

European Property Federation Supports and Endorses REV



EPF Officers: From left to right: W. Joseph Houlihan, Chairman of the Managing Committee, John R. Frederiksen, President and Michael MacBrien, Director General

On 27 February in Brussels, the EPF Managing Committee, the Federation's supreme decision making body, gave its support and endorsement to the Recognised European Valuer. EPF membership comprises the spectrum of European private property ownership, investment and development: housing companies, commercial and residential investment and development companies, shopping centres and the property interests of the institutional investors (banks, insurance companies, pension funds) with assets of € 1.5 trillion under management.

Part of the EPF meeting was devoted to a joint EPF/TEGoVA session on 'A Common Effort for Real Estate Market Transparency' attended by Roger Messenger, Chairman of TEGoVA, Krzysztof Grzesik, Vice Chairman, Wolfgang Kälberer, Member of the Board and Michael Morris, Chairman, Jones Lang Lasalle Expertise, France, and Member of the European Valuation Standards Board.

A presentation of European Valuation Standards and the Recognised European Valuer scheme was followed by a debate and questions on REV status. The EPF leaders concluded that the major gains from REV for owners and investors are a recognisable pool of highly qualified valuers both nationally and across Europe and welcome competition in the field of recognisable up-market valuation skills.

EPF support for the REV scheme will significantly boost the efforts of TEGoVA in improving the status of the valuation profession in Europe and raising standards. It should also encourage many other talented and experienced valuers across the continent to join the ranks of the near 2000 strong REV elite. ●

Interview of W. Joseph Houlihan, Chairman of the EPF Managing Committee, on page 2.

EFRAG to Consult TEGoVA on Valuation Issues

The September 2012 edition of REV Journal featured an article on IFRS 13, titled "IFRS 13 Seals Market and Fair Value Divorce". Readers should be aware that since then, IFRS 13 has become enshrined in EU law by virtue of *Commission Regulation (EU) No 1255/2012 of 11 December 2012 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 12, International Financial Reporting Standards 1 and 13, and Interpretation 20 of the International Financial Reporting Interpretations Committee.*

IFRS 13 is significant in so far as it provides guidance to valuers in assessing the fair value of a property. In particular IFRS 13, paragraph 27 states "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."

IFRS 13 proceeds to define highest and best use and offer guidance on its interpretation through appended notes (Basis for Conclusions) and "Illustrative Examples".

Thus it appears that the author of IFRS, the International Accounting Standards Board (IASB) has extended its influence over the valuation profession by providing guidance on real estate valuation concepts, which it did not do in the past. Indeed it has encroached on



Interview of W. Joseph Houlihan, CEO of Cohen & Steers* Europe and Chairman of the EPF Managing Committee

* €34.7 billion of assets under management worldwide

the territory of the internationally recognised valuation standards (IVS, EVS and RICS).

As a result, at a European level, the work of the European Financial Reporting Advisory Group (EFRAG) has taken on a greater significance in matters concerning valuation for financial reporting purposes.

EFRAG was set up in 2001 to assist the European Commission in the endorsement of International Financial Reporting Standards (IFRS), by providing advice on the technical quality of IFRS. EFRAG is a private sector body set up by the European organisations prominent in European capital markets.

In the IAS Regulation (N° 1606/2002)) that requires all European listed companies to apply IFRS from 2005 in their consolidated financial statements, there is reference to the European Commission seeking advice from a technical committee prior to endorsing standards. EFRAG fulfils the role of that technical committee. In addition to obtaining advice from EFRAG, the European Commission seeks advice from Member states through the Accounting Regulatory Committee (ARC), wherein EFRAG participates as an official observer.

In March 2006, EFRAG's role was formalised in a working arrangement with the European Commission, which states that 'EFRAG will provide advice to the Commission on all issues relating to the application of IFRS in the EU.'

Last month Krzysztof Grzesik, Vice Chairman TEGoVA and Michael MacBrien, Advisor to TEGoVA met with Pieter Dekker Technical Director of EFRAG and Michel Sibille, Senior Project Manager, to discuss TEGoVA's role as a valuation standard setter in Europe and to present the REV scheme. The TEGoVA representatives emphasised the importance of European Valuation Standards (EVS 2012) in the light of the development of more integrated and commonly controlled financial markets in the EU and Eurozone, which have a direct impact on closely linked real estate markets.

It was agreed that in future EFRAG will consult with TEGoVA on any proposed amendments to IFRS affecting the valuation of real estate. ●

Editor (Ed): How would you define the EPF attitude to REV?

Joe Houlihan (WJH): We see it as a factor in the return to market confidence. Before the crisis, pan-European real estate investment by European and global investors really took off; it must have reached €100 billion a year. There were good reasons for that, including the safety of geographically diversified portfolios inside the EU's single market with its built-in legal guarantees. But investing abroad always has an extra element of risk. It's not surprising that foreign investors, big and small, probably took proportionately bigger hits, possibly partly due to a panic reflex to get out. For the big companies, investing in top grade real estate in the capitals wasn't a panacea, and for smaller scale investment, look at the disasters in foreign buy-to-let in the Baltics and Balkans and elsewhere. Now we see national retrenchment. It'll last no longer than the recession, but the speed and scale of the return to cross-border will depend on the confidence factor, and we feel that REV contributes positively to that.

Ed: How so?

WJH: By providing a pool of recognisable professionals who can value local assets according to methods compatible with European principles. We didn't have that before, and it's a serious comforter, especially on the newer markets. My colleagues and I are not well versed in European Valuation Standards, nor should we be. But it's a comfort to know that the professional at hand has European knowledge that filters and enhances his local experience and that his level of competence is guaranteed by a national body under TEGoVA's European control.

Ed: Is there anything else you would expect from REV?

WJH: I can't speak for everyone, but some of us are hoping for a lot more, and there were some good signals in that direction at the

EPF/TEGoVA session. I'll admit that among my peers – not just at EPF but in the business in general – there are varying views on the usefulness of valuers. Some can be quite abrupt and cynical like "OK, let's get a couple of numbers crunched and see what if anything we do with them." But some of us are hoping that the 'REV culture' will move the best property professionals in the direction of the more complex, sophisticated advice we need. It's my understanding that REV 'production' includes new property data bases Europe-wide. As clients we'd like to benefit from that.

Ed: You manage the European arm of a global investor. What's your view on international approaches to valuation as opposed to European?

WJH: International principles are fine as far as they go, which isn't far. REV is underpinned by EVS and I see two advantages to that: First EVS is all about real estate and nothing else. That's actually hard to find at international level. Second, EU law is impacting real estate big time. EVS seems to cover that very thoroughly and as I understand it, that feeds through to REV.

Ed: So from your point of view as a global investor, the EU is relevant to the real estate industry?

WJH: I'm fortunate to hold office in EPF. You learn a lot about EU law and the property market. Recently, it's been an avalanche of real estate market intervention via financial services reform and economic governance of the Eurozone. In any investment business it's a great advantage to see ahead, and EPF's work has shown us how the Eurozone is morphing into something very coherent, very solid, where common factors shaping property markets will spawn more and more professional and investment commonalities and synergies across borders. I guess we're hoping that your two thousand REV's will grow and evolve into a professional corps that can help investors ride this wave. ●

Hypzert Convention 2013

Reports on Valuation of Properties in Retail, Nursing Home and Hotel Sectors



Over 1000 valuers gathered in Berlin last month for the Annual Convention of Hypzert. The delegates were treated to an array of 16 seminars on current valuation issues including new developments in mortgage lending and market valuation, the valuation of retail and hotel properties, valuation of care and nursing homes, wind farms, logistics and industrial properties. Other topics included international construction costs, the Capital Requirements Directive and there was also a debate about the separation of investment and commercial banks in Germany.

The convention kicked off with a gala evening at which the opportunity was taken to honour pioneering valuers and to reflect upon the success of the Hypzert Valuer certification in Germany and beyond. As Pfandbrief banks finance on a worldwide scale, HypZert GmbH also now certifies valuers pursuant to the ISO/IEC 17024 standard outside Germany, thus ensuring compliance with the requirements of the German Financing Industry.

Some 65 members of the 8 HypZert Professional Groups were also honoured for their work in providing technical knowledge on various aspects of real estate valuation.

A highlight of the convention was the presentation of 3 new reports by the Professional Groups, on the valuation of retail properties, care and nursing homes and hotels and restaurants.

Valuation of Retail Properties

Whilst the retail sector is undergoing sweeping changes, overall it seems that the

shop / store will remain the dominant model for the time being. However the industry is being transformed by e-commerce and demographic changes which will in turn have a significant effect on the real estate market. The need to take a closer look at these current developments and their effect on valuation has led the HypZert Professional Group on Retail to publish an updated study on the "Valuation of Retail Properties".

The update and extension of the study first published in 2007 contains information and analysis on location, situation and competitors, and the assessment of lease agreements and encumbrances.

The authors have also looked into the concepts and problems involved in revitalising retail properties. Data sheets are another feature of the study, furnishing relevant comparative data and key indicators relevant to the valuation of retail properties. The data sheets now serve as templates for a TEGoVA project for collecting key information across Europe for the benefit of REVVs.

The study has been translated into English.

Valuation of Assisted Living and Nursing Homes

This is a timely report released by HypZert's Professional Group dealing with "Care Properties".

Whilst senior citizens traditionally tend to reject nursing homes, at the same time they do require external, non-family care. This exposes a gap between "living" and "care", between seniors living independently

in their own homes and the care services provided by a nursing home. The importance of assisted living is therefore likely to increase significantly in future. A variety of different concepts, approaches and offerings can be found all over Europe. There are enormous differences both in terms of building design and the type of care or services provided.

In addition to foreseeable demographic trends and positive developments on the operator and investor market, there is also uncertainty about how legislation will develop in the future and to what extent it will be possible to finance care. Valuers will need to gain the appropriate knowledge base for dealing with assets which cannot be valued by the hitherto classical approaches.

For these reasons, the study focuses on the basics first, and then proceeds to address the special features of the market and the industry, distinguishing between assisted living and nursing homes. The classification of nursing homes and assisted living facilities and the distinctions between them are described with particular emphasis on quality features, structural requirements, services, concepts and special aspects as well as key valuation indicators.

Valuation of Hotel Properties

This report by HypZert's Professional Group dealing with the "Hospitality & Restaurant Industry" is intended to guide real estate valuers in the valuation of hotel properties.

It defines, explains and compares terms from the hotel industry and offers benchmarks from recent developments in the market.

The study aims to make it easier to identify the opportunities and risks in the property financing process and loan decision making.

It recommends applications that are helpful in the valuation of such properties. Available expert knowledge and market experience are also summarised, the main focus being on the special requirements of the (German) financial industry in connection with adequate risk adjustment. This latest study is also available in English.

All the above studies can be ordered from the HypZert shop: www.hypzert.de. ●

(The above article is based on a report by Wolfgang Kälberer, TEGoVA Board Member and Head of the EU Representation of the Association of German Pfandbrief Banks)

In the Pipeline

Two new EU regulatory developments may impact valuations:

EU Regulation of Installation and Access to High-speed Broadband Infrastructure

The European Commission has proposed rules to increase the roll-out of broadband across the Union that include a plan for all new homes and offices to be fitted out with high-speed internet equipment allowing 30 megabits-per-second (mbps) broadband by 2020 and at least half of all households to have access to connections above the super-fast 100 mbps. All new buildings or those undergoing major renovation shall be equipped with a high-speed-ready in-building physical infrastructure, up to a network termination point. All new multi-dwellings or those undergoing major renovation shall be equipped with a concentration point, located inside or outside the building, and accessible to electronic communications networks providers.

Member States may provide for exemptions for categories of buildings, in particular single dwellings, or major renovation works, when the cost of fulfilling those obligations is disproportionate.

No doubt buildings with high-speed infrastructure will be at a premium which in turn should affect their market value.

Next wave of regulation of the energy efficiency of buildings

In EVS, EVA8 "Property Valuation and Energy Efficiency" counsels valuers on interpreting existing EU building energy performance law, notably concerning energy performance certificates and renovation requirements.

Under current EU law, member states must renovate 3% of their central government building stock per annum to meet required energy performance levels. Such levels should also be met when a building undergoes a major renovation. The law also obliges member states to set 'indicative' energy efficiency targets and establish long-term strategies for mobilising investment in the renovation of the national stock of residential and commercial buildings. This is part of the overall plan for a modernisation and competitiveness-based economic recovery prioritising green growth, green jobs and a low

carbon economy.

The European Commission and Parliament have now opened a debate on the new regulation that will be needed to ensure that the energy footprint of buildings is reduced by 40% by 2030 and 80% by 2050. The debate centres on setting binding targets on member states to ensure that the goal is reached. It is safe to assume that the energy efficiency of the building stock will be ramped up significantly in coming years, possibly influencing the valuer's analysis of the value of non-energy efficient buildings. ●

Michael MacBrien, TEGoVA Secretariat

Appraisal Institute and TEGoVA Share Common Aims!

Readers will know that the Appraisal Institute has been a supportive observer of TEGoVA for many years. The AI is the largest association of real estate appraisers in the United States with nearly 23,000 members in almost 60 countries.

The article below by Richard L. Borges II, MAI, SRA, President of the Appraisal Institute, demonstrates the importance of raising standards at a time when the 83,000 strong appraisal profession in the USA is shrinking and there is a need to attract bright new entrants. The good news is that the number of higher level certified valuers is actually increasing.

Certainly there are parallels to be drawn between the efforts of the Appraisal Institute to raise the status of the profession through its MAI and SRA designation programmes and those of TEGoVA in Europe through the REV scheme. ●

Krzysztof Grzesik REV, Editor

Number of Certified Appraisers in USA at All-Time High; Next Generation Critical

By Richard L. Borges II, MAI, SRA

While the U.S. valuation profession is facing some challenges, the percentage of appraisers with a certification is at an all-time high. However, because half of US appraisers are age 51-65, and since many have left the profession, there needs to be a concerted and strategic effort to attract younger individuals and hopefully inspire them to become appraisers.

A meaningful difference exists between the licensing and certification requirements

for U.S. appraisers; certification requires more extensive (degree level) education and testing. For individuals wishing to adhere to the highest valuation profession standards, pursuing an Appraisal Institute designation is an excellent path.



Richard L. Borges II,
MAI, SRA

The Appraisal Institute's MAI or SRA designation shows clients that an appraiser has demonstrated professional knowledge, understanding and ability. These designations long have been recognized by courts, government agencies, financial institutions and investors as marks of excellence.

AI research shows that the number of appraisers is decreasing by about 3% per year, that appraisal firms have decreased the number of trainees dramatically over the past 3 years and the number of appraisers could decrease by up to 35% over the next 10 years. This is due to a long-term decline in the number of new entrants, many future retirements, challenging business conditions, increasing government regulation and alternative valuation technologies displacing some residential appraisers.

However the demographics of AI individuals is just the opposite with the number of certified appraisers on the upswing. There were nearly 6,000 more certified general and residential appraisers on December 31, 2012 than at year-end 2006. For the same period, there was a decline of nearly 16,000 licensed appraisers.

Moreover, the proportion of certified appraisers to total appraisers reached 87% by the end of 2012 compared to 72% in 2006. While the appraiser population has decreased 15% since 2007 it is now more qualified overall.

Poor career prospects for trainees and few new entrants are serious issues, yet opportunities do exist for the next generation and employment options will, in fact, likely be enhanced in the coming years in areas such as commercial valuations, taxation and litigation.

Educating the next generation is a high priority for the AI and its University Relations Panel which provides ideas on how to increase the AI's presence and advance education at universities and colleges with real estate programs.

We are excited and optimistic about what the future holds and look forward to inspiring the next generation of valuation professionals. ●