



13TH AVA CONGRESS

PRACTICE STANDARDS – THE CHALLENGES

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Outline

- What is Practice?
- Difference between Practice and Standard
- What are the Challenges?
- Good Practices in Valuation
- Market Comparison Method
- Interpretation of Statutes
- Conclusion



What is Practice?

- Definition – paper speaks about valuation practice rather than standard
- Standard – connotes penalties and punishment, necessary to ensure valuers comply with them to maintain consistency
- Practice – deals with operational and management issues rather than technical issues, good if complied with



What are the challenges?

- Setting good valuation practice or standard is a great challenge
- Deals with delicate and fine lines between what constitutes important benchmark which should not be breached, and that which requires only judgement call to be made by the valuer
- Needs to obtain acceptance of majority of practising valuers and employers of valuation services



Good Practices

Two situations given to illustrate the problem:

- Proper procedures for arriving value estimates used in recognised methods of valuation
- Matters of important to be reported in statutory valuations governed by legislations



Market Comparison Method

- Most common method used
- Entails comparison of similar properties with subject property
- Two factors affect determination of final estimate – selection of appropriate comparables and adjustments of factors
- In reality – valuers use different comparables and approaches for adjustment



Question to ask

- Should a valuation standard or practice guide be set for these?
- Selection of comparables can be subject to abuse
- Adjustment of factors depends more on valuer's skill
- Practice guide would narrow gap between valuation and will promote consistency



Interpretation of Statutes

- Statutory valuations are carried out in accordance with legislation
- Land Acquisition Act in Singapore is unique
- Two provisions relate to date of valuation and basis of use on which property is to be valued



Date of valuation

- Act provides compensation based on market value as determined on date of acquisition or statutory date (currently 1 Jan 1995), whichever is lower
- Inevitably, current valuation is reported (usually higher)
- Difficult to know whether valuer has considered value of property as at statutory date as well



Basis of Use

- Act provides basis of use should be on existing use ignoring development potential
- Again, valuation reports do not report whether market value was based on existing use or highest and best use
- Requirement for basis of use to be stated in valuation will help in understanding the report –should it be made a standard or good practice?



Conclusion

- Best practices in the form of guide would help promote consistency in valuation
- Consistent practice would provide confidence to users of valuation service
- However, good practices not easy to achieve
- Good practices are not enforced but encouraged
- Valuers would need to commit to promoting good practices