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Valuation and the Appraisal Institute in a Global Economy: The European Initiative

abstract

The European Initiative is an outreach program of the Appraisal Institute designed to respond to the growing need for uniform international valuation standards and demands arising from the globalization of real estate activities. This article surveys a series of international developments that are important to U.S. and foreign appraisers, including real estate in an international market, international valuation standards history, development of the European Union, and an explanation of the European Initiative.

by John D. Dorchester, Jr., MAI, and Joseph J. Vella, MAI

When appraising a single-family residence in Des Moines, Iowa, an office building in Albuquerque, New Mexico, or a shopping mall in Decatur, Georgia, it is unlikely that most appraisers in the United States, think much about Europe, let alone the rest of the world. With comparables and operating data are hard enough to come by on their own, why stretch valuable dollars and scarce (or scanty) fees by stopping to ponder other geographic areas or global issues that have nothing to do with the particular assignment?

Viewed in the pragmatic requirements of an individual appraisal or analysis assignment, there was probably little reason that a broader worldview was necessary before the 1980s unless, of course, the property was a world-class property or involved offshore investors. However, when appraisers take time to view what is affecting markets and properties, evaluate where their profession is headed, and consider what will be required of them in the days ahead, a fresh and sometimes startling view of U.S. real estate markets, appraisal requirements and trends, and the road ahead begins to emerge.¹

Significant changes and hints of what is to come are arising from many directions. The securitization of real estate is at or near the top of the list of factors affecting the evolution of appraising. Improvements in public and private database sources and the quality of available information are also important. Computers have made major inroads into appraisers' day-to-day work and there is more to come. Changing laws and policies regarding appraisals for lending and relocation purposes have already affected a generation of appraisers, with unsettled questions still on the horizon.

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1. This is not a surprising idea, given the change that continues to accelerate in virtually every walk of life and business. With the elimination of the Cold War and its geopolitical emphasis, economic forces now have an opportunity to spread to most corners of the globe. For interesting related reading, see Thomas L. Friedman, *The Lexus and the Olive Tree, Understanding Globalization* (New York, New York: Farrar Straus Giroux, 1999).

Less well known (or obvious), however, is the impact that developments in the rest of the world have had, and will have, on property and the individual appraiser in our country. The market value of the single-family residence in Des Moines is affected by the purchasing power of prospective buyers, and the cost and availability of mortgage loans. The market value of the office building in Albuquerque is affected by what is happening to the businesses that can occupy the property and what they can afford to pay. The shopping center in Decatur is affected by the economy, price levels, products, personal and family income trends, competitive properties, and many other factors. For each of these properties and others an important, though normally indirect, cause-and-effect linkage can be shown between international activities and market values.

It would be simple to say, "These issues and indirect effects are too remote for me to control, so why should I worry?" We could respond by analogizing, "Isn't this also true of an individual's opportunity to vote? It will all happen regardless of what I say." Today, however, there is an even more positive opportunity to assist our clients, influence change, and direct the future of the profession through organized international involvement. The Appraisal Institute has had such involvement for decades and now has new opportunities that promise to affect appraisal markets, clients, and the profession. One of these opportunities is called "The European Initiative." It is based in part on the Appraisal Institute's escalated efforts to establish truly international valuation standards.

This article sets forth a brief explanation of issues and other considerations for appraisers and those interested in the valuation profession. These issues are basic to understanding the international property arena, including the development of international valuation standards, and are foundations for understanding the Appraisal Institute's European Initiative.

Globalization of Investments

According to the U.S. Department of Commerce, foreign real estate investment in the United States in 1998 reached a total of nearly \$44.5 billion. More than \$10 billion was invested in the period 1996–1998 alone. U.S. real estate direct investment abroad is more modest, currently in the range of \$2 billion (see table 1).²

“The United States has been a bastion for real estate investors, but it is very likely that the formation of the European Union will provide competition.”

These investment patterns change over time, but reflect the relative attractiveness of the United States as a location for real estate investments. Before 1980, there was relatively less control over foreign investments in the United States, but the Foreign Investment in U.S. Real Property Tax Act of 1980 (FIRPTA) closed tax loopholes available to foreign investors. It also changed the tax climate and the structure of foreign real estate investment in the United States. Under FIRPTA, ownership of U.S. real estate was made essentially a trade or business, requiring U.S. taxation in the year of disposition.³

The data only measure direct investment in real estate. In recent years, particularly during this decade, there has been rapid growth in the securitization of real estate in many countries, and the sale of these securities in an international market. Real estate securities offer both advantages and disadvantages for real estate investors, but are commonly issued according to underwriting principles that pertain more to securities markets than to the individual properties included within the securities.

If the United States has historically been a bastion for real estate investors,⁴ there is significant likelihood that developments such as the formation of the European Union (EU) will provide competition and new investor opportunities. The security and general reliability of real estate returns, even with cyclical changes, have been a major influence on U.S. investments. Conversely, many foreign countries have strong development restrictions, adverse tax laws, and unfavorable or incomplete laws pertaining to real estate as an investment. For example, the structure of leases abroad is frequently quite different from that in the United States, and commonly provides a greater portion of the bundle of rights to the lessee than is normally encountered in this country.

2. United States Department of Commerce, Bureau of Economic Analysis, data for 1998. www.bea.doc.gov.

3. Moshe Metzger, "Foreign Investment Involving U.S. Real Property," *The CPA Journal* (December 1989).

4. John McMahan, "Foreign Investment in U.S. Real Estate," *American Society of Real Estate Counselors* (Fall/Winter 1990): 48–50.

TABLE I Foreign Direct Investment Position in Real Estate in the United States and U.S. Direct Investment Position Abroad on a Historical-Cost Basis, 1998 (in Millions of Dollars)

Location	Foreign Investment in the U.S.	U.S. Investment Abroad	Location	Foreign Investment in the U.S.	U.S. Investment Abroad
All countries	44,436	1,987	Other Western Hemisphere (continued)		
Canada	9,084	165	United Kingdom		
Europe	14,303	903	Islands, Caribbean	2,614	
Austria	5		Other	(80)	
Belgium	51	10	Africa	116	
Denmark	(D)		South Africa	(D)	
Finland	3		Other	(D)	
France	(D)	27	Middle East	3,728	
Germany	3,547	(D)	Israel	(D)	
Ireland	31		Kuwait	3,657	
Italy	65	(*)	Lebanon	(D)	
Liechtenstein	47		Saudi Arabia	(D)	
Luxembourg	(D)		United Arab Emirates	13	
Netherlands	6,612	0	Other	37	
Norway	40		Asia and Pacific	13,101	
Spain	48	0	Australia	691	(D)
Sweden	744		Hong Kong	268	
Switzerland	211	2	Japan	10,743	(D)
United Kingdom	1,801	864	Korea, Republic of	45	
Other	1		Malaysia	3	
South and Central America	232	20	New Zealand	71	
Brazil	(D)	(*)	Philippines	(2)	
Mexico	85	20	Singapore	1,258	
Panama	182		Taiwan	45	
Venezuela	(D)		Other	(22)	
Other	2		Addenda		
Other Western Hemisphere	3,873		European Union (15) /1	14,008	
Bahamas	441		OPEC /2	3,690	
Bermuda	644				
Netherlands Antilles	255				

* Less than \$500,000 (+/-).

D Suppressed to avoid disclosure of data of individual companies.

1. The European Union (15) comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

2. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, updated July 7, 1999.

Specific risks that apply to foreign real estate investments do not stop at the issues of market value and fair price in which investors are keenly interested. They include political risk, foreign exchange risk, property management risk, unique liquidity risks, and others.⁵ However, with the efforts and organizational thrust of the European Union, both direct and securitized real estate investments are gaining on the U.S. position in relative risk. If higher

returns are produced in Europe commensurate with risk, new investment patterns will likely emerge. Many U.S. businesses have already established their European connection in anticipation of business opportunities, but relatively little has been said about the likely effects on U.S. investment properties or other capital markets.

In today's world of globalization, it may be that real estate as an immobile commodity may be one

5. Elaine Worzala and Graeme Newell, "International Real Estate: A Review of Strategic Investment Issues," *Journal of Real Estate Portfolio Management*, v. 3, no.2 (1997): 87-96.

of the few ways to distinguish what is “domestic” and what is “foreign.” The foreign automaker Mercedes is now a U.S. company. The formidable Equitable Real Estate is now owned by Australian Lend Lease. German Deutsches Bank now owns US Bankers Trust. Jones, Lang, Wooton, a British firm with a long history of international presence, is now part of Chicago-based La Salle Partners. Richard Ellis, one of the world’s largest and most prestigious real estate firms, with its roots in the United Kingdom, was recently acquired by Coldwell Banker. These are only a few real estate-related examples. The international melting pot includes a broad base of industries, including finance, insurance, manufacturing, and others. Many U.S. products are constructed abroad, often using foreign labor and materials while “foreign products” are made in the United States by domestic corporations.

All these developments translate into a world in which national borders may remain important for security, pride, tradition, and other historical reasons, but in which business is no longer a local affair. Even real estate is now a commodity in international trade. Real estate requires professional vigilance to protect the market value system that is now recognized worldwide and for which international valuation standards are becoming even more important. The recent Asian financial crisis may have seemed to some to be only a forest fire on the other side of the globe, but it had enormous impact on all the economies of the world, and even caused concern for the economy of the United States.

The European Union and Valuation Standards

Following World War II, the European Community (EC) was formed as a vehicle for linking the countries of Europe into an economic unit that would make future wars unthinkable. An institutional framework evolved. The European Economic Community (EEC) was formed as a result of the Rome Treaties in 1958. It began with six countries that in 1952 pooled their coal and steel resources in a common market (called the European Coal and Steel Community) controlled by an independent supranational authority. These countries, Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands, were joined by the

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United Kingdom, Ireland, and Denmark in 1973. Greece was added in 1981. Spain and Portugal became members in 1986.⁶

Following World War II, the nations of Europe and the Allied Powers faced the problem of massive reconstruction and reestablishment of the societies of each nation. A goal that emerged from these efforts was the creation of a single market in which goods, services, people, and capital could move as freely as though they were within the borders of a single country. Through the international community’s efforts, that market came into being. In January 1993, it was founded upon the Treaty on European Union (the “Maastricht Treaty”), which was ratified by the EU’s member nations. By 1994 the EU and the seven-member European Free Trade Association (EFTA) were able to form the European Economic Area, a single market of 19 countries adding Austria, Finland, and Sweden.⁷

The European Commission governs the EU. The current commission serves during the period 1995–2000 and consists of 20 commissioners. The commissioners, which include the president, are appointed by common agreement among the member states and approved as a body by the European Parliament. Each is given an area of responsibility and serves the best interests of the EU rather than a representation of their respective country’s particular interests. The European Parliament is composed of 626 members who serve five-year terms. It serves as a public forum to debate issues of public importance and to question the EU’s Commission and Council.⁸

Now one of the largest trading powers, the EU is a major player on the world scene. More than 130 countries have direct diplomatic relations with the EU. There are more than 100 EU delegations around the world. The EU has targeted the countries of Central and Eastern Europe (called CEECs) for spe-

6. Ministères des Affaires Etrangères, November 11, 1999. www.diplomatie.fr.

7. Crédit Mutuel, November 11, 1999. www.cmutuel.com.

8. European Union, Delegation of the European Commission to the United States, November 11, 1999. www.eurunion.org.

“As valuation standards are fully implemented internationally, foreign investors are more likely to seek and rely on U.S. appraisers for professional assistance.”

cial attention and is working under a plan to bring them into EU membership. The EU is significantly involved in international efforts to bring economic and political reform within the CEECs.

Other EU initiatives include links with Mediterranean countries and special trade/aid relationships with many developing countries. For example, under the Lome Convention, virtually all products originating from 70 African, Caribbean, and Pacific countries enjoy tariff-free access to the EU single market. The EU also supports these countries with a stable export earnings program and direct financial aid.⁹

The organization and activities of the EU have profound implications for the United States in general and for real estate in particular. Some 40% of U.S. investment abroad goes into the EU, as does about 20% of U.S. exports. The EU-15 (the original central group of members) is the source of some 50% of foreign investment in the United States. There is significant crossover of employment, with over three million jobs in the United States alone related to EU investment.¹⁰

Because real estate is important to EU countries both as a domestic matter and as an extension of each country's foreign investments, there is a strong movement toward assuring that uniform valuation standards are established as quickly as possible. The European Group of Valuers of Fixed Assets (TEGOVOFA) was recently reorganized into The European Group of Valuers Association (TEGOVA). TEGOVOFA prepared the first general European valuation standards, which were published in 1978 as the Fourth Directive of the EEC. Known as the *Guide Bleu* or *Guidance Notes on the Valuation of*

Fixed Assets, these standards closely paralleled the *Red Book* or *Appraisal and Valuation Manual* of the Royal Institute of Chartered Surveyors (RICS) in the United Kingdom.¹¹ TEGOVOFA's reorganization into TEGOVA evidenced its recognition of a broader base of valuation clientele beyond that of financial reporting.¹²

The EEC's Fourth Directive recognized that there was a divergence in valuation practice among the EEC states and attempted to establish rules for the valuation of fixed assets for companies covered by the directive. These rules excluded banks, financial institutions, and nonprofit associations. In 1991, however, the European Union linked the definition of market value to specific requirements: Financial reporting had to include market (or current) value figures even when the historical cost convention was applied.

TEGOVA, as the successor to TEGOVOFA, now proposes that its revised statement of standards, called the *Approved European Property Valuation Standards* (EVSS), be adopted and applied as the EU's valuation standards. Under their proposal, the standards would apply where valuations are to be incorporated into accounts and/or used for any other purpose in the public domain. The standards could also apply if there is significant public interest and if they are compatible with existing national legislation.

Within the EU and TEGOVA the intention is that, where compatible with European Union Law and practice, the International Valuation Standards Committee (IVSC) standards will be supported to ensure global consistency in the best valuation practice. Thus, Europe recognizes a valuation standards hierarchy that begins with the establishment of international standards through the IVSC and then moves through a level of further articulation and coordination before individual country laws and practices are applied. This framework is evolving throughout the world in one fashion or another and shows the extent of the global demand for uniform valuation standards. The emerging hierarchy for accounting and valuation standards alike is bidirectional (i.e., the harmonizing process is bottom-up from the more advanced national standards, and top-down from the international bodies).

9. Ibid.

10. Ibid.

11. Nick French and Peter Byrne, "Concepts and Models of Value," *European Valuation Practice: Theory and Techniques*, edited by Alastair Adair et al. (London, England: E & FN Spon, 1996).

12. The European Group of Valuers Association, *Approved European Property Valuation Standards* (London, England: The European Group of Valuers Association, April 1997).

Although modern valuation standards in Europe had market value reporting for financial statement purposes as its genesis, the standards are now expanding to other types of valuation. As recently suggested by the chairman of Goldman Sachs International, "I note that there is broad support for the development of standards for best practice for other financial sectors, comparable to those the BIS has established for international banking. . . .but we need new or strengthened standards for . . .asset valuation."¹³

As is true in the United States, these standards will likely be based on a core statement of valuation standards, with appropriate statements of accompanying ethical requirements, and the addition of special standards for specific valuation applications. As an example, earlier European standards recognized the concept of "market value for the existing use," which was also recognized under international accounting standards, but not in the United States and Canada. For this special application, all regular valuation standards are applied, along with a special assumption, when an appraisal for financial reporting purposes is being prepared. If the property is used by the reporting enterprise, the property is valued on the premise that its existing use is its highest and best use *for financial reporting purposes*.

Client and Public Interest Considerations
Many will recall 20 or so years ago when a telephone call to an appraiser might have produced a meeting with Saudi nationals seeking investments in the United States. A number of appraisers were engaged to assist in the Saudis' investment processes under the notion that appraisers best knew the U.S. real estate markets and were an unbiased source of market information. Relatively few appraisals were made because the focus was on market information and opportunities. A number of appraisal offices reorganized to provide better market research and analysis services, highlighting and improving their office's capabilities. Those involved quickly learned that the gap between the understanding of U.S. investors and that of their Saudi counterparts was often larger than the gulf bordering Saudi Arabia's eastern shore.

Others will recall the onslaught of Japanese investment, particularly in the early and mid-1980s.¹⁴ For many appraisers, and most real estate market

participants, it appeared that the typical Japanese investor would suddenly arrive at a property with a bag of cash in hand, taking delight in paying a significant premium above what the current market required. With a two-tiered pricing system, one for domestic investors and another for Japanese purchasers, appraisers were introduced to innumerable appraisal questions such as, what is the "market," which sales are "comps," and what is the likelihood a particular property would receive Japanese market demand. Eventually, important lessons were learned both by the Japanese and many appraisers.¹⁵

Over at least the last two decades, there have been a number of U.S. appraisers who have been called upon to appraise U.S. properties for foreign companies under the standards or procedural requirements of the foreign company or its regulatory agencies. These assignments come about when the foreign entity is interested in a property investment, a loan, or even the acquisition of a company that has real estate holdings in another country. Depending on circumstances and the historical time frame, there has been an array of U.S. and foreign laws and/or rules that the appraiser must consider and apply to competently complete this type of work.

Perhaps less frequently, U.S. appraisers have been asked to value properties in other countries or provide valuation advice leading to property decisions overseas. These assignments are somewhat akin to valuations in other areas of the United States outside a particular appraiser's normal market experience, but are far more difficult because of the complexities of property ownership systems, laws, customs, and local markets in other countries.

These are but a few of the many examples that can be cited to illustrate how U.S. appraisers have had direct or indirect involvement with foreign clients, or have had to cope with the effects of international activities. Using the bricks in a brickyard, if we arranged all the events by stacking bricks from the first event on a chronological basis, we would have an inverse brick pyramid that is continuing to expand.

Based on what has been seen to date, there are at least six broad areas in which appraisers generally, and the Appraisal Institute in particular, can be a significant influence in assisting appraisal clients and the public at large:

13. Peter D. Sutherland, "Managing the International Economy in an Age of Globalization," Jacobson Lecture, 1998.

14. The Japanese were major investors in U.S. real estate during the 1980s, investing a record \$16.5 billion in 1988. See Todd Moody, Kenneth G. Smith, and Dale Strickland, "Opportunities for U.S. Investors to Acquire Real Estate Assets from Japanese Owners and Lenders," *Real Estate Issues* (April 1996): 30.

15. "While 10 years ago the Japanese were considered novices in the U.S. real estate market, they are now seasoned veterans." See Moody et al., 30.

- **International valuation standards.** Through the development of valuation standards that apply internationally, neither the client nor the appraiser needs to fear, or research, standards differences that may apply in different locales. If some countries do not support or elect not to be bound by international standards, those countries can be identified and considered on their own. Where domestic laws differ, the pressures of globalization will likely bring pressures for changes in those laws to create more uniform and dependable markets.
- **Valuation of U.S. properties.** As valuation standards are fully implemented internationally, foreign investors are more likely to seek and rely on U.S. appraisers for professional assistance. The work of the U.S. appraiser would have a better chance at being accepted within the foreign country because international valuation standards can overcome language and custom barriers. The local market expertise of the U.S. appraiser provides opportunity for foreign companies, or even appraisal firms in other countries, to seek appraisal services on a direct or collaborative basis. In many instances, foreign companies revalue all real property assets on an annual or less than annual basis, and in most instances at least every three years.
- **Valuation of foreign properties.** Although most U.S. appraisers are not likely to undertake valuation assignments in foreign countries, as international expertise and awareness increase—again supported by international standards—U.S. appraisers can represent domestic companies and individuals by working with appraisers in other countries. With the extent of foreign investment in the United States, and its investments elsewhere, these two-way relationships have significant promise for appraisers, their clients, and the public at large.
- **Liaison with capital markets.** Given expertise, local market knowledge, international standards, analytical abilities, and a cadre of trained specialists, the appraisal profession has significant value in domestic and global capital markets. Most countries, certainly including the United States, have experienced economic periods during which real estate prices were fueled by the availability of capital rather than the underlying economics of real estate's supporting those prices. Capital markets should not be left alone

for money to chase money without a recognition of the economics of appropriate property markets. (How many times have our markets learned that lesson, only to forget it on the next price upswing?)

Without the responsible representation of the appraisal profession and its involvement in capital market decisions, our economy and the investments of families and companies alike are left to suffer the consequences, which have been demonstrated all too often. With the globalization of capital markets, neither the United States nor any other country can simply go it alone. This was clearly demonstrated by Asia's recent capital market failures, which threatened the economies of countries around the globe.

- **Liaison with accounting standards.** Since the mid-1970s, Europe has in the main reported the value of corporate fixed assets at market value (or an equivalent) in financial reporting. This convention resulted in the ability of investors and asset managers to recognize the contribution of fixed assets to the enterprise on a current market basis rather than on an indexed (depreciated) historical cost basis. Many other areas of the world follow the same practice, although the accounting convention has not been fully adopted to date in the United States. (See, however, various ERISA laws and FAS-121 for exceptions.) It is imperative that close cooperation and liaison exist between domestic and international accounting standards bodies and those that represent the appraisal profession. The current market valuation of assets is both a fertile appraisal opportunity and an enormous opportunity to add new dimensions to U.S. capital market reporting and analysis.
- **Public sector financial reporting.** Governments often prepare financial information under various bases, including national laws, the United Nations System of National Accounts (SNA), and the government finance statistics framework developed by the International Monetary Fund (IMF). Unfortunately, these require mixed systems such as cash, modified cash, modified accrual, or accrual accounting, rendering the results difficult to comprehend. Current reform movements are underway to harmonize public sector financial reporting across jurisdictions and to improve the comparability of information within and between jurisdictions, as

well as between public and private sectors. The financial reporting of assets at market value is part of this reform, and several countries have adopted associated valuation standards or procedures.

Yesterday's Saudi and Japanese investments can be viewed as exploratory and learning forays. They were only a prelude to the growing interdependence between U.S. capital markets and those around the world, an interdependence that has grown over during the last several decades. These lessons are likely to be only a hint of what will be experienced after the turn of the millennium. That same interdependence, which affects real estate at all levels, can either be addressed reactively or proactively by addressing public obligations that professional status brings. The Appraisal Institute has chosen to take a proactive stance in behalf of its members and the public.

Development of International Standards
Professional appraisal standards have evolved within countries around the world from varied backgrounds and causes. In the United States, for example, appraisal standards were developed following the calamitous stock market crash of 1929 and the Great Depression that ensued. Despite relatively similar statements of standards by various professional appraisal organizations in the United States, it was not until the 1990s that the statements articulated particular standards of practice rather than general statements and related recitations of ethical conduct codes. The principal thread that connected the various statements was a body of valuation principles and practices that arose from the teachings of various organizations. Standards became embodied at least in part into court decisions and developed into rules of the market. These *generally accepted valuation practices* became the foundation for the Uniform Standards of Professional Appraisal Practice (USPAP) now slightly more than a decade old.¹⁶

Following the reorganization of accounting in the United States in the early 1970s, an effort was made by segments of the U.S. accounting profession to adopt a new accounting convention that would reflect current market values in financial reporting. The American Institute of Real Estate Appraisers played a

“TIAVSC recognized that no country had a patent on valuation standards.”

role in these efforts and worked closely with a number of committees of the American Institute of Certified Public Accountants, but the proposed changes were not adopted. Instead, the United States continued with the accounting convention of “cost or market whichever is lower.” In recent years, this has led to new accounting procedures for revaluation of assets in declining markets, but less than a full and complete adoption of the principle of reflecting the value of fixed assets at market value.

Simultaneous with the current value accounting efforts in the United States, similar efforts were put forth in the United Kingdom. The Royal Institution of Chartered Surveyors (RICS) developed the Asset Valuation Standards Committee (AVSC) to study the issues.¹⁷ In 1974, the AVSC produced and the RICS adopted a statement of standards that incorporated special provisions for valuations to be used in financial reporting. A short time later, enabling rules were enacted to make these the standards of the London Stock Exchange. By 1976, the standards were adopted by the European Economic Union and, through the Fourth Directive, were made applicable to all of Europe. Despite these achievements, however, some European countries continued to have, and to apply, different domestic standards.

Recognizing the parallel concerns of Europe and North America in particular, a group of individuals from the United States and the United Kingdom began dialog in 1978–1979 that led to the creation of The International Assets Valuation Standards Committee (TIAVSC) in 1981. TIAVSC began with about 20 member countries. By 1984, TIAVSC was admitted to the United Nations as a Non-Government Organization member. The first set of international standards was also issued in that year, based heavily on a combination of U.K. and U.S. definitions, concepts, and standards. TIAVSC standards incorporated the same generally accepted valuation

16. The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice* (Washington, D.C.: The Appraisal Standards Board, 1999).

17. It is important for U.S. valuers to understand that RICS is an organization that, in many ways, parallels the U.S. National Association of Realtors (NAR). Valuation is only one of the disciplines under the RICS umbrella. Its valuers meet far more rigorous educational, training, experience, and competency requirements than those required for NAR appraisal designation. The RICS designation requirements are similar to those of the Appraisal Institute. At the time of the Asset Valuation Standards Committee's first statement of standards, however, RICS applied a code of honor, and standards of character and good practice befitting its “royal” status rather than a standards setting and enforcing body.

practices that were found to be highly similar in the United States and the United Kingdom, even though there were questions about the meaning of key English words.

From its inception, TIAVSC recognized that no country had a patent on valuation standards. As the preface to the IVSC Standards states:

By the late 1970s...it became apparent that international financial developments and the globalization of markets reached the state that international valuation standards were sorely needed. It was obvious that without international agreements regarding valuation standards there was potential for confusion and mistakes to occur. It was less obvious, however, that domestic standards in various countries were also being inhibited. It was also not well understood that important differences of viewpoints among the professional valuation bodies of several countries could lead to unintended misunderstandings.¹⁸

TIAVSC's first standards publication followed the traditional practice of stating standards as broad generalizations, touching on examples, but leaving unexpressed the formal statement of specific standards. Recognizing that difference, a restatement of the standards began in 1985–1986 and was completed in the early 1990s. A short time later, the committee was renamed as the International Valuation Standards Committee and expanded its focus beyond the boundaries of real property and financial reporting issues into other fields, including business valuation.

The principal aims and objectives of IVSC are to harmonize valuation standards throughout the world; expand valuation principles, practices, and standards into the emerging nations; serve as a voice and coordinating vehicle for the appraisal profession worldwide; and work directly with the accounting profession in matters relating to overlaps between accounting practice and valuation standards. These needs were highlighted in a 1977 study conducted for RICS:

[T]he...push to harmonize international accounting principles implies a need to tackle the inconsistencies in property valuation around the world. There is obviously growing necessity for a consistent international valuation methodology. Such a consistent benchmark for property valuation is needed for accounting purposes by both direct and portfolio investors, as a per-

formance measure and as a basic requirement for any property market.¹⁹

The more recent history of the committee culminated in the adoption of a worldwide market value definition in 1994 in Australia. At its U.S. meeting in 1995, IVSC adopted and published the revised standards. The standards preface encompassed general valuation concepts and principles, and defined essential concepts such as assets, price, cost, values, market value, highest and best use, and utility.

One of the most vital elements in the revised standards was the worldwide recognition of market value as a standalone paradigm and the development of a standard solely devoted to the development and reporting of market value. Value bases other than market value, valuation for financial statements and related accounts, and valuations for loan security, mortgages, and debentures were addressed in separate standards. Application and performance guidance notes were also included.

IVSC has grown considerably and continued its liaison with accounting standards bodies nationally and internationally. IVSC currently has a close relationship with the International Accounting Standards Committee (IASC) and is part of IASC's Consultative Group that advises on the development of international accounting standards for property, plant and equipment, leases, and investment property standards. It continues to work with other technical bodies such as FBV Financial Analysts, Organization for Economic Cooperation and Development (OECD), World Bank, International Monetary Fund, World Trade Organization, European Commission, and the International Organization of Security Commissions (IOSCO).

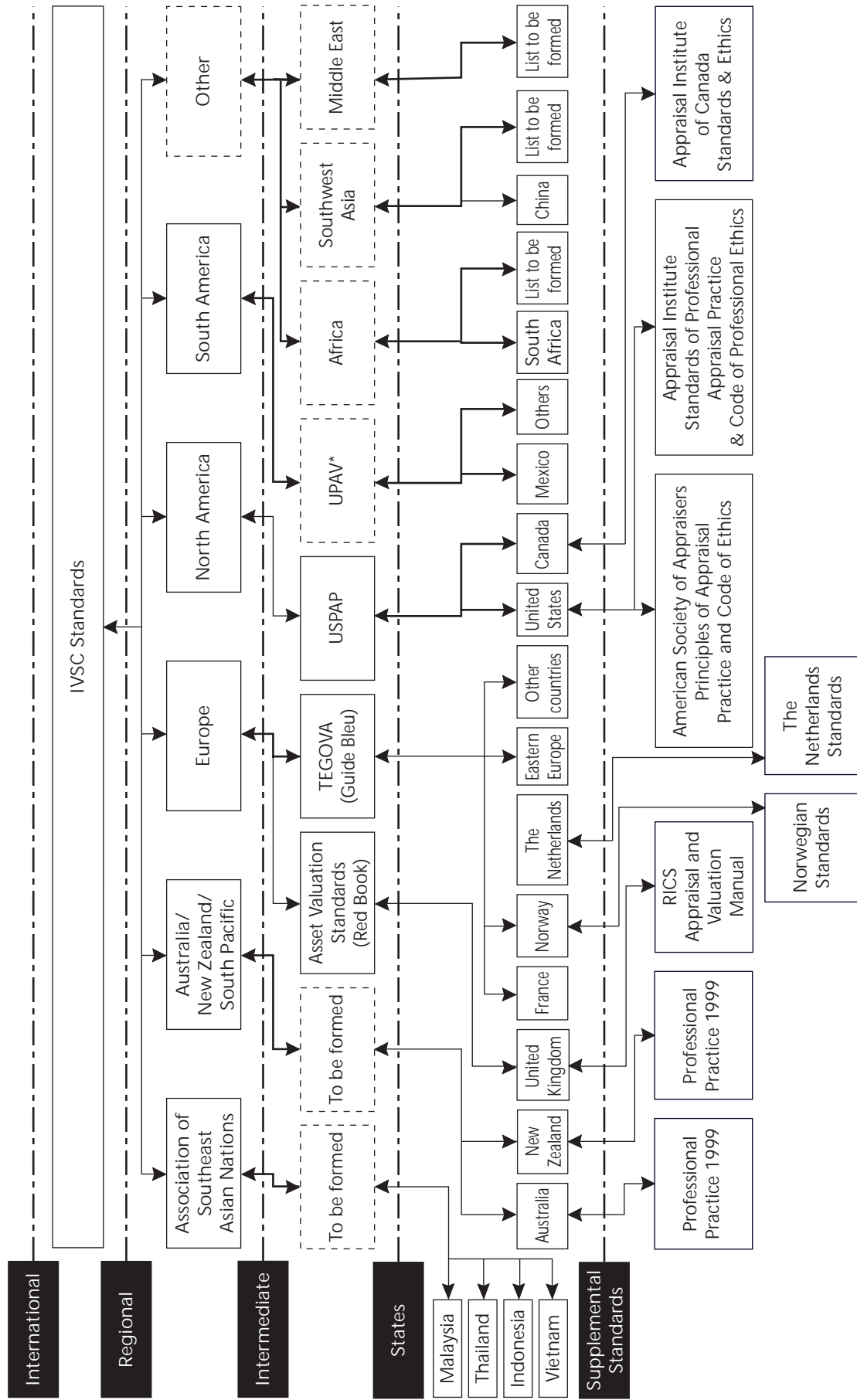
At present, IOSCO is finishing a revision of accounting standards in order to establish a closer correlation between the IASC and FASB standards. This is intended to hasten a universal set of international accounting standards that will not have differences among the major countries and to bring standards for financial reporting into closer alignment around the world. The IVSC is working with IOSCO to ensure that valuation standards are brought into the IOSCO standards where appropriate.

As the chorus for international valuation standards continues to grow, IVSC has assumed a pivotal role. As the Controller of the World Bank believes:

18. International Valuation Standards Committee, *International Valuation Standards IVS 1–4 and Preface to Standards* (London, England: IVSC, 1994).

19. *Global Direct Investment and the Importance of Real Estate*, a study for RICS by the Economist Intelligence Unit, London, England, 1977.

Figure 1 A Perspective on Worldwide International Valuation Standards



Note: Dotted boxes denote possible levels of additional organization
 * - Union of Pan-American Valuation Associations

“There are far more similarities than differences between appraisal methods applied in the United States and those in the United Kingdom.”

[P]ower to control the language of business is important. Standards setters will come to a head as the world grows smaller, and economic interdependence is no longer an option but a reality. So it happens that today a good observer can see the battle preparations for control of the international language of business slowly unfold.²⁰

Today, IVSC has acceptance and sponsorship from internationally prominent organizations, including the Appraisal Institute, Royal Institute of Chartered Surveyors, international lending institutions, asset management firms, accounting firms, and real estate professional firms. The IVSC current business plan main objective is “to publish a comprehensive set of high-quality standards and guidance by the year 2000 that require the disclosure of material, significant, reliable, relevant, transparent, and comparable information which will help participants in capital markets and others to make economic decisions.”²¹

The IVSC plays an important role in the linkage of other valuation standards-setting bodies (see figure 1). For example, USPAP standards are both domestic and regional as they apply to Canada and the United States. IVSC standards embody the elements of USPAP standards relevant to the international community and harmonize the standards with those of other countries and regions. International standards are intentionally broader than domestic standards in many respects, reflecting the fact that laws differ among nations. However, the standards are written in such a way as to be unequivocal as to what is generally accepted valuation practice from an international viewpoint. Note that figure 1 is incomplete, conceptual, and constantly changing.

IVSC continues to identify and respond in areas where standards and/or guidance is needed. It has redesigned its internal structure to hasten its responses to an ever-changing global marketplace. The

use of experts outside of the valuation profession to augment specialist working groups within the valuation profession and the assignment of technical writers should ensure the continued publication of international valuation standards that provide a sound basis for economic decisions and financial reporting and accounting. The IVSC standards and other information about the committee can be obtained through the IVSC web site at www.ivsc.org.

International Accounting Standards

Although many practicing appraisers in the United States are less aware of the interdependence between the valuation profession and the practices and standards of accounting, that relationship is growing and is likely to become far more important in the years ahead. Accounting practices and standards in the United States have, for some time, been at variance with international accounting standards in some regards. With the recognized globalization of the world economy, and particularly because of developments associated with the establishment of the Economic Union, there is now even greater pressure to bring accounting standards together on a truly worldwide basis.

The “market value for the existing use” concept (MVEU) cited previously is an example of how appraisers and the accounting profession have worked together in other countries for over two decades. The rationale of MVEU is simple. If a particular owner occupies and uses a parcel of real estate in its business, that owner cannot both sell the property at its highest and best use and continue to operate its business as it is currently operated. Thus, to value the real estate at a normal highest and best use other than its existing use sets up an impossibility. There is a conflict between the reality of the operations and a hypothetical sale of that property. As a result, until mid 1998, international accounting standards recognized the market value reporting of fixed asset values and, for real estate, a special MVEU concept for real estate-owned by the reporting enterprise.

These provisions were established by discussions between professional valuation societies in various countries (excluding the United States), and standards were established for international accounting and valuation societies around the world. For example, if a U.S. appraisal firm were engaged to value foreign-owned property in the United States, say for

20. Jules W. Muis, president and controller of The World Bank SEC Conference, April 12, 1999.

21. IVSC Management Board report, October 1999, following its annual meeting in Beijing, China.

a company that reported its financial statement to the London Stock Exchange, the U.S. appraisal firm would be required to meet the requirements of the London Stock Exchange and the associated accounting standards to properly meet the client's requirements. These are not directly provided for or explained under USPAP, but would fall under the jurisdictional exception. Because of the jurisdiction and intended use of the appraisal, the U.S. firm would be required under USPAP to be cognizant of and able to properly apply the MVEU concept, among others.

In June 1998 the International Accounting Standards Committee (IASC) released IAS 36, Impairment of Assets.²² Among other changes, this accounting standard eliminated the MVEU concept. Although MVEU may have future applicability under accounting and valuation standards, its current removal reduces differences between the U.S. accounting profession and the IASC, and may hasten the elimination of disparate standards in the United States. Even with this change, international standards, and those of many foreign countries, continue to emphasize the market value reporting convention with regard to financial statement reporting.

As these changes occur, the United States moves ever closer to adopting a market value standard for financial reporting. The standard exists in part for reporting asset values in declining markets, but the issue of what to do about the reduced value numbers when the economy, or the given market, rises has not yet been fully established. Some companies volunteer market value information, but the market value concept is not yet a total part of the U.S. market. In this regard, developments overseas are likely to be a third-party influence in bringing about these changes, particularly because of the success of market value reporting over more than 20 years, and because valuation standards already exist.

The Appraisal Institute's European Initiative

The extent of globalization in so many elements of life and business were barely covered in the preceding discussions. The comments do, however, provide a background for the Appraisal Institute's European Initiative.

It is a goal of the Appraisal Institute that, in behalf of its members and the public, the organization will seek a common understanding of the appraisal

practice among nations to better serve markets throughout the world. This goal recognizes that the objective is important to the United States in general and to appraisal clients in particular. It also responds to the fact that similar efforts are underway elsewhere in the world, and that the United States and the Appraisal Institute cannot sit idly by while the future of appraising and the identification of generally accepted appraisal practice are defined elsewhere.

The European Initiative is part of a worldwide effort on behalf of the Appraisal Institute but brings a specific focus on that organization's activities in Europe. In short, while working with European nations and entities as the Appraisal Institute does elsewhere, the initiative is intended to bear particularly on the identification and coordination of educational criteria and content for professional appraisers, and further harmonization of appraisal standards. For example, during the past two decades, it has been established that there are far more similarities than differences between appraisal methods applied in the United States and those in the United Kingdom, but differences do exist. Appraisal practices across the continent are far more widespread. Further refinements of international standards and subsequent amendments to domestic standards will have greater significance when appraisal education and practice are more closely aligned on a global basis.

The Appraisal Institute has explored a number of vehicles for its initiative. There is a possibility of opening an Appraisal Institute office in Europe, providing a direct presence (that is, staff from the United States). Another option is to obtain representation from someone in Europe who will serve as an extension of the Appraisal Institute. A third possibility is a networking approach in which relationships are maintained between the Appraisal Institute and various European organizations. The latter will occur under any circumstances, but decisions are underway at present regarding the initiative's staffing.

Regardless of final organizational decisions, the European Initiative should have a number of positive outcomes. Under any circumstances, the efforts will enhance ongoing international standards activities, and should assist the Appraisal Institute in its domestic liaison with U.S. agencies and organizations that are heavily influenced by international developments. By learning more about European valuation practices, U.S. appraisers have a better opportunity to perform their professional activities and serve clients. This familiarization

22. International Accounting Standards Committee, *International Accounting Standards 1998* (London, England: IASC, 1998).

should help establish baselines to foster worldwide understanding among professional appraisers and close gaps that emerge as globalization continues.

Networking with European appraisers and others throughout the world presents an opportunity to import the best of what is learned and export what will be valuable in other countries. Direct dialog promotes common understanding and is vital to the establishment of truly international standards that can remain current and relevant in a changing world. The dialog should also promote opportunities for U.S. appraisers to serve foreign and domestic clients, and work with appraisers in other countries where client needs require collaboration.

Conclusion

The very word "globalization" is so awesome that it conjures visions of size and scale far beyond the grasp of the individual. Christopher Columbus set out to redefine the word "globe" about a half millennium ago, and communication and transportation developments have since reduced the virtual scale of the globe to the point that we can talk almost instantaneously to someone anywhere on the face of the planet or go elsewhere in an instant through the images of television.

Factors such as the end of the Cold War, the emergence of underdeveloped countries, and the ability of people and goods to travel in a world that welcomes them have reduced the significance of national boundaries. The result is a world of change in which the extent of globalization already experienced is expected to be only the tip of the iceberg for the years ahead.

Client interests and growing numbers and dollar amounts of international investments have already propelled many U.S. appraisers into the international arena, even for properties located in the United States. With almost two decades of agreed IVSC standards, and the traditions and conventions of domestic standards, a body of international standards already exists upon which future appraisal standards can be based. In market terms, there is a demand for competent appraisal services involving international interests. The next step is to make certain that there is a supply of qualified appraisers throughout the world, and that they function in a way and under rules that will result in reliable valuations that will not be misunderstood.

The Appraisal Institute's European Initiative is hardly a "go it alone" project. Professional organizations, businesses, industries, and governments are all establishing updated and more focused presences in other countries to improve their services in the

new millennium. The initiative responds to the professional obligations of the Appraisal Institute as established by its charter, furthers the portfolio opportunities of appraisers in the United States and around the world, and is an important step forward in behalf of the public. It also recognizes that today Des Moines, Albuquerque, and Decatur are not so far away from one another, let alone London, Berlin, Amsterdam, Tokyo, or Sydney.

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Related Internet Web Sites

American Society of Appraisers.
www.appraisers.org.

Appraisal Institute. www.appraisalinstitute.org.

European Commission. <http://europa.eu>.

The European Group of Valuers Association.
www.tegova.org.

Financial Accounting Standards Board.
www.fasb.org.

Government Accounting Standards Board.
www.fasb.org.

International Accounting Standards Committee.
www.iasc.org.uk.

International Federation of Accountants Committee.
www.ifac.org.

International Monetary Fund. <http://imf.org>.

International Valuation Standards Committee.
www.ivsc.org.

Organization for Economic Cooperation and Development. www.oecd.org.

Performance Measurement for Government.
www.fasb.org.

Royal Institute of Chartered Surveyors.
www.rics.org.uk.

United Nations. www.un.org.

World Bank. www.worldbank.org.

World Trade Organization. www.wto.org.

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