

European Valuation Standards 2016

The Constant Adaptation to EU Priorities

European Valuation Conference

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EVS 2016

- Focus on valuation of real estate in Europe
- Prepared by EVS Board
- Informed by the requirements of investors, the financial industry, clients and valuers
- Reflects EU influence on property and so valuation – a developing process
- The Valuer as a Professional
- Experience - Eighth Edition

EU Recognition

- Recognised as appropriate valuation standards by the Mortgage Credit Directive
- Recognised as over-riding standard by European Central Bank:

“Collateral and Real Estate Valuation

“Real estate should be valued in line with European Standards EVS-2012 (Blue Book) and other international standards such as the Royal Institute of Chartered Surveyors (RICS) guidelines – where a conflict is seen EVS 2012 will apply (for the avoidance of doubt – this should be considered to apply throughout the document). “

The Valuer's Role

The valuer has to report objectively on the market as it is influenced by all relevant factors whether positively and negatively so clients can take better decisions showing the real outcome of the market :
WHAT IS – NOT WHAT “SHOULD BE”

EVS 2016: What It Will Say

- European Valuation Standards EVS1 – EVS 5
- European Valuation Guidance Notes (EVGNs)
 - Replacing Applications (EVAs)
- EU Legislation and Property Valuation
- Technical Documents
 - Now Information Papers (EVIPs)
- Focus on the valuation of real estate in Europe

European Valuation Standards

EVS 1 Market Value

EVS2 Valuation Bases other than Market Value

EVS3 The Qualified Valuer

EVS4 The Valuation Process

EVS5 Reporting the Valuation

Core definitions remain

Little change but review and updating

European Valuation Standards

- Defines Market Value
- Considers Mortgage Lending Value
- Fair Value: general market and financial market definitions
- Requirement for Terms of Engagement to be agreed prior to submission of a report
- Code of Conduct and Ethics – requirement to comply

Words and Meanings

- Clarifying structure of phrases used
- “Basis of Valuation”
 - To cover Market Value, Fair Value, Worth, etc
- “Valuation Approaches”
 - Comparison, Income, and Cost
 - Seen as families of
- “Valuation Methods”
 - The ways to undertake each Approach

Market Value (EVS1)

- The default basis for valuation
 - Unchanged definition from EVS 2012

“The estimated amount for which the asset should exchange on the valuation date 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 compulsion”

Market Value (EVS1)

- Consistent with IVS
- And definition for immovable property in the EU Capital Requirements Regulation 575/2013 for banking regulation
- Other EU definitions in
 - State Aid Communication on land sales
 - Insurance accounting – Directive 91/674
 - VAT Directive 2006/112
 - EU internal accounting – Reg. 2909/2000

Market Value (EVS1)

- The result
- The real property being valued
- The transaction
- On a date
- Hypothetical willing, competitive parties
- The necessary marketing
- Parties are informed, considered and free

Market Value (EVS1)

- Valuers should follow wording of EVS1 unless otherwise instructed
- Its concepts represent the fruits of long practical experience
- Results in opinion as to value made on neutral terms
- May then be qualified by assumptions as instructed - e.g. “forced sale”

Other Bases (EVS2)

- Fair Value
 - Distinguish from accountants' use
 - Special value – in situations, between parties
- Worth/Investment Value
- Mortgage Lending Value
 - Other ways to present longer term value?
- Insurable Value

EVS3, EVS 4 and EVS5

- The Qualified Valuer (EVS3)
 - Relevant experience and qualifications
 - Independence of valuer
 - The role of REV and TRV
- The Valuation Process (EVS4)
 - Terms of engagement
- The Valuation Report (EVS5)

EVS4: The Challenge of Data

- The digital world can offer Big Data and the ability to analyse it
- Issues include
 - Collating data
 - Accuracy, relevance and influence of data
 - Managing data
 - Ownership of data
 - Valuation of data
- Does it actually affect the market?

The EPC Example

- Conventionally EPCs not thought relevant
 - Does market respect them more than agents?
- 2014 Cambridge University Study of 330,000 English residential sales
- Found a positive 2% link to EPC bands C, D and E (covering 92% of study)
 - Focused on lower value houses in active markets
 - Smaller Dutch study found 3%
 - Bigger effects for F and G
- Is that important?

Issues About Cost

- Does the Cost approach give a *Market* Value?
- The result may reflect the construction market
- But that is only part of the supply side of the market for property
- Where is the influence of demand?
- Would that property be built for a market buyer?
- Where is the opinion of current behaviour?
- Might the report say that a sale might give a different result?

EV Guidance Notes

EVGN1 Valuations for the purpose of Financial Reporting

EVGN2 Valuation for Lending Purposes

EVGN3 Property Valuation for Securitisation Purposes

EVGN4 Assessment of Insurable Value

EV Guidance Notes

EVGN5 Application of Investment Value (Worth)
for Individual Investors

EVGN6 Cross Border Valuation

EVGN7 Property Valuation under the
Alternative Investment Fund Managers
Directive

EVGN8 Property Valuation and Energy Efficiency

EVGN9 TEGoVA Commercial Loan Specification

The EU and Property

Property law is outside the EU Treaties

BUT

Much EU law affects property and its valuation

Expanding and developing process

Often setting a framework for national legislation

EU Law and Property

The CAP has long influenced rural property

EU law governs valuations

for lenders' capital requirements

for financial institutions

for company accounts

The State Aid Rules

The Single Market - in capital and in services

EU Law and Property

EU **environmental law** had growing influence

Environmental Impact Assessments

Habitats and Wild Bird Directives

Pollution

Water

EU Law and Property

Climate Change and Energy

Area still developing

Energy now core of EU environmental policy

- for climate change
- to drive the construction sector

Large consequences for property

Energy Efficiency Directive

Energy Performance of Buildings Directive

EU Law and Property

Climate Change and Energy

EVGN8 - Energy efficiency and standards

The valuer has to report on the market as it is influenced by this , positively and negatively

Watch

- the emerging evidence
- developing legal requirements
- pressure for higher standards

EV Information Papers

EVIP1 Sustainability and Valuation

EVIP2 Valuation Certainty and Market Risk

EVIP3 Apportionment of Land and Buildings

EVIP4 Valuations for Recurrent Property Tax
Purposes

EVIP5 Valuation of Agricultural Property

EVIP6 Valuation Methodologies

EV Information Papers

EVIP7 Desktop Valuations and AVMs

EVIP8 Valuations: Compliance with EVS

EVIP9 Certification of Valuers

EVIP10 European Property and Market Rating

EVIP11 Fair Value Measurement under IFRS 13

EVIP1 - Sustainability

Growing market interest and developing standards

Perhaps better seen as a process not a definition

The valuer can only report on the market's actual views

- Likely to be more issues to take into account
- May add value to some properties but devalue others

Sustainability Unfolds

- Existing issues are just part of the market
- New issues unfolding
 - Not all that is talked about will matter
 - Some may come to matter a lot
- Energy efficiency issues developing
- Water issues relevant in some areas
 - Flooding, drought, quality, efficiency
- Resource efficiency on the horizon?
 - Life cycle costing of property

... And So ...?

- What measurements will work?
- What measurements will the market trust?
- Synergies or conflicts between issues?
- Will there be a real value be for resilience?
 - How to assess that?
- If the market does not respond, it will not affect the value
- If market reacts, the value will be reported

EVIP 2 - Valuation Certainty

- Uncertainty – is the valuation right?
 - The facts used? The judgment applied?
 - Following EVS reduces uncertainty
 - Full inspection and information
 - Suitable comparables and experience
- Risk – might value/marketability change?
 - Valuer cannot foresee the future
 - Can comment on relevant factors

Problem Markets

- Thin markets with low volumes traded
 - Puts strain on comparables
- Volatile markets moving rapidly
 - Date of comparable is crucial
- Non-existent markets
 - Assets still have value
- Disrupted markets

Add Commentary

- Valuer can comment on risks and discuss possible effects
- The economics cycle
- Changes in the market
- How far does the valuer's responsibility go?
- What issues are for the client?
- Look for shared language and understanding

EVIP4 – Annual Property Taxes

- EU Commission's Economic Governance reports drive focus on taxation of property
 - part of a global trend
 - can ease taxes on employment
 - efficiency of collection
- A secure tax base in a global age
 - property does not move countries
 - but how far can it be taxed?

An Annual Tax

- The Commission's focus is on promoting an annual recurrent tax to member states
- So taxes on events (death) and transactions are outside this
- How to do in diverse national circumstances
 - Many practical questions
 - Many political/social/economic questions

What is to be Valued? How?

- Ownership or occupation
 - Different for commercial and residential?
- Exemptions and reliefs?
- Identifying properties
- Basis for valuation
- Good appeals system
- Keep it current – regular revaluations
- National choices

Be Careful

- "The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing" (Jean Colbert, French Minister of Finances from 1665 to 1683)

Be Careful

- Property taxes – a good tax in a democracy because high profile?
- But if set too high can damage the property market and business
- Today's conflict with internet retail and services
- The valuation regime can be key to public confidence in the system

Other EVS Papers

Code of Conduct and Ethics

Code of Measurement of Distance, Area and Volume

European Mortgage Federation – Profile-Risk Related Criteria for Valuations

Key TEGoVA Papers

Minimum Educational Requirements

Summary of Regognised European Valuer Scheme (REV)

Summary of TEGoVA Residential Valuer Scheme (TRV)

Country Chapters

- The main EVS text can only be general
- Yet much varies between countries
 - Different markets, issues, laws, taxes, ...
- Country Chapters supplement EVA
 - Help understand a report on another country
- Last written in 2011
- Now need new editions from TEGoVA members
 - To a standard template

Thank You

Questions?