RICS Consultation Draft

proposed changes to Global Red Book for 2025

VPGA 3 – Businesses and Business Interests

Most of the changes are to update cross references, better align the terminology with the current IVS or make minor simplifications to the text. One change that has created a repetition that could create ambiguity is at paragraphs 7.2 and 7.3 which now read:

> *7.2 While the market and income approaches can be used for the valuation of any business or business interest, the cost approach will not normally apply except in special circumstances as explained below.*
>
> *7.3 This would include, for example, property holding and investment companies, and investment businesses holding listed company shares.*

Our Comment: We believe it would be more appropriate change the end of 7.2 to *"…as explained in 7.23 below."* and to delete 7.3 (although this would make the current 7.23 7.22). Rather than give a single sentence summary of where the cost approach may be appropriate it is better to refer only to the more detailed narrative.

A new paragraph, 7.9 has been added explaining that recent transactions in the shares of the (subject) company can provide strong evidence of value, but with appropriate cautions and caveats.

The guidance on the use of the income approach at 7.14 has deleted reference the price earnings ratio, now termed the "single period capitalisation method." 7.15 has been added to clarify the distinction between "enterprise value" and "equity value"

7.18 is a new paragraph that addresses the techniques that can be used for determining the terminal value when using a "present value technique" (DCF).

The previous references to the "Asset based approach" have been replaced by the "Cost Approach", which aligns not only with the IVS but also IFRS 13. Paragraph 7.24 explains its application where a company is being liquidated.

Our Comment: We believe these are useful changes.

VPGA 4 – Trade related properties

There is some updating of the existing text, most of which has little effect on the overall guidance. However, there are few points which we feel need attention.

Paragraph 1.2 suggests that trade related property may be subject to profitability fluctuations and that a DCF method may be more appropriate, presumably meaning more appropriate than the "profits method" mentioned at the start of the paragraph.

> Our Comment:
> The profits method is not an alternative to DCF, it is an explanation of the inputs that go into the DCF model. All methods under the income approach need to a) determine the net income in each given period and b) reflect the present value of that net income. Even if capitalising a single period's net income in perpetuity, the cap rate discounts that sum in all future periods. We have never seen a profits method being used that does not discount future cash flows. We suspect the point being made is that a more detailed DCF will be required where it is anticipated that profitability will fluctuate in the near future, say while business becomes established in a new property or where significant CAPEX is anticipated. This paragraph needs revisiting.

4.1 has been rewritten as follows:

4.1 A trade related property will usually be valued to market value or market rent in case a lease agreement is in place and on the basis of EBITDA in case it is either owner operated or operated through a management agreement. However, valuers are commonly asked for a valuation subject to special assumptions.

> Our Comment:
> This makes no sense and it maybe that some words are missing. It currently suggests EBITDA is a basis of value, not a figure that needs to be calculated in order to estimate either market value or market rent.

The existing paragraph 6.8 which talks about purchaser's cost has been deleted.

> Our Comment:
> We are pleased to see this removed as it made little sense. The treatment of purchaser's costs applies across all property types and is now addressed in a proposed new section 8 in VPS 2

Section 8 is headed "*Apportionment (referred to as Allocation of Value in IVS 104 Bases of Value)*"

> Our Comment:
> We see no need for the words in brackets, they are just clutter. Apportionment is well enough understood in context.