

The Globalization of Real Estate Valuation

John A. EDGE, Chairman-Elect of IVSC, United Kingdom

Key words: Globalisation Valuation Accounting Standards.

ABSTRACT

The paper discusses the development of valuation standards and the commercial and regulatory pressures that created them using as examples the development of standards in the UK and USA, and the International Valuation Standards developed by the International Valuation Standards Committee (IVSC). Initiatives at a European and Asian level are discussed.

The IVSC standards - the most recent edition being "IVSC 2001" - are currently being widely promoted. Valuation rules are no longer national standards existing in isolation. The standards of various countries have to harmonize with each other, and to do that there must be a strong, single benchmark of common standards to which all our states can relate. This is the role that the IVSC fulfills.

Pressure for international standards is coming from a number of different sources, including:

1. The requirement of governments for valuations of publicly owned assets for the purpose of accountability, measurement of performance, and financial transparency—to this end, the IVSC is in close contact with the International Federation of Accountants (IFAC), and has contributed to International Public Sector Accounting Standard on "Property, Plant, and Machinery," with particular reference to those troublesome categories of property—heritage assets, infrastructure, and military facilities.
2. The trend towards the privatization of government enterprises—there is no reason to make any differentiation between property assets in the public and private sectors, although the concept of "public interest value," community value, or social value is one that currently defies the sort of measurement that auditors would consider adequately reliable for accounting purposes.
3. The development of international accounting standards—the IVSC had advised the International Accounting Standards Board, advising in particular on IAS 16 "Property, Plant, and Machinery," IAS 17 "Leases," and IAS 40 "Investment Property." Emerging economies with no established skill or depth in real estate appraisal
4. The Basle Committee on bank lending—the IVSC has responded to draft position papers on lending collateral in relation to property lending.

5. The GATT agreements, designed to balance world trade practices, which led to establishment of the World Trade Organization in 1995—the IVSC recognizes that the agreed valuation standards should reflect the role of real estate across global markets.
6. The move towards a fair value accounting model, for investment property and for owner-occupied property—this model will increasingly demand the services of external or independent valuers who can satisfy those accounting requirements by assessing the market value of property assets.
7. The United Nations Conference on Trade and Development (UNCTAD), which is working towards the harmonization of accounting and other professional practices.
8. The need for performance measurement of both real estate investments and owner-occupied property to measure property, portfolio, and company management performance. Common indices of pooled property data exist in some countries, and the prospects for similar databases elsewhere establish the need for common performance measures based on common standards.

All these challenges offer a real opportunity for more work for valuers and appraisers. When individual national institutions align behind a common international document that has the quality and content to earn universal recognition, the profile of the entire profession and all those associated with it is raised.

The paper provides working examples of how the valuation business operates elsewhere, and how the prospects for globalization of real appraisal are coming about. The principal areas of globalization in this field are:

- The development of common valuation standards
- Valuation concepts (based on accounting concepts)
- The development of global property consultancy firms servicing the needs of global businesses
- The trend towards the fair value convention, and the consequent benefits to the appraisal profession

CONTACT

John A. Edge, FRICS, Chairman-Elect and UK representative to IVSC
Knight Frank
20 Hanover Square
London W1R 0AH
UNITED KINGDOM
E-mail: john.edge@knightfrank.com