

VALUATION MANAGEMENT

EVALUATE • OPTIMIZE • MANAGE

SITUS RERC PROVIDES VALUATION MANAGEMENT SERVICES OR VALUATION SUPPORT SERVICES IN THE UNITED STATES AND EUROPE. FOR THE PAST 10 TO 15 YEARS, NEW INVESTOR REPORTING REQUIREMENTS IN THE U.S. HAVE LED TO GREATER INDEPENDENCE AND TRANSPARENCY, AND WE BELIEVE THAT TREND WILL TAKE OFF IN EUROPE IN THE NEXT FEW YEARS.

For the most part, the European open-end real estate funds industry has historically relied on its asset and/or portfolio managers to manage the valuation process. This approach can lead to less transparency and independence in the valuations, or at least the perception of non-independence. In addition, internal managers don't always follow formalized policies and procedures, or the policies and procedures are limited in scope.

Below Are Some of the Problems That Can Arise When Oversight is Kept Internally:

- Implementing a property valuation risk management policy that has a one-size-fits-all process, while not accounting for the individual funds structure (*Open-End, Closed-End, Separate Account, Joint Ventures*) and strategy (*Value Add, Opportunity, Core, Core +, or Development*). Each structure and strategy can and should have an emphasis on different valuation techniques and parameters.
- Including a valuation review process that focuses more on a compliance review (i.e. check-box exercise) rather than completing a thorough review of the property valuation.
- Lacking formalized documentation and transparency in the review process that not only can slow down the audit process, but create a costlier audit review. In fact, fund auditors will often attempt to add a review of the valuations as part of an auditor scope, adding significant cost to the audit when this can be assumed to be completed by an external appraisal manager, with independent documentation available to the auditor.
- Including an internal valuation review process that can lead to the perception of not being totally independent and issues of conflicts of interest — particularly if the function is left to the Fund Advisor, Asset Manager or Investment Advisor.

As a result of the financial crisis and the events that occurred within the open-ended fund industry after the U.K. voted to leave the EU, added scrutiny has been placed on Real Estate Fund Managers — in particular, those classified as Alternative Investment Fund Managers (AIFM). The Alternative Investment Fund Managers Directive (AIFMD) has increased the amount of regulatory pressure on these AIFMs, and their compliance and oversight over the valuation process. A key message within Level II of AIFMD includes the need for independence and

transparency in the valuation of fund assets. Still, very few fund managers can boast of a completely independent valuation team to manage and review the valuation process, independent of the fund management team. In addition, the Royal Institution of Chartered Surveyors (RICS) is preparing a guidance note saying that best practice calls for the AIFM risk manager to ensure that an independent, transparent and documented valuation review process is implemented irrespective of the valuation model used by the AIFM, internal vs. external.

With respect to qualifications and capabilities, Situs RERC provides clients with real estate experts with globally recognized accreditations (MRICS Registered Valuers, MAI, CRE) and in-depth knowledge of the real estate valuations industry on a global level. We believe the industry is certainly moving toward using Independent Appraisal Management as best practice on all real estate investment funds.

Some Added benefits to Those Already Noted, for Using the Situs RERC Appraisal Management Services Are:

- Improved valuation independence, execution of policies/procedures (best practices and risk management/compliance).
- Formal documentation and transparent review processes that can help differentiate funds from the competitive peer group and assist in raising capital.
- Simple and tangible documentation of compliance with the review requirements of AIFMD.
- The Situs RERC systems will improve your ability to create made-to-order reports to include current and historical valuation analytics, and property and portfolio-level trends.
- By streamlining the overall valuation process and sharing this responsibility with fund managers, clients can focus their time and energy on “value add” asset/portfolio management functions.
- Situs RERC will assist our clients with the audit process by producing a summary of each quarter’s valuation, and meeting with the audit team to discuss any concerns.

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