

# Valuation accuracy and variance between Greece and UK. A Theoretical approach

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**Abstract:** In this paper, a theoretical approach aims to identify the scope of the variance and the pivotal differences regarding the accuracy of commercial and residential property valuations both within Greece and United Kingdom. This research examines and compares the availability of property market data and the valuation profession both in two countries and finally analyzes the potential impact this may have on valuation accuracy and variance within each country. Useful conclusions are then drawn concerning the relative level of valuation accuracy in Greece and the possible implications of this considered for valuers, property investors, developers, lenders and the local investment property market in general.

**Keywords:** *Real Estate, Property, Prices, Valuation, Greece, United Kingdom*

## 1. Introduction

During the past two decades there has been a great matter of controversy considering the accuracy of commercial and residential property valuations in international scale. There are different dimensions to the debate but a key concern of many commentators is the idea that different valuers, charged with the same valuation task, might arrive at quite significantly different valuation reports. This variance, primarily, may be due to inter alia the valuation method, the efficiency of the property market, the availability of transactions data and secondly, due to valuer's behavior and bias.

Property valuation (real estate appraisal) is a professional practice that entails the estimation of value of real estate or property assets (land and buildings) using various techniques. The valuation report defines the fair value of the property, which is one of the key elements of the process of authorization.

“The fundamental characteristics of property as an asset class, the imperfect nature of the property market, the lack of a central database of sales, the individual character of buildings and confidentiality of information are all cited as precluding valuation accuracy” (David RR Parker, (1998) “Valuation accuracy - an Australian perspective” *Proceedings of 4th Pacific Rim Real Estate Society Conference, Perth, 19-21 January 1998*).

“A priori, the nature of the property market with its heterogeneous goods, illiquidity, high transaction costs, incomplete information and a lack of a central market is often considered as inefficient” (Neil Dunse, Colin Jones, Michael White, (2010) "Valuation accuracy and spatial variations in the efficiency of the property market", *Journal of European Real Estate Research*, Vol. 3 Iss: 1, pp.24 - 45).

Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently, and without compulsion (IVSC, 2001).

The accuracy of any valuation is, therefore, defined as how close the valuation is to the exchange price in the market place. Studies of valuation accuracy have therefore consisted of measuring the relationship between valuations and subsequent sale prices of individual properties (Neil Crosby, Steven Devaney, Tony Key, George Matysiak, (2003), "Valuation accuracy: reconciling the timing of the valuation and sale" *Proceedings of European real estate society Helsinki – Finland June 10 – 13, 2003*).

## **2. The valuation profession in UK and Greece (bodies-standards)**

In most countries throughout the world, to practice as a valuer you need to be professionally qualified and adequately insured. In the UK, primary, the leading professional body that governs and regulates the industry is known as the Royal Institution of Chartered Surveyors (RICS) and to undertake valuations you have to be a qualified member of this organization. Chartered surveyors are involved with property in many different capacities in both the public and private sectors. RICS is an independent, representative professional body, which regulates property professionals and surveyors in the United Kingdom and other sovereign nations. RICS provides expertise in matters involving fixed assets, including but not limited to land and real property.

Furthermore, in UK, secondarily, in a smaller scale, there are also the Central Association of Agricultural Valuers (CAAV) and The Institute of Revenues, Rating and Valuation (IRRV), two other professional organizations concerned in the valuation of property, which are both official members of the TEGoVA. It must be noted that Tegova is a pan-European association of professional bodies working for standards, ethics and quality in the real estate valuation market and represents the interests of qualified valuers of 43 professional bodies from 26 countries.

In Greece, SOE is the official organ of state valuations. The Hellenic Body of Sworn-In Valuers (SOE) was established in 1979. Its main purpose is to determine the value of real estate and the evaluation of equities not traded in the Athens Stock Exchange. Its staff is scientists of expertise and long experience. SOE cooperates, where appropriate, with experts and is therefore able to undertake any project

valuations. During its long period of operation has created a unique bank of data and information, fully computerized, which is constantly enriched by elements of project valuation and market data. SOE has been entrusted by law with the drafting of the Greek Valuation Standards project, which is nearing completion. SOE is a founding member of The European Group of Valuers Associations (TEGoVA) and International Valuation Standards Committee (IVSC).

Moreover, in Greece, there is the Association of Greek Valuers, which was established in 2009 and is also an official member of European Group of Valuers Associations (TEGoVA). The formation of the Association of Greek Valuers started in the end of 2007 and was completed in the summer of 2009. The founding members (96 valuers) are mostly employees working for the major Greek Banks and free lancers, collaborating as well with the major Greek Banks. Currently the Association has more than 150 members and the number is daily growing as a result of an invitation for subscription we have addressed.

In addition, in Greece there are also chartered surveyors, undertaking valuations for private sector entities. Today, RICS members from Greece are estimated to be over 80.

Regarding valuation standards, both in UK and Greece, chartered surveyors, make their assessments based on “The Red Book - RICS Valuation Standards”. This book contains RICS practice statements and guidance notes on valuation, known as the RICS Valuation Standards. These standards are mandatory on all RICS members and ensure that they follow best practice and comply with the law, in order to reduce the risk of a negligence claim and ensure their professionalism. RICS Valuation Standards align and comply with standards set by International Valuation Standards Council (IVSC).

On the other hand, in Greece, both members of SOE and Association of Greek Valuers, and in UK, members of the Central Association of Agricultural Valuers (CAAV) and The Institute of Revenues, Rating and Valuation (IRRV) by officially participating in Tegova, perform their valuations in accordance with the “The blue book - European Valuation Standards (EVS)” in order to be distinguished from a valuation that fails to embrace changes in the marketplace, client expectation and fiduciary duty. These standards provide a robust response to the European Commission that seeks harmonization of standards and valuation qualifications in all countries of the European Union.

From all the above, it is easily conceivable that in UK valuations prevailingly are based on RICS Valuation Standards, whereas in Greece valuations predominantly are performed in accordance with the European Valuation Standards.

### 3. Availability of real estate data and Property market's efficiency and availability of real estate data

“Central to the debate about the efficiency of the property market is the heterogeneity of property, lack of a central market and information constraints that necessitate the use of valuations” (Neil Dunse, Colin Jones, Michael White, (2010) *Valuation accuracy and spatial variations in the efficiency of the property market*”, *Journal of European Real Estate Research*, Vol. 3 Iss: 1, pp.24 - 45).

In Greece there is a series of crucial factors, which set property market as inefficient and immature and do not allow the evolution of the real estate in professional frames to take place:

- i. The Greek property market displays all the characteristics of an imperfect and inefficient market with the most blatant example of the existence of two parallel systems for determining property values. Thus the value is calculated in accordance with the objective value - value that essentially determines tax base - and the commercial value of the property based on the facts of real estate.
- ii. The lack of a well-organized cadastre, which is now under construction, is expected to be fulfilled not until 2020. As it is well known, property market requires access to basic information. It is common phenomenon during times of crisis in property markets, which owners are left with a negative value (negative equity). The value of their property has been reduced so that the amount of the mortgage is greater than the current market value of the property. This is partly resulting from lack of good and reliable information regarding property market transactions, prices and trends which are formed. The property market in order to be efficient necessitates transparency concerning the transactions, ensuring of ownership, and an operative cadastral system, in order to be able to provide fast and reliable access to those who are interested in information related to real estate.
- iii. The “Greek phenomenon” of systematic uncertainties, contradictions, and liquidity of the legal framework both on planning and regional development and the terms and conditions for residential development mainly in areas that can generate significant gains.
- iv. High taxation of property is a negative factor for private investment initiatives, especially in large-scale properties.
- v. The lack of sufficient valid data values and rents from real transactions regarding Greek property market. Furthermore there is insufficient evidence to mid short - term horizons sizes of supply and demand, and even when those exist, are not easily accessible by all concerned and as a result Greek property market lacks informational efficiency. The importance of this invaluable information is justified by the fact that comparables are the cornerstone of

the valuation process and its imprecise nature. (Neil Dunse, Colin Jones, Michael White, (2010) "Valuation accuracy and spatial variations in the efficiency of the property market", *Journal of European Real Estate Research*, Vol. 3 Iss: 1, pp.24 - 45).

- vi. The small number of specialized scientific resources on the subject of real estate at a time when demand for such personnel is intense. Furthermore, it must be noted, that a recent study by the Labour Institute of GSEE and the National Statistical Service of Greece shows that there is great demand across the spectrum of the professions associated with the valuation and development of real estate.
- vii. Due to economic crisis, which made its appearance for the first time in Greece in 2008, the unprecedented development and expansion of housing and business loans decreased sharply and the valuations reports appear to be quite conservative whereas from the beginning of the new millennium used to be extremely over pricing following the booms' spirit of this era. This phenomenon is interpreted as valuations tend to become over-pricing in booms and under-valuing in recessions because of the cyclical influences which amplify the scope of inaccuracy in valuation process (Neil Dunse, Colin Jones, Michael White, (2010) "Valuation accuracy and spatial variations in the efficiency of the property market", *Journal of European Real Estate Research*, Vol. 3 Iss: 1, pp.24 - 45).

#### **4. Conclusion**

The rapid development of the Real Estate world, made numerous changes and innovations in the conventional sense of the commercial value of the property, which now depends on many parameters, the economic orientation of society and the economical and political choices.

"In order the valuation to be accurate, the valuation report is expected to be produced by a valuer whose honesty, integrity, qualification and relevant experience are appropriate to the instruction. The professional, qualified valuer must adhere to a prescribed code of conduct, engage in ethical behaviour, and show transparency in all aspects of the instruction from inception through to completion. However valuation methodology is a matter for the professional judgment of the valuer dependent on circumstances relative to an individual instruction" (EVS 2009).

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