

# Valuation Standards and Practices

*Assoc Prof Lim Lan Yuan*  
*Head School of Building & Estate Management*  
*National University of Singapore*

CV of Associate Prof Lim Lan Yuan

- Assoc Prof Lim Lan Yuan is head of the School of Building & Estate Management at the National University of Singapore. He was a past president of the Singapore Institute of Surveyors and Valuers and the Asean Valuers Association. Prof Lim is currently President-Elect of the Pacific Rim Council for Urban Development.



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Assoc Prof Lim Lan Yuan  
Head, School of Building & Estate Management  
National University of Singapore

1.0 Introduction

Issues of quality, standards and accountability are becoming increasingly important in the practice of property valuation. It is essential that a practising valuer be competently trained as valuation is more an art than a science. The purpose of this paper is to highlight the need for establishing professionalism in property valuation and outlines the standards of practice and conduct expected of valuers.

2.0 Professionalism in Property Valuation

The practice of property valuation is gradually being articulated and integrated into valuation theories and much research has been carried out to explore the various issues in valuation. The rapid interest and recent enthusiasm in carrying out valuations internationally has led to the need for the formulation of appropriate and effective education and training, and adequate standards of professional practice in valuation.

Successful valuation is more an art than a science. It requires training and experience. With the emphasis in the current trend towards globalisation, it is necessary that valuers be trained in the skills and knowledge areas which will cope with international requirements and demands, and there is value in having uniform basic training and curriculum.

Property valuation courses are now taught at most real estate schools. The establishment of quality and standards in valuation can be promoted through proper training and the setting of guidelines for practice. The development of valuation standards will help in the growing professionalism in the valuation field.

3.0 Professional Standards and Practice

A profession is regarded as a broad field within which there are areas of specialisation. It is a vocation whose practice is founded upon an understanding of the theoretical structure of some department of learning or science, and upon the abilities accompanying such understanding. Each profession must have a body of common knowledge, a core content, to which is added material pertaining to the specialised branches, and a code of professional

ethics.

Codes of ethics and conduct perform a number of functions. First, they enable practitioners to develop a sense of their basic commitments and professional responsibilities. Second, they inform and promote realistic expectations among users of the professional service and inspire public confidence in it. Third, they provide norms in respect of which issues of unprofessional conduct can be assessed and discipline instituted.

There are two broad categories relating to standards and practice: those relating to practices and technical competence expected of valuers and those relating to ethical duties of valuers.

#### 4.0 Standards of Practice

The establishment of valuation standards and guidelines serves two main functions. First, they help promote consistency and competence in practice and ensure quality of valuation. Second, they provide potential users with performance criteria. These are useful mechanisms for self-regulation and for dealing with public complaints and as redress for any aggrieved party to the valuation process.

A model standard of practice for valuation has been established by the International Assets Valuation Standards Committee. Most professional valuation bodies introduce their own set of guidelines for practice. The Americans, for instance, introduce their Uniform Standards of Professional Appraisal Practice (USPAP) for appraisers. The following paragraphs discuss some of the general standards and practices required of a valuation assignment.

In developing a real property valuation, a valuer must be aware of, understand, and correctly employ those recognised methods and techniques that are necessary to produce a credible valuation.

While the valuation process is the same regardless of the valuation assignment, the specifics within each of the steps will vary from one valuation assignment to another. Thus, while the valuation process should be followed in all assignments, the judgment of the valuer as well as his knowledge and experience will be called upon to correctly lead the valuer through the process.

In developing a real property valuation, a valuer must adequately identify the real estate, identify the property interest, consider the purpose and intended use of the valuation, consider the extent of the data collection process, and identify the effective date of the valuation. In addition, he must define the value being considered, and consider easements, restrictions and other encumbrances which may have an impact on the valuation.

A valuer would also need to value the property using an appropriate valuation method or technique, and collect, verify, analyse and reconcile such comparable data required for the valuation.

In reporting the results of a valuation a valuer must communicate each analysis, opinion and conclusion in a manner that is not misleading. Each written valuation report must clearly

and accurately set forth the valuation in a manner that will not be misleading, contain sufficient information to enable the person who receives or relies on the report to understand it properly, and clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the valuation.

#### 4.1 Examples of Valuation Standards and Practice

The following four valuation situations provide an indication of how they are dealt with in accordance with the general standards required.

##### 4.1.1 Case One

A bank has used Wong's services to value property for the past 10 years. Wong's work has been satisfactory. The bank is currently in the midst of an audit. As part of the audit process, 25 of Wong's valuations are randomly chosen. The auditor discovers many spelling errors, misnumbered pages, and a few charts and tables out of place in some of Wong's valuations. In addition, some mathematical errors have been discovered, although in such instances the final estimates were not affected.

##### Discussion

In this case, as the mistakes do not impact on the final valuation, it would appear that Wong has not breached any professional standard. However, if the mistakes when considered in the aggregate were misleading and affect the results of the valuation, it would be treated as a violation of professional standard. Nevertheless, professionalism and common sense dictate that Wong should correct the careless mistakes and resubmit his reports.

##### 4.1.2 Case Two

Lim is the owner of a successful consulting/valuation firm. Six people work for him, all of whom are licensed appraisers. From time to time, Lim receives requests from a developer who needs someone to 'work with him' in obtaining financing for a purchaser who wants to buy a new home. When Lim receives such a request, he gives the assignment to one of his employees. In fact, some of the time, the developer calls the assigned licensed appraisers directly. The assignments are always completed on time. Lim only signs the reports and forwards them to the developer.

##### Discussion

A valuer should not engage in conduct that is unlawful, unethical or improper. Lim is 'working with the developer' or at least instructing those valuers who work for him to 'work with the developer' for his personal gain. He has to assume full responsibility because he signed the report. By doing so, he represented in the valuation report that it was his unbiased estimate that did not favour the cause of the client.

#### 4.1.3 Case Three

Tan completed the valuation of a ten-hectare tract of land that included a house two years ago. Recently, the present owner, the same person who engaged Tan, decided to sell the property. During the title search, a written recorded easement that gave access to a neighbour across the property was discovered. The owner did not know the existence of the easement and in fact had assumed the neighbour was just using the property. The owner really did not care because no harm had been done. Tan was contacted and asked why he did not point out the existence of the easement in his valuation report. Tan's response was that he was not responsible for matters of a legal nature, and while he agreed that the easement would indeed have an impact on value, the presence of an easement should have been made known to him when the valuation assignment was given.

##### Discussion

Tan would need to consider the impact of easement which is an encumbrance in his valuation and to include a mention of it in his report. While a valuer is not normally permitted to render a legal opinion, there is no excuse for not considering the existence of the easement in his valuation.

#### 4.1.4 Case Four

Leong, a well-known valuer, is contacted by a manufacturing company that has used his valuation services before. The manufacturing company has a contract pending the submission of a valuation report for at least \$2,200,000 for an industrial warehouse. They tell Leong that they know his services are expensive, but 'if you can do it, we will pay you \$35,000.' Leong assures them that he will have no problem coming up with a number at least equal to \$2,200,000 and he accepts the assignment. The next day he receives an overnight package containing a letter of engagement and a cheque payable to him for \$35,000.

##### Discussion

The amount of \$35,000 is a contingency fee which is based on Leong completing the work within three days and providing an estimate of least \$2,200,000. Leong is therefore in breach of good professional practice. In order to avoid the situation it is necessary for Leong not to agree to the minimum prescribed value estimate asked for.

#### 5.0 Code of Ethics and Conduct

Similarly, most professional bodies prescribe a code of ethics and conduct for their valuers. It explains the general responsibilities of valuers and their responsibilities to the parties concerned. Professional valuers are required to comply with these ethical standards.

Because of the fiduciary responsibilities inherent in professional valuation practice, the valuer must observe the highest standards of professional ethics. There are potential ethical issues in valuation which are highlighted below:

a) Impartiality

Impartiality refers to the way in which valuers conduct the valuation process. It is important that valuers be objective and free from bias, and not be influenced by any party.

b) Independence

The valuer should act as a disinterested third party. He is required to avoid any action that could be considered misleading or fraudulent. Accordingly, valuation independence is paramount. Objectivity must be present.

c) Neutrality

Neutrality refers to valuers' knowledge about or interest in the outcome of valuation. It therefore requires valuers to avoid establishing close personal relationships with any parties to an extent that it would promote their interests. The valuer's compensation should not be contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client.

d) Confidentiality

Confidentiality is an important ethical requirement in valuation. Valuers are under a duty to respect the privacy of the parties. A valuer must therefore protect the confidential nature of the valuer-client relationship.

e) Other ethical duties

There are also other ethical duties including obligations on the valuers not to engage in misleading and deceptive conduct, to make every effort to expedite the valuation process and to exercise restraints in publicity and advertising. Prior to accepting an assignment or entering into an agreement to perform any assignment, a valuer must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently.

## 6.0 Conclusion

Professional practice and standards vary among the various countries. Culture and sophistication of the property market tend to influence the level of standards required for valuation practice. Competent valuations can only be carried out within the content of an efficient market information system. In the absence of a proper recording system, much of the valuation practice would depend on inaccurate data and facts.

This paper has attempted to highlight the minimum standards required for a proper valuation

assignment. With improved training and knowledge, valuation practice will be enhanced among the valuation fraternity. It is hoped that this paper has encouraged the development of good valuation practice.