

## Valuation at the Centre of EU Real Estate Policy



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The purpose of this introduction to TEGoVA's EU policy work is to give the big picture and address the key question: Why are there *European* valuation issues when property is such a local thing requiring very local knowledge? And if there's been some globalisation of real estate investment and valuation, then surely *international* standards are what are needed, not European. Why Europe?

Below, I explain that the European Union is the new frontier for property investment, that the opening up of that frontier is going to help us emerge from the crisis, and that valuation, and very specifically TEGoVA's European Valuation Standards (EVS) and Recognised European Valuer (REV) scheme, are a central part of the whole process.

## What's European about real estate?

For many property professionals, it's not obvious. Most people take pan-European property investment for granted, as if it were some kind of automatic fallout from 'globalisation'. And yet, current events are making it clear that, in a world of sovereign states, where treaties and 'open markets' are here today and gone tomorrow, nothing is guaranteed, especially concerning the right to buy land and buildings. Witness, even before the crisis, China's crackdown on foreign property investment, about which nobody can do anything.

The only place cross-border property investment is guaranteed is the EU, because it's not a trading bloc, it is a union of European citizens founded on real political institutions and a real Court of Justice that guarantee the right for everybody to buy and sell property wherever they want, without obstacle.

The very meaning of 'freedom to invest in property' varies from night to day depending on whether you're talking global or European. Globally, it means, at best, that there's no law formally forbidding foreigners from buying local real estate. Beyond that, there can be any amount of controls, and foreign investors are often a captive market for all local real estate service providers. In the EU, freedom to invest means the whole package: Investors can not



only buy wherever they want, they can use their own estate agents, valuers, architects and contractors, from the investor's home country or from anywhere else in the Union. And above all, the EU means security: these freedoms can never be repealed.

This was not done in a day. It took more than thirty years just to get free movement of capital, the basic building block of cross-border property investment.

Then there's the great penchant of national governments to obstruct. The European Court of Justice had to build up case law neutralising governments that paid lip service to the principle of freedom to buy property, but kept inventing niggling administrative requirements for foreigners only. Only the EU can overcome that kind of bureaucratic interference, and it does.

New entrants to the Union often have land purchase fears. In the last big accession wave, several candidate member states tried to retain controls on property investment for 'transition periods' of up to 18 years. The European Property Federation, with which TEGoVA now works closely, explained to the European Commission that this would undermine the whole foundation of the EU Internal Market, mortgage lending in particular, not to mention the damage to local people deprived of a competitive property market. The Commission took this point and stood firm.

Recently, there was an attempt to exclude real estate services, including valuation, from the scope of the Services Directive. That, too, was defeated, but it shows how resistant local privilege and captive markets are.

On any market, the health of valuers' clients, property investors, depends, not just on the services investors offer, but on those they receive. The EU competition authorities have a long tradition of uncovering and dismantling European cartels of companies that provide goods and services to building owners. Valuation services have never been a problem, but contractors and building component suppliers have, and recently, lift and escalator cartels were fined a record  $\notin$  992 million, and property companies can seek damages on top of that.

## The new wave of EU regulation

Thus, free movement of capital, freedom to provide services and free competition are the bedrock of property investment across the EU. It took decades to achieve that, but now Europe has entered a new period of political and economic integration which is helping property markets and at the same time, supervisory legislation regulating property fund managers and the dismantling of the last obstacles to cross-border property investment are making a substantial contribution in their own right to a stronger and safer European economy. On top of that, EU energy and environment policy targeting buildings is opening up new property investment and valuation opportunity.

Looking first at the EU Internal Market, if there's one thing now obvious to everyone, it's how dependent real estate is on the financial system. Imagine what would have happened without the euro. A number of Eurozone countries could have seen their local currency collapse, and the local economy and real estate could have gone down with them. Think what would have happened if Eurozone leaders hadn't led in stemming the financial blow-out. We can now face a future where the economy and the property markets that emerge from this will be shaped by



the European Union and its priorities: a unified market underpinned by a dynamic, low-carbon economy.

On this macro level, first, real estate will benefit along with the rest of the economy from extension of the Eurozone to cover almost the entire Union, with the power of the euro felt well beyond its borders.

Second, there will soon be true European oversight of the solvency and liquidity of credit institutions. To what extent this will be done by a centralised European authority alone or in collaboration with national regulators remains to be decided, and, as ever in European integration, there will be trial, error and gradual improvement, but the political will is now there. In the current context, it's hard to overestimate the importance for the property industry of stronger, safer financial markets.

But equally essential for the whole economy, is the safety and security of the property markets themselves, and crucial to that are two fundamentals: 1) new EU supervisory rules directly targeting real estate fund mangers and their valuation practices and, 2) removing the final obstacles to cross-border property investment and mortgage lending. That's why TEGoVA is working with the European authorities on the valuation aspects of the supervisory rules and why TEGoVA, the European Property Federation and their allies are leading the effort to get EU legislation facilitating cross-border investment by real estate investment trusts, or REITs, and by open ended real estate funds.

The second fundamental impact of the EU on real estate is the fight against climate warming. Buildings are key – 40% of CO<sub>2</sub> emissions come from buildings – and the EU, working with us, has produced a raft of legislation that could make European real estate the world leader in carbon reduction and in overall environmental performance: energy performance renovation and certification requirements for buildings are being increased, including renewable energy, and also extended to water performance of the building and, in response to a two-year effort by TEGoVA, EPF and allies, there will be harmonisation of the certification categories of commercial buildings so that investors and developers can market their environmentally cutting edge buildings globally and valuers can start integrating the EU energy grades into their reports. The EU Ecolabel is being extended to buildings, EU green public procurement is prioritising construction, and construction products will have to be more environmentally friendly to earn the EU CE mark facilitating cross-border trade. EU flood management rules are keeping property above water and EU money is repairing the damage already done, for instance in the UK.

It all means a sea change to planning, construction and investment culture for half a billion people, a massive challenge and opportunity for investors and valuers.

## **TEGoVA at the heart of the process**

All these events have placed valuation issues at the centre of EU policy and TEGoVA at the heart of the legislative process:

• The Energy Performance of Buildings Directive imposes energy performance certificates (EPCs) for all buildings in Europe, but it won't realise its full potential until valuers



actually factor into their valuations the EPC and the grade it gives the building. TEGoVA is working on that, adapting EVS and REV accordingly.

- On the Alternative Investment Fund Managers Directive, TEGoVA is working with the European Commission, the European Parliament and the Council of Ministers to ensure independent valuation of real estate assets and valuation frequencies adapted to real estate.
- In the work on an EU passport for open ended real estate funds, TEGoVA is working with the Commission on harmonised rules on frequency of valuation, valuation and the sale and purchase price, notification of the valuer to the regulator and minimum professional indemnity insurance cover for the valuer.
- The European Commission wants to free up the mortgage credit market so that people can use their own home banks to buy secondary residences wherever they want: Valuation is crucial here. The Commission's draft Recommendation recommends that member states promote the use of TEGoVA's European Valuation Standards and that member states should ensure that minimum professional qualifications for property valuers "such as those set by TEGoVA" exist and are adhered to within their territory.

But perhaps the most exciting aspect of all this is the extent to which the success of crossborder property investment depends, not just on EU law, but on the rules and safeguards set and policed by the valuation profession itself. That's because common European valuation practice is truly market-led: In a cross-border context, first-time investors on a new and strange property market need reliable local valuation more than anybody else. They're more dependent on valuation than they would be in their home countries, which is why they need the assurance that their local valuer works according to the same core European valuation standards as in the investor's home country. Just as important, the investor needs to be sure that the local valuer is qualified to a recognised high European standard. That's why TEGoVA's European Valuation Standards and its Recognised European Valuer scheme have become central to the whole European cross-border property investment and valuation process, a cornerstone in a process of political, economic and business practice integration that could see Europe emerge from this crisis with the most efficient property market in the world.

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January 2010