

# ASSESSING CLIENT PERCEPTIONS OF THE QUALITY OF COMMERCIAL VALUATION REPORTS IN MALAYSIA

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## ABSTRACT

*A property industry survey of major external users of commercial valuation reports in Malaysia was conducted in September 2008 to assess the client perceptions of the quality of commercial property valuation reports in Malaysia; this being the first such client satisfaction survey in a developing property market. This client satisfaction survey highlighted the perceived stature and integrity of the commercial valuation reports in Malaysia and the high levels of client satisfaction in valuations for all commercial property types. Concerns were raised in a number of key areas, with proposed solutions to these weaknesses identified. Ongoing issues for ISM and BOVAEA regarding the continued enhanced stature of the valuation process, valuation practice standards, valuation reports and public confidence in valuers in Malaysia are identified.*

**Keywords:** Perceived valuation report quality, commercial valuation reports, client satisfaction survey, valuation standards, ISM, BOVAEA, Malaysia

## INTRODUCTION

Commercial property valuation reports are a key ingredient in property investment decision-making. Hence, the issue of professional valuation practice standards and the quality of valuation reports are of fundamental importance to the property industry and the integrity of the valuation profession; particularly with the current market instability and uncertainty resulting from the global financial crisis. This highlights the need for improved valuation standards as one of the measures of reducing the risks of

future economic crisis, as well as being a key ingredient in the functioning of Basel II, which has developed standards for the capital adequacy of banks for effective operational and financial risk management practices in their lending and investment practices to promote greater stability in the global financial systems (Bank of International Settlements, 2006).

The issue of professional valuation standards and practice has been the focus of considerable international attention in recent years. In the UK, the Royal Institution of Chartered Surveyors (RICS) valuation standards (RICS, 2007a) contains mandatory rules and best practice guidance for undertaking asset valuations. This has been supported by RICS reports into specific valuation issues, including ensuring greater credibility, reliability and clarity in valuations (Mallinson Report, 1994), assessing compliance with the RICS reporting standards (Waters Report, 2000), and ensuring public confidence in valuations (Carsberg Report, 2002). Similar developments regarding professional valuation standards and practice have been evident in the US (Appraisal Foundation, 2008) and Australia (Australian Property Institute, 2008). These local initiatives have been supported by regional valuation initiatives (eg: ASEAN Valuers Association, The European Group of Valuation Associations) and international valuation initiatives (eg: International Valuation Standards Council (IVSC), World Association of Valuation Organisations). In particular, the IVSC has been particularly active in developing compatible valuation principles internationally. Other international organisations impacting on the financial reporting of valuations include the International Financial Reporting Standards and the International Accounting Standards Board.

These professional valuation practice standards developments have been complemented by research into specific aspects relating to valuation standards and practice, including valuation variation (eg: Adair et al, 1996; Crosby, 2000; Crosby et al, 1998), valuation uncertainty (eg: Joslin, 2005; Mallinson and French, 2000), valuation accuracy (eg: Nasir, 2006; Newell and Kishore, 1998; RICS, 2008), the reporting of risk in valuations (Adair and Hutchison, 2005; Hutchison et al, 2005) and the impact of client influences on valuer behaviour (eg: Levy and Schuck, 2005).

In particular, property valuation and commercial property valuation reports were a specific focus of Tom Whipple's property research agenda over many years. This saw Whipple (1984, 2006) specifically address a range of key issues relating to the valuation process and improving the integrity of commercial property valuation reports. This included various aspects such as report structure, value definition, property analysis, price prediction and limiting conditions; as well as comparing valuation report standards in Australia and internationally (eg: UK, US).

Within this area of professional valuation practice standards, it is important that an assessment is performed as to whether external valuation client needs and

expectations are being met concerning the perceived quality of commercial valuation reports. Assessing client perceptions of the quality of commercial valuation reports has received considerable attention over the last twenty years; in particular, in the US (eg: Colwell and Trefzger, 1992; Dotzour and Le Compte, 1993; Knitter, 1995), the UK (Crosby et al, 1997) and Australia (Newell, 1995, 1999, 2004; Newell and Barrett, 1990), as well as being actively debated by leading valuation practitioners (eg: Gilbertson and Preston, 2005). In most cases, this was done via property industry client satisfaction surveys of external users of commercial valuation reports (eg: UK, Australia, US). In some cases (eg: Australia), the survey results could be directly compared over time (ie: 1989-2004) to assess changes in the client perceptions of the quality of valuation reports.

While client perceptions of the quality of valuation reports have been assessed in the mature property markets of the US, UK and Australia, no equivalent client satisfaction surveys have been done in the developing property markets (eg: Asia). This is particularly important, given the internationalisation of valuation standards and financial reporting, the increases in property market maturity and increased international property investor interest in the Asia property markets in recent years (JLL, 2008); for example, Asia accounted for 26% of global commercial property transactions in 2008, compared to only 14% in 2007 (RCA, 2009).

In the case of Malaysia, one of the developing property markets in Asia, the only related research to date concerned the accuracy of valuations between government and private valuers, as well as a comparison of valuation versus transaction price for stamp duty purposes (Nasir, 2006). As such, the purpose of this paper is to present the results of a property industry survey of major external users of commercial valuation reports in Malaysia in 2008 to examine the client perceptions of the quality of commercial valuation reports in Malaysia. Based on these survey results, the ongoing implications for the continued improvement in client perceptions of the quality of valuation reports in Malaysia are also highlighted.

## **THE VALUATION PROFESSION IN MALAYSIA**

With a population of 26 million, commercial property in Malaysia is characterised by the major cities of Kuala Lumpur and Johor Bahru. The major GDP sectors in Malaysia include the services sector (46%) and industrial sector (45%) (CIA, 2009). Malaysia has one of the most transparent property markets in Asia, only exceeded by Hong Kong and Singapore (JLL, 2008). Over 84 property companies are listed on the Kuala Lumpur stock market, with a total market capitalisation of over US\$9 billion, as well as 13 Malaysian REITs (including Islamic M-REITs) with a total market capitalisation of US\$1.4 billion (Macquarie Securities, 2009). Despite the global financial crisis, Malaysia was one of the few countries globally to increase their commercial property transactions activity in 2008 (US\$3.5 billion). Malaysia has a high level of cross-border investment (49%); significantly above the average level in

Asia (27%) and globally (31%) (Real Capital Analytics, 2009). This sees major international property investors (eg: ING) having Malaysian commercial property in their global property portfolios.

The Institution of Surveyors, Malaysia (ISM) is the recognised professional body responsible for upholding professionalism and professional ethics amongst valuers in Malaysia; being the equivalent of the Australian Property Institute (API). Established in 1961, ISM has over 5,000 members, with valuers in the Property Consultancy and Valuation Surveying Division which comprises 986 members (19% of ISM membership). Major valuation firms in Malaysia include CH Williams Talhar Wong, Jones Lang Wootton, Colliers Jordan Lee and Jaafar, Chesterton International, Khong and Jaafar, Henry Butcher, Raine and Horne, Regroup and Vigers. ISM accredited property degree programs are offered by a number of local universities (eg: UM, UTM, UiTM and UTHM), or via reciprocal property programs overseas (eg: UK, Australia, New Zealand).

The Board of Valuers, Appraisers and Estate Agents (BOVAEA) has the responsibility for valuer registration as mandated by the Valuers, Appraisers and Estate Agents Act 1981. BOVAEA have the key role of regulating the professional conduct and ethics of valuers. Valuation reports must follow the guidelines of the Malaysian Valuation Standards (comprising 17 valuation standards), developed jointly by BOVAEA, ISM and the Securities Commission Malaysia. The Securities Commission Malaysia has also recently released updated asset valuation standards under the Capital Markets and Services Act 2007 (SCM, 2009), replacing the previous guidelines on asset valuations (SCM, 2003). These 2009 asset valuation standards cover a range of areas including appointment of valuer, valuation methods, contents of the valuation report and valuation certificate, valuation report checklist and best practice in the valuation of property assets. Rating and taxing valuations are conducted by the Valuation and Property Services Department in the Ministry of Finance Malaysia.

## **SURVEY METHOD AND USER PROFILE**

A client satisfaction survey designed to obtain information concerning the client perceptions of the quality of commercial property valuation reports in the Malaysian commercial property industry was conducted in September 2008. The client satisfaction survey addressed a range of key valuation client issues regarding client perceptions of the quality of commercial property valuation reports in Malaysia, including survey respondent profile (including commercial property portfolio and valuation activity), use and importance of valuation reports, selection of valuers, significant differences in valuation reports, valuation methods used, satisfaction with valuation reports, reliability of valuation reports, satisfaction with analytical details, weaknesses in valuation reports and solutions to these weaknesses.

## Table 1: Quality of valuation reports: survey respondent profile

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Date of survey : September 2008

Number of property organisations surveyed : 350

Number of responses : 73

Survey response rate : 31%

Make-up of survey respondents:

- REITs 16%
- Insurance companies 19%
- Property developers 15%
- Corporates 12%
- Pension funds 11%
- Commercial banks 1%
- Other\* 25%

Total value of commercial property portfolio : RM15.51 billion\*\* (AUS\$5.6B)

Make-up of commercial property portfolio (by organisation)

- REITs RM 4.41 billion (28%)
- Corporates RM 2.37 billion (15%)
- Pension funds RM 2.11 billion (14%)
- Property developers RM 1.84 billion (12%)
- Insurance companies RM 1.43 billion (9%)
- Commercial banks RM 0.09 billion (1%)

Make-up of commercial property portfolio (by size of portfolio)

- < RM 20M 31%
- RM 20-49 M 19%
- RM 50 – 99M 10%
- RM 100 – 499 M 18%
- > RM 500 M 22%

Average size of commercial property portfolio (by organisation)

- REITs RM 370 million
- Corporates RM 260 million
- Pension funds RM 260 million
- Property developers RM 130 million
- Insurance companies RM 100 million
- Commercial banks RM 90 million

Percentage of valuations (by property type)

- Office property 35%
- Retail property 25%
- Industrial property 14%
- Other property\* 26%

Frequency of valuations

- Every 6 months 20%
- Every 12 months 43%
- Every 18 months 11%
- Every 24 months 26%

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\*: Other includes non-investment businesses with significant property portfolios that require valuations (eg: CRE)

\*\* : RM1= AU\$0.36 at September 2008

\*\*\*: Other property includes leisure, healthcare and hotels

The client satisfaction survey was sent to 350 property organisations in Malaysia who were major external users of commercial valuation reports, with the contact details of survey participants obtained from a variety of sources, including ISM and REHDA (Real Estate and Housing Developers Association), as well as from the Kuala Lumpur Stock Exchange (KLSE) to capture the major listed financial and property institutions in Malaysia. With ISM and REDHA being the leading property professional organisations in Malaysia and the KLSE being the national stock exchange, this ensured a full and representative coverage of the major external users of commercial valuation reports in Malaysia. As such, participants included REITs, insurance companies, property developers, pension funds, commercial banks and corporates.

73 responses were received, with the resulting survey response rate being 21%, which was considered acceptable given previous survey response rates in this area of client perceptions of valuation report quality in Australia and UK (36% - 76%) and previous difficulties in getting participants to respond to surveys in Malaysia and Asia. Respondents confirmed that they were major users of commercial property valuation reports, and hence were able to effectively comment on their perceptions of the quality of commercial property valuation reports. The main respondents to the survey were insurance companies (19.2%), REITs (16.4%) and property developers (15.1%). Sufficient coverage within each of these major sub-sectors was achieved to ensure the results were representative, as well as survey responses received from the leading participants in these various industry sub-sectors. Full details of the survey respondents are shown in Table 1.

By using this client satisfaction survey format, access to individual commercial valuation reports from the clients was not required; this reflects the confidential nature of valuation reports between clients/valuers. As such, the research focus was on client perceptions of the quality of commercial valuation reports and not on the physical inspection of actual valuation reports to objectively and independently assess their quality. This strategy ensured no confidentiality issues and was a key factor in the adequate survey response rate of 21% achieved from respondents.

These survey respondents represented a total property portfolio of RM15.51 billion (AUS\$5.6B), with the respondent groups each having extensive commercial property portfolios. These commercial property portfolios covered a wide range of values from small to large property portfolios; also covering the major commercial property types, including office property (35%), retail property (25%) and industrial property (14%). This further reinforces the representative nature of these survey results.

All respondents were major users of commercial property valuation reports. The frequency of valuation of individual properties by these external users of valuation reports was largely annual (42%) or every two years (26%). All respondents employed outside valuers to conduct all of their commercial property valuations. These survey

respondents had a comprehensive knowledge of the significance of valuations in the overall commercial property context, with 100% being aware of the standardised valuation guidelines in Malaysia, the existence of the Valuers, Appraisers and Estate Agents Act regulating the valuation profession, the need to use qualified registered valuers and the overall usefulness of commercial property valuation reports. This knowledge further validates the integrity of the survey respondents to provide relevant user information regarding their client perceptions of the quality of commercial property valuation reports in Malaysia.

Percentage responses were presented for all questions for the overall survey participants, as well as for the three main types of property organisations (REITs, insurance companies, property developers). These separate groups of respondents were used to assess whether the type of property organisation influenced client views on the quality of commercial property valuation reports in Malaysia.

As this was the first survey of client perceptions of the quality of commercial valuation reports in a developing market, it also provided a unique opportunity to compare the results with previous client perception research which focused on commercial valuation reports in the developed markets in Australia and the UK.

## **RESULTS AND DISCUSSION**

### **Use of commercial valuation reports**

93% of respondents indicated that valuation reports were relevant in the commercial property investment-related decision-making of their organisations, with 15% of respondents indicating that valuation reports were highly relevant in their commercial property decision-making. This was particularly evident for REITs, with 92% of REITs seeing valuation reports as highly relevant in their property decision-making.

The most important reasons cited for using valuation reports in these property organisations were for investment decisions (96% cited as important/essential), lending practices (90%) and legal requirements (90%). In many cases, valuations were indicated to be essential for the aforesaid reasons. These reasons cited were seen to be important for all types of property organisations.

In selecting outside valuers, respondents used a range of procedures; however, they largely (83%) used valuation firms or individuals that they knew from previous experience, based on their reliability and ability to meet valuation deadlines. Requesting tenders was the least used procedure for selecting valuers. REITs largely focused on the reliability of the valuation firm/valuer, while property developers focused on known valuation firms/valuers and meeting valuation deadlines.

Respondents considered that there were significant differences in commercial property valuation reports amongst the various valuation firms/valuers available for their use. This was largely in the areas of accuracy of facts and data (37% considered there were significant differences in valuation reports), quality of content of the valuation reports (29%), report clarity (29%) and reliability of evidence and market value (25%). No respondents considered the differences in valuation reports to be highly significant differences for any of the factors assessed. REITs were seen to consider a higher level of significant differences in commercial valuation reports being evident for each of the factors assessed; largely reflecting the importance they require for commercial valuation reports in their property investment decision-making. Importantly, the extent of these significant differences in commercial valuation reports in Malaysia was not as evident as that seen in equivalent surveys in Australia (Newell, 2004), where 71% of respondents considered significant differences existed in the quality and reliability of commercial property valuation reports in Australia.

A range of valuation methods were being used in these commercial property valuation reports for the various property types. The dominant valuation methods used were the income approach and DCF analysis for each of the property types. This trend to increased usage of cash flow analysis in valuation is consistent with most other mature commercial property markets (Newell, 2004), reflecting the availability of sophisticated valuation software and the requirement by many institutional investors (e.g. REITs) to incorporate DCF analysis in commercial valuation reports.

### **Quality and reliability of commercial valuation reports**

The general level of client satisfaction with commercial valuation report quality was high for each property type. This saw client satisfaction for industrial property valuation reports being highest (86% satisfied), retail property valuation reports with 85% satisfied, and with lower levels of satisfaction evident for office property valuation reports (73% satisfied). The level of client satisfaction by REITs was lower than that for both insurance companies and property developers; again reflecting the more demanding and critical importance of commercial property valuation reports in REIT property portfolio decision-making. All three types of property organisations had lower levels of satisfaction with office property valuation reports than with the other property sectors, with highest levels of satisfaction evident for industrial property valuation reports for all three types of property organisations. None of these differences in satisfaction between the various property organisations were found to be statistically significant ( $P > 5\%$ ).

Whilst this general level of client satisfaction with commercial valuation report quality was high for each property type, there was room for improvement regarding specific aspects of these commercial property valuation reports. Highest reliability was seen for the content of the valuation report and market value estimates, with more concerns expressed over the timing of the valuation report's delivery. Concerns



regarding each of these specific factors in commercial valuation reports were more evident by REITs.

High levels of satisfaction were evident with the level of analytical detail in the commercial valuation reports to enable the client to make a reasoned judgement as to how the market value estimates were derived; see Table 2. All analytical factors saw over 83% of clients satisfied, particularly the factors affecting value (89% satisfied), reliability of the valuation methodology used (88%), and the accuracy of the market data used (88%), covering all dimensions of the integrity of the valuation process. Whilst the levels of satisfaction were high for all factors, insurance companies were the least satisfied with the level of analytical detail provided. This largely reflects their need for more detail and explanation in the valuation reports, compared to REITs and property developers who are more property-focused and experienced in property. However, none of these differences in satisfaction between the various property organisations were found to be statistically significant ( $P > 5\%$ ).

**Table 2: Extent of satisfaction with level of analytical detail in valuation reports**

Analytical factors	Percentage responding at least “satisfied”			
	Overall	REITs	Insurance Companies	Property Developers
Factors affecting value	89%	92%	93%	100%
Reliability of valuation methodology used	88%	83%	100%	86%
Accuracy of market data used	88%	92%	86%	79%
Clarity of market analysis	86%	83%	79%	93%
Basis of valuation used	84%	83%	79%	86%

### **Perceived weaknesses in commercial valuation reports**

The users of valuation reports also rated thirteen categories of potential weaknesses encountered in external valuations in their commercial property portfolios, as shown in Table 3. Weaknesses that figured prominently were:

- Lack of details and discussion of analytical aspects: 33% of respondents
- Failure to address the purpose of valuation report: 32% of respondents
- Failure to understand the complexities and market position for particular property: 27% of respondents
- Inadequate market analysis: 25% of respondents.

**Table 3: Perceived weaknesses in valuation reports**

Perceived weaknesses	Percentage responding “highly important”			
	Overall	REITs	Insurance Companies	Property Developers
Lack of details and discussion of analytical aspects	33%	33%	43%	29%
Failure to address the purpose of commercial property valuation report	32%	42%	29%	21%
Failure to understand complexities and market position for particular property	27%	25%	14%	21%
Inadequate market analysis	25%	17%	43%	21%
Too much reliance on historical aspects of market performance	18%	17%	14%	29%
Limitations on valuation assumptions in valuation report	16%	17%	14%	21%
Limitations on market data provided	16%	17%	14%	21%
Failure to comment on likely market trends	16%	17%	14%	14%
Limited use of comparables	16%	17%	14%	14%
Inaccuracy of information/facts	16%	17%	14%	21%
Timeliness of report delivery	16%	17%	14%	21%
Lack of market forecasting	15%	17%	14%	14%
Years of experience of registered valuers	15%	17%	7%	14%

This indicates that while the users of commercial valuation reports are overall satisfied with the analytical detail in the valuation reports (see Table 2), there is still room for improvement by providing more detail and discussion of these analytical aspects in the commercial valuation reports. This is expected as valuers move more towards increased use of DCF analysis in these commercial valuation reports. The uniqueness and market position of the commercial property was also seen to be not fully factored into the valuation reports; although this is likely to reflect a personal view regarding “closeness” to the specific property, rather than a fundamental valuation report issue. These factors were also seen to figure prominently as the major weaknesses in commercial valuation reports in Australia (Newell, 2004); reflecting generic aspects regarding commercial valuation reports in several countries. Importantly, each of these factors were seen to be more significant weaknesses in Australian commercial valuation reports than in the commercial valuation reports in Malaysia.

Importantly, a number of factors were not seen to be significant weaknesses; these include:

- Too much reliance on historic aspects of market performance: 18% of respondents
- Limitation on valuation assumptions in the valuation report: 16% of respondents
- Years of experience of valuers: 15% of respondents;

again, consistent with trends seen in Australia (Newell, 2004) and reflecting high levels of client satisfaction regarding the integrity and confidence in valuers and the valuation methodologies used in Malaysia.

Whilst there was general agreement regarding these perceived weaknesses amongst REITs, insurance companies and property developers, some significant differences existed ( $P < 5\%$ ). More detail, discussion and market analysis was seen to be important by the insurance companies (43% of respondents), while REITs wanted the purpose of the commercial property valuation report enhanced (42% of respondents). This is likely to reflect the importance by REITs given to investment value compared to market value in their decision-making. Property developers wanted less reliance on the historical aspects of market performance (29% of respondents), reflecting their need for the effective future positioning of their development rather than historic analysis. No significant differences ( $P > 5\%$ ) were seen in the consistent views of these three types of property organisations regarding the factors not seen to be significant weaknesses.

After ranking these perceived weaknesses in commercial valuation reports for the three types of property organisations, the rank correlation between these property organisations were all found to be significant ( $r = 0.53-0.89$ ), with slightly lesser agreement seen between REITs and property developers ( $r = 0.53$ ); this reflects their

different focus in their property activities of investment versus development respectively.

**Table 4: Suggested solutions to perceived weaknesses in valuation reports**

Suggested solutions	Percentage responding “highly important”			
	Overall	REITs	Insurance Companies	Property Developers
More detailed valuation workings	16%	17%	21%	14%
More use of analytical techniques	16%	17%	14%	21%
Comply with Malaysian Valuation Standards/ Securities Commission guidelines	16%	17%	14%	21%
More clarity in purpose of commercial property valuation reports	16%	17%	14%	21%
Greater emphasis on commercial property market supply/demand situation	16%	17%	14%	21%
Allow reasonable time period for delivery of commercial property valuation report	10%	8%	29%	7%
Improved accuracy of facts/data in valuation reports	10%	0%	21%	7%
Reasonable number of years of experience of registered valuers	8%	8%	7%	14%

## **Suggested solutions to weaknesses in commercial valuation reports**

The external users of valuation reports also rated a number of possible solutions to the above perceived weaknesses in commercial valuation reports; see Table 4. Five solutions figured prominently; namely:

- More detailed valuation workings: 16% of respondents
- More use of analytical techniques (e.g. DCF): 16% of respondents
- Compliance with standards: 16% of respondents
- More clarity of purpose in report: 16% of respondents
- Greater emphasis on current supply/demand situation: 16% of respondents.

The priority seen for more detail and analysis is clearly evident in these suggested solutions. This is consistent with the suggested solutions seen in the previous Australian study on the quality of commercial valuation reports (Newell, 2004). No significant differences existed between the three types of property organisations ( $P > 5\%$ ) regarding these suggested solutions. Importantly, a number of factors were

not seen as priorities for suggested solutions; these include:

- More experience by valuers: 8% of respondents
- Accuracy of facts/data used in valuation reports: 10% of respondents;

this reflects favourably on the high levels of client perception regarding the integrity of and confidence in valuers in Malaysia and the information they use in commercial valuation reports. Overall, there was less agreement on the suggested solutions, compared to the stronger views on identifying the weaknesses in commercial valuation reports. This was reflected in the lesser rank correlations between the three property organisations, with the highest level of agreement regarding suggested solutions being between REITs and property developers ( $r = 0.90$ ); this largely reflects their closer interaction with property and the valuation process.

## **General comments**

In addition to the above specific analysis, the general comments provided by survey respondents showed highly useful insights into the client perceptions of the quality of commercial valuation reports in Malaysia. These general comments were in the key areas of:

- Need for ethical standards and independence by valuers, not being influenced by the client or the desire to secure major future contracts
- Need for better presentation and analysis of comparable properties
- Need for more detail on current property market context and future market scenarios

- Valuations are subjective, relying extensively on professional judgement rather than just analytical analysis
- Need for ongoing training by valuers
- Ongoing monitoring of valuation report quality is needed.

These general comments clearly indicate the importance of valuers as ethical property professionals and the importance of professional judgement and property market understanding in the valuation process.

## **VALUATION IMPLICATIONS**

Given the importance of commercial property valuation reports as a key ingredient in the property investment decision-making process, this research takes on more significance in the context of the global financial crisis and the need to continue to improve all aspects of valuation standards and valuation reports as part of the integrity of and public confidence in the valuation profession in Malaysia. The results also take on even more stature as the survey was conducted at the peak of the global financial crisis (September 2008), when even more scrutiny was being given to all aspects involved in the financial processes at an international level. It also involved a developing property market, whereas all previous surveys in this area have focused on the mature property markets in the US, UK and Australia; hence providing a unique opportunity to contrast the developing and the developed markets.

This research has surveyed major users of commercial property valuation reports in Malaysia to assess client perceptions of the quality of commercial property valuation reports in Malaysia. A wide range of issues were assessed relating to the quality of commercial valuation reports and the integrity of valuers and the valuation process in Malaysia.

Key findings to emerge from this survey were:

- (i) commercial valuation reports were seen as relevant by the vast majority of respondents in their property decision-making
- (ii) use of DCF analysis was evident and increasingly expected by users of valuation reports
- (iii) level of client satisfaction with the quality of valuation reports was high for each property type; with less satisfaction evident for office property valuation reports
- (iv) there is room for improvement in specific aspects of valuation reports in the areas of content of report and market value estimates
- (v) high levels of client satisfaction with the general level of analytical detail provided to enable a reasoned judgement as to how the market value estimates are derived

- (vi) weaknesses in the quality of commercial valuation reports are evident, with the main weakness relating to the lack of detail and discussion of analytical aspects; this complements the previous (iv) point and reflects the importance now attached to the aspect of extensive analytical analysis and discussion of analytical aspects
- (vii) valuers were considered to have sufficient experience to provide high quality commercial property valuation reports
- (viii) REITs were more exacting in their expectations regarding key aspects of the quality of commercial valuation reports
- (ix) trends evident in Malaysia regarding weaknesses and solutions in valuation reports were similar to those in comparable international studies (e.g. Australia).

In the light of these research findings and the suggested solutions to weaknesses in commercial valuation reports in Malaysia, a number of issues need to be addressed regarding improving the quality of commercial valuation reports in Malaysia. Particular aspects that need to be reviewed by agencies related to the valuation profession in Malaysia such as the Board of Valuers, Appraisers and Estate Agents (BOVAEA) and the Institution of Surveyors, Malaysia (ISM) include:

- (i) expanding the valuers' understanding of the significance, use and discussion of DCF in valuation reports. This was seen as the top priority solution to the identified weaknesses in commercial valuation reports, and reflects increased institutional investor usage of DCF and the more explicit nature of DCF as a commercial valuation procedure. This can be effectively achieved via initiatives such as the ISM CPD program.
- (ii) ensuring ongoing compliance with valuation standards; particularly the updated asset valuation standards in 2009 by SCM.
- (iii) determining whether more detail needs to be provided in valuation workings in commercial valuation reports. This reflects the movement towards more explicit or "talking" valuations in many countries in recent years; by providing sufficient detail to ensure a fuller understanding of the valuation decision-making process by the client.
- (iv) ongoing liaison with the property industry and financial services sector regarding enhancing their awareness and understanding of valuation reports and the valuation process (e.g. valuation standards). This can be achieved via joint CPD events for ISM, REHDA and the financial services professional associations in Malaysia.

All of these recommendations are strongly linked into the results of this research and suggested solutions by the survey respondents. Further consideration of the above issues by ISM and BOVAEA will assist in the ongoing improvement in the quality of commercial valuation reports in Malaysia, to see enhanced professional standards and high levels of confidence in valuers and the quality of commercial valuation reports by the external users of commercial property valuation reports in Malaysia, and to further validate the integrity of valuers and the valuation process from a Malaysian and international perspective. In most cases, there was a strong similarity between the issues for the developing market of Malaysia and the developed markets (eg: Australia).

Overall, this paper has added to the property research agenda of Tom Whipple in the area of commercial property valuation reports by providing significant insights regarding client perceptions of the quality of commercial property valuation reports in Malaysia. Further research opportunities also exist in this area; particularly concerning the objective and independent assessment of the quality of commercial valuation reports in Malaysia. This objective assessment builds on this current research and will require the critical review of actual commercial valuation reports, as well as in-depth qualitative research with both valuers and the users of commercial valuation reports.

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