15 February 2013

International Valuation Professional Board
41 Moorgate
London
EC2R 6PP

Dear Sirs

Re: RICS OBSERVATIONS ON THE EXPOSURE DRAFT ON THE VALUATION OF FORESTS

Overall whilst the RICS notes the stated objectives, it believes the proposed guidance is unusually detailed and in places more concerned with practical valuation issues than directly with international valuation standards interpretation. It would invite the Professional Board - and IVSC - to consider whether the level of detail is entirely appropriate, but nevertheless focuses this response solely on the Exposure Draft as published.

Q1. RICS does not consider that the Exposure Draft (ED) should be extended beyond its current scope.

Q2.
   i) RICS understands that a number of different standards or techniques are in use in different countries / jurisdictions to calculate forest inventory. RICS understands that valuers generally use a sample plotting technique which either measures a number of trees within a fixed sample for height and diameter or by assessing basal area and using this figure together with the top height to calculate volume per hectare.

   ii) RICS believes that there must be some scope for the IVSC to provide further information on common sampling and measurement techniques.

Q3. RICS notes there may be a shortage of market evidence regarding forests. For example, within the UK transactions tend to be handled by a very small number of specialised agents.

For primarily commercial forests whose market features are considered to be the quality and quantity of timber, both the site or 'land value' and the standing timber may need to be considered separately. In reality, then an income based approach may be required to assess the standing timber value.
i) The method of valuing the growing timber then does depend on the stage of maturity of the tree crop. When the trees are mature or nearing maturity a 'present market value' may be used to assess the current value of the standing timber. For young immature forests, the utilisation of the 'expectation value' may be more appropriate.

ii) No response.

Q4.
RICS understands that while the three approaches of market, income and cost are accepted there has been discussion surrounding a fourth method – the Lump Sum method - though this method is generally not in use due to a number of recognised limitations.

Q5.
i) RICS understands that there is no typical range of forecast period for valuing forestry interests and the period involved will be decided on a case by case basis upon consideration of a number of criteria – not least the purpose of the valuation.

ii) RICS does not consider that the IVSC should provide specific guidance on the length of the forecast period.

Q6.
RICS would agree with the views expressed that inappropriate reliance may be placed on the CAPM / WACC where there is insufficient data to provide reliable evidence of either the risk premium or cost of equity that would be typical for a market participant.

Q7.
The value of a young forest is entirely related to its growth rate and the resulting cashflow therefore an income approach is appropriate. The cost of establishment has no relation to the value of the forest. The use and analysis of comparable market evidence is also vital for assessing the Market Value of younger forests.

The cost approach may however be appropriate for insurance valuations.

Q8.
i) No response

ii) RICS supports the guidance as outlined in the ED regarding the need for the valuer to consider more than one valuation approach.

Q9.
RICS is of the view that simply deducting the value of the "raw land" from the value of the combined asset with the residual representing the value of the biological asset is too simplistic an approach.

RICS understands that the most common approach for ascribing a value to the "biological asset" in a forest for financial reporting purposes is via the use of discounted cashflow.
RICS questions whether the "paras" regarding the deduction of the "raw land" are necessary to include. If just ascribing a value to the "biological asset", then applying the methods for the growing crop already outlined should be sufficient.

Q10.
RICS recognises the difficulties posed by IAS 41.

RICS is of the view that where the trees will generate an income then the biological asset should be recognised as an asset regardless of the value of the land.

RICS agrees that the biological assets have a fair value independently of the group of assets even where the land has a significantly higher value in an alternative use

Q11.
i) RICS does not consider that the inclusion of the two illustrative examples will necessarily result in the reduction of diversity in valuation practice.

ii) RICS does not believe that there are any other subjects that would benefit from an illustrative example.

Q12.

i) No response

ii) RICS believes that there is a need for greater reference to and explanation of "non-commercial woodlands".

Please note that RICS have no objection to this reply being published on the IVSC website.

Yours sincerely

[Signature]

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