



IVSC Investment Development Property Exposure Draft

Proposed new Technical Information Paper on Development Property

Response to Exposure Draft

We are pleased to set out below our response to the IVSC's exposure draft concerning the above subject.

Introduction:

The *Fédération française des experts en évaluation* (FFEE) is a professional association representing several other associations of valuers active in France, valuing a wide range of assets, including real estate, companies and financial instruments.

The aims of the association are:

- Representing French valuers at an international level, particularly as regards the IVSC;
- Promoting the use of IVS in general and by its members;
- Spreading best practice as recommended by IVSC;
- Liaison with the French authorities on questions involving valuation;
- Promoting the sharing of valuation experiences and skills between its members.

Our responses to the questions raised:

1. Do you agree with the Board's proposal to move all material in the standards specific to financial reporting into IVS 300?

Yes, this seems logical.

2. Do you agree with the Board's view that the valuation techniques described in the commentary to the current IVS 233 are applicable to all types of development property, not just investment property as defined in IFRS?

In our view, in changing from "Investment Property Under Construction" to "Development Property", the subject becomes much wider. Firstly, operational property and property to be or being built for onward sale by a developer are now also included. But, in addition, our "Development Property" is now no longer necessarily "under construction". Indeed, the definition of development property now includes one "where construction is contemplated". The subject matter therefore now also includes projects that can be at various stages of the project and planning process, as well as projects that are actually under construction at the valuation date.

We would suggest that the field of subject matter now includes properties that have development potential, but which do not yet have the planning and other administrative consents required for the project to be carried out. Works may not actually start on site for several months, or even years. For such properties it is necessary to estimate the extent to which potential buyers will be prepared to include this development potential in their bids. The amount of any over-bid compared with the value of the existing property will vary with market conditions, with



the availability of development finance and other factors. In some cases we will be in situations where the boundary between “hope value”, “highest and best use” and “development property” is very blurred.

Having said this, we agree that the same 3 basic methods can be used in general. However, in some cases it will be necessary for valuers to form a view on the appropriate allowance to make for the risk of not obtaining consents, of timetables not being respected, of costs running out of control, etc. While a valuer can base such assumptions on the behaviour of market players, there are cases where the final call comes down to valuer judgement and experience.

3. Do you agree with the scope as described?

Yes, as long as the paper takes account of all the aspects pertinent to the valuation of development property, not just property “under construction”.

4. Please indicate if there are any items on this list (paragraph 7) with which you disagree or any additional matters you believe should be included?

One could add:

- The time required to obtain the necessary consents (if they do not yet exist), to deal with any other preparatory matters prior to starting on site, to carry out the buildings works, then to let and/or sell the completed property.
- The cost of demolishing any existing structures and the time required to do so.
- The possible need to provide new infrastructure (roads, services, etc.) within the development site in order to sub-divide it (this will have cost and time implications).

5. Do you agree (paragraph 15)?

Yes.

6. Do you consider the caution provided here is sufficiently detailed or do you consider further guidance is required (paragraph 20 – 22 concerning the residual method)?

Yes.

We would add that the residual method is often used to estimate the value of a property assuming that it has all consents and that construction can start immediately. If consents have not yet been obtained, or if for some reason construction cannot start immediately, the valuer will have to make adjustments to the resulting values in order to allow for this, if he is asked to value the property at the date of his report. In this case the value of the property at the valuation date can be significantly different from the value at the future date when construction starts.

7. Do you consider that there are any typical inputs that are not referenced... (paragraph 24)?

Sub-paragraph (d), “Construction costs”, as currently drafted reflects the fact that IVS 233 concerned property “under construction”, whereas that is now no longer necessarily the case. We think that there should also be



mention of costs needed to prepare the site, demolish existing buildings, set out infrastructure needed to create individual plots, etc.

In addition, for projects that are not yet under construction there may not yet be a building contract in place. There may be greater or lesser certainty about the actual construction costs – the valuer may be required to make an estimate of it. We suggest these points should be addressed.

Sub-paragraph (g), “Buyer’s profit and risk” as drafted does not address the situation where a valuer is required to value a property with development potential but which does not yet have all the necessary consents. This situation requires special consideration and an additional risk premium, perhaps even a different treatment of the risk question.

Finally, as our development property is not necessarily under construction, there may be administrative costs associated with obtaining necessary consents, such as development taxes. We would suggest that this point should be included.

8. Do you consider that there are any other methods for determining the discount rate that should be included (paragraph 25)?

In a DCF approach one could also build up a discount rate from “no risk” yields with appropriate risk premiums, including an additional one that reflects the state of advancement of the project, of any pre-letting or pre-sale campaign, etc.

In a “static” approach, the discount rate could also be chosen based on the yield adopted for the completed development, to which risk premiums would be added to reflect the state of the project.

9. Do you agree with this list (paragraph 34)?

Following on from the comments above, we would add:

- The stage that has been reached in the application process to obtain planning and any other necessary consents.
- The estimated timetable to carry out and/or complete the project. Where in the valuer’s opinion the official timetable provided is not realistic, he should comment on this and make clear the assumptions he has adopted.
- If the project does not have all the necessary consents or for some other reason cannot be launched at the valuation date, the valuer should give an indication of the time he has allowed before construction works start, if the property is being valued in its current state.

Finally we would also suggest that the wording of the third point (“the estimated costs to complete...”) should be widened to cover not just a project that is already under way, but also one that may not yet have started.

10. Do you agree that this type of disclosure is helpful and should be encouraged wherever appropriate (paragraph 36)?

Yes.