Real Estate Theory versus Practices: A Case Study of Valuation Practices of Jamaican Valuers

by Tina Beale

Valuation approaches and their utilization in Jamaican real estate firms have been the topic of extensive discussion within the Association of Land Economy and Valuation Surveyors (ALEVS) in Jamaica. Internationally, the issue of valuation accuracy has been the subject of academic and professional debate for decades. Matysiak and Wang along with Blundell and Ward conducted accuracy studies in the United Kingdom and in the United States. Cole, Guilkey, and Miles carried out similar research in 1986. More recently, Crosby and Matysiak (cited in Crosby et al.) expanded the valuation accuracy debate. They have also conducted research that focuses on the factors that affect the valuation and price relationship, in an effort to show this can impact the accuracy of a valuation.

Unlike developed real estate markets, Jamaica’s real estate industry produces limited academic literature on its property market’s operations, activities, hedonic behavior, property yields, and relationship with the local economy. Thus, phenomena that affect or are affecting the island’s property market have not been empirically researched. By extension, market participants and real estate professionals may be unaware of anomalies or abnormalities that have been affecting the market.

This article seeks to analyze the theoretical basis of the profession and explore how the valuation practices of Jamaica’s valuers have been shaped by valuation theory.

The Search for a Valuation Theory

According to Lawson “there is no research-backed theory of valuation that explains the methodology used and that is validated by a hypothesis.” He argues that what exists is a valuation paradigm with “a collection of generally accepted concepts drawn from the field practice that has been subsequently adopted by academics.” This argument is supported by Smith’s article on the concept of market value, and by the Jaffe and Lusht study on inconsistencies in appraisal practice.

Like Lawson, these authors posit that price theory serves as an excellent proxy for market value and can provide the platform for empirical research that best explains property transactions in real estate markets.

Lawson states that the purpose of a theory is to make sense out of nonsense. Theories must be tested and verified in order to be useful. As such, a theory of valuation should enable valuers to make realistic predictions about events in the property market.

It has been agreed by many writers that the basis of the property market is economics, as property prices are determined by market behavior. This suggests that in order to arrive at a value estimate, the scientific principles of economics must be applied by the valuer. Well-known professionals have commented that there are several links between real estate appraisals and economic theory. For example, Fanning, Grissom, and Pearson establish a link between value and valuation and appraisal theories. They argued that appraisal is concerned with estimating market values and can be undertaken at three theoretical levels: value theory, valuation theory, and appraisal theory.

Given that value theory and valuation theory are characterized by economics, the valuer must have a good understanding of economics to understand activities in real estate markets. Where there is very little knowledge of economics, the valuer can provide inaccurate property values.

By adopting Lawson’s arguments, it is implied that valuation practices must apply positive economic (objective, fact-based) principles in order to calculate property values. However, it appears that normative economic (subjective, value-based) principles form the basis of valuation practice. One of the key principles of the valuation paradigm is that of market value. For the valuer in Jamaica, market value is defined as

the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

This definition arose out of the historically significant case Spencer v. the Commonwealth in the Australia High Court and is founded in normative economics, which is not based on objective analysis. However, market value is the cornerstone of the valuation profession, and the Australian Property Institute (API) has stated that “this judicial commentary is viewed as being an essential part of valuation knowledge.” This argument has been further supported by Allan and Walker, who wrote “the Spencer case is an impregnable fortress of judicial wisdom that continues to be applied today… no judge, barrister, academic, valuer or politician has been able to improve upon it.”

Thus, for the valuer, the Spencer case is the basis for answering the question, what is a property’s value?

In light of the arguments above, it appears the valuer has been one who utilizes normative economics to determine what really exists in the property market. One can posit that no guidance existed for the valuer, except for the intellectual rulings of the court, and as such these rulings where adopted by the profession. This poses a challenge for the valuer, as the imperfect nature of

5. Ibid.
10. Australian Property Institute, Valuation Principles and Practice, 2nd. ed. (Deakin ACT, 2007).
the market on its own—compounded by variations in consumer preferences—makes it difficult for valuers to understand the market. Although the guidance offered by the court may have seemed adoptable in the past, the truth is that it only satisfies a country’s constitution and only determines value on just terms, i.e., what ought to be but not what really exists.

By adopting normative economic principles in an emerging market like Jamaica, it may be more difficult for the valuer to distinguish a normal and abnormal market. Also, this ignorance can compound the issue of inconsistencies in valuation practices. This can be a result of the misinterpretation and/or misapplication of valuation concepts. Thus, there is a breakdown in the valuer’s reasoning that makes the valuer’s assessment of risk questionable.

**Accepted Valuation Standards**

This section of the article discusses valuation standards used by valuers and banks in Jamaica. These include the valuation standards of the International Valuation Standards Council (IVSC), the Royal Institution of Chartered Surveyors (RICS), and the Bank of Jamaica (BOJ) Standards of Sound Business Practices and Real Estate Appraisals. These standards form the basis of the discussion presented in this article.\(^\text{12}\)

The standards have the objective of ensuring valuer qualifications, competence, ethics, experience, and full disclosure of details when conducting valuations. The BOJ Standards of Sound Business Practices Real Estate Appraisals are based on the generally accepted valuation principles (GAVP) of the International Valuation Standards (IVS)\(^\text{13}\) and RICS Standards. The BOJ guidelines, created by Jamaica’s central bank, are to be used and applied by local banks when accepting valuation reports from valuers and when adding valuers or valuation firms to the bank’s list of approved valuers. The IVS outlines that the GAVP are related to (a) real estate and property; (b) price, cost, market, and value; (c) market value; (d) highest and best use; and (e) utility.

It has already been established that market value is a concept based on normative economic principles. Nonetheless, additional arguments will be presented that discuss the economics foundation of valuation principles. The glossary found in Table 1 defines

### Table 1 Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td>All Risks Yield (ARY)</td>
<td>A percentage that represents the performance of property investments.</td>
</tr>
<tr>
<td>Hedonic Behavior</td>
<td>Consumer behavior in the property market.</td>
</tr>
<tr>
<td>Investment Method</td>
<td>A valuation approach typically used to value income-producing properties where rental income is discounted by an appropriate yield and in the reversion the property’s full rental value is capitalized by the all risks yield. The principles of the short cut DCF and investment method are similar; however, their presentation is done differently.</td>
</tr>
<tr>
<td>Normative Economics</td>
<td>Economic study of what ought to be; focuses primarily on value judgments.</td>
</tr>
<tr>
<td>Positive Economics</td>
<td>Economic study utilizing objective analysis; focuses on what is happening or occurring.</td>
</tr>
<tr>
<td>Short Cut Discounted Cash Flow (DCF)</td>
<td>Developed by Professor Neil Crosby; in short cut DCF, rental income is discounted by a suitable yield rate and upon termination of the lease, the property’s rental value is capitalized by the all risks yield. The difference between DCF and short cut DCF is the fact that the growth rate is calculated by using a formula.</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>The positive and negative risks of a property investment.</td>
</tr>
<tr>
<td>Valuation Accuracy</td>
<td>How close a valuation is to a property’s market value.</td>
</tr>
<tr>
<td>Zoning Technique</td>
<td>A technique used to value retail properties by dividing a building into zones based on the type of tenants that are located in different sections of the building. For example, Zone A would be comprised of tenants who pay the highest rental per square meter, while Zone B would be comprised of tenants who pay rent at a lower rate per square meter, and Zone C tenants pay lower rents than tenants in Zone B. At the heart of the zoning technique is the extraction and application of rent per square meter for a comparable property and applying the same to the subject property. This is done to calculate the rental value for the subject property. The rental value can also be applied in the investment method to determine a property’s capital value.</td>
</tr>
</tbody>
</table>


\(^\text{13}\) The generic valuation principles of the IVS “Concepts Fundamental to Generally Accepted Valuation Principles” are now found in the “IVS Framework” and IVS 230 “Real Property Interests” sections of the International Valuation Standards.
terms that will be used in this article to discuss the relation of valuation principles and practice from an economics viewpoint.

**Standards and Economic Concepts**

The IVS defines price, cost, market, and value as follows:

- **Price** is “the amount asked, offered, or paid for an asset.”
- **Cost** is “the amount required to acquire or create the asset.”
- A **Market** is “the environment in which goods and services trade between buyers and sellers through a price mechanism.”
- **Value** is “not a fact but an opinion of either: (a) the most probable price to be paid for an asset in an exchange, or (b) the economic benefits of owning an asset.”

The literature dictates that the terms *just price*, *cost of labor*, *cost of reproduction*, and *fair market value* are normative economics concepts. Upon detailed analysis, the term *price* as defined in the IVS differs from *just price*, in that just price provides a mechanism for setting standards of fairness in transactions. It appears that the IVS definition of price is more so in tandem with the principles of positive economics, as it implies that the price of a commodity is the relative value placed on the asset by a buyer and seller under particular circumstances.

Similarly, the concepts of market and value are embedded in positive economics as they relate to, and indirectly refer to, exchange value and market value. Cost is a positive economics concept as it speaks directly to the cost of producing or providing a good or service to the market.

Interestingly, when the concepts of market and value are combined by valuers, the resulting concept of market value is one that is based on normative economics, and in name only appears to be a positive economics principle. This contradiction occurred as the *Spencer* case applies the principle of *what ought to be* and not what really is. This implies that market value is dependent on the valuer’s judgment of what ought to be, based on market conditions.

This argument can be extended further to suggest that while market value estimates are linked to the behavior of market participants, the market’s behavior is not recognized as the primary determinant of market value. This definition implies that the profession utilizes the legal perspective of market value, as being what is fair to both buyer and seller, as the fundamental basis of the concept. In 1922, Friday supported this position when he argued that appraisal thinking had been dominated by normative economics. Lawson characterized Friday’s position as viewing that the market was not the determinant of value. The mechanisms of the market were inferior to the practical workings of the court.

Valuers may argue that this position generally is incorrect. However, Lawson saw the criteria for market value (willing buyer and seller, the property being adequately exposed to the market, the transaction being an arm’s-length one) as a mechanism that puts the valuer in a situation where he or she can reject some market data because, for example, a property may not be exposed to the market for an adequate period of time or because a transaction took place between family members. Lawson viewed hedonic market analysis as a better option for understanding the workings of the market and determining market value.

In valuation, land value is dependent on the valuer’s evaluation of the land’s utility based on its highest and best use. *Utility* refers to the usefulness of a property and is “a relative or comparative term rather than an absolute condition.” From a strict economic perspective, utility can be measured and is reflected in the preferences and choices made by consumers.

The IVS defines *highest and best use* as “the use that maximizes an asset’s potential and that is physically possible, legally permissible, and financially feasible.” The definition identifies the criteria used to determine a property’s highest and best use, and it also indicates that the valuer...
is required to justify the probable uses to which a property can be used by determining those uses that meet the criteria of being physically possible and legally permissible. The valuer's interpretation of all probable uses for a property is based on the financial feasibility test. Thus, the valuer's judgment is critical to determining a property's highest and best use as its platform the financial feasibility test, which determines the property use that produces the highest profit.

The valuer's interpretation is central to the highest and best use principle. Hence, the principle is embedded in normative economics, and like market value, a criteria is provided that is to be used by the valuer in reaching a conclusion of highest and best use. These criteria aim at ensuring that the valuer's judgment is not skewed.

Both highest and best use and utility are inextricably linked: the valuer evaluates and analyses both in order to arrive at value. The highest and best use principle acts as a foundation for the valuer to determine utility and by extension property value. Similarly, the utility of real estate is also determined by the valuer's judgment on the probable uses of a piece of real estate. It is on this basis that utility is grounded in normative economics.

An individual may ask why the highest and best use is important if it's the job of the valuer to determine a property's value as it is. In response, it can be argued that the highest and best use principle is critical when valuing property that has development potential. For both unimproved and improved properties, it's essential for a valuer to offer advice on its highest and best use so that the owners may be cognizant of the best use for the land. This is also important because it will advise the owner of the potential earnings associated with the highest and best use in comparison to other uses. This enables clients to make more knowledgeable and reasoned decisions about their property investments.

Some may argue that the role of the valuer is to regard a property as the market views it; however, it must be explained that evidence suggests that the valuer uses what ought to be to explain what is. It appears that this occurs because what valuers regard as the perspectives of the market are determined by their interpretation of hedonic behavior and this is not always girded in empirical research. Thus, although the concepts utilized by valuers may suggest they are rooted in positive economics, they are in fact applied in a manner that is in keeping with normative economics. This anomaly leads to the question: how do valuers apply both economic schools of thought in professional practice?

**Valuation Practices in Jamaica**

Jamaica's property valuation system and land laws are adopted and adapted from British valuation standards. This has occurred because the island was once a British colony and like other Caribbean islands this shaped the development of various institutions in the country.

With reference to valuation, the practices of Jamaican and American valuers may differ in some respect. However, despite difference in practice, both jurisdictions utilize and apply principles that are core to the discipline. For example, principles in the investment method/income approach, the contractor's method/depreciated replacement cost and sales comparison method are used in both countries; however, these approaches may be applied differently in the United States than in Jamaica.

Nonetheless, this research is meaningful to American valuers because many individuals in the United States purchase, or would like to purchase, Jamaican real estate. Additionally, there are American valuers who may want to become a licensed real estate broker/valuer in Jamaica. For those individuals, this article provides an avenue to have a deeper understanding of valuation practice in Jamaica and a level of understanding on Jamaica's property market. For other readers, the Jamaica's case study will add to their knowledge base or further reinforce their understanding on the variances between valuation theory and practice.

**Case Study Methodology**

A mixed methods approach was used to undertake this research on the application of valuation theory by Jamaican valuers. In February 2014, questionnaires were issued to a total of thirty valuers who are licensed to undertake residential and commercial valuations in Jamaica. These valuers were selected because they are employed at firms that are on lists of approved valuers with Jamaican banks, and they are all members of Jamaica's local professional body—the Association of Land Economy and Valuation Surveyors (ALEVS).

Only firms and valuers that satisfied both criteria formed the sample cohort. These valuers were best
suited for the study because in the late 1980s some Jamaican real estate practitioners, who are still currently practicing, qualified for a license based on their years of experience. This cohort selection approach was adopted to ensure that all members of the sample were able to understand the concepts used in the survey instrument. The members of the sample are principal valuers who are owners of valuation firms and internal valuers who are employed by principal valuers.

Questionnaires used in this study were structured to obtain data on how the all risks yield (ARY) is calculated. In theory, the ARY is defined as a market-driven unit of comparison that incorporates all risks (positive and negative) associated with a property investment. It is presented as a percentage and can be calculated by using the formula

\[
\text{ARY} = \frac{\text{Rental value}}{\text{Capital value}} \times 100.
\]

However, this study reveals that Jamaican valuers determine a property’s ARY in four different ways.

The survey instrument was also used to ascertain how the sales comparison, investment/income approach, and contractor’s/depreciated replacement cost methods of valuation were being applied by Jamaican valuers. Valuation reports created by members of the sample were also reviewed to obtain data on the items placed in valuation reports and the application of valuation methods when valuing residential and commercial properties.

Quantitative analysis was provided from questionnaires administered, while qualitative analysis was obtained from both questionnaires and valuation report reviews. Empirical analysis follows the mode of a mixed methods analysis of results and discusses how these results compare to IVSC standards and current literature.

**Characteristics of Respondents**

The respondents from the sample have been licensed and practicing valuations for a period of 5–30 years and are employed in Jamaica’s private sector. Notably, 55.3% of respondents are RICS members. The percentage of Chartered Surveyors in Jamaica is significant and comparable to membership in European countries. According to Adair, McGreal, and McParland, “a relatively high percentage of respondents in Germany, France and the Netherlands, 45%, 58% and 32% respectively, are members of the RICS.” This data indicates that in comparison to the Netherlands (which has a more structured and mature property market) the competence level of respondent Jamaican valuers is on par with Dutch valuers. This also indicates that there is an increasing importance of membership to professional bodies in Jamaica.

The case study data indicates that 56.7% of respondents had a highest academic qualification in valuations at the undergraduate diploma level. Moreover, 56.7% of the cohort had obtained a bachelor of science (B.Sc.) degree in the discipline, while 6.6% of respondents had a master of science (M.Sc.) degree in valuations/estate management. Further, analysis revealed 9% of respondents whose highest academic qualification is undergraduate are members of the RICS, while 41.2% of respondents with a bachelor of science are Chartered Surveyors. Additionally, all the respondents with a master’s degree are members of the RICS. Table 2 illustrates this information.

<table>
<thead>
<tr>
<th>Academic Qualifications</th>
<th>ALEVS</th>
<th>RICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>B.Sc.</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>M.Sc.</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Based on questionnaire responses of sample cohort.

Note: ALEVS refers to those reporting membership in the Association of Land Economy and Valuation Surveyors; RICS refers to those reporting membership in the Royal Institution of Chartered Surveyors.

In comparison to Adair, McGreal, and McParland’s findings in European countries, a higher percentage of the Jamaica survey respondents are qualified at the undergraduate level than valuers in Sweden, Germany, France, and the Netherlands. The Adair, McGreal, and McParland study indicated 19% of European valuers were trained at the undergraduate level, while 95.4% of the Jamaican valuers responding to the survey indicated they had completed undergraduate training in valuation. However, 43% of European valuers were trained at the postgraduate level while only 6.6% of Jamaica survey respondents had completed a master’s-level education.

Data from the Adair, McGreal and McParland’s study suggests that a high percentage of valuers trained at the postgraduate level become members of professional bodies. For example, in Sweden, 81% of valuers obtained a postgraduate degree in real estate and 97% of the country’s valuers were members of professional bodies. Data presented on Germany, France, and the Netherlands also implies there’s a direct correlation with the number of valuers with postgraduate training and the number of valuers being members of professional bodies. Thus, as more Jamaican valuers pursue postgraduate studies in the discipline it will improve the quality of valuations as well as the visibility of local professionals.

The Jamaican survey data showed variations in the area of practice. Among survey respondents, 16.7% of the valuers were licensed to carry out residential valuations only, while 60% of the sample are licensed in the areas of residential and commercial valuations. Notably, 25.5% of respondents were licensed to practice in the areas of residential, commercial, industrial and agricultural valuations.

**Application of Valuation Approaches**

**Sales Comparison Approach**

When respondents were asked whether they viewed the sales comparison approach as the most important method to the valuer, 90% of respondents agreed that this was the most important valuation approach. Also, the respondents in general viewed the comparison method as an approach that assists the valuer when calculating values by using the investment/income or contractor/depreciation methods of valuation. They also believed that the comparison method was critical when extracting market data and applying it to properties being valued.

Ten percent of the sample expressed that the comparison method is not the most important valuation approach to the valuer. Interestingly, one of these respondents has been licensed for the past twenty-nine years, is a member of the RICS, and believes that discounted cash flow (DCF) approaches provide the most accurate value for income-producing properties. All respondents expressed that when using the sales comparison approach, unit bases of comparison for similar properties are extracted (from market data) and applied to subject properties.

Respondents provided a myriad of comments on valuing residential properties with limited comparable evidence. The respondents indicated they used the following techniques to compensate for the limited comparable data:

- Analyzing sales from other locations that are similar to the subject's location and applying market data in the investment method
- Using the contractor's method to calculate market values in conjunction with the investment method of valuation
- Utilizing any available market evidence for the subject or similar properties.
- Analyzing the limited market data available, provided that the data is relevant, i.e., quality of data counts not quantity.
- Calculating market value by using the contractor's method only
- Adjusting comparable data to make it more comparable to the subject property
- Using the contractor's approach as the primary method to calculate market value and using the investment method as a backup method for checking the value obtained from the contractor's method.

From an academic perspective, valuers in training at the undergraduate level are taught that the valuer perishes without good-quality market data. This perspective is correct, as the accuracy of value estimates for the typical commercial and residential valuation in Jamaica depends on the quality of market evidence. DCF approaches can only be used where a valuer can project an asset's income stream over a period of years. As such, DCF approaches are
primarily used to value special-purpose properties or large-scale commercial properties.

When valuing properties in a location with limited market evidence, it has been common practice for valuers to analyze market evidence from similar locations and make adjustments accordingly, based on their interpretation and understanding of the property markets in both locations.

The responses provided by valuers on the approaches used to value properties in locations with limited market data imply that respondents are trying to attain the fair market value, when valuing properties in locations with little or no market evidence. The results also imply that most local valuers in practice do not regard the sales comparison approach as the most important valuation approach. The results are indicative of the fact that valuation is an art as well as a science and only provides an informed opinion of a property’s market value.

Judicial opinions in the cases Inez v. Dodd 1979 and Singer & Friedlander v. Wood 1977 laid the foundation for these arguments. As Lawson notes, “Judicial procedure and precedence provided an intellectual structure on which the profession could build an educational process that had the imprimatur of legal authority providing a perceived legitimacy.”

Investment Method/Income Approach

In the case study, the surveyed valuers were asked about their use of the investment method/income approach. The valuers’ responses indicate that they arrive at an all risks yield (ARY) for properties by using four different techniques:

- Technique 1—43.3% of respondents calculate the ARY by dividing net rental income by sale price and multiplying this ratio by 100.
- Technique 2—33.3% of respondents analyze income and capital value data for similar properties and extract unit bases of comparison for rental and capital value within the location of the subject or a location that is similar to the subject. Unit bases of comparison are then applied to the subject property, to arrive at an estimated rental income and capital value for the subject. Estimated rental income is then divided by the subject’s estimated capital value and multiplied by 100.
- Technique 3—13.3% of respondents do not calculate the ARY. They explained that the location of the property determines the yield rate used.
- Technique 4—10% of the cohort calculate the ARY by first calculating the rental income per annum for the subject and then by deducting this income by a percentage that accounts for the risk associated with the property. This net income is then divided by the property’s estimated capital value and multiplied by 100.

These survey results are displayed in Figure 1.

The variety of responses from valuers on the calculation of the ARY is indicative of inconsistencies and limitations in practice. This is what is being argued, as valuation theory indicates that the ARY is the quotient of rental value and capital value.

The responses have highlighted the lack of procedural guidance on the calculation of variables used in the investment method approach. Techniques 1 and 2 are quite similar but how the ARY is calculated differs. From an academic perspective, Technique 2 would produce the most accurate ARY as it involves the analysis of a sample of market evidence, from which data will be extracted and applied to the subject property, in order to arrive at the subject’s estimated rental and capital values.

The difference between the definition and determination of market value along with the absence of procedural guidance can be seen as contributory factors to the disparity in how valuers apply various methods.

It can be argued that the definition of market value is based on assumptions that disregard hedonic behavior. However, in practice to extract market values from market evidence, the valuer must deduce the most probable rental and selling price of the subject based on market activity. Hence, the valuer must refer to hedonic behavior to estimate market value, which is the most probable price for an asset. This situation implies that legal opinion should not be the theoretical foundation of the valuation discipline. It also supports the belief of an emergence of two value approaches—market value and most probable price.

Similar to the investment method, with reference to the use of discounted cash flow (DCF) approaches, 80% of the surveyed valuers indicated they use DCF when valuing income-producing properties. These respondents also commented that (a) it is a very useful tool, (b) it reflects investor behavior better than the investment method, (c) it produces the most correct value indication, (d) it is an easier approach to explain to the wider investment community, and (e) it can only be used when income can be projected for a number of years. On the other hand, 20% of respondents indicated that they opt not to use DCF approaches when valuing income-producing properties. These respondents cited the following reasons for their decision:

1. It is not used widely in Jamaica.
2. It is too complicated and technical for the Jamaican real estate market.

Similarly to the investment method, DCF approaches are grounded in normative economic theory. DCF approaches adopt Fisher’s Theory\(^\text{23}\) that the value of an asset is the present value of all future financial benefits that the owner will accumulate. However, unlike the investment method, a DCF provides a more explicit approach to calculating a property’s value.

Based on the nature of DCF approaches, the valuer must have the projected income for a property over a number of years and the equated yield of a property investment in order to use this approach. To calculate equated yields, the valuer should be able to determine the market risk and property-specific risks associated with the asset and the property’s ARY. Variables such as market/sector and property-specific risk are difficult to calculate in property markets that are not highly developed and linked to local financial markets. As such, in a relatively young property market such as Jamaica’s, it can be difficult for the valuer to accurately calculate an investor’s equated yield. For this reason, it appears that DCF approaches are more suitable for investment appraisals or for the valuation of special-purpose properties in comparison to valuations for residential and small-scale commercial properties. In addition, some valuers have suggested that the short cut DCF approach could be used as a proof method to the investment method when valuing residential and small-scale commercial properties.

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Contractor's Method/Depreciated Replacement Cost Approach

In relation to the calculation of depreciation when using the contractor's method, 90% of respondents indicated that they assumed the rate of depreciation. They generally explained that this assumption was based on the location of the property, the physical condition of the building, the type of construction materials used to construct the subject and the age of the building. Of these respondents, 37% had as their highest academic achievement an undergraduate diploma, while 55.6% of had obtained a bachelors of science in the discipline, and 7.4% of these respondents had received postgraduate training in valuations; 22.2% of respondents in this cohort reported professional membership with ALEVS and RICS.

Similar to the sales comparison and investment approaches, the theoretical basis of the contractor's method is underpinned in normative economics. The survey results illustrate the subjective nature of valuations, as depreciation is assumed by 90% of respondents and calculated by the minority. This also attests to the presence of inconsistencies in the trade and may have serious implications on the insurance values and forced-sale values calculated for residential and commercial properties. The data thus far has revealed the need for standardized approaches to be adopted by professionals in Jamaica when calculating variables that are used in the investment and contractor's methods of valuation.

The Valuation of Residential and Commercial Properties

The survey responses were examined to determine the approached used by respondents to value residential and commercial properties.

Figure 2 indicates that the respondents use investment, sales comparison, and contractor's method
to calculate market values of residential properties. Of respondents, 10% use only the sales comparison method to value residential properties. Likewise, another 10% of respondents only use the contractor's method when calculating market values for residential property types. Interestingly, 10% of the sample cohort also indicated that they use both the sales comparison and contractor's method when determining market values for residential properties. However, 33% of the sample cohort uses the investment method and sales comparison method when conducting residential valuations, while 37% of respondents use the sales comparison, investment, and contractor's methods when calculating market values for residential properties.

The data collected indicates that Jamaican valuers also use the zoning technique, investment method, DCF approaches, and contractor's method to calculate market values for commercial properties. A breakdown of the percentage of valuers that use one or more of these approaches is illustrated in Table 3.

Data in Table 3 indicates that Jamaican valuers rely on various valuation approaches when valuing commercial properties. As shown, 56.6% of the cohort utilizes various techniques in the investment method and contractor's approach to calculate property values, while 23.4% only uses the investment and DCF approaches to value commercial properties. This shows that the property type, characteristics of properties, types of property rights associated with the property, and the availability of data all have an impact on the type of method used.

### Valuation Approaches Used by Sample Cohort of Jamaican Valuers to Value Commercial Properties

<table>
<thead>
<tr>
<th>Valuation Approaches</th>
<th>Percentage (%)</th>
</tr>
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<tbody>
<tr>
<td>Investment Method and DCF</td>
<td>23.4%</td>
</tr>
<tr>
<td>Investment Method, Contractor's Method, and DCF</td>
<td>10.0%</td>
</tr>
<tr>
<td>DCF Only</td>
<td>10.0%</td>
</tr>
<tr>
<td>Investment and Contractor's Methods, DCF and Zoning Technique</td>
<td>36.6%</td>
</tr>
<tr>
<td>Zoning Technique Only</td>
<td>10.0%</td>
</tr>
<tr>
<td>Investment Method Only</td>
<td>10.0%</td>
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</tbody>
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Valuation Reports

As part of the case study of valuation practices in Jamaica, a sample of 150 valuation reports were reviewed by the researcher. All of the valuation reports provided information on the client, the purpose of the valuation, the subject of the valuation, property interest(s) being valued, the basis of the valuation, date of the valuation, type of property being valued, and pictures of the subject property’s (properties’) elevations. Reports also identified limitations associated with the inspection of the property, such as the valuer being unable to attest to latent structural defects of the property. The reports also provided information on the validity period of the valuation reports.

The following statistics related to the inspected valuation reports are of note:

1. 20% of the reports provided explicit information on the assumptions used to undertake the valuation.
2. 15% of the reports included information on the type of approaches used to arrive at property values.
3. 55% of the reports provided explicit information on the extent of the valuer's investigation and the nature of data sources used to carry out valuations.
4. Valuation reports from only three firms provided information on the risk/uncertainty associated with value estimates of properties. (Interestingly, all of these reports were undertaken by RICS members.)

Although results from the valuation report review suggest that the valuers are aware of uncertainty in the valuation process, it was evident that this information often had not been reported to the clients. This is not surprising for two reasons. First, uncertainty permeates valuation. As such there will be facts that are unknown or cannot be known by the valuer because of the nature of the discipline. Secondly, if the valuers were to advise the clients of all the uncertainties associated with their property investment, it might lead to market instability as fears affect the level of confidence in real estate by investors and potential investors. For an emerging market such as Jamaica’s, reduced confidence in the real estate market could be crippling and stall growth of the local market.
It is noteworthy that the Mallison Report (1994) and Carsberg Report (2002) issued by RICS support the reporting of valuation uncertainty, as it can improve the professional standing of the valuer. The Carsberg Report also notes that reporting uncertainty to clients enhances their decision-making process. In the Mallison Report, Recommendation 34 states, Common professional standards and methods should be developed for measuring and expressing valuation uncertainty.24

It can be argued that valuations should conclude a specific value amount and provide a range to include uncertainty. By doing this, the client has an indication of the range of values acceptable for the subject property and an idea that the value provided is an estimate and may not be 100% accurate as a result of limited data, unexpected changes in the market, and variance in the quality of data from different sources.

Conclusion
The case study data presented suggests that the valuation/surveying discipline utilizes principles of two economic schools of thought—normative economics and positive economics—in ways that may be confusing. Discussions presented here indicate that jurisprudence, economic theory, and day-to-day practices all contribute to the theoretical underpinning of valuation. It appears that valuation dogma needs to be improved because its reliance on normative economic theory does not provide a true indication of what really exists. It also appears that the quality of industry practices is impacted when there is an absence of clear and practical standards that enhance the valuation process.

The survey results are indicative of the anomalies that exist in the application of approaches by valuers. The four techniques used by valuers to calculate the ARY and the methods used to calculate depreciation attest to the presence of uncertainty in the valuation process. The results also demonstrate the need for standardization and the formal adoption or creation of valuation standards that are enforceable by local regulation(s).

Locally, the legislation that governs real estate practice in Jamaica (The Real Estate Dealers and Developers Act 1988) does not address valuation practice. Licenses to practice valuation are issued by the Real Estate Board of Jamaica to applicants who have satisfied the requirements of the Board, but more legislation is needed to ensure that the practices of local valuers are monitored. This is critical for improving the quality of valuation surveying profession in Jamaica.

Research on valuation uncertainty by Mallison and French,25 and by French and Gabrielli explicitly recommends the reporting of valuation uncertainty. They also have argued for uncertainty to be measured by use of probability statistics and presented in valuation reports given to clients, as this would enable valuation end-users to evaluate the level of uncertainty against the estimated value of the property. However, for this to be done, market transparency must exist, and for market transparency to exist, data on a plethora of market transactions must be available in all locations of a country. Valuers have often commented that in numerous instances a sufficient amount of market evidence is not available to posit the degree of uncertainty to the client. Local valuers face this challenge especially when asked to value residential or commercial properties that are located in sections of rural Jamaican parishes that have limited market transactions or are generally not comparable to other locations.

Some may argue that the nature of the discipline itself, and the dynamic nature of the real property market, make it difficult for valuers to estimate property values. Although this may be true, by having clear procedural guidelines for the valuation of various property types, valuation accuracy can be improved. Also, educational programs, such as short courses on market economics, and practical guidelines on applying various techniques should be established. This can assist with reducing the variance of how variables are determined.

One long-term approach for addressing the incongruity between economics theory and valuation practice is empirical analysis on hedonic market behavior. Through scientific analysis of the market behavior, real estate practitioners in Jamaica can have a deeper knowledge of market operations over time. They will be in a more knowledgeable position

to distinguish between normal and abnormal uncertainty. This will only result in improved valuations as valuers become more educated on nature of the market. For Jamaica, hedonic market analysis may pose a greater challenge for valuers in rural parishes. Nonetheless, such market analysis can be undertaken for urban centers initially. Over time, the quality of valuations will improve, disparities will lessen and systems can be implemented for scientific market analysis in rural parishes.

**Summary Statement**

This article has shown that there’s a gap between valuation theory and practice. It also reveals that a relationship exists between the theory/practice gap and disparities in the determination of variables. The article has also shown how this variance impacts the valuation process in Jamaica, and it argues for the implementation of practical procedural guidelines and hedonic market analysis in order to improve valuation in the Jamaican property market.

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**Web Connections**

*Internet resources suggested by the Y. T. and Louise Lee Lum Library*

- Appraisal Institute—Professional Practice Ethics and Standards  
- Commonwealth Association of Surveying and Land Economy  
  [http://www.casle.org](http://www.casle.org)
- Deloitte Global Services—Standards Resources  
- Financial Reporting Council (UK)  
  [https://www.frc.org.uk/](https://www.frc.org.uk/)
- IFRS Foundation and International Accounting Standards Board (IASB)  
  [http://www.ifrs.org/Pages/default.aspx](http://www.ifrs.org/Pages/default.aspx)
- International Valuation Standards Council  
- National Land Agency of Jamaica  
- PricewaterhouseCoopers—Fair Value Measurement  