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Recent changes in accounting standards: Cut investment risk with accurate valuations

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Real estate investors and property managers have long used discounted cash flow to evaluate potential investment opportunities, determine current market value for accounting purposes, and assess a portfolio's sale price. Until fairly recently, these calculations were often made using error-prone spreadsheets and manual calculations. But today, advanced, integrated software products provide comprehensive analysis and accurate long-term forecasting that reduce risk and promote portfolio growth and profitability.

Recent changes in accounting standards have had an influence on the evolution of asset and portfolio valuation. Most notable of them was the Financial Accounting Standards Board's issuance in 2006 of the Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." This generally accepted accounting principle sought to increase transparency by calling for quarterly, rather than annual, real estate portfolio valuations.

Has the subsequent quadrupling in the number of property valuations for acquisitions, sales or SFAS 157 compliance purposes made these calculations more difficult to formulate? Do they take an inordinate amount of time? Noâ€”fortunately, the process of precisely calculating current and future real estate portfolio values is not unduly burdensome for owners and managers equipped with top-level valuation model software currently on the market. These powerful tools automatically combine market leasing assumptions, variable discount rates, and variable income and resale price calculations to compute long-term discounted cash flow for commercial and residential portfolios.

Today's leading-edge asset valuation tools combine all portfolio assets, along with operating and forecast budgets and analysis, into one database, enabling managers and owners to generate quarterly workflows themselves. Underlying data is readily available, and the analysis can be refreshed with any number of actual quarterly financial performance factors. Such integrated solutions reduce the time required to create valuations, promote thorough due diligence, and limit opportunities for error associated with drawing input from various databases.

Contained within a consolidated database, these software suites can perform customized analysis for a portfolio that includes numerous "what if" assumptions such as capitalization rate, costs and discount rate changes, from groundbreaking and construction all the way through project completion. These calculations reduce risk by pinpointing the optimum holding time and best estimated value before selling. The solutions can also provide quarter-by-quarter performance comparisons, enhancing their utility as an asset management tool.

By projecting a real estate portfolio's revenues and cash flow, project leaders can also use the asset valuation tools to strengthen their outreach to investors by providing reasonable estimates of their returns.

Since we don't have a crystal ball to predict future cash flows, internal rates of return, property values, and other factors influencing real estate investment actions, these advanced valuation products are the most reliable tools we have to see into the future of our assets. In a fast-paced and increasingly regulated market, they are a necessity for making confident forecasts and good competitive buy/hold/sell decisions in today's marketplace.

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