



THE HONG KONG INSTITUTE OF
SURVEYORS

香港測量師學會

International Valuation Standards Council
1 King Street
London
EC2V 8AU
United Kingdom

Attn: Mr. Steven J Sherman
Chairman, Standards Board

8th July, 2016

Dear Mr. Sherman,

We refer to the consultation in relation to Exposure Drafts of IVS 2017 Introduction & Framework, IVS 104, IVS 105 and IVS 210.

The Hong Kong Institute of Surveyors has pleasure to submit herewith our observations and comments on the IVSC Exposure Drafts for your consideration.

1) Inclusion of Mandatory Requirements

The move to include mandatory requirements is welcome. It will increase confidence in the adoption of IVSC valuation standards.

2) Removal of "Commentary" Part – "Technicality" vs "Guidance"

The proposed creation of new chapters on Bases of Value and Valuation Approaches and Methods in separation from the IVS Framework is good. It provides further clarity to the definitions for different commonly used valuation bases and approaches. One key change in the new IVS2017 from the previous versions is the removal of the "commentary" part of the standards. With this change, the new standards which are of mandatory nature become much elaborated and go into much details. For example, paragraphs 30.6, 30.7, 30.8 of IVS 105 set out steps in comparable transaction method, choice of comparables and what adjustments to be made; paragraphs 50.2 to 60.11 of the same IVS state in details the steps in a DCF calculation, determination of forecast period, derivation of discount rate and terminal value etc. We are however concerned that there are always variations in using those methods of valuations and there will be a lot of professional judgements made by valuers during the process. If the technical considerations had become part of the mandatory standards, then they would have to be closely and strictly followed. It would be more logical and flexible to have these technical advice/details published in the form of guidance or commentary as previously done.

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3) Issue of "Forced Sale"

Paragraph 180.1 of IVS104 stipulates "Forced Sale" is not a distinct basis of value. It is a mere description of the situation under which the exchange takes place. The HKIS Valuation Standards 2012 Edition has a similar provision, namely "Value for sale under repossession" which reflects the situation when a collateral is sold as a result of default in loan (paragraphs 3.8 and 4.6 of The HKIS Valuation Standards). We would recommend IVSC to include this concept and terminology into IVS104 as one of the premises of value..

4) Inclusion of "Residual Valuation Approach"

The area of valuation for development, whether bare site or redevelopment, is a big issue in Asia as a whole. We would like more details in this area to be set out in IVS 105. The section of "Income Approach/DCF" as written clearly aims at the valuation of investments. We recommend IVSC to include a section on "Residual Valuation Approach".

5) Issue of "Replacement Value"

It is not preferred to use the term "Replacement Value" as it is in fact a replacement cost as defined in para.90 of IVS 104.

Thanks for your kind attention. Please feel free to contact the undersigned if you have any queries or if you need any information from us.

Yours sincerely,

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c.c. C.K. Lau – President, The Hong Kong Institute of Surveyors

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Extracts of The HKIS Valuation Standards

3.8 Value for sale under repossession is recognised by the Institute as a measurement basis to reflect a specified market constraint - regaining possession of the collateral securing a loan that is in default.

Commentaries:

- (1) There were cases that the term 'forced sale value' was used in the valuation of real property under a market constrained situation. However, 'forced sale' is a description of the situation under which the transfer takes place and is not a basis of valuation.
- (2) Value for sale under repossession is a procedural valuation; to provide an estimate of the value for sale under repossession, the Valuer should:
 - (a) estimate the market value of the real property;
 - (b) discuss with the lender or receiver on the specific risk or stigma (such as additional costs and time to obtain vacant possession, and the need for completion at short time frame) that might have impact on the market value whilst taking into account the unique quality of the real property and the existence of any specific demand; and
 - (c) analyse and apply adjustment(s) to the market value of the real property by taking into account the negative impacts and to arrive at the value for sale under repossession independently.
- (3) When value for sale under repossession is reported, it should always be clearly distinguished from market value. Should a special assumption be adopted in arriving at the value for sale under repossession, the Valuer is required to comply with the requirement set out in the Standards.

4.6 Value for sale under repossession

Value for sale under repossession (the word repossession means the action of regaining possession especially the seizure of collateral securing a loan that is in default) refers to the price that might reasonably be expected to realise within a defined period of time (the period shall be agreed upon between Lender and Valuer) from the sale of a real property in the market under repossession by the Lender or receiver, on an "as is" basis, taking into account the unique quality of the real property and the existence of any specific demand as well as factors which might adversely affect the marketability of the real property due to market perception of increased risk or stigma, justified or otherwise. It is a procedural valuation and in no way be a basis of value.

Examples where increased risk or stigma that might arise include but not limited to the following:

- (1) the need for substantial renovation and/or repairing cost owing to neglect and deterioration of physical conditions of the real property;
- (2) the need for abortive expenses incurred in checking titles when warranty on title is denied; and
- (3) the need for completion at a short time frame.

To provide an estimate of the value for sale under repossession, the Valuer should:

- (1) estimate the market value of the real property;
- (2) discuss with the Lender or receiver on the specific risk or stigma (such as additional costs and time to obtain vacant possession, and the need for completion at a short time frame) that might have impact on the market value whilst taking into account the unique quality of the real property and the existence of any specific demand; and
- (3) analyse and apply adjustment(s) to the market value of the real property by taking into account the negative impacts and to arrive at the value for sale under repossession independently.