

“PLATFORM” VALUERS & AUDITORS PTA

RECOMMENDATIONS TO IMPROVE VALUATIONS
AND VALUATION REPORTS

PROF. AART HORDIJK



Immediate cause : 2008 Financial crisis



Reasons : bad loans for Real Estate

Reaction G20 : never again, so start regulation

Regulators : pressure on auditors : how could this happen ?

Auditors : relied on valuation reports

Reaction by NL Auditors : 2011 public management letter

Platform Valuers and Auditors : discussions how to improve

Requirements by Regulators and EU AIFMD :

- Transparency about Real Estate transactions**
- Reorganize Valuation sector to one register for valuers**
- One code of conduct and one disciplinary system**
- If no progress in selfregulation, legislation will follow**

Platform Auditors & Valuers PTA

- **Main goal : to improve the efficiency and quality of valuers as well as auditors**
 - **Start : investigate the possibilities to improve cooperation, knowledge exchange and mutual understanding**
 - **Representation :**
 - **7 valuers (big 4/middle size/umbrella)**
 - **7 auditors (big 4/middle size/umbrella)**
- Working party :**
- **2 valuers**
 - **2 auditors**
 - **1 scientist**



Standards en guidance notes to be applied by valuers

- A. NL Valuers are not strongly organised like auditors**
- B. Valuers certification scheme is in place, however :**
 - No strict separation between valuer and brokerage**
 - 5 valuers/brokers organization with own code of conduct (NVM, VBO, VastgoedPro, NVR, RICS)**
- C. International standards like IVS are referred to**
- D. Valuation guidelines only in place in the case of mortgage financing and performance management**

Recommendations to improve professionalism in writing valuation reports in such a way that auditors will find the information they need

- **Primairily focussed on year end valuation**
- **In the meantime also made applicable for property financing, investors and regulators.**
- **To improve transparency is key.**
- **Purpose of valuation determines type of value to be used.**
- **However : the valuation is a hypothetical value and will/can differ from the transaction price**



International Standards to be referred to :

For valuers :

- **Reference to IVS and/or EVS Valuation Standards**
- **Reference to (inter)national best practices**

For auditors :

- **Reference to IAS**
- **Reference to IFRS/National Standards (IFRS/NL NRJ)**

Recommendations refer to :

- **Code of conduct**
- **Explanation of valuation reports**
- **Other recommendations**
- **Branche specific best practice**



28 Recommendations

- **Independence**
- **Education**
- **Scope of work and confirmation by principal**
- **Actual valuation work and reporting**
- **Quality assurance**



Independency

1. Independency (“in general”)
2. Independency (“financial interest”)
3. Independency (“internal rotations”)
4. Independency (“fee structure”)



Education

- 5. Continuing Personal Development CPD**
- 6. Improvement of locational and object specific professionalism/knowledge**



Scope of work and management confirmation

- 7. Assignment letter**
- 8. Confirmation letter by management**
- 9. Allonges, appendices & side letters**



Valuation work and reporting

10. Purpose of valuation/scope of work

11. Valuation Method (DCF, Gross/Net Yield, Cost etc.)

12. (Level of) Net Initial Yield, Discount Rate and Exit Yield

13. Starting points and assumptions

14. Exceptional starting point / assumption



Valuation work and reporting

15. Lease incentives
16. Sources used and its track record
17. Inspections
18. Sensitivity analysis
19. Back-testing
20. Events after the valuation data at the reporting date
21. Content of the valuation report and any other clarifications



Quality assurance

- 22. File creation**
- 23. Internal valuation management**
- 24. Assessment/validation models and estimates**
- 25. Procedure draft valuation report**
- 26. Reviews (internal, peer), collegial assesment**
- 27. Knowledge sharing**
transaction/valuation registration
- 28. One central disciplinary system**



(1) PTA Recommendation 27 : Financial Stability (EU AIFMD)

- **Major concern Regulators (Central Bank, Fin. Authorities)**
- **Near Future : € 27 billion refinancing of NL Real Estate**
- **Refinancing amount will/could be lower because of :**
 - **higher equity requirements for banks (less financing)**
 - **market value and vacancy (risk)**
- **Lack of transparency
frustrates regulation**



(2) PTA 27 : more transparency required

- **Feasibility study to achieve central databanks for :**
 - **sales and investments**
 - **rental contracts**
 - **valuations**
- **Study presented at 24th May 2013 found : only more transparency about transactions on aggregate level**
- **If insufficient transparency stays on :
than it might be/will be forced by law**



PTA consultation release : Reactions

- **PTA ‘think tank’ based on concept of “à titre personnel” to achieve results quickly about content**
- **More work for valuers, should be recognised and paid**
- **Accountants should put pressure to comply with PTA**
- **Doubts about “Chinese Walls” between valuers and brokers in the same company**
- **Doubts about “Chinese Walls” within auditors firms**
- **Better definition of the various valuation products, full, desktop)**
- **Independent Disciplinary Ctee**



PTA Recommendations implementation process

- **Public Consultation ended January 2013**
- **Regulators recommended PTA implementation**
- **Suggestions/improvements/adjustments received and where possible implemented**
- **Final version became available June 2013**
- **Best practices to be developed autumn 2013 – spring 2014**
- **PTA recommendations already partially included in CPD 2013**
- **CPD autumn 2014 : valuers educated to apply PTA best practices**



PTA Recommendations organizationally

- **June 2014 : Existing Valuers Organizations accepted the need to come to a National Register for Certified Valuers**
- **VPO's formed a temporary Board, project started**
- **In 2015 rules were developed based on PTA recommendations and set for regular audits and education**
- **Knowledge areas so far : residential, commercial, agriculture and tax purposes, AVM study group**
- **'Stakeholder' committee in advisory role**



Status as of today and challenges still to come

- **As of January 2016 : National Register for Certified Valuers NRVT is up and running**
- **As of 2018 : audit system in place and gradually growing**
- **NRVT : Register for Certified Valuers, not an interest group**
- **Adjustment of NL valuers education to IVS requirements**
- **Stakeholders influence : how far do you go?**

some challenges ahead :

- **Regulators prefer law above selfregulation**



Netherlands achievements so far :

National Register for Certified valuers in place

Auditors and Valuers do understand each other

Pressure from Regulators was crucial

Willingness to cooperate by Valuers Organizations



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