25 February 2013

IVSC,
41 Moorgate,
LONDON EC2R 6PP,
United Kingdom.

Dear Sirs

**Discussion Paper – The Valuation of Investment Property**

Asia Pacific Real Estate Association (APREA) is delighted to provide the following comments on the Discussion Paper.

| Question | Response |
|---|---|
| 1 | APREA believes that it should be retained, but modified as per item 3 below. |
| 2 | APREA sees capital appreciation, in addition to rental income, as part of the return and not the sole reason for holding the property. If the definition is retained in full APREA would like to see this point being clarified. |
| 3 | APREA believes that the definition of investment property should be refined to include only those properties that are held primarily to derive income .They can of course also be held for a gain in capital value, but this is not the primary driver of value. This can include properties under construction and land that is to be developed into a defined income producing property, but should exclude land that is held purely for speculative gain in capital value .The wording could be changed to "…..primarily to earn rentals with potential for capital appreciation, rather than…." |
| 4 | These can occur in trade related properties where the valuation reflects the terms of a particular lease or management contract, but this would not be the case for normal rental properties. Even in the case of trade related properties the items would rarely be detached from the value for the asset unless for a taxation reason.<br>Trade related properties often increase in value after the date of opening as the business becomes established. Revenues tend to increase and the business becomes more efficient. This is reflected in the overall valuation and is not normally separated. On occasions the operators interest is valued. The operator may be paying a market rental or receiving market fees for managing the business but these may be value related to the goodwill generated by the operator. This may be for finance, balance sheet or acquisition purposes. |
| 5 | There are cases where investment properties owned and operated by certain developers command a premium due to the quality of the building management. However, this is normally reflected in the higher rental value and does not need to be separately valued. |
| 6 | IVSC should consider providing guidance on this issue to avoid uncertainty on the topic. |
| 7 | APREA believes IVSC should make limited changes to IVS 230 and IVS 233 and instead produce a new TIP providing guidance on relevant issues. APREA believes there are a number of inconsistencies when valuing Investment Property Under Construction and the current IVS 233 provides adequate guidance to valuers and their Auditors on the treatment of investment property under construction.<br>APREA believes the Board should consider establishing a new and separate IVS on the valuation of Investment Property |
| 8 | APREA believes the provisions of IVS 230 and IVS 233 in relation to valuation methods to be sufficient. Although IVS 233 may wish to consider expanding on the residual valuation method to include both the Static Profit on Cost approach typically adopted for short term projects while the Discounted Cash Flow Approach is typically adopted for mid to long term projects. |

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<table>
<tr><td>9</td><td colspan="2">APREA may consider the inclusion of a number of definitions such as<br>• Project Related Residual Land Value<br>• Gross Realisable Value<br>• As If Complete<br>• The allowance and treatment of purchaser costs and taxes</td></tr>
<tr><td>10</td><td colspan="2">APREA believes paras 33 – 35 in the IVS Framework is considered adequate:</td></tr>
<tr><td rowspan="7">11</td><td colspan="2">APREA believes the below ranking represents the most frequent problems from the highest to lowest:</td></tr>
<tr><td>1. Where there are no or limited sale transactions.</td><td>• Investigate alternative asset types i.e., if you are valuing a commercial building look at industrial, retail as a comparison<br>• Also look at key indicators such as interest rates etc<br>• May need to include alternative / non real estate assets as a comparison<br>• Make enquiries of potential purchases to ascertain what would include them to buy.</td></tr>
<tr><td>2. How discount rates should and should not be considered.</td><td>• Discount rates should be constructed by analysing other similar transactions in a format also adopted when valuing the subject property<br>• Discount rates should not be considered as reliable where there is an absence of analysed sales evidence</td></tr>
<tr><td>3. Where an investment property comprises property to be developed, defining what constitutes “completion”.</td><td>Completion occurs where a Hypothetical Purchaser can take possession of the property from the Developer / construction company</td></tr>
<tr><td>4. Where, due to specific legal or practical issues, the property cannot be sold as a separate asset</td><td>For financial reporting purposes it is reasonable to assume a Hypothetical situation whereby the property can be sold or transacted. For funding purposes the valuer may need to consider the costs associated with separating the asset or the discount a potential purchaser may place on the asset due to the restrictions on its Title.</td></tr>
<tr><td>5. Where an investment property has not been leased since its completion</td><td>The valuer will need to consider the full costs, on a NPV basis, of vacancy allowances including down time, leasing incentives, advertising, agents commission, loss of outgoings during down time.<br>Also the risks of achieving a letting.</td></tr>
<tr><td colspan="2">APREA also consider the following additional areas which can also cause problems in valuations:<br>• Treatment of Face versus Effective Rents<br>• The valuation of properties sold via a Forward Funding or Fund Through arrangement where there are significant savings for both the purchaser and the vendor<br>• Sale of a partial interest in a property<br>• The treatment of rental guarantees or income support</td></tr>
<tr><td>12</td><td colspan="2">As both a valuer and a valuation user the above methods assist the valuer and reader in building up a value estimate for the property. The above methods reference market as much as possible which is critical when determining the value of the property.</td></tr>
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| 13 | APREA believes there are inconsistencies in valuations around the treatment and disclosure of certain costs and taxes. For example, it is often not clear if certain property level tax obligations have been included in a valuation. This could result in a potential overstatement of value. |
| 14 | APREA believes there should certain guidance as to the types of taxes and other costs to be included in a valuation, in particular the treatment of transaction vs. property level taxes, |
| 15 | APREA believes that the user of a valuation report may not have sufficient knowledge and understanding of inputs used in the analysis and would therefore be unable to appropriately classify the inputs. Where valuations are prepared for financial reporting purposes, the valuer, who should have sufficient knowledge of the asset and the assumptions adopted, should assist the Auditors of the financial statements by providing opinion on the input hierarchy and discussion on the key assumptions underpinning the valuation. The valuer should also include a sensitivity analysis on those key assumptions within their valuation report. |
| 16 | APREA believes that the IVSC should provide valuers guidance on:<br>(1) what constitutes Level 1, 2, and 3 inputs in the context of real estate valuation,<br>(2) examples of how quantitative information on Level 3 inputs should be presented, as well as<br>(3) guidance on how to identify the most appropriate assumptions for and sensitivity analysis and corresponding presentation.<br>(4) guidance on presenting a sensitivity analysis on key assumptions |
| 17 | All property capable of being valued but there are a range of levels of reliability homogeneous properties, much as similar quality residential investment units, may be valued with relatively high degree of accuracy provided there is a good, transparent, market. Unusual properties, or with volatile income stream, will tend  to have less reliable valuation. |
| 18 | APREA believes that the IVSC should provide a list of examples, similar to those in Section 4.2 above, of specific situations where it is generally accepted that a fair value cannot be reliably measured.<br>Again are principles more important than examples e.g. lack of transparent market, uncertain income, few transactions etc. |

Yours faithfully

PETER MITCHELL
Chief Executive Officer