

A technological age

JLL's software implementation highlights changing nature of the valuation profession

On 24 February, JLL valuers gathered in London for an internal conference to address how the profession is changing. Applauded during the 2000s boom as clients gloried in rising values, and buffeted in the post-Lehman Brothers global recession as those values came crashing down again, valuation is now entering a new, technologically focused age.

Another subject on the agenda was keeping up to speed with clients' needs, ranging from the valuation of offices to retail and industrial to new property types such as wind farms. But one of the biggest topics under scrutiny was clients' growing demands for data and analysis to underpin everything they do.

International methods

Global valuation methods have fragmented in recent years, a situation which is made even more complex by the involvement around the world of more international investors.

In the UK we use a method based on comparable evidence, or the income capitalisation method. In the US and most of mainland Europe the common valuation methodology is based on discounted cash flow, which is even more focused on rental income than the UK's traditional comparable system. In Australia a third valuation method has gained traction: capitalisation valuation.

Given that American and continental European investors are huge players in the UK market, it is no surprise that they favour discounted cash flow when assessing the value of a property.

For the valuer this has, until now, proved a headache, because the software systems on offer do not lend themselves readily to valuing on an income capitalisation and a discounted cash flow basis side by side.

The message from the top of the JLL valuation team is that we are moving ahead of the rest of the pack by forming an alliance which allows us to unite valuation methods from across the world. We can announce that JLL has expanded its use of ARGUS Enterprise, ARGUS Software's valuation and investment management system, which allows valuers across the UK and EMEA to apply both methodologies using the same software package.

ON VALUATION

David Oates and Andrew Renshaw



Flaws in previous systems

To understand why this is important we need to look back to the days when valuers relied not only on gut feel but also the famous Parry's Tables.

Parry's Tables used to give us the multiplier to arrive at the value of a property, and modern software packages work in much the same way.

The data we used to input to Parry's Tables we now input to packages such as ARGUS Enterprise or Excel formats: the property's size, whether it is freehold or leasehold, its tenancies, current passing rents, lease lengths, voids, tenant inducements and so on.

This data is processed by software packages that are highly sophisticated but still have some in-built flaws. In Excel, for example, rogue cells can crop up which can throw the valuation wildly off beam without anyone knowing why.

Property valuation has become a highly sensitive field, being used to price units in listed funds and by banks when they are lending against a purchase. The use of less sophisticated packages can also leave valuers vulnerable to challenge by regulators.

The need for a new system

Research by ARGUS published last year, based on a survey of 300 international commercial property executives, showed that nearly a third of the industry still uses basic spreadsheets as their primary tool for asset and portfolio management functions. This means that up to \$11tn of assets are currently managed in manual spreadsheets, with all the risk this entails. What is interesting is that 77% of the companies polled in this research also said they are prioritising investment in technology and process improvement to support their asset and portfolio decision making.

JLL alone carried out more than 65,000 valuations in 2015 and valuers

can be asked to produce a snap valuation in two or three days and a full report in as little as 10 working days. Not only do these clients want rapid and accurate information – they also need it to be provided in a fashion which can be used for detailed analysis in onward reporting.

ARGUS Enterprise will allow us to incorporate automated reporting, preventing the risk of human error, which has plagued some valuers whose software has provided figures which they have then had to re-key into separate valuation reports and documents.

At JLL we have cut duplication across our property management activities and are also close to operating a single software platform across our fit-out activities.

Adopting this approach helps hugely with interchangeability of staff. For example, a valuer working in JLL's London office will now be able to relocate to Dubai and seamlessly use the same software package as before.

We also expect that our capital markets teams will begin to use the same standardised software packages when appraising an investment opportunity, simply because the world's biggest investors are leading them in this direction.

But while JLL is rolling out ARGUS Enterprise across its European operations, meaning a major advance in the capabilities of our valuation software, we must also never forget that market experience and gut feel continue to be absolutely key to the valuation process.

No matter how the numbers are crunched, the professional skill and market knowledge of the valuer or asset manager will still be important, and rest assured that if a valuation is produced which doesn't feel right we will re-examine the calculation straight away as part of the peer review process.

We are upgrading systems which are already advanced – but with technology evolving so rapidly across the real estate arena we owe it to our clients to stay ahead of the game.

Andrew Renshaw is head of valuation and professional advisory at JLL and David Oates is senior vice president at ARGUS Software, an Altus Group company