

Comments on International Valuation Standard 303.01; Valuations of Property Interests.

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VALUATION REPORTING WHEN COST APPROACH IS ADOPTED

The accuracy of Valuation Estimate arrived at when the Cost Approach is adopted depends on the valuation input about the three below mentioned variables:

- (a) Current Replacement Cost
- (b) Accumulated Depreciation
- (c) Land Value.

Valuation Input relating to the three above mentioned variables should be disclosed in addition to the minimum requirements in IVS 105 Valuation Reporting and it should include the following:

(a) Current Replacement Cost data employed should be disclosed and should include the following:

(a1) A Statement declaring the Procurement Method adopted (Design -Bid-Build, Management Contracting, Direct Labour etc) based on historical information or assumption in generating the Current Replacement Cost as at valuation date of the real property.

(a2) The Cost Estimating Method adopted (Elemental, Superficial, Approximate Quantities etc) in generating the Current Replacement Cost as at valuation date of the real property.

(a3) The Specifications and Condition of the materials and workmanship that are visible and accessible should be disclosed on an elemental basis while assumptions should be stated for Specifications and Condition of the materials and workmanship that are either invisible or inaccessible or both.

(a4) The composition of the Rate (per element ; linear, square or cubic metre) i.e. (Materials, Labour, Plant , Overhead Absorption Rate and Profit) in generating the Current Replacement Cost as at valuation date of the real property.

(a5) Where a Cost Expert is engaged either in part or wholly for the generation of the Current Replacement Cost; the name, address, qualification, registration particulars with the appropriate regulatory and/or professional authority, scope of engagement etc of the Cost Expert should be disclosed.

A Covering Letter disclosing items a1 - a4 stated above and a Cost Summary should be attached as an Appendix to the Valuation Report and must be signed , stamped and /or sealed by the Cost Expert.

(a6) Nature and Source of information used in generating the Current Replacement Cost as at Valuation date should be disclosed especially when a Cost Expert is not engaged or his scope of engagement is limited. This may include; Client, reference to past but similar project, cost journals and periodicals, contract drawings and bills of quantities, as - built drawings etc

(b) Accumulated Depreciation data employed should be disclosed and should include the following:

(b1) A Statement declaring the type of depreciation which the real property has suffered as at valuation date whether physical deterioration or functional/technical obsolescence or external Obsolescence or combination of any with reliable, relevant and sufficient evidence to prove that the real property has suffered that type of depreciation stated.

(b2) The depreciation method employed (Straight line etc) in generating the Accumulated Depreciation as at valuation date should be disclosed for each type of depreciation suffered and stated in b1 above. Furthermore, the variables / inputs to the depreciation process should be disclosed as well as assumptions made concerning the inputs. eg when straight line method is adopted, Current Replacement Cost, Residual Value, Useful Life, Exhausted Life and their assumptions should be disclosed.

(c) Land Value data employed should be disclosed and should include the following:

(c1) The Method adopted (Market Approach ,Residual Method etc) in generating the Land Value Estimate and the assumptions as at valuation date should be disclosed.