KPMG

International Valuation Standards Council
1 King Street
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United Kingdom

KPMG ref: IVSC Comment Letter
Development Property

Contact: Patrick Coady/Jim Calvert

13 May 2014

Dear Sirs

Exposure Draft – Investment Property Project – Development Property

We appreciate the opportunity to comment on the Exposure Draft ("ED") *Development property* issued by the International Valuation Standards Council's ("IVSC") Professional Board ("IVPB" or the "Board"). The following response expresses the views of KPMG's Global Valuation Services practice. We have set out responses to the questions raised in the ED in Appendix I as well as other comments related to specific elements of the ED in Appendix II.

Please contact Jim Calvert at +353.1.410.1001 or Patrick Coady at +1 613 212 2841 if you wish to discuss any of the matters addressed in this letter.

Yours truly,

KPMG LLP

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Appendix I

1 It is proposed that the specific requirements for valuations of investment property under construction for financial reporting under IFRS be referenced in the guidance on IFRS requirements in IVS 300 Valuations for Financial Reporting, rather than being in a separate standard. The Board considers it more logical to include all the requirements in the IVSs for valuations used in financial reporting and guidance on the requirements under IFRS in the same standard. If this is done the current IVS 233 would be withdrawn. Do you agree with the Board's proposal to move all material in the standards specific to financial reporting to IVS 300?

We agree with the Board's proposal to move all material in the standards specific to financial reporting to IVS 300.

We believe that valuers should be aware of the requirements that apply in the context of a valuation performed for financial reporting purposes.

2 This Exposure Draft is of a proposed Technical Information Paper (TIP) that will retain the guidance in the current IVS 233 Investment Property under Construction if the latter is withdrawn. The guidance in this proposed TIP is designed to be more broadly applicable to all development property rather than to the specific case of valuations of investment property under construction under IAS 40. The Board considers that similar valuation considerations and methods are applicable to all types of real property under construction, not just investment property. 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?

We agree that valuation techniques intended to value investment property for IFRS should also apply to valuations prepared for purposes other than financial reporting. Fair value under IFRS 13 assumes an orderly transaction between market participants on the measurement date and should be consistent with market value under IVS. Therefore, techniques that the Board has concluded apply to valuations of investment property under IFRS should also apply to valuations of development property more generally.

3 The intended purpose of the proposed new TIP will be to provide guidance to support the application of the principles in IVS 230 Real Property Interests to development property. Paragraphs 1-4 set out the scope of the proposed guidance. Do you agree with the scope as described? If not, please explain any additional matters that you believe should be added to the scope or matters currently included that you believe should be excluded.

We agree with the proposed scope as advised.

4 Paragraph 7 provides a non-exhaustive list of matters that typically need to be considered when undertaking a valuation of development property. Please indicate if there are any items on this list with which you disagree or any additional matters you believe should be included.

Other matters that may be relevant include the following:

- End user demand and projected changes therein.
- Supply including existing, under development and potential future developments.
- Alternative future uses of a property (taking into account the costs and risks with securing alternative uses).
- Expected revenues.
- Development costs.
- Time to develop and realize value.
- Macroeconomic conditions.

5 Paragraph 15 suggests that all three valuation approaches identified in the IVS Framework can be applied to development property. Do you agree? If not, please explain why.

We agree that all three approaches should be considered in valuing development property. However, the relevance of a specific approach will depend on specific factors such as the level of recent transactions, the stage of development of the project and the movements in property markets since a project started

6 Paragraph 20 introduces the “Residual method”. Paragraphs 21 and 22 explain the sensitivity of the residual value due to small changes in the inputs. Do you consider the caution provided here is sufficiently detailed or do you consider further guidance is required?

It would be useful to provide an example illustrating potential different value estimates as a result of changes in the assumptions in a residual value calculation. This could usefully illustrate the effect of different possible assumptions on the valuation date as well as changes in assumptions over time. Potential changes in assumptions over time contribute to an asset’s volatility over time whereas different views on the appropriate assumptions on the measurement date represent measurement uncertainty on a specific date. We note that different rates of change over time in individual assumptions in a residual value calculation are the reason why development land price variability is greater than changes in finished property values. Such an example would illustrate the greater risk of development projects.

7 Paragraph 24 lists typical inputs into a cash flow forecast for a development property. This list is almost identical to that appearing in the current IVS 233. Do you consider that there are any typical inputs that are not referenced but should be included or items included that would not typically be used? If yes, please identify the input and the reasons for inclusion or exclusion.

Potential overlap between "buyers profit and risk" and the returns included in a discount rate should be addressed.

The effect of tax on the calculation should be addressed. This should include how tax is treated in the discount rate as well as the cash flows.

8 Paragraph 25 indicates common sources or methods for determining the appropriate discount rate. More detailed guidance is provided in TIP 1. Do you consider that there are any other methods for determining the interest rate that should be included? If so, please explain these.

Where it is proposed to use third party equity to fund a project, the pricing of such equity can be used to infer a cost of equity.

9 Paragraph 34 includes a list of recommended matters that should be included in a valuation report for development property where relevant and appropriate. Do you agree with this list? If not, please identify any additional matters you would like to see included or matters that are included that you think should be excluded, with supporting reasons.

Valuers should be aware of the purpose for which a valuation is prepared and include matters required to meet such a purpose. For example, a valuation prepared for financial reporting should include matters required under the relevant financial reporting standard.

10 Paragraph 36 suggests that it may be advisable to include a sensitivity analysis if the valuation is very sensitive to changes in key inputs. This is in order to illustrate the risk of the value changing if, say, market conditions or construction costs were to change during the period required for completion. Do you agree that this type of disclosure is helpful and should be encouraged wherever appropriate??

We believe that such information may be useful to users of valuation reports and the user of the valuation report may be required to disclose such sensitivities.

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Appendix II

Issue	Reference	Issue
1	Paragraph 11	As stated in the proposed amendments to IVS 300, special assumptions should not generally be applied in fair value measurements.
2	Paragraph 24 (d)	It may be useful to include a discussion of the unit of account where there is development property with an associated construction contract. Depending on the purposes of the valuation, it may be necessary to separately value these items.
3	Paragraph 24 (e)	This states that finance costs should be included in the residual method. Frequently in corporate finance decision making, the value of a project is separately from the manner in which the project is financed
4	Paragraph 24	Generally DCF techniques use after-tax cash flows. The treatment of tax is not addressed in the document
5	Paragraph 24/25	The document should clarify any overlap between buyer's profit and risk and the investor return implicit in a discount rate.
6	Paragraph 32	This paragraph states that because financial statements assume an entity will continue as a going concern it is appropriate to assume that contracts would pass to the buyer. It should be noted that the unit of account and valuation premise of the relevant asset should be considered, e.g., whether the assets would include the relevant contract or not.