**Valuation of assets in a listed versus unlisted environment:**

*Right to query the delta, but time to acknowledge the differences*

**Table of Contents**

[**1.** **Background** 1](#_Toc134193119)

[**2.** **Problem statement** 2](#_Toc134193120)

[**3.** **What are the consequences for the difference and why does it even matter?** 2](#_Toc134193121)

[**4.** **Characteristics of each asset class** 3](#_Toc134193122)

[**5.** **Criticism of the valuations that underpin NAV’s** 4](#_Toc134193123)

[**6.** **Do listed markets always get it right?** 5](#_Toc134193124)

[**7.** **Valid reasons as to why there may be a delta** 7](#_Toc134193125)

[**8.** **Should valuations solely utilise an income approach to value assets in an unlisted environment?** 7](#_Toc134193126)

[**9.** **How do unlisted asset owners think during volatile times, and does this collide with the definition of value?** 8](#_Toc134193127)

[**10.** **Where has the public narrative broken down, and where has it got it right?** 9](#_Toc134193128)

[**11.** **So where does this leave the valuer, do they have to do nothing?** 10](#_Toc134193129)

[**12.** **How can governance handle this appropriately moving forward, and should directors feel comfortable about the situation?** 10](#_Toc134193130)

[**13.** **The role of the IVSC regarding the topic** 11](#_Toc134193131)

[**14.** **Other thoughts, quotes and content?** 11](#_Toc134193132)

[**15.** **Original TAB/BVB panel discussion topics** 12](#_Toc134193133)

# **Background**

* Overview of why listed structures were created: provided greater access to an otherwise largely inaccessible asset class for retail investors, coupled with an instrument that provided a high level of liquidity (relative to the underlying asset), which also afforded those investors do have a high level of diversification among their investment portfolio.
* Recent trends: have seen an increasing allocation of capital to unlisted assets in a number of markets, particularly in an environment where asset managers are being rewarded for outperformance and low volatility of returns.
* Quote from the Norwegian sovereign wealth fund (NBIM) who historically have had a predominant listed mandate … “we’re seeing more and more indications that a larger share of value creation is taking place in the unlisted market”.
* IFM Investors (previously known as Industry Funds Management) chief executive David Neal said the “obsession” with comparing listed and unlisted “doesn’t make sense”. “To me, the really interesting question is, well, why are we so engaged on building private market exposures and taking the illiquidity, why do we take this risk on?” Mr Neal said. “And really, I think the question there is, why can’t the listed market generate the same returns – the public market – that private markets can? “Someone doesn’t come and say, ‘Oh, thanks for that liquidity. Here’s some money’.” Mr Neal said the listed market was not as good a steward of capital in terms of efficiency and understanding with a view to maximising long-term returns as business owners. “The listed world does not work that way.”
* Volatile times: often creates a delta between listed prices and NAV’s, perhaps material which we are witnessing now in the real estate sector, but also historically with infrastructure during the onset of COVID-19 for example.
* This paper: will have a real estate and infrastructure focus, whilst keeping private equity removed from this discussion.

# **Problem statement**

* Listed entities (A-REITs, real estate or infrastructure): that provide independent asset values for each of their assets as part of their governance processes. Currently seeing a material divergence between the listed price and NAV (circa 20-60% discount in listed prices depending upon the asset class and jurisdiction).
* Unlisted funds: that rely on valuations to set unit prices. These are either i) not being marked-to-market frequently enough with assets in their portfolio, ii) or even when they are marked-to-market frequently, they are not displaying the same levels of discounts to that listed markets are displaying (for the largely same underlying asset class/investment).
* Transparency of valuations: Underlying each of the above, there is a yearning from investors for asset managers to provide a greater level of transparency in relation to valuations performed for the assets that they are invested in. How do regulators, assets managers and the valuation profession manage such a market demand?
* Attracting significant media attention in Europe, North America and Australia of where listed products are quite mature and there is a high level of transparency required from a regulatory perspective with listed markets.
* Trust in valuation: seeing the disparity between listed prices and NAV’s is often resulting in the credibility of the valuation profession to being called into question.
* This is combined with a heightened sense of scepticism in certain markets because of the liquidity mismatch with certain ‘real estate’ products, which isn’t necessary a valuation issue, but erodes trust and confidence in products associated with the ‘private’ or ‘unlisted’ asset class amongst some individuals/sectors of the market. For example Blackstone, Starwood Capital and KKR real estate liquidity/redemption issues.

# **What are the consequences for the difference and why does it even matter?**

* Sophisticated/active investors: taking advantage of the disconnect by arbitraging the difference in pricing between the two asset classes, selling their holdings in private funds (when valuations or unit prices haven’t moved markedly) and buying publicly listed REITs instead (which have already been strongly sold off anticipating future headwinds), “even if the asset profiles aren’t exactly like-for-like” (see below).
* Retail investors: For those that are less sophisticated or passive however, this is resulting in them continuing to buy into private REITs/funds at largely unchanged unit prices (set by valuations), with those funds potentially “staring down the barrel” of a reduction in unit prices as a result of upcoming downward revaluations (say at 30 June 2023).
* Erosion of trust in asset managers/valuations: this scenario creates a trust issue in that retail investors think they have bought into a private REIT/fund product that was effectively impaired but yet whose unit price was still set at an elevated level. This is largely an asset governance issue (think periodic valuations, and how often revaluations should take place), but can also be a valuation issue if valuations are deemed/labelled too slow to reflect value movements due to the lack of transaction evidence.
* Managed funds/superannuation funds/pension funds: this erosion of trust is particularly evident in this space where there are a significant volume of less sophisticated or passive investors, which is drawing significant media criticism in some markets.
* Issue here for valuers being: are there true differences that we need to acknowledge between these different asset classes (listed v unlisted) despite being underpinned by the same asset classes, do valuers need to wait for transaction evidence, or can the valuer consider other indicators and sentiment?
* Introduction of investment valuation guidelines by RICS in UK: worthwhile making reference to the recent findings from the RICS Independent Review of Real Estate Investment Valuations. Independence, rotation, DCF, data analytics.

# **Characteristics of each asset class**

* “Some investors are taking advantage of the disconnect by arbitraging the difference in pricing between the two asset classes, selling their holdings in private REITs and buying publicly listed REITs instead, even if the asset profiles aren’t exactly like-for-like.” (AFR, REIT redemptions another warning for unlisted property, 3 February 2023) … so how are they different?
* Despite each being underpinned by the same assets, both real estate and infrastructure investments exhibit distinctly difference features when situated in a listed or unlisted environment.
* Listed and unlisted asset profiles far from being exactly like-for-like across both real estate and infrastructure.

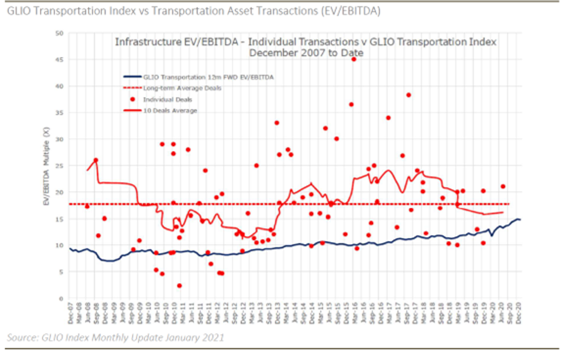
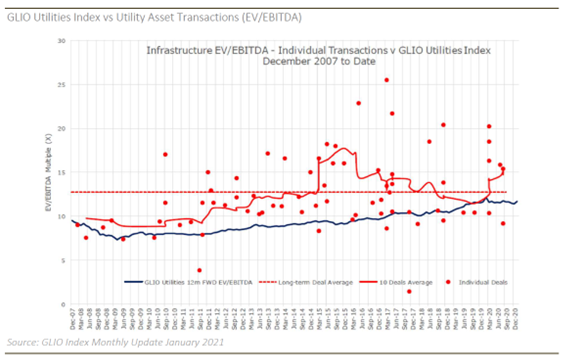
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| --- | --- | --- |
| Characteristic | Listed | Unlisted |
| Asset traded | Financial instrument (share) | Whole asset / underlying title |
| Liquidity | High | Low |
| No shareholders/owners | Typically thousands | Typically say 1-5 |
| Sale timeline | Very short (millisecond, click of button) | Months (3-12 month sale process) |
| Control | Nil to low | High to complete |
| Market accessibility | Very accessible for individuals | Limited accessibility for most individuals |
| Market participant | Individual retail investor to institutional capital | Institutional or holders of significant capital |
| Typical entry point | Minimum trading parcel (say $500) | Significant depending upon the asset (frequently upward of $10,000,000) |
| Ability to leverage | Lower | Higher |
| Access to management | Low | High |
| Ability to diversify portfolio | Higher | Lower |
| Potential for equity dilution | Higher | Lower to nil |
| Corporate & regulatory overheads | Higher (exchange/listing, reporting, transparency requirements, etc) | Lower |
| Valuation method | Aggregated portfolio, assumptions that may be removed from the underlying assets, no inspection | Valued individually, assumptions tied to lease terms of individual assets, inspection |

* This can often create a volatile atmosphere in a listed environment as the liquidity afforded can result in a range of irrational behaviour. The psychology of the investor is on display with panic or exuberance buttons being hit in bad times or good, and assets traded within seconds often with little time to check the rationality of the decision making.
* To counter this sentiment, the holder of what has historically been regarded as an illiquid asset class, assets in an unlisted environment are far more removed from the trappings that plague buying and selling in a listed environment. When making a sale or purchase decision, the divestment or due diligence process is far more prolonged, allowing buyers and sellers to check the rationality of their decision making in a more prudent way.
* It could be argued that in an unlisted environment, when considering the portfolio on an asset-by-asset basis, there is a greater appreciation for the underlying of each of the individual assets within that portfolio which is glazed over when trading in the listed environment. This is exactly why the governance of many listed assets undertake valuations of their underlying asset portfolio on an intermittent basis to show the underlying net asset value of their assets relative to the exchange traded share price. In absence of this cross-check, many investors would be “flying blind” and would have far less appreciation of the asset portfolio that underpins the listed price.

# **Criticism of the valuations that underpin NAV’s**

* Questions asked during volatile times: valuers are frequently queried during good times and bad, “why are my valuations so low when my share price is so high?” or “why are my valuations so high when my share price is through the floor?”
* Common criticism of valuers: Backward looking, results in a ‘smoothing’ effect relative to that displayed in the listed markets.
* Common criticism of valuations: The lack of transactions results in a delay in value movement until markets become more active. Can valuers start placing less reliance on transactions and earnings multiples and start reflecting value more nimbly in a forward-looking DCF context which captures elements like forecast cash-flows and cost of capital?

# **Do listed markets always get it right?**

* Listed markets don’t always get it right: Exuberance, irrationality, distress and psychology of listed markets can often be exacerbated in the pricing displayed in listed markets because of such high liquidity these trading instruments are afforded.
* We need to keep in mind what listed trading volumes represent: Weekly trading volumes in liquid listed REITs infer that 1% of the register might have sold (and this sets price), but that 99% of investors didn’t sell because (arguably) they didn’t think this inferred value. There will be a not insignificant portion of any share register that would be regarded as ‘passive’ investors also.
* Recent Australian Securities Investment Commission (ASIC) guidance on listed assets and market capitalisation: Market capitalisation does not necessarily infer value, but may provide an indicator. You can’t rely solely on market capitalisation as your only indicator for value.
* “ASIC reminds preparers of financial statements and their auditors that an entity’s market capitalisation will generally not represent an appropriate fair value estimate for its underlying business. Transactions in a company’s shares and the sale of the whole of its business would generally take place in different markets that have different market participants. The market capitalisation of a company and the fair value of the underlying business can differ significantly.” (see <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-066mr-adslot-writes-down-goodwill-following-asic-review/>)
* History of control premiums: reinforce that listed asset prices can become divorced from value. See quote (and graphs) from Atlas Infrastructure, “Listed infrastructure has historically traded at valuation multiples which are below the equivalent transactions in the unlisted market. The following two charts from GLIO provide useful insights into the relative valuations in both utilities and transportation assets and confirm that in both cases the transactions have occurred at materially higher valuations than their listed counterparts.” Source: Atlas Infrastructure - Listed Infrastructure Sector Investment Characteristics - December 2020
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* What do we see during volatile times: During the volatility that ensued public markets with the onset of the COVID-19 pandemic, private capital feasted on listed assets where they saw a divergence in listed prices and long term value (ie. in Australia we saw a number of listed entities get taken private in Sydney Airport 42% premium to listed price, Ausnet 31% premium to listed price, Tilt Renewables 106% premium to listed price, Spark Infrastructure 22% premium to listed price). Listed markets have a history that is littered with examples where they don’t get value right … in fact they quite often get it very wrong!
* Who knows what the future holds: It remains to be seen in the current market whether the volatility will present opportunities for the holders of significant capital to see significant underlying value in assets that are underappreciated by listed markets. Will value investors take advantage of the arbitrage opportunity with listed assets and capitalise on bargain asset purchase opportunities? This will play out differently depending upon the quality of the assets in question. Low quality asset portfolios may indeed be on the verge of significant pricing/valuations adjustments, but there will also be quality portfolios of assets whose underlying value has been underappreciated by listed markets that will prove resilient and rebound in price.
* Is capital being allocated efficiently in markets: It could perhaps be argued that the emergence of mega-players in funds management, pension funds and sovereign wealth funds has created a wave of capital into unlisted markets that disproportionately skews the capital allocated to listed v unlisted environments (see IFM Investors and NBIM quotes above). If this section of the market has significant capital at their disposal to invest, but yet they don’t value the characteristics that the listed market displays, they will continue to i) withdraw their capital from the listed market or ii) reallocate capital that was once destined for listed markets into private assets.
* Investors might be right to question their choices however with the recent redemption issues that have plagued the likes of BlackRock et al in the private real estate space. Perhaps this capital imbalance will rectify itself and investors will start seeing listed asset environments with greater favouritism because of the liquidity it provides. Investment theorists will argue that the market will always sort out inefficient capital allocation, and listed v unlisted real estate should arguably be no different.
* Warren Buffet: “Remember that the stock market is a manic depressive. Markets will rise and fall for many reasons, but most of the declines will be relatively temporary. It’s important not to be manic depressive along with the markets. You do this by keeping your eye on the future and ignoring short-term market gyrations.”

# **Valid reasons as to why there may be a delta**

* Frequency of valuation: but this is not a valuation issue, this is a governance issue. Particularly during volatile times, it is extremely important that assets held in an unlisted environment re-value their portfolio on a frequent basis (ie. quarterly) to ensure their unit prices are not divergent from that in the market place. A move from an annual valuation process to more frequent (ie. quarterly) should be encourage where this isn’t already in place.
* Ignoring the often long-term nature of lease terms: Lease terms are often extended or diversified and have time on their side which smooths any short-term volatility, whereas listed markets can sometimes price in “gloom” into their cashflow forecast immediately when in reality that might not have such an immediate effect.
* Cost of capital: The cost of capital in the market doesn’t move as quickly as the risk free rate, meaning that a WACC/CAPM calculation of discount rate creates a divergence with the market. The change is often more gradual on the way up and down in the interest rate cycle. Many listed and unlisted real estate entities around the world have hedged cost of capital risk over the last few years, meaning that the recent rapid rise in the cost of capital won’t necessarily start truly impacting these markets for a number of years yet. Many investors still have access to undrawn debt at historically low costs.
* The psychology difference between listed and unlisted participants: During times of volatility, investors in the unlisted environment don’t necessarily need their capital with urgency in the same way that those in a listed environment do, creating a divergence in evidence as a result in the respective markets.
* Different investors will have different investment motives: Whilst income generation is often very high in the investment decision tree, its not always the sole investment motive. Psychologically, history would say that ‘assets’ can be relied upon as a long-term store of value, whereas those that participate in a listed environment know all too well that because of the lack of control and potential for equity dilution, equity markets can work against this thesis. This arguably creates a mismatch with some investors having preference or inherent bias over one form than the other (despite being underpinned by the same asset class), creating a valid reason for the delta.

# **Should valuations solely utilise an income approach to value assets in an unlisted environment?**

* Capitalisation v DCF: Criticism from the listed environment that valuers should ditch the market capitalisation approach and focus on the DCF income approach to value.
* RICS review into investment valuations: have aligned their findings as such, but the valuer has valid reasons to question the criticism and want to hold onto the capitalisation approach (the ‘all risks’ approach).
* Is the DCF the holy grail: the valuer would also question the suggestion that a DCF is the solution to all the problems because i) forecasts and assumptions can become divorced from reality (on the up and downside) and ii) given the high proportion of value that terminal value contributes to overall value (which relies on a capitalisation approach) such a suggestion could be perceived as being overly hypocritical.
* ‘Sophisticated’ investors in listed markets price discount rates using WACC, valuers in the unlisted environment utilise transactions or alternate approaches to determine discount rates … which fails to solve the problem.
* Discount rates: arguably, the development of discount rates for a listed asset should reflect inputs from the listed environment. Similarly, the development of discount rates for an unlisted asset should also reflect inputs from the unlisted environment. Crossing the two creates a mismatch, particularly in volatile markets. **[THOUGHTS APPRECIATED ON THIS TOPIC, SPECIFICALLY REGARDING EQUITY RISK PREMIUM, BETA, RISK FREE RATE, DEBT TO EQUITY. DO REAL ESTATE VALUERS ACROSS DIFFERENT MARKETS HAVE A PREFERENCE FOR TRANSACTIONS TO INFER DISCOUNT RATES, OR DO THEY USE A CAPM/WACC VIEW OF THE WORLD. WHY WOULD A VALUER VALIUNG AN UNLISTED ASSET UTILISE A BETA DERIVED FROM A LISTED ENVIRONMENT? IS THERE TRANSACTION EVIDENCE THAT SUGGESTS PRIVATE ASSETS TRADE AT A LOWER EQUITY RISK PREMIUM THAN THAT INFERRED BY LISTED MARKETS?]**

# **How do unlisted asset owners think during volatile times, and does this collide with the definition of value?**

* Unlisted asset owners quite often think with a longer term horizon, they accept the illiquidity of the asset class when making the investment, and this is particularly evident with owners of ‘generational’ or ‘once-in-a-lifetime’ assets.
* In volatile markets, we can observe a sales environment that creates a bid-ask spread (ie. the seller wants 15% more than the highest bidder is willing to pay). This is an example whereby market participants can’t meet and in reality (ie. real life), the seller will often just ride out the volatility and wait for the right time to sell (time and circumstances permitting).
* So … if a valuation is recorded at 15% above the highest bidders offer after proper marketing, does this mean that it is overstated 15%? Or does this mean that the true value lies somewhere in between, and perhaps this evidence can be a good example of an indicator or sentiment, but not necessarily value? **[WOULD BE PARTICULARLY KEEN ON EVERYONES THOUGHTS HERE GIVEN THE MARKET VALUE CONCEPTUAL FRAMEWORK, SEE MY THOUGHTS BELOW]**
* The valuer must acutely remind themselves that the definition of value isn’t to consider a forced seller, an overly willing seller or a seller that is compelled to sell. Under the definition of market value they are required to consider a seller that “is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be.”
* Also importantly, “Prudence is assessed by referring to the state of the market at the valuation date, not with the benefit of hindsight at some later date. For example, it is not necessarily imprudent for a seller to sell assets in a market with falling prices at a price that is lower than previous market levels. In such cases, as is true for other exchanges in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.”
* As such, despite the fact that in reality, the seller will just ride out the volatility and wait for the right time to sell (time and circumstances permitting), this isn’t an option that can be considered by the valuer. The valuer must hypothesise “an estimated amount for which an asset or liability should exchange”.
* Having consideration to listed and unlisted markets: “The market in which the asset is presumed exposed for sale is the one in which the asset notionally being exchanged is normally exchanged.” So in a valuation sense, there is a very real possibility that values displayed by listed and unlisted markets may diverge. Valuations of listed stock should consider the characteristics of a listed instrument (share), and valuations of underlying real estate should consider the characteristics of the whole asset, and the respective markets that they are normally exchanged. See ASIC guidance above.
* Once sale doesn’t make a market, but a weight of evidence of bid-ask spreads should also validly feed into the valuers thought process. This can be a valid indicator of value, or an indicator of market sentiment at the valuation date.
* But simply comparing prices inferred in a listed environment (or similarly movements in equity value), because of the mismatch in what you are trying to value, should not be held in isolation as the best indicator of value for unlisted assets. The two may diverge, perhaps wildly in volatile markets.

# **Where has the public narrative broken down, and where has it got it right?**

* Real estate isn’t real estate: just because one portfolio has had their valuations marked down 20%, doesn’t mean that another should follow suit. There will be sub-asset class considerations (retail, industrial, CBD office, residential, commercial, agricultural), locational differences, varying rental growth rates, grade criteria, tenancy profiles, vacancy rates, lease characteristics, varying development potential, highest and best use considerations, etc.
* Infrastructure isn’t infrastructure: some assets will be classified as “core” infrastructure which has fully regulated cashflows whereby volume risk is mitigated, revenues are pegged to RAB and indexed by inflation, and costs increases are fully recoverable via pass through mechanisms, making them extremely resilient in an inflationary or volatile environment. Other infrastructure might be “core plus plus” which has larger exposures to volume, revenue and costs, making them highly vulnerable to inflation, an increase in the cost of capital, or volatile market environment.
* Infrastructure isn’t real estate: whilst the two may share some crossover in certain circumstances, the recent suggestion by some commentators that have suggested there should be correlation in value movements between the two couldn’t be further from the truth!
* Jurisdictional differences: will typically be based on short and long term supply and demand drivers dictated by the local environment within which the asset sits. The same type of asset sitting in one city in Western Europe could be exposed to completely different supply and demand drivers to a like asset in North America, Asia or Australia.
* Inflation might not necessarily be the bogey man for all assets: Needs to be acknowledged that in some circumstances, recent inflation might result in income increases when properly built into leases, potentially offsetting (or outstripping) any headwinds as a result of the increasing cost of capital. There may indeed be some assets that i) are in high demand (40% year-on-year rental growth for some industrial property in Sydney at the moment), ii) have full inflation protection built into lease agreements, iii) have full cost recovery through the implementation of triple net leases and iv) have long term funding or hedging arrangements in place from a lending perspective.
* Leverage: Impact of leverage creates differences and means that comparing different assets value movements or indices side-by-side without this consideration is misguided (ie. comparing NAV % changes in one asset to another might be misguided as one asset may have significantly more leverage than the other, or indeed some published indices may be unlevered which creates a mismatch to assets that are in a listed or unlisted environment).
* Where the public narrative has got it right, is that it is justified in querying why the delta between listed and unlisted values have become so large! Whilst few market participants care if the delta is +/- 0-10% (and would actually expect such), when the divergence is between +/- 20-60% (or more) it provides reason for confusion.

# **So where does this leave the valuer, do they have to do nothing?**

* Absolutely not! Valuers and investment managers can’t sit on their hands
* How might the valuer consider sentiment in absence of a weight of market evidence (IVS permits such if it’s “known or knowable with reasonable due diligence on the measurement/valuation date by participants”).
* Are there other price indicators that could be developed by valuation professionals in the absence of a a high volume transactional environment by utilising other information (ie. by using face rents, incentives, net effective rents, vacancies, yields and target gearing assumptions to infer a capital value for 1 sqm of real estate, by asset class and grade which is updated every quarter)? Whilst we often have these price indicators in certain asset classes (ie. residential median asset prices, agriculture transactions per hectare), they are often lacking in other asset classes like office, industrial and retail. This may vary by jurisdiction, but we also must be careful that the ‘pricing indicator’ doesn’t rely on underlying valuations (such as ANREV Australia Farmland Index, Green Street Commercial Property Price Index). ‘Pricing’ indicators must utilise market pricing metrics and information, otherwise the same criticism will remain! **[JAMES GAVIN, PARTICULARLY INTERESTED IN YOUR THOUGHTS ON THIS]**
* Public listed markets may provide a clear prompt (or leading indicator) to valuer to query their assumptions, but they are not necessarily indicative of value in an unlisted environment. Despite being underpinned by the same asset class, listed and unlisted assets have very different features that trade in distinctly different markets and have very different market participants.
* Valuers need to dive deeper with comparables relative to the subject asset, spreading the nett a bit wider, during time of little transaction activity.
* Provides an opportunity and need for valuers to have deeper discussions with asset owners/managers to probe deeper on assumptions utilised as part of the valuation. Does the subject asset share the same risks or opportunities as others in the market, and how should this be reflected in value? A volatile environment requires additional layer of challenge to forecasts and assumptions.
* Is the volatility witnessed short-term or a permanent step-change, and how is this being reflected in the valuation assumptions and outcome?
* Important that valuations remain grounded (and not divorced) from reality … the psychology that impacts public markets might be completely removed from the realities of an asset on the ground in both a buoyant and distressed market.

# **How can governance handle this appropriately moving forward, and should directors feel comfortable about the situation?**

* Governance in listed REITs: by performing and making valuation outcomes transparent to investors on a periodic basis, this is working effectively and having exactly the impact it was designed for. To provide investors with an indicator or underlying asset value that in absence of, they would be a far less informed investor. This activity needs to be continued (or encouraged where absent).
* Frequency of valuation: is annual enough or should quarterly or half yearly become standard. Or should the onset of volatile markets provide a trigger for asset managers to mark-to-market more frequently, balancing to valuation-to-cost trade-off. Could a listed volatility marker with the listed REIT market provide this indicator? Or alternatively, could the development of a price indicator (mentioned above) provide an indicator or trigger for an out-of-cycle revaluation process for unlisted assets?
* Independence: Are ‘internal’ valuations acceptable to investors, or should they demand independence and ‘externality’ in relation to valuations? Independence of valuation firms and asset managers is paramount, and this needs to be governed carefully (ie. the provision of valuation and non-valuation services). Rotation of valuation firms may be seen as one way of achieving this.
* Transparency of valuations: what level of transparency are investors right to demand of asset managers? Is a value, valuation date and capitalisation rate enough, or should there be more metrics that are disclosed to investors to give greater comfort around valuation credibility without having to fully disclose the full valuation report? Just as accounting transparency has come along way in recent decades through the implementation of international accounting standards, perhaps the valuation profession is also on the verge of a similar change. The soundings from investors in the market are that they want more transparency in relation to valuation of assets, and not less. How can regulators, asset managers and the valuation profession work together to deliver this transparency?
* Time to acknowledge that arbitrage and bargain asset purchase opportunities might exist in some market situations: Where significant discounts are witnessed in public markets, it may provide an example of what might constitute a bargain asset purchase or an arbitrage opportunity for the active investor.
* This isn’t necessarily just a real estate and infrastructure issue: At the end of the day, volatile markets present opportunities on both sides of the ledger for those that remain vigilant in all asset classes.
* Time to acknowledge the difference: Regardless of the product that individuals invest in (listed or unlisted), the current environment provides a friendly reminder to ensure that the investment product matches the needs of the investor. Listed and unlisted products, despite being underpinned by the same asset class, will have specific features that mean returns might not necessarily be correlated. Investment choice remains key, and there will continue to be pro’s and con’s of “real estate” and “infrastructure” in both listed and unlisted environments.

# **The role of the IVSC regarding the topic**

* Given that the trust in the valuation profession is being questions, all IVSC boards should consult to consider issuing a perspectives paper on the issue in the first instance. This is an issue that has crossover with each of the TAB, BV, FI and SRB Boards, so full engagement at an IVSC level should be encouraged.
* Whilst there isn’t a solution as such, the consideration of each of the above discussion points should provide a broad framework for the internal consultation on the topic with each of the IVSC Boards.
* There is a timeliness component in relation to the topic in that it is very prominent now, and with 30 June reporting deadlines looming (for a number of jurisdictions), it is important that we get this to market over the coming weeks. In order to do this however, there clearly needs to be an alignment in the content that is published between all the IVSC Boards.
* Following the publishing of a perspectives paper, and depending upon the market feedback, it could be an opportune time to hold a round-table discussion on the topic with key stakeholders. There would likely be interest from most jurisdiction around the world given the prominence of media attention the topic is getting.
* Conscious that the IVSC is seen to provide an independent and unbiased opinion, despite our vested interest in the valuation profession. This is really important from a IVSC brand perspective.
* Each of the above is consistent with the IVSC’s overarching mission to i) “build trust in valuation”, ii) “enhance the quality and credibility of valuation practices worldwide” and iii) “serve the public interest”.

# **Other thoughts, quotes and content?**

* Property Council of Australia reports 5-year annualised total returns to June 2022 for unlisted retail property funds at 16.6% versus equivalent listed property returns over that same period of 1.7%.
* “unlisted property funds recorded gains of nearly 19 per cent in the first nine months of 2022, in stark contrast to the nearly 20 per cent drop in the valuation of listed property funds, based on figures from the Property Council of Australia.”
* PwC Germany Real Estate Monitor (https://www.pwc.de/en/real-estate/real-estate-monitor.html)
* Acknowledgement of ‘liquidity’ and ‘control’ as being a core reason for the difference in value. Liquidity detracts significantly in a listed structure in that psychology rules the room (and not rational thought process), and control results in many large corporate and institutional investors favouring private assets as opposed to listed equivalents.

# **Original TAB/BVB panel discussion topics from Sydney meeting**

* Public markets are always right in determining value (role of independent experts reports, Tilt Renewables, control premiums, ASIC recent guidance on using market capitalisation)? Or do public markets occasionally act with elements of irrationality, panic or exuberance, and as a result infer price and not value?
* There is justification for public market and private market values to be divergent because of the instrument being traded despite having an interest in the same asset class (ie. share in public markets versus land title in private markets, each transact in different markets and have different market participants, different leverage ratios, liquidity/access is contouring why they were introduced)?
* It is fair to suggest that private markets normally lag price indicators given by public markets (ie. delays in market evidence becoming available)?
* Do the significant discounts occasionally witnessed in the public markets provide an example of what might constitute a bargain asset purchase?
* Is the wave of private capital in certain markets, combined with the performance metrics of asset managers that reward outperformance and consistent/low volatility returns, creating an environment for certain asset classes where capital is disproportionately skewed or inefficiently allocated?
* Are valuation service providers, and in turn the IVSC, doing all that it can to encourage transparency and promote trust in relation to the valuation of private market assets, or could we be doing more (perhaps in conjunction with regulators)?