INTRODUCTION

In the Global Scenario, valuations are facing a much higher degree of scrutiny from both the regulatory community and the investor community in the glare of the data transparency spotlight. The challenge before us is not only to identify areas of commonality across national and sector boundaries but also to clearly articulate any material differences that exist and ensure that these are understood. For the convenience of understanding, four representative areas have been analyzed in this article, viz., US, Europe, Brazil & China. Indian conditions are apparent and left to the comparison of the readers.

The continuing crisis in the financial markets and its persistency has increased both the scrutiny and the impatience of the regulators, and the pressure on our profession. A lot of useful material dealing with generally accepted concepts and principles was previously scattered throughout different Standards and efforts are being put in to bring them into a new common framework.
Valuation standards have a significant role to play in helping to regulate professional practice at national, regional and global levels; promote professional ethics, integrity, impartiality and trust in valuer activities. Many government and professional bodies are responding to international pressure to regulate the valuation profession by reviewing the regulatory environment, valuer training and compliance with standards. At a global level, the International Valuation Standards Council (IVSC) have become the recognized body that produce the International Valuation Standards (IVS). However, despite the existence of the IVSC’s International Valuation Standards, there is considerable variation in how local standards engage and comply with the accepted principles laid out in the IVS. This is further compounded by diverging bases of value and methodologies that are being adopted to value property across the world. The different interpretation of concepts such as market value, differing valuation approaches adopted as well as the lack of qualified valuers continue to represent major challenges across both mature and emerging markets.

**REGULATORY ENVIRONMENT**

The US and the UK as two established real estate markets base their local valuation activities around one standard, either the Uniform Standards of Professional Appraisal and Practice (USPAP) or the international Valuation Standards (IVS) / RICS Valuation - Professional Standards (Red Book). While the UK has in recent years taken steps to fully adopt the IVS and incorporate it into the RICS Red Book, the US has been slower to engage
with the IVS. However a working group has been set up to help harmonize USPAP with the IVS to aid this transition.

In contrast, the emerging markets of Brazil and China have a proliferation of local standards which might cause confusion for international investors and a normative disassociation at a local level. This bifurcation of standards can be further complicated by different professional bodies and different governmental departments each seeking to influence appraisal practice. Despite this, there are suggestions that the IVS/Red Book standards are increasingly asked for by International Investors. However the understanding of these international standards outside of Europe is still relatively weak, thereby necessitating more training and awareness through local professional bodies.

Some local Valuation standards, namely USPAP and ABNT (Brazilian National Standards Organization – Rendered in Portuguese as Associação Brasileira de Normas Técnicas) in the US and Brazil are mandated by local statute, making them legally binding on practicing appraisers or in the case of Brazil, mandatory for the engineering and architecture professions. China, whilst not mandating the use of their local valuation standards in their statutes has strategically positioned these under the control of three distinct government ministries. In contrast, the UK operates a form of self-regulation through its professional body, the RICS which seeks compliance for all members with the Red Book standard. All four countries operate some form of license, certificate or registration programme for practicing valuers to ensure compliance with local standards as well as regulating the technical competencies expected of the industry.
However, the enforcement for non-compliance or fraudulent behavior to some extent still relies on whistle blowers, as the resources do not exist to implement regular checks and audits across all companies, with the exception of RICS members, as the RICS operates a mandatory pro-active regulation scheme.

The focus of the local valuation standards falls into two distinct groups, namely the technical and methodology driven standards adopted by Brazil and China and the more principle based standards adopted by the US and the UK. The technically focused standards tend to be prescriptive reflecting the relative immaturity of the real estate markets in Brazil and China and the need to ensure uniformity across the profession. In contrast, the principle based approach places more emphasis on the skills and judgment of the valuer in determining what methods to apply and how to generate the value conclusion. Despite the differing focus of the standards there was broad support for the complementarity of local and international standards in terms of international standards governing valuer responsibilities and ethics versus local standards operationalizing the valuation approach or method.

**EDUCATION AND TRAINING**

The education background of practicing valuers differed significantly between countries. In Brazil, engineers and architects specialize in property valuation and as a consequence have a limited number of dedicated real estate degree programmes. The UK and to a lesser extent the US have a longer established history in delivering dedicated real estate degrees at both undergraduate and post-graduate levels, whereas China tends to be serviced
primarily by construction, economics, business or finance programmes. The differing standards and the educational background of valuers also influence the wider valuation philosophy practiced. The emerging markets are more reliant on a ‘science based’ approach which tempers valuer opinions, compared to the ‘art based’ approach favoured by established markets which relies on valuer interpretation and knowledge. Despite these differing philosophies there was recognition for the need to better understand local valuation practice and culture and that, this may need to be extended to reflect a common international valuation language. Support for the latter was widespread across all four countries in helping to temper any local nuances and interpretation differences that can result in local market distortions.

There was some evidence to suggest that valuers are seeking membership from more than one professional body to respond to demands from international clientele and the increasing influence of the IVS. In this regard, the RICS has played a dominant role in offering the opportunity to obtain membership of an internationally recognized professional body. The growth of RICS membership in China and Brazil is increasing and the presence of international property consultancies in the tier one cities is helping to grow this further. However, care is needed to ensure the quality and skills competencies of these international practising members as well as adequately enforcing compliance with the Red Book standard to uphold the professional integrity of the organization. Furthermore, across all four countries there is evidence to suggest that there is a lack of young graduates opting for valuation or appraisal as a career destination. There needs to be a proactive approach by the local professional bodies as well as universities to increase the profile of the valuation profession.
VALUATION APPROACHES AND PRACTICE

There was evidence of a two-tier valuation market in emerging markets with a clear separation between international and local appraisal services. International property consultancies almost exclusively deal with the international clientele, whereas local appraisal companies concentrate on domestic investors or purchasers. This separation is in part linked to the greater understanding and knowledge of applying IVS / Red Book standards but also the reassurance that the international consultancy big brand name gives to international clients. To some extent the local markets are increasing their competitiveness through local initiatives such as the special status granted to engineering and architecture based professionals in Brazil and the complex ranking of local companies in China.

Furthermore, in more obscure markets where International companies do not have a local presence there is evidence of sub-contracting local companies to undertake valuation services on behalf of the international companies. This can enhance the quality of output produced by some local companies which can be comparable to that produced by the international consultancies. The consensus of opinion is for valuation consistency within countries thereby ensuring that the same principles and methods are being applied and reducing market distortions. Achieving consistency in the methodology applied across countries did not receive support, little appetite was displayed to standardize valuation methodologies or enforce methodology changes through the local standards. Instead, the cultivation of greater awareness of
other countries’ methods and local valuation culture were viewed as a means of improving understanding without the need to alter established methodologies.

Valuation reporting styles across the four countries differed, but the level of sophistication and reasoning provided in justifying the value conclusion is improving in line with data availability and market maturity. There is increasing commonality in the content covered and the way in which the material is presented. In this regard many valuation reports produced in both Brazil and China are technically proficient and capable of capturing the market position. This is likely to increase further with reports becoming more uniform and comprehensive in their style and content as data availability improves further. Some local nuances in the report approach exist with Brazil adopting a self-grading of valuation reports according to quality of comparables, depth of detail and impact, whereas Chinese valuation reports require a points scoring review to determine compliance with local standards. There was also support for a summary page to be included in valuation reports to capture the value and underpinning assumptions, the objective being to ensure that no important information used in formulating the value opinion would be lost in the wider report content.

MARKET VALUE DEFINITIONS AND INTERPRETATION

The role of the IVSC in acting as the authoritative voice on valuation at an international level is becoming better understood and accepted across all four representative countries. However, this has not translated into greater adoption of the IVS market value definition within local valuation standards,
with only 2 of the 7 local valuation standards studied, adopting the full IVS market value definition. In this regard the specific definition of market value included in local standards is often vague or confusing to a valuer which reduces the ability for it to be properly interpreted and uniformly applied. This failure of local standards to be explicit in their definition has further resulted in informal definitions being used by the valuation industry or improper use of the terms such as forced sale value to capture what is effectively the market value situation. There is a need for a renewed drive by local professional bodies to lobby for the inclusion of explicit formal definitions for all types of value opinion to ensure transparency and avoid loose interpretation.

Market value remains the most common and preferred valuation basis despite the increasing number of either formal or informal value definitions appearing within local valuation standards. However, the volatile nature of real estate markets post 2007 has seen some reinterpretation of market value and inconsistency in the speed at which market adjustments were made. Despite this, there was no real appetite for adopting alternative value definitions, such as the mortgage lending value favoured by German banks, as participants agreed that the true market value was lost in an artificial smoothing of the market cycles.

MARKET DATA AND TRANSPARENCY

Whilst disparity still exists between established and emerging real estate markets in terms of real estate market data there are some signs that this gap is narrowing as information becomes more readily available especially for
tier 1 cities. The use of asking prices rather than transacted prices for valuation purposes is still prevalent within Brazil and to a lesser extent in China. However, the availability of market data is slowly increasing and gradually this is extending beyond tier 1 cities. There is also an increasing number of data providers beginning to emerge, capable of generating statistical evidence on both investment and transaction data. This will enable the gap to transparent real estate markets to be bridged further to reflect market maturity.

CONCLUSION

This article demonstrates that valuation practice and the local standards used in both established and emerging markets are becoming more consistent and sophisticated to deal with International Investor demands. The regulatory environment is generally well established and the wider compliance with standards is becoming more of a focus for emerging markets in recognition of the need to demonstrate integrity, valuer ethics and independence in the valuation process. Furthermore, the level of complexity in reports is increasing and despite some local differences in methodological approach there is confidence shown in reports and values derived by local valuers. The International standards should still be deferred to for the market value definition, ethics and valuer responsibilities but local valuation standards are increasingly capable of operationalizing the valuation process and acting as an effective mechanism to regulate the valuation profession. Emerging markets will continue to offer attractive real estate returns to foreign investors and provided an understanding is gained of the local standards,
valuation culture and methodologies used, then Investors should not be apprehensive about the valuation practice adopted in these markets.

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