

European Valuation Standards A Benchmark for Portugal

ASAVAL Conference

Porto – 9th November 2018

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European Valuation Standards

- 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
- Supporting the Valuer as a Professional
- Experience – 2016 is Eighth Edition

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
on the basis of the real outcome of the market :

WHAT IS – NOT WHAT “SHOULD BE”

Making markets work; Protecting participants

EU Recognition of EVS

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). “

Reconfirmed by ECB in June 2018

EVS 2016: What It Offers

- European Valuation Standards EVS1 – EVS 5
- European Valuation Guidance Notes (EVGNs)
- EU Legislation and Property Valuation
- Technical Documents
 - Code of Ethics
 - Code of Measurement
 - Information Papers (EVIPs)
- Focus on valuation of real estate in Europe

European Valuation Standards

- EVS1 Market Value
- EVS2 Valuation Bases other than Market Value
- EVS3 The Qualified Valuer
- EVS4 The Valuation Process
- EVS5 Reporting the Valuation
- *EVS6 Automated Valuation Models (2017)*

European Valuation Standards

- Define Market Value
- Consider 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

“The estimated amount for which the property 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)

- Is the definition for immoveable property in the EU Capital Requirements Regulation 575/2013 for banking regulation
- Consistent with IVS

Other Bases (EVS2)

- Fair Value
 - Distinguish valuer's use 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
 - Client protection
- The Valuation Process (EVS4)
 - Terms of engagement
- The Valuation Report (EVS5)

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

EVGN5 Application of Investment Value (Worth) for
Individual Investors

EV Guidance Notes

EVGN6 Cross Border Valuation

EVGN7 Property Valuation under Alternative Investment
Fund Managers Directive

EVGN8 Property Valuation and Energy Efficiency

EVGN9 TEGoVA Commercial Loan Specification

EVGN10 Valuations: Compliance with EVS

EVGN11 The Valuer's Use of Statistical Tools (2017)

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

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

The CAP has long influenced rural property

EU Law and Property

Climate change legislation – consequences for property

EU environmental law had growing influence

- Energy Efficiency
- Environmental Impact Assessments
- Habitats and Wild Bird Directives
- Water, Pollution, Waste,

EV Information Papers

EVIP1 Sustainability and Valuation

EVIP2 Valuation Certainty and Market Risk

EVIP3 Apportionment of Value Between Land and Buildings

EVIP4 Valuation and Other Issues for Recurrent Property Tax Purposes

EVIP5 Valuation Methodology

EV Information Papers

EVIP6 Automated Valuation Models (AVMs)

EVIP7 European Property and Market Rating: A
Valuer's Guide

EVIP8 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

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
- The value of commentary

AVMs

- New EVS6 and EVGN11 in 2017
- AVMs depend on
 - Data selection – relevance, date
 - The algorithm used - understand, adapt
- Substantial inaccuracy at individual level
- Often procyclical results
- A tool not a master – so valuer supervision
- As required by EU law

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 Recognised European Valuer Scheme (REV)
- Summary of TEGoVA Residential Valuer Scheme (TRV)

EVS 2020

- Work well underway
 - Reviewing, updating,
 - Watching translation issues for 24 languages
- Support for residential property valuation
- Work on valuation reports
- Practical issues

Thank You

QUESTIONS?

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