

Is There a Future for the Valuation Profession ?

Krzysztof Grzesik FRICS REV
Chairman TEGoVA

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The Immediate Challenges Concern the Residential Sector

1. Technology - Automated Valuation Models (AVM) - Forces trying to replace valuers with AVMs
2. Quality of Valuation Reporting - Pressure for shorter, cheaper valuation reports

Powered by two economic forces:

1. Banks' vision of perfect, high-profit, low-cost mortgage lending (*today: short reports, tomorrow: valuer-free AVMs*) aided by public ignorance of the importance of valuation reports by qualified professionals
2. Opportunistic AVM manufacturers

The Influence of the European Union

In the context of valuation 'European Union' means two things:

1. EU law
2. TEGoVA's regulation of valuation standards, methodology and qualifications

The two are interlinked as EU law recognises European Valuation Standards and the European Central Bank Asset Quality Review manual gives EVS primacy over all other standards.

The TEGoVA Influence

- Europe's property valuation standards setter since 1977
- 70 member associations (including NUPS/NAVS)
- 36 countries (including Canada, USA, UAE)
- 70 000 qualified valuers

Outputs

- European Valuation Standards
- Minimum Educational Requirements
- Code of Ethics
- Pan European **REV Designation**
- Methodology (European Practice & Methodology Board)

Capital Requirements Regulation

The EU has to safeguard the banking system and one of the pillars of that is the Capital Requirements Regulation.

The Regulation requires that immovable property collateral be valued by an independent valuer (Article 229(1)) and lays down that ***“Institutions may use statistical methods to monitor the value of the property and to identify property that needs revaluation”*** (Art. 208(3))

Which *a contrario* means it forbids the use of statistical methods and therefore AVMs for the actual first-time valuation or even the revaluation.

The Mortgage Credit Directive

Above all, the EU serves to protect its citizens, and to do that, it needs valuations undertaken by professionally competent qualified valuers who follow reliable valuation standards for bank loan valuations

Dutch transposition of Mortgage Credit Directive

All the above was imperilled by Dutch transposition of the Directive into national law allowing AVM 'valuation' with no valuer *and further imperilled by the refusal of the European Commission to listen to TEGoVA and confront the Dutch government:*

The TEGoVA Lobbying Campaign

The most sophisticated and inclusive lobbying campaign in TEGoVA's gave us our chance with our focus on AVM valuation accuracy thanks to the work of Professor George Matysiak

For a single property serving as collateral for the most important transaction in a borrower's life, accuracy is important.

The Accuracy of AVMs

How accurate are AVM estimates in comparison to actual sale price?

In Europe, it's hard to tell because the AVM manufacturers refuse to give any information about the accuracy of their figures. **To get any clarity, you have to revert to the US, where manufacturers are much more transparent**

Accuracy of AVMs in USA

Zillow: On average, the percentage of valuations across 666 US Counties falling within +/- 20% of the sales price is 85%. However they can vary between 37% and 100%, depending on the County. That means that:

- *On average*, 15% of 'Zestimates' are more than 20% off the mark.
- But in some Counties, 63% are more than 20% off the mark.
- This implies that a smaller, but significant number of Zestimates will be much farther off the mark: by 30 or 40%.

And everything points to Europe being well below this level of accuracy.

But a Warning about Valuation Reporting

There is a growing perception that today's valuation reports comprising a few pages of tick-box answers are not much different to the results of an AVM.

That is indeed the central problem: AVMs and dumb-down reports are two sides of the same toxic coin. They feed off of each other. ***If the valuation report is dumb enough and demonstrates no analytical skill at reaching the estimate of value, then why not use an AVM?***

TEGoVA must confront AVMs *and* dumb-down reports.

New European Valuation Standard on AVMs

Last year a new European Valuation Standard and a new guidance note were approved and rendered immediately operational.

In particular EVS 6 states:

“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.”

Dumbed-Down Valuation Reports

The other half of the problem are dumbed-down valuation reports, and banks are not solely responsible.

We should look at the valuation profession itself, and all the reports, sometimes many pages long, that are nothing more than a check-list of all EVS reporting requirements that the report claims have been met ...followed by an estimation of market value, *but with no proper explanation of how that figure was arrived at!*

The future of the profession depends on valuers and their reports demonstrating their outstanding added value – the exercise of their professional judgment.

New Template on EVS compliant valuation report

This is work in progress

- Methodology and assumptions
- **The selection criteria for relevant comparables** including:
 - ✓ Justification of the criteria chosen for selection of comparables (market area, size, type) with clear links to the property's defined market and competitive area
 - ✓ Judgement on the choice of criteria (criteria's respective and relevant importance and impact on value of property)

EVS-compliant valuation report *continued*

- **The analysis of the chosen comparables and the valuation**
 - ✓ List of comparables chosen
 - ✓ Justification and judgment of each selection
 - ✓ Description of each comparable
 - ✓ Adjustment to the property including appropriate comment reflecting the logic and reasoning for the adjustments provided
 - ✓ Calculation and adequately supported opinion of market value

There is A Future for the Valuation Profession

All of TEGoVA's resources are being deployed to ensure that:

- EU regulators recognise the role of the qualified valuer and enforce that recognition on the member states
- The valuation profession and in the first instance the European valuation élite of REVs conduct their practice in a manner that
 - ✓ protects consumers and property markets
 - ✓ ensures the continued relevance of the profession thanks to the exercise of analytical judgment founded on professional experience and qualifications.