IPD

International Valuation Standards Council

Discussion Paper on the Valuation of Investment Property

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IPD

An MSCI Brand

Contents

Introduction

IPD's responses to this consultation are detailed below. In drafting these, we have endeavored to address the questions asked, but unashamedly from a real estate investment **measurement** perspective since this is our only sphere of experience in the much bigger world of valuation provision and use. IPD is now part of the larger MSCI Group, but the IPD team continues to deliver specialist indices and benchmarks restricted to the property sector and drawing heavily upon professionally provided valuations, and in what follows we draw only upon this sector and use specific knowledge base. However, IPD probably counts as the largest single user of property investment valuations as they remain integral to real estate performance measurement which is provided by IPD for over 1,500 portfolios holding over 50,000 assets worldwide.

Real estate investment markets typically exhibit a unique combination of heterogeneity, lumpiness, illiquidity and complexity of ownership, leasing and occupation structures. Together these factors generate some exceptional challenges in the production and governance of asset level valuations and thus also of performance indices and benchmarks.

IPD has responded to these challenges over 28 years by developing a blend of benchmarking and performance/risk analytics with market index computation and publication. The blend has been designed to offer standardised and transparent measurement, coupled with the strength of governance to be expected of any major institutional investment asset class, whilst at the same time ensuring that the indices and benchmarks remain richly relevant to the industry which has to come to terms with the uniqueness of that asset.

This is the regime that IPD has developed in partnership with the property investment sector and its valuation service providers worldwide, and we believe this more than meets the underlying governance and transparency principles espoused in the IVSC Discussion Paper and broader mission. However, the quality and consistency of valuations remains critical, and so debates such as this promoted by the IVSC are of tremendous importance.

If we have been unclear in any of our answers or have not covered points upon which you would value our views, please contact any one of the drafting team listed below. We have included copies of the IPD Protocol and our latest Index and Benchmark Guides to pre-empt perhaps some questions relating to the specifics of real estate performance measurement which underpin our responses. The internal team responsible for drafting this response comprised:

Dr Ian Cullen, IPD Advisory Director
Mark Clacy-Jones, IPD Head of Indices
Glen Corney, IPD Head of Lender Services
Nazma Kurimbokus, IPD Head of Business Assurance
Davide Manstretta, IPD Head of Performance and Risk Analytics

The Valuation of Investment Property

1. Project Scope

1.1 Definition of Investment Property

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?

An amendment is appropriate given the most recent evolution of the real estate investment markets over recent years.

2) If you believe it should be retained in full, what guidance should be given to valuers when valuing for the non-financial reporting purposes referred to above?

Not applicable.

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

IPD tracks a huge cross-section of real estate investment assets worldwide (in excess of 50,000), and whilst the base definition seems broad enough to encompass the vast majority of these, any exclusions, and specifically both of the current ones, are likely to be too restrictive and lead to perverse consequences which will ultimately muddle both the valuation and investment processes.

1.2 Assets to be Included

4) Have you encountered valuations that explicitly refer to intangible assets associated with either the property interest or the business in occupation? If so, were these separately valued or not? For what purpose was the valuation required?

IPD's records of valuations do not normally extend to this level of detail, and so it is unsurprising that specific reference to intangibles has not been encountered.

5) Have you encountered valuations of investment property where you believe that the value of an intangible asset has been included in the value of the property interest but has not been expressly identified?

The complexity of many of the investment interests included in the real estate portfolios measured by IPD has suggested the inclusion of intangibles included in the value of the property interest reported to us, but we have insufficient information to determine if that interest has or has not been expressly identified.

6) Do you consider that the IVSC needs to provide guidance on this issue?

Guidance is likely to prove helpful and avoid inconsistency.

1.3 Format of IVSC Output

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

IPD has no strong preference amongst these options, though for the sake of simplicity and clarity, that of producing a new standard on investment property which incorporates that which is essential in IVS 233 seems the most robust solution.

2. Valuation Methods and Input

2.1 Sufficiency of Current Provisions

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

We consider their combined content to be broadly sufficient, subject to the combination response offered to question 7.

9) If not, what specific aspects of valuation methodology for investment property do you think should be addressed in any future TIP?

Not applicable.

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?

The referenced paras appear to us sufficient and adequately clear.

2.2 Choice of Method

11) Please indicate which of the above most frequently presents a problem in the valuations that you encounter and the most common methods you see being used to address the issue.

At IPD we have insufficient access to the full valuation reports to comment upon appropriateness of methods selected. However, the access we have to modern investment interests in real estate suggest that many if not all of the issues listed do occur with sufficient frequency to warrant attention within the specification of valuation methods.

12) If you are a valuation provider, please indicate why you prefer these methods. If you are a valuation user, please indicate if you are confident in the result obtained by these methods.

See response to question 11. No further comment possible.

2.3 Taxes and Costs

13) Have you encountered material inconsistency in the approach adapted to the treatment of costs or tax in valuations of investment property? If so please indicate the nature of the inconsistency and its consequences.

Again the detail provided to IPD does not normally permit us to draw conclusions upon such issues of internal consistency.

14) Do you consider that the 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?

The primary goals should be consistency and transparency amongst delivered valuations, and if these goals are advanced by the introduction of guidelines (not benchmarks, because of the potentially confusing connotations of the term) then they should be introduced.

3. Disclosures

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?

The three level hierarchy is clear and apparently uncontentious. Whilst it should not be for the valuer to make a levels judgement on the status of the overall investment valuation, it would be helpful if a simple classification of the various inputs used, perhaps summarised through a dependency statement which offered broad ratios for each of the levels, thereby indicating the rough proportions of the input data which met the level 1, level 2 and level 3 standards.

16) If so what guidance should the IVSC be providing to enable valuers to comply with the requirements of IFRS 13 in relation to disclosures on inputs?

A set of input data assessment guidelines plus a list of examples should be sufficient.

4. Reliable Determination

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

A predictably sequenced, comprehensive and robust set of valuations is essential to the responsible reporting of investment portfolio returns to end investors. In the most extreme of circumstances it may very occasionally be impossible to report, but this represents a failure of the valuation process as much as a failure of the underlying market. It is therefore much better to attach confidence limits, range indications, and input data hierarchy assessments (see above) to "best endeavours" valuations than to provide an unhelpful null response.

18) Please indicate the nature of guidance that you believe IVSC could usefully provide to help determine when a valuation cannot be reliably provided.

As noted above, the guidance should emphasise the overwhelming importance of providing "best endeavours" valuations in almost all circumstances, and offer help in suggesting procedures whereby valuations can be labelled to indicate the evidence and other input data constraints which have been encountered in assembling the valuation.