

23 September 2010

International Valuation Standards Board
41 Moorgate
LONDON EC2R 6PP
UNITED KINGDOM

Re: Proposed International Valuation Standards

Dear Sir

We are pleased to submit this comment letter on the Exposure Draft (“ED”) for the new “International Valuation Standards” (IVS) on behalf of the European Public Real Estate Association (EPRA).

The European Public Real Estate Association (EPRA) is the voice of the European publicly traded real estate sector. EPRA represents publicly listed property companies, (including REITs), the investment institutions who invest in the sector and the firms and individuals who advise and service those businesses. Between them our 200 members represent over €250bn of real estate investments. EPRA are also part of an alliance of global real estate organizations called REESA (the Real Estate Equity Securitization Alliance) who work together on common issues affecting real estate markets worldwide. In total, REESA represents over €1 trillion of real estate on a global basis.

Requirement for a separate standard for the valuation of investment property

Our overriding point is that we strongly urge the IVSB to develop a separate comprehensive standard for the valuation of investment property.

It is clear that as part of the ongoing development towards more transparent global markets and better financial reporting, there is an unmistakable trend to reporting investment property at fair value. The valuation of property is a major component in the assessment of performance and the valuation of property companies. As such, companies reporting under IFRS which are in the investment property business, and their stakeholders, have a significant interest in ensuring that property valuations are of a high quality and that consistent practices are adopted across Europe and worldwide.

A comprehensive standard for investment property would provide a framework to address the unique and complex valuation issues pertinent to investment property, complement the global trend towards reporting property at fair value, and preserve the considerable progress that has already taken place with regards to valuation practices in Europe beyond.

Fair value and external valuations becoming more prominent

The general trend towards reporting property at fair value in financial statements as required under IAS 40, is evidenced by the fact that 95% of the companies in the EPRA/NAREIT/FTSE European index (representing 80 of the largest property investment companies with a combined



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market capitalisation of €109 billion) adopt the fair value option under IAS 40 – even though IAS 40 allows companies the option to report their properties at cost. Further evidence is provided as a result of the recent proposal by FASB to develop an equivalent standard to IAS 40 under US GAAP, which may make fair value reporting of investment property mandatory.

Furthermore, although there is also no requirement in IAS 40 for property owners to use an external, independent valuer to determine the fair value of investment property, at the time of writing, only 6% of those companies in the EPRA/NAREIT/FTSE European index did not use external valuers to determine their valuations (compared with 11% in 2009).

Property valuation and established industry KPIs

EPRA are in constant communication with investors and other users of the financial statements of investment property companies. Despite the different accounting standard bases used throughout the world and the stages in evolution of the property valuation profession, there are nevertheless clear and consistent signals as to the type of information that is most relevant for users with respect to the valuation of investment property and property companies. Over a number of years, market forces and industry cooperation has resulted in the emergence of these KPIs and supplemental metrics which faithfully report the economics of real estate investment and which, importantly, are consistent with the concepts of the valuation of property as a whole.

Interaction with International Financial Reporting Standards

We are supportive of the IVSB's aim to identify concepts and principles that are applicable to all types of valuation in order to improve consistency, transparency and therefore confidence in the valuation process. We are also generally supportive of the International Accounting Standard Board's (IASB) efforts in trying to establish a framework for measuring and disclosing fair value on a consistent basis to all assets, liabilities and equity instruments. In this respect, we believe the differences that exist between the IASB's and the IVSB's definitions of fair value and the difference between fair value and market value that exist are not helpful. For example, users of financial statements may have difficulty in understanding why fair value is not market value. We therefore encourage the IVSB to liaise with the IASB to arrive at identical definitions of fair value and market value – and in particular – how these concepts could be meaningful in light of fair valuing investment properties.

As we have expressed to the IASB in our latest response to the FV Measurement Exposure Draft (which can be accessed [here](#)), we are concerned that this generic framework should not eliminate fair value guidance currently within IAS 40 that continues to be relevant and useful while remaining consistent with the principles of the framework. Removing this in favour of the more generic guidance contained in the FV Measurement ED could create further uncertainty and erode the best practices that have been developed over the years through preparers' and users' efforts to provide clear and relevant valuation information. In the decade since IAS 40 has been put in place, preparers, valuers, auditors and users have found that the guidance in IAS 40 combined with IVS guidance (followed by the vast majority of valuation professionals) has worked well.

The above point is consistent with our views with respect to the development of a generic valuation standard by the IVSB. A generic valuation standard may work well for financial instruments, but we believe it is unlikely to enhance the quality of property valuations where there is already a well established accounting standard and framework of guidance as described above.



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We thank the IVSB for the opportunity to comment on this important project. Please contact Gareth Lewis, EPRA's Director of Finance at gareth.lewis@epra.com or +32 27391014 if you would like to discuss our comments.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Gareth Lewis'.

Gareth Lewis
Director of Finance, EPRA