

Valuation: the future is European

The dogma in certain property circles has long been that real estate is the ultimate 'local' business and at the same time all about globalisation. The mantra was to go for global standards in valuation, even if there was no chance of universal take-up, and cry foul when anybody mentioned the EU.

But the crisis and its resolution has been a European turning point for real estate because the reforms necessary to save the euro have armed the EU with the power to shape the property market in the form of the Mortgage Credit Directive, Banking Union and Economic Governance, with game-changing impact on valuation.

The Mortgage Credit Directive is designed to protect borrowers and shore up markets by addressing irresponsible lending. A key aspect to that, imposed by the European Parliament, is the provision that member states must ensure reliable valuation standards for mortgage lending purposes. Among the template standards put forward by the directive, TEGoVA's European Valuation Standards (EVS) are the best for that purpose because they are solely concerned with the valuation of real estate, are more risk-sensitive, with special focus on the relevant aspects of EU banking directives and

include guidance for users on market rating and risk-related criteria for valuations. Also only EVS provide comprehensive guidance on mortgage lending value.

TEGoVA is now helping all EU governments and candidate member states to put the directive's valuation requirements into practice by comparing their existing standards with the parts of EVS relevant to mortgage lending so that they can fill the gaps. TEGoVA guidance covers the valuation basis (market value, mortgage lending value), qualification of valuers, a clear description of the valuation process, the content of the valuation report and implementation tools designed to collect market data, ensure market transparency and assess the risk sensitivity of real estate.

TEGoVA's Guidance to the Member States has been translated into all EU and candidate languages and TEGoVA experts and our 59 local associations are following through with each relevant government department.

Banking supervision has fallen to the EU. Systemic banks are now controlled by the European Central Bank and officials will have power to step in and close down a national bank or shore it up with increasing reserves of EU money.

The European Central Bank now stipulates that the biggest banks should value their real estate exposures in line with European Valuation Standards within the Asset Quality Review. If other standards are chosen, in case of conflict, EVS prevails:

"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..." per ECB Asset Quality Review March 2014 document titled "Collateral and Real Estate Valuation"

Because real estate is systemic, EU governments need to coordinate their policies. Property tax, rent control and planning law are traditional examples of EU no-go zones. Indeed, classic harmonising legislation would be pointless and counterproductive.

Yet at the same time, bad policy in these fields can be a major drag on national economies with euro-threatening domino effect, so 'economic governance' was invented to find a non-harmonising way to make governments confront and compare their policies and agree on reform.

Real estate has been at the forefront of this. Some of the most common and recurrent EU economic governance reforms include: reforming planning law; addressing obstacles to retail development; implementing recurrent property tax, and updating cadastral value on which recurrent property tax is based or reassessing the tax base; liberalising rent controls; increasing construction competition or simplifying construction law procedures.

TEGoVA is helping the European Commission monitor the EU-prompted ending of 100 years of rigid Portuguese rent control and is completing a study for the European authorities on annual recurrent property tax including the key aspect of revaluation. We believe that regular revaluation is the best way to avoid radical ▶

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◀ variations in valuations and the ensuing taxpayer revolt.

TEGoVA's edge was to understand the impacts of European integration on real estate and to gear our production to this. TEGoVA's Recognised European Valuer (REV) qualification and minimum educational requirements are the backbone of an emerging European real estate culture.

EVS are designed to provide valuation solutions to EU policy challenges. They are founded on EU law wherever relevant and contain applications of particular EU importance such as cross-border valuation, valuation in the context

of the Alternative Investment Fund Managers Directive (AIFMD), and valuation and energy efficiency, and a comprehensive overview of EU real estate and valuation policy. EVS 2016, already under way, will be even more in tune with EU real estate policy.

REVs are a pan-European elite of 2,300 valuers with a guaranteed minimum level of education, experience and competence enabling cross-border real estate investors to identify valuers qualified to a recognisable European level and empowering local valuers to compete on their own markets with the international firms.

Minimum educational requirements are a key element of shared European competence and a tool for valuers in addressing EU policy-driven challenges such as integrating sustainability considerations into the valuation process.

None of this means that national valuation standards and practice disappear. They simply adapt and approximate enough to ensure a secure, open and competitive EU internal market.



Krzysztof Grzesik is chairman of TEGoVA and managing director of Polish Properties