

THE SOUTH AFRICAN VALUER



*Annual National events:
AGM • Gala Dinner • Seminar – presentations*

Dr Llewelyn Curlewis becomes Honourary SAIV member



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Note

This write-up is taken directly from Professor Franzsen's Powerpoint presentation. At the time of publication Prof Franzsen could not be contacted for the purposes of checking this article.

Market analysis is business: understanding the emerging computerised valuation models and techniques

The advent of computerised valuation models has given rise to the emergence of business opportunities, which some industry commentators say rings a death knell to traditional valuation practices. Understanding the emergence of computerised techniques has brought to the fore elements traditionally embedded within the valuation practices as potential stand-alone business opportunities.

Thus the idea of the 4-Businesses-in-1 (4B1).

Traditionally the practice of conducting a full valuation involved four distinct primary activities or elements:

- data collection
- market research
- analysis of data (analytics)
- application of valuation methodology (quality assurance).

The increasing use of computer generated valuation models has ensured substantial progress is being made in the advancement to automate the practice of the valuation profession, so much that the application of these elements has to a large extent been replaced by computer models and algorithms.

We have seen in recent times the birth of consultancy services specialising in property market analytics, in particular associated to the practice of valuation services, thus the appetite to develop AVM products, and the emergence of companies that offer valuation quality assurance services.

The obvious advantage of the 4B1 opportunities to gain favour from these technological advancements is in market analysis, whereas the development of quality assurance products is still in its infancy.

The practice of providing market analysis is second nature to the delivery of valuation services, therefore migrating or adding this as a product to the bouquet of services to a valuation practitioner, should seamlessly expose this as an opportunity to move the valuation profession into a new paradigm.

Market analytics is referred to as a documented investigation of dynamics of a market, whereby the result thereof is used to inform business planning activities, strategic corporate decision making, and many other aspects of industry. Therefore, valuation practice through technology and automation must position itself to play a key part in strategic decision support and

risk management, through using market data as key to assisting businesses establishing market position.

For business, therefore, the purposes and benefits of employing valuation professionals would advance to delivering products to fulfill the following business imperatives:

- municipal decision support services
- investment, finance and revenue generation models
- spatial and GIS data analytics
- demonstration of expertise in particular market segments.
- unleashing big data.

Valuer bias?

It is generally accepted that with traditional approaches to valuation, the quality of the results depends largely on the skill and judgement of the practitioner; there is client relationship bias and subjectivity which can further be influenced by the 'remuneration' offered, particularly because valuation practitioners can be incentivised based on the value of the subject property.

Computerised models eliminate this bias and subjectivity; save time and money and have no 'emotional' attachment to the outcome of the exercise. The approach is purely based on statistical logic or algorithm to establish a relationship between property price and asset quality.

Therefore the quality assurance capabilities of the valuation practice is enhanced by the development of emerging risk rules models that progress the auditing and risk assurance potential, to test big data independently, particularly in mass appraisals.

This, further, cements the developing capability to remove valuer bias totally.

Are computerised valuations replacing valuers?

In the light of the technological advancements valuers are faced with, in particular the notion that valuation practitioners need to evolve to embrace some or all aspects of 4B1, the debate remains whether the 'traditional' valuer is in danger of being replaced by 'machines' and 'numbers'.

That is far from the truth, because

- computerised valuations have been around for more than 20 years;
- mathematics and statistical models underlying the science behind the computer algorithms, such as multiple regression programs used in computerised mass appraisal models (CAMA), are not new to valuation practitioners and have been applied before; and
- there are not enough registered practitioners and/or valuation service providers to complete the volume of property transactions taking place each year.

However, valuation practitioners must acknowledge that their role to business and property consumers is changing fast. Their credibility has been dealt a severe blow during the times of the mortgage crisis as a result. This acknowledgement should appreciate that

- the value proposition of valuation service providers must change;
- valuations (valuers) are starting to play an increasing role in asset risk activities;
- there is an increasing need for ethical conduct and credibility;
- 'new' areas of specialisation are developing which require valuation expertise (tax/revenue advisors, equity valuations, risk solutions, etc).

Only the paranoid survive – which analysis are you running? Are you ready for the future?

According to Hal Varian, Chief Economist at Google: "The ability to take data – to be able to understand it, to process it, to extract value from it, to visualise it, to communicate it, is going to be a hugely important skill in the next decades."



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