IVSC 2017 Colliers International Comments on Exposure Drafts

1. **IVS 2017: Introduction & Framework**
2. **IVS 104: Bases of Value**
3. **IVS 105: Valuation Approaches and Methods**
4. **IVS 210: Intangible Assets**

- - - - -

1. IVS 2017: Introduction & Framework

This introductory chapter is straightforward and generally provides a clear overview. The move to include mandatory requirements is welcome. It will increase confidence in the adoption of IVSC valuation standards. The changes they have proposed are acceptable, and the more comprehensive approach makes them more useful to practitioners as a whole.

There are areas that would benefit from more clarity. Specific comments are set out below.

Response to Questions for Respondents:

a We agree that the 'commentary' label should be removed if the IVSC's intention is that all aspects of the standards will be mandatory. This will avoid confusion. We support retention of the commentary itself, although the style of the text in parts of the document still reads as though it is guidance/supporting commentary. We would also consider renaming to something more appropriate e.g. "background".

b This is fundamental and the decision to create a separate section on the Bases of Value is reasonable.

c This is also fundamental and the decision to create a separate section on the Valuation Approaches is reasonable.

d In principle, we agree with the definition of Exceptions and Departures. There are opportunities to further clarify the definitions, outlined below (para 60.1). The commentary should be expanded so that not only must a valuer not state that the valuation was performed in accordance with IVS, the valuer should also state that the valuation is **NOT** performed in accordance with IVS. Departure definition is acceptable, however the commentary should also state that the valuer must disclose where the valuation departs from IVS and why.

Other comments (lines are only referenced if there is a comment):

<u>Para</u> <u>Observation</u>

30.1 In addition to definition of a 'valuer', there should be a separate definition of a 'valuation reviewer' in this section, or the standards, as the paragraph indicates there may be circumstances where a valuation reviewer may excluded from the standards. A description of typical circumstances of such exclusions would provide clarity, given that the standards are proposed to be mandatory. The word 'States' as in "In some States,…" should be changed to address those localities which don't have states.

Suggest localities, countries, regions or places etc.

40.2 The reference to ‘matters of conduct and ethical behaviour are not within the scope of IVS’ could be removed – it dilutes the preceding standards on ‘Objectivity’.

60.1 The definition of ‘Exception’ could be clearer. It provides scope for the valuer or client to conclude that an exception is appropriate, without clear and reasonable justification. Some examples of appropriate exceptions would be helpful.

2. IVS 104: Bases of Value

We support the inclusion of a separate chapter in the IVS for this topic. There are a significant number of alternative bases outlined in this Chapter. Given the global application of these standards across different markets and industries, we recommend that a comment is added to each basis of value to identify which entities / organisations typically use the definitions. This will provide more context as to why they are necessary in some cases. This is particularly important if the valuer is to have sole responsibility for choosing the basis. It will also assist the valuer in explaining the choice to clients / third parties, and ensuring a timely agreement of terms of engagement.

Response to Questions for Respondents:

a In principle, it seems reasonable for valuers to be responsible for choosing the appropriate bases of value. However, this requires additional commentary because in practice, the valuer will need to discuss and agree the basis/bases with the client in order to ensure the client’s requirements are met, and to avoid misunderstanding. This is particularly important in secured lending valuations. In the case of statutory / regulatory requirements, the bases should be clear and undisputed.

If the definition of valuer includes a valuation reviewer, there should be clarity as to whether the valuation reviewer would have the ability to dispute the chosen basis of value, or would be bound by the original valuer’s choice.

b We agree with the removal of Special Value as a distinct basis of value, particularly if it is seldom used.

c We support the renaming of Fair Value as Equitable Value in the context shown.

d If Liquidation Value is used extensively by some entities/markets, then it seems appropriate to include it within IVS 2017. However, it should be clearly defined and be specific on the conditions of its use in order to avoid confusion with the similar concepts that are explicitly not permitted as bases of valuation, such as ‘forced sale value’.

Additionally, the definition allows for it to reflect orderly or forced circumstances. This could give rise to confusion. The use of the term ‘piecemeal basis’ in para 80.1 (line 212) could be rephrased, as to some readers, it could be assumed as a ‘break up value’ of an asset or business. This could result in a substantially different valuation from disposal of a whole asset under a limited marketing period. The definition and explanatory commentary is therefore not necessarily consistent with ‘Market Value under the established special assumption of a limited marketing period’.

e ‘Replacement Value’ is not a generally accepted term in many markets where replacement cost is more commonly used. Whilst this is an acceptable basis of value in some markets the definition requires more clarity, as there is scope for confusion with other similar concepts. This should also be addressed in IVS 105. Please see comments under that section for more detail.

f We do not consider that any additional bases of value should be added to the definitions.

Other comments (lines are only referenced if there is a comment):

Entity specific factors – 190.3 page 17. We suggest adding a third point c) consolidating a site for an adjoining owner

40. IVS Defined Basis of Value – Market Rent – 40.3 add words: "seen as an independent…"

90. IVS-Defined Basis of value – Replacement Value – 90.2 add words: "….same floor area, utility and efficiency."

170. Premise of value – Orderly Liquidation – 170.2 – add words: "…vary by asset type and market conditions."

180. Premise of Value – Forced Sale – 180.1 – add words: ….as a consequence, a proper…."

3. IVS 105: Valuation Approaches and Methods

We support the inclusion of a separate chapter in the IVS for this topic. The layout of this section could be clearer, as there is a lot of detailed supporting information under each of the three principal valuation approaches (Market, Income, Cost).

In particular, the Income approach is very focused on Discounted Cashflows. Notwithstanding the explanation for this in para 50.1, the standards become very detailed at this point, and in parts they appear to be explanatory guidance, rather than the intended mandatory standards.

The IVS would be the ideal platform to provide valuers and their clients with a 'translation' between different approaches used in different geographical markets, particularly DCFs and traditional income capitalisation methods used in others.

Response to Questions for Respondents:

1 We agree that the considerations are valid for selecting an appropriate valuation approach and methodology.

2 The criteria presented under each valuation approach seem reasonable. Some of the detail in the section under the 'Approach Methods', is repetitive of the introductory paragraphs.

3 Other than as noted here, further detail on discount rates, discounts/premiums etc.is not necessary in the IVS standards. There is already fairly detailed commentary. If the board plans to cover these through a separate guidance note in order to promote knowledge among valuation professionals, it would be welcome.

Other comments (lines are only referenced if there is a comment):

Para	Observation
10.4	Valuers should be required to consider at least two methods of value. One of these methods may nevertheless be far better than the other. Ultimately adopted value should be reasonable. By limited exception there will be circumstances where other approaches are not reasonable and only one adopted. Reasoning should be clearly explained. It is expected that this will be unusual.
30.17	The standards should not promote ‘anecdotal / ‘rule-of-thumb’ valuation benchmarks’ as a shortcut approach to valuation. The current language arguably provides scope for a wide interpretation and could be viewed in some markets as negligence. If there is a context for including this approach, it should be specifically identified.
50.1	The other income approach methods are important in some real estate markets, and too important to be dismissed as a variation of a DCF. From practical experience, significant confusion can arise from using alternative methods, particularly with regard to globally-active investors. The IVS 2017 standards would provide a good opportunity to address this. The way this is currently written is likely to lead to confusion in some markets where DCF is not commonly used by implying that it is the preferred method.
50.4	A statement should be added to say key metrics such as discount rate and terminal yield should be based upon analysis of sales of similar assets.
50.5	d) Market value should be assessed in the currency of the country it is in. Currency is an external consideration of the buyer (if different to that where the asset is located) and separate to market value.
50.6	In relation to the statement that the type of cash flow should be in accordance with the ’investor’s viewpoint’. Market value should consider market practice and not any specific investor’s viewpoint. Otherwise this should come under a different basis of value e.g. special value.
50.7	Market value and cash flow should only be assessed in the currency of the location. Currency risk / opportunity should be assessed separately. Any other approach should be a different basis of value and the valuer should be directed to seek confirmation in instructions as to the conversion rate, most likely the spot rate at the date of valuation.
50.17	Spelling mistake: “difference discount rate’ should be ‘different discount rate.
50.18	Add words: “…..generally preferable to use cash flow that would be anticipated by market participants as the basis for valuations.”
60.2	f) Tax is not normally part of a market value assessment of real estate. Ie it is completed on a ‘before tax / tax free’ basis. Terminal value should also consider market conditions as at Year 0 – but X years older.
60.5-60.6	Market Approach/Exit Value: This explanation is very brief, given the relative weight that this figure can carry in a short-term DCF. Compare this with the lengthy explanation of discount rate given in line 60.9-60.11.
60.10	The discount rate should primarily be derived from analysis of comparable sales where available as evidence of market behaviour / expectations.
60.11	Should be summarised down to a) Risk free rate b) Risk Premium c) inflation premium d) Liquidity premium.
80.9	Words added: “the key steps in the summation ….”

80.9 (a) The word ‘apart’ appears to be superfluous.

80.11 delete the word ‘potentially’ from 80.11 a) i).

80.11 b) vii) finance costs and viii) profit are not normally considered in some markets. We suggest add words to the effect “if locally appropriate”, or similar.

80.12 In relation to profit, there would need to be evidence that this is supported in the market. Not necessarily evidenced in a downturn.

90.2 (c) delete words: “ external or economic obsolescence…”.

90.4 Market based comparisons are more relevant, i.e. sales if comparable assets are more relevant.

4. IVS 210: Intangible Assets

We recommend that standard wording be included making it clear that any breakdown of a going concern value into say land, buildings, fitout and goodwill needs to be recognised as a hypothetical exercise and provided for broad guidance purposes only.

Goodwill is defined in 20.6 but fails to recognise it can be broken down into transferable and non -transferable goodwill. The non-transferable goodwill is generally accepted to reside in the location of the property and to be inherent therefore in the apportioned land and buildings component. Transferable goodwill can be relocated with the operator and may include the skill or reputation of a specific operator or perhaps various a databases such as hotel guests however it is arguable how far physically this goodwill can be transferred.

Other comments (lines are only referenced if there is a comment):

20.8 breaks down the components of goodwill and refers to going concern value but it would help to have a definition of what a going concern is and why it includes goodwill i.e. the ability to generate recurring business.

40.2. A third point could be added – c) the appropriate availability of market evidence.