

OPPONENT REVIEW

Asset Dividing Appraisal Model (ADAM), Direct Real Estate Investment Evaluation

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SUMMARY OF THE REVIEW

The focused topic is relevant and current. The explored problem is briefly defined. The main objectives are basically accomplished. And the delivered work includes creative elements.

However, existing knowledge is not referred in a traceable manner. The chosen appraisal approach is barely adequate and generally inconsistent. The suggested findings are hardly feasible and therefore scarcely significant.

The thesis is recommended for defense.

1. Relevance of the topic

The focused topic of a sound approach to real estate appraisal is highly relevant, especially in the current times of crises, when the uncertainty of conventional asset pricing is increasing. The separated assessment of land value and building value is of particular interest in the Czech Republic, where separate ownership in land and building is actually under consolidation.

2. Definition of the problem

The author defines the explored problem by the limitations of conventional business appraisal, which is not fully accounting for the irrational behaviour of real estate markets. He stresses the importance of assessing both the land and the building of a property. However, he does not define any particular evaluation criteria to test if alternative appraisal solutions do in fact overcome the criticized limitations.

3. Achievement of the objectives

The raised hypothesis are to verify some mathematical relationships between selected model parameters in the suggested appraisal model. These hypotheses are confirmed by calculations of several simulation examples. So the objectives set by the author are basically accomplished. Yet the invented appraisal model is not tested in comparison with other models and hence lacks of evidence for its claimed outperformance.

4. Originality of the work

Property appraisal theory and practice knows the so-called layer model to consolidate separate asset components of different valuation characteristics (for example: core and top slice). The author does not explicitly mention layer models. Nevertheless, his approach to property appraisal is an application of the layer model. What's new here is his idea to combine (the core of) the land with (the top slice of) the building. Another original idea of the author is his attempt to mix components of market value and capital value. Therefore it can be stated that this work principally includes creative elements.

5. Reference to existing knowledge

The author abstains from using a broad body of existing knowledge in the field of property appraisal (including for example the German bestseller: Internationale Bewertungsverfahren für das Investment in Immobilien). The essence of his thesis is concentrated on the German Gross Rental Method. He introduces this concept mainly by making about 20 references to a single practice guide, instead of a broader discussion and specific links to the original text of the actual source in German regulation. The general type of references given here (Metzger 2010) is not tracable (no page numbers), outdated (4th instead of 5th edition), sorted incorrectly (not in alphabetical order), and described incomplete (missing editor, publishing house and location) in the list of literature. Some other references given by the author do not exist, such as the main data source of a calculation example (website indicated in CSO 2013 is not available in the world wide web).

6. Adequacy of the approach

The author emphasizes correctly on the categorical differences between market value and investment value. He distinguishes between the objective, backward-looking nature of market value and the subjective, forward-looking nature of investment value; corresponding to their alternative valuation purposes. But then he comes up with the idea to combine these two approaches in a new single appraisal model. The mixed result is obviously neither a market value nor an investment value. And due to this general inconsistency the appraisal model invented by the author is barely adequate for neither of the suggested valuation purposes.

7. Significance of the findings

The author proposes the application of the German approach to calculate land values in the Czech Republic. This calculation requires the activity of an independent land expert commission and the availability of a location specific yield index. Such statutory requirements are satisfied by German regulation, but they do not exist in other countries. Hence, the fictive findings of this thesis are hardly feasible in practice and scarcely significant for international property appraisal.

8. Recommendation to the chair

I recommend the thesis for defence before the examining board concerned. (Note: I have reservations concerning plagiarism because the references given by the author are rather patchy.)

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