

30 October 2009

Our Ref:

**International Valuation Standards Council  
41 Moorgate  
London  
EC2R 6PP**

**E mail [ivsc@ivsc.org](mailto:ivsc@ivsc.org)**

Dear Marianne,

**Re: Response to the IVSC exposure draft on the valuation of investment property under construction**

RICS has noted the publication of the exposure draft of the guidance note on the valuation of investment property under construction and welcomes the opportunity to comment. In general we support the publication of this guidance note and have only a few comments to make on the questions you have raised.

**Question 1.**

**Do respondents agree that it is appropriate that the Exposure Draft extends to include the valuation of investment property under construction for all purposes but not to other types of property under construction?**

It is our experience that even though guidance may be related to a specific topic that guidance will be adopted in other circumstances that may be similar. In this case you specifically limit the guidance to investment property but, as you indicate, there are circumstances where such valuations will be required for other purposes. For instance an entity may be developing property for its own use and elect to recognise it in the financial statements at fair value, or the same entity may wish to raise finance on the same scheme and a valuation is required for the lender.

Should you decide to limit this GN to investment property we consider that it would help if a few sentences were included in the introduction to indicate that valuations for other purposes would adopt similar principles to those set out.

**Question 2**

**Do respondents consider that the level of detail on the types of valuation approaches that may be appropriate is sufficient to eliminate significant differences in practice or do they consider that it would be appropriate to expressly identify approaches that would be acceptable or unacceptable by name? If respondents agree with the latter, it would be helpful if examples of named approaches that it is considered should be expressly referenced could be provided.**

We are aware that in their draft standard on Fair value the IASB suggest that multiple valuation techniques are reported. RICS does not support such an approach and agrees with the guidance note that whatever approach or technique is used it should be clearly set out in the report. In our view to specify particular approaches will fetter the development of new approaches.

### Question 3

**The Board is interested in learning the extent to which the two approaches to estimating the value and cost inputs to the valuation of a part completed project are used in different markets. It would therefore be helpful if respondents could indicate the market or markets in which they operate and the approach that is generally used.**

As the valuer is reflecting the market at the valuation date the aim is to replicate the thought processes of purchasers. These will be influenced by the perceived state of the market, and may vary according to whether the market/costs is perceived to be stable, rising or falling.

Therefore there is no standard approach adopted and all approaches are considered. In the absence of any firm market indications it is expected that valuers will use current cost expectations and current market values with the future risk on cost and value movements reflected in the profit/return expectations.

### Question 4

- a) Do respondents consider that there is scope for confusion between finance risk as reflected in the interest rate charged to the developer and the return that the developer requires to reflect total development risks (which may include fluctuations in the cost of finance)? If so, is the cautionary note adequate or is more detail required on this point?**

We agree that drawing attention to the possibility of different finance costs for different elements will help to avoid double counting. However, we suggest that here is confusion in paragraph 3.5 where the use of 'risks' is not appropriate. The reference should be to 'costs of finance' in the second sentence. The use of 'risks' in the third sentence should refer to the risks considered under paragraph 3.7

- b) Do respondents agree that the guidance note should expressly refer to the potential for different interest rates at various stages before the investment reaches its normal income generating potential?**

Yes. This would be consistent with our remarks above.

### Question 5

**Do respondents agree that it is outside the scope of this guidance note to consider whether a valuation can be reliably determined for the purpose of IAS 40?**

Whilst we agree that the guidance should not enter into the details as to whether a valuation can be reliably determined we suggest that it is inappropriate not to mention this at all. If the entity has to make the decision it will need some input to support its conclusions and if this is not provided by the valuer who would provide it?

We suggest that in the introduction there is a reference to this issue to the extent that the valuer may be asked to comment on the degree to which a valuation cannot be reliably determined having regard to the facts of the case.

If you would like clarification of any of the matters to which we have referred would you please contact Stanley Booton (Stanley.Booton@kingsturge.com)

Yours sincerely



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