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TEGoVA General Assembly Elects New Chairman and Board – 2 300 Recognised European Valuers Raise Status of Valuation Profession – Work commenced on European Valuation Standards 2016

New TEGoVA Board and Secretariat: From left to right:

Konstantinos Pallis, Adrian Vascu (Treasurer), Krzysztof Grzesik (Chairman), Michael MacBrien, Jean-François Drouets, Gabriela Cuper, François Isnard (Managing Director), Sillvia Cappelli, Wofgang Kälberer, Danijela Ilić, Roger Messenger (Vice Chairman)

TEGoVA's Spring Assembly in Oslo on 16th May broke all previous records with 80 delegates in attendance from 26 countries The main business of the event, hosted by the Norwegian Valuers and Surveyors Association (NTF) was voting for a new TEGoVA Board for the next 3 years. The result was the election of new Chairman **Krzysztof Grzesik**, of the Polish Federation of Valuers' Associations who declared his priority to be assisting governments in developing reliable national valuation standards for mortgage lending based on European Valuation Standards (EVS) as specified by the EU Mortgage Credit Directive and favoured by the European Central Bank.

The other members elected to the TEGoVA Board were **Silvia Cappelli** (ASSOVIB – Association of Property Valuation Companies for the Banking Sector; Italy), **Jean-François Drouets** (AFREXIM – French Association of Property Valuation Companies), **Wolfgang Kälberer** (vdp – Association of German Pfandbrief Banks), **Danijela Ilić** (NAVS – National Association of Valuers of Serbia), **Roger Messenger** (IRRV – Institute of Revenues Rating and Valuation; UK) **Konstantinos Pallis** (AVAG – Association of Greek Valuers) and **Adrian Vascu** (ANEVAR – National Association of Romanian Valuers).

Of note also was the launch of a timely **Information Paper on "Valuation Certainty and Market Risk"** and the announcement by **John Hockey**, Chairman of the European Standards Board, of work having commenced on the next edition of European Valuation Standards to be launched in Brussels in May 2016. The TEGoVA Chairman also awarded certificates to 300 new Recognised European Valuers taking the total to over 2 300 in 14 countries. ●

Message from the Chairman

Krzysztof Grzesik REV

It is fitting that the last of Roger Messenger's 7 years in office was also TEGoVA's most successful as the European valuation profession's standard setting body, with its European Valuation Standards having become embedded in European law and marked out by the European Central Bank as preferred above all other standards. And TEGoVA has grown its membership to 59 professional associations representing some 70 000 real estate valuers in 32 countries.

The benchmark for success has thus been set high and as the newly elected chairman there is much to aspire to over the next 3 years of office. My task will be made easier by the election of a very talented, energetic and committed group of board members who, with the immense reservoir of talent and expertise in our committees and working groups and with the Secretariat at Brussels HQ will constitute 'Team TEGoVA' competing for influence amongst European policy and law makers on the one hand and the movers and shakers of the real estate industry on the other.

For most of its 37 years of existence TEGoVA's mission has been to harmonise standards and valuation practice in Europe. In recent years we have upped our game. Harmonisation is important but in today's highly competitive market we must fight for our members, indeed sometimes for their very survival all the while seeking to raise the status of our profession in Europe. We need to be treated on a par with other professions such as law and accountancy. That is my simple vision.

Paradoxically the financial crisis and the EU regulation that followed have given us the opportunity which we must seize with good communication, public relations and lobbying skills, engaging with government and mobilising the whole TEGoVA membership. At the same time we must do all this in a way that gives us enjoyment and frequent cause for celebration.

The secret of TEGoVA's success is the fun and unique camaraderie which exists within the organisation but also the respect for the diversity of valuation qualifications across the continent. The last decade has taught us once and for all that when it comes to real estate valuation in Europe, one size does not fit all. And yet with that in mind TEGoVA has managed to create a Mark of Excellence in Valuation. I am of course referring to the Recognised European Valuer qualification so far taken up by an elite 2 300 valuers in 14 countries.

I take this opportunity to wish you all an enjoyable and restful summer. ●

From the Operations Room

By François Isnard, Managing Director, TEGoVA

The title conjures up a military operation: people, screens, communication, movement, decision. That's not inappropriate for 'Team TEGoVA'. Here in Brussels in our period headquarters building TEGoVA energy flows in and out.

It flows in from TEGoVA's 59 member associations and its Board, committees and working groups, 2 300 REVs, EU and national property press, EU think tanks, EU construction and property lobbies, the European Central Bank and the European Banking Authority, the European Commission and Members of the European Parliament, their assistants and staff, members of The Committee of the Regions, of the European Economic and Social Committee, and ministries from national governments in Europe and beyond, and from academia and research institutes all over the world.

The energy flows back out to all these people and groups, mostly via circuits connecting them with TEGoVA's Board, experts and members. Like a War Room, to the outsider it seems chaotic, but it's simply the highly organised instrument by which TEGoVA pursues its basic purpose: to be Europe's standard and qualification setter, to irrigate EU policy with valuation experience and to help the EU service the valuation profession. It's a purpose and now a very real duty because success has made TEGoVA the European reference for valuation.

The Secretariat helps design TEGoVA policy, develops strategies for its delivery and is the main interface with the EU authorities. The immense strength of TEGoVA is that decisions on TEGoVA policy are not restricted to a few; all members who want to, can be involved. Making that involvement a real possibility is a key part of what we do, managing the workflow, including developing with IT experts, and then using, the increasingly sophisticated software needed to service 2 300 REVs.

TEGoVA Meetings and conferences have become mass events with ever increasing attendance and impact. The key is the collaboration between the Secretariat and the organising member associations, from the earliest discussions long before the event to the programme templated and micromanaged by us, to the follow-through and quality control as the event actually takes place.

We respond to the individual questions and concerns, problems and needs of TEGoVA's 59 members and their members. As the organisation grows, it is important that all members know that they have direct access to TEGoVA and will get a prompt response.

We are the link between all those different kinds of people who together take TEGoVA forward: the outside interests, the service providers, the Board and the many other members who give generously of their time. ●

John Hockey, Chairman EVSB

Valuation Certainty and Market Risk

By John Hockey REV, Chairman European Valuation Standards Board

"Where the market for the property being valued is affected by uncertainty and this is relevant to the valuation, the valuer should proceed with caution and comment on the issue to the client." EVS5

As valuers we understand that uncertainty might arise from market circumstances, lack of evidence, deficiencies in the valuation or differences in professional opinion. We need to understand how valuers and clients can work together more effectively to improve valuation certainty by offering a qualitative view of market risk to the value of property.

To assist a proper understanding of the prevailing issues, the European Valuation Standards Board (EVSB) has recently published an Information Paper (IP3) – ***Valuation Certainty and Market Risk – a Review***. The paper provides an in-depth examination of the market risks and the challenges for those acting in the market place and includes examples of lessons learnt from the financial crisis.

A valuation that complies with the requirements of EVS will be soundly based, thoroughly prepared and reveal relevant issues of judgment on which opinions may legitimately differ. The security of the valuation depends on the valuer's application of professional skills to clear instructions and good evidence, acting in accordance with EVS. The better the evidence and the more professional the appraisal, the more secure the valuation should be. The potential certainty of a valuation is challenged where markets are non-existent, dormant, thin or volatile. In such circumstances valuations are best accompanied by descriptive commentary on the issues to assist the client's understanding of the figure given or perhaps some form of sensitivity analysis.

At its most basic, a valuation report is a transfer of risk in the market place. Someone wanting to take a decision over a property wishes to do so with a clearer view as to its value. Clarity will enable determination of the extent or scale of the risk that can properly be transferred between the client and the valuer. That calls for understanding about the role of each party and agreement as to the expectations each has of the other so that there is a mutual and positive understanding between them. It is important that the valuer understand the interests, needs and concerns of the client and that the client understand how best to use the valuer. That calls for a relationship between them in which each is open with the other. The valuer may need to help the client to be explicit as to what is reasonably required and to what purpose the report will be put – that helps frame the instruction. The valuer, possibly aware of key matters not mentioned by the client, has to be sensitive to this and, as necessary, seek clarification to ensure that a professional and useful service is provided.

The professional valuer brings his skill, experience and objectivity to the instruction and accepts responsibility for it. It is for the client to decide how to act on the valuation – for example, whether or not to lend, purchase or sell, and, if lending, on what loan to value ratio, for what term and on what conditions. Where the client is, for example, a professional investor or a lending institution it seems proper to expect that they have their own risk management procedures. However, the valuer may be able to advise on any potential uncertainty as to the valuation and the reasons for that, and also, as an informed observer of the market, offer a description of possible future risks. This service may offer additional value to the client in its decision making on the basis that such views are essentially speculative judgments of the unknown.

EVS3 requires the valuer to show professional skill, knowledge and competence appropriate to the type and scale of valuation and must disclose any factor which could compromise an objective assessment. The more significant the issues, the more the report should cover the valuer's methodology, the approach(es) taken to the valuation, the discussion and weighting of arguments. Such a report is an explanation of the valuer's thought processes. It may be helpful to consider the European Mortgage Federation's risk criteria reproduced in Part 3 of EVS 2012, which can at least alert the client or lender to particular points.

The latest date that the valuer can report the market value is the date the valuation is signed. Knowledge of the future is beyond his professional skills. The valuer can provide a commentary giving a context for that value but, in doing so can only comment usefully on relevant current market conditions. That commentary may convey some sense of the contemporary understanding of the state of the economic cycle or other economic trends bearing on the position of the property in the market.

Where useful, the report might consider the sensitivity of the valuation to identified reasonable changes in the market or other conditions. That could be by testing the assumptions on which the valuation depends. For example, what might be the position should demand markedly reduce or increase? In what circumstances might it be impossible to sell the property? This appraisal is likely to be better expressed descriptively with a qualitative view rather than attempting to quantify the risks in question. The complex and interactive nature of real property markets suggests that a simple quantitative assessment is unlikely to be illuminating – and so more likely to be misleading. Perhaps especially where there are concerns about shorter term market risk, a client might extend the terms of engagement enabling an additional opinion on the basis of a specific assumption about market conditions.

Nonetheless, the valuer's conclusion will be his professional opinion as to the value at the date in question expressed as a single value. It is then for the client to use both the opinion and the advisory report in its risk management decisions, which are its commercial judgments. The valuer cannot serve as an expert witness on the future and so cannot be expected to accept any liability for views expressed about future trends if these views are not borne out by subsequent events.

The Information Paper – IP3 – ***Valuation Certainty and Market Risk – a Review*** can be downloaded from the EVS section of the TEGoVA website – **www.tegova.org**. ●

Professor Mieczysław Prystupa

Back to the Future! The Nature of Depreciated Replacement Cost and Valuation Bases Other than Market Value

By Professor Mieczysław Prystupa, Warsaw University of Technology

The announcement by TEGoVA of its intention to publish an updated edition of European Valuation Standards in 2016 reminds me of the time when I represented the Polish Federation of Valuers' Associations at a TEGoVoFA meeting in Dublin some 20 years ago. We then also deliberated on updating European Valuation Standards and I wonder whether we should not revisit the standards of that time to gain inspiration for the future.

A case in point concerns the section on depreciated replacement cost (DRC). EVS 2012, EVS 2 paragraph 9.2 defines DRC as "… the current cost of replacing an existing asset with a notional equivalent asset making appropriate adjustments for physical, functional and technical obsolescence". Paragraph 9.3.2 states that "*… it is generally regarded as an approach to valuation leading to market value*" Whist the standards do caution that this is not a "*safe proposition*" this has only added to the confusion. Is depreciated replacement cost a stand alone basis of value or is it as suggested by the standards merely another method of arriving at market value? It would appear that in this respect the standards are guilty of creating an oxymoron.

Surely if there is no market data it is logical to assume that you cannot determine the market value. Whilst indeed the replacement value could be used as a substitute for market value if the law and the situation allows for it, such basis cannot be mistaken for market value. An analysis of the history of economic thought on the theory of value and price points clearly to two basic categories of value namely market value and replacement cost. In this connection I would recommend a return to the original "Guidelines for the valuation of fixed assets" published by TEGoVA's predecessor TEGoVoFA in 1988.

Paragraph 1 titled "Basis of valuation – land and buildings" states "*There are two recognised bases for valuation of land and buildings, namely: market value and replacement cost*" The guidelines further cautioned against adopting any other bases of measurement besides the market value and replacement cost.

Whilst on the question of bases of value other than market value I believe that it is a mistake to identify such types of value having regard to the purpose of valuation. There are many valuation purposes and it is not appropriate every time to seek a particular type of value having regard to that purpose. These so called non market values are not mutually exclusive. For example, market value is used to determine mortgage lending value and the replacement cost to determine the insurance value. ●

Spotlight on AFREXIM

By Jean-Francois Drouets REV, President of AFREXIM, New TEGoVA Board Member

The French Association of Property Valuation Companies (AFREXIM), was founded in 1995.

The 10 members of AFREXIM engage over 300 individual experts. The firms are amongst the top real estate valuation firms in France. The member firms are obliged to ensure that at least 75% of turnover comes from valuation work, to be independent from brokers and clients and to respect ethical rules of professional behaviour and both national and internationally recognised standards. They must also pass a professional inspection once a year undertaken by two board members. All of these obligations enable AFREXIM to guarantee the skill, quality, ethical behaviour and independence of its members.

AFREXIM engages in dialogue with various regulatory authorities in connection with the application of standards and the implementation of European directives. It also cooperates with most of the other main organizations which seek to improve the quality of real estate valuation and standards, for example with the Application Committee of Expertise in Real Estate Valuation, the French Federation of Valuation Experts (FFEE) and the other French association members of TEGoVA which cooperate under the TEGoVA France umbrella. Having been established for almost 20 years, AFREXIM has become one of the top real estate valuation associations in France. ●

Jeremy Moody awarded for distinguished service to the valuation profession

Jeremy Moody REV

At TEGoVA's General Assembly on 16 May, Jeremy Moody, Member of the European Valuation Standards Board and Secretary and Adviser of the Central Association of Agricultural Valuers (CAAV), was awarded the title of Honorary Recognised European Valuer honouring his significant contribution to the valuation profession in Europe. ●

Serbia Alert: Valuation of Flood-affected Properties

By Danijela Ilić REV, President NAVS and New TEGoVA Board Member

Heavy rain which hit the western Balkans on 13th May 2014 had by the 16th May caused the worst floods since records began 120 years ago. Overflowing rivers burst their banks with water flowing into towns and villages. Landslides buried many houses and half a million people in Serbia, Bosnia and Croatia were forced out of their homes. States of emergency were declared in parts of Bosnia and Serbia and several weeks later the affected areas are still suffering from faulty sewage, contaminated drinking water, lack of electrical power and continuing landslides.

The EBRD has estimated the total flood damage in Serbia at close to 2 billion euros of which 40% is damage to agricultural land. Over 2 000 public, industrial and infrastructural facilities were flooded, 3 500 roads were destroyed and a further 1 800 are at risk. The Kolubara coal mine which supplies Serbia's largest power plant (Nikola Tesla), has suffered damage estimated at over 100 million euro.

It seems that floods can occur suddenly when everything on the surface appears to be in perfect order, and we become witnesses to how just a little more rain than usual can flood extensive parts of towns. In many countries work has been undertaken to erect flood barriers or levees in an attempt to halt water; however a breach in one part of the levee leads to the flooding of the whole of an unprepared area.

According to the data provided from EM-DAT The International Disaster Database, the number of natural disasters has increased rapidly between 1900 and 2011, and even more dramatically over the last decade. Storms and floods now constitute the main risks of damage in Europe. All this should serve as a reminder that Directive 2007/60/EC on the assessment and management of flood risks requires Member States to assess all water courses and coast lines for flooding risk, to map out and identify the areas most at risk and to take adequate and coordinated measures to reduce such risk. Indeed flood risk maps should have been drawn up by 2013 followed by flood prevention plans by 2015.

Heavy rainfall and flooding not only raise questions about the effects of climate change on the environment but also issues of real estate valuation and insurance. In this connection valuers should follow the appropriate principles set out in the European Valuation Standards.

Clearly in the future more real estate will fall into the 'at risk' category and valuers will be called upon to include appropriate information on damage assessment in their valuation reports as well as on the likelihood and frequency of future flooding having regard to national data and GIS land use maps. ●

First Recognised European Valuers in the Netherlands

By Patricia Dieben and Rogier Spoel, VBO Makelaar

Roger Messenger, TEGoVA Vice Chairman, awards the first REV Certificates in the Netherlands

Last month the first five real estate valuers in the Netherlands became Recognised European Valuers. They received their REV certificates from Roger Messenger, Vice-Chairman of TEGoVA, and Hans van der Ploeg, Managing Director, VBO Makelaar. The ceremony at the annual real estate exhibition Provada in Amsterdam was witnessed by more than 100 guests, including real estate valuers, bankers, accountants and asset managers attending the launch of TEGoVA's European Valuation Standards (EVS) in the Netherlands. Hans van der Ploeg opened the meeting by underlining the importance of the European Valuation Standards to Dutch bankers, investors, valuers and the local valuation market in general. Currently, the National Bank and the Authority for the Financial Markets and Real Estate Sector in the Netherlands are together paving the way towards further standardisation of the valuation of commercial real estate, focusing on professionalism, uniformity and integrity.

In this connection Roger Messenger emphasised the role of the European Union and the importance of European Valuation Standards as the dominant standards in Europe, indeed the standards preferred above all others by the European Central Bank in its ongoing stress testing of European banks (Asset Quality Review). Roger Messenger also raised concerns about the role of auditors involved in the process of real estate valuation for financial reporting purposes. Although their validating role is of great importance, he said that their expertise should be separated from the valuation process itself. Another speaker, Tom Berkhout, Professor of Real Estate at Nyenrode Business University, underlined the user friendliness of European Valuation Standards compared to other standards.Together with VBO Makelaar, Professor Berkhout has developed an education programme to help valuers prepare for REV status. The programme will focus on both theoretical knowledge and practical applications arising out of European Valuation Standards including aspects of integrity and transparency. ●

EVS-compliant Valuation Guidelines Assist in Bank of Italy's Asset Quality Review

By Silvia Cappelli, new Member of TEGoVA Board

The signatories, including TEGoVA members ASSOVIB and CNGeGL, to a Memorandum of Understanding of 2010 (as amended in 2011) with the Italian Banking Association, have declared that the contents of so called "guidelines for property assessment as guarantees for credit exposure" comply with TEGoVA's European Valuation Standards (EVS 2012). The latter are referred to in recital 26 and article 19 of the Mortgage Credit Directive as well as in the European Central Bank's Asset Quality Review (AQR) – Phase 2 Manual. The EVS-compliant guidelines have therefore assisted Italian banks in fulfilling the ECB's requirements relating to property valuation during the AQR performed by the Bank of Italy whilst evaluating mortgage portfolios. The guidelines seek to achieve market transparency and efficient valuation processes through the adoption of internationally recognized standards and methodology and are also a response to the principles of prudent supervision set out in the Bank of Italy's Supervisory Instructions concerned with the implementation of the EU Directive on banking supervision 2006/48 known as the Capital Requirements Directive, since replaced by **Directive 2013/36/EU** on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV). Another triumph for TEGoVA and its Member Associations! ●