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by

Mr Patrick Davitt FIPAV REV MCEI

CEO of

The Institute of Professional Auctioneers & Valuers (IPAV)

About IPAV

The Institute of Professional Auctioneers and Valuers (IPAV) was established in 1971 as a representative professional body for qualified, Licensed Auctioneers, Valuers and Estate Agents.

IPAV is the only Irish representative body solely catering for the professional and educational requirements and needs of Auctioneers and Valuers and in 2013 represented almost 800 members nationwide.

IPAV has three categories of Membership for practicing Auctioneers and Valuers in Ireland which enables it to cater for the Property Professional, the Certified Valuer and the Recognised European Valuer (REV), through its association with The European Group of Valuers Associations (TEGoVA), and using the 'Blue Book' European Valuation Standards.

The Institute is governed by a National Council of 20 Members from throughout the country. The Institute is further supported by an Executive Council, which consists of IPAV's President, Senior Vice-President, Junior Vice-President and CEO.

I am the Chief Executive Officer of IPAV, appointed in May 2013 and I am responsible for the day-to-day running of the Institute.

A summary of IPAV's main objectives are:

- To provide a professional representative organisation for Auctioneers, Valuers and Estate Agents and to protect, advance and promote professional standards among its Members.
- To promote professional competence among its members to protect the interest of members as between themselves and between members, non-members and the general public.
- To provide a system of professional education.
- To ensure education plays a continuous and significant part in its members professional development.
- To apply, petition for or promote in the Republic of Ireland any Act of the Oireachtas, EU Directive or other legal measure or order with a view to the attainment of the above objectives.
- To establish a Disciplinary Committee consisting of five internal and two external professionals.

IPAV has submitted to the Committee IPAV's *Memorandum and Articles of Association* (as amended in 2013) which detail the structure and processes of IPAV. Further to this, all documentation supplied by IPAV to the Committee and detailed in the Metadata Spreadsheet, is to the best of my knowledge, true and correct. To the best of my knowledge the majority of documents supplied to the Committee are in the Public Domain; however some documents such as *IPAV's Practice Handbook*, *Blue Book Valuation Templates* and *Blue Book Terms of Engagement* are specifically for IPAV Members and are available to IPAV Members in the Members' sign in area of www.ipav.ie

Specific References:

Chairman, in relation to the specific references **(B4b and R5d)** I am asked to comment upon, I wish to make the following points. But before doing so, I wish to emphasise that I can only comment in relation to IPAV and my role as CEO.

B4b - Independence of the professional advisors in valuing property assets

Independence of the Valuer:

Self-Regulation through IPAV:

All IPAV valuers are subject to self-regulation through IPAV. Unlike auctioneering and estate agency, which is governed by the Property Services Regulatory Authority (PRSA), there are no national valuation standards for valuers in Ireland. However, IPAV undertook the role as self-regulator for its own members.

Independent:

While the valuer must possess the necessary qualifications, experience, ability, knowledge and training, s/he must always be objective and professional in his/her appraisal and assessment of value. In many cases it will be necessary for the valuer (and where appropriate any valuation company) to show that s/he is independent of any party interested in the outcome of the valuation. Any such connection, or potential conflict of interest or threat to the valuer's independence and objectivity, should be disclosed in writing to the client and recorded in the valuation report.

Conflict of Interest: It is important to note a quote from the Central Bank of Ireland (CBI) paper *Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future (Final 18 December 2012)* a copy of which has been supplied by IPAV to the Committee; "*Where a conflict of interest exists the valuation is not independent and accordingly it is much more likely that the valuation provided is neither robust nor reliable. All valuations include judgements but, where a conflict of interest exists, it is more likely that such judgements are biased and not in favour of the lender*".

The area of Conflict of Interest is also addressed under IPAV's *Code of Conduct*, and TEGoVA's *Corporate Governance* and *The Blue Book 2012*. Again, copies of these documents have been supplied by IPAV to the Committee.

Definition of Market Value:

Article 4, par 76 of EU Regulation No. 575/2013 (26 June 2013) defines Market Value as*:*

"The estimated amount for which the 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 being under compulsion."

Market Value is internationally recognised as the assessment of the value of a property at a given moment in time. It estimates the price that could be obtained for a property at the valuation date, notwithstanding that this value could alter over time, sometimes very rapidly. The definition of Market Value should be recorded in both the terms of engagement and the valuation report.

Valuation in General:

The source of valuation and how properties are valued has been very topical in Ireland for many years. Basically, the valuation process is broken into two segments:

a) The methodology used to arrive at the valuation figure.

   There are five standard methods of valuation:

   1. Comparative
   2. Contractors
   3. Investment
   4. Profits
   5. Residual

b) The standard used in writing the valuation report.

   The valuation must be presented in a clear written form to a professional standard, transparent as to the instruction, purpose, basis, method, conclusion and prospective use of the valuation. The valuation, as determined by the valuer, must be clearly and effectively conveyed to the client. The form and detail of a Valuation Report used is a matter for the valuer's discretion, but must meet the specific instructions from the client to the valuer. A Valuation Report must adequately report all matters contained within the terms of engagement.

   In line with the European Valuations Standards (EVS), a Market Valuation Report includes:

   - The instructions for the assignment
   - The valuer's qualifications
   - The basis and purpose of the valuation
   - The valuation date

- A description of the property, including a note as to the basis on which the area has been measured
- A summary of the legal context (tenure, development control, etc)
- A commentary on the market for the property
- A description of the valuation methodology and analysis
- Any assumptions that have been made
- Any limitations on the report
- The Valuation Standards applied.

Valuation Procedures of Financial Institutions:

I am of the understanding that banks and financial institutions have generally organised and managed their own Valuation Panels, with some exceptions where valuation panels are outsourced. IPAV Valuers in the past and to date, must apply to the relevant financial institution to be accepted onto the panel. Central to acceptance onto a valuation panel is the holding of an appropriate level of Professional Indemnity (PI) insurance cover.

The valuation figure derived becomes the critical part of the valuation as it helps banks and other financial institutions decide the worthiness of the risk it is going to lend on. This valuation figure will only be reached by experienced professional Valuers with years of experience in valuing property within their own competency. The standards, while important, are designed to give financial institutions an explanation of, and insight into, the process, factors and judgements applied, in order to help arrive at the final valuation figure, though not a methodology.

Again, I am of the understanding that financial institutions valuation panels have operated and continue to do so, on the basis of getting a spread of Valuers throughout the country, with the necessary competencies and expertise required by the financial institution to complete the particular financial institution's own valuation template.

IPAV, as a professional representative body for valuers, has provided guidelines for practising valuers and regular courses and seminars on the subject. However, the actual compilation of a valuation report is a matter for the individual valuer. The completion of the financial institution's template is a matter between the financial institution and the valuer completing it.

Central Bank of Ireland Recommended Practice:

I previously referred to, the CBI paper *Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future (Final 18 December 2012.)* I would like to quote the following from it:

"*Credit Institutions should have a properly approved panel of Valuers using appropriate selection criteria consistent with the loan portfolio risk. An institution should have on-going assessment of performance to enable a valuer remain on the panel. This assessment should include a review of a Valuers performance and professional indemnity insurance.*

Credit Institutions should ensure that no one firm of Valuers has the bulk of their valuations. Consideration should be given to having no one valuer doing more than, say, 33% of all valuation reports. Credit institutions should report any concerns in relation to non-ethical behaviour, including instances of unrealistic valuations, to the appropriate regulatory body. In such circumstances, CBI recommends that credit institutions remove such Valuers from the panel which effectively bans them from working with the credit institution.

The Valuers duty of care is to the credit institution and this should be emphasised by credit institutions in their written instructions to Valuers. Instructions to Valuers for property valuations on collateral security should come from the credit institution in accordance with its clearly defined terms of engagement. Fees should only be discharged by the credit institution. It is for the credit institution to decide as to how it will allocate such costs. Valuation reports should always be addressed to the credit institution that is advancing the loan funds."

European Valuation Standards

In the absence of National Valuation Standards, and following the economic crisis, as part of its ongoing review to increase the professional standards of its members, IPAV carefully studied the valuation processes and standards available in Europe and its choice was to either adopt the English or European valuation standards. After a detailed analysis and consideration, IPAV concluded that the European Valuation Standards (EVS) of the Blue Book were the most appropriate for our needs. IPAV believed that with the UK threatening to leave the EU and Ireland committed to Europe, it was both prudent and progressive for IPAV Valuers to accept and adopt the EVS.

IPAV was awarded Membership of The European Group of Valuers Associations (TEGoVA) in 2012 and also appointed as their Irish administrators (Member Association) in 2013. From this, IPAV introduced its Members to the Recognised European Valuer (REV) Scheme. This scheme is administered across Europe by TEGoVA, which in 1996 created the Blue Book. This book is continually updated and is now in its 7th Edition. There are approximately 2,200 REVs throughout Europe and by 31st December 2013, 60 of those REV's where here in Ireland.

The EVS of the Blue Book are recognised as reliable International Valuation Standards by the Central Bank of Ireland, the European Central Bank and the European Parliament.

To achieve REV status IPAV educates its qualifying valuers through its specifically tailored valuation course, held in the Institute of Technology Tallaght (ITT). This ensures that IPAV Members who complete this course meet with the expected Minimum Educational Requirements (MER) of TEGoVA. A copy of TEGoVA's *MER* has been supplied by IPAV to the Committee.

IPAV's qualifying valuers are those who are professionally qualified, experienced Valuers, with a minimum of 10 years practical experience and who have at their fingertips vast local knowledge, comparable instructions and details of sales in their own areas.

Self-Regulation of EVS through IPAV:

Since the REV qualification was first introduced in Ireland in 2013, all IPAV REV Valuers must agree and sign up to a contract that demonstrates their commitment to IPAV and also confirms the level of self-regulation IPAV imposes. Points 1–5, outlined below, form a segment of that contract.

Compliance and standards are the cornerstone of EVS valuation reports and IPAV's Compliance Officer monitors and examines valuers' written valuation reports on an ad hoc basis.

IPAV, as the administrator of the REV scheme in Ireland, is itself subject to 5 year reviews by TEGoVA.

All REV Valuers must complete a REV contract with IPAV and agree to specific conditions such as the following five, which I quote from the contract:

1. Abide by IPAV's Code of Conduct and TEGoVA's corporate governance and ethical practices, and work within my competencies as an IPAV property valuer at all times.
2. Submit to, and cooperate with, periodic ad-hoc audits and inspections of my 'Blue Book' valuation work in my office or other location.
3. Complete a minimum of 20 hours of CPD each year as set out by TEGoVA and IPAV and present to IPAV in whatever format instructed.
4. Maintain professional indemnity insurance cover of a level not less than 20pc of any given property valuation, or which may be advised or altered form time to time by TEGoVA or IPAV. Should I leave the 'REV' scheme for any reason I will continue to arrange run off cover on a yearly basis for the following six years after the date of leaving.
5. The 'REV' valuation committee will have the final authority and say to withdraw my 'REV' certificate at any time, and in particular should any of the above conditions not be adhered to.

I will now move on to R5d.

Institute of Professional Auctioneers & Valuers

R5d - Appropriateness of the Relationships between Government, the Oireachtas, the Banking Sector and the Property Sector.

Again Chairman, I wish to begin by stating I can only comment on the role of IPAV and its Members relationships with the Government, the Oireachtas, the banking sector and the property industry generally. I will summarise briefly as follows:

Government:

IPAV has always engaged with Members of Government in regard to lobbying on various items of legislation and issues of interest as they arise. For example, IPAV makes an annual Pre-Budget submission to the Minister for Finance and Minister for Public Expenditure & Reform and in recent years has also made presentations to the Joint Oireachtas Committee on Finance & the Public Service and the Department of Agriculture.

IPAV has engaged as necessary with the Minister, Minister of State and senior officials in the Department of Environment, Community & Local Government in relation to housing and related matters.

Ministers and Ministers of State have attended and addressed IPAV's Annual Conferences and regional seminars over the years.

Houses of the Oireachtas:

IPAV has always kept lines of communication open with Members of the Dáil and Seanad, both Government and Opposition, in briefing them on relevant issues as they arise both individually and in Committee. IPAV makes regular submissions to Joint Oireachtas Committees where useful exchanges of views regularly take place.

IPAV also has nominating rights to Seanad Éireann and members are from time to time elected to either House.

The Property Industry:

IPAV has engaged with parallel professions and professional bodies in the property industry. IPAV representatives have regularly attended conferences organised by related professions and institutions and has made and continues to make a determined effort to engage with all stakeholders in the industry. Representatives of such professions are invited to attend IPAV's Annual Conference.

The Banking sector:

IPAV engages as much as possible with the Central Bank of Ireland and individual financial institutions. IPAV lobbied for the inclusion of the Blue Book as one of the preferred standards of valuation in the CBI's final report issued in 2012.

Conclusion:

Overall it is IPAV's view that the relationships between the four sectors - Government, Oireachtas, Banks and Property Stakeholders - should be one of being independent of each other yet communicating through the correct and transparent channels for the betterment of all and the common good of Irish society. While the priorities of the sectors often differ, as is to be expected, IPAV believes there should be ongoing dialogue between the stakeholders. However, to date it has tended to be sporadic rather than consistent.

In this regard, IPAV has long advocated the need for the establishment of a **National Property Council** which would be representative of all stakeholders and which would help advise Government in an holistic way on all issues in relation to property. While it would advise, participants would be expected to respect the democratic imperative that governments govern and have the final say on any policy initiative.

IPAV believes such a body, which would have a purely advisory role, would have the potential to play an enormous part in helping build a sustainable property market, bringing about stability and avoiding future troughs and peaks, as have occurred in the recent past.

Volatility may serve isolated interests. It does not serve consumers. It does not serve the auctioneering profession. And it does not serve the common good.

Thank you for listening and I am happy to take any questions.