



September 3, 2010

Sent by email to: CommentLetters@ivsc.org

International Valuation Standards Board
41 Moorgate, London EC2R 6PP
United Kingdom

SUBJECT : Invitation to Comment on IVSC Exposure Draft
Proposed New International Valuation Standards published in June 2010

Dear Sirs:

The Japan Real Estate Institute (JREI) is pleased to comment on the above noted IVSC Exposure Draft. General comments on the relationship between IVS and the Japanese Real Estate Valuation Standards and responses to Questions 7 and 12 were provided in the following pages.

The JREI is the largest appraisal firm in Japan and specializes in real estate valuation, consulting, and research.

1. General Comments: Relationship between IVS and Japanese Real Estate Valuation Standards

In Japan, the appraisal of domestic real estate is undertaken by licensed real estate valuers. The real estate valuers carry out appraisals in accordance with the Real Estate Appraisal Standards developed and revised by the Ministry of Land, Infrastructure, Transport and Tourism, and, in principle, may not prepare valuations by listing extraordinary assumptions in the scope of work.

"Type of value" and "highest and best use" are important concepts in Japan's real estate appraisal standards. Of the types of value, the market value, special value, value for regulated purpose and value of special-purpose property do not completely match with the market value, fair value, investment value, and special value in IVS.

Moreover, with regard to the highest and best use, we think there is a partial disagreement between the concept the IASB (International Accounting Standards Board) assumes and the Japanese Real Estate Appraisal Standards. For example, while the IASB works on the assumption that a group or whole company's highest and best use is based on fair value in the market, the highest and best use in the Japanese Real Estate Appraisal Standards envisages each independent real estate of a group or

company's assets.

Despite the differences mentioned above, we agree with the importance of the principle-based global standards, which should be commonly understood, relied upon, and applied by all countries. We would like to consult with the IVSC about a way how a valuation can be undertaken for cross-border purposes in accordance with the national standards: for instance, when a departure from the IVSC standards is necessary to comply with the national standards, this should be clearly explained in the report.

2. Question 7 (Hierarchy of Approaches)

7. Paragraph 6 of the draft sets out a proposed hierarchy of approaches which indicates that the direct market comparison approach is generally to be preferred where there are observable prices for similar assets available at the valuation date.

Do you agree with this hierarchy and do you consider it helpful? If not explain if you would prefer to see no reference to a hierarchy or would prefer an alternative hierarchy.

We would prefer not to see any hierarchy of valuation approaches. In Japan, we could apply this hierarchy to condominiums and other types of real estate, whose sales data are readily available. However, for offices and retail buildings, the sales comparison approach is difficult to employ because of the scarcity of their comparable sales data.

3. Question 12 (Highest and Best Use)

12. In IVS highest and best use (HABU) is treated as an inherent feature of market value. This follows the economic theory that the price of an asset which is fully exposed to all potential buyers will sell for a price reflecting the most efficient or productive use of that asset. Other literature that has been published recently presents highest and best use as a separate concept from the price that would be paid in a hypothetical exchange between market participants.

Do you agree with the approach taken in IVS? If not, explain why not and give examples where you believe the highest and best use may be different from the market value.

The market value estimated by real estate valuers, according to the Japanese Real Estate Appraisal Standards, is based on the highest and best use. When it comes to measuring the fair value on a stand-alone basis under IFRS, we have no objection to IVS's approach based on the highest and best use of the asset.

However, the Fair Value Measurement Exposure Draft of IASB suggests its highest and best use may still be for a continuation of the existing use. Consequently, the fair value is estimated identifying two separate premises of value: value of the asset in-exchange and value in-use through its current use in combination with other assets by adding the incremental value of the asset to the current use value.

The introduction of such an accounting procedure means that the company has to constantly ascertain both the fair value of property holdings and the value in use, based on the highest and best use. Usually, in order to judge the highest and best use reflecting market reality, an expert investigation and analysis is necessary. It is substantially difficult for a company to independently judge the highest and best use of each asset based on the above-mentioned Real Estate Appraisal Standards. Moreover, judging the highest and best use while the judgment criteria remain unclear may allow each company's arbitrary elements to intervene in the measurement of fair value.

As far as companies with large real estate holdings are concerned, conducting this kind of accounting procedure based on the highest and best use for every accounting period would place a tremendous burden on them. In order to exclude arbitrary elements from the process followed by companies and to avoid the risk of making it a superficial task without appropriate analyses for the alleviation of their burden, we recommend utilizing an independent real estate valuer when the company judges the highest and best use.

Sincerely,


Nobuo Kobayashi
Managing Director