VALUATIONS IN A CRISIS ENVIRONMENT

The Greek experience

Konstantinos Pallis REV
Member of TEGoVA’s Board
Valuation Certainty: The security of the valuation depends on:
- the valuers application of professional skills
- clear instructions
- good evidence
- acting i.a.w. valuation standards

The better the evidence and the more professional the appraisal →
The more secure should be the valuation.

The potential certainty of a valuation is challenged where:
Markets are non-existent, thin or volatile.
EVS 2016
EVIP 2

**Future Risk:** Events subsequent to the valuation and any decision taken on its basis may create risks of losses. Such risks might arise from:
- changed market circumstances
- physical changes affecting the property
- regulatory changes or
- developments in the wider economy
SUPPORTING VALUATION CERTAINTY

TEGoVA has acted positively to support valuation certainty for the clients of the valuers by:
- generally requiring and supporting its member associations in upholding professional standards and ethics
- specifically by preparing and regularly updating European Valuation Standards (EVS)
- establishing the professional schemes REV and TRV identifying qualified and active property valuers
- establishing the European Valuation Practice and Methodology Board (EVPMB)
THE CRISIS AT EU DOORSTEP

The **Financial Crisis** emerged from the subprime loans market in the US and hit the European Economy.

In all countries that were hit, it ended up as a combination of banking sector problem with a spectacular drop in real estate assets, associated with increase of Non Performing Loans (NPLs).
EU RESPONSE TO THE BANKING PROBLEM

The EU responded to this by shifting the banking supervision power from the national level to the EU and in particular to the Eurozone and European Central Bank (ECB).

In order to know which banks needed to be saved or shut down, and also to avoid future systemic crisis, the ECB needed to know the quality of the banks’ assets.

This led to the introduction of a new concept: The Asset Quality Review (AQR), run for the first time in 2014 and already announced for 2018.
EU RESPONSE TO THE BANKING PROBLEM

The **Real Estate Valuation** was recognized as key to the whole process and a Chapter (5) was dedicated in the AQR Manual, giving instructions as to how the assets should be valued.

EVS (Blue Book) was also recognized as prevailing standard among the internationally accepted valuation standards, i.e. IVS, Red Book, Blue Book.
After over a decade of yearly strong growth of the GDP, fuelled partly with an increasing public deficit, 2009 signaled the beginning of the crisis. Greek economy lost almost 30% of its GDP over the last 10 years, along with almost 1mio workplaces.
This led to a very big loss of purchasing power that inevitably resulted a dramatic drop of transactions in the real estate market, where Greeks were traditionally placing their savings. Greek Real Estate market was practically shut down with over 80% drop of sales the last years.
As a result the assets lost 40% of their pre-crisis values. The residential sector had the biggest losses as it was linked directly with the troubled household income.
THE GREEK CASE

...and of course the supply chain was practically broken, affecting a very significant sector of the Greek economy.
THE GREEK CASE

The Valuers profession in the Greek market

Before 2009
- Free lance valuers, 99% Engineers, members of the Technical Chamber of Greece.
- 15 sworn in valuers regulated by law, dealing with Public Sector needs.
- Valuation market driven by the Banks.
- Banks offered specialized training for the Engineers – valuers that were active in the market.
- The Hellenic Valuation Institute, established in 2000, by the valuers community undertook the training of the valuers.
THE GREEK CASE

The Valuers profession in the Greek market

**After 2009**
- Establishment of the Association of Greek Valuers (AVAG).
- Opening of the valuer’s profession.
- Introduction of certification scheme i.a.w. ISO 17024.
- REV agreement between TEGoVA - AVAG.

**Today**
- 1300 valuers are AVAG members
- 420 valuers have REV status and are certified Real Estate valuers
- 291 valuers are certified Real Estate valuers
- 58 valuers are certified Plant & Machinery valuers
- The Ministry of Finance maintains the Registry of Certified Valuers with 554 members.
THE GREEK CASE

Methodological issues in a crisis environment

Valuation Approaches: Market Approach: lack of transparency regarding sales
EVIP 5 Valuation Methodology lack of sales

Income Approach: difficulties to assess the cap rates
extremely low rents due to tax burdens

Cost Approach: “last resort” approach
provides only an indication of market value
difficulties associated with the market approach
for assessing the land value
THE GREEK CASE

In brief: The Greek Valuers responded to the crisis by:

- Helping to set a better legal framework to regulate the profession.
- Introducing professional certification.
- Improving / intensifying training activity.
- Applying EVS & REV extensively.

Results

In the Aggregate report issued by ECB on the Comprehensive Assessment (AQR) the Greek Banks were ranked very well, supported by good quality valuation reports re. their collaterals, that were not challenged by ECB.
IN THE WAKE OF THE FINANCIAL CRISIS

TEGoVA supports valuation certainty by:
- generally requiring and supporting its member associations in upholding professional standards and ethics
- specifically by preparing and regularly updating EVS
- establishing the professional schemes REV and TRV
- identifying qualified and active property valuers
- establishing the EVPMB

Aftermath of the Crisis:
- These supports for valuation certainty are consistent with the requests from financial authorities, following reviews of the financial turmoil from 2008, seeking more transparency in valuations.
- The discussion is now moved to the issue of Risk Management.
- That requires that the risks to be appreciated and understood and while this is obviously focused on financial instruments, this can easily be read across to Real Estate.
THANK YOU!