

Apresentação das Normas Europeias para a Avaliação de Máquinas e Equipamento – EVS-PME 2022

*Presentation of European Plant, Machinery & Equipment Valuation Standards
2022*

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European Plant, Machinery & Equipment Valuation Standards 2022

*Steeped in Blue Book tradition, in sync with the
EU's climate/industrial transition*

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EVS-PME is the child of extraordinary times

When TEGOVA decided to develop the standards in the spring of 2020, the motivation was the high demand from European practitioners who wanted standards tailored to:

- the European manufacturing context
- and to the general principles of valuation in TEGOVA's European Valuation Standards

The motivation was the same as for the first ever European Business Valuation Standards, launched that year: filling a gap and not having to rely on whatever non-European norms and training were out there.



We were already at work when the world changed, with the hydra of climate, pandemic and war.

Climate warming was hardly a surprise, but in 2020 it came to political boil with the European Green Deal.

Then came pandemic and war and the sickening realisation that Europeans had gravely compromised their prosperity, health, safety and security – and raised their carbon footprint – by extending their supply lines to far-away authoritarian or rogue regimes.





Good and timely EU regulation has a way of kick-starting change even before it hits the statutes

And it's happening now: the repatriation, regeneration and greening of European industry.

This puts an absolute duty on the valuation profession to undergo its own transformation and learn to put a value on the components of the industrial transformation as it happens.

It's a disruptive challenge for a necessarily conservative profession that's comfortable with comparables, preferably lots of them.



Beneath the surface of the common EVS valuation culture, EVS-PME are adapted to the radically different make-up of PME

- PME may depreciate unevenly over the useful life of the asset
- Are highly reliant on the specific industry
- Are usually movable and relocatable all over the world
- Have buyers and sellers with varied motives
- Face dismantling, assembling and commissioning costs
- Take time to market
- And buying and selling conditions may vary significantly depending on whether such assets are permanently attached to real property or not

PME differentiate from real estate in ways that can affect both the valuation approaches and the valuation report

The most important difference being *mobility*.

Another characteristic specific to PME is *rapid depreciation*, caused by:

- a useful life shorter than real estate's
- technical progress
- regulatory changes
- or fluctuating demand for business products





The three basic valuation approaches (market, cost and income) are the same for real estate and PME valuation, but vary significantly in their implementation

Because of these particularities of PME, concepts such as

- 'fixed assets'
- 'in situ'/'ex situ' values
- scrap value
- and the three types of obsolescence (technological, functional and economic)
- and many more particular to PME ...

... are defined and standardised.



The emphasis on EU law is nothing new; it is core to every Blue Book

Even the standard on “PME valuation and energy efficiency” was preceded by the energy valuation standard in EVS 2020, and the lineage is clear.

The difference is the depth of penetration of EU law for PME:

- The Machinery Directive and all the other EU industrial regulation are never far
- And EU climate law is more tentacular than for real estate, going beyond energy efficiency to a wider spectrum of environmental / life cycle legislation



That's why so much of the core areas of the Blue Book is devoted to specific energy and environmental issues embedded in EU law:

A Guidance Note on Recycling Renewables

And Information Papers on:

- Equipping Valuers for EU Carbon Reduction Regulation
- PME Servicing Energy Efficiency in Buildings
- Real Estate Valuation and PME Valuation – Valuing the energy efficient transformation of the European building stock



The Guidance Note on Recycling Renewables

It was a challenge, because it's hard to develop guidance on something that is still gestating.

But we felt we had to raise awareness of this in the Blue Book because it is moving quickly and will affect the life cycle of a wide variety of PME and their associated value well before the next edition of EVS-PME.

The Guidance Note on Recycling Renewables (continued)

I believe we did well to include this because on top of existing EU law on waste, the European Commission has now:

- Launched a new regulatory framework for batteries
- Proposed an addendum to the Energy Performance of Buildings Directive imposing rapid installation of rooftop PV in all new buildings and all existing government and commercial buildings
- And is finalising a Circular Electronics Initiative

For PME valuers, these matters are not 'good to know' ...

... ***They are essential to valuation practice*** as EU climate regulation will greatly affect the life cycle of many PME in various ways, such as:

- Raw materials pricing, as recycled critical raw materials start entering the market
- Affecting design and production costs (recycling-friendly design)
- Promoting reuse or alternative use, thus extending PME useful life
- Changes to the residual value at the end of PME life through the development of recycling industry streams



The Blue Book equips valuers with the tools to capture the way the transformation of the entire industrial sector is going to affect PME valuations

To understand how essential this is to valuation practice, it suffices to consider the predictable impacts on valuation methodologies ...



Impacts of the industrial transformation on *the Market Approach*

- The green transition will create new markets for clean technologies and products.
- Established markets might shrink or disappear.

Impacts of the industrial transformation on *the Cost Approach*

- New technologies will now be required for several production processes resulting in functional / technological obsolescence for current PME.
- Costs for disposal may rise due to new requirements affecting the Residual Value of many PME.

Impacts of the industrial transformation on *the Income Approach*

- Period of income will frequently be limited by regulation-mandated retirement of some technologies.
- Improving energy efficiency is going to require frequent green investments with midterm payback periods, increasing the complexity of regular cashflows.
- Supply of clean resources may be more expensive initially. While renewable electricity can replace fossil fuels in many applications, the more expensive hydrogen may play an important role in industrial activities such as steel production, where fossil fuels are used as an energy source and as a reactant.

Finally, I would draw your attention to a singular and cutting-edge aspect of the Blue Book's climate-focussed content ...

... The building of a much-needed bridge between real estate valuation and PME valuation.

There are two IPs in EVS-PME exclusively devoted to servicing energy efficiency in buildings, to their assessment and to the main measures involving technical systems in residential and commercial building renovations.



The need to bridge real estate and PME valuation

Most property valuers do not have the skills to properly determine the value of technical building systems.

This at a time when new EU law is imposing short-term renovation of the worst-performing building stock based on, and triggered by, the energy performance certificate rating of the building.

And yet ...

Especially for commercial buildings of a certain size and complexity, the ***technical building systems can have an influence on the energy performance of the building high enough to cause a shift of EPC rating all by themselves***, with crucial impact on the Market Value of the whole building.

Our work was founded on the conviction that proper valuation of such buildings requires a collaboration between real estate and PME valuers that is not common today and that EVS and EVS-PME need to promote.

It is hoped that this Blue Book will foster convergence in PME valuation practice across Europe ...

... providing common ground and best practice regarding methodology, reporting and valuation approaches in a fast-mutating industrial landscape.



THANK YOU VERY MUCH FOR YOUR ATTENTION!

