Global Valuation Opportunities and Challenges
- International Activities @ HypZert

Appraisal Institute, 2016 Annual Conference
Charlotte, North Carolina, 26 July 2016
## Mortgage Lending Business 2014/2015

### Mortgage Lending Business - breakdown by type of property - 2014 and 2015

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Commitments</th>
<th>Outstandings</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014 (EUR mn.)</td>
<td>2015 (EUR mn.)</td>
<td>2014 (EUR mn.)</td>
</tr>
<tr>
<td>Commercial mortgage loans</td>
<td>53.901</td>
<td>61.619</td>
<td>236.849</td>
</tr>
<tr>
<td>Office buildings</td>
<td>25.930</td>
<td>29.585</td>
<td>114.430</td>
</tr>
<tr>
<td>Retail buildings</td>
<td>15.750</td>
<td>18.890</td>
<td>74.640</td>
</tr>
<tr>
<td>Hotel buildings</td>
<td>4.112</td>
<td>4.024</td>
<td>18.064</td>
</tr>
<tr>
<td>Industrial buildings</td>
<td>1.202</td>
<td>2.479</td>
<td>6.763</td>
</tr>
<tr>
<td>other commercially used buildings</td>
<td>6.907</td>
<td>6.641</td>
<td>22.952</td>
</tr>
<tr>
<td>domestic loans</td>
<td>30.935</td>
<td>35.370</td>
<td>138.941</td>
</tr>
<tr>
<td>cross border loans</td>
<td>22.966</td>
<td>26.249</td>
<td>97.908</td>
</tr>
</tbody>
</table>

Source: vdpResearch, vdp member institutions as of Dec 31, 2015
Global Valuation Opportunities and Challenges - International Activities @ HypZert

1. CIS HypZert (MLV) Certification
2. Long Term Sustainable Value (LTSV) Initiative
3. HypZert Professional Groups
4. HypZert Regional Groups
5. HypZert Exchange Program
HypZert Certifications

- CIS HypZert (M)
  - Real Estate Valuer for Market Value Analysis
    - Market Value Analysis (international)
  - Delta Exam to gain CIS HypZert (M)
    - Focus on International Methods and Markets

- CIS HypZert (F)
  - Real Estate Valuer for Financial Purposes
    - Market and Mortgage Lending Valuation for Standard and Special Use Properties
  - CIS HypZert (MLV)
    - Real Estate Valuer for Mortgage Lending Valuation
      - Mortgage Lending Valuation for Properties outside of Germany
  - Delta Exam to gain CIS HypZert (F)
    - Focus on Special Use Properties/Complex Commercial Properties

- CIS HypZert (S)
  - Real Estate Valuer for Standard Properties
    - Market and Mortgage Lending Valuation for Standard Properties

Real Estate Valuers of other accredited certification bodies, members of RICS or Appraisal Institute to gain CIS HypZert (F)

Focus on Mortgage Lending Valuation
Admission Requirements for CIS HypZert (MLV)

- Valid certificate awarded by a certification body for property valuation that is accredited pursuant to ISO/IEC 17024

or

- Member of RICS with a focus on property valuation

or

- Member of the Appraisal Institute (MAI)

or

- Recognized European Valuer (REV)
June 2016: 1,600 HypZert Certified Valuers
71 CIS HypZert (MLV) Valuers

- **France**: 20
- **UK**: 14
- **Netherlands**: 13
- **Austria**: 1
- **Sweden**: 4
- **Spain**: 2
- **Czech Republic**: 2
- **China**: 1
- **Hungary**: 1
- **Denmark**: 2
- **Finland**: 1
- **USA**: 3

CIS HypZert (MLV) Certification
Association of German Pfandbrief Banks (vdp) in cooperation with HypZert has founded a network of European valuation experts – mostly CIS HypZert (MLV) certified valuers

**Regulatory Background:**

Property valuation for lending purposes recently more and more came into focus of European Authorities such as ECB and EBA:

- **Asset Quality Review (AQR) undertaken by the European Central Bank (ECB) in the year 2014.**
- **Art 124 (4) CRR:** “EBA shall develop draft regulatory technical standards (RTS) to specify the rigorous criteria for the assessment of the mortgage lending value …”
According to CRR: **RTS** should have been finished until end 2014

In April 2015 a first draft was stopped due to open fundamental questions regarding scope of application and level of detail

October 2015: **Opinion on Mortgage Lending Value** was published by EBA:

- Scope of application of the RTS should be limited to the credit risk area, credit risk mitigation and the large exposure framework and **exclude Covered Bonds**
- Option to choose between MV or MLV for “CRR purposes” acc. to Art 124 (1) and Art. 229 (1) CRR should be decided on level of the member states or bank? EBA’s opinion: **Member State Level**
- EBA asks the European Commission to clarify and notes that until then “**it is not possible to progress further with its work on the mandate in Article 124 (4) (a) CRR.**”
**Status Quo**

- Many European countries do not use the concept of MLV / LTSV and therefore do not have any practical experience in its implementation.

- Difficult to discuss and find a common European understanding/approach of an LTSV in the existing European networks.

  ⇒ International methodology to determine LTSV is still lacking.

  But: Only matter of time until such a methodology will be developed by European banking supervision (EBA).
Objectives of LTSV Initiative

Achieve a common understanding and development of an **internationally applicable principle-based approach to determine a LTSV** by a European working group composed of valuation experts – mostly CIS HypZert (MLV) certified valuers

- No “European BelWertV”!

- Framework may contain **General Principles** applicable in all countries as well as **country-specific sections** taking into account the characteristics of the respective national real estate markets.

⇒ Acceptance and application of LTSV in Europe

⇒ Contribution to further European discussion on valuation for lending purposes as well as serving a basis for discussion on national levels about the potential of application of LTSV
Proceeding

- 1\textsuperscript{st} and initial workshop took place @ vdp, Berlin
- 2\textsuperscript{nd} workshop on 31\textsuperscript{st} May @ BerlinHyp, Berlin
- 13 October 2016: Presentation of the results/draft for LTSV determination at a conference in connection with HypZert’s 20\textsuperscript{th} anniversary Annual Convention
8 HypZert Professional Groups

- Care Facilities
- Hospitality & Restaurant Industry
- International
- Agriculture
- Energy & Environment
- Industrial
- Logistics
- Retail
Studies Published by Professional Groups (Selection)

- Valuation of Nursing Homes
- Valuation of Rehabilitation Centres
- Valuation of Hospitals
- Valuation of Retail Properties (English version available)
- Valuation of Logistics Properties (English version available)
- Valuation of Industrial Properties
- Valuation of Lodging Property (English version available)
- Valuation of Agricultural Used Properties
- Valuation of Assisted Accommodation
- Valuation of Real Estate with Photovoltaic Systems
# Valuation of Logistics Properties – Table of Contents

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1.3 Logistics properties
1.4 Types of logistics properties

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2.2 Germany as a logistics location
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2.4 Location analysis
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3.4 Fire protection
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4.3 Value of the building
4.4 Incidental building costs and outdoor installations
4.5 Rental factor
4.6 Operating expenses

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Valuation of Logistics Properties: Data Sheets - Example

Germany: “Distribution warehouse”

**Function:** Product distribution.
**User:** E.g. Retail foodstuffs, automotive
**Order picking:** Yes
**Access:** Goods vehicles – via drive-on ramps
**Storage:** Block, wide-aisle, narrow-aisle storage, Staging area approx. 15 m – 20 m deep

### Building Design

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Specifics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hall height (clear height below trusses)</td>
<td>10 m – 12 m</td>
</tr>
<tr>
<td>Hall depth</td>
<td>≥ 70 m – 100 m</td>
</tr>
<tr>
<td>Floors</td>
<td></td>
</tr>
<tr>
<td>Number of loading gates</td>
<td>1 per 800 – 1,000 m² usable area minimum</td>
</tr>
<tr>
<td>Support grid</td>
<td>15 m x 25 m to 25 m x 25 m</td>
</tr>
<tr>
<td>Load-bearing capacity of hall floor</td>
<td>Min. 50 kN/m² (5 t/m²)</td>
</tr>
<tr>
<td>Proportion represented by office space</td>
<td>3 – 8% of total usable area</td>
</tr>
<tr>
<td>Technical equipment</td>
<td>Sprinkler system, heating, Provided</td>
</tr>
<tr>
<td>Third party use potential</td>
<td></td>
</tr>
</tbody>
</table>

### Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard property sizes</td>
<td>20,000 – 80,000 m²; more in some cases</td>
</tr>
<tr>
<td>Land value</td>
<td>€30 – 100/m² (B area); €100 – 250/m² (A area) higher in some cases</td>
</tr>
<tr>
<td>Proportion of value attributed to the site</td>
<td>20 – 35%</td>
</tr>
<tr>
<td>Ratio of building to land area</td>
<td>1 : 2</td>
</tr>
<tr>
<td>Standard size of premises</td>
<td>≥ 10,000 m² usable area</td>
</tr>
<tr>
<td>Maximum hall section</td>
<td>10,000 m² usable area</td>
</tr>
<tr>
<td>Loading depth/marshalling area</td>
<td>approx. 35 m</td>
</tr>
<tr>
<td>Proportion of total investment represented by</td>
<td>18 – 30%</td>
</tr>
<tr>
<td>technical building fittings</td>
<td></td>
</tr>
<tr>
<td>Building ratio (usable area/gross external area (GEA))</td>
<td>approx. 95%</td>
</tr>
<tr>
<td>Building costs excluding outdoor installations (incl. VAT)</td>
<td>€400 – 750/m² GEA</td>
</tr>
<tr>
<td>Free spaces capable of accommodating heavy loads</td>
<td>Up to 680/m²</td>
</tr>
<tr>
<td>Incidental building costs</td>
<td>10 – 13%</td>
</tr>
<tr>
<td>Present market rental prices (property equivalent in quality to new premises)</td>
<td>€4.00 – 7.00/m² usable area</td>
</tr>
<tr>
<td>Gross income multiplier (rental value, property equivalent in quality to new premises)</td>
<td>11 – 14.5</td>
</tr>
</tbody>
</table>

### Valuation approaches

- **Maintenance**
  - Storage space: From €2.50/m² usable area
  - Office space: From €6.00/m² usable area
  - Outdoor installations: €9.20 – 0.40/m²
  - Administration: 1 – 3% of GRI p.a.
- **Loss of rental income risk**
  - ≥ 2% up to 40 years
- **Real estate interest rate**
  - 5.5 – 7.5%
- **Capitalisation interest rate**
  - From €2.50/m² usable area or 0.8 – 1.2% of cost of construction

### Market value

- From €2.50/m² usable area
- From €6.00/m² usable area
- €9.20 – 0.40/m²

### Mortgage lending value

- 1 – 3% of GRI p.a.
- ≥ 4%
- 15 – 40 years
- 6.5 – 9.0%
# Upcoming studies of the HypZert Professional Groups

<table>
<thead>
<tr>
<th>Professional Group</th>
<th>Upcoming Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Valuation of Stables</td>
</tr>
<tr>
<td>Care Facilities</td>
<td>Valuation of Refugee Accommodation</td>
</tr>
<tr>
<td>Hospitality &amp; Restaurant Industry</td>
<td>Valuation of Catering Properties (updated edition)</td>
</tr>
<tr>
<td></td>
<td>Valuation of Student Housing and Serviced Apartments</td>
</tr>
<tr>
<td>Industrial</td>
<td>Valuation of Industrial Properties (updated edition)</td>
</tr>
<tr>
<td>International</td>
<td>Time Rows for Yields and Bonds (Update)</td>
</tr>
<tr>
<td>Logistics</td>
<td>Valuation of Parcel Distribution Facilities</td>
</tr>
<tr>
<td>Retail</td>
<td>Valuation of Retail Properties (Updated edition)</td>
</tr>
</tbody>
</table>
11 Regional Groups
HypZert Regional Groups

- For HypZert Valuers free of charge
- Specialized lectures by different experts
- Networking
- CPD (Continuing Professional Development)
**Basic Information**

- Invented in 2007
- **Duration** 3 – 4 weeks
- No costs incur for the hosting company, HypZert and the employer of the participant will arrange everything.
- **Candidates:** Young professionals from valuation companies/ German Pfandbriefbanks, who are also financing/valuing in an international context
- **Hosting Companies:** Banks, Valuation Companies

**History:**

- 2008: USA (New York)
- 2010: Malaysia (Kuala Lumpur)
- 2010: Hungary (Budapest)
- 2011: USA (New York)
- 2012: France (Paris)
- 2014: Italy (Bologna)
- 2015: Italian Valuer hosted in Germany (Berlin)
- 2016: Spain (Madrid)
Objectives of Exchange Program

- Give the stagiaire some insights in the (valuation) peculiarities of the local markets the valuation practice and methodology in an international surrounding
- Familiarize him/herself with an international working field
- Deepen language skills
- General market understanding of market participants from other countries as well as
- the build-up of an international network should be promoted.
Thank you for your attention.

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