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Beyond Borders: A Global Perspective of International Real Estate Valuation

CHAPTER 40:
THE IMPACT OF GEOPOLITICAL RISKS ON INTERNATIONAL PROPERTY VALUATIONS

APRIL 8, 2025 | BRUCE D. GREENBERG, FRICS |MAI | SRA | ASA | ARM

In an increasingly interconnected global economy, geopolitical risks have emerged as a critical variable affecting international property valuations. From armed conflicts and trade wars to political instability and shifting international alliances, such risks can disrupt investment flows, alter market sentiment, and challenge assumptions traditionally used in valuation models. For commercial real estate professionals engaged in cross-border transactions, understanding the implications of geopolitical uncertainty is essential for delivering accurate, forward-looking property valuations.

Key Aspects of Geopolitical Risk

1. Types of Geopolitical Risks

Geopolitical risks in real estate stem from a variety of sources:

- Political instability (e.g., regime change, civil unrest)
- International conflicts and wars
- Trade tensions and sanctions
- Nationalization or expropriation of foreign-owned assets
- Terrorism and cross-border criminal activities
- Geoeconomic policies (e.g., decoupling, protectionism)
- Each of these risks can have direct or indirect effects on property values, depending on the market exposure and asset type.

2. Transmission Mechanisms to Property Markets

Geopolitical events affect international property valuations through several mechanisms:

- Investor sentiment and capital flight: Political uncertainty tends to increase perceived investment risk, reducing foreign direct investment and driving up risk premiums.
- Supply chain disruption: Conflicts and sanctions can delay construction projects and increase material costs, especially in logistics and industrial sectors.
- Currency volatility: Political shocks often trigger currency devaluations, impacting asset values in foreign-currency-denominated markets.
- Occupier demand shifts: Changes in trade policy or diplomatic relations can reduce demand for commercial space in affected regions, especially office and industrial assets.

Challenges & Considerations for Valuation Professionals

1. Market Transparency and Information Gaps

In politically volatile regions, reliable data can be scarce. This lack of transparency makes it difficult to verify assumptions, compare transactions, or benchmark risk.

2. Rapidly Changing Conditions

Unlike economic trends that evolve gradually, geopolitical shocks can be abrupt and unpredictable. Traditional valuation models that rely on historical comparables may not adequately capture rapid changes in investor sentiment or regulatory risks.

3. Legal and Regulatory Complexity

Geopolitical events often lead to sudden shifts in property law or foreign investment regulation. For example, countries experiencing diplomatic strain may impose new restrictions on land ownership or repatriation of capital.

4. Regional Disparities in Impact

Not all markets or asset types are equally vulnerable. Core urban assets in stable countries may serve as safe havens, while properties in frontier or emerging markets bear a higher exposure to geopolitical shocks.

Best Practices & Strategies

1. Scenario-Based Valuation Models

Incorporating multiple scenarios—ranging from base-case assumptions to worst-case geopolitical outcomes—enables valuers to present a range of potential impacts. This method adds depth to the analysis and provides clients with tools for risk-adjusted decision-making.

2. Geopolitical Risk Ratings and Premiums

Some valuation professionals are now applying explicit geopolitical risk premiums to cap rates or discount rates in high-risk regions. These premiums reflect elevated uncertainty and opportunity cost for investors.

3. Collaboration with Political Risk Analysts

Interdisciplinary collaboration is essential. Valuation professionals can improve forecast accuracy by engaging with political risk consultants and country-specific analysts who offer insights on local stability, upcoming elections, and regulatory shifts.

4. Dynamic Discount Rates
Adapting discount rates dynamically—based on real-time monitoring of risk indicators like sovereign credit ratings, bond yields, or political unrest indices—ensures more responsive and relevant valuations.

5. Leveraging Local Intelligence
Just as legal and regulatory nuances require local legal advisors, geopolitical insights benefit from partnerships with local valuation teams and advisory firms that understand on-the-ground sentiment and shifting investor behaviors.

Hypothetical Scenario

Consider a commercial office development in Istanbul during a period of heightened tensions between Turkey and NATO allies. Amid threats of sanctions and deteriorating diplomatic ties, foreign investors pull back, the Turkish Lira depreciates, and interest rates rise. A valuer assessing the property must:

- Apply a geopolitical risk premium to the discount rate
- Adjust income projections downward due to declining foreign occupier demand
- Incorporate higher financing costs into the DCF model
- Discuss potential zoning or ownership law changes prompted by government responses to sanctions

Failure to incorporate these geopolitical elements would result in an overvaluation and potentially expose stakeholders to unexpected losses.

Conclusion

Geopolitical risks are now a permanent fixture in the valuation landscape, particularly for international property markets. Valuation professionals must move beyond traditional financial modeling to account for political uncertainty, regulatory volatility, and investor sentiment shifts. By incorporating scenario analysis, adjusting risk premiums, collaborating across disciplines, and leveraging local knowledge, professionals can produce valuations that are not only accurate, but resilient to an increasingly complex global environment.

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