

Unified Methodologies- A Necessity for Accurate Assessment in Albania

Elfrida Shehu, Elda (Maçi) Vorpsi

Abstract— As the real estate represents one of the most important part of assets for the state and for the individuals, its valuation is currently in the spotlight even in Albania. The aim of this paper is to analyze the use of assessment methods of real estate in Albania. The paper first describes the methods that Albanian appraisers use in evaluating and their application areas. For each of the methods are defined strengths and weaknesses. Analysis of the strengths and weaknesses of the methods leads to the important conclusion that in order to narrow the differences in the values reported by different appraisers for the same property and the same purpose of valuation, the accurate and correct use of each method of evaluation should require a unification of methodologies within each method simultaneously with the necessity of developing national standards of real estate assessment

Index Terms—market value, method of valuation, unified methodology, real estate

I. INTRODUCTION

Albania entered on the path of market economy in the early 90s. A novelty of this period was the return of real estate to a marketable commodity. Together with the birth and growth of real estate market, was born and the need of real estate valuation.

Real estate is "property consisting of land and the buildings on it, along with its natural resources such as crops, minerals, or water; immovable property of this nature; an interest vested in this (also) an item of real property; (more generally) buildings or housing in general" [1].

The properties are heterogeneous in types, sizes, usability, etc. The purposes for which the valuation is required are diverse. The evaluation process is a process which is carried out continuously, repeated at short intervals, especially in time of economic changes and according to requirements of the entities whose serves and very frequently by different appraisers.

This paper attempts to give the answer to the question: What path should be followed in order to have a consistent and accurate assessment and in addition to have no evident difference between the values reported for the same property, at the same time and for the same purpose of valuation, from different appraisers.

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II. METHODS OF VALUATION

There are five conventional methods of valuation: the Direct Comparison Method, Investment Method, Profit Method, Residual Method and Cost Method. One or more valuation methods (approaches) may be used to arrive at the valuation defined by the appropriate basis of value. According to International and European Standards all methods ultimately converge on three methods, method of comparison, the method of investment and cost method [2], [3].

A. The Comparison Method

This method is almost the most used as an approach and even as a procedure in all the valuation methods. It is known also as Market Approach. The market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available [3]. The method entails making a valuation by directly comparing the property under consideration with similar properties which have been sold in the past, and using the evidence of those transactions to assess the value of property under consideration [4]. Because there are many differences in legal characteristics, economic and physical assets in other transactions and asset being assessed, it may be necessary the adjustment of price information from other transactions to reflect these differences and any assumption to be adapted in the undertaken evaluation process. The Comparison Method of Valuation is the most common approach used for the appraisal of residential properties

B. The Investment Method

This method is based on the principle that annual values and capital values are related to each other and that, given the income a property produces, or its annual value, the capital value can be found [4]. It is known also as Income Approach. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalization process. The income stream may be derived under a contract or contracts or be non-contractual, eg. anticipated profit generated from either the use of or holding the asset [3]. The Investment Method of Valuation is used for evaluation of commercial properties. Commercial properties are considered as one of the main areas of investment; the ownership interest is separated from the occupation interest.

C. The Cost Method

This Cost method gives an indication of the value through the application of the economic principle that a buyer would not pay more for a property than the cost to provide an asset with the same utility, either through purchase or construction [3].

Cost method is the method of determining the value of the cost. Cost value used in the valuation of properties that rarely or never sold on the market, except through the sale of a business or entity, part of which is due to the specific characteristics associated with the specialized nature of the project, its configuration, size, location, or other [5]. It is used in the estimates of public sector properties, property specialized, etc.

The data available and the circumstances of the market for the asset being valued will determine which methods have to be used, which of them is the most appropriate. Regardless the method to be used for evaluation, the common thing in each method is the need for adaptation and adjustments to values of the comparable evidence under specific conditions that property, subject of valuation, provides.

III. BASIS OF VALUATION

The method of evaluation to be used for the assessment of a property is determined by the type of property, residential, commercial, etc., while the basis of assessment for each property is determined by the purpose for which the evaluation is required for. A basis of value is a statement of the fundamental assumption for assessing a valuation for a defined purpose. Some of the most important and more usable are:

A. Market value

The estimated amount for which the asset should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion [2].

B. Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants possessing full knowledge of all the relevant facts, making their decision in accordance with their respective objectives [2].

C. Mortgage landing value

The value of the property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. Speculative elements shall not be taken into account in the assessment of the Mortgage Lending Value [2].

D. Insurable value

The ‘Insurable Value’ of a property means the sum stated in the insurance contract applying to that property as the liability of the insurer should damage and financial loss be caused to the insured by a risk specified in the insurance contract occurring to that property. When instructed to provide an insurable value, the appraiser is to determine the figure that will provide appropriate insurance cover for the property [2].

E. Depreciated replacement cost

The value of the property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. Speculative elements shall not be taken into account in the assessment of the Mortgage Lending Value [2].

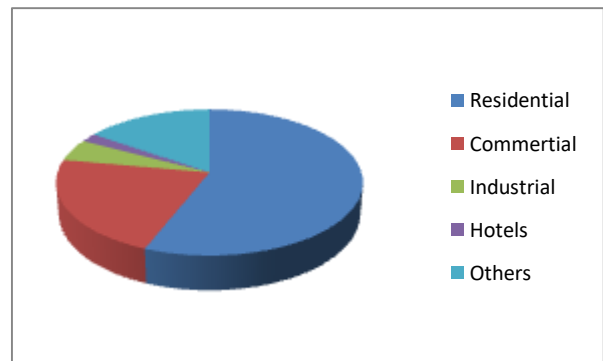
Regardless the purpose for which assessment is required, in the most cases what it is needed is the determination of market value.

IV. DETERMINATION OF MARKET VALUE FOR DIFFERENT TYPES OF PROPERTIES

Are known and acceptable differences in values reported by different appraisers for the same property, at a given moment of time and for the same purpose of evaluation, precisely because the assessment is the art of analysis and interpretation of other transactions carried out in the recent past, under the optics of market characteristics and individual characteristics that each property has. Various studies conducted in the UK, USA and Australia have shown that inaccuracies acceptable result and the differences between the values given by different evaluators are 5% -10% in the UK and USA and 10% -15% in Australia [6]. From the experience of assessments in Albania it results that the differences go beyond these limits. Below addressing some property groups we can understand the causes of these differences.

A. Residential properties

Residential property is any property that is used as, or is suitable for use as a residence. In total stock of properties (even in Albania), residential properties make up the largest group (graph. 1) [7].



Graph.1 Distribution (%) of properties by types (Source INSTAT)

Residential properties are scattered throughout the territory and location constitutes the main attribute that affects market value. The market value of a property (the capital value) is function of market conditions and terms of the property itself. The market value of a property is variable in time because it depends on the supply-demand ratio for that type of property in a given moment of time. Different properties have different values, because every property has its own qualities and characteristics.

Different appraisers take into account the different attributes and different involvement of each attribute. It brings at the difference in value. It is considered that no changes come from unfamiliarity of conditions and market values.

It is found that the attributes of residential property that are important and have to be taken into consideration in comparisons and adjustments are as following: the surface, number of rooms, number of balconies, the age, property conditions, additional qualities, etc. [8]. Also are found two models for determining the market value; one gives the relationship between market value, surface, location, flat, property conditions [8]:

$$P = 40567.1 - 24437.85*L + 622.6*SA + 1278.84*F + 11546.57*C$$

and another one that gives the relationship between market value, no of rooms, location, flat, property conditions, no. of balconies [8]:

$$P = 77188-28678.33*L + 12856.65*NR + 1777.88*F + 10320.39*C + 11777.72*NB$$

where:

P is Sales Price;

S is Size of accommodation;

L is location

NR is number of rooms

F is flat

NB is number of balconies

C is property conditions

The most suitable model for the apartments of old buildings, is the one based on the surface area; whereas for the newly built apartments both models give almost same results.

Since the market value is a function of market conditions and the both models are defined taking into account the market conditions at a given moment in time, it is expected to change in the future. So, such models are not permanent and we have to determine them every time the market conditions change.

The use of models although is seen as a good attempt to enable narrowing the differences of values reported by different evaluators, has its limitations, since different evaluators may value market conditions and the time of their change differently .

B. Commercial properties

Commercial properties are considered as one of the main areas of investment; the ownership interest is separated from the occupation interest. Offices, shops and industrial premises are part of commercial properties. In total stock of properties (even in Albania), commercial properties make up the second largest group (graph.1) [7].

It is found that the attributes of office buildings that are important and have to be taken into consideration in comparisons and adjustments are as following: location, configuration, internal specification, parking spaces, exterior specification and physical depreciation [9].

Also is found the model for determining the market value that gives the relationship between rental market value, location and property characteristics [10]:

$$R = -17.4854 + 3.928406*C + 2.2285*IS + 1.591813*PS +$$

$$2.129267*ES + 3.390454*PD - 4.70683*L$$

Since the market value is a function of market conditions and the both models are defined taking into account the market conditions at a given moment in time, it is expected to change in the future. So, such models are not permanent and we have to determine them every time the market change.

This model provides rent market value only to business centers and not for any office premises, but given that the individual offices are apartments transformed in areas that are used as offices, generally without any intervention in building, evaluation of individual offices is much more a valuation for an apartment than an office.

For this group of properties my previous studies have managed to provide apart the model and the participation rates of qualities of the building in the rent value and has proposed a statistical method, the Weighted Scoring method for assessing the lease [11].

C. Specialized properties

These properties rarely or never are sold on the market, except through the sale of a business or entity, part of which are due to the specific characteristics associated with the specialized nature of the project, its configuration, size, location, or others. The cost method as the method used to determine the value of these properties, is a method well known and widely used by the evaluators in Albania

It is found that changes in the values reported by different appraisers, values determined using this method, are result not only of changes in market indicators taken for evaluation, but as a result of changes in handling of the constituent components of value. These changes are non-negligible. Even when differences in values are within the acceptable limits of uncertainty, differences due to different handling of evaluation components are significant and as such, to these changes should be given proper attention [12].

V. CONCLUSION AND RECOMMENDATION

The three groups of properties, which represent the main groups of properties in Albania, assessed each with one of the three main approaches of real estate assessment, testified that it is indispensable to act under a unified methodology. In the case of residential and commercial properties this methodology may be the same, because as determining the sales value, as well as determining of the market rent, converge in comparisons of property subject of evaluation with other properties that have been subject to market recently.

This paper proposes the use of the weighted scoring method as for commercial properties as well as for residential properties in determining the market value of the sales and market value of the lease. To this first must be determined the participation of each attribute in the residential property sales market value.

Albanian appraisers in their daily work are based on European Standards and International Standards of real estate assessment in the absence of Albanian Standards.

As a conclusion of this paper will be considered and the request for drafting of national standards as a way to enable the unification of methodologies, as an attempt to offer in the market approximate estimates, which may differ only because of different appraisers point of views and not for differences in involving of the qualities, attributes and different parameters from different evaluators.

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