

The Recent Developments of Real Estate and Assets Valuation Studies and Analysis of Fundamental Problems in Turkey

Harun Tanrivermis (Turkey)

Key words: Valuation; Real estate and asset valuation; international valuation standards; Turkey financial reporting standards (TFRS/IFRS); scope and impacts of valuation reports; professionalisation trends in valuation and results

SUMMARY

ABSTRACT

In the economic development process, it becomes necessary to carry out valuation studies for different purposes and the need for valuation studies is increasing rapidly. Valuation is required for public investments and expropriation for urban development, for taxation and accounting purposes on the one hand, and as collateral and investment projects for money and capital markets on the other. Valuation services cover both the determination of the probable value of the rights and benefits attached and related to real estate at a certain date, as well as the valuation of movable and immovable assets, and the scope of valuation studies is rapidly expanding. Accurate determination of the value of a property or asset has always been important to identify the asset size of the individual, household, company and public entity that owns this asset. The identification of the true value of the assets of individuals and organizations is of particular importance in many ways. In principle, the financial statements of the enterprises are required to be transparent and to reflect the truth and fulfillment of this principle obliges the entity to value its assets and liabilities in accordance with international standards and fairly. In the past 20 years, the determination of the real value of the balance sheet and assets in the borrowing of public and private institutions from international financial institutions has enabled the increase of the loan collateral value, and naturally, the decrease of the credit cost (or risk premium). In this respect, as in many countries, in Turkey, special attention has been given to adaptation of the International Valuation Standards (IVS) and the International Financial Reporting Standards (IFRS/TFRS) to country-specific conditions.

Although the Turkish legal system defines the need to make valuations with valuation criteria in many legal arrangements, a law on exclusivity of valuation services has not been enacted and no

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public appraisal organization has been established so far. In order to fill the gap regarding real estate valuation services especially for money and capital markets, regulation of the market has become mandatory by putting into force the Communiqué by the Capital Markets Board (CMB) and the Regulation by the Banking Regulation and Supervision Agency (BRSA). In the mentioned regulations, it is stipulated that the appraisal reports must be prepared in accordance with the International Valuation Standards. The evaluation of real estate and limited real rights for money and capital markets is carried out by experts and organizations authorized by the CMB whereas in terms of Turkey Financial Reporting Standards (IFRSTFRS), asset valuation studies are carried out according to regulations made by the Public Oversight Accounting and Auditing Standards Authority (KGG). Finally, the Expertise Law No. 6754 that came into force in 2016 requires that at least one of the members of the board that will prepare the reports to be taken to court for appraisal of all immovable properties must be a specialist or licensed valuation expert with graduate or doctoral degree obtained from a real estate development and management department accredited by international institutions.

As the scope of real estate and asset valuation studies is very wide, valuation studies on topics such as collateral valuation, valuation for real estate investment trusts and funds, asset valuation for money and capital market institutions; and land acquisition and expropriation, confiscation without expropriation, and valuation studies for compensation purposes for urban transformation and development projects and public investments; and the nature and effects of the received valuation reports have been examined. Analyses and evaluations were made based on the results of focus group work and case studies with regards to methods used in appraisal reports and their distribution according to subjects; the rationales for specific method selections in valuation works; capitalization rates used in real estate, business and asset valuations, discount rates and choice of multiplier coefficients; collection of data used in valuation, data calibration and confirmation; and preparation and auditing of reports and post-report services and problems in valuation companies. On the basis of the examination of the valuation reports and the reports presented to the courts, it is noteworthy that there are significant problems in the studies in the mentioned fields in terms of the basic principles of valuation science, international standards, and even legislative compliance; errors are made in data collection, analysis and reporting; and as a result, the immovable and asset values that are appreciated are weak in their ability to reflect the reality. In this study prepared in this framework, valuation reports prepared in Turkey have been examined in terms of content and use of valuation methods and from the IVS and IFRS/TFRS aspects as well as scientific principles and compliance with the legislation. For this purpose, both focus group works conducted with official and private public and private institutions with roles and/or responsibilities, and report reviews and judicial decisions were used together to make generalizations. Based on selected case studies, the reliability and quality of appraisal reports submitted to investors and courts and the effects of the reports submitted to legal entities in reflecting the true nature of the financial statements as well as the results of the valuation reports are discussed and the main problem areas are identified. According to the results of the examination it has been determined that it will be necessary to reorganize the working environment, especially in terms of legislation and human resources; develop side branch specialization; reorganize the working environment with regards to issues such as report quality, ethical issues, licensing, service contracts and wages; and enterprises should be specialized based their areas of expertise.

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