IVS 2017 Exposure Draft

Comments by Interested Property Professionals in Queensland
(Previously) Professional Board
Australian Property Institute

IVS 2000 covers business and business interests whereas IVS 104 and 105 tried to cover all assets. It would seem preferable to dedicate separate sections to real assets.

Introduction and Framework for IVS 2017

Section 60.4 - Typo "IV" should read "IVS".

IVS 104 Bases of Value

Section 30.2(a) – the words "Market Value is the most probable price reasonably obtainable in the market on the valuation date in keeping with the market value definition" AND "it is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer" are in conflict.

Both wordings do not envisage there is a purchaser and therefore are incorrect. Market Value is the price a purchaser would have to pay to a willing but not anxious vendor. In essence the current owner of the asset is already known however it is necessary to make certain assumptions about that owner. The hypothetical purchaser is not known but the concept does not exclude the current owner as a hypothetical purchaser. A prudent vendor would however not accept less than the maximum price reasonably obtainable. There is precedent in Australia that has been the foundation of valuation practice since 1907 that in effect states the definitions currently drafted are wrong. The definitions as currently drafted could not be adopted in Australia.

Section 30.2 (g) – on the first line delete "would be" and insert "has been".

Add **Section 30.5** - where there has been a recent sale of an asset, that sale may constitute the best evidence of value. The sale should be tested to see if it conforms to the concept of market Value. Failure to carry out this test or to ignore the sale may risk ignoring the best evidence of value.

Section 40.4 – delete and replace with "the concept of Market Rent must envisage the appropriate principal lease terms and conditions". Hence a market rent should not be reported without also reporting the assumed appropriate lease terms and conditions.

Add **Section 40.5** – in regard to Market Rent subject to a lease the terms and conditions of that lease are the appropriate lease terms unless those terms and conditions are illegal or contrary to overarching legislation.

Add **Section 40.6** – in regard to a Market Rent, that is not subject to a lease the assumed terms and conditions are the terms that would typically be agreed in a market for the type of property on the valuation date between market participants.

Renumber 40.5 to 40.7

Add Section 40.8 – Fair rent is the estimated amount for which an interest in real property should be leased on the date of valuation between identified knowledge and willing parties that reflects the historic relationship between and the respective interests of those parties (note – this is not a current definition and the wording may need to be improved).

Section 50.4(b) – between the words "a" and "Lessor" on the first line insert "known".

IVS 104 Bases of Value (Cont'd)

Section 70.1 – add at the end of the existing paragraph "the added value above the aggregate of the respective interests is known as marriage value". In the context of a portfolio transaction, marriage value may still represent market value under that scenario, if there is a proven market as a portfolio, that is, more than one buyer / potential buyer?

Section 100.1 – on the second line between the words "between" and "market" add the word "known".

Section 140.1 (d) – a forced sale is not a value as outlined in the commentary therefore this should read "the concept of forced sale".

Section 150.1 – this is not the definition of highest and best use and should read "the use of an asset that maximises its potential and that is physically possible, legally permissible and financially feasible".

Section 150.2 – on the second last line relating to the cost to convert the property is an incorrect understanding of the concept as it must envisage more than the cost. It is the amount the prudent person would consider appropriate to complete the conversion having regard to the total cost and entrepreneurial profit for the effort of making the conversion (see section 150.5(c)).

Section 105.5(b) – "zoning" is not a universal term and would be better worded "town planning". Care needs to be taken to ensure that this section does not conflict with 10.5.

Section 150.7 – the highest and best use may need to take into account temporal aspects for example, if the economics of the current market is such that an improved asset is not ripe for immediate redevelopment but, that redevelopment is reasonably foreseeable the highest and best use may be a combination of the existing use and future redevelopment.

Section 180.2 – The IVSC should disapprove use of the term 'forced sale valuation' or other similar terms.

Where necessary, Valuers can provide advice with respect to defined and agreed assumptions which are inconsistent with 'market value'. This advice should not be construed as a valuation but rather an opinion based on the clients specific instructions whereby the valuer can only rely on experience and an appreciation of the market together with the circumstances at hand. This advice should be appropriately supported by a relevant explanation outlining the basis and reliability of the advice.

In providing advice subject to a constraint, it is recommended that the Valuer also provides an assessment in accordance with 'market value' in order to avoid any confusion.

Section 190.1(b) – add at the end of the sentence "in particular an adjoining owner".

IVS 105 Valuation Approaches and Methods

Much of the specific reference to techniques in this section is appropai9te and useful but generally IVS 105 needs to be restructured with headings tied into IVS 104. There is little nexus between the sections which appear to have been drafted by different people not having knowledge of the others drafting.

In regard to the assessment of the market value of real estate assets there is a fundamental concern that the income approach is stated to be different from the market based approach.

IVS 105 Valuation Approaches and Methods (Cont'd)

Wherever possible, market evidence can be used and analysed and this, if possible, should be used as the valuation approach. Market evidence needs to be analysed preferably by different approaches to gain a stronger understating of the market appropriate approaches which include:

Capitalisation

The capitalisation rate is a straight line approach. The factor expressed as a percentage reflects a crystallisation of all future income.

Analysis by capitalisation adopts the following method. Ascertain the Gross Market Income by adding the reversions and other income to the Passing Rent. From the Gross Market Income deduct Outgoings to derive the Net Income. Notional Allowances including ongoing vacancy, structural allowance and leasing may be deducted from the Net Income to calculate the Net Property Income. The Net Property Income is then capitalised and deductions are made for any shortfall or over rents and allowances made for letting up current vacant space. Finally an allowance is made for immediate repairs required or other one of adjustments. This approach allows for the same method to be used whether or not the property is leased at the date of valuation.

Direct Comparison

This approach adopts a simplistic one line unit of comparison of the evidence which can be applied to the property being valued. For example $ per sq m. of the relevant IPMS area or the Site Area.

Summation

A valuation method is the addition of the separate values of the assets component parts.

It should be noted that one of the components of a summation calculation may be an intangible asset.

Discounted Cash Flow

DCF techniques are in fact the best methods of analysis of sales of complex investment property but there is no reference to this technique in IVS 105.

General Principles (not properly covered)

- In all cases consideration should be given to any changes in the market between the date of sale and the relevant valuation date.

- The valuation approach adopted should be the same as the method used to analyse the comparable evidence. This approach to the valuation ensures the valuation assessed reflects the market based on evidence.

- In some circumstances there is no reliable comparable evidence. This may exists with regard to a specialised asset. In these circumstances a cost approach may be the best approach to the assessment of market value. A cost approach however should also take into account the entrepreneurial profit for the effort or recreating the assets.

- In regard to investment value or synergistic value it may be appropriate to use similar techniques without the benefit of comparable market evidence.

IVS 210 Intangible Assets

Section 20.3(d) – this section refers to lease agreements. Real estate assets that sell subject to a lease or agreement to lease on assumed completion of the development can have substantially different values than those sold with vacant possession of the same asset. That difference in price needs to be categorised and appropriately that category identified as an intangible asset.

This type of intangible asset however cannot normally be traded separately from the asset to which is relates. There are two different components that comprise the intangible asset.

- The value of the lease or agreement for lease. This needs to consider the rental under the lease and other terms or conditions of the lease or agreement to lease.

- The covenant of the tenant itself. A multinational tenant may add far greater valuer than a 'mum and dad' tenant even though the terms and conditions of the lease are otherwise identical.