NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

March 5, 2013

Mr. Christopher Thorne
Technical Director
International Valuation Standards Council
41 Moorgate
London EC2R 6PP, United Kingdom

Subject: Discussion Paper, *The Valuation of Investment Property*

Dear Mr. Thorne,

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) in response to the Discussion Paper, *The Valuation of Investment Property* (the Paper) issued by the International Valuation Standards Council (the Council).

NAREIT is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's members are REITs and other real estate businesses throughout the world that own, operate and finance commercial and residential real estate. NAREIT's members play an important role in providing diversification, dividends, liquidity and transparency to investors through their businesses that operate in all facets of the real estate economy.

NAREIT's Comments/Recommendations

Project Scope

NAREIT believes that the definition of *Investment Property* contained in International Valuation Standard No. 233 *Investment Property under Construction* (IVS 233) and International Accounting Standard 40 *Investment Property* (IAS 40) should be amended. This is consistent with our view that the IVSC guidance should not be restricted to supporting accounting requirements. We, therefore, agree with the rationale discussed in paragraphs 1.1.3 through 1.1.4 of the Paper and the Council's tentative conclusion provided in paragraph 1.1.5 of the Paper that the exclusions for a) property used to produce goods or services or for administrative purposes and b) property held for sale in the ordinary course of business may be too restrictive. NAREIT has provided its view to the Financial Accounting Standards

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Board (FASB) and the U.S. Securities and Exchange Commission (SEC) that, if and when the FASB considers convergence with IAS 40, the definition of investment property should be expanded to include all income producing real estate, *e.g.,* lodging facilities, cell towers and healthcare facilities.

We recommend that the wording should encompass any income-producing real estate asset that is capable of reliable fair value measurement.

Assets to be Included

NAREIT believes that the Council should provide guidance on which assets should be included in the valuation of investment property. In our view, assets to be included in the valuation should be dictated by the real estate market and the characteristics of the related intangible. For example, the value of a hotel should generally include the inherent value of the brand – but only if the brand is transferable by the owner of the hotel. We note that it would be difficult to separate the value of the brand from the value of the real estate. Other examples of intangible assets that should be factored into the valuation of investment property include:

- Existing air rights
- Energy credits
- Real estate tax credits
- Rights under long-term leaseholds

On the other hand, an intangible asset represented by existing relationships between the owner of a retail center and tenants should not be included in a valuation of the real estate because this relationship may not exist between a purchaser of the property and the existing or prospective tenants.

Format of IVSC Output

NAREIT recommends that the guidance should be issued as an International Valuation Standard and that the standard should include comprehensive valuation guidance related to investment property. The standard should include the relevant guidance currently contained in IVS 230, *Real Property Interests* and IVS 233, *Investment Property under Construction.*

Valuation Methods and Inputs

NAREIT urges the IVSC to discuss in the guidance the range of valuation support for companies that measure and report investment property at fair value in financial statements, as well as valuations for other purposes. Valuation support ranges from full independent appraisals to valuation advisory or consulting support. Our experience indicates that the purpose of the valuation and subsequent uses would influence the form and extent of valuation support, including the format of the valuation reports provided by valuers. NAREIT has discussed this matter with representatives of the Appraisal Institute in the U.S. as well as representatives of a number of the major public accounting firms. The consensus of these discussions was that the valuation profession should recognize this range of valuation support. Based on this consensus, NAREIT does not believe the standard should require full independent appraisals exclusively.

More specifically, a valuer should be able to support a company's fair value measurement and reporting through a collaborative process. Our experience indicates that many professionally-managed real estate companies have the ability to do much of the valuation work internally. For example, most large real estate companies employ staff that regularly underwrite and negotiate sales and acquisitions of investment property and are, therefore, fully qualified to value these properties for other purposes. In a collaborative process, the valuer may provide market studies, market capitalization and discount rates and macroeconomic information. The valuer's brief report would simply provide a description of the method and data used to form the valuation conclusion, as well as the valuation conclusion itself.

Taxes and Costs

We recommend that the IVSC require that taxes be excluded from property valuations, since the tax planning strategy of an individual buyer or seller is unique and may vary depending on the transaction. The exclusion of taxes would help eliminate inconsistencies in property valuations, especially when taxes can be reduced or deferred, for example, through structuring of the acquisition. Further, NAREIT believes that valuations excluding taxes and other costs would provide consistent valuation methodology and comparable valuations globally. The valuer could provide information with respect to adjustments that might be made for taxes or costs in a specific jurisdiction.

Disclosures

NAREIT agrees that the valuation report should contain sufficient information on the inputs used to enable the reporting entity to categorize the assets within the IFRS and U.S. Generally Accepted Accounting Principles (GAAP) fair value hierarchy. At the same time, NAREIT strongly objects to requiring that the valuation report state at which level of the IFRS and US GAAP hierarchy the valuation of an investment property be placed. This requirement would be contrary to the fundamental financial reporting premise that a company's management is responsible for the company's financial statements. Valuers and other experts may support management's reporting requirements and auditors may opine on the fairness of the financial statements and the accounting principles on which they are based, but *management* is responsible for ensuring that a company's financial statements fairly represent the financial position and profitability of the company. This includes responsibility for the measurements and classifications in the financial statements and for disclosures that provide financial statement users with transparent information regarding the financial statements.

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If you would like to discuss our views in greater detail, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards, at gyungmann@nareit.com or 1-202-739-9432, or Christopher Drula, NAREIT's Vice President, Financial Standards, at cdrula@nareit.com or 1-202-739-9442.

Respectfully submitted,

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