

The Evolution of Real Estate Valuation in
the Kingdom of Saudi Arabia

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History of Real Estate Valuation in the Kingdom of Saudi Arabia

Real estate valuation was first used in the Kingdom of Saudi Arabia (KSA) for inheritance and compulsory purchase purposes approximately 50 years ago. The requirement for real estate valuations grew in the early 1980s, when local banks began lending to companies and investors, and their real estate was used as collateral against loans. The common practice at that time was to employ one or more real estate agents to value the property in question; These individuals were regarded as real estate experts or the 'Sheikh' of the real estate sector within a certain geographical area.

Real estate valuation continued on a relatively informal basis until the beginning of the new millennium, though banks did not require real estate offices to provide information relating to their valuation experience in order for them to register as valuers on their panel. Notably however, real estate valuation continued to be undertaken without any specific standards or regulations.

Along with most global economies, Saudi Arabia suffered from the effects of the global financial crisis towards the end of 2008, the result of which led to the real estate market experiencing a decrease in values across most sectors. This instability in the real estate market is generally considered the catalyst for formal and regulated real estate valuation practices across KSA, designed to provide consistency and quality as well as confidence and security to those who relied on the valuations.

In mid-2012, the Cabinet of Ministers issued several laws and regulations relating to the financial and real estate sectors which included:

- The Saudi Accredited Valuers Law
- The Registered Real Estate Mortgage Law; and
- The Real Estate Finance Law



In early 2013, the Saudi Authority for Accredited Valuers (Taqeem) was founded.

Significantly, Taqeem adopted the International Valuation Standards (IVS) as their own standard for real estate valuation within KSA. Taqeem also undertook a review of the best real estate valuation practices adopted in the United States of America, Europe and Asia, after which KSA became a member of the International Valuation Standards Council.

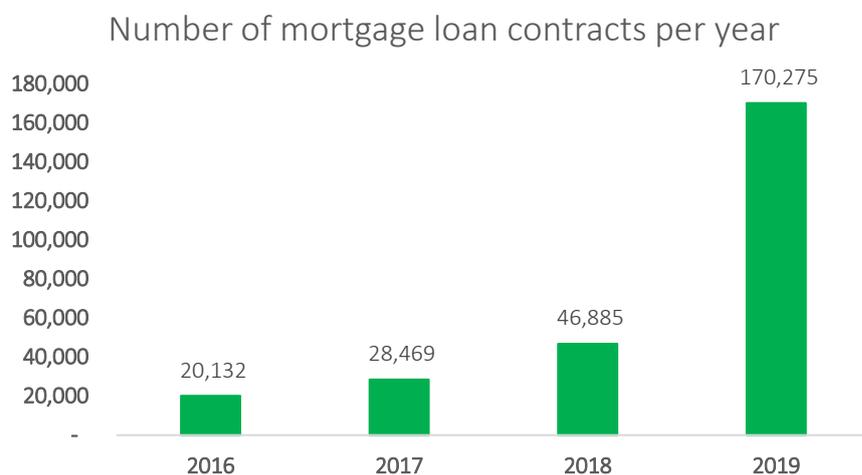
The Accredited Valuers Law initially granted temporary accreditation to valuers already practicing in KSA, whilst obliging them to comply with the Taqeem membership requirements within a transitional period which expires in mid-2022. In conjunction with this, Taqeem provides formal training in real estate valuation to aspiring real estate valuers via the Taqeem Academy. The training followed the United States Appraisal Institute Model and enlisted the support of the American Society of Appraisers, the Royal Institution of Chartered Surveyors (RICS) and the INSPIN Institute in Malaysia who have overseen the course design and training.

Taqueem's collaboration with other regulators

In 2006, the Capital Markets Authority (CMA) issued the Real Estate Investment Fund Regulations, in which, Article 21 specified that *“the valuer shall be independent from all related parties”*. In 2016, this was moved to Article 38 and amended in coordination with the CMA and Taqueem to state *“The valuator must be a basic member of the Saudi Authority for Accredited Valuers”*. In 2016, the CMA, Taqueem and Saudi Organisation for Certified Public Accountants (SOCPA) reviewed market readiness, requiring listed companies to adopt fair value. This required the cost approach to be adopted when valuing properties, machinery, equipment, investment property and intangible assets until future assessment in three years.

In 2018, the Saudi Arabian Monetary Authority (SAMA) made it mandatory for all banks, financial institutions and insurance companies involved with or requiring real estate valuation to only deal with Taqueem accredited valuers, which took immediate effect. At the end of 2019, the CMA announced that fair value should be adopted for real estate classified as ‘Investment Property’ for the fiscal year starting in 2022, whilst other assets should continue to be recorded on balance sheets at cost until the end of 2024. In addition, all valuations must be performed by independent accredited Taqueem valuers, appointed by the listed company’s Board of Directors upon the recommendation of their Audit committee.

The changes and implementations of real estate valuation regulations have helped Taqueem’s standing and professional status, which was reinforced with the application of its professional code of ethics, mirroring those of the IVS. Notably, initiatives led by the Ministry of Housing and SAMA to increase home ownership amongst Saudi nationals have led to a relatively large increase in the number of mortgages being granted, which reached approximately 170,000 in 2019, more than triple that of 2018, as illustrated in the graph below. In parallel, this has boosted the demand of real estate valuation services across KSA, which has required more real estate valuers to undergo the necessary training and Taqueem accreditation, reaching more than 1,000 members as of September 2020.



Source: the Saudi Arabian Monetary Authority (SAMA)

Taqueem provides an up to date translation of the IVS in Arabic on its website and has also added a number of publications to the Arabic library. Today, the Taqueem Academy provides training across the MENA region such as Kuwait, Bahrain and Egypt.

The future of valuation practice in KSA

Over the past 20 years, real estate valuers have started to use different software packages to run the more technical valuations, such as the ARGUS software. Meanwhile, certain banks have also created their own valuation software to be used by their panel of valuers to ensure consistency and a common standard. However, this move towards technology has been relatively slow, potentially reflecting the conservative nature of the profession.

What does the future look like for valuers across the globe, in context of a fast-moving technological landscape? Will Artificial Intelligence (AI) play a major role? As valuations become even more complex and even larger amounts of data are considered, will valuers become more reliant on technology and become technologically savvy to maintain a competitive edge?

This changing landscape will present challenges for the likes of Taaqem and other regulators who will also need to adapt in order to ensure the standard of valuation services are maintained in a fast-moving technological world.

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