

VALUATION – NOT ALWAYS A ROUTINE AND REPETITIVENESS

Property valuations are often perceived as a standardized “commodity” on the real estate advisory services market. Is it true in your opinion?

Arkadiusz Bielecki, Co-Head of Valuation at Cresa Poland: To some extent yes. For example, bank or accounting valuations are often called “the last missing link” in the process of securing financing or closing accounting books – such valuations fulfil formal requirements then. They are a rough confirmation of what is stated in a loan application or of the property value in the previous accounting period.

In other cases, valuation reports may be fundamental to entire processes, for example in negotiations, arbitration and litigation, calculation of land usufruct fees or compensation for expropriated properties, valuation for tax purposes, and so forth. In other words, in all cases where real money is at stake and where clients can increase their income or decrease costs (liabilities) just because the valuer has done a great job. And real money is tangible - not in the valuation report but in the client's bank account. That's where we often step in with “transactional valuations”.

What do you mean by “tangible money”?

For example, if an asset is worth EUR 10m, a difference of 2-3% (or EUR 200,000-300,000 in nominal terms) would be minor and negligible from the perspective of a balance sheet valuation. But if you are to save (lower costs) or get the same amount in real cash into your bank account (higher income), i.e. pay a lower annual RPU fee or achieve a better price than offered when you sell your property for a public road extension, this makes a real and tangible difference. This is real money and a real value for the client arising from a good and defensible valuation report.

What are “transactional valuations” about?

To put it briefly, a valuation report of this kind should defend itself against the other party's strong arguments. Therefore, consistency, logic, detailed calculations and market references throughout the document wherever possible are the key. For instance, you can't incorporate such statements as “based on the valuer's experience”, because the other party's lawyer would have an easy job challenging your valuation.

When it comes to difficult “transactional valuations”, clients really listen to the valuer and are interested not only in the final value but also in methodology applied. Regarding bank or accounting valuations, corporate clients typically know the approximate value of an asset even before the valuer starts his job as they usually have valuation reports dated a few months or a year back, and your valuation would be on top of several others on the client's desk. As regards “transactional valuations” for the above “special purposes”, the valuer needs to respect relevant legal regulations, and therefore the property value and the valuation approach you apply are not so obvious for clients at all. In such cases, clients usually read valuation reports very carefully.

And last but not least, before engaging in such valuation projects, conflicts of interests should be thoroughly investigated for the valuer's previous and potential future relationships with clients; confidentiality is also a key issue here. “Transactional valuations” are usually strictly confidential, especially if intended for litigation or arbitration. And therefore, for the sake of confidentiality, it is better if only a few people in the valuer's company know that a valuation is carried out (the valuer, the head of valuation and the CEO). Valuers working with such mandates should form “a team within the team” that works separately from other valuers.

From what you have said I assume that it is a lengthy process to prepare such a valuation?

Yes it is. First, you need to prepare the valuation report and then to defend it and support the client during the following stages when the valuation report is presented in court, to national/local authorities or to parties in the course of negotiations. Then the valuer can truly prove how much he/she is worth professionally. I can assure you that even the most demanding bank “grills” the valuer just 10% of what the other party's lawyers or governmental authorities do when the valuation report supporting your client's view opposes their view.

The most important thing is to make sure that the addressees of your strong and well-founded valuation report, i.e. the parties whose interest is contrary to that of your client accept and cannot

fundamentally challenge your report. Estimation of the value is just the first step. The next step, which is more important, is to convince the other party that your report is credible and reliable.

Do you mean to say that the valuer acts as a client's advocate?

Not exactly. The lawyer is always to defend a client's view within the boundaries of the law. The valuer's job is to prepare a professional and market justified opinion on the value. Such an opinion would often support the client's view and interest, but in some cases not. The valuation report we prepare as professionals will not always align with the client's opinion and expectations. In the latter case the valuation job is usually finished at the very beginning of the process, i.e. when we already have preliminary values and such values are inconsistent with the client's views or expectations.

Is there demand for such "non-standard valuation reports"?

There is and in my opinion it will grow as the market matures. A leading developer has recently told me that the times when site acquisition and projects were easy are over, because the market has matured and is more demanding now. I can't see any reason why valuations should not be more complicated and demanding in such market circumstances. Or to be more precise, new technologies will soon proceed with easy and repeatable valuations. The valuer will be necessary for difficult valuations where machines or Automated Valuation Models are not clever enough.

I would conclude that if you are a property owner holding a portfolio of about ten assets, either you will need a "transactional valuation" within next 12 months or you needed one in the preceding 12 months – I am 90% sure.

Regarding technology, what has changed in your profession over last 10-15 years?

In general, access to information is much easier now. You can browse mortgage registers online, check official site plans, zoning plans and in some regions of Poland get access to comparable market transactions. Valuation methods and techniques have remained largely unchanged.

Have you been recently involved in such "transactional valuations"?

Yes, in addition to standard commercial property valuations, at Cresa we have recently prepared a few reports to decrease RPU fees. We also helped a client who was offered a very low compensation for the compulsory buyout of a site for Warsaw's Southern Ring Road. We advised on the estimation of a fee to be paid for the establishment of road easement as well as the valuation of sites neighbouring shopping centres to be acquired from local authorities.

You seem to be passionate about these "specialised valuations".

You are right. Having worked in the valuation industry for almost 20 years, you just can't find much excitement in rents and yields even when you can see transactional yields for office buildings in Warsaw with a four at the front. More complicated and non-standard instructions expand your knowledge and give you much more satisfaction when your client and your valuation win in an administration or court battle. Then, after a few months or even years you can tell yourself: "Yes, I did a good job."