



## Real Estate Markets for Economic and Social Benefits

# Risk and efficiency in Real Estate Markets

Developers, R.E. Agents, Regulation & Professional Bodies

dott. ing. Enrico Campagnoli  
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# 1 – Let me introduce...

the organization briefly  
of which I am representative  
at UNECE:



## International Real Estate Federation (FIABCI)

[www.fiabci.com](http://www.fiabci.com)

- a NGO , UN accredited 52 years ago with consultative status
- 126 RE professional organizations are its principal members worldwide
- it has Chapters in 60 Countries
- 1.5 million Real Estate actors worldwide : brokers, appraisers, counselors, financiers, academic institutions, lawyers, architects, developers, contractors, investors, etc.
- committed on the Millennium Declaration Goals

FIABCI by history and tradition represents

- RE private sector and
- RE professional organizations

**2 - The aim of this presentation is..**

**to show that**

**Real Estate Market Advisory Group  
(REM)**

**could be useful**

**a- to evaluate and mitigate RE Market Risk**

**b- to improve the Efficiency of RE Markets**

**For this aim two cases are used..**

# 3 Assessment of Risk in R E Markets:

## Property and Market Rating

was introduced  
in Europe  
by TEGoVA \*

(The European Group of Valuers Association)

in 2003

with EVS 2003

(European Valuation Standards 2003)

with the Guidance XIV

<http://www.isivi.it/EPMR.pdf>

\* IsIVI is full member of TEGoVA for Italy

This is the cover of a  
TEGoVA  
publication dated October  
2003, title:  
“European Property  
and Market Rating:  
a guide for Valuers”

European Property and Market Rating:  
A Valuer's Guide

Europäisches Objekt- und Markt-rating:  
Ein Leitfaden für Gutachter



October 2003

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Verband deutscher Hypothekendarsteller  
Association of German Mortgage Banks

Bundesverband  
Öffentlicher Banken  
Deutschlands

Can we say that underestimation five years ago of the importance of RE Ratings has had an impact on world financial markets?

Even a superficial examination of the “Property and Market RE Rating “ speaks for itself.

<http://www.isivi.it/EPMR.pdf>



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**TEGoVA** publication :

**“European Property and Market Rating: a guide for Valuers”**

**2003**

# 1-The field of application

## 1. Fields of application of PaM

*Property and Market Rating is a versatile instrument for assessing the quality of property. For example, individual modules can be used, such as the valuation of a certain location, or a complete rating for internal loan rating by banks can be carried out. Due to the fact that Property and Market Rating in general assesses individual properties (see Guidance Note 14 of the EVS 2003, property valuation as well as valuation of market and property risks for securitisation purposes), it may also be used for a targeted analysis of investment or even disinvestment decisions. Furthermore, it offers an excellent point of departure for controlling large portfolios due to the standardised quality assessment. On the basis of the overall rating as well as the assessment of relevant individual features, chances and risks of portfolios can be examined in differentiated ways. This also supports the rating process of the securitisation of claims. These five important fields of application are briefly explained below.*

## 2. Risk analysis of portfolios for securitisation purposes

*In 2002, TEGoVA published guidelines for the assessment of chance and risk profiles of properties as an instrument for the analysis of risk in portfolios which are to be securitised. Property and Market Rating is a logical continuation of this qualitative risk analysis of property portfolios. The results of Property and Market Rating may be used in order to value risk criteria as close to the market as possible.*

*A portfolio rated using the PaM offers transparency to potential purchasers of securitised claims which is unusual for the property sector. This is because with the Property and Market Rating any criteria listed in the chance and risk profile are valued close to the market and in a standardised form. Thus, this greater transparency leads to a better assessment of the risk exposure, i.e. to lower lump-sum deducted safety margins. Thus, Property and Market Rating is a useful instrument for investors as well as for issuers of MBS.*

# 2- Risk analysis of portfolios for securitisation purposes

<http://www.isivi.it/EPMR.pdf>

**PaM**  
Property and Market Rating for Completed Properties



Valuer/Date:		Valuation dated:			
Address:		Original rating on:		Rating updated on:	
Property Type:	Residential	Country:	Germany	Region:	Munich

**Criteria Class 1**

Market	1	2	3	4	5	6	7	8	9	10	weight
<b>national</b>					5						20%
Acts of God						6					5%
Socio-demographic development							7				30%
Overall economic development and international attractiveness						5					15%
Political, legal, taxation and monetary conditions			3								10%
Property market: residential					5						40%
<b>regional</b>		2									80%
Acts of God						4					5%
Socio-demographic development				2							35%
Economic situation and attractiveness					1						15%
Property market: residential						2					45%
<b>Rating for Criteria Class 1:</b>							3				20%

**Criteria Class 2**

Location	1	2	3	4	5	6	7	8	9	10	weight (appr.)
Suitability of the micro location for property type and target occupiers		2									45%
Image of the quarter and the location				3							5%
Quality of transportation infrastructure of the plot and quarter			2								23%
Quality of local supply facilities of the plot and quarter for target occupiers			2								23%
Acts of God					3						5%
<b>Rating for Criteria Class 2:</b>			2								30%

**Criteria Class 3**

Property	1	2	3	4	5	6	7	8	9	10	weight (appr.)
Architecture/type of construction					5						7%
Fitout						4					3%
Structural condition			2								30%
Plot situation			2								50%
Ecological sustainability						4					3%
Profitability of the building concept							5				7%
<b>Rating for Criteria Class 3:</b>								3			20%

**Criteria Class 4**

Quality of the Property Cash Flow	1	2	3	4	5	6	7	8	9	10	weight (appr.)
Tenant/occupier situation			3								10%
Rental growth potential/value growth potential							7				15%
Letting prospects/fungibility				2							60%
Vacancy/letting situation						5					5%
Recoverable and non-recoverable operation expenses					3						5%
Usability by third parties and/or alternative use							3				5%
<b>Rating for Criteria Class 4:</b>									3		30%

**Definition property and market rating for completed properties:**

Property and market rating is a standardised procedure aiming to display the sustainable quality of a property in its relevant market. The quality of a property is judged by the medium-term sales prospects at an adequate price between professionals who have access to all property and market information.



Property with a together good sales prospects whose rating is determined by the very good location in a very good regional market with good property features and a good quality of the property cash flow.

**Result of the Property and Market Rating for Completed Properties**

	Excellent	Very good	Good	Slightly above average	Average	Slightly below average	Mediocre	Poor	Very poor	Disastrous	Weighting
	1	2	3	4	5	6	7	8	9	10	
Criteria Class 1 - Market				3							20%
Criteria Class 2 - Location		2									30%
Criteria Class 3 - Property				3							30%
Criteria Class 4 - Quality of the property cash flow				3							20%
<b>Overall rating for the completed property</b>				3							100%

**Property and Market Rating for Projects**

**Criteria Class 5**

Development risks/chances	1	2	3	4	5	6	7	8	9	10	weight
Letting and selling											60%
Planning and permits											15%
Construction and costs											25%
<b>Rating for Criteria Class 5:</b>											

**Definition property and market rating for completed projects:**

The project rating is a standardised procedure aiming to display the quality of a project in its relevant market taking into account the sustainable quality of a fictitiously completed property and development risks. The quality is judged by the sales prospects of the project on the rating date at an adequate price between professionals who have access to all property and market information. The credit standing of the tenant, the borrower and other participants in the project, as well as the default risk of the loan are not subjects of the project rating.

	10	10	10	10	10	10	10	10	10	10	10	10
Disastrous												
Very poor	9	9	9	9	9	9	9	9	9	9	9	9
Poor	8	8	8	8	8	8	8	8	8	8	8	8
Mediocre	7	7	7	7	7	7	7	7	7	7	7	7
Slightly below average	6	6	6	6	6	6	6	6	6	6	6	6
Average	5	5	5	5	5	5	5	5	5	5	5	5
Slightly above average	4	4	4	4	4	4	4	4	4	4	4	4
Good	3	3	3	3	3	3	3	3	3	3	3	3
Very good	2	2	2	2	2	2	2	2	2	2	2	2
Excellent	1	1	1	1	1	1	1	1	1	1	1	1

Rating of the completed property  
 < 5 represents chances  
 5 represents average  
 > 5 represents risks

**Result of the Property and Market Rating for the Project**

	Excellent	Very good	Good	Slightly above average	Average	Slightly below average	Mediocre	Poor	Very poor	Disastrous	Weighting
	1	2	3	4	5	6	7	8	9	10	
Overall rating for the completed project											
Criteria Class 5 - Development risks/chances											
<b>Overall rating for the completed property</b>											

# Example of RE Rating of a residential property without transformation

# May 2003 UNECE document on property rights restriction analysis may be probably used to assign part of RE rating:

<http://www.unece.org/hlm/wpla/publications/restrictionsanalysis.pdf>

Without entering into details how to evaluate RE Rating according to TEGoVA EVS 2003, Guideline XIV gives a weighting to Property and to Market. The Market weighting is then divided in three different classifications: National, Regional and Location

Curiously the 2003 UNECE/WPLA document aside, regarding 36 UNECE member Countries, updated and in some way upgraded, could probably be used for the National weighting of Market RE rating.

## Is it an opportunity?

**Restrictions of ownership, leasing, transfer and financing of land and real properties in Europe and North America**

Printed and published  
on behalf of the UN ECE Working Party on Land Administration  
by the Federal Land Cadastre Service of Russia

May 2003

**“Restrictions of ownership, leasing, transfer and financing of land and real properties in Europe and in North America” published on behalf of UNECE/WPLA in May 2003**



**In the past lack of evaluation  
of Risks in RE Markets appears evident.**

**We can't ignore the financial disaster of the subprime crisis**

The lack of consideration of Risk in RE Markets has played its own part.

**For the future  
appropriate criteria of evaluation of Risk in  
RE Markets are strongly suggested,**  
especially if RE Market is used as an economic driving force to develop  
Countries in transition through a consistent financial RE activity.

# 3 Efficiency in R E Markets



## EU : Lisbon Agenda December 2007 ZERP Study on Conveyancing Service Market

*“Conveyancing services comprise, for instance, pre-contract searches, transfer deed drafting, signature certification and deed registration in the Land Registry”*

**A Study on the efficiency of  
Conveyancing (house and land  
sales) Service in the Markets  
of 21 EU Countries ( see aside) ,  
has been commissioned by EU  
Commission to ZERP**

[http://ec.europa.eu/comm/competition/sectors/professional\\_services/studies/studies.html](http://ec.europa.eu/comm/competition/sectors/professional_services/studies/studies.html)



ZENITUM FÜR  
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**Study**

**COMP/2006/D3/003**

**Conveyancing Services Market**

December 2007



# Why does the EU pay attention to the efficiency of this section of RE Market?

EU Commission press release says:

Property turnover in 2005 in EU27 Countries was almost €1,800 billion, approx 16% of GDP.

Corresponding conveyancing services around €16,7 billion

“Measures to open up this market will therefore directly contribute to the Lisbon objectives of growth and jobs.”

[http://ec.europa.eu/comm/competition/sectors/professional\\_services/studies/studies.html](http://ec.europa.eu/comm/competition/sectors/professional_services/studies/studies.html)

An increase in the efficiency of this section of RE Market can have significant effects on GDP

by ZERP study, with comparable data and indexes for all the 21 EU Countries

**the efficiency** of this section **of RE Market**

is related to regulation and cost of services of  
R.E. Agents, notaries, lawyers, technical services,  
Land registration tax, transfer tax, VAT

**Total Cost of Conveyancing Services**  
is calculated and compared in the 21 EU  
Countries,

for zero mortgage, 70% mortgage, 100% mortgage and for  
different properties values as we can see at *annex1- Transaction  
costs database:*

[http://ec.europa.eu/comm/competition/sectors/professional\\_services/studies/studies.html](http://ec.europa.eu/comm/competition/sectors/professional_services/studies/studies.html)

The efficiency of different systems is also compared



# ZERP *annex1- Transaction costs database- a*

	100.000 € (including 100% mortgage)									
Country	Real e. agent	Technical s.	Lawyers	Land regist.	Transfer tax	total t. costs	cost excl tax	prof. fees	VAT	
Austria	6.000 €	n.r.	1.400 €	2.200 €	3.500 €	<b>13.100 €</b>	9.600 €	7.400 €	20,0%	
Belgium	3.000 €	n.r.	2.155 €	580 €	12.600 €	<b>18.335 €</b>	5.735 €	5.155 €	21,0%	
Czech Rep. (solicitor)	5.000 €	350 €	1.000 €	17 €	0 €	<b>6.367 €</b>	6.367 €	6.350 €	19,0%	
Denmark	4.147 €	1.020 €	1.013 €	2.474 €	0 €	<b>8.654 €</b>	8.654 €	6.180 €	25,0%	
England	1.651 €	690 €	1.090 €	90 €	0 €	<b>3.521 €</b>	3.521 €	3.431 €	17,5%	
Finland	3.125 €	600 €	430 €	109 €	4.000 €	<b>8.264 €</b>	4.264 €	4.155 €	28,0%	
France	8.000 €	500 €	1.538 €	150 €	5.060 €	<b>15.248 €</b>	10.188 €	10.038 €	19,6%	
Germany	4.000 €	n.r.	806 €	517 €	3.500 €	<b>8.823 €</b>	5.323 €	4.806 €	16,0%	
Greece	4.000 €	500 €	3.340 €	1.280 €	11.020 €	<b>20.140 €</b>	9.120 €	7.840 €	19,0%	
Hungary (solicitor)	4.000 €	n.r.	2.040 €	62 €	5.420 €	<b>11.522 €</b>	6.102 €	6.040 €	20,0%	
Ireland	2.000 €	500 €	1.000 €	375 €	0 €	<b>3.875 €</b>	3.875 €	3.500 €	21,0%	
Italy	6.000 €	n.r.	2.670 €	150 €	2.066 €	<b>10.886 €</b>	8.820 €	8.670 €	20,0%	
Netherlands	1.850 €	n.r.	1.225 €	186 €	6.000 €	<b>9.261 €</b>	3.261 €	3.075 €	19,0%	
Poland	2.000 €	250 €	677 €	50 €	12.025 €	<b>15.002 €</b>	2.977 €	2.927 €	22,0%	
Portugal	3.750 €	275 €	537 €	260 €	1.400 €	<b>6.222 €</b>	4.822 €	4.562 €	21,0%	
Scotland	1.000 €	378 €	1.482 €	261 €	0 €	<b>3.121 €</b>	3.121 €	2.860 €	17,5%	
Slovakia	2.150 €	130 €	420 €	60 €	0 €	<b>2.760 €</b>	2.760 €	2.700 €	19,0%	
Slovenia	4.000 €	n.r.	878 €	138 €	2.000 €	<b>7.016 €</b>	5.016 €	4.878 €	19,0%	
Spain	6.000 €	130 €	1.068 €	290 €	8.700 €	<b>16.188 €</b>	7.488 €	7.198 €	16,0%	
Sweden	3.600 €	400 €	0 €	130 €	3.500 €	<b>7.630 €</b>	4.130 €	4.000 €	25,0%	
<b>average</b>	<b>3.764 €</b>	<b>286 €</b>	<b>1.238 €</b>	<b>469 €</b>	<b>4.040 €</b>	<b>9.797 €</b>	<b>5.757 €</b>	<b>5.288 €</b>		<b>average</b>
total number of countries: 20		number of countries with data for technical services: 13								



# ZERP *annex1- Transaction costs database- b*

	cost/value relation				percent of total costs			percent of professional fees			professional fees/value		
	100.000.- €				100.000.- €			100.000.- €			100.000.- €		
	total cost	tax	register	prof. fee	tax	register	prof. fee	agent	techn.	lawyer	agent	techn.	lawyer
	13,10%	3,50%	2,20%	7,40%	26,72%	16,79%	56,49%	81,08%		18,92%	6,00%		1,40%
	18,34%	12,60%	0,58%	5,16%	68,72%	3,16%	28,12%	58,20%		41,80%	3,00%		2,16%
	6,37%	0,00%	0,02%	6,35%	0,00%	0,27%	99,73%	78,74%	5,51%	15,75%	5,00%	0,35%	1,00%
	8,65%	0,00%	2,47%	6,18%	0,00%	28,59%	71,41%	67,10%	16,50%	16,39%	4,15%	1,02%	1,01%
	3,52%	0,00%	0,09%	3,43%	0,00%	2,56%	97,44%	48,12%	20,11%	31,77%	1,65%	0,69%	1,09%
	8,26%	4,00%	0,11%	4,16%	48,40%	1,32%	50,28%	75,21%	14,44%	10,35%	3,13%	0,60%	0,43%
	15,25%	5,06%	0,15%	10,04%	33,18%	0,98%	65,83%	79,69%	4,98%	15,32%	8,00%	0,50%	1,54%
	8,82%	3,50%	0,52%	4,81%	39,67%	5,86%	54,47%	83,23%		16,77%	4,00%		0,81%
	20,14%	11,02%	1,28%	7,84%	54,72%	6,36%	38,93%	51,02%	6,38%	42,60%	4,00%	0,50%	3,34%
	11,52%	5,42%	0,06%	6,04%	47,04%	0,54%	52,42%	66,23%		33,77%	4,00%		2,04%
	3,88%	0,00%	0,38%	3,50%	0,00%	9,68%	90,32%	57,14%	14,29%	28,57%	2,00%	0,50%	1,00%
	10,89%	2,07%	0,15%	8,67%	18,98%	1,38%	79,65%	69,20%		30,80%	6,00%		2,67%
	9,26%	6,00%	0,19%	3,08%	64,79%	2,01%	33,20%	60,16%		39,84%	1,85%		1,23%
	15,00%	12,03%	0,05%	2,93%	80,16%	0,33%	19,51%	68,33%	8,54%	23,13%	2,00%	0,25%	0,68%
	6,22%	1,40%	0,26%	4,56%	22,50%	4,18%	73,32%	82,21%	6,03%	11,76%	3,75%	0,28%	0,54%
	3,12%	0,00%	0,26%	2,86%	0,00%	8,36%	91,64%	34,97%	13,22%	51,82%	1,00%	0,38%	1,48%
	2,76%	0,00%	0,06%	2,70%	0,00%	2,17%	97,83%	79,63%	4,81%	15,56%	2,15%	0,13%	0,42%
	7,02%	2,00%	0,14%	4,88%	28,51%	1,97%	69,52%	82,01%		17,99%	4,00%		0,88%
	16,19%	8,70%	0,29%	7,20%	53,74%	1,79%	44,47%	83,36%	1,81%	14,84%	6,00%	0,13%	1,07%
	7,63%	3,50%	0,13%	4,00%	45,87%	1,70%	52,42%	90,00%	10,00%	0,00%	3,60%	0,40%	0,00%
<b>average</b>	<b>9,80%</b>	<b>4,04%</b>	<b>0,47%</b>	<b>5,29%</b>	<b>31,65%</b>	<b>5,00%</b>	<b>63,35%</b>	<b>69,78%</b>	<b>6,33%</b>	<b>23,89%</b>	<b>3,76%</b>	<b>0,44%</b>	<b>1,24%</b>
							countries with technical services		<b>9,74%</b>				

to ZERP study, with comparable data and indexes for all the 21 EU Countries



**21 Country “fiches”  
are also annexed**

**20 pages approx. each Country,  
made with the same methodology,  
a special kind of**

**“Market Country Profile”**

**The “fiches” can be downloaded**

**from:** [http://ec.europa.eu/comm/competition/sectors/professional\\_services/studies/csm\\_study\\_fiches](http://ec.europa.eu/comm/competition/sectors/professional_services/studies/csm_study_fiches)

**f**



Might it be useful to extend to other UNECE Countries similar studies? ZERP or part of ZERP?

Might it be useful to support the evaluation of RE Risk?

Are Risk and Efficiency of RE Markets in the ZERP study properly considered together?

The sub-prime crisis has been based in a very efficient RE Market: is there a relation between the Efficiency and the Risk?

The replies to these and similar questions could be

**HOW**

**Real Estate Market Advisory Group (REM)**

**may be useful**

**to mitigate Risks and improve Efficiency in RE Markets, especially if RE Market is used as an economic driving force to develop Countries in transition through consistent financial RE activity.**



WPLA WORKSHOP

Influence of the Land Administration on  
People and Business



REAL ESTATE MARKET ADVISORY GROUP  
(REM)  
*Real Estate Markets for Economic and  
Social Benefits*

# Thanks for your attention



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