European Valuer Journal
ISSUE N°42
NOVEMBER 2026
SPECIAL EDITION

TEGOVA
The European Group
of Valuers' Associations

PUTTING EU LAW INTO PRACTICE: SETTING A VALUE THAT'S SUSTAINABLE OVER THE LIFE OF THE LOAN

Samo Javornik – Izabela Rącka

EDITOR'S NOTE

Michael MacBrien

The European legislator is no stranger to valuation. In 2013-2014, in the wake of the financial crisis, the Mortgage Credit Directive required reliable valuation standards, the Capital Requirements Regulation set limits on the use of stand-alone AVMs and required the valuer to document the market value in a transparent and clear manner, and both laws required valuer independence and qualification, but it was all very 'principles-based'.

At that same time, the European Central Bank published its first Asset Quality Review (AQR) manual with detailed requirements for valuation of real estate collateral, and over the years both the ECB and the European Banking Authority published guidelines on climate and environmental risk reporting. But again, they never came close to setting valuation standards and methodology.

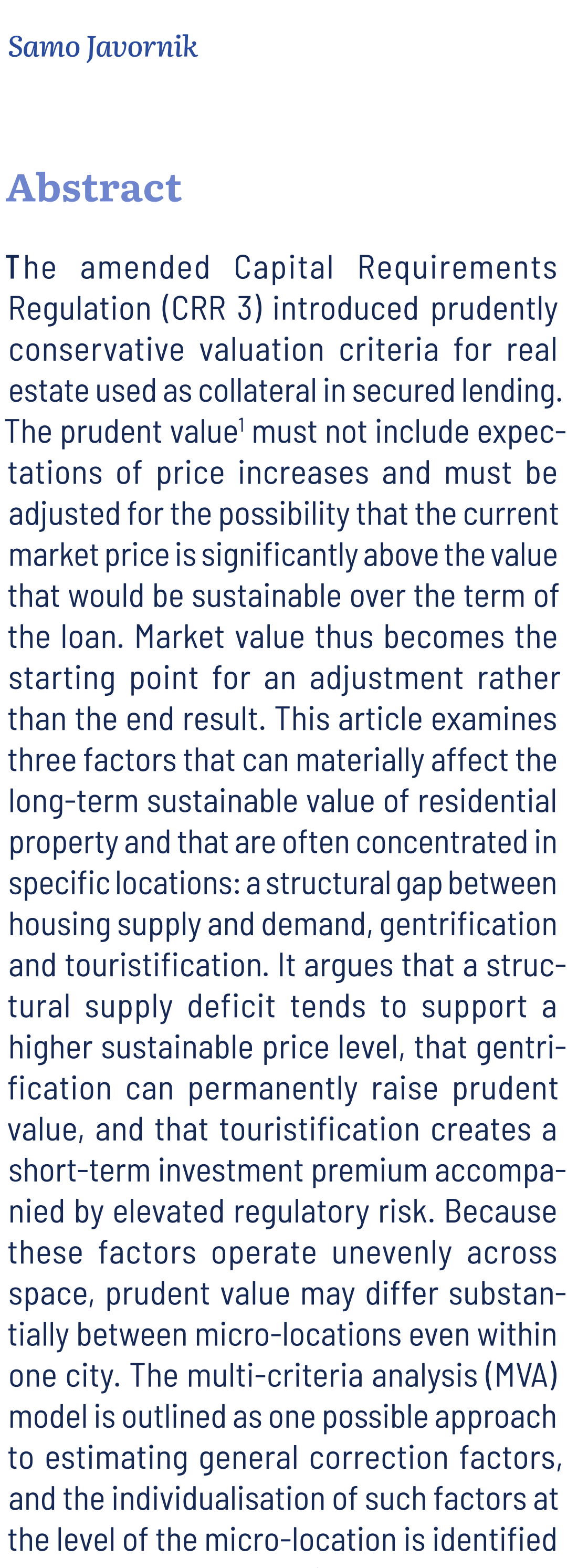
That's what makes the newly amended CRR something of a breakthrough moment because it creates an imaginatively named 'property value' appraised using 'prudently conservative valuation criteria' that exclude expectations of price increases and take account of the potential for the current market value to be significantly above the value that would be sustainable over the life of the loan.

That *is* standard setting. Valuer judgment now has to align not just with spot market evidence, but with sustainability considerations enforced through EU law. It's a new paradigm, and EVS 2025's EVGN 2 'Valuation for Mortgage Lending – Prudently Conservative Valuation Criteria' is to this day, the only guidance on property value that's out there.

But it's still very much a work in progress, with EVGN 2 currently under review by the European Valuation Standards Board, hence this special edition with two ground-breaking articles by top valuation thinkers. The first, by Samo Javornik, examines three factors that can materially affect the long-term sustainable value of residential property and that are often concentrated in specific locations: a structural gap between housing supply and demand, gentrification and touristification. The second, by Izabela Rącka, demonstrates how sustainability over the life of the loan forces valuers to conduct in-depth assessment of a property's resilience to climate change, its energy efficiency, and its broader environmental impact, with fallout for data gathering, training, scope of engagement, time and remuneration.

Michael MacBrien, Editor

The Impact of the Supply-Demand Gap and of Gentrification and Touristification on 'property value' and 'prudently conservative valuation criteria' under the CRR



Samo Javornik

Abstract

The amended Capital Requirements Regulation (CRR 3) introduced prudently conservative valuation criteria for real estate used as collateral in secured lending. The prudent value[1] must not include expectations of price increases and must be adjusted for the possibility that the current market price is significantly above the value that would be sustainable over the term of the loan. Market value thus becomes the starting point for an adjustment rather than the end result. This article examines three factors that can materially affect the long-term sustainable value of residential property and that are often concentrated in specific locations: a structural gap between housing supply and demand, gentrification and touristification. It argues that a structural supply deficit tends to support a higher sustainable price level, that gentrification can permanently raise prudent value, and that touristification creates a short-term investment premium accompanied by elevated regulatory risk. Because these factors operate unevenly across space, prudent value may differ substantially between micro-locations even within one city. The multi-criteria analysis (MVA) model is outlined as one possible approach to estimating general correction factors, and the individualisation of such factors at the level of the micro-location is identified as the next methodological challenge.

Keywords

prudent value, CRR 3, market value, adjusted market value, supply–demand gap, gentrification, touristification, micro-location, MVA model

JEL: R31, G21

1. Introduction

Article 229 of Regulation (EU) No 575/2013, as amended by Regulation (EU) 2024/1623 (CRR 3), requires that immovable property used as collateral be valued by an independent valuer on the basis of prudently conservative valuation criteria. The value must exclude expectations of price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. In addition, the value may not exceed the market value. The resulting prudent value therefore rests on market value as its basis, but it requires the valuer to form a judgement on whether the current price level is sustainable over the long term.

Market value estimates the most probable price at the valuation date. It does not assess whether the current price level is rational or durable, nor how it might evolve over a lending horizon that, for residential mortgages, commonly spans two decades. The gap between these two concepts is where the prudent valuation task lies.

Correction factors derived at national level are a natural first step, but they are averages. Housing markets are segmented, and some of the most important drivers of sustainable value are local. This article focuses on three such drivers: (i) a long-term structural gap between housing supply and demand; (ii) gentrification; and (iii) touristification. It discusses how each affects the relationship between market value and prudent value and why, as a consequence, prudent value may differ significantly from one micro-location to another. The article presents one possible approach to these questions and does not claim to be the only valid one.

2. Prudent Value and the Adjusted Market Value Approach

One way to operationalise the CRR 3 requirement (for an overview of European approaches see Crosby and Hordijk, 2021) is the **adjusted market value** (AMV) approach. It assumes that, over a full cycle, prices of a given property class oscillate around a long-term sustainable trend. Using inflation-adjusted price series, the valuer compares the current market level with the trend and estimates whether, and by how much, current prices exceed it. Under the prudent valuation logic, an adjustment is made only where the current market value lies above the long-term sustainable level; where it lies below, no upward adjustment is permitted, as prudent value may not exceed market value (Hojnik and Javornik, 2025).

Because the term "significantly higher" is not quantified in the Regulation, and because price series are often short and cover only one or two cycles, a tolerance band is typically applied within which no adjustment is considered necessary. The width of this band should reflect the dispersion and statistical reliability of the underlying data.

In a typical AMV-based framework, the valuer considers at least the following factors when assessing the risk that the current market price is significantly above the sustainable value:

- the long-term sustainable (trend) value of the property class;
- the macroeconomic cycle and the position of the property market within it;
- the existence and extent of excess supply in the relevant segment;
- demographic trends;
- dynamics in the micro-environment of the property; and
- the term of the loan.

A correction factor derived in this way reflects the market as a whole. It is a reference point, not an automatic answer for every property. The following sections discuss why specific local factors may justify departing from it in either direction.

3. The Structural Gap Between Supply and Demand

3.1 Price as an Equilibrium Mechanism

In line with basic microeconomic principles, price acts as the mechanism that balances supply and demand. The equilibrium price, at which the quantity offered equals the quantity sought, may be interpreted as the **long-term sustainable or prudent price**. Markets oscillate around it, and two forms of disequilibrium can be distinguished:

- **Excess supply.** Sellers cannot dispose of all units and must lower prices until equilibrium is restored. In this situation market values exceed sustainable values, and – unless other factors offset the effect – a downward adjustment from market value to prudent value is generally warranted.
- **Excess demand.** Buyers compete for a limited stock and bid prices up until demand is matched by supply. Where excess demand is structural, current prices may be close to the sustainable level, and an adjustment is generally not required.

In real estate, price is not only a reactive mechanism but also the key signal for new construction. Persistently rising prices signal unmet demand and above-normal profitability, encouraging investment that, with a lag, increases supply. Prolonged stagnation signals sufficient or excess supply and discourages new projects, reducing future supply.

3.2 Why Housing Markets Deviate from the Textbook Model

Two characteristics of housing markets must be taken into account when assessing the balance between supply and demand at the valuation date:

- **Short-term inelasticity of supply.** Building permits must be converted into completed dwellings, which typically takes one to three years. The price effect of additional supply therefore materialises only in the medium to long term.
- **Imperfect substitution.** Dwellings in different locations, of different types and sizes are not perfect substitutes. Equilibrium prices are formed in segmented markets: new supply in one city does not necessarily affect prices in another, and new supply on the periphery may not relieve pressure in a city centre.

A structural supply deficit therefore cannot be inferred from national aggregates. It must be assessed for the market segment and the location in which the valued property competes.

3.3 Scarcity of Development Land and Planning Rigidity

In many European cities, the scarcity of serviced building land in sought-after locations is a binding constraint on supply. Because land in established urban areas cannot be created at short notice, increased demand translates directly into higher land prices and, through them, higher prices of new dwellings. In capital cities, university towns and constrained coastal or mountain areas, land and infrastructure charges can represent a substantial share of the final price of a dwelling. Constraints commonly cited in the literature and in practice include:

- **rigid spatial planning,** where changes of land use take several years and lag behind demographic change;
- **lack of infrastructure,** where land zoned for building is not serviced and cannot be developed immediately;
- **fragmented ownership,** which makes it difficult to assemble plots large enough for residential schemes;
- **speculative land holding,** encouraged where property taxation is low; and
- **a mismatch between planned and needed locations,** where land is zoned in areas without demographic pressure while sought-after urban areas lack developable sites.

Where these constraints are persistent, they act as a long-term support for higher sustainable price levels. Without an active land policy, supply cannot catch up with demand, and high prices may reflect genuine scarcity rather than speculation.

3.4 The NIMBY Effect

The Not In My Backyard (NIMBY) effect describes local residents' opposition to developments in their immediate vicinity, even when they accept that such facilities are socially beneficial or necessary. In housing, NIMBY opposition typically targets densification: residents fear the loss of parking, green space or neighbourhood character. Petitions, objections and administrative disputes can delay or prevent projects for years. In the context of prudent value, this means that supply in the affected area may remain constrained for longer than general economic models would suggest, which can justify a higher sustainability of current market prices in that local market.

3.5 Implications for Prudent Value

When forward-looking supply is assessed against structural demand, the valuer may find that even an accelerated pipeline of new housing will not close the gap within the relevant horizon. In such locations, the pressure on prices is unlikely to ease, and current price levels may prove sustainable even through a downturn. Conversely, where a large pipeline of new supply is expected relative to demand, or where an existing stock remains vacant, the risk that current prices exceed sustainable values is higher. The valuer should therefore consider whether current prices reflect durable fundamentals or short-term speculative demand by assessing, at a minimum:

- whether the property is located in an area with a critical structural deficit or with little pressure;
- how quickly and efficiently local authorities issue building permits, and whether long-lasting regulatory barriers permanently limit supply;
- demographic and migration flows into the region and the micro-location, and the concentration of employment.

---

[1] The term 'prudent value' is used for ease of reading. It represents 'property value' using 'prudently conservative valuation criteria' under the CRR.

4. Gentrification and Touristification

4.1 Gentrification

Gentrification is a socio-economic and cultural process in which a neighbourhood previously characterised by disinvestment or lower-income residents experiences an inflow of wealthier households, triggering renovation and improvements in housing, infrastructure and commercial services (Lees, Slater and Wyly, 2008; Magnusson, 2005). While the physical environment improves, demand and prices rise, and original residents and small local businesses may be displaced. The process is usually traceable through four phases:

1. **Pioneers:** residents with lower incomes but high cultural activity – students, artists – move in, attracted by low rents, and revitalise neglected buildings.
2. **Followers:** boutiques, galleries and cafés follow, and the area acquires a fashionable reputation.
3. **Investors:** developers undertake large-scale renovation and new construction aimed at affluent households; prices and rents rise sharply.
4. **Displacement:** original residents who cannot afford higher rents and costs move to cheaper, more distant neighbourhoods.

Classic international examples include Soho in New York, Shoreditch in London and parts of Kreuzberg in Berlin (Beran and Nuissl, 2021). For prudent valuation, the key point is that gentrification affects market value and prudent value in the same direction. In the short term it creates upward pressure on market prices as buyers seek to capture the neighbourhood's potential. In the long term, provided the process is sustained, it represents a permanent improvement in infrastructure, safety and reputation, which raises the long-term sustainable value. Prices may not return to their earlier levels, because the economic fundamentals of the area have changed. Over time, two market segments often emerge within a gentrified area: an older, unrenovated stock that remains relatively affordable, and renovated or new properties that command very high prices.

4.2 Touristification

Touristification describes the transformation of urban areas, particularly residential neighbourhoods, in which the function of a location shifts from serving permanent residents to serving visitors (Novy and Colomb, 2016; Andrade and Costa, 2020). It has been accelerated by short-term rental platforms. In real estate terms, it means the large-scale **conversion of dwellings** from long-term rental or owner-occupation into commercial tourist accommodation. Typical examples are historic centres such as the Gothic Quarter of Barcelona or the Alfama district of Lisbon, where short-term letting passed a critical threshold, local shops and services were replaced by tourist-oriented businesses and residents gradually moved out.

The underlying mechanism is that short-term letting generally yields materially more than long-term letting. This has two effects that pull market value and prudent value in opposite directions:

- **Short-term effect – investment premium.** The higher yield of tourist letting is capitalised into the market price. Investors pay more than buyers who rely on local incomes and long-term rents, lifting market values above the level that local demand alone would sustain (Barbić, 2024).
- **Long-term effect – regulatory risk.** If a municipality or state introduces limits on letting days, licensing requirements or higher taxes on tourist use, as several European cities have done, the investment premium can disappear and market values may correct abruptly. Prudent value, which is concerned with sustainability over the term of the loan, should therefore not reflect the full premium.

Touristification also worsens the structural gap for permanent housing, since every converted dwelling is withdrawn from the residential stock. This can keep prices of the remaining dwellings high even if the tourist premium itself is not sustainable.

4.3 Spill-Over Effects

Price increases caused by the concentration of tourist letting in a city centre rarely stay there. The spill-over typically proceeds in successive stages:

1. **Displacement pressure:** rents in the core rise beyond the reach of local residents, who are forced to look elsewhere.
2. **Demand spill-over:** displaced residents move to the nearest affordable neighbourhoods, raising demand and causing a secondary rise in prices and rents.
3. **Investment spill-over:** investors, finding yields in the core too low, buy on the fringe in anticipation that touristification or gentrification will follow.
4. **Consolidation:** the higher price and rent level originating in the centre becomes established in neighbouring districts, and the process may continue in waves further outwards.

For the valuer, this means that a property outside the immediate tourist core may still carry part of the touristification premium – and part of the associated risk.

4.4 Distinguishing the Two Processes in Valuation

Gentrification and touristification often occur together and both raise market values, but their effects on prudent value differ fundamentally. Touristification increases the risk of a regulatory correction, and prudent value may be lower than market value because the latter does not reflect a sustainable value for permanent residential use. Gentrification, if durable, signals a lasting improvement of the neighbourhood and supports a higher prudent value. The valuer must therefore determine whether the property is located in an area characterised mainly by touristification (higher correction risk) or by a long-term gentrification trend (lasting value uplift), and should consider the share of tourist units at the micro-location as well as any pending or likely regulation.

> *"Gentrification and touristification often occur together and both raise market values, but their effects on prudent value differ fundamentally."*

5. Why Prudent Value Differs by Micro-Location

The factors discussed above share one feature: they do not occur uniformly across a national or even a metropolitan market. Structural deficits are concentrated in capital cities, university towns and constrained coastal and mountain areas. Gentrification proceeds street by street. Touristification is concentrated in historic centres and resort locations, from which it spills over unevenly. As a result, the same national correction factor may be:

- **too strict** in locations where a persistent physical shortage of land, strong demographic pressure, established gentrification and high market liquidity make current prices durable – here, applying a general discount may unjustifiably reduce the collateral value and restrict access to finance in the most stable locations; and
- **too lenient** in locations where prices are inflated by a tourist premium exposed to regulatory risk, by speculative demand, by a large pipeline of new supply, or by low liquidity and out-migration – here, a general factor may overlook above-average risks.

Prudent valuation for secured lending should therefore be selective and segmented. Uniform adjustments regardless of property type and location are not appropriate. The assessment should be differentiated at least by property type (new build, existing stock) and by micro-location within a region or town (centre versus periphery). In the valuation report, the valuer should state clearly which of two broad situations applies:

- **Market value above prudent value.** The gap indicates a risk of correction over the term of the loan and points to a speculative component. A separate assessment of prudent value, taking all relevant factors into account, is required.
- **Market value approximately equal to prudent value.** Prices are sustainable and rest on strong structural factors, such as a critical shortage in the location. The valuer should substantiate and disclose these factors and assess whether any adjustment is needed.

In both cases the valuer must examine, quantify, substantiate with data, include in the valuation and consistently disclose any factors, specific features and deviations relating to the property or its micro-location. Adjustments should not rest on subjective impressions alone; they should be supported by evidence and be repeatable.

6. The MVA Model as One Possible Approach to Estimating Correction Factors

The multi-criteria analysis (**MVA**) model is one possible way of deriving general correction factors from market value to prudent value. It combines the AMV comparison of current inflation-adjusted prices with their long-term linear trend for each property class (for example, apartments, houses, building land, offices and retail units) with a structured assessment of the additional factors listed in Section 2: the macroeconomic cycle and the market's position in it, excess supply, demographic trends, dynamics in the micro-environment and the term of the loan. A tolerance band reflecting the dispersion of the data is applied, and the correction factor is set as the excess of the current deviation from trend over this band.

The model has several useful properties. It is transparent, it can be updated annually as new data become available, and, because it is applied only to the information available at the valuation date, it supports the repeatability of valuations. It also gives valuers and lenders a common reference point. **Its limitations are equally clear.** It relies on aggregated data for a market as a whole, the available time series may cover only one cycle, and the data for commercial property are typically thinner and more dispersed than for housing. Above all, a general correction factor cannot capture the local effects of a structural supply gap, gentrification or touristification described in Sections 3 to 5.

The general factor derived by the MVA model should therefore be understood as a starting reference, not as a binding solution for every valuation. Its use must always be subject to the valuer's professional judgement of the specific case, with regard to the characteristics of the property, the local market and the available comparable evidence.

7. Outlook: Possible Scenarios and the Role of the Valuer

Where supply is inelastic and structural shortages persist, the long-term price path depends largely on which of two broad scenarios prevails. In the first, demand eases (for example because of higher interest rates, slower migration or wage growth) or public investment in rental housing and faster permitting raise supply; prices then stabilise at a high level and grow broadly in line with inflation or income. In the second, demand driven by economic and wage growth continues to exceed the capacity of the construction sector; regional differentiation deepens, price itself filters buyers by purchasing power, and the risk of overheating – market values rising above sustainable values – increases.

Given typical residential loan terms, at least one recession during the life of a loan should be expected. In markets with a structural deficit, a recession would create downward pressure on prices through lower purchasing power and tighter credit, while the shortage of supply would create upward pressure. Prices may stabilise or fall nominally in the riskiest segments, such as speculative investments and older properties, while declines in new-build segments and in the most supply-constrained locations are likely to be limited. Rising construction costs add a further floor, as they set a minimum price for new dwellings that also supports prices of the existing stock.

None of these considerations can be reduced to a single national number. They require an informed judgement by a valuer who understands the local market.

8. Conclusion and the Next Challenge

Prudent valuation under CRR 3 requires the valuer to look beyond the current market price and to assess its sustainability over the term of the loan. A long-term structural gap between supply and demand, gentrification and touristification are among the factors that can materially affect this assessment. A structural deficit and durable gentrification tend to support a higher prudent value and may justify a smaller adjustment, or none at all. Touristification, by contrast, creates a short-term premium in market value that is exposed to regulatory risk and may call for a larger adjustment. Because these factors are local, prudent value can differ significantly between micro-locations, even within the same city.

General correction factors, such as those produced by the MVA model, provide a necessary common reference, but they are averages. This leaves the profession with a methodological dilemma: how can a general correction factor be individualised for a specific property and micro-location in a way that is evidence-based, transparent and repeatable, while not replacing the valuer's professional judgement with a mechanical calculation? One possible answer – a discretionary indicator (scorecard) model for the individualisation of correction factors – will be the subject of a forthcoming article.

The purpose of the approach presented here is not to prescribe a formula, but to structure the valuer's reasoning so that the influence of local factors on prudent value is examined, quantified where possible, substantiated and fully disclosed in the valuation report.

References

Andrade, M. J., & Costa, J. P. (2020). Touristification of European port-cities: Impacts on local populations and cultural heritage. In A. Carpenter & R. Lozano (Eds.), European Port Cities in Transition: Strategies for Sustainability (pp. 187–204). Springer Nature Switzerland.

Barbić, T. (2024). Impact of tourism activity on urban land and housing market activity: Evidence from Croatia. Economies, 12(12), 337.

Beran, F., & Nuissl, H. (2021). Tense housing markets: Displacement and residential location decisions in Berlin. Mitteilungen der Österreichischen Geographischen Gesellschaft, 163, 85–112.

Crosby, N., & Hordijk, A. (2021). Approaches for Prudent Valuations across Europe. Brussels.

Hojnik, G., & Javornik, S. (2025). Preudarno ocenjevanje vrednosti [Prudent valuation]. SIR*IUS, June 2025.

Lees, L., Slater, T., & Wyly, E. (2008). Gentrification. New York: Routledge.

Magnusson, L. (2005). Gentrification – The prospect for European cities? Open House International, 30(3), 54–61.

Novy, J., & Colomb, C. (2016). Urban tourism and its discontents: An introduction. In C. Colomb & J. Novy (Eds.), Protest and Resistance in the Tourist City. London: Routledge.

Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor. Official Journal of the European Union.

Samo Javornik PhD *is a Doctor of Economics and a Certified Business Valuer (The Slovenian Institute of Auditors, Member of TEGOVA)*

From Value to Collateral Resilience: How CRR3 and ESG Are Expanding the Role and Responsibility of the Real Estate Valuer

Izabela Rącka

Abstract

The article aims to make real estate valuers aware of the fundamental shift in their role, transitioning from mere providers of a valuation figure to comprehensive analysts of long-term collateral risk. The introduction of the EU's amended Capital Requirements Regulation forces the banking sector to adopt a rigorous approach to collateral assessment, which directly imposes new extended reporting obligations on valuers. Furthermore, the growing importance of ESG factors requires them to conduct an in-depth assessment of a property's resilience to climate change, its energy efficiency, and its broader environmental impact. Consequently, these professionals must expand their competencies well beyond traditional income or comparative valuation approaches to ensure their reports meet the updated demands of the financial market. These additional analyses require more time, broader expertise and greater professional responsibility, while also increasing valuers' potential exposure to liability. The expansion of the scope of work should therefore be accompanied by correspondingly higher fees and realistic delivery times, rather than being treated as an unpaid addition to a standard valuation. The article thus serves as a guidepost, demonstrating that the future of the profession relies on the ability to forecast the long-term 'resilience' of property value within a rapidly evolving regulatory environment.

Property valuation for secured lending is no longer concerned only with the question: 'How much is the property worth at the valuation date?' Banks increasingly expect the valuation to help them assess whether that value can be sustained over the life of the loan, what may threaten it, and whether the property is likely to remain saleable, fit for use, insurable and compliant with building regulations. Three developments are driving this change:

- the entry into force of the amended Capital Requirements Regulation (CRR)[1];
- the inclusion of climate-related and environmental risks in banks' risk management processes; and
- the resulting expansion of lenders' internal valuation guidelines, which remain far from uniform.

A review of the current guidelines of eleven banks providing loans secured on property in Poland shows that their expectations of valuers are developing faster than valuation methodology itself. In addition to market value, valuers are now asked to consider the long-term reliability of their assumptions, marketability and marketing periods, remaining economic life, physical and transition risks, energy performance, adaptation costs, environmental certification, access to public transport and social infrastructure, property management, and insurability. Some banks also expect recommendations on how identified risks might be reduced. As a result, the valuer is no longer providing only an opinion of value, but also information about the risks associated with the property and its suitability as collateral.

This development gives the valuation profession a more important role, but it also creates new professional risks. The scope of the assignment is not always clearly defined, valuers may be expected to comment on matters beyond their expertise, and apparently precise 'yes/no' forms can conceal gaps or uncertainty in the available information. A clearer reporting framework is therefore needed – one that brings prudential requirements into established valuation practice while keeping risk identification, its effect on value and the bank's lending decision clearly separate.

1. A New Benchmark: Property Value under the CRR

The amended CRR changed the prudential rules for valuing real estate collateral. All provisions have applied since 1 January 2025. Article 4(1)(74a) of the CRR introduces the concept of "property value", defined as the value of immovable property determined in accordance with Article 229(1). This is not simply a new name for market value, nor is it a continuation of mortgage lending value. It is a regulatory benchmark based on prudently conservative valuation criteria.

Under Article 229(1), the property must be valued independently of the bank's mortgage acquisition, loan processing and lending decision processes. The valuation must be carried out by an independent valuer with the necessary qualifications, ability and experience. The prudently conservative criteria require, in particular, that expectations of future price increases be excluded and that allowance be made for the possibility that the current market value is significantly higher than the level that could be sustained over the life of the loan. The value must also be documented clearly and transparently and must not exceed market value.

The CRR also limits the extent to which the value of collateral may be increased when it is subsequently revalued. A bank cannot automatically raise the property value to the current market value simply because property prices have risen sharply in recent years. In such cases, the Regulation refers to the average value measured over a longer period. Exceptions apply, among other things, where modifications to the building unequivocally increase the property's value, such as improvements in energy performance or resilience to physical risks[2].

The key change, therefore, is not the mandatory application of a single reduction factor. The CRR does not prescribe a universal discount for ESG factors. Their effect on property value should be assessed on a case-by-case basis, taking into account the property's characteristics, market conditions and the materiality of the risk identified. The CRR requires consideration of which aspects of the current market and the property itself may not be sustainable over the life of the loan. This assessment may affect the selection of comparable evidence, income assumptions, operating costs, vacancy rates, capitalisation or discount rates, capital expenditure, the projection period or the property's remaining economic life. Where the effect cannot be quantified reliably, it should be reflected in the discussion of uncertainty and risk.

This shift from 'value at the valuation date' to the 'sustainability of value' has important practical consequences. The valuer must distinguish ordinary market volatility from factors that may undermine the stability of the collateral. These may include temporarily inflated rents, lease terms above prevailing market levels, a short-lived premium caused by limited supply, a highly specialised property with limited alternative use, a property approaching the end of its economic life, foreseeable expenditure required to meet regulatory standards, or a widening energy performance gap between the property and competing stock.

2. ESG as a Factor Affecting Value

In banking practice, ESG is often treated as an extensive checklist of property characteristics. From a valuation perspective, however, a checklist is not enough. Environmental, social and governance factors matter when they affect, or may affect, the market, income, expenditure, liquidity, useful life, insurability or financing of the property. The purpose of ESG analysis should be to determine the property's value and assess whether that value is sustainable – not simply to award a premium to 'green' buildings and apply a discount to all others.

> *"The purpose of ESG analysis should be to determine the property's value and assess whether that value is sustainable – not simply to award a premium to 'green' buildings and apply a discount to all others."*

Physical risks include acute events, such as floods, torrential rainfall, wildfires, storms and heatwaves, as well as chronic processes, including rising temperatures, water scarcity, ground subsidence and the gradual deterioration of conditions in which a property can be used. Their effect on value may arise through repair and adaptation costs, more frequent disruption to business operations, loss of income, a shorter useful life, higher insurance premiums or the withdrawal of insurance cover. Ultimately, these risks may also reduce the number of potential buyers and lenders.

Transition risk arises from the move towards a low-carbon economy. Its sources include energy regulation, taxes and energy prices, the standards expected by tenants and investors, the requirements of financial institutions, and changing user preferences. A building may remain technically sound while losing its competitive position because of high energy demand, limited scope for modernisation or rising compliance costs. The latest iteration of the Energy Performance of Buildings Directive[3] lays down the mandatory renovation and decarbonisation of the worst performing building stock as well as rooftop solar installation for all but existing residential, by short deadlines. Valuers should therefore consider the resulting legal requirements, identify relevant national targeted buildings and compliance deadlines, and assess whether the necessary improvements are both practically and economically feasible.

Social and governance factors depend more heavily on the type of property. Access to public transport, accessibility for people with disabilities, safety and user wellbeing may influence demand and tenant retention. The quality of maintenance planning, the completeness of property records, compliance of the current use, green lease clauses and planned capital expenditure may all affect the level of sustainable income. Not all these matters, however, are characteristics of the property itself; some relate to the particular owner or operator. Value should not depend on the exceptional skill or resourcefulness of a single party, which may constitute goodwill. The valuation should therefore distinguish between management practices that are typical and could be replicated by market participants, and expertise that is specific to the current owner or occupier.

3. What Do Polish Banks Currently Require?

An important clarification is required at the outset. None of the eleven banks analysed explicitly instructs the valuer to determine or report a separate figure identified as "property value" within the meaning of Article 4(1)(74a) CRR. The commissioned valuation remains a determination of market value. However, some banking guidelines contain isolated references to particular prudence, the sustainability of value, long-term market characteristics or the risk of a future decline in value. These references may reflect an emerging response to the prudently conservative valuation framework introduced by CRR3, but they do not constitute a coherent or operational definition of property value.

For this article, several documents issued to valuers by eleven institutions were reviewed: Alior Bank, Bank Millennium, Bank Pekao, BGK, ING Bank Śląski, mBank, PKO BP, Santander Bank Polska – renamed ERSTE Bank Polska on 24 April 2026, SGB-Bank, UniCredit and VeloBank. The material included general guidelines on property valuation and valuation report preparation, risk assessment forms and, in some cases, separate ESG appendices. The review is qualitative and reflects the requirements set out in the documents made available to valuers. It is not an assessment of the banks' internal lending policies.

The guidelines share a common legal foundation, most often referring to the Polish Regulation on Property Valuation, the main secondary legislation governing property valuation in Poland. Banks emphasise the valuer's independence, personal inspection of the property – although the law allows an inspection to be waived in justified circumstances – the transparency of calculations, a description of the property's legal, technical and functional condition, analysis of the relevant market, determination of market value, and disclosure of any circumstances that may limit the property's suitability as collateral.

The Polish Regulation on Property Valuation requires the valuer to identify areas of risk that may affect the property's value in the future and to disclose any circumstances identified during the valuation that may limit its suitability as security for a loan. This information must be included in an appendix to the valuation report[4]. Banks are increasingly requiring a separate risk assessment form based on their own template. They may also ask the valuer to assess the property's marketability, estimate its marketing period, comment on its remaining economic life, analyse the cost of completing or adapting it, and consider whether its value can be sustained over the longer term.

Banks are also increasingly asking valuers to identify ESG factors. Four banks have developed particularly detailed requirements. PKO BP refers to physical and transition risks, liability risk, changing consumer preferences, renewable energy sources, building certifications, and contamination affecting the property or its surroundings. ERSTE Bank Polska, while still operating under the Santander brand, combined environmental factors with social and governance considerations and expressly linked the analysis to the long-term sustainability of the collateral value. Pekao SA requires an opinion on how climate-related, environmental and social risks may contribute to a future decline in value. It also asks for annual non-renewable primary energy demand (EP) and final energy demand (EK), certification details, information on renewable energy sources, access to social infrastructure and planned modernisation. mBank's form covers contamination, protected areas, floods and landslides, adaptation measures, social impacts, legal compliance, green lease clauses, thermal modernisation, consumer preferences, renewable energy sources and building certifications, followed by a summary and recommendations.

The Valuer's Role in Reporting Contamination

"Contamination" here means primarily potential contamination of soil or groundwater, the presence of hazardous substances, waste or harmful materials on the property, and contamination associated with its former use. Some bank guidelines use the term more broadly and combine it with environmental hazards or nuisances arising from neighbouring properties, such as industrial emissions, landfill sites, noise or vibration.

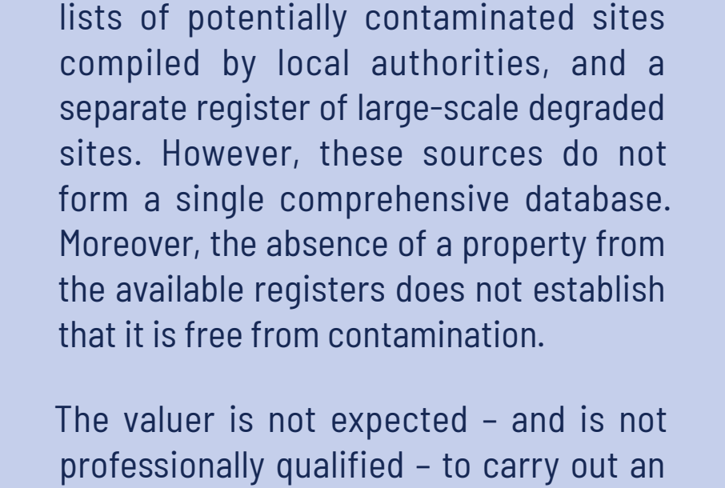
Poland has official records, including the national register of historical land contamination maintained by the General Directorate for Environmental Protection, lists of potentially contaminated sites compiled by local authorities, and a separate register of large-scale degraded sites. However, these sources do not form a single comprehensive database. Moreover, the absence of a property from the available registers does not establish that it is free from contamination.

The valuer is not expected – and is not professionally qualified – to carry out an environmental site investigation or confirm the absence of contamination. The valuer may check available records and documentation, consider the property's current and former use, and note visible warning signs during an ordinary inspection. This is a non-invasive observation, not soil or groundwater testing. Where the available information or observed conditions indicate a potential problem, the valuer should recommend an assessment by an appropriately qualified environmental expert.

This is why the binary "Yes/No" format used by some banks is problematic. A "No" answer may incorrectly imply that contamination has been excluded, when it may mean only that no contamination was recorded in the sources reviewed and no visible indications were observed within the limited scope of the valuation inspection. The form should therefore allow answers such as "not identified within the scope of the valuation", "not determined" or "specialist investigation recommended", together with the information sources and limitations.

Picture: Interactive map of environmental pollution on the Geoserwis website, managed by the General Directorate for Environmental Protection.

Source:
https://geoserwis.gdos.gov.pl/mapy/



---

[1] Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor

[2] art. 229.1e CRR3: where the property is revalued, the property value does not exceed:
  - the average value measured for that property, or for a comparable property over the last six years for residential property or eight years for commercial immovable property
  - or the value at origination, whichever is higher.

[3] Directive (EU) 2024/1275 of the European Parliament and of the Council of 24 April 2024 on the energy performance of buildings

[4] Regulation of the Minister of Development and Technology of 5 September 2023 on Property Valuation (Journal of Laws of 2023, item 1832), § 54.2.

The remaining documents reflect different stages in the same development. Alior Bank requires an opinion on environmental protection and an assessment of investment risks. UniCredit refers to environmental, hydrological and geological hazards, possible contamination and a risk appendix that takes ESG factors into account. ING Bank Śląski uses a detailed property risk form, although in the residential material reviewed, the climate-related section focused mainly on flood risk. VeloBank requires the valuer to identify environmental risk, assess the property's remaining economic life and comment on its marketability. SGB-Bank places emphasis on possible future loss of value, the property's suitability as collateral and the identification of risk areas. Bank Millennium requires an appendix addressing areas of risk, but the one-page document reviewed does not contain a separate ESG checklist.

Against this background, the relevant distinction between the banks is not whether they require Property Value to be determined, but which elements associated with the CRR framework they ask valuers to address. The terminology, scope and level of detail of these requirements differ considerably, and the guidelines do not explain how the individual elements should be integrated into the valuation. Table 1 therefore maps these fragmented and indirect references; it should not be interpreted as evidence that any of the banks has adopted Property Value as a separate valuation basis or reporting figure.

Table 1. Scope of Selected Bank Requirements

BANK	REFERENCE TO PROPERTY VALUE[5]	KEY ESG FACTORS
Alior Bank	No reference. Assessment of a property's suitability as security for a debt.	Identification of risk areas, a detailed environmental survey.
Bank Millennium	No reference	No reference
Bank Pekao	An overall assessment of the direction in which risks are likely to affect the future value of the property being valued.	Identification of risk areas, a detailed environmental survey, climate risk, ESG-related property certificates.
BGK	The principle of particular prudence[6] (typical market behaviour).	Identification of risk areas, a detailed environmental survey, climate risk, ESG-related property certificates, the EP energy demand, which is essential to meet the needs associated with the use of the building and S issues (including the impact of a property/investment on the local community) as well as transition risk and market changes.
ING Bank Śląski	No reference. Assessment of a property's suitability as security for a debt.	Active online form. No reference to ESG.
mBank	No reference	An additional appendix on the assessment of environmental risks, verification of sustainability certificates, S issues (including the impact of a property/investment on the local community), G issues (green contracts, does the property comply with applicable laws and regulations?) as well as transition risk and market changes.
PKO BP	The principle of particular prudence (typical market behaviour). Assessment of a property's suitability as security for a debt.	Identification of risk areas, a detailed environmental survey, climate risk, ESG-related property certificates, the EP energy demand, which is essential to meet the needs associated with the use of the building.
Santander (renamed ERSTE Bank Polska on 24 April 2026)	Santander: The principle of particular prudence (typical market behaviour) ERSTE: Opinion on the future value of the property in the context of risks: downward trend / stable / upward trend. Assessment of a property's suitability as security for a debt.	The assessment of environmental risks, verification of sustainability certificates, S issues (including the impact of a property/investment on the local community), G issues (green contracts, does the property comply with applicable laws and regulations?) as well as transition risk and market changes.
SGB-Bank	Compliance of the valuation report with CRR3. Assessment of a property's suitability as security for a debt.	The assessment of environmental risks and verification of sustainability certificates.
UniCredit	The principle of particular prudence (typical market behaviour). The assessment of environmental risks and verification of sustainability certificates.	Direct consideration of the benefits or risks associated with ESG factors.
VeloBank	No reference	A description of environmental factors.

Source: Author's own compilation based on banks' property valuation guidelines.

In this context, European Valuation Guidance Note 2 – Valuation For Mortgage Lending – Prudently Conservative Valuation Criteria (EVGN 2), has particular importance. It appears to be the only existing European professional guidance that explains, from the valuer's perspective, both what a valuation prepared for secured lending should cover and how the relevant factors should be analysed and reported. Rather than merely listing formal requirements, it links the valuation process with the lender's need to assess the quality, stability and resilience of real estate collateral over the expected duration of the loan.

EVGN 2 is currently being enhanced to reflect the increasing importance of energy performance and climate-related, environmental and other ESG factors where they may affect marketability, income, expenditure, liquidity, useful life, insurability, access to finance or the future sustainability of value. Importantly, these factors are not treated as grounds for an automatic or undifferentiated "ESG adjustment", but as potential channels through which identifiable risks may influence value.

The enhanced guidance is also intended to clarify the boundary between the market value determined at the valuation date and the broader forward-looking assessment required by lenders. It encourages valuers to identify material risks, explain their possible impact and time horizon, distinguish effects already reflected in market evidence from risks not fully reflected in the valuation, and disclose limitations where reliable quantification is not possible. In this way, EVGN 2 provides a common analytical framework for an area in which individual banks are currently developing their own, often significantly different, reporting requirements.

4. From Valuation to a Comprehensive Assessment of the Collateral

A comparison of bank requirements shows a clear change in both the structure and scope of the valuation report. The traditional report is built around four main stages:

1. identification and description of the property;
2. market analysis;
3. selection of the valuation method; and
4. calculation of the value and presentation of the final opinion.

The emerging 'banking' model continues to require market value to be determined at the valuation date but, depending on the requirements of the individual bank, may add some or all of the following stages:

5. a prudence-oriented review of whether the key valuation assumptions are adequately supported and sustainable, without requiring the valuer to determine property value as a separate figure;
6. identification of material risks;
7. analysis of how those risks may affect the property's value and marketability; and
8. the valuer's opinion on any factors that may limit the property's suitability as collateral.

Bank requirements have continued to evolve since 1 January 2025 in response to the changes introduced by CRR3. Three issues deserve particular attention:

1. Avoiding the double counting of risk

If poorer energy performance is already reflected in market rent, vacancy, operating costs and the capitalisation rate, applying an additional arbitrary ESG discount would penalise the same characteristic more than once. The valuer should explain where and how each material factor has been reflected in the valuation. Where market evidence does not support a reliable estimate of its effect, scenario analysis, sensitivity testing or a qualitative description of the residual risk will usually be more appropriate than an arbitrary percentage adjustment.

2. The growing importance of the time horizon

A risk may have no effect on current rent or price but may become material when expected regulations take effect, leases expire, refurbishment becomes necessary or the property has to be refinanced. The relevant risk horizon should therefore be considered alongside the property's remaining economic life, refurbishment cycle and – where this information is known at the valuation date – the term of the credit exposure. The valuer is not expected to forecast every change in the wider economy or local market but should identify foreseeable events that may affect the property's competitive position.

3. Greater reliance on information beyond traditional transaction data

Relevant valuation assumptions may increasingly draw on sources such as:

- energy performance certificates
- energy audits
- flood hazard maps
- registers of landslides and contaminated land
- insurance policies
- claims history
- technical documentation
- capital expenditure plans
- BREEAM, LEED and other building certifications (including EPCs) and
- lease agreements

These sources differ in quality, scope and currency. The valuer should distinguish between independently verifiable evidence, such as public records, information supplied by the client, findings from the property inspection and assumptions adopted where reliable data are unavailable. The report should make the evidential weight and limitations of each source clear.

The cumulative effect of these requirements is substantial. What may appear to be a series of minor additions can require the valuer to consult multiple registers and data sources, analyse physical and transition risks, review energy performance and environmental information, assess marketability and the remaining economic life of the property, consider potential adaptation costs and complete a separate bank-specific form. This is not merely an extension of the property description. It involves additional research, professional judgement, documentation and, in some cases, identification of matters requiring specialist advice.

5. An Expanded Role Means Greater Responsibility and Corresponding Fees

The new requirements strengthen the valuer's position in the lending process. It is the valuer who brings together the physical, legal, economic and market characteristics of a property to form a coherent opinion of value. Neither an automated model nor the expertise of a single technical specialist – for example, a bank employee without professional valuation qualifications – can replace this overall assessment.

1. Recommendations

A valuer may point out that measures to improve the energy performance or flood resilience of a property could reduce risk. Where adequate information prepared by appropriately qualified specialists is available, the valuer may reflect the associated expenditure in the estimation of value. The valuer's role does not extend to designing technical solutions or independently verifying their effectiveness or cost. Any recommendation in a valuation report should therefore be framed as a matter requiring further investigation or specialist advice.

2. Suitability as collateral

The valuer identifies characteristics that may restrict marketability, alternative use or the stability of value. The final decision on whether the property is acceptable as collateral and how much finance to provide rests with the lending institution. The guidelines of PKO BP and Santander, among others, state this explicitly: the bank reviews the valuation report and makes the final lending decision of the collateral. This boundary should remain clear even where the bank's form is headed "assessment of suitability".

3. Contractual and insurance implications

The guidelines reviewed include higher expectations regarding professional indemnity insurance. UniCredit and Pekao link the expected level of cover to the value of the property or collateral. UniCredit's requirements are particularly explicit: they recommend that the valuer's liability towards the bank – which may be understood as the required level of insurance cover – be no less than 5% of the market value stated in the valuation report. Where construction is being financed, the reference is the value of the property in its completed state.

4. Impact on fees

If the valuer is expected to undertake additional risk analysis, the terms of engagement should define its scope, sources of information, limitations, required standard of care and intended users. The fee and delivery timetable must reflect the work actually involved. An extended report cannot safely be provided as an unpaid appendix to a standard valuation.

The bank guidelines analysed specify the additional information and forms to be provided but do not address the valuer's remuneration or allow a separate delivery period for this work. The study did not examine individual fee arrangements and therefore cannot establish whether valuers are, in practice, paid more for completing these additional tasks. Nevertheless, the documents generally present them as integral elements of the standard valuation assignment rather than as separately commissioned services. There is consequently no indication in the guidelines of an automatic adjustment to either the fee or the delivery timetable.

Where a valuer is engaged directly by the client, the additional workload may be reflected in the fee after the valuer has identified the lending bank and reviewed its specific guidelines. Where valuation firms are contracted directly by banks, however, fees do not appear to have increased generally following the CRR amendments, despite the expansion of the required scope of work.

6. The Need for a Common European Language

A comparison of bank guidelines in Poland reveals not only a broader role for the valuer, but also considerable variation between individual banks. The same issue may be described as an ESG factor, a risk area, a circumstance limiting the suitability of the collateral, or a potential cause of future value decline. Some forms require only identification, others an assessment of impact, and still others a summary and recommendations. Some also blur the distinction between characteristics of the property, risks associated with the borrower and the current quality of property management.

The European Valuation Standards 2025 provide a basis for bringing greater consistency to valuations for secured lending by linking the CRR requirements with the analysis of energy, environmental and climate-related factors. The next step should be a common minimum reporting framework for collateral valuations. This should include agreed definitions, a materiality principle, a risk taxonomy, a scale for assessing data quality, a method for flagging matters that require specialist input, and a clear distinction between market value, Property Value and the bank's subsequent decisions concerning the acceptability of the property as collateral and the amount it is prepared to lend.

Standardisation should not mean applying identical ESG adjustments to value – for example, reducing value by a fixed percentage simply because a particular ESG risk is present. It should instead provide a consistent approach to identifying, assessing and documenting relevant factors. The bank should be told whether a particular risk has been considered, what evidence the assessment is based on, how the risk may affect the property, and whether its effect has already been reflected in the reported value. At the same time, valuers' responsibility should be clearly defined and limited to opinions that fall within their professional competence and can reasonably be supported by the information available. Assessments requiring specialist technical, environmental or hydrological expertise should be undertaken by appropriately qualified experts.

> *"The next step should be a common minimum reporting framework for collateral valuations."*

Conclusions

CRR3 and the development of ESG requirements are changing valuations for secured lending from a point-in-time estimate into a broader assessment of the longer-term economic resilience of the property offered as collateral. Market Value remains the valuer's principal conclusion, but it is no longer the only information provided to the reader of the valuation report. Increasing attention is being paid to assumptions that can be sustained over time, resilience to physical and transition risks, adaptation costs, marketability, remaining economic life, insurability and the quality of the underlying data.

This broader remit should not blur the valuer's role. The valuer does not assume the bank's responsibility for the lending decision, nor the responsibilities of engineers, environmental auditors or climate specialists. The valuer's particular expertise lies in identifying material factors, assessing their relevance to the market, reflecting them consistently in the valuation and communicating uncertainty clearly.

The future of the profession therefore lies not in producing ever longer checklists, but in moving from form-filling to a well-reasoned opinion on the resilience of value. This will require better data, interdisciplinary training, an appropriate scope of engagement, adequate time and remuneration, and a common language shared by valuers, banks and insurers. The greater the valuer's responsibility, the more important it becomes to define its boundaries clearly.

References and Source Materials

Regulation (EU) No 575/2013 of the European Parliament and of the Council – consolidated text applicable from 1 January 2025.

Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 (CRR3), in particular Article 4(1), point (74a), and Article 229(1).

Directive (EU) 2024/1275 of the European Parliament and of the Council of 24 April 2024 on the energy performance of buildings (recast).

Regulation of the Minister of Development and Technology of 5 September 2023 on Property Valuation (Journal of Laws of 2023, item 1832), § 54.2.

European Banking Authority, *Guidelines on Loan Origination and Monitoring*, EBA/GL/2020/06, in particular the provisions on the valuation and monitoring of collateral.

TEGOVA, *European Valuation Standards 2025*, 10th edition.

Étienne Winisdœrffer *The European Valuer at a Crossroads: From Technician to Strategic Risk Advisor*, European Valuer Journal, Issue n° 39, May 2026, Special Edition

Guidelines and forms issued by the banks covered by the review: Alior Bank, Bank Millennium, Bank Pekao, BGK, ING Bank Śląski, mBank, PKO BP, Santander Bank Polska / ERSTE Bank Polska, SGB-Bank, UniCredit and VeloBank. Documents supplied to the author; information reflects the versions made available for analysis.

---

[5] Indirect references potentially relevant to property value and prudently conservative valuation criteria. The inclusion of a requirement in this column does not mean that the bank explicitly requests the determination of property value.

[6] Under the bank's guidance, the "principle of particular prudence" requires the valuation to exclude any goodwill attributable to the current owner or operator, reflect typical market behaviour, and rely only on those property characteristics and income streams that may reasonably be regarded as sustainable over time and available to any typical owner. The valuer is also expected to disregard temporary circumstances capable of causing a sudden increase or decrease in value and not attribute value to above-standard building equipment or finishes. The principle therefore operates as a prudence-oriented filter intended to remove owner-specific, exceptional or short-lived influences from the valuation. However, the guidance neither identifies the resulting figure as property value within the meaning of the CRR nor specifies a separate methodology for its calculation.

Izabela Rącka PhD REV is a Certified Valuer, University Professor at the University of Kalisz (Poland), Director of Property House and Member of the European Valuation Standards Board where she is leading the revision of European Valuation Guidance Note 2 "Valuation for Mortgage Lending – Prudently Conservative Valuation Criteria".

TEGOVA

The views expressed in this publication are those of the authors and do not necessarily reflect the official stance of TEGOVA.

To contribute an article or to send a letter to the editor commenting on one, contact
info@tegova.org

Editor: Michael MacBrien

www.tegova.org