

CURRENT APPRAISING

CONDITIONS IN MEXICO

AND

THE AMERICAN SOCIETY OF

APPRAISERS

Alfredo Giorgana, ASA

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*I dedicate this paper to my friend Deane L. Wilson, ASA,
pioneer of ASA courses in Mexico*

I specifically want to thank Juan Pablo Gómez Morin, ASA, President of the National Properties Appraising Commission and Fidel Alvarez González, President of the Federation of Appraisal Colleges, Institutes and Societies of the Mexican Republic for their valuable comments that greatly helped me in the development of this paper.

Dear colleagues of the American Society of Appraisers of the United States of America and other countries, and attendees in general:

Before I go into the main topic of appraising and of its current conditions in my country, let me start my presentation by giving you my overview of the current situation of Mexico where the appraisal professionals work, considering the principle that there's nothing like knowing what we are and how we are in order to strive for a better future.

Essentially, Mexico is a country of contrasts.

If we see Mexico from a strictly geographical standpoint, that is considering its physical characteristics only, we can say our country has been greatly benefited by nature. This is confirmed by its 1.96 million km² of territory, its more than 11,000 km of coastline, its 67 million hectares of woods, its nearly 12,000 km of rivers and its more than 38 billion barrels of proven oil reserves, among many of the attributes found in Mexico.

However, up to date, all nature's goodness has not had the expected answer; an answer yearned for centuries, one represented by the possibility to provide to most Mexicans the minimum necessary to live a dignified life.

Our ninth world place in cultivated area (107,200 Thousands of Has), our fourth place in the world in levels of wood deforestation annually (670.00 Thousand has), our thirteenth world place in the fishing volume (1,202,178.00 Ton) and our fourth place as a gasoline importing county (4,369.00 Thousands of tons annually), are some examples of the significant backwardness shown in different development sectors of the county.

But there is no doubt that the most significant of our problems that is yet to be solved, is the great inequality in the distribution of wealth in our population.

A leader in the inequality in the income allocation among countries with a similar economic level, with figures of the "World Factbook 2002", Mexico surprised the world when it revealed that 10% of Mexican households with the highest income, concentrate 41.1% of the national consumption and in the other end of the spectrum, the poorest 10% only consumes 1.6%.

A contrast with our highest levels of poverty, Mexico is one of the countries with a list of the wealthiest men in the world published by Forbes. To be

included, they must have fortunes of over one billion dollars. With 12 Mexicans in the list, our country is only topped by the United States of America (242), Germany (29), Japan (25), Switzerland (21), United Kingdom (17), Canada (14) and Hong Kong (13).

On the other hand, there is a painful reality of a country where 53.7% of the population lives with an income lower to the minimum required to pay for basic food, clothing, housing, health services, public transportation and education, including an alarming 24.2% living in extreme poverty, known as nutritional poverty, with an income per person lower to the necessary to provide for the minimum nutritional needs.

It is a reality that we have to fight with everything we have to change these weakening trends of a medium class where the huge weight of the survival conditions gravitate; conditions that are more and more difficult and thus give way to the change of a polarized life system which tends to make the rich richer and the poor poorer.

Mexico, a country of contrasts.

There is no question that Mexicans today are living the consequences of social and economic policies that have greatly favored the few, especially the ruling classes, and very little the majority of the needy classes.

The domination of a single political party that was in power for over 70 years, generated in our country, presidential terms that hindered the fair and equitable development that fosters democracy.

Mexico being a country made up especially by young people (approximately 50% of the population is under 24 years of age) we can say that most Mexicans of today have lived in a system of permanent crisis ever since they were born.

In the past 30 years, the instability has been a common denominator of our way of life. Inflation rates of two and three digits, with devastating rates of up to 176% annually, a devaluated exchange rate in the same 30 year period, up to an incredible 83,900% and a total foreign debt that increased from US\$11.4 billion US Dollars in 1970 to US\$234 billion dollars in the year 2002, are clear evidence of the above said.

Thus Mexico is today a country with great natural resources that have not been exploited appropriately; it is a country with great backwardness in the life standards of a great majority of the population and concerning social inequalities. At the same time, Mexico is a country full of talented and hard working people who have felt the urgent need to have democratic and sustained development in order to reach sufficient prosperity with dignified life standards for the population.

The winds of change that began in June 2000 must constitute the beginning of the democratic and healthy Mexico that its citizens want and deserve. Through our vote, in a peaceful fashion and expressing a high level of political maturity, the Mexican people chose a different government that suddenly got rid of more than 70 years of oligarchy and political control of a single party. The achievement made on that date now constitutes a turning point in our nation's life.

Having said all this, we can easily see that ours is a country full of challenges in practically all productive sectors of the nation, particularly in our appraisal environment. The challenges are great and constitute in turn a scenario of great opportunities.

Let me briefly mention some of the goals our country has to achieve in order to understand the great tasks that appraisers have to solve.

In the housing area, Mexico has a construction need of 8.2 million houses in the next 11 years; in the highway infrastructure, 2,400 new km. must be constructed in the next 7 years; in the energy item the planned increase is about \$ 19 billion dollars, in the exploration and development item for the 2001-2010 period to increase our exports of crude oil, in the education item an equivalent to 8% of the GDP up to 2006 will be invested, this represents around \$50 billion dollars.

Furthermore, projects like the so called "Escalera Nautica" will revitalize the work in many appraisal areas considering a construction of 24 nautical stairs from Ensenada to Mazatlan, surrounding the Baja California Peninsula, creating 23,000 marine positions, 17,000 new rooms, 34 golf courses and 20 airports and support airfields among many other tourist benefits.

There is no question that the participation of Mexican appraisers and surely of foreign firms in the important tasks our country has ahead, will be definitive.

The appraisal professionals are essentially people who live in an environment where the concept of justice is of utmost importance. In fact, we can even say that we live enforcing justice. Thus, Mexican appraisers feel strongly committed to find a more dignified and equitable life system.

In more than one occasion in different discussion opportunities, I have said that Mexicans would live in a very different country if the authorities and appraisers had given the appraisal practice the importance that agrees with the transcendence of the conclusions we draw in our work.

The different appraisal groups in Mexico have fortunately understood what is implicit in the former statement in a slow but solid fashion. Because of this, it is worthwhile saying that few professional activities in Mexico have suffered in the past, many positive transformations, such as appraisals in all its specialties.

As it has happened in other countries, the confrontation with the devastating realities after the crisis has left deep scars and has been useful to strengthen the creation of important improvement programs and actions in the professional appraisal practice in Mexico.

Thus, appraisal societies and groups of professionals have embarked in the task of carrying out the first certifications of appraisers once these have complied with the experience and training requirements imposed. Colleges of Civil Engineers, Architects, Mechanical Engineers and the Federation of Appraisal Colleges, Institutes and Societies of the Mexican Republic, among others, have implemented training course programs and certification degrees in the specialties of Real Property, Machinery and Equipment and Farming Appraising.

Furthermore, there are postgraduate programs to obtain the Masters degree and PhD's in Appraisals, among those given by the University of Zacatecas.

It wouldn't be fair to talk about the important evolution that appraisals have experienced in our country in the past 10 years, without mentioning the

American Society of Appraisers and the influence it has had directly or indirectly in the appraisal community in Mexico.

Also worth mentioning is the vision and enthusiasm that Juan Pablo Gomez Morin, ASA had to start in our country, through the Sociedad Mexicana de Valuadores ASA, the official representation that would later become the Mexican Chapter of the American Society of Appraiser. Consistent with the opening trends fostered by the Free Trade Agreement with the United States and Canada at the beginning of the nineties, the Mexican Appraisal practice had to open up to modernity criteria and more complete and sustainable methodologies, and in some cases completely new ones.

ASA has contributed in a significant fashion, to raise the level of appraisals in Mexico. From ethical and technical standpoints, the appraisal processes in Mexico have strengthened, among other factors, as a consequence of the importance generated from the training courses, manuals and books introduced by ASA.

The orderly classification of the Appraisal Principles and the concept of Highest and Best Use, and its continuous use, the methods to forecast cash flows, the application of financial math in the solution of practical problems in the Income Approach and the strengthening of the Market Comparison Approach looking more and more for the use of actual sales, are among others, Real Property appraisal elements where ASA has generated a marked influence in Mexico.

Regarding Machinery and Equipment, the progress has been to such extent that we can say in Mexico there are no accreditation courses of the level of ASA. Even institutions such as the Federation of Appraisal Colleges and Institutes and the University of Zacatecas have taken ASA's courses as their official courses included in the accreditation programs. Among other great achievements we can mention the accuracy with which the different types of value area defined and have constituted the base for a sounder appraisal practice, as well as the application of the Income Approach in the appraisals of machinery and equipment.

We can say that the Business Valuation discipline is having great strength in our environment. Although this work has typically been performed by tax, financial and accounting firms, today the business appraiser specialty is being recognized more and more. ASA courses have strengthened this

acknowledgment and there is no question that the integral and complete treatment of this appraisal discipline is giving a formal shape to business appraisals. I mention the Discount for Minority Interest and the Discount for Lack of Marketability concepts and the incorporation of the Asset-Based Approach as well as the Market Approach as additional appraisal tools to the Income Approach to point out only a few of the many important concepts ASA has introduced in this appraisal branch.

I mention with great recognition, great quality instructors such as Deane L. Wilson, ASA; Roger P. Durkin, ASA; Melvin I. Fineberg, ASA; Leslie H. Miles, ASA; Robert B. Podwalny, ASA; James S. Rigby, ASA and Terry J. Allen, ASA among many others, who with great enthusiasm and dedication have participated in important education ASA tasks in Mexico.

Among the great actions carried out by ASA in Mexico I should point out the Agreement signed with the Controllershship and Administrative Development Secretariat, a government office in charge, among other things, of putting in place anticorruption programs, where ASA appraisals are committed to comply and to enforce the ethical principles and sound appraisal practices in Mexico.

Apart from this, ASA's Mexican Chapter has had a significant participation in the group of appraisal societies, associations and colleges, that based on the International Appraisal Standards, are working in the very important project to generate the Mexican Appraisal Standard that can be applicable to everyone.

However, appraising today in Mexico still has some important limitations, the most important one being the lack of duly and truthful documented information, which makes the performance of our work riskier. We have to be cautious when we practice the Sales Comparison Approach without knowing the actual closing prices of the operations, or when the Market Approach is performed based on the information of mergers and/or acquisitions of private companies in Mexico, since the difference between the information received and the reality can be dramatic.

What we now call the new appraisal culture in Mexico, in compliance with the improvement in the ethical and technical preparation of we the appraisers, unfortunately cannot be completed since we do not have some of the appropriate external qualitative and quantitative elements to carry out our work.

It is also fair to say that in some of the pseudo professional sectors of our country, there still are light practices that are used to provide values requested by the client. This negative aspect of our profession is fortunately being tackled more and more by the certification rules, therefore we can conclude that there has been a significant progress in the Mexican appraisal practice.

The American Society of Appraisers has started in Mexico a journey that it must continue. The globalized world where we live should not accept minds that are not open to change and to the interaction among the different cultures that make up this planet. In this same ASA Conference in Tampa, topics that deal with appraisals in other latitudes and general international issues will be discussed. The creation of the World Association of Valuation Organizations is a clear example of the need we have today to look for communication among ourselves through the unified, clean and transparent professional language. The International Valuation Standards must become, with the fostering of the great international valuation institutions, such as the American Society of Appraisers, universal standards that lead the appraisal practice in a unified fashion, in every place of the globe.

For more than a year I have had the honor of being a member of the Real Property Committee of ASA which has become an important experience in my professional life and at the same time it has made me aware of our differences and similarities more accurately as well as the strengths and weaknesses of ASA presence in foreign countries.

If we keep in mind the intense globalized process which we are living, in my opinion ASA has to look more towards the outside, with a more open and receptive criteria and with the intention of really knowing the needs of other countries in terms of valuation. In more than one occasion I have pointed out that ASA courses should incorporate, even if it is in a general context, sections in which students should be indicated the way to confront typical valuation problems in other nations like appraising without reliable market information or under excessive “country risk” conditions. The inclusion of topics with a general explanation and analysis of country-specific factors such as political risk, interest rates and tax rates in which more judgment is to be made and more qualitative consideration are to be included than with developing countries together with a detailed explanation between Nominal and Real

forecasts and discount rates and the implications of each application, among many other important issues would enrich considerably ASA current courses.

By doing this students would receive valuable elements for working abroad and at the same time it would generate a greater interest in the ASA courses and their methodologies in foreign countries.

I also consider that ASA has to increase its direct attention to other continents and countries. ASA has to work with a greater intensity in generating a more important presence abroad through a more direct approach to other valuation societies, thinking probably in more visits to other countries and fortifying its international infrastructure in Head Quarters may be with the creation of an international office that looks for international matters and takes care of maintaining continuing interaction between other countries valuation societies. ASA should also promote the reciprocal participation in their respective conferences between its members and members of other societies. ASA should have an increasing number of speakers in other international events and also invite appraisers from other societies and other parts of the world to participate in its annual Conferences. These elements would increase significantly the recognition of ASA in foreign countries.

The famous, French philosopher, playwright and novelist Jean Paul Sartre used to say that dreamers have the misfortune of confusing disillusionment with the truth, but dreaming here is not talking about unattainable goals. The presence of ASA in Mexico and the existence of the WAVO are clear examples that vision and willingness can constitute the vehicles we need to fulfill our wishes.

ASA presence in Mexico is a fact that should serve as a an example to be followed in the participation in other countries. ASA presence in Mexico has its main origin in the intense search of excellence in the learning and in the professional practice of a group of Mexican appraisers that decided to increase the level of our daily work. ASA has enough attributes so as to have an important presence in other latitudes. However, as it often happens, being qualified is not necessarily enough if it is not demonstrated and for that purpose it is imperative that ASA increases its promoting activities abroad.

The world changes rapidly and market conditions also can change dramatically in a matter of hours or even seconds. We have to admit that the

recognition of ASA as a leading international valuation society will depend in the attention that can be given to its increasing presence in foreign countries

Very distinguished audience:

In this presentation, I have tried to give you an overview of the conditions where Mexican valuation performs today, one that represents the need for those of us who do this for a living in an environment filled with challenges, shortages that are still present, but in a country project full of opportunities for national and foreign appraisers, due to the levels of development my country has to reach in the following years. A country project that now has a new and powerful tool that is democracy, although risky at the same time. It will depend on us Mexicans to know how to develop it and apply it appropriately for the sake of a fairer Mexico.

At the same time, I have expressed here that I feel proud to be part of this important institution that is the American Society of Appraisers, expressing the advances in valuation that ASA has achieved in my country. Having been a participant and witness at the same time, of the changes that took place has motivated me to keep looking for a greater professional integration between the USA and Mexico and, at the same time, to strive for the extension of the action environment of ASA to other international sites.

In an honest and professional expression of our work and in an open response we can generate, lies the fact that from our work we will obtain successful results like Napoleon used to say: “the greatest speaker of the world is triumph”.

I will finish quoting the great Spanish poet Leon Felipe with a phrase that is consistent with the mystique of the cross-border participation of ASA and with the international union that motivated the creation of WAVO, which calls us to work together for the benefit of our common goals:

*“I am leading the reins
and curbing the journey,
but what matters is not getting
there alone or soon, but with
everyone and on time”*

Thank you very much for your attention