IVSC Standards Board
1 King Street
LONDON
EC2V 8AU

By email to: commentletters@ivsc.org

12 July 2016

Dear Sirs

Response to Exposure Draft

IVS 2017: IVS 410 Development Property

Please find attached our comments on the above exposure draft.

The directors of Valuology have considerable experience of valuation standard setting generally and knowledge of the existing IVSs and their evolution.

If you would like any additional information in relation to our responses or comments, please do not hesitate to contact us

Yours faithfully,

C G Thorne
Director
Valuology Ltd
cthorne@valuology.org
+44 (0)771 880 7326

Comments on Exposure Draft of IVS 2017

IVS 410 Development Property

Answers to Questions in ED

(a) In IVS 2013, all substantive portions of IVS 233 *Investment Property Under Construction* were labelled as "commentary" (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was 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?

We agree with changing the "Commentary" title. This was proposed in the 2015 ED[1] in response to earlier consultations. We do NOT agree that all aspects of the standards should be, or are capable of being, mandatory. We do not therefore agree with a format that makes no distinction between the mandatory Requirements and the supporting guidance. For further detail see our general comments below.

(b) The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of both commercial and residential development property regardless of the purpose of the valuation (ie. establishing whether proposed projects are economically viable, loan security, acquisition, taxation, litigation, financial reporting etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?

We agree. However there some specific requirements when valuing for certain purposes that valuers need to be aware of. The proposal to remove application guidance for financial reporting and secured lending means that the IVSs will be less helpful in these two significant areas. This is particularly so in this case given that guidance on Investment Property under Construction (IPUC) was first introduced into the IVSs in 2009 as GN 17 following lobbying from property industry groups concerned at the diversity of approaches that they were seeing to the recently introduced requirement under IFRS to carry IPUC at fair value. We expand on this below.

(c) Are there any further topics that you feel the Board should add or remove from IVS 410 Development Property? If so, what are they and what is your rationale?

Yes. Important provisions recommended by the expert Working Group appointed to review the coverage of investment property and development property in the standards that were accepted by the Board in 2014 and included in the 2015 ED should be included. Details are provided below.

[1] Proposed Amendments to the International Valuation Standards issued 19 March 2015

General Comments

This draft completely ignores the fact that a significant project to review and improve the IVS guidance in this area has recently been undertaken. No reference is made to the previous Board discussions or exposure drafts, and many of the issues considered during this project have been omitted.

IVS 233 *Investment Property Under Construction* (IPUC), was carried forward during the 2010 rewrite of the IVSs from GN17, which had been issued by the Board a few months earlier. GN17 had been developed as a direct result of concerns that had been brought to the IVSC's attention by auditors and preparers of financial statements. Their concern was the considerable inconsistency in the way values of IPUC were being calculated following the decision of the IASB in 2008 to require such property to be carried at fair value rather than at historic cost.

However, it became apparent that while the guidance in GN17 / IVS 233 was generally well received, there was confusion among many users of the IVSs as to why such a specific topic warranted a standard in its own right. Within the field of real estate alone, there were many classes of property which are more frequently valued but on which the IVSs were silent. Many also made the point that the bulk of the content was clearly guidance, with the identified requirements differing little from those in IVS 230.

In 2011 the Board received representations from three of the main industry groups that had supported GN17, ie APREA. EPRA and the BPF[2] requesting it to consider developing a standard specifically for investment property. One of the points made was that inclusion of a standard only for IPUC while ignoring other valuation issues encountered with investment property made the IVSs unbalanced. The Board agreed a project to review the need for such a standard and as part of this, to examine whether IVS 233 should be continued. In 2012 a Discussion Paper was issued seeking views on various issues that had been identified.

An expert Working Group of twenty experienced practitioners was drawn up with many world regions represented, and with members from a mixture of major valuation firms, property companies and industry groups such as NAREIT, EPRA and RealPac, under the chairmanship of Board member, Simon Landy.[3]

After consideration of the responses to the Discussion Paper and feedback from the Working Group, the Board provisionally agreed the following:

- A separate new standard on investment property was not warranted as the issues identified by respondents were not all exclusive to investment property but could be dealt with by amendments to IVS 230.
- IVS 233 should be replaced by more broadly based guidance applicable to the valuation of property undergoing development or with potential for development for any purpose.
- That any issues specifically related to the valuation of investment property or IPUC for financial reporting should be dealt with by amendments to IVS 300 *Valuations for Financial Reporting.*

[2] Asian Public Real Estate Association, European Public Real Estate Association and British Property Federation.
[3] Members of the Working Group are listed on the project page under "Archived Consultations" on the IVSC website.

The Working Group developed drafts based on this brief and these were approved for exposure by the Board in early 2014. Following analysis of the comments received, further alterations were made. At its meeting in October 2014 the Board agreed to.

1. Retire the current IVS 233.
2. Approve the proposed Application Guidance for the valuation of Development Property recommended by the Working Group and to issue this as soon as possible.
3. Include the amendments to IVS 230 and IVS 300 recommended by the Working Group in the forthcoming Exposure Draft of all proposed amendments to the existing standards (the 2015 ED).

The Application Guidance was duly published on the IVSC website in January 2015, but now appears to have been removed from the current site.

Our strong recommendation is therefore that:

- the currently proposed IVS 410 be abandoned. In its place the Application Guidance previously issued should be annexed to IVS 400.
- the amendments to IVS 230 *Real Property Interests* included in the 2015 ED be incorporated into IVS 400.
- the amendments to IVS 300 *Valuations for Financial Reporting* included in the 2015 ED be incorporated into a renumbered IVS 300. We note that it is proposed to exclude a standard for financial reporting in IVS 2017. We have previously indicated why this is a curious and retrograde proposal. Indeed, the continuing need for guidance in this area is illustrated by the problems associated with IPUC.

In the light of the fact that there is a superior and current document providing guidance on the valuation of Development Property that has recently been through due process after input from leading experts on the topic and key stakeholders before being issued by the Board, we have not commented on the many problems and omissions in the current draft.