



**UNECE**

**REAL ESTATE MARKET ADVISORY GROUP (REM)**

**UNECE Policy Framework for Sustainable Real Estate Markets**

*Sound rules to improve the real estate sector and promote economic growth*

*Roundtable organized by International Real Estate Federation – USA Chapter  
in cooperation with Appraisal Institute*

**US Capitol Building – Senate Visitor Center – Room 209**

**Washington DC 20004**

15 January 2013

**UNECE REM POLICY FRAMEWORK AND REAL ESTATE RATING PRINCIPLES AND POLICIES**

**GIAMPIERO BAMBAGIONI MBA CIPS**

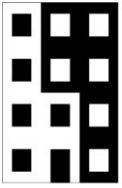
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## INTERNATIONAL ECONOMIC SITUATION

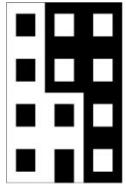


**The current international financial crisis interlinked with asset-backed markets and the analysis of the most recent economic cycle highlight the importance of the real estate markets for the economic growth.**

A fully functioning and well regulated real estate market can be an important factor to enhance the economy of countries, both through upgrades in the housing stock and building capacities as well as the development of mortgage finance.

The real estate sector also plays a fundamental role in the transition and consolidation of green economies, with the related generation of employment and growth.


The real estate sector constitutes a large portion of a country's gross domestic product – it is estimated by the World Bank to be worth 68% of total assets of the world economy – and it is also often the main form of investments for savings of individual households.

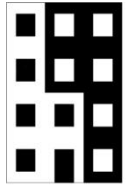


## REGULATORY FRAMEWORKS

Since real estate is also significantly utilized as collateral of financial products by lending institutions, its potential for growth and contraction could have a wider impact in the overall economy.

A solid real estate economy is necessary to guarantee mobility of the labour force and improve adjustment to migration flows within countries.

 **Analyses of the current global economic crisis have shown that unclear regulatory frameworks in the financial and real estate sectors were among its main causes.**

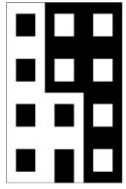


## INTEGRATED AND INTERCONNECTED ECONOMIES

The crisis brought up a range of problems and demonstrated the urgent need for Governments to respond by providing guidance and promoting sound real estate markets for the region as well as globally.

The study of differences on a national level constitutes the very foundation for the development of specific, practical guide lines to encourage economic and social development.

In the last 10/15 years, more than in the recent past, and not only because many countries have re-established their economic systems (we can imagine Russia and China as examples), the nation-state system which forms **the “global village” has become increasingly integrated and interconnected on both an economic and social level.**

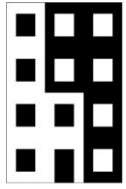


## ON THE GLOBALIZATION ON MORAL PRINCIPLES AND SHARED VALUES

The globalization of markets, economies and information involves – more and more – an internationalization of social tensions, of critical situations, of suffering.

A holistic approach cannot neglect an inclusive view of economic dynamics, ethical principles and social and humanitarian aspects.

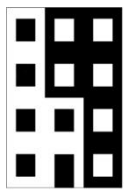
It has become necessary to collectively support the Ethics of the **common good**, within which framework every national or international institution and organisation, every business, every individual must be aware of being called to make an essential contribution to the development of civil society and the enhancement of the **general good**.



## ON THE GLOBALIZATION ON MORAL PRINCIPLES AND SHARED VALUES

An organised effort to identify widely supported solutions to needs that have been recognised as universal must be fuelled by the knowledge that there are fundamental «**public goods**» which are at the same time also «**individual goods**» and *vice versa*.

These include: **peace, security, collective liberties, justice, protection of the environment, economic development,** and even honouring contracts and price stability (which implies preserving the global trade system, which is essential if we wish the market price mechanism to work).



## THE PRECONDITIONS FOR ECONOMIC AND SOCIAL DEVELOPMENT



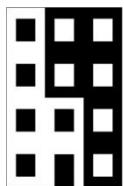
**Peace**

**Human rights  
and Justice**

**Economic  
development**

**Fundamental  
freedoms**

Without **peace** can't exist prosperity, wellbeing, security and collective liberties.



## THE PRECONDITIONS FOR ECONOMIC AND SOCIAL DEVELOPMENT

Since when started my cooperation with the United Nations in 2001, one of the main goals of my activities is to offer a contribution to the planning and the implementation of suitable, concrete, sometime urgent, but non-traumatic initiatives, which might provide ***new solutions to old problems*** and promote the establishment (in the most developed countries, but also in those in transition) of the preconditions for a better quality of life.

Vision that I have undertaken to transfer, as leader of the Task Force that developed the **UNECE REM Policy Framework for Sustainable Real Estate Markets**, right from the first draft of the document sent to my colleagues and to the UNECE secretariat January 23, 2009. Approach subsequently acknowledged even by those who have shared and / or made suggestions for the definition of the 10 principles which today form the outcome of the UN publication. (*See page IV Introduction of the document*)

 **The real estate sector, if well regulated and based on transparent real estate and financial markets, could be a driving force for sustainable development.**



# Correlation between policy framework and financial and real estate markets

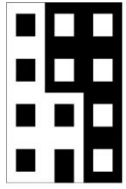
A more **integrated and holistic approach** is required: there are several interlinked areas of action as summarized in the figures.



The international financial crisis was already apparent in 2006.

As we know, the financial crisis in 2008 was caused by sub-prime mortgages; now sovereign debt is affected.

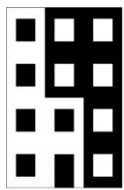
These phenomena could put a significant strain on the consumer models which have characterised our recent past.



### THE APPLICATION OF THE UNECE REM POLICY FRAMEWORK SHOULD BE BASED ON WIDELY ACCEPTED KEY CONCEPTS:

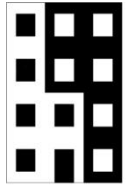
1. **Sustainable development:** as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”;(\*)
2. **Good governance:** which should prevent decision-making based on self-interest and favor decision-making to the benefit of common good;
3. **Transparency:** the degree of clarity and openness through with which decisions are taken;
4. **Accountability:** the extent to which political actors are responsible to society for their actions;
5. **Fairness:** the degree to which rules are equally applied equally to everybody;
6. **Efficiency:** the extent to which limited human and financial resources are applied without waste, delay or corruption or without compromising the well-being of future generations.

(\*) *United Nations, 1987. "Report of the World Commission on Environment and Development." General Assembly Resolution 42/187, 11 December 1987. Retrieved: 2007-04-12*



## THE PRINCIPLES

- Principle 1** INTEGRATED LEGAL FRAMEWORK
- Principle 2** EFFICIENT LAND REGISTER AND CADASTRE
- Principle 3** EFFICIENCY OF SERVICES
- Principle 4** PREREQUISITES FOR DEVELOPMENT OF SOUND REAL ESTATE MARKETS
- Principle 5** GOOD GOVERNANCE
- Principle 6** SUSTAINABLE FINANCING
- Principle 7** TRANSPARENCY AND ADVANCED FINANCIAL PRODUCTS
- Principle 8** PROPERTY VALUATION
- Principle 9** SOCIAL HOUSING
- Principle 10** TRAINING AND CAPACITY BUILDING



## REAL ESTATE RATING PRINCIPLES AND POLICIES

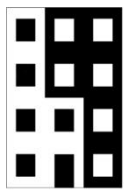
### **Real estate property and market risk evaluation for real estate backed financial products**

In 2009, the UNECE Real Estate Market Advisory Group (REM) was requested by the UNECE Working Party on Land Administration (WPLA) to create a document that could contribute to the clear and transparent risk assessment of real estate properties used as a collateral for financial products.

This request was supported by the UNECE Committee on Housing and Land Management at its seventy-second session.

*In this phase we are sharing the final version.*

*We will take into account the opinions of Institutional stakeholders for the elaboration of the final document.*



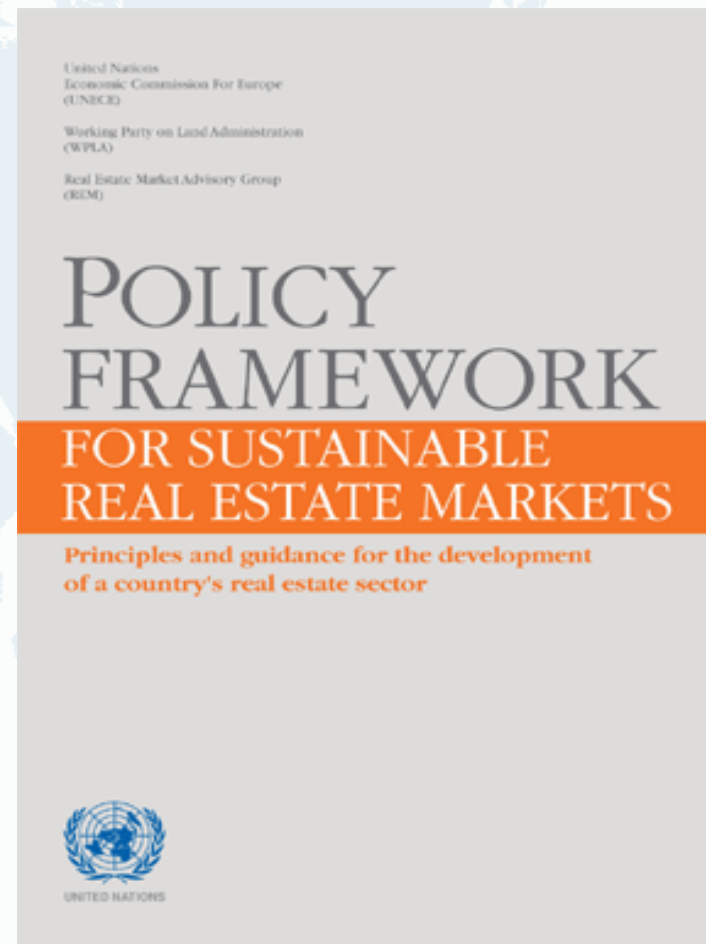
## UNECE REM POLICY FRAMEWORK ON SUSTAINABLE REAL ESTATE MARKETS

### Principle 7 – Transparency and Advanced Financial Products

Transparency and appropriate use of real estate assets as guarantee of advanced financial products can produce social and economical benefits and avoid any possible contribution to a global financial crisis, such as the current one.

### Principle 8 – Property valuation

- ❖ Improve the reliability of valuation for transactions and financing
- ❖ Use prudent loan-to-value (LTV) ratios
- ❖ Reduce investment risk
- ❖ Encourage lower interest-rate loans





The value of properties is usually estimated at the present time with reference to the data taken from the recent past

## Real Estate Rating.

The evaluation of real estate property and market risk in the appraisal activities is **one of the many purposes for which a property can be estimated.**

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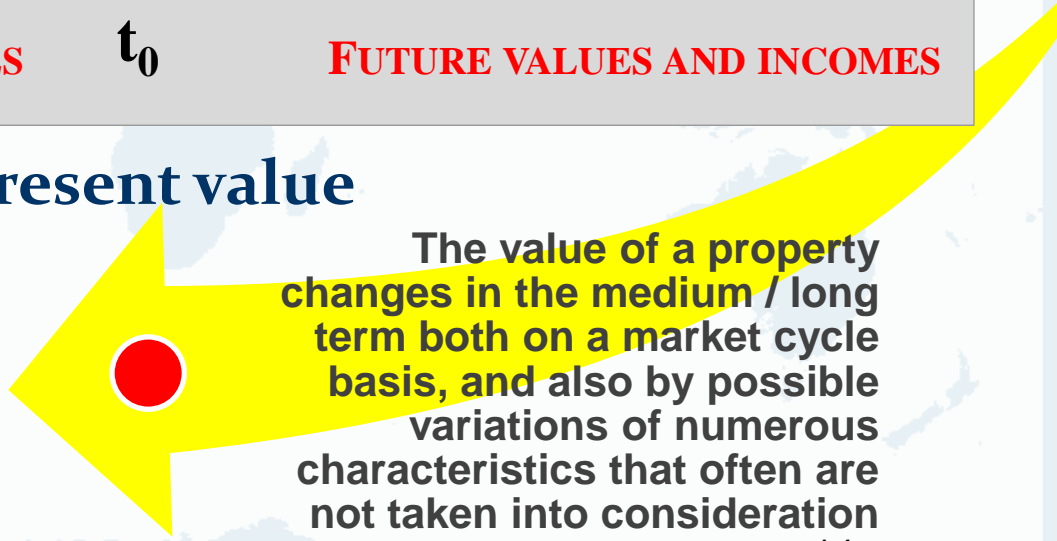
**HISTORICAL VALUE AND INCOMES**

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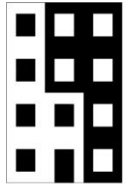
**FUTURE VALUES AND INCOMES**

## Present value

The forecast for the possible future scenario of property valuation can be of great interest to banks for the provision of mortgages, for funders, investors (real estate funds, pension funds), etc.



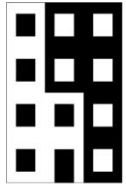
The value of a property changes in the medium / long term both on a market cycle basis, and also by possible variations of numerous characteristics that often are not taken into consideration with a future projection.



## REAL ESTATE RATING PRINCIPLES AND POLICIES

### THE NEED FOR A STRICTER STANDARD MAY INCLUDE:

- Senior Supervisors Group
- Institute of International Finance
- International Monetary Fund
- Securities and Exchange Commission
- Banking system
- Private and institutional investors
- Consumer Organizations *(that are interested in preserving the economic interests of consumers-borrowers, without speculative approach based on short-term market and financial dynamics; it is known as, sometimes, the value of a property based on the "value in use" and / or on the "cost approach" is higher than the "market value")*
- etc.

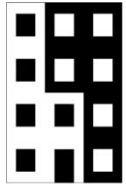


## REAL ESTATE RATING PRINCIPLES AND POLICIES

Real estate rating systems used together with an assessment make a significant contribution towards risk analysis and the efficiency of loan procedures where loans are guaranteed by real properties.

▶ A “**real estate rating**” is understood to be, “***the evaluation of the reliability of the investment on the basis of the overall quality of the building and of its probability that it will preserve over time its usefulness and its value in order to evaluate the risk of the capital invested.***”





## REM REAL ESTATE PRINCIPLES AND RATING POLICY OPTIONS

*(Pages 24, 25, 26 of the enclosed document)*

Real estate risk analysis should take account of

- **Location**
- **Market scenario**
- **Cash flows**
- **Quality of the building**
- **Structural solidity and seismic risks**
- **Other intrinsic and extrinsic characteristics**
- **Quality of services, infrastructure and transportation**
- **Current and potential uses**
- **Long-term and lasting real estate aspects**
- **Best estimate or informed expert forecast of the difference in value** existing between the current market price and the price obtainable in the case of forced sale due to a non-performing loan in the three to five years after the creation of the loan. **Etc.**

**Each category of the assessment should be given a score that is weighted based on the influence of the category on the strength of the investment.**

Thank you for your attention

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