

# **Views on the needs to develop the authorization and supervision activities of real estate valuers**

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**Key words:** authorization of real estate valuers, valuation standards, supervision of valuers

## **SUMMARY**

Real estate valuation standards and authorization systems have largely evolved over the past 50 years and largely reached their current structure about 25 years ago as part of broader valuation standards. In Finland, the activities of the real estate valuation association began in the late 1970s, when the Finnish Association for Real Estate Valuation (SKAY) was founded. The authorization of real estate valuers was organized in 1995 by three real estate associations and transferred to the Finland Chamber of Commerce in 2004. Together, the SKAY and the Property Valuation Board of the Finland Chamber of Commerce form the real estate valuers' authorization system in Finland.

At the turn of the millennium, the problems and development needs of the real estate valuation and authorization activities, as well as the experiences and views of authorized real estate valuers and valuation clients were studied in several theses (e.g. Korhonen 2001, Aaltonen 2004, Lauhkonen 2004, Seppänen 2004, and Söderman 2004). Now that the Finnish authorization activity is quite well established, as has the international appraisal standards. It is time to look at how the set goals have been achieved in Finland and partly also internationally, and what development needs are now deemed necessary by valuers and valuation clients and authorities.

The Finland Chamber of Commerce conducted an extensive survey of authorized property valuers in the autumn of 2021 (Viitanen 2021). Based on the results of the survey four new theses have been launched on the views of valuation clients and authorities, the supervision of valuers and the independence of valuers.

This article will discuss the preliminary views produced by the above-mentioned studies on the development and development needs of real estate valuation activities, authorization and valuation standards.

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## **1. INTRODUCTION**

In Finland, real estate valuation is a free profession. Anyone can begin to act as a property valuer at any time. There is no specific law on real estate valuation, but a few laws nevertheless have provisions on property valuers. The main acts relate to land divisions and assessment of compensations in compulsory purchase carried out as ex officio valuations by the authorities, as well as the provisions of the Real Estate Funds Act (1173/1997) on the valuation of real estate funds, and the valuer's qualification requirements which are also applicable in some other situations such as in the context of financial reporting evaluations of listed companies.

In Finland, the real estate valuation industry began to organize itself in the late 1970s, at a time when different guidelines for real estate valuation began to be assembled at a global level into uniform standards. A self-regulation system for real estate valuers (The Association for Authorized Real Estate Valuation KA) was established by the Finnish Association for Real Estate Valuation (SKAY), the Finnish Real Estate Federation (FREF) and the Real Estate Agency Association (SKVL) in 1995. A partial reason for this was many misconducts related to real estate transactions, which also caused the National Bureau of Investigation (Finland) to encourage the reinforcement of the real estate valuation. As an association activity, however, dealing with authorization of property valuers (AKA) was a heavy task. In 2004, the activity was transferred to the Finland Chamber of Commerce (K3) where it has become stronger and well established. (Viitanen 2006; Horttanainen 2006) In addition to the self-regulatory AKA system, the Real Estate Funds Act (651/2009) brought a statutory real estate valuer (KHK) approved by the Finland Chamber of Commerce to be responsible for the reliable valuation of properties owned by real estate funds in particular.

The functionality of the authorization system and the views and international practices of valuers and customers were studied in several theses in the early 2000s (e.g., Korhonen 2001, Söderman 2004, Hakala 2004, Lauhkonen 2004, Aaltonen 2004, Seppänen 2004). Now that authorization has reached the age of a quarter of a century, it is time to take a fresh look at how the authorization system works and the problems and development needs it now entails.

## 2. SURVEY FOR AUTHORIZED PROPERTY VALUERS

The Property Valuation Board of the Finland Chamber of Commerce prepared an electronic survey for authorized property valuers in the summer of 2021. The Board's chairman Kauko Viitanen (2004-21) and secretary Raisa Harju were responsible for drafting the survey. The purpose of the survey was to explore the experiences and views of authorized property valuers in relation to the prestige, problems and development needs of the authorization. The survey was partly based on M.Sc. Riku Korhonen's master's thesis "Customer Satisfaction and Needs for further Development of Authorized Appraisers system" from 2001. In the vast majority, the questions were multiple choice questions. There was usually room for further comments and remarks on every question, and in the end there was still the opportunity to give comments and views in a free form. The survey was conducted on the electronic platform Microsoft Forms.

The questionnaire was emailed to all authorized property valuers on August 19, 2021 and the extended response time ended on September 9, 2021. 104 responses were received, i.e., the response rate was 41.6%. The answers were distributed between the different types of authorization as follows: general authorization or KHK 66% (share of all authorized valuers 75%), agricultural and forestry authorization 20% (share 15%) and housing authorization 14% (share 10%). 60% of the respondents had up to 10 years of authorization experience and 18% had more than 20 years of experience.

### 2.1. Appreciation of the authorization and requiring authorization in the valuation

Nearly 90% of respondents agreed that customers appreciate authorization much or reasonably, and about 70% of customers always or often require authorization. About 45% of the respondents saw the appreciation of authorization as increasing, while about 7% estimated it to decrease. Approximately similarly, the requirement for authorization in the valuation was estimated to evolve. The authorization is especially required by large entities, including large banks, professional investors, companies owning premises, vigilant people and lawyers and other parties in general in disputes. Often, the requirements of the authorities and the like are also behind the requirement. On the other hand, ordinary consumers are often unfamiliar with the authorization of property valuers and often not appreciated by the local banks.

The obstacles to ordering a valuation as an AKA valuation were above all the high price (more than 50% of responses), the scope, the workload, the slowness, the rigidity and the quality of an AKA valuation. Sometimes a narrower valuation would suffice. In addition, the often free quick valuations of estate agents are affected, as is the lack of authorized valuers in the community.

### 2.2. Sustainability and responsibility in valuations

When asked about the visibility of sustainable development in the valuations, 70% of the respondents stated that they are not visible or are only slightly visible. In terms of sustainable

development, mainly energy efficiency issues are increasingly on the table, as are nature conservation in forest valuations and the required certifications at larger objects. Environmental damages also affect value, and gradually the effects begin to be reflected in returns and yield requirements through market observations.

Issues related to sustainability were more prominent than sustainable development in the valuations, as now “only” 55% saw that they are not rising or rising only slightly. The issues raised in the open answers can be grouped into three categories: general comments, the responsibility of the valuer's own actions, and issues of responsibility related to the object of the valuation. The *general comments* stated that issues of responsibility arise especially in disputes. According to the open answers, the *responsibility related to the valuer's actions* is reflected in the AKA regulations and valuation standards (IVS, RICS, etc.), which require the valuer to be independent, realistic, impartial and reliable, and to present the facts in the valuation report. This is emphasized in the appreciation of AKA valuers. It is believed that AKA valuers cannot be bribed and their activities are done in a responsible manner. Therefore, valuers should carefully consider valuing properties where the client's actions are perceived to be unethical, economically obscure, and environmentally destructive. Valuers should also refuse to value properties for which their skills are insufficient, there is not enough time, or where pressure is felt. *Responsibility associated with the object* of the valuation is most emphasized in the valuation of public, industrial and commercial properties, as many organizations stress environmental, economic and human responsibilities in their own values, but more broadly in technological solutions that promote responsibility, and also in housing management. Although responsibility is more about the client's activities and communication, it usually appears in new sites or in the context of investments and reforms also in buildings, courtyard areas, etc. The owner's efforts to meet the sustainability targets are reflected in slightly lower return requirements, although the causal relationship between the outcome of the AKA valuation and responsibility was also considered to be somewhat fragile.

### **2.3. Development of the characteristics of AKA property valuation**

The evolution of the characteristics of the AKA valuations over the last 8-10 years were asked for the following characteristics and factors: clarity, unambiguity, theoretical justification, justification for valuation methods, explanation of calculations, justification for values, market analysis, alternative use of the object, international compatibility, valuer's independence and internal independence of reference objects. The answers were quite similar for all the characteristics asked, that is, just over half of respondents saw the situation improved and only a few saw it weakened. Perhaps in terms of independence, the development had been slightly weaker than others.

### **2.4. Current problems with AKA property valuation**

The relevance of the problems currently related to the AKA property valuation was asked for 15 factors (Table 1). The respondents had the opportunity to provide additional information

for each factor and also present other problems. Clearly the most significant problems were in the availability of transaction data, textbooks and manuals, and valuation standards. In addition, more problems were seen in the training and AKA guidelines than average. The most satisfied the respondents were with the supervision of the valuers, the possibilities to complain about the valuations and the activities of the AKA Board. The free-form comments attached to the responses will be examined below, mainly with regards to the most significant issues.

In Finland, the *price information* for real property transactions is public and available from the Official Purchase Price Register (KHR), but a significant part of the property stock being valued is owned through real estate companies (Ltd) and mutual real estate companies (Ltd), and the company form purchase price information is not public. Indeed, respondents state that it is difficult to obtain price information for company-form transactions, which often results in low reliability and poor transparency. Often, information is considered as business secrets. Also, for rental sites, data availability is poor.

Factor	Significance of the problems (%)				Total
	High	Major	Small	No problems	
Availability of transaction information	16	28	28	28	100
Textbooks and manuals	5	20	45	30	100
Valuation standards	1	10	41	48	100
Training	2	7	34	57	100
AKA guidelines	3	5	28	64	100
Independence of the reference material	0	6	28	66	100
Independence of valuers	1	5	27	67	100
Connections between property and business valuation	0	6	26	68	100
Publicity of valuation reports	1	4	26	69	100
Legislation	0	3	23	74	100
Authorization requirements	1	3	21	75	100
Association activities and lobbying	0	2	21	77	100
Opportunities to appeal	0	2	10	88	100
Activities of the AKA Board	1	1	10	88	100
Supervision	2	2	7	89	100

Concerning *valuation textbooks and manuals* the valuers found them to be only few especially in Finnish and they are often too theoretical, general and narrow when there is a need for detailed practical examples to different levels (from basic level to the level of an experienced valuer). Explanations of English terminologies would be needed to read books in English. It was also pointed out that studies in valuation are old and their availability is poor.

As regards the *valuation standards*, the comments of the valuers mainly concerned the difficulty of standards, changing terminology (distressing customers too), slow translations and lack of in-depth training, which is why the compliance with the standards in the valuation is often uncertain.

In terms of *education*, it was pointed out that the education requirement for the AKA valuer is good, but there is little training, the opportunities are awkwardly accessible for the provincial and generally too basic. At the level of an experienced valuer, trainings are missing. In practice, trainings take place internally in the valuation companies.

Answers to *AKA guidelines* needed clearer guidelines on what is required from the AKA valuation and how the guidelines are related to practical cases. On the other hand, some of the valuers also thought the guidelines were clear. The reporting of AKA activities was considered to require unreasonable paperwork and clear reporting forms were needed. Also, a clarification on the Property Valuation Board's role in interpreting International Valuation Standards was needed.

Concerning *independence*, both for the valuers and the comparative data, it was pointed out that Finland is a small market with few players and it creates threats to independence. Things might seem suspicious, even if they are not. In addition, customers' desire to influence is a threat to independence, as are internal valuations if given to internal valuers. On the other hand, automatic valuation methods reduce the role of the valuer and also the problem of independence. When it comes to the independence of comparative data, the scarcity of transactions makes it difficult to value and requires more case-by-case consideration.

In terms of *legislation*, some of the respondents longed for clearer regulations, a broader requirement for AKA valuations, a sufficiently clear definition of the requirements for the valuer's qualification and the content of valuation report, and a valuation law. With regard to access to justice, it was suggested, on the one hand, that unnecessary complaints should be ruled out and that the right of appeal should be limited to the client of the valuation and, on the other hand, that a non-party should be able to complain about a poor valuation.

## **2.5. Development needs of AKA property valuation system**

The issue was approached with a general question, which allowed to select a number of options for which more regulation would be required. A total of 114 entries were made by the valuers (Table 2). In other needs the respondents mentioned, for example, prohibition of a regional not property specified valuation, i.e., value maps.

<b>Table 2. Additional regulatory needs</b>	
<b>Target of additional need</b>	<b>%</b>
No more regulation is needed	51
AKA guidelines	21
Finnish legislation	14
International standards	7
EU regulations	4
Other needs	4
<b>In total</b>	<b>101</b>

Development needs were identified further through six separate open questions.

When asked *what or what kind of regulation would best develop the system*, the following views were obtained: enacting one's own valuation act; enacting bank collateral and internal valuations by law only for AKA valuers; mandatory use of AKA valuations in e.g. litigation, dispute, division an estate, and divorce cases; increasing regulation on training, publicity of transaction data and sustainable development; better consistency with overlapping standards; clarification of the AKA guidelines, e.g. as to what the valuer must take into account in each valuation, to be recorded the valuation report and on which no position can be taken; more detailed guidance on the AKA valuation and more precise and comprehensive supervision and penalties for those who violate the rules, as well as more weighty recommendations; taking into account the technical characteristics, condition and long-term maintenance plan of the object being assessed when determining the final value.

When asked about *other development needs*, seven responses were received. They proposed increased information so that not everyone would have to read 1500 pages and interpret it for themselves; increasing training and transparency; and found that the purchase price information is still at the level developed for the needs of agricultural society; and the use automatic valuation methods in the valuation would require regulation; and that the availability of reference material should be improved.

The third question dealt with *the analysis of the valuation effects following the changes in the societal regulations at national and EU level - is there a need to develop this issue?* 19 responses were obtained, evenly divided into yes and no answers.

The fourth question asked *whether the wider opening of information (e.g., price, rent, market, etc.) involved any development needs or opportunities and, if, what kind*. There were 30 responses to this, which were quite unanimous in improving transparency and the availability of all price information. Only two noted that there are no development needs. Arguments and comments pointed out, inter alia, that transparency would increase confidence; it would be

good to obtain the purchase price and rental statistics of commercial premises in a comprehensive manner to the service of an impartial entity and also for real estate companies; the tax authorities' material for real estate company transactions should be made public, as it would improve access to more accurate information; the trusted systems would be good to be listed in order to find out, for example, the motive of transaction, i.e. that there is nothing different from normal.

The fifth question asked *whether there were any development needs or opportunities for the opening of valuation reports to the public and, if so, what kind*. 18 responses were received, of which 8 were negative, 7 were partially positive and 3 were reflective. Reasons and comments included, for example, that it could violate trade secrets, increase customer awareness, the customer should be allowed to decide, the matter should be carefully considered, reports should be opened unless there is a specific reason, publication channels should be reliable and formulas would perhaps become more visible.

Finally, there was an opportunity to give *other comments*. This received 14 responses, six of which highlighted the broad scope, length and, in part, difficult questions of the survey. The actual comments on the matter stated in favour of developing; praised the AKA valuers as a fine community; reminded that the system was developed to ensure the reliability of market values and this basic purpose should not be forgotten; it was found that at large offices the valuations are (almost) always of very high quality, but in smaller offices (especially those with broker backgrounds) there is a wide variation in the quality of the valuations; it was also noted that the pricing of the valuation still lags really badly; information about what constitutes an AKA valuation report would be needed, especially for public entities; the importance of the issue of sustainable development and responsibility in the valuation should be "educated" and highlighted, as it is already now relevant, e.g., in the mindset of the financiers; and, as a new AKA valuer, training opportunities will be happy to monitor.

### **3. DISCUSSION AND CONCLUSIONS**

#### **3.1. Highlighting the views of the valuers**

According to the opinions of the valuers, the AKA authorization system works quite well and satisfaction is high on the general level. In part, this may be due to the fact that in large, often international or internationally networked valuation companies, English is used in large and the activities of valuers are supported by an extensive network of expertise and services, but this was not examined in this study. However, it is also clear from individual responses that development needs clearly exist in order to ensure the functioning of the system to ensure the best possible service levels in all sub-areas of the valuation and at the national level as a whole.

The strongest aspects raised in the responses were the availability of comparative information needed for valuation, obtaining different levels of valuation textbooks and manuals, especially in Finnish, translating and interpreting valuation standards into Finnish, more detailed

guidelines and models, and improving training opportunities. Improving the prestige of the valuation industry and the awareness of the authorization system, e.g., through marketing was also strongly highlighted. Some, such as improving the availability of price data and extending the use of AKA valuers to more than current valuation situations, would also require legislative changes, as indicated in the responses. In addition, some individual comments pointed out that there are also some partly too weak valuation reports among the AKA valuations and that it is difficult to maintain independence in valuation in a small country. Those comments are likely to indicate that there is fierce competition and / or skills gaps in the valuation, which may attract to non-compliance. These could only be met with better oversight and better training and information, which was highlighted in the responses. Finally, with regards to the possibilities for appeal against the valuation, it was proposed to reduce unnecessary complaints and limit the right of appeal only to the subscriber of the valuation, but also to extend the right of appeal against a poorly performed valuation.

### **3.2. Reflections and conclusions**

In order to maintain the authorization system, maintaining and safeguarding the independence of valuers can be considered very important and must be maintained. It is an absolute prerequisite for the credibility of an authorization activity and thus for its existence. The right of appeal is central to this, as it allows the system to be managed in an appropriate way. Under the current Finnish AKA system, those whose rights are directly affected by the valuation have the right to complain about non-compliance with the formal requirements of the valuation (International Valuation Standards, good property valuation practice, Board rules and guidelines) within six months of the valuation. Appeals are heard by the Board's Supervisory Section, and the parties to the appeal may still appeal the Section's decision to the AKA Board. Appeals shall be dealt with in writing and the parties shall be heard before a decision is taken. At the hearing of the appeal, a disciplinary sanction (reminder, warning, withdrawal of authorization) may be imposed on the valuer. However, the case of appeal does not take a position on the outcome (value) of the valuation or on legal issues (for example, damages), but in these respects it is necessary to appeal to the general court. Parties other than those directly concerned by the valuation do not have the right to appeal against the valuation. Other parties, for example, cannot apply for a solution to interpretive questions concerning formal requirements in a precedent manner. In this regard, the grounds for extending the right to appeal could be considered. Similarly, an extension of the appeal period for the valuation could be considered, as errors may not be easy for the parties to detect immediately but may only become apparent after a long period of time. On the other hand, it should be noted that the time of appeal is not absolute but may also be dealt with after the appeal period expires if there are specific reasons. In Finland, there has apparently been only few appeals to the courts about AKA valuations.

The lack of textbooks and manuals in Finnish and also in English, which would have taken into account the characteristics of the Finnish regulatory environment, is an unfortunate problem. However, resolving it satisfactorily is difficult due to the small linguistic and

cultural area. There are not many authors for Finnish-language books in valuation and translations of English-language books (especially when commenting on Finnish conditions), because the work is difficult and time-consuming but at the same time is almost free for the author due to the small market, unless a separate financier is available. The only solution might be found through training, but even then, the limited number of participants is a funding problem. A significant increase in membership fees could be a partial solution, although at the same time it could reduce the number of authorized valuers and thus lead to a vicious circle and a deterioration in the quality of valuation services. So perhaps, however, it would be best to just learn to read English textbooks and focus resources on deepening their interpretation in training.

At the international level, similar problems are likely to recur in majority of countries where English is not the main language of use, especially as our own experience suggests that different English-speaking countries also have problems with interpretations of the content and differences of the concepts in valuation. Thus, English textbooks and manuals should seek to use the simplest and clearest possible terms and comprehensive explanations of key concepts. There could also be a field of work for the international community, such as the UN agencies and also for FIG, which has been involved in international cooperation projects and also publishes reports and recommendations related to the valuation.

This study was based on a survey of authorized property valuers in Finland and is based almost entirely on the views of the valuers. The response rate of 41.6% is quite good, so the answers can be considered to reliably describe the valuers' views, especially since the answers do not differ significantly from previous studies (e.g., Korhonen 2001, Söderman 2004, Hakala 2004, Lauhkonen 2004, Aaltonen 2004, Seppänen 2004) and the findings of textbooks (e.g., Viitanen & Piispanen 2021). However, the research is already being continued, extending it to the views of the valuating subscribers as well as deepening some of the identified problem aspects. Two theses are now underway, one on the independence of the property valuer and the other on the development needs of the property valuers' authorization system. Two theses have also been agreed and they will address, on the one hand, the independence of comparative objects and the impact of options on property valuation, and the other on the views of large real estate investors on authorization of property valuers. In addition, the search for an author to investigate the oversight of authorized valuers and the interpretation of international valuation standards, e.g., in terms of who has the right or responsibility to interpret the standards is pending.

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