

# The Need for a review of Valuation Education under the Real Estate Curriculum

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**Abstract:** Real estate field has been described as 'eclectic' both in practice and education. In fact, globalised approaches to curriculum in the academia and mode of professional practice have continued to be challenged by the linkage between real estate and the economic and socio-cultural circumstance of nations. Beyond these however, there is the subtle neglect of attention to the scope of training afforded prospective property valuers hitherto subsumed under real estate field. This paper makes a call for a review of the status quo from the perspectives of concepts, scope and approaches.

**Index Terms:** Property Valuation, Real Estate Education, Knowledge Fields

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## Introduction

In 2010 the International Valuation Standards Council (IVSC) sought to know who a 'Professional Valuer' was. The responses they obtained were as varied as the number and background of the respondents but with a clear indication that valuation is more of a generic concept underlying various professional activities. However, a professional valuer has been described as such a member of a Valuation Professional Organisation in membership of IVSC (1). The only exception is in respect of countries yet to have organised professional organisation where willing individuals would then be required to meet up with the standards and requirements contained within the IVSC competence framework. It does not matter therefore whether he is locally recognised as 'valuer', 'appraiser' or such other terms, provided his training and experience are in tandem with the competencies spelt out under the IVSC framework. IVSC has nevertheless, not limited the scope of those who could be addressed as 'Valuers'.

## Generic and professional concepts of valuation

Valuation can be interpreted generally as assessment, evaluation or measurement and these cut across the activities of several professionals. Monetary valuation itself is not limited to 'professional valuers' as such would embrace the valuation of business assets by accountants and of shareholdings by stockbrokers. The accountant for instance, does not require assessing nor have any special knowledge of a company's asset to extract its book value for any financial year. Professionalism in valuation would however, come into play when the value to be obtained necessitates that the asset must first be physically assessed (through inspection, measurement and condition analysis) and thereafter related to prevailing economic or market setting (economic or market survey). Thus it was stressed that what differentiate valuers (professional valuers) from financial and accounting consultants are mainly knowledge areas in urban economics, market analysis, real estate management and building technique (2). The knowledge contents of the professional

valuer would then be basically, two-fold: asset specific and that of market analysis. While asset-specific knowledge are technical and would vary from one asset category to the other, the second category embrace the general tools of professional valuation - valuation concepts and theories, economic principles, market behaviour and analytical methods, legal framework and so on.

### **The IVSC Requirements**

According to IVSC, to demonstrate competence in a role, a professional valuer must be able to demonstrate:

- a) professional knowledge,
- b) professional skills, and
- c) professional values, ethics, and behaviour (1)

While the third category (values, ethics and behaviour) relate to individual traits and attributes which, of course could be nurtured through the right association and guidance, emphasis here is on the requisite knowledge and skills. The framework did not distinguish these two concepts but recognised that they should originate from initial professional development (IPD) or rather background training, and continuing professional development (CPD). For a profession to be differentiated from a trade however, effective and preferably, formal IPD is an essential substructure upon which to build a competence ladder. A study had established that attitudes and perceptions of future professionals are often formed from their undergraduate level (3). Subsequent learning through graduate studies, conferences and seminars are usually not as in-depth but rather, serving as top-ups.

Skill is totality of one's acquired ability in a field towards resolving problems or challenges occurring therein. This acquisition or attainment would substantially come through training (formal and informal) together with practical exposure and experience. It can therefore be regarded as a product whose main raw material is knowledge. The depth and quality of knowledge imparted would be a major determinant of the level of skill attainable by a professional. In effect, the most crucial stage of building up competence in any professional activity is designing an appropriate educational curriculum.

### **Real Estate Field and Education**

There are three types of property - real property, personal property and intrinsic property (4). Real estate is land-focused and constitutes real property while every other tangible property with physical substance not directly attached to land (such as machinery, equipment, furniture and stocks) belongs to personal property subgroup. Intrinsic properties are so-called for not having physical identity but rather in-built assets of an individual or business, often in the form of goodwill, patents, licenses, copyrights etc. A question that would readily come to mind from this categorisation is whether real estate education (and practice) is designed to cover this trio. Perhaps, an academic discipline designated as 'Property Studies' would have been more embracing! Of course, this is not the kernel of this paper but a pointer to disconnect

between the scope of real estate education and requisite knowledge base for property valuation.

Another topical issue in real estate education is the emphasis on investment analysis perhaps, presumably with a large stock of real estate holdings taken to be held for investment (5). Investment properties have been described as those generating 'cash flows largely independently of the other assets held by an entity' (6). This was aptly distinguished from owner-occupied properties which latter category also embraces all forms of institutional and specialized (by reason of location, design and use) properties. It is obvious that the proportion of non-investment properties for which the valuer's services could be demanded are bound to be larger, globally. This apart, there are several purposes of valuation outside core market transactions that could demand concepts of value other than those derivable from discounted future cash flows or analysis of prevailing market prices. While a bridge-gap paradigm is essential for valuation of property assets meant for financial reporting and investment/market-related purposes, the property valuer must still recognize his technical responsibilities in satisfying other categories of purposes and assets. Thus, property valuation from true professional perspective cannot be divulged from assessment, a process that renders 'brick and mortar' concept continually relevant. A professional valuer in his bid to estimate likely transaction price is not just predicting price from pure econometric viewpoint but rather reflecting his technical knowledge of the subject of valuation into analysed response of hypothetical buyers and sellers. Where this knowledge is relegated however, the gap between a professional valuer and a 'price guesser' may narrow down.

The historical evolution, subsisting situation and perceived future trend of real estate education across nations of the world as carried out by different authors was compiled (7). Expectedly, there were wide divergences reflecting the historical background, cultural setting and level of socio-economic advancement of each nation.

What types of knowledge fields are required for competent real estate practice? To answer this, we need to first reflect on its focus of practice or activity areas (8,9). We should actually ask ourselves the main functions the professional is expected to perform, examine how inter-related they are, and how manageable such could stand in the academia. The accounting and legal fields underlie many spheres of living but with clear-cut focus. Perhaps, the real estate (property) field could tread the same path without introducing any ambiguity. We know property is the totality of what is capable of being owned -either tangible or intangible, absolutely or partially- by individuals, groups or firms. A property professional can therefore be taken as someone having the expertise to guide one's acquisition, management and disposal of property. All the activities of pre-investment studies, financing, brokerage, management and valuation (or appraisal) would have been summed up here. It will also not matter whether the subject of property is land or land with improvements thereon, furniture, jewelry, artwork, copyrights, machinery or stocks.

The truth however, is that as presently focused across the globe, emphasis is placed on landed property, and hardly attracting any challenge on scope both within the industry and academia. With this, the blend between brokerage, management and

valuation is sustainable. If however, the property practitioner is to make incursion into the non-landed subjects of property, his preparation for them must be weighed. But the interest here is on valuation. Professional valuation entails among others, ability to assess the subject of valuation. Being very versatile in the physical, environmental, economic and legal attributes of landed property, the implications of any of such on value are easily ascertained or estimated by him.

Real estate as a profession may remain eclectic for as long as differences subsist across nations on the social and economic frameworks within which land is held and transacted (10). Hence, engineering or Architectural degree could be relevant entry route in continental Europe, a surveying background in Britain and some of her Commonwealth nations, Business and Finance in the United States of America while it's simply either of Government Administration or Business Management in Korea (7). What matters in each case is that the real estate market is facilitated to function effectively within their respective socio-economic environment.

When it comes to valuation or appraisal however, more fundamental principles come into play which need not necessarily bend to variations in developments on the social and economic scale, except perhaps, on choice of methodology. Accounting and law are themselves practised under differing social, cultural and political settings but with a common thread of principles and logical reasoning. More so, the subjects that require professional valuation transcend the scope of real estate and until we come to terms with the fact that one needs not be a practising real estate professional to carry out valuation, the confusion may persist. While it is true that trained real estate professionals hold the ace for valuation or appraisal services and having being so statutorily protected in several countries, we also realise that the best valuers or appraisers are specialists and not general real estate practitioners. The scope of real estate as an academic discipline in many institutions is also becoming unmanageably wide that concerns are focusing on what to take out rather than what more to add (11). The appropriate educational background of prospective real estate students have constituted another challenge - whether pure sciences, commercial or a blend of these. Also unsettled is the academic faculty the discipline should domicile - Engineering, Business or Environmental? Table 1 catalogues the findings of some estate academics and practitioners on the sustainability of property valuation as a subset of real estate education.

Table 1: Extracts of some Literature on Valuation Education under Real Estate

Author	Country	Findings
(12)	Nigeria	Estate Surveyors and Valuers have technical deficiencies in plant and machinery valuation
(13)	Kenya	There is a need for devolution of Bachelor of real estate degree into two options, namely the Valuation and Property Management option and the Land and Housing Administration option after the third of 5-year programme.

(14)	Kenya	The problem with plant and machinery valuation is not lack of sufficient market data but insufficient knowledge on where to obtain relevant information. Plant and machinery required to be introduced to real estate curriculum
(15)	U.S.A.	Real estate appraisers (Valuers) do not have education, training and experience to value a business and assets on going concern basis
(16-19)	Nigeria	The scope of estate management as a discipline is too broad for meaningful curriculum coverage, hence the core area of valuation should form separate specialization at undergraduate level.
(20)	Nigeria	Major parts of plant and machinery consist of mechanical and electrical machines and equipment. Knowledge of automation, controls, and electronics is also important. The plant and machinery valuer's knowledge and expertise builds up rather slowly with each valuation and other research sources.
(21)	Malaysia	Only few higher educational institutions in the world provide plant and machinery valuation courses as part of their property studies with valuers instead relying on on-the-job training and experience, which is inadequate.

Source: Literature Review (2015)

From Table 1, the remarks of (14) which relates to technical capability of accessing relevant information correlates with an earlier submission that the prerequisites for using information effectively are: i) knowing it exists, ii) knowing where it is located, iii) having access to it, and iv) knowing how to use it (22). Interdisciplinary involvement in a professional activity would only become effective if the gap in knowledge among them is narrow enough for the information coming from one is capable of being appropriately interpreted and applied by the other.

### Knowledge Fields

On the knowledge area for the valuation discipline, there is need to re-awaken the teaching of background theories of property, value and valuation if graduates of today are to be equipped with necessary intellectual reasoning to bridge the past with the future. Though professional education has been viewed as being targeted at producing experts for the industry, formal education must also address intellectual development with which professional graduates can comprehend underlying principles of the challenges being confronted in the field (23). It must not always be that appropriate property system for instance, is accepted to be one that is privately owned with given level of public control but to also understand how the arrangement

evolved and what contemporary developments constitute likely forces of paradigm change.

Rather than traditional restriction to rural and urban land economics under real estate education, a valuation learner should have a wider coverage - economics of land, agriculture, manufacturing, mineral exploitation etc. The spheres of properties to be valued transcend land to other sectors and basic economic principles at play in them would equally prove relevant. These could be synchronised together under a course on 'Resource Economics' specially designed and adapted for valuation students.

The body of knowledge for land and building has received robust attention under the subsisting real estate education, most especially under the surveying route of United Kingdom and some of her Commonwealth nations. For valuation of furniture, fittings and other office and household contents, the need for any specialist knowledge appeared not to be reckoned with. This is partly attributable to their perceived insignificant proportionate worth and partly to the presumption that their materials and production process are ancillary to building construction. However, an introductory course on 'Furnishing and Decoration' tends to widen the valuer's horizon for this category of valuation subjects. A course on plant and machinery has been introduced into most real estate education programmes within the past decade, especially in Nigeria. However, the content of the course has been descriptive of methodology, legal and economic framework of production but deficient of technical asset-specific features required for assessment aspect of the valuation exercise. Courses within mechanical engineering field specially adapted for valuation students on machines (their nature, types and operations), plant layout (the types and efficiency), and common production process among others should prove very beneficial to valuer in collecting and interpreting pertinent data during machinery inspection and depreciation measurements.

## **Conclusion**

A professional valuer, it is believed, is not expected to carry out desk valuation but to undertake proper asset identification and description, assess value-influencing attributes and analyse market price evidences. To accomplish these, he should not display expertise in just one subject of valuation to the exclusion of others except he intends to so specialise. Essentially therefore, if valuation or appraisal is to be undertaken as a full-fledged professional activity, it must be perceived as an all-pervading service built on uniform principles and procedures though with flexibility for choice of appropriate approaches. The dual approach of RMIT University in Australia for undergraduate degree options in 'Property' or 'Valuation' is quite a good starting point. While a broad-based real estate background can serve as entry route to a degree programme, the last two years should be dedicated to either of optional degree in real estate management or valuation. The valuation option could be made to also embrace the equally quantitative investment analysis (or viability studies).

*Last lines*

*Nigerian Society of Engineers (NSE) has for years now engaged the Nigerian Institution of Estate Surveyors and Valuers (NIESV) on a battle over the competence of the latter's members to engage in valuation of machinery and equipment which they tagged 'engineering assets'. This paper is without prejudice to this incursion. Trained Nigerian estate surveyors and valuers are more versatile than lawyers in knowledge pertaining to land including the commercial, legal and cultural frameworks of its holdings. Rather than ride on this to claim superiority for adjudication on matters relating to land, interested estate surveyors and valuers have instead, forged ahead to having parallel training and qualification for legal practice. The engineers are enjoined to legitimately borrow a leaf from such if they desire to expand their frontiers of engagement.*

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