

Editorial: In European valuation standards, the operative word is “European”

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Introduction

Valuation standards are either national or international, that is clear, except in Europe.

It all flows from history. Over 70 years, in a kind of Echternach procession, three steps forward and two steps back, an ever-larger number of countries have built themselves a Union that is still not and may never be a state – the European Union (EU).

It looks messy and it is because that is what Europeans want: a Union that can do the things their individual countries cannot do alone but where the buck stops with the member states which even have a government of sorts: 27 men and women in a room with a phone, and to get ever more done, they spend ever more time in that room.

The internal market

The EU’s cornerstone achievement is a single, “internal” market ensuring free movement of people, goods, services and capital. Like the Union itself, it is still a work in progress with major challenges such as capital markets integration, but overall, it runs very deep, and real estate illustrates that the freedom to buy, sell and let property anywhere in the Union without any obstacle is total, and real estate professionals have freedom to practice wherever they want beyond anything even in federal states like Canada or the USA.

But “immovable property” also epitomises the local, and the EU respects that housing policy, rent regulation, planning and zoning, building codes and property taxation are all fields crucial to real estate markets that EU law avoids or barely touches. These fields are all high valuation impact, hence the continuing need for national valuation standards.

At the same time, in 30 years, cross-border property investment has gone from next to nothing to being the second most important capital flow from foreign countries into the EU and between member states, while the major economic and financial phenomena impacting property markets are pan-European, and the EU is now the master of policy areas with the direct effect on property values such as climate law.

The European Group of Valuers’ Associations (TEGOVA) and the EU

That is the context that brought TEGOVA’s European Valuation Standards (EVS) into their own. They provide valuation practitioners with the knowledge they need, not just for cross-border work or pan-European investor clients but for assimilating the ever-increasing EU impacts on their local property environment. These EU impacts are crucial not just for valuers operating in the EU but also for those in the European economic area which is entirely integrated into the internal market and in the EU candidate and pre-candidate member states which must adopt the entire EU *acquis* before joining. In all, between 550 and 600 million people including the near totality of TEGOVA’s 70,000 qualified valuers from 70 valuers’ associations in 38 countries, applying

EVS project EU valuation concepts, adapt valuation standards to EU policy and prepare the ground for EU action.

EU internal market legislation is peppered with valuation concepts and definitions which EVS adopts, interprets and projects. Currently, the revision of the Capital Requirements



Regulation is set to produce a completely new concept of “prudently conservative valuation criteria,” which EVS will need to reconcile with the equally EU-legislated concepts of “market value” and “mortgage lending value”.

EVS turns cutting edge EU policy into equally new valuation practice. For example, in a few months, the revision of the Energy Performance of Buildings Directive (EPBD) in line with EU-mandated carbon neutrality by 2050 and 55% emission reduction by 2030 will translate into rapid, sustained renovation of the building stock. EVS 2020 already contains a new standard that requires valuers to estimate the cost of a renovation deep enough to meet required new levels of energy efficiency and consider the extent to which these costs affect market value at the date of valuation.

But how? As soon as the Council of Ministers and the European Parliament agree on the detail of the EPBD, our EVS Board will take up the challenge of providing valuers with guidance.

The tragedy of war on our home ground has ushered in a vast valuation project. Following the request of the State Property Fund of Ukraine, the EVS Board has just completed guidance on applying EVS in wartime circumstances covering two very different angles: the valuation for compensation purposes and valuation of the cost of reconstruction in particular to “build back better” to the latest European Green Deal standards in the context of Ukraine’s EU accession process and in the expectation that the EU will be the top contributor to the reconstruction.

It is doubtless this total imbrication in the EU process that caused the European Central Bank to give EVS precedence over all other standards in successive editions of its Asset Quality Review manual for the valuation of real estate collateral. It also led to EVS expansion to business valuation and plant, machinery and equipment valuation and to recognised European valuer qualifications for all three fields, all of it conceived and designed to foster convergence in valuation across Europe, providing common ground and best practice regarding methodology, reporting and valuation approaches for valuers, public authorities, investors and the financial industry throughout the Union and beyond.

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Editor’s note

In this issue of the *Journal of Property Investment and Finance*, we are very privileged to present research papers from the European Group of Valuers’ Associations (TEGOVA). As noted in the editorial above, property valuation standards are central to the transparency and efficiency of property and economic markets across Europe and, indeed, worldwide. Property values literally underpin the finances of society, and, as such, it is important that our professional bodies not only have a strong united voice but are learnt societies that understand the challenges faced by property valuers in all markets. The publications in the main section of this themed issue on property valuation illustrate the depth of such knowledge and insights from TEGOVA. We hope that you enjoy the papers presented here on the valuation process and comparable evidence and the ever increasingly important topic of the use of automated valuation models.