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February 28, 2013

Mr. Steven J. Sherman, Chairman
Standards Board
International Valuation Standards Council
41 Moorgate
London EC2R 6PP
United Kingdom
CommentLetters@ivsc.org

RE: Request for Comments on the Exposure Draft "Valuations of Specialised Public Service Assets" dated November 30, 2012

Dear Mr. Sherman:

Thank you for the opportunity to comment on the Exposure Draft "Valuations of Specialised Public Service Assets." On behalf of the Appraisal Institute, the Appraisal Standards and Guidance Committee ("ASGC") submits the following responses to the questions you posed in your request for comment dated November 30, 2012.

Question 1:

Some of the challenges that arise in valuing specialised public service assets result from similar assets being cash-generating when owned by a for-profit entity and non-cash-generating when owned by a not-for-profit or public benefit entity. The Board's initial view is that it is the characteristics of an asset and the service it provides that are relevant to its valuation. Others argue that the status of the owner can be a significant factor that impacts on the value of an asset as in many cases there is circularity between the for-profit or not-for-profit status of the owning entity and the cash-generating status of the assets.

Which of these views do you support?

> **Response:** We generally support the first view. When the standard of value is a market value, the characteristics of the asset determine that value, not the current ownership situation. Market value presumes a hypothetical sale. It is premised on the notion that the property would most likely sell to the party willing to pay the buyer the highest price so the buyer can then put the property to its highest and best use. The current use by the current owner (presumed seller in the market value scenario) is irrelevant to the valuation problem. Further, the use by a public entity and/or for a public purpose may or may not reflect the property's highest and best use.

Question 2:

The draft contrasts the concepts of market value and investment value (as defined in the IVS Framework and this draft). Market value should give the same result as fair value as defined in IFRS 13 as the differences between the two do not affect specialised public service assets. It is therefore frequently used as a basis when specialised public service assets are valued for financial reporting. Investment value is specific to the owner and can reflect criteria that would either not be relevant or available to market participants, such as measures relating to the public benefit created by or accruing to the asset.

Do you consider that these distinctions are clearly explained?

> **Response:** Yes, reasonably clear. We recommend you consider adding that when the investor’s individual criteria are consistent with those of the general market, then investment value and market value could be the same. The type of value should be consistent with the intended use of the appraisal report.

Question 3:

The proposed guidance makes a distinction between measuring the value of the asset and measuring the social value, ie the impact of that asset on either other assets or the wider community. It excludes the latter from the scope of the proposed TIP on the grounds that social value of an asset is not directly correlated with the value of the owner’s interest in that asset.

a) Have you had experience of the impact that a specialised public service asset has on the value of other assets or the wider community being used as a measure of the value of that asset?

b) If so, please explain the purpose for which the valuation was required.

> **Response**: A public service asset can result in positive externalities that may affect the value of other properties but the valuation of the public asset itself should be based on its characteristics, highest and best use, and the intended use of the appraisal report.
>
> Where the value being appraised is something other than market value, the considerations may not be the same.

Question 4:

Many specialised public service assets such as roads, town squares, footpaths, public parks and gardens, informal recreational areas, etc are assets for which public users make no direct payment for access or use. Some regard such “assets” as being incapable of reliable measurement because:

> i) neither the historic nor the current cost normally has any relevance or correlation to a measureable benefit to the owner and

ii) there are no actual or implied revenues, such as a reliable proxy or cost saving, that can be attributed the asset.

a) Do you consider that all specialised public service assets are capable of reliable valuation, or that some such assets should be declared as incapable or unsuitable for valuation?

b) If you have experience of valuing assets such as those identified in this question, please describe the type of asset valued and briefly describe the method or methods used.

Response: Any property can be valued, but some valuations are more difficult than others. If the standard of value for the valuation is a market value (which presumes a sale of the property on the open market), a first step in the valuation process is development of an opinion of the highest and best use ("HBU") of the real estate – that is, answering the questions, "who would buy this property and what would they do with it in order to achieve the maximum economic benefit from it?" The current use may or may not be the HBU. Other uses may achieve benefits that are not economic benefits (the public enjoys a park, for example); such uses don't factor into the consideration of HBU in a market value analysis. The TIP should stress that "value" is an economic concept, and value opinions are expressed in terms of money. "Value" in the broader sense of non-economic benefits to society cannot be quantified and expressed in terms of money.

Properties that typically are not purchased for their income do not lend themselves well to valuation using the income approach. The sales comparison approach may be applicable though is often difficult to apply because of lack of sales that reflect market value transactions. The cost approach may also be applicable, though again may be difficult because of the challenge in estimating reproduction or replacement costs for such unique structures, and the difficulty of estimating accrued depreciation, especially from functional sources.

Question 5:

It is proposed that the current Annexe to IVS 230 Historic Property be included in this TIP and deleted from the IVS. The rationale is that many historic and heritage properties are used for providing a public service. The historic features are a form of specialism as they can often limit or constrain the use of these properties. As a consequence it is felt that many of the valuation considerations that apply to specialised public service assets also apply to historic and heritage properties and that it is more appropriate to present the guidance here than as an adjunct to IVS 230.

Do you agree with this proposal?

Response: Generally yes, although the effect of historic designations, and limitations that sometimes come with them on the property’s use, can impact the value of privately owned properties and should be considered on these assignments as well.

However, not all historic properties are publicly owned. Many in the US, for example, are privately owned. Therefore, we recommend the portions of the Annexe to 230 that address public sector assets be removed but the rest remain.

Question 6:

Paragraph 36 of the draft proposes that four principal categories of specialised public service assets can be identified, and provides examples of types of asset that fall within each of these categories.

a) Do you agree with the categorisation proposed?

b) Do you find the categorisation and examples to be helpful?

c) Do you consider that there are either any significant omissions or asset types that should be excluded?

Response: The categories appear reasonable to us. We think the examples are helpful as well. We particularly agree with the statement of the list being non-exclusive.

We trust that you will find our comments helpful. Please do not hesitate to contact me if you have any questions regarding these comments.

Sincerely,

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