

The Influence of EU Regulation and Banking Union on the Shaping of a European Valuation Culture

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The European Group of Valuers' Associations (TEGoVA)



- Europe's valuation standards setter
- 60 member associations
- 33 countries
- 70 000 qualified valuers

Outputs

- European Valuation Standards
- Minimum Educational Requirements
- Code of Ethics
- Pan European REV Qualification
- Journal of Recognised European Valuer

The EU Influence on Real Estate

- The EU 'Common Market' founded on free movement of goods, services, labour and capital.
 - Free movement of capital includes freedom to buy real estate anywhere in the Union without obstacle, or at least without discrimination against foreign investors.
- ... yet until recently the EU was never at the heart of real estate and valuation business**
- Real estate is closely linked with financial markets and banking business but mortgage credit was until now regulated at national level and banks had national supervisors.

A Game Changing Financial Crisis!



- **Mortgage Credit** regulation has shifted from national level to the EU.
- In the Eurozone, the same has happened for **Banking Supervision**.
- These events have brought valuation to the heart of EU policy and raised the status of TEGoVA's European Valuation Standards

Mortgage Credit Directive

- Founded on a common understanding that *“The financial crisis has shown that irresponsible behaviour by market participants can undermine the foundations of the financial system, leading to a lack of confidence among all parties, in particular consumers, and potentially severe social and economic consequences.”* Recital 3
- Harmonises many aspects of the mortgage credit process including provision *“to ensure that residential immovable property is appropriately valued before the conclusion of the credit agreement ...”* Recital 26
- Only residential property but will have repercussions in other property sectors
- A Charter for reliable National Standards reflecting internationally recognised standards (IVS, EVS, RICS)

Mortgage Credit Directive (cont'd)

Article 19: Property Valuation

1. Member states shall ensure that reliable standards for the valuation of residential immovable property for mortgage lending purposes are developed within their territory.....
1. Member states shall ensure that internal and external appraisers conducting property valuations are professionally competent and sufficiently independent from the credit underwriting process so that they can provide an impartial and objective valuation, which shall be documented in a durable medium of which a record of it kept by the creditor.

Recital 26.

...In order to be considered reliable, valuation standards should take into account internationally recognised valuation standards, in particular those developed by the International Valuation Standards Committee, the European Group of Valuers' Associations or the Royal Institution of Chartered Surveyors....”

Internationally Recognised Valuation Standards

- International Valuation Standards – 2013 – IVSC
- European Valuation Standards – 2012 – TEGoVA
- RICS – Valuation Professional Standards 2014
- USPAP – Appraisal Foundation



European Valuation Standards 2012

EVS are founded on EU law wherever relevant and contain applications of particular EU importance such as:

Cross-border valuation,

Valuation for Alternative Investment Fund Managers Directive (AIFMD),

Valuation and energy efficiency

plus a comprehensive overview of EU real estate and valuation policy and pan-European valuation tools:

Code of Measurement

European Property and Market Rating

Code of Ethics

Mortgage Credit Directive and European Valuation Standards



TEGoVA's European Valuation Standards are well suited mortgage lending purposes because they are:

- Solely concerned with the valuation of real estate
- Focused on the relevant aspects of EU law
- Risk Sensitive including guidance on market rating and risk-related criteria for valuations.
- Provide comprehensive guidance on mortgage lending value.

TEGoVA is now helping EU governments and candidate member states to put the directive's valuation requirements into practice

TEGoVA Guidelines on Transposition of Mortgage Credit Directive



- Valuation basis (market value, mortgage lending value)
- Qualification of valuers
- Clear description of the valuation process
- Content of the valuation report

European Banking Union



- Banking supervision has fallen to the EU
- Banks now controlled by the European Central Bank and the European Banking Authority.
- ECB Asset Quality Review 2014 document titled “*Collateral and Real Estate Valuation*” stipulates that
“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...”
- EBA consultation on Mortgage Lending Value

Capital Requirements Regulation

Capital Requirements Directive (CRR/CRD IV)

The 'CRR/CRD IV' package transposes new standards on bank capital (Basel III agreement) into the EU law from 1 January 2014

- Tackles the problem of banks holding insufficient capital by setting stronger prudential requirements for banks, requiring them to keep sufficient capital reserves and liquidity
- The CRR/CRD IV package is not only of significance to the world of banking but also impinges on real estate valuation

Capital Requirements Regulation

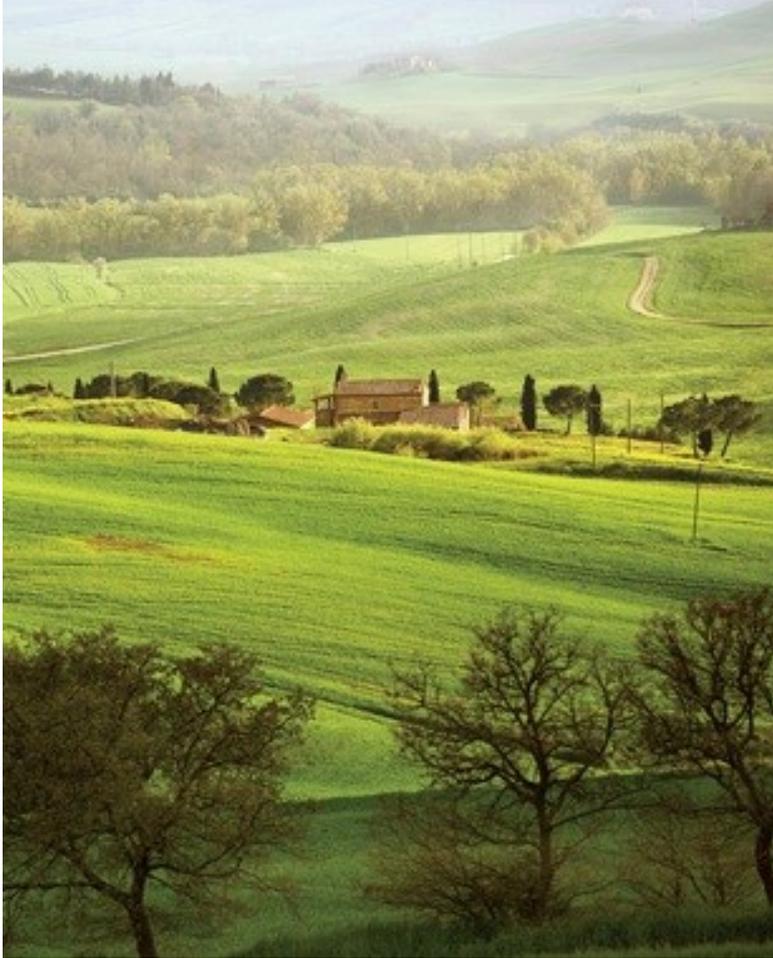
Definitions of Value

REGOLAMENTO (UE) N. 575/2013 DEL PARLAMENTO EUROPEO E DEL CONSIGLIO del 26 giugno 2013 relativo ai requisiti prudenziali per gli enti creditizi e le imprese di investimento e che modifica il regolamento (UE) n. 648/2012

Articolo 4

- 74) “valore del credito ipotecario”, il valore dell'immobile quale determinato in base ad una prudente valutazione della futura commerciabilità dell'immobile, tenuto conto delle caratteristiche durevoli a lungo termine dell'immobile, delle condizioni normali e locali del mercato, dell'uso corrente dell'immobile e dei suoi appropriati usi alternativi;
- 76) “valore di mercato”, per i beni immobili, l'importo stimato al quale l'immobile verrebbe venduto alla data della valutazione in un'operazione svolta tra un venditore e un acquirente consenzienti alle normali condizioni di mercato dopo un'adeguata promozione commerciale, nell'ambito della quale entrambe le parti hanno agito con cognizione di causa, con prudenza e senza essere soggette a costrizioni;

International Financial Reporting Standards (IFRS 13)



- Adopted by EU Regulation as from 1st January 2013
- Para 27: “A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in **its highest and best use** or by selling it to another market participant that would use the asset in its **highest and best use.**”
- Para 28: “The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible...”

Recognised European Valuer

The Mark of Excellence in Real Estate Valuation

- Awarded by leading valuation associations in Europe
- Renewable Every 5 years
- To date 2 500 REV's in 15 countries including 163 in Italy
- Enables cross-border real estate investors to identify valuers qualified to a recognisable level of education, experience and competence
- Opportunity for both large and small valuation firms to tap into pan European market
- Endorsed by European Property Federation
- Recognised European Valuers display 'REV' after their name

A PAN-EUROPEAN NETWORKING FAMILY

Conclusion

- Developments in property valuation and the profession are fast moving, mirroring that of the EU
- The game changers have been Mortgage Credit and Banking Union
- The valuation profession is developing a dual persona: National and European
- National valuation standards are of increasing importance but
- There is a need to develop a common European Valuation Culture, a standards and qualification bottom line that European authorities, property investors and mortgage lenders can rely on and easily recognise across the Union.

And Finally

A LIFETIME QUALIFICATION IS NO LONGER FOR LIFE !

Valuers must instil trust and public confidence by proof of continuing valuation practice, continuing professional development and adherence to national and internationally recognised valuation standards and ethics through a recognised quality assurance scheme:

- Recognised European Valuer



- RICS Registered Valuer



- ISO Certification



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