

LTSV- Long Term Sustainable Value

World Association of Valuation Organizations (WAVO) holds its conference in Berlin

On 15th and 16th June 2017, this year's general meeting and professional conference of the leading international property valuation associations – WAVO – the World Association of Valuation Organizations – took place in Berlin, Germany. Participants included representatives from Australia, China, Germany, Hong Kong, Singapore, South Korea and the USA, amongst other countries.

The conference, which included participants from many other countries in addition to those mentioned above, with valuers from the Netherlands, Austria, Poland, Romania and the UK, focussed on two main topics which are currently the subject of intense discussion in the property valuation sector by many international institutions and organisations such as the EBA (European Banking Authority) and the European Mortgage Federation. The topics were the Long Term Sustainable Value (LTSV), whose implementation in Germany is similar to the concept of mortgage lending valuation, and AVM (Automatic Valuation Models).

As part of the focus on LTSV, the concept of long-term and sustainable property value was discussed. It makes it possible to appraise the risk of properties over the long term, and so it can be a valuable tool for long-term property finance when recording the value of real estate in company balance sheets.

Strong increases in property prices are being seen once again in many countries since the end of the 2008 property and financial crises. This trend, and the enormous impact on the markets during downturns, is more pronounced in some countries than in others. The use of LTSV, combined with other instruments, plays a part in weakening this momentum. Germany, one of the countries little affected by the turbulence experienced by many international property markets during the most recent crisis and which has already been using the principles of mortgage lending valuation for many years, demonstrates its effectiveness.

As well as the underlying philosophy, effect and application of LTSV, the great significance attached to the qualifications and independence of valuers was also discussed at the conference. The LTSV Network was presented. It has set itself the goal of developing a methodology for LTSV capable of being used internationally. Two examples from Romania and UK were used to demonstrate how a sustainable value can be determined in those countries on the basis of the locally established valuation approaches and the available data sources.

The participants gave their support to this valuation approach and confirmed its possible use for long-term lending purposes and the calming effect that it could have on movements in property prices. Even if its use in some of these countries is not judged to be realistic at present, there is great interest in discussing and jointly developing a methodology which can be used internationally and which takes full account of the characteristics of the various national markets.

The subject of AVM was introduced with presentations of valuation software from South Korea, Romania and Germany (vdp Research) and then discussed intensively. Participants agreed that AVM, better referred to as “computer-assisted property valuation software”, is indispensable to the sector in these times of digitisation, but the World Association has laid down the following requirements for such systems:

- wholly automated systems, where the valuer cannot change every parameter which might affect the value, are not appropriate and also are not permitted in many countries because of regulatory requirements;
- the structure and methodology of the models must be presented transparently; so-called “blackbox versions” do not meet these requirements;
- the imperative is the quality of the data, i.e. using just asking prices does not meet this quality requirement and is not permitted in many countries. Only transaction data can provide a proper overview of trends on property markets and thereby also of trends in rents, prices and property yields.

In his closing speech, Dr Lim Lan Yuan, Executive President of WAVO, emphasised the importance of both topics for the sector and its members, and expressed his thanks that both topics would also be central themes at the next annual conference in Romania. In the meantime, the aim should be to develop both topics further, to support them with further examples of their application and to discuss and to establish the standards necessary to ensure quality in the sector.