

Europe Has a Gameplan and Real Estate is Part of it

By Michael MacBrien

At one level, land and the built environment are eminently local affairs, but at the same time many policies impact real estate, and that's how the EU got its property foothold: via business, industrial, environmental, energy, agricultural and social policies with real estate fallout: free circulation of capital meant freedom to invest in real estate anywhere without hindrance; freedom to provide services meant that property professionals could offer their services anywhere they wanted. Property was massively caught up in the passage of environmental, energy and climate action policy from national to EU level and now all national sustainability efforts are founded on a bedrock of EU requirements.

And yet, until just yesterday you could have argued that none of this was fundamental because nation states remained in charge of the key aspects of political, social and economic life: taxation, social spending, economic and monetary policy, all of which is high impact for real estate. Even the advent of the euro didn't change this because all that Europeans really gave themselves were the trappings of a currency without the economic and budgetary underpinnings.

But the crisis showed that up for what it was and in the end the choice for Europeans was clear: ditch the currency or start behaving like a country. To the chagrin of so many punters, they've chosen to stick together and stick it out. In so doing, the Union is morphing into a completely new animal and for real estate it's a whole new ballgame.

Europeans now have a mean, lean way of getting things done, the unequivocal 'European Semester': Finance ministers and heads of government from the Eurozone and countries

planning to adopt the Euro gang together and tell each other what to do – or else: Eurozone states can be fined 0.1% of their GDP if they don't get their house in order.

Why put up with that? Because we now all know that the failure of one small country can spook the markets and drag everybody down. So European governments rely on their common civil service – the European Commission – counselled by all that is grandest in the field of economic policy, to inform their decisions on what to do collectively and individually to stay afloat and once they agree on that it becomes the Tables of the Law, reviewable annually. Often it serves as convenient cover for governments that want to reform but fear the street.

How does that work for real estate?

What we see is that planning law, housing market and rent (de)regulation and the valuation of property for tax purposes are fundamental to the health and stability of the entire economy and that economy is now European, with all Eurozone and countries planning to join, now minding each other's real estate business.

Then there's the reorganisation of European financial markets encompassing real estate fund managers, and Banking Union, a task of Pharaonic proportions being carried out in record time with immense property market impacts. The proportion of their capital banks are allowed to lend for different kinds of real estate and the conditions under which they can undertake mortgage lending are just the most obvious property impacts of the shift of banking regulation and prudential control from national to European level, right up to and

including the power of European authorities to walk in and shut down a bank. Same goes for consumer protection; witness the European Court of Justice's empowerment of local Spanish courts to review the conditions imposed by Spanish banks in the event of default on mortgages.

This is part of a broader effort to marshal all EU policy for the headline goal of a stable and sustainable economy. For real estate, a prime example is the buildings component of climate action.

The Union didn't wait for the crisis to have the world's most ambitious and coercive legislation for the energy efficiency of the building stock, but all that is now mixed in with the European employment and growth policy so badly needed to offset all the Euro-austerity and give people a positive horizon. Europeans agree on prioritising green growth, green jobs and a low carbon economy, and with buildings making up 36% of the total carbon footprint, the great debate right now is how to go beyond the current energy performance renovation and certification requirements and stimulate the economy by doing what it takes to reduce the building footprint by 40% by 2030 and 80% by 2050. The debate now is about setting binding targets on member states to ensure that the goal is reached.

There's just one thing missing: democracy. Especially in times of crisis and recession, people need to know they can hire and fire those who manage their pain. In its stumbling, bumbling way, the Union is rising to this challenge as well. The European Parliament is using its power to good effect and jostling for more, and it looks like in next year's elections the European parties in sync with their national components will each present a candidate for President of the European Commission. Debate has also begun about involving national Parliaments directly with doubtless more to come as this amount of power pooling demands accountability. That all this should run in parallel with the Europeanisation of real estate policy is no coincidence. Property is at the heart of political life. ●

Michael MacBrien is director general of the European Property Federation and adviser to TEGoVA.

TEGoVA Secures Presence in Key Dutch and Irish Markets

By Krzysztof Grzesik REV, Editor

The two articles on this page demonstrate the success of TEGoVA members in Ireland and the Netherlands in winning market support for European Valuation Standards and the Recognised European Valuer mark of excellence. In line with fundamental principles of the European Union, TEGoVA believes that the public good is best served by healthy competition amongst the providers of valuation service across all local real estate markets. ●

Diversity in the Market Keeps Everyone on their Toes



By Siep Roelfzema BSc,
Chairman of the Business
Property Division of VBO
Makelaar (The Netherlands)

On 18th May this year I stayed in the picturesque city of Bruges with its many historical buildings. They are compelling proof of the truism that good quality premises (the 'solids' of the Middle Ages) can always be put to use for a different purpose, often with stunning results. A topical theme indeed! The aim of my visit was topical as well. On that memorable Saturday I persuaded the TEGoVA General Assembly to afford full membership to my organisation, VBO Makelaar. We are now able to demonstrate that our valuations are of the high quality demanded in the financial world. In recent years, there has been a great deal of confusion resulting in the call for proper guidelines, transparency and standardised valuations. Quality and integrity are what the world of valuers is all about.

At the same time valuations have been dominated for far too long by RICS valuers. For many banks, the fact that there are also

other certified valuers delivering high quality work is of absolutely no interest. Not an RICS member? Then no valuation nor advice accepted! Thus a large group of valuers (who have put a great deal of time and energy into strengthening their level of professionalism) risks being caught offside by the banks, the government and official bodies which opt all too quickly for an RICS consultant. But taking the easy road does not always mean taking the right road. Diversity in the market keeps everyone on their toes and drives the players to greater heights.

TEGoVA is meeting the challenge set by RICS. It's a good thing that both the Dutch Business Association of Accountants and the Financial Markets Authority have thrown their weight behind the basic principles of TEGoVA. Now we have the fine task of persuading financial institutions about the value of VBO Makelaar's membership of TEGoVA, a respected international organisation that stands for quality and a high standard of valuation practice, and one that is not based on an Anglo-Saxon point of view! We will also reassure accountants of our reliance on the code of conduct. Such assurances will certainly be required when the year-end audits take place.

Our members can now focus on obtaining Recognised European Valuer status. This will not be a problem for our well-trained and highly experienced valuers. ●

IPAV brings Blue Book to Ireland



By Pat Davitt, CEO,
Institute of Professional
Auctioneers and Valuers

TEGoVA members should keep a watchful eye on their country's Central Bank to ensure that they are not unfairly displaced from their local market as nearly happened to my organisation, the Institute of Professional Auctioneers and Valuers (IPAV) in Ireland.

In December 2011, the Irish Central

Bank published a draft paper titled "Valuation Processes in the Banking Crisis – Lessons Learned". The paper was critical of the standards used by some valuers and the lax approach displayed by financial institutions. It recommended that the only valuation standards to be used for commercial property valuations should be those of the RICS "Red Book" because " ... *The Royal Institution of Chartered Surveyors 'Red Book' of valuation standards is consistent with the principle rules of International Valuation Standards and is considered to be appropriate practice and compliant with the Capital Requirements Directive (CRD)*" There were several other references to the RICS but none to IPAV in the document.

In response IPAV expressed its deep concerns to the Irish Central Bank about the creation of a monopoly in favour of one professional body in Ireland leaving IPAV out in the cold. IPAV argued that its members had from 5 to 40 years experience in valuation work.

The Central Bank in acknowledging our concerns promised that they would be reflected in its final paper. The latter, issued in December 2012, recognised that there were indeed many valid valuation standards and practices, declaring that "*Market valuations should be carried out in accordance with the RICS Valuation Standards (Red Book) or European Valuation Standards (Blue Book) or International Valuation Standards (White Book)*".

IPAV subsequently entered into negotiations with the Central Bank proposing to follow TEGoVA's European Valuation Standards with immediate effect and as an awarding body for TEGoVA's Recognised European Valuer (REV), it is now moving quickly to protect its members' interests by vetting many of its valuer members who meet the educational, experience and practising requirements of the REV mark of excellence.

In this connection, IPAV has just run its first course to bring 65 of its members up to full REV standard and is also setting up an inspectorate to enforce the TEGoVA and IPAV codes of conduct.

The experience described above represents a huge and important step forward for our Institute and it is beholden upon all members to grasp it. Since IPAV's endorsement of European Valuation Standards, KBC Bank Ireland which in 2012 had removed all IPAV valuers from its valuation panels, has now reinstated them provided that they are awarded REV status by the end of December 2013. Other financial institutions have also agreed to change their instructions to valuers to include recognition of both TEGoVA's European and RICS Valuation Standards.

I am sure that this fantastic result can be achieved in other European countries as well. It is important to maintain contact with your Central Bank and to be vigilant against the establishment of a monopoly in favour of any single professional body. ●

TEGoVA Engaged in EU-China Trade Project



Jeremy Moody delivers presentation in Beijing

The European Union is China's largest trading partner and its largest market, and the EU and China form the second largest trading

relationship in the world. The European Union is committed to supporting China's sustainable development – supporting China's integration into the world economy, helping China continue to alleviate poverty, and supporting transparent and effective governance in China.

Since 2010 The European Union – China Trade Project II (EUCTP II) has initiated activities to support the Chinese government's trade reform and sustainable development agenda by working, inter alia, to facilitate harmonisation with international standards, encourage a more transparent legal environment and work towards transparency and good governance.

The EUCTP II project has also included assistance in the area of asset valuation culminating at a Chinese government seminar in Beijing on 14th June. The Chinese National People's Congress is drafting a law on valuation and the valuation profession to replace an earlier State Council law developed for the disposal of state owned enterprises. In this connection the EU turned to TEGoVA for advice and the latter dispatched Jeremy Moody of the UK's CAAV and Vice Chairman of the European Valuation Standards Board, to Beijing to meet with the Chinese representatives and to speak at the seminar.

The speakers from China included the Director of the Congress' Department of Administration and Law and representatives from the Ministry of Finance, the Ministry of Construction and Urban/Rural Housing, the Chinese Real Estate Valuers Association, the China Appraisers Society and the Chinese Institute of Real Estate Appraisers.

Jeremy Moody's presentation covered all aspects of property valuation in Europe

including European Valuation Standards, education of valuers, professional qualifications, and the Recognised European Valuer mark of excellence.

The presentations provoked a lively debate between the Chinese delegates. In particular opinion was divided on the question of whether the law should provide a single framework for all valuations or whether real estate and business valuation should be treated separately because they required different skills, knowledge and experience.

Certainly the European representatives from both disciplines tended towards the latter view and so did most representatives of the Chinese real estate valuation profession. However no consensus on this question was reached and the debate in China is ongoing.

Looking ahead, TEGoVA plans to meet with a delegation from the Chinese Real Estate Valuers Association this autumn in London to discuss further cooperation opening up the possibility of Chinese observer representation in TEGoVA. ●

EU Economic Governance – European Semester Real Estate Results

European Semester 2013 Table of Recommendations by Council of Ministers (correlated by TEGoVA)

	Rationalise Planning Law	Remove Barriers to Retail by Tackling Lengthy or Discriminatory Authorisation Procedures	Instate or Increase Recurrent Property Tax	Update Cadastral Value for Recurrent Property Tax or Reassess Tax Base	Rationalise and Liberalise Housing Market and Rent Regulation	Increase Competition and Simplify Procedures in Construction
Austria			x	x		
Belgium		x				
Bulgaria						
Croatia	x		x		x	
Cyprus	x		x		x	
Czech Rep.			x			
Denmark		?		End freeze		x
Estonia			(a)	(a)		
Finland	WJPR		WJPR			
France		x				
Germany		x	x	x		x
Greece	x			x		
Hungary		x	(b)			
Ireland			✓	✓		
Italy			x	x		
Latvia			WJPR	x		
Lithuania			x	✓		
Luxembourg				x		
Malta			x			
Netherlands	x				x	
Poland			✓			x
Portugal	x		x		✓	
Romania			x	x		x
Slovakia			x	x		
Slovenia			WJPR			x
Spain		x	x		x	
Sweden	x		x		x	x
UK	x		x	x	x	

EU Economic Governance as embodied in the European Semester does not lead to EU law, but rather to 'recommendations' to member states to reform themselves. Housing policy and other property-sensitive policies that are not EU legislative competence become EU policy in this way.

The European Semester runs from January to June. It began this year with the Annual Growth Survey by which the Commission gives general economic governance advice to all member states and it concluded on 9 July when the Council of Ministers amended and approved the Commission's country-specific recommendations.

Compared to last year, the most significant change is that **the requirement to increase property tax is now completely focussed on recurrent tax and there is a strong new emphasis on either updating the cadastral value underpinning the tax or switching to a market value basis.**

The table adjacent reviews the property-relevant Council Recommendations. ●

Key:

- ✓: Council satisfied with progress
- empty: Council not asking for anything
- X: Council wants country to do something about a perceived problem
- WJPR: Withholding Judgment Pending Reform

- (a): Commission notes negatively the abolition of the land tax (on small and medium-sized plots of primary residences) based on outdated land registry values but stops short of recommending tax reversal or registry update
- (b): but postpone until housing market gains momentum

The Secretariat



From Left to Right: Michael MacBrien, François Isnard (Managing Director), Gabriela Cuper

Brussels is the 'Capital of Europe', but few have a clear sense of what that means. For some, it's a hive of unelected regulation-spewing bureaucrats; for others it's opaque.

Brussels is indeed the seat of bureaucracy, but also democracy as this is the place where national ministers meet, negotiate, quarrel, make up, spout communiqués and wrestle with a European Parliament that now has the muscle to take them on. There are still some indigenous Belgians left but they are charmingly discreet, happy to watch people they would never consider 'foreigners' build a European demos, with four thousand negotiators flying into town every working day, mingling with tens of thousands of permanent lobbyists and the biggest press corps in the world.

In the midst of all this, the TEGoVA Secretariat's mission is to convince the European authorities that the best way of regulating valuation standards and professional qualifications is by supporting TEGoVA. The Mortgage Credit Directive and its EU imprimatur for TEGoVA and EVS are a high point in a constant dialogue with European officials and politicians, garnering interest and support.

The Secretariat plays a major role in demystifying the EU, tracking and analysing valuation-relevant EU initiatives, planning and coordinating lobbying campaigns, advising the Board on all aspects of TEGoVA activity and servicing the ever-expanding TEGoVA machine – 53 professional bodies from 30 countries, 24 REV-awarding associations and the pipeline of candidates for both.

At the end of the day the bedrock of EU support for TEGoVA is its membership. In their dialogue with 'stakeholders', the European authorities strongly favour organisations representing the mass of the profession from all over Europe and for this, TEGoVA is now unrivalled. Attending to members and helping create a sense of camaraderie are some of the most useful things a Secretariat can do. ●

European Code of Measurement Withstands Test of Time

By Krzysztof Grzesik REV, Editor

It would appear that European Valuation Standards 2012 have become a popular reference not only amongst valuers but also the wider real estate community including building owners, tenants, lawyers and leasing agents, all because of the inclusion in Part 3 (page 185) of the "Code of Measurement of Distance, Area and Volume".

The European Code of Measurement dates back 25 years to 1988. At that time TEGoVA's predecessor The European Group of Valuers of Fixed Assets (TEGoVoFA) pioneered measurement standards for property valuation. The Code has since withstood the test of time requiring only minimal changes to definitions. Thus whilst the content has expanded significantly over the years, the valuation-relevant references to Gross Floor Area, Internal Floor Area, Net Floor Area in the EVS 2012 Code are taken almost word for word from the original Code of 1988, as repeated in EVS 2003.

Thus, in relation to the measurement of buildings the most relevant areas are defined as follows:

3.22 Gross External Area (also called Gross Floor Area (GFA)) is the area within the outside of the exterior walls of the building envelope and so includes the thickness of the perimeter wall of the building ("extra muros").

The Code recommends application of GFA for the calculation of building costs (also for insurance valuation purposes), site coverage and for planning and zoning purposes.

3.25 Gross Internal Area (also called Internal Floor Area (IFA)) is the Gross External Area after deducting the Exterior Construction Area ("intra muros").

The Code recommends application of IFA for the calculation of building costs, industrial building, shop and warehouse agency and valuation practice.

3.26 Interior Construction Area (ICA) is the area of the internal structural components of the building within the perimeter walls, so recording the area taken up by load bearing columns and supporting walls.

3.27 Net Floor Area (NFA) (also called the Effective Floor Area or the Rentable Area) is

the Internal Floor Area (IFA) after deducting the Interior Construction Area (ICA).

Alternatively Net Floor Area (NFA) is stated to be the usable area offered by all floors within a building to the exclusion of internal structural walls, vertical ventilation, wiring or pipe ducts and structural columns larger than one square metre (subject to local market practice), staircases and lift wells, lift motor rooms, tank rooms, transformer rooms and high and low tension areas. Also excluded is space occupied by permanent air conditioning, heating or cooling apparatus and surface mounted ducting not installed by or on behalf of the tenant or not used for special purposes such as computer operation, processing and manufacturing.

Furthermore in the case of office buildings NFA should exclude common parts and service areas including entrance halls, landings and public space, albeit additional common areas created by the subdivision of a single floor to accommodate several tenants are to be included in the calculation. In some cases common parts may be apportioned between the building's occupiers.

The Code recommends application of NFA for the purposes of agency and valuation practice as well as for service charge apportionment.

The only significant difference between the codes of 1998 and 2012 lies in the calculation of Gross and Net Internal Areas. In the past the Code advised that measurements be taken at a height of 1.5 metres above the floor and that each floor should be measured at all levels between internal surfaces of external building walls or to the glass line if at least 50% of the outer building is glass. The Code of 2012 simply states that "measurements are to be taken at a specified height above the floor" and the glass line rule has been withdrawn.

It should be noted that the Code does not define how different types of property are to be measured as this will depend on the local market. It sets out what is meant by a particular measurement basis and the types of property and valuation for which it may usually be employed. ●