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BANK OF GREECE

EUROSYSTEM

Bank of Greece

2nd conference on real estate market

Property valuations during crisis: consequences and risks

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Chairman RICS Hellas
Bluehouse Capital*



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Agenda

1. **European Economic Environment**
2. **Valuation Uncertainty**
3. **The Red Book - application of a global standard**
4. **Valuer Registration Scheme**



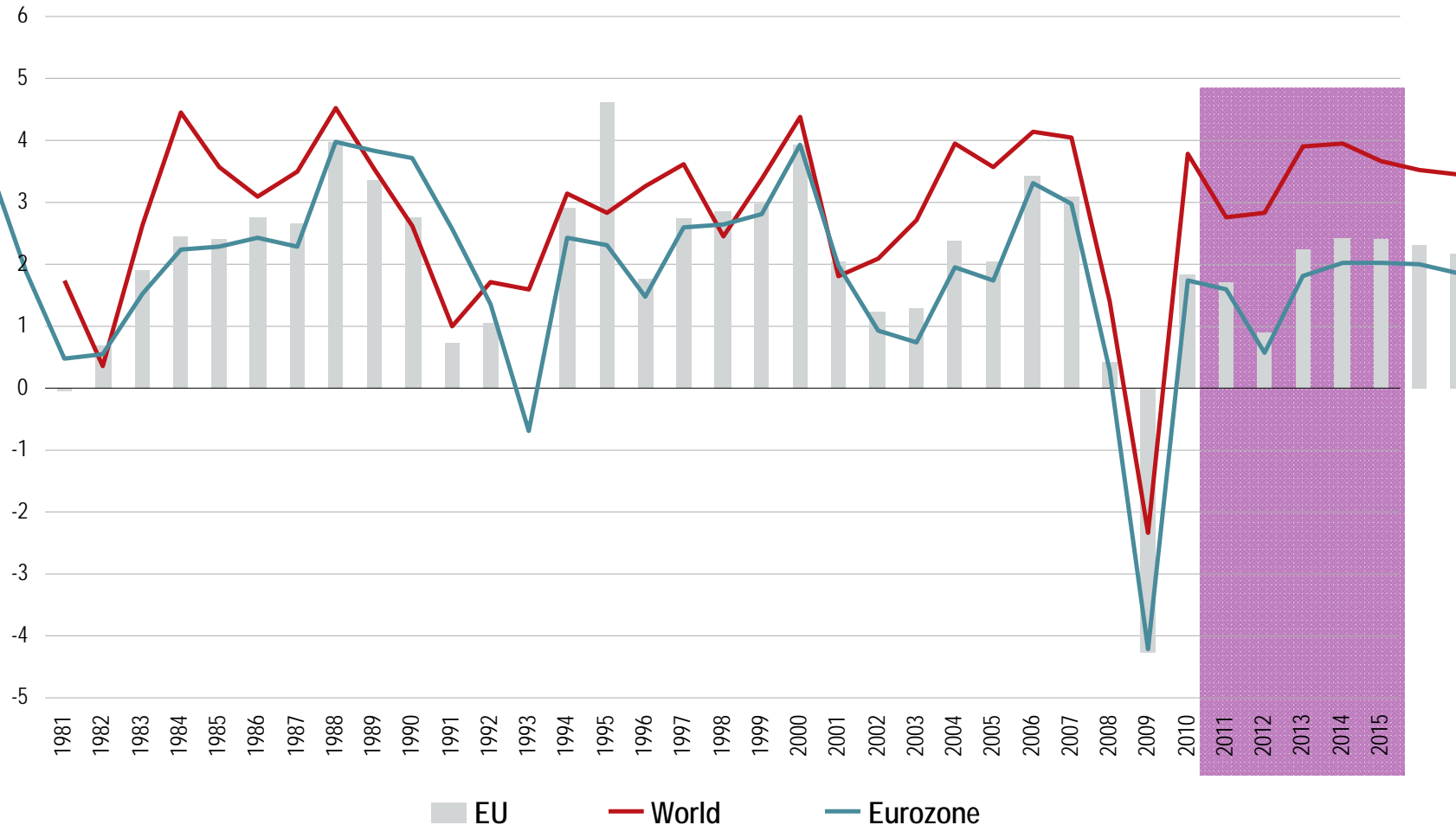
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Recovery Falters In 2012

GDP % YoY 1981-2015



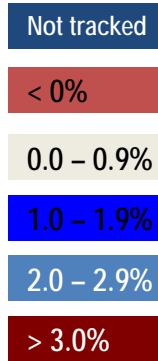
Source: Oxford Economics, October 2011



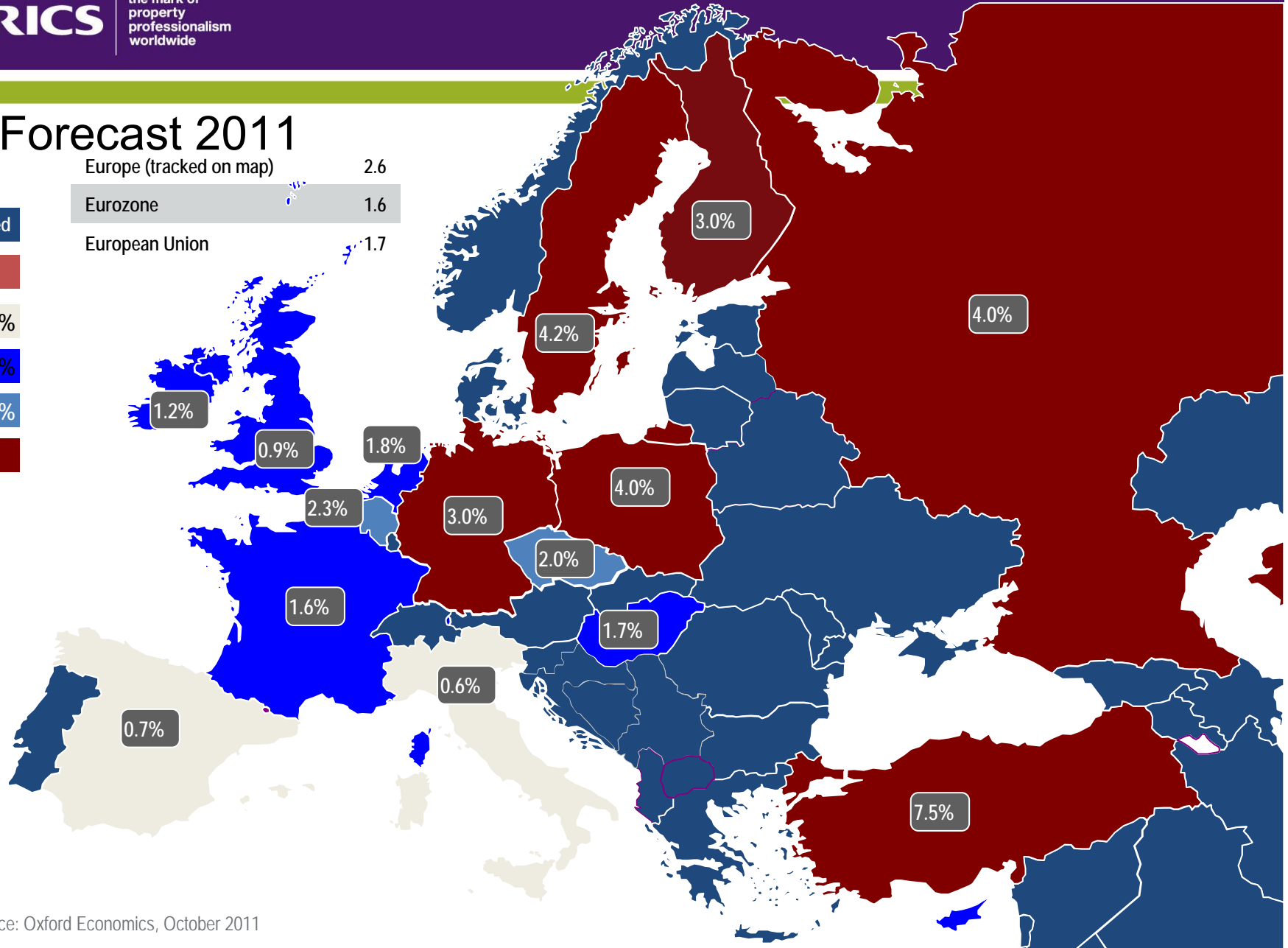
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GDP Forecast 2011



Europe (tracked on map)	2.6
Eurozone	1.6
European Union	1.7



Source: Oxford Economics, October 2011



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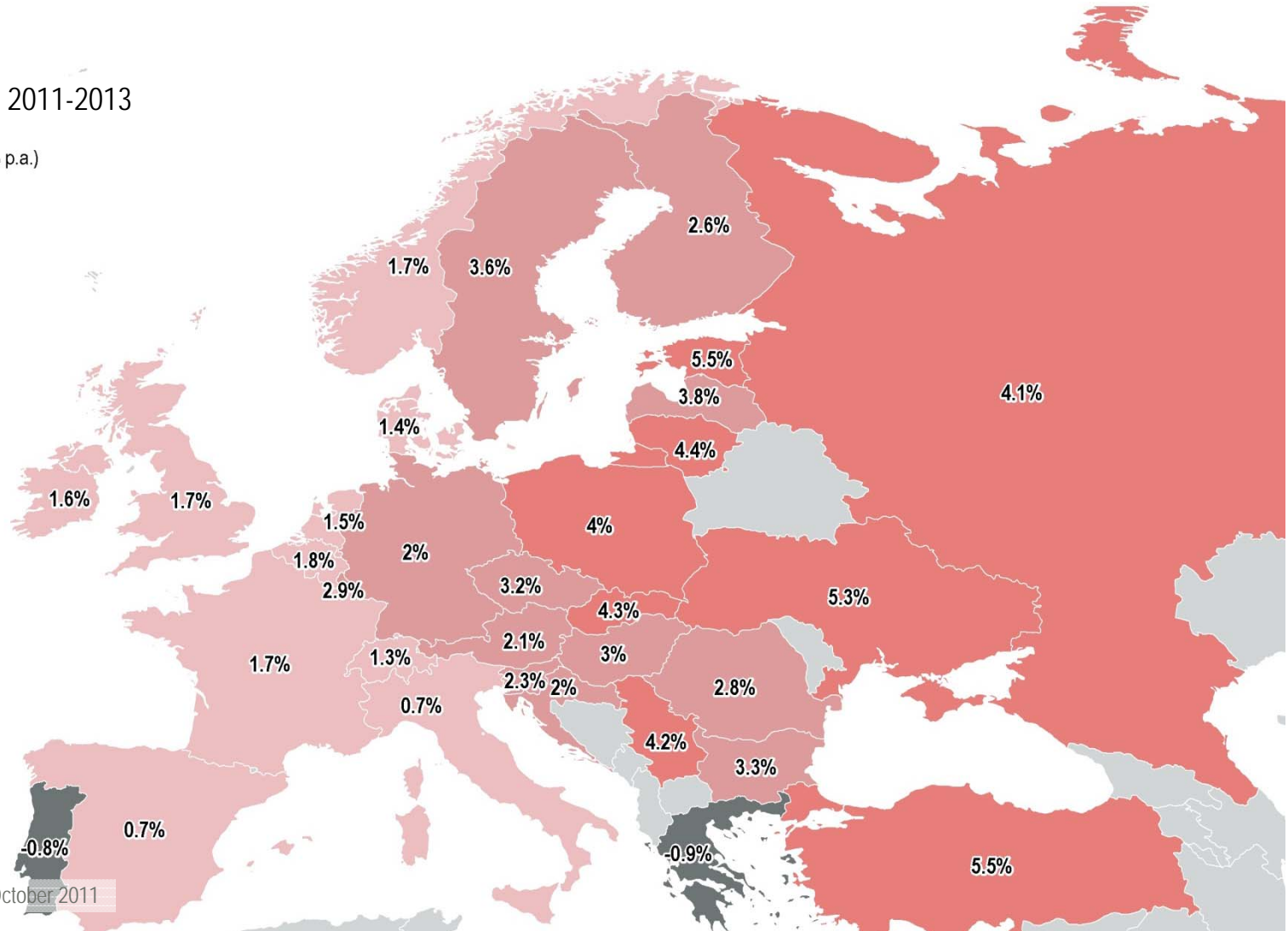
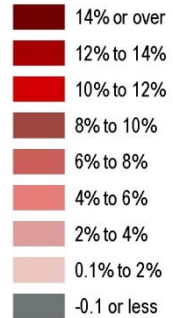
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Most Countries Forecast To See Moderate To Robust Economic Growth

GDP Growth Forecast 2011-2013

Real GDP

Growth Forecast 2011 - 2013 (% p.a.)



Source: IHS Global Insight, October 2011



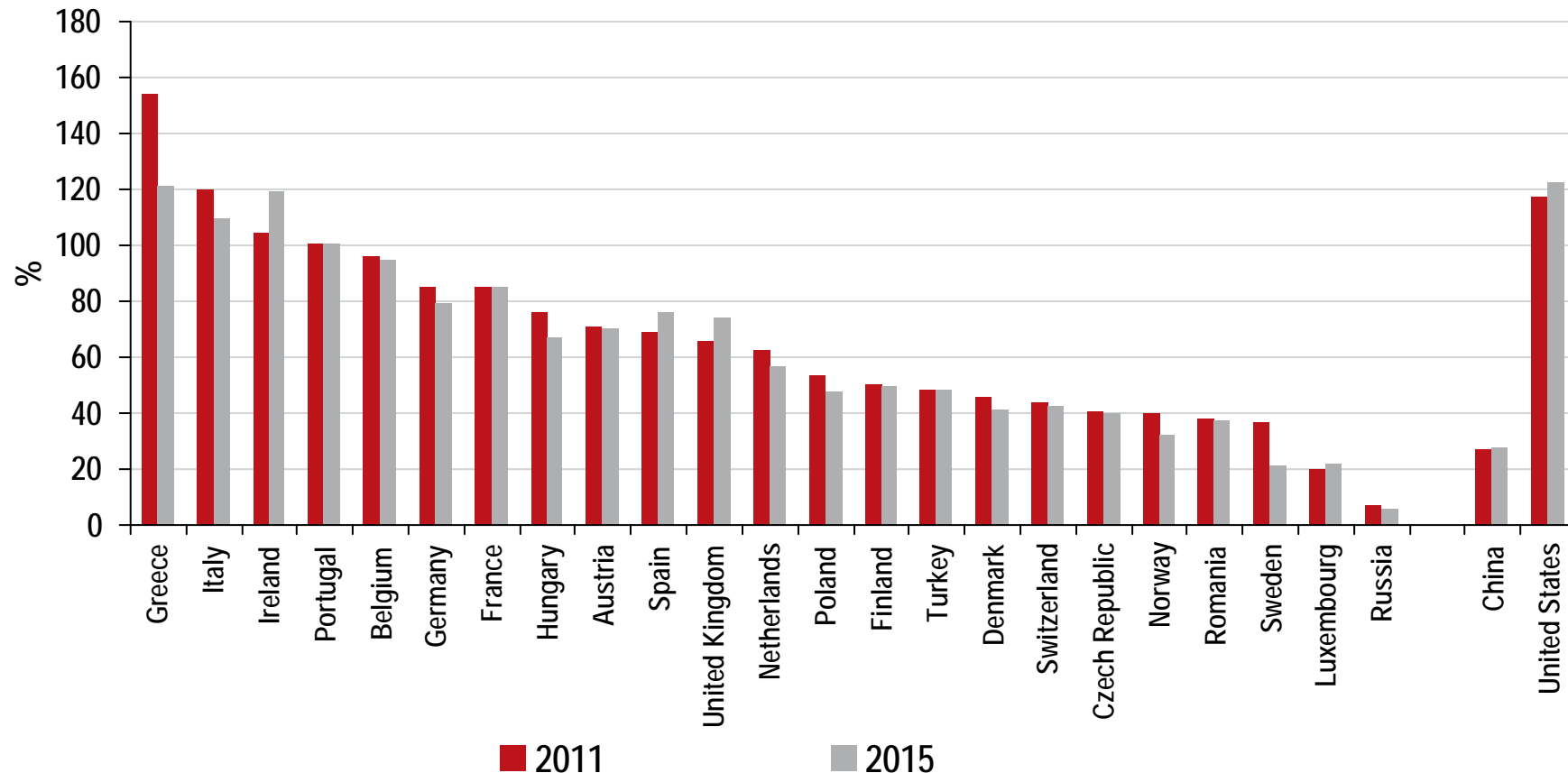
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Sovereign Debt Remains **THE** Issue

Government Total Debt as % of GDP



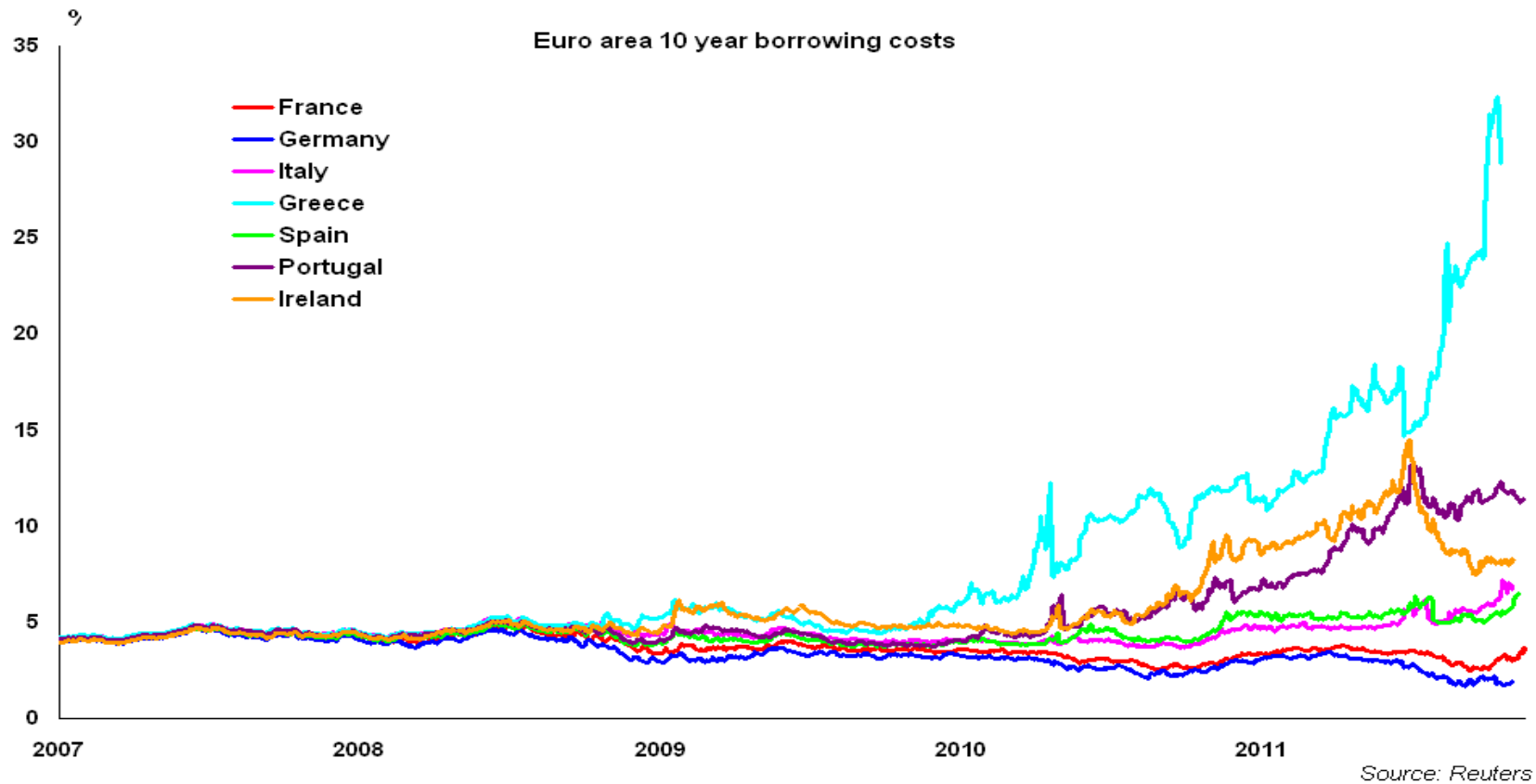


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Borrowing costs



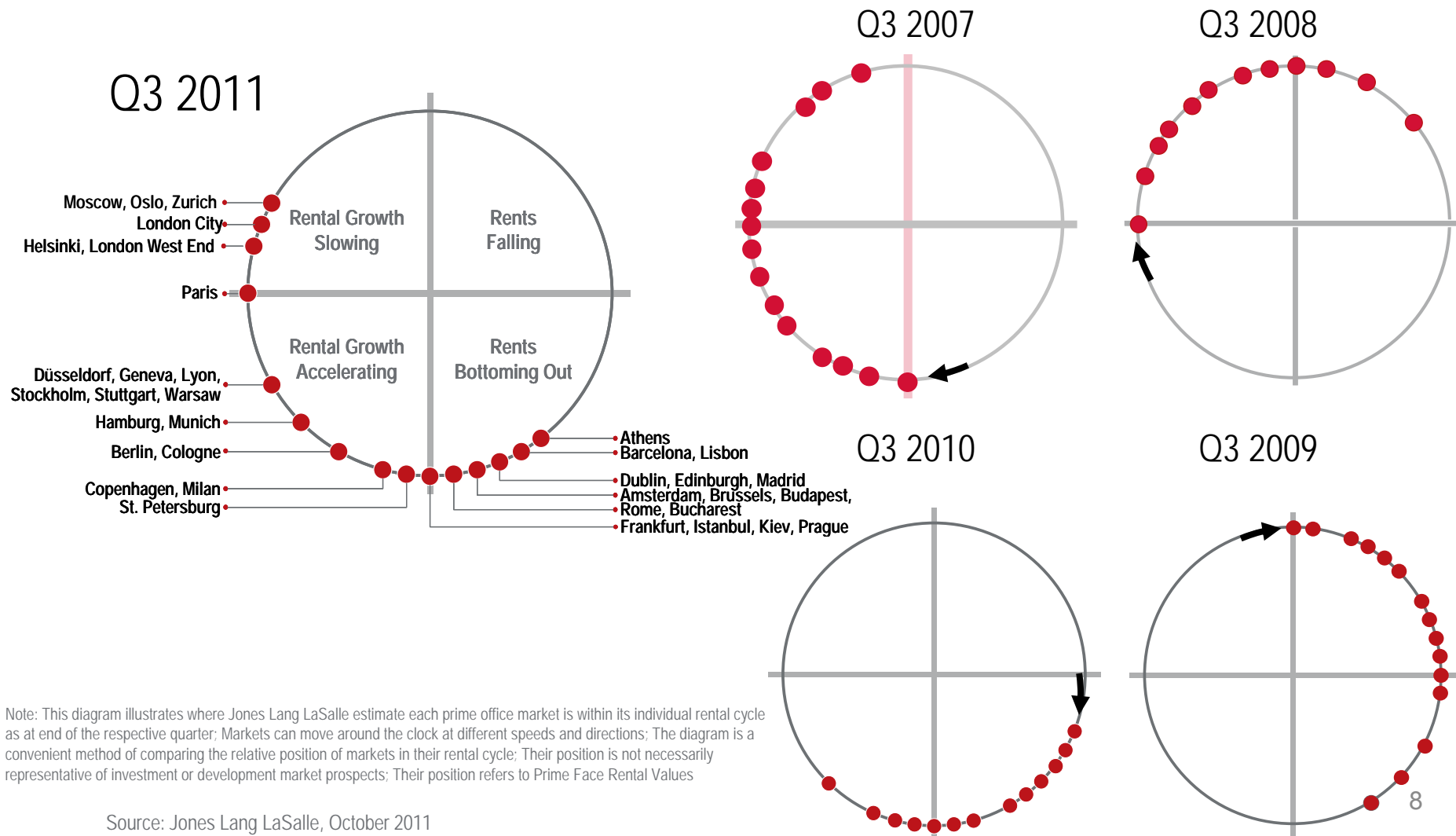


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Office Rental Clock Evolution



Note: This diagram illustrates where Jones Lang LaSalle estimate each prime office market is within its individual rental cycle as at end of the respective quarter; Markets can move around the clock at different speeds and directions; The diagram is a convenient method of comparing the relative position of markets in their rental cycle; Their position is not necessarily representative of investment or development market prospects; Their position refers to Prime Face Rental Values

Source: Jones Lang LaSalle, October 2011

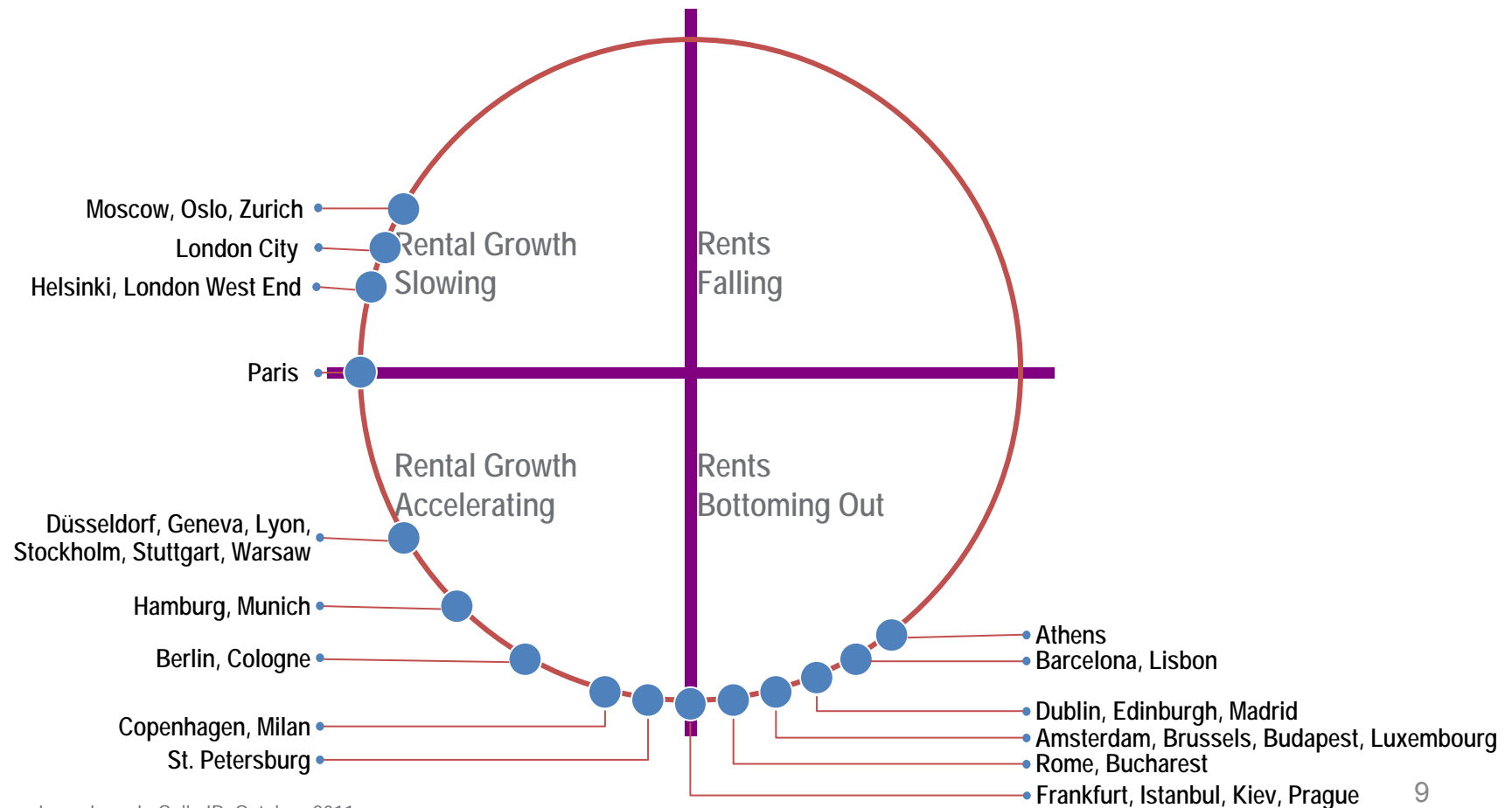


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European Office Property Clock Q3 2011



Source: Jones Lang LaSalle IP, October 2011

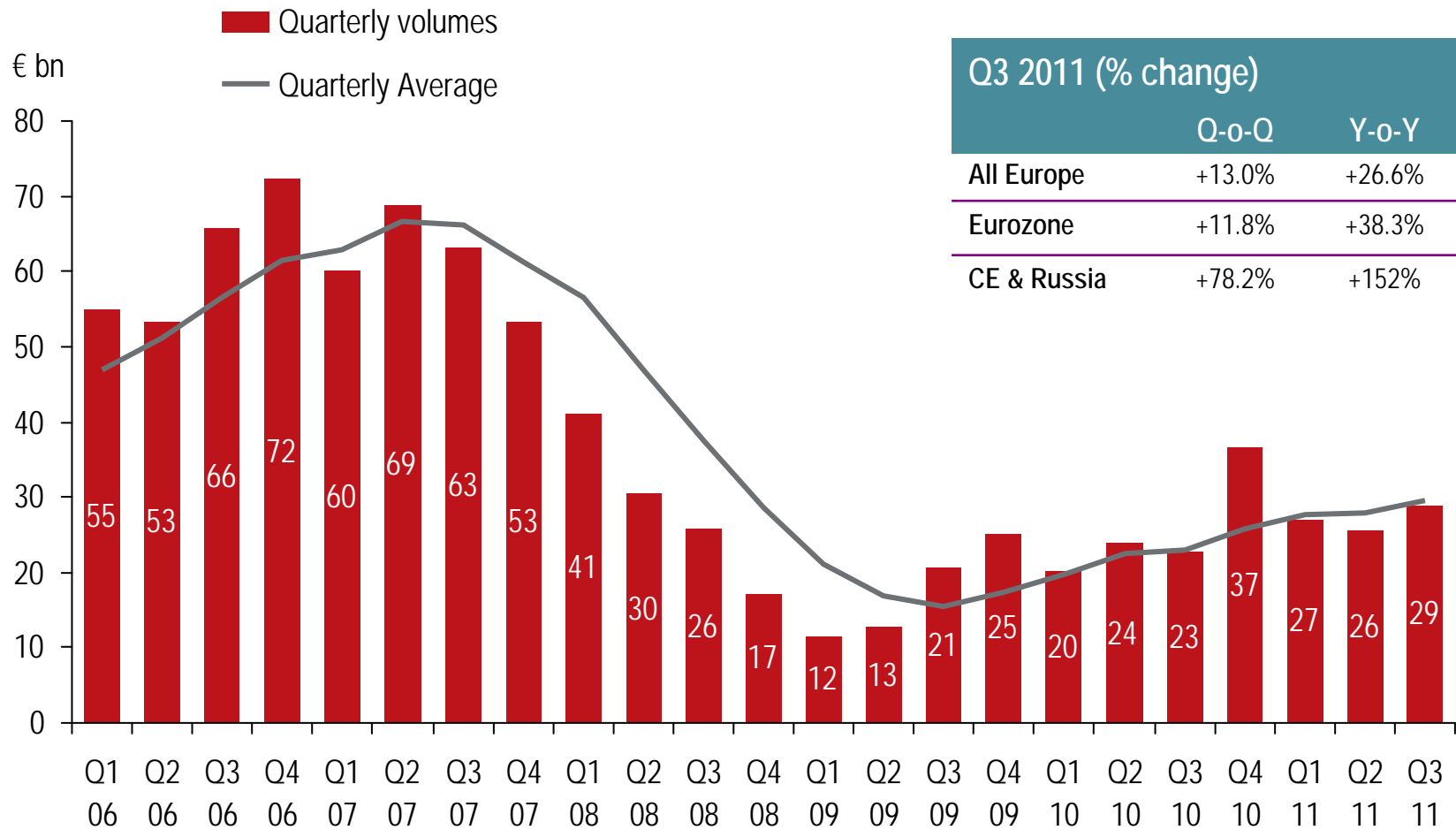


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European Direct Real Estate Investment Volumes



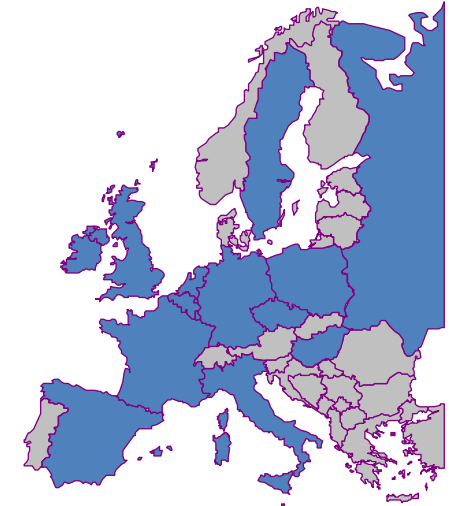
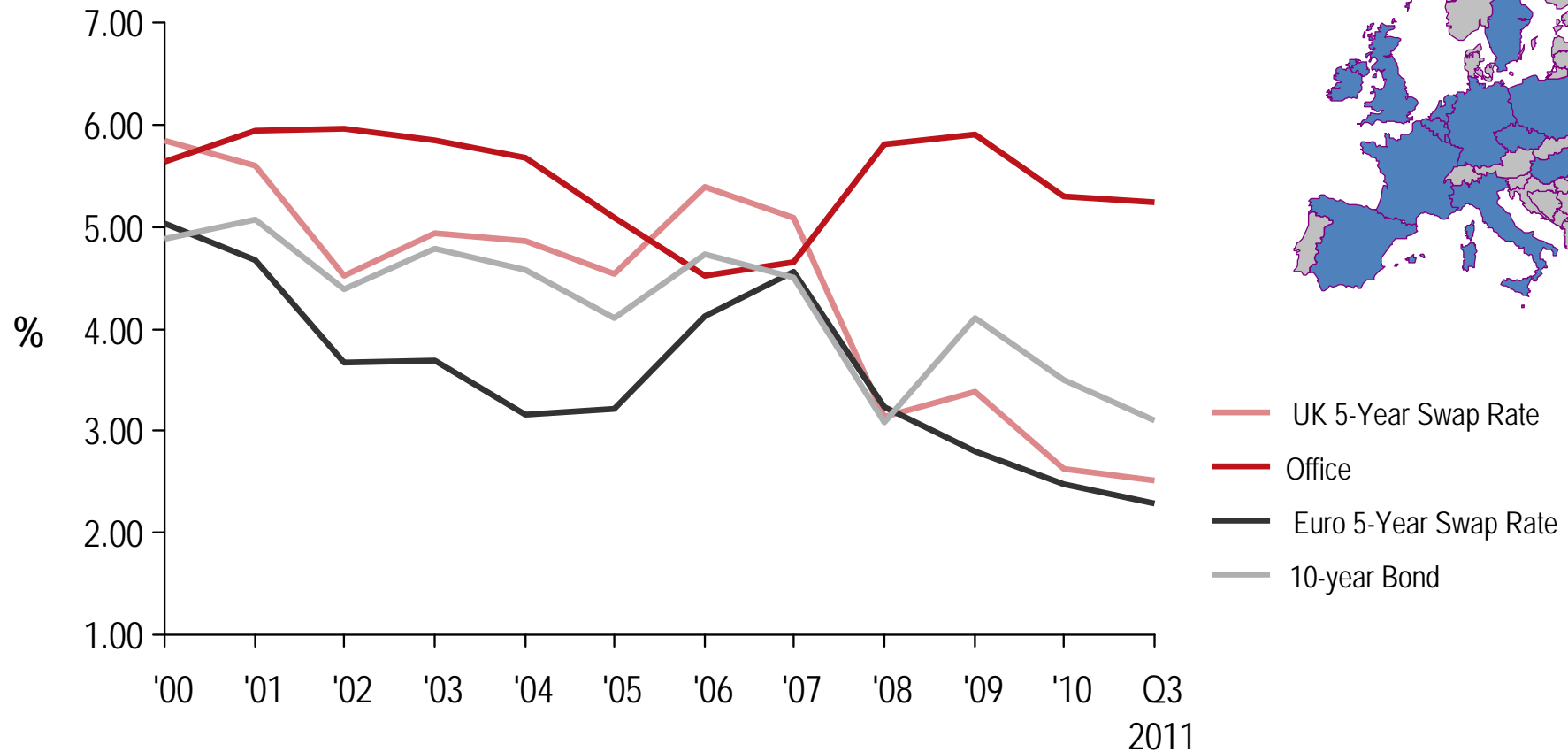


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European Average Prime Yields



Source: Jones Lang LaSalle, Thomson DataStream, October 2011

Note: The Office Yield is a weighted averages for 24 major markets in the region



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Taking a gamble?

Valuing in an uncertain market





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Background

Growing concern of financial regulators and stakeholders for better identification and communication of uncertainty in valuations:

1.2008: the **Financial Stability Forum (FSF)** published an analysis of the causes and weaknesses that had produced the turmoil in financial markets asking for more transparency in valuations.

2.2009: the **G20 Declaration on *Strengthening the Financial System*** called for improved standards for valuation uncertainty in the context of fair value accounting.

3.2009: the **Basel Committee** for banking supervision issued its paper *Supervisory Guidance for Assessing Banks' Financial Instrument Fair Value Practice*.

4.2010: the **Financial Services Authority (UK)** published recommendations for the specific assessment of valuation uncertainty.

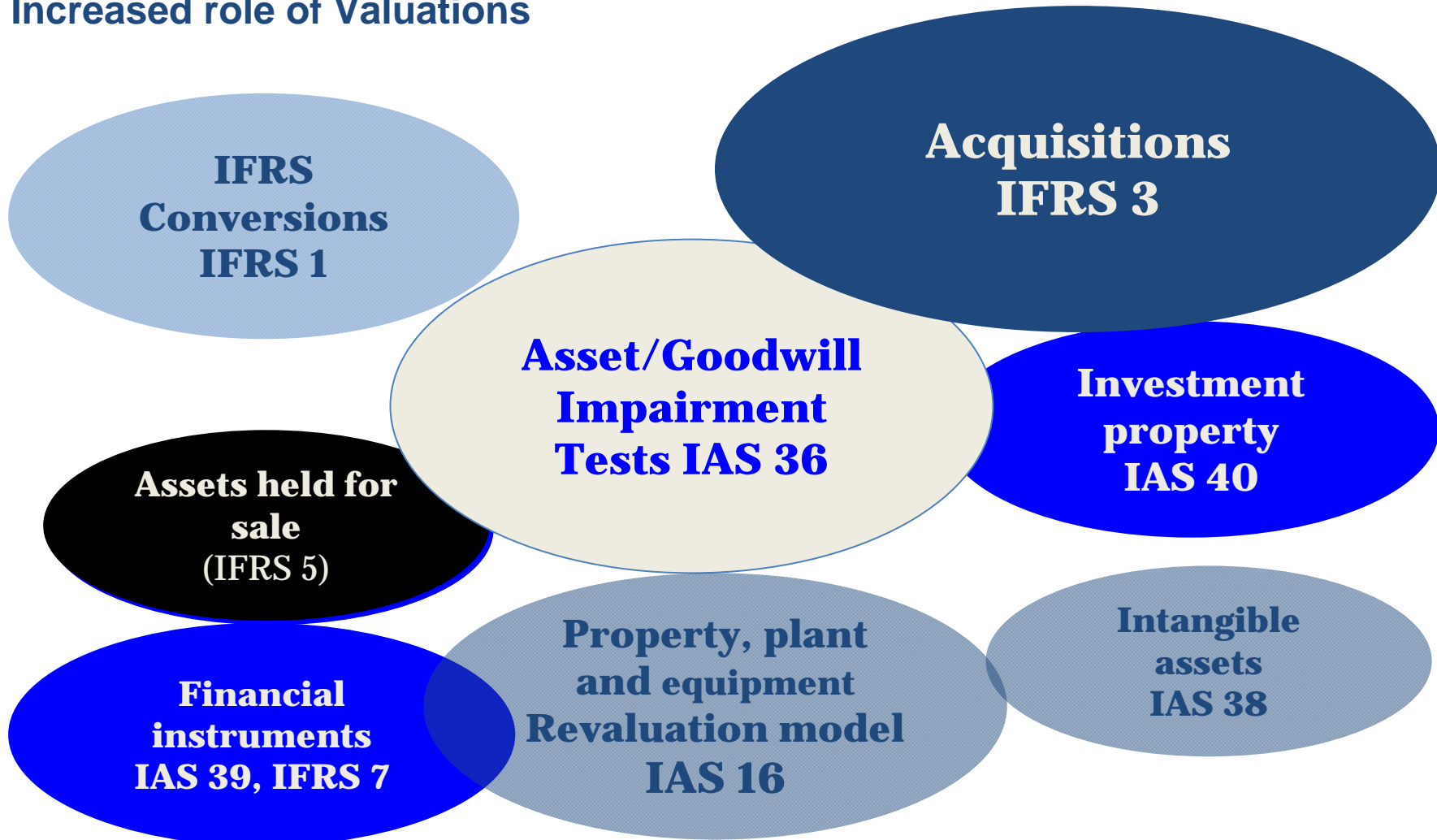


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Increased role of Valuations





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Nature of Valuation Uncertainty

Market valuations are estimates of the most probable price that would be paid in a transaction on the valuation date

However, actual prices are subject to:

1. fluctuations caused by market imperfections;
2. heterogeneity of the underlying asset (properties);
3. different objectives and motivations between the market players;
4. asymmetric information.

Uncertainty is inherent in market valuations

A valuation is not a fact, it is an estimate



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What is Market Value???

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion” ,

Source: RICS and IVSC



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Market Volatility, Liquidity and Activity

- In turbulence periods, lack of confidence results to price volatility
- Valuation uncertainty generally increases due to a lack of market activity, a lack of liquidity or a combination of both
- The effect of either reduced liquidity or activity is to reduce the amount of data available to provide empirical support for valuations
- This in turn increases the reliance on the extrapolation of evidence from transactions involving similar rather than identical assets or of historic transactions involving identical assets

*Thus, the degree of **judgment** required by the valuer increases thus increasing the level of uncertainty*



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Measuring Uncertainty

- A purely numeric illustration will only confirm uncertainty, not explain it.
- Quantifying valuation uncertainty is not simply identifying the worst case scenario.
- Valuation uncertainty measurement is not forward looking.
- Interdependence and potential netting effects across products could be considered.
- Incorporating correlation analysis for significant inputs.
- Include a sensitivity analysis supported by strengths and weaknesses commentary.



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Valuation Uncertainty vs Market Risk

- **Valuation uncertainty** relates to the probability that the valuation estimate would differ from the price in an actual transaction on the same terms on the valuation date.
- **Market Risk** is the loss an asset can face in a given interval of time due to changes in market conditions over that period.



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Sources of Valuation Uncertainty

1. **Status of the valuer;**
2. **Scope of work;**
3. **Market uncertainty (liquidity and market activity);**
4. **Model uncertainty;**
5. **Input uncertainty (information uncertainty and asymmetry).**



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The Role of the Independent Valuer

- **To offer a professional & independent opinion**

- **Independent valuer is:**
 - recognized and relevant professional qualification
 - recent experience in the location and category of the investment property being held

- **Professional standards/ Independent opinion to:**
 - be connected with accounting requirements (see IFRS 13 – Fair Value Measurements)
 - meet the client's expectations

To meet the auditor's expectations





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Some conclusions

- 1. Uncertainty is inherent in any valuation because analysis of imperfect markets involves weighing the relevance of the available inputs**
- 2. Valuation users generally accept that valuations involve judgment**
- 3. Adequate disclosure of material uncertainty (by nature and cause)**



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International Valuation Standards in a Global Market

What's the story?

1. **International Valuation Standards – why do we need them?**
2. **The Red Book - ethics and applying a global standard**
3. **Valuer Registration Scheme**



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Royal Institution of Chartered Surveyors

RICS was created in 1868 in the United Kingdom and is the world's leading professional body for qualifications and standards in land, property and construction.

- International headquarters in London, with world regional offices in Brussels, Dubai, Hong Kong, New York and Sydney
- Over 100,000 qualified members in over 146 countries
- More than 71,100 trainees and students
- 500 industry research and policy papers published every year

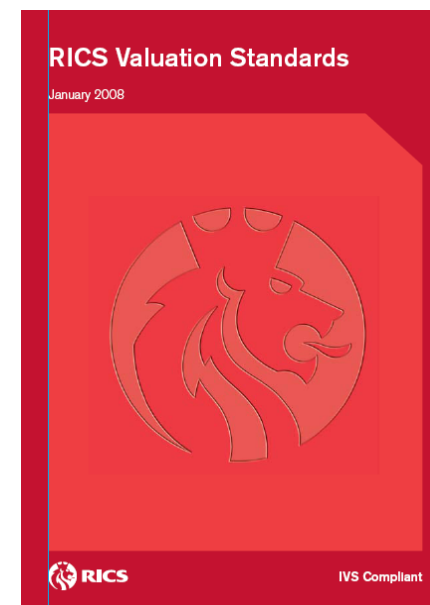
The key roles of RICS are to:

- Regulate and promote the profession
- Maintain the highest educational and professional standards
- Protect clients and consumers through a strict code of ethics
- Provide impartial advice, analysis and guidance

RICS Valuation Standards and Ethics

- **1980** – 1st edition of the Red Book (RICS Appraisal and Valuation Standards)
- **1996** – Red Book extended to bank valuations
- **1996 to 2003** – OMV and MV exist in parallel
- **2003** Red Book revised into international & domestic sections
Formally adopts IVS
RICS drops OMV in favour of MV

- **April 2011** – the 7th Edition
Publication of Global Edition as well as UK Edition
Valuation Standards rather than Practice Statements
Clarification of mandatory Standards
GN5 'Valuation Uncertainty' has been revised
to GN1 'Valuation Certainty'





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Valuer Registration Scheme

The Valuer Registration Scheme (VRS) is a voluntary scheme that monitors all registered RICS members.

Its aim is to ensure the quality of valuations, raise the credibility of valuers and provide clients with a clearly identifiable designation for the best-regulated and qualified professionals in the field.

It was launched in mid-September 2011 in continental Europe.



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Valuer Registration Scheme

VRS focus and attributes

- Ensures consistent and high-quality valuations by helping members to apply, share and maintain global professional standards.
- International Valuation Standards (IVS) compliant.
- Identifiable in the designation of 'RICS Registered Valuer'.





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Valuer Registration Scheme

What is good for clients...

Clients have confidence that they are working with regulated members who

- enforce the RICS Red Book valuation standards
- adhere and commit to openness and transparency
- are experts in their field, delivering credible and high-quality reports
- benefit from additional protection through VRS monitoring.





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Valuer Registration Scheme

...is good for members

RICS members who register can expect to

- share internationally recognised, approved valuation standards
- receive advice and assistance from RICS regulation and their peers
- benefit from a solid regulatory safeguard
- stand apart from the competition in terms of quality and accountability.





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Reflecting Uncertainly in Valuations

Publication of an RICS User Guide

A document prepared for valuers and users of valuations focusing on:

- General understanding of the concept of uncertainty
- Understanding risk and uncertainty through worked examples
- Methods by which uncertainty in valuations may be identified
- Communicate uncertainly to clients with clarity



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Professional Indemnity Insurance

RICS Guidance outside of the UK

A document is under preparation by RICS to advise on:

- Minimum standards for adequacy and appropriateness of PI cover
- Further recommendations for PI policies

RICS is also working on the following:

- Providing a network of broker contacts for regions outside the UK
- Identifying a global provider of PII delivering an acceptable product for regulatory purposes.



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Thank you