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Appraisal Institute supports proposed revisions to GIPS

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The Appraisal Institute supports revisions to the Global Investment Performance Standards, which are standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report results of investments, including real estate.

The Appraisal Institute expressed particular support for a proposal to increase the frequency that real estate investments are appraised by an external party to at least once every 12 months, down from at least once every 36 months.

"It is critical that real estate values be analyzed by external professionals on a regular and ongoing basis to protect investors and promote transparency in the marketplace," said Jim Amorin, MAI, SRA, president of the Appraisal Institute.

"With many real estate markets facing rapidly deteriorating market conditions - including higher unemployment, vacancy and capitalization rates, tightening lender requirements and increasing bankruptcy filings - this proposed revision is particularly important," Amorin said. "We believe these changes will strengthen GIPS and assist in the economic recovery by promoting sound real estate investment management."

GIPS standards are used for calculating, measuring and presenting investment performance. According to a GIPS news release, "The GIPS standards benefit two main groups: investment management firms and investors. By choosing to comply with the GIPS standards, investment management firms assure prospective and current investors that their reported historical track record is both complete and fairly represented." "We have been strong supporters of the GIPS standards, which promote transparent reporting of financial information to investors," Amorin said.

Regular and consistent monitoring of commercial real estate assets will be critical in the months and years ahead, as the economy recovers from recession and the credit markets are rehabilitated. According to a Deutsche Bank report in July, commercial real estate and construction losses could reach as high as between $250 billion and $300 billion. Deutsche Bank's research team estimated commercial mortgage-backed securities losses on 2005-2008 vintageswill be 12 to 15%, while construction losses at banks may be 25% or higher.

According to Deutsche Bank, perhaps 65% of loans, or more, could fail to qualify to refinance, at least without large equity infusions. "In effect," the report said, "the massive paradigm shift in underwriting standards, combined with 35-45% price declines and severely depressed cash flows, would likely strand a vast swath of the commercial real estate debt markets." The report concludes that the looming commercial real estate crash may well exceed the collapse that took place in the early 1990s.

The current version of the GIPS standards became effective Jan. 1, 2006, and investment managers who claim compliance will have to adhere to the revised standards beginning Jan. 1, 2011. The Appraisal Institute - along with the American Society of Appraisers, the American Society of Farm Managers and Rural Appraisers and the National Association of Independent Fee Appraisers - was among those commenting on the proposed rule revisions. The public comment period ended last month.

The GIPS standards were created and are administered by CFA Institute, the global, not-for-profit association of investment professionals that awards the Chartered Financial Analyst and Certificate in Investment Performance Measurement designations.