

Valuation: The Market Linchpin

By Bruce D. Greenberg, MAI, SRA, ASA
and Ing. Alfredo Giorgana, MS, ASA

Introduction

Markets are growing, borders are disappearing and the face of real estate is changing. But why should Americans be concerned with international real estate? The reason is actually quite simple. Similar to real estate in the United States, Mexican real estate is a growing asset. For those interested in diversifying their portfolios, acquiring a stream of income and/or owning a second home, Mexico has become a great place to do just that. As it only happens with a few nations in the World, Mexico possesses places of incomparable beauty and natural resources that many other nations would like to have. If we see Mexico from a strictly geographical standpoint, that is considering its physical characteristics only, we can say it is a country that has been greatly benefited by nature. This is confirmed by over 750,000 square miles of territory, its more than 6,800 miles of coastline, its 165 million acres of forest woods, its nearly 7,500 miles of rivers and amongst many other physical attributes. For those of us who have had the opportunity of traveling to different tourist areas of Mexico it becomes a privilege to realize the great potential for development that this country has. Cabo San Lucas, Puerto Vallarta, Cancún, Riviera Maya, and Puerto Peñasco are just a few examples of what is being developed.

Nevertheless, contrasting with the great resources and in spite of the large advances that we've had in the past years, on foreign investment aspects, Mexico is a country of legal and practical aspects where an investor can safely possess his property.

In any property acquisition in the world, risk and uncertainty are still very much a part of acquiring real estate, especially in Mexico where buyers need to be aware of the potential pitfalls before purchasing property. As in the United States many participants assist in the acquisition of real estate, including an appraiser. An appraisal is an opinion of value prepared by an unbiased third party. This opinion of value has to be based on the social, political, physical and economic

characteristics of the property but also on the market conditions of its surrounding environment. When acquiring a home, appropriate knowledge of the external forces of value that affect the market conditions is very important and requires an abundance of reliable market information that can be obtained only from professionals that have an adequate market-based training. Therefore, utilizing a qualified and experienced appraiser in the acquisition of real estate in Mexico not only makes economic sense, but can also make the difference between a right decision and a regretful one.

Why Are Appraisers Important?

On the surface, the duty of an appraiser may seem banal. Yet, the role of an appraiser is fundamental and quite necessary to each and every real estate transaction. Simply put, appraisers are the unbiased “neutral” cross checking mechanism within a market. Whether it be a parcel of land, a home, or a condominium, an appraiser’s task does not change in Mexico as compared to the United States. They diagnose problems, collect and analyze data, apply proven valuation methodologies and finally, tender a professional, unbiased third party opinion with respect to a property’s value. Because they help ensure proper valuation for the parties to a transaction, appraisers are important participants that make real estate transfers happen. Anyone planning to own property in Mexico should seek the assistance of an experienced and qualified real estate appraiser to share his/her knowledge and expertise of the marketplace. In addition to acquisition and/or dispositions of real estate, the appraiser provides valuation services in estate planning, estate tax settlements, divorces or other litigation proceedings as well as mortgage loan assistance. An individual may also want to lower his/her real estate tax burden, contest a property tax valuation or need an estimate of value for insurance purposes. These tasks are also common valuation needs in Mexico.

In Mexico, appraisals by “local” appraisers that are performed to establish “purchase” prices traditionally are not supported in actual sales information but rather in listing prices or offers given verbally by the seller, avoiding thus a required element that United States financial

institutions demand, among other important things, in order to consider that properties are in fact valued correctly. This is very important when considering how difficult it may be to estimate the value of a property in an unknown market. Failure to do so, could translate into an asset sheet full of overvalued properties that will never be able to recoup the original amount a bank loaned. The second function an appraisal provides is assurance to foreign consumers they are not paying too much for a property. When dealing with unsuspecting buyers and emerging real estate environments, mistakes can prove costly. Ejido ownership and clouded multi-family titles are issues unfamiliar to most Americans but still very much a part of a Mexican real estate transaction. Both issues could prevent legal transfer and in some cases, by the time it is realized, a transaction could have been executed at the buyer's expense. The use of a qualified appraiser who follows correct valuation methodologies may further ensure a safe, proper and correctly valued transfer between parties. But to truly understand this process, we will need to discuss some of the background that appraisers need to have to perform correctly their job.

Appraising in Mexico based on US Standards:

In the United States, real estate appraisers are licensed or certified to appraise commercial and/or residential properties; but - only after individuals have met certain State requirements. The first requirement for American appraisers is education. The idea is to underscore the importance of appraisal methodologies, ethics and standards. The classes are essential insofar as they give individuals the necessary conceptual tools to execute appraisals correctly and ethically. Then, appraisers are expected to meet a second requirement: shore up an apprenticeship. While each State differs, the board or panel will have a mandated minimum amount of hours to be completed. Nevertheless, the school of thought is one that gives students a real life template to apply their theory-based knowledge. Once all of the requirements have been met, an individual can receive their license or certificate and begin appraising real estate.

Individual State Appraisal Regulatory Boards obligate their licensed and certified appraisers to continue their education and professional practices. For example, in certain States, appraisers

must take a set of mandated classes annually. Further, at the end of every four years, additional ethics renewal and examination courses must be taken by the appraiser. Now, while these requirements may seem excessive, they are in place for a reason. In having appraisers continually update their education, State Boards are merely safeguarding the appraisal practice. With each year, updates and changes get woven into the Uniform Standards of Professional Appraisal Practice (USPAP), which is prepared under the auspices of the Appraisal Foundation, which reports to Federal regulators. Without access to these resources, appraisers might be unaware of changes made and unsuspectingly run into difficulties. Therefore, the courses are intended to update, inform and demonstrate how to adopt these changes and/or avoid any new stipulations in the appraising of real estate.

In the event that a complaint is filed, appraisers in the United States have certain agencies they must answer to. For example, appraisers must answer, in writing to their respective State Regulatory Board once a complaint has been filed. The claim gets reviewed in its entirety and if a violation is found, action is taken. Clearly, the disciplinary action to be taken will most certainly depend on the severity of the violation. But if the situation warrants it, appraisers do stand to lose their license or certification. This factor provides strong incentives that appraisers comply with expected standards of practice. In addition, the State Regulatory Board requires appraisers to retain appraisal assignment files and make them available for review for periods of up to 5 years. Channels of education are being created and are accessible to appraisers. In the United States, appraisers are mandated and required by Federal/State agencies to update their license and certificate as well as continue with their education.

In Mexico, the requirements to be a professional appraiser have changed tremendously over the past years. Federal and State coordinated efforts have improved formal standards. Appraisers in Mexico, by law, are generally licensed engineers or architects who are becoming every day more trained in valuation. Appraisers in Mexico are required to obtain a Cédula de Valuador, which is a designation given by the Federal Government (Secretaría de Educación Pública). To obtain the

Cédula designation, appraisers are required to study “Especialidad de Valuación” or “Valuation Specialty.” The Cédula designation takes between 1 and 1½ years, it includes the presentation of two papers (sample reports) plus a final exam. Within the educational programs there is a general tendency to include subjects directly related to “market-based training” such as Economy, Statistics, Marketing, Business Administration, and Accounting. At this time, there are probably close to more than 1,000 appraisers who have already obtained the Cédula and/or are currently working on receiving the Cédula designation. This number compares to approximately 100,000 licensed/certified appraisers in the United States. The federal government of Mexico has also implemented basic appraisal standards and has issued a new valuation methodology manual.

It is also important to emphasize that since 1994 the American Society of Appraisers invited the appraisal community in Mexico to study the methodologies of valuation in congruity with the common practice that is done in the United States, following the USPAP regulations and hence providing a greater number of professional appraisers, who’s practice can be as reliable as that of an American appraiser, precisely because their formation is similar. Meaning, that the Mexico trained appraisers are prepared not only in the typical areas of costs of their engineer or architect careers, but also in economic theories of supply and demand and in relevant topics related to the real estate market.

The great deficiency of Mexico valuation is in the scarcity of reliable market information. Only a handful of communities have Multiple Listing Services commonly found in the United States to abstract pertinent market data. Furthermore, only two Multiple Listing Services in Mexico make an effort to compile closed sales transactions, which are the backbone of reliable data for appraisers in the United States.

Markedly, American appraisers are able to deliver clients supportable product because of their market-based training. As mentioned before, in 1990 Mexico was influenced by the United States valuation methodology. Mexico appraisers organized the Mexican Chapter with the American

Society of Appraisers (ASA). The Comisión Nacional Bancaria (National Banking Commission) or Instituto Nacional de Administración y Valuación de Bienes Nacionales (National Institute for Administration and Valuation of National Assets), implemented the American Society of Appraisers (ASA) methodology emphasizing the use of the three approaches to value: Cost, Income, and Sales Approaches including the requirement of the Sales Comparison Approach to value. Mexican appraising is currently changing and evolving, but is at a standstill with continual problems due to the lack of confidence with the real estate market information. Obtaining suitable and reliable market information in Mexico is not easy and there are various reasons that go from the desire of "official" concealment of the information for fiscal reasons up to aspects of professional zeal and "protection of the power of the information " on behalf of some real-estate agents. We could say that the absence of Market information is, in general, a problem of cultural order; nevertheless, American or Mexican appraisers with methodology knowledge guided by the USPAP regulations are in much better conditions to solve this problem by being able to easily access the international marketing firms, under comprehension conditions and professional identification. American or Mexican appraisers who have knowledge of the regulations and applicable methodologies in the United States possess a professional formation directed more towards the need of utilizing, in practically all the cases, real sales of comparable properties.

The value of a home is typically based on what the market says evidenced by sales of similar size and location, so having adequate market information based on actual sales becomes a critical issue in such a job, mainly because of constant changing fluctuations in real estate values.

Conclusion

The point to be made is that buying real estate in Mexico is very much a reality and can be a valuable asset. The key, however, is to realize that in order to purchase properly and safely it is recommended an appropriate valuation practice based in strong and intense preparation in market topics. Once the pros and cons have been hashed out, buyers should know how to

acquire proper professional real estate valuation advice. Help is available. Be sure to consult an experienced and qualified appraiser before making any final decisions.

BRUCE D. GREENBERG, MAI, SRA, ASA

Bruce D. Greenberg, MAI, SRA, ASA is the principal appraiser for Bruce D. Greenberg, Incorporated in Tucson, Arizona and Valuaciones Montaña Verde, S.A. de C.V. and a partner in International Consulting Service, a Mexican due diligence firm. Mr. Greenberg was selected by former Arizona Governor Jane D. Hull as a member of her task force addressing consumer guidelines in the acquisition of real estate in Sonora. Most recently, Governor Janet Napolitano has asked Mr. Greenberg to serve on the Real Estate Development and Investment, Ad-hoc Committee under the auspices of the Arizona-Mexico Commission. He is a member of the Finance Real Estate Legal Committee of the Arizona-Mexico Commission and a member of the National Law Center of Inter-American Free Trade. Mr. Greenberg has recently been asked to join the Alpha Group, a consortium of business/real estate professionals in Arizona and Sonora. Mr. Greenberg has the FM-3 work permit from the Mexican Federal Government. He is a member of the Asociacion Mexicana de Profesionales Inmobiliarios, A.C. (AMPI) and is also a member of the MultiList organizations of Los Cabos, Puerto Vallarta and Puerto Peñasco. Mr. Greenberg is registered within the State of Sonora as a real estate professional. Mr. Greenberg can be reached at (520) 750-8200, fax (520) 750-8298, e-mail bgreenberg@brucedgreenberginc.com or visit the web page at www.brucedgreenberginc.com.

ING. ALFREDO GIORGANA, MS, ASA

Ing. Alfredo Giorgana has a degree in Civil Engineer at the Universidad Nacional Autónoma de México and a Masters Degree in Sciences at the University of Minnesota, in addition to the "Accredited Señor Appraiser" designation of the American Society of Appraisers (ASA) and of a Credited Appraiser by the Colegio de Ingenieros Civiles de México, specialized in Real Estate and Businesses. Ing. Giorgana is President of the company Ingeniería y Avalúos, S.A. de C.V., which has done substantial real estate appraisals in the Mexican tourist zones, highlighting the works of the disincorporation the the Grupo Situr assets, in the tourist places of Los Cabos, Puerto Peñasco, Mazatlán, Manzanillo, Puerto Vallarta, Acapulco, Guadalajara, San Miguel Allende, Cancún and Cozumel. Ing. Alfredo Giorgana worked in the academic areas in various universities of Mexico, being a credited instructor by the American Society of Appraisers (ASA) teaching courses on the accreditation of appraisers. Ing. Alfredo Giorgana has more than 20 years of experience in the sectors of valuation and studies of investment feasibility. Ing. Giorgana is currently president of the Mexico Chapter of the American Society of Appraisers (ASA). Ing. Giorgana can be reached at (01152-555) 264-1528; fax (01152-555) 584-1648; e-mail giorgana@iasa.biz.