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Development of Commercial Real Estate Valuation in Finland

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Abstract. *The objective of this paper is to ascertain how real estate valuation service developed in Finland from the late 1980's till the end of 2007 and which factors contributed to this development. The discussion is based on literature review and in-depth interview study with 29 long-term professionals of the Finnish real estate field.*

This study suggests that the development of real estate valuation service in Finland can be divided into four periods in which valuation has been by its nature and business environment different. These periods include the economic boom of the late 1980's, the recession period, the recovery of the economy and the time of internationalisation. During these periods commercial real estate valuation service developed to professional business.

This article discusses the development of real estate valuation service from the viewpoints of valuation business and players, authorized valuers' system, standards for valuation and financial reporting as well as some other development aspects of real estate valuation such as valuation document and methods.

Keywords: *real estate valuation, property market, real estate service*

1 Introduction

Following the development in many other countries, in Finland real estate valuation service has developed significantly in the past decades. The objective of this article is to ascertain how real estate valuation developed in Finland from the

end of the 1980's till the end of 2007. More specifically, the problem is approached by finding reasons for the questions why the service has developed and what are the events in the market that have reflected on the demand and supply of real estate valuation.

This study suggests that the development of real estate valuation in Finland can be divided into four periods in which valuation has been by its nature and business environment different. From the middle of the 1980's real estate valuation service has developed to professional business. According to this study, the development of valuation business in Finland can be divided into four periods: valuation business before the recession of the 1990's, valuation during recession period, valuation after recession and valuation business during the time of internationalisation. The first two periods are strongly influenced by activities of banks. The third period could be described as a time of changes and low season of the service. In the fourth period the whole nature and environment of valuation is different than before.

The article discusses these periods in their own chapters and studies how valuation business and players have developed in each period in the wide context of Finnish economy and real estate markets. Topics of authorized valuers' system as well as impacts of valuation standards and financial reporting standards on the development of real estate valuation are studied in separate chapters. In addition some other development aspects of real estate valuation that were emphasized in the interview study are discussed separately: these include the development of valuation documents, valuation methods and working pace in real estate valuation. In conclusion the main findings of the study are summarised.

2 Methodology

The research was implemented as a literature review and, most importantly, as an in-depth interview study. Choosing the research method was based on the fact that there is no extensive literature that describes the development of real estate service sector in the Finnish commercial property market but many professionals still have a view on how the market has changed. The aim was to approach the subject based on views, experiences and conceptions of professionals of the Finnish real estate field. Therefore it was decided to use interviews as the main research method.

The interview method used in the study was themed interview. Two main themes were used to examine the past and current development of real estate valuation service market. The first one was to find out how real estate valuation service had developed by its nature or contents within commercial property market from the end of the 1980's till the end of 2007. The second theme was to clarify what events of real estate market had affected the demand and supply of real estate valuation. The interviewees were asked to give their views on these two main questions.

When selecting the interviewees for the study it was considered a matter of importance that the interviewees would have as extensive experience of real estate business as possible. In addition views of both service providers and investors

should be represented. In the beginning of the selection all the service provider companies operating in Finland were listed. Of each company the person with the most extensive experience of real estate business, almost in every case the managing director, was chosen. Based on the recommendations of the professor of real estate economics as well as of other interviewees several experienced persons representing investors were also selected. Altogether 29 long-term professionals of the Finnish real estate field were interviewed. Of the 30 contacted potential interviewees only one person declined to participate due to his busy time schedule. The majority of all the interviewees represented the executive level. Half of the interviewees had worked within commercial property market for at least 20 years. Over half of the interviewees were at the moment working for different service provider companies and the rest were investors or otherwise had experience of service field or knew the market well.

The applied analysis method for discussing the results of the interview study was content analysis (Robson 1993). The results of the content analysis form the basis for the discussion of the development of real estate valuation service and define the factors that are studied in this article.

3 Economic Boom of the Late 1980's

Traditionally commercial real estate valuation has been regarded as a sideline to the job description of for instance cadastral surveyors, lawyers, policemen, bank managers and real estate agents. In the 1970's commercial valuation became more professional when large real estate brokerage offices established separate valuation departments and also smaller companies concentrating entirely on valuation were born. (Viitanen 2001, in Hiltunen et. al 2005, p. 18.)

In Finland, the liberalisation of financial markets caused a financial and economic boom in the middle of the 1980's. Speculative trading became typical in the end of the 1980's. Common belief was that asset values could only increase and that the inflation hedging ability of real estate investments was invincible. Deregulation of financial markets made the competition among banks more intensive. This was characterised by increased risk taking and myopic behaviour. (Honkapohja and Koskela 1999.)

In the property boom the demand for commercial premises was high due to the expansion of domestic service sector. Almost no vacant space was available in the market. In addition, most of newly completed premises were immediately occupied. Constant rent growth ensued. In 1987–1989 Finnish economy was growing on average at a rate of 5 %. Because rental growth was expected high, low yields and high property values ensued. User and investment demand was high and property prices soared. (Karakozova 2005, p. 4.) At the time the main drivers in the property investment market were construction companies. They established the development project, let the property and sold it to the investors, often banks or pension funds. (Viitanen et al. 2003, p. 11) The boom in the property market caused extensive growth in construction, especially of commercial properties. The majority of construction projects were heavily leveraged and often started without proper investment analysis. (Karakozova 2005, p. 4.)

In this environment real estate valuation business started to evolve rapidly. The number of valuers started to increase in the middle of the 1980's (Viitanen et al. 2003, p.16). The number increased from a few of full-time commercial property valuers to around twenty. Since the end of the eighties was time of highly leveraged property investments, the demand for real estate valuation increased and the business expanded around Finland. Valuation business was doing great due to the high demand of valuations ordered in order to obtain loan financing. In addition listed real estate investment companies, a sector that was also established in the 1980's, required valuations due to their responsibility to provide information on their operations. This improved availability of market information that had practically not been collected in Finland before the 1980's. Publicly available commercial property data started to develop in the late 1980's when the first real estate market reviews were made by real estate agency companies.

4 Recession Period

Overheating and boom of the economy came to an end in 1990 and was followed by a severe recession of the Finnish economy. GDP growth declined extremely rapidly from +5.4 % in 1989 to -6.5 % in 1991. Domestic private investment, private consumption and net exports of goods and services all fell at a rapid pace. In addition, extremely high unemployment ensued. Unemployment rate continued to rise until 1994 and affected almost one-fifth of the labour force. (Honkapohja and Koskela 1999.)

In the property market the recession, combined with an over supply of commercial space, resulted in a sharp drop in property values, rents and construction activity. (Karakozova 2005, p.4.) During the recession period there was very little trading in the commercial property market. Banks' willingness to finance transactions was naturally weak. Commerce altered completely by its nature: transactions became mainly based on barter trade, different kind of real estate was of interest than before, and the collapse of the property market resulted in changes in the ownership structure. A high proportion of equity capital became necessary due to difficulties in obtaining of a loan, increased interest rates and collateral requirements. (Huom! 1991, p.3.) Bankruptcies, unusually high vacancies, dramatic decrease of rents and increasing financial costs to name but a few were features of property market during that period. (Viitanen et al. 2003, p. 11.) Also real estate assets of companies shifted their role from "a resource to ball and chain". (Huoneistokeskus 1992, p. 3.)

The recession period changed the situation and business environment for real estate valuation. However, recession was not a drawback for valuation business. Real estate valuation business was extremely profitable as there was continuous demand for valuations. Valuations were largely needed by Finnish banks, which were in charge of numerous "problem real estates" received on account of bankrupt's estates.

The strong economic recession affected especially strongly areas of real estate and construction. The unemployment rate of building trade was approximately 35 % in 1996 and building volume had sunk to half of the volume in the 1980's.

Furthermore real estate values were the same as in the beginning of the 1980's. Real estate valuation and valuers got their part of criticism and in some contexts real estate field was partially blamed for the recession that troubled the whole society. In addition especially in the late eighties but also during recession and in its aftermath some unqualified valuation reports and incompetent work occurred. As a result the appreciation of real estate profession decreased. (Saari 1996, in Huom! 1996, p.4) After the property market boom of the 1980's the period of lack of credibility and confidence was not experienced only by Finnish valuers but by real estate professionals of many European countries. According to Hordijk and Condit (1997) real estate valuers were blamed for losses suffered by real estate investors during recessions. This for its part increased awareness that appraisal procedures should be standardized in all Europe.

In Finland situation improved along to preparation work of an authorized valuers system. The need for authorization system had been recognised already in the beginning of the 1980's. In addition to real estate valuers also banks and Criminal Police had been worried by the diversity in quality of the private sector real estate valuation. Some valuations were even conducted in bad faith. The first attempt to establish an authorization system was in the late eighties. However, even in the beginning of the 1990's scarcity of resources prevented the start of authorization activity. The introduction of authorization system was postponed till the time after the worst years of recession. (Viitanen 2006, p.52–53.) The development and effects of the authorized valuers system will be discussed more in a separate chapter.

5 Recovery of the Economy

In 1994, the slump in the market for commercial real estate that had lasted for four years was coming to an end. The demand for space started to pick up, the competitiveness of property investment as compared to other forms of investment began to revive and the real estate market started its gradual recovery. (Huom! 1994, p.4.) The change was obvious in 1995 as office rents started to rise at a steady pace. This was supported by increased demand for office space by foreign companies attracted partly by Finland's strong commitment to the European Union and finally, Finland's EU membership in 1995. (KTI 2001b, p.22.)

The structure of the Finnish property investment market changed markedly after the recession. The former strong position of banks was reduced and the biggest net investor group of the 1990's were pension insurance companies and pension funds. (KTI 2001b, p.16.) The owner-occupancy rate had traditionally been high, but after the middle of the 1990's also the ownership of commercial real estate started to become more and more professional.

After recession period, when market was recovering, the position of real estate valuation business turned different compared to the time of brisk demand during the recession. Banks had become very passive financiers and did not want to pay for valuations. Resources required by valuation companies dropped. Due to the previously prevailed successful time of valuation business valuation services may not have been marketed to such a wide extent as would have been needed.

All in all, the end of the 1990's could be described as dead season of valuation business. This low season was properly terminated and new boom reached when the Finnish property market began to become international.

Despite the low season of valuation business there was still positive development on the market affecting also valuation service as the collection and availability of market information improved. In 1993 a non-profit research organization KTI, the Institute for Real Estate Economics, started its operation in the Finnish property market. This was significant in order to make the Finnish property market more liquid and transparent.

6 Time of Internationalisation

Strong concentration of real estate ownership to certain players remained long characteristic to the Finnish commercial property markets. This combined with the small number of market players were reasons that reduced market effectiveness and the confidence of potential investors towards the Finnish property market. (Kaleva et al. 1995, p. 1.) In the end of the 1990's beneficial development of the Finnish economy and property market, as well as joining the European Monetary Union (EMU) as the only country in Northern Europe, added interest towards Finnish property market among international investors. However, relatively low yield level and unfavourable predictability of liquidity restrained this interest. (Catella 1998b, p. 3.)

Internationalisation of the Finnish property investment market did not start until the 2000's. Since then the Finnish market has undergone quite a rapid and fundamental change within a fairly short term. Both international service providers as well as international investors have entered the Finnish property market.

An important step towards internationalisation of the real estate service market took place in 1997 when the Swedish-originated Catella Property Consultants bought the largest Finnish commercial property valuer and agent Huoneistomarkkinointi. For some years it was virtually the only big international company in the Finnish property market. During 2001, Swedish-originated Newsec established its position in Finland. DTZ entered the Finnish real estate service market in the beginning of 2004 through its co-operation with two Finnish companies: a brokerage/advisory company Kauppahuone DJP, and a valuation company Estimatum. In 2005 GVA opened an office in Helsinki. In spring 2007 Jones Lang LaSalle expanded its operations to Finland. The previous GVA Finland team answers for the services of JLL in Finland. (Rakli 2007.) CB Richard Ellis is represented in Finland; first it started operation through a co-operation agreement with Realia Group and later opened its own office in Helsinki. Cushman & Wakefield enhanced its position in Finland by opening its own office in February 2007 due to the demand of foreign investors as well as domestic property owners. Operations in Finland had earlier been coordinated from the Stockholm office. (Cushman&Wakefield 2007.)

In the last few years some consolidation of real estate consultant companies has taken place and companies have come along with international consultant chains. This kind of development has affected also valuation business. Many

service providers are of opinion that being part of an international consultant chain is crucial for their business to succeed. The significance of international brands is emphasized.

Today international service providers are comprehensively present in the Finnish property market. This has significantly affected also the availability and quality level of market information used for instance in real estate valuation. Many interviewees considered transaction and valuation service providers as the source of the most reliable and up-to-date information. However, own data production alone was not considered enough but especially numerical information on rent levels and transactions should be bought from KTI. Many consultants have assignments around Finland but their only office is located in Helsinki Metropolitan Area. Therefore the market data received from KTI may be indispensable.

The real turning point in the Finnish real estate investor market was the year 2002 when foreign investors entered the Finnish property market. Early in that year a Dutch property company Wereldhave acquired the Itäkeskus Shopping Centre. Since then the market has developed rapidly and international investors have shown increasing interest in the Finnish property market: more than 70 foreign investors have entered the market. (KTI 2004, p. 20–22 and 2007, p. 23.)

When foreign investors entered the Finnish commercial property market they brought along immense professionalization. Further development of valuation service was a prerequisite for being able to serve the foreign customers. Foreign banks started financing real estate transactions in Finland around year 2002. They and their customers who are investing in Finnish real estate have become an important customer group of real estate valuers. Nowadays formal customership often belongs to the financing banking institution. Earlier, except for time of recession, the orderer of valuation was usually the company that represented one side of transaction parties – the buyer or the seller. As external financing is often used in transactions, the financiers are often giving guidelines and have requirements for the contents of the valuation document.

Growth of transaction volume of real estate investment market has also activated valuation market. According to the interviewed valuers this has influenced the nature of valuation: roughly put before the time of internationalisation valuation was more about searching the right value without much interest in the actual use of valuation. Today the use of valuation is an issue of interest for valuers, and valuation could to a large extent be characterised to be supporting operations, mainly transactions. In addition valuations are ordered for uses of financial reporting.

Even though the number of valuers has increased, there are still relatively few full-time valuation companies in Finland. Typically valuation services are often provided by large agency companies. Scarcity of valuers was recognised by the most players of Finnish real estate sector especially in the years of the property market boom from 2005 to 2007. Shortage of supply originated in the high demand due to increased number of foreign customers and expansion of real estate market. In today's auction procedure many investors may need a valuation of the same object. The fact is that in this situation there may not be enough valuers to meet every investor's need without legal incompetence problems.

7 Authorized Valuers System

The crash on the property market in the beginning of the 1990's led to changes in recommendations for property valuations in many countries. For instance according to Ekelid et al. (1998) in Sweden a set of standards and proceedings for a voluntary authorisation of valuers were introduced. Following this development in Finland in order to prepare the authorized valuers system the Association for Authorized Real Estate Valuation was established on 5th January 1995. The association was founded by The Finnish Association for Real Estate Valuation, The Finnish Real Estate Federation and The Finnish Association of Real Estate Agents. The aim of the association was to improve and develop professional skills of real estate valuers as well as to control their operation. To meet the aims the association worked as an authorizing association for real estate valuation and related to this maintained a register on authorized real estate valuers. It also controlled and supervised real estate valuation operations, promoted and supported research and education of real estate valuation field and gave statements and presentations on subjects related to its field. (Viitanen 2006, p. 54–55.)

The aim of the authorization system was to improve the quality of real estate valuation and to coordinate the discussion on real estate values between different parties. After the first authorization examination on 15th December 1995 the first authorizations were approved on the 1st of February in 1996. (Viitanen 2006, p. 52–54.) Since the establishment of the authorized valuers system the use of an authorized valuer has become a requirement and custom.

Until 2004 authorized valuers system was based on an agreement between the authorized valuer and The Association for Authorized Real Estate Valuation. In 2001 tentative talks were started in order to transfer the management authorization operations to the Central Chamber of Commerce. There had been discussions on the subject even earlier, in the year 1990. That time, however, the Central Chamber of Commerce was reluctant to take responsibility. As a final result of the negotiations that lasted until the spring 2004, the Central Chamber of Commerce established a property valuation board to manage authorization of real estate valuation from the 1st of May in 2004. The authorization operations of The Association for Authorized Real Estate Valuation were abolished in the end of the year 2004. Officially the association was disbanded on 8th September in 2005. (Viitanen 2006, p. 58, 65–67.)

Today, the authorisation can be granted for residential, agricultural and forest as well as for property valuations in general. The number of authorized valuers has increased steadily, without any exponential growth. Figure 1 displays the development of the number of authorized valuers from 1996 to 2004. (Kiinteistöarviointi.org 2007.) Today there are over 200 authorized valuers in Finland, 138 of which have the general authorization. (Central Chamber of Commerce.) The system has gained a well-recognised status at least within real estate business.

Interviewees of this study considered the authorizing system valuable but surprisingly most did not regard it as a significant factor for the development of valuation service. It was still widely agreed that authorization has improved

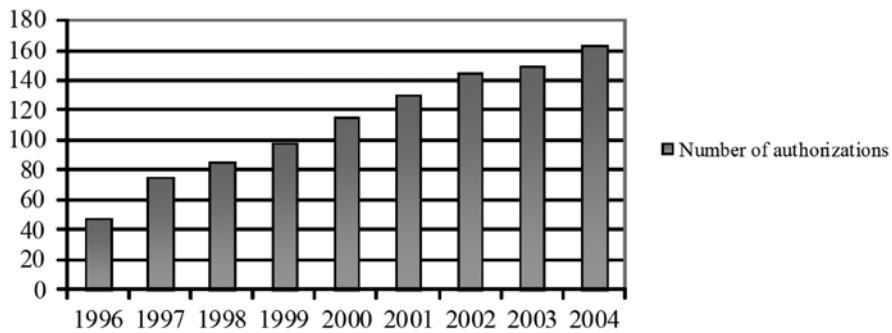


Figure 1. The number of authorized valuers in 1996–2004
(Source: Viitanen 2006, p. 63).

quality and made valuations more uniform. Many investors also regarded it as a self-explanatory requirement in today's investment market. Otherwise it was regarded as a good guarantee of valuer's basic knowledge level.

8 Standards for Valuation and Financial Reporting

8.1 Valuation Standards

Valuation standards have had their influence on real estate valuation service. Real estate valuation standards are established on three different levels: on global level, on continental level and on national level. On global level International valuation standards by International Valuation Standards Committee (IVSC) have become leading. IVS was introduced in the beginning of the 1980's. In Finland it has been applied as a requirement for a few years. In Europe European Valuation Standards (EVS) by TEGoVA represent the continental level. EVS has been constructed to suit European conditions and laws of the EU. It wasn't introduced until 1997. British valuation standard (Red Book) by Royal Institution of Chartered Surveyors (RICS) was initially designed as a national standard in the late 1970's but it has received worldwide use due to expansion caused by colonies of the Great Britain. It has gained wide endorsement among European valuers. (Hiltunen et al. 2005, p. 19.)

Standards were considered to bring some adjunct to the development process of valuation service – at least the basis for it. In the 1990's the use of international valuation standards was very uncommon in Finland. Albeit standards are nowadays widely used, they were not regarded as crucial for the development. Some service orderers thought that valuation reports, which were done before the introduction of international standards, agreed already quite nicely with the requirements of today's standards. It was also stated that standards may have affected the development of real estate valuation but at least part of the development would have occurred even without the standards due to changing market expectations and requirements.

Valuers noted that standards have had an effect on their everyday work since authorized valuers are expected to use international valuations standards. In addition, most foreign customers expect the valuation to be based on a standard – often IVS. Thus the requirements of standards need to be fulfilled to be able to work with foreign customers. Also the requirement level of Finnish customers has increased in recent years.

8.2 International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are standards and interpretations constructed by International Accounting Standards Board (IASB). IASB was established in 2001 to continue the work of its predecessor, International Accounting Standards Committee (IASC). European Union laid down a regulation of financial statement so that it is required of publicly quoted companies to compile their consolidated financial statements according to financial reporting standards. This clause is included also in Finnish Accountancy Act (30.12.1997/1336, amendment 30.12.2004/1304). IFRS standards have brought new schemes of things for real estate issues. (Hiltunen et al. 2005, p.20–22.)

In Finland IFRS entered into force in the beginning of the year 2005. Many European organizations that affect real estate valuation and other economic organizations emphasize and acknowledge IFRS. On account of this IVS will be on view more and more often. (Hiltunen et al. 2005, p.39.) Because of IFRS the meaning of valuation for investors is on a new level as the estimated market value can also affect the profit and loss account of the company. Those Finnish companies following IFRS also stated that the companies require an IVS based valuation.

IFRS has been one reason for the growing need for more valuers. IFRS does not demand the use of outside valuers but recommends it. If accountants start to require external valuations, there will be further growth among outside valuation market. However, Hiltunen et al. (2005, p.43) have estimated that the change would take place in the relation internal valuation vs. external valuation, which means that overall valuation market wouldn't grow.

International Financial Reporting Standards may not have had any groundbreaking influence on the development of real estate valuation. However, valuations for needs of financial statement have not been systematically ordered until during the last seven years. Thus even if IFRS has not significantly affected development of real estate valuation, the regular valuation of real estate assets, for example for the use of financial reporting, constitutes nowadays the other major use of valuations in addition to use in real estate transactions.

9 Other Development Aspects of Real Estate Valuation

9.1 Valuation Document

The actual product of valuation of commercial premises, valuation document, has undergone a remarkable change under the studied time frame from the end of the 1980's till 2007. The development has been similar to other countries. According

to the findings of Ekelid et al. (1998) in the Swedish property market the size of valuation reports increased considerably from 1980 to 1996. For instance more information is presented about the valuation object and especially about the market. Some interviewed Finnish market players stated that valuation documents today include even too much trivial information. According to valuers it is often the customer that requires a lot of market analysis to be included in the valuation report.

Interviewees of this study all agreed that in addition to the size also the average quality level of valuation documents have improved. Formerly valuation could be sufficient if a valuer with a certain reputation and experience claimed that value of certain property was something. Nowadays the argumentation has to be well justified and valuation reports are more thorough, also somehow analogous and more analytical to some extent. Some specific reasons for the improvement of quality level are a very high requirement level of international investors, guidance given by international valuation standards as well as access to data that did not exist before. The findings of interviews included also comments that within last five years there has not been much product development any more: when demand for valuation service has been high there has not been time or need to develop valuation reports.

In Finland probably the most noticeable change regarding valuation documents is the use of English as reporting language. Today over half of valuation documents in Finland are done in English. The change of language used has ensued from internationalisation of the Finnish property market in the 2000's. Also the nature of making the document and reporting has changed due to development of data processing and electronic communication.

According to the findings of this study, valuation was earlier one product and documents could be characterized to be all of the same kind. The structure and contents of valuation document were always the same regardless of whether it was addressed for the financier, seller or buyer. Also the valuation process was uniform in all cases. Nowadays the situation is different because the needs of the customer affect the final form, size and contents of the document. For example a financier may require answers to different questions than owner-occupier. The abundance of appendices required in the documents is also common. Thus it could be stated that valuation documents have become more customized to certain extent.

9.2 Valuation Methods

The interviewees of this study had several views on the development of valuation methods. Some were of opinion that the actual methods used when estimating market value have clearly developed whereas the other half thought that there has been no significant change. The most notable change has been on the emphasis of different methods. The interviewees agreed that market value of commercial properties is today estimated mainly using cash flow analysis whereas in the 1980's real estate valuations were usually based on prices of comparable sales or alternatively on straight capitalization. These results are similar to the findings of Ekelid et al. (1998) from the Swedish property market. According to their

study after 1985 the share of explicit cash-flow analysis increased in valuations compared with other types of income-based methods. In Finland the development was behind but similar. Ekelid et al. also found that after 1985 it became more common to use two different methods when estimating market value, probably as a way of reducing uncertainty in the estimation of the market value. The interviewees of this study did not highlight this but stated that overall accuracy and amount of analysis, also use of sensitivity analysis, had increased.

Even if many interviewees considered that the actual valuation methods had remained basically the same, many considered that the focus of analysis had changed in the studied time frame. One experienced interviewed valuer described the development of focus in valuation in the following way: "When valuing a real estate in the 1980's the property's functionality and usability was the centre of attention: technical features were emphasized. Recession period made valuers consider valuation more closely. Technical features of the property were studied more precisely and economical use of property became gradually more catered. In the 1990's the focus shifted on rental return. After the start of new millennium the focus of commercial property valuation has been more and more on the tenant. Even though cash flow is important, the value is much affected by the reliability of the tenant." Interviewees were of opinion that analysis when estimating market value has gradually become more profound.

Related to the valuation methods the interviewees underlined that the number of definitions and parameters used in valuation have increased in recent years. The current abundance of definitions and their meanings is an issue that has to be catered in real estate valuation. Depending on investor or service provider there may be different calculation methods when calculating for instance net yield. This poses a challenge for valuer. It has to be ensured that the customer's approach is understood and that valuer and customer are talking about the same things.

9.3 Working Pace of Real Estate Valuation

According to the interviewed valuers the Finnish real estate valuation field lives in a hectic way. One interviewed long-term valuer put it this way: "A valuer of the old school did nicely almost for fifteen years with the information he or she had learnt in the beginning of the 1990's. However, now it feels that with what you learn this moment you can get on one week and then you're almost out." Understanding the business and its requirements could be characterised as very short cyclic.

The fast pace reflects also to schedules that have become increasingly tight in recent years. Tight schedules were common also in the property boom of the late eighties as well as during recession. However, since the years after recession, on average valuers used to have more time to finish their work. Nowadays the schedule is often given by the customer and the given time may be much shorter than it used to be for many years. It often leads to discussion with the customer about what kind of valuation can be done in a short time.

One recent development feature of real estate valuation, due to the change in transaction market and the fast pace, is sometimes conducting the valuation in two

stages. The first stage is a sort of desktop phase, done mainly by desk research, which results in a rough estimate of the value needed by busy investors. If the case proceeds, the customer may order comprehensive, full valuation documents. In this second step the valuation is conducted more closely and the exact market value is defined.

10 Summary and Conclusions

This article studied the development of real estate valuation service in Finland from the end of the 1980's till the end of 2007. In the studied period real estate valuation service developed to professional business. The development of the service can be divided in four periods that are described in figure 2. In the first two periods valuation developed due to activities of Finnish banks. The third period was time of change in valuation. In the fourth period real estate valuation is by its nature and business environment totally different than before.

In the property boom of the late eighties valuation business started to develop significantly. New full time valuers emerged. Need for valuations was high due to bank loans that became more and more common as well as due to needs of listed real estate companies. During recession valuation business did well due to constant demand. There wasn't much trading, but banks needed valuations of bankrupt's estates. Time after recession was low season of valuation business. Banks didn't want to finance and no one wanted to pay for valuations. Resources needed by service providers decreased. Time of internationalisation has brought valuation business in to a new boom.

Individual events in the development of real estate valuation have been for example authorized valuers system as well as international valuation standards (IVS) and international financial reporting standards (IFRS). During recession appreciation of real estate field suffered. Partly for improving the profile of valuation field an authorizing system was created. The Association for Authorized Real Estate Valuation was established in 1995. In the beginning of the year 1996 the first authorized valuers started in the market. Authorizing system has significantly improved the quality of valuation. Authorized valuers in Finland are supposed to use international valuation standards in their valuations. Thus IVS has also closely affected development of valuation service. Another individual event that was expected to have a major influence on real estate valuation was the introduction of international financial reporting standards (IFRS). It has been applied in Finland since the beginning of 2005. However, IFRS does not oblige to use an outside valuer. Thus after all it hasn't affected the development of valuation service as much as it was assumed.

In the development of real estate valuation it is remarkable that during the first three periods real estate valuation was by its nature "separate, objective work", in which the use of the valuation report was not an issue of interest or of significance for the valuer. In the period of internationalisation real estate valuation has become an important service supporting transactions, and thus the use of valuation is also an issue of importance for the valuer. In addition to supporting transactions, valuation service is widely used for frequent valuation of real estate assets.

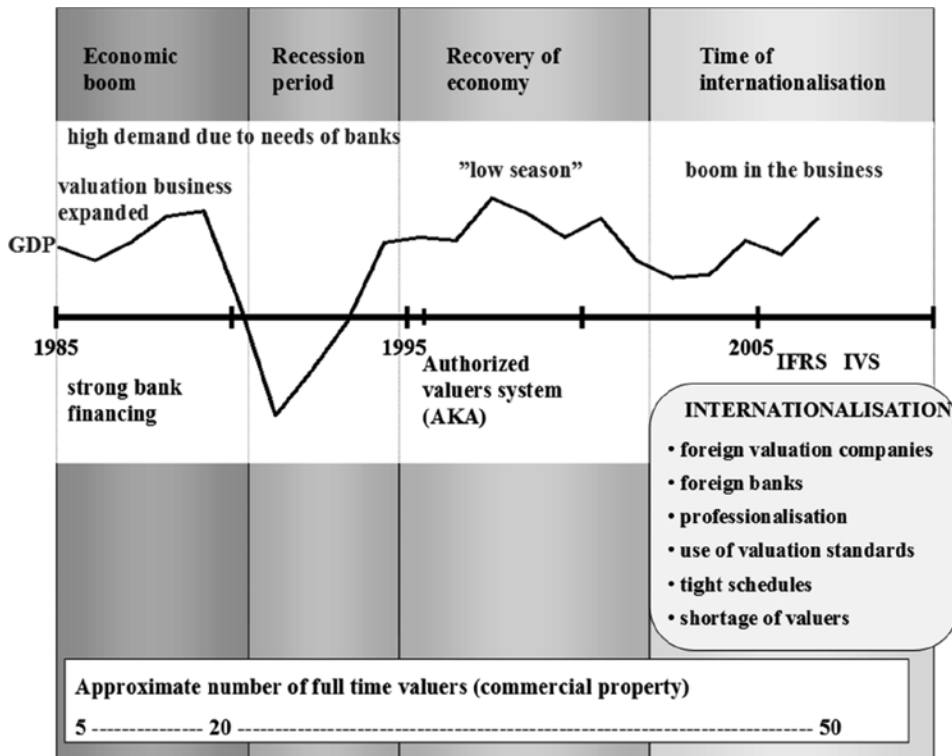


Figure 2. The main development features of real estate valuation.

International players changed the business environment significantly as international service providers entered the Finnish property valuation market. Also new customers emerged, for instance foreign banks that started financing property transactions. Foreign banks and their customers have become important customers of Finnish real estate valuers. International players have involved a lot of professionalisation and development of the valuation service. Valuation reports are nowadays in English, and international valuation standards are used. Even though the number of valuers has increased, there are a limited number of companies focusing only on real estate valuation. There is still demand for more service providers.

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