognition Committee. The recommendations of the Recognition Committee are subject to the agreement of the TEGoVA Board and ratification by the General Assembly.

Who sits on the Recognition Committee?

Membership of the Committee comprises eight experienced REVs from seven countries across Europe.

How can a valuer find out more about REV?

Full details of the Scheme can be accessed at *www.tegova.org*. Information on how to apply for REV status and answers to any day to day queries about the Scheme can be obtained from the valuer's national TMA.

What are the benefits of REV status?

REV after a valuer's name has proved a positive indicator of excellence for investors and clients across Europe. And REV is not just about cross

border valuations, important as they are, it is also the distinguishing mark of the expert real estate valuer on the home market, a decisive competitive advantage for local valuers competing with 'international' firms for local work from foreign investors. Not to mention the increasing evidence that tenders all over Europe are requiring REV status.

Who backs REV?

REV has the support of the European Mortgage Federation and is backed by the resources of TEGoVA. REV has become the only truly European mark of quality and excellence for the qualified practising valuer. It is very much a collegiate concept, REVs being encouraged and helped to liaise with each other for the sharing of knowledge and best practice. There is an electronic register of and for all REVs, which they can access through their own TEGoVA Member Association.

How popular is REV?

There are currently 22 REV-awarding TEGoVA Member organisations from 13 countries and individual REVs now number over 1700 from Portugal to Russia, Greece to Norway. Four more applicant organisations from three new countries are awaiting assessment.

What are the next steps in the development of the Recognised European Valuer?

The Scheme needs to reflect the requirements and ideas of the existing elite corps of Recognised European Valuers in helping to harmonise and advance the valuation profession in Europe. In the coming months, the Board and Recognition Committee will seek their contribution to ensure the on-going success of REV and this will be highlighted in the next edition of the Journal. In the meantime any thoughts, concerns and contributions from actual or potential REVs are welcome either to me personally, members of the Recognition Committee, the Secretariat or the TEGoVA Board. ●

Contact information is on the web site.

Real Estate Valuation at the Strike of the European Hour

From the July-August 2012 cover article of NVP – Notaires Vie Professionnelle – the magazine of CSN, the High Council for the French Notarial Profession

The article portrays TEGoVA and its network of members, describes the REV scheme which is seen as the reference in valuation, and sets out the requirements for obtaining and retaining REV status. The interviews highlight the motivations for the French notarial profession's interest in REV:

"In a context of internationalisation and securitisation of real estate markets, valuation has taken on a European dimension", says François Isnard, Managing Director of TEGoVA. "TEGoVA's system of European recognition of the qualifications of valuation experts should not be seen primarily as a way of facilitating the establishment of a French expert in Spain or Germany but rather the opposite: a German looking for a valuation expert for his French investments will be able to turn to the network of professionals whose REV status will offer guarantees in terms of level of competence and ethics. We are now seeing tenders for which the REV qualification is required."

With bank lending drying up, the return of the mortgage could provoke a big increase in demand for valuation of the security. "Mortgage loans being part of the notary's work and as the profession has efficient instruments thanks to its real estate grounding, it would be a shame not to make use of our valuation competence to be present on the market" explains Olivier Pavy, CSN Director of Economic Affairs.

TEGoVA's action over many years favouring the adoption of valuation rules accepted by all and applicable throughout the European Union has tended to professionalise the valuation discipline. Some observers believe that it must also be the opportunity for notaries to improve their practice so as to take on the competition on equal terms.

"REV status is important in that it opens access to a clientele like property or insurance companies which up until now has turned exclusively to the big national or international firms" notes Philippe Passadori, in charge of the valuation workshop in the CSN real estate centre. "It is therefore a question of profiting from this opportunity to enhance competence and recognition and develop activities traditionally outside of the profession's scope but which generate turnover."

It's not a question of transforming TEGoVA into a machine for delivering certificates and having the largest possible number of REVs, but rather of having a national coverage… Today around twenty notaries have earned TEGoVA's Recognition and CSN is the French member of TEGoVA best positioned to have the largest number of REVs.

After a running-in period, the selection and preparation procedure is now fully operational and capable of accompanying the candidates efficiently. The end goal is to have 500 to 900 REVs in the notarial profession according to the estimate of Patrick Lotthé, notary and former President of TEGoVA France." ●

Article by Henri Cormier. Review, extracts and translation by the TEGoVA Secretariat

Arrivederci Roma!

Representatives of 37 valuers' associations from 20 European countries as well as from the USA (Appraisal Institute) met in Rome on 9th and 10th November 2012 to discuss the financial crisis engulfing the continent and a response to the challenges facing the valuation profession in an uncertain and crisis torn property market.

On the first day, Italian valuers' association GEOVAL hosted a European Valuation Conference focusing on local and European issues facing the valuation profession. Speakers included the Chairman and Vice Chairman of TEGoVA, *Roger Messenger* and *Krzysztof Grzesik* and the Chairman of the European Valuation Standards Board, *John Hockey*. There was an abundance of high level local speakers including *Pier Giuseppe Sera*, Chairman of GEOVAL, *Angelo Peppetti* of the Italian Bankers Association, *Antonio Benvenuti* of CNGeGL and *Luke Brucato* of CRIF Certification Services, The scene was perfectly set by *Thierry Vissol*, Special Representative to DG COMM Media and Communications, European Commission Representative Office in Italy, who delivered a frank overview of the origins of the crisis in Europe.

The conference was chaired by ***Antonio Cabras*** of GEOVAL.

The consensus to be drawn from the various presentations was that it was no longer enough for valuers to just arrive at a figure representing market value. In today's uncertain market many clients are demanding more analysis and expert commentary and advice about market trends and a risk analysis in respect of the property being valued.

The importance of European Valuation Standards was also emphasised as well as the continuing need for detailed national standards to deal with the peculiarities of local property markets, culture and law. In this respect it was noted that TEGoVA members GEOVAL, CNGeGL and IsIVI have played an important role in helping to raise the standard of valuation practice in the country. Of particular note also have been the publications of the "Codice delle Valutazioni Immobiliari" by Techoborsa and authoritative guidelines for the valuation of property for loan purposes by the Italian Banking Association. Also noteworthy is work being undertaken by GEOVAL and CNGeGL in developing a standard for property data collection and the creation of a national property database in conjunction with IVS Data.

In connection with the need for quality national standards, it was noted that all the main valuation associations in France have jointly launched a new 4th edition of the *"Charte de l'Expertise en Evaluation Immobilière"* following the publication earlier this year of European Valuation Standards 2012.

Speakers observed that whilst the internationally recognised valuation standards (IVS, EVS and RICS) were largely consistent with one another they each had a different emphasis. Thus for example European Valuation Standards focus solely on the valuation of real estate whilst providing a unique commentary on European law affecting property markets in Europe and the valuation profession. It is thus an excellent reference and guide to valuers in Europe and clients as well as national associations, particularly those seeking to draft national standards.

Some speakers observed that the current crisis, whilst putting pressure on valuation fees and forcing many valuers to seek employment elsewhere, provided an excellent opportunity to raise the profile and status of the valuation profession both at national and pan European level. In this connection TEGoVA's Recognised European Valuer Scheme was important in demonstrating the high quality of valuation practice in the 13 countries subscribing to the scheme so far, despite the diversity of their valuer qualification systems. In just 4 years since the launch of the REV scheme, the number of Recognised European Valuers has exceeded 1700, with Germany (882), Poland (255), Greece (190) and France (147) at the top of the numbers table. The debate continued into the evening at a seminar titled "The new role of the independent expert in the light of the financial crisis, the performance of real estate funds, mortgage lending value and property and market rating". The event was hosted by IsIVI and opened by *Sara W. Stephens*, President of the USA's Appraisal Institute. Other speakers included *Enrico Campagnoli*, President of IsIVI, *Gianlucca Mattarocci* of Universita di Roma Tor Vergata, *Francesco Dialti* of Farley & Williams, *Elena Designore REV* of Il Punto Real Estate Advisor and *Claudio de Simone REV*.

The next day a record breaking 67 delegates gathered for TEGoVA's Autumn General Assembly at the Hotel Bernini. ●

Krzysztof Grzesik, Editor

REV Scheme Augurs Well for Valuation Profession in Greece

By Maria Vlachogianni REV, Member REV Recognition Committee

As a Greek Sworn-In Valuer, I have been working for the last 17 years for the Body of Sworn-in Valuers of Greece (S.O.E.).

There are no academic studies for valuation in Greece, most practitioners having a technical or academic background. Some of them continue their studies abroad, or by means of a distance learning course, in order to obtain a masters degree in Real Estate.

Furthermore the valuation profession in Greece is not subject to legislation. Every graduate engineer, economist, or broker may adopt a "valuer" title and undertake valuation work.

The only valuation body recognized in law to date has been S.O.E. Established in 1978, S.O.E. deals inter alia with the valuation of all public sector properties. However S.O.E. is currently undergoing change in accordance with the EU requirements concerning "professional freedom, eliminating unjustified restrictions on access to and exercise of professions".

Thus in addition to S.O.E., professional bodies such as A.V.A.G (Association of Greek Valuers) and RICS Hellas have become established. The former boasts some 750 member mainly but not exclusively, professionals who work as internal or external valuers to financial institutions and the latter has some 80 valuer members.

In 2010 A.V.A.G joined S.O.E as a member of TEGoVA, the latter having been a founding member in the 1970s. Since then both bodies have delivered a total of 190 Recognised European Valuers (REVs) just third behind Germany and Poland in terms of numbers.

To gain REV status each candidate in Greece has had to go through a demanding "expert valuer" certification process. This has included written tests set by the independent Certification Body "PeopleCert" which recently joined TEGoVA as an observer member.

This highlights the need and the effort of those involved in valuation in Greece to protect and upgrade our profession, in spite of the inaction of the State to establish rules and principles for valuation practice.

Nowadays, Greek valuers, as part of Greek society, are experiencing an economic crisis which is also seriously affecting the real estate market.

In an already nontransparent market, where finding comparables was anyway very difficult due to the lack of actual database transactions, they are now asked to deliver valuation reports, when nothing is sold and nothing is bought and when the only market movement is derived from the activity of various "distressed funds". In most cases, "market value" is no longer the valuation basis. It has been replaced by the "forced sale value".

But, as my ancestors used to say: "there is no evil without some good".

This period poses a real challenge for us. Under these circumstances, we have the opportunity to show maximum professionalism, providing the best advice to our clients and playing a significant role in the real estate market.

On the one hand we have to prove that we remain "VALUERS", following closely the Valuation Standards and Principles of Valuation Science. In support, our heavy weapon is the REV scheme being the trans-European indicator of valuation excellence and quality, setting transparent and demanding standards of ability and experience.

But, on the other hand, we have to some extent become augurs* too, guessing property values, depending on the "flight of birds". ●

* augur: diviner in Ancient Greece who predicted the future by observing the flight of birds.