

**Security of Property Values  
Through International Real Estate Infrastructures**

**By**

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## **Summary**

Prosperous world economies have recently suffered major financial and real estate value set-backs, while non-transparent and transitional economies continue to search for improvement. Economic stability and subsequent growth is presently desired by both sides of the economic spectrum. The answer may lie in the development or repair of an intangible infrastructure of which the credible and trustworthy valuation of real property is an integral part.

This paper examines the prosperity of economies by way of protected property rights and the associated development of reliable organizations and professions that secure equity and value through property ownership. Corruption at all levels is counter-productive to the accumulation of wealth and protection of rights.

Private appraisal practices take account of the value of real estate, while other organizations, including mass appraisal entities, provide accessible/transparent property information. Real property inventory and information systems, supported by increased levels of standards, ethics, knowledge and integrity serves as security and enhancement of wealth through property. As a result, there is a growing trend toward the development of transparent international education in private and mass appraisal practice to support financial reform and information credibility.

## Introduction

In the summer of 2007, an economic “perfect storm” started to unravel resulting in the greatest global recession since the Great Depression of the 1930’s. A number of factors and events culminated in a compounding of economic damage extending from the largest economic powers down to developing markets. Although the catalyst was the collapse of derivatives sold internationally that were backed by subprime mortgages in the American market, the cause of the financial meltdown can be traced to many factors. These factors, among others, include false real estate market expectations fueling speculation, artificially low interest rates, excessive financial leveraging, corporate managers focusing on personal bonuses at the cost of transparency, appraisal and mortgage fraud, credit abuse, sharp rise in mortgage foreclosures, and

“...the rise of the ‘shadow banking system,’ a sprawling collection of non-bank mortgage lenders, hedge funds, broker dealers, money market funds and other institutions that looked like banks, acted like banks, borrowed and lent like banks and otherwise became banks – but were never regulated like banks.”<sup>1</sup>

In general, a collapse in confidence occurred first in real estate values and carried into the stock/investment markets. Gold prices, where increases reflect a decreased level of economic confidence, went from \$305 per troy oz. in July 2002 to \$1,240 per troy oz. as of Aug. 25, 2010, an increase of 406% over 8 years.<sup>2</sup> As of this writing, the “Great Recession” is still not considered to be over, as both prosperous and developing nations are experiencing the highest unemployment rates in decades, trade (exports, imports) is reduced, industrial production has decreased, and commercial activity, growth and construction has stalled.

Both ends of the international economic spectrum, prosperous and developing, are striving for economic stability and subsequent growth. Solutions to encourage such

<sup>1</sup> Mihm and Roubini, Crisis Economics: A Crash Course in the Future of Finance, Pg. 8.

<sup>2</sup> [www.the-privateer.com/chart/gold-pf.html](http://www.the-privateer.com/chart/gold-pf.html)

growth appear to be based on the development and enforcement of basic principles of property ownership, as well as the transparency and degree of reliability of associated information relevant to the market place.

An examination of property rights and ownership in markets at opposite ends of the economic spectrum could point toward the very reason why one economy is prosperous and the other is not. With this analysis, the prosperous economies could reinforce the foundation of their own economies to repair damage and promote growth, and developing regions could incorporate components lacking in their legal, financial and economic environment. Examples of property rights as they exist and are enforced are provided to illustrate the power of property rights to create opportunity, store wealth and equity, stabilize and fuel economic growth.

### **Economic prosperity through property ownership**

*The Houston Chronicle* reported on Sunday, August 15, 2010 (pg. A11) that a federal judge ruled “the company with exclusive rights to salvage the *Titanic* is entitled to full compensation for artifacts worth about \$110 million that it has recovered in half-dozen perilous expeditions to the famous shipwreck”. Those artifacts are valued at more than the total economy of an African nation of 11.4 million people.<sup>3</sup> Did the artifacts belong to the legal owner of the relic ship at the bottom of the ocean, or to the salvager who recovered the items with great effort and expense? In this case, property rights were acquired and enforced for valuable artifacts obtained approximately 400 miles off the coast of Canada, 2.36 miles below the ocean surface, under several tons of pressure per square inches. Meanwhile, people in other parts of the world do not own or have any equity invested or built up in the property they have used, worked, and lived on for generations. However, this could reflect the social beliefs on which property rights, or lack thereof, are based.

In one example, the Dutch “purchased the island of Manhattan from Native Americans on May 24, 1626 for goods valued to the value of 60 Dutch Guilders” or

<sup>3</sup> CIA, *The World Factbook*, Zimbabwe, [www.cia.gov/library/publications/the-world-factbook/geos/zi.html](http://www.cia.gov/library/publications/the-world-factbook/geos/zi.html)

approximately \$1000 in 2006 US dollars.<sup>4</sup> This is often cited as one of the most one-sided real estate transactions in history. Conversely, the Native Americans probably thought at the time that they had swindled the Dutch. Also, “one popular history ... claims [the Dutch] actually purchased the island from the wrong tribe (the Canarsee, who lived on Long Island)”.<sup>5</sup> The Native American society’s values were based on a communal structure. The tribe occupied an area together, with no specific delineation between family unit dwellings or tents. The societal group functioned with the intrinsic understanding as to where tents were to be placed in proximity to one another. The tribe also needed to migrate to follow food, hunting, trade and seasonal changes. The concept of ownership of land and its use was not part of their values and beliefs; it was beyond their comprehension. They believed no one could own real estate or possess land, no more than a flea could own the dog on which it lives.

However, for the Europeans, their value of land was placed in their belief for ownership of the right to securely occupy and use a defined territory, possess its produce, and have the ability to sell, buy and use these rights. The rights to exclusive use placed value in the ownership, and allowed for the use of related value, including using the property as collateral for financing. The item or property itself does not have value, but rather the *use* of the property that gives it value, and *ownership* of the *right* to use it.

The Dutch beliefs and values were based on a lifestyle much different from the nomadic or communal Native Americans. If an individual in the Europeans’ community was to construct a residence, plant trees, build a fence, and farm an area for crops, they would be adverse to having someone else build on “their land”, have free access to any part of the property, or freely take the produce. The property owner invested time, labor and resources to improve the property. To reflect this investment, regardless of the form, defined and protected property rights also protect the personal capital of the property owner.

In another example, much of the value of beachfront or waterfront property with a view is in the owner’s right not have anyone build in front to block the water view. This

<sup>4</sup> [education.yahoo.com.reference/encyclopedia/entry/Miniut-P](http://education.yahoo.com/reference/encyclopedia/entry/Miniut-P) and [en.wikipedia.org/wiki/Peter\\_Minuit](http://en.wikipedia.org/wiki/Peter_Minuit).

<sup>5</sup> [en.wikipedia.org/wiki/Peter\\_Minuit](http://en.wikipedia.org/wiki/Peter_Minuit)

is why waterfront property can be exponentially more valuable than properties located behind it. Where there is a high demand for unobstructed view of water or other amenities, there is also a high value in the guarantee that the view will not be obstructed in the future.

Centuries after the Dutch purchased Manhattan, the American and Canadian governments provided Native American Indians with reserved areas for communal habitation, known as Reserves. Homes were constructed on the sites provided, and officially recognized Native American tribes or “First Nations” were given exclusive right to occupy and use the property. However, the Native Americans had no legal right to sell, rent or borrow against the property on which they live, as it is deemed to be federally protected reserves for First Nations. With this, they could not build equity or store wealth through value of owned real estate, and commercial activity was limited to the immediate needs from within the reserve. In North America, attempts are made to allow gambling facilities to operate on the reserves with federal approval, but the profits and revenue streams (after taxation) are the sole benefit of the Reserve as a whole, and individual entitlement is not a consideration. As a result, individuals cannot use property rights and use as a resource to create opportunities for personal economic growth.

Property ownership directly fuels the growth of an economy, in that it provides an additional resource for utility/use as well as a method of building up equity or storing wealth/investment. For example, in most developed economies, if a person required \$30,000 to start a business and owns a \$100,000 property with no mortgage or liens against it, in all likelihood, they will be able to obtain credit to start the business using the property as collateral. Not so, for example, in some parts of world where the land is rented from the government, and in some cases, ownership of the improvements reverts to the government at the conclusion of the land lease. In this case, the occupant is allowed to use and occupy the property for the specified lease period, but unable to store wealth or build equity through property ownership. This presents a missed opportunity to start a business or create economic activity, which would result in other jobs and increased demand for supplies and services. As a result, the economy, in general, is marginally active where property rights are lacking, and wages and levels of

wealth are significantly less than in areas where property ownership allows for the build up of equity.

Also, a lack of ownership of property rights deprives the owner of anticipation of future benefits of the property, either financial or through its use/utility. The Principle of Anticipation creates value through the economic realization of future benefits generated by the property and its use.

### **... In the hands of the many ...**

Until the time of the Industrial Revolution of the late 1700's, European countries were run politically as absolute monarchies. As an extension of this system globally, most of the world was divided up into colonies subject to their respective European monarchs. For hundreds of years, this political system also provided an avenue of controlling land and property ownership, as all would be subject to the monarch, and property rights were then allotted to dukes, counts, barons, earls, lords, and knights. In this way, the political system was also a way of controlling property rights and land ownership. During this time, wealth was in the hands of the few, namely the nobility.

Similarly, at present in countries or regions where only a few own real estate, only a few can use the resource to create and store wealth. But in prosperous nations where the standard of living is high, land ownership is diverse and "in the hands of the many," since many are able to use the resource of land ownership to build equity, store wealth, and create economic opportunities. In the United States, "in 2005, small businesses represented 99.7% of all the nation's employer businesses. Data also show that they employed 57.4 million Americans or 50.6% of the non-farm private sector workforce."<sup>6</sup> It is also estimated that in the United States, 2/3 of all millionaires became so through real estate investment and development.<sup>7</sup> Conversely, in the former soviet republics of eastern Europe and central Asia, where a very small percentage of people control the majority of wealth, there are few employers or chances for employment and wages typically range from \$30 to \$150 per month.

<sup>6</sup> US Small Business Administration, [www.sba.gov/advo/press/06-17.html](http://www.sba.gov/advo/press/06-17.html)

<sup>7</sup> Brian Tracy, *The Psychology of Success*, Chicago, 1986.

As a paradox, countries that lack property rights or restrict ownership to the few try to attract investment from countries where most individuals can create wealth through property ownership and development. Underdeveloped nations more often than not seek aid, trade, and investment from prosperous nations, who became enriched through the utilization and ownership of property by many.

### **Enforced property rights**

It is not enough to have property rights, but they must be enforced and rightfully protected. The Fifth Amendment of the American Constitution states a person shall not “be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.” In America, this right is enforced and carried out by the judicial system and by its enforcement system. Conversely, many nations in eastern Europe have property rights entrenched in their country’s constitutions, but these rights are not enforced since the legal, political and economic system is prone to corruption. Law enforcers, court judges, and politicians tend to be corrupt, ruling against the rightful property owner. Property can be unrightfully confiscated or expropriated without just cause, and in many cases, unjustly obtained at the rightful owner’s expense, contrary to their own laws.

As a result, the degree that property rights are protected ensures its value in ownership. Nations and regions such as Canada, United States, western Europe, and Australia have legal and enforcement systems in place that protect property rights. With the lowest levels of corruption, these areas are considered to be the most prosperous areas of the world. Zoning (i.e. government control of land use) is often used to ensure real estate is used consistently, and to its maximum productivity use in relation to the community around it.

In summary, examples were given where ownership of property by the many creates a resource where equity can be stored and used to create economic opportunity and wealth. Conversely, countries where property ownership and rights do not exist or are not protected are hard pressed to grow and prosper economically.



## **Economic prosperity through transparency**

The lack of information regarding a property will limit its ability to have value. The reliability of the information will also affect a seller and/or buyer's actions to transact on the disposition of a property.

“French mathematician Louis Bachelier, whose *Theorie de la speculation*, completed in 1900, argued that an asset's price accurately reflects all known information about it ... the market is a perfect reflection of the underlying fundamentals. To be sure, asset prices change, often dramatically, but merely as a rational and automatic response to the arrival of new information.”<sup>8</sup>

A prudent buyer will not buy a product or property without knowing the relevant facts regarding its value, ownership rights, specifications, condition, and use. The degree to which a buyer can make a decision to trade their personal resources for a property depends on the reliability of the information they are using to make that decision. Also, the lower the reliability and trust of the information used to buy a property, the greater the risk associated with it.

## **Information infrastructure**

Government appraisal districts (USA) and assessment systems (Canada) were established to primarily quantify and fairly value property for taxation purposes. However, there is an intrinsic benefit that these government entities provide that taxpayers often do not consider or are aware. These sources of property information also provide a reliable inventory of property within their jurisdiction. This is often used by buyers and sellers to verify specifications of property in transactions. Not only does government mass appraisal of property facilitate fair taxation, but it also supports real

<sup>8</sup> Mihm and Roubini. Crisis Economics, pg. 40.

estate values through the public access of the inventory of property. This provides an intangible information infrastructure that is intrinsically part of the real estate market.

For example, in the greater Houston, Texas real estate market, the source of the size/area of residences listed for sale on the Houston Association of Realtors (HAR – [www.har.com](http://www.har.com)) internet site is mostly quoted from the appraisal district's public information. It is not typical for real estate agents to measure the residence and report it in the listing. Although the scope of work for the appraisal districts and assessors includes the mass appraisal of property, buyers and sellers will rely on resulting information as an unbiased and transparent source. Countries that have inferior economies tend to lack the public inventory of property, or severely limit access to such information.

Where the inventory of property is public, transparent and free from corruption, real estate markets tend to perform more efficiently. Again, this is one of the features of a prosperous economy, where it is lacking in developing or inferior markets. Therefore, the degree of reliability and trust in public information available for property directly affects its value and associated risks.

Although real estate is considered to be a less liquid asset than conventional investment or savings alternatives, the real estate market will be more liquid where trusted public information is available in comparison to markets where the information infrastructure is restricted. Real estate transactions are more readily completed with the cross reference of property specifications with government appraisal/assessment systems.

In most cases, property specifications can be obtained using the internet. For example, in the greater Houston area, properties can be searched on-line using the address, owner name, or property identification number, at [www.fbcad.org](http://www.fbcad.org) or [www.hcad.org](http://www.hcad.org). Additionally, details and documents regarding real estate transactions, as well as plat or subdivision maps, are available to the public on-line at the county clerk's web site. An example of this is Fort Bend County Clerk's internet site, at <http://ccweb.co.fort-bend.tx.us/RealEstate/SearchEntry.aspx?e=newSession> or [FortBendCountyGov.com](http://FortBendCountyGov.com).

## Transparency and value

Having government or public information alone does not ensure reliability. Corruption and non-transparency can also diminish the reliability of information and undermine property ownership. In most transitional or non-transparent markets, governments are not considered public entities, especially where personal and property rights are limited or non-existent. Therefore, in these environments, the information is not readily available, disclosed or reliable. This undermines the availability of information required by sellers and buyers to prudently transact property.

In most provinces in Canada, the Torrens system of land registry is used to document property rights and its ownership. This is a British system of land registry. The system incorporates a government central Land Title Office (LTO). Each property title has two identical copies, one retained by the property owner or rights holder, the other by the LTO. *All* documents pertaining to the property and title, active or expired, are retained and known as “instruments”. These include (but not limited to) leases, easements, surveys, plat maps, subdivisions surveys and abstracts, and in some cases, blueprints of improvements. With any transaction or change in the status of property rights, documents are presented and kept by the Registrar, who signs the registration of the instruments on the two copies of the title. Signings are also registered in a Master Book. All instruments and titles are available for public viewing for a nominal fee. Photocopying of documents is allowed, but original copies cannot be signed out or leave the Land Title Office. Some provinces have access to instruments and titles online. A real estate document or claim is not considered to be valid or enforceable unless it is registered on the title. Additionally, a public trust fund for government errors and emissions is established with title transfer and instrument registration fees. This provides a financial guarantee for proper registration and accuracy of title and instruments. With this system, title insurance is not required, as all claims and rights of the property are listed on the title. As a result of this type of document registration, Canada is often at or near the top of world ranking in real estate transparency. This also provides added security and protection of property rights, resulting in stable and secure markets.

## **Alternatives decrease corruption**

In areas where protected property rights are limited or non-existent, authority in itself is a resource that controls wealth, property and scarce resources. That is to say, authorized control of limited resources is subject to the laws of supply and demand as well. In developing areas or where inferior markets exist, people in positions of authority are prone to corruption. In fact, corruption is the norm and an accepted part of life. In these economies, “it’s not *what* you know, but *who* you know.”

Corruption and bribery is counter productive, and further diminishes any efficiency in an inferior market. The added cost to obtain information, approvals and needed resources is increased, further diminishing available resources for productivity. As a result, inefficiency and limitations are ingrained in the culture of corruption, accepted as a way of life. In the former Soviet Union, where all property was owned by the state, a common idiom was “they pretend to pay us and we pretend to work”. Real estate and soviet currency had little value. People in such markets have few resources as it is, without having to use what little they have to bribe officials for desired resources/information. The added cost plays into the concept of opportunity cost, in that if a resource (time, money, property) is used in one area, it cannot be put to use in another. If a resource is used to pay a bribe, then it cannot contribute to the efficiency of the market. It can be argued that the Soviet Union collapsed politically since it collapsed economically. Had property rights and ownership by the many been allowed, and corruption minimized, the fate of its economy probably would have been extremely different.

By taking the wealth of protected property rights out of the equation for the many, authority and assigned control becomes a valuable resource for the few. This suggested that the cure to corruption is competition. If valuable information or resources are controlled by one individual, the cost to procure access is usually high. However, if alternatives are available, in competition, the subversive cost of procurement will diminish. If local public entities are not willing to provide access, then private data sources, including appraisers, can provide additional sources of information and disclosure. In a sense, they can provide competition in supplying information, thus

enhancing transparency. For example, in America, appraisers can verify information with internet services such as the Multiple Listing Service (MLS), data providers (such as LoopNet, CoStar, Commercial Gateway, etc.), commercial studies and information obtained from large accounting/auditing firms and international real estate brokerages, data bases generated by land title offices or title insurance agencies, and collective appraiser data sharing. Information regarding active listings and lease offerings in America are publicly available, for example, at [www.loopnet.com](http://www.loopnet.com), [www.commgate.com](http://www.commgate.com), as well as international listing of properties for sale at [www.har.com](http://www.har.com) . Later this year, the Appraisal Institute will publish a textbook on global valuation of real estate, and included will be the listing of internet sites providing similar information in many countries.

### **Technology and the economy**

The role of innovative technology in fostering economic prosperity is considered to contribute to the concept of “change in value through change in information”, as previously noted. Usually, an innovation in transportation, communication and financing will significantly affect property values. Examples of innovations include the railway boom (1840's), electricity, telephone, automobile, airplane travel, television, construction (steel for skyscrapers), cellular phones, computers and subsequent Windows applications (which unleashed computer capacity and use). The creation of the internet increased access to information, property, and/or economic resources. Also, information in the recent “technology age” became available to the masses internationally. Markets became larger, even international.

Similarly, financing innovation affects property value. For example, Lee Iacocca created a financing plan in the 1950's that would make cars affordable, allowing consumers to use credit to purchase cars instead of cash only.<sup>9</sup> Credit cards significantly revolutionized the purchase power of consumers.

<sup>9</sup> Online Encyclopedia, <http://encyclopedia.jrank.org/articles/pages/6279/Iacocca-Lido-Anthony.html>

Before the innovation of government underwriting of mortgages, banks were reluctant to take on risk of credit to consumers for home purchases. Normally, down payments of 50% or more were required to buy a home. The long-term plan to save for a home would restrict other uses for the capital, and restrict the economy. The development of agencies such as Fannie Mae and Freddie Mac in the US, and CMHC in Canada, eliminated the risk for banks, and consumers could leverage the properties so they could be acquired. This put properties and homes “in the hands of the many”, and created an economic boom in the 1950’s and 1960’s. From this, in the US, the government developed the first mortgage-backed securities in the 1970’s, taking long-term mortgage agreements and converting them to bonds backed by the mortgages that could be easily sold on the open market, known as “securitization”.<sup>10</sup> With time, in America, lack of transparency, fraud, deregulation, and creation of a “shadow banking system” with the lack of lending regulation resulted in a false expectation or misrepresentation as to the value of the derivatives/bonds sold. Through the fraud, lack of transparency and regulation, and/or misrepresentation, people who could not afford to repay credit and had little or no equity to invest were given (subprime) mortgages to buy homes. Eventually, the mortgages became delinquent and foreclosures rose significantly. The information and new transparency that ensued recently resulted in the collapse of the financial market and helped create the severe recession that is currently recovering. With this in mind, new technology can jump-start a boom in the economy, but can be adverse if it is compromised with the lack of transparency.

## **Transparency and Prosperity**

Jones Lang and LaSalle, an international real estate brokerage conglomerate, every two years researches and publishes the Global Real Estate Transparency Index.<sup>11</sup> For 2010, Australia was ranked No. 1, Canada No. 2, and USA No. 6 (was tied for 2<sup>nd</sup> in 2008). For the Composite Index, 81 countries are listed into five categories: High (12

<sup>10</sup> Mihm and Roubini, *Crisis Economics*, page 62-63.

<sup>11</sup> Jones Lang LaSalle. *Real Estate Transparency Index: Global Foresight Series 2010, Mapping the world of transparency, Uncertainty and risk in real estate*, Chicago, 2010, at [www.joneslanglasalle.com](http://www.joneslanglasalle.com)

countries), Transparent (16), Semi-transparent (30, transitional), Low (20, non-transparent), Opaque (3). The High category countries were namely nations in central and western Europe, USA, Canada, Australia & New Zealand. The Transparent category consists of members of the European Union, Singapore, Hong Kong, South Africa, Malaysia, Japan, and Israel. Many of the Semi-transparent or transitional countries are in eastern Europe and included India, South Korea, Mexico, and Middle Eastern countries. It should be noted that there appears to be a correlation between real estate transparency, economic performance (GDP) and diverse/mass ownership of property as well as protected and enforced property rights.

### **Democracy and property rights**

In the Jones Lang LaSalle study, countries in the High tier of transparency also prosper economically and are democracies politically. In these countries, property ownership is diverse, held by many, and protected. That is to say, it appears protected ownership of property rights for the many appears to be an integral component, if not the foundation, of democracies, and creates the stability required to build wealth and foster personal independence. Prosperous regions have efficient and diverse public power, efficient markets, and are supported by protected property ownership. In taking example of areas listed in the previous paragraph, it appears democracy is strongest and most efficient in countries with protected property rights. Contrary to this, regions where property is owned by the few or is non-existent appear to be less transparent and economically inefficient.

In countries that have political oppression or consolidated ownership of property, or where resources are controlled by the few, the majority of the population tends to lead a life of basic existence, with a lack of prosperity. These individuals strive for stability before wanting democratic freedom.

As discussed earlier, the political structure of a country tends to reflect the beliefs, values, cultural and social structure of its people. Ukraine (in eastern Europe) was ranked 72<sup>nd</sup> in Low transparency in 2004 and 2006, but after the country became

“pro-west” with the democratic movement of the Orange Revolution in 2004, it jumped to 46<sup>th</sup> place and Semi-transparent (transitional) in 2008.

In addition, a country can be blessed with an abundance of a valuable commodity, be prosperous, of which democracy is not a requirement. This is the case with Saudi Arabia. That is to say, not all prosperous nations are democratic, but it appears that all democratic nations require transparency and protected ownership of property rights for many in order to be prosperous.

### **Real Estate Appraisers**

As indicated earlier, government entities and alternative data sources can provide an inventory of property and associated rights. Of importance is the level of trust and reliability of the available information. Where the quality of information is suspect, the less likely an information infrastructure can support the market.

The valuation of property has similar implications. Countries seeking external investment to facilitate economic growth are unable to do so if security and protection of ownership is not provided. Foreign investors will require trusted and accurate information regarding specifications and value of property in which they will invest. However, if the country is perceived to be corrupt, then obtaining such information or level of practice of appraisers/valuers will also be perceived to be the same.

In the Russian Federation, appraisers are considered as “market makers”, in that transactions can depend heavily on the appraiser’s conclusions or findings. That is to say, rather than the appraiser being considered as a part of the transaction process of verification or value certification, the market is dependant on the appraiser.

Therefore, the real estate information infrastructure also includes the appraiser, and the responsibility of verifying the value of the property depends on the integrity, standards, ethics and business practice of the appraiser. The appraiser’s environment is also of consideration. The reliability of property information depends on the level of trust of data sources for specifications, and appraisers for determining the true value of the property.



In countries with low transparency where corruption is the norm, how does an outside investor find trusted and reliable information regarding property and its value?

In light of the current global recession, countries are looking to obtain international education, certification, and recognition for their appraisers as a step to initiate financial reform and gain investment trust. This reform is required to attract capital for outside investment to facilitate immediate economic recovery and/or long-term prosperity. Without trust and competency of those most qualified to determine the value of property, outside investment is highly unlikely.

### **Financial and Appraisal Reform Through International Education and Standards**

Many attempts in the past were made to introduce international education and certification programs for appraisers. In the past, problems arose when some organizations sold or gave out certification or designations for political reasons, rather than on merit. This resulted in clients of the appraiser realizing that these papers were not reliable, and gave them no merit. This also affected the perception of credible attempts to accredit appraisers internationally. Another problem was that the appraisal education and practice of one country was not applicable to the same of another country. Appraisal programs were set to address local needs, without modification for professionals in other cultures with different regulations and practice.

George Badescu, Vice-Chair of the International Valuation Standards Committee at the time, in September 2008 <sup>12</sup> indicated the IVSC sets the International Valuation Standards for valuation of property, and collects information about appraisal education programs abroad. However, the IVSC does not provide any education programs or courses or certify the experience, education, or qualifications of any valuers/appraisers or professional organizations to which they belong. Therefore, the level of trust, reliability and credibility of the education and certification programs in countries for

<sup>12</sup> Conference in Yalta of the Ukrainian Society of Appraisers (attended by the author of this paper)

appraisers is usually comparable to the transparency (political, legal, economic) of the country the valuers/appraisers practice and reside.

As a result, although reciprocal arrangements were established for appraiser designation or certification to be recognized between various international appraisal societies, a specific transparent education program for international property valuation was not available to appraisers in transitional or non-transparent markets. That is to say, there was no international course program modified to address the specific characteristics of transitional or non-transparent markets. Similarly, no specific program was available for American or Canadian appraisers to understand the challenges of appraising in these markets.

To address this need, the Appraisal Institute is currently developing a 3-course program for international valuation. The program is being designed for advanced valuers and clients of appraisal services. It will have an entrance requirement and cover International Valuation Standards, appraisals regarding international financial reporting, and a case study based course in appraising in “challenging” (transitional or non-transparent) markets. It is not a certification, designation or accreditation program, but rather an education curriculum with certificate of completion. In addition, upon completion, the appraiser will be placed on an internet registry. Providing transparency and a basic education curriculum should initiate the raising of the valuation profession in limited markets as well as assist in the interaction between prosperous economies and developing nations, through enhanced education and training. With this, introducing transparency of the appraisal industry on an international basis should enhance finance reform, and increase confidence and protection of investment abroad.

## **Conclusion**

All indications are that economies achieve stability and grow through transparency and enforced/protected property rights and ownership by many. These concepts are not inherent to all nations and cultures, and thus, economic efficiency and performance may be limited to the scope of their beliefs and values or abundance of their resources. Property rights and ownership can serve as an economic tool to build equity, create

opportunity, and store and create wealth. The Principle of Anticipation also creates wealth through property ownership. Contrary to this, non-transparent or corrupt societies have the burden of additional inefficiencies and opportunity cost which further limit economic performance.

Public, transparent government entities, such as assessment for taxation, as well as alternative data sources and valuation analysis by private appraisers provide an information infrastructure that enhances and supports the value of property and its rights.

The recent Great Recession may have occurred due to a decline in transparency and regulation for the sake of promoting false speculation of property values. Appraisal and financial reform, through increase transparency, regulations, and education of professionals, will attribute to the security and protection of property rights for the many, stability of property values, credibility and trustworthiness of associated professionals, and growth of economies that embrace these rights.

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### **Biography**

Roman Cherwonogrodzky, SRA, CRA is a commercial property tax appraiser with the Fort Bend Central Appraisal District, Rosenberg, Texas. In 2010, he appraised in excess of approximately \$350 million worth of commercial real estate with regards to taxpayer protests, including presentations at Appraisal Review Board hearings. He is also a commercial/residential appraiser with IRR Residential Appraisers & Consultants in the greater Houston, Texas area. Originally from Canada, he is one of only two appraisers practicing in the USA with an active (non-retired) designation from the Appraisal Institute of Canada, and has a Diploma in Urban Land Economics from the University of British Columbia.

Mr. Cherwonogrodzky has over 20 years experience in real estate sales and valuation, appraised property in three countries and guest speaker at valuation conferences in five. Mr. Cherwonogrodzky was the recipient of the Appraisal Institute's Ted Anglyn Award at the 2009 Leadership Development Advisory Council conference. He has represented the Appraisal Institute in Eastern Europe since 2002, is a member of its International Relations Committee, and Chairman of the International Certificate (Education Development) Project Team. In addition, he is Chairman of the Education Committees for the Appraisal Institute's Region VIII (Texas & New Mexico).