

Objectivity in Valuations

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By

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**Presented in the Plenary Session of
The 9th ASEAN Valuers Congress**

**November 7, 1996
The Imperial Hotel, Bangkok, Thailand**

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AGE : 45

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Thammasat University

M.B.M. (Finance)
Asian Institute of Management

PROFESSIONAL
MEMBERSHIP : Council Member - The Valuers Association of Thailand
(VAT)

Chairman - Working Committee on Drafting the
Guidance Notes of Assets Valuations
in Thailand

Member - VAT's Professional Valuations Standard
Subcommittee

Member - Subcommittee on Developing Guidelines
for Setting up Property Funds in Thailand,
Securities and Exchange Commission
(SEC)

Chairman - Working Committee on Drafting the
Professional Code of Conduct and Practice
Standards of Property Valuations for
Property Funds in Thailand

First Vice President - Thai Valuers Association

CURRENT POSITION : Asian Director and Proprietor/Director of JLW
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PROFESSIONAL
EXPERIENCE : Involved in the first 9 years in management
consultancy, corporate planning, financial planning and
investment evaluation in firms like SGV - Na Thalang
Co., Ltd. and Charoen Pokphand Group of Companies;
and in the last 11 years in property valuations and
management of valuation and other property related
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OBJECTIVITY IN VALUATIONS

Introductory Notes

Objectivity in the expression of value opinion is one of the most important qualities required of valuers, though its intrinsic nature has rarely been explored. It seems easier phrased in words than proven by deeds. Part of the problem lies in the lack of clearly defined meaning or conduct against which deviation can be conveniently observed or measured. Certainly, valuation is not alone in the professional advisory services that face similar dilemma.

Conceptual Underpinning

Requiring a person to be objective in his service undoubtedly calls for something much more than hope from him. Objectivity in any profession always presupposes reliability. Reliable services clearly need proper methodology and consistency in the application of concepts and principles generally acceptable in the profession. Obviously, suitable education and training coupled with actual working experience are indispensable for a person to possess the quality of being professionally reliable. Demanding objectivity from an inadequately trained and seasoned person thus would render him out of his depth and yield nothing more than frustrations, by forcing him to act in the role he knows nothing about. Nevertheless, there exists no guarantee that all weathered professionals would always think and act objectively. They merely are less inclined to be prejudiced by virtue of ignorance and ineptness.

Objectivity in its real sense has much to do with the mental stature of a person of whom it is required in the exercise of his professional service. Educational attainment accompanied by direct work experience should help inculcate the necessary ingredients in him to realize what is expected of him to remain objective, although seniority and maturity also appear likely to exert significant influence. As likewise attested in other professions, the general views seem to have concern about leaving objectivity to self-interpretation by individuals. This thus leads to development of the professional code of conduct in due recognition of such inadequacy. Unfortunately, rarely do the principles or guidelines set out offer unambiguous translation of conceptual foundations, including the quality of being objective, into readily comprehended practice, i.e., by way of citing acceptable and unacceptable instances, marginal or ambiguous cases which

are difficult to construe, rather than narrating by well-drafted phrases in abstract terms that present no practical guides for effective implementation. This, among others, might probably account for conceivable difficulty in the enforcement of practice standards of many, if not most, professional organisations.

Valuers and Valuations

Objectivity in valuations should refer to an ability on the part of a valuer to free himself from personal partiality in the entire process of deriving his professional opinion. Whether a valuer will be able to live up to this expectation would apparently hinge upon how candid he evaluates himself, how he carries out his assignment, and how his clientele view his performance.

1. **Objective Assessment of Own Competence** The first and foremost requirement is for a valuer to be completely objective in evaluating his own professional competence. It must always be remembered that real estate valuations have never been, and will not be in the foreseeable future, regarded as cross-national services. Despite the wide recognition of general valuation concepts and approaches, actual applications of valuation practice in each market territory still diverge, depending upon the legal framework and level of understanding of the market at large, let alone the recognised disparities between the American's and RICS's valuation approach and methodology. A valuer either has or has never had any professional experience undertaking valuations in particular locations of a particular country. There will never be something in-between. This also becomes more true for him to witness by himself if he has ever prepared valuations for certain types of property. Should he lack prior experience in valuing retail shopping complex, his claim of professional competence from previous office building valuations will never provide the correct substitute for his incompetence, especially in the disciplinary investigation of negligence.

For the aforescribed reasons, it is of paramount importance that valuers need to be impartially straightforward in assessing his own professional competence before accepting any instructions. In a number of developing markets where property valuations are not well understood by clients, it would be tempting for valuers to claim the expertise they do not actually possess, by providing misleading statements that no specialised knowledge and experience are required for individual classes and types of property under valuation.

2. Objectivity in Undertaking Valuations It is well recognised that under the state of the art, valuation concepts, bases and methodology are still far from conclusive in many areas, specifically in their practical applications. The localised nature of property market, as mentioned earlier, even further renders them prone to various interpretations, thus running the risk of being oversimplified and misdirected for the sake of convenience. The lack of depth in identifying the true nature of property interests, determining the proper basis of valuation, as well as adopting inappropriate methods is seen in many substandard works. Valuation inclusions and exclusions remain debatable in several aspects, particularly in the areas where interfaces with other disciplines become inevitable. It is therefore imperative for the practice standards to be placed well in order before the requirement of objectivity can be effectively fulfilled.

However, even in more mature markets where valuations are well comprehended, there exist a number of practically unresolved issues that could make objectivity seem more apparent than real. One of the key roles of valuer is to interpret the market information and provide an unbiased estimate of property value. Interpreting the market information obtained by a valuer can require a certain degree of subjectivity, not because of his lack of impartiality, but due mainly to the incomplete availability of market data that could render his work superior or inferior to those of other professionals. This could probably take place even among valuers possessing equivalent experiences. Methodically, therefore, the value opinion to be arrived at could potentially vary according to the amount of market information gathered. It is certain, on the other hand, that the efforts taken by a valuer to secure the required information can objectively be assessed to evaluate the degree of objectivity exercised by him. Should the needed data be publicly accessible or such knowledge be reasonably expected to be possessed by valuation professionals, his missing of such crucial information will not be considered professionally defensible.

Of no less significance is the growing influence of finance discipline upon traditional valuation practice, which has been brought about mainly by the inroads of institutional investors into the property markets. Attempting to learn more about how valuations are undertaken, fund managers increasingly demand more expressly and quantitatively stated analyses made in financial terms with which they are more familiar. Hence, objective assessment of market evidence by valuers becomes mandatory rather than subject to their professional discretion. The areas of analysis considered warranting valuers' professional judgment are gradually narrowing. Objectivity is also rapidly defined to mean the ability of a valuer to

demonstrate more explicitly how a value is derived and the extent to which impersonal methods are employed in his diagnosis.

3. **Valuer's Objectivity as Viewed by Client** Since customer is king, no matter how impartial a valuer is to himself in carrying out his assignment, he still remains at the mercy of his client to decide if his valuation was unbiased or undertaken with acceptable level of objectivity. This definitely would be predicated upon the market context where valuation is done, client's perspectives in regard to his intended use of valuation information as well as his particular interests in the transaction, including, most importantly, the valuation work itself. It would not be unfair to state that a client can likewise be biased depending upon which position or what interests he maintains in the property under valuation. It cannot be taken for granted that most clients have a fair understanding of what the scope of responsibility a valuer should have in accepting his instructions. Nevertheless, a valuer cannot evade his primary responsibility of demonstrating to the best of his ability to his client how and why his work has been carried out with a desirable level of objectivity, that can possibly be expected of a professional with similar calibre and experience as his. As experienced by most valuers, the chances of success that exist in this particular respect would absolutely be contingent upon whether his client is reasonable and fair in his demand, in which commercial interests normally prevail.

Concluding Remarks

Whether objectivity is exercised in the entire valuation process can be summed up by seeing to it if the following, which is well recognized in the due diligence tasks, have been shunned: 1) making untrue statement of a material fact, and 2) omitting statement of a material fact necessary in order to make the statement made not misleading.



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IBRAHIM ATAN BIN SIPAN.

Dip. Valuation, B. Surv (Property Management),
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Qualifications

Diploma in Valuation, Universiti Teknologi Malaysia, Malaysia 1984
B. Surv (Hons) in Property Management, Universiti Teknologi Malaysia, Malaysia 1990
Master of Business in Property, University of South Australia, Australia, 1994

Present Position

Head of Course (Property Management and Valuation), Faculty of Geoinformation
Science and Engineering, 1995 to date
Senior Lecturer, Panel of Property Valuation and Investment

Previous Employment

Assistant Valuer, Valuation and Property Services Department, Ministry of Finance,
Malaysia, 1984 - 1988
Valuation Officer, Valuation and Property Services Department, Ministry of Finance,
Malaysia, 1990 - 1991

Academic Activities

Member of Faculty Research Committee
Member of Faculty Management Committee
Member of Faculty Post Graduate Studies Committee
Real Estate Agency Teaching Fellow, 1995 - 1996
Member of Faculty Publication Committee

Professional Activities

Graduate Member of the Institution of Surveyors Malaysia (ISM)
Member of the Public Sector Property Valuer Malaysia (PENLAISAMA)

Research and Consultancy

Research and consultancy activities in corporate and urban real estate management;
feasibility and viability studies for property development; and real estate market research.

Publications and Papers Presented

The Methodology of Plant and Machinery Valuation, research paper VOT 61830 (1995)
The Application of GIS in Real Estate, research paper VOT 71060 (1996)
Improving Mass Appraisal Valuation using GIS, The Surveyor Malaysia, 30.3, 1995
Factor Analysis in Real Estate, paper presented at the Quantitative Techniques in Real
Estate Workshop, July 1995
Multivariate Analysis in Real Estate Market Research, paper presented at the Quantitative
Techniques in Real Estate Workshop, July 1995



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Dip. Valuation, Bachelor Land Economy (Aberdeen).

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Qualification

Diploma in Valuation, Universiti Teknologi Malaysia.

Bachelor Land Economy, University of Aberdeen, United Kingdom.

MBA Real Estate Finance, University of Denver, USA.

Current Position

Association Professor, Property Management & Valuation Department,

Faculty of Geoinformation Science & Engineering, UTM.

Administrative Post

Deputy Dean (Academic), Faculty of Geoinformation Science & Engineering, UTM.

Past Experience

Valuation Assistant, Rahim & Co Chartered Surveyors (April 1981 - July 1981).

Valuation Assistant Officer, Valuation and Property Services Department,

Ministry of Finance, Malaysia (April 1982 - June 1982).

Property Consultant, WTW Property Consultant (1990 - 1991,1993).

Assistant Lecturer ' A', Property Management & Valuation Department,

Faculty of Geoinformation Science & Engineering, UTM (August 1985 - Sept. 1989).

Head of Course (Property Management and Valuation), Faculty of Geoinformation Science

and Engineering, UTM (1/1/1991 - 31/12/1992).

Research and Consultancies

Feasibility Study of Applying The Multiple Regression Analysis for Rating Valuation
for Majlis Perbandaran Kuantan (Feb. 93).

Member of the Steering Committee for the Johore Technological Park.

Preparation of a Computer Assisted Valuation System for Majlis Perbandaran Kuantan.

Feasibility Studies For University's Privatisation Project (1994)

Acquisition of Wisma Tamu

Implementation of CELCOM lease

Feasibility Studies for the Potential of a Commercial Centre

Papers and Publication

Malaysian Property Market: A Viewpoint

Industrial and Business park Development and Prospects

Successful Project Development: A Marketing Viewpoint

Economic Outlook - Property Market and Investment Strategies

Property Investment Opportunities Created by Infra - Structure Upgrading