

# ***Appraising Cross Border Property Investments***

***The Future Convergence of Valuation  
Standards and Qualifications in Support of  
the Global Market***

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## **Summary**

The crisis in the savings and loan industry that occurred in the USA in the 1980s led to the formation of the Appraisal Foundation and the Uniform Standards of Professional Appraisal Practice in 1987. Today we have a greater, global economic crises. There is a great deal of risk tied to the debt capital in the international banking industry, and yet not enough consistency in the standards and qualifications for providers of valuations of the collateral that support that debt capital.

These issues are more important now than ever. Cross border transactions are growing exponentially; and, the users of valuations (investors and lenders) need consistency when they compare the investments in various countries. Seeing the need for valuation consistency, the International Valuation Standards Council was formed. There are also apparent efforts between the Appraisal Foundation (USA), The IVSC, and the RICS in order to gain more consistency between these various sets of standards.

The next problem is, how do we create a base of qualified valuers in the smaller and developing nations? The RICS, a multi-disciplined organization, believes the way forward is by accreditation of university programs. The Appraisal Institute, an association specific to valuation, feels that keeping control of their privately operated education curriculum is a better path.

Because unbiased appraisals are needed to underpin financial transactions, the valuation industry should be a profession separate and distinct from other disciplines such as construction management, brokerage (agency), and land surveying. In light of this, we need trained appraisal instructors, willing to travel to various nations to teach and build the profession in these countries. We also need an International Valuation Qualifications Board (similar to the IVSC) to establish minimum education criteria. Only this way can we find the right balance for growth worldwide, and yet keep the control we need over the process.

## **Real Estate and Economic Cycles – Where We Have Been**

Mortgage lending and the industry involving securitization of mortgage loans have repeatedly been accused of being a primary cause of recessions in the USA and other major markets. Prior to the late 1980s, most mortgages on homes in the United States were made by small banks known as thrifts and called Savings and Loan institutions. These community and regional thrifts pooled deposits to fund new mortgages, and there was little regulation over the mortgage origination process. At this point in time, the securitization of mortgages had not yet become the major Wall Street industry that exists today. And although the process that led to the demise of these institutions was different than the securitization model that affected us more recently, the effect was the same – collateral debt that exceeded related property values.

The more recent economic crises has been more complex because we have moved from an age of industry and manufacturing through an age of banking and financial services; now into an age of investment banking and securitization of debt obligations. Investment banks such as Bear Stearns and Goldman Sachs profited in the billions of dollars by buying and selling instruments such as Collateralized Debt Obligations (CDOs) and Mortgage Backed Securites (MBSs and CMBSs); which are essentially packages of loans and mortgages that were rated according to risk, and sold as investments. This industry became so large that it virtually consumed a massive market share of the available investment capital on Wall Street. Because banks invest in other banks on an international scale, this became an international problem.

In of itself, there is nothing wrong with this business model of securitization, and in fact, it has a history of promoting growth in the real estate markets due to motivation of institutions to extend credit which promotes real estate transactions. The problem, as we all know, was the fact that the mortgage origination industry was not well regulated, and risky loans were made with liberal lending criteria in order to attract marginally qualified borrowers. When property values began to

fall due to oversupply, borrowers were unable to meet their obligations, loans went into default, and the packages of loans that were securitized were now worth pennies on the dollars that were originally invested in them. This resulted in the collapse or near collapse of investment banks and the insurers that insured against credit defaults.

Once again, appraisers are in the spotlight in the wake of this fallout, as the public seeks to know if properties were valued higher than they should have been. Regardless of the fault (or lack thereof) of the appraisers involved, enhanced regulation of the industry in the USA was bound to follow. These regulations, which mostly affect the residential valuation industry, remove any communication between mortgage originators and the appraisers in order to minimize coercion.

These issues are not unique to the United States. When the crisis emerged in late 2007, uncertainty among European banks about the creditworthiness of their counterparts diminished as they had heavily invested in complex and overpriced financial instruments. As a result, the interbank market virtually closed and risk premiums on interbank loans soared. European Banks were facing a serious liquidity problem, and they had difficulties in rolling over their short-term debt. There was a strong sentiment among politicians that Europe would be spared, due to sound financial policies and conservative lending practices. These sentiments of safety were wiped out with the collapse of Fannie Mae and Freddy Mac, the bankruptcy of Lehman Brothers and fears of the insurance giant AIG (which was eventually bailed out) taking down major US and EU financial institutions in its wake. Investors in stock markets panicked, valuations of financial institutions were significantly lowered, investors moved money to “safe havens” such as bonds, and a complete collapse of the European financial system became a real threat. The crisis thus began to make itself worse, with banks forced to restrain credit, economic activity diminishing, valuation of loan books plummeting, etc. The downturn in asset markets snowballed rapidly

across the world. Reduction in GDPs and tax revenues to various countries resulted in increased spending and increased debt by governments, the worst example being the bankruptcy of the Greece government. There are genuine fears that even the UK will also go bankrupt even though they have a currency independent of the Euro and thus the ability to devalue the Sterling in order to promote exports. Japan and the Nordic countries went through a similar crisis in the early 1990's, however, the difference in this case is the global dimension of the problem.

### **How these Problems Affected and Will Affect the Valuation Industry**

Prior to the 1990s in the USA, loans were made on real estate subject to appraisals which were also not publicly regulated. For commercial property appraisals, many users of these services relied on professionals designated by the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers (who later merged to form the Appraisal Institute). Residential appraisals were also performed by these professionals, but also by unqualified individuals who either earned no designations or earned one from one of many smaller appraisal organizations with less extensive admission requirements.

As the recession of the late 1980s took its toll on economic conditions (such as employment), the real estate market began to suffer; and mounting foreclosures caused many of these thrifts to close. With the "alphabet soup" of appraisal designations from various associations that existed in the USA proving to be an inadequate system of appraisal standards regulation, the Appraisal Foundation was formed for the purpose of instituting a set of qualification requirements for state licensing, as well as an appraisal standards setting body which would be a quasi-governmental entity. This licensing and certification system allowed for approved appraisal education to be given by private providers, much like the Appraisal Institute provides its own custom tailored education programs.

Initially this governmental move was viewed by well qualified appraisers as a “watering down” of the appraisal industry in the USA, mostly because the qualification requirements were significantly less than that required of the Appraisal Institute. More recently, education and experience requirements required by states to incorporate into their certification laws have increased, however; the demand for higher qualifications such as the MAI has remained depressed due to the “acceptability” of state licensing and certification.

In other developed nations such as the UK, valuers are not licensed by the government because of the market dominance of a single association such as the Royal Institution of Chartered Surveyors (RICS). The RICS is incorporated under a Royal Charter, meaning that the UK Government has the ability to approve or disapprove changes to its constitution and by-laws. There are other nations where there is one principal body of valuation professionals that operates under quasi-government cooperation and observation. Another advantage of having only one nationally recognized professional body is that there is one voice with the national government when it comes to promoting legislation that benefits the profession. The United States is not fortunate to have such circumstances, and lobbying for effective appraisal legislation takes cooperation from several associations representing its members. The legislation that instituted state licensing and certification in the USA is also partly a result of the lack of unification of professional valuation organizations.

All this history leads us to where we are today. It is clear that there is an international need for enhanced regulation or quality assurance of valuations that underpin collateral values for debt obligations which, in turn, underpin the solvency of financial institutions. The instability of current financial markets across the world will likely result in various governments and associations seek to “beef up” and unify the qualifications and guidelines that make property valuations acceptable for use in the international credit markets.

## **The Global Structure of the Valuation Profession**

Generally, the largest nations tend to have the most regulated structure of the profession, and vice versa. Appraisal related organizations tend to fall into three categories: Professional Organizations, Educators, and Regulators.

### Professional Organizations:

There are essentially two types of professional organizations: those that allow membership of individuals, and those who's members are mostly other organizations, government entities, and education providers.

The largest "association of associations" in the property field is evidently FIG (a French abbreviation for the International Federation of Surveyors), which is a multi-disciplined property organization that originated in Paris. There are ten "commissions", only one of which is the Valuation and Management of Real Estate. Its members are associations, institutions, and governmental bodies from about 110 countries.

Specific to the Valuation field, there is the International Valuation Standards Council (IVSC). The IVSC was originally formed in the 1980s for the purpose of aligning standards for valuation for financial reporting with that of the accepted accounting standards such as IASB and GAAP. The IVSC now has members of associations and institutions in 52 countries, and its standards board has published its eighth edition of the International Valuation Standards. The IVSC is a non-for-profit association dedicated to promoting standards for a variety of property and business valuations for a variety of purposes. Its standards have been wholeheartedly adopted and incorporated into the RICS Appraisal and Valuation Standards (the Red Book).

Another notable entity is the World Association of Valuation Associations (WAVO) who's members are one single association from each of 18 countries represented (the AI in the USA is a member). WAVO, headquartered in

Singapore, has an annual congress and offers a number of valuation courses at these events.

Smaller regional “associations of associations” exist such as the ASEAN Valuers Association, the European Group of Valuers Associations (TEGOVA), and The Pan American Valuation Federation (UPAV).

There are also event related committees that do not enact standards such as The Pan Pacific Congress of Appraisers, Valuers and Counsellors, and the WAVO annual congress.

The largest worldwide appraisal related individual professional association is the Royal Institution of Chartered Surveyors, with over 100,000 members in about 140 countries (the vast majority being in the UK and Europe). RICS is a multi-disciplined property-related organization, however, and only about 30,000 (25,000 in Europe) members qualified through the Valuation specialization. This is similar to the number of Appraisal Institute members in the USA including non-designated associates.

The RICS involves itself in regulation in the UK by its lobbying efforts and use of its Royal Charter as influence. It also appears that the RICS has a strong influence in WAVO, IVSC, and TEGoVA; and may be gaining influence in the (USA) Appraisal Foundation in that an increasing number of board members now have RICS qualifications. The RICS is also involved in education internationally by accrediting university programs that lead toward qualification.

The Appraisal Institute in the USA is a professional organization specific to valuation, offering its own education programs that lead toward both state certification and professional designations (MAI and SRA). There are about 25,000 members (the vast majority in the USA), but only about 7,000 hold designations. The AI involves itself in regulatory matters by lobbying efforts, and



is a sponsoring organization of the Appraisal Foundation (the regulatory body in the USA), except for a pending suspension of this sponsorship due to differences in opinion. The AI is mounting a global growth campaign, with members in about 55 countries. Most of its efforts thus far have been concentrated on Korea, China, Germany, Japan, Canada, and Mexico.

There are valuation related and/or general property (surveyor) organizations in virtually every industrialized country in the world, however, the above represent those who have made a global push.

### Regulators

In the United States, The Appraisal Foundation was established to establish standards for appraisal practice (USPAP) as well as standards for qualification as a state licensed or certified appraiser. In the UK, the RICS self-regulates the industry through government lobbying and use of its Royal Charter. Most of the smaller professional organizations in the world are either non-profit associations or NGOs, and are not government related. There are some quasi-government entities in some countries such as the Securities and Exchange Commissions that involve themselves in the regulation of appraisers.

Apart from these, the professional associations that occupy the largest market share of each country tend to have the best government lobbying efforts. In the USA, the Appraisal Institute has formed a partnership with the American Society of Appraisers (ASA) and the American Society of Farm Managers and Rural Appraisers (ASFMRA) for the purpose of combining collective lobbying efforts.

### Educators

In the United States, the AI and the ASA provide their own education programs, both for state licensing/certification as well as the upper level courses that are required for designation. Other associations such as the RICS accredit university degree programs which provide the necessary education component for designation. In terms of worldwide education organizations, there are the

International Real Estate Society (IRES) and the World Valuation Congress (WVC).

### **Valuation Organizations and Varying Routes to Qualification**

In the USA, a college or university degree is one of the requirements for state licensing or certification, but the degree is irrelevant to the appraisal education. The required appraisal education is a series of courses offered by various private providers, based on an approved curriculum leading from trainee status to certification. One also must prove a certain amount of experience which includes a critique of a certain portion of one's work product. A similar but more extensive program is used for designations such as MAI, whereby appraisers meeting certification criteria (as established by the Appraisal Foundation) must then meet additional education, experience, and exam requirements in order to earn the designation. The AI has accredited only five university programs which can serve as an alternative to most of the AI's education program toward the MAI designation.

The RICS, as well as many other associations of Surveyors and Valuers, accredit university programs which offer an undergraduate degree in surveying, with various potential disciplines or concentrations such as valuation, estate management, quantity surveying, geomatics, etc. The graduate of one of these programs would then undertake supervised training followed by an assessment of professional (or technical) competence. The RICS has over 500 accredited degree programs in universities around the world, teaching various specializations. In the field of valuation, there are currently 227 accredited programs worldwide, with the majority being in the UK. There are actually a fair number of accredited degree programs in other nations, however; including 13 in the Americas region (12 in the USA and 1 in Canada), 30 in Asia, and 20 in the region known as Oceania (includes Australia and New Zealand). The number of RICS accredited degree programs in the United States outnumbers that of the

Appraisal Institute, who have accredited only 5 Masters Degree programs for satisfying only part of the education requirements for the MAI designation (4 in the USA and 1 in Australia).

The RICS have benefitted from the most widespread international growth of any property related association of professionals (about 100,000 members in about 140 countries), primarily due to the following factors:

1. A 140 year history, with a Royal Charter
2. Predominantly being the sole property related association in the UK
3. The multi-disciplined approach to property professions
4. The accreditation of over 500 degree programs around the world.

Conversely, the Appraisal Institute has largely remained

1. Mostly in the United States (with moderate recent growth into Korea, China, Germany, Japan, Canada, and Mexico; and minimal growth of associate membership in to other nations)
2. Specific to the Valuation Profession
3. The largest appraisers' professional association in the USA, but still competes with smaller associations such as ASA, ASFMRA, and IAIFA

### **Issue 1: Will the Multi-Disciplined Approach Work Long Term Globally?**

According to the RICS website under the Valuation Professional Group, "Property valuation is a core skill and forms part of the professional services provided by many RICS members." This philosophy predates the professional groups and faculties that RICS has created, and is basically founded on the "old school" approach that valuation could be one of many roles (or even perhaps a sideline business) performed by any qualified surveyor. In fact, General Practice Surveyors are those that practice estate (property) management, estate agency (brokerage), landlord and tenant issues (such as rent reviews), as well as valuation.

Having worked with many appraisers in the USA, I would think many of them would embrace the idea of being able to attract a variety of service requests in the various property fields, and generally being known as a qualified real estate consultant; as a member of the most well respected organizations of its kind. The problem, however; is that valuation requires a separate and distinct set of standards and regulation than the other fields due to the role that valuations play in underpinning regulated financial transactions (such as loan collateral) and financial reporting. Appraisers are not advocates, are meant to be unbiased, and require adherence to specific ethics as well.

Appraisers also speak a different language, and use analytical techniques that are more in depth than those used by brokers or property managers. The education that is available (such as that offered by the AI) is extensive in scope to the extent that a student is working toward the equivalent of a graduate degree specific to appraisal. I have my personal doubts that a student of an undergraduate university degree in general practice surveying will be able to gain the depth of knowledge that would be attained in an appraisal-specific curriculum.

Having valued properties in various Caribbean countries which are British territories, I see that RICS members are working outside of their respective fields of study through which they qualified. For example, when construction slows, quantity surveyors take on valuation work, although they did not qualify through the valuation route. The RICS's position on this has always been not to regulate which activities or roles surveyor members are allowed to undertake; rather, to leave it up to the member to ethically work only in areas that he/she "feels" they are qualified. The RICS attempted to introduce a scheme to specifically accredit property valuers in 2008-09, however, it appears this effort was not well supported by the membership. This would have allowed qualified, accredited valuers to state this qualification in writing under their name, and the use of this

would have been regulated. Without such clarification, one does not know what qualification an MRICS or FRICS actually has.

The initial move to specifically accredit valuers was likely a result of the economic downturn, and the obvious need for additional regulation of appraisals for lending purposes. As such, I do not believe the multi-disciplined approach is sustainable long term without the users of these services somehow being able to distinguish between the various qualifying disciplines; otherwise the RICS is in danger of becoming more of a social club for surveyors rather than a professional organization with a recognized and accepted designation.

### **Issue No. 2: Can the IVS become the real Global Valuation Standards?**

The IVSC has certainly gained momentum in the last five years, having aligned itself nicely with the Appraisal Foundation – much to the thanks of the RICS who have embraced IVS and awarded designations to Americans on the Foundation's board. The RICS has essentially incorporated the International Valuation Standards into the Red Book (its valuation standards). The Appraisal Foundation of the USA appears to be attempting to gradually align its USPAP with IVSC with every new revision. So there is an evident push toward aligning USPAP with IVS which is already essentially the same as the RICS Red Book. The problem is, the IVS has no enforcement body, as it is up to the individual member organizations to police their members; and many of these member organizations only loosely follow the IVSC's standards.

### **Issue No. 3: Will there be an Established International Regulatory Entity?**

The (US) Appraisal Foundation appears to have a desire to grow both in depth and scope, geographically and fundamentally. Sopon Pornchokchai, PhD, the President of Agency for Real Estate Affairs Company Limited (AREA) in Thailand; was invited to be a member of the International Advisory Board of the US Appraisal Foundation. He wrote an article to present to the Board in October 2006, which discusses his research of international appraisal organizations as

they relate to the Foundation's potential to expand its reach internationally. In his article *International Roles in the Profession*, Dr. Pornchokchai categorizes appraisal organizations in three components: Professionals, Regulators, and Educators. He feels that the worldwide appraisal profession is "loosely structured", and "an organization like the United Nations (of the appraisal profession) needs to be established. It will be a venue for regulators around the world to meet and construct new standards and regulations for the sake of consumers--who are the most important beneficiaries."

Dr. Pornchokchai's recommendation to the Appraisal Foundation was that they could "sponsor and co-host a meeting for the pre-establishment of the UN-like appraisal organization, with the goal of eventually providing a forum for worldwide regulators, worldwide professional organizations, and worldwide educators; also that they take a strong part in drafting, applying, and enforcing of the international appraisal standards; coordinate with universities in the USA and other countries to construct a standardized appraisal curriculum; and organize meetings of education institutions around the world to set up a committee to certify institutions to teach appraisal courses around the world."

The Foundation has certainly followed some of these recommendations, having had some of its own boards' members appointed to the International Valuation Council (one previous chairman of IVSC was also a previous chairman of the Foundation's Appraisal Standards Board). There is also evidence that the Foundation wishes to get into the business of providing appraisal education in the USA, as there has been controversial dialogue between the Appraisal Institute and the Appraisal Foundation regarding whether or not recent legislation in the USA should prohibit the Foundation from teaching such courses (although such legislation was not supported by the AI and was not included in the recent law). Therefore, it appears the Appraisal Foundation is as well poised as any regulatory entity to make an effort to expand internationally.

#### **Issue No. 4: Should Appraisal Education be Offered by Accredited Universities or Individual Providers?**

The RICS has been able to grow internationally by way of accrediting university programs around the world. In a sense, it only makes sense that a student should be able to earn an undergraduate degree in the field in which they plan to work, rather than earn a generic degree and follow that with specific trade related courses.

Conversely, the AI has been able to maintain better control over their high quality education product by being the sole provider of the upper level courses that are taken after licensing/certification by individual states. There are only five accredited university programs, which fact implies that the program is too unique to be offered by many institutions of higher learning. But like real estate brokerage licensing, there is no known college degree equivalent for the required courses for appraisal licensing, perhaps because the appraisal (or brokerage) licensing education curriculum is viewed as a series of “trade school” courses taken by someone who might have chosen this career after college or even after another career.

In my view, the AI cannot make real headway toward international growth without accrediting more university programs, because the Institute does not have the resources to offer courses in a sufficient number of countries. As such, the AI specific curriculum will need to be sold to and taught to various educators, and MAI qualified appraisers hired as professors. This will require a great deal of thinking “outside the box”.

Additionally, the AI, the RICS, and all other interested bodies should promote the idea of an international valuation qualifications board, with the power to set and approve an appraisal specific education curriculum.

### **Issue No. 5 - What else is needed?**

Data transparency is needed in all nations. In order for well trained valuers to do their jobs adequately, they need access to data such as property transactions. Access to mapping and transfer documents (i.e. deeds) needs to be publicly available. All this data is best provided in an efficient GIS module; and in some countries fees are paid by subscribers for this service to help cover the cost. Not only does this transparency give the valuer much needed information, it also has shown to be a factor in complementing the stability of financial markets.

### **Conclusion**

The world has learned the hard way that due to harsh economic realities, the appraisal industry needs to have more international consistency and a greater degree of quality control. It is a very good thing that the IVSC has grown in membership and popularity, and that other known standards setting bodies are working toward closer alignment with IVSC. What needs to happen next is the creation of an International Valuation Qualifications Board, in the same way that the Appraisal Foundation (in the USA) has both a Standards Board and a Qualifications Board. This "IVQB" would also be tasked with establishing a set of guidelines for what should be included in an education curriculum specific to valuation. All member organizations (which could be the same members as the IVSC) would agree to abide by the minimum standards of education within their own sets of qualification criteria. Education could then be provided either by institutions or higher learning or by sponsoring organizations such as the AI or the ASA. This potential creation, along with a widespread adoption of the International Valuation Standards and greater transparency of data in all nations will help unify the approach to quality property valuation around the world.



**Certification**

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## **Biography**

James Andrews has been an MAI member of the Appraisal Institute since 1993, a member of the Royal Institution of Chartered Surveyors since 2005, and a Fellow of that organization since 2008.

He began his appraisal career in 1987 with a commercial appraisal firm in Nashville Tennessee, and relocated to his home town of Charlotte, North Carolina in 1991. He was a commercial real estate appraiser there for five years, with a specialization in valuation and feasibility studies of shopping centers and office buildings in the southern states. In 1997, he moved to the Cayman Islands where he built a valuation and consulting practice both in the Cayman Islands and the Caribbean region (having valued properties in the Cayman Islands, Bahamas, Turks and Caicos, U.S. Virgin Islands, British Virgin Islands, Nevis, St. Vincent and the Grenadines). Jim relocated to Charlotte, NC in October, 2009 to join the practice of Integra Realty Resources, with a specialty in hotel, golf and resort properties both in the USA and in the Caribbean.