Special Ethical and Compliance Issues Regarding Property Valuation Reports: Applicability of Valuations in Responsible Property Investment

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SUMMARY

This paper presents some ethical and compliance aspects of valuations and demonstrates the importance of real estate appraisals in responsible property investment. The basis is fieldwork (interviews with senior Hungarian experts supported by questionnaires) focusing dominantly on the Hungarian practice and experience, combined with a review of the literature. This paper focuses on the operative side of investments: defining a detailed investment process, highlighting the unique features of ethical, responsible investments and then selecting the steps where an independent valuation is necessary and highlighting which aspects of ethical property investment should be supported by appraisals. The aims of this paper are 1) presenting the necessity of valuations, 2) giving examples when the independence of valuations is questionable.

The conclusion is straightforward: independent appraisals are essential in all major milestones, but the independence aspect is critical. There are two practical ways to support this: 1) full implementation of professional standards (in developed property markets) and 2) centralized and common frameworks, rules and some "nudges" established by financial administration (in semi-developed markets like in Hungary).

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INTRODUCTION

There is a broadening literature on the ethical aspects of investments. Ethical and responsibility-related issues are moving into the mainstream of not only economics as a science, but of daily business as well (De George 2005): there is an increasing trend of funds being invested in ethical instruments and assets (Michelson et al. 2004). From the perspective of sustainability, investing in real estate has greater importance when its social and environmental consequences are considered (Pivo 2007).

From the end of 2007 a unique and deep financial crisis swept over the world. The origin of the scandal was the total collapse of transparent and risk-sensitive real estate investment and financing activity. It was not only a fundamental crisis, where the former asset values depreciated rapidly. There was also a broad ethical aspect of the entire story: several investment schemes originated and were managed in bad faith, with the purpose of directly misleading the ultimate cash investors, supervisory authorities and customers. How is it possible? Why did investment managers undertake so much risk, even turn to crime, in order to beat the benchmarks and realize a few more percentage points of return? Many questions arose that should be answered from theoretical and practical points of view.

This paper highlights the evidence for the necessity of independent property value appraisals. These reports play a crucial role in the investment process. During the years of the past financial crisis several cases were reported in commercial and investment bank portfolios in which the independence of appraisers or valuations had been questionable. This paper attempts to turn the spotlight on the most common independence issues.

The first section defines some topic-related business categories. In the second section there is a detailed presentation of property investment process. The third part summarizes the main steps of the real estate valuation process and briefly presents the most important contents of valuation reports considering the needs of a responsible investor. In the next section – based on the defined processes – there is a detailed overview of the proper application and importance of valuation reports in responsible real estate investing. In the fifth section there is a short presentation about the findings of the interviews with local market experts. The sixth section overviews the ethical issues arising in connection with appraisals, then offers some proposals for the future, while the final section restates the main conclusions.

SOME BASIC DEFINITIONS OF PROPERTY BUSINESS

Property investment and the related business environment have their own professional wording and definition system. As the profession is somewhere between technical and economic sciences, there is a mixture of phrases and theories originating from engineering and finance. As investment and evaluation activities are strongly based on the classic corporate finance toolset, definitions which are essential for understanding our topic are mainly linked to economics and finance (the basic phrases are presented by corporate finance textbooks, for example Brealey et al., 2011).

RICS Global Standards define *real estate* as "land and all things that are a natural part of the land (e.g. trees, minerals) and things that have been attached to the land (e.g. buildings and site improvements) and all permanent building attachments (e.g. mechanical and electrical plant providing services to a building), that are both below and above the ground" (RICS 2017). As it is a "physical-like" description on buildings and lands, we should differentiate the business phrase *real property*, which is "all rights, interests and benefits related to the ownership of real estate" (IVS 2017). From the business point of view (real) property is a financial asset which represents a long-term cash flow to its holder(s). This cash flow is not only a series of incomes, but also contains costs, expenditures, taxes, duties, etc. relating to operation and holding, moreover the capital expenditures of acquisition, renovation, facelifting, and finally debt servicing relates to the credit lines connected to the given asset. From an analytical point of view we should definitely differentiate commercial properties, which are exclusively used for business purposes, from residential units and serviced apartments (mid- or long-term rented flats). This paper focuses on commercial properties.

In real business transactions the value of a given property is a straight and exact dimension. This is the *transactional price*. Although it seems like a "crystal clear" category and international professional standards – like International Valuation Standards (IVS) or the professional standards of the Royal Institution of Chartered Surveyors (widely known as the "Red Book") – define the general principles and technical framework, in valuations the value is rather relative, depending on several aspects, such as time horizon, pressure on stakeholders, methods and chosen approaches of valuation, appraisers' personal judgments, etc. Although a given transaction price may vary from the value determined by an appraiser (or even that is the default case), it does not definitely mean that the valuation is incorrect. Moreover, there is no exact, "one-over-all-others" value. The standards distinguish several value categories, such as equitable value (formerly fair value), market value, investment value, liquidation value and synergistic value (RICS 2017). For a given property there is a strong correlation and dependence between the value categories; differences mainly depend on the stakeholders' positions (demands) and the property itself.

There are several groups of stakeholders typically involved in property transactions. The *developer* is an entrepreneur who transforms the real estate from an original physical and business set-up to a completely new status. The transformation is typically an intensive value-adding via a combination of planning, structuring, financing, constructing, letting and operating.

Property *investors* invest funds into pre-developed or finished properties. Some of them are *responsible or ethical investors*, who are not exclusively focused on financial returns, but also consider the consistency of the investment case with their personal values (Webley et al. 2001; Michelson et al. 2004). Pivo argued that ethical investments are being driven by business considerations: "concern for risk and return is the biggest driver, and fear of insufficient financial performance is the biggest impediment to doing more" (Pivo 2007, p 248).

Financers (typically commercial banks) are the institutions that are co-financing the equity owners (developers and investors) with senior mortgage loans. *End-users* are the companies who are the tenants or lessees of the commercial properties and facilities. Real estate valuers (appraisers) may be engaged with delivering property valuations in order to support the decisions of stakeholders, especially in risk undertakings. The valuer who has no material links with the client assigned him with the valuation, an agent acting on behalf of the client or the subject of the assignment (RICS 2013).

THE COMMERCIAL REAL ESTATE INVESTMENT PROCEDURE

A typical property investment life-cycle can be divided into three phases.

1) Pipeline building and acquisition
    1.1 Indicative negotiations between the seller and the buyer: based on general, non-sensitive information

parties are trying to reach a non-binding agreement on the terms of the transaction.

1.2 Due diligence initiated by the buyer: to understand the business potential and the risk profile of the given real estate the buyer concludes a detailed tax, financial, legal, sustainability and technical analysis ("due diligence"). As part of this understanding the buyer engages an independent specialist to deliver an in-depth analysis on the property value.

1.3 Binding negotiations: based on the findings of due diligence, parties finalize the deal.

1.4 Fund raising: parallel to these activities, the investor is raising funds (equity, loan) to finance the purchase. Financers are doing their own analysis: for example, banks may hire another valuer to consider the liquidation aspects of the given asset - standards do not totally accept this value dimension, but there are principles regarding the forced sales of assets (IVS 2017).

1.5 Internal decision: based on the negotiations, the findings of the due diligence and the ultimate terms of funding, the investor has to conclude its own internal (investment committee) decision.

1.6 Closing: concluding the arrangement, signing the contract.

1.7 Post-closing and takeover: after the closing the buyer takes over the real estate (ownership rights, operation and correspondence with the end users). Inputs for this step are directly derived from the due diligence and the transactional documents.

2) Portfolio management

2.1 Regular reviews and reporting: investors review the performance of their assets on a regular basis and report the most important facts and forecasts to the financers. The basis of the reviews is internal controlling and regularly provided value appraisals.

2.2 Screening: this is the practice of including or excluding assets from the investment portfolio on sustainability criteria (Michelson et al. 2004).

2.3 Ratings and revaluations: Based on reviews and the extraordinary affairs decision-making bodies of investors regularly rate the portfolio items and in justified cases they decide on raising provisions or write-off. There is always at least one supporting independent valuation behind the decisions for reasons of transparency and independent governance.

2.4 Decisions on exit or recapitalization: The main decision-making bodies of investors decide on exit or refinancing (releasing some part of invested funds). A supportive appraisal is a script to set up and manage the expectations regarding the terms of exit and cash release.

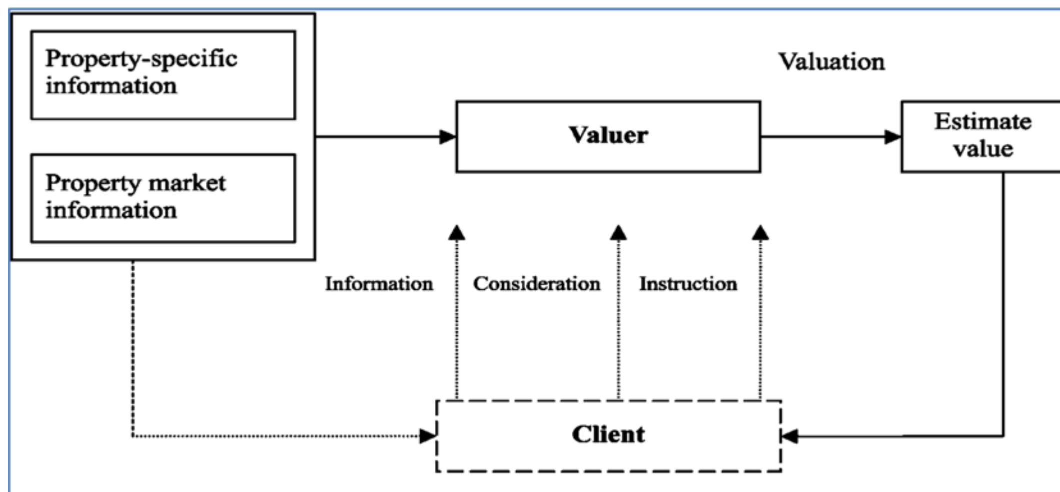
3) Exit transactions

Similar steps should be taken as in acquisitions (instead of fundraising there is a need for repayment or reallocation of funds).

Simplified Overview of the Real Estate Valuation Process

As we can see from the list above, one of the most critical foundations of any part of the investment process is the independent property valuation. Appraisal is not only a detailed presentation of the given asset, but a transparent support for all material business decisions. Because of this, it is more important for ethical than traditional property investors, as responsible investors prefer to follow a transparent way of doing business. Responsible investment is the integration of personal values, social considerations, ethical values and business factors into the investment decisions, in which transparency and long-term feasibility are very important, and – as Michelson team argued – "there is considerable benefit in an approach which treats ethical investment as a process and examines all the connections and disjunctions that take place within this process" (Michelson et al. 2004), p 8.

Chen and Yu (2009) published an expressive figure on the valuation environment (Figure 1). Although property and market information is obvious and clear, the valuer is receiving information from not only external sources, but from the client (investor and/or financer), which may be a source of misunderstanding, misstatement or even influence.



Source: Chen & Yu 2009

Figure 1. Valuation environment

The practical but rather strict framework of the International Valuation Standards provides a detailed manual on the valuation process and contents of the valuation report (IVS 2017).

1) Scope of work: The scope of the valuation engagement must be confirmed before all other steps.
2) Material topics to be covered: (1) Identification and status of the valuer, (2) Identification of the client and any other intended users, (3) Purpose of the valuation, (4) Identification of the asset or liability to be valued, (5) Basis of value, (6) Valuation date, (7) Extent of investigation, (8) Nature and source of the information to be relied upon, (9) Assumptions, (10) Restrictions on use, distribution or publication.
3) Implementation: This part of the process covers the preparation and analytical work.
   a. Investigations: inspection, inquiry, computation and analysis.
   b. Considerations about the appropriate valuation approaches (market, income or cost approach).
   c. A valuation record shall be kept during the investigations.
4) Reporting: The final step in the valuation process is communicating the results of the assignment to the commissioning party and any other stakeholder. The purpose of the valuation, the complexity of the property being valued and the users' requirements will determine the level of detail appropriate to the valuation report.

Material contents of a report: (1)-(10) same as at Scope of work, (11) Valuation approach and reasoning, (12) Value amount, (13) Date of the valuation report.

Austin gave a similar process map splitting the total procedure into eight steps (Austin 2012):

1) Identification of the problem,
2) Scope of work determination,
3) Data collection and property description,
4) Data analysis,
5) Site value opinion,
6) Application of the approaches to value,
7) Reconciliation of value indications and final opinion of value,
8) Report of defined value.

This segmentation is very similar to the above presented IVS framework: the first two steps are in line with "Scope of work", steps 3 to 6 match "Implementation", and finally step 8 is exactly the "Reporting". The remaining step 7 is a bridge between investigation and value reporting as "the purpose of the final reconciliation process is to resolve the differences among various value indications, to reveal conflicts or unresolved questions, to provide a quality control assessment of the valuation process, and to identify key factors that should be cited and explained, or elaborated upon, within the appraisal report" (Austin 2012, p 104).

Application and Importance of Real Estate Valuations in Responsible Property Investment

Long-term focused (responsible) investors and financers are strongly dependent on the findings of the appraisal – business factors, technical and operational remarks, sustainability statements, etc. As responsible property investors make efforts that "go beyond compliance with minimum legal requirements to better manage environmental, social and governance issues" (Pivo 2007, p 235), this means that all issues raised by the report may have a huge impact on not only the risk and earnings profile of the books of investors and financers, but also on the sustainability criteria fulfillment of the given real estate.

As Vanags and Butane (2013) noted, as the demand for sustainable real estate is increasing, fairly stated due diligence has to consider the impact of sustainability. They highlighted that the biggest challenge is “the integration of sustainability considerations into the determination of model input assumptions” (Vanags – Butane 2013, p 1227). When assessing the influence of sustainability on value, analysts and appraisers have to evaluate the qualitative nature of their work and improve efficiency by carrying out a sustainable property financial analysis. Its main steps are the following:

1) selection of a financial model,
2) evaluation of property sustainability,
3) assessment of the costs/benefits of sustainability,
4) evaluation of the financial simplifications of costs/benefits,
5) determination of the financial model inputs,
6) concluding a risk analysis and
7) presentation (Vanags & Butane 2013).

Michelson and his team found that transparency and the disclosure of all relevant information are important considerations for responsible investors (although these lead to higher transactional costs and fees) (Michelson et al. 2004). Pivo (2007) argued more generally that stakeholders could implement responsible property investments through better reporting, disclosure, location and leasing decisions. He gives concrete proposals regarding responsible property investment (RPI):

“Lenders can incorporate RPI criteria into their underwriting processes. Asset owners can assess their portfolios for social and environmental performance, and ask fund managers to incorporate RPI principles into their investment mandate. Fund managers can increase allocations to property types that are associated with greater social or environmental benefits (...). Asset and property managers can implement RPI by improving the eco-efficiency of properties, using fair employment practices, hiring from locally underemployed groups and engaging in other community programs. Developers can create projects that adopt socially and environmentally considerate construction practices, create greener properties, target underserved areas and communities, and incorporate stakeholder consultation through the development process.” (Pivo 2007, p 237)

Based on these statements and the investment life-cycle detailed above, we can conclude that appraisals have a crucial effect on roughly all steps of the investment procedure. In transactions (acquisition, exit, refinancing) one of the most important outputs of due diligence is the property valuation. From either the investor’s or financer’s point of view, stakeholders consider their position compared to the value determined by the appraisal. In portfolio management activities regular valuations are necessary for reviews (either on the investor’s or financier’s side), while all one-time decisions must also be supported by appraisals. Moreover, for responsible investors the valuation is even more essential, because

a) the report helps in understanding the current sustainability status and future environmental and social aspects of development possibilities of the examined property,
b) the content of the valuation is also useful for the reduction of the real estate’s ecological footprint,
c) the report helps them in the screening process,
d) responsibility requires transparency (towards all stakeholders) and the proper presentation of investment decisions – the *independent* appraisal is definitely a proper tool for demonstrating transparency, in line with Michelson’s argument.

As noted earlier, there is a tendency for some of the investors to behave, think and work responsibly. In parallel there is another trend: not only are investors becoming more responsible, but the asset values are becoming more dependent on responsibility issues. As markets become more sensitized to sustainability matters, these factors begin to complement traditional value drivers, both in terms of real estate end-user and investor behavior. Sustainability covers a broad range of economic, environmental, social and physical factors that may impact property value and of which appraisers should be aware (RICS 2013). Although the literature and institutional valuation frameworks emphasize the importance of sustainability, the interviewed experts felt that sustainability and environmental issues are not relevant in transactional practice in Hungary.

INTERVIEWS WITH LOCAL MARKET EXPERTS

A non-representative expert sample was selected based on the author’s professional experience in the property business: 15 professionals with significant track records and market knowledge, all of them with at least 10 years of experience in the Hungarian property market. Eight interviews were performed, all supported by short questionnaires. Among the interviewees were regulators, consultants, investors, financers, and valuers. The following topics were discussed:

1) ethical issues in property valuation engagements,
2) ethical issues in property transactions,
3) legal background, self-regulation of market players on domestic and international levels, responsibility and accountability within property valuation and property investment business lines.

The questionnaires consisted of 23 statements in 4 groups. Interviewees were asked to rate the statements on 5-point Likert scales. Based on the evaluation of questionnaires some relevant opinions formulated:

1) Soft client influence is a serious problem in valuation engagements, partly due to the inefficient regulation background.

2) Conflict-of-interest situations either on the client's or the valuer's side is a rather ordinary issue, while legal background and internal rules are insufficient.
3) Both transactional parties (seller and buyer) are open to cooperating "against" financers or other stakeholders, even to the point of misleading them by fake conditions, representations or disclosures.
4) Ordinary and extra-ordinary information disclosure to stakeholders is not a usual part of the daily business routine in Hungary.
5) Risk measurement and structuring of sustainability issues in property transactions do not meet the international standards.

LESSONS LEARNED – ETHICAL ISSUES REGARDING VALUATIONS AND PROPOSALS FOR RESOLUTION

All investors and professional experts know that even after the most accurate and sophisticated valuation process the output (not only the value, but the related assumptions and calculations) can spread around the practical facts (transactional price). This is a part of the "ordinary business". Sometimes spreading tends to be rather a valuation error, but institutional controls such as counter opinions, regularly repeated valuation reviews and the international valuation frameworks presented here are able to minimize the risk of valuation errors (IVS 2017).

Therefore, the most important issue is not the value spreading, but the damage to objective and fair characteristics of the valuation. If independence, competency or ethical behavior of valuer is questionable, than the responsible status could be damaged.

Jonathan A. Knee's bestseller book gives a sadly smart phrase on the irresponsibility and unethical professional advisory activity. The author worked as an investment banker responsible for arrangement of initial public offerings ("IPO" or stock market launches) advisory mandates. The investment bankers always have deep (internal) understanding about of the offered securities. Because of income maximizing they did not disclose all relevant information precisely and honestly in some risky cases. If they hesitated doing these, someone always noted that "IBG YBG". "I'll be gone, you'll be gone" meant that there was nothing to worry about: in a few years everyone would leave for sure (Knee 2008, p 18).

Unfortunately, a similar approach can be found in thousands of property investment transactions. Fund managers, debtors, creditors, valuers: lots of institutional players are interested in blowing up the bubble. This section gives a short overview on the ethical issues regarding value appraisals, then tries to propose some development in order to avoid ethical problems and enlarge the possibility of a responsible attitude.

The most important topic in this field (as reported by the Hungarian experts) is the management of the valuers' *competence and conflict of interest* situation. RICS framework precisely regulates the topic in a major professional standard. Independence and objectivity are demonstrated to be the most important criteria. They prescribe detailed rules on competence: practical experience and adequate technical knowledge are needed before the individual (member) valuer may accept an assignment (RICS 2017).

The framework takes into account that it is impossible to provide a definitive list of situations where a threat to a valuer's independence or objectivity may arise (but it provides some examples on conflict of interest situations). Valuers should reflect on the general conflict of interest principles and their spirit. There is a defined basis rule: valuers "shall at all times act with integrity and avoid any actions or situations that are inconsistent with their professional obligation. Where a conflict, or potential conflict, is identified, consideration has to be given as to whether the instruction should be accepted or declined. To provide an audit trail, a note of all conflict of interest checks and their resolution must be retained with the working papers." (RICS 2014, p 20) Besides detailed documentation there are some concrete proposals on appropriate handling such as

- rotation policy: arise where the valuer provided a series of reports over a period of time – familiarity with either the portfolio or the client could lead to the perception that valuer's independence and objectivity has been compromised,
- disclosure policies on (1) previous involvement, (2) proportion of fees payable by a given customer relative to the total fee income of the valuer's firm, (3) status, knowledge and skills of valuer, (4) extent of investigation, (5) the valuation approach(es) chosen by the appraiser, etc. (RICS 2017).

If a conflict of interest situation is not managed successfully for any reason, than there is much more room for *client influence*. Chen and Yu (2009) researched this topic in Singapore and Taiwan, but in their paper they review the related literature which examined also the markets in New Zealand and the United States. Although valuers definitely should be honest, unbiased and independent when undertaking valuation engagements, as "valuation is not only a science, but also an art", this allows appraisers the opportunity to be influenced by clients. Chen and Yu gave several examples of client influence in the study, such as opinion shopping, comparatives supporting (property of a similar function, in a similar location, etc., whose value may indicate a benchmark value), method suggestion, value indication (all by the client) or submitting a draft value (by the valuer – permitting the client to review the draft report prior to formalization; submitting some outcome of valuation before its completion is qualified a high risk to the valuer's objectivity (RICS 2013)). The authors found that professional clients preferred to influence the valuation by changing circumstances, data or calculations, while clients

who are not familiar with valuation industry simple use "further business or no business" threats (Chen - Yu 2009). The aim of influence could be to support a transaction near to closing, to overfinance an investment from a credit line or to optimize the equity and provision behind existing portfolios.

The local experts interviewed in this study added some more interesting forms on client influence: on occasion a client simply does not pay the valuer's invoice after receiving a value not in line with his expectations, or a (more sophisticated) client asks the valuer to use special assumptions in the calculation which influence the approach or directly the value.

Insufficiently covered or documented due diligence and poorly recorded valuations also affect the position of investors, especially responsible ones. If internal or external (audit) monitoring raised this issue, then it would mean negative impact on holding the given asset in the portfolio.

Although there are detailed guidelines for assessing buildings' sustainability characteristics (RICS 2013), *insufficient disclosure of sustainability issues* may also impact responsibility status of investment – as the interviewed experts reported.

After the above review the most common ethical issues, I would like to put forth some practice-based proposals and highlight some new implementations to show alternatives for broadening the basis of responsible, ethical property investing activity.

1) *Long-term incentivized senior staff in financial institutions:* Although there are some dividend-linked benefits in commercial banks, the majority of the senior officers do not depend on the long-term performance of their employer. Typically, commercial banks have no long-term incentives which are also connected to the sustainable financial performance of the asset portfolio. There are some well-known case studies about the motivation systems and corporate culture of the international financial institutions; some examples are presented by Knee and by Ho (Knee 2008, Ho 2012).

   The requirement of proper allowance system explicitly means that the basis of bonus benefits would not rely only on the change in share price or return-on-equity (ROE) ratio (or another similar financial key performance indicator), but also a measured ratio would be calculated on assets' externalities. Leading human consulting professionals are keen on supporting companies in implementing long-term remuneration and bonus programs, but rarely active in launching systems linked to the long-term interest to all or the majority of the stakeholders of the given entity.

   Similar to the reconsideration of top-management remuneration policies at state-owned recapitalized commercial banks, this long-term based, socially intensified system could be launched by a centrally motivated or even regulated campaign.
2) *Strict regulation of conflict of interest situations for valuers:* As presented above, in case of valuations one of the hottest and most frequently arising issues is the compliance status of the appraiser experts. Responsible investment activity requires objective, transparent and independent work from the engaged consultants. Based on the interviews and my personal experience, only the multinational real estate companies (whose experts are members of international associations like RICS, meaning these strict standards are obligatory for them) manage conflict of interest issues professionally. In order to incentivize the competition between valuer firms and take into account the long-term interest of the public, there should be strict conflict of interest regulation for the whole valuation industry (generally speaking for the whole advisory business). Hungarian experts noted in the questionnaires that while the international professional standards for compliance issues work properly, the local Hungarian regime and the practice of market players are rather poor.
3) *Importance of back-testing, control, quality assurance and official feedbacks:* Although international professional organizations give prominence to backtesting, which is the basis of quality assurance, the local practice is rather underdeveloped. Even privately owned institutional players were damaged because of a series of poor valuations. A centrally oriented and supervised quality assurance system is still missing, although in the recent times central banks have launched regular stress test focusing on the equity situation of the financial industry. There were some campaigns initiated by European Union based regulators (ECB 2016), but based on my interviews and personal professional experience there is still much room for improvement in the field of supportive feedback in order to develop valuation framework.
4) *Centralized database on property prices with easy access:* There is no properly working integrated database of Hungarian property values. There were some common efforts by international advisors to build up a database focusing on frequently traded commercial real estate sub-segments, but as big market players and authorities are building separate databases so far there is no overall, transparent and easily accessible database (details are reviewed and recommendations by Burczi et al. 2017). The lack of transparency means higher uncertainty in valuations and due diligence, leading to lower commitments and risk undertakings and/or higher required rate of return from responsible investors. This situation could be improved if the tax office and network of land registries could cooperate and gradually built up an integrated database (preconditions are reviewed by Burczi et al. 2017). Beside the improvement of the investment environment it would encourage the monitoring functions and the tax collection practice.

Properties are very similar to ordinary financial products. Due to consequences of the financial crisis several central banks and regulatory authorities have been launching transparent and easy-to-use database or benchmarking systems for loan, deposit or insurance products. Similar projects have been initiated by financial regulators but thanks to the different products and not perfectly comparable items, the implementations and even the outcomes are being realized more slowly. In Hungary the National Bank is implementing a centralized property database in order to be able to monitor property-linked positions of local commercial banks. A new database focusing on residential properties has already been launched (Vágó & Winkler 2016).

CONCLUSION

This paper outlined some issues of responsible property investment and the related real estate valuation process. First short overviews on the investment activity and the basic concepts of property valuation were presented and the two topics were connected with the application of valuations in investing practice, especially focusing on the special requirements of ethical investors. In the last part of the study special topic was highlighted regarding valuations: the issue of compliance, conflict of interest and client influence. The reason behind this choice is that without institutional and practical solutions for these ethical issues, transparency is unable to reach the critical level that is essential for broadening the basis of responsible investing activity and generally the ecosystem of responsible investments.

The findings of this qualitative research support the outcomes of studies in other countries. Failure of independence (even partial) and conflicts of interest are important risk factors. While in the most developed markets the strict fundamental and ethical standards of professional institutions are adequate tools for guidance and monitor, Hungarian practice shows a different example because of inefficient regulations.

Finally presenting some further research possibilities of the topic:

1) research and testing of the proposals – e.g. comparative analysis of different benefit systems of financial institutions,
2) qualitative research with case studies about compliance, fraud, and associated regulations,
3) a practice-based proposal supported by international examples for the Hungarian property price database (e.g. Burczi et al. 2017),
4) a comparative analysis of regulation regimes in different markets and professional property valuation standards,
5) a market study about the demand for investment funds restricted only to ethical investments (yield comparison, governing rules, etc.).

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