Abstract:

This paper investigates whether international property investors can rely on comparability and consistency in international property valuations.

Variables in valuer education and regulation as well as specific risk factors affecting international property values were investigated. The use of International Valuations Standards (IVS) in terms of achieving valuation consistency and comparability in financial reports revealed inconsistencies. Due to a paucity of published material directly focussed on the consistency of valuation globally, the literature review was supplemented by information gathered from primary sources. The research focused primarily on commercial property and commercial property valuation across the U.K., Australasia, China and Germany.

A survey of property investment professionals from listed international property companies indicated major concerns of risk are the lack of transparency in property markets and the risk of REITs holding secondary quality properties. Most participants suggested it is only occasionally possible to consistently compare movements in international property values. There was no agreement between those surveyed as to whether all IVS valuation reports included a section explaining the valuation methodology used and the majority indicated a valuation was not sufficient evidence to decide on the purchase price of an international property investment without making further investigations.
Introduction

The purpose of this study is to identify if there is comparability and consistency in international property valuations and whether investors are confident to rely upon international property valuations without requiring further investigations.

An increased interest in international property investment has accompanied a number of global changes including advances in technological development, the breakdown of national boundaries in Europe, the introduction of the Euro, new trade alliances, development of offshore business and a growing awareness of the portfolio risk reduction attributes of a global spread.

As a consequence of this trend towards international property ownership, concerns regarding the security of international property investment have arisen. From the mid-nineties, G20 leaders have called for standard setters to improve valuation principles and achieve clarity and consistency worldwide with the aim of reducing risks associated with global economic crises (http://www.ivs.org 2012). By 2006 a Critical Review Group was appointed to improve the standards focus, relevance and consistency.

The International Valuation Standards Council (IVSC) reports International Valuation Standards (IVS) have been prepared to ‘set internationally recognised principles and definitions for the preparation and reporting of valuations’ (International Valuation Standards 2011, p. 14). However, a reliance upon IVS must be considered in relation to the fact that these provide guidance only leaving the valuer to choose the valuation methodology and criteria thought appropriate in the situation. Failure by the investor to recognise potential confounding factors affecting reliance upon IVS as an equalising valuation method could result in less than optimal investment decisions.

Unfortunately there is little published material directly focussed on the consistency of valuation globally or the effect of the IVS. Nevertheless, a number of publications have identified some key issues that influence valuations in a country specific context.
A warning of the limitations of international valuations is highlighted by Baum (2012) as he describes the data available to assist the decision making of international property investors as being of limited value for direct property investment and the ‘performance of diversified market indexes which cannot perfectly be captured’ (p. 6). Although the Investment Property Databank (IPD) produce valuation data in 32 countries, this data is not traceable to direct property sales or specific properties.

**Parameters of IVS**

The IVS provide guidance to the valuer. IVS 103 Reporting requires the valuer to provide ‘comparability, relevance and credibility’…‘the scope of the assignment, its purpose and intended use, confirmation of the basis of value used and disclosure of any assumptions, special assumptions, material uncertainty or limiting conditions that directly affect the valuation’ (IVS, 2012, p.35), but, the valuer chooses the methodology and criteria they consider appropriate. On this basis specific local conditions would prevail. Local factors being considered the norm, the offshore investor is unlikely to be presented with a valuation that replicates their domestic market conditions or risks.

**Valuation Methodology**

Property valuation methodologies can vary globally. A number of valuer professional bodies require land to be valued separately from improvements as is required in the IVS to accommodate International Accounting Standard (IAS) 16.

To comply with the Uniform Standards of Professional Appraisal Practice (USPAP), North American appraisers are required to value real-estate at its highest and best use which necessitates land to be valued separately from the improvements. Similar requirements exist in countries outside North America e.g. Japan, Australia and New Zealand. The European Valuation Standards (EVS) also require separate valuation of land and improvements but this is not consistent practice globally.

To value a property in its highest and best use the land valuation is described by Spies and Wilhelm (2005, p. 4) ‘the Land Value Opinion, the value of the land without any improvements is estimated. This approach helps identify ‘whether an existing use is the highest and best use of the land”’. Improvements are valued separately with the difference between land value and market value being the value of the improvements. The strength of this methodology is the recognition of an undercapitalised site ripe for redevelopment. Where land value is assessed separately in its highest and best use, an undercapitalised site becomes obvious. Where this is not accepted practice, a potential risk of undervaluing or ignoring redevelopment possibilities may remain unrecognised.

German valuation practice assesses land value separately (unless a Discounted Cash Flow Valuation method is used). However, land value is determined by the use of tables constructed by the local Committee of Valuers. Schnaidt and Sebastian (2012) refer to a main task of the local committee of Valuers is ‘to establish reference prices for land for the region under their responsibility’ (p. 152). The sales data used to construct the tables is likely to be dated by the time the tables are publicised.

Technical Information Papers (TIP) are being designed to accompany IVS but these are not mandatory, so accommodate the use of local valuation methods.
Baum and Crosby (1988), (cited in Parker 1999), suggest that the basis of value adopted by different valuers could give rise to valuation variance. Further evidence of valuation variance is supported by an ‘initial’ study of European valuation practices undertaken by Hordijk, Nelisse and Koehuis-Gritter in 2011. This investigated the valuation practices in France, Germany, Italy, The Netherlands, Portugal, Russia, Spain and the UK being countries where the RICS is represented. Hordijk et al.’s initial findings revealed valuation methodologies are country specific and difficult to compare with variations in space and area measurement, accountability of operating costs, reliability and availability of sales data plus a difference in the quality of information available from land registries.

The differences may be even greater when comparing the work of international valuers where education, guided training period and professional regulations differ. Additional inconsistencies arise in the ease of availability, transparency and quality of comparable sales data.

**Measurement Methods**

Disparity in the measurement methods used in Europe extends globally. Two major organisations publish ‘measurement codes’ which are in common usage. Firstly, the RICS publish their own measurement code and secondly, the ‘Building Owners and Managers Association’ issues the BOMA code for commercial property measurement. BOMA International members include Australia, Brazil, China, Finland, Indonesia, Japan, Mexico, New Zealand and the US.

In support of the findings of Hordijk et al, Haynes and Nunnington (2010) report ‘there are many standards in Europe that do not have a consistent basis of measurement. In addition to the RICS code for the UK there is NEN 2580 used in Belgium and the Netherlands and DIN 277 in Germany, Austria and Switzerland’ (p. 113). Reference to a 2005 Jones Lang LaSalle report identifies variations in leased area from the BOMA floor rentable area if compared to various areas in Europe would be:

- UK -13.6%
- France – 2.5%
- Norway, Turkey and Israel +7.2%

‘When comparing against the RICS NIA they suggest the situation is even more diverse. Deviations from the RICS NIA would be

- US 15.7%
- Belgium 21.2%
- Norway 24.1%
- Sweden 7.3%
- Germany 12.2%
The study indicates a total difference of 24.1% may occur when comparing usable areas between the UK and Norway, without adjustment this would be highly misleading’ (Haynes and Nunnington, 2010, p. 114).

To help address this inconsistency an international property measurement standard is expected to be established and adopted by 27 property trade organisations including the RICS (http://www.ft.com 2013)

Valuer Qualifications and professional requirements:

Although previous researchers have noted the variables that affect a valuation procedure, the difference in valuation ‘assessors’ has not been addressed. Valuer qualifications and professional requirements vary internationally. For consistent practice, it may be expected a similar education, training and professional body regulation would prevail.

Degree education is required for valuers in Australasia, China, UK and the US but there is no common valuer education programme.

A key point of evolving education differences between valuers is identified by Eamonn Darcy (2009). The valuer educational setting in Europe is moving away from the Built Environment department. Darcy reports ‘postgraduate level, both full-time and part-time, has been established as the dominant provision with a business school setting as an increasingly important academic context’ (p.69). This education is arguably more suited to contemporary needs as valuation contexts are evolving within financial contexts in a securitised property world.

Supervised graduate training periods vary in length and required ‘concentration’ on valuation. Gelbtuch et al (2011, p.vii) observes that ‘many more countries are exploring the licensing and certification of valuers than ever before, which will serve to enhance the credibility of all appraisers’. Country specific professional regulations differ and ‘licensing’ requirements in addition to expert valuer status, are not universally common. Of the countries under study, only the New Zealand Institute of Valuers requires their members to annually reapply for a practising certificate. Although the IVS 2011 outline good practice for valuation, conduct and ethical behaviour is determined by local professional bodies or other organisations having a localised regulatory role over valuers.

The range in valuer education content, training and regulation plus identification by Darcy (2009) of the need for business knowledge indicates an inconsistent level of commercial acumen amongst IVS valuers. A variation in education, supervision and regulation must differentially influence cross border valuations.

Availability and transparency of market sales data

Of the numerous factors that can affect the valuation accuracy of a property, the availability and transparency of market information has a direct influence on the valuation. Accordingly, of the countries studied, Australia and New Zealand have the only comprehensive source of validated sales data aligned with property records sourced from the government rating (land tax) departments.

Thorne (2012) recognised sales and market data variation as primary inconsistencies affecting investor confidence and writes (2012, p. 49) ‘the inconsistencies between countries
that so greatly weighed on investor confidence were not solely related to valuation practices – across Europe there are significant differences in the amount and availability of market data, and the culture of disclosure. Markets in some countries are also considerably more active than others’. Indeed, the market data valuers are reliant upon, and its transparency, is more comprehensive in content and availability in Australasia than in the UK, Europe or China due to the Australasian land and sales systems supporting a sales price benchmarking system (as opposed to valuation smoothed index).

**Land ownership titles and property rights:**

Property rights and legal ownership forms in which property rights are bundled together and sold or leased can differ between countries. For consistent comparison the rights must be the same or adjusted for accordingly. However, our research revealed no common basis for assessment comparison where one country allows an ownership right unavailable elsewhere.

Property rights and taxation for offshore investors can differ from those of the local investor. Baum et al cites Bekaert (1995) in reporting the barriers can be in the form of ownership restrictions. These are often imposed to ensure domestic control of local firms. Some land can be more ‘sensitive’ in terms of national protection policy e.g. coastal areas in Brazil are restricted to foreign investors entered into a joint venture with a local partner.

Further risk arises where newly democratised countries may have defective or unenforceable title – although this can sometimes be insured against. Abramo (2012), as cited by Baum et al (2012), wrote ‘many Latin American cities present the problem of ‘informal markets’, the gradual populating of land around the peripheries of major urban centres that not only lacks infrastructure but also clear legal title’

Property ownership titles in Australasia are dependant on registration and certification, record boundary measurements, are guaranteed by the state and the ‘computerisation of titles, transactions and public access make property records accessible and reliable’ Gelbtuch et al (2012, p. 19).

Evaluation of a stratum interest, if compared to a leasehold interest, (which is more common in the UK), is likely to present a challenge to those unfamiliar with the intricacies of both ‘bundles of rights’. For the investor, the Australasian stratum estate offers a form of freehold rights unavailable in many countries.

The diversity of property rights can be further illustrated in China which is also a member of the IVSC. Here property rights present a unique situation if comparing international property investment values because ‘the rights of use and possession of real property are intertwined. If one has the right of use he or she has the right of possession not necessarily ownership’ (Gelbtuch et al, 2012, p 91).

After paying land-granting fees in full, a land-use certificate (deeds) for acquiring land use rights are issued. This is not a transfer of ownership; it is a grant to use the land for a specific purpose for a specific time period.

Maximum land-use rights are granted for:

70 years for residential
50 years for industrial
50 years for educational, scientific and technological, cultural, health and sports uses
40 years for commercial, tourism or other uses

Land-use rights terminate upon expiry and how to deal with the rights after expiry is under discussion. No final decision has been made regarding how to renew the rights. To equitably compare this type of investment with another, the accounting and taxation treatment of the investment must be very carefully examined to ensure an adequate sinking fund is established for capital recapture.

**Investor confidence in the consistency and comparability of international valuations:**

The limited amount of research carried out on the comparability and consistency in international valuations has not been overlooked by Chris Thorne (technical director at IVSC) when he reviewed the J.P. Morgan 2009 report on European property.

Thorne comments that it would be expected that the use of IVS in IFRS would foster valuation to be ‘well understood and consistently practiced’ (Estates Gazette, 2012, p. 49). However, the J.P. Morgan survey indicates otherwise. This survey was based on submissions from 96 investors in listed property stocks with 58.3% being based in the UK and 29.2% in Europe. Results indicated the buyside (potential shareholders) to be ‘generally sceptical of property valuations and disclosure (p.3) and only 16.7% of investors had high or very high confidence in reported valuations in the sector. 66.66% believed the disclosure of valuation statistics by Continental companies to be poor. Analysis of the listed property companies’ management responses indicated 76% had high or very high confidence levels in property valuations. This difference in confidence levels of management and buyers may possibly reflect a marketing influence.

Of all those surveyed, 37.5% had low or very low confidence in valuations and 80% believed that ‘greater comparability in valuation practices would make a big difference in their investment decisions’ (J.P. Morgan, 2009, p.1).

With reference to valuer consistency and competence, 69% of the buyside respondents in the J.P. Morgan survey indicated low confidence in valuations is due to both management and valuer. Only 12.5% believe the valuer is the only cause. This proportion appears low given the range in valuer education and regulation but may be attributable to the confinement of the survey to the UK and the Continent.

Our research of international valuation consistency and comparability was extended with secondary data analysis and an online survey to reveal whether the lack of confidence remains despite subsequent advances in IVS.

**Methodology**

Secondary data analysis involved an examination of the consistency in IVS valuation reporting within the annual financial statements of five UK listed REITS. No evidence of comparisons of IVS within financial reporting was located prior to this analysis. A variation in
the application and definitions of ‘fair value’, ‘market value’, a range in the detail provided regarding the valuation methodology, property portfolio details and valuation review periods was noted. One REIT lacked a record of any valuation details for the Brazilian based property holdings with no reason supplied for the omission.

In addition to the annual reports review, a web based interview using survey monkey software with preformatted multiple choice questions measured ‘investors’ confidence’ in the consistency and comparability of international property valuations. This survey was emailed to 36 staff assuming an investment role within U.K. listed REITs investing in international commercial property.

Responses were received from 11. The questions target the opinions of these investors with regards to the effects of factors identified as affecting the consistency and comparability of international valuations. A final question measured investor confidence as to whether valuation can provide sufficient evidence of purchase price (without further investigations) when making an international property investment decision.

To evaluate potential further recommendations as a result of this research, a measure was taken of investor support for a mandatory valuation process and methodology using Technical Information Papers. A positive support for this was interpreted as an indication for mandatory measures to improve consistency and comparability of valuation processes using IVS.

Results and Analysis

Using the research method outlined above, the questionnaire returns reveal those surveyed are not confident in the level of consistency and comparability of international valuations.

![Risk Factors](image)

Figure 1  Risk Factors in International Property Investment
A ranked order of risks as perceived by international investors shows political instability to be the major risk (marked by 45.5% of interviewees). A ‘comparable lack of transparency in property markets’ and ‘inferior property rights in terms of property titles, rights to minerals, water, controls over land use etcetera were indicated as the most important risk factors by 18.2%. However, the importance of the lack of transparency is ranked by 54.5% as the second most important risk factor confirming our literature review findings and is of prime importance in determining accuracy of valuation. Of the countries we researched, Australasia provided the most transparent market information for valuers.

Figure 2 Ability to compare international property values consistently

Surveyed investor confidence in international valuations and the ability of index benchmarks to provide a clear and consistent measurement of value movements globally revealed 81.8%
of surveyed respondents believe it is only occasionally possible to compare movements of international property values on a consistent basis. Only two respondents, (18.2% of those surveyed), believed it was possible to compare such movements ‘more often than not’.

Furthermore, our literature review regarding variations in global benchmarking indexes and measurement methods purported the unlikely ability of the use of benchmarks to consistently compare valuations globally. We found a variety of benchmarks are used to measure changes in value and although IPD is widely available, where a sales based index is used instead the market movements can be expected to appear more volatile.

![Mandatory TIPs?](image)

**Figure 3** Should Technical Information Papers be made mandatory

A full range of Technical Information Papers are still in the process of completion. As a result of their evolving nature we perceived these provide an opportunity for improving consistency and comparability. Investors were asked if they agreed a greater consistency in international valuations would be achievable with mandatory TIPs. An even split between 91% of respondents voted between the options ‘TIPs would definitely improve comparability and consistency’ or ‘maybe improve comparability and consistency’. Support for a greater use of TIPs to improve consistency and comparability was supported by those interviewed indicating a lack of mandatory valuation methodology is making valuation comparisons difficult if not impossible.
Figure 4  Business education for property valuers?

Identification of the range of valuer qualification, practical training regime and governance prompted our enquiry into the investors’ awareness, if any, of the need for valuers to have a business education to complete consistent and comparable commercial valuations using IVS.

Arguably, familiarity with the financial world and the developing securitised property market is needed to understand the developing securitised property market.

The majority cast an undecided vote with ‘maybe valuers using IVS should have a business emphasis to their degree’ chosen by 60% of the respondents. Only 30% considered a valuation degree should definitely have a business emphasis. This apparent lack of clear opinion indicates the respondents may not have a strong business background themselves.
Valuation methodology in IVS reports?

![Chart showing percentage responses](chart.png)

Figure 5 Valuation methodology in IVS reporting

Respondents were questioned as to whether all valuation reports prepared using IVS included a section explaining the valuation method used. Interestingly, the results indicate no clear knowledge of whether a defined valuation methodology is included in all IVS reporting.

The opinions of 81.8% as to whether there is a valuation methodology section included in all IVS valuation reports was equally divided between ‘most of the time’, ‘always’ and ‘undecided’. The remaining 18.2% deemed a valuation methodology section was included ‘some of the time’.

This scattered response reveals that despite the aim of IVS to ‘promote consistency and aid the understanding of all types of valuation’ (IVS, 2011, p.1), the investors were unaware of consistency of the inclusion of a valuation methodology section within IVS compliant reports.

Our secondary data analysis of REIT financial reports also revealed an inconsistency when including valuation methodology. Because the valuer can choose their methodology relevant to local conditions, where not disclosed the valuation cannot be compared with others.

Despite the increasing profile of IVS since 2009, like the respondents, our research of secondary data found there is still a lack of consistency in valuation reporting even with the use of IVS. Therefore it is critical that a greater concentration is made to ensure inclusion of valuation methodology in IVS reporting.
Figure 6  Valuation evidence for international property investment

Where a valuation is considered sufficient evidence to support the purchase price of an international property investment, this infers investor’s confidence in the valuation.

No respondents supported valuations as being ‘always sufficient evidence alone to support the purchase price of an international property investment’. Only 18.2% of respondents believed that ‘sometimes’ a valuation is sufficient evidence to support the purchase price of an international property investment without making further investigations. Confidence levels progressively deteriorated as 36.4% indicated valuations to be ‘seldom sufficient evidence to support the purchase price of an international property investment without making further investigations’ and 45.5% recorded a valuation was ‘never’ sufficient evidence to determine purchase price without further investigations.

Again we found that subsequent to the 2009 J.P. Morgan survey for Europe, there is still a lack of trust in the consistency and comparability of international valuations.

Conclusion

Previous research has been carried out on aspects which relate to international valuations in aspects such as measurement methods and the inclusion of business education for valuers. However, there has not been a conclusive research project which identifies the range of variable contributing factors and their effects upon consistency and comparability of international valuations.

A weakness of this study is linked to the limited number of UK listed REITs investing in offshore commercial property. All were contacted prior to the survey and 36 provided an email contact address. Although all were emailed, only 11 replied. This is a small sample but does represent a 31% response rate.

Our research has found that despite the aim of IVS, coupled with the provision of TIPs, to promote consistency and aid understanding of all types of valuation, there is still a lack of
confidence that valuation reports consistently satisfy investors’ needs to compare international property investments.

The variables we noted that potentially affect values include the lack of mandatory IVS valuation methodology, valuer education, training and regulation are not generic - nor are measurement methods. Market information quality and transparency varies, property ownership rights and guarantee to title can be country specific and differential foreign ownership entitlements and taxation can exist.

Although the use of IVS is extensive and growing rapidly with the expansion of RICS, IPD and cross border investment activity, we found an inconsistency in how financial reports prepared by U.K. listed REITs reflected these standards. These reports showed a range in the application of ‘fair value’, ‘market value’, details provided regarding valuation methodology, property portfolio details and valuation review periods. In summary, there was a lack of consistency of supporting information to the valuation figures. Furthermore, the representative investor sample surveyed lacked any conclusive opinion of the consistency in valuation methodology reporting. This varied response supports the lack of consistency revealed by our study secondary data analysis.

Interestingly, most companies revealed a reliance on one valuation firm only. This requires attention. The use of one valuation firm only may raise conjecture as to the independence of this valuer ‘client’ reporting for a key customer.

Our findings indicate that if TIPs were made mandatory, the comparability and consistency of valuations’ would improve. These opinions combined with evidence of divergent IVS valuation reporting purports a need for more regulation over valuation process and reporting.

Most importantly, we found a lack of investor confidence in valuations prepared for listed international property companies. Some 82% of survey respondents indicated valuations are seldom or never sufficient evidence to decide on the purchase price of an international property investment without further investigations.

Given the lack of consistency in variables affecting valuers and valuations, it appears a logical conclusion that the consistency and comparability of valuations globally remain circumspect at this point in time.

Given the constantly evolving work of the IVSC to continue to improve consistency and comparability of international valuation and growth in cross border communications, it is probable that a similar research projects may show significantly more integration within the next 5 years. Already there is an international property measurement standard in process which can be expected to improve comparability of both building measurement and lettable area measurements.
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