February 14, 2013

IVSC
41 Moorgate
London EC2R 6PP
United Kingdom

Re: Valuation of Forests Exposure Draft

Dear International Valuation Standards Council,

Thank you for preparing The Valuation of Forests exposure draft. I appreciate the effort and contribution to the profession. I appraise forestland primarily in the United States, and occasionally work on projects in other countries. I also periodically review timberland appraisals from North and South America. I believe your effort improves and helps bring some standardization to the profession.

I have prepared a few comments related to the draft. I only responded to a few questions. Please consider my comments at your convenience.

Question 5. i and ii). I have seen timberland appraisal analyses range from seven or eight years to more than 30 years. As the appropriate length depends on the particular forest, I believe that the length of the forecast period should depend on the particular tree species, forest or region. I don’t believe the forecast period should be specified in the TIP. In my review work, I have noted significant variety in how many rotations are assumed in appraisers’ discounted cash flow models. My experience is that it may be worthwhile to model more than one rotation, as some investors model forests in this fashion. However, to comply with IAS 41, in some regions appraisers must only model one rotation. It would be helpful to have some clarity around this issue. Perhaps this issue could be addressed in the TIP.

Question 6. I agree that inappropriate reliance is sometimes placed on the Capital Asset Pricing Model to estimate discount rates for forestland discounted cash flow analysis. It would be useful to note this potential problem in the TIP. I have noted that auditors unfamiliar with forestland analysis tend to advocate for CAPM analysis, without understanding the limitations of CAPM for forestland real estate.

Question 7. I agree that the cost approach can be useful for planted forests. The root of this disagreement is in disparate definitions of the timberland cost approach. It has long been used successfully in the United States South and is regarded as an integral, required component. I have seen it used successfully for both recently planted forests and mature forests. It plays an additional, secondary role in allocating value between land and timber in some appraisal reports.
Question 9. I have seen a range of methodologies used to estimate a separate value for the biological asset. In my opinion, there is a risk of overstating the value of a forestland asset if the value of the land and timber is estimated separately. I am most familiar with a methodology that estimates the total value of the forest, both land and timber together as a unit, and then allocates value between the two components. For instance, if the value if the forest is estimated using the income capitalization approach and market approach, a cost approach analysis provides a reasonable foundation from which to allocate value between land and timber. The land and biological asset are an allocation of the total asset value, rather than separately moving parts.

Page 8, Item 31. The first sentence. The paragraph states that direct comparison with sales of other forest interests is rarely possible. *I strongly disagree with this statement.* In the eastern and southern United States, an area with vast commercial forests and a well-developed appraisal community, the market approach has been used widely and successfully for many years. *I feel strongly that it is inappropriate for the TIP, as it seems to be unaware of the prevalence of the sales comparison approach in the US, to discourage its use elsewhere. This sentence could create a substantial problem for the industry, should the auditor community see this in a TIP prepared by the IVSC, and begin to discourage usage of the market approach.*

I appreciate the opportunity the comment on the TIP. I support and appreciate your efforts to improve the profession.

Sincerely,

Donald G. MacKay, Ph.D., CFA