24th Central European Covered Bond Conference

9/10 June 2022 / Warsaw

Panel 4: Valuation for CB purposes – New developments

Summary by Annett Wünsche

Moderator:

- Annett Wünsche, Department Head Valuation, vdp, Berlin

Panelists:

- William Groen, Senior Surveyor, Berlin Hyp, Amsterdam
- Andrzej Kulik, CRO, mBank Hipoteczny, Warsaw
- Ebbe Røjgaard, First Vice President, Danske Bank, Copenhagen

SUMMARY

Panel IV at the 24rd Central European Covered Bond Conference focussed on two developments important for valuation in Covered Bonds context: digitalisation and consideration of ESG factors. Within the 1st topic "digitalisation" the contributions of the panel focussed on the regulatory environment and an exchange on the usage of statistical methods for valuation purposes, its opportunities and limits as well as the role of the valuer. In the huge field of ESG aspects as a 2nd topic the panel focussed on energy efficiency of buildings and climate risks, the most important ESG factors from a building's perspective. The panel raised issues like data availability and the differentiation between consideration in value vs. risk management

CONTENTS

The panel started with a short introduction into the two topics – digitalisation and ESG factors – by the moderator, Annett Wünsche. She gave a general overview about valuation rules in the Directive (EU) 2019/2162 on the Issue of Covered Bonds and Covered Bond Public Supervision. As a result, it became clear that the topics discussed in the panel are completely independent of the concrete methodological design of the valuation process for Covered Bonds purposes at the national level, e.g. whether valuation is based on market or mortgage lending values. Furthermore, her introductory presentation included an overview of the most important regulatory requirements for the use of statistical methods in property valuation as well as the consideration of ESG factors on a European level.

This was followed by three presentations by the panellists William Groen, Ebbe Røjgaard and Andrzej Kulik who highlighted the most important developments on both topics from their respective national perspectives (see presentations).

After this overview, the panel discussion started.

The panellists discussed, first with a focus on housing, to what extent statistical methods can support the valuation process, and where are the limits. While in some countries the use of such methods has been state of the art for years, other countries are still in their infancy. The main focus is on the availability of databases.

In the further course, the discussion was extended to commercial real estate. There is agreement that statistical methods can also be used to support the valuation process for these properties, but with a stronger focus on providing comparative data for individual valuation parameters as a fully or semi-automated valuation.

Finally, the participants discussed the role of the valuer in the context of the use of statistical methods. It is agreed that despite all the support of the valuation process by statistical methods, the valuer remains responsible for the result of the valuation. This is ultimately also anchored in the

European regulations, for example the EBA/GL/2020/06 - Guidelines on loan origination and monitoring.

As a start to the second issue, ESG factors, the panellists exchanged views on the importance of ESG to investors and private buyers. It becomes clear that this topic is gaining in importance everywhere, but with somewhat different characteristics. For example, the Netherlands, due to its geographical position are particularly sensitive which is reflected in many activities already implemented at national level.

Awareness is one thing, but the question now is how this affects prices and ultimately values. Valuers have the task of reflecting the market, they do not "make" the market. They can therefore only take ESG factors forward-looking into account in the valuation to the extent that the market takes them into account.

The panellists did not yet see a major influence of ESG factors on property prices, there is low evidence in the market, but expect this influence to become greater in the very short term. The current price developments for energy sources alone will bring the focus of energy efficiency much more strongly into focus in the short term. The more this comes into focus, the more the value influence of ESG factors must naturally play a role in the valuation. However, this does not mean that the valuer should ignore the issue, as long as there is no direct impact on the values of properties. As an expert who has comprehensive information on the property, he will in future also play a much stronger role as a provider of information on ESG risks.

This leads on to another aspect discussed, data availability. Not only in the area of valuation, but even more so in the risk management of banks, there is a need for a comprehensive analysis of ESG risks. This requires data, which has so far been available to varying degrees at the national level.