

# Real Estate Valuation

## Introduction to Real Estate Valuation



Aalto University  
School of Engineering

Eero Valtonen

15/4/2019

# Staff

## Teacher in charge: **Eero Valtonen**

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## Teacher: **Vitalija Danivska**

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- Responsible for the course assignment

# Learning outcomes

## After the course you should

- Understand the principles of real estate investment markets and valuation especially in the field of commercial property markets
- Be able to apply that knowledge in practice
- Be able to acquire, analyse, assess and interpret information needed for conducting valuations and analyses for real estate investment decisions
- Be able to develop appropriate criteria for actions

# Lectures

**NOTE: You are expected to have read IVS before 29/4 lecture!!!**

Time	What	Who
Mon 15/4 16-20	Introduction & Why we need REV & Course assignment handout	Eero Valtonen & Vitalija Danivska
Mon 29/4 16-18	Bases of value	Vitalija Danivska Mikko Kuusela, JLL
Thu 2/5 16-18	Market approach	Eero Valtonen
Mon 6/5 16-18	Income approach	Eero Valtonen
Thu 9/5 16-18	Cost approach	Vitalija Danivska
Mon 13/5 16-20	Selection of the valuation approach & Use of multiple approaches	N.N, Newsec
Thu 16/5 16-18	Legal valuations/compensation valuations	Kirsikka Riekkinen
Mon 20/5 16-20	Valuation ethics (panel discussion with industry specialists)	Eero Valtonen Panel members

# Evaluation

**Course exam: Thu 23/5 16-19 (weight 65%)**

- Next exams will take place during the academic year of 2019/2020

**Course assignment: Deadline 31/5 23:55 (weight 35%)**

**Both exam and assignment MUST be passed to pass the course**

**Both exam and assignment are graded in scale 0-5**

# Exam literature

**IVSC International Valuation Standards 2017 ISBN 978-0-9931513-0-9**

**IVSC Code of Ethical Principles for Professional Valuers ISBN 978-0-9569313-3-7**

- Available in: <https://www.ivsc.org/the-profession/publications>

**IVSC A Competency Framework for Professional Valuers ISBN: 978-0-9569313-5-1**

- Available in: <https://www.ivsc.org/the-profession/publications>

# Workload

**Total workload: 6 cr = 160 h**

- Lectures + exam = 19.5 h
- Reflection of lectures = 16.5 h
- Reading for exam 44 h
- Assignment: 80 h (assignment expected to support the exam too)
  - Reading 60 h
  - Writing 20 h

# Why we need RE valuation?



# When we need valuation?

**Perfect and free information of prices & relatively homogenous products**

**→ No need for valuation**

- E.g. super market goods
- E.g. stocks of Nokia plc

**No market information at all & completely unique product**

**→ Valuation is practically guessing**

- E.g. Mona Lisa

# When we need valuation?

Limited and expensive information & heterogeneous products

→ Valuation useful!!!

Real estate...

# Who can conduct RE valuation?

# Requirements of a valuer (Case Finland)

**Specific legal valuations: National Land Survey surveyors**

**Basically anyone can start to sell valuation services for other valuations!**

- A real estate agent must have LKV and a rental real estate agent LVV (Laki kiinteistönvälitysliikkeistä ja vuokrahuoneiston välitysliikkeistä 5 §)
  - You must pass the examination arranged by Finnish Chambers of Commerce, The Board of Examiners for Real Estate Agents
  - Tests knowledge of relevant legislation & “the good real estate agency convention” & ability to handle the practicalities related to real estate agency assignments

**Usually agents conduct valuation for a “layman” client selling a flat or house**

**Apartment buildings and commercial properties valued by professional valuers**

- It is the responsibility of the client to select a reliable valuer...

# Competency frameworks (Case Finland)

## AKA (Authorised Property Valuer) (source: <https://kauppakamari.fi/en/property-valuation/aka-and-khk-property-valuers/>)

- The AKA valuer has
  - the educational background required for valuation activities
  - at least three to five years of experience in the valuation field
- Competence is proved by passing AKA examination (Property Valuation Board of Finland Chamber of Commerce)
- The AKA valuers are committed to respecting
  - the Property Valuation Board's rules, instructions and regulations
  - the Good Property Valuation Convention
  - the [International Valuation Standard](#).

## Property Valuers Approved by Finland Chamber of Commerce (KHK)

- The Real Estate Fund Act, the Securities Markets Act, the Investment Fund Act and the Act on Mortgage Bank

# IVSC competency framework

## **Valuation Professional Organisations in membership of the IVSC must:**

- be established as a not for profit organisation,
- set minimum education, competency and ethical standards for their members
- uphold the public interest over the interests of their members
- have a system for disciplining members who breach their ethical and other conduct rules and
- have governance and operating structures suitable to their role and responsibilities and be able to demonstrate integrity in the conduct of their activities.

## **The Finnish Association for Real Estate Valuation (SKAY)**

- <https://www.skayry.fi/en/592-2/>

## **Other members**

- <https://www.ivsc.org/about/members/our-members>



# IVSC competency framework

## Professional valuer

- a member of a Valuation Professional Organisation in membership of IVSC

## Professional Competence

- a professional valuer must be able to demonstrate
  - professional knowledge
  - professional skills
  - professional values, ethics, and behavior (IVSC Code of Ethical Principles for Professional Valuers)

## Competencies are gained by **Initial Professional Development (IPD)** and by **Continuing Professional Development (CPD)**

- IPD: University education & experience (suggestion minimum 1,500 hours over minimum two years time)
- CPD: Recommended 50 hours of structured professional development in any three year period

**In Finland AKA shows that competency requirements fulfilled**

# International Valuation Standards

“The International Valuation Standards (IVS) are standards for undertaking valuation assignments using generally recognised concepts and principles that promote transparency and consistency in valuation practice.”



# Structure of IVS

## The IVS framework

- General principles for valuers following the IVS

## IVS General Standards

- Requirements applicable to valuations of all types of assets and for any valuation purpose

## IVS Asset Standards

- Requirements related to specific types of assets
- Must be followed in conjunction with the General Standards



# Strictness of the requirements

## Must

- “The word “must” indicates an unconditional responsibility. The valuer must fulfill responsibilities of this type in all cases in which the circumstances exist to which the requirement applies.”

## Should

- “The word “should” indicates responsibilities that are presumptively mandatory. The valuer must comply with requirements of this type unless the valuer demonstrates that alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards.”

## May

- “The word “may” describes actions and procedures that valuers have a responsibility to consider. Matters described in this fashion require the valuer’s attention and understanding. How and whether the valuer implements these matters in the valuation engagement will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards.”

**HOWEVER:** “The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.”



# Course Assignment

# Assignment

- Literature review on your chosen topic
- The length of the assignment: ~2500 words (approx. 6 pages)
- Should include ~20-25 references\*

**\* Remember source criticism!**

# Assignment – two options!

## OPTION 1

- Individual literature review
- Your own chosen topic
- Based on listed requirements

## OPTION 2

- Literature review **AND** presentation in groups of 3
- Topic “Future of Valuation (year 2039)”
- Best 1-3 groups will get to present it in Kiinko’s seminar “Property Valuation day”
- Same listed requirements for written essay

# Presentation in *Option 2*

- ❑ Presenting in a class on 20.5.2019
- ❑ Best 1-3 will present in “Property Valuation Day 2019” on 6.6.2019 in Sokos
- ❑ Presenting teams (selected for the seminar) will get tickets to all day seminar
  - ❑ and a chance to network with industry professionals!

# You can structure your review in different ways

- Chronologically
- By theme
- By sector
- By development of ideas
- By some combination of the above

# What could be included in your essay

- Overview of the issue**
- Division/categorisation of works**
  - Supporting a particular approach and opposite view or alternative topics entirely
- Explaining how each work is similar and how it varies**
- Conclusion**
  - What are the key aspects, where it can develop, etc.



# Topics\* for the assignment

- ❑ Challenges in valuations of international real estate portfolios
- ❑ Expropriation compensations – international comparisons
- ❑ Ethical dilemmas in real estate valuation
- ❑ Digitalisation and valuation
- ❑ Sustainability and valuation

*\*These are indicative topics for you to start your own search and narrow it down to your perspective/interest*

# Doing a literature review

# The aim of the literature review

- Situating your research in a wider context**
- Describing the relationship of each work to the others**
- Showing your critical review of relevant information**
- Identifying a gap in the literature that you try to address**
- Helping you to locate own research within the context of existing literature (very important for your thesis!)**

# Systemic literature search

- Start broadly and then narrow down
- Break search into components
- Use quotation marks to group words and use “and”, “or”
- Keep a track of search items (so your search can be replicated)

# Systemic literature search

- Ask yourself what is relevant and what is not
- Establish inclusion/exclusion criteria (methodology, number of subjects, etc)
  - It will help you to define the scope of your review*
- Apply criteria systematically (record which criteria eliminated each source)
- Do more than scan titles
  - use abstracts, subject terms, author-supplied keywords*

# Data collection matrix

	Source 1	Source 2	...
Title, Authors, Year, Discipline			
Author info (credentials, affiliations, background, etc.)			
Methods			
Main Idea 1			
Main Idea 2			
Main Idea 3 (could adapt to be limitations, conclusions, further research, etc.)			

# Sources for literature review

- Electronic databases
- Journals
- Books
- Dissertations
- Websites

***ALWAYS SEARCH FOR PRIMARY RESEARCH SOURCE!***

# Searching the literature – by keywords

Consider:

- Synonyms
- Differences in European and American terminology
- Differences in spelling
- Terminology
- Acronyms



# Searching the literature – by references

58

*European Journal of Sustainable Development* (2016), 5, 3, 51-58

- Brighenti, A. (2010). The publicness of public space: On the public domain. Quaderni del Dipartimento di Sociologia e Ricerca Sociale; 49. Università di Trento. ISBN ISSN: 1828 - 955 X
- Carmona, M., Heath, T., Oc, T. & Tiesdell, S. (2003). Public Places Urban Spaces: The Dimensions of Urban Design (London: Architectural Press).
- Carmona, M. (2010b). Contemporary public space, part two: classification. *Journal of Urban Design*, 15(2), 157-173.
- Carr, S., Francis, M., Rivlin, L. G., and Stone, A. M. (1992). *Public Space*, London, Cambridge University Press.

# Searching the literature – by citations

Google Scholar

Articles About 132,000 results ( 0.04 seconds)

- Any date
- From 2019
- From 2018
- From 2015
- My period ...

Sort by relevance  
Sort by date

- apply for patents
- including quotes

Create a notification

## Structural changes in the Spanish **economy**: their regional **effects**

[JRC Roura](#) - Industrial change and regional economic ..., 2017 - taylorfrancis.com

... FULL **ACCESS**. Full **Access**: You have full **access** to download this title ... Download PDF 382.04MB. Back to book. chapter 6 Structural changes in the Spanish **economy**: their regional **effects**. By Juan R. Cuadrado Roura. Pages 214. Download PDF 196.43MB ...

☆ [🔗](#) Number of References 17 [Related Articles](#) [🔗](#)

## Promises and paradoxes of the sharing **economy**: An organizing framework

[A Acquier](#), [T Daudigeos](#), [J Pinkse](#) - Technological Forecasting and Social ..., 2017 - Elsevier

... By making **access** to cars cheaper and more practical than other collective transportation services, car-sharing systems generate additional miles (Phipps et al., 2013). Sharing **economy** initiatives thus generate 'rebound **effects**' that are detrimental to environmental stewardship ...

☆ [🔗](#) Cited by 86 [Related Articles](#) [All 5 Versions](#)

## Temperature and precipitation **effects** on agrarian **economy** in late imperial China

[Q Pei](#), [DD Zhang](#), [G Li](#), [P Forêt](#)... - Environmental Research ..., 2016 - iopscience.iop.org

... Environmental Research Letters. Letter • The following article is OPEN **ACCESS**. Temperature and precipitation **effects** on agrarian **economy** in late imperial China. Qing Pei 1,2,3,4 , David D Zhang 2 , Guodong Li 3 , Philippe Forêt 4,5 and Harry F Lee 2 ...

☆ [🔗](#) Number of References 18 [Related Articles](#) [All 9 Versions](#)

# Searching the literature – by authors

Scholar



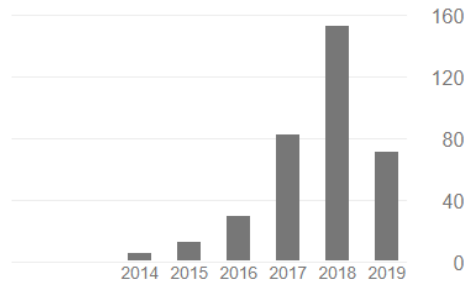
Trevor Zink, PhD

FOLLOW

[Loyola Marymount University](#)  
Verified email at lmu.edu - [Homepage](#)  
[Life Cycle Assessment](#) [Green Business](#) [Sustainability](#)

## References

	All	Since 2014
citations	363	359
h-index	8	8
i10-index	8	8



Other authors

TITLE	REFERENCES	YEAR
<a href="#">Circular economy rebound</a> T Zink, R Geyer Journal of Industrial Ecology 21 (3), 593-602	106	2017
<a href="#">Common misconceptions about recycling</a> R Geyer, B Kuczenski, T Zink, A Henderson Journal of Industrial Ecology 20 (5), 1010-1017	65	2016
<a href="#">Citizen science as an approach for overcoming insufficient monitoring and inadequate stakeholder buy-in in adaptive management: criteria and evidence</a> E Aceves-Bueno, AS Adeleye, D Bradley, WT Brandt, P Callery, M Feraud, ... Ecosystems 18 (3), 493-506	50	2015

# Plagiarism, citation and referencing

## Ethical guidelines at Aalto University

- [https://into.aalto.fi/display/enbscba/Codes+of+Conduct+and+Ethics\)](https://into.aalto.fi/display/enbscba/Codes+of+Conduct+and+Ethics)

## Reference systems at Aalto

- <https://libguides.aalto.fi/c.php?g=410674&p=2797384>
- Harvard System (Name-year)
- Vancouver System (Number reference)
- Footnote reference system

# Examples of bibliography

## Harvard system:

**Al-Jabari, M. 2004.** Dynamics of chelation-supercritical fluid extraction from wood fibers. Journal of separation science. Vol. 27:9. P. 686-690. ISSN 1615-9306.

## Vancouver system:

**5. Al-Jabari, M.** Dynamics of chelation-supercritical fluid extraction from wood fibers. Journal of separation science, **2004.** Vol. 27:9. P. 686-690. ISSN 1615-9306.

# Remember correct referencing

## When referencing

Only one sentence of your text is referenced from a source

period goes like this (Lastname 2018, 14).

Many sentences of your text is referenced from a source p

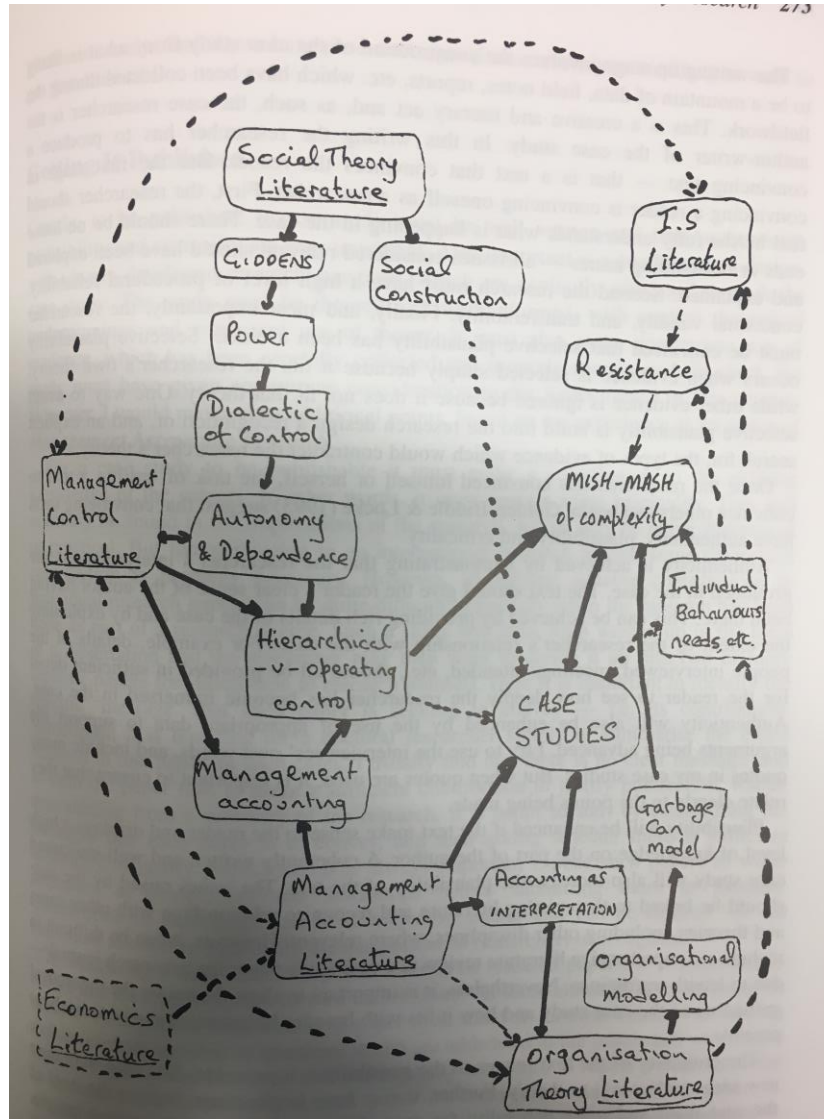
period goes like this (Lastname 2018, 14.)

**Each in-text reference must be matched in the References listing.  
Remember to follow the same structure for each entry**

# Know when to stop

- “Build an argument, not a library” (Rudestam and Newton, 1992, p. 49)**
- Clearly define the scope and keep with it**
- See if you have articles that provide foundation for your topic**
  - Foundational articles are the ones that are referenced in almost every other subsequent article

# Theory mind map





# Tips

- ❑ **Interactive dictionary for finding suitable words**
  - ❑ <https://www.visualthesaurus.com/>
- ❑ **Use citation organizer or software for collecting material**
  - ❑ Mendeley, EndNote, RefWorks or similar
- ❑ **You can always go to talk to librarians**
  - ❑ They have plenty of tips and can help!

# References

Aalto University Learning Center (2018). *Citation Guide: Making a bibliography*. Available at: <https://libguides.aalto.fi/c.php?g=410674&p=2797572>

Martin, P. (2018). *Literature reviews for Grad Students*. Workshop slides, Utah State University. Available here: <https://rgs.usu.edu/grts/successful-literature-reviews>

Pautasso M. (2013). Ten simple rules for writing a literature review. *PLoS Comput Biol.* 9(7), doi:10.1371/journal.pcbi.1003149

Rudestam K. & Newton R. (1992). *Surviving your dissertation*. London: Sage.

Scapens, R.W. (2004). Doing Case Study Research in Humphrey, C. and Lee, B. (eds.) “*The real life guide to accounting research*”, Elsevier

Student learning development (2009). *Doing a literature review*, University of Leicester. Available at: <https://www2.le.ac.uk/offices/ld/resources/writing/writing-resources/literature-review>

USC University of Southern California (2019). *Organising your social sciences research paper*. Available at: <https://libguides.usc.edu/writingguide/literaturereview>