

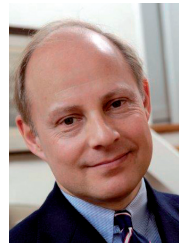
# European Valuer



## The Greek Valuation Profession – excellence forged from crisis, say Konstantinos Pallis and Michael MacBrien



Konstantinos Pallis



Michael MacBrien

The Greek reality is more complex than sensational and superficial press reports would imply. Greece certainly has major public administration issues but these have caused the private sector to compensate, taking its own initiatives to ensure market resilience under the most extreme stress.

### Welcome – and an introduction



Welcome to the latest edition of the TEGoVA journal. This edition, you will have noted that our title has changed to reflect the expanding role of the organisation. With the advent of the new Residential Valuer (TRV)

status, it is only right that we recognise that wider role in our publications.

Welcome also to our new Editor, John Roberts. John is a former President of the UK-based TEGoVA REV awarding organisation, the Institute of Revenues, Rating and Valuation (IRRV), and is currently Managing Editor of the Institute's portfolio of magazines, which includes the flagship "Valuer" journal. Before taking the IRRV role in 2007, John enjoyed a career of over thirty years in English public administration, specialising in the collection of taxes and the administration of local welfare benefits and reliefs.

John hopes to be able to introduce himself to many of you at TEGoVA events, and is keen to ensure that our journal widens its role and takes in contributions from an increasing number of participants. ●

This is exemplified by financial and real estate markets and valuation practice.

Let's first step back and recognise that, unlike in Ireland and Spain, the Greek crisis was not the result of a real estate bubble. That does not mean that some Greek real estate practice did not need reform, and indeed, successive EU Council decisions and EU/IMF memoranda of understanding did draw attention to improvements needed in the real estate market. However, these essentially concerned the inventory and exploitation of idle or not properly used state-owned real estate assets (as a means to repay the country's debts), improvement of the legal framework for land registry, planning law reform and property taxation, and it should be noted that these were fields where EU economic governance guidance is relevant for many EU member states.

Throughout the crisis, the private property market functioned predictably (following market rules) for locals and for the many foreign investors who indeed never pulled back at any time. The stress on Greek financial institutions came entirely from fears about state finances and the overall economic situation. It can even be said that the crisis turned real estate into even more of a safe haven compared to other investments (such as the stock market), although prices declined significantly as a result of the downturn.

But the safety and security of Greek real estate was not a matter of course. It was due in no small part to the efforts of the organised Greek valuation profession to ensure reliable and transparent valuation of real estate collateral (with a determinant role for EVS and REV). These efforts are all the more important in the light of the market challenges and opportunities stemming from the banking

sector restructuring and the accelerating large scale introduction to market of privatised state owned real estate assets.

A first lesson from the Greek valuation experience is that for the valuation profession to be able to truly impact the market and regulatory environment, it needs to be extremely well organised and the first building block of that is size – organised professionalism which means little if it does not involve a critical mass of professionals. Such is the case for AVAG, whose rapid development exemplifies and epitomises Greek market player reactivity. From a mere 96 bank valuers – employee and freelance – at the outset just eight years ago, it now incorporates over 1,100 professionals, the vast majority of Greek valuers.

***"Today, to be Greek is to understand the blending of national and EU power and the absolute, existential necessity of shaping EU policy and not just submitting to events. For the valuation profession, only TEGoVA is up to that challenge."***

It's that critical mass and concomitant legitimacy and authority that enable AVAG to work successfully both as a collective body in dealings with the authorities for the opening of the profession in the Greek market applying internationally accepted rules, and in upgrading the quality of valuations and the status of the valuation profession in Greece. Key to quality has been AVAG's support, along with members of academia, to the world-leading certification body

PEOPLECERT<sup>1</sup> in developing the PEOPLECERT Professional Valuers Certification scheme. The scheme is compliant with TEGoVA's Minimum Educational Requirements (MER) and is a prerequisite for the awarding of the Recognised European Valuer (REV) title in Greece by AVAG. As a result, AVAG has 336 of TEGoVA's 2,605 REV's (the second-highest contingent after Germany), under a system that guarantees the highest level of independently certified knowledge and competence.

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absolute, existential necessity of shaping EU policy and not just submitting to events. For the valuation profession, only TEGoVA is up to that challenge. That is where AVAG plays a leading role, on the Board, the European Valuation Qualifications Board, the Recognition Committee and the Asset Quality Review Real Estate Collateral Valuation Working Group, leading the valuation profession's European transformation. May the TEGoVA General Meeting in Thessaloniki be a showcase of Hellenic and European valuation modernity! ●

**Footnote:**

<sup>1</sup> Four million exams in 140 countries in 24 languages; 40-strong in-house R&D team; member of TEGoVA.

**Konstantinos Pallis REV is Secretary General of the Association of Greek Valuers (AVAG), Member of the TEGoVA Board, EVQB and Asset Quality Review WG. Michael MacBrien is adviser to TEGoVA, director general of the European Property Federation and partner in the European Affairs firm MacBrien Cuper Isnard.**

# New 'TRV' qualification takes off

No sooner had the TEGoVA General Assembly in Berlin approved a blueprint for a TEGoVA Residential Valuer qualification three months ago, than member associations in Ireland, Norway, The Netherlands, Portugal, Spain and the UK expressed firm interest in and enthusiasm for implementing the scheme in their countries.

Ireland's Institute of Professional Auctioneers and Valuers was first off the starting block, with CEO Pat Davitt expressing confidence in TRV. In an interview with TEGoVA's European Valuer, he said:

*"TRV will raise the status of residential valuers in Ireland and of the valuation reports which they have been providing for years – but which until now were treated as just another document for filing in the financing*

*process and the rush to lend money. TRV will also allow the valuer association members of TEGoVA to demonstrate their commitment to a minimum residential valuation standard ahead of it becoming common practice demanded by all clients and financial institutions."*

He continued, *"In Ireland, the TRV qualification will enable IPAV to enhance its professional approach to valuation. The Irish financial institutions for their part have heeded the advice of the Irish Central Bank to strengthen their own valuation panels and will not now accept valuers who cannot demonstrate their professionalism."*

*"IPAV commends this practice and in the absence of national valuation standards has undertaken to regulate and educate its valuers*

*to the highest standards. The introduction of TRV by IPAV will ensure that those who attain it will be among the best residential valuers in Europe."*

Equally positive was Alberto Cabrera of AEVIU of Spain, who predicted that, *"TEGoVA Residential Valuers will in time constitute a professional group which can effectively use the comparative method of valuation amongst others for both market value and mortgage lending value assessments. This is a most significant area of valuation work in Spain, as according to data from the Bank of Spain, in 2013, more than 578,000 valuations were undertaken within the country, of which more than 474,000 were in respect of residential property."* ●

## TEGoVA thanks the Appraisal Institute for 20 years of support for the European valuation profession



At an awards dinner during this year's annual meeting of the Appraisal Institute in Dallas, Krzysztof Grzesik, Chairman of

TEGoVA, presented Lance Coyle, President of the Appraisal Institute, with a commemorative plate marking the Institute's 20-year Observer Membership of TEGoVA and for its support in the development of a European valuation profession. Today, the Appraisal Institute, established in 1932 and currently enjoying a membership of 21,000, constitutes the largest body of professional appraisers in the world. Its mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property

economics worldwide. The Appraisal Institute is also the leader in real estate valuation education, offering an extensive curriculum of introductory and advanced courses, as well as a wide range of seminars on speciality topics. The Institute is also the world's largest publisher of real estate appraisal literature, boasting some 70 publication titles. Over the last several years, the Appraisal Institute has expanded its education programmes to Asia, Europe and the Middle East, and has a growing international presence. Its 20-year observer membership of TEGoVA has had a positive impact both on the development of European Valuation Standards and the profession at large. Krzysztof Grzesik in expressing his thanks to the Appraisal Institute said, *"Its North American perspective on valuation practice is very welcome in Europe, bringing with it many innovative ideas, quality real estate valuation education and good counsel to professional bodies such as TEGoVA."* ●

### Events



**AUTUMN GENERAL MEETING OF TEGoVA**

The Autumn General Assembly of TEGoVA will take place in Thessaloniki, Greece from 8th to 10th October 2015.

See more at:  
<http://www.tegova.org/en/4d9c516461494#sthash.51GGxFJD.dpuf>

**SPRING 2016 GENERAL MEETING AND VALUATION CONFERENCE**

The Spring 2016 General Meeting and Valuation Conference will take place in Brussels, 12th to 14th May 2016.



# Mortgage Lending Value – are we ready?

## Krzysztof Grzesik asks the critical question



The lack of a long awaited consultation paper on Mortgage Lending Value (MLV) by the European Banking Authority (EBA) has not dampened debate in Europe about the merits of adopting a basis of

value which is currently applied only in the Czech Republic, Germany, Poland and Spain. After the publication of a position paper on MLV by TEGoVA earlier this year, the Institute of Professional Auctioneers and Valuers (IPAV) in Ireland will take the discussion to the next level at a Valuation Summit in Dublin on 4th November. Article 4 (74) of Regulation (EU) No 575/2013 of 26th June 2013, on prudential requirements for credit institutions and investment firms, also known as the Capital Requirements Regulation (CRR), defines MLV as follows: “... the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property.”

The concept of a long term sustainable value, which in contrast to a spot market value, seeks to temper market exuberance by eliminating so called speculative elements from the assessment, goes back to the German Mortgage Bank Act of 1900. The latter was replaced by the Pfandbrief Act 2005 and in 2006 the various rules for determining MLV were consolidated in the Regulation on the Determination of the MLV (Beleihungswertermittlungsverordnung, BelWertV).

In an article published in The Valuation Journal of the National Association of Authorized Romanian Valuers, ANEVAR, Volume 8 (2) 2013, Joerg Quentin and Wolfgang Kälberer, of the Association of German Pfandbrief Banks, explain that the substantial increase in cash volumes in capital markets over recent decades resulted in banks being increasingly able to refinance mortgage lending more cheaply through securitisation offered by the Pfandbrief model. But, over time, the differential to refinancing through unsecured debt in the capital markets became so small that it did not justify the efforts which the Pfandbrief Act required, including the need for separate cover pools, cover pool monitoring and a mortgage register.

Today however, the financial crisis has made it more difficult for banks to obtain refinancing, with the Pfandbrief offering the best option at an acceptable price. Along with the stringent regulations governing Pfandbrief, investors consider that the MLV is the most important factor. Many financial institutions from outside of Germany are discovering the benefits of the Pfandbrief system. The crisis has drawn attention to the drawbacks of a market value approach.

***“What is of most significance is that the above recommendation comes from a group based in the United Kingdom, the spiritual home of market value ...”***

The authors go on to claim that covenants tied to the conservatively calculated MLV lending value trigger less cases of default than those based on market value. In volatile markets in particular, the MLV assumes a smoothing role, ensuring that exaggerations in both directions are evened out.

A report from May 2014 titled “A Vision for Real Estate Finance in the UK – Recommendations for reducing the risk of damage to the financial system from the next commercial real estate market crash” of a cross-industry real estate finance group sponsored by the Investment Property Forum, states: “... CRE lenders subject to regulatory capital rules, loan-to-value (LTV) based capital requirements should be linked to a long-term measure of collateral value that is insensitive to the investment cycle” (Recommendation 4).

What is of most significance is that the above recommendation comes from a group based in the United Kingdom, the spiritual home of market value, albeit the authors do recognise that “the UK has an exceptionally strong tradition in market value valuation, underpinning a very liquid and transparent CRE market, but no such tradition of measuring long term value”. They conclude that “while the UK could choose to adopt a model for long term value already in use elsewhere, a new approach (albeit benefiting from the experience of others) may be better able to meet the specific objectives of the vision in the context of the UK CRE market.”

However, it may be too late for such a new approach given that MLV is already enshrined in EU law by virtue of the Capital Requirements Regulation (CRR). Furthermore

under Article 124 (4) (a) of the latter, the EBA is required to develop draft regulatory technical standards to specify: “the rigorous criteria for the assessment of the mortgage lending value ...”.

The so-called CRR/CRD IV package which transposes, via a Regulation and a Directive, the new global standards on bank capital (the Basel III agreement) into EU law came into force last year. In connection with property valuation the CRR sets out two regimes – the market value and the MLV. The legislative package tackles the problem of banks holding insufficient capital having to be bailed out by national governments. The new framework, which sets stronger prudential requirements for banks, requiring them to keep sufficient capital reserves and liquidity, comprises two legislative instruments – a directive governing the access to deposit-taking activities and a regulation establishing the prudential requirements institutions need to respect.

While member states must transpose the directive into national law, the regulation is directly applicable. It creates law that takes immediate effect in all member states without any further action on the part of the national authorities. For the moment, it appears that the EBA’s work on drafting regulatory technical standards on MLV has stalled.

The rumour is that this is because of the uncertainty as to whether such methodology should apply only for bank capital allocation purposes or also in connection with the valuation of property within covered bond portfolios. The good news is that, pending clarification, the valuation profession has the time for a more extensive debate on the wisdom of adopting MLV and the appropriate methodology, an opportunity to be seized by IPAV at a Valuation Summit titled “Mortgage Lending Value – Are We Ready?” in Dublin on 4th November. Speakers will include:

- Simon Harris, Minister of State at the Department of Finance and Public Expenditure and Reform
- David McWilliams, award winning economist, broadcaster and author
- Luca Bertalot, Secretary General, European Mortgage Federation, and
- Reiner Lux, Managing Director, HypZert.

To register, please call IPAV on +352 1 6785685 or complete a registration form, available at [www.ipav.ie](http://www.ipav.ie) ●

**Krzysztof Grzesik FRICS IRRV REV is Chairman of TEGoVA.**

To contribute to this journal, contact the Editor, John Roberts, on [jcroberts54@hotmail.com](mailto:jcroberts54@hotmail.com)

# Ian McCarthy introduces the comparative approach to residential valuation in Ireland



Getting the keys to the home of your dreams after a very stressful purchase process is very exciting and likely for many to be the most important and expensive purchase in their lifetime. Many, if not most, will

require the assistance of a financial institution – a mortgage – to complete the purchase. A key element to accessing this “mortgage” is the valuation of the property, which provides the bank with comfort that the price being paid is in line with the market and on which it can calculate the level of the mortgage (generally a percentage of this value). The market value of the property will nearly always be arrived at on the basis of a “comparative approach”, having regard to what properties are for sale and/or have been sold recently in the immediate area.

In the past, the Irish valuer relied on his/her knowledge of the market, professional experience and ability. With the introduction of the “Property Price Register” in Ireland, the availability of comparable house sales information is now far greater and more reliable, as it defines the actual price at which the property was sold and not an asking price which under differing market conditions can vary greatly. Market comparison takes regard of a whole range of property characteristics, such as location, sale price per square metre, site and property size, condition, finishes, services, planning, zoning – and the more the subject property resembles the comparable properties sold, the stronger the valuation. The valuer after collating all the information writes his valuation report having regard to the internationally recognised definition of “market value”, that is: *“the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.”*

This definition is clear and a parameter within which the valuer must remain – a key element of which is the valuation date. This by definition implies that at a later date (possibly the date the valuation is written) the estimated amount can be different, depending on the market and economic conditions. If ever called into dispute, the valuer must have evidence and file notes to support the valuation given,

to show that it was solidly based on that date. There is no stronger evidence in such cases as confirmed by the courts as the so called “comparable evidence”. In the recent global downturn, residential property values in Ireland collapsed by over 60% in many cases and plunged a great majority of home owners into “negative equity”, where the amount of the outstanding mortgage exceeded the market value of the property. For many, negative equity posed no particular issue if the owner was able to meet the monthly mortgage payments. For those who were not, it often resulted in repossession of the house by the financial institution involved.

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This particular time in Ireland and indeed other countries focused attention on the approach to lending on property, leading to a review of bank lending policies, including the practice of offering 100% mortgages, resorting to valuation panels, income multiples and the level of reliance on the valuation provided.

A recent Irish Central Bank report advised that in many cases the valuation was put on file as a document simply required in the lending process, as opposed to being a key document in that process. The review of such policies in Ireland has resulted in a far greater professional approach to valuation, with valuation guidelines having become more defined. Qualifications have also become more relevant and the appointment of valuers by lending institutions more stringent.

Whilst IPAV commends such modernisation and professional progression in the industry, it also notes that despite the worst property recession ever experienced in Ireland, the level of litigation against qualified valuers remains very low, reflecting the professionalism and adherence to standards by the industry during the “boom years”. ●

**Ian McCarthy MIPAV (CV) REV MCEI is an independent property consultant.**

## TEGoVA & IPAV's Property Valuation Summit

with European Expert Speakers  
Dublin City, Ireland

Invitation to Valuers, Mortgage Lenders and Property Professionals

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