

MODERN TRENDS IN VALUER EDUCATION AND THE WAY FORWARD IN SERBIA

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THE QUALITY ASSURANCE PROBLEM IN STEEL MANUFACTURE

Cannot directly control the “cooking” process

Solution is to:

- Specify ingredients
- Define how the “cooking” process is to take place
- Take samples of product for destructive testing



If samples pass the tests, then the batch is accepted.

THE QUALITY ASSURANCE PROBLEM IN VALUATION

- No means of controlling the valuation process
- Cannot specify inputs – choice of comparables and adjustments to these determined by the valuer
- No specification of methods – approach is determined by the valuer within scope given by standards
- Valuation not in batches so destructive testing of samples to check on validity of batches is impossible
- **Quality assurance in valuation is achieved by controlling who can undertake valuation**

WHY IS QUALITY ASSURANCE IMPORTANT IN VALUATION?

- **Reliance by 3rd parties on valuations** eg mortgages, company balance sheets, regular revaluations of assets in collective investment schemes like pension funds and unit trusts
- **Consumer protection.** Asymmetrical balance of power between clients who occasionally purchase valuation services and so accumulate no experience with which to judge the quality of valuations, and valuers

HOW CAN QUALITY ASSURANCE IN VALUATION BE ACHIEVED?

- **Valuation standards** – define terminology, methods, measurement, terms of engagement, form of reporting, ethics and codes of conduct
- **Ratio studies and valuation audits** – comparison of valuations with prices subsequently achieved
- **Qualifications, education and experience required of valuers**

The valuer must be able to show professional skill, knowledge, diligence and ethical behaviour appropriate to the type and scale of valuation (European Valuation Standard 3)

THE ROLE OF EDUCATION

- Do valuers understand and can follow valuation standards?
- Have valuers the qualifications and experience to make appropriate judgements about evidence and methods?
- Have valuers achieved a sufficient standard of general education to be able to fulfil these?
- Have valuers embraced the value system contained in ethical standards and codes of conduct?
- Have valuers maintained their knowledge and skills and have they acquired the new knowledge and skills that have become a part of the property market since initially qualifying?

WHAT EDUCATION DO VALUERS REQUIRE?

- **Entry level** – ability to acquire competence
- **Demonstration of competence (admission level)** – that the knowledge, skills, and experience to practice as an independent professional have been acquired
- **Maintenance of competence (continuing level)** – that knowledge, skills, and competence have not lapsed and that new knowledge and skills that have become necessary since initial qualification have been acquired

- Needs to provide:
 - Core knowledge in subjects valuers will need to understand during their professional lives
 - Appropriate standard of general education (generic skills and knowledge)
 - **Formal education cannot teach experience**

- Rise in entry qualifications in UK:
 - 1960s school leaving qualifications; 1970s B Sc (unclassified); 1980s B Sc (Honours); 2000s increasing number of entrants with M Sc
 - Competition with architects, accountants, lawyers created a demand for similar levels of education for valuers
 - Shift in training costs from employers to educational bodies and students – greater emphasis on transferable skills

- Alternative approaches to university education
 - Business school approach – USA commercial property market emphasis on REITs, securitisation of real estate and acquisition of financial skills
 - Built Environment approach - management of 3-dimensional space

TEGoVA OUTLINE SYLLABUS

Valuers require an understanding of:

Principles of Economic Theory; Practical Economics for Real Estate; Business and Finance.

Valuers require a general knowledge of:

Marketing Real Estate; Energy, Environmental and Resource Protection; Buildings and construction.

Valuers require an in-depth knowledge of:

Valuation; Professional practice; Law relevant to Property*; Government Policies and Land Use*; Valuation under statute*; Valuation standards *.

*Denotes in-depth knowledge required relative to the country or sector of practice

UK QUALITY ASSURANCE AGENCY FOR HIGHER EDUCATION SUBJECT BENCHMARK: REAL ESTATE: GENERIC SKILLS

- Intellectual skills: eg critically analyse, synthesise and summarise information; critical thinking; creativity; well considered decisions in complex and unpredictable contexts; professional and academic integrity
- Practical skills: eg analyse financial information
- Analytical and data interpretation skills
- Communication skills
- Digital literacy
- Interpersonal and teamwork skills
- Self-management and professional development skills

UK QUALITY ASSURANCE AGENCY FOR HIGHER EDUCATION SUBJECT BENCHMARK: REAL ESTATE THRESHOLD: GRADUATES WILL BE ABLE TO:

- i demonstrate an appreciation of the **survey, measurement and technical analysis** supporting real estate assets
- ii understand how the performance of real estate affects the ownership, use and occupation of property as assets
- iii demonstrate knowledge of **the drivers of value of real estate and the valuation methods** and techniques of analysis supporting this
- iv demonstrate a fundamental knowledge of the **legal systems** governing the ownership and occupation of land and the relationships between different stakeholders in land
- v demonstrate a basic knowledge of the **main construction methods** and of **common defects** affecting domestic and commercial buildings
- vi demonstrate an awareness of the contribution **urban planning** and property development make to real estate and the statutory instruments regulating the property market
- vii demonstrate an awareness of the **investment appraisal techniques** available to calculate the rates of return that real estate commands as a class of assets within capital markets
- viii demonstrate awareness of the impact real estate has on both the **environment and social structures** (including health and well-being)
- ix demonstrate awareness of the contribution that other professional experts make to sustain the development of real estate in a global and local context and mitigate the impact that it has on the environment
- x demonstrate an awareness of the **professional and ethical responsibilities** that real estate experts have to clients and in terms of the **social corporate responsibility** statements made by their employer organisations and to society
- xi demonstrate an understanding of the principles and processes that deliver an **inclusive environment** recognising the diversity of user needs by putting people (of all ages and abilities) at the heart of the real estate process
- xii demonstrate awareness of how to **manage real estate** as property assets
- xiii be aware of the **professional and ethical frameworks** associated with the development, financing, investment in and use of buildings and facilities.

PROFESSIONAL EXPERIENCE AND COMPETENCE (ADMISSION LEVEL)

- Valuers need skills as well as knowledge
- Experience has to be gained “on the job” – work supervised by an experienced mentor – formal education can provide simulations but not real life experience
- Clients should be protected from inexperienced valuers learning on them
- Need for valuers to accumulate experience – should be well-rounded and not in narrow specialism
- Need for test or examination as to whether the necessary skills have been acquired

CONTINUING PROFESSIONAL DEVELOPMENT

- Issue of how to **maintain skills**, competencies and knowledge in a career lasting 40 years or more – skills deteriorate if not used; knowledge is forgotten
- **Changing market circumstances** – new legislation, processes, practices, market participants, attitudes – economic, cultural, and social change
- **Technological change** – information technology and communications
- Change can be so fundamental that **requalification** may be necessary eg Serbia's transition from a socialist to a market economy and its impact on the changing basis of valuation

WHO SHOULD JUDGE THE APPROPRIATENESS OF VALUER EDUCATION?

- **The courts** – issues of professional negligence – has the valuer carried out his duties in accordance with generally accepted professional standards? Implies that there is a well-developed law of professional negligence.
- **Insurance industry** – is the insurance industry willing to write professional indemnity insurance for a premium?
- **Self-regulating professional bodies** – have the expertise and may wish to protect reputation of “brand”. But may act as a “trade” organisation rather than a consumer protection one. Can be undermined if major clients like financial institutions opt to use non-members eg on grounds of price.

ROLE OF REGULATORY/ LICENSING BODY

- **Public interest** as many valuations relied upon by 3rd parties (those other than the person who commissioned them) eg company balance sheets, quarterly valuations of collective investment vehicles
- **Vulnerability of banking system** to valuation deficiencies – role of real estate as collateral for loans
- Potential use of real estate in **criminal activities** – money laundering, corruption, mortgage fraud, embezzlement, cartels
- Need for consumer protection – **asymmetrical information** between valuer and consumer
- Successful examples of regulatory bodies **working with** self-regulating professional bodies eg Turkey, UK

THE WAY FORWARD IN SERBIA

- New valuation law provides a way forward:
 - Universal system of achieving admission level education
 - Addresses issue of valuers being licensed without adequate knowledge or experience of valuation
 - Universal system of Continuing Professional Development
- Weaknesses in new valuation law:
 - Regulation of valuers by valuers – lack of public oversight
 - Pedagogic issues in requalification – experienced valuers have different skills and needs from new graduates
 - Need to reform university education – too great an emphasis on engineering and too little on finance and economics – need for an accreditation system that a university course prepares the individual to undertake professional training