

**THIRTY YEARS LATER – ‘IS THERE A ‘NEW
SCHOOL’ OF APPRAISAL THOUGHT’**

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by Professor Terry Boyd

**Professor of Property Economics
Queensland University of Technology**

Address: 2 George Street, Brisbane, Queensland 4000, Australia
Telephone: 61 7 3864 1482
Facsimile: 61 7 3864 1170
E-mail: t.boyd@qut.edu.au

ABSTRACT

In 1972 Richard Ratcliff wrote his groundbreaking paper entitled “Is there a “new school” of appraisal thought?” While important concepts of market value highlighted in his paper have been accepted into appraisal (valuation) practice, it is disappointing that the “evolutionary modifications of a long-held appraisal theory” (Ratcliff, 1972, p.522) have not found greater acceptance by educators and the profession.

This paper considers the property industry today in the light of Ratcliff’s principles. It proposes that the focus of the new school in 2002 should relate to the principles of interdisciplinary alliances, industry-linked learning and emotional intelligence.

The new principles are explained and their application to both property practitioners and academics is set out in the paper. The importance of workplace learning and emotional intelligence is referenced to current research. In conclusion the need for evolutionary change within the industry is addressed with the proposal of alliances between industry players and universities.

INTRODUCTION

It is thirty years since Richard Ratcliff wrote his groundbreaking paper on appraisal theory and practice (Ratcliff, 1972). He stated:

“In recent years the appraisal profession has witnessed growing doubt and even protest over the institutionally-enforced rigidities of certain concepts and practices which appear, in the eyes of many perceptive practitioners and inquiring professors, to be of doubtful validity” (p. 522).

He proposed that long-held appraisal (valuation) theory required modification in the field of economics, professional approaches and business (decision-making) analytical methods. He emphasised that “appraisal is an economic analysis under uncertain conditions and thus can be expressed only in terms of probabilities” (p. 526) and “the conception of appraisal as measurement leads to an undue preoccupation with the inert property object to the neglect of the exogenous market forces which play the active role in establishing the price” (p. 525).

Most property professionals accept these concepts today. However the pertinent question is whether these “tenets of the new school” – as Ratcliff labelled them – have been effectively incorporated into valuation education and practice over the past thirty years.

My brief response is that the “new school” concepts have not been adequately incorporated into valuation education and practice. While many of the concepts put forward by Ratcliff and other reformist thinkers of the time, such as Graaskamp (1977), Wendt (1974) and Grissom (1985), have influenced valuation thought, many institutionally-enforced rigidities still exist today.

My thesis in relation to the current state of valuation education and practice is:

1. Ratcliff’s new school concepts were pertinent in their time.
2. The rate of change affecting the property profession has increased over the past 30 years.
3. Ratcliff’s new school concepts require further modification today to meet the current challenges facing the property profession.¹

In proposing the principles of the “new school” today this paper will elaborate on the nature of change, the current status of the profession, the principles of the new school in 2002, the practical implications of the principles and finally suggestions on appropriate action and recommendations.

CHANGE

It is generally acknowledged that change is inevitable and many would agree that change is now taking place at an ever-increasing rate. However, it is the nature of change affecting the property profession that requires consideration.

Technology is usually seen as the main cause of change. While it does influence change there are many other forms of change that are radically affecting the property field. E-mail and the

¹ While this paper deals with the valuation profession, the valuation role is now an integral part of the property profession – accordingly this paper will often refer to the property profession in general.

web may improve communication and data availability. However there are other major changes, such as advances in globalisation, awareness of cultural and environmental issues and public/private sector realignment, that have a similar effect on the property environment.

Globalisation has resulted in enhanced linkages between property service providers internationally with many international companies developing alliances with local providers. The level of “spin off” and the effectiveness of these links appear to vary greatly. Many of the linkage mechanisms are still being tested and more change in this field is expected. Globalisation is resulting in better understanding of local customs and markets and greater uniformity of practice standards. There is a strong push by successful property development and investment companies to establish themselves in other international markets using their competitive knowledge base. The profession is continuously seeking persons with relevant international experience in the major property markets. In fact, property courses are finding that using the term “international” in their title gives them a competitive marketing edge

Cultural and environmental issues have a direct impact on property. It is not surprising that the growing awareness of the importance of a sustainable environment and the cultural worth of property are causing a re-examination of the value of property. Properties with high cultural or historical significance are, in the main, increasing in value at a greater rate than other properties. This is a distinct change from a few years ago. “Sustainability” may be a catch-word but its implications on all property types is immense.

The property market has also seen the development of major infrastructure projects that benefit from a partnership between the public and private sector. Another trend has been the emergence of specialist facilities management groups that work closely with corporate property owners. The fields of project, facilities and asset management within the property sector will change further because of the size and specialist nature of major property assets.

There are numerous and interrelated changes affecting every aspect of property. These changes require the development of further professional specialisations within interdisciplinary teams. The specialist knowledge of the individual must complement the broader knowledge of the property services organisation.

CURRENT STATUS OF THE PROPERTY PROFESSION

In 2002 there are severe threats to both valuation practice and educational institutions that offer property courses.

The valuation profession in Australia and New Zealand is under threat because of the difficulty of obtaining professional indemnity insurance. In the past ten years there have been many cases of litigation against valuers for failing to use reasonable care and several cases have resulted in major damages claims, such as *Interchase Corporation Ltd v ACN 0100876573 Pty Ltd and Others* (2000) QSC013.

Furthermore the profession has become highly competitive resulting in client expectations of reduced fees. This can, in some cases, result in unprofessional practices. In addition the valuation profession is being deregulated in some States in Australia resulting in the lowering of the overall standard of professionalism.

It is crucial that the valuation profession in 2002 meets the current challenges by expanding its knowledge base. It needs to enhance its current knowledge base and expand it to incorporate related discipline areas. This will require further changes in practice and attitude.

Similarly the educational institutions in Australasia have, generally, suffered due to a lack of funding and a downgrading of their status within the universities. There has been a reduction in the number of senior academic personnel and this has adversely affected the academic programs.

The valuation profession (practice and academic) is at a crossroad. The growing importance of property as a distinct asset class means that the profession should benefit from the changing environment. However, the recent problems of both the profession and academia, partly caused by institutionally-enforced rigidities, will continue to have a negative impact on the profession unless a new route is taken.

Ratcliff saw a similar situation thirty years ago and encouraged change in the profession to meet the challenges. Today there is an equal or greater challenge to both professional practitioners and educators. They must “adapt or die”.

Drucker (1999) (quoted in Manning and Roulac 2001) states:

“one can no longer expect that the organisation for which one works at age thirty will still be around when one reaches sixty. But also, forty or fifty years in the same kind of work is much too long for most people. They deteriorate, get bored, lose all joy in their work, *retire on their job* and become a burden to themselves and to everyone around them.”(p. 20)

How can a “new school” today lift the valuation profession to new heights?

THE PRINCIPLES OF THE NEW SCHOOL IN 2002

To compete successfully in the changing environment of the twenty-first century the property valuation profession must greatly enhance its focus on:

- (1) inter-disciplinary alliances
- (2) industry-linked learning
- (3) emotional intelligence

These are the three tenets (principles) of the new school for the twenty-first century. I am aware that the leading professionals already practise these principles but I am also concerned that the profession in general, is disadvantaged because it has not moved in this direction as rapidly as it should have.

I will elaborate on each of the three principles:-

1. Interdisciplinary Alliances

The valuation profession has acknowledged that it must expand its services beyond the certification of a value amount. However its expanded activities need to link with the services of other allied disciplines.

Recall that valuation is essentially determining the probability of uncertainties related to property assets. The expertise of the valuer lies in the making of intelligent estimates of the most probable and possible scenarios. This is essentially analysing property market behaviour in relation to a particular property. Ratcliff spoke of appraisal as a behaviouristic science. “Emphasis is placed primarily on the understanding of human behaviour in the real estate market ...” (Ratcliff, 1972, p. 523).

There are many other discipline areas that are involved in and may influence the behaviour of the property markets. Property professionals should expand their knowledge and expertise in these related fields - such as behavioural science, management, finance, economics, statistics, environmental science, marketing and law. These are discipline areas which have a strong interest in property but most practitioners in these fields do not have property expertise. Hence there is great merit in the property specialist understanding more about, say, behavioural science, and linking the specialist knowledge of both disciplines.

Another example from Australia is the growing importance of the value and management of water rights. This may be a field where environmental scientists and property professionals should form an alliance to handle not only water rights but other environmental issues such as carbon credits, marine parks and ecological interests.

To make an interdisciplinary alliance work the property professional should have a reasonable knowledge of the other discipline area. This will require learning about the other discipline. Brown and Matysiak (2000) in the introduction to their recent text book state:-

We want to raise the level of understanding of financial and economic principles within the property profession so that the next generation of property investment managers and researchers is equipped to compete with highly skilled managers in other areas of finance (p. XVII).

The development of interdisciplinary alliances is linked to the second principle of the new school – industry-linked learning.

(2) Industry-linked Learning

A century ago the valuation profession relied on workplace learning, with newcomers learning from the experience of more mature practitioners. As with most professions more formal and rigorous education developed in the twentieth century around a body of knowledge which was taught at tertiary institutions.

It is appropriate that university based degrees are the current entry level qualifications for the property profession. However there are three recent developments that demand a change to current educational courses, they are, firstly, the strong growth in mature students entering property courses, secondly, the increasing demand for “on the job” continuing education programs and, thirdly, the reduction in practical field trip activities and workplace experience in the undergraduate property courses.

Because of these trends it is necessary to place a greater focus on industry-linked learning. It is not intended that we revert to the traditional workplace (apprentice-style) learning model. Rather it is a partnership that allows actual industry experience to be incorporated into learning.

Industry-linked learning should be a combined activity of the educator and the practitioner. The learning can take the form of problem-based learning that involves a real industry scenario and the input from an industry partner. Another good example of industry-linked learning is the detailed study, and possible re-enactment, of legal case studies.

To date there has been inadequate focus on the challenges facing the industry and many of the problems are dealt with in the courts, where different viewpoints are put forward and challenged. Some of the legal case studies form excellent material for role-playing. The linkages between industry and educators in the future are further elaborated on in Boyd (2000) and Roulac (2002).

There are several existing models of industry-linked learning, inter alia:

- involving practitioners in the presentation of university based courses (this is a regular practice at many universities)
- involving academics in the presentation of workplace courses
- joint consultancy between academics and practitioners
- joint research between practitioners and academics

While accepting that these practices exist, they should form an integral part of the learning environment.

Several professional certificate courses are now available in Australia as a result of cooperation between the Australian Property Institute (API) and local universities. Examples of the joint courses currently being presented or developed are set out in Table 1 below:

TABLE 1: INDUSTRY-LINKED CERTIFICATE COURSES IN AUSTRALIA

| Presenters | Course Title/s |
|-------------------|---|
| API and UWS | Property Portfolio Management, and Advanced Corporate Real Estate |
| API and UTS | Valuation of Land Subject to Native Title |
| API and U of Qld | Water Property Reports |
| API and QUT | Investing in Property, and Property Cash Flow Models |

There are also good examples of effective research collaboration in Australia through the CRC (Cooperative Research Centre) mechanism promoted by the Australian Government. At present the CRC for Construction Innovation, which commenced in 2001, has a major property component which involves QUT, UWS, RMIT, Sydney University and UNSW as well as many industry partners such as Lend Lease, Qld State Development and Rider Hunt.

(3) Emotional Intelligence

In a profession requiring both a high level of specialist knowledge and interaction with other professionals to provide decision-making support, it is important that the practitioners have emotional intelligence. This form of intelligence should be nurtured in the education phase.

Emotional intelligence is the combination of knowledge, interpersonal skills and motivation. Goleman (1998)(quoted in Manning and Roulac, 2001), reported on studies that indicate a person's IQ alone explains surprisingly little of their achievement at work or in life, whereas their emotional intelligence does.

Mental agility, self-esteem and integrity are the characteristics of emotional intelligence. These are the generic attributes which the educator should possess and

encourage in their students. If a company, team or academic grouping has leaders with emotional intelligence it will have a good chance of being successful. There are many examples of sporting teams that demonstrate emotional intelligence. They are positive, adaptable and supportive of one another. These are essential traits for a property professional. The importance of emotional and cognitive competencies for property academics is well explained in Manning and Roulac (2001).

PRACTICAL IMPLICATIONS OF THE NEW SCHOOL PRINCIPLES

The three principles of the new school are linked. In the current information age where the emphasis is clearly on analysing and interpreting data, professionals with emotional intelligence will meet the challenge by expanding their knowledge and expertise. This will be achieved through continuous learning linked to the workplace and learning from others through interdisciplinary alliances.

These principles apply equally to practitioners and academics. In fact they demand a much closer relationship between industry practitioners and educators. I will set out below several thoughts on how practitioners and academics should apply the new school principles. This is not an exhaustive list and I am aware that leading practitioners and universities are already involved in these activities.

Industry Proposals :

- define areas of specialisation that relate to and advance their expertise
- focus on further knowledge/expertise in the selected fields
- seek alliances with related professional disciplines
- develop linkages with academic institutions for joint consultancies, education and research
- advance emotional intelligence through a clear strategy, motivation and staff support
- ensure professionalism through risk management processes
- provide a supportive and cheerful workplace

University Proposals

- understand the needs of industry for workplace learning
- develop alliances with specific property companies/organisations
- undertake industry-linked research with industry partners
- reward staff with emotional intelligence by output-based remuneration
- provide flexible working arrangements for, and encourage industry involvement by staff

These proposals place an emphasis on “available and appropriate” learning opportunities and the personal development of staff. It is the quality of the workforce, within industry and the universities, that will determine the level of success of any property venture.

There are major developments taking place in workplace learning and property should be part of this trend. In Australia several universities, such as University of Technology, Sydney and Queensland University of Technology are involved in several workplace learning activities – refer Boud (1998), Billett (2002), Savage (1997), Boud and Garrick (1999).

Similarly emotional intelligence is currently being evaluated and promoted through research – refer Cherniss and Goleman (2001) and Goleman (1995). Without doubt, the challenges of

the future for the property professional will require mental agility and interpersonal skills in a form such as emotional intelligence.

ACTION REQUIRED

Each person or organisation will meet the future challenges in their own way. However, based on the three principles described above, several courses of action are appropriate. They are:

1. Develop a “new” strategy.

The strategy required must be positive and focus on the major issues. There is a sound beatitude which is appropriate today – “Blessed are they who do not hunt the ant while the elephant is running amok”. The strategy must capitalise on the changing opportunities in the property marketplace.

2. Focus on staff.

The property industry, including education, is a service industry and is highly dependent upon competent personnel. Qualified property staff are mobile and globalisation is adding to the mobility of property experts. Organisations must focus on the development and retention of staff. A cheerful and supportive team is the best foundation for a successful company. The key is to demonstrate to staff that their input is highly valued.

3. Develop focus groups .

Internal and external focus groups are useful to collate and refine the thinking of a group of specialists. In addition the groups provide encouragement to members who may feel isolated or inferior. The focus group can be a useful means of advancing emotional intelligence. In the property field the combination of “perceptive practitioners and enquiring professors” (Ratcliff’s words) would make a great focus group.

4. Break down institutionally-enforced rigidities.

This relates particularly to the universities. There needs to be strong encouragement for the dual role of educator and practitioner. Instead of restricting industry contact the universities should encourage it and reward academics who receive acknowledgement and remuneration from industry.

The current “straight jacket” approach means academics receive a set remuneration regardless of their performance. This practice is demotivating. Academic staff should be rewarded for their ability to facilitate learning. There should be the opportunity to teach and undertake allied research as one role (for part of a year) and then be free to undertake entrepreneurial roles, related to their profession, at other times.

A possible option for universities may be to combine their property departments with an industry partner and form a company in which the major shareholders are the staff involved in the enterprise.

CONCLUSIONS

I believe that the property industry will advance, and overcome the problems of the availability of professional indemnity insurance, by acting smarter. The three principles of the new school will provide a smarter profession by placing greater emphasis on appropriate learning opportunities. The professional should be able to access an educational program at the time and place required. Furthermore they should have ‘user friendly’ linkages to the academic body of knowledge on specific topics.

The universities within Australasia must change to meet the new school principles. There are many opportunities for research, teaching and consulting provided they are linked to the property industry. Academics have the ability to demonstrate and encourage emotional intelligence but they must have a positive attitude and be aware of world best-practice through research and contact with the industry.

Thirty years ago Ratcliff attempted to move the property profession forward by suggesting that a new school of thought should be considered. His ideas were sound and pertinent to the market at that time. Today there are even more challenges for the property industry and meeting the challenges of the twenty-first century will require emotional intelligence, strong interdisciplinary alliances and industry-linked educational opportunities.

T.P.Boyd
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