

OBJECTIVITY IN VALUATION TECHNIQUES
Conditions to Safeguard
Indonesia Background

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CURRICULUM VITAE

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After retirement, he started his next career as from 1985 up to now in the valuation profession. Therefore he studied again in 1994 at Universiti Teknologi Malaysia in Johor and obtained his Master of Science in Property Management and Valuation degree in 1995.

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ABSTRACT

Beside considering the problem of the objectivity in valuation techniques from the scope of the techniques themselves, we can consider the problem from another angle, i.e. how the objectivity of the valuation techniques should be safeguarded and secured, as seen from the external side.

Considered externally, there are principle matters or conditions which play important roles as to safeguard the objectivity in the valuation techniques, and in turn the objectivity in the valuation as a whole.

Accidentally this is a current subject in the valuation realm in Indonesia. Concerted efforts have been in process and progress aiming at the professionalism of valuation. These include pertinent matters as the data collection, appraisal review, valuation standards, continuing professional education programs, the codes of ethics, and the government regulation.

Obviously, internal efforts to achieve the objectivity in valuation techniques should be supported with external conditions so that the objectivity will be sustained.

I. INTRODUCTION

Presently it has been commonly recognised that in the application of the traditional valuation approaches or methods, recent quantitative techniques are used, in line with the ever-changing and developing nature of knowledge and science.

These quantitative valuation techniques are able to support the traditional methods to enhance the objectivity in valuation.

Being qualified as more reliable and objective as mentioned above, negative connotations regarding valuation as have been sporadically heard will decrease and even disappear, such as :

- Valuation is a glorified guesswork.
- Valuation is a subject without advanced thinking.
- Valuation is a guesstimate, etc.

Being well-aware that the honorable audience here consists of experienced and expert valuers, I am not going to discuss about valuation techniques themselves.

In order that valuation gains the recognition as a profession of high repute, the above course of change to a more scientific approach - let us call it internal condition - shall be simultaneously accompanied by external conditions, whereby the ultimate goal is to safeguard the objectivity in the valuation techniques, the valuation process and finally the valuation results.

Meanwhile it is worth noting that there is no criteria yet regarding the satisfactory level of objectivity in the valuation techniques, process and results. The still open question is, can we quantify it ? At what stage of objectivity can we call valuation has reached the qualification of science rather than still an art ?

II. CONDITIONS TO SAFEGUARD THE OBJECTIVITY

1. Data Selection and Collection

The three types of data to be gathered are general, specific, and competitive supply and demand data. When general data is to arrive at the trends in the social, economic, governmental, and environmental forces that affect property value, specific data include legal, physical, locational, cost, and income and expense information about the properties and the details of comparable sales, financial arrangements, and the history of ownership and use of the property. It is also important to collect competitive supply and demand data which relate to the competitive position of the property in its future market.

In conducting a particular assignment, the appraiser's judgement and experience and the quantity and the quality of data available for analysis may determine which approach or approaches are used.

In Indonesia, unlike countries which have already institutions specialising in supplying information and data, the process and procedure of collecting data is rather time and energy consuming. To get reliable information and data we have to select various sources, whether primary or secondary, such as : the office of the lower government (lurah, camat), the notary public, the real estate association (REI), the real estate brokers' association (AREBI), the Central Bureau of Statistics (BPS), etc.

2. Appraisal Review

Appraisal review may be similar to the quality control function of the appraisal profession. They take part in the safeguarding of the objectivity in the valuation since they test the reasonableness of the logic, assumptions and value conclusion contained in a report.

To perform the review function effectively, they should possess analytical ability and mature judgement. They must never violate rules of fairness and objectivity.

Therefore the desired minimum educational qualifications for a review appraiser is a.o. academic training in appraisal techniques. While the desired minimum level of competence should include analytical ability and mature judgement. Besides, a review appraiser is desired to have a minimum level of experience in the reviewer's field of employment, which may be a lending institution, governmental agency, or real estate firm.

In Indonesia this special branch of valuation profession has existed since several years ago. Private and government banks send groups of their officers to attend regular or special valuation courses abroad as well as those arranged by our association, MAPPI together with GAPPI.

Government agency which has a well-planned program for the education of valuers especially for the purpose of taxation is the Directorate for Land and Building Taxation (Direktorat PBB). Nowadays this agency has already hundreds of officers with formal education in valuation. We believe that a number of these officers will be assigned for functioning as appraisal reviewers for the government.

Real estate firms have also the need to have a review appraisers especially to check the appraisal reports submitted by their in-house appraisers as well as outside appraisal companies.

Our association MAPPI in order to keep pace with the above progress, has recently stipulated a set of rules regarding appraisal review, and incorporated it in the Association's Valuation Standards (SPI).

It is worth noting here, that government agency like the Board for the Supervision of Capital Market (Bapepam) in Indonesia should have at least a team of officers having the qualification as review appraisers. They are expected to check and value whether the works of the private appraisal companies have fulfilled the valuation standards and ensured the objectivity of the valuation techniques, process and results. This is very important for the interest of the public and investors, since adding to the number of more than 200 public companies at present, every week going-public companies submit documents including appraisal reports to be scrutinised by Bapepam in the process of requiring permit for their IPO (Initial Public Offer).

3. The Valuation Standards

The existence of valuation standards obviously ensures that the members of the professional institute or association will conduct their professional appraisal activities in compliance with the requirements of the standards of practice.

The Uniform Standards of Professional Appraisal Practice of the Appraisal Institute in the USA, for instance, in its Standards Rule 2-1 has in very details set forth rules regarding the extent of the process of collecting, confirming, and reporting data; further the appraisal procedures to be followed, and the reasoning that supports the analyses, opinions, and conclusions.

The Royal Institution of Chartered Surveyors (RICS) has for a long time issued Appraisal and Valuation Manual with the principle aims, a.o., to help valuers to achieve high standards of professional competence in the preparation of valuation and appraisals.

Being fully aware of the above, our associations MAPPI and GAPPI have at last compiled a set of Valuation Standards (SPI) which still contains very principle subjects only. Starting with relevant definitions, it is followed by Valuation Standard 1 regarding Valuation Methods, Standard 2 Assumptions and Limiting Conditions, Standard 3 Valuation of Real Estate, Standard 4 Appraisal Report of Real Estate, Standard 5 Valuation of Machinery, and Standard 6 Appraisal Report of Machinery.

These above set of standards issued in 1994 has recently been followed further with proposed Standard 7 Valuation of Stocks, Standard 8 Valuation of Business and Going Concern, Guidance Note 1 Appraisal Review, and Guidance Note 2 Valuation for IPO.

These existing standards and guidance notes will be followed with more standards and guidance notes for valuation of other specific subject matters and purposes.

4. Continuing Professional Education Program

As is the case in other professions, continuing professional education for valuers is commonly felt necessary. It has become a very serious matter for consideration, so that in Australia for instance, the Australian Institute of Valuers and Land Economists (AIVLE) has introduced non-compulsary continuing professional development programs for members, and then introduced compulsory professional development programs in 1994.

Look at their Code of Ethics, Standard 1 : Professional Competence, stating :

"Members must satisfy the Continuing Professional Development requirements of the Institute. The purpose of the CPD Program is to extend the knowledge of members to continuing changes to property law, building codes, building construction, valuation techniques and procedures, together with provision, development of existing knowledge and further research and innovation in property matters. Such a program ensures the capacity of each member to continue to provide high quality advice to the client. Failure to satisfy the CPD requirement is a breach of this Code of Ethics".

In Indonesia such development programs have been conducted, some are fully self-financed, and some financed by the government in cooperation with the association (GAPPI). All these programs are still non-compulsary. A more frequent programs would be arranged in the form of short courses, seminars and workshops, where attending members will receive credit points for the interest of their level of membership in the association (MAPPI).

In order to make these development programs compulsory, the newly proposed Articles of Association of MAPPI include such rule like the Standard adopted by the AIVLE. And so is the Code of Ethics of the Indonesian valuers.

Supporting materials required for education in general shall also be given attention to. Most important is a special limited library with valuation books, gazettes and journals. The publishment of practical handbooks and manuals in Indonesian language is pragmatic and much desired.

5. Code of Ethics

Regarding codes of ethics, the Appraisal Institute was formed exactly for the purpose a.o. to formulate a code of professional ethics and standards of professional conduct to guide real estate appraisal and serve as a model for other practitioners.

Thus functioning as rules to guide the conduct of association's members, the codes of ethics are becoming more and more important nowadays, since individuals are playing more decisive roles in society anywhere.

On the other hand individuals will carry a far greater share of the responsibility for their organisation's performance. As the famous trend setter John Naisbitt extremely put it, ... a universal code of conduct will evolve, we will all hold ourselves and each other to higher standards of behavior.

What about Asean valuers ? Before having the slightest idea of making Asean valuers' codes of ethics, let us make our respective association's code of ethics more effective. Let us proof and sustain that our association functions well as a real self-regulating organisation.

Put in another version, the trilogy for the development of human resources shall be applied to our profession, namely to make valuers become skillful, intelligent and ethical. Long run programs shall be made and actions shall be taken to realise the above trilogy.

In such a way there will be no more complaints regarding negative practice and conducts by members of our profession, like "negligence, incompetence, fraud and outright dishonesty".

6. Government Regulation

After a process of more than one year, finally the Government issued a regulation regarding the profession of valuers. This long-awaited Decree of the Minister of Finance No. 57 of 1996 is very conducive to the future professionalism of Indonesian valuers, since it laid down principle requirements regarding the licensing of registered valuers. Beside requiring at least a 3 years working experience with good reputation in practicing valuation, a valuer shall pass professional exam arranged by the association (MAPPI).

And not least important is the requirement that the valuer shall become member of the association and attend professional development programs of the association.

At present the association is working hard on the above assignments by appointing a permanent committee for preparing any matters pertaining to the exam which is scheduled in 1997.

By having registered valuers as planned above, the higher level of education, competence and experience of Indonesian valuers will be more secured in accordance with the accepted standards.

It is desired that in future regulation on the valuation profession should be upgraded to a higher level of legal regulation in the form of law/act.

III. CONCLUSION

In order to secure the objectivity in valuation techniques which applies the quantitative techniques in support of the traditional valuation methods, external relevant matters should become sine qua non conditions to safeguard the objectivity in the valuation techniques, and in turn the valuation process and results.

Taking the current condition in Indonesia as background, there are steps and efforts to be taken for the safeguard of the above objectivity, as follows :

In order to make data collection easier, faster and more reliable, the idea of establishing a data bank should be considered seriously by the association. Comparison studies with other member countries would be recommended.

The existence of review appraisers would be advantageous to the efforts for objectivity in valuation techniques.

And so is the presence of up to date valuation standards and detailed guidance notes and manuals.

Educational programs are very important to enhance the competence of valuers.

Continuing professional development programs should be applied, supported by educational materials such as handbooks, manuals, gazettes and journals in a special library.

The professional association as a self-regulating organisation should sustain the compliance with the codes of ethics by its members.

Government regulations desirably in the form of law/act will support the pursuit for the professionalism of valuers.

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