THE FUTURE ROLE OF 'THE PROPERTY PROFESSIONAL' – IS THERE A ROLE FOR A VALUER?

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Introduction

In opening their book 'The Future of the Professions', Susskind and Susskind (2016:1) argue that 'we are on the brink of a period of fundamental and irreversible change in the way that the expertise of these specialists is made available in society. Technology will be the main drive of this change. And, in the long run, we will neither need nor want professionals to work in the way that they did in the twentieth century and before.' Their book is premised on researching the question 'how do we share expertise in society?' as we move from what they term a 'print based industrial society' to a 'technology based internet society'. Noting that a professional has specialist knowledge and expertise that the rest of us do not have, questioning how technology and the internet will redistribute and make accessible such specialist knowledge and expertise in the future becomes very pertinent to the property professional in particular.

When I joined the Australian Property Institute last November (2015), I had no idea about the property profession or the role of the valuer, other than knowing that one was involved in looking at a property I bought to secure my mortgage. The more I discovered about the role, the more I started to question it. As someone who never trained in the field, my logic goes like this:

1. Why would a bank want an independent valuation of a property prior to securing a loan against it? Answer – to make sure that if the person defaults, the property will recover the loan value.
2. Given the nature of the property market is one that fluctuates and can be impacted by external factors such as government decisions on infrastructure, natural events and disasters, interest rates, etc, can an independent valuation today be relied upon tomorrow? Answer – the further that 'tomorrow' is from 'today', the answer is not really.
3. So why do the banks go through this cycle? Answer – so they have someone else to recover any loss from in the event that the property value is below the secured loan value.
4. So wouldn't it just be cheaper for them to insure against such a loss rather than paying a valuer to do this, and the valuer insure against such a loss?
5. Also, the loan security only becomes an issue if the buyer defaults on payment and the property is repossessed. In my experience, when this occurs on scale, the economy has crashed and is in recession with high unemployment, and hence property prices crash anyway; repossessed properties are very poorly maintained and hence will have lost value from the day they were valued by the valuer and were in 'sales condition'. Hence the risk really is with the buyer and their ability to service the mortgage, not really with the valuation. Either way with this, the banks are exposed, regardless of the role of the valuer – whether it is a correction to the housing market caused by vulnerabilities in the Australian economy exposing borrowers or a substantial rise in unemployment.
6. This takes me back to the question – what value does an independent valuation add to the cycle? Is the market value of 'what someone will pay for it' good enough? How much additional would banks lose if they stopped doing valuations (ie how often does a valuation impact their lending decision)? How does this weigh up against the costs of the valuations?

7. Also, when you add the surplus of information you can get on the internet, and the comparative nature of the valuation process, the role of the real estate agent and building inspectors, surely a pretty good judgement can be made as to the value of a property that negates the risk enough to write-off the process……? At least for residential properties and standard commercial properties also? (Note I understand the need for statutory valuation for rating purposes etc but that is a very small percentage of the market)

Now, given I had just started working for the API, I didn't think this was a clever set of questions to ask – certainly not in my first month of employment!

However, given the theme of this colloquium, the deregulation of the valuation profession in some States in Australia, the increasing reliance of banks on AVMs, and the shift in public awareness to the property valuation process through various apps, tools and information service providers, my initial reservations about the property valuation profession are resurfacing.

The Future Role of Data

Big data is the supply of data beyond that which you would normally be able to both access and/or compute, and hence you utilise analytical tools to find patterns and trends. In his various postings on Big Data on the Forbes.com site, Bernard Marr (2016) notes the ever increasing availability of data, and the growing skills gap in how to be able to utilise it. While Google, Amazon, government and Wikipedia all offer publically available datasets, knowing what to look for, how to utilise the data, and what it means for the future is a skills set missing from most professional qualification programs. His prediction is that employers will ultimately develop these skills in-house suggests they will become 'on the job' skills rather than a requirement for professional entry.

Other developments in the data field include Watson, from IBM; an intelligent system that makes sense of unstructured data by 'learning' the patterns of the language use in an area and then following these patterns to be able to answer questions and analyse the data in structured manner. In essence, it processes the patterns and structures that repeat in unstructured data and in doing so note the patterns as algorithms for structuring future unstructured data sets of a similar nature.

While in Australia there does not yet appear to be a real time public big data source of real estate prices, CoreLogic who also own RP Data, holds the information for Australia and essentially controls the data market. Matt Asay (2015) notes how the big data technology and business intelligence database capacity is tightening the connection between real-time analytics and real-time transactional systems. Hence the development of software that can draw down real time the sales price of properties in an area, regress for factors impacting the market at the time of the sale, and then compare with other properties in the area to give an approximate value of a property within 10% limits should be relatively simple to generate. CoreLogic already offer AutoVal which produces an estimated value of a property backed by the data they hold and sell through their RP Data database. Likewise APM Price Finder and Monitor offer similar services to RP Data on a subscription service. But how long before the subscription becomes free because the data is freely available? The Real Estate Institute also offers data for sale of trends and longer term, aggregated data sets but again this data could be freely available with the right algorithm searching the right parameters in the data already available on the internet. It will only be a matter of time before the big data necessary to support property valuations is available for free, with an easily manipulable app to make sense of it, and probably 95% of residential valuation work and up to half of commercial valuation work could disappear – an example of the 'present future'.

In Australia there is also a move at the moment for the banks to change the contracts with valuers so that the banks get assigned the intellectual property associated with the valuation, a move that is not supported by RICS or the API[1]. This means the banks start to collect their own database of valuations and comparative data that will ultimately allow them to generate their own valuations from their own data, removing the need for the independent data source providers as well as the valuers. The increasing use of technology by banks in this manner is also predicted by Cotter (2016) who sees efficient use of technology adding to the competitiveness of the appraiser market in the USA.

The Changing Nature of Market Regulation

The requirement for independent appraisal of valuation stems from legislative processes to protect the federal reserve/ government/ state bank that underwrites the financial institutions in its jurisdiction. But the global financial crisis showed in no uncertain terms that this independent appraisal does not add the layer of protection that it was established to provide (Cummings and Epley, 2013). Hence, not surprisingly, employment in the appraisal profession is not recovering in growth rates in line with the rest of the real estate industry in the US, nor with the US economy.

Concerns have also been raised by regulators, such as Paul Beswick (then deputy chief accountant at the Securities and Exchange Commission in the USA) being concerned that the fragmented nature of the valuation profession meant there was a lack of consistency of qualification and experiences and hence a lack of analytical consistency in the valuation work product for financial reporting. The concerns led to the three valuation accrediting societies in the USA suggesting a unified framework for common qualifications, oversight, performance requirements and governance of valuation specialists contributing to financial reporting (Zyla, 2015).

In the aftermath of the global financial crisis, rating agencies were criticised because their ratings of collateralised debt obligations that were built up from mortgages were not accurate enough. But if you consider George Soros's theory of reflexivity[2], they never can be. A single minded view of property valuation will continually be undermined. In Malaysia the way forwards has been to do adopt a wider view of valuation to encompass business valuation and valuation of financial interests in addition to the valuation of real estate (Fernandez, 2011).

But will this be sufficient? Probably not. And that is not because these are not good governance issues, and professional ideals, but they are trying to add rigidity to a marketplace that is ever more uncertain and turbulent, impacted by more and more factors, and is less and less controllable. The value of the application of a rigid set of methods in a highly fluid market is low, and hence the profession taking this approach will ultimately lead to its self-fulfilling demise. Valuers may end up being great at applying these rules and approaches, but who cares if they are irrelevant?

In Australia several States have now deregulated the valuation profession, such that the State is no longer legislating that the banks use 'State registered' valuers. This opens the field for discussion as to whom qualifies as a valuer, and while the Professional bodies are unifying in their call for the IVSO standards to be universally adopted worldwide for a common foundation to valuation methodology, the confidence in the profession is dropping. So while the US might be becoming stricter in its professional application of standards, Australia is becoming more lax, as the predicted value added through strictness has proven to be misplaced.

Susan Allen (2016) sees a future where we 'leverage data, analytics, technology and experts as needed to each do what they do best to deliver property valuations that meet the requirements of all stakeholders'. She blames silos and incomplete knowledge exchange leading to different

[1] See press release 'RICS and API raise concerns about Property Valuation Service Agreements' @ www.rics.org/au/news/news-insight/news/rics-and-api-raise-concerns-about-property-valuation-service-agreements/ (released 28/6/16)

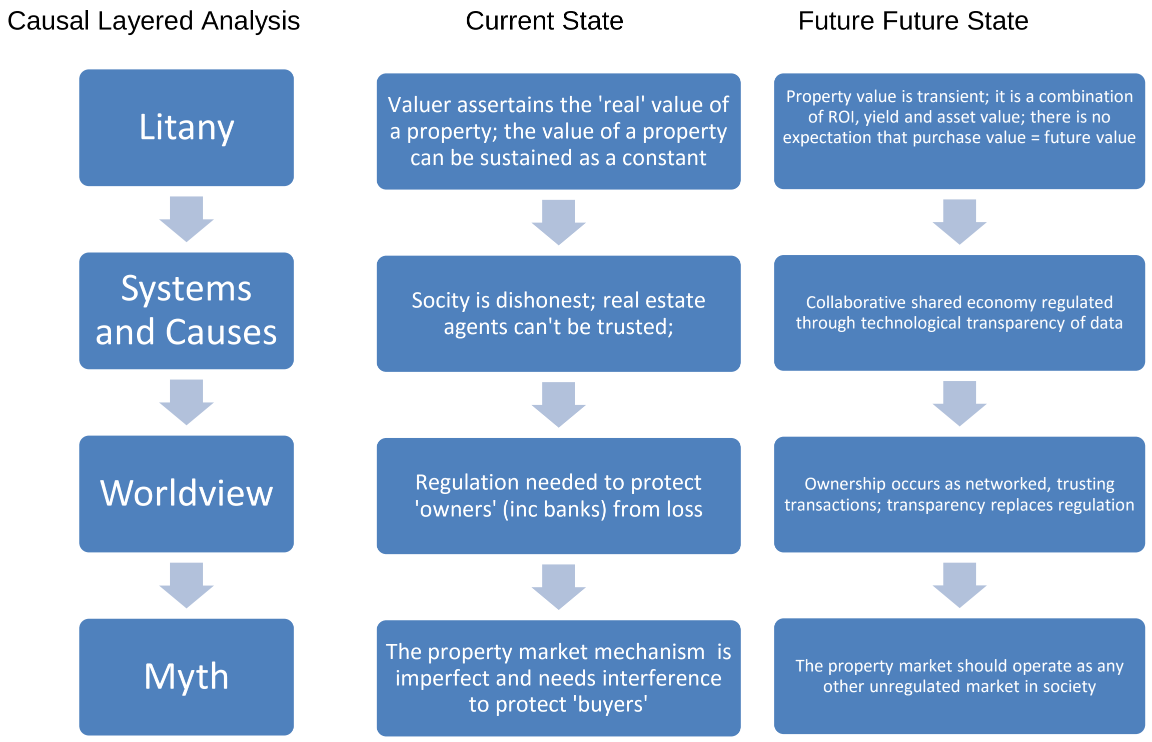
[2] https://www.youtube.com/watch?v=RBQUU_hmrLQ – George Soros explains his theory of reflexivity.

stakeholders holding different parts of the puzzle and not sharing so that they maintain their position and worth. Munizzo (2014) blames a lack of understanding of the appraisal process for creating scapegoats out of valuers which has lessened the value and use of a professional appraiser/valuer. The role of the valuer as a scapegoat will only be marketable for so long; after that people will be asking why bother with the valuation? And equally, why take the risk as a valuer when the rewards is so little in comparison (Levine, 2015)?

Causal Layered Analysis

If we apply causal layered analysis (Inayatullah, 1998) to this vision of the future of property, we can map the litany – what processes appears to be the official public notion as evidenced at the moment. This is underpinned by a systemic causes in society that can be supported by short term facts and history, which in turn are representations of a worldview, a series of mental models and paradigms that help us explain and sustain our systems and processes. Underpinning all of these, the bottom layer as such, is the myth or archetype that is held by society unequivacolly to the point of challenging it being a taboo.

We can map the current situation with regards to the property profession as the 'current state'. To move to the 'future state' (and that is the future future state), we need to challenge the taboo and shift the myth that underpins the layers. This in turn spurs an alternative worldview, which drives changes to the systems and processes that operate and we have a very different litany evident in society.



In the current state, there is clearly a role for the valuer in providing the data for regulation and interference in the market mechanism; in the future future state, the role of the valuer has to change if it is to remain, from being one of supporting the myth, to one that is providing data as part of the litany.

The Future Role of the Valuer

Going back over 13 years, Motta and Endsley (2003) claimed that the role of the property valuer would change from one of information gathering to one of information arbiter, focussing on market analysis, accurate value predictions and risk pricing. Dell (2013) challenges the use of samples in the valuation process now that electronically delivered data sets are available, and Schneider (2016) argues that the art of appraising is disappearing as it becomes more of science focussed on data and analytics. Coester (2015) see the appraisal industry in difficulty as the driving down of fees competes with the increasing requirements on the appraiser, making the current state of the market unsustainable, predicting the industry will go through a similar upheaval to the banking industry.

Throupe (2011) advocates using qualitative research methodologies such as focus groups to increase appraisers' understanding of local market dynamics.

As property investment becomes a global past time, there are calls for standardisation of valuation standards in real estate to smooth these international processes for foreign investment accounting (Shah, 2015). Such calls assume that such international transactions will continue to be carried out through the traditional market mechanisms. But the advent of Bitcoin and the expansion of Blockchain technology could ultimately allow foreign investment to occur with low transaction costs, by-passing the banking sector altogether.

Kumar (2016) predicts that impact of blockchain technology will be overestimated in the short term but underestimated in the five to ten year period. Blockchain originated as the public ledger of transactions for Bitcoin, and is now being explored for use by governments for public ledgers for the land registry amongst other purposes and a Moody's Investor Services report notes 120 ongoing blockchain projects (Taft, 2016). Indeed, the Ethereum blockchain not only records and stores information about commercial transactions, it can also process these commercial transactions in what are known as 'smart contracts' (Staples, 2016), and Honduras is already testing a blockchain to store property transactions (The Age, 2016).

The enforcement of property rights by a centralized authority, ie the State, is a tradition that trustless transfer technology could administer and enforce without the State overnight, allowing a regime of property being transferred or conveyed from person to person instantly without formal agreements (Davidson, 2016). The extent to which formal valuations will remain within such transactions is questionable when an automated valuation report can be downloaded quickly.

So where does this leave the future role of the valuer?

The Future Property Professional

The risks associated with property will be about market analysis, new developments, and commercial property, investment funds, and insurance. The role will shift to explore future property valuation rather than current valuation on the day of the sale. Equally other areas of property will be expanding, such as intellectual property, business valuations, and plant and machinery, and probably a newly emerging field of cloud property assets.

The valuation profession will be focussed on valuations for the present, present future and future future. The market value will suffice in most circumstances for the present, but the present future (next 1-2 years) and future future (5-10 years) will require skills in big data analysis, horizon scanning for changes in the environment, financial analysis skills, and an understanding of international economics.

The future future property professional therefore is a much wider role than the current valuer, and in many ways a much more specialist role as people will specialise in their category of property asset. That specialisation could be location based, asset category based, technology based, or some other categorisation yet to emerge as having value in the market.

The accreditation of professionals will necessarily move from being input based in terms of a curriculum to outcomes based in terms of capabilities and competences, a move RICS made several years ago and one that the API is currently implementing; and more generic competences and skills to survive in a digitalised, communications based workplace will be as essential as the hard analytical skills, knowledge and application of valuation techniques and tools. Data sourcing, handling and manipulation will be a core skill, and decision making and data presentation will be what differentiates one professional from another in the property professional market.

It's questionable whether the 'property professional body' will have a role to play in this future as the regulatory requirements will be most likely be governed by blockchain technologies, so unless they start investing in establishing the blockchain for professional transactions now, they are likely to have little value add going forwards other than being a networking community identifier. This will leave their role to being one of a human to human intermediary, and in time that too will most likely be replaced by technology. As this global market of property transactions demands global property professionals, the property professional bodies will need to unite if they are to survive – probably good news for RICS as the founding global body; probably not such good news for the API.

The requirement for CPD will become obsolete as it will be a given that people are keeping up to date and ahead of the game in their area of specialisation, and this will be part of the blockchain record provision. Whether the CPD is sufficient will be decided by the purchaser in the transaction process, not the regulating professional body.

As the sharing economy grows (Botsman, 2010), we will see transaction occurring in a networked manner, where the role of the institution is divested to the role of the individual, and trust and transparency rule the transaction processes, regulated through public review and access to data. In this shifting economic state, and process of transactions occurring, risk is minimised as ownership is distributed, and the role of the valuer is unnecessary as they literally add no value to the transaction process.

The number of property professionals will be fewer, and fees for service will be high. This is going to be a high risk profession and the relationship with the insurance industry will need to be carefully thought through as it emerges. People's personal fee income earning value will be continually judged on the results of their previous work. This will not be a game for the faint hearted, but rather the ultimate challenge for the would be futures brokers, McKinsey consultants, and data geeks with an appetite for risk.

So how will these professionals be developed for this high risk future future game?

The Role of Education in Sustaining the Property Profession.

As the former National Manager, Education, it would be remiss of me not to pay some attention to the role of education in this future state. If we focus on the present, not much is going to change. We will start to redefine our curriculum in terms of outcomes rather than inputs, and add some generic professional competences to the mix, much like RICS has already done through its APC process. The role of education in preparing valuers for these varied roles as property professionals needs to extend beyond the 'how to' process of financial mathematics and economic formulae that are the foundation of the profession at the moment, and extend to the higher order skills of evaluating data, making judgements, developing their own understanding of the markets they work within and how they see these markets developing, and being able to clearly articulate a range of arguments with associated risks to inform investment decision making. This is a step beyond the routine and analytical.

In the present future, we will see a shift to postgraduate education in property moving away from the real estate valuation curriculum to this broader understanding of property, markets, data and foresight as a methodology where uncertainty is a constant factor. This will take five years to occur, as the future property professionals move into the field after they have completed their undergraduate degrees and have had several years in what they will find a more 'boring' profession – hence them seeking something more.

Most of these students will be studying part-time as they work full-time, gaining market insight and practice as they develop their skills and knowledge in these areas. To meet this need, the API are developing a flexible suite of qualification and programs to meet the needs of the profession and industry as the role of the valuer in Australia develops, extends and is challenged by various technological advances. These qualifications will prepare the property professional for the market that will develop in the next 5 years. By the end of this period, those who had hoped for the traditional valuation role to continue will have needed to retrain and substantially shift their skillset and modus operandi, or they will be unemployable shortly after. To this end, the API is considering the possibility that it will not be accrediting undergraduate programs in five years time, which means giving notice to the universities in a maximum of two years time.

The future future requires a fundamental change in the structure of property education. The current curriculum and knowledge base will be all but obsolete. The new postgraduate offering will be dependent on data sourcing, data handling, data manipulation and data presentation. Data analysis and decision modelling will be key, and the ability to leverage technology for foresight, horizon scanning and insights that others can't easily access will be a market differentiator. This is a very different prospect to the current accredited property curriculum. It can only be postgraduate as it will require the professionals to have already developed their critical thinking, research and analytical abilities that undergraduate degrees will need to provide. It can only be part-time as the professionals will need to be applying their skills development to the world as it occurs. It will have to be applicable to all forms of property type as the professional will not yet know where they will develop their area of expertise. It will have to be global as property will not be bounded by State lines or national boundaries.

Conclusions

There is a children's story called 'The Emporer's New Clothes' where the emporer is tricked into parading naked by being fooled that he is wearing a garment that only very clever people can see. He is too proud to admit he cannot see it, and hence wears this garment in public. In the story a small boy calls out 'but he has nothing on!'

The property profession at the moment is on the brink of becoming that kind of emporer. At some point in the near future, a small boy is going to call out 'but you're adding no value'! At the moment, the paper based economic traditions of transactions and banking have sustained a historical process that may well have added substantial value in the past century, but this cannot be sustained in the future with the advent of new technologies, new market transactions, and the new reality of risk and uncertainty.

Quite how the property profession can sustain itself as a profession is indeed questionable. The more it is regulated the less effective it can be as its methodologies are at odds with the product and market it is working with and in. The more it establishes standards, the more it can be replicated by technology and the less the need for the profession. So what can it add as a ‘profession’? The answer has to be in the ethical code of conduct. As the world moves towards a deregulated, blockchain managed market, the property professional will be a nimble, agile data manipulator, predicting future values based on what we know now. Doing this ethically, with integrity and some demonstrable rigour will be what prevents them from being sued and makes them an insurable risk. But in this global market place where property valuers are specialists in different classes of property, there will only be room for one global professional body, as the property market itself will not respect State or National boundaries.

In terms of education, the future property professional will develop from and in the workplace, seeing the need for this development as they start to engage in the field. This career track is more likely to choose its participants than the participants will the career track. People will ‘fall’ into this through avenues in financial services providers, insurance providers, pension funds, and so forth. This will be a role that people will need to prove themselves in as they develop or they will have no value in the marketplace, much like stock brokers, futures traders and commodity dealers. And then we need to drill in the ethical practices to ensure they behave as ‘professionals’ in a world where money talks.

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