Valuation and the Real Estate Market; a new paradigm for a new decade

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Agenda

- What is Valuation?
  - Price, Worth and Value

- Professional Regulation
  - IVSC - New Standards & Technical Information Paper on DCF
  - RICS Valuer Registration Scheme
  - RICS – Valuation Standards - DCF
  - Property Investment Valuation in the UK (RICS Guide for Users)

- Valuations and the Economy
What is Valuation?

- WHAT IS PRICE?
- WHAT IS VALUE?
- WHAT IS WORTH?

**Price** is the actual observable exchange point (figure) in the open market.

**Worth** is a specific investor’s view of their maximum bid for the property.

**Value** or **Market Value** is an estimation of the price that would be achieved if the property were to be sold in the open market.
International Valuations Standards Council (IVSC)

- New Standards due 2011
- IVSC adding in detailed Technical Information Papers (TIP)
- One of which is a DCF TIP for Businesses and Property.
RICS Valuer Registration Scheme – April 2011

As part of its commitment to protect the public interest, the RICS is launching the RICS Valuer Registration Scheme to oversee all property valuations - a key component underpinning most economic activity.

The scheme has three purposes:

- To improve the quality of valuation
- To meet RICS' requirement to self regulate effectively
- To protect and raise the status of the valuation profession.

The scheme aims to raise the credibility of valuers and provide clients the best regulated and qualified professionals in the field
Property Investment Valuation in the UK (2010)

- A GUIDE for users of Valuations
- Not a textbook
- Talks about Price, Value and Worth
- Talks about IMPLICIT and EXPLICIT models

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IVSC/RICS Market Value

Market Value is the estimated amount for which an asset 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. **PS 3.2 – RICS**

**Price** is the estimated amount for which an asset **should** exchanged on the date of valuation sale 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.
RICS – WORTH

Basis of Value NOW include WORTH

Worth (Investment Value)
Valuations based on worth, or investment value shall adopt the definition settled by the International Valuation Standards Committee: Worth is: ‘The value of property to a particular owner, investor, or class of investors for identified investment or operational objectives.’ IVSC 2007

But it is NOT MARKET VALUE !!
Many clients are asking for WORTH as the basis of their valuation reports. This is NOT the appropriate basis. Market Value MUST be used. But WORTH is important. See “The Value of Worth”, Robert Peto, RICS Commercial Property Journal, Feb/March 2009
Valuation & the Economy

- “The full extent of the market problems has not been mapped in” to current valuations” - Robert Peto, DTZ, 18th May 2008
- “The days of waiting for evidence are over. In the absence of evidence, valuers should be required to value on sentiment” - Ian Mason, Schroders, 16th Jan 2009
- “Investment inactivity caused by property market uncertainty & market volatility means there is little transactional evidence on which to base values” – Dermot Charleston, Pan European Valuation, January 2009
Valuation & Bank Lending

- Banks lend in booms, suffer in recessions
- Market values are purely exchange price estimates and do not have a shelf life
- Lenders often just wanted a figure to (tick-box) the Loan to Value ratio
- Valuation reports by concentrating upon value could ignore the risk profile of the property over the loan period
The Property Cycle

The Boom and Bust Cycle [source – free software foundation]

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Conclusions

- Valuation – Market Value vs Worth?
  - A need to understand the role of value

- Professional Regulation
  - There will be more regulation; more auditing of the profession; more guidance; more globalisation and a greater need for explicit valuations

- Valuations are snapshots in time. They do NOT have a shelf life
  - Users of valuations need to be provided with market commentaries