Proceedings of the 16th AVA Congress
July 22–24, 2010
Bangkok, Thailand
Message from Chairman
The Organizing Committee for the 16th AVA Congress
Mr. Anuwat Maytheewibulwut
Director General of Land Department,
President of the Valuers Association of Thailand,

Minister of Interior, H.E. Chavarat Charnvirakul
Chairman of the Conference,
President of AVA, Mr. Pratak Simapichaicheth,
Chief Delegates,
Members of the AVA Governing Council,
Distinguished participants,

It has been more than 14 years since Thailand was the host for AVA Congress. We can clearly see that all member countries of ASEAN have become continuously more cooperative to develop Valuation Professional at the international standards and levels of proficiency under different cultures and circumstances.

Although the political situation in Thailand over the past two months has not been favorable, our country is back to business as usual. Today, we are proud to have AVA Congress in Bangkok again, to witness our success, development and our willingness to cooperate with ASEAN professional valuers.

As President of VAT, I am pleased to welcome all of you to the 16th AVA Congress, and wish for a successful and constructive outcome from the AVA Congress.

Have a pleasant stay in Bangkok.
Opening Ceremony: Welcome Speech
by
H.E. Mr. Chavarat Charnvirakul, Minister of Interior

Chief of Delegates,
AVA Council members,
Valuation professionals,
Distinguished guests,
Ladies and Gentlemen,

My congratulations to the AVA Congress today. On behalf of the Thai government and the people of Thailand, I welcome you all to Bangkok.

As the Minister of Interior, I would like to emphasize the importance of property valuation. Our national revenue comes mainly from indirect tax imposed on consumers, rather than direct tax on the property tax. In order for the local administration throughout the country, to implement their planned regional development projects, they could not rely on direct subsidies from the central government or the issuance of bonds. New sources of funding from their locality would be the answer to fulfilling Thailand’s vision to improve all basic infrastructure in every locality, including remote villages. The Minister of Finance views property tax as fair and equitable, a tool that can help to distribute income from wealthy land owners to the economically less well off, so that disparity between the rural and urban areas can be reduced. But over the past 50 years, property tax is still not properly in place in Thailand.

In fact, property appraisal in the government sector is still not quite up to standard. This is because our officers, particularly at the local administrative levels, have not been well trained to appraise property.

This is a big challenge which calls for an overhaul of the tax collection system. For this purpose, a national “tax map” should be in place and updated at regular intervals to reflect current changes in land value. Unfortunately, government valuers are a scarce resource that will take time to recruit qualified people to work with the plans. Although the government has started to subcontract out to private valuers, we still have too few private valuers to work throughout the entire country. Furthermore, we lack appropriate technology to deal with this large scale project. I hope that the sharing of information and technology from our ASEAN friends will give Thailand some useful ideas and appropriate technology to improve our situation.
After the signing of the ASEAN Charter by all parties at the Summit in Hua Hin, ASEAN will become a region where goods, services and peoples, as well as investments initiatives can freely move across the borders without obstacles. This can come about through concerted efforts to enhance region-wide multi-modal transportation linkages, including maritime, land and air transport. All this investment requires the role of valuers at all stages, starting from the appropriation of land, compensation for affected land owners. If there is increasing investment, foreign investors who bring overseas funding will need to depend on valuers even more.

I am optimistic that ASEAN integration is going to bring about a better future for all of us. The outcome of this Congress will lead to closer ties and collaboration among our ASEAN friends here today. In the past, we used to believed that if government policy makers designed policies together with academics supported by the private sector, then national projects can be carried out to meet goals successfully. At present, however, globalization and the rapid activities of local and international private investors have created a powerful force that drives the economy, so rapidly that the government has the challenge of catching up. The flow of knowledge and information gets disseminated at real time throughout the internet world. In this situation, the government sector finds itself in a new role of changing our paradigm by creating regulations to facilitate these developments, rather than making rules and imposing regulations for others to follow.

Within ASEAN, constant changes as described continue to take place, and ASEAN valuers have now come together, holding each others’ arms, to think and function together in harmony. This collaborative effort among us helps to promote ASEAN as a powerful regional bloc in the international arena.

Thailand has been voted by Travel and Leisure as the most attractive tourist destinations of the World, and we will continue to live up to this title in the years to come. This Congress is a good opportunity for our ASEAN friends to get together once again. Some have visited Bangkok before, but this may be the first time for many. In particular, some may have missed the opportunity to visit Bangkok, due to news about our political situation. But now that you are here, you can see for yourself how peaceful things are in Thailand, with many attractions and activities for you to enjoy.

I look forward to hearing your suggestions from the Congress, which we from the government side can adapt and implement. Finally, I wish you all a fruitful conference and an enjoyable stay in Bangkok.
Foreword
by
Mr. Pratak Simapichaicheth
President of ASEAN Valuers Association 2008-2010

We are happy that our friends from ASEAN, about 240 delegates, continue to support our biannual congress, even though Thailand have the political disturbance recently. In fact, we have been entrusted to be the host of the AVA Convention twice before, and this is the 3rd time that Thailand is organizing it.

As we move on to the new phase of AVA, we can proudly look back to what we have accomplished together over the past 29 years since 1981. As you all are aware, the main body of ASEAN now has formally signed the ASEAN Charter, which will make the organisation truly rules-based and more effective in implementing what has been agreed upon among Member States.

The heads of governments agreed that we should make ASEAN a symbol of hopes and values of our peoples. AVA, as an affiliation of this body, I am confident that we can collectively set a clear vision of what we want to achieve in the year 2015 and beyond.

We hope that the outcome of this meeting will result in strengthened ties among ASEAN members, leading to a “New Era of Valuation Development”, which is the theme of this Congress. The theme of this conference, The ASEAN Chapter – Towards a New Era of Valuation Development, embodies an opportunity of the golden age of ASEAN. Therefore, this is the time to empower the standards of our work performance, by acquiring skills and knowledge that are compatible with that of the West -- North America and Europe. This theme is in line with the objectives that were agreed upon at the 15th ASEAN Summit held in Huahin this year.

The challenge lies in our institutions, which needs to forge strong ties to demonstrate ourselves clearly as a unified force. At present, MNCs continue to use services of foreign valuers who then subcontract out to local valuers for the foundation appraisal. Our ASEAN work then gets adjusted by these foreign valuers. This situation would no longer exist if our ASEAN valuers can adjust to the international culture of those foreign institutions. All of us have both explicit and implicit knowledge about our own region, far superior to that of foreigners when it comes to valuation.

The 16th AVA Congress is a landmark event for us to embark on a journey to meet the challenges that lie ahead. ASEAN is a regional block with more than 600 million consumers,
we are having the highest growth potential compared to other regional block. If we keep promoting co-operation and dialogues in order to improve our profession with shared values and standard norms of practices, I am sure that together, we could produce some fruitful results while we come here to exchange views on AVA action plans through this important council meeting.

I would like to emphasize that the ASEAN spirit is beyond in-class participation, but is all about strengthening closer ties among our ASEAN friends. I wish you all fruitful friendship ties, especially between council members and chief delegates, for whom this is the very first time for them to be together.

Please also openly express your opinions and thoughts, so that the AVA can be improved and developed towards a dream ASEAN vision.

I would like to welcome you all to the 16th AVA Congress, and would like to express my thanks to Chairman of the organizing committee, Mr. Anuwat, who has not only been continuously supporting and facilitating this Congress with personnel, funding member of the Valuers Association of Thailand, and the Secretariat team.
ASEAN Secretary General Dr. Surin Pitsuwan addressing the AVA Congress

Chief Delegates at the Closing of the Congress

Handover of the Presidency of the ASEAN Valuers Association from Mr. Pratak Simapichaichaeth of Thailand (right) to Mohd Don Omar of Brunei (left)
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AVA Congress Post Mortem Report

Secretariat Members
Dr. Leeatham addressed four aspects of Valuation:

1. **Economic thought history**
   Adam Smith’s work on Wealth of the Nations, with the concept of invisible hand—the free market mechanism—suggests that the market creates fair values for everyone and becomes essential elements for a well functioning of efficient markets. It was proven throughout the past 2 centuries that this mechanism would result in optimum welfare, wealth and income creation. Even though it was challenged by the rival ideology, free market thinking has taken over the planned economy in the late eighties. As such, market price has become the key pillar for valuers to derive a fair value for assets.

2. **Subprime crisis**
   However, the recent subprime crisis made people cast doubt on the market mechanism. This brought about a re-thinking of the state’s role, with the introduction of innovative financial supports. Contrary to their traditional monetary policy principle, central banks of England, Japan and US resorted to innovative ideas to inject money directly into the private sector in order to pull the economy out of the downward spiral. In such a situation, economists return to Keynesian rather than free market principles to seek solutions to the crisis. The wide volatility that engulfed the crisis caused doubt as to the best way to approach valuation.

   In the USA, the ‘over exuberance’ meant that housing price increased by 20-30% annually for several consecutive years, seemingly a most irrational phenomenon to some. But most, prior to the crisis, had argued that this housing price surge was supported by fundamentals, particularly this was echoed many times by the respected public institutions. Housing price averages rose from 2000 to a peak in 2006, then declining rapidly from then onward after the financial system slipped into full blown crisis. Vast amount of wealth has been created and wiped out within a short cycle.

   Under this condition, any professional valuers would appraise the very same piece of property at very different prices over this period of time. Thus, valuers are forced to seek to alternative principles in stead of market value in estimating fair property prices.

3. **A search for new methods**
   The ‘exuberance’ described above affects not only property, but also the market value of financial assets such as stocks and bonds as well as commodities. As such, valuers who have to estimate the value of all asset classes are faced with a plethora of challenges. Similarly in this manner, the Japanese stock market also never recovered on the last day of 1989.

   There is a correlation between market value and other valuables, e.g. loan portfolios, securities. Asset inflation is related to money creation. In an illiquid market however, buyers find themselves unable to sell. With the internet technology, the availability of realtime rapid information served to magnify the volatility of the stock market and price of assets (as people
tend to behave in the same direction.) As the crisis deepened and more assets turned illiquid with few transactions taking place, valuers need to find a method for valuation and modeling has been suggested as a mean to derive fair values for assets in place of non-existing market prices. Despite all the technicality, market acceptance remains a question.

Conservative methods such as Mortgage Lending Value (MLV) were also revisited. However, most including Accountants and government related institutions would relate better to historical prices of the past. However, this method does not take into account the current market sentiment and the future prospects of the assets. Historical cost price related to a certain peak in the past would result in overpricing in today’s market, and remains unsold as NPL by banks. Consider the scenario—a half built building could not be sold today, because the seller wanted to sell at a historically high cost price which was much higher than the present price.

4. Valuation system in Thailand
Valuation is an important driving part of the emerging ASEAN economy. Methods and concepts may be based on rich theories, but would be useless unless they were accepted by market participants.

Central Valuation Authority, also known later in Thailand as the Valuation Property Bureau, was established in 1981, with the responsibility of determining the value of real estate and other assets. In principle, this system could provide information to bankers who valuate collaterals, provide input to tax authorities to assess tax and serve as a reference value for buyers and sellers. However, after 30 years of operations, the method of valuation for vacant, undeveloped land versus improved plots in the same area is the same price, because they use the block system. Moreover, only one sixth of the land plots in Thailand have been valued. It is still a question if such valuation would be accepted and there remain a number of hurdles.

In all, Dr. Leeahtam argues that full disclosure and transparency of property values such as that in the Singapore’s or Malaysian system, would be the preferred approach to develop a new valuation system. If properly set up, it will facilitate valuers or appraisers, buyers or sellers, and all other practitioners to make decisions about the fair values.
Dr. Supoj did not present the overview of the Thai economy, he has emphasized on the current infrastructure development projects of the Kingdom.

The Thai government has designated the provinces of Petchaburi, Prachuap Kiri Khan, Chumphorn, and Ranong which were previously determined to be an industrial zone, western seaboard, as the Thai Riviera by improving environmental outcomes through the serious implementation on not only EIA normally enforcing so far but also the new HIA requirement in order to use the industrialization for raising the standard of living without any harmful to the environment in this area.

For the Eastern region which is the location of the Eastern Seaboard, the government has designated the concept of Green and Brown EASTERN SEABOARD. It means that the brown representing industrial zone is surrounded by the green zone where is the main location for amenity and high-value agriculture production. Some area in this green, Nakon Nayok, is also the location of the National park. Some is the location for beach tourism like Trat. These incorporate with the strict implementation on EIA and HIA would reduce the pollution problem to the region and other part of the country, while the benefit from industrialized for raising the standard of living is still remained.

The third cluster I would like to mention is the greater Phuket. This cluster covers Phuket, Phang Nga and Krabi the government determined these area to be the up-market resort for tourism and also to be the international knowledge city in order to serve the foreigner families who stay around these areas as the second home apart from their hometown. The government believed that under this plan the areas would draw more tourist and enjoy a high quality living environment.

The next is the northern axis cities of Chiang Mai, Chiang Rai, and Lampun which have exhibited disappointing performance over the last decade. Population is falling and real economic growth has been stagnant in this region. The region has failed to position its tourism product effectively, while suffering from an international shift toward sea-beach tourism; Thailand enjoys more comparative advantage in beach tourism. Many opportunities have been lost; for example, high end agro-business such as cut flowers and temperate mushrooms, undertaken very successfully in nearby Yunnan province. However, under this crisis situation, there is a hope coming up when the road route A-3 highway was completed under the funding from Thailand, China and Asian Development Bank (ADB).

So let move to see the new opportunity for the North.

Only having just the highway A -3 from China to Loas, it does not help the flow of cargoes from China to be shipped to either Thailand market or other countries by using the sea transport because there is the missing link here between Chiang khong and Huey Sai, the small border town in Chiang Rai province, Thailand and in Loas, respectively, to block the flow along North-South corridor.
The situation now appears that the cargo carriage through this highway road has been delayed by the traditional old ferry service to cross Klong river to Chiang Khong, the small border town in Chiang Rai province of Thailand. The informal toll charges of this service is around 10000 Baht or 310 Dollars per truck which is considered very high for this short distance service.

To solve this problem the Chinese and Thai have jointly built the 4th bridge and the IF which is planned to build by the Thai government alone for being the transit/transshipment point to facilitate the change of the vehicles between two countries.

The two countries believe that the bridge with this IF would benefit the cargo from the 4 provinces in China because the new route through this bridge and this IF should provide shorter time and less expensive; especially if they are the connected project on rail link down to the seaport in the south of the region, LCB or the port in Singapore or the one in Malaysia, and, in the future, to the new deep seaport project at Pakbara, the south-west of Thailand. Even the picture shows that the route through Myanmar may have logistically more advantage location for the route to Europe. But, because of political and administrative instability in Myanmar that have resulted in road blocks and charges, the road from northern Thailand to China through Myanmar is not a practical alternative.

This new trade lane will enable Chiang Khong and the North to be the important transshipment point for the Chinese import and export cargo.

From the forecasted figure by starting from 2012 (bridge completed)
And extension of the rail from Denchai to Chiang Khong - the mid of 2012-2027
And the completion of Pakbara deep seaport - the mid of 2027-2042.

The study found that once all facilities completed the volume of cargo will reach at least 466000 TEU per year which can contribute to Chiang Khong and the North economy with the EIRR at least 20% over 30years (from the project cost of bridge 1575 million baht and of Intermodal facilities 1500 million bath.)

Do not forget that this benefit is evaluated only from the cargo flow activities impact. A lot more benefit to the economy over there would also stem from the passenger’s travelling and the growth of tourism industry in that area which is still left for quantifying.
Brunei Country Report
by
Ms. Hajah Siti Hairaney Haji Shahri

The features of Brunei were introduced in terms of geography, climate, demographics, culture, and governance.

The main industry of Brunei is the prosperous petroleum industry, which enables Brunei to enjoy one of the highest standards of living in Asia. Brunei’s per capita income is one of the highest in Asia and it has already achieved almost all the target of the Millennium Development Goals. Brunei is also blessed by political stability, as oil and gas revenues is channeled into infrastructural development and far-reaching social welfare programs.

However, economic growth has not quite kept up pace with population growth, and the younger generation is increasingly finding it more challenging to find employment, be it in the public or private sector. To realise a Vision of Brunei 2035 or Wawasan 2035, the five-year National Development Plans allocates state budget to key sectors of the economy.

Brunei’s property market has been constantly improved, e.g. the implementation of the Land Code (Strata) Order 1999; the Licensing of Value and Estate Agent Act; the creation of Bandar Seri Begawan Development Master Plan.

Brunei municipal area expansion leads to drastic development of commercial and office property. Thus the Municipal Board Act Chapter 57, has imposed a 12-per cent Building Tax since 2008 on commercial buildings and residential buildings as well. This 12% tax is the first for practically all commercial and home owners.

There are 2 valuation methods used in Brunei for tax raising purposes conducted by the Ratings Section in the Municipal Board:
- Rental valuation for houses, apartments or buildings that are tenanted to others; where the annual rental value is used.
- Estimated valuation For houses, apartments or buildings that are owner-occupied, based on the floor area calculated with the estimated rate used by the Municipal.

The BEDB (Brunei Economic Development Board) is the main key-players in Brunei’s development for both property and economically. Currently there are 3 major development projects:
- Sungai Liang Industrial Park [SPARK], a world class petrochemical hub
- Pulau Muara Besar (Muara Island) Project [PMB], an integrated development comprising a container port, export processing zone and manufacturing hub
- Brunei’s National Housing Projects, three pilot projects for the construction of low-cost houses under the Scheme

Brunei has only 5.1 per cent of its remaining unconstrained land area left available for development into residential, commercial and industry property. 76 per cent of Brunei's land area of 5,765 sq km is preserved as forest, with 58 per cent of the total land area allocated to the Heart of Borneo initiative.
Statistics from the Central Bank of Indonesia for 2009 and forecast for 2010 suggest that Indonesia’s economic health is relatively good with good prospects. The Jakarta retail property market is highlighted, as Jakarta is the biggest retail property market. The occupancy rate has declined due to the increase in the supply of new retail space. The total stock of space available in the market increased to as much as 3.6 million meters square in 2009. Smaller retailers tended to wait for big tenants before moving into the newly half-built centers, in order to get assurance that there will be customers. The market situation for 3 to 5 star hotels and rental apartments were also addressed.

Interestingly, regulation over condominiums (which are for upper income strata) is being revised in terms of foreigner’s right to use, the 25 year grants can be extended, whereas most condominiums are usually transacted under the ‘right to build’. This new regulation is expected to boost condominium demand.

A milestone for valuers in Indonesia is based on regulations by the Ministry of Finance No. 125/PKM.01/2008, which governs public valuers. It regulates valuer licensing, and how the shape of business entity for valuers from limited companies to be on individuals or partnership. There are 3 types of public valuer license: property public valuer, business public valuer, and property & business public valuer.

There are 5 regulations over public valuers, e.g. registration to the national supervisory agency known as Bapepam, valuer independency, reporting of valuer activity. Regulations over issues on valuation in Indonesia also cover other services ranging from development consultancy to project financing monitoring.

Indonesian valuer statistical data that were presented include various types of associations, licensed public valuers, and public valuer offices. Valuer services are also now increasingly diversified, e.g. intangible assets, expert witness in court. It is realized that a valuation act is much needed for 2011.
Information, data, trends of the Singapore economy and the real estate market.
The growth forecast for the Singapore economy suggests a high growth rate, of as high as 13-15% expansion for 2010, as a result of the electronics and biotech sectors, and public sector construction activities. In the global economy, however, Singapore’s growth is anticipated to be in the healthy zone, albeit slowing down due to effects from her neighbors and China.

Property market update
The market overview of the first half of 2010 has been strong. The sale market of Singapore’s residential sector, made up of private and HDB properties, is also addressed in terms of resale prices. Retail space sale and rental experienced minimal growth for Q1 of 2010, as reflected in the index comparisons. Similarly, the office space is also marginal and not as aggressive as the residential sector. Capital value of industrial sales and rentals experienced marginal increase.

Values, projections, investment opportunities
However, the second half is predicted to be moderated. Singapore has a transparent and highly efficient system, with intelligent communities (internet and cabling infrastructures, and most importantly, timely government initiatives that helps to avoid the bubble burst effect. The new casino industry is also helping to keep the Singapore economy buoyant. Singapore is also developing into a hub, e.g. tourism and education.

Therefore, despite global uncertainties, Singapore is flexible and ready to adjust and respond proactively to economic fluctuations in its neighbors and the world.
Plenary Session II: Presentation of Country Reports

Vietnam Country Report
by
Mr. Nguyen Van Truyen

The Vietnam economic health for 2010 is improving, although the inflation rate still poses a threat. There is no formal statistics on Vietnam’s property sector. The market property in Vietnam also considers the provision of social housing for the lower income group.

There is increasing investor confidence in the property market. For example in Ho Chi Minh city, office rentals has declined slightly (office rental in Vietnam is considered very high), but new supply of office rentals is expected to increase quickly over the next 3 years. In Hanoi, grade A and B properties have increasing vacancy rate—the rental rate for grade A properties has dropped slightly even with the lower monthly rental rates of $40 per square meters.

High end apartments are not in high demand overall. Interestingly in Ho Chi Minh city, the sale prices for affordable apartment prices have increased between 2.0 - 2.9%, but that for high end apartments have not increased. Overall, there are as many as 87 new apartment projects. In Hanoi, there is high demand of apartments priced below USD 1000/square meters, as the government has made investments, such as upgrading roads; and there is low demand for luxury and high-end apartments.

Retail space in Ho Chi Minh city has increased by as much as 7% compared to the previous quarter. Average rents of retail space is increasing, with rents of shopping center space being slightly less than that of department stores.

The valuation profession in Vietnam is governed by 7 legislations currently. Foreign valuers can also practice in Vietnam, provided they fulfill 3 requirements, namely, a certificate of registration in their home country, contract with a valuation company in Vietnam, and a valuer certificate obtained through tests in Vietnam.

The Price Management Department under the Ministry of Finance has several roles affecting valuers. There are 44 registered valuation companies in 2010, earning significantly increasing revenues from valuation practice. Types of assets for valuing are mostly real estate, machines and equipments (80-90%), with the rest being the valuation of corporates and other assets (only 10-20%).

At present, there are 219 certified valuers in Vietnam, with 86 more for July-August 2010. It is estimated that the valuer industry is growing, forecasted at a total of 1500 valuers coming from 500 valuer companies in 2020.
Cambodia overview

Cambodia is presented as an attractive investment destination. Firstly, the demographics of Cambodia demonstrate the youthfulness of the Cambodian economy and society. The 2008 crisis has affected Cambodia’s economy, but it is expected to be recovering at 3-5% for 2010. Cambodia also has a sound financial sector.

Secondly, the Cambodian government has made considerable efforts to attract investments by establishing Special Economic Zones (4 in operation, 2 being built, 21 approved), and by offering competitive investment incentives, e.g. tax holidays of up to 9 years.

Foreigners can now hold up to 99 year lease, which is renewable. Foreigners can also form a company with locals to own property. This year, Cambodia has implemented a law that allows foreigners to own apartments right from the first floor upwards. Immovable properties can be invested in, be it ownership, lease, or concession.

Land price is expected to recover by early 2011. There are three categories of land ownership—domicile, cultivation/agricultural, and concession land for large scale crop production. Procedures over various forms of housing in Cambodia are still unclear, which has impacts on construction permit issues.

Cambodia is a newly developed country with a small economy. As to be expected, the retail market is limited, only for lease, with only 3 major players. The price of retail space is rather reasonable. Cambodian people are excited by high rise Mega projects. Cambodia also has commercial-residential combination buildings. Some mega projects include satellite cities such as some built by Korean, Indonesian and Malaysian investors. It is anticipated that investors from Singapore, Malaysia and Thailand will likely become big players in the future, due to the geographic location of Cambodia being located at the center of this region.

Rental price of office space in Cambodia is low compared to that of Vietnam. Over the next 2 years, it is expected there will be an increase of approximately 120,000 square meters of grade A and B offices combined.

Apartments in Cambodia are only for leasing, not for sale. The term ‘Condo’ arrived in Cambodia only a few years ago. The rental and occupancy rate for apartments is almost similar to that of retail, but may continue to drop due to the increase in supply.

A note on Cambodia’s valuation sector

Cambodia’s valuation sector is also young, just like the stage of Cambodia’s economic development. Cambodian valuers are learning from square one, be it how to conduct research, analysis, report writing, etc. In short, Cambodians valuers learnt valuation simply by asking valuer friends. Cambodia needs more knowledge in valuation, standards, nor instruments, but does not have any institution that teaches valuation.
Malaysia’s vision is to be a developed country by 2020. The 10th Malaysia 5-year plan emphasizes infrastructural investments. Malaysia has 1000 registered valuers, and 4000 non-registered valuers. There are several institutions that produce approximately 300 valuers each year.

Malaysia has multi-owned, multi-occupied buildings, all requiring property management. Thus, Malaysia is likely the only country with legislated property management standards. Property management as a profession may have come about as a solution for the bleak valuer situation, that of high valuation standards yet low valuation fees in Malaysia.

Also presented were the national economic KPIs of Malaysia, trends of the property sector, and outstanding bank loans. The Malaysian Housing Price Index (MHPI) has been moving up only in Kuala Lumpur, but remains consistently rather stable in other states. 60-70% of residential property in KL is high-rise buildings, landed property is scarce and difficult to find. In 2009, there was a decrease in the price of high-rise residential property. The trend has been towards increasing prices, but with slight drop over the past two years.

The vacancy rate of high grade office space is extremely low, and the rentals are also very inexpensive (First World office space at Third World rental rates). Highlights of retail rental spaces are presented, with a study indicating that the decline of retail sales from last year has now picked up again.

Finally, the Malaysian government came in with stimulus package, and economists are concerned about the effects of these intervention.
Real estate affects everybody. Real estate is intertwined with politics, economics and the society. This demands leadership that has broad vision. In Europe, construction takes up 60% of all raw materials. Heating and servicing buildings in the West takes up 60% of energy. Property is also a store of wealth for investors and occupiers, affecting consumer spending, corporate investment and even pension provision.

Not surprisingly, the global financial crisis started with real estate. Game theory leads to debt and insurance products, being created often using real estate as a base, what Warren Buffet calls the ‘financial weapons of mass destruction’. Risks devised by the financial sector were entirely created within the financial sector itself. E.g. The feeding frenzy of easy credit led to the residential asset boom in the USA, and the creation of a mythical USD 7 trillion of ‘value’ which brought about a financial meltdown. Benefits to the non-financial economy were negligible.

Contrary to the mainstream Western economic ideology against monopolies, Peto argues that a form of controlled monopoly might help to uphold the valuation profession in high regard, particularly under key challenges, e.g. the volatility in markets with limited/unreliable evidence, undue influence, the need to focus on asset quality and good advice, global demand for international standards, and consistent interpretation of standards (as clients today are more sophisticated thanks to readily available online information).

In an uncertain market, valuation (opinion of a market price) is strongly affected by the balance between sentiment and evidence (professional sentiment determines pricing direction—the rise and fall of transacted properties), the willingness of buyers and sellers, distress resulting from pressure to sell a piece of property under time constraint Vs the ‘bottom fishers’ market’ price.

As a consequence, this brings into question regarding the reliability of user and auditors; the need for more explicit valuations, risk analysis and commentary; and for valuers to consider the long term economic value of the property (relationship between worth vs. market value—present value Vs future cash flow).

Valuation standards were set by the RICS since 1970s, focusing on value definitions and on the conduct of valuations and valuers. RICS has a standards Book (Red Book, covering international standards and other IVS rules) which are aligned with IVS (the top approach).

ASEAN integration may look to the EU integration. EU member states saw the need to cooperate together to regulate financial markets, in a way that also balances national priorities. National variations exist together with the overall regional regulation of capital markets within the EU. Thus, different valuation methodologies are used throughout the EU. In Europe, academics also influence the way investors look at real estate in Europe.

RICS has developed into a self-regulating body. Members need to be self-regulated efficiently, up-skill themselves in order to remain relevant, be locally relevant but globally connected (standards, enforcement), keeping updated through internet communication technology especially for the younger generation, be flexible in education routes (process and thinking differs in each country, offering special skills and capabilities; life-long learning).
The Government Housing Bank (GH Bank) was established in 1953 to help lower and middle income home owners finance their homes and is the largest home mortgage lender in Thailand today.

It competes with other commercial banks for depositors and borrowers and operates branches, off-site sub-branches and counters throughout the country.

GH Bank is also a leader in disseminating real estate knowledge throughout Thailand and the region. It publishes a quarterly GH Bank Housing Journal (Thai) and the English language, Asia-Pacific Housing Journal.

GH Bank has dual roles, acting as a mortgage lender to make dream homes come true for as many Thais as possible, and helping the government drive national economic recovery during economic down-cycles.

The concept of ‘dream home’ varies among low and middle income home owners, ranging from the very basic housing (slum), charity-assisted housing (e.g. Habitat for Humanity), subsidized housing projects of the National Housing Authority (Baan Eur Athon) to middle-housing coming built and sold by leading developers.

After the 1997 economic crisis, GH Bank helped drive economic recovery by implementing real estate programs that encouraged more Thai people to purchase homes.

Khan said that the 1997 economic crisis also taught the Thai real estate industry several important lessons that helped it survive the current global crisis. The banks learned not to lend to inexperienced developers, and buyers avoided speculating on real estate. Thanks to these lessons, Thailand managed to get through the recent 2008-2009 crisis.

Property valuers and appraisers are essential to GH Bank’s work, providing independent assessments of credit or default risks. Valuers are greatly relied upon for their professionalism in delivering fair prices—not being overly conservative (low appraised prices deter loan approvals), nor overly aggressive (high appraised prices lead to banks losing money). Unlike some commercial banks which have their own appraisal firms, GH Bank has outsourced appraisals since 1986.

GH Bank’s overriding philosophy is HM the King’s Sufficiency Economy Philosophy—the concepts of moderation, reasonableness and self-immunity, all of which are the foundation of GH Bank’s success today.
Education and Training for Valuers in Malaysia
Assoc. Prof. Sr Abd. Abdul Rahman Mohd Noor, and Prof. Sr. Mohd Yunus A. Rahman

Valuers in Malaysia enroll in the Building and Estate Management programs, and the profession is variously referred to as appraiser, property consultant & valuation services, land economist, or estate management. Valuers in Malaysia are equipped to handle a wide scope of valuation works—valuing land and buildings, tangible assets, conducting feasibility studies, property consultancy, property management, land taxation, real estate agency, project and urban planning.

There are various bodies of knowledge in the field of valuation, encompassing economics, finance, architecture and engineering. The nature of education and training for valuers varies among countries. For example, the UK takes the survey approach on a broader focus on the built environment, while intercontinental Europe has an interdisciplinary approach, and the investment finance approach by the USA.

The Malaysian program is 4 years, which gradually delves into greater depth over the years, culminating in a 6 month training program in the final year. The valuation division in the Ministry of Finance was first introduced by the British before independence in 1957, and local Malaysians with high school certificates were recruited as valuation assistants, with opportunities for further studies through a correspondence course from Reading University, or study overseas on government scholarships. Gradually, qualified Malaysian valuers replaced expatriates, and came together to establish the Institution of Surveyors in 1961.

In 1967, the Malaysian government introduced the Registration of Surveyors Act and established a board to control and regulate the surveyors, thus providing legal support.

Formal full time education started with the first Diploma Program in Valuation, offered by the Institute Teknologi MARA in 1969, and a Diploma in Estate Management program in 1973. The ITM introduced a two year program Advance Diploma in Estate Management in 1982. Formal training is now provided by both public and private institutions in Malaysia’s four universities, offering both part time and full time programs. Teaching staff is made up of highly qualified academicians (Master’s and PhD) and registered valuers.

In order to become a registered valuer/estate agent, a candidate has to obtain “post qualifying work experience” as a probational valuer under the guidance of a registered valuer/estate agent for 2 continuous years. Upon completion of relevant education (formal education in the universities, or informal education through training or correspondence course with RICS), the candidate has to register with the Board before embarking on post qualifying work. After the post qualifying work experience, the candidate then submits 2 tasks (out of 8 specialization areas), and go through a 2 hour interview covering 4 areas. The candidate must pass the 2 specialized tasks as well as the interview. Some candidates require as many as 6 sittings to pass this interview. A second possible route to becoming a registered valuer/estate agent is to submit a working experience record of continuous work for 10 years, which must be supervised and certified by a registered valuer. Following this is an interview which will cover the competency areas of a valuer/estate agent.

Throughout his entire career, the successfully registered valuer will still have to pursue continuous self-development which is essential for annual certification renewal.
UGL Premas is a total asset management company in Singapore, with the parent company located in Australia. UGL Premas provides 3 areas of services: Corporate Real Estate Services, Integrated Facilities Management services and Engineering Services. Valuation is offered by Premas as part of Corporate Real Estate Services. The valuation report is important because it is the summation of the entire valuation process.

In Singapore, there are minimum requirements for valuation reports. Features and challenges of preparing the contents of the reports throughout the entire process of valuation are addressed:

a) Instructions and introductions: Instructions given by the clients are not always specific, and need to be spelled out clearly. The valuer will have to probe for more detailed information, so that the report will address the true purpose of the valuation.

b) Land property particulars: Fortunately, maps and title details of properties are easily available in Singapore. In Singapore, tenure is 99 year lease or freehold for residential properties, and 30-60-99 year lease or freehold for commercial property. Sometimes, particular property may have more than two titles attached to it, and such details have to be captured by the valuer. Regarding planning use and zoning, Singapore’s master plan is available on the web. Some information can also be obtained from the authorities for a fee, which may also be expensive.

c) Site/property descriptions: Because Singapore is geographic a small area of flat land, most property descriptions are easy to obtain. Some physical descriptions and specifications of buildings and construction types have to be double checked and updated by the valuer during inspection, e.g. whether the material is real marble or imitation marble finish; depending on each unit. The condition of two similar condominiums in the same building can be very different on the date of inspection. Evidence of value or sales comparisons are needed for valuation. Some specialized properties may call for specific assumptions and methods of valuation, e.g. cost approach for valuation of the driving center. Date of inspection needs to be in the report, and can be the date of valuation. Date of valuation can also be specific to the purpose, e.g. date of death, date of transfer.

d) Care has to be given to valuation wordings, so that the report and the valuer’s opinions are worded clearly and unambiguously. Appendices also have to contain photographs, various plans with measurement of floor area, tenancy/lease schedule, other specific documents that is relied upon or considered in the valuation, e.g. encumberances, drainage, reserves line. Other limiting conditions also have to be included for the clients.
Thailand does not have a valuation Act yet. Therefore, the valuation report can be used as evidence for the valuers. Disputes occur, especially when some valuation report has an important role in communicating the purpose of valuation, value of the property, the process of valuation, assumptions and limitations.

Development of standards and ethics in Thailand
In 1993, the Valuers Association of Thailand (VAT) announced guidance notes on asset valuations in Thailand, and the standard format of the report. During the 1997 financial crisis, VAT set up the standards and ethics sub-committee to monitor the performances of valuers. The Security Exchange Commission (SEC) announced valuation standards (blue book) for listed companies in 2005. From 2006 to the present, the Office of Council of State drafted the final Professional Valuers Act. Seminars have been held, and related parties were invited to participate. In 2010, ministerial regulations have been drafted, whereas VAT and TVA are in the process of drafting the Plant and Materials standards.

The Valuation Standard Reports may follow any of the following: the International Valuation Standard Committee (IVSC); the RICS red book; the USPAP (USA), which include real property, personal property and intangible property; TEGoVA (European) harmonized the standards and ethics of 40 countries. At present, Thailand’s SEC-Blue Book covers only real estate standard report.

Details of services in the report address the clients/intended users (lending purpose, borrower is client while bank is intended user), data collection and valuation methodology (as appropriate for the purpose/objective/intended use of the report); the date (duration and expected completion date). The definition of value includes market value and other value (e.g. investment value for particular parties).

Comparison information of subject property covers characteristics of the property, legal interest appraised, highest and best use—highest and best use as vacant land, or highest and best use as improved (same as international standards).

In Thailand, the problem is that there is no data center to collect selling price, only the asking price are available in the market. Approaches or techniques used are the cost approach (most valuation report use physical obsolescence at 2% per year), income approach (discount rate and capitalization rate depend on valuers judgment, as information and track record of market data is inadequate); the market approach (other countries simply do a price comparison requiring market evidence, while Thai valuation companies use weighted quality score method for reconciling the market value).

Assumptions requirement for valuation reports is similar to that for other countries. The report would include the date of property inspection, date of valuation and date of report (IVSC, TEGOVA). Compliance/certificate statement in Thailand has to state that there is no conflict of interest, and report conforms with standards. Reports submitted to listed companies and financial institutions also require the signature of key valuers, who sometimes
do inspect the actual building or appraised property. International standard reports require all involved persons, inspectors and analysis persons to sign the paper.

Other requirements include currency used, property transfer tax, restrictions/consent on publications, and work file retention (5 years).
Land acquisition may become a challenge when household members refuse to move out for the developers or the government to begin their project, such as some cases in China. There are several researchers and experts all over the world who are interested in this area and contributed to this research, which was commissioned by the World Bank.

Acquisition of land for the benefit of the public suggests that individual right is no longer the first priority, and thus the individual cannot disagree on the nature/type of the public project (e.g. garbage incineration plant, public park). Compensation should be fair and timely paid, although individuals can disagree with the appraised compensation.

Compensation on a problematic piece of property may have to be much higher. Besides the value of the land and building, the special value to the owner must also be compensated, as well as compensation for severance, injurious affection, betterment or enhancement, and disturbances. However, there is no compensation for spiritual or psychological value. Compensation may include personal goodwill, e.g. for the cook of a restaurant.

Challenges regarding land acquisition include the following:
- Internationally accepted valuation standards for compensation
- Valuation under limited data availability: A lot of information goes unrecorded, exorbitant cost of a thorough field research, the “if clause”
- Increased transparency and comprehensibility (easier for owners to understand)
- Pro and cons of offering compensation above the market value by 10-20%, which may cause discontent among taxpayers, but saves time for the project.

Compensation does not necessarily have to incur additional cost. In some projects such as road expansion, the project itself would increase the price of surrounding land. Therefore, the project could be managed so that final cost recovery reduces the cost of the road project.

The property acquisition authorities also have to consider providing for the individuals who are affected, such as relocation fund, temporary resettlement sites. Good negotiation skills can help to avoid lawsuits. A comprehensive real estate information center, would also be helpful for determining the value of land acquisition compensation. An ad-hoc authority to gather resources and carry out the valuation of land acquisition would also be helpful.
Property tax in Indonesia is centrally managed, making it a big task since Indonesia has 90 million parcels (land and building) of tax objects, and 65 million person/corporate tax payers. There are several management activities involved, ranging from data collection, data maintenance, valuation and assessment, tax bill issuance and distribution to tax payers, revenue collection and law enforcement, objection and appeal service, and information and consultation service. Since the nature of property tax is a local tax, Indonesia applied revenue sharing at lower administrative levels.

The property tax data management system uses the SISMIOP computer system, which automatically updates the information, whenever input is added. The SISMIOP modular design is presented.

The Indonesian formula for property tax collection highlights the importance of determining market value as tax base. The effective tax rate is 0.1% and 0.2%.

The methods used are still being developed. The cost approach defines that land and building value, under this approach, mass appraisal is used for land value and building value. Mass appraisal for land value uses the Land Value Zone (LVZ), are land parcels considered by valuers to be similar in terms of use, availability to public facilities, accessibility, and potential land development values. Each LVZ has an Average Indicted Value (AIV) determined by 3 stages. First, land transaction data is collected; second, each transaction is analyzed and adjusted for time, kind of data, and location; third, the mean indicated market value (after adjustment of land transaction data) is applied on that area.

If there is no transaction in that zone, then zone-to-zone analysis is applied, using a neighboring zone. This is not satisfactory for the appraisal, but since this situation leaves valuers are left without transaction evidence for that zone, this is the next best way.

In mass appraisal for building value, the building value is estimated using the cost method. The price of building materials are updated in the system every year, and the computer system automatically calculates it. The Building Cost Table is presented. Building mass appraisal groups buildings into sub-systems (standard, non standard, etc.), resulting in a value system that is connected to the SISMIOP. Individual appraisal numbers only about 3000, but also groups buildings into sub-systems, e.g. high rise, low rise, special (airport, seaport, tunnel, towers, golf course etc.). There is also an appraisal review especially for the mass appraisal. There is ASR for land and building separately.

Challenges of the mass appraisal system development includes determination of standard deviation level of the value, tax payers focus on tax burden rather than the market value, computer statistical tools are not easily accepted by tax payers, tax payers also do not accept differences in value within a neighborhood. The mass appraisal system also needs constant remodeling.
Housing supply is a problem in Batam due to increasing labor and inadequate government housing.

The economy of Batam island benefits from being located only 20 km from Singapore. Domestic investment and foreign investment are increasing, attracting more people from other Indonesian islands. This produces a shortage of housing on Batam. The government sector comprises 21% of the total investment. Private investment is divided into domestic and foreign, with a share of 13% and 36% respectively.

Batam has 18 industrial estates—15 for manufacturing industry and 3 for heavy industry. The bulk of economic activity in Batam has been export oriented. Batam’s population and labor force has been increasing, averaging 10% increase each year, accentuating the shortage in housing.

A solution is to provide low-cost housing developments in the form of flats, provided by the Indonesian central government, local government and Batam Industrial Development Authority. The need for flats is estimated based on labor statistics over the years, taking into consideration laborers who live in squatters, those without housing, with or without family, etc. Building plans in various areas of Batam has already begun since 2002 to the present. However, not every plan is achieved. Of 77 projects, only 25 have been completed.

Regression analysis suggests that residential budget and total investment are useful indicators for predicting the housing need as well as housing supply. Labor population was found to be less useful.
Tight Regulation on Business Valuation and its Effects to the Valuation Industry in Indonesia
Mr. Budi P. Martokoesoemo, Indonesia

Business valuation in Indonesia is explained and the new regulation implemented by the Indonesian Capital Market Supervisory Body (BAPEPAM) is detailed.

In Indonesia license for Asset Valuation (P) and Share Valuation (B) is separate and its exams plus trainings for the two licenses are also separate but all falls under Indonesian Society of Appraiser (MAPPI) standard and guidance. All certified valuer must then again propose their names for approval to become licensed at BAPPAM and be allowed to handle capital market assignment. Each license is specifically allowed to perform certain types of assignment and must follow the tight regulations issued by BAPEPAM VIII.C.3 for share valuation, fairness opinion and feasibility study and VIII. C.4 for asset appraisal.

Various regulations issued by BAPEPAM stipulate the following:

- Appraisers in Indonesia are all partnerships, meaning that all valuers are personally financially liable for their opinion.
- Determination of conflict of interest vs. affiliated transaction is in the hands of the valuer.
- Material Transaction between 20%-50% of the company’s audited equity requires only the valuation and fairness opinion issued by the valuer and does not requires an EGM.
- All business valuation must utilize at least 2 valuation approaches with no limiting conditions such as valuation for asset in the national protected forest.
- Minimum reporting requirements including incremental and risk analysis.
- All Share valuation must be performed with audited books issued by certified BAPEPAM auditors.
- Financial projection minimum is 5 years and must be developed by the company, valuers must review such projection and make amendments to normalize and make the number feasible and fair.
- Above are just a few, the regulation is very extensive and covers all aspects of any assignment taken by any valuer including assumptions for risk free rate, discount on lack of marketability and controlling premium just to name a few.

Opportunities and Challenges for the Appraiser Industry Indonesia includes:

- With IFRS standardization, appraiser businesses will get very busy with increased workflow from new valuation tasks, ranging from pre purchase price allocation to intangible valuations. Demands from CPA firms and increased complexity and responsibility are challenges posed by the IFRS standardization.

BAPEPAM, MAPPI & MOF has taken strict measure to assure that:

- All the certified valuers are of the highest professional standards and are experience in performing the assignment.
- All the valuations are performed in specific normal parameters, exception are made for special cases.
- All valuers are held personally liable for their opinions to increase professionality.
- All valuation companies have standard operating procedure that adheres to independency, risk management and professionality.
Plenary Session IV

An Assessment of the Valuation Profession and International Valuation Standards (IVS)
Post the Global Financial Crisis
Mr. Elvin Fernandez, Malaysia

The valuer profession is a sunrise industry, amidst financial complications around us.

The bursting of the US real estate bubble “subprime” in 2008 was variously analyzed by prominent scholars, e.g. it was a small bubble detonator for the bursting of a larger super bubble. Another viewed this as a regulatory failure, based on people’s daringness to take on ever increasing risk, creating an imbalance. Yet another viewed it as a depression that was greater than the Great Depression of the 20’s. Debate continues among mainstream neoliberal economists, e.g. Keynesian ‘pump-priming is good for the short term, but not for the long term Vs Schumpeter’s ‘creative destruction’.

Volatility of real estate is too dangerous, and extreme volatility has to be curbed through policy and policy design. Real estate was a key feature of financial crisis over the past 200 years, e.g. Thailand’s ‘Tom Yum Kung’, the Asian financial crisis, the Japanese debacle, and the recent ‘Hamburger’.

All this suggests that there was a systemic failure of the global financial system, desperately calling for greater scrutiny in the form of proper valuations. And inextricably linked to proper valuation of real estate, inevitably, are international standards. We need valuation standards for the following main reasons:

- **Industry-wide valuations**
  Industry-wide valuations conducted at high levels of integrity and competence. The entire profession has to move up, not just the top level valuers. Real estate supports the banking system, e.g. lending. It is the valuers who are behind all bad loans and bank collapses. Valuers’ performance should be measured against the standards, this alone would lead to stability in the financial system. Standards has to be robust and continuously updated. The security commission now has user specific standards, requiring valuers to do many more things.

- **Robust and continuously updated valuation standards**
  There is an urgent and acute need for standards as a solution. Valuations are key to the functioning of market based economies, hence standards lead to efficiency in the economy, e.g. Valuations in the securitization of property, and in the future possibly expanding to derivative markets. Everyone must wants it, e.g. the public also needs protection from being taken to court, and can sue the valuer who is sub-standard.

  Professional indemnity is mandatory in order for a valuer to enter the panel of banks. Professional indemnity is the biggest cost item in Australia, and is increasingly affecting other valuers all over the world. Exorbitant premiums are attached to professional indemnity, and premiums can be reduced with good, firm standards.

In Malaysia’s historical aspects of valuation standards, the concept of values was developed by valuers. The IVS was founded in 1981, gathering momentum, starting from financial
instrument for financial reporting, then expanding to all real estate, and further on to personal property (plant and machinery), businesses, and financial interests as well. There are 3 methods: market value standard, base market value, valuation reporting. Underneath the big umbrella are applications, guidance notes, etc.

IVS is principles based (not rules based like USA, more prescriptive). It has both power and reach, and can be applied to large economies like the US.

IVS has also come to address market value, discounted cash flow (market economic analysis that IVS has introduced to valuers). IVS guide notes prescribe that all valuations must be market derived. The resultant cannot be called a market value if it is not market derived.

Accountants are searching for ‘fair value’. Thus accountants also rely on valuation standards and valuation techniques. E.g. Accountants see published price quotations as fair value, which is precisely what valuers have all along been commonly using, namely the ‘comparison approach’. Convergence of standards is still in progress.

With the changing times, IVSC has restructured itself to a higher level. There is commonality in the value process, for real estate, businesses and financial instruments. The restructuring involved a close examination of accounting standards. The new IVSC (council) structure has new items, such as the valuing of financial instruments, etc. Convergence is being attempted under the IVSC banner. The working draft of the new IVSC can be viewed at www.ivsc.org
The Integration into the World Economy of ASEAN—
The Impact to Valuation Profession
Ms. Tran Thi Muoi, Vietnam

ASEAN country members are at varying levels of development, particularly in valuation. This offers an opportunity for ASEAN members to come together to solidify common interests, remedy the discrimination in international trade among each other, creating a competitive environment for the ASEAN bloc. With ASEAN integration, legal provisions on valuations can be updated to meet the standards of the international valuation practice.

For the valuation profession, ASEAN integration can bring about developments. The difficulties range from different standards in valuation between Vietnam and other ASEAN countries, weak database system for doing valuations in Vietnam. In Vietnam, valuation profession is very young, and there is inadequate financial resources and manpower to build a strong valuation brand.

Vietnam’s vision is to achieve many goals of valuation by 2015:
- Issuing ASEAN valuation standards
- Having ASEAN governments issue a legal system and a management system
- Promoting policies governing valuation work through mutual cooperation and mutual assistance among ASEAN as well as Laos and Myanmar
- Developing a real estate market, stock and financial market in each ASEAN country
- Valuation human resources upgrade, through short term and long term training, as well as valuation training organized by AVA
- Developing a database system and market information within each ASEAN country, through national experts
- Brand building strategy for valuers within each ASEAN country, designing strategic action plans for both short term and long term

Integration into the World economy has opened up both challenges and opportunities for ASEAN countries. AVA’s role is critical for the issuing of ASEAN valuation standards and key to developing the valuation profession.
Valuers are international, they are allowed to cross borders to work in any country. Leon Cheneval himself is a corporate trainer and certified practicing valuer who has moved to Vietnam, and speaks at this AVA event on behalf of Vietnam Valuers Association.

Having dealt with 155 lending institutions, he found that the relationship between banks and valuers are absolute. Banks rely completely on the valuer’s report. The banking institution’s perception is that the valuer’s judgment is firm and valid, and as such, should be held liable for negligent reports.

Cheneval has in a legal context had to argue both for and against valuers. He believes the valuation profession is an art that requires high expertise and high standards. Cheneval’s presentation today focuses on valuation for lending purpose, with some reference to the valuation markets and property decrease in countries such as USA, Australia and England.

Valuation of real property has a direct and critical relationship with mortgage lending. In Vietnam, market transactions are difficult to obtain and where a ‘fancy sale’ occurs a valuer must be able to recognise and know not to rely on and should be disregarded as a market transaction.

Rules of conduct include skill, care and diligence and we were reminded in an earlier talk of the valuers obligations to comply.

Mortgage lending has the highest risk. PI is the biggest cost, bringing home the truth that valuers have to be careful. Mortgage valuers can be trained to follow mortgage valuation standards, to support clear, independent and objective opinions. Standards are easy to read and easy to understand. Standards are the first thing that the court of law looks at. An expert is handsomely rewarded to look for clues and loopholes suggesting negligence in a valuation report.

A bank who gives a mortgage has an outcome, to be repaid, or to recover. However, the fees for mortgage valuation are not worth the responsibility and risk. If there are insufficient funds, then valuers are the first to be blamed and litigated. ‘Undue influence’ results when a valuer gives away his integrity. Banks should not play the role of the valuer, as banks needs independent assessment (by us valuer-experts) of value, untainted, unbiased, not under undue influence to ‘do a deal’.

The most critical piece of any valuation process is the agreement with the lending institutions—the instructions, policies and procedures that have been discussed in detail prior. Otherwise the valuer is open for litigation and a litigation case can cost many hundreds of thousands of dollars.

The lender is obliged to act prudently in their lending, and to provide clear and defined instructions to the valuer. The valuer has to develop a close relationship with credit managers (must keep minutes of meetings with each and every credit manager), because the valuer also has to meet all disclosure requirements, e.g. flooding. Investment properties (income producing) have to be real, accurate and up to date (check tenancy, visit the site in person, check the neighbours, as people make up fictitious information). If it is an owner-occupied
property, do they really own it? Leases between two related parties have to be checked on market value. E.g. the property’s value drops if the ‘blue chip’ tenant has to move out suddenly again ask the neighbours to get hands on feel for the market.

Sales incentives are not uncommon, e.g. rental income guarantees. Specialized properties may be an extractive/mining industry or two neighboring industries that rely on each other to be successful (therefore the bank may have to take both as security).

Valuers have to build a relationship based on trust, expertise, and being the best in the business. The valuers have to take the lead and consider telling them what to do, nicely of course. Be the leader in your area of expertise.

When selling a property under duress, there is a difference in price, as it has not been given a fair marketing period, so the valuer needs to be able to interpret such an event. Will this property sell if it’s put up for sale under a mortgagee arrangement? 

Banks need to do regular reviews of their portfolio. Valuers are the ones responsible for thinking about who the buyers will be in say 30, 60 or 90 days. If there is no buyer for a product/commodity, then values drop.

Cheneval addressed the new concept of mortgage lending value: A long term, risk assessment technique, and is not a basis of value. This should be documented in a clear and transparent way. Valuers should put on the lender’s hat. Would you lend money if you were the bank officer. Cheneval cautions that too much emphasis has been placed on estimated market value and purchase price, both of which may not be market value.

It is the sole responsibility of the valuer to do his homework on finding what the market value is, and to be accountable for an accurate valuation. Code of ethics for valuers, not to accept any reward other than the valuation fee, must also be a consistent concern for valuers. As ASEAN develops, litigation in the future is possible against both individual valuers and firms.

The conclusion stated, build and maintain strong relationships with credit managers, and set out the rules of conduct and engagement at the start, not after the event. Be a great expert, be relevant and well informed.
Panel Discussion on ASEAN Valuation Standard

Chair: Dr. Lim Lan Yuan, Singapore

Nominated Panelists:
Ms Maslina Abu Bakar, Brunei
Mr. Sung Bonna, Cambodia
Mr. Okky Danuza, Indonesia
Ms. Kwang Heng Lee, Singapore
Mr. Pairat Monthapan, Thailand
Mr. Leon Cheneval, Vietnam

Pairat Monthapan, Thailand
Mr. Pairat expresses concern that each country has their own standards, with different guidelines. For example, AVA standards for conflict of interest may be challenged by non-ASEAN members. However, AVA standards drafted by Dr. Lim is of benefit region-wide. Adopting Thai standards may not be accepted by other members, therefore having an AVA standard to lean on not only support the acceptance of our work, but also increase knowledge and foster development of the profession by the ASEAN family.

AVA standards may be confusing for some situations, e.g. some countries adopt AVA, IVSC and other standards. If we emphasize AVA standards, then we neglect other existing standards. But if we execute AVA standards for only certain parts of the report, then a report could end up leaning on several standards.

Okky Danuza, Indonesia
Indonesia already adopted the IVS. But the role to decide which standards to apply is the decision of AVA clients. E.g. if cross border valuation is done for an Indonesian client, then I would base the valuation report on Indonesian standards. International standards would be based upon for an international valuation report.

The alternative is already there, and already adopted, therefore there is no need for another standard.

Leon Cheneval, Vietnam
International standards are there for a reason—they are easily recognizable by clients and banks. Applying a new standard would require buy in from clients and banks, this may cause some confusing. Use regional standards by all means, but international standards are already there, so use it!

Kwang Heng Lee, Singapore
Why go up so high, we should also come down to the basics, the fundamentals for the younger AVA members. We can look at the practice—the process, principles, and the next step for the practicing valuer. With cross border valuations, we can have a consensus, providing a consistency for the ASEAN. IVS talked about principles and not the practice. Furthermore, the definitions seem to be quite skewed towards the accounting profession.
Maslina Abu Bakar, Brunei
We don’t have our own standards, but we refer to the international standards and adopt ‘best practices’. AVA as a group, with developed and just emerging valuation profession would really help us as a check and balance, so that we know where we are standing, benchmark our practices and checking if our capabilities are on par with other AVA members. AVA standard means we all can speak with the same language and have a common understanding on valuation matters. Having an AVA standard would be really helpful for us.

Bonna Sung, Cambodia
We are the youngest one, still developing skill and knowledge. We prefer to go in the direction that is international, but before that, we have to pass the ASEAN standard first. So we want to follow the ASEAN standard. We don’t want to walk the wrong way, so the starting point is important. Therefore, we support an AVA standard.

Elvin Fernandez, Malaysia
IVSC is high level and principles based. In the whole of ASEAN, there is a process of greater integration and a common market style economy a la EU. Europe has the GOBA standard for themselves, accommodating European needs. Therefore, if we have an ASEAN valuation standards, it does not mean overriding national levels. We can have 3 levels—national level for specifics, regional level to address commonalities in the ASEAN, and international level. If ASEAN does not have rules based standards or best practices, then in 10 years we will be a mess (IVS is principles based). We can draw national requirements from the ASEAN standards and then draw national particulars from there. Young countries in the region like Cambodia, Laos and Myanmar can just take the ASEAN standards and adapt it. Having an ASEAN standard doesn’t mean having to make it mandatory all over the member countries.

Chairman’s Comment
There are pros and cons, it is not clear whether it is good to have an ASEAN standard. Some ASEAN countries have a more advanced valuation profession than others. Therefore we have to see how we can reconcile the two. Those countries who are emerging needs guidance from the regional level, not from the high level international standards.

The standards would be more useful when we have cross border transactions among ASEAN itself, i.e. have a common platform. But we need to address the conflicts between the valuers standards. If we really want to proceed with the ASEAN standards, we should form a task force committee to look into it, just like what the IVS committee does.

The Chair called for comments from the floor

Dato Mani Usilappan, Malaysia (from the floor)
ASEAN standard is not something new, we have been talking, pushing it back and forth for over 10 years. IVSC is international, but it is very difficult to apply, e.g. it gets modified. The Malaysian and Singapore standards are quite similar, with extra guidance notes. Each country must at least have a standard for herself. Perhaps each country’s
standards can be brought together for us to work on something that is common, that we all can understand and apply in every ASEAN country. The control over national standards of course has to be done by the country itself, be it institution or government based. IVS is just a little more detailed than the Malaysian standards.

The IVSC is very very difficult to follow, and the language they use is questionable, British or American import? There is great illusions and confusion, especially in the methodology. Malaysia is confused because Malaysia is influenced by both British and American standards.

**Kwang Heng Lee, Singapore**

We had to follow different professions for different things, and gets confusing. For me, we should go back to the basics, and get our fundamentals right first, perhaps in the ASEAN standards.

**Pairat Monthapan, Thailand**

When we face the regional level, we wonder who will get punished. For the definition, it might not matter. But we should be concerned about punishment. IFRS is also changing, and so our standards with our committee will have to follow up on changes in the world. This is usually encouraged, but we ASEAN valuers need a tool for this.

**Leon Cheneval, Vietnam**

We need to set minimum guidelines. We need the buy-in of different institutions for a new AVA standards, and this might prove difficult. We AVA have a responsibility, as younger countries like Cambodia need our guidance. I know that my colleagues in Vietnam seek an AVA standard, I would like to take something solid back. Therefore, we need a guideline for now, let’s look at baby steps, set deadline for input from all parties and then back to all to approve.

**Elvin Fernandez, Malaysia**

If we were to adopt IVSC in AVA and nothing else, then we would not be meeting our real needs. ASEAN is also so diverse, so we all would be going our own different ways in adopting the local guidance or best practices (standards are on one hand, and how to do it is known as best practices). Local content, or best practices, or standards or guidelines—we need it, however it is conceptualized. As we move towards ASEAN integration, ASEAN common market.

And suppose we were to go to ADB for funding, they would ask lots of questions. But if AVA has higher chances of getting funding if we cite commonality, integration, common development of standards at the national level.

**Chairman’s Comment**

We can see that there are 2 parts: Property valuation is very much localized. But meeting financial reporting standards (MMCs, accounts etc.), then we can adopt international standards.

We also have to talk about implementation and control: what is the force, or consequence if you don’t comply by it?
We have raised a lot of issues. A task force would have to be formed to look into this. We can build it up, to see if there is a commonality which can be used for those who do not have local standards yet.

There are pros and cons, but at the end we can come up with a list of pointers.

**Pairat Monthapan, Thailand**

Please be aware that we also have to look at other assets besides property, e.g. goodwill.

**Leon Cheneval, Vietnam**

We need baby steps. We need a plan of action, whether you call it guidelines or not. You really need to set up a committee to get together to draft it. We can discuss compliance afterwards and action for non compliance when and where its needed. It is hard to set up self-disciplinary action. Good standard, good best practice guidelines— are all we need. Put the rules/code of conduct in there too. Work on it for 3 weeks and we can sign off on it. 10 years of debate has to come to a conclusion. We as the ASEAN group of assisted can be more productive.

*Enter Dr. Surin Pitsuwan, Secretary-General of ASEAN*

*(To be edited by Dr. Surin)*

ASEAN is not supposed to interfere in internal affairs. But I just got here this morning, and ran into Mr. Pratak, who insists that I should come in to meet you all.

Valuers in ASEAN is doing what is exactly in sync with what ASEAN is doing, integrating very systematicall, and very quickly. The charter came in 2007, and ratified in 2008. We have had it in full force for a year and a half. We have a big C – the 3 pillars—which was discussed in Hanoi last week, with Hillary Clinton, Japan, New Zealand, Canada, and all the ASEAN foreign ministers (27 foreign ministers), all talking about security in East Asia and ASEAN.

I believe ASEAN is given a new birth with the Charter. ASEAN has created the East Asia Summit (EAS). Now we have agreed that the US and Russia are going to come in. This kind of interest is going to make the region more dynamic, more interesting, and certainly more focused in the international arena, on the screens of the global network. That is political insecurity.
With that, we will move on to ASEAN Economic Community (AEC). The Ministers of Finance are driving that pillar, and that is where AVA will be coming in—where we integrate 10 into 1. All 10, all of you, will move cross borders. Valuers in Thailand should be able to practice in Malaysia. Property valuers in the Philippines should be able to practice in Indonesia. Already, there are 7 professions that can move across borders in ASEAN, dentists, hospitality professionals, etc. and…surprisingly, surveyors, not valuers.

Of course we have some hesitation, reservation, and inertia (we don’t want to open up that quick that fast), but the day will come. If you want one market, if you want to promote your investments, real estate, sales, buying, selling develop, you need some kind of measurement of market, so that people move across borders can feel confident.

It is also an ASEAN way to discuss this for 10 years. ASEAN takes time. We have come this far, but we continue to be in the driver seat. The fact that India and China are growing, emerging giant economies, and we are in the middle. Yesterday the big debate all over the news was how to keep the South China Sea stable, safe and open, upon which we all depend. ASEAN is in the driver seat moving on this.

Socio-cultural is the other pillar, e.g. can we all co-host the World Cup together. Each of us already have one or two good stadiums. All 10 can host the World Cup. Nothing can bring international attention to us more than hosting the World Cup.

On top of being Indonesian, Singaporean, Cambodian, etc., we are also ASEAN. I encourage all of you to think seriously about bringing some form of measurement, maybe a bandwidth, Thailand in the middle, Singapore and Malaysia further up, but we all have something called the ASEAN bandwidth, which outsiders can feel confident when they see valuation from ASEAN.

The Chairman continues

We are looking at the minimum guidelines and would like your help in setting up the standards, especially promotion. I myself as AVA Sec-Gen, applied for funding and could not get it because we are not socio-cultural or humanitarian etc. So we would like your help (to get funding).

We have to bear in mind that there are 2 stages of development. The first thing we could do is to find out what exactly on the ground first. We have to see what should be in, what should be out. We should focus on real estate first. We can just copy, we don’t have to reinvent the wheel. We can do it quickly, then think about the implementation and control, particularly about the conflict.

Education is really important. We need to disseminate, to teach people about the guideline. I am tempted to condense the IVSC into a small booklet, but it is so complicated. Asians take only 1 sentence to make completely clear what the British would require paragraphs for.

Thank you very much for your contribution.
Panel Discussion on Strengthen Cooperation among ASEAN Valuers

**Chair:** Dr. Lim Lan Yuan

**Nominated Panelists:**
Mr. Mohd Don Omar, Brunei
Mr. Sung Bonna, Cambodia
Mr. Okky Danuza, Indonesia
Dato Mani Usilappan, Malaysia
Ms Gan Bee Gee, Singapore
Mrs. Somnuan Laohaprasit, Thailand

**Chairman’s Introduction**

This panel discussion is a good way to conclude the Congress. After three days of discussions, it’s good to see how we can continue to strengthen cooperation among ASEAN valuers. There is no specific topic. We would just like panelists to express their views on how we can bring about cooperating among ASEAN.

**Mohd Don Omar, Brunei**

It is heartening to listen to the RICS president talking about the integration of the EC. A few minutes ago, Dr. Surin was also talking about the ASEAN economic community. I feel that this is a platform for working together among ASEAN valuers. If you can recall 7 professions have already agreed to allow cross-border work in ASEAN. Perhaps it is something that we valuers can consider. For us in Brunei, you mentioned earlier about the different levels of advancement of the profession in ASEAN. In this context, I must admit that we belong to the lower level, mainly because of the size of the market and the population of Brunei. We only have 400,000 people, and only 7% of total land can be developed. The rest of the land is forest reserve that cannot be developed, and because of this, developing our market is limited.

One area that our ASEAN members can help us is in training, by being external moderator for a diploma course that we have in Brunei. We have been taking in external moderators from Australia. There is a requirement of continuous professional development hours (10 hours) for our valuers.

For the 1st time in the history of our land law, this year 2010, our country is opening up our market for foreign investors to invest in strata units, so this is an area that we need assistance.

Brunei, like other countries, will be forming a board. This is an issue that can be discussed. What we can do is a kind of cooperation between local practitioners and ASEAN partners to work together in areas where we might not have the expertise.

These are the two points that I would like to put forward for discussion.
Dato Mani, Malaysia
The wide level of education and training, e.g. Singapore and Malaysia which are equivalent to international standards Vs Laos and Cambodia. Most ASEAN countries have tertiary institutions, however, for initial stages, there is a great need for training for countries that are just beginning. Professor Lim has the services to do that, and Malaysia has also been receiving lots of requests, e.g. INSPEN director is here, and would be happy to package training programs for any country that require them.

Malaysia is short of local textbooks on the ASEAN view. Most are British or American textbooks, which confuses me who has been doing valuation work for 40 years. The British and Americans talk a different language, they are two countries separated by a common language. The word valuer is not recognized in the Microsoft software, because Americans call themselves appraisers. There are also conceptual differences in the methodology of British and Americans, and if you followed either, you could get very wrong answers. Therefore we have to decide for the region whether to go the American or British way. There is a very real need.

In terms of CPD development, we can attend conferences in other countries as well.

In terms of businesses, the scene that we see has foreign brands all backed by banking institutions. These commercial banking institutions are making headway in Europe and America. ASEAN has to create its own brands.

I think we owe a duty to the governments of the day to see how property and real estate investment can improve, e.g. buying property in KL or Singapore, what sorts of regulations etc. We now have valuations that are very general, sometimes open sometimes closed, sometimes restrictive or not. Valuers can have an important role in this area.

Cross border practicing—the real need now is common understanding in terms of qualifications. We need to come to a stage where in ASEAN we can recognize the minimum qualification, which can be recognized by the licensing bodies of each country.

Somnuan Laohaprasit, Thailand
To strengthen AVA, we have to think about strengthening the valuation firms. Otherwise, we won’t have today. Over my 20 years in this profession, we have faced so many problems, e.g. education and transferring knowledge to valuers, but new valuers can make mistakes during their real practice process. This profession is high risk, low return. Most of the big firms shrink Valuation Department to only a few staff, and take only big projects. I hope that AVA can help the local valuation firms, so that they can survive.

I would like AVA to find a common basis, and find some measurement tools to help the profession to be sustainable.

Gan Bee Gee, Singapore
I notice that the young are hungry to advance, and the experienced are willing to share and to learn. I think that this is a very good and open platform. The more experienced countries like Singapore, Malaysia and Thailand can lend some help to our younger
AVA countries. There are two main areas that I can see. One area is in training and education. In this area, we can guide countries like Cambodia and Vietnam to grow the standards to catch up with the standards that are going on in the real estate valuation, whether locally, regionally, or internationally.

In Singapore, our real estate market is very dynamic and changing very quickly. Singapore is willing to share its experiences with the younger countries. Singapore has also offered to train the younger countries.

The second area is on conferences and congresses which are good platforms, to discuss problems and come up with solutions etc. My view is that we are heading in the right direction, putting aside differences in each country’s customs and tradition.

The Sec-Gen of AVA has come up with a suggestion that while we strengthen AVA countries, we can also form alliances with world organizations, e.g. WAVO. We should keep AVA intact, and forge alliances with world organizations, so we can go into the world arena with more confidence while keeping AVA intact.

Mr. Okky Danuza, Indonesia
I agree that education is the answer. Why don’t we start the training of ASEAN valuation, with the competency of Asia. This will encourage young valuers like me. In the training, we can, like Singapore and Malaysia, package the training in ASEAN standard of competency, so that we can call it the ASEAN valuation training. Why don’t we form the package of ASEAN valuation training.

Sung Bonna, Cambodia
We are a baby country, and we lack financial. My idea is not only to talk about training and education. We really need that, but my idea is that there are a lot of retired AVA members who can help Cambodia as volunteers, e.g. during work training.

Cambodia is also beginning to collect property tax and transfer tax. So it is quite difficult to get through this. We need it as soon as possible, not just talking and thinking. We need the old, experience people and country to help my country.

Chairman’s Comments
We understand that in different countries, there are different kinds of needs. The needs are higher in some for training, and we need to see how we can meet those needs. The forms of cooperation, such as meetings, but the question is the frequency; and dissemination of information. We have the 1st AVA journal, just landed a research project grant of USD 5000 each year.

In terms of training, we might have an ASEAN Valuer training scheme. Any individual ASEAN country could contribute to the program. Another is the issue of local textbooks. We usually use textbooks from US and UK. We should have some textbooks that cater to the ASEAN context.

We still need to strengthen further the cooperation among ASEAN. I hope that AVA will take on board some of these suggestions.
If there is no contribution from the floor, I would like to conclude the panel discussion by thanking our panelists.
The Infrastructure Development in Thailand:  
The Increasing Trend in Asset Value  
Supoj Chawawiwat, Associate Professor  
Faculty of Commerce and Accountancy, Thammasat University

This report was presented by Supoj Chawawiwat (Professor, Faculty of Commerce and Accountancy, Thammasat University) for the seminar of the Asian Valuer Association (AVA) which is held in Bangkok during July 2010.

Introduction

This paper aims to present the data of the Thai government plan so-called the Tenth National Development Plan (2007-2012) which emphasized on moving Thailand toward a more geographically economy under the situation of ASEAN and China integration by attempting to mention only the data contributing to the investment decision and the valuation idea of the people in the real estate society. The more detailed focus will also be presented for the development plan of the Northern axis cities where have exhibited disappointing performance over the last decade although they are standing in a very good potential comparing to the other parts of the country both in term of natural resources and location linking to China. This has been considered as a big opportunities lost of the country. And this is reason why the area has been put as the front priority to be developed under the Tenth National Development Plan through the series of the infrastructure development projects which will be provided by the author in detail so that can hopefully bring the foreseen picture for the tendency of the real estate value in these Northern axis cities which benefits to all the interested investors.

Overview of the Thai Government’s Tenth National Development Plan (2007-2012)

For the main content of the Tenth National Development Plan, the author may describes that the plan is more clearer in emphasizing on developing in the term of geographic clusters around the country as discussed below.

The national government has designated the provinces of Petchaburi, Prachuap Kiri Khan, Chumporn, and Ranong as the Thai Riviera. This represents an excellent regional development decision, given that in the 1990s the region was previously designated as an industrial zone, known as the western seaboard. Support to development of an amenity economy in the region should result in much improved socio-economic and environmental outcomes. However, the relatively developed northern provinces, Petchaburi and Prachuap Kiri Khan, with a well-developed amenity economy, stands in sharp contrast to the southern provinces of Chumporn and Ranong where tourism has actually been in decline since 1997 (measured in terms of real output). Since implementation of the Thai Riviera concept will result in a coastal amenity city of approximately one million people, the paper stresses the need for high quality clustered development (necklace urban form) based on public-private partnerships. An over-reliance on tourism can be prevented by encouraging development of a more diversified amenity economy; for example, boutique agriculture, higher education, retirement communities, and medical services. The Chumporn Airport should be revitalized.
to provide direct international access to the region; at present the Thai Riviera suffers from remoteness from Suvarnabhumi and Phuket International Airports.

The eastern seaboard (ESB) has been the core industrial area of Thailand and Southeast Asia for the last two decades. However, since 1997, its economy has faced both increasing competition, particularly from China, as well as a decreased role as the driver of the Thai economy, the result of the rapid emergence of high end services in core Bangkok such as medicine and design. This has implications in terms of competition for skilled labor. Nonetheless, the recent opening of the Suvarnabhumi International Airport immediately to the west of the region has given this geographic cluster new life. The national government has designated the concept for revitalization of the ESB, *Green and Brown Eastern Seaboard*.

**Figure 1: Green Brown Eastern Seaboard**

The Brown (industrial) core of the region has been expanded from the three traditional core provinces of Chachoengsao, Rayong, and Chonburi to included Samut Prakan, a traditional heavy industrial province near Bangkok. It has also been expanded northwards to include Prachin Buri, where automotive and particularly Japanese electronics FDI is increasingly evident, as well as industries utilizing bio products; for example, cosmetics. The Government is supporting development of a green periphery to the region, designed to contribute to a more diverse regional economy by developing an amenity and high-value agriculture periphery. The periphery includes Nakon Nayok—where Kao Yai National Park, the closest large green space to Bangkok, is located—as well as three provinces along the Cambodian border known for agriculture, beach tourism (in the case of
Trat), cross-border tourism, and gems. Of particular importance for the development of the region’s periphery is Koh Chang island, Thailand’s newest major tourist destination. Future development of the overall ESB region faces a number of challenges, particularly water supply, labor shortages (both high end in electronics and low end in harvesting agricultural crops), and fierce industrial competition from east Asian competitors, many of which have lower cost systems for industrial structures such as factories. Priorities identified include the need to continue to upgrade Pattaya as the transportation and amenity hub of the region, including five-star hotels that are built/upgraded; improve intra-region transportation, particularly logistics systems in the brown zone and links to the Suvarnabhumi Airport; and to market the region better among the international business community as a place to diversify investment risks while resident and visiting executives enjoy a high quality living environment.

The third geographic cluster explored is greater Phuket, which has successfully overcome the impacts of the tsunami disaster in economic terms and numbers of visitors. Unlike the south of the Thai Riviera, emerging provinces in greater Phuket, including Phang Nga and Krabi, already have viable tourist economies which by 2015 will draw more tourists than the region’s center, Phuket province. We advocate that the latter re-structure its economy to become a truly international knowledge city, a concept promoted by Thailand’s National Economic and Social Development Board. For example, the lack of adequate office space for national and international footloose knowledge workers should be addressed, and tourism should be facilitated in moving up market, given emerging carrying capacity constraints on Phuket island. There is a need to better integrate the region as a whole, both through better transportation, such as with an arc highway, and international marketing to take advantage of Phuket’s brand name. Beach communities need improved infrastructure; for example, sidewalks and waste water treatment.

The fourth geographic cluster is the northern axis cities of Chiang Mai, Chiang Rai, and Lampun which have exhibited disappointing performance over the last decade. Population is falling and real economic growth has been stagnant in this region. The region has failed to position its tourism product effectively, while suffering from an international shift toward beach tourism; Thailand enjoys more comparative advantage in beach tourism. Many opportunities have been lost; for example, high end agro-business such as cut flowers and temperate mushrooms, undertaken very successfully in nearby Yunnan province, and distinct boutique tourism. In terms of economic relationships with nearby China, there has not been enough emphasis in marketing products and services in which Thailand enjoys a comparative or competitive advantage; for example, in spas, jewelry, Southeast Asian oriented international education, excellent hotels enabling circuit tourism, and Thai and traditional Chinese cuisine. There is a need to deepen the region’s role as a design center, and position it as a knowledge interface between Southeast Asian and China. The foregoing should be facilitated by strong strategic planning for the region; emphasizing its advantages, and improvement of cross-border infrastructure, particularly the A-3 surface link to China which will be elaborated into detail in the later section in this report.
**The Northern Axis**

**Regional Definition**

The geographic cluster of the northern axis is defined as the provinces of Lampun, Chiang Mai, and Chiang Rai. These three provinces constitute the development axis that runs from the twin cities of Chiang Mai-Lampun to Chiang Rai, and onwards to the main corridor to China, the A3 Axis, which starts at Chiang Kong. See Figure 2.

**Figure 2: Clusters and Spatial Dynamics**
In conventional economic terms, Thailand’s northern axis is performing poorly. For example, real incomes in Chiang Mai and Chiang Rai Provinces are no higher than in 1997, before the financial crisis (See Table 1 and 2). Per capita incomes in nearby Yunnan province of China are higher than in the north of Thailand, a dramatic reversal of the past. In some ways this is surprising, given northern Thailand’s proximity to China, the world’s fastest growing major economy, and likely the world’s largest economy by 2040. The region faces many challenges, as detailed below.

Table 1: Chiang Mai Provincial Product at Constant Prices 1997-2004

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<tr>
<th></th>
<th>1997</th>
<th>2004</th>
<th>Change</th>
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<tbody>
<tr>
<td></td>
<td>(Millions of Baht)</td>
<td>(%)</td>
<td>(Millions of Baht)</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5,816</td>
<td>11.6</td>
<td>5,106</td>
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<tr>
<td>Manufacturing</td>
<td>7,163</td>
<td>14.3</td>
<td>4,950</td>
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<tr>
<td>Wholesale and Retail Trade</td>
<td>9,933</td>
<td>19.8</td>
<td>8,513</td>
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<tr>
<td>Hotels and Restaurants</td>
<td>2,878</td>
<td>5.8</td>
<td>3,941</td>
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<tr>
<td>Others</td>
<td>24,328</td>
<td>48.5</td>
<td>24,449</td>
</tr>
<tr>
<td>GDP</td>
<td>50,118</td>
<td>100</td>
<td>46,959</td>
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</tbody>
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Table 2: Chiang Rai Provincial Product at Constant Prices 1997-2004

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<th>1997</th>
<th>2004</th>
<th>Change</th>
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<tbody>
<tr>
<td></td>
<td>(Millions of Baht)</td>
<td>(%)</td>
<td>(Millions of Baht)</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3,321</td>
<td>16.5</td>
<td>4,540</td>
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<tr>
<td>Manufacturing</td>
<td>698</td>
<td>3.5</td>
<td>932</td>
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<tr>
<td>Wholesale and Retail Trade</td>
<td>6,084</td>
<td>30.3</td>
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<td>Hotels and Restaurants</td>
<td>536</td>
<td>2.7</td>
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<tr>
<td>Others</td>
<td>9,448</td>
<td>47.0</td>
<td>10,017</td>
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<tr>
<td>GDP</td>
<td>20,087</td>
<td>100</td>
<td>20,680</td>
</tr>
</tbody>
</table>

Source: National Economic and Social Development Board.
Challenges

1. An inability of the northern axis to position itself to take advantage of proximity to China; for example, current cross-border strategies prepared by the Thai Government often *chase* activities that Yunnan can do as well or better; for example, medicines, manufacturing and food processing; rather than activities where Thailand might enjoy competitive advantage; for example, in medical care, jewelry, aviation logistics, and high-end tourism like spas, high-priced “soft” adventure, and world-class hotels. The region’s inability to reposition itself has meant less than expected benefits from increased interaction with China, partially based on the Free Trade Agreement. To a considerable degree, the expectations detailed in Greater Mekong Region (GMS) strategies since the early 1990s, supported by the Asian Development Bank, have not been met.

2. Slow and expensive highway flows of trucks between China and Thailand along A-3/3 because of the lack of a bridge crossing at Chiang Khong, poor road conditions, and “informal” toll charges by Laos on through trucks (currently approximately 10,000 Baht per truck). Because of political and administrative instability in Myanmar that have resulted in road blocks and charges, the road from northern Thailand to China through Myanmar is not a practical alternative.

3. An increase in the competitiveness of Nanning, relative to Kunming, is resulting in the latter becoming the dominant gateway to ASEAN. For example, Nanning is now the site of the Sino-ASEAN Expo, Nanning-Hanoi is now an official GMS Corridor. The Nanning-Hanoi Corridor is a much shorter route to the ocean than is Kunming-Chiang Rai - Laem Chabang. This shift in Chinese and GMS spatial dynamics favors Vietnam over Thailand, and is underlined by the fact that Guangxi Province, China, is now an official member of the GMS. Map 3 shows this expected shift in GMS linkages by 2012.

In order to develop the economy in this northern area through these challenges, The Thai government by the Ministry of Transport had launched the investment for logistics project into this area as the detail below.

The Project for the Thai Northern Development under the Challenges

To create the opportunity to the country under the challenges mentioned above, Ministry of Transport which is responsible for the strategy on Transport and Logistics Network Optimization has started up an important project incorporated with China to build up the 5th Mekong Crossing Bridge linking Huey Sai in Laos to Chiang Khong in Chiang Rai province by specifying Chiang Khong in Chiang Rai province as the gateway for Southern China and the planned Pakbara deep sea port at Satun in the Southern part of Thailand as the

---

1 In early 1990s, initiated by Asian Development Bank, the six countries along the Lancang Jiang-Mekong Rivers, namely Cambodia, China, Laos, Myanmar, Thailand and Vietnam, established the economic cooperation mechanism in the greater Mekong subregion, internationally known as the Greater Mekong Subregional Cooperation, in which the greater Mekong is the general designation of Lancang Jiang River (the Yunnan section in China) and Mekong River (the section in the south-central peninsula in Asia).
gateway to the Andaman sea as shown in Figure 3, with three subsequent strategic agendas namely;

1) Development of new gateway on Andaman sea to cater for growth in international trade and from new industry development in the region.
2) Development of logistics network for both domestic and international network.
3) Promote and support use of energy efficient transport mode which will lead to reduction in transport cost for both private business and for the country.

Furthermore there will be a rail linkage between these two gateways. This concept is in line with the North – South Economic Corridor of the Asian Development Bank which will open new trade lane and gateways between Southern China and Middle East, Africa and Europe by passing through Thailand.

Figure 3: Railway Connecting Chiang Khong and Pakbara creating opportunity for new trade Lane
To support the road transport between Thailand and China through Laos by the new Asian highway R3E and this 5th Mekong crossing bridge, Ministry of Transport of the Royal Thai Government sees the need of intermodal facilities at Chiang Khong where will be used for transshipping cargo containers between the trucks of both countries or between the container truck from China and the rail linked to the new planned gateway project, Pakbara deep sea port at the southern part of Thailand.

Use of Intermodal Facilities

Development of intermodal facilities is crucial in supporting logistics activity. The successful facilities will reduce overall transport cost by facilitating modal shift from road to rail which is more energy efficient, with less pollution and better safety. The development will also create jobs and income distribution for the area.

The intermodal facilities at Chiang Khong which is connected with railway system to Pakbara port or other ports on the Andaman sea will open new gateway for the goods from Southern China to Middle East, Africa and Europe which previously have to pass through the South China sea, the Pacific ocean and the Malacca strait.

Main Functions of Inter-modal Facilities

The intermodal facilities will have four main functions as follows:
1) Connecting two more transport modes,
2) Reduce transport cost and increase transport efficiency,
3) Reduce pollution from transport by increasing rail transport activity.

For Chiang Khong, the area is located with good access to the new Mekong bridge (under construction) and is near and on the north side of the planned Chiang Khong industrial estate in which the Industrial Estate Authority of Thailand has a plan to develop in the future. If the development will really takes place, the area within the industrial estate will be a good option to locate the intermodal facilities. Figure 4 shows locations of the facilities.
Figure 4: Locations of the facilities
The intermodal facilities at Chiang Khong which will cater for Chinese cargo transported on the highway and further shipment by rail to Pakbara can be shown in the form of model layout as illustrated in Figure 5.

**Figure 5: Layout of the Intermodal Facilities concept at Chiang Khong**

The Hinterland in China for the Chiang Khong Inter-modal Facilities

To study and forecast cargo flows that will pass through the intermodal facilities at Chiang Khong, there is a need to analyze trade potentials as well as geographic condition and transportation network.

Based on the above analytical factors, the southern China is identified as being the hinterland of this project or having potentials to use the facilities, especially; the four large Chinese economic provinces in this region namely; Yunnan, Sichuan, Guizhou and Chongqing metropolitan which so far have depended on the very far-end ports on the east coast of the country as their gateway for international trade. The location of these Chinese provinces is shown in Figure 6 below.
Figure 6: Four provinces and metropolitan in Southern China that can potentially import and export goods through Chiang Khong.
Forecast of Goods Through the Intermodal Facilities

The study has analyzed goods movement statistics between Southern China, Thailand, Middles East, Africa and Europe and made forecasted volumes which could potentially be passing the intermodal facilities. This cargo movement forecast has taken into account various future trade developments including free trade agreement and the growth rate of China’s trade by collecting from the world trade atlas. Then, The future cargo volumes derived from the growth rate were broken down to be the figure trade of each mentioned four Chinese provinces which is expected to pass through Chiang Khong to and from the other countries when having this 5th Mekong Crossing Bridge and Chiang Khong Inter-modal Facilities. The proportionate figures used for breaking down the above total Chinese trade figure were calculated from the Conjoint Analysis\(^2\) of Stated Preference basing on the interview data from the Chinese importers and exporters in those provinces through this following Multinomial Logit form:

\[
\begin{align*}
\log P_i &= \log\left(\frac{P_i}{1-P_i}\right) \\
\log P_i &= \beta_1 (COST_i - COST_j) + \beta_2 (TIME_i - TIME_j) + \beta_3 (RELIA_i - RELIA_j) + \\
&\quad \beta_4 (FREQ_i - FREQ_j) + \beta_5 (FLEX_i - FLEX_j) + \beta_6 (TRNF)
\end{align*}
\]

Hence; \(i\) = the proposed trade route, \(j\) = the other alternative trade route.

- **COST** = Total Freight Cost
- **TIME** = Time Spent on the Route
- **RELIA** = Dependability Factor in term of percentage of arriving on time
- **TRNF** = Transshipment Pattern to other transport mode which is represented by 0 if there are more than one time of changing the transport mode before transferring containers to the main ocean vessel carrier but represented by 1 if there is no any change.
- **FREQ** = Frequency of Transport Service per Month
- **FLEX** = Flexibility of Transport Service in term of the shortest time in hour for changing transport service type after receiving the new request from transport user.

The forecast by using the above model is also carried out along these following pessimistic assumptions;

1. The rail link service extended from either Denchai or Chiang Mai where is now the final station to the Intermodal Facilities at Chiang Khong would be completed in the mid of 2012-2027 which can swap the cargo containers from trailer truck to rail system linked to either Leam Chabang port or the ports in Singapore or Malaysia. Therefore, once the 5th Mekong Crossing Bridge is completed in 2012, this Intermodal Facilities at Chiang Khong would be the place for swapping the cargo.

\(^2\) The term “conjoint analysis” means decomposition into part-worth utilities or values of a set of individual evaluations of, or discrete choices from, a designed set of multi-attribute alternatives. A number of different paradigms are now available to researchers interested in applying conjoint analysis to study consumers’ travel decisions. These paradigms have in common the use of experimental or quasi-experimental design techniques to construct sets of multi-attribute alternatives (for example, travel modes described by different combinations of values or levels of attributes such as travel time, travel cost, etc.). Despite a common reliance on experimental design techniques to construct combinations of attributes, the various conjoint analysis paradigms differ in (a) response modes used to obtain information from subjects, (b) methods of analysis, and (c) inferences that can be made about judgment or choice behavior.
containers between the Chinese truck and the Thai truck which may transport the cargo containers to / from those above two rail stations.

2. The construction of the deep sea port at Pakbara with the spur track linked to the main rail line would be completed and be ready for operation around the mid of 2027-2042 which can perform as another gateway for the studies four provinces in China.

All of the final forecasted figures derived from the above mentioned methodology are shown in this following set of tables below:

**Table 1: The Volume of Export and Import Container from and to the Four Chinese Provinces through Chiang Khong for the Year of 2012**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>LCL (1,000 TEU)</th>
<th>FCL (1,000 TEU)</th>
<th>Total TEU (1,000 TEU)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
</tr>
<tr>
<td>Thai-China</td>
<td>0.30</td>
<td>0.88</td>
<td>2.74</td>
</tr>
<tr>
<td>China-Malaysia</td>
<td>0.25</td>
<td>0.67</td>
<td>2.28</td>
</tr>
<tr>
<td>China-Singapore</td>
<td>0.26</td>
<td>0.29</td>
<td>2.32</td>
</tr>
<tr>
<td>China-Others</td>
<td>0.56</td>
<td>4.39</td>
<td>5.07</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.38</strong></td>
<td><strong>6.22</strong></td>
<td><strong>12.41</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>7.60</strong></td>
<td><strong>68.38</strong></td>
<td><strong>75.97</strong></td>
</tr>
</tbody>
</table>

**Table 2: The Volume of Export and Import Container from and to the Four Chinese Provinces through Chiang Khong for the Year of 2027**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>LCL (1,000 TEU)</th>
<th>FCL (1,000 TEU)</th>
<th>TEU รวม (1,000 TEU)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
</tr>
<tr>
<td>Thai-China</td>
<td>0.80</td>
<td>2.30</td>
<td>7.22</td>
</tr>
<tr>
<td>China-Malaysia</td>
<td>0.67</td>
<td>1.75</td>
<td>6.01</td>
</tr>
<tr>
<td>China-Singapore</td>
<td>0.68</td>
<td>0.75</td>
<td>6.10</td>
</tr>
<tr>
<td>China-Others</td>
<td>1.48</td>
<td>11.56</td>
<td>13.34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.63</strong></td>
<td><strong>16.37</strong></td>
<td><strong>32.67</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>20.00</strong></td>
<td><strong>180.00</strong></td>
<td><strong>200.00</strong></td>
</tr>
</tbody>
</table>
Table 3: The Volume of Export and Import Container from and to the Four Chinese Provinces through Chiang Khong for the Year of 2042

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>LCL (1,000 TEU)</th>
<th>FCL (1,000 TEU)</th>
<th>TEU รวม (1,000 TEU)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
</tr>
<tr>
<td>Thai-China</td>
<td>1.80</td>
<td>5.18</td>
<td>16.22</td>
</tr>
<tr>
<td>China-Malaysia</td>
<td>1.57</td>
<td>4.12</td>
<td>14.12</td>
</tr>
<tr>
<td>China-Others</td>
<td>3.46</td>
<td>27.02</td>
<td>31.17</td>
</tr>
<tr>
<td>Total</td>
<td>8.46</td>
<td>38.12</td>
<td>76.14</td>
</tr>
<tr>
<td>Grand Total</td>
<td>46.58</td>
<td>419.19</td>
<td>465.77</td>
</tr>
</tbody>
</table>

Source: Author and the study team.

Hence;

LCL = Less-than Container Loaded or the container which the cargoes inside are belonged to several cargo owners.

FCL = Full Container Loaded or the container which the whole cargoes inside are belonged to single owners.

TEU = Twenty Equivalent Unit or the standard size of a 20 feet container

As could be seen from the set of tables above, there is an increase in goods movement due to the development of the intermodal facilities. Study results conclude that freight volumes shipped to and from China through Thailand should be between 76,000 - 466,000 TEU/year for the year between 2012 to 2042, which transport volume is considered quite large.

**Development of Intermodal Facilities**

The Development of Intermodal facilities supporting the 5th Mekong Crossing Bridge at Chiang Khong will comprise the following zones;

1) Export zone comprise warehouse, cross docking platform, packaging area, container yard, truck parking, transshipment area, rail tracks,
2) Import zone comprise warehouse (including bonded warehouse), container yard, cross docking, truck parking, customs building, rail tracks,
3) Central zone for operation and management and providing services comprise accommodation, office building, maintenance depot, gas station, weight station and/or office spaces for private operators as required.
Apart from the above buildings, there will be internal road as well as electricity, water work, telecommunication. The amount of land required is estimated at 132800 square meters; 52800 square meters for rail tracks and transshipment area and the rest 80000 square meters for various buildings and facilities.

**Economic Benefits of Intermodal Facilities**

By using the analogy analysis comparing to the similar Intermodal Facilities project elsewhere like; Intermodal Project at Duluth, South Carolina Inland port, Port of Huntsville and Port of Erie in United State and such projects at Tomakomai Port and Kashima Port in Japan, we would expect that the project would likely to, more or less, increase not only the number of employment but also the income per capita to the community in Chiang Khong area.

The consequence of having Duluth Intermodal Project could create direct job benefit in the city of Duluth, the economically distressed area in U.S. due to its per capita income being 20 percent less than the U.S. average, and also stimulate the Essar Steel expansion, supported by the TIGER investment, which created up to 500 manufacturing jobs in Nashwauk, Minnesota. These jobs were induced as a result of the production by civil engineering construction companies to accommodate the demand for resources in order to complete the project and the increased volume of general cargo transiting the Port of Duluth after the project was completed. There were also the indirect impacts which resulted from the quantity of inter-industry purchases necessary to support the increase in production from the construction industry experiencing new demand for its goods and services. All industries that produce goods and services consumed by the construction industry also increased production and hired new workers to meet the additional demand. There was also the increase of the indirect impacts determined from the inter-industry trade within the area. These induced impacts stemmed from the re-spending of wages earned by workers benefiting from the direct and indirect activity within area. The study on these impacts found that the increase in demand led to new employment and earnings in a set of industries, workers in these industries spent some proportion of their increased earnings at local retail shops, restaurants, and other places of commerce, further stimulating economic activity.

For the South Carolina Inland Port (SCIP), it also appeared that the project could create direct employment growth that arose from various construction, operation, and maintenance activities associated with building and sustaining the inland port.

In the case of the Port of Huntsville, the project could increase employment nearly 15000 workers, with a combined payroll of $ 600 million. These jobs, and the spending associated with them, create a multiplied regional impact of 28594 jobs and $971 million in total payrolls.

For the Eric to Nanticoke Freight Ferry project, it had been found that the project had provided the Appalachian Region with two distinct benefits; an increase in intermodal freight throughput at the Port of Erie and a new international gateway to Canada (the United States’ largest trading partner). As with the development of any intermodal facility, and increase in activity and service offerings had translated into increased economic activity and job creation. Direct economic stimulation and job creation had been derived from the daily
operations of the Port of Erie gateway and intermodal facility. In addition, there was also the secondary benefits emerged in areas surrounding the Port of Erie, as commerce was attracted by the new and improved transportation and logistics services.

In Japan, it was found that after 10 years of having the Tomakomai and the Kashima port which are the type of Intermodal Facility, the standard of living of the people over there had been increased dramatically when comparing to the economic situation before their existence. In addition, there were also the tremendous increase in the level of the education, the quality of medical service and the culture recreation of the Japanese in those provinces. This similar development also happened at the Leam Chabang in Chonburi, Thailand, after having the deep sea port in that area.

Therefore, we quite believed that after the Chiang Khong Intermodal Facility project was completed and launched for operation, Chiang Khong would not be the exceptional case of not following those increasing trends. Basing on the impact study submitted to the Thai government, it has been expected that the project would contribute the direct and indirect benefit to the area economy over the 30 years period (2012-2042) with the economic internal rate of return (EIRR) around 20.2 percent. This would consequently push up the local demand for residential housing and other properties around that area.

Conclusion

From the whole country development information mentioned above, if we focus only the impact of those development projects to the real estate sector, we could conclude that once the whole projects under the 10th Plan were completed each in each region would bring the different type of demand to the real estate sector. For instance, North and Eastern will be the same type for worker housing and industrial estate while the south would bring the demand for housing for resort and leisure. Therefore, Thailand under these development is quite a good opportunity land for every kind of the real estate investors.

The above recommendation conclusion can be reaffirmed by the past performance of the industry which has shown the steady growth since the 1997 financial crisis in Thailand. Even though there was the 2008 global financial and political instability crisis happening along the way, the Thai real estate market was still fairly robust and not much affected by these situations. The industry and the Thai government seems to learned their lessons during 1997 financial crisis and have successfully implemented the following safeguards:

- The banking industry has become much more cautious providing project financing and mortgage loans.
- The new government’s economic stimulus measures implemented in the early 2008 could increase sentiment and result in the Thai economy and the housing market’s growth during the year of crisis. These measures included the investment in infrastructure; especially for transport sector such as Bangkok mass transit line extensions and rail lines etc., and the reduction for real estate transfer taxes and fees. The specific tax on real estates transfer was lowered from 3.3 percent to 0.1 percent. In addition, property transfer registration fees were reduced from 2 percent to 0.01 percent and mortgage registration fees were decreased from 1 percent to 0.01 percent. All these immediately reduced up-front costs for home buyers and ultimately lower overall home purchase prices. However, in the present, the government has stopped these above tax
incentive measures because they believed in the real estate market stability and its strength to the impact from global economy.

- Real estate developers themselves are also more cautious and many have professionalized their operations. Compared to 1997, they are able to respond much more quickly and effectively to supply and demand imbalances. Many of them have developed and implemented market research technologies and monitor the market closely. As a result, the financial condition of most major housing developers is much more robust than in the pasts.

- The increase in domestic savings caused by the consumer caution on spending and the low consumer confidence because of unstable political and economic environments has helped the industry feel easy to seek for the local source of fund with low interest rate and be much less dependent on foreign funds, a significant difference from 1997.

Therefore, the growing trend of the real estate market, which is stimulated by all investment projects under the Tenth National Development Plan, on the strong industry foundation mentioned above could regain the confidence of all investors especially foreign investors to the real estate market in Thailand.

Anyway, the author would like to put the small final remark for reserving the above recommendation that the serious monitoring and, more importantly, subsequent nationally and regionally based action by the government to make such development projects a reality is also needed.
Geography and Climate

Brunei Darussalam is situated on the north-west of the island of Borneo, between east longitudes 114 degrees 04' and 11 degrees 23' and north latitudes of 4 degrees 00' and 5 degrees 05'. It has a total area of 5,765 km² with a coastline of about 161 km along the South China Sea. It is bounded on the North by the South China Sea and on all the other sides by Malaysian State of Sarawak.

Physical Features

The land surface is developed on bedrock of tertiary age comprising of sandstone, shale and clays. The terrain in the western part of Brunei Darussalam is predominantly hilly lowland below 91 metres, but rising in the hinterland to about 300 metres. The eastern part of the state consists predominantly of rugged mountain terrain, rising 1,850 metres above sea level at Bukit Pagon. The coast has a wide, tidal and swampy plain.

Climate

Brunei Darussalam has an equatorial climate characterized by a uniform high temperature, high humidity and heavy rainfall. Temperatures range from 23 - 32 Degree Celsius, while rainfall varies from 2,500 mm annually on the coast to 7,500 mm in the interior. There is no distinct wet season.
Monarchy

Brunei Darussalam is an independent sovereign Sultanate which is governed on the basis of a written Constitution passed in 1959 (recently amended in 2004). Its long history can be traced back to almost a thousand years ago when it existed as one of the oldest kingdoms in the region with documented evidence that it existed as a Hindu-Buddha city state in the year 414.

His Majesty Sultan Haji Hassanal Bolkia Haji Muizzaddin Waddaulah ibni Al-Marhum Sultan Haji Omar Ali Saifuddien, the 29th Sultan and Yang Di-Pertuan of Brunei Darussalam is the supreme executive authority in Brunei Darussalam. His Majesty the Sultan and Yang Di-Pertuan also has occupied the position of Prime Minister since resumption of Brunei Darussalam's full independence in 1984. He is also the Minister of Defence and the Minister of Finance.

Brunei Darussalam's administrative system before its full independence in 1984 was centred around the office of the Chief Minister and the State Secretariat and after independence is centred on the Office of the Prime Minister and a political and administrative structure based on a full ministerial system with specific portfolios.

Government

Under the Constitution, His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam is the Head of State. Currently as the Prime Minister, His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam is also the Head of Government. A number of advisory councils are also appointed under the constitution to exercise their authorities in their respective areas. These include the following:

- Succession and Regency Council
- Privy Council
- Legislative Council
- Council of Cabinet Ministers
- Religious Council
His Royal Highness Crown Prince Haji Al-Muhtadee Billah Ibni His Majesty Sultan Haji Hassanal Bolkiah Mu’izzaddin Waddaulah is the Senior Minister at the Prime Minister’s Office. There are:

- Ministry of Defence
- Ministry of Finance
- Ministry of Home Affairs
- Ministry of Foreign Affairs and Trade
- Ministry of Development
- Ministry of Health
- Ministry of Energy
- Ministry of Education
- Ministry of Religious Affairs
- Ministry of Communications
- Ministry of Culture, Youth and Sports
- Ministry of Industry and Primary Resources
Culture

Brunei's culture mainly derived from the Old Malay World, which encompassed the Malay Archipelago and from this stemmed what is known as the Malay Civilisation. Based on historical facts, various cultural elements and foreign civilisations had a hand in influencing the culture of Brunei. Thus, the influence of culture can be traced to four dominating periods of animism, Hinduism, Islam and the West. However, it was Islam that managed to wound its roots deeply into the culture of Brunei hence it became a way of life and adopted as the state's ideology and philosophy. Brunei Darussalam is richly endowed with cultural heritage steadfastly maintained until today.

Islam is the official religion of Brunei Darussalam as stated in the Brunei Constitution, with His Majesty the Sultan and Yang Di-Pertuan as the head of the Islamic faith in the country. Thus Islam plays a central role in the life of every Muslim in Brunei Darussalam. Other faiths practiced in the State include Christianity and Buddhism.

Capital and Towns

Brunei Darussalam is divided into four districts namely Brunei/Muara, Tutong, Belait and Temburong. Bandar Seri Begawan is the capital of Brunei Darussalam with an area of about 16 sq. km. The famed Water Village of Brunei (Kampong Ayer) is also located here. Other towns are Muara, about 41 km to the north east of Bandar Seri Begawan where the chief port is located, Seria which is the seat of oil and gas industry, and Kuala Belait, Pekan Tutong and Bangar which are the administrative centres of Belait, Tutong and Temburong Districts respectively.

Population

The population of Brunei Darussalam in 2009 is estimated at 406,000 persons. This estimate includes all people residing in Brunei Darussalam. Malay, which also included Brunei Indigenous communities of Malay, Kedayan, Tutong, Belait, Bisaya, Dusun and Murut, constitutes the major population group.

Malay, Kedayan, Tutong, Belait, Bisaya, Dusun, Murut 66.3%.
Chinese 11.2%
Other races 11.8%
Iban, Dayak, Kelabit 6%
In January 2008, His Majesty Sultan Haji Hassanal Bolkiah, Sultan and Yang Di-Pertuan of Brunei Darussalam authorised the launching of Brunei Darussalam’s National Vision or Wawasan. Brunei Darussalam today enjoys one of the highest standards of living in Asia. Its per capita income is one of the highest in Asia and it has already achieved almost all the target of the Millennium Development Goals. Its standards of education and health are among the highest in the developing world. This has been largely the result of political stability created by His Majesty’s Government’s investment of oil and gas revenues in infrastructure and in the development of far-reaching programme of social welfare. Current prosperity, however, cannot be taken for granted. If the people are to continue to enjoy their high standard of living, planning must take account of a number of emerging social and economic facts.

- Although oil and gas resources have contributed much to the nation’s prosperity, economic growth has, on the whole, not kept pace with population growth.
- The public sector that is the main employer of the majority of the citizens and residents can no longer adequately absorb the growing numbers of young people wishing to enter the work force each year.
- There is a widening gap between the expectations and capabilities of the nation’s youth and the employment opportunities currently being created.
- The oil and gas sector that makes up about half of the economy and over 90% of export earnings employs less than 3% of the work force.
- The local business community continues to be weak and is unable to create the employment opportunities now required.

In order to offer its people a bright and prosperous future, Brunei Darussalam must, therefore, adapt to change and all that this entails by way of ambition, innovation and bold planning.

The challenge facing the nation lies in finding ways to do this successfully whilst, at the same time, upholding the values upon which the nation has developed and progressed.
ACHIEVING BRUNEI 2035

There is a need to develop and implement an integrated and well-coordinated national strategy comprising the following key elements:

- **An education strategy** that will prepare Brunei’s youth for employment and achievement in a world that is increasingly competitive and knowledge-based.
- **An economic strategy** that will create new employment for the people and expand business opportunities within Brunei Darussalam through the promotion of investment, foreign and domestic, both in downstream industries as well as in economic clusters beyond the oil and gas industry.
- **A security strategy** that will safeguard Brunei’s political stability and its sovereignty as a nation and that links Brunei’s defense and diplomatic capabilities and Brunei’s capacity to respond to threats from disease and natural catastrophe.
- **An institutional development strategy** that will enhance good governance in both the public and private sectors, high quality public services, modern and pragmatic legal and regulatory frameworks and efficient government procedures that entail a minimum of bureaucratic “red tape”.
- **A local business development strategy** that will enhance opportunities for local small and medium sized enterprises (SMEs) as well as enable Brunei Malays to achieve leadership in business and industry by developing greater competitive strength.
- **An infrastructure development strategy** that will ensure continued investment by government and through public-private sector partnerships in developing and maintaining world-class infrastructure with special emphasis placed on education, health and industry.
- **A social security strategy** that ensures that, as the nation prospers all citizens are properly cared for.
- **An environmental strategy** that ensures the proper conservation of Brunei’s natural environment and cultural habitat. It will provide health and safety in line with the highest international practices.

To realise this *Vision of Brunei 2035* or *Wawasan 2035*, the strategies listed above will need to be developed by both government and private bodies and implemented as a well-coordinated national strategy.

Source: Brunei Darussalam Long-Term Development Plan, Wawasan Brunei 2035
Brunei’s 9th National Development Plan

In its effort to stimulate economic growth, the Brunei Government is actively promoting the development of various target sectors through its five-year National Development Plans. These outline the distribution of government funding and the budget allocated for development in various sectors of the country.

The current 9th National Development Plan (2007-2012) marks a strategic shift in the planning and implementation of development projects, as it is the first national development plan to have been formulated in line with the objectives of Brunei Darussalam’s “Wawasan Brunei 2035”, or “Vision Brunei 2035”.

<table>
<thead>
<tr>
<th>9th NATIONAL DEVELOPMENT PLAN (2007 - 2012)</th>
<th>$9.5 billion</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Allocation (BS)</strong></td>
<td>BS$</td>
<td>%</td>
</tr>
<tr>
<td>Industry and Commerce</td>
<td>1,024,965,460</td>
<td>10.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>101,771,500</td>
<td>1.1</td>
</tr>
<tr>
<td>Forestry</td>
<td>65,368,000</td>
<td>0.7</td>
</tr>
<tr>
<td>Fishery</td>
<td>115,839,960</td>
<td>1.2</td>
</tr>
<tr>
<td>Industrial Development</td>
<td>404,334,000</td>
<td>4.3</td>
</tr>
<tr>
<td>Commerce &amp; Entrepreneurial Development</td>
<td>38,514,000</td>
<td>0.4</td>
</tr>
<tr>
<td>Pulau Muara Besar</td>
<td>299,138,000</td>
<td>3.1</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>1,067,038,300</td>
<td>11.2</td>
</tr>
<tr>
<td>Roads</td>
<td>568,535,000</td>
<td>6</td>
</tr>
<tr>
<td>Civil Aviation</td>
<td>114,527,000</td>
<td>1.2</td>
</tr>
<tr>
<td>Marine and Ports</td>
<td>26,753,000</td>
<td>0.3</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>116,517,000</td>
<td>1.2</td>
</tr>
<tr>
<td>Radio and Television</td>
<td>118,241,300</td>
<td>2.4</td>
</tr>
<tr>
<td>Postal Services</td>
<td>12,465,000</td>
<td>0.1</td>
</tr>
<tr>
<td>Social Services 'A'</td>
<td>1,294,267,900</td>
<td>13.6</td>
</tr>
<tr>
<td>Education</td>
<td>822,468,500</td>
<td>8.7</td>
</tr>
<tr>
<td>Medical and Health</td>
<td>149,152,000</td>
<td>1.6</td>
</tr>
<tr>
<td>Religious Affairs</td>
<td>27,180,600</td>
<td>0.3</td>
</tr>
<tr>
<td>Human Resource Development</td>
<td>295,466,800</td>
<td>3.1</td>
</tr>
<tr>
<td>Social Services 'B'</td>
<td>1,761,451,800</td>
<td>18.5</td>
</tr>
<tr>
<td>Government Housing</td>
<td>23,281,000</td>
<td>0.2</td>
</tr>
<tr>
<td>Public Facilities and Environment</td>
<td>182,500,800</td>
<td>1.9</td>
</tr>
<tr>
<td>National Housing</td>
<td>1,555,670,000</td>
<td>16.4</td>
</tr>
<tr>
<td>Public Utilities</td>
<td>1,492,717,900</td>
<td>15.7</td>
</tr>
<tr>
<td>Electricity</td>
<td>587,904,000</td>
<td>6.2</td>
</tr>
<tr>
<td>Sanitation</td>
<td>178,013,000</td>
<td>1.9</td>
</tr>
<tr>
<td>Water Supply</td>
<td>524,573,900</td>
<td>5.5</td>
</tr>
<tr>
<td>Drainage</td>
<td>202,227,000</td>
<td>2.1</td>
</tr>
<tr>
<td>Public Buildings</td>
<td>672,958,800</td>
<td>7.1</td>
</tr>
<tr>
<td>Science, Technology and R &amp; D</td>
<td>165,178,400</td>
<td>1.7</td>
</tr>
<tr>
<td>ICT</td>
<td>1,145,687,800</td>
<td>12.1</td>
</tr>
<tr>
<td>Security</td>
<td>596,789,000</td>
<td>6.3</td>
</tr>
<tr>
<td>Royal Brunei Armed Forces</td>
<td>421,286,000</td>
<td>4.4</td>
</tr>
<tr>
<td>Police</td>
<td>175,503,000</td>
<td>1.8</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>278,944,640</td>
<td>2.9</td>
</tr>
<tr>
<td>Contingency Reserves</td>
<td>244,944,640</td>
<td>2.6</td>
</tr>
<tr>
<td>Site Development</td>
<td>15,000,000</td>
<td>0.2</td>
</tr>
<tr>
<td>Consultant Fee</td>
<td>15,000,000</td>
<td>0.2</td>
</tr>
<tr>
<td>Liabilities for Completed Project</td>
<td>4,000,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Department of Economic Planning and Development
Brunei Darussalam’s Current Property Development

Brunei’s property market has a lot to look forward to at the moment, because there has been so many improvements and changes being done in Brunei such as the implementation of the Land Code (Strata) Order 1999; the Licensing of Value and Estate Agent Act; the completion of Sungai Liang Industrial Park; the development of Pulau Muara Besar; the current development of National Housing Projects; and the creation of Bandar Seri Begawan Development Master Plan. The property market in Brunei Darussalam has seen a slight improvement in the progress of its rental and capital values for the last couple of years. The most improved area expected would be the commercial and office side of Brunei’s property distinctively because of Brunei municipal area expansion, and also because of the drastic development of commercial areas in Brunei Darussalam as a whole.

The Current Situation Of Bandar Seri Begawan

Brunei’s capital city, Bandar Seri Begawan has expanded from 12.87 km² to 100.36 km² with effect from 01st August 2008.
With the expansion of Bandar Seri Begawan, the Municipal Board Act Chapter 57, has imposed a 12-per cent Building Tax since 2008 on commercial buildings and residential buildings as well. This 12% tax is the first for practically all commercial and home owners that are affected by the confluence of Bandar Seri Begawan area so a lot of mixed reactions were expected from them.

Valuation Methods:

I. **Rental Valuation**
   For houses, apartments or buildings that are tenant to others; where the annual rental value is used.
   = Rental Value Per month X 12 months
   = Annual Rental Value X 12% (could be less, depends on the services)
   = Amount of tax to be paid.

II. **Estimated Valuation**
   For houses, apartments or buildings that are owner-occupied; the valuation is based on the floor area calculated with the estimated rate used by the Municipal.
   = Floor Area X $yy.yy/m² X 12 months
   = Annual Estimated Value X 12% (could be less, depends on the services)
   = Amount of tax to be paid.
The Estimated rate used by the “Ratings & Revenue Section” of the Municipal Board:

(i) House / Building In Central Business District Area

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building – Office / Shop</td>
<td>$10.80 - $12.90 per m² / month</td>
</tr>
<tr>
<td>Building – Business and Residential</td>
<td>$5.40 - $8.60 per m² / month</td>
</tr>
<tr>
<td>Building – Residential</td>
<td>$2.20 per m² / month</td>
</tr>
</tbody>
</table>

(ii) House / Building Outside Central Business District Area

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building – Office / Shop</td>
<td>$8.60 per m² / month</td>
</tr>
<tr>
<td>Building – Business and Residential</td>
<td>$4.30 per m² / month</td>
</tr>
<tr>
<td>Building – Residential</td>
<td>$1.10 per m² / month</td>
</tr>
</tbody>
</table>

(iii) Others

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouses, Stores, Petrol Filling Station and Work-shops</td>
<td>$10.80 per m² / month</td>
</tr>
<tr>
<td>“Site Office”</td>
<td>$5.40 per m² / month</td>
</tr>
<tr>
<td>“Labour Quarters”</td>
<td>$1.10 per m² / month</td>
</tr>
<tr>
<td>Cinema / Theatres</td>
<td>$8.60 - $10.80 per m² / month</td>
</tr>
</tbody>
</table>

Source: Ratings and Revenue Section, Municipal Board (To be revised soon)
Brunei Economic Development Board [BEDB]

The BEDB (Brunei Economic Development Board) is a statutory board established by His Majesty The Sultan and Yang Di-Pertuan of Brunei Darussalam in November 2001 to be the leading economic development agency for Brunei Darussalam. Their mission is to contribute to Brunei Darussalam’s success as a land of opportunity for its people and all investors. Currently, BEBD is the main key-players in Brunei’s development for both property and economically. They are currently concentrating on THREE (3) major development projects, that is, “Sungai Liang Industrial Park [SPARK]”; “Pulau Muara Besar (Muara Island) Project [PMB]” and “Brunei’s National Housing Projects”.

Sungai Liang Industrial Park [SPARK]

The BEDB is developing SPARK located on a 271 hectare site at Sungai Liang as a world class petrochemical hub. The first major investment at SPARK is the USD 450 million Methanol Plant developed by the Brunei Methanol Company (BMC), a joint venture between Petroleum Brunei and two leading Japanese companies, Mitsubishi Gas Chemical and Itochu. Construction of BMC’s Methanol Plant was completed in 2009 and in May 2010, His Majesty The Sultan and Yang Di-Pertuan of Brunei Darussalam officially launched the opening of the methanol plant of Brunei Methanol Company (BMC). Construction of the Single Point Mooring System has also been completed and has started facilitating the transport of Methanol exports direct to offshore tankers after the success of the BMC’s manufacturing its first methanol product in April 2010.
SUNGAI LIANG AUTHORITY

SPARK is administered by the Sungai Liang Authority (SLA), a body corporate established by His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam to support the development of a globally competitive industrial and petrochemical hub. The SLA provides a single-point of access for timely approvals and other administrative processes required by investors at SPARK. Through its innovative industrial management solutions, the SLA aims to foster a business-friendly environment to support the business activities of local and international investors.

INFRASTRUCTURE WORKS

The SLA is currently developing the following infrastructure works at SPARK:

- **SPARK Zone Village** – a Single Point Access Administration Hub that houses amenities and facilities such as conference and meeting rooms, open office spaces for rent, a multipurpose hall, an exhibition hall, banks, pharmacy, eateries and retail shops
- **Security Fencing** around the perimeter of SPARK with a high security guard post, closed-circuit television (CCTV) and radio frequency identification (RFID).
- **Dual and Single Carriageways** for ease of traffic flow within SPARK.
- **Service Corridors** for connection to utilities.
- **Storm Water Drainage System** for wastewater discharge; and
- **Street Lightings** for a well lit industrial park.
Pulau Muara Besar Project [PMB]

At PMB situated in Brunei Bay, the BEDB will begin work on an integrated development comprising a container port, export processing zone and manufacturing hub.

With the consent of His Majesty, the BEDB has appointed International Container Terminal Services Inc (ICTSI) from the Philippines as the port operator for the container port to be developed at PMB. ICTSI is a major international port operator with market capitalization of USD 1.5 billion and with operations in 11 countries including China, Indonesia, Japan, Poland, Brazil and Philippines.

The BEDB has also appointed a consortium led by Surbana from Singapore to develop an integrated master plan for PMB. The Surbana led consortium has 40 years experience in planning, designing, developing and managing infrastructure projects in 41 cities in 20 countries including Suzhou Industrial Park in China and King Abdullah Economic City in Saudi Arabia.

CONTAINER PORT AND MANUFACTURING COMPLEX

Pulau Muara Besar (PMB) is an island strategically located in Brunei Bay next to Muara, Brunei’s principal port, making it an ideal site for a deep sea container port. Seeing the opportunity to meet the growing transportation needs of the country and the region His Majesty’s Government reserved a 955 hectare site on PMB in 2003. The potential extends much further. A manufacturing complex for major industries including an aluminium smelter and an export processing zone for halal food are among other medium to heavy industries within the plans for the PMB project.

A feasibility study concluded that the container port is viable for the following reasons:

- The country’s strategic location along the East-West maritime trade route
- The proximity of the island to naturally very deep water required by mega-sized container ships
The growing trend in transhipment activities

The concept of PMB is to develop the island into three major zones:

1. Economic Zone
2. Lifestyle & Tourism Zone
3. Community Zone

The island will be developed in phases, with the first phase of the development to include:

- Dredging and reclamation for the expansion of the island and new eastern channel;
- Basic infrastructure such as roads, bridge to link PMB to mainland;
- 660m quay for the container terminal

Key industries that will be set up in the first phase of development include:

- Container Terminal
- Refinery
- Marine Supply Base
PMB Island Specs

PMB Island before reclamation : 955 hectares
PMB Island after reclamation : Approximately 2000 hectares
Export Processing Zone : Approximately 100 hectares upon full development
Manufacturing and other industries : Approximately over 800 hectares

Port Project Specs

<table>
<thead>
<tr>
<th>Plan</th>
<th>Proposed Phase 1</th>
<th>Full Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quay Length (Berth)</td>
<td>660m</td>
<td>5,000m</td>
</tr>
<tr>
<td>Water Depth</td>
<td>-16m</td>
<td>up to -20m (if required)</td>
</tr>
<tr>
<td>Commercial Development</td>
<td>Container Terminal</td>
<td>Supporting development opportunities</td>
</tr>
<tr>
<td></td>
<td>Refinery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Marine Supply Base</td>
<td></td>
</tr>
</tbody>
</table>

BEFORE DEVELOPMENT

ARTIST’S IMPRESSION UPON COMPLETION
The development of Brunei’s infrastructure will play a major role towards increasing economic competitiveness and enhancing Brunei’s attractiveness as an investment destination. Towards achieving a high quality of life in line with Vision 2035, an Infrastructure Development Strategy was formulated to ensure continued investment by government and through public-private sector partnerships in developing and maintaining world-class infrastructure. The strategy calls for:

- The provision of adequate social infrastructure particularly public housing, healthcare and education
- Adoption of appropriate legal and regulatory frameworks to promote investment in social and industrial infrastructure, including privatisation and public-private partnerships (PPP)
- Ensuring that funding is available for all priority government infrastructure projects
- Reviewing the way government infrastructure contracts are awarded and managed in order to ensure that these contracts are implemented on time and cost effectively.

THE BEDB’S NATIONAL INFRASTRUCTURE PROJECTS
As demonstration of Brunei’s commitment to Infrastructure Development, the BEDB has been tasked to handle several strategic projects under Brunei’s Five Year National Development Plan 2007-2012.

- **National Housing Projects**
  In light of the rapidly growing number of citizens applying for houses under the National Housing Scheme, the BEDB has been tasked to undertake three pilot projects for the construction of low-cost houses under the Scheme. Three sites have been allocated for the following districts:

  **Kg Panaga in Belait District** where the BEDB is undertaking the construction of 2000 Houses in 24 months. The project was awarded to Bina Puri Holdings of Malaysia. Construction is already underway and scheduled for completion in 2011.

  **Kg Mengkubau in Brunei Muara District** where the BEDB will be overseeing the construction of 4000 Houses in 48 months. The project has been awarded to UEM Builders Berhad, an international contractor owned by Khazanah Nasional of Malaysia.

  **Kg Bukit Beruang in Tutong District** where the BEDB will oversee the construction of 1500 Houses in 18 months.

Source: Brunei Economic Development Board
What To Expect Of Brunei’s Future Property Development?

A land availability study conducted by the Town and Country Planning Department under the Ministry of Development concluded that Brunei has only 5.1 per cent of its remaining unconstrained land area available for development. Only about 28,825 hectares of Brunei’s land area can be used for the country's development in areas such as industry and housing. To date 76 per cent of Brunei's land area of 5,765 sq km is covered by forest, with 58 per cent of the total land area allocated to the Heart of Borneo initiative.

- **Residential**
  Currently a total of 263 houses worth about $20 million will be constructed under the Landless Indigenous Citizens Housing Scheme for Kampung Sungai Buloh and Tanah Jambu Kanan. The construction of the houses, which is under the National Development Plan 2007-2012, is expected to be completed in July next year. Under the National Development Plan 2007-2012, the government has allocated $1.5 billion for the National Housing Scheme and the Landless Indigenous Citizens Housing Scheme. By 2014, an additional 17,500 houses will be available, but these houses can only accommodate half of the estimated 30,000 applicants on the waiting list.

- **Commercial**
  Revitalisation of commercial office spaces, development of commercial retail complexes, township and urban area development concentrating in Bandar Seri Begawan and Jalan Tutong areas.

- **Industries**
  Industrial properties in Brunei are still the same where industrial estates are constructed and prepared by BINA, Ministry of Industry and Primary Resources

- **Others**
  Brunei Shell Petroleum (BSP) with the cooperation of government departments within the Belait District is currently developing the near-completion “Mukim Seria Multi-purpose Hall”. There are also other new buildings nearby, such as a “bowling centre” and a “cinemaplex” that is expected to develop and enhance the image of Seria Town, attracting locals and foreign tourists. The bowling centre cost approximately $5 million which include facilities such as a 24-lane bowling centre, bowling equipment store, as well as eateries like cafés, two cinemas, an arcade and so on.
The Integration of ASEAN – Effects on the Valuation Profession
Robert Peto, President of RICS

Summary

Robert Peto, RICS Global President will look at the global challenge facing valuation and valuers. He will review the trends and drivers that are shaping the destiny of the worldwide valuation profession today, and the role RICS is playing in setting the direction for success.

He will make the case for professionalism in a highly commercial and profit driven market. On this backdrop he will reflect on the challenge of valuing to a high standard in a market with little in the way of reliable comparable evidence and where the concept of market value has been interpreted in many ways.

With IFRS and International Valuation Standards becoming ever more prevalent Robert will give a clear explanation of how the RICS implements IVS through its valuation practice rules commonly known as the Red Book, with some reflections on European integration and lessons for the ASEAN region.

He will also look at the exciting developments in how RICS self regulates generally and also specifically in the valuation discipline.

He will conclude by providing a compelling argument as to why the valuation needs to upskill and be ready to meet the challenges of the future.
**Education and Training for Valuers in Malaysia**  
Prof. Sr. Mohd Yunus A. Rahman, FISM, MRICS  
and  
Assoc. Prof. Sr. Abd Rahman Mohd Noor, FISM, MRICS, MPEPS  
Department of Estate Management, University of Technology MARA Malaysia

**Abstract**

Education and training for valuers starts from the curriculum design, providing the appropriate teaching and learning infrastructure; engaging quality lecturers in disseminating the knowledge while enhancing the quality of students in assimilating the same in the process to a level of an acceptable standard before releasing them into the market. The academic programs available in Malaysia enable the students to be proficient in the areas of real estate practice i.e. valuation, property management and estate agency.

The academic knowledge acquired is affirmed through a two years supervised job training which is assessed by the Test of Professional Competence (TPC). Upon passing the test he is licensed to become a wholesome professional adhering to a code of conduct and ethics so as able to discharge his duty to the community with the minimum of disciplinary intervention by regulatory laws and guidelines.

Throughout his career he has to update his knowledge with the current practice by attending seminars and courses related as Continuous Professional Development (CPD).

**Keywords:**  
Education, Training, Real Estate Practice, Continuous Professional Development.
1. **Introduction**

The valuation profession as one knows is given many generic names including appraiser, property consultancy and valuation services, general practice surveyor, land economist and estate management practice.

Being a professional vocation, it has a body of knowledge and the practice is regulated by law having its code of conduct and ethics and practitioners are accountable for misconduct and negligence.

The scope of work is wide ranging and covers the valuation of all types of landed properties and tangible assets for all purposes, as well as does feasibility studies; provide property consultancy and other matters relating to land taxation, urban planning, project and property management, site improvements and real estate agency.

As the scope of work is wide ranging, the academic knowledge required to cover an understanding of those matters is also varied as per sample of the following list of subjects offered for study and examination.

**Schedule 1**

**List of Subjects**

**YEAR ONE**
1. Principles of Economics
2. Introduction to Valuation
3. Principles of Law
4. Statistics and Computing
5. Building Technology I
6. Principles of Accounting

**YEAR TWO**
1. Land Economics
2. Valuation Techniques
3. Law of Property
5. Building Technology II
6. Property Management I

**YEAR THREE**
1. Applied Valuation
2. Professional Practice
3. Property Management II
4. Building Maintenance
5. Agency and Marketing
6. Land Administration and Taxation

**YEAR FOUR**
1. Six (6) Months Practical Training
Some studies were done on the real estate body of knowledge and there has been a “struggle for many years to determine a consensus of opinion” (Epley, 1996, 229).

This lack of consensus on the boundaries of the disciplines is well articulated in the literature (see for instance Black and Rabianski, 2003; Galuppo and Worzala, 2004; Weeks and Finch, 2003).

Without a real estate body of knowledge, how does real estate education programmes develop? A number of contrasting paradigms have been developed and many tertiary property educational programs have different content and emphasis (Epley, 1996; Roulac, 1996).

The content and emphasis in specific property programs have tended to be a function of:

- historical development in various universities,
- the philosophy and goals of the institutions,
- the interests of professors and university administration,

Further, real estate education has evolved very differently in various countries and geographic regions (Schulfe, 2003). In the USA, real estate education tend to be bound in business schools with mostly a focus on investment and finance while on the UK the tradition has a broader focus on the built environment (Blackad Rabianski, 2003, 33; Black et al, 2003, 85).

Some scholars have argued that property is essentially a multidisciplinary or interdisciplinary field, encompassing areas such as economics, finance, architecture, and engineering (Black et al, 2003; Schulte, 2003; Black et al, 1996)

Schulte and Schulte-Daxboek (2003) differentiate the approaches towards property education as follows:

a) The “interdisciplinary approach” (which is practiced eg. in Continental Europe)
b) The “survey approach” (typically in the United Kingdom and other countries of the British Commonwealth) and
c) The “investment and finance approach” (which is dominating in the USA).

d) Looking at the future requirements on real estate education Roulac (2002) summarises:
e) Technology Advances – Advances in telecommunications and information technologies dramatically transform the means and location of work, changing what activities happen in physical spaces and where those physical spaces are located. – Information Technology.
f) Environmental Concern – With more people placing greater emphasis on environmental sustainability, consideration of property as a commodity is less and less acceptable. – Sustainability.
g) Globalization – With business enterprise expanding beyond the scope of its geographical concerns, drawing resources from distant markets and selling through the world, physical proximity is no longer the primary defining guideline or constraint to access labor and customers. – International Property Market.
2. **Brief History**

In Malaysia, the valuation profession was brought in by the British. Before independence of 1957, the colonial administration had passed the Appraiser Enactment in 1907 for the purpose of licensing appraisers in some states which was later extended to all states of the Peninsular in 1933. After independence the new government began to develop the profession by establishing the Valuation Division in the Ministry of Finance. During the initial years, it was mainly staffed by British expatriates. Eventually when the locals were trained they gradually took over the job. The first Malaysian Director General of Valuation was Mr. Ravindra Dass.

The establishment of the Institution of Surveyors – Malaya in 1961 was the first formal evidence of the existence of the profession in Malaysia. It was set up to control the practice on similar modes to that of the Royal Institution of Chartered Surveyors (United Kingdom) RICS. There was incorporated the three surveying division, i.e. the General Practice (Valuation), the Land Surveyors and the Quantity Surveyors.

The General Practice Section is to cover both the practice of valuation and property management.

In 1967 the government passed the Registration of Surveyors Act. This Act provided for the regulation and control of qualified valuers and quantity surveyors. This Act however left out the unqualified Appraisers licensed under the Appraisers Enactment 1933.

During that time, those who aspire to become professional surveyors will have to go overseas especially to Great Britain and upon obtaining the relevant qualification return home and be admitted as members of the Institution; and upon registration under the Act can than practice as a Registered Valuer. Then the Institution began conducting its own examination for working sub-professionals who wish to become professionals. The Institution also supervises the examination of the RICS for local candidates.

In 1969, Institut Teknologi MARA conducted the first Diploma Program in Valuation which was later changed to the style of Estate Management in 1973. This program produced graduates at sub-professional level in estate management which were employed as Valuation Assistants.

In 1973, Universiti Teknologi Malaysia (UTM) introduced an integrated five year program consisting of a three year Diploma and a two year Degree in BSc Property Management. Those who do not qualify to proceed to the degree level after the third year will be awarded the Diploma and those who proceed and qualified were awarded the Degree.

The degree is fully exempted from the written examination of the Institution of Surveyors Malaysia. Graduates of the Diploma were employed as valuation assistants and the degree graduates were employed as Valuers.
In 1981, the Valuers, Appraisers and Estate Agents Act was passed bringing the valuers, appraisers and estate agents under the control of a single body. The Board of Valuers, Appraisers, and Estate Agents, Malaysia.

The Act stipulates that only persons registered with the Board are allowed to undertake the practice of:

i) Valuation of all lands and buildings including furniture, fixtures, trade stocks, plant and machinery, and other effects.

ii) The conduct of estate agency, feasibility studies, court proceedings, arbitration and other purposes; and

iii) Property Management, the making or checking of inventories of furniture, fixtures, trade stocks, plant and machinery and other effects.

This Act repealed the earlier Licence Appraisers Enactment and the Registration of Surveyors Act.

In 1982, Institut Teknologi MARA introduced a two year program of Advanced Diploma in Estate Management. This opened an opportunity for those Diploma Holders to obtain professional qualification.

This Advanced Diploma is also exempted from the written examination of the Institution. Both the Degree and Advanced Diploma in Estate Management from UTM and ITM respectively are recognized by the Board. ITM has since 1999 converted to a University and offered a Degree qualification as well.

At the same time, the Board continues to recognize qualifications from other countries for registration.

3. **Education in Valuation (Estate Management)**

Education in Valuation (Estate Management) is conducted both formally and informally in Malaysia.

Formal education is provided by local public and private institutions of higher learning.

The programs offered are molded to the requirements of the Board of Valuers, Appraisers and Estate Agents Malaysia (BOVAEA). Hence, the programs curricula incorporated the body of knowledge that covers the three areas of practice i.e. valuation, property management and estate agency.

Likewise the programs offered are also controlled by the Ministry for Higher Education.

The program curricula are designed by Academicians with inputs from industry sources. The program then goes through the process of approval from the Faculty Board of Studies to the University Academic Committee, the Senate, the Board of the University and finally to the Technical Committee of the Ministry for Higher Education.
A full time study in a Degree program covers a minimum of 3 years whilst part time mode takes longer.

3.1 **Entry Requirement To A Degree Program**

The entry requirement to a Degree in Estate Management requires a good pass in:

a) Higher School Certificate (STPM) or
b) National Matriculation, or
c) Diploma in Estate Management.

3.2 **The Education Criteria**

The criteria for education in real estate management cover the following (MOHE, 2008):

a) **Educational Goals:**
   To produce professional graduates who are disciplined, ethical and committed to serving the community and country

b) **Learning Outcomes:**
   At the end of the program, graduates should be able to:
   i. Value real property, plant and machinery for various purposes such as loans, sale, purchase, accounts, insurance, taxation, land acquisition etc.
   ii. Advice and act as agent on selling, buying, letting of real property by private treaty, auction, tender etc.
   iii. Manage properties to derive optimum returns to the owners including advice on maintenance and repairs, service charges, rent reviews, tenant mix and redevelopment / refurbishment
   iv. Carry out consultancy services related to land administration, property investment appraisal, acquisition and disposal and other issues relevant to property investment decision making
   v. Able to communicate and apply information technology effectively
   vi. Work in a multi-disciplinary team

c) **Job Functions:**
   i. Carry out valuation of real estate, plant and machinery for various purposes such as financing, taxation, securitization, rating, land acquisition, property development, investment, open market rental and fire insurance
   ii. Act as agents in buying, selling, leasing and renting of interests in real estate
   iii. Act as property managers on behalf of owners in activities such as rent collection, leasehold administration, property maintenance and land administration
   iv. Act as property consultants to advise interested parties on real estate market investment, including carrying out feasibility and market studies, with the aim of identifying investment opportunities in real estate

d) **Qualification:**
   Successful graduates will be awarded the Bachelor of Real Estate Management
e) **Program Design:**
The program structure and content should include the following:

i. **Creativity and design (5% - 10%)**
   - Appreciation of design implications on valuation, property management and development purposes including culture and heritage

ii. **Sustainability and sensitivity towards the environment (50– 70%)**
   - Core content
   - Theory and principles of valuation, financial evaluation, property taxation, feasibility study, land economics, land use planning and development, market and socio-cultural environment, health, safety and comfort
   - Basic management (core business subjects), finance, marketing, operations, and relevant laws

iii. **Technology and Production (10 – 20%)**
   - Technology and services related to building and construction for the purpose of valuation, maintenance and management of properties
   - Tool for analyzing information- quantitative and qualitative

iv. **Learning and intellectual skills**
   - Integrate into the whole program as a learning method (problem and case based)
   - Communication skills and ICT literacy

v. **Research and development (10 – 20%)**
   - Research methodology and project-based learning

vi. **Professional ethics and corporate governance (10 – 20%)**
   - There exists due diligence activity and discipline
   - Industrial training/professional practice
   - Team work with other professionals and compliance to professional ethics and code of conduct

### 3.3 Teaching and Learning Process

**Academic Staff**

It is imperative that the academic staff has the relevant qualification and experience in the teaching of the material subjects for the program. To teach a degree program the academic staff should be qualified at the minimum with a Master’s degree (UiTM, 2008). A registered valuer is a plus point for the Faculty.
Table 1: Academic Staff Profile in four (4) major universities in Malaysia, 2008

<table>
<thead>
<tr>
<th>Qualification/Professional Membership</th>
<th>No. of Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UiTM</td>
</tr>
<tr>
<td>Bsc (Hon) degree</td>
<td>4</td>
</tr>
<tr>
<td>Msc degree</td>
<td>11</td>
</tr>
<tr>
<td>PHD degree</td>
<td>3</td>
</tr>
<tr>
<td>Registered Valuer</td>
<td>8</td>
</tr>
<tr>
<td>Persuing Msc degree</td>
<td>5</td>
</tr>
<tr>
<td>Persuing PHD</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Number of Staff</strong></td>
<td><strong>34</strong></td>
</tr>
</tbody>
</table>


Note: UiTM-Universiti Teknologi Mara, UTM-University of Technology Malaysia, UM-Malaya University and UTHM-University Technology Hussin Onn Malaysia

Table 1 – shows the Academic Staff Profile in the Real Estate department of four (4) major universities in Malaysia offering the program in Real Estate. It can be seen from the table, UTM has the highest number of staff (41) teaching in Real Estate, followed by UiTM (33), UM (23) and UTHM (22). However the university with the highest number of registered valuers is UiTM with eight (8) persons followed by UM (4) and UTM (3). According to standard requirement, all the universities have highly qualified staff. It is noted that the older program such as UiTM and UTM have more matured and experience staff whereas the younger program such as UM and UTHM have a younger academic staff. Presently with the race for APEX status all universities have geared up for high performance and excellence.

The staff – student ratio is 1:20 for UiTM as well as the other universities.

In pursuing their career staffs are given various incentives in the ladder of promotion by presenting seminar papers, writing articles in refereed journals, conducting research and doing consultancy. Grants are made available for this purpose. There are various grants such as Fundamental Research Grant Scheme (FRGS), Ministry of Science, Technology and Innovation (MOSTI) Grant, Construction Industry Development Board (CIDB) Grant, MAKNA Research Cancer Award and others. Some university like MARA University of Technology established their own research fund namely “Dana Kecemerlangan University” to encourage new academic staff to do research.

In delivering their knowledge, university staff has been guided by the ISO Standard procedure to ensure a systematic implementation of the curriculum. Student assessment has been conducted on a continuous basis apart from the final examination.

Towards the end of the semester, a lecturer’s performance is gauged from student’s feedback and those that fall below a certain standard are advised for retraining.
The Graduates

Universiti Teknologi MARA (UiTM) with the earliest program has been producing a steady supply of graduates for the property industry. It has produced 1,500 graduates since 1984. The combined output from the four (4) universities has produced an average of 300 graduates a year. Failure rate is low of between 2% and 5%. An additional of about ten overseas graduates add up to the total. Presently, the composition of graduates comprises two thirds female and one third male. This has caused an imbalance in the industry requirements as they prefer male to female graduates.

A random survey conducted by the ISM in 2007 has revealed that graduates from University Malaya have better command of English than other universities. On the same note graduates from Universiti Teknologi MARA are better job oriented than other universities.

As the numbers of valuation firms are limited, the existing ones are not ready to adsorb most of the new graduates that enter the job market. They have to diversify into other areas of property related organizations that have property portfolios to be managed.

With the passing of the new Building and Commission Property (Maintenance and Management) Act 2007, it is envisaged that a wider scope of opportunity will be available for the graduates to go into the management of strata properties that are numerous and sprouting up all over the country.

The qualities of graduates are within acceptable standards, since the entry requirement to enter university is high and that the mould of the academic infrastructure and the lecturers are of good caliber and tested through the ISO procedure and Ministerial requirements.

Student Learning Process

Lectures and tutorials are on a face to face contact between students and lecturers. Student attendance is recorded and they are not to fall below 80% attendance. A poor show may end up being barred from sitting for the subject examination. Students are assigned to Academic Advisors (Lecturers in the Department) and they can approach these advisors for guidance.

Students should be provided the facilities the facilities and conducive environment to absorb their studies. Apart from studying, co-curriculum activities forms part of student’s character build up. Another important element in the syllabus is practical training. Students are attached to relevant public and private firms for a stint in professional practice. Most universities in Malaysia that offers Estate Management course are required to send their students for practical training at least six months as a standard requirement by BOVAEA, Malaysia.

The Examination

Examination papers are vetted by lecturers in the Department, and then counter vetted by External Examiners, selected from the profession. Similarly examination answer scripts are vetted and counter-vetted in the same way. Examination results go through the Faculty Academic Board
and finally the University Senate before being published and transmitted through the website. The whole process of learning, teaching and assessment will go through the ISO standard procedure.

The academic qualifications are further subject to quality control by the Board of Valuers, Appraisers and Estate Agents Malaysia (BOVAEA). Such degrees have to be accredited by the Board and passed the quality assessment of the Board. Refer to Table 2 - List of universities accredited by the BOVAEA Malaysia, 2008; the universities mentioned offers the Estate Management course at Diploma, degree and Master’s degree level. Besides the academic qualifications from academic institutions approved by the Board candidates may also qualify by taking the examination of the Institution of Surveyors Malaysia (Property Consultancy and Valuation Surveying Section) or the Estate Agency Examination of the Board for Estate Agents.

**Table 2: List of universities accredited by the BOVAEA Malaysia, 2008**

<table>
<thead>
<tr>
<th>Country</th>
<th>Name of University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>University Technology Mara (UiTM), University Technology Malaysia (UTM), University Malaya (UM), Kolej Universiti Teknologi Tun Hussein Onn (KUITHO)</td>
</tr>
<tr>
<td>Singapore</td>
<td>The National University of Singapore [Formerly University of Singapore]</td>
</tr>
<tr>
<td>Canada</td>
<td>University of British Columbia</td>
</tr>
<tr>
<td>Australia</td>
<td>RMIT University [Formerly known as Royal Melbourne Institute of Technology], University of South Australia [Formerly South Australian Institute of Technology], Curtin University of Technology [Formerly known as Western Australia Institute of Technology], University of Western Sydney, Hawkesbury [Formerly known as Hawkesbury Agricultural College], University of Queensland, University of Technology Sydney, University of Melbourne</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Lincoln University [formerly known as Lincoln College], Massey University, University of Auckland</td>
</tr>
<tr>
<td>United Kingdom (UK)</td>
<td>The City University, London, United Kingdom, University of Northumbria of Newcastle [Formerly known as Newcastle Polytechnic], University of The West of England Bristol [Formerly known as Bristol Polytechnic], University of Staffordshire [Formerly Staffordshire Polytechnic/Stoke on Trent Cauldon College of Further Education], Dublin College of Technology, Heriot-Watt University, Kingston University [Formerly known as Kingston Polytechnic], De Montfort University [Formerly known as Leicester Polytechnic], Liverpool John Moore University [Formerly known as The Liverpool Polytechnic], University of East London [Formerly known as North East London Polytechnic], Oxford Brookes University [Formerly known as Oxford Polytechnic, Headington], University of Paisley [Formerly known as Paisley College of Technology], University of Westminster [Formerly known as The Polytechnic of Central London and Regent Polytechnic], South Bank University [Formerly known as Polytechnic of the South Bank @ Brixton School of Building], University of Portsmouth [Formerly known as Portsmouth Polytechnic], Sheffield Hallam University [Formerly known as Sheffield City Polytechnic], University of Greenwich [Formerly known as Thames Polytechnic @ Hammersmith School of Art and Building], Nottingham Trent University [Formerly known as Trent Polytechnic], University of Aberdeen (Scotland), University of Reading [Formerly known as College of Estate Management], University of Glamorgan [Formerly known as Wales Polytechnic @ Glamorgan Polytechnic], University of Central England in Birmingham [Formerly known as Birmingham Polytechnic], College of Estate Management, University of Ulster, University of Luton</td>
</tr>
</tbody>
</table>

Source: BOVAEA, 2008
3.4 Post Graduate Study

There are certain programs in real estate at the post graduate level available in the local universities. These include programs i.e. Msc. in Facilities Management, Msc. In Property Investment and PhD in Built Environment.

Candidate may join these programs for enhancing their knowledge and wisdom. However, presently the Board of Valuers, Appraisers and Estate Agents Malaysia do not recognize these qualifications for professional registration.

Informal education can be obtained through self study while working in the real estate sector and taking the professional examination offered by the Board, ISM or foreign educational institutions – by long distance learning.

A diagrammatic pathway to obtain the qualification in as per Diagram 1.

Diagram 1: The Ladder Towards a Registered Valuer/Estate Agent
Entry Requirements

It is found that majority of the candidates who take the examination by the informal education did not pass. This is due to the act that they have limited time to study, (as they are working) and no face to face contact with lecturers for guidance as to the correct way to answer examination questions.

4.0 Post-Qualifying Working Experience

Any candidate with an approved qualification must register with the Board as a probationary Valuer, or Estate Agent and undergo a two year full time work training under the supervision of a Registered Valuer or Estate Agent, also to be approved by the Board (BOVAEA, 2008). Other requirements include the following:

4.1 Submission of a work diary/log book

The working candidate should record his work in a diary and log book and weekly authenticated by his Supervisor. The log book is to be submitted periodically to the Board for verification of sufficient training in the various fields of experience required. Refer to Table 3 – Areas of Specialization for TPC by BOVAEA, 2008. Candidates should obtained experience in at least three of the following areas:

Table 3: Areas of Specialization for TPC by BOVAEA, 2008

<table>
<thead>
<tr>
<th>Valuation/Property Management</th>
<th>Estate Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of Landed Properties including Plant and Machinery</td>
<td>Sale and Purchase of Residential, Commercial, Industrial and Agriculture Property</td>
</tr>
<tr>
<td>Rating/Local Taxation</td>
<td>Tenancies/Leasing of Residential, Commercial, Industrial and Agriculture Property</td>
</tr>
<tr>
<td>Property Management</td>
<td>Marketing of Property For Sale/Letting</td>
</tr>
<tr>
<td>Real Estate Agency-Sales, Lettings and Purchase of Land and buildings</td>
<td></td>
</tr>
<tr>
<td>Compulsory Land Acquisition and Compensation</td>
<td></td>
</tr>
<tr>
<td>National Taxation-Stamp duty, Real Property Gains Tax, Renewal Premiums</td>
<td></td>
</tr>
<tr>
<td>Property Development and Investment</td>
<td></td>
</tr>
<tr>
<td>Property Consultancy and Research</td>
<td></td>
</tr>
</tbody>
</table>

Source: BOVAEA (2008)
Refer to Appendix 1 and 2 for samples of work diary and log book.
4.2 Submission of a record of experience

At the end of the training period a candidate must submit to the Board a typed written report outlining the experience that he has obtained covering:
   a) The type of work (areas of experience) undertaken
   b) The geographical area in which the experience was gained
   c) The types of property, or other matters dealt with
   d) The candidate’s level of responsibility, and
   e) Any other information that demonstrates the experience gained
(Source: Ditto)

4.3 Submission of Practical Tasks

Consequently he should prepare and submit two practical tasks, this being two separate set of tasks for the Valuers and for the Estate Agents.

4.4 Attend a Professional Interview

Test of Professional Competence (TPC) Interview.

Having completed the two years practical experience candidates from the two streams i.e. Valuation and Estate Agency will be interviewed on their practical tasks including the following:

Table 4: Valuation and Estate Agency Areas of Professional Training

<table>
<thead>
<tr>
<th>Valuation</th>
<th>Estate Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Property Laws and Taxation</td>
<td>1. Property Laws and Taxation</td>
</tr>
<tr>
<td>2. Property Management, Development and Investment</td>
<td>2. Estate Agency Laws</td>
</tr>
<tr>
<td>4. Valuation</td>
<td>4. Topical Matters (Current matters relating to property)</td>
</tr>
</tbody>
</table>

BOVAEA (2008) Rules and Guidelines to the Test of Competence Board of Valuers, Estate Agents and Appraisers
Source: BOVAEA (2008)

The Valuation candidates will undergo a three (3) hours interview whilst the Estate Agency candidate will undergo a 2.5 hours interview. Having passed the professional interview, then the candidate is eligible for registration and be conferred a licence to practice. The Valuation candidate will be eligible for Estate Agency registration as well. The provisions of Section 17 and Section 22A of the Valuers, Appraisers and Estate Agents Act 1981 shall apply in practice.
Table 5: BOVAEA Examination Result for – Valuer’s Test of Professional Competence (TPC)(Passes)

<table>
<thead>
<tr>
<th>No. of attempts</th>
<th>June 2008</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>43.8</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>12.5</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>12.5</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>6.2</td>
</tr>
<tr>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: BOVAEA, 2008

From the above Table 5, the passing rate for the first attempt is 25%, followed by the second attempt at 43%. As for the third and fourth attempt is 12.5%. Some candidates have to re-sit for fifth attempt which is 6.2%. Overall candidates have to sit more than once because majority did not perform during the interview. However, the above data is only available for year 2008. The percentages rate from Table 5 is tabulated in Chart 1 - Passes Percentages of BOVAEA Examination Result for – Valuer’s Test of Professional Competence (TPC).

Chart 1 - Passes Percentages of BOVAEA Examination Result for – Valuer’s Test of Professional Competence (TPC)

From the above Chart 1, it can be concluded that majority of 75% has to re-sit in order to pass the TPC Examination as the percentage for first attempt is only 25%. It can be seen from the Chart, the BOVAEA has outlined high standard of requirements in passing the candidates.
Table 6: BOVAEA Examination Result for – Valuer’s Test of Professional Competence (TPC)(Failures)

<table>
<thead>
<tr>
<th>No. of attempts</th>
<th>June 2008</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20</td>
<td>52.6</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
<td>28.9</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>10.5</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: BOVAEA, 2008

Chart 2: Failures Percentages of BOVAEA Examination Result for – Valuer’s Test of Professional Competence (TPC)

Referring to Table 6 and Chart 2, the high failure rate is at the first attempt which represents 52.6%, most failed during the first interview because they came unprepared, some has good experience but poor in theoretical aspects. However, in subsequent attempts the failure rate gets lower because most candidates have learnt their mistakes and do revision for the next attempt.

Table 7 – BOVAEA Examination Result for Estate Agent Candidate (Passes)

<table>
<thead>
<tr>
<th>No. of attempts</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>7</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>14</td>
<td>21</td>
<td>22</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: BOVAEA, 2008
Table 7 shows the same trend as in Table 5.0 where candidates who passed for the first attempt is only 3 candidates from 18 candidates. Majority passed the second attempt. The trend of high failure rate is seen for the first attempt from year 2005 until 2008.

Table 8: BOVAEA Examination Result for Estate Candidate (Failures)

<table>
<thead>
<tr>
<th>No. of attempts</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>13</td>
<td>18</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>4</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>17</td>
<td>22</td>
<td>24</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: BOVAEA, 2008

As for Table 8, the failure rate for the first attempt of estate agent candidates is very high representing 23 candidates from 27 candidates in 2008. It is about 85 percent failure. The trend for high failure rate for the first attempt is the same as Table 6.0 which can be seen from year 2005 until 2008.

5.0 Continuous Professional Development

Practice culture changes over time especially with the advent of new technology, knowledge and working environment. Training and retraining is required to keep ourselves up to date. Hence, Continuous Professional Development (CPD) is the mechanism by which professionals may obtain credibility for their experience and skills necessary to stay in business.

To ensure that practitioners keep abreast with current knowledge and practice the Board imposes upon registrants the CPD requirement before he can renew his license to practice.

5.1 The standard requirements for CPD are as follows:
1. Credit Hours: The registrant should obtain a minimum of 10 credit hours in a year.
2. Forms of CPD: The Board may accept the following CPD.
   a) Attendance at Professional Meetings such as Board, ISM, PEPS, MIEA, FIABCI and other Professional Centre Meetings subject to a maximum of 6 credit hours.
   b) Seminars, Conferences, Congresses, Conventions and workshops as accredited by the Board.
   c) Full time studies at Institutions of Higher Learning for a period of exceeding 6 months.
   d) Research, Publication and Presentation on Professional Matters, and
   e) Private Studies.
3. Proof of Attendance / Involvement – Registrants must show proof by means of records that they have attended / participated in the CPD activities.
4. **Exemption** – The Board may exempt registrants from CPD requirements in certain cases.

5. **The Conduct of CPD activities** – Any organization that wishes to conduct CPD activities relevant to the profession should submit an application to the Board for approval and obtain the allocation of credit hours.

6.0 **Conclusion**

The real estate professional training starts with the acquiring of knowledge in the three fields of study over a three to four year term to ensure maturity in quality of wisdom together with two years of post qualifying experience to enhance their skills and expertise in those fields. Basically, the universities in Malaysia that offer the real estate program have been approved after undergoing stringent scrutiny by the following bodies: Academic Board of the Faculty, Senate of the University, Technical Committee of Ministry of Higher Education which has recently introduced The Malaysian Qualification Agency for monitoring of such degrees. At the same time, these universities that offer such degrees have to obtain the accreditation from the Board of Valuers, Appraisers, and Estate Agents Malaysia (BOVAEA) to ensure high standard of professional knowledge is maintained.

Under our law, a Valuer registered with the Board of Valuers, Appraisers, and Estate Agents Malaysia (BOVAEA) is allowed to practice as a Property Consultants in three areas – Valuation, Estate Agency and Property Management. As a practitioner, the Valuer is bound by rules, guidelines and practice directions issued by the Board from time to time as well as adhered to the code of conduct and ethics of practice set by the Board. From our survey, we noted that the Board does take disciplinary action against those who commit wrong doing or an ethical practice and dispense strict actions onto the errant practitioners.

There is no shortcut to mould a wholesome professional for the purpose of ensuring high quality registrants that enters the job market. It is also in this regard that we hope to produce responsible and trustworthy citizens to handle the affairs of our community with the minimum disciplinary intervention.
The Vietnam economic health for 2010 is improving, although the inflation rate still poses a threat. There is no formal statistics on Vietnam’s property sector. The market property in Vietnam also considers the provision of social housing for the lower income group.

There is increasing investor confidence in the property market. For example in Ho Chi Minh city, office rentals has declined slightly (office rental in Vietnam is considered very high), but new supply of office rentals is expected to increase quickly over the next 3 years. In Hanoi, grade A and B properties have increasing vacancy rate—the rental rate for grade A properties has dropped slightly even with the lower monthly rental rates of $40 per square meters.

High end apartments are not in high demand overall. Interestingly in Ho Chi Minh city, the sale prices for affordable apartment prices have increased between 2.0 - 2.9%, but that for high end apartments have not increased. Overall, there are as many as 87 new apartment projects. In Hanoi, there is high demand of apartments priced below USD 1000/square meters, as the government has made investments, such as upgrading roads; and there is low demand for luxury and high-end apartments.

Retail space in Ho Chi Minh city has increased by as much as 7% compared to the previous quarter. Average rents of retail space is increasing, with rents of shopping center space being slightly less than that of department stores.

The valuation profession in Vietnam is governed by 7 legislations currently. Foreign valuers can also practice in Vietnam, provided they fulfill 3 requirements, namely, a certificate of registration in their home country, contract with a valuation company in Vietnam, and a valuer certificate obtained through tests in Vietnam.

The Price Management Department under the Ministry of Finance has several roles affecting valuers. There are 44 registered valuation companies in 2010, earning significantly increasing revenues from valuation practice. Types of assets for valuing are mostly real estate, machines and equipments (80-90%), with the rest being the valuation of corporates and other assets (only 10-20%).

At present, there are 219 certified valuers in Vietnam, with 86 more for July-August 2010. It is estimated that the valuer industry is growing, forecasted at a total of 1500 valuers coming from 500 valuer companies in 2020.
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Valuation for Land Acquisition: International Experience
Sopon Pornchokchai, Ph.D., D.FIABCI, CRS, RICS

This paper is prepared for the discussion on valuation for land acquisition in particular for infrastructure development. It reviews the international concept of losses which should be compensated to the property owners. Then, practices from 13 different countries are presented. This is a result of an interview to the leading real estate and valuation professionals whom the author knows. Then, the third part is about some innovative concepts on land valuation and land acquisition which may be considered to apply to the case of a developing country particularly in the ASEAN region.

Figure 1: An Extreme Case of Land Acquisition in China

I. The Value for Compensation

This part summarized from the presentation 4 persons whose papers appeared at the bibliography (Cooper: 2006), Layne: 2008), Marano (2008) and Thalith Md Thani (2008). On the whole, the value of properties and related items which must be valued and compensated including the following:
1. Value of the properties (land and building) taken
2. Special value to the owner
3. Severance
4. Injurious Affection
5. Betterment or enhancement
6. Disturbance

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1. **Value of properties taken**

   It depends on the market value which is defined as “the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm-length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion” (IVSC: 2009).

   It should be noted that normally changes in the market value of land taken because of the acquisition to be disregarded. Any increase or decrease in the market value of the land to be taken as a result of the carrying out, or the proposal to carry out, the purpose for which the land is to be acquired must be disregarded. This means any sale of land, the value of which has been affected by the proposed scheme should not be used as evidence of market value for the land to be taken.

2. **Special value to the owner**

   The notion of land having a special value to the owner is one which will always be hard to prove, notwithstanding that there are occasions where the notion does apply. This loss like injurious affection has been subject of a number of controversial and difficult to reconcile decisions but the principle is now settled and a part of compulsory acquisition practice. Special value must be as a result of some attribute the land possesses that the owner is able to take advantage but the general market overlooks.

3. **Severance**

   This implies to the reduction of value of a person’s remaining land caused merely by the taking of part of the person’s land; that is, by the severance of part of the person’s land from his remaining land, not caused by the public work for which land was acquired. Both ‘injurious affection’ and ‘severance damage’ relate to land retained by a person after land is compulsorily acquired from that person. Both relate to a reduction of value of the retained land.

   Severance can attract compensation where
   1. The reduction in size of the remaining land affects economic operation or viability;
   2. The reduction in size requires alteration or improvement to the balance land;
   3. The fragmentation of land makes economic use more difficult.

4. **Injurious affection**

   This applies when part of the land is taken and the value of the rest of the land is reduced by whatever it is the acquiring authority intends to do on the land taken. In many cases acquiring authorities intend to construct some facility which will have flow-on effects which often influence property values and the closer the property is to the facility, the greater the effect on value.
5. Betterment or enhancement

The terms ‘betterment’ or ‘enhancement’, are used to refer to an increase in value of land retained by a person caused by the taking of part of the person’s land or by the public work for which that taking occurred. Betterment arises only for the purposes of set-off. That is to say, betterment caused to some of a person’s retained land is set off against compensation payable for a reduction of the value of that person’s other land. It is not used to offset disturbance or market value of the land taken.

6. Disturbance

‘Disturbance’ is used to mean a person’s monetary loss caused by disruption to the person, including to the person’s business, arising from a taking of the person’s land or part thereof. At its simplest, ‘disruption’ refers to re-location costs and lost revenue. However, sometimes a taking of land can completely extinguish a landowner’s business.

II. The Interviews: Major Issues for Consideration

This part is a review of public land acquisition in different countries, both developing and developed. The 12 professionals from 12 countries interviewed are colleagues of the authors in the field of valuation, real estate, and urban planning. The author provides the names of all these professionals in Appendix 1. The author contributes as well. Therefore, there is altogether a contribution from 13 countries. The summary of each issue can also be found at the end of each issue.

1. Coverage of compensation, e.g. relocation costs, economic losses

Australia: Value of land taken, severance (diminution of remaining land as a result of lost efficiencies due to smaller land holding after the acquisition), injurious affection (diminution in value to remaining land as result of losses in land value caused by the public use of the land taken), disturbance (relocation expenses, justifiable economic losses as a result of the acquisition not elsewhere compensated), solatium (ex gratia payment for the nuisance of having your land acquired).

Brunei: Compensation is based on market value including damage by injurious affection or severance, change of residence or place of business, approved improvements. Compensation must be fair and at reasonable cost.

Cambodia: Regarding covered compensation cost, usually the government or developer provides transportation and money and other items for daily living.

Canada: The expropriation of property by an expropriating authority often interferes with an owner's life, property and/or business. The entitlements to compensation under the
Expropriations Act are intended to ensure that the owner is made whole from all potential losses. In this regard the owner will receive payment for the lands taken by the authority and compensation for any injurious affection accruing to the remaining lands. (Injurious affection is defined in the Expropriations Act as the loss in value to the owner's lands, or personal/business loss caused by the expropriation.) Additional compensation can also be paid for other disturbance damages which are not covered by injurious affection. There are also expense entitlements for businesses and private home owners. If compensation claims remain outstanding between the authority and the owner, there is a provision for statutory interest at a rate of 6% per annum, which begins to accrue from the date on which the lands are expropriated. Disputed compensation claims are arbitrated in proceedings before the Ontario Municipal Board.

India: It covers the market value of the land on the date of publication of the notification; the damage, if any, sustained by the person interested at the time of taking possession of the land, by reason of the severing of such land from other land; the damage, if any, sustained by the person interested at the time of taking possession of the land, by reason of the acquisition injuriously affecting his other immovable property in any manner, or his earnings.

Japan: Governments compensate land owners for land value, building value, costs for movement, economic losses for movement and others. The compensation for building is the current quotation of published source as well as the land. Economic losses include "key money" and business losses.

Malaysia: market value is covered; severance and injurious affection damages are covered, removal and relocation works are covered; accommodation works are also covered.

Nigeria: The value of land and properties varies from location to location; hence, the value of the land depending on the affected area is only covered in the compensation.

South Africa: Under the Expropriation Act, if land or a registered right to minerals is taken, market value plus a financial loss plus solatium (in consolation for the loss) is paid. If a real right is taken (excluding registered mineral rights), compensation consists of financial loss plus the solatium. In both cases, interest may be added. Under financial loss, any direct loss will be compensated. This includes, but is not limited to, relocation costs, loss of income, loss on forced sale of equipment, storage costs, unavoidable improvements, loss of goodwill and severance. Under the new Constitution, in addition to market value, compensation should further take into account the following:

- The current use of the property;
- The history of the acquisition and use of the property;
- The extent of direct state investment and subsidy in the acquisition and beneficial capital improvement of the property; and
• The purpose of the expropriation. Under the Restitution of Land Rights Act, a person or community dispossessed of property as a result of past racially discriminatory laws or practices is entitled either to restitution of that property or to redress.

Thailand: The loss of real estate, real property, and any other losses is compensated. In the past, there was no compensation to land owners that earned from the compensation (converting farmland to serviced land would not be paid in the compensation). Nowadays, compensation will be paid to all those that lose their properties.

USA: In addition to compensation for the loss of the real property itself, there may be other payments. Other payments may include relocation costs (owner and tenants), expenses incidental to the transfer of title (e.g., recording fees, transfer taxes, documentary stamps, evidence of title, surveys, penalty costs for the pre-payment of mortgages, certain litigation expenses (e.g., reasonable expenses if a court determines that the agency cannot acquire the property by condemnation, or the condemnation is abandoned, or the court rules in favor of the property owner in an inverse condemnation situation). While some jurisdictions pay for economic losses, mostly the loss of business is non-compensable.

Vietnam: Mainly value compensated is the land value.

**Synthesis:** In most cases, it is a common practice for the authority to compensate for all physical losses of properties, including severance and injurious affection damages, as well as costs of removal and relocation. However, spiritual or personal mental value will not be compensated. The compensation is at the market price of the real estate, including other losses.

2. Internationally-accepted valuation standards for compensation

Australia: Market value principles for value of land taken.

Brunei: In Brunei Darussalam, compensation is based on the market value and is usually determined by the comparison method.

Cambodia: The standard of valuation used to determine the value of the property for compensation now it is still in the process of forming a valuation group. So, it is still being negotiated.

Canada: The Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) of the Appraisal Institute of Canada establishes requirements for appraisal, review and consulting assignments (the CUSPAP meets the sponsor criteria of the Appraisal Foundation, which approves and adopts the Uniform Standards of Professional Appraisal Practice (USPAP) in the United States). Experts providing appraisal evidence for the arbitration of
compensation claims are generally required to be accredited members of a well-recognized appraisal organization that adheres to either CUSPAP or USPAP standards.

Japan: Compensation for lands is estimated by Japanese valuation standards, and licensed real estate appraisers estimate the compensation. But compensation for building is estimated by the original Japanese compensation standard (similar to cost approach), and consulting experts estimate the compensation.

Malaysia: The Malaysian Valuation Standards are used. These standards are based on the International Valuation Standards.

South Africa: Market value is the basis. The definition of market value in the Expropriation Act is similar to that in the IVS.

The Philippines: The Philippine Valuation Standards are now in the process of being signed into law. This was drafted following the guiding framework of the IVSC. However, in the meantime, the Philippine land laws, such as the Public Land Act, governs.

Thailand: A set of published valuation standards has been announced by the Securities and Exchange Commission. It specifies valuation methods in accordance with international standards. However, there is no standard for valuation for eminent domain purposes.

USA: We are bound by the USPAP (the Uniform Standards of Professional Appraisal Practice). Sometimes additional "rules" come into play, like the Uniform Appraisal Standards for Federal Land Acquisition.

Vietnam: Vietnamese valuation standards and international standards.

Synthesis: In most countries, there is at least a set of valuation standards which is more or less similar to the international standards, as well as standards for developed countries such as the USA and the UK.

3. Valuation under the limitation of data availability

Australia: We should use opportunity cost, i.e. how much would it cost for the owner to be returned to a situation similar to the one in which he/she found himself/herself before the acquisition?

Brunei: Valuers’ local knowledge and experience of the property market are very important to support the judgment on how much to compensate.
Cambodia: In Cambodia data availability is very limited. A valuation company has to collect data on their own and build its own database. The practices in Valuation in Cambodia are based on the sale comparison approach.

Canada: The availability of market data will determine the appropriate appraisal methodology. Some international markets have non-disclosure privacy laws that prevent public knowledge of property selling prices. Without such data, it is difficult to apply a traditional valuation approach, such as the sales comparison approach, which complicates the valuation of vacant land. In this situation an appraiser might consider an alternative measure, such as a development or residual analysis to abstract a land value estimate. Nonetheless, the specific property type and local market characteristics will largely determine the appropriate valuation methodology used in the appraisal process.

Japan: The current quotation policy is convenient for compensation in Japan. It seems that this policy reduces conflicts and complaints; and appraisers and real estate experts can be engaged in compensation. Estimate of compensation by amateurs causes some trouble and problems.

Malaysia: Where market sales data is scarce or limited, the income approach and the cost approaches are adopted.

Nigeria: This is based on open market value, and comparison is carried out based certain factors like location and depreciation, such as the age of the properties, etc.

South Africa: Where a functioning market does not exist, other valuation methods are permissible, including the cost approach.

The Philippines: It depends on the purpose of the valuation. If the valuation is for the market value for sales purposes, the government used a direct market comparison of similar properties in the market in case of the absence of data for direct sales comparison. Adjustments are made based on market preferences as determined from the experience of real estate sales of similar properties. For large tracts of land not normally traded, the government uses the hypothetical development approach to arrive at the value attributed to the land. This has to be done with care since the hypothetical project has to be realistic and has to conform to the highest and best use of the land. Cost data are available for the cost approach and financial data are available for the income approach.

Thailand: Data can be searched from other sources such as financial institutions, brokers, property managers, and the like. Field research, with an adequate number of comparable properties with little disparity, is needed. The residual approach or hypothetical development analysis is applied.
USA: In New York State, it is a reporting state so we know what people pay for property, but there are states in the U.S. that do not require reporting (e.g., Texas). What the appraisers do there is not known; probably, they just ask and hope that they are being told the truth.

Vietnam: The valuation firms have to establish the data system by themselves; otherwise, they may request information from the Land Department.

Synthesis: In any case, there should be sufficient information for the analysis. This implies that a real estate information centre must be established. All transaction prices must be reported; otherwise, punishment will be applied. However, while there is no public record, a thorough field research with an adequate number of comparable properties should be conducted. Authorities involved must absorb additional costs of data collection. In addition, the residual approach or hypothetical development analysis and the cost approach can be applied in case of need as well.

4. Making valuation more transparent and understandable to the owners

Australia: The valuation report should be written in full and with full supporting evidence for each item of compensation in everyday language.

Brunei: By giving “headings” for what is being compensated, for example, land, buildings, other developments such as out-buildings, extra garages, etc.

Cambodia: To be transparency and understandable in the valuation, a valuer has to have a strong professional skill and has to respect the codes of conduct.

Canada: When property is expropriated in Ontario, the Expropriations Act requires that the expropriating authority serve the property owner with an appraisal report, which provides an estimate of market value for the lands taken (expropriated) and the estimated value of any loss in value to the remaining lands (injurious affection)—typically within 30 days from the date that an expropriation plan is registered on the property's title of ownership. The process is intended by the legislation to be fair and transparent to all parties concerned.

Japan: It is important to enforce a plain law or policy. Valuation and estimate are not simple, so land owners may be unable to understand them well, but they can understand plain law and policy. Valuers have to be trustworthy.

Malaysia: The powers are separated. The government agency that wants the land requires the Land Administrator to acquire the land. The valuation office of the Ministry of Finance values the land. Therefore, there is no conflict of interest. All are independent bodies. In addition, the owner is allowed to engage a private valuer to provide a valuation report. The government reimburses the valuation fees. The owner is also entitled to make objections and appeals to the court for a nominal registration fee.
Nigeria: Aside from the government carrying out valuation on the affected areas, affected owners should also be allowed to carry out their own valuations and a negotiation process between the former and the latter should be permitted.

South Africa: The Department of Land Affairs publishes information booklets. The expropriatees may also request access to expropriation valuation reports.

Thailand: There is an appeal process where the committee can reconsider the value appraised. In the case of disputes, people can go to court as well.

The Philippines: This situation can be done by being consistent to the Philippine Valuation Standards (which is based on the IVSC). This will also require the proper presentation of the basis used in arriving at the market value conclusion of the property in the appraisal report.

USA: Many jurisdictions in the U.S. give the property owner a copy of the government's appraisal. The negotiator then will explain the report to the owner. Actually, there still will be a lot of untruth.

Vietnam: The authorities have to explain to owners under the land acquisition that the government is acquiring the land for public purposes and will compensate exactly based on the market value.

Synthesis: A proper valuation must be conducted and explained to the owners by the negotiators. The agency that conducts the valuation and expropriation must not be the same authorities that use the land in order to avoid any conflict of interest.

5. Ways to facilitate timely land acquisition

Australia: Friendly negotiations is an alternative to formal traditional compulsory acquisition. Use compulsory acquisition only where a reasonable settlement cannot take place. In South Australia the policy is to first buy the property on the normal market by approaching the owner and making an offer to purchase at a reasonable price that represents the owner’s loss (the offer needs to be supported by a full acquisition valuation). Allow the owner to obtain his or her own independent valuation at a reasonable cost to be reimbursed by the government.

Brunei: All parties related to acquisition must work on a team, including project owners, implementors, valuers, managers for the compensation payments, and relevant approving authorities.

Canada: Many authorities in Canada recommend 15 to 18 months for the acquisition of private land in major infrastructure programs.
Japan: People have to understand the common welfare. Impartial valuation is important.

Malaysia: Land acquisition is a complex process that takes away the fundamental right to property ownership. Therefore, there cannot be too many shortcuts. Due process of law and the access to one's rights must be given to the affected owners. Prior planning and development proposals by the acquiring authority could help in educating land owners.

Nigeria: Building approval plans should be fast tracked and land acquisition should be made less cumbersome. The process could also be computerized in order to reduce errors.

The Philippines: This depends on the location of the land, the type of property, and the status of the property. I suggest that due diligence be considered first since there can be overlapping titles and restrictions or liens on the title. A real estate professional must be involved so as not to be "taken for a ride" by unscrupulous fly-by-night swindlers. Tax declarations and court orders are not proof of a sound title.

USA: Transparency is important. Public hearings and public meetings are held to explain what we intend to do. Second, the land acquisition process should be begun as early as possible. Third, many agencies (and sometimes it is mandatory) are asked to inspect the property with the government's appraiser. In this way the owner can tell the appraiser what he/she thinks.

Vietnam: The government must let the investors negotiate the compensation with the landowners. The government should support the investors in land acquisition from the landowners. The capital for compensation must be available at the compensation organizations.

Synthesis: An expropriation project must be announced clearly with definite terms of implementation so that people can understand the entire story of the public land acquisition. If possible, buying properties based on fair valuation should be the first priority. Negotiators can help later. Some social contribution to the owners can help facilitate timely infrastructure development.

6. Pros and cons of offering compensation above the market value
Australia: Many of the states offer solatium or ex gratia payment. This payment can be a set amount or a percentage of the compensation amount. It does not need to be accounted for it just recognizes that the person has had the property acquired in abnormal circumstances and is an additional payment to recognize some losses are unquantifiable.

Brunei: Under Brunei's Land Acquisition Act, an act of offering compensation above the market value is disallowed.
Cambodia: If the compensation is offered above the market value, it is a good thing because people will be happy to relocate. But it will create a lot of problems if the offer is below the market price.

Canada: Authorities that offer compensation in excess of market value for property acquisition risk inflating the expectations of other property owners affected by the infrastructure. In legal proceedings, such as arbitration at the Ontario Municipal Board, a counsel will use the settlement packages offered by the authority to other affected property owners as a means to reach a similar or greater level of compensation for their client. Establishing market value for the lands taken and ensuring reasonable compensation for an owner ensure a fair process and largely mitigate a potential pitfall of equality/equity in compensation claims/payments.

Japan: The current quotation policy is effective for compensations. It seems that this policy reduces conflicts and complaints.

Malaysia: The extra solatium had been used in the past in the UK. How much extra is a question. It is not sure that the extra compensation will help in reducing objections. The affected owners will always object that what has been paid is not sufficient. It is better to stick to a measurable yardstick, that is, market value.

The Philippines: Cost for contingencies or "tips" is necessary to facilitate the release of documents, which normally takes time to comply with. This is usually called an "incentive" for a low-paid government worker to hasten the time for his work. It is not advisable to bribe a government employee to lower the taxes due in a transaction since this can lead to problems with the parties involved in the transaction.

Thailand: This has still not yet happened in Thailand. Considering the opportunity cost which will occur if the project is delayed, paying more may mean paying less in the long run.

USA: The positive side is that there should be more settlements. The outstanding negative aspect is that it "gifts" money to some people while the taxpayers pay the bill. In the USA, the governments does pay other expenses (see above) and in Canada they pay an "incentive" for people to relocate.

Vietnam: No. The maximum for the compensation is market value not above the market value.

Synthesis: First, the market value must be understood by all parties involved. Additional payment should help accelerate the time frame of the project, which is good when the
opportunity cost is considered. However, tax payers may not agree if they are not totally convinced.

<table>
<thead>
<tr>
<th>Figure 4: New Concept to Build a No-cost Road</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1: Inner-City</td>
</tr>
<tr>
<td>Road</td>
</tr>
<tr>
<td>1*</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Project costs=10, Project Value=15, Profit=50%</td>
</tr>
</tbody>
</table>

| Case 2: Intermediate Area                     |
| Road | Land | Land | Land |
| 1*   | 2*   | 2*   | 5** |
|      | 0**  |      | 5** |
| Project costs=7, Project Value=10, Profit=43%|

| Case 3: Outer-city Area                       |
| Road | Land | Land | Land |
| 1*   | 1*   | 1*   | 2.5**|
|      | 0**  |      | 2.5**|
| Project costs=4, Project Value=5, Profit=25% |

| Case 4: Rural Areas                           |
| Road | Land | Land | Land |
| 2*   | 1*   | 1*   | 3** |
|      | 0**  |      | 3** |
| Project costs=5, Project Value=6, Profit=20% |
| Project costs=Road Construction+Land cost for road and land beside **Project Value = 2.5 times of the original|

**III. Recommendations on Valuation and Acquisition**

1. **A No-Cost Road Development**

   In many cases, road proposals are not financially feasible because of the high expense of public land acquisition and road construction. Hence, few roads are constructed, resulting in inefficient logistics and transportation. However, there exists a financially feasible way to develop new roads. The following figure shows this feasibility.

   Normally, when a road is constructed, a strip of land is acquired for the construction, which consists of road surface, foot path and probably isles. In the case of the inner-city area in urban centres of Thailand, if the cost of the road construction is 1, the land cost is 3 times that of the road construction cost. This proportion can become 1:2 (construction cost and land acquisition cost) in the case of an intermediate area of an urban centre, 1:1 in the case of the outer-city area, and even 2:1 in the case of rural areas.
The new concept proposed is that instead of acquiring a strip of land for road construction, the land along the proposed road should be acquired at the same time. If a road is 40 metres wide, two 40-metre wide strips along this proposed area will be acquired as well. When the road is constructed, the land along both sides of the road will appreciate in value, hence making this road proposal financially feasible.

In the case of the inner-city area, the appreciation can become 2.5 times. If the construction cost is 1 and the land cost is 3, the normal total cost of the road is 4. However, if land on both sides is also acquired, then another amount of land cost of 6 is added. Therefore, the total project cost is 10. Subsequently, after the road construction is completed, the land on both sides will appreciate from 6 to 15. There seems to be some profit of 5 resulting from this road construction. Better and more profitable potential uses can be realized.

Therefore, some portions of the land can be sold or leased for cost recovery of this road construction. This strip of land can be used for commercial or residential development. Definitely, authorities who do public service may not target at the profit in public road construction. Some portions of the land can be allocated for a public park or greenery or rest areas as well.

According to the figure above, in all cases, there exists a certain profit out of this development. This implies that more compensation can be paid to the land owners whose properties are acquired for this road construction. In addition, the land owners in the areas can also be partners in the development of roads. For those whose properties are sacrificed, they may receive attractive compensation. For owners who can enjoy the new road, they may have to sacrifice some portion of their land for road construction. This can be applied to land pooling or land readjustment scheme (UN ESCAP).

2. Redevelopment of Prime Public Land

Land acquisition can also be applicable to public land, particularly the parcels located in the prime or inner-city areas where high potential uses can be realized. Peterson (2009: 98) wrote in his book, Unlocking Land Values to Finance Urban Infrastructure, that military land in Manila was converted to commercial uses in the metropolis.

This is an example of the preliminary financial of for a piece of land in Bangkok, which is currently a military compound. On the right (east) of the site, is Vibhavadi Rang Highway, with Don Muang Tollway on top of it. On the left (west), is Pahonyothin Road with the BTS Skytrain on top of it. The possible success of this project will help expand infrastructure development in the hub of the city.
### TABLE 2: CBD / Inner City Public Land Development

<table>
<thead>
<tr>
<th>Details</th>
<th>Figures</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Building A New CBD</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Area of the military compound (sq.metres)</td>
<td>1,600,000</td>
<td>Estimated</td>
</tr>
<tr>
<td>% of development area</td>
<td>60%</td>
<td>Typical</td>
</tr>
<tr>
<td>Net development area (sq.metres)</td>
<td>960,000</td>
<td>=C5*C6</td>
</tr>
<tr>
<td>Ratio of the development of 10:1</td>
<td>10 Bulicable area : Lanc</td>
<td></td>
</tr>
<tr>
<td>Total buildable area (sq.metres)</td>
<td>9,600,000</td>
<td>=C7*C8</td>
</tr>
<tr>
<td>% of the total net lettable area</td>
<td>70%</td>
<td>Estimated</td>
</tr>
<tr>
<td>Total saleable area (sq.metres)</td>
<td>6,720,000</td>
<td>=C9*C10</td>
</tr>
<tr>
<td>Value of typical office space (US $ / sq.metre)</td>
<td>2,000</td>
<td>=2000</td>
</tr>
<tr>
<td>Years to be completed</td>
<td>8</td>
<td>Estimated</td>
</tr>
<tr>
<td>Capitalization rate</td>
<td>5%</td>
<td>Estimated</td>
</tr>
<tr>
<td>Net value of this development (US $ / sq.metre)</td>
<td>1,354</td>
<td>=(1/(1+C14)^C13)</td>
</tr>
<tr>
<td>Office building's construction cost / sq.m (US $)</td>
<td>800</td>
<td>Estimated</td>
</tr>
<tr>
<td>Total cost of the office building development</td>
<td>5,376,000,000</td>
<td>=C11*C18</td>
</tr>
<tr>
<td>% of the cost of the development project</td>
<td>70%</td>
<td>Estimated</td>
</tr>
<tr>
<td>Total hard costs (US $)</td>
<td>6,367,704,718</td>
<td>=C17*C20</td>
</tr>
<tr>
<td><strong>Total cost of this CBD land as land value</strong></td>
<td>991,704,718</td>
<td>=C21-C19</td>
</tr>
<tr>
<td><strong>2. Building A Medium Income Living Quarter</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of the total net lettable area</td>
<td>75%</td>
<td>Estimated more cue to being conc</td>
</tr>
<tr>
<td>Total saleable area (sq.metres)</td>
<td>7,200,000</td>
<td>=C9*C24</td>
</tr>
<tr>
<td>Value of typical condominium (US $ / sq.metre)</td>
<td>1,300</td>
<td>Estimated</td>
</tr>
<tr>
<td>Typical unit area (sq.metre)</td>
<td>40</td>
<td>Estimated</td>
</tr>
<tr>
<td>No. of units which can be accommodated</td>
<td>180,000</td>
<td>=C25/C27</td>
</tr>
<tr>
<td>Average unit price</td>
<td>52,000</td>
<td>=C26*C27</td>
</tr>
<tr>
<td>Years to be completed</td>
<td>8</td>
<td>Estimated</td>
</tr>
<tr>
<td>Capitalization rate</td>
<td>5%</td>
<td>Estimated</td>
</tr>
<tr>
<td>Net value of this development (US $ / sq.metre)</td>
<td>880</td>
<td>Estimated</td>
</tr>
<tr>
<td>Office building's construction cost / sq.m (US $)</td>
<td>450</td>
<td>Estimated</td>
</tr>
<tr>
<td>Total cost of the office building development</td>
<td>3,240,000,000</td>
<td>=C25*C35</td>
</tr>
<tr>
<td>% of the cost of the development project</td>
<td>70%</td>
<td>Estimated</td>
</tr>
<tr>
<td>Total hard costs (US $)</td>
<td>4,434,651,500</td>
<td>=C34*C37</td>
</tr>
<tr>
<td><strong>Total cost of this piece of land as land value</strong></td>
<td>1,194,651,500</td>
<td>=C38-C36</td>
</tr>
</tbody>
</table>

According to the above calculation, if this parcel of land is used for office development as the location of a new central business district (CBD), the value of the land would be US$ 991.7 million or around US$ 620 per sq. metre. If it is developed as a medium-income living quarter, the value of the land would be US$ 1.195 billion or US$ 747 per sq. metre. The value of the two developments might be some 17% difference. Office development should possess a higher risk because of the existing huge supplies in the market; on the other hand, residential developments in this area are needed.

Consequently, the possibility of developing a large public land area, which is considered a guided development scenario, will help supply more road networks and a new infrastructure to the city at large. Adjacent private land can also be acquired or a large investment scheme could be worked out that would help boost the economy at large.
3. **Property Acquisition Authority**

An apparatus should be established to be responsible for the entire process of property acquisition. This task should not depend on the authorities involved but should be centralized in order to pull together all expertise and resources.

The tasks of this authority include the execution of land acquisition plans requested by the authorities involved, valuation, negotiation with the property owners and the like. Their own professionals can take care of the tasks or out-source the services to private service providers. In addition, the following should be included in the tasks.

The first task is to set up a relocation fund. During the process of relocation, property owners may need to sell their land to the government or they may need a loan for relocation or for other related activities resulting from the land acquisition. In this case the authority should have a relocation fund that can be used for these purposes in time.

The second is the provision of some temporary resettlement sites which can be built to provide shelters for those in need. There may be a need for an amount of money to be allocated to property owners so that they can temporarily rent shelters in urgent cases of public land acquisition.

The third is referral services. Some victims of land acquisition might be senior citizens who have no relatives. They may need a nursing home or an asylum (if they are too poor) instead of a house. In this case, the authority can refer him or her to the proper institution instead of providing them with a house.

The fourth task is to conduct negotiations with beneficiaries involved particularly the property owners. Negotiation may be conducted by professional negotiators under the execution of this authority.

The fifth task is to conduct some training on public land acquisition for staff members of this authority and other government organizations related to public land acquisition. There is good courses run by the International Right of Way Association (IRWA: 2010) where the author has a mission to participate and speak at its annual conference every year. Course involved can be:

- Principles of Land Acquisition
- Principles of R.E. Negotiation
- Communications in R.E. Acquisition
- Alternative Dispute Resolution
- Bargaining Negotiations
- Negotiating Effectively with a Diverse Clientele
- Conflict Management
- Cultural Awareness
4. **Real Estate Information Centre**

There should be public investment in a property information centre on a self-sustained basis. This implies that information must be valuable cum saleable. Although data and information on valuation are an integral part of professional valuation, it must be understood that proper diagnosis of data is substantial as well. In addition, there is no need to have a complete set of information of an area in order to value only a piece of property.

Information on property prices transacted must be publicized and transparent. The disclosure of transacted prices will not violate business confidentiality inasmuch as the business is transparent. The public should have the right to know the exact prices transacted. This would be a good database for valuers as well as for preventing economic crimes. For example, in the USA, if one cheats the authorities by providing the wrong/lower cost of a house bought in order to pay less tax, their neighbor can sue him. This implies that that one exploits others.

In order to encourage the disclosure of prices transacted, a property-price-increment tax (tax on the amount of value exceeding the original acquired value) might be studied and introduced so that it would be fair for property holders. It should be enforced that private properties of a value exceeding a certain amount (e.g. one billion rupiah) must be valued by an independent valuer or valuation firm prior to transaction. The value appraised will be used for taxation purposes. This will help expand the services of valuers as well.

In order to disseminate the information, public records on property transactions should be made public to all (with some payment for uses) in order to facilitate the valuation profession and to make things transparent. In addition, websites containing price databases on machinery and other properties should be constructed.

Achieving this requires strong commitment on the part of the government. The main functions of the Centre are directly related to property market information. First is to collect and second is to collate and synthesize data for further uses. Analysis of the data for understanding and actions is the third role. The fourth is to disseminate the information analyzed. This will help the industry, the government, and the public at large. As mentioned, it must also be an intelligent unit or “Think Tank.”

Considering data collection, it is not necessary to collect all of the data. Only a few items should be invested to be conducted. For example, it is necessary to collect real estate
launches and development projects from the field in order to understand the contemporary situation and to react promptly in the case of warning. Secondary information needed includes mainly the transaction records of all types of properties and the valuation reports in electronic form. Relatively is the standard software use for the centre which can be coordinated with all others.

This property information centre will be the backbone for the source of information for the valuation of public land acquisition and other purposes.

**IV. Concluding Remarks**

In general, the losses of the property owners which should be compensated include:

1. Value of the properties (land and building) taken which is very obvious and understandable although in some country or some situation, some partial value are compensated.

2. Special value to the owner. Some properties have some special value to the owner by producing some certain income or having some loss if the property is taken.

3. Severance which implies to the reduction of value of a person’s remaining land caused merely by the taking of part of the person’s land such as the reduction in size of the remaining land affects economic operation or viability, the reduction in size requires alteration or improvement to the balance land, or the fragmentation of land makes economic use more difficult.

4. Injurious Affection. The value of the rest of the land is reduced by whatever it is the acquiring authority intends to do on the land taken.

5. Betterment or Enhancement. In this case, it is an increase in value of land retained by a person caused by the taking of part of the person’s land or by the public work for which that taking occurred. Betterment arises only for the purposes of set-off. In many cases, there may not be any compensation.

6. Disturbance which refers to re-location costs and lost revenue. However, sometimes a taking of land can completely extinguish a landowner’s business.
Major issues for consideration are the results of the interview with experts in related field. The findings are as follows:

1. The principle of compensation for public land acquisition: Public land acquisition has been enforced by law. However, the appropriateness of these laws and regulations may have to be examined and actually should be adjusted over time.

2. Coverage of compensation, e.g. relocation costs, economic losses: Authority tend to compensate for all physical losses of properties, including severance and injurious affection damages, as well as costs of removal and relocation. However, spiritual or personal mental value will not be compensated. The compensation is at the market price of the real estate, including other losses.

3. Internationally-accepted valuation standards for compensation: A set of some (international) valuation standards are applied.

4. Valuation under the limit of data availability: This might be an impossible “if clause”. This means that a real estate information centre must be established. All transaction prices must be reported; otherwise, punishment will be applied. However, while there is no public record, a thorough field research with an adequate number of comparable properties should be conducted. Authorities involved must absorb additional costs of data collection. In addition, the residual approach or hypothetical development analysis and the cost approach can be applied in case of need as well.

5. Making valuation more transparent and understandable to the owners: A proper valuation must be conducted and explained to the owners by the negotiators. The agency that conducts the valuation and expropriation must not be the same authorities that use the land in order to avoid any conflict of interest.

6. Pros and cons of offering compensation above the market value: Additional payment should help accelerate the time frame of the project, which is good when the opportunity cost is considered. However, tax payers may be disappointed.

7. Negotiations with landowners: Actually, prior negotiation is better than compulsory land acquisition. Professional training is needed. Way to deliver compensation to owners: Land owners are entitled to receive compensation which can be transferred to the land owners directly.
This study comes with some recommendations for action as follows:

1. A No-Cost Road Development: There exists a certain profit out of this development. This implies that more compensation can be paid to the landowners whose properties are acquired for this road construction.

2. Redevelopment of Prime Public Land: The possibility of developing a large public land area, which is considered a guided development scenario, will help supply more road networks and a new infrastructure to the city at large.

3. Property Acquisition Authority: This will be an apparatus should be established to be responsible for the entire process of property acquisition. This task should not depend on the authorities involved but should be centralized in order to pull together all expertise and resources.

4. Real Estate Information Centre: This will help establish database for valuation, taxation and other purposes. It will be the backbone for the source of information for the valuation of public land acquisition and other purposes.

The steps and stages to help accelerate timely land acquisition can be done as follows:

1. The establishment of the property information centre which will be benefit for all particularly when compared to the gigantic amount of real estate investment per annum.

2. This will lead to the reporting system of transaction prices. There should be some additional measures to encourage people to report the fact by reducing stamp duty and transfer fee and to punish those who fail to report the fact by exacerbating them with high amount of fine. Quality check team and individual valuation assignment for properties worth more than certain value should also be conducted.

3. An ad-hoc authority to pull the resources and conduct the valuation and land acquisition should be established at this stage. Actually, the detailed jobs such as valuation can also be outsourced with quality check with scrutiny.

4. Training and study visits to different countries should be conducted particularly on the matter of negotiation, communications, dispute resolution, bargaining, conflict management, and cultural awareness and art and science of valuation and compensation.

The feasibility of this task depends on the understanding of the public and the acceptance of the politicians. Long-term benefit of popularity and sustainability for the
politicians can be realized with the land acquisition projects for better infrastructure development. If these projects can be materialized, they will become masterpieces of the politicians. Therefore, if strong political support can be expected, timely land acquisition can be successful.

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The following professionals from 12 countries generously contributes to this paper. They are my professional colleagues in the field of valuation, real estate and urban planning. In this list, in the case of Thailand is of the author. Therefore, there are 13 countries. Their names and contact addresses are acknowledged below:

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Low Cost Housing Market: 
The Influence of Free Trade Zone area of Batam Island 
Mrs. Indrastuti and Mr. Sarwono

Abstract

Over the past three decades Free Trade Zones (FTZs) have become popular instruments of trade policy, offering enterprises located in the free trade conditions and a liberal regulatory environment. Indonesia established the FTZ status for several areas in the country, but one of the biggest implementation is in Batam Island. the low-cost housing development projects which increasingly play a vital role especially in the development process to tackle social issues Housing trends affect the welfare of the people whether directly or indirectly and housing construction is an important component in economic activity. Total Investment is useful as a predictor for predicting the number of housing supply in Batam, for every increase in Total Investment, the Low-cost housing will increase as well. The bulk of the economic activities in Batam is in export-oriented manufacturing, fostering economic (GDP) growth such as that of 7.7 per cent per annum recorded for 2003 and providing employment for more than 240,000 workers. Therefore, the total investment is also fostering on the increase of the housing supply in Batam. There is a relationship between number of total investment, and residential budget allocation by the government to the number of housing supply in the Batam Free Trade Zone area. The strongest correlation with the housing supply found in the number of total investment and the governmental residential budget allocation.
**Background**

Housing markets in many countries have always experienced sharp swings in response to the state of the economy. Thus, many of the arguments are relevant to other countries. In fact, there has been an increasing number of studies concerned with the ways in which housing and the other economic sectors interact. For example, Bover *et al.* (1989), Tse (1996a, 1998), and Tse and Ganesan (1997) concentrate on the relationship between housing and the labour market, housing and the mortgage and land markets, and housing and the construction sector. Maclennan and Pryce (1996) argue that economic change shapes the housing system and that recursive links run back from housing to the economy. It might reasonably be expected to incorporate the construction sector into a full macroeconomic model of economy.

Studies by Stockdale and Lloyd (1998) and Strassmann (2001) suggest that the overall relationship between housing supply and population mobility can be described as indirect, with many socio-economic factors affecting them. In fact, considering the studies by Popetan (1996), Copazza and Helsley (1987), Speare (1974) and Graves (1983) would indicate that there is a chain relationship between housing supply, investment, housing provision and population mobility to find jobs. These variables are closely interrelated, therefore affecting each other constantly. In a research conducted by Tse *et al.* (1998) population growth, interest rate and inflation is affecting the housing supply. The research used an addition to the transaction volume that being included in an econometric studies.

Moreover, short run supply of housing is fairly inelastic because housing supply is based on current completions which will continue and cannot be changed in a short period of time. In contrast to housing supply, it is possible for housing supply to rise suddenly due to external changes, such as political risk, stock market crash, government intervention, and many other external circumstances.

The concept of free zone/special zone has existed for many years. Typically, special zones are regions designated for economic development oriented towards attracting the FDI and export promotion, both fostered by special policy incentives. These also include Export Processing Zone (EPZ). (World Bank, 1981).

An EPZ provides institutional umbrella in an underdeveloped region. It is a specifically delineated duty free enclave and shall be deemed to be a foreign territory for the purposes of trade operations, levy of duties and tariffs.

There are few terms recognized interchangeably with Free Trade Zones, such as; Strategic Economic Zone, EPZ, Special Economic Zone, Free Economic Zone, Free Trade Area, Open Coastal Zone, etc. However, the bottom line is that these zones are marked by minimum bureaucracy, best infrastructure, generous tax holidays, unlimited duty free imports of raw material, other inputs as well as capital goods. Economic activities which take laces in the zone are subject to similar conditions that manufacturing firms would face in a developed country, whereas activities located outside the zone operate in an underdeveloped institutional environment.
It is believed that FTZs could stimulate infrastructure development through forward and backward linkages not only within the zones but also facilitate economic development in the peripheral areas. Further, they can also contribute to technology transfer, generate employment and income and thereby enhance government revenues besides exerting positive influence on policy makers in the host country.

Studies by Wasantha Athukorala (2003) suggest of how the Free Trade Zone impacts on the increase on investment in a country. In other words they can act as free market oases for foreign exchange earnings and job creation. Conventionally, the concept of EPZs evolved to provide special incentive package to offset the anti-export bias and promote exports. According to some scholars and organizations, such as Grubel (1991), the United National Center on Transnational Corporations (1991), Fan Sujie, and Xiangming Chen prefer to use “Free Trade Zone” as a general designation to cover all other types of FTZs, because FTZ can generalize the dominant characteristics of them.

FTZ could be defined as follows: in order to realize certain economic and political objectives, FTZ is geographically defined in an area or zone inside a country or in a cross-border area between several countries where certain economic activities are especially allowed and where free trade and other preferential policies and privileges different from those in the rest of the country are granted. FTZ ranges from a small size to a large dimension, from a zone inside a country to a cross-border zone between more than two countries and from an economic zone to an economic and administrative zone and furthermore to an economic and political zone.

Establishment of free trade zone in a country involved many considerations, and the implementation may affect several sectors in the country. All these factors lead Indonesia establish the Free Trade Zone in the area of Batam. The consideration in the national circumstances, the economy, policy and regulation will be elaborated to understand more on the Free Trade Zone in Batam, Indonesia, and also the overview of the circumstances in Batam itself. The establishment of Batam FTZ also affects on several aspects, i.e. economy through investment, the governmental residential budget allocation, the increase on labour population and also the housing supply in the area.
Batam General Overview

Batam is an island and city in Riau Islands Province of Indonesia. This 715 km² island is located in east of Karimun and Bulan Island, west of Bintan, north of Rempang Island, and south of Singapore. Batam is one of the fastest growing cities in Indonesia, which is located only approximately 20 km from Singapore and 25 km from Johor, Malaysia.

The Riau Straits (Selat Riau) separates Batam and Bintan. With the major communities on Batam are in Sekupang, Jodoh, Nagoya, Sungai Panas, Batam Centre, Baloi, Batu Ampar, and Bengkong.

Batam Map

Beginning in the 1970s, the island underwent a major transformation from a largely forested area into a major harbor and industrial zone. The population grew significantly, from only a few thousand in the 1960s into more than half a million by 2000s. The island's economy benefits from being close to Singapore and, with lower labor costs and special government incentives, is the site of many factories operated by Singaporean companies. Shipbuilding and electronics manufacturing are major industries on the island; there are also several resorts and tourist destinations on the island. Under a framework signed in June 2006, Batam, along with parts of neighboring Bintan and Karimun are a part of a Special Economic Zone with Singapore;
this zone eliminates tariffs and value-added taxes for goods shipped between Batam and Singapore.

Batam as an area with a strategic geographic location that is close to Singapore and Malaysia, is a good area to invest. With the availability of facilities and infrastructure that support business needs and fits the international standard, regional availability of good industrial electronics, shipping, and other pipes. Supported the Free Trade Zone area creates Batam as a strategic location so that the development of business in Batam is able to offer the investment climate that is different from other areas.

The development of Batam as an industrial and trade area is handled by designing the applicabley Master Plan in order to improve the island’s sustainable development. The Batam Master Plan is established on 1984, and it is as a guidelines to the development in Batam. Batam has been designed as a counterpart to Singapore, but not to be a rival, since Singapore has been a hub, almost in every facet in the region, from the trade to the offshore financing.

**Batam Zoning and Town Plan**
Batam Population and Labor-force

The population of Batam, as per June 2008 is estimated at 791,605 persons, the said total, 398,456 are males and 393,149 females.

Batam Population Growth

The population distribution by district shows that Lubuk Baja District has the largest share with a total 3213 persons/km² while followed by Sekupang Districts that have 1221 persons/km², Nongsa 1024 persons/km², Batu Ampar 739 persons/km². Sei Beduk has the smallest population which only 153 persons/km².

According to Bureau of Statistic, by 2009, there are approximately 924,601 people living in Batam, coming from all over the Indonesian archipelago. Approximately, there are 274,000 people work in the formal and the informal sector. This labor is increasingly better skilled as they have years of training and experience. This skilled labor can be sourced directly in Batam, without the need of recruiting from other regions, such Java and Sumatra. About 36% of the population in Batam are workers, making a very healthy dependency ratio. As Batam is developed as industrial area, the population growth is increasing. The result from Batam Bureau of Statistic shows the rate of Batam population growth is approximately 12-13 % each year and the growth of labour in Batam is forecasted growing about 10.40% each year.

One of the most significant trends in Indonesia over the past decades has been its rapid urbanization. Surveys showed that the movement towards urban areas stemmed not from the innate lure of the cities but from the lack of employment in the countryside. Industrial development has also brought large scale migration to urban areas. According to the 2005 census, around 46% of the population live in the cities, compare with 31% in 1990 and 22% in 1980.

In Batam FTZs, women workers are an important component of formal employment. In Batam by the end of July 2007 there were 80% women compared to 20% male workers, This
illustrates the predominance of women workers in the zone workforce and the high percentage of textile and garment plants which are female labor-intensive.

**Investment in Batam**

A report from Political and Economical Risk Consultancy (PERC) shows how Batam seems immune by ranking third on the list of world most popular investment destination. The investment rate in Batam can be seen from the following chart:

![Investment in Batam Chart]

Source: Batam Industrial Development Authority (BIDA)

The Indonesian Government investment in Batam to date is put at more than $US2 billion with private investment amounting to around $7 billion. The bulk of the economic activities is in export-oriented manufacturing, fostering economic (GDP) growth such as that of 7.7 per cent per annum recorded for 2003 and providing employment for more than 240,000 workers. In 2004, more than 47 new foreign companies with investments exceeding US$43 million, set up production bases in Batam, this area is reportedly generates about 14 per cent of Indonesia’s export income other than oil and gas. By 2007, the number of industrial tenants had grown to 77.

Most of the enterprises in Batam consist of electronics and computer related manufactures like audio and video equipment and printed circuit boards. Other products include leather goods, shoes, garments, toys, household products and health care products. Tourism is emerging as a major industry with around 1.3 million visitors a year, making Batam Indonesia’s second most popular destination after Bali. There are more than 6,000 hotel and resort rooms, many of international class. There are two marinas and six international standard golf courses.

The success of Batam in attracting investments is no less due to the willingness and determination of officials to adopt measures that cut through the red tape of other Indonesian
regions with one-stop interfaces, speedy processing of development proposals and co-operative handling of visa applications for key people. Potential investors also have been wooed with a raft of investment allowances, tax concessions and exemptions going beyond the benefits of Batam’s duty free status. Laws have been relaxed to allow foreign ownership of houses and commercial property and enterprises can be established without any requirement for Indonesian ownership participation – the business or company can be wholly foreign owned. Secure land leases are available for up to 80 years and are extendable.

Another attraction for investing in Batam has recently been added: the duty-free importation of Batam-made technology and medical equipment components into the U.S. as ‘extensions’ of Singapore’s manufacturing base under the recently enacted US- Singapore Free Trade Agreement. While its proximity to a dynamic Singapore economy is an asset to capitalize on, signs of the future Batam are now emerging with the development of Batam Center, a new and modern administrative hub that ultimately will supplant old Nagoya as Batam’s main business district. The modern architecture, obvious planning and permanent presence embodied in the major buildings of the new zone are in striking contrast to the urban environment of the early days.

**Batum Free Trade Zone**

The second major area is the Batam Free Trade Zone which was developed with assistance from the Singapore Government. The Batam zone was the Singaporean government’s first regional industrial park project outside Singapore. (Kumar and Lee 1991)

The self-contained industrial estate is situated on the east of Batam Island, is part of the Sijori Growth Triangle. The island of Batam is located approximately 20 km from Singapore. The Indonesians felt that industrial transnational corporations could take advantage of Batam’s geographic proximity to Singapore, in addition to the island’s low labor and land costs, which were one-quarter of those in Singapore in 1989 (Kumar and Lee 1991). In 1991, 15 industrial transnational corporations began operations at Batam. And by 2007, the number of industrial tenants had grown to 77. All of these enterprises had relocated part of their Singapore based production to Batam especially their lower value-added activities, while retaining a regional headquarters in Singapore.

Strategically located on the Indian and Pacific Oceans, Batam Island is also the second most popular international tourist destination in Indonesia. Due to its strategic location, low cost structure, skilled work force, and tax and other investment incentives, the table below shows the distribution of key industries in 2007 in the Batam FTZ.
Distribution of Key Industries in Batam FTZ

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>40%</td>
</tr>
<tr>
<td>Precision Parts</td>
<td>18%</td>
</tr>
<tr>
<td>Plastic Moulding</td>
<td>11%</td>
</tr>
<tr>
<td>Electrical</td>
<td>10%</td>
</tr>
<tr>
<td>Packaging</td>
<td>6%</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>4%</td>
</tr>
<tr>
<td>Others</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: Scott Macleod and T. G. McGee (2007)

The Government has enacted some special regulations on free trades zone to improve competitiveness in attracting investors. In accordance to Law No. 36 Year 2000 and its amendment of the Substitute Law (Perppu) No. 1 Year 2007 as well as newest Law No. 44 Year 2007, the government has determined that region of Batam, Bintan and Karimun Islands were become as the free trades and free ports zones. These zones managed by the Board of Zone lead by the Governor of Riau Islands Province. Meanwhile on every free trades and free ports zones will be managed and operated by each Board of Zone Management (Badan Pengelola Kawasan).

Batam Island is determined as the free trades and free ports zone through the Government Regulation No. 46 year 2007 for duration of 70 (seventy years) as stated in this government regulation. The area of the zone is included Batam Island and its surroundings such as: Tonton Island, Setokok Island, Nipah Island, Rempang Island, Galang Island and Galang Baru Island.

The objective of FTZ should be the creation of job opportunities and income, increase of country reserve, growth of FDI and technology transfer. Conditions in Indonesia show that there has not been any other area with potentials as solid as Batam in becoming an FTZ. Indonesia has many Bonded Zone, which development is relatively modest. Indonesia also has Quasi-FTZ, something like the unsuccessful carpet industry. Batam has possessed several beneficial characteristics: (1) Steady job and income creation; (2) Foreign exchange earnings; (3) Good credibility in the investors’ eyes; and (4) Batam has already become a growth centre for its surrounding areas. Other regions, which request FTZ status, lack such capacity.

The government announced through its circular 1/2007 the setting up of a new management agency for the special economic zones (FTZs) in the Indonesian Batam, Bintan and Karimun islands. According to this circular, by September 2008, the management agencies of these FTZ’s will report directly to the president. In the more advanced Batam Free Trade Zone, the announcement indicated that the existing Batam Authority would be one of the management agencies, with a higher body known as a "FTZ council" to be set up.

The council would determine and supervise the implementing policies for the FTZ. The FTZ council will comprise representatives of the local administration, the customs service, the immigration service, the investment board, and the provincial council, so that all the policies can be properly coordinated so as not to hamper business and investment. The FTZs, which will cover most of the three islands, involve the establishment of free ports, a one-stop investment
office and easier immigration procedures for business people and investors. An important point to note is that Indonesia is working together with Singapore on the further development of Batam, Bintan and Karimun islands in the Riau Islands FTZ project.

**Governmental Residential Budget Allocation for Batam**

**Residential Budget Allocation for Batam**

![Percentage of Residential Budget Allocation to Regional Expenditure](image)

Each year, as an impact of growing number of demand for the housing supply, the authority of Batam city has also increase the budget allocation on residential, especially for low-cost housing. However, as shown on the Figure 3.7 above, in 2008 there is a decrease number compared to the previous year. This is analyzed as one of the impact from the global financial crisis on 2007-2008, but this phenomena would not be taken in the account of the research.

**Bamat Property Market Overview**

Batam, which currently has 14 industrial zones, has so far attracted more than 77 foreign companies that employ more than 270,000 local workers. Foreign investment in 2006 was US$4.5 billion, up from US$3.5 billion the previous year, with about 7 per cent of the island’s economic growth since the early 1980s coming from the export-oriented manufacturing sector. Local property executives say Batam is increasingly becoming a residential magnet not only for Indonesians from the surrounding Riau province but also Surabaya and Jakarta in Java, as well as further afield from Sumatra and Kalimantan. All are attracted to the growing job and business opportunities offered by sprouting industrial parks and commercial activities all over the island.

Demand for low and middle-priced units had been picking up since the second half of 2006 as more new residents looked to settle in Batam. The island also acts as a transit point for Indonesian businessmen from Surabaya and Jakarta, many of whom are beginning the move of part of their operations to Batam in the wake of the island’s new free trade zone status. Batam
looks set to be an increasingly appealing holiday and business destination over the coming years, meaning demand for properties targeting overseas investors should rise considerably. A number of international hotel brands have been moving on Batam lately. Elsewhere, this has tended to precipitate an increase in demand for residential property in their vicinity.

Laws have been relaxed to allow foreign ownership of houses and commercial property and enterprises can be established without any requirement for Indonesian ownership participation – the business or company can be wholly foreign owned. Secure land leases are available for up to 80 years and are extendable. Another attraction for investing in Batam is the duty-free importation of Batam-made technology and medical equipment components into the U.S. as ‘extensions’ of Singapore’s manufacturing base under the recently enacted U.S.-Singapore Free Trade Agreement, Batam’s overall developmental impact can best be described as being ‘both positive and negative’.

The most positive aspect of the Batam FTZ project was its effectiveness as a cheap and efficient industrial production site for industrial transnational corporations. In 1988, just over 10,000 persons were employed in Batam. But by 1996, this grew to 125,000, of which over 85,000 were employees of companies located within Batam FTZ managed by the Singaporeans.

**Batam Low Cost Housing Supply**

The implementation of FTZ in Batam creates housing supply problem due to the increasing number of labor and in adequacy of (governmental) residential budget allocation, even though it also increases the number of investment in the area of Batam. The mobility of urban and growth of population has led to the squatter problem, due to the housing supply could not accommodate the growing number of labour population in the area. The plan to handle this problem and to achieve the targeted 50% reduction of squatters in the world by 2015 has been identified by Local Regulation Number 2 Year 2004 about Regional Spatial Land Plan of Batam City on Year 2004–2014.

From the review of Regional Spatial Land Plan of Batam City on Year 2004–2014 show that there is need for low-cost housing construction which is aimed to handle the squatter problems and also upgrading the standard of living for the poor who are staying in the urban area. The target groups are those who are staying in squatter areas, where the squatters are relocated and provided with various modern facilities in an integrated manner. The Ministry of Housing and Local Government has set the guidelines on various categories of low-cost housing such as the regulation of the target groups with a household income, and type of house which include twin-blocks flats.

Competent low-cost housing in the form of flats represents one of the effort overcome requirements of house to society especially representing labor. Predicting requirement of the flats to overcome problems of housing to labors are 756 block to accommodate the more or less 380,000 labors since each year averagely the percentage of labor growth in Batam is about 10.40%. The development of the low cost flats are done by Indonesia Central Government,
Batam Industrial Development Authority, National Housing and Urban Development Corporation, National Corporation for Worker's Social Security Program, Government of Batam City and also in collaboration with the companies from the private sectors. The private sectors also have contributions in handling this problem, since their investments and the big number of workers that are employed in their companies also indirectly contribute to the squatter problem.

Population growth has increased the demand for low cost housing. Each year, there is growing number of workers in Batam, as it is seen as a promiscuous island for workers that seek for a better living. The need of a proper living environment is in demand to accommodate the need of housing especially in the low-cost residential.

At the moment, with the amount of industrial workers that reach about 36% of the total population of the island, most of them are living in the slum area. Only around 9 percent, of total workers employed in Batam, Bintan and Karimun (BBK) Indonesian Free Trade Zone have access to decent quarters, as most live in squatter homes. Some chip in to pay for rented homes in residential areas and others rent rooms together, living in an alarming condition. Lodging is quite expensive in Batam, it uses up much of the workers earnings.

**Methodology**

The qualitative approach and inferential statistical method are selected for the study because it is proper when the focusing study is to explain the Free Trade Zone and the sectors that affected by of its establishment in the area. The approaches are in line with the objective of the study, which is to identify the factors that affect the low-cost housing supply in Batam, as a free trade zone, and to determine how is the significance of free trade zone establishment in the area of Batam to the low cost housing supply in the area, and also identify how strong are the labour, investment and governmental residential budget allocation in affecting the low cost housing supply.

The qualitative method is chosen due to the difficulty of the subject and the difficulty by which perception is quantified. Thus, it is important to understand the concept of Free Trade Zone before trying to quantify it and its underlying factors. Following the qualitative analysis, the researcher conducted quantitative analysis to show the relationship among variables, which are the number of total investment, the labour population, and governmental budget allocation as the independent variables and the low cost housing supply as the dependent variable.

This study uses various secondary data. Secondary data, this study will start with looking at secondary sources, primarily books, journal, articles and published interviews. Databases presented by Batam Department of Urban Planning and Building Control, Batam City Government, Batam Industrial Development Authority, Ministry of Manpower and Transmigration, Indonesia Coordinating Ministry for People's Welfare, Indonesian Bureau of Statistic, and other related sources have been important means to find interesting articles.

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A comprehensive literature review and theoretical background is the key of this study. This is to create a base on what has been done before on the subject and to identify sectors that are affected by the establishment of Free Trade Zone in Batam.

The main reason in using secondary data in this study is because of this study conducts a research which requires the data in large time frame. The data collection used for this study also based on the expertise and professionalism that may not available to smaller research projects. Data collected on a national basis are particularly important in the public housing, fields that focus primarily on the populations rather than of individuals.

Secondary data covered for required data for measuring the regression and correlation between the independent variables i.e. number of total investment, number of labor population and the government residential budget allocation -as the sector that affected by the establishment of Free Trade Zone- with the dependent variable, i.e. low cost housing supply.

In this study, the relations between the factors in FTZ that affecting the low-cost housing supply is analyzed using the quantitative analysis and made use of multiple regression analysis as the empirical analysis. Below is the variables description used in this study can be described as in the following equation:

\[ Y = a + b_1X_1 + b_2X_2 + b_3X_3 \]

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<th>Housing Supply</th>
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<tr>
<td>Y</td>
<td>Y-intercept</td>
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<tr>
<td>a</td>
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<td>(b_1, b_2, \ldots)</td>
<td>Partial regression coefficients</td>
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<td>(X_1)</td>
<td>Residential Budget Allocation for Low Income Housing</td>
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<tr>
<td>(X_2)</td>
<td>Labour</td>
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<td>(X_3)</td>
<td>Total Investment</td>
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Batam as an area with a strategic geographic location that is close to Singapore and Malaysia, is a good area to invest. With the availability of facilities and infrastructure that support business needs and fits the international standard, regional availability of good industrial electronics, shipping, and other pipes. Supported the Free Trade Zone area creates Batam as a strategic location so that the development of business in Batam is able to offer the investment climate that is different from other areas.

Batam has consistently exhibited outstanding economic performance. Great expectations have been bestowed upon Batam. On 2007, the Government of Indonesia has officially launched free trade zone for Batam, Bintan and Karimun in Riau Islands. The launching, ending five years of legal uncertainty for businesses, was marked with the issue of government regulations on customs, tax and duties for goods entering the three islands.

The success of Batam in attracting investments is no less due to the willingness and determination of officials to adopt measures that cut through the red tape of other Indonesian
regions with one-stop interfaces, speedy processing of development proposals and co-operative handling of visa applications for key people.

All data which includes the low-cost housing supply, investment in Batam, government allocation to low-cost housing and total population of the labour in Batam, are acquired from the various reports from Batam Department of Urban Planning and Building Control, Batam City Government, Batam Industrial Development Authority (BIDA), Ministry of Manpower and Transmigration, Indonesia Coordinating Ministry for People's Welfare, Indonesian Bureau of Statistic. Meanwhile, the data for the government’s allocation for low-cost housing are classified within developmental expenditure.

The difficulty in obtaining the most up-to-date data especially for housing supply and government allocation has resulted in the use of annual data series from only the years 1999 to 2009 for this study. Empirical analyses were conducted by using the multiple linear regression method (McClave & Sincich, 2003).

**Batham Free Trade Zone Factors**

Source: Adapted from Debrah et al (2000) and Toh Mun Teng (2006)

Rising labour and land costs have made Singapore a less favorable place for manufacturing activities which are labour and space intensive. Instead of doing nothing and allowing ‘footloose’ characteristics of foreign MNCs residing in Singapore to materialize, the economic planners in Singapore have been actively interested and involved where possible in the private corporations’ plans to relocate their production bases in the face of rising domestic costs and cheaper resource destinations abroad. An orderly decanting exercise was being planned.

The long established good will and business relation with foreign corporations were being cherished. Rather than the production bases move far away without any further linkage, it will be useful to have these ‘footloose’ production bases move to neighboring countries and continue to maintain gainful economic linkages with Singapore. Production bases in neighboring countries could still provide Singapore will a good source of income when they make use of
Singapore’s service hub to meet their needs for transportation, finance and other headquarter services and facilities.

Furthermore, the orderly decanting exercise will also add favorably to Singapore foreign policies and international goodwill in helping neighboring countries to climb the development ladder. Involving Malaysia and Indonesia, Singapore’s two nearest neighbors is a natural choice to start a triangular arrangement as there were two existing bilateral arrangements, one linking Singapore with Riau and the other connecting Singapore with Johor.

**Low Cost Housing Supply**

In developing countries, only up to 20% of the population who in actual fact constitute the higher income earners would be able to afford such housing units. The low-income group in developing countries are generally unable to access the housing market through the mortgage institutions. Housing requirements for this group are both urban and rural based. This situation has not changed. Low cost housing for the low-income group is generally developed by the informal sector of the economy through unstructured procurement systems.

Low cost housing schemes are also influenced by the characteristics of the construction environment. A better definition for low-cost housing would be affordable housing for poor or low-income individuals and families. It does not necessarily mean individual houses and it also includes rental housing. This definition would include a wider range of housing types in terms of their costs relative to lower income segments of the population of different areas and countries. Affordable housing would then include housing that lower income families can afford to build themselves or participate in their construction as some form of equity or acquire through some form of aid as in housing cooperatives or afford to rent with their income.

Housing projects should include basic utilities such as electricity, water and sanitation. Affordable housing units should be built with strong and durable materials so that they can last with a minimum of maintenance at least 20 to 25 years or a period corresponding to the term of loans and mortgages.

Undoubtedly, housing is an important wealth component to most people (Grimes et al. 2003, Case et al. 2005). Housing trends affect the welfare of the people whether directly or indirectly and housing construction is an important component in economic activity (Grimes et al., 2003). Usually the state of one’s residence reflects the wealth status and their current economic situation. Apart from that, the income and composition of their local community is linked to their local economic situation. One may have the intention to migrate from the economical stresses of a lesser developed area to another area which is more developed.

Research on housing supply outside the US is scarce. This is unfortunate, because one would expect to find large international differences in the area. Institutions in land and housing markets vary substantially between countries, and recent studies point to a strong relationship between the restrictiveness of housing regulation and the price elasticity of housing supply (cf.
Green et al., 2005, Quigley and Raphael, 2005). In turn, as we have argued earlier, an enhanced understanding of housing supply conditions may shed light on the large international heterogeneity in trends of housing supply.

The analysis of housing supply in the Free Trade Zone area, namely Batam, Indonesia in this paper seems well motivated. National and local governments intervene in various ways in land and housing markets. Perhaps most fundamentally, the free trade zone system implies a segmentation of land markets, which essentially turns the supply of residential supply into a policy outcome.

The implementation of free trade zone in a country is closely linked to the demand of increasing the investment, both of domestic and foreign investment. Before proceeding to the understanding of FDI, it is better to recognize on the economic growth and investment and how it relates to the whole scenario of the study.

Wong & Hui (2000), Liliany S Arifin (2001) observe the relationship between the total of investment to the housing supply in a country. Moreover, study by Gwilym Pryce (2004), C. Susilawati & L. Armitage (2004) and also Tse et al (1998) discover that investment incentive has caused a demand for greater housing supply. All else being equal, higher investment incentives were likely to increase the supply of flats if developers expected more investment demand in the future. Consequently, not taking account of the investment demand will result in excessive price fluctuations.

**Labour Population and Housing Supply**

Study by Alacron Rafael (1994) and Karantonis (2008) explain on how the additional foreign investment, domestic growth and job creation resulting from Free Trade increases the migration flows. Population growth puts direct pressure on the demand for housing services, especially if the population growth stems mainly from the home buying age group with significant income (Reichert, 1990). Potepan (1994) argues that a higher level of current population growth tends to raise current housing prices through the expectation that higher future population levels will cause higher future housing prices. Thus the change in local population may be used as a measure of expectations that may influence current levels of space demanded. In addition to the demographic changes that affect the demand for housing as a shelter, macroeconomic shocks will affect the match between investment demand and supply of residential property.

Debelle and Vickery (1999) look at adjustment between labour markets in Australia. Using Australian states as their level of analysis, they find that a 1% change to employment causes a 0.31% change in the working age population of the region. Debelle and Vickery estimate a model that includes house price adjustment, and find that while house prices drop in response to a negative employment shock, including house prices does not affect the adjustment path of the other variables. Another case of relations between labour and housing supply was examined by Choy et al (2002) who found a strong migration response to a region-specific
employment shock. A temporary negative employment shock of 100 people causes approximately 71 people to migrate out of the region in the initial period of the shock.

As we know, today the functioning of property market is not independent of government action. All the demand and supply of the activity, to a greater or lesser degree is influenced by the government measures. The effect of all these government measures, designed to influence the whole construction industry in a similar way will be discussed in detail.

According to W. Lean et al (1966) the government body act as a judge of what is in the public interest, that is, what is considered good or bad from the community points of view. In doing so, its decision will frequently reflect other than economic considerations.

Like all markets, the property market is determined by demand and supply factors and one could argue in the typical classical economists’ way that in the long run the market will sort itself out. It is also important to note that in property markets, supply is relatively inelastic to demand and in particular as Warren (1994) and other property economist point out that “supply is primarily inelastic”. However unlike other markets, property is both shelter and a wealth asset for the consumer and therefore there are social consequences for society when it become unaffordable. Accordingly the role of government is considerably pronounced in property markets affecting both the demand and supply side. Therefore in addressing the issue of affordability, we need to consider all three, demand, supply and government.

Broadly speaking, the government seeks to influence the general level of economic activity in such a way that aggregate demand for goods and services is brought in line with aggregate supply at the level where resources are fully employed. If aggregate demand is greater than aggregate supply, inflationary pressure will be present in the economy and the government must use its various controls to cut back demand in short run and to encourage demand and supply to expand in line in the long run (W. Lean et al.)

Thus, such action will eliminate large fluctuations in the level of economic activity and also to promote an existence of a more stable market. However, majority of controls or measures exercised by the government is in the form of regulation. The general effect of W. Lean et al (1966) concluded that the level of construction activity is therefore dependent on the government action and post war fluctuation in the level have been due to changes in government policy. This will also hold true for the future. Indeed, the construction industry will respond most readily if demand increases steadily and this will come about if government investment is planned on a long term basis and organized into larger and more continuous units. It also depends on of the government is successful in its national economic planning so that fiscal and monetary measures do not have to be used in the ‘stop-go’ fashion of the past. This may involve the construction industry in accepting controls, such as building license, but the long term benefit to the industry and community are likely to outweigh any disadvantages.

Vermeulen and Rouwendal (2007), Ortao-Magné and Prat (2007), Alain Beriaud (2007) Dullah Mulok (2008) suggest that housing supply and consumption depends on government budget allocations. The market mechanism is unlikely, on its own, to produce an efficient
allocation of land uses or an even distribution of ownership. Thus the government intervenes in
the real property market, although each control taken will have widely differing degrees; at the
limit, administrative procedures completely replace the market mechanism. Basically,
intervention takes many forms, including a regulatory framework, taxation, subsidies and direct
ownership and participation in investment and the provision of services. In this part of the study,
we will consider how the use of such controls is likely to affect the behavior of market and how
the effectiveness of such control is determined.

The major intervention by the government in the construction industry relies especially
on monetary and fiscal policies. Through influencing the general level of economic activity or to
promote the particular social goals, these policies give the government an important degree of
control over the level of construction activity. As construction activity comprises major part of
investment, therefore any change in overall investment demand will direct to a significant change
in the demand for construction activity, the way in which various general measures or control
taken by the government to influence construction will now be examined.

According to Chiquier (2006), in order to improve the ability and capacity for financing
housing funds, other funds and credit products need to be created with improvements and
adequate support to meet the demands of the informal sectors’ needs and that of the lower
income group.

#### Conclusion

Based on the regression analysis we concluded that:

Residential budget is useful as a predictor for predicting the number of housing supply in
Batam. This indicates that the government’s allocation or expenditure for low-cost housing is
one of the core factors in influencing the provision of low-cost housing in Batam. So, the author
is 90% confident that for every increase in Residential Budget Allocation, the Low-cost housing
will increase as well.

Each year, as an impact of growing number of demand for the housing supply, the
authority of Batam city has also increase the budget allocation on residential, especially for low-
cost housing. However, in 2008 there is a decrease number compared to the previous year. This
is analyzed as one of the impact from the global financial crisis on 2007-2008, but this
phenomena would not be taken into account of this research.

This situation may have been caused by several factors. First, the implication of the
economic situation at the time where the government was taking precautionary steps while
observing the sluggish economy encountered by neighboring countries especially as a result of
currency speculation. Second, the government’s action in reducing low-cost housing may be
causd by lower demand for such housing and lesser squatter problems. The third factor may be
causd by inefficiency in the management system for the supply of low-cost housing.
Labour Population is not useful as a predictor for predicting the number of housing supply in Batam. The significance level of labour in impacting the housing supply is low perhaps due to the limitation of data used in the research. As mentioned before, the researcher is finding difficulty in collecting data for the research. Moreover, in Batam, there is probability that labour population may affecting the housing supply indirectly through the investment or other variable that may be examined in the future research.

Total Investment is useful as a predictor for predicting the number of housing supply in Batam. So, the author is 90% confident that for every increase in Total Investment, the Low-cost housing will increase as well. The bulk of the economic activities in Batam is in export-oriented manufacturing, fostering economic (GDP) growth such as that of 7.7 per cent per annum recorded for 2003 and providing employment for more than 240,000 workers. Therefore, the total investment is also fostering on the increase of the housing supply in Batam.

The FTZs have been in existence for decades, but have attracted renewed attention worldwide in recent years due to globalization of trade and financial markets. Historically, FTZs were the result of the spurt in economic growth. It is well recognized that the FTZs are instrumental in developing local and regional infrastructure facilities, which in turn are necessary for overall economic development of a country.

The number of investment in a country and also the governmental residential budget allocation for low-cost housing projects which is part of the government’s development expenditure category is very important in ensuring that the development projects for the welfare and well-being of the people is continued and be continuous in the future. In fact, projects involving the government such as this are paramount in the provision of low-cost housing especially in the eradication of squatter problems which normally occurs in the urban areas.

In addition, the government should also encourage and provide incentives to the firms or companies who are investing in housing market especially low-cost housing such as in giving subsidies and also tax exemption for a certain period of time. This is to ascertain that housing developers or contractors are not burdened with high costs due to the rise in expenses for raw material, labour and others costs involved in the housing projects. This is because, based on the market theory, and the supply and demand in the economic system, it is known that the private sector is more concerned towards profit while the government sector is more inclined towards providing for the welfare of the people.

Currently, low-cost housing has become a basic need and the changes in population number will definitely influence the pattern for low-cost housing supply. Apart from that, the government should be prepared to face the population policy challenge by providing more low-cost housing in the future, since the growth of labour in Batam is forecasted growing about 10.40% each year. By handling this, the government is consequently can achieve the targeted 50% reduction of squatters in the world by 2015 as stated in the Regional Spatial Land Plan of Batam City on Year 2004–2014.
Introduction

The aim of this paper is to attempt an assessment of the valuation profession and the International Valuation Standards of the International Valuation Standards Council, post the 2007/2009 global financial crisis.

The views expressed in this paper are my personal views, as a practising Valuer and Property Consultant, from Malaysia.

The Global Financial Crisis

The broadest overview of the Global Financial Crisis that I have had so far is from reading a recent book entitled "The Great Inflation and its Aftermath" by Robert Samuelson, who traces the rise and fall of inflation in the lead economy of the world, the U.S economy, as the principal background setting for the crisis. According to the report and a review of the book in an article from the Singapore Business Times of 7 February 2010, the 1950's and the 1960's, in the U.S. were periods of great economic stability. Inflation started to slowly creep up in the late 1960's and peaked in 1970 at 13 per cent. This was the first part of the setting. Inflation was then brought down to 4 per cent by 1984 in a hard-won triumph, engineered by then Federal Reserve Chairman, Paul Volcker and backed later by President Ronald Reagan.

By 2001, inflation was down to 1.6 per cent and it was the intervening years, often referred to as the Great Moderation, that gave rise to the sustained prosperity (the second part), as interest rates fell, and the stock and property markets soared. In 2000, the stock market bubble burst, but it was not as impactful as the subsequent housing bubble burst because it was "widely diffused", as Nobel Prize Winning Economist, Paul Krugman explained. Seven years later, when the property market bubble burst, the impact was substantial because it was concentrated in the financial sectors and there was a large edifice of new financial products built upon it, the tentacles of which were global in reach and global in effect.

An underlying fundamental for the crash was inflated property prices/values, whether commercial or residential, and since the taming of inflation, the belief grew that house prices would not fall. The median price for existing homes rose from US$62,200 in 1980 to US$143,600 in 2000. By 2006, it was US$221,900. Feeling enriched by higher home values and stock portfolios, many Americans saved less and borrowed more.

The increased prosperity and economic stability of the 1980s and thereafter, was only half the story. Money managers, regulators, economists and the general public all succumbed to seductive beliefs that house prices would not fall, that the free market had an inbuilt
mechanism for self-correction and that severe recessions and depressions had been tamed forever. In fact, even shallow recessions were pounced upon and smoothened as though they had no role to play as correcting mechanisms.

The central message of the book was: thinking the world less risky, people took actions that made it more risky. The pleasures of prosperity backfired and the book concludes with some suggestions, but on the note that if lessons of the past are not properly learnt, the sequel will be even more devastating.

Other authors have ascribed various reasons for the crash of 2007/2008 with George Soros being one of them. He said in his recent book “The Crash of 2008 and what it means”, that “The bursting of the U.S housing bubble served as a detonator that set off a much larger explosion: the bursting of a super-bubble that has been growing since the 1980s…”

Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics says in "Freefall" that “Among the long list of those to blame for the crisis, I would include the economics profession, for it provided the special interests with arguments about efficient and self-regulating markets.” He then goes on to say that “A deregulated market awash in liquidity and low interest rates, a global real estate bubble, and skyrocketing subprime lending were a toxic combination. Add in the U.S. fiscal and trade deficit and the corresponding accumulation in China of huge reserves of dollars - an unbalanced global economy - and it was clear that things were horribly awry.”

In "The Meltdown Years" by Wolfgang Munchau, he also takes a broad view and refers to Martin Feldstein's six "American" reasons for the crisis, namely that U.S. interest rates had been too low; financial regulation had been insufficiently focused; bad housing policies had set wrong incentives; rating agencies had misled investors; the banking system had failed to account for risk properly; and borrowers had taken on too much debt. He goes on to say that that analysis is superficial because the questions that ought to be asked are why was there regulatory failure, why did people take on so much of debt, etc. He says that in search for answers, one invariably encounters the global economy, the global monetary system, and the global financial system.

It was only through a massive dose of capital injections and stimuli that the world was saved. To start the ball rolling, according to Andrew Ross Sorkin’s Bestseller “Too Big To Fail”, “Paulson told Bush in no uncertain terms that the financial system was collapsing. ‘If we don’t act boldly, Mr. President,’ he said, ‘we could be in a depression deeper than the Great Depression,’ an assessment with which Bernanke concurred.” Indeed the U.S. and the whole world did act boldly, as they, in a coordinated manner, pumped billions of dollars into the world economy.

If it was a systemic failure, or if systemic failure was a major contributing factor, then upon re-examination, the various component parts of the global financial system needs scrutiny and one of the component parts of the system is a proper valuation framework, not only of real estate but of businesses and financial interests. It has been said, that the valuations for the mortgage backed securities, the collateralised debt obligations and the synthetic collateralised debt obligations were far too complex for the investing public to understand, or that they were not properly done. This serves to underscore the need for proper valuations, global standards and best practices.
A takeaway from a more recent publication - Crisis Economics by Nouriel Roubini and Stephen Mihm, is the contrasting remedies for severe economic downturns by Keynesian "pump-priming" on the one hand and Joseph Schumpeter's "creative destruction" on the other hand. The authors accept both ideas and say that whilst Keynesian pump-priming is essential for the short term, aspects of "winnowing" or painful but positive adjustments are needed in the medium to long term so that survivors will create a new economic order.

In a recent article in the Financial Times, July 12, 2010, By Nouriel Roubini and Ian Bremmer think that the "global economy is heading for a serious slowdown this year. Emergency austerity programmes in some countries will put a drag on growth. Inventory adjustments will run their course. The effects of tax policies that steal demand from the future – such as the US “cash for clunkers” scheme, tax credits for home buyers or cash for green appliances – will fizzle out. Labour market conditions will remain weak. The slow and painful deleveraging of balance sheets and income-challenged households, financial institutions and governments will continue. The result is governments and consumers that spent too much and now need to deleverage – in the US, Britain, Spain, Greece and elsewhere – will spend, consume and import less. But those governments and consumers that saved too much – in China, emerging Asia, Germany and Japan – are not spending more. In a world of excess supply, the recovery of global aggregate demand will be weak, pushing global growth much lower. The most realistic scenario for global growth is painful, even if we avoid a double dip. In the US, 1.5 per cent growth in the second half of this year and into 2011 will feel like a recession, given a probable further rise in unemployment, larger budget deficits, a further fall in home prices, larger losses by banks on mortgages and loans, and the risk that a protectionist surge will further damage relations with China."

The Need for Valuation Standards

Valuation Standards are important because they enable industry-wide valuations at high levels of integrity and competence. In any country there are usually some Valuers or valuation firms who rise to the challenges, and on their own, develop adequate models and undertake valuations for not only simple properties but for complex properties such as multi tenanted office buildings, shopping centres, oil palm plantations, quarries, copper mines, timber concessions, specialised plant and machinery, steel mills, development rights, hotels, large development lands and so on. But what is needed in the profession as a whole is for high industry-wide levels of integrity and competence, and this is where robust and continuously updated valuation standards play a crucial role. By incorporating codes of ethics, enunciating principles of valuation and supporting best practices, such standards set the parameters for the duty of care a professional Valuer owes to his client, to reliant third parties and to the public at large. High-level, industry-wide valuations also support efficient real estate markets which in turn support the efficient functioning of market based economies.

Valuations underpin the banking sector, where valuations for loan securities depend on proper valuations, accompanied by periodic updates to ensure the maintenance of loan security values. The role that professional Valuers play in supporting the banking and financial system ought to be given greater recognition, and the need for periodic updates because of the time specificity of valuations to be better coded into the system. The system should also detect bad valuations at an early stage, before loan approval. Too often, it is only
at the point when loans go sour that such Valuers and valuations are inconveniently "discovered".

Corporate valuations support balance sheet values and play a significant role in mergers and acquisitions. Such valuations are in fact also becoming more important with the onset of, and rapid progress being made in, fair value accounting for financial reporting purposes.

In Malaysia, valuations in the public domain i.e. valuations for submission for approval to the Securities Commission and/or the Stock Exchange by publicly listed companies, require adherence to very strict and mandatory valuation guidelines. These guidelines are, added, user specific guidelines that Valuers are required to follow, over and above the Malaysian Valuation Standards, that is issued by the Board of Valuers, Appraisers & Estate Agents, a statutory body set up by an Act of Parliament, and which regulates the valuation, estate agency and property management profession.

In many economies today, debt and equity securitisation of real estate in the form of asset backed securitisation and real estate investment trusts, call for valuations that require high professional skills. The underlying real estate is usually comprised of complex bundles of rights that require high skills to analyse, and such valuations, on an industry-wide basis, are possible only with a well developed set of valuation standards. Then again, and beyond this, a new frontier is emerging, that of the property derivatives markets. These rely on robust real estate indices which, in turn, rely on consistently performed accurate valuations. The level of accuracy required, demands valuations to be based, not solely on past transactions, but must incorporate changes in the market as they transpire. The users of the valuations must know that the valuations are based on valuation models that are well calibrated to the market at any given time. Rising and falling markets cannot be reflected, later, when the transactions roll in, and much after the fact.

Real estate is an important investment medium for small investors (including house owners) as well as corporate investors. It is increasingly being recognised as a premier, alternative medium of investment (direct or indirect) alongside other major forms of investment such as bonds and equities. Fundamental to this is the proper and standardised measurement of the worth and value (the distinction here is purposeful) of real estate. It has been said that knowing the value of an asset is only half the understanding required for good decision making. Worth, is the critical other half.

To the Valuer, a set of robust and continuously updated set of valuation standards are his best defence when he is challenged in a court of law, on charges of professional negligence. If he has complied with the standards, the party claiming negligence will be hard put to assert their claim. On the other hand, the client, reliant third parties and the public are protected when the standards secure for them a strong basis to bring action against errant Valuers who are found to be non-compliant with valuation standards. Court decisions in many jurisdictions are well established as to the duty of care a Valuer owes the client, a reliant third party or the public, and the duty of care is best measured against a clear set of standards that are continuously updated.

Accompanying a professional valuation is a corollary extension of professional liability, and on this pivot, a balance is struck between the rights of the fee-earning professional and the client's right to an acceptable level of professional service. A set of
clear, continuously updated standards enable insurers to assess their risks and quantify indemnity premiums as well as courses of action in cases of allegations of negligence. With good risk management by insurers, by group insurance policies, professional indemnity insurance cost can be kept to the lowest possible levels.

The Valuation Profession: Historical Aspects

In this section I have decided to start off with a narrower definition of the valuation profession i.e. that related to real estate.

When I first started my career as a Valuation Assistant in the Valuation and Property Services Department of the Ministry of Finance, Malaysia in 1972, the "bible" for valuation was a textbook known as "Modern Methods of Valuation" (now in its tenth edition). This book prescribed various methods of valuation: at that time it was the Comparison Method, the Cost Method, the Investment Method, the Residual Method and the Profits Method.

It was not until much later, coming through the International Valuation Standards by International Valuation Standards Council (IVSC) or then known as The International Valuation Standards Committee, that the "methods" faded to and got replaced by "approaches" as the new international norm. The word "method" connotes a much greater degree of accuracy than possible for an essentially judgemental science. The three main approaches flow from economic principles and theory, and are referred to as the Comparison Approach, the Income Approach and the Cost Approach.

The Malaysian Valuation Standards still refer to the five methods mentioned earlier, but they are being revised and will likely refer to the three approaches, with the Investment Method, the Residual Method and the Profits Method reclassified as subsets of the Income Approach.

Over the past forty years, the three approaches to value have undergone substantial development, and largely, the development is attributable to the growing power and sophistication of spreadsheets. This has enabled various models to be constructed and these models are now widely used by Valuers who operate in the higher end of the profession. For house valuations, for mortgages, the models are much simpler. A typical income approach based model of a large shopping centre would essentially be constructed based on a tenancy-by-tenancy basis, capturing different streams of income from the different sections and trades within the shopping centre and divided into base rentals that are receivable under lease agreements; and at the end of these lease agreements the anticipated rental reversion to the market rate. The model would also incorporate turnover rentals over and above the base rentals and income streams from car parking and other sources of income. Different capitalisation rates that are market derived would apply, for the different income streams, to denote the varying risks when a market value is the end objective. This would correspond with principles set out in IVS and thus, in many ways, elements of comparability run right through the model, except for example, the rents that have already been fixed by legally binding contracts which ought to be viewed as more certain, carrying with it an appropriate capitalisation rate for that, mostly, lesser risk. When the end objective is an investment value or a calculation of worth, it is not market derived inputs that rule but the specific assumptions for the need for that investment value or calculation of worth.
Valuers usually counter-check their valuations by two or more approaches to value, to derive high levels of comfort as to their findings from their main Approach, and the direct Comparison Approach, for a case such as the shopping centre would serve as a good indicator of the broad band within which the value should reside, the Income model having explicitly accounted for all the key factors affecting value in the ordinary contemplation of market participants.

The models used would differ from property to property. If an oil palm plantation is being valued, the model will be constructed such that it would take into account, on a field-by-field basis, the net operational cash flow that will be sustainable given different field-by-field specific factors such as terrain, soil, planting densities, planting materials, rainfall, past manuring and fertiliser application, weed, pests and disease control and so on. The discount rate again is market derived, in case of the need to arrive at a market value, and an investment rate if an investment value is the end objective. Market value and worth can be gainfully compared for decisions by buyers and sellers as to when to enter or exit the market.

Later in this paper, I discuss briefly an important point that relates to the use of such discounted cash flow models. Broadly, there are two elements: The cash flow streams and the appropriate discount rate. If the cash flow is constructed in a certain manner (with growth or without growth, with tax or without tax) the discount rate must recognise that construct. Thus in practice, models are developed and used with some degree of consistency and are adjusted periodically by recalibrating them i.e. by testing against arms-length, market sales. A calibrated model, thus tested, can be confidently used for the valuation of similar properties and cannot be easily challenged, even in a court of law.

The model based technique is spreading and recent literature in accounting, where emphasis is increasingly being paid to valuations for fair value, it is becoming replete with discussions on income based valuation models.

The accounting world is also looking for not just asset valuations but valuation of liabilities. IVSC seems to be listening and over the past few years has intermittently discussed the valuation of liabilities.

Actuaries value liabilities regularly for insurance companies. In doing so they are purpose driven, which is mainly to ensure that the insurance company has enough monies set aside to meet their future long term obligations.

Their approach is essentially a discounted cash flow methodology with the only significant difference being that the future cash flows are probability weighted due to their contingent nature. For example, a life insurance policy would pay money contingent upon the death of the life assured and therefore its projected future cash flow stream is probability weighted with the probability of death of the life assured. The other steps of the process are similar i.e. the projected cash flows will have to be discounted to present at a discount rate suitable to the certainty of the cash flow projections.

There is an overarching principle in the discounted cash flow that is adhered to in that it is to project cash flows and then select an appropriate discount rate to reflect the certainty of the cash flows.
By showing how Valuers in related fields undertake valuations, I am attempting to emphasise as to the commonality of valuation principles and approaches used by real estate Valuers, Actuaries when they do valuations in the field of insurance and in investment generally, Accountants when they frame accounting rules and when they undertake valuations and Securities Analysts when they perform, largely, investment valuations or calculations of worth, and how all of these applications are converging. It is for that cogent reason that the International Valuation Standards Council has spread its wings to treat valuation in a more generic sense and extend their reach from valuations for real estate to personal property (including plant and machinery), businesses (including intangibles) and financial interests. Anticipated, in the near future, is the further extension to liabilities, from assets.

The discounted cash flow methodology can be either deterministic or stochastic. It is deterministic when the cash flows are done selectively, period for period by the Valuer and it is stochastic when the cash flows are probability weighted. Stochastic models can often take the form of binomial (or multinomial) lattices, in which there are two (or more) outcomes for each time step. Such models are often used in the pricing of options, and particularly for solving those with complex path-dependant conditions. There is also the Black-Scholes model which provides an elegant formula for valuing options albeit at the cost of employing several simplifying assumptions, among which is that the option can be exercised only at the maturity date (termed European options).

The International valuation Standards: Historical Aspects

The International Valuation Standards Committee was founded as The International Asset Valuations Standards Committee or TIAVSC in 1981 with the following objectives:

- To formulate and publish, in the public interest, valuation standards for property valuation and to promote their worldwide acceptance; and
- To harmonise standards among the world’s States and to identify and make disclosure of differences in statements and/or applications of Standards as they occur.

In 1994 the Committee changed its name to the International Valuation Standards Committee as it had by then shifted considerably from its earlier remit to focus solely on harmonising standards for financial reporting purposes, to a much broader spectrum to cover real estate valuations for all purposes, as well as for valuations businesses, personal property, intangibles and financial interests.

The scope of IVSC is continuing to widen as seen from the four broad areas that it now seeks to be involved in, namely (a) real estate, (b) personal property, (c) businesses and (d) financial interests. So far, the Committee has not ventured into the last of the said areas, despite the urgings and pressure from parties exerted on IVSC to develop standards for this area. When it is done, IVSC will offer the fullest range of valuation standards for the worldwide investment and financial community.

IVSC is relevant because we are heading towards living in a Global Village and there is a need for harmonisation in most areas of the global economy, in particular, in the provision of professional services. Accounting standard setting has taken on a new urgency,
Real estate as a store of household wealth is today recognised as an important contributor to financial stability, equally so in macroeconomic management. Towards this end, in October 2003, the International Monetary Fund and the Bank for International Settlements had a first conference on Real Estate Indicators and Financial Stability. The reason for the conference was the realisation that there was a need by national policy makers to have a more in-depth knowledge and understanding of the role of property in macroeconomic policy making and to ensure financial stability in member states and globally. Real estate's complicity in financial crises was a concern. I attended the conference on behalf of the IVSC and could see its timing and relevance but I could also see why it could not be taken further - there was no cross professional understanding of the property market. For example, the statisticians viewed real estate Valuers with some degree of apprehension without realising the impossibility of the property market being subjected to any degree of exactitude as they preferred, and without appreciating the skills Valuers are basing their opinions upon, correctly and honestly, by being "objectively subjective", as opposed to valuation being subjective, period!
Market Value

Much of the work of an ordinary Valuer revolves around carrying out market value estimates for various purposes. It was no surprise then that almost the first task that the IVSC set for itself, upon its formation in the early 1980’s, was to arrive at an international consensus as to the definition of market value. After much debate, which mostly centred on differing cross-border legislative and judicial considerations, a common definition acceptable to all was arrived at, in 1993.

The definition remains unchanged to this day and it is not only the accepted definition by the global valuation fraternity, but it is also accepted by most regulators and users of valuation, including the courts. The definition of market value and its positioning as a centrepiece of IVS Standards, by international consensus, is the foundation stone for the growing global valuation edifice today.

Market Value is a representation of a value-in-exchange, or the amount a property would bring if offered for sale in the (open) market at the date of valuation under circumstances that meet the requirements of the market value definition.

To determine market value, a Valuer must first determine the highest and best use of the property.

The highest and best use of a property is the most probable use of the property. That use may be for continuation of a property’s existing use or for some alternative use.

Valuation bases other than market value include non-market based valuations of property using methods that consider the economic utility or function of an asset, other than its ability to be bought and sold by market participants, or the effect of unusual or atypical conditions.
The golden rule in IVS 2007 (Eighth Edition) as to the use of bases other than market value is that when it is carried out it should be distinguished that it is in fact not a market value estimate.

Apart from Standards, IVS has Applications and Guidance Notes, which are equally mandatory in order to assert compliance.

**Discounted Cash Flow**

For this paper, the Guidance Note (GN) on the Discounted Cash Flow (DCF) is selected, as an example, for further comment. The Expert Group (which I had the honour of chairing), in coming up with the Guidance Note, made the following distinction:

A DCF valuation carried out to arrive at Market Value on the one hand and a DCF valuation for the determination of a non-market value on the other hand must be clearly distinguished. For example, where a Valuer is asked to do a valuation based on a certain rate of return specific to the requirements of the client, it is a non-market valuation and this must be distinguished from a market valuation.

The GN distinguishes between market and non-market valuations done by a Valuer and a value-in-use (also using the DCF) done by Accountants under the International Financial Reporting Standards (IFRS). A value-in-use valuation is usually a non-market

![Diagram of Discounted Cash Flow Analysis](image-url)
estimate based on a strict continuing use of the asset in its existing use whereas a market value estimate (value-in-exchange) done by a Valuer will include not only the continuing use of the asset in its existing use but reflect its full potential use. Inherent in any market value estimation is the concept of the highest and best use.

The GN also distinguishes between valuations for market and non-market valuations and the use of the DCF for investment analyses purposes where the merits of one property investment or project with another are assessed. The GN notes that it relates only to valuation (market or non-market) and does not relate to investment analyses.

The GN distinguishes between the use of DCF valuations for real property and businesses.

Perhaps most important of all, it requires that all data used in the method be adequately substantiated. For market value estimates, all inputs, including the discount rate must be market derived.

In arriving at its recommendations the Expert Group took particular pains to steer away from being prescriptive, which is an underlying principle upon which the other Standards in IVS have been constructed. This will allow Valuers to employ the latest techniques in computing cash flows including the use of various stochastic techniques, such as Monte Carlo Simulation approaches to establish more accurately the certainty of cash inflows.

In emerging markets, the use of the DCF for valuation is perhaps even more popular. This is because there is usually a lack of sale comparables in sufficient numbers to undertake accurate valuations based on the Comparison Method. With the limited sale comparables however, DCF models can be constructed for application in various similar situations.

The IVSC is acutely aware that for specialised properties such as forests and mineral rights, Valuers around the world find that the use of the DCF is the principal means to the determination of value.

Like in the case of all other approaches, more day-to-day use of the DCF method or approach to valuation will usually lead to higher levels of proficiency. Lastly, it is not the method itself that provides an accurate answer; rather it is the knowledge and skill of the person using it that is more important for accuracy. DCF models that are calibrated to the market from time to time are ideal as modern valuation tools.

From the above, IVSC has provided the needed solution, based on international consensus, to an important practical issue for Valuers which may lead to an accelerated progress in the valuation profession.

**Relevance of IVS**

A distinct advantage that IVSC has is its name itself, i.e. the INTERNATIONAL Valuation Standards Committee, which will make users and potential users worldwide automatically seek its counsel.
Admittedly, IVS is not mandatory for most Valuers around the world and they do not have to follow it, except possibly indirectly where their national valuation standards incorporate aspects of it and make it mandatory. IVS does not have direct powers of enforcement nor is this desirable at this stage of globalisation where independent nation states are still the predominant form of political governance. However IVSC does have influence and reach and as a result does have two kinds of de facto enforcement powers on its own. Firstly, as cross border valuations increase, clients do and will insist on compliance with IVS. This wave is, and will be led by, the big Accounting firms, flowing from IASB and FASB acceptance of IAS, GIPS, the Basel Committee and IOSCO to name a few. Secondly, Valuers, going before courts in valuation cases as well as negligence suits can and most probably will refer to IVS Standards as well as to support and fortify their case and thus IVS will seep in through the courts as THE International Standard for valuations. You cannot dictate to a court that it should confine itself to the national standards when there exists international standards which are robust, developed with international consensus and which act as an apex set of standards, and from which most national standards derive underlying concepts and principles as well as core standards and best practices.

The International Valuation Standards that is set by the International Valuation Standards Committee (IVSC) is growing in importance, globally, by leaps and bounds. This is because globalisation and the flourishing of market economies around the world are demanding and getting a better architecture for the global financial system, and valuation standards, whether overtly recognised or not, are important parts of the system. The financial system itself, as it is evolving, particularly post this global financial crisis, in a new and accelerated manner, looks inevitably for robust standards for its constituent parts.

The Accounting World and Fair Value

The Accounting profession which plays a pivotal role in corporate balance sheets is experiencing nothing short of a revolution in its transit from the historic cost convention to a mark-to-market based set of standards hinged on fair value accounting. Reinforcing this is the current attempt to converge the two major standard setting bodies for accounting in the world, namely the International Accounting Standards Board (IASB) and the US-centric Financial Accounting Standards Board (FASB).

A similar revolution is sweeping the world in banking with the release and general acceptance of the recommendations made by the Basel Committee on Banking Supervision known as Basel II.

Robust standards in the various related fields of finance are ultimately what can be relied upon to create a more robust financial system.

In the 1990’s, the global financial system came under increased stress with one financial crisis after another, namely, the Mexican Crisis, the Asian Financial Crisis, the Enron, WorldCom and other debacles, and so on. The crises also brought on to the fore, attempted solutions such as the Sarbanes Oxley Act of 2002, and a rush towards more robust industry standards, two of which impinge directly on real estate or property and businesses, are work done by the International Accounting Standards Board (IASB) and the International Valuation Standards Committee (IVSC). The former is supported in application by the latter. The substantial work done by the IASB has resulted in a tectonic shift in the accounting
world with regard to financial reporting, towards a mark-to-market concept known as Fair Value which is in the process of supplanting the traditional historic cost convention as the cornerstone concept in financial reporting.

The ultimate goal in financial reporting is to provide a true and fair view about the financial position and performance of a company, or entity as it is called by IASB.

In accordance with IASB, Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Although by this definition the term suggests that it is a mark-to-market concept, readings of the various IFRS and exposure drafts as well as surrounding literature suggest that fair value is strictly not a mark-to-market concept as it includes non-market elements as well and encompasses a hierarchy that stretches from high level mark-to-market inputs such as published price quotations from an active market, to surrogates such as in-house or entity specific valuations at the other end of the spectrum.

IVSC considers that although fair value and market value are similar, they are not synonymous. To the IVSC, fair value is a generic term which is applied in different contexts and in different situations. As further shown below, market value, which is the cornerstone concept for fixed asset valuations under IVS, does have a conceptual framework which aids consistent application. Insofar as Valuers are concerned, where the fair value of fixed assets is required under IFRS, the Valuer reports market value.

In 2004, IASB issued an Exposure Draft with proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement, the Fair Value Option. For the first time, how fair value should be arrived at, is detailed, the relevant paragraph reading: “The best evidence of fair value is published price quotations in an active market. If the market for a financial instrument is not active an entity establishes fair value by using a valuation technique (next best thing?). The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable willing parties if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis (usually a deterministic model) and option pricing models (always stochastic). If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs (convergence in thinking between IASB and IVSC). It (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.” (The bracketed remarks are my inclusions).

On June 23 2004, Financial Accounting Standards Board of the United States or FASB issued an exposure draft on Fair Value Measurement which is of relevance as it is part of FASB’s identified convergence programme with IASB. In the exposure draft, FASB enunciated a “Three Level” hierarchy for determining fair value that gives the highest
priority to market inputs that reflect quoted prices in active markets for identical assets and liabilities (whether such prices are quoted in terms of completed transaction prices, bid and asked prices or rates) and the lowest priority to entity inputs developed based on an entity’s own internal estimates and assumptions.

Then came a working definition of fair value from a discussion paper linked to an IASB initiated project under the Canadian Accounting Standards Board where there was a proposed measurement hierarchy for fair value as follows:

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>Description</th>
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<tbody>
<tr>
<td>LEVEL 1</td>
<td>Observable market prices of identical or similar asset or liability with reliable adjustment consistent with market expectations for differences and time differences.</td>
</tr>
<tr>
<td>LEVEL 2</td>
<td>Failing an observable market price, an accepted model or technique for estimating the market price and where all significant inputs reflect observable market prices.</td>
</tr>
<tr>
<td>LEVEL 3</td>
<td>Failing Levels 1 &amp; 2, the current cost (replacement cost and failing its reliable measurement, the reproduction cost) provided this can be reliably estimated and reasonably expected to be recoverable or represent the amount owed.</td>
</tr>
<tr>
<td>LEVEL 4</td>
<td>Models or techniques that depend significantly on entity specific expectations. To the extent that reliable market based data are unavailable, the measurement model or technique should use reliably estimable entity specific data that are not demonstrably inconsistent with observable market expectations.</td>
</tr>
</tbody>
</table>

In September 2006, FASB issued its final pronouncement on “Fair Value Measurements” in the form of its “Statement of Financial Accounting Standards” No. 157 (SFAS 157). This Statement defines Fair Value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

SFAS 157 elaborates:

(a) A fair value measurement is for a particular asset or liability meaning that the specific attributes of the asset or liability should be taken into account.

(b) A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale). The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).
(c) A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. A principal market is the market with the greatest volume and level of activity and the most advantageous market is a market that maximises the amount that would be received/paid depending on whether it is an asset or liability.

(d) The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

(e) Fair value assumes market participants who are independent (not related), knowledgeable, able to transact and willing to transact.

(f) Fair value assumes the highest and best use of the asset by market participants, considering the use that is physically possible, legally permissible and financially feasible at the measurement date. Highest and best use is determined based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different. The highest and best use of the asset is in-use if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group. The highest and best use of the asset is in-exchange if the asset would provide maximum value to market participants principally on a standalone basis.

(g) Valuation techniques consistent with the market approach, income approach, and/or cost approach shall be used to measure fair value. Valuation techniques used to measure fair value shall maximise the use of observable inputs and minimise the use of unobservable inputs. A fair value hierarchy prioritises the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

- Level 3 inputs are unobservable inputs (the entity’s own data, adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions).

In the 2005 Annual Report of the International Accounting Standards Committee Foundation, the Chairman of IASB stated that the “Board decided that it would publish the FASB’s standards on fair value measurement when issued, as an exposure draft. The Board will discuss in the invitation to comment any points on which it disagrees with the FASB’s conclusions and will ask respondents to comment on those matters and whether any additional guidance may be needed. The Board expects to publish the exposure draft in 2006.”
In November 2006, IASB issued a Discussion Paper on Fair Value Measurements. IVSC responded on the various question posed in the discussion paper. On the question of agreement with the hierarchy in SFAS 157, IVSC was of the view that it generally agreed, except that Level 3 inputs should be able to accommodate independent valuations even when market inputs are minimal or non-existent.

On 28 May 2009, IASB issued an Exposure Draft on Fair Value Measurement and in that draft, it recognised the earlier SFAS 157 Fair Value measurements of FASB and articulated the following hierarchy:

In October 2009, the IASB and FASB completed their discussions about the fundamental principles of fair value measurements and committed to work on developing a converged Fair Value Measurement Guidance for all IFRS’s/FASB Standards. FASB will be publishing an Exposure Draft on Fair Value Measurements and Disclosures (Topic 820) in the second quarter in 2010. The first half of this standards update involving disclosures have already been issued.

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>INPUTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.</td>
</tr>
<tr>
<td>2</td>
<td>Other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).</td>
</tr>
<tr>
<td>3</td>
<td>For the asset or liability that are not based on observable market data (unobservable inputs). Unobservable units shall be used to measure Fair value to the extent that relevant observable inputs are not available thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the Fair value measurement objective remains the same, i.e. an exit price from the perspective of a market participation that holds the asset or owns the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants will use when pricing the asset or liability including assumptions about risk.</td>
</tr>
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</table>

**IVSC Post the Restructuring**

Following the Restructuring of the IVSC, and reading the Annual Report 2008/2009, the IVSC has:

(a) Established an expert advisory group on valuation of financial instruments;

(b) Published exposure drafts: Revised Guidance Note GN4 Valuation of Intangible Assets and a New Guidance Note GN17 Valuation of Investment Property under construction; and

(c) Commenced an International Valuation Standards Improvements Project
The IVSC at a glance

Recently, on 2 June 2010, the IVSC issued an Exposure Draft of the new "International Valuation Standards". Whilst the basic, principles-based content of the standards remain the same as the Eighth Edition (see above) the structure of the standards has changed drastically and the new, proposed structure is as follows:

The Exposure Draft quotes the G20 call, at the London Summit in April 2009 for "clarity and consistency in the application of valuation standards internationally" in its Declaration on Strengthening the Financial System issued following the Summit. This underscores the growing importance for valuations, not only for real estate and businesses but for financial interests as well. The stated objective seems to be to develop globally accepted principles and terminology and to promote convergence of existing standards.

The following are some of the important changes:-

(a) As can be seen above, there are three parts with three distinct numbering called Series. The 100 Series relates to General Standards, i.e. standards that have general application. The 200 Series relates to Application Standards, i.e standards that apply for specific purposes. The 300 Series relates to Asset Standards, i.e. standards for the different property types. There is also a glossary and the promise of Technical Information papers to come IVS 101-General Concepts and Principles - generally similar to the Eighth Edition (2007).

(b) The standards clearly state that they are for assets as well as liabilities

(c) Standard 101.20 says that "applying these principles to specific situations will require the exercise of judgement"
For compliance it is implicit that all relevant individual standards are complied with, and where departure is necessary with any legislative or regulatory requirements this should be clearly explained.

Three main approaches - Comparison - Income (income capitalisation or discounted cash flow) - Cost (includes depreciated replacement cost)

A hierarchy of approaches is recognised and 102.6 states that "Where directly observable prices for identical or similar assets are available at or close to the valuation date the direct market comparison is generally preferred....where this approach cannot be applied...the income approach or the cost approach may be more appropriate." In 102.7 it is further stated that "The basis of value that is required, market practice and the data available to provide valuation inputs combine to determine which method or methods is the most appropriate." Where alternative approaches and methods are used these should be weighed and reconciled into a final value estimate clearly distinguishes Market Value from Investment Value and says "Differences between the Investment value of an asset and its market value provide the motivation for buyers or sellers to enter the market place."

Valuations of Businesses and business Interests fall under the 300 Series. So does Intangible Assets, Plant and Equipment, Property Interests (Freehold, leasehold and rights to use land or buildings), Historic Property, Investment Property under Construction, Trade related Property.

Singularly, an entirely new valuation standard, "Valuations for Financial Instruments (304.01)" is introduced. The approaches advocated are the Direct Market Comparison Method, the Discounted Cash Flow Method and a Risk Replication Method.

The exposure closes for comments on 3 September 2010 and is likely to be issued as the new IVS on 1 January 2011.

**Conclusions**

The global financial crisis was a significant, financial milestone event, and it very nearly resulted in a global depression. The depression was averted by an extraordinary capital injection and stimuli. They cannot last indefinitely and the global economy will have to fall back on a new level of sustainable growth, and as mostly expected, it will be at a lower level than before. The crisis has also unearthed substantial weaknesses in the global financial system and these will have to be resolved, going forward. A new financial architecture? Valuations for real estate, businesses and financial instruments are fundamental to a robust global financial architecture and in line with the restructuring of the system, the valuation framework will need to be further refined and developed to better fit into the new architecture.

Fundamentally, the need for robust valuations run deep and wide in the financial system and it not only supports banking systems but also supports good corporate governance and is key to the efficient functioning of property markets, which in turn support...
market based economies. Continuously updated standards and best practice guidelines are important.

The valuation profession has grown from strength to strength, and between the different types (for real estate, for businesses, for financial interests, for market value estimates, for calculations of worth, for liabilities) has been converging in the market, but a more coordinated convergence is also being attempted under the banner of the International Valuation Standards Committee. While substantial work has been done by the Council thus far, on real estate, some for personal property and businesses, but only an important start has been made for financial interests.

There is an overarching principle in the use of discounted cash flow valuations that for a given certainty of cash flows there is an appropriate discount rate, and this will also depend on whether the end objective of the valuation is a market value or an investment value.

The Fair Value Revolution is advancing at a rapid pace and although there were some questions raised during the recent global crisis about the role of mark-to-market valuations, it may be fair to say that those challenges have been more than met, and mark-to-market will continue its relevance and will be a mainstay for financial reporting, going forward, and with that, a continued need for supporting valuations.

The valuation profession is still in an infancy and will grow substantially in importance, post the crisis. It is a vital cog in the wheel of modern finance. It is a "sunrise" profession.
The Integration into the World Economy of
The Association of Southeast Nations—
The Impact to Valuation Profession
Tran Thi Muoi
University of Finance & Marketing, Vietnam

Countries in the Association of Southeast Asian Nations (abbreviated to ASEAN), including Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia. The founding countries are Indonesia, Malaysia, Philippines, Singapore, Thailand and other countries that joined later as Brunei, Vietnam, Laos, Myanmar and Cambodia.

The ASEAN Valuers Association (AVA) was established in 1981 with five founding members namely, Singapore, Malaysia, Thailand, Indonesia and the Philippines. AVA has expanded its membership to include Brunei (1990) and Vietnam (1997) and Cambodia (2009). Two other Asean countries namely Laos and Myanmar are not officially members yet as they have no formal valuation profession in their countries.

Overall the ASEAN countries unevenly develop on all fields, especially in the economic development in general and valuation in particular. The founding countries have more advantage than remaning countries of ASEAN in this career field.

Today, the integration into global economy is one of the inevitable trend of modern international relations, so that the ASEAN countries will also be in that. Integration into the world economy has brought many opportunities and challenges for the valuation profession in ASEAN countries, as indicated in the following:

Opportunities

- Firstly, remedying the discrimination in the international trade between countries.
- Secondly, creating conditions to expand the international market for valuation profession of the ASEAN countries and promoting this field growing.
- Thirdly, expanding the export of valuation services between the ASEAN countries and countries over the world; taking opportunities to import advanced, modern valuation techniques; helping ASEAN countries quickly catch up with the valuation technology of the developed countries in the world.
- Fourthly, having interests in the reform of the policy system related to economic development in general and valuation in particular, ensuring the consistency of trade policies and laws consistent with the international trade system.
- Fifthly, attracting capital, management experience and new valuation technology … of advanced countries in the world.
- Sixthly, enhancing competitiveness and efficiency in the economy, creating an equally competitive environment for organizations, valuation business of ASEAN countries.

Challenges

Besides the opportunities, the ASEAN countries must face challenges in valuation activities as following:

- To implement fully the commitments when integrating into the world economy, especially those committed in some areas such as services, intellectual property,… in the development of the economy in general and valuation in particular.
Must be through the legal provisions on valuation *in line with* the international practice and ensure the international practical requirements.

### Some difficulties

When integrating into the world economy, the ASEAN countries have experienced some difficulties for valuation activities:

- Legal framework for valuation profession in some countries are incomplete and ununited therefore that has affected valuation services.
- Many countries do not have policies encouraged valuation activities *inside* and attracted foreign investment for this career field.
- The property markets as real estate market, stock market, financial market, ... of countries joined later are weak so that they could not provide the reliable information for valuation work.
- Knowledge and professional ability of the valuers of the ASEAN countries is not equal, namely founding countries have a better developing chance than other countries.
- Database for valuation activities of the countries joined later is weak, therefore the quality of their valuation services is not high.
- No having a high agreement on the establishment of general valuation standards of the ASEAN countries.
- Because valuation profession of the countries joined later is still young, not enough financial resources and manpower to build a strong valuation brand for their countries.

### Solutions to enhance valuation activities in the ASEAN countries

Integration into global economy has helped the ASEAN countries moving towards remaining countries in the world in every field, and a lot of chances and challenges are opened for professional valuation. So, in the short and long term, Association of Southeast Asian Nations must have development strategies for valuation profession. In the immediate future, there should be suitable policies and measures to bring the theoretical and practical knowledge of the valuation profession of the ASEAN countries together more evenly, then they have cooperated to become strong valuation groups and they can compete with countries in the Europe, Australia, America.

The specific measures of the ASEAN countries must be directed in the near future:

- Issuing a legal system and taking shape a management system of the government on valuation of their countries.
- Actively promoting policies to encourage valuation work in their countries based on cooperation, mutual assistance, help each other.
- Strongly developing real estate market, stock market, financial market, ... of their own countries, because they are reliable places to provide quality information for valuation services.
- Training of human resources for valuation services of every country through short-term and long-term training on valuation organized by the Association of Southeast Asian Nations: this is a good solution increasing knowledge and professional skill on valuation evenly, can be healthy competition with each other and compete with other countries in the world.
- Developing a database system and market information of own country based on specific characteristics of that country, based on the support of experts from developed countries like Singapore, Malaysia, Thailand to cater for the valuation more effective.
- The founding countries should have a strategy in the short and long term to help countries joined later to build valuation brands for their own countries. Immediately valuation business of the founding countries with famous brand can link and cooperate with the
valuation business of the countries joined later in order to gradually create a room for valuation activities in these countries.

Conclusions

Integration into the world economy has opened up for ASEAN countries opportunities and challenges in the economic development in general and valuation in particular. Due to the uneven development of valuation profession of the ASEAN countries has caused some difficulties for the ASEAN countries, therefore in the future Association of Southeast Asian Nations should have immediate and long solutions to be able to put the valuation profession of ASEAN countries in the development.

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Mortgage Lending – It’s Relationship with Property Valuation
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Certified Practicing Valuer, AAPI, FAVI, MISTM (supp), NCTI.
Certificate IV in Workplace Training and Assessment.
Savills Vietnam Co., Ltd.

Introduction

The act of valuing real property has had a direct and critical relationship to mortgage lending, while the act of valuing is considered an art not a science the need to have a valuation that supports market transactions has been a critical part of many banks lending practices. The International Valuation Standards Committee (IVSC) as the international standards setter for valuation who develops and maintains the standards that valuers through member or personal membership rely on for reporting and disclosure of valuations, especially those that will be relied upon by investors and other third party stakeholders.

The IVSC also supports the development of guidance notes on best practice that will be discussed and considered in this paper. With the theme towards a new era it’s been the IVSC and other professional groups that have set the standards to best assess assets that are required to be valued by properly trained professionals around the globe.

Lenders and valuers have always shared a common bond and although sometimes tested, lenders have seen valuations as a requirement to prudent lending practices.

Mortgage valuation standards have been extensively developed to assist lenders to be better and fully informed when taking out a mortgage or lien over real property.

Valuers, appraisers and chartered surveyors are all called upon from time to time to give an estimate of value. Based on my experience there is mixed perception at all levels of valuation practitioner as to extent of reliance that a bank may have or even more concerning the level of reliance that the valuer considers is the measure of his or her liability. The practitioner may think that a qualification or clause or term may be their best protection when a bank considers if a valuation is negligent or not.

1. The Relationship

Lenders and valuers should form strong partnerships based on trust and skill and it is always good practice as set out by litigation lawyers and institutes that represent property professionals that all instructions and terms of engagement are defined at commencement.

Instructions are the foundation of a long and meaningful dialogue in both good times and bad and allow for clear understanding for both sides. This approach (written instructions) allows a practitioner to advise when other services may be needed or if a client’s expectation is outside normal guidelines.
2. Mortgage Valuation Standard—Why have it?

The objective of International Valuation Application 2 (IVA 2) is to provide a framework for valuations of assets that are to be offered or taken as loan security; therefore Valuers should consistently apply accepted valuation principles. Valuers apply standards to support clear, independent and objective opinions that are relevant to the needs of valuation users.

3. Definitions

**Mortgage:** A pledge of an interest in property as security or collateral for repayment of a loan with provision for redemption on repayment. In the event the borrower (mortgagor) defaults, the lender (mortgagee) has the power to recover the property pledged.

**Market Value:** The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion (International Valuation Standard 1, Para. 3.1).

4. The Relationship: Lenders and Valuers

The relationship between lender and valuer has been created by the facility to lend money or as the definition states the act of a loan repayment.

*Can banks report on value?*

Practically and theoretically NO. The bank does not hold the skill or knowledge and a valuer is generally a respected qualification greater than that of a real estate agent or broker.

Valuers in many counties hold a certificate of registration with some countries now enforcing a degree status to become registered so the skill level is one that the bank will rely on and in some regions of the worlds a bank also set minimum years of experience to undertake certain valuation exercises.

5. The Act of Valuing

Valuations for loan security frequently require valuations that assume a change in the current state or condition of the property, for example in situations where the lending is for development of a new building. The valuation may need to consider the future market for that property type and therefore require an expertise over and above that of a bank officer.
**Should banks also play the role of the valuer?**

Practically and at law NO. The bank needs an independent assessment of value so that the validity of the outcome is not tainted by bias either way or for whatever reason. Independence and confidentiality has always been the valuer’s primary objective and is always cast in stone.

6. The Valuer

Valuers should be aware of the risk associated with valuations for lending institutions both mainstream and more particular secondary or mezzanine lenders.

Where the valuer does not understand the instruction and an error occurs this may lead to a dispute or even litigation between the lender and the Valuer. For example, in the event of a default by a borrower, the lender may sell a property after foreclosure or under a mortgagee in possession and realise less than the valuation.

The valuer must apply the best method of valuation and is required to have the expertise and skill required to make this judgment. The valuer is to apply all standards and be appropriately skilled when giving an opinion of valuer for a particular type if not then the valuer should decline the instruction. The bank should also consider the panel they appoint and many regulatory authorities and government level also insist that banks take some responsibility in the approval process.

The valuer must provide market value each time and disclose any adverse effects that may impact on value for the purpose of a loan.

7. The Lender

The lender is required to provide clear and defined instructions to the valuer.

Major Banks and other lenders are normally subject to regulations that limit the total amount they can lend as a proportion of the lenders’ assets, known as the solvency ratio. In the international context, the Basle II Accord sets out rules for the minimum solvency ratios to be maintained by lenders and how those ratios are to be calculated. The value of assets over which the lender holds security is used in calculating the solvency ratio.

Banks should always apply prudent lending practices and have full and frank disclosure with their valuers.

8. Disclosure Requirements

In reporting market value for lending security purposes, the Valuer shall make all disclosures required under IVS 3, Valuation Reporting. The basis of the Valuer’s engagement is to
be clearly set out in any report to be used by third parties (Both Valuer and Bank should be careful where a third party exists say mezzanine funds). All reports should be presented in a way that would not be considered by a reasonable person to be misleading.

The Valuer shall disclose the regulatory framework and any departure required from these Standards to comply with local legislation, regulation or custom.

9. Investment Properties

Income-producing properties are usually valued as individual properties. Lending institutions may also wish to have a property assessed as part of a portfolio of properties.

Although the Valuer should comment on the expected demand and marketability of the property over the life of the loan, it is normally outside the scope of the valuation exercise to advise on the ability of a tenant to meet future lease obligations beyond comment on the market’s current perception of the tenant’s quality.

In such instances, the distinction between the value of the individual property, assuming it is sold individually, and its value as part of the portfolio should be clearly expressed.

10. Owner Occupied Properties

Owner-occupied properties valued for lending purposes will normally be valued on the assumption that the property is transferred unencumbered by the owner’s occupancy, i.e., that the buyer is entitled to full legal control and possession.

This does not preclude consideration of the existing owner as part of the market, but it does require that any special advantage attributable to the owner’s occupancy, which may be reflected in a valuation of the business, be excluded from the valuation.

11. Leases between Related or Connected Parties

Caution is required where property offered as security is subject to a lease to a party connected to the borrower. If the valuer considers that the lease creates a more favourable income stream than would be obtainable on a letting to an unconnected third party in an arm’s-length transaction, the lender should be alerted and it may be appropriate to disregard the existence of the lease in a valuation of the property as security.

12. Sales Incentives

It is not uncommon for a seller of property, especially developers of real property, to offer incentives to buyers.
Examples of such incentives include rental income guarantees, contributions to the buyer’s removal or fitting out costs, or the supply of personal property such as furnishings or equipment.

Market Value ignores any price inflated by special considerations or concessions. It may also be appropriate to alert the lender as to the effect that any incentives being offered have on the actual selling prices achieved.

13. Specialized Properties

Specialised properties by definition may have limited marketability and significant value only as part of a business for loan security purposes, such properties will normally be valued on a vacant possession basis and a valuation based on the highest and best alternative use is usually applicable. This will involve consideration of the costs and risks that would be involved in achieving that use. Lenders may not consider specialised property to be suitable as a security for lending purposes.

A valuation may be required of a specialised property where the property is part of a going concern business. The lender should be alerted to the valuation being dependent on the continuing profitability (or otherwise) of the going concern. If the value on a vacant possession basis is potentially lower, this should be drawn to the attention of the lender.

14. Forced Sales and Limited Marketing or Disposal Periods

Lending institutions may request valuations on a forced, or liquidation, sale basis or impose a time limit for disposal of the security. Because the impact of a constraint on the price obtainable will depend upon the specific circumstances under which the sale takes place, it is not realistic for the Valuer to speculate on a price that could be obtained without either knowledge of the reasons for the constraint, or the circumstances under which the property might be offered for sale.

An alternative valuation may be provided based on defined assumptions, but the Valuer should draw the lender’s attention to the fact that this opinion is valid only at the valuation date, and may not be relied upon in the event of a future default, when both market conditions and the sale circumstances may be different.

15. New Concept

*Mortgage Lending Value* is a long-term, risk assessment technique. As such, it is not a basis of value. MLV is a technique that is primarily used by banks in a number of European countries.

*Mortgage Lending Value* shall mean the value of the property as determined by a valuer making a prudent assessment of the future marketability of the property by taking into account the long term
sustainable aspects of the property, the normal and local market conditions, as well as the current use and alternative possible uses of the property.

Speculative elements should not be taken into account in the assessment of Mortgage Lending Value. Mortgage Lending Value should be documented in a clear and transparent way.

**Conclusion**

The Valuer and Bank have a unique relationship and rely on each other for information, the weight of reliance on the information within a valuation is held in the banks favour and the weight of knowledge and experience placed solely with the Valuer.

Both parties must take responsibility for establishing clear instructions and valuation technique/ methods particularly where a region has a unique or specific set of circumstances that vary from the standards.

The Bank is not advised to be a valuer and should employ experts to fulfill this requirement. Both sides should be well versed in the standards and principles to be applied, to say one party is unaware of the others obligations to report or disclose is a relationship that is perhaps said to fail. While the Bank will always rely on the valuation it is as discussed in the Valuers best interests to get clear instructions, agreed methodology, full and frank disclosure of all facts both advantageous and prejudicious.

Where the Bank and Valuer establish strong relationships so will the quality of the reporting that will be forthcoming. The Valuer can’t ignore the obvious, that the bank will rely on the valuation for accuracy and performance when tested in the worst case, and this is when relationships will fail or be ultimately tested before the Courts.

Mortgage lending has always has some degree of risk attached and the rule of prudent lending is a key consideration but also the quality of the report and valuers experience and knowledge are our best attributes.

After some 20 years as a practitioner it can t be emphasised enough that when a valuation is requested, then completed and offered as a representation of value then the relationship of trust is created. I trust that you complete an accurate valuation based on good valuation technique and I trust that you have received clear and accurate instructions and I trust that you have adequate quality control and can and are considered an expert in your field.
References and Definitions

*Australian Institute of Valuers and Land Economists. Valuation Principles and Practice (1997).*

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*Achievements of IVSC*

The International Valuation Standards Committee is a Non-Government Organisation (NGO) member of the United Nations, having been granted Roster status with the United Nations Economic and Social Council in May 1985. The IVSC works cooperatively with Member States and maintains liaison with international agencies, such as the Organisation for Economic Cooperation and Development (OECD), the World Bank, the International Monetary Fund (IMF), the World Trade Organisation (WTO), the Commission of the European Union, the Bank for International Settlements (BIS), and the International Organisation of Security Commissions (IOSCO). The IVSC also maintains a close relationship with the International Accounting Standards Board (IASB), and the independent standards setting boards of the International Federation of Accountants (IFAC)—the International Public Sector Accounting Standards Board and the International Auditing and Assurance Standards Board. IVSC provides the accounting profession with advice and counsel relating to valuation, seeks to coordinate its Standards and work programs with those of related professional disciplines in the public interest, and cooperates with international bodies in determining and promulgating new Standards. In order to ensure that the international standards governing valuation practice are consistent with the requirements of Valuers under international financial reporting standards, the IVSC annually reviews each new edition of the International Financial Reporting Standards (IFRSs), promulgated by the International Accounting Standards Board (IASB), and the International Public Sector Accounting Standards (IPSASs), promulgated by the International Public Sector Accounting Standards Board. The IVSs make reference to these accounting standards wherever they apply to the work of Valuers. The IVSC publishes White Papers and Technical Papers at its website. At the time this edition was released, the following papers were available: two White Papers, Valuation in Emerging Markets and The Valuation of Real Estate Serving as Collateral for Securitised Instruments; and one Technical Paper, Mass Appraisal for Property Taxation.

http://www.ivsc.org/.

*Expert,* a person who has extensive skill or knowledge in a particular field.

1. skilful or knowledgeable
2. of, involving, or done by an expert an expert job

[from Latin expertus known by experience, from experīrī to test; see experience]

Prejudicial, tending to favor preconceived ideas; "the presence of discriminatory or prejudicial attitudes in the white population", (sometimes followed by 'to') causing harm or injury; "damaging to career and reputation"; "the reporter's coverage resulted in prejudicial publicity for the defendant". Damaging, detrimental, prejudicial, harmful - causing or capable of causing harm; "too much sun is harmful to the skin"; "harmful effects of smoking"
The proposed Philippine Agrarian REIT & BT is a stapled Real Estate Investment Trust (Agrarian REIT) and Business Trust (BT). Its business activities will focus on real estate which is primarily used for agricultural and/or agri-business purposes - whether wholly or partially - and real estate related assets in relation to the foregoing. Its main purpose is to be a viable alternative to the Comprehensive Agrarian Reform Program (CARP), build up countryside investments and improve the living conditions of the rural poor and create an opportunity for infrastructure development, town planning and land banking as its exit. The Agrarian REIT & BT is a method of turning privately-owned property into public property by having its shares listed and available to the public via the stock exchange. A REIT has the tax benefits of a mutual fund and the low-risk, high yield and long term potential of an income-producing real estate investments.

After CARP was implemented, we still do not see the benefits to the urban poor. Stating that “land that has been covered by CARP is more productive than what is not” only confirms that it is precisely productive land that was covered by CARP. To include non-productive land into CARP will eventually be subjected to questions. The truth can best be seen from the ever-increasing number of urban poor that have given-up their hopes for any opportunities in the country-side.

The Agrarian REIT & BT is all about countryside investment opportunities. It is designed to improve the productivity of Philippine agri-business which includes plantations, livestock, fishponds and agro-industrial development. It will restore the two missing agents of production caused by CARP – Capital and Entrepreneurial Management. With Agrarian REIT & BT, small investors such as the rural poor can participate together with institutional investors and large agricultural corporations into sustainable high-yielding and low-risk investments.

**CARP vs. Agrarian REIT**

With CARP, agricultural land is acquired by the government at “just compensation” and sold to the farmer-beneficiaries at easy terms. With Agrarian REITs, the limited funds are lent directly at low interest rates to the rural poor to create jobs, livelihood and a self-liquidating, high-yield, low-risk investment. While CARP will be selling and distributing land, REITs will be giving the rural poor, jobs, increase in family income, livelihood opportunities, an additional income stream and capital gain on their self-liquidated investment in the rural areas. CARP on the other hand, has been giving funds to the wrong party - the disgruntled landowners - and to the “opportunities” created by bureaucratic land conversions.
**Triple Win Solution**

With the Agrarian REIT, all parties win.

- The rural worker gets opportunities for jobs, livelihood, additional income stream and a self-liquidated equity share and its capital gain;
- The landowner gets to convert his income-producing agri-business into diversified, professionally managed, high-yielding listed shares that will create the desired liquidity that is difficult to have on large chunky real estate investments; and
- The government gets to develop the countryside, have government funds available to the poor and collect taxes from the annual distribution, sale of shares and business income created and collect increases in real estate taxes after its exit from land banking.

**Other Benefits of REITs**

The benefits of a REIT are enumerated as follows:

A. *To the economy:*

1. Generate capital through the global trend towards regional real estate market integration and cross-border investments.
2. Make use of a structure for the adoption of global real estate standards.
3. Reduce the financial and social costs of CARP, and the economic costs resulting from its uncertainty.
4. Permit external managers to attract foreign capital markets.
5. Supply the demand from the investment requirements of countries with an aging population and its related growing pension burden.
7. Stimulate property and infrastructure development in the rural areas and maximize the availability of sites and services.
8. Attract foreign direct investments into agrarian real estate and create new markets in agricultural development.

B. *To the people:*

9. Enable small investors to make equity investments in large-scale income-properties and encourage savings.
10. Make available funds to farmers, fishermen and migrant workers to acquire self-liquidating investments in a professionally managed agrarian-based property income stream.
11. Transfer ownership and control of privately-owned agricultural property to public property and expand the real estate market.
12. Create employment opportunities, livelihood opportunities and increase in family income.
13. Require transparency and have corporate performance monitored by the industry in a corporation wherein at least 90% of its net income is distributed to its stockholders.
14. Limit to a maximum of fifty (50%) percent ownership of at least five (5) independent investors in the REIT corporation.
15. Make available high-yielding investments and permit the economies of scale benefit small
investors.
16. Introduce capacity building and technology transfer in agriculture and develop a labor market
as an alternative to overseas employment.

C. To the investor:
17. Provide an ideal exit strategy from a freehold or long-term leasehold interests in agricultural
and agro-industrial corporations for local and foreign investments and for special purpose
vehicles and asset management companies.
18. Create a stable income stream with a long-term stock appreciation.
19. Produce an inflation-hedged income stream.
20. List a low-risk (less volatile) investment stock.
21. Structure a more efficient ownership alternative for leased assets.
22. Obtain windfall profits from the eventual infrastructure development, town planning, re-
zoning and sale of former agricultural land into its highest and best use.
23. Enjoy in tandem the capital gain of real estate ownership of the Agrarian REIT with the high-
yield of a Business Trust.
24. Create a market from the relocation of the urban poor by the attraction to a better lifestyle in
the countryside

D. To the vendor:
25. Create liquidity from large chunky investments which is a characteristic of real estate
properties.
26. Improve the value of agricultural land.
27. Obtain tax exemptions in the corporate level.
29. Develop an opportunity for sale-leaseback arrangements to lighten balance sheets and improve
returns on equity.
30. Release the non-productive cash in real estate and convert it into an agent of production.
31. Develop non-productive land into its highest and best use.
32. Justify land conversions to what is truly socially beneficial.

The Agrarian REIT & BT Structure

The systematic growth of Agrarian REIT & BT will depend on the availability of capital
markets as the investors and viable income-producing agrarian real estate investments and agro-
industrial business as the vendors. Both investors and vendors will be issued units of the stapled
Agrarian REIT & BT. (see Figure 1). Both real estate investments and on-going business
concerns will be held in trust by a Trustee. A REIT & BT Manager, on the other hand, will
handle dealings with the Strategic Advisory and both investors and vendors. The Agrarian REIT
& BT will also have separate portfolio managers; an Agrarian REIT Portfolio Manager dealing
with Farm Managers and the Agrarian Business Portfolio Manager dealing with agro-industrial
business concerns such as Agri-Business Managers. An Agrarian REIT Portfolio Manager can
eventually get into a sale-leaseback agreement with the Agrarian Business Portfolio Manager.
What is booked as income to the REIT is an expense to the Business Trust. The Agrarian REIT & BT earn both ways and is traded together as one.

This structure will also make viable infrastructure development, town planning, land banking and property development at its eventual exit in the future.

**The Development of the Philippine Agrarian REIT & BT**

The development of Agrarian REITs will require amendments of several Philippine laws. These are laws on Trust, CARP, Taxation, Foreign Investments and Corporations, to name a few. However, the experiences of many developed countries that have successful REITs make it easier for the Philippines to follow the guiding framework of their structure. Beside the amendments on laws, below are several phases that will have to be in place prior to launching an Agrarian REIT.

1. Restore value on agricultural land by allowing the sale of agricultural land with no restrictions to land use and permit the sale of CLOAs (Certificate of Land Ownership Applications) prior to its 10-year prohibition.
2. Make agricultural land maximally productive by attracting capital and entrepreneurial management to work together with the rural poor.
3. Prioritize labor expenses over cost of capital, management fees and investment profits.
4. Introduce capacity building and technology transfer for new job assignments and livelihood opportunities for workers observed to be redundant and inefficient.
5. Train the workers to their best capacity as required by farm management.
6. Create a sustainable income stream from a professionally managed agri-business with the proper economies of scale.
7. Use local governments to help consolidate small inefficient farms into clusters of agricultural and agro-industrial investments to facilitate infrastructure and human resource development.
Figure 1

STAPLED AGRARIAN REIT & BT STRUCTURE

VENDORS
- ARCs/Coops
- Agricultural Corps
- Agro-Industries
- Aquaculture, Feed & Livestock

REIT & BT UNIT HOLDERS
- Agrarian Trustee

AGRARIAN REIT
- REIT & BT Manager
- Property Portfolio
  - Plantations
  - Orchards
  - Grazing Land
  - Farms
- Farm Managers

AGRARIAN BUS. TRUST
- Strategic Advisory
- Business Portfolio
  - Agro-Industrial Plants
  - Aquaculture
  - Feed Mill
  - Livestock
- Agri-Business Managers

INVESTORS
- Institutional Investors
- Private Equity Funds
- Public Funds
- Small Investors
- DAR
- Gov’t. Funds

Sale-Leaseback Agreements
Appendix
16th AVA Congress  
Post Mortem Report

<table>
<thead>
<tr>
<th>Congress No. 16</th>
<th>Date of Congress: 22-24 July 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venue:</td>
<td>Dusit Thani Hotel, Bangkok, Thailand.</td>
</tr>
<tr>
<td>Congress Theme:</td>
<td>Toward a New Era of Valuation Development</td>
</tr>
<tr>
<td>Organiser:</td>
<td>The Valuers Association of Thailand (VAT)</td>
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<table>
<thead>
<tr>
<th>Congress Fees:</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Delegate:</td>
<td>USD 300</td>
</tr>
<tr>
<td>Accompanying person:</td>
<td>USD 200</td>
</tr>
<tr>
<td>Discounted fee for VAT members:</td>
<td>USD 156</td>
</tr>
<tr>
<td>Students:</td>
<td>Free</td>
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<thead>
<tr>
<th>Congress Programme:</th>
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<tbody>
<tr>
<td>Technical Sessions (no. of sessions / any concurrent workshop): N/A</td>
</tr>
<tr>
<td>Technical Tours (no. of site visits): Vans with guides are available for short city tours, as requested by small groups of delegates.</td>
</tr>
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<table>
<thead>
<tr>
<th>Highlights of the Congress:</th>
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<tbody>
<tr>
<td>• Secretary-General of ASEAN, H.E. Dr. Surin Pitsuwan, joins the Congress.</td>
</tr>
<tr>
<td>• The Minister of Interior, H.E. Mr. Chavarat Charnvirakul, welcomed the delegates on behalf of the Thai government when he officially opened the Congress.</td>
</tr>
<tr>
<td>• Handover of the AVA presidency from Mr. Pratak Simapichaicheth of Thailand to Mr. Mohd Don Omar of Brunei.</td>
</tr>
</tbody>
</table>

| Total number of Attendees (breakdown in terms of country): | 260 total |

<table>
<thead>
<tr>
<th>Sponsorship:</th>
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<tbody>
<tr>
<td>Department of Lands (DOL)</td>
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<tr>
<td>The Government Housing Bank (GHB)</td>
</tr>
<tr>
<td>Thailand Convention and Exhibition Bureau (TCEB)</td>
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</tbody>
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<tr>
<th>Overall income and expenses:</th>
</tr>
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<tbody>
<tr>
<td>Income: USD 45,000</td>
</tr>
<tr>
<td>Expenses: USD 87,000</td>
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</table>

<table>
<thead>
<tr>
<th>Learning points/experience:</th>
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<tbody>
<tr>
<td>• The delegates had fruitful discussions, and finally, everyone came to the conclusion that it would be beneficial to work together towards the development of an ASEAN valuation standards/guidelines/best practice/rules of conduct.</td>
</tr>
<tr>
<td>• It was also recognized that the valuation profession now extends beyond land and buildings, to machinery and other assets, both tangible and intangible.</td>
</tr>
<tr>
<td>• Also, the definition of market value is continually being redefined to reflect the changes, by taking into account the future prospects. Hence, there is a need to develop the capability of valuers into these new areas.</td>
</tr>
<tr>
<td>• In addition, the stronger AVA members can help to train valuers from the newer member countries, especially since valuation is moving towards being a cross-border profession within ASEAN.</td>
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</tbody>
</table>
Secretariat Members

Mr. Pratak Simapichaicheth, President of AVA 2008-2010

Secretariat Coordinators

Mr. Sak Kanjanalikit,
Secretary General, Valuers’ Association of Thailand

Ms. Juree Visudthi
Treasury Department, Ministry of Finance

Mr. Taweelap Ek-in
Director, Valuers’ Association of Thailand

Miss Aim-on Piriyanapanish
Designer

MC

Asst. Prof. Jittaporn Sriboonjit
Faculty of Commerce and Accountancy, Thammasat University

Dr. Chiradej Diskaprakai
Property Appraiser

Event Organizer

Ms. Patcharee Chui-Chuti
National Defense College

Editor and Repertoire

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International Business Program
International College, Suan Sunandha Rajabhat University