Heuristic Consulting Associates
Bruce Turner, President

790 View Avenue
Courtenay, BC [CANADA]
V9N 5R2
Phone: (250) 338-9578
Cell: (250) 702-6495
Email: bruce@propertyassessment.biz

IVSC Standards Board

April 9, 2016

Comments on IVS – Introduction & Framework

a) In IVS 2013, all substantive portions of the standards were labelled as "commentary" (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standards were mandatory. The Board's position is that all aspects of IVS 2017 should be mandatory and this exposure draft has removed the "commentary" label for clarity. Do you agree with the removal of the commentary label?

   i. *Yes, I agree. These are 'standards'. Commentary may be helpful in interpreting standards but seems the wrong term for the standards themselves.*

b) Do you agree with the Board's decision to remove the section on Bases of Value from the IVS Framework and produce a single chapter on Bases of Value in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?

   i. *Agree.*

   ii. *However … for international standards, it seems necessary to emphasize (not just allude to) the great differences in property market maturity and land administration. Currently, only about 45 nations have mature property markets – leaving a great majority with uncontrolled and uncertain property rights; customary property rights that are not documented, etc. Standards may need to vary and are not readily met in many country / investment environments. A great deal of work is occurring in this area (e.g., World Bank, United Nations) … IVS needs to be engaged in and contribute to this work.*

c) Do you agree with the Board's decision to remove the section on Valuation Approaches from the IVS Framework and produce a single chapter on valuation approaches and methodologies in order to clarify the mandatory nature of this section and to avoid repeating certain guidance throughout the IVS? If not, why?

   i. *Yes, makes good sense.*

d) Do you agree with the IVS definition of Exceptions and Departures? If not, why?

   i. *Agree. Please see comments under 'bases of value' relative to Section 60.2.*

Comments on IVS 104 Bases of Value

a) Do you agree that valuers should be responsible for choosing the appropriate basis (or bases) of value according to the terms and purpose of the valuation assignment, and that the basis of value may not be one defined by the IVSC? If not, why?

   i. *Yes, I agree. The valuer is responsible for the end result.*

b) Prior versions of international valuation standards included Special Value as a separate and distinct basis of value. The Board generally believes that valuers seldom perform valuations using Special Value as a distinct basis of value. Rather, valuations are typically performed using another basis of value predicated on certain hypothetical assumptions ("special assumptions") or a specific purchaser (resulting in synergistic value). Do you agree with the removal of Special Value as a separate and distinct basis of value? If not, please describe the circumstances in which you use Special Value as a distinct basis of value?

   i. *Yes, I agree. Special Value can confuse the end-user's understanding and interpretation of the valuation.*

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c) The IVSC has re-titled the previously defined Fair Value as Equitable Value in order to avoid confusion with other definitions of Fair Value. Do you agree with this change, if not why not?

   i. *Differentiating 'equitable value' from 'fair value' is helpful. However, as I read these sections, they seem to more reflect 'investment value' reflecting a negotiated position between the interests of the parties.*

   ii. *The term 'equitable value' may create some confusion as it already has specific meaning – for example, related to property assessments – where the taxpayer is considered to be entitled to two rights: a right to a fair value and to an equitable value. For tax purposes, the taxpayer is entitled to the lower of these.*

d) Liquidation Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

   i. *Yes, I agree. The definition benefit from stating how sale proceeds are generally distributed – i.e. first to creditors, with balance proportionately allocated to owners.*

e) Replacement Value has been added as an additional basis of value. Do you agree with its inclusion within IVS 2017 and are you in accordance with the definition used? If not, why not?

   i. *Agree with inclusion. I would prefer to see some mention of replacement differentiated from reproduction. For example, replacement cost implies current materials, technologies and construction techniques and, where configuration may be an issue, it implies that functional inutility is addressed.*

f) Are there other bases of value defined by other entities/organisations that should be mentioned in IVS 104? Which ones? Why?

   i. *While I agree that Special Value should be eliminated, I feel that 'Regulated Value' may be helpful. In British Columbia (Canada), for one example, legislation and attendant regulations present regulated values for properties such as forest land, farm land, major industry properties, utilities and so on. These are purported to be 'market value' or a 'proxy' for market value. Yet they do not represent anything near market value. Sometimes this may be due to lack of evidence (thinly traded markets); historical assessment policy, or tax policy that is not expeditious to alter. A base of value that clarified the policy obfuscation and helped highlight inequity could be most helpful to politicians and taxpayers alike.*

   ii. *Because values determined to comply with legislation/regulation are often in the public eye, the public tends to rely on them. Being able to state that such values meet IVS standards gives them an undeserved credibility – especially where policy intends that the regulated value is a 'proxy for market value'.*

Comments on IVS 105 Valuation Approaches & Methods

1) Do you agree that when selecting an appropriate valuation approaches and methods a valuer should consider the following?

a) the appropriate bases of value, determined by the terms and purpose of the valuation assignment,

b) the respective strengths and weaknesses of the possible valuation approaches and methods,

c) the appropriateness of each method in view of the nature of the asset, and the approaches or methods used by participants in the relevant market,

d) the availability of reliable information needed to apply the method(s), and

e) if not, why? What considerations would you add to or remove from this list?

   i. *Yes, I agree that the valuer should consider all of points a) to d). How could one not, and still produce a credible valuation?*
   ii. *It may be helpful to state that the valuer should reflect highest & best use in selection of valuation approach/method.*

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2) Under each valuation approach, this exposure draft includes criteria for when the approach should be used. Do you agree with the criteria presented under each approach? If no, what changes would you make? Why?

i. *Discounted cash flow (DCF) method: a helpful method only if the end-user understands its underlying assumptions. In absence of this, a dangerous tool. It might be helpful to specify the minimum assumptions required in applying a DCF – this might require grouping of property types.*
ii. *Under cost approach – depreciation- section 90: introduce and integrate metrics from facilities management. For example, define Facilities Condition Index (FCI) and standards for its use in applying the cost approach. State for example - assumptions are implicit in FCI analysis? How it might aid in applying the cost approach – presuming that implicit assumptions are made explicit (stated), well understood to avoid misinterpretation, etc. [for a discussion of FCI and its application in the cost approach, please see this AIC article in March 2015 Canadian Property Valuation - URL: http://www.aicanada.ca/wp-content/uploads/Valuing_Forgotten_Infrastructure_English-Extended-Article.pdf*
iii. *again, on replacement cost applications, it would be helpful to provide standards which state whether/when & how functional inutility is addressed. Particularly to assure against double-counting.*

3) Are there areas of this chapter that you feel should be expanded upon in future board projects (eg, discount rates, discounts/premiums, etc)?

i. *Predictive values are determined through two broad approaches – judgmental and statistical. Valuation approaches and methods have traditionally focused on judgmental methodology.*
ii. *In a world of 'apps' and with the increasing use of tools like Hedonic pricing models and incorporation of 'big data' analytics in valuation, portfolio analysis, etc., valuers need to establish standards around:*
    a. *Data and data models (for each of the valuation approaches)…perhaps first defining data needs to:*
        i. *Data needed to value assets*
        ii. *Data necessary to explain/interpret the valuation*
        iii. *Data necessary to support the valuation – e.g., as an expert witness*
    b. *Data governance … industry wide framework*
    c. *Application of statistical tools; interpretation of results to avoid the old adage about statistics*
    d. *Risk assessment*
iii. *Standards related to changing scope of valuers' services. For example, consider that the valuer might contribute in many different ways in assisting clients with their portfolio business logic and related risk assessments. What standards are required for integration of work with asset managers; transactional professionals; facilities management professionals, etc.? This following graphic is intended as a basic example only:*

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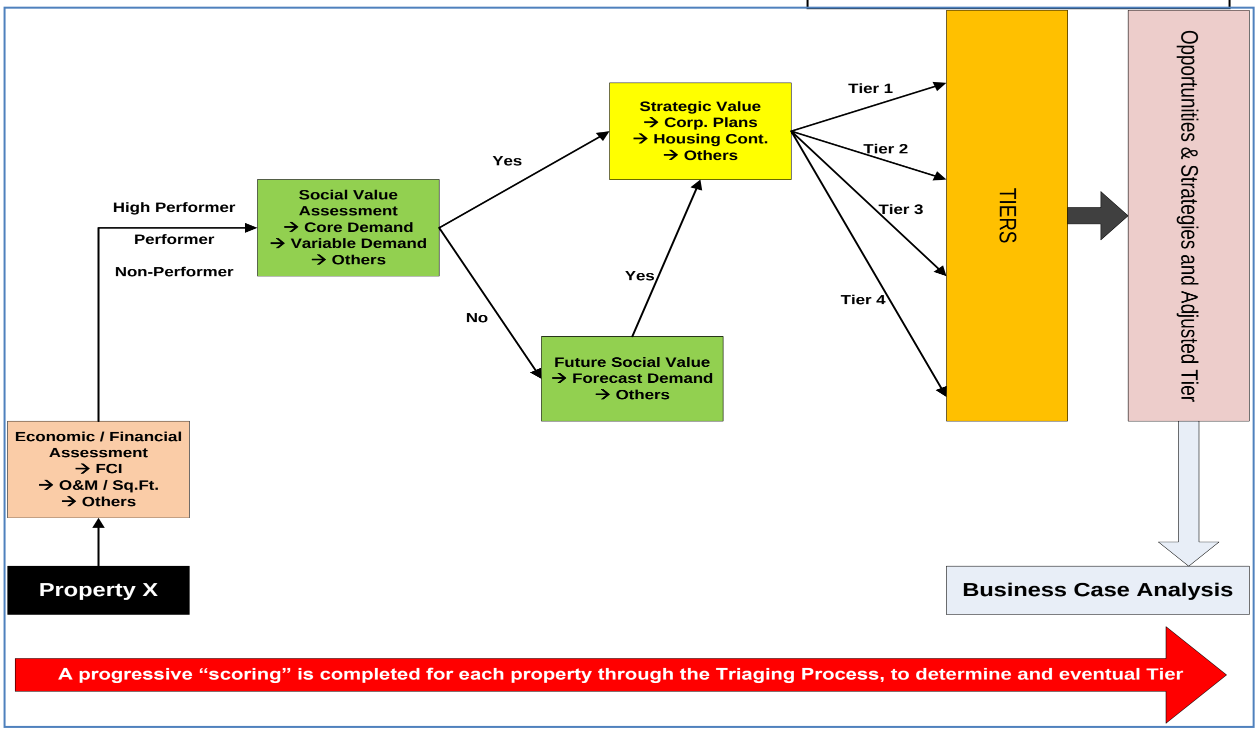

Thank you for the invitation to provide comments.

Sincerely,

Bruce Turner, President