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10 October 2018

Mark Zyla
Chair
Standards Review Board of the IVSC
C/O: aaronsohn@ivsc.org

Dear Sir,

RE: Feedback to IVS 2017 Proposed Revisions Exposure Draft

Thank you for the opportunity to provide feedback to the proposed revisions of IVS 2017. Please find comments below.

Question 1: Do you believe that IVS should define the terms Price, Cost, and Value? If so, please discuss why you think the additional definitions are necessary.

API - Yes, the definitions provide context with regards to the position of a vendor, purchaser and valuer. Defined terms provide clarity, particularly for 'valuation' will assist valuers to differentiate themselves from non-valuation products offered by non valuers such as AVMs and real estate agents - in Australia it is the difference between a valuer who undertakes a valuation in accordance with IVS and API rules, guidelines, TIPs, standards and a real estate agent who provides a likely sale price estimate that may or may not be in accordance with IVS and is not recognised at law as a valuation.

Question 2: Do you believe IVS should define *Calculation* and *Calculation Engagement*? Please explain why.

API – No, not at this stage - IVS Standards Review Board should continue to seek further input and ensure that 'non-valuation' products (such as AVMs) do not get caught up in, and are implied to be, Valuation Calculations due to the AVM application following a methodology (calculation) contained in IVS.
The API does not define Calculation at this time, however in terms of valuation something along the lines of "a mathematical determination of the value of an asset or liability based on known facts/evidence"

Question 3: Should a *Calculation* be IVS compliant, and if so, what differences in the scope of work and disclosures outlined in IVS should be required by the *valuer*?

API - The term 'calculation' and 'calculation engagement' would need to be reviewed once defined to ensure that the standards inherent in IVS are upheld.

A valuer undertaken a valuation requires the inspection of the property/asset or liability in the case of real property and tangible assets or liabilities as opposed to a 'limited valuation' which may not require the valuer to undertake a full inspection. The API uses the term 'restricted assessment' in the case of a 'kerbside inspection, and/or an 'indicative assessment' in the case of a desktop assessment. Neither of these two inspection types are considered to be a 'full inspection' and therefore the assessment is considered to be restricted/limited.

Question 4: Should IVS provide examples of "substantial" limitations? If so, please provide examples of such limitations.

API - Yes. The inclusion of several examples preceded by "may include, but not limited to ...." is considered to be appropriate.

Examples may include;

- non-inspection
- partial inspection
- limited or restricted access to any information that would typically be considered in a valuation and might have an impact on the valuation outcome
- limited or insufficient market information available which may result in a reduction in data/evidence upon which to demonstrate a basis of value.

Question 5: Do you agree with the suggested changes to IVS 105 section on Discount Rates? If not, please provide details of the additional information you think should be included or excluded from this section.

API – Yes, the proposed changes promote best practice. They are logical and more prescriptive by detailing what the valuer needs to to/should be done in these situations.

Question 6: Do you agree that the methods are more relevant to business valuation and the placement in IVS 200 is appropriate? If no, please explain why.

API – the proposed inclusion is considered appropriate.

Question 7: Are there additional methods that should be included in the proposed revisions, for example the Hybrid Method? If yes, please discuss the additional methods to consider.

API – no comment

Question 8: Are there additional topics within Early Stage Company Valuation that you feel should be included in IVS or explored further by the Boards? Please provide an outline for any topics suggested.

API – no comment

Question 9: Do you feel that the inclusion of the "As Is" and "As Proposed" value for the Development Property will reduce the risks in relation to the valuation of development property? If no, what additional information would you like to see included?

API – Yes, the inclusion of an 'as is' value is a good idea and will provide more protection to valuers and make it clear to the reader of the report what the current market value of the property is.

Proposed paragraph 120.2 reads as;

120.2 To demonstrate an appreciation of the risks involved in valuing Development Property for secured lending or other purposes, the valuer must apply a minimum of two appropriate and recognised methods to valuing Development Property for each valuation project and must be able to justify the selection of the valuation approach(es) reported. The valuer must also provide an "As Is" and an "As Proposed" value for the Development Property and record the process undertaken and a rational for the reported value.

… *'or other purposes'* … is this necessary? The inclusion of 'or other purposes' after 'for secured lending' opens this paragraph and its requirements for every other purpose that a valuation of development property is undertaken for. Is this the intent?

…*'<u>must</u> apply a minimum of two appropriate and recognised methods to valuing Development Property'* … The inclusion of 'must' contradicts IVS 105 paragraph 10.4 which states 'Valuers are not required to use more than one method for the valuation of an asset, …valuers <u>should</u> consider the use of multiple approaches and methods and more than one valuation approach and method <u>should</u> be considered and <u>may</u> be used to arrive at an indication of value' …. If 'should' was used then the various paragraphs who carry the same message and requirement.

... '*"As Proposed" value*' ... without relating this back to the valuation date, it may imply that the value 'on completion' of the proposed development as at a future date. Consider using 'as if complete as at the valuation date' or 'as at the valuation date' after the words 'value on completion' and/or 'as proposed value' in paragraphs 20.5 and 120.2.

"value on completion' implies a future value when it's complete, unless 'as at the valuation date' immediately follows it eg: 'value on completion as at the valuation date' or use 'as if complete' which relates to the assumption that the asset is completed as at the date of valuation not at some point in the future.

The API has a proposed definition for 'as if complete'; *"if the report is conditional on anything physical or legal occurring then the Valuer must value the property on an 'as if completed' basis"*, and also *"An 'as if complete' valuation assumes the proposed work is complete and available for sale, as at the date of inspection/valuation. The 'as if complete' valuation does not reflect the current 'as is' / 'existing property' value of the property. It also does not reflect the value of the property 'on completion' at a future date."*

Question 10: Should the *valuer* be compelled to state the method of valuation they have used in their calculation of market value and report the assumed (or calculated) Developers Profit when reporting market value? If no, please explain why not?

API - yes, the requirement to compel a valuer to state the method of valuation used in 'development valuations' and detail the assumed (or calculated) developers profit is sensible and good practice. It also informs the reader of the reasoning behind the valuer's assumptions and calculations. The caveat to this is that it only applies to 'development valuation' over and above a single occupancy development of a dwelling, and only for 'secured lending' purposes or if requested by the instructing parties for other purposes.

If you have any further queries regarding any of the above, please do not hesitate to contact me.

Regards,

David Brandon
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Australian Property Institute Ltd