



Sustainable housing and real estate markets

HypZert

For smarter sustainable cities and human settlements
76. session on the UNECE Committee on Housing and Land Management

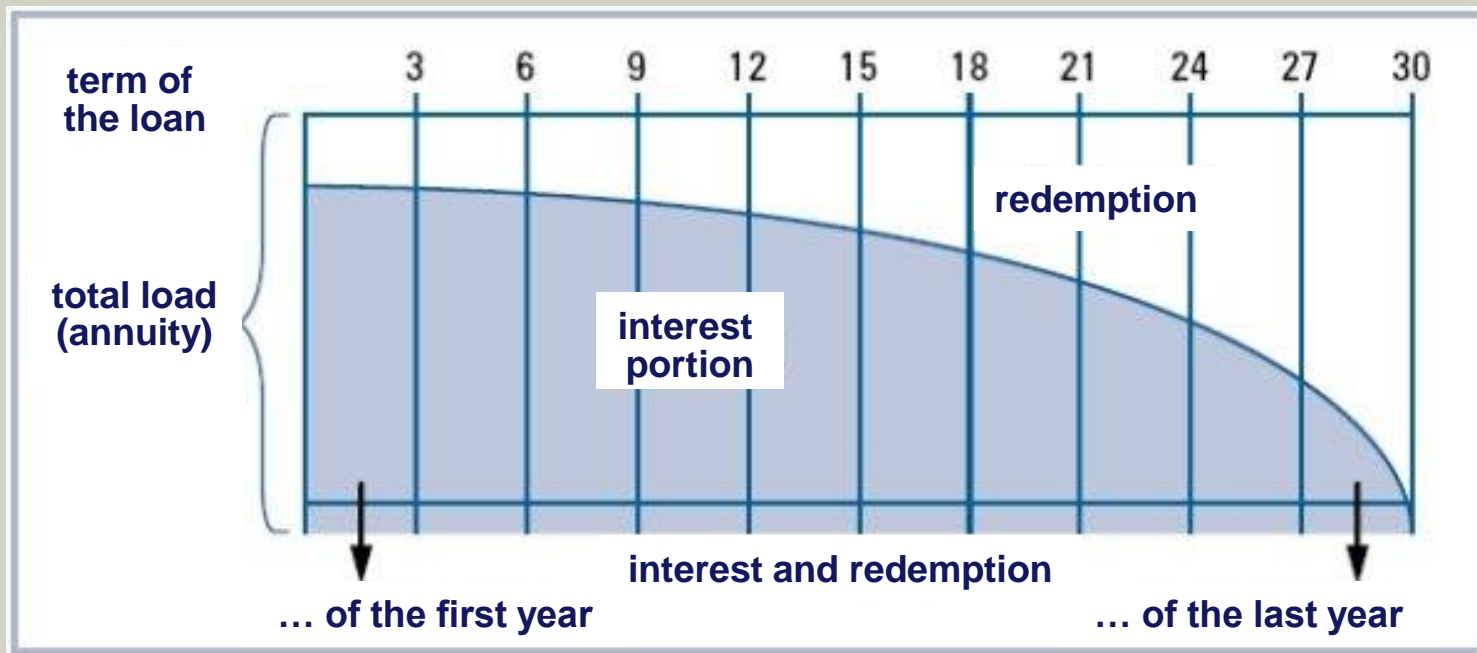
Geneva/Switzerland, 14 December 2015
Reiner Lux, General Manager/CEO HypZert, Berlin/Germany

*Private property is often an essential part of the assets
(or retirement)*

- *overheated real estate markets were often in the past the starting point of financial crises*
- *through global linkages national financial crises (eg USA) often develop global impact*
- *which drive the world economy into recession*
- *out of financial crises came banking crises*
- *banking crises developed into crises of state (eg Greece)*
- *Losers of the crisis: our children when governments go into debt, it may lead for future generations to some sort of tax increase*
- *everything helps to prevent future crises, needs to be done*
- *the private property is often an essential part of the assets (or retirement)*
- *a property is a long-term investment, which is usually financed through loans*
- *these loans should be funded in the long term, to be free of interest rate changes*
- *the underlying valuation thus shall be aligned in the long term -> Mortgage Lending Value*

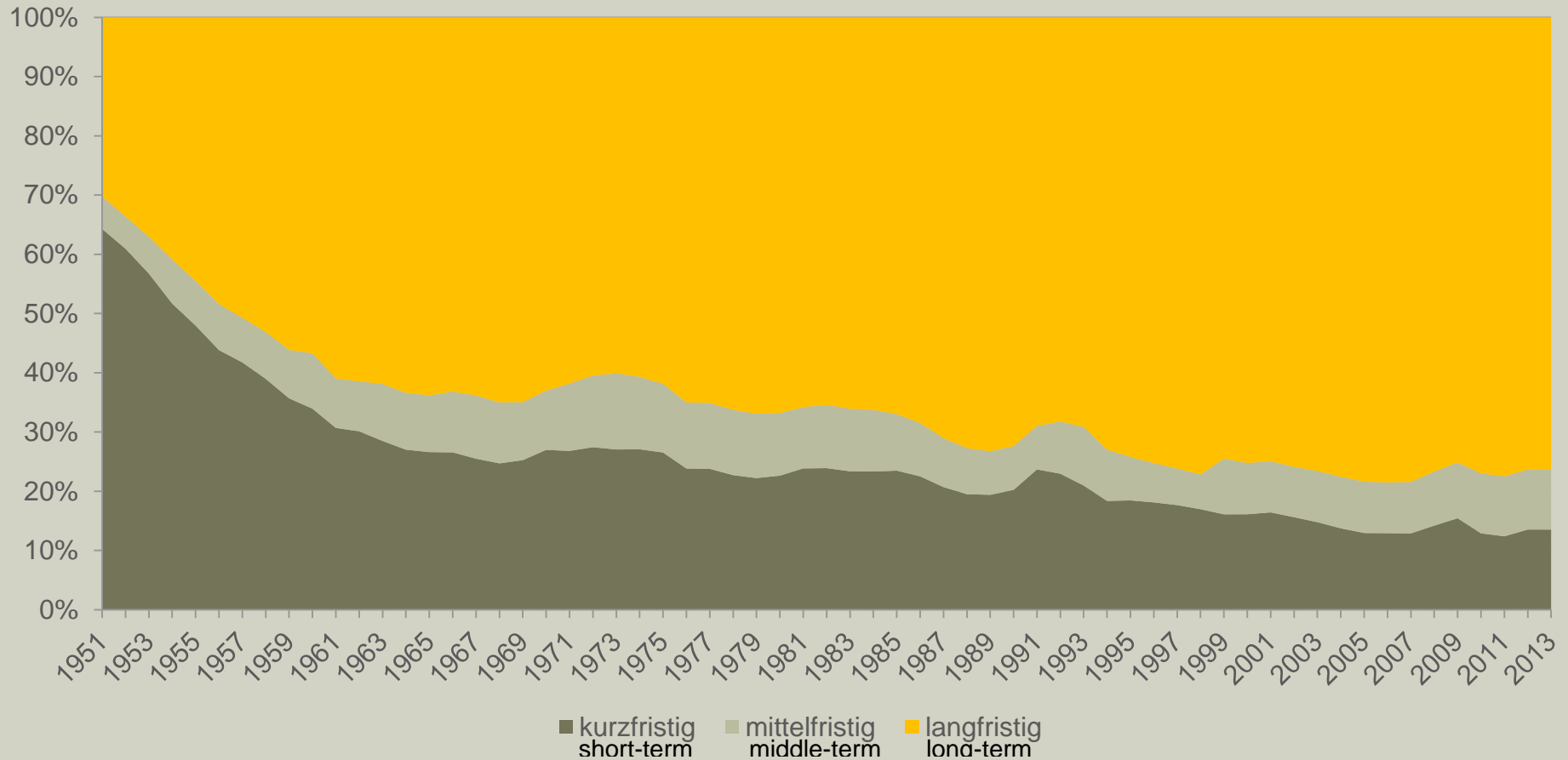
Amortization

Assuming a redemption of 1-2% per annum, the term of a loan usually runs for 25 up to more than 30 years. The value to be determined therefore must be valid for this whole period. The market value, however, is a value related to an appointed due date.



Long-term financing has tradition in Germany

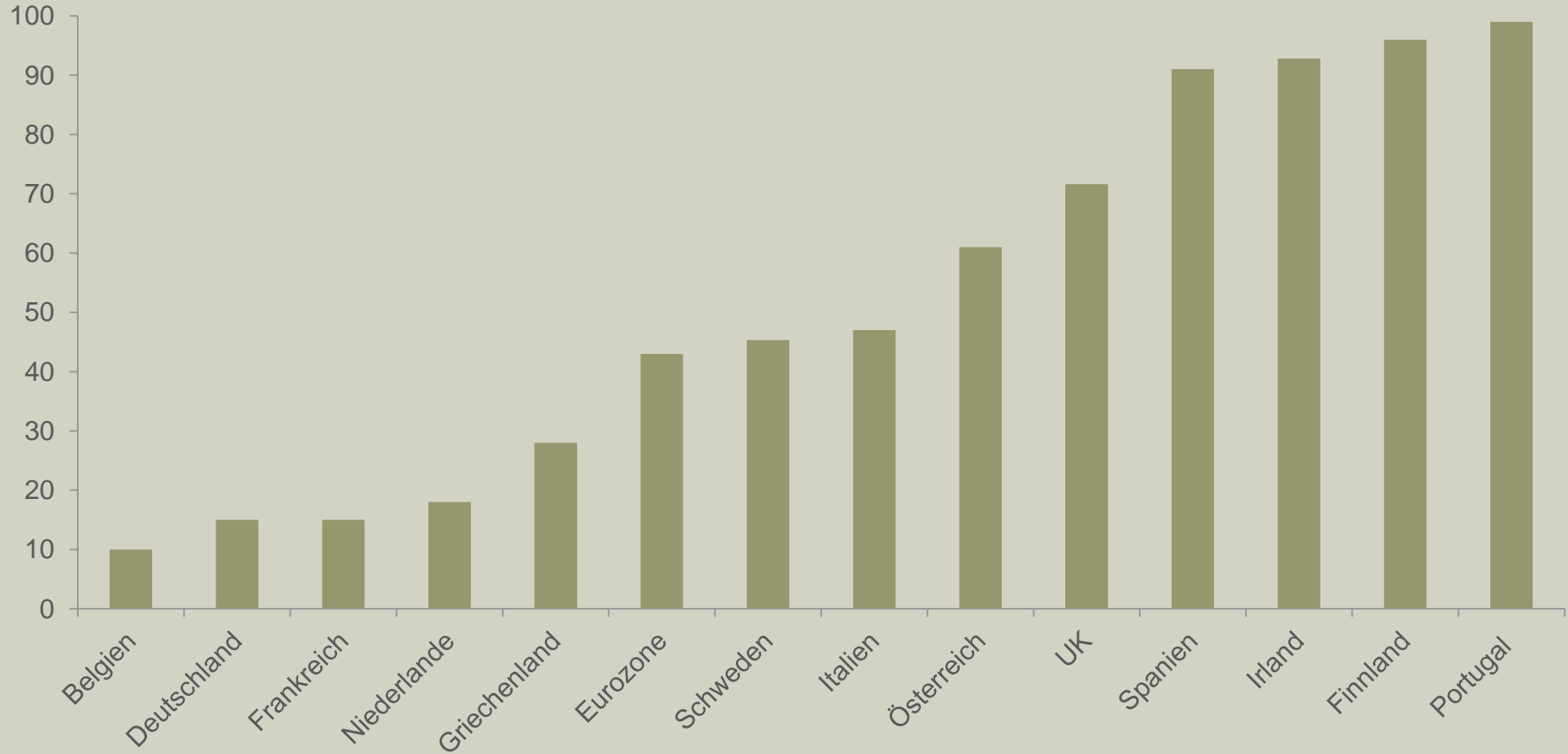
-> more than 70% of the housing loans are long-term loans



source: Deutsche Bundesbank, vdp/IW

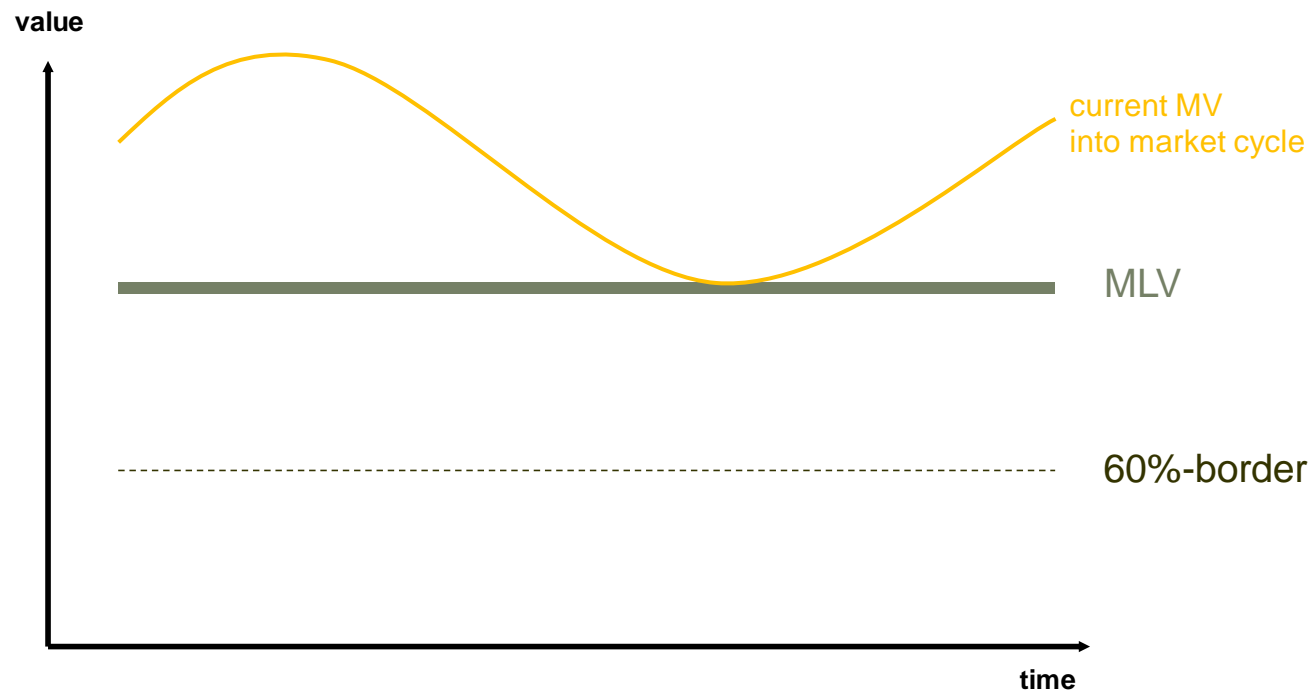
Hardly variable loans

Share of all issued housing loans – international view



Source: ECB

Delimitation to the Market Value



“The use of market value when determining the value of the collateral, accompanied by a high LTV, could constitute a very high risk to mortgage lenders in the face of a downward trend in prices.”

(European Central Bank, 4/2000)

“Markets due to the long term financing possibilities and linked valuation are relatively stable...”

(World Bank - Study “The 1985 to 1994 Global Real Estate Cycle“)

“ ”

(UNECE, ... 2016 ...?)

Market Value (MV) according to European Valuation Standards:

*“The estimated amount for which a 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 compulsion.”*

MLV according to § 16 (2) Pfandbrief Act:

*“The mortgage lending value must not exceed the value resulting from a prudent valuation of the **future saleability** of a property and taking into consideration the **long-term, permanent features** of the property, the **normal regional market situation** as well as the **present and possible alternative uses**. **Speculative elements must not be taken into consideration.***

*The mortgage lending value **must not exceed a market value** calculated in a transparent manner and in accordance with a recognized valuation method ...”*

The solution: Mortgage Lending Value (MLV)

- Two different value concepts
- **Fundamental difference:**

MV	MLV
refers to a specific date	must apply “throughout the life of the lending” (§ 3 BelWertV).

- present (date of valuation)

- past
- present
- future (research!- no crystal ball)

- As a rule, MLV is well **below** the MV.
- During recessive market phases: Small gap between MLV and MV
- In boom phases, especially in foreign sub-markets (i.g. London, Dublin), MLV may be more than 40% below the market value

Conference: Mortgage Lending Value – A Sustainable Valuation Approach

We are very pleased to announce a 1-day-seminar taking place at next HypZert's annual convention on **13 October 2016**. Since the European Banking Authority (EBA) is planning a so-called Regulatory Technical Standard (RTS) to define the assessment of Mortgage Lending Values in the European Union, we would like to discuss the current approaches and methods used in Germany and other European countries to derive sustainable and longterm property values that may also help to avoid future "bubbles" in the housing and commercial real estate markets.

Morning Session: Focus Germany

- 09:00 – 09:45 - **Information about vdp, HypZert and the Pfandbrief's regulatory framework**
- **Planned Regulatory Technical Standards (RTS) of the European Banking Authority (EBA) on the assessment of Mortgage Lending Value anticipated in Article 124, paragraph 4 of Regulation (EU) No. 575/2013**
 - **Role of the valuer in the financing process in Germany**
- Speakers: Annett Wünsche and Wolfgang Kaelberer, Association of German Pfandbrief Banks (vdp), Reiner Lux, HypZert GmbH Berlin

- 09:45 – 10:30 - **German Valuation Methods**
- **Market Value vs. Mortgage Lending Value**
 - **Determination of the Mortgage Lending Value (methodology)**

- 11:00 – 12:15 - **Application of BelWertV - Valuation examples: Residential, Office, Retail**

Afternoon Session: Focus Europe

- 14:00 – 14:30 - **Presentation of the results of the EMLVI (European Mortgage Lending Valuation Initiative) to develop an international MLV methodolog**
- 14:30 – 17:00 - **European Mortgage Lending Valuation Approaches in Czech Republic, France, Poland, Spain**

Date: Thursday, 13 October 2016

Location: World Conference Center Bonn,
Platz der Vereinten Nationen 2, 53113 Bonn/Germany

Conference: Housing Finance-Land register & Mortgages **HypZert**

Conference: Housing Finance – Market and Structures

We are very pleased to announce a 1-day-seminar taking place at next HypZert's annual convention on **13 October 2016**. The European Parliament and the European Council have adopted the Directive 2014/17 of 4 February 2014 on credit agreements for consumers relating to residential immovable property which has to be implemented into national legislation until 21 March 2016. We would therefore like to discuss the current developments and structures in Germany and other European countries to ensure affordable housing finance as well as sustainable financing and refinancing methods.

Morning Session: Housing Finance and Refinancing Structures in Europe

- 09:00 – 09:45 - **Structures of Different Housing Markets in Europe (Rent vs. Ownership)**
 - **Typical ways of financing (mortgage loan et al.)**
- 09:45 – 10:30 - **Directive 2014/17/EU on Credit Agreements for Consumers relating to residential immovable property and its consequences for Housing Finance**
- 11:00 – 12:15 - **Different ways of Refinancing housing mortgage loans (deposits, Covered Bonds, others)**

Afternoon Session: Land Register and Mortgage in the credit process, case studies

- 14:00 – 14:30 - **Land Register, Mortgage and their role within the credit process**
- 14:30 – 17:00 - **Case studies: Financing of a single family dwelling in Germany, Serbia, Spain and the Ukraine**

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