

General information

Initial situation

The real estate business in Germany, which is by far the largest real estate market in Europe, is of the utmost significance to the national economy. According to official estimates, this industry generates some 300 billion euros each year, i.e. about 8% of total gross output. The total value of real estate portfolio in Germany is around 7.2 trillion euros. In view of this fact, reliable real estate valuation is of great importance, not only to enable the real estate market to function, but also for the country's economy as a whole.

As a result of intensifying regulatory requirements in the area of finances (e.g. Basel II, PfandBG, BelWertV) as well as the growing complexity of real estate economic issues, the requirements placed on those who carry out orderly analysis and valuation of real estate are also growing, i.e. real estate valuers working in the financial arena. As all market participants depend on the high quality of appraisals carried out by these experts, quality assurance in this area leads to a considerable reduction in risk for all concerned.

In the German financial arena, HypZert GmbH's personnel certification has become the primary quality seal for real estate valuers. It is based on the strict requirements set down in ISO/IEC 17024. With this internationally recognised certificate which is awarded to individuals, real estate valuers can provide proof of their competence in compiling appraisals and at the same time show that they are committed to following professional principles. In addition to the tough initial certification examination, the quality of all HypZert-certified real estate valuers is assured through additional and ongoing monitoring of participation in specialised further training courses in the relevant area, appraisals compiled as well as a recertification examination carried out every five years.

In accordance with the above mentioned requirements, HypZert GmbH offers the following certification examinations:

Certification as HypZert real estate valuer for financial purposes

When granting loans against real estate securities, the financing credit institute assumes the risk of default by the borrower and of the change in value of the security for a fixed period. The main focus of a mortgage lending value analysis is to evaluate this risk, the aim being to determine a sustainable and secure value for the real estate, as far as possible for the full period of the loan. In addition to the current *Verkehrswert*/market value of the real estate, past experience and a view to the future result in values set within standardised procedures, which do not reflect the exact and true value on a certain date, but much rather a secure value for the future, which serves to minimise risk. This "mortgage lending value" also serves the purpose of fulfilling the regulatory and supervisory requirements set down in order to fulfil the statutory standards for protecting the creditor. It can take the form of ranges, upper and lower limits, methodological requirements, security reductions and the requirement to take account of possible risks such as modernisation risk, which must be calculated and stated accordingly.

The requirements for determining the mortgage lending value are set down in the *Beleihungswertermittlungsverordnung* (BelWertV – mortgage lending value regulation) which came into force on 01 August 2006. The BelWertV regulation is a milestone on the path to standardised quality assurance in risk analysis of real estate securities in the lending process, as it replaces the instructions on determining value which were agreed in the past bilaterally between the supervisory authorities and banks. Under this new umbrella, the BelWertV regulation bundles the various methodological approaches formulated and agreed in the past, so that they can be further developed on this basis. The requirements set down in § 6 in particular are of interest for real estate valuers working in the financial arena. § 6 of the BelWertV regulation sets down the requirements for the valuers. Here, certification in accordance with ISO/IEC 17024 as well as the existence of special knowledge and experience in the area of mortgage lending value analysis are explicitly stated.

Certification as HypZert real estate valuer for standard properties

Since autumn 2001, HypZert has been carrying out certification which focuses on primarily residential real estate and smaller standard commercial projects in the real estate valuers' regions.

The aim is to fulfil the requirements of many real estate valuers who focus on the valuation of standardised real estate.

The following real estate types in particular do not form part of the spectrum covered by a real estate valuer for standard properties:

- Properties for which the mortgage lending value analysis would have to include a modernisation risk factor.
- Properties for which special expertise in the area of business administration is necessary for the valuation of managed/operated real estate, e.g. industrial parks, properties used for logistics, trade, catering or leisure purposes as well as council housing, petrol stations, truck stops etc.
- Real estate portfolios

For a more precise differentiation between the two areas of certification "standard properties" and "for financial purposes", please refer to the examination catalogue.

Certification as HypZert real estate valuer for market value analysis (national/international)

With an annual transaction volume of over 150 billion euros on the German real estate market, those concerned need timely and market-compatible information on the value of a piece of real estate in order to make their decisions. The buyers and/or sellers usually base their transactions on a "current market value", which is represented by the "*Verkehrswert*" in Germany in accordance with § 194 BauGB (town and country planning code) and in many other countries by the "market value".

As cross-border real estate investment has seen extremely fast growth in the past few years, the question needs to be posed as to which value is to be used when dealing with such cross-border transactions. As globalisation has also penetrated the world of real estate, there is a trend towards using internationally common valuation methods such as the investment- or DCF method – not because they are better, but because market participants in other countries are not very familiar with the German capitalised value approach. Therefore, if an investor is participating in cross border transactions, it is very important for him to be able to depend on a valuation method which is internationally recognised. The *Verkehrswert* calculated in Germany in accordance with § 194 BauGB (town and country planning code) does not fully meet this requirement.

However, other influences such as supranational laws as well as international standards and guidelines (Basel II), also make it necessary to take a detailed look at the term "market value". Due to the introduction of the international accounting rules IAS/IFRS for all listed companies in Europe, the international real estate valuation and accounting procedures, which require statement of the market value for investment properties, are gaining in importance. Thus, it is of the essence for those working in the financial arena to become very familiar with the market value in addition to the mortgage lending value which is in the focus of lending and financing activities.

Certification as HypZert real estate valuer for property and market rating

To fulfil future requirements for more transparency, suitable tools have now been developed by the real estate and finance industry for objective assessment of the quality of properties. These tools are designed to detect special risks in detail while at the same time keeping the result transparent in order to make the risk of the property clear at a glance by allocating it to a category.

With the aid of property and market ratings, a standardised opportunities and risk evaluation is guaranteed both for individual real estate projects as well as real estate portfolios. Property and market rating is gaining increasing importance as a risk management tool in the financial arena, e.g. in risk analysis for securitisation and to support the credit analysis when granting real estate loans. Here, transparency is of the essence as it is essential for effective action that is adequate for the risk involved. However, the creditworthiness of the tenant and the borrower as well as the probability of default on the loan are not part of the property and market rating.