



## **Real Estate Information Standards (REIS)**

September 3, 2010

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

**Proposed Exposure Draft, “Proposed New International Valuation Standards”**

**Published June 2010**

Dear Sir/Madam:

We appreciate the opportunity to provide comments to the International Valuation Standards Board in response to the Proposed Exposure Draft entitled “Proposed New International Valuation Standards” published by the International Valuation Standards Board on behalf of the International Valuation Standards Council (IVSC). We support the Board’s goal of providing continuous improvement to the existing valuation standards. We understand that the area of valuation is an evolving one that must be met by continued oversight and monitoring in order to maintain credibility by those that require valuations. Valuations are a critical component in our conduct of business, being relied upon for allocation of capital, making investment decisions, and for asset and performance reporting to investors. In response to the Questions for Respondents from the "Overview and Questions for Respondents" published on the IVSC web site, we have certain concerns with respect to several of the requirements.

### **Responding Organization**

The Real Estate Information Standards (“REIS”) were first published in 1995 in order to provide standards for calculating, presenting and reporting investment results to the institutional real estate investment industry in the United States. REIS is sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA). The REIS Board is an established body which serves as the official governing body of REIS and provides leadership and expertise in establishing REIS as the industry’s authoritative body for the oversight of the standards. The REIS Council is responsible for executing the technical aspects of the Board’s agenda by establishing transparency and open involvement in the REIS process and for communicating its activities to the industry. Our industry investors consist primarily of tax-exempt pension funds that own equity interests in an estimated \$750 (U.S.) billion of commercial real estate and real estate related investments vehicles of which we estimate approximately one half of such property is financed with commercial mortgage financing.

The REIS standards represent an effort to codify a single set of desired industry practices and to improve standardization of valuation procedures, fair value financial accounting and reporting, and reporting of investment performance return information. The REIS standards play an important part in the overall efficiency of the real estate investment industry as consistency, comparability and transparency are critical for institutional investors to make prudent investment decisions regarding their investments, investment managers, and the asset class. The REIS standards depend upon, and are intended to supplement and in some cases, clarify, but not replace other established standards from authorized bodies including, but not limited to, valuation standards established through Uniform Standards of Professional Appraisal Practice (USPAP), accounting standards established by U.S.; Generally Accepted Accounting Principles (GAAP) and the performance measurement and reporting standards known as the Global Investment Performance Standards (GIPS). As global convergence is imminent, we also monitor and respond to global initiatives which impact our industry.

### **Response to Proposed IVSC**

The following discussion restates the questions posed in IVSC's Questions for Respondents from the "Overview and Questions for Respondents" section of their web site.

### **General Questions**

1. The proposed new edition of IVS follows the recommendations of the Critical Review that was commissioned by the old IVSC in 2007. Among the key recommendations of this review was that in future editions of the standards the term "International Valuation Standards" should apply to all pronouncements, not just to a limited number, and that all pronouncements should carry equal weight. In this draft the previous distinction between "standards", "applications" and "guidance" in the titles of various documents has been removed. However, the Board recognises that standards still fall into different categories and has identified these as General Standards, Application Standards and Asset Standards, and grouped these together.

**Do you find the new structure of the Standards to be logical and easy to follow? If not, what alternative would you propose?**

**Response:** Yes

2. The Application Standards contain some information on the background to the valuation requirement and the Asset Standards information on the asset type in question and the characteristics affecting value. They also identify particular actions that should be taken in order to apply the principles in the General standards to the particular valuation purpose or when valuing the particular type of asset.

**Do you consider that the combination of background information and specific directions to be helpful?**

**Response:** Yes

**Would you prefer all background information and explanatory information on asset classes to be removed from the standards so that only the specific directions applicable to each application or asset type remained?**

**Response:** No

3. It is currently proposed that the final version of the Standards will be published both in hard copy and be available for downloading from the IVSC website.

**Which delivery method for the new edition of the standards are you or your organisation likely to use?**

**Response:** Although we generally prefer downloading from the IVSC website, we think hard copies should also be available.

### **IVS 101 – General Concepts and Principles**

4. This Standard is intended to explain fundamental concepts and principles that are referred to throughout the remainder of the standards to assist in their application. Some of the material has been carried forward from previous editions of IVS and some new concepts have been introduced, for example the discussions on market activity and market participants.

**Do you consider that this objective has been met?**

**Response:** Yes

**Do you consider that there are any additional valuation concepts and principles that should be considered and discussed in this standard?**

**Response:** No. As a minor point of modification, the last sentence of #3 refers to a “particular” owner, while it appears that a term such as “typical” or “most likely” would offer a more appropriate adjective for the owner.

5. As indicated in paragraph 4, the word valuation can be used with two distinct meanings. Where the word is used in the Exposure Draft the Board believes that it is generally clear from the context which sense is intended and has only added words to emphasise whether the reference is to the process of estimating value or to the valuation result itself where there is scope for ambiguity.

**Are you in agreement with this approach or would you prefer the word “valuation” either not to be used at all or always used with qualifying words to indicate the intended meaning, for example “valuation process” or “valuation result”?**

**Response:** We are in agreement with the approach used; as the context should make it clear which meaning is appropriate.

## **IVS 102- VALUATION APPROACHES**

6. Previous editions of IVS have identified the principal valuation approaches listed in this proposed standard.

**Do you agree that these three approaches encompass all methods used in the assets or liabilities that you value?**

**Response:** Yes.

**If not, please describe what approaches you feel have been omitted.**

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?**

**Response:** We agree with the stated hierarchy.

**If not explain if you would prefer to see no reference to a hierarchy or would prefer an alternative hierarchy.**

8. In the current edition of IVS, the term “Sales Comparison Approach” is used to describe the process of estimating value by comparison with the prices of identical or similar assets in the market. The Board received representations that this term was too restrictive as it seemed to preclude market evidence that was not related to an actual sale. Some advocate the use of the term “Market Approach”; however, others find this confusing as both the income and cost approaches can use market based inputs. The Board also received evidence that some believed that only a “market approach” could be validly used to determine market value. After deliberation the Board has proposed the term “Direct Market Comparison Approach” in this edition of the standards.

**Do you find this change of terminology to be helpful?**

**Response:** Yes

**If not please explain what alternative you would prefer and why.**

## **IVS103 - BASES OF VALUE**

9. Basis of value is defined in the draft as a statement of the “fundamental measurement assumptions of a valuation”. In the current edition of IVS it defined as a statement of the

“fundamental measurement principles of a valuation”. Supporters of the proposed change believe that the word “assumptions” is more precise. It is self evident that a basis of value is a principle but IVS needs to explain the nature of that principle. The bases of value defined in IVS all consist of a set of assumptions that define the underlying hypotheses on which the value is based. The fundamental assumptions within a defined basis can then be used in conjunction with additional assumptions or special assumptions as explained in IVS 103 and 104. Others prefer to retain the use of the word “principles”, while some consider that a basis of value is more precisely described as a statement of the measurement objectives of a valuation.

**Do you agree with the proposed change to the definition?**

**Response:** While we agree that the use of the word “assumptions” may clarify the definition, the definition should be expanded to include other items, as noted in the next response.

**If not indicate what alternative you prefer and why.**

**Response:** The definition should incorporate the concept of purpose or intended use of the value.

10. A change is proposed to the definition of Investment Value. The Board had received representations that some are confused by the distinction between Investment Value and Special Value in the current edition of IVS. The Board has proposed to amend the definition so that it only reflects the value to the owner, not the value to prospective purchasers. The rationale is that a prospective purchaser for whom an asset had value in excess of that to market participants generally could also be described as a special purchaser, which is separately defined. A reciprocal change is proposed to the definition of “special purchaser” to make it clear that it can include a single buyer with a special interest or a restricted class of buyers that can realise additional value not available to the market participants at large.

**Do you agree with this proposed change?**

**Response:** Yes

**If not, please explain why and what you believe the distinction is between investment value to a prospective purchaser and special value to a prospective buyer who can realise that special value to be?**

11. The Board has considered alternative names to “Investment Value” for the basis of value that describes value to a particular entity. Alternatives suggested include “Entity Specific Value”, “Owner Value”, “Value to Owner”, or “Invested Value”. Critics of Investment Value consider that the term is insufficiently precise; although it is a measure of the value of the investment in an asset to a particular party, it can also be interpreted as being the sum required to buy an investment in the market. Others consider that the term is sufficiently broadly understood that any change would cause confusion.

**Do you support the continued use of the term “Investment Value” or would you prefer an alternative?**

**Response:** We prefer the continued use of Investment Value.

**If so, what would that alternative be?**

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?**

**Response:** Yes

**If not, explain why not and give examples where you believe the highest and best use may be different from the market value.**

13. In the existing IVS a clear distinction is made between fair value in general use and fair value as defined in IFRS. Some found this confusing since the definition of fair value in IVS was identical to that currently appearing in IAS16. Although the IASB is likely to change the definition of fair value in IFRS in its proposed new Fair Value Measurement Standard, in this draft the definition of fair value in general use has been changed to emphasise the distinction from the usage of the term in IFRS.

**Do you consider this proposed change in the definition to be helpful?**

**Response:** No, we think it is confusing to have 2 different definitions of fair value.

**If not, please indicate how you believe it could be improved.**

Using the fair value definition that is used by Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* would eliminate confusion for those currently using GAAP. The U.S. GAAP definition of fair value is consistent with the definition proposed within the International Valuation Reporting Standards (IFRS) Fair Value Measurement Exposure Draft (May 2009). Further, the fair value definition noted in IVS 103.14 (page 24) appears more consistent with the Investment Value definition in IVS 103.12 (page 23). The former presents Fair Value from the perspective of “knowledgeable and willing parties that reflects the *respective interests of those parties*” (italics added), while Investment Value represents value from a substitutable perspective of “the owner or a prospective owner”. Although other criteria are included in both definitions, the similarly narrow perspective of both definitions relating to the “*interests of those parties*” appears to result in a fair value definition that is much more restrictive than that which is acceptable in the broad experiences of NCREIF and other U.S.-based users of fair value.

## **IVS 104 - SCOPE OF WORK**

14. Previous editions of IVS did not have a standard relating to scope of work, although the need to record the valuation instruction in writing was included under the heading of “Code of Conduct”. The Board considers that a more specific standard is required to detail the minimum acceptable scope of work. This reflects established best practice in many markets and provides the necessary foundation for the valuation process to begin.

**Do you:**

**a) Agree with the inclusion of a standard for scope of work in IVS?**

**Response:** Yes, this is of critical importance.

**b) That the minimum contents identified in the draft are proportionate and represent a realistic minimum standard?**

**Response:** Yes

**If you disagree, please explain why.**

## **IVS 105- VALUATION REPORTING**

15. This proposed standard is significantly less prescriptive than the equivalent standard IVS 3 in the current IVS. The proposed changes reflect the general recommendation of the Critical Review Group that the standards should contain less prescription and focus on principles. It also reflects the need to ensure that these standards can be applied to a wider sector of asset classes than previously.

**Do you agree with the changes that have been made?**

**Response:** Yes

**If not, please explain what provisions of the current IVS3 you believe should be carried forward into the new standard.**

## **APPLICATION STANDARDS**

16. The standards in the 200 series relate to valuations for specific purposes. They provide guidance on the background for the valuation requirement before setting out specific matters that should be reflected or considered when applying the principles in the General Standards. Some consider that the fundamental principles of valuation should remain unchanged regardless of the purpose for which it is being prepared and therefore these application standards are superfluous. Others consider that it is important that valuation standards highlight factors that could be relevant to determining the appropriate valuation hypothesis for

different purposes, and to set down criteria to ensure that reports contain the appropriate information.

**Which view do you support?**

**Response:** It is important that valuation standards highlight factors that could be relevant.

**If you consider that future IVS should contain application standards, do you consider that the degree of detail of those in the draft is appropriate and help the better understanding of the valuation requirements?**

**Response:** Yes

17. The series 201.01 - 201.04 inclusive are all concerned with valuations under IFRS. With the exception of 201.01, which addresses the current IASB Fair Value project, the topics covered all appear in IVA 1 in the current edition of IVS, although in this draft the text has been updated and some additional detail included addressing issues of particular relevance to the valuation task. There are opposing views as to the extent and how IVS should address valuation issues under IFRS.

View (a) is that IVS should not refer to valuations under IFRS at all because the IASB is in the process of producing its own fair value standard that will clearly set out the valuation criteria for all valuation measurements required under IFRS and if parallel valuation standards are produced in IVS these will have no relevance. Supporters of this view also argue that limited references to the accounting requirements under IFRS can be misleading and lead to misinterpretation.

View (b) is that valuation measurements under IFRS are intended to reflect market reality and are not a special type of valuation reserved for financial statements. It is therefore important that the requirements under IFRS are properly related to wider valuation principles and practice through cross references in IVS. Supporters of this view also believe that limited references to IFRS are necessary to help those who are valuers rather than accounting experts understand the required criteria and assumptions so that appropriate valuations can be provided.

**Which of these views do you support?**

**Response:** We support the View (b).

**ASSET STANDARDS**

18. The proposed standards in the 300 series are all concerned with the application of the General Standards to specific asset types. Each standard contains some high level guidance as to the characteristics of each asset type that are relevant to value, a discussion on the principal valuation approaches and methods used and sets down specific matters that should be addressed in settling the scope of work or when reporting. Many of the asset classes included

in this Exposure Draft are the subject of “Guidance Notes” in previous editions of IVS and much of the material has been drawn from these. Question 2 asked for your views on whether this combination of background information and specific directions was appropriate or whether you would prefer a clear separation.

**Do you have any other comments on the general structure of the Asset Standards?**

**Response:** No

18. All the asset classes covered in Guidance Notes in the current edition of IVS are carried forward into this Exposure Draft. There are no equivalents for GN5 Personal Property, GN 10 Agricultural Property or GN14 Extractive Industries. Agricultural Property is to be included in the scope of a proposed new project on Biological Assets. A new project is also proposed on Extractive Industries. Personal Property has not been carried forward as the Board considered that the definition of what constitutes personal property in the current IVS is too widely drawn, with the result that much of the subject matter in the current GN5 is more specifically covered in other proposed standards.

**Do you consider that a class of “personal property” can be identified that is not already covered by the proposed new asset standards?**

**Response:** No

**If so, do you consider that it has distinct characteristics that need to be considered in valuations that would benefit from a new IVS asset standard being developed?**

19. The Board is proposing a project to produce a new standard on valuing non financial liabilities, i.e. liabilities that are not attached to a financial instrument.

**Do you agree that a standard on valuing non financial liabilities is required and what topics should it cover?**

**Response:** Yes.

20. The Board would welcome suggestions for additional asset (and liability) types that are not already the subject of a proposed new standard or project.

**Please identify any additional types of asset or liability that you believe should be considered for future inclusion in IVS, together with an indication of the benefits that you consider a new standard would bring.**

**Response:** We agree that the IVS should consider the valuation of debt for future inclusion in the standards. The REIS Board and Council have developed guidance relating to the valuation of debt liabilities in a document entitled: [FASB ASC Topic 820, Fair Value Measurements and Disclosures: Implementation Guidance for Real Estate Investments.](#)

Should you wish to discuss the contents of this letter with us, please feel free to contact John Baczewski at the above address or on 978-887-3750.

Very truly yours,

A handwritten signature in cursive script that reads "John J. Baczewski".

John Baczewski  
REIS Board Chair