AVMs and ESG in valuation from a Danish bank perspective

First Vice President Ebbe Røjgaard Danske Bank/Realkredit Danmark

Valuation of real estate in Denmark

- Few providers of mortgages based on covered bond funding
- Almost all lending within the 80/60 % is based on covered funds funding.
- Marked value is used, although with some prudential elements
- Valuations are primarily conducted by internal valuers
- Values, market rents and yields etc. must be documented with references
- No external providers of AVMs – all mortgage banks have their own models approved by FSA
- The models are primarily based upon public sales data and building information
- The models are only approved for private residentials and with a sufficient quality indicator
- The EBA requirements on prior valuer approval of each individual model value has always applied in Denmark
- No big plans for future AVM developments apart from the incorporation of ESG factors ?

ESG – energy efficiency

- Danish mortgage banks are in the process of integrating ESG factors in the valuations, including incorporating ESG data in the models
- Solid indication that energy efficiency matters for buyers end tenants
- High degree of correlation between year of construction and energy efficiency due to the different set of building regulations over time
- Energy label coverage and validity: An energy label issued by certified companies, valid for 10 years and spot checked by the Danish Energy Agency is mandatory when selling or letting
- The energy source will be important for house prices
- Plans for upgrading the non-energy efficient and fossil heated buildings

ESG – Risk of flood and heavy rain

- The Danish stretch of coast is 8000 km and about 1% of the single family houses are exposed to flooding
- The frequency of flooding incidents have grown over the last 30 years
- Detailed maps are available showing flooding risk and heavy rain exposed buildings
- Flood risk awareness and discounts: The Danish Central Bank recently found that houses exposed to flood risk are priced with a 6% discount compared to similar, unexposed houses.
- Municipalities have plans for mitigating provisions and several projects have been implemented