Sent by email to: CommentLetters@ivsc.org

International Valuation Professional Board
41 Moorgate
London EC2R 6PP
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SUBJECT: Comments on Proposed Technical Information Paper 2 – Depreciated Replacement Cost

Dear Sirs:

The Japan Real Estate Institute (JREI) is pleased to provide the following comments on the above noted Exposure Draft.

1. It is proposed that this Exposure Draft will replace the current GN8 “The Cost Approach for Financial Reporting - (DRC)”. As the name suggests GN8 only covers the use of the cost approach for financial reporting purposes. This exposure draft proposes that a properly applied cost approach can be applied in a wide variety of circumstances.

   Do you agree with the argument that the cost approach, if properly applied, can be used as a method to arrive at market value for a variety of purposes other than financial reporting?

   JREI Comment: Yes.

2. This Exposure Draft identifies depreciated replacement cost as the most common method of valuation under the Cost Approach. An alternative view is that this is the only method of applying the cost approach.

   Which of these views do you support? If you believe that there are other valuation methods that fall under the Cost Approach, please describe them.

   JREI Comment: We accept the position of the Exposure Draft that considers DRC is the most common method for the cost approach.
3. GN8 in the 2007 edition of IVS identifies the three main types of deduction for obsolescence as physical deterioration, functional obsolescence and external obsolescence. In this Exposure Draft external obsolescence has been replaced with economic obsolescence. Supporters of the proposed change argue that the term economic obsolescence is most commonly used to describe this form of obsolescence. Those who support the existing definition argue that the term external obsolescence more clearly requires all factors that arise from changes to the environment in which the asset operates to be considered, regardless of whether they have a direct economic impact.

Which of these views do you support?

_JREI Comment_: This issue seems to be superficial, especially to non-English-speaking valuers. We believe that the words ‘external obsolescence’ and ‘economic obsolescence’ could be used interchangeably. What is important is to understand the meaning of this type of obsolescence correctly. We suggest the first sentence of Paragraph 36 to be revised to “Economic obsolescence (sometimes called external obsolescence) is the loss in value caused by factors which are external to the asset itself.”

4. The exposure draft provides that where the purpose of the valuation is governed by regulations that preclude adjustment for all forms of obsolescence, for example valuations for tariff setting purposes of regulated monopoly assets, the outcome does not represent market value and should not be described as such.

_Do you agree that a cost approach valuation that does not identify and quantify all forms of obsolescence is not a measure of market value?_

_JREI Comment_: Yes. When all types of obsolescence are not considered, the result through the cost approach could depart from the concept of market value. If that is the case, the result should not be indicated as market value.

Sincerely,

_Japan Real Estate Institute_

[Signature]
Nobuo Kobayashi
Managing Director