

27<sup>th</sup> February 2013

International Valuation Standards Council  
41 Moorgate  
LONDON EC2R 6PP  
United Kingdom

Dear Sirs,

**International Valuations Standards Council  
Discussion Paper on Investment Property**

Hongkong Land appreciates the opportunity to comment on the subject Discussion Paper issued by International Valuation Standards Council (IVSC). Founded in Hong Kong in 1889, we have adopted the International Valuation Standards in valuing our investment property portfolio for financial reporting purpose since 2004.

With the growing size of the investment property class, Hongkong Land would support any initiative to enhance the transparency and consistency of valuation practices across countries and improve the quality of valuations globally. We trust a standard (together with the associated technical guidance) dedicated to investment property will help to clarify the basis of such valuations and other contentious issues, such as owner-occupied properties and intangible assets.

The Discussion Paper has provided a very good platform for exchange of comments and views on valuation of investment property. We recommend that IVSC considers to develop a standard (with the relevant technical guidance) to ensure consistency in the valuation practice for investment property. Our responses to the questions raised in the Discussion Paper are attached in Appendix 1.

Yours faithfully,  
for Hongkong Land Limited

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Appendix 1: Responses to IVSC Discussion Paper on The Valuation of Investment Property

***Question 1: Do you think that the current definition should be retained in full or that an amendment to the definition in IVS 233 is required?***

The current definition of investment property in IVS 233 follows that in IAS 40. Although this definition has its relevance, we believe that it is subject to certain limitations, in particular for non-financial reporting purpose. Amendment to the definition would definitely be helpful.

***Question 3: If you believe an alternative definition is warranted, please give reasons and suggest appropriate wording.***

In case of owner-occupied property, if the owner could easily find an alternative accommodation to continue his business and lease his own property to third party, there is no reason why such property should be excluded from the definition of investment property. Therefore, exclusion in a) should be amended to exclude the property which the owner could readily find replacement accommodation to continue his business and lease out in the open market.

***Question 6: Do you consider that IVSC needs to provide guidance on this issue?***

In the cases which it would be difficult or lack of market evidence to derive the value of the intangible assets, these interests should not be valued separately. In the other cases, the intangible assets could be valued separately despite the fact that there might be limited benefits in doing so. As long as the assumption whether to include or not to include the intangible assets in the valuation is made clear in the valuation report, IVSC may not need to provide additional guidance on this issue.

***Question 7: Which of these options do you favour or is there another option that you would suggest?***

It is recommended that IVSC produces:

- (1) a new standard on investment property, and
- (2) a new standard for property under construction that would incorporate IVS 233 so as to ensure consistency in valuating these properties.

***Question 8: Do you consider the provisions of IVS 230 and IVS 233 in relation to valuation methods to be sufficient?***

Yes.

***Question 10: Do you consider that the additional guidance to that provided in the IVS Framework (paras 33 - 35) is needed to apply the highest and best use concept to investment property?***

We believe that there is no need to provide additional guidance to the highest and best use concept to investment property because the basic fundamental principle is very clear. Due to the dynamic change of market condition and variance of market practice in different jurisdictions, the valuer would need to exercise his professional knowledge and expertise in preparing the valuation in accordance with the purpose of the valuation. In addition, the relevant assumptions in deriving at the valuation should be clearly stated in the valuation report.

***Question 14: Do you consider that IVSC should attempt to set benchmarks that indicate whether inputs and valuations should include or exclude different types of tax or other costs? If so, which specific benchmarks would you consider appropriate?***

As there are different types of tax and costs in different jurisdictions, it would not be practical for IVSC to set benchmarks what to include and exclude. Even worse, ambiguity may arise for those not being mentioned by IVSC. As such, it is not recommended IVSC to set benchmarks for them. The valuer should adopt consistent approach and assumptions in his valuation, and clearly states his approach and assumptions in the valuation report instead.

***Question 15: Do you consider that an opinion on where the inputs used in a valuation of investment property fall within the input hierarchy under IFRS (or any other accounting standard that contains a similar hierarchy of inputs) should be provided as part of the valuation report?***

IVS 103 requires that the valuation report to set out a clear and accurate description of any material uncertainty that directly affects the valuation. In such cases, whatever

level of the valuation inputs fall under IFRS, the uncertainty disclosure in the valuation report is required. It is therefore recommended that the requirement for the uncertainty disclosure should focus on the valuation, rather than just the valuation inputs.

***Question 17: Do you agree that not all investment property is capable of reliable valuation? If so please give any additional examples to those above.***

Additional examples may include in the extreme and abnormal situations, for example, after SARS period in 2003 and Lehman issue in 2008, when there were not too many comparable sale and lease transactions in the market that could offer reliable information for the sale price, market rent and capitalisation rate.

***Question 18: Please indicate the nature of guidance that you believe IVSC could usefully provide to help determine when a valuation may not be reliably provided.***

Similar to all other situations when a valuation cannot be reliably provided, IVSC could help to provide guidance to the valuer on how he should state this clearly and make relevant disclosure, including the approach of valuation and the areas of uncertainty, in the valuation report.