

# 4.1

## INTERNATIONAL VALUATION STANDARDS 1, 2, AND 3

### INTRODUCTION

#### Developing and Communicating the Valuation

Valuations are developed on the basis of the *Market Value* of an asset or on bases other than *Market Value*. Central to all valuations are the concepts of market, price, cost and value. These concepts are relevant both to valuations based on *Market Value* and those based on non-market criteria. Of equal importance to the work of Valuers is clear communication of the results of the valuation and an understanding of how those results have been obtained. A well prepared Valuation Report fulfills these functions. It is only appropriate, therefore, that the International Valuation Standards should address each of these three fundamental aspects of valuation: IVS 1, Market Value Basis of Valuation; IVS 2, Bases Other Than Market Value; and IVS 3, Valuation Reporting.

#### Bases of Value

##### 1.0 Introduction

At the most fundamental level, value is created and sustained by the interrelationship of four factors that are associated with any product, service, or commodity. These are *utility*, *scarcity*, *desire*, and *purchasing power*.

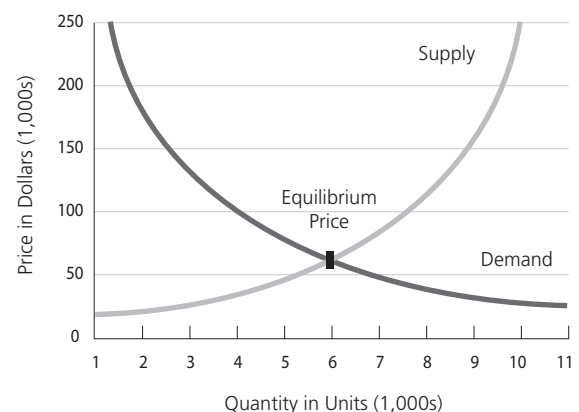
- 1.1 The working of the economic principle of supply and demand reflects the complex interaction of the four factors of value. The supply of a good or service is affected by its utility and desirability. The availability of the good or service is limited by its scarcity and effective checks on the purchasing power of likely consumers. The demand for a good or service is, likewise, created by its utility, influenced by its scarcity and desirability and restrained by limits on purchasing power.
- 1.2 The utility for which a good or service is produced and the scarcity, or limited availability, of the good or service are generally considered *supply-related* factors. Consumer preferences and purchasing power, which reflect desire for the good or service and define the affordability of the item, are generally considered *demand-related* factors.

#### 2.0 Markets

A *market* is an environment in which goods, services, and commodities are traded between buyers and sellers through a price mechanism. The concept of a market implies the ability of buyers and sellers to carry on their activities without restriction.

- 2.1 The *principle of supply and demand* states that the price of a good, service, or commodity varies inversely with the supply of the item and directly with the demand for the item.
- 2.2 In property markets, *supply* represents the quantity of property interests that are available for sale or lease at various prices in a given market within a given period of time, assuming labour and production costs remain constant.
- 2.3 *Demand* constitutes the number of possible buyers or renters seeking specific types of property interests at various prices in a given market within a given period of time, assuming other factors such as population, income, future prices, and consumer preferences remain constant.

##### Supply and Demand Curve



#### 3.0 Price, Cost, and Value

The distinctions between price, cost, and value have previously been discussed. (See section 4.0 of Concepts Fundamental to Generally Accepted Valuation Principles.)

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These terminological distinctions are important to the operation of markets because of the specific functional relationship each describes, i.e., price pertains to the actual exchange of the good or service; cost reflects the expense of producing the good or service; value represents the price most likely to be concluded by the buyers and sellers of a good or service that is available for purchase.

- 3.1 *Price* is a concept that relates to the exchange of a commodity, good, or service. Price is the amount that has been asked, offered, or paid for the item. Once the exchange has been transacted, the price, whether disclosed or undisclosed, becomes an historic fact. The price paid represents the intersection of supply and demand.
- 3.2 *Cost* is a production-related concept, distinct from exchange, which is defined as the amount of money required to create or produce a commodity, good, or service. Once the good is completed or the service is rendered, its cost becomes an historic fact.
- 3.3 The concept of *Value* addresses the price most likely to be concluded by the buyers and sellers of a good or service available for purchase. Value establishes the hypothetical, or notional, price that typically motivated buyers and sellers are most likely to conclude for the good or service. Thus, value is not a fact, but an estimate of the most likely price that will be paid for a good or service available for purchase at a given time.
- 3.4 A *Basis of Value* describes the nature of this hypothetical transaction, for example, whether or not it takes place in a public market and what accounts for the motivation and behaviour of the parties. It does not describe the status of the good or service involved in the transaction, for example, whether it is operational or non-operational, or whether or not it is aggregated with other assets. A *Basis of Valuation* will, therefore, usually need to be accompanied by additional assumptions in order to adequately define the valuation hypothesis adopted. Different accompanying assumptions may result in different values for the same asset, and therefore, it is vital that these be clearly understood and expressed.

### 4.0 Bases of Value

The concept of *Market Value* is tied to the collective perceptions and behaviour of market participants. It recognises diverse factors that may influence transactions in a market, and distinguishes these from other intrinsic or non-market considerations affecting value. *Market*

*Value* is market-based and therefore, all inputs should be developed from market data.

- 4.1 Market-based valuations of property assume the operation of a market in which transactions occur without restriction by non-market forces.
  - 4.1.1 Market-based valuations must determine the *highest and best use*, or most probable use, of the property asset, which is a significant determinant of its value.
  - 4.1.2 Market-based valuations are developed from data specific to the appropriate market(s) and through methods and procedures that try to reflect the deductive processes of participants in those markets.
  - 4.1.3 Market-based valuations may be performed by application of the *sales comparison*, *income capitalisation*, and *cost approaches* to value. The data and criteria employed in each of these approaches must be derived from the market.
- 4.2 Besides the hypothetical exchange value concluded by two typically motivated market participants, valuations of property may also use measurement principles that consider alternative economic utility or function(s) of an asset, value attributable to unusual or atypical motivation on the part of the parties to a transaction, or value specified by statutory or contractual law.
  - 4.2.1 Examples of bases of value other than *Market Value* are Fair Value, Investment Value, Special Value, and Synergistic Value. The additional assumptions required in applying these bases are often more specific than those required for establishing *Market Value* as they may relate to the circumstances of a particular party. For this reason, a valuation reported on one of these bases should ensure that it cannot be construed as *Market Value*.
  - 4.2.2 Valuations performed on bases other than *Market Value* must employ appropriate procedures and analyse sufficient data to produce a reasonable estimate of value.

### 5.0 Communicating the Results of the Valuation

- 5.1 The content and presentation of the Valuation Report are of critical importance to
  - 5.1.1 communicating the value conclusion to the client and user(s) of the valuation, and

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- 5.1.2 confirming the basis of the valuation, the purpose of the valuation, and any assumptions or limiting conditions underlying the valuation.
- 5.2 To help guide the reader through the procedures and evidence used by the Valuer in developing the valuation, the Valuation Report may also provide the analytical processes and empirical data used to arrive at the value conclusion.
- 5.3 Other essential information contained in the Valuation Report includes
  - 5.3.1 the name of the Valuer and the date as of which the value estimate applies,
  - 5.3.2 the property and property rights or interests subject to the valuation,
  - 5.3.3 the dates of the valuation and the valuation report,
  - 5.3.4 the extent of the inspection,
  - 5.3.5 the applicability of these Standards and any required disclosures.

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# MARKET VALUE BASIS OF VALUATION

*This Standard should be read in the context of the background material and implementation guidance contained in General Valuation Concepts and Principles.*

## 1.0 Introduction

- 1.1 The objective of this Standard is to provide a common definition of *Market Value*. This Standard also explains the general criteria relating to this definition and to its application in the valuation of property when the purpose and intended use of the valuation calls for estimation of *Market Value*.
- 1.2 *Market Value* is a representation of value in exchange, or the amount a property would bring if offered for sale in the (open) market at the date of valuation under circumstances that meet the requirements of the *Market Value* definition. To estimate *Market Value*, a Valuer must first determine highest and best use, or most probable use. (See International Valuation Standards [IVSs], Concepts Fundamental to Generally Accepted Valuation Principles, paras. 6.3, 6.4, 6.5.) That use may be for continuation of a property's existing use or for some alternative use. These determinations are made from market evidence.
- 1.3 *Market Value* is estimated through application of valuation methods and procedures that reflect the nature of property and the circumstances under which given property would most likely trade in the market. The most common methods used to estimate *Market Value* include the sales comparison approach, the income capitalisation approach, including discounted cash flow analysis, and the cost approach.
- 1.4 All *Market Value* measurement methods, techniques, and procedures will, if applicable and if appropriately and correctly applied, lead to a common expression of *Market Value* when based on market-derived criteria. Sales comparisons or other market comparisons should evolve from market observations. The income capitalisation approach, including discounted cash flow analysis, should be based on market-determined cash flows and market-derived rates of return. Construction costs and depreciation should be determined by

reference to an analysis of market-based estimates of costs and accumulated depreciation. Although data availability and circumstances relating to the market or the property itself will determine which valuation methods are most relevant and appropriate, the outcome of using any of the foregoing procedures must be *Market Value* if each method is based on market-derived data.

- 1.5 The manner in which property would ordinarily trade in the market distinguishes the applicability of the various methods or procedures of estimating *Market Value*. When based on market information, each method is a comparative method. In each valuation situation one or more methods are generally most representative of (open) market activities. The Valuer will consider each method in every *Market Value* engagement and will determine which methods are most appropriate.

## 2.0 Scope

- 2.1 IVS 1 applies to the *Market Value* of property, normally real estate and related elements. It requires that the property under consideration be viewed as if for sale on the market, in contrast to being evaluated for some other purpose.

## 3.0 Definitions

- 3.1 *Market Value* is defined for the purpose of these Standards as follows:

*Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.*

- 3.2 The term *property* is used because the focus of these Standards is the valuation of property. Because these Standards encompass financial reporting, the term asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework:

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- 3.2.1 “The estimated amount...” refers to a price expressed in terms of money (normally in the local currency), payable for the property in an arm’s-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market on the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value (defined in IVSC Standard 2, para. 3.5).
- 3.2.2 “...a property should exchange...” refers to the fact that the value of a property is an estimated amount rather than a predetermined amount or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.
- 3.2.3 “...on the date of valuation...” requires that the estimated Market Value is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.
- 3.2.4 “...between a willing buyer...” refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than in relation to an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute “the market.” A Valuer must not make unrealistic assumptions about market conditions nor assume a level of market value above that which is reasonably obtainable.
- 3.2.5 “...a willing seller...” 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 property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the ‘willing seller’ is a hypothetical owner.
- 3.2.6 “...in an arm’s-length transaction...” is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) that may make the price level uncharacteristic of the market or inflated because of an element of *Special Value*. (See IVS 2, para. 3.8.) The *Market Value* transaction is presumed to be between unrelated parties, each acting independently.
- 3.2.7 “...after proper marketing...” means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the *Market Value* definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.
- 3.2.8 “...wherein the parties had each acted knowledgeably and prudently...” presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses, and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge, and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price that is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.
- 3.2.9 “...and without compulsion...” establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

- 3.3 *Market Value* is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset for any associated taxes.
- 3.4 *Highest and Best Use* (HABU). The most probable use of a property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

## 4.0 Relationship to Accounting Standards

- 4.1 Valuation for financial reporting, which is the focus of International Valuation Application 1 (IVA 1), should be read in conjunction with this standard.
- 4.1.1 IVA 1, Valuation for Financial Reporting, provides guidance to Valuers, Accountants, and the Public regarding valuation standards affecting accountancy. The *Fair Value* of fixed assets is usually their *Market Value*. (See Concepts Fundamental to Generally Accepted valuation Principles, para. 8.1.)
- 4.2 There are numerous examples of terms used interchangeably by Valuers and Accountants. Some lead to misunderstandings and possible Standards abuses. IVS 1 defines *Market Value* and discusses criteria for establishing *Market Value*. Other important terms are defined in IVSs 1 and 2 and contribute to the more specific requirements discussed in IVA 1, Valuation for Financial Reporting.

## 5.0 Statement of Standard

To perform valuations that comply with these Standards and Generally Accepted Valuation Principles (GAVP), it is mandatory that Valuers adhere to all sections of the Code of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4, 5, 6, and 7).

- 5.1 In performing and reporting a *Market Value* estimate, the Valuer shall
  - 5.1.1 completely and understandably set forth the valuation in a manner that will not be misleading;
  - 5.1.2 ensure that the estimate of *Market Value* is based on market-derived data;
  - 5.1.3 ensure that the estimate of *Market Value* is undertaken using appropriate methods and techniques;

- 5.1.4 provide sufficient information to permit those who read and rely on the report to fully understand its data, reasoning, analyses, and conclusions; and
- 5.1.5 comply with the requirements of IVS 3 in reporting the valuation. Accordingly, the Valuer shall
  - 5.1.5.1 define the value being estimated and state the purpose and intended use of the valuation, the effective date of valuation, and the date of the report;
  - 5.1.5.2 clearly identify and describe the property and property rights or interests being valued;
  - 5.1.5.3 describe the scope/extent of the work undertaken and the extent to which the property was inspected;
  - 5.1.5.4 state any assumptions and limiting conditions upon which the valuation is based;
  - 5.1.5.5 fully and completely explain the valuation bases/approaches applied and the reasons for their applications and conclusions; and
  - 5.1.5.6 include a signed Compliance Statement attesting to the Valuer's objectivity, professional contributions, non-bias, non-contingency of professional fees or other compensation, as well as Standards' applicability, and other disclosures.

## 6.0 Discussion

- 6.1 The *Market Value* concept and definition are fundamental to all valuation practice. A brief summary of essential economic and procedural foundations is presented in Concepts Fundamental to Generally Accepted Valuation Principles and Code of Conduct, the documents upon which these Standards are predicated.
- 6.2 The concept of *Market Value* is not dependent on an actual transaction taking place on the date of valuation. Rather, *Market Value* is an estimate of the price that should be realised in a sale at the valuation date under conditions of the *Market Value* definition. *Market Value* is a representation of the price to which a buyer and seller would agree at that time under the *Market Value*

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definition, each previously having had time for investigation of other market opportunities and alternatives, and notwithstanding the fact that it may take some time to prepare formal contracts and related closing documentation.

- 6.3 The concept of *Market Value* presumes a price negotiated in an open and competitive market, a circumstance that occasionally gives rise to the use of the adjective *open* before the words *Market Value*. The words *open* and *competitive* have no absolute meaning. The market for one property could be an international market or a local market. The market could consist of numerous buyers and sellers, or could be one characterised by a limited number of participants. The market in which the property is exposed for sale is not a definitionally restrictive or constricted market. Stated conversely, the omission of the word *open* does not indicate that a transaction would be private or closed.
- 6.4 Market valuations are generally based on information regarding comparable properties. The Valuation Process requires a Valuer to conduct adequate and relevant research, to perform competent analyses, and to draw informed and supportable judgements. In this process, Valuers do not accept data without question but should consider all pertinent market evidence, trends, comparable transactions, and other information. Where market data are limited, or essentially non-existent (as for example with certain specialised properties), the Valuer must make proper disclosure of the situation and must state whether the estimate is in any way limited by the inadequacy of data. All valuations require exercise of a Valuer's judgment, but reports should disclose whether the Valuer bases the *Market Value* estimate on market evidence, or whether the estimate is more heavily based upon the Valuer's judgement because of the nature of the property and lack of comparable market data.
- 6.5 Because changing conditions are characteristic of markets, Valuers must consider whether available data reflect and meet the criteria for *Market Value*.
- 6.5.1 Periods of rapid changes in market condition are typified by rapidly changing prices, a condition commonly referred to as disequilibrium. A period of *disequilibrium* may continue over a period of years and can constitute the current and expected future market condition. In other circumstances, rapid economic change may give rise to erratic market data. If some sales are out of line with the market, the Valuer will generally give them less weight. It may still be possible for the Valuer to judge from available data where the realistic level of the market is. Individual transaction prices may not be evidence of *Market Value*, but analysis of such market data should be taken into consideration in the Valuation Process.
- 6.5.2 In poor or falling markets there may or may not be a large number of "willing sellers." Some, but not necessarily all, transactions may involve elements of financial (or other) duress or conditions that reduce or eliminate the practical willingness of certain owners to sell. Valuers must take into account all pertinent factors in such market conditions and attach such weight to individual transactions that they believe proper to reflect the market. Liquidators and receivers are normally under a duty to obtain the best price in asset disposals. Sales, however, may take place without proper marketing or a reasonable marketing period. The Valuer must judge such transactions to determine the degree to which they meet the requirements of the *Market Value* definition and the weight that such data should be given.
- 6.5.3 During periods of market transition characterised by rapidly rising or falling prices, there is a risk of over- or under-valuation if undue weight is given to historic information or if unwarranted assumptions are made regarding future markets. In these circumstances Valuers must carefully analyse and reflect the actions and attitudes of the market and take care that they fully disclose the results of their investigations and findings in their reports.
- 6.6 The concept of *Market Value* also presumes that in a market value transaction a property will be freely and adequately exposed on the (open) market for a reasonable period of time and with reasonable publicity. This exposure is presumed to occur prior to the effective date of value. Markets for fixed assets typically differ from those available for stocks/shares, bonds, and other current assets. Fixed assets tend to be unique. They are usually sold less frequently and in markets which are less formal and more inefficient than, for example, markets for listed securities. Further, fixed assets are less liquid. For these reasons, and because fixed assets do not commonly trade on a public exchange, the application of the concept of *Market Value* requires the use of assumptions such as adequate market exposure over a reasonable time period to allow for proper marketing, and completion of negotiations.
- 6.7 Revenue producing properties held as long-term investments by a property company, pension (or superannuation fund), property trust, or similar



type of owner are typically valued on the basis of individual asset disposal pursuant to an orderly plan. The aggregate value of such assets viewed or treated as a portfolio or as an assembled group of properties could exceed or could be less than the sum of the *Market Value* of each asset individually.

- 6.8 All valuations should refer to the purpose and intended use of the valuation. In addition to other reporting requirements, the Valuer should make it abundantly clear into which class each asset has been placed if the function of the valuation is related to the preparation of financial statements.
- 6.9 In exceptional circumstances *Market Value* may be expressed as a negative amount. Situations include certain leasehold properties, some specialised properties, obsolete properties with demolition costs exceeding land value, some properties affected by environmental contamination, and others.

## 7.0 Disclosure Requirements

- 7.1 Valuation Reports must not be misleading. Valuations conducted for the purpose of estimating and reporting *Market Value* shall meet the requirements of section 5 above. Reports shall contain a specific reference to the definition of *Market Value* as set forth in this Standard, together with specific reference as to how the property has been viewed in terms of its utility or its *highest and best use* (or most probable use) and a statement of all substantive assumptions.
- 7.2 In making *Market Value* estimates the Valuer shall clearly identify the effective date of valuation (the date at which the value estimate applies), the purpose and intended use of the valuation, and such other criteria as are relevant and appropriate to ensure adequate and reasonable interpretation of the Valuer's findings, opinions, and conclusions.
- 7.3 Although the concept, use, and application of alternative expressions of value may be appropriate in certain circumstances, the Valuer shall ensure that if such alternative values are estimated and reported, they should not be construed as representing *Market Value*.
- 7.4 When valuations are made by an Internal Valuer, i.e., one who is in the employ of either the entity that owns the assets or the

accounting firm responsible for preparing the entity's financial records and/or reports, there shall be a specific disclosure in the Valuation Report or Certificate of the existence and nature of any such relationships.

## 8.0 Departure Provisions

- 8.1 In following this Standard any departures must be in accordance with directions provided in IVS 3, Valuation Reporting.

## 9.0 Effective Date

- 9.1 This International Valuation Standard became effective 31 July 2007.

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# BASES OTHER THAN MARKET VALUE

## REVISED 2007

*This Standard should be read in the context of the background material and implementation guidance contained in General Accepted Valuation Principles.*

### 1.0 Introduction

- 1.1 The objectives of International Valuation Standard 2 (IVS 2) are to identify, explain and distinguish bases of value other than *Market Value* and to establish standards for their application.
- 1.2 *Market Value* is the most appropriate basis of value for a wide range of applications. However, alternative valuation bases may be appropriate in specific circumstances. It is essential that both the Valuer and users of valuations clearly understand the distinction between *Market Value* and these other bases of valuation and the effects (if any) that differences between bases may have on the applicability of the valuation.
- 1.3 The concept of *Market Value* is based on specific, identified assumptions that are set out in IVS 1. Other bases of valuation require the application of different assumptions, which if not clearly identified, may result in misinterpretation of the valuation.

### 2.0 Scope

- 2.1 This Standard defines and discusses the application of valuation bases other than *Market Value* for purposes other than financial reporting.

### 3.0 Definitions

#### International Valuation Standards Definitions

- 3.1 *Basis of Value*. A statement of the fundamental measurement principles of a valuation on a specified date.
- 3.2 *Fair Value*. The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
- 3.3 *Investment Value, or Worth*. The value of property to a particular investor, or a class of investors, for

identified investment or operational objectives. This subjective concept relates specific property to a specific investor, group of investors, or entity with identifiable investment objectives and/or criteria.

- 3.4 *Special Purchaser*. A purchaser to whom a particular asset has *Special Value* because of advantages arising from its ownership that would not be available to general purchasers in the market.
- 3.5 *Special Value*. An amount above the *Market Value* that reflects particular attributes of an asset that are only of value to a *Special Purchaser*.
- 3.6 *Synergistic Value*.<sup>1</sup> An additional element of value created by the combination of two or more interests where the value of the combined interest is worth more than the sum of the original interests.

### 4.0 Relationship to Accounting Standards

- 4.1 For most purposes, valuations under International Financial Reporting Standards require the use of fair value. This is a specific application of *Fair Value* that may require more restrictive assumptions than are required in general use. International Valuation Application 1, Valuation for Financial Reporting, discusses the specific valuation requirements under accounting standards.

### 5.0 Statement of Standard

To perform valuations that comply with these Standards and Generally Accepted Valuation Principles (GAVP), it is mandatory that Valuers adhere to all sections of the Code of Conduct pertaining to Ethics, Competence, Disclosure and Reporting (sections 4, 5, 6, and 7).

- 5.1 When carrying out a valuation under this standard the Valuer shall ensure that:

<sup>1</sup> Synergistic Value may also be known as Marriage Value.

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- 5.1.1 the estimate of value is based on data and circumstances appropriate to the valuation;
- 5.1.2 the estimate of value is undertaken using appropriate methods and techniques;
- 5.1.3 the valuation is developed on the basis of sufficient information to support the analyses and conclusions therein.
- 5.2 In reporting an estimate of value under this standard the Valuer shall
  - 5.2.1 comply with all the requirements of International Valuation Standard 3, Valuation Reporting. In particular, the Valuer shall report the valuation in a manner that will not be misleading (IVS 3, 5.1.1)
  - 5.2.2 define the basis or bases of value used and state the purpose and intended use of the valuation, the effective date of valuation, and the date of the report (IVS 3, 5.1.2 and 5.1.3);
  - 5.2.3 clearly identify and describe the property and property rights and interests valued and the scope of work undertaken to develop the valuation conclusion (IVS 3, 5.1.4 and 5.1.5);
  - 5.2.4 specify all assumptions and limiting conditions upon which the valuation is based (IVS 3, 5.1.6 and 5.1.7);
  - 5.2.5 clearly distinguish the assumptions that are different from or additional to those underlying an estimate of *Market Value*;
  - 5.2.6 fully explain the valuation approaches and procedures that have been applied and the reasoning that supports the analyses, opinions and conclusions in the report (IVS 3, 5.1.8);
  - 5.2.7 include a statement that the valuation has been performed in accordance with IVSs, disclose any departure from the specific requirements of the IVSs and provide an explanation for such departure. (IVS 3, 5.1.10)

### 6.0 Discussion

- 6.1 *A Basis of Valuation* describes the fundamental measurement principles of a valuation. These principles may vary depending on the purpose of the valuation. *A Basis of Valuation* is not a statement of the method used, nor a description of the state of an asset or assets when exchanged. *Market Value* is the most commonly required basis and is defined and discussed in IVS 1. This Standard defines and discusses other valuation bases. These fall into three principal categories:

- 6.1.1 The first category reflects the benefits that an entity enjoys from ownership of an asset. The value is specific to that entity. Although under some circumstances, it may be the same as the amount that could be realised from sale of the asset, this value essentially reflects the benefits received by holding the asset, and therefore does not necessarily involve a hypothetical exchange. *Investment Value*, or *Worth*, fall into this category. Differences between the value of an asset to a particular entity and the *Market Value* provide the motivation for buyers or sellers to enter the market place.
- 6.1.2 The second category represents the price that would be reasonably agreed between two specific parties for the exchange of an asset. Although the parties may be unconnected and negotiating at arm's length, the asset is not necessarily exposed in the wider market and the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large. This category includes *Fair Value*, *Special Value* and *Synergistic Value*.
- 6.1.3 The third category is value determined in accordance with a definition set out in a statute or a contract.
- 6.2 The application of *Fair Value* under accounting standards is discussed in IVA 1. In accounting standards, *Fair Value* is normally equated to *Market Value*.
- 6.3 For other purposes, *Fair Value* can be distinguished from *Market Value*. *Fair Value* requires the assessment of the price that is fair between two specific parties taking into account the respective advantages or disadvantages that each will gain from the transaction.
- 6.4 *Fair Value* is a broader concept than *Market Value*. Although in many cases the price that is fair between two parties will equate to that obtainable in the general market, there will be cases where the assessment of *Fair Value* will involve taking into account matters that have to be disregarded in the assessment of *Market Value*.
- 6.5 A common application of *Fair Value* is for assessing the price that is fair for the shareholding in a business, where particular synergies between two specific parties may mean that the price that is fair between them is different from the price that might be obtainable in the wider market. In contrast, *Market Value* requires any element

- of *Special Value*, of which *Synergistic Value* is an example, to be disregarded.
- 6.6 *Special Value* can arise where an asset has attributes that make it more attractive to a particular buyer, or to a limited category of buyers, than to the general body of buyers in a market. These attributes can include the physical, geographic, economic or legal characteristics of an asset. *Market Value* requires the disregard of any element of *Special Value* because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.
- 6.7 *Synergistic Value* can be a type of *Special Value* that specifically arises from the combination of two or more assets to create a new asset that has a higher value than the sum of the individual assets.
- 6.8 When *Special Value* is reported, it should always be clearly distinguished from *Market Value*.
- 6.9 A *Basis of Valuation* should not be confused with assumptions that may also be required to clarify the application of the basis to a specific situation. Some terms that are often used to describe a valuation are not distinct bases of value as they describe the state of the asset or the circumstances under which it is assumed to be exchanged, rather than the underlying measurement objective. The value may be measured on one of the bases defined in section 3, or on the basis of *Market Value*, see IVS 1. Examples of such terms that are in common use include:
- 6.9.1 *Going Concern Value*: This describes a situation where an entire business is transferred as an operational entity. Alternative valuation scenarios to a going concern could include a transfer of all the assets as a whole but following the closure of the business, or a transfer of specific assets currently used in the business as individual items.
- 6.9.2 *Liquidation Value*: This describes a situation where a group of assets employed together in a business are offered for sale separately, usually following a closure of the business. Although often associated with a forced sale (see 6.11 below), these terms have distinct meanings. There is no reason why assets cannot be liquidated by an orderly sale following proper marketing.
- 6.9.3 *Salvage Value*: This describes the value of an asset that has reached the end of its economic life for the purpose it was made. The asset may still have value for an alternative use or for recycling.
- 6.10 Terms such as those in 6.9 should not be used without further qualification. Used alone, they are insufficient as a reporting basis. By way of illustration, a business that is a going concern may have one value to a specific party (*Investment Value*), another value between two specific parties reflecting business synergies (*Fair Value*), and yet another value in the market (*Market Value*). It is therefore necessary to state the underlying valuation basis by the use of expressions such as "*Market Value* as a going concern", "*Market Value* for the liquidation of the assets" or "*Fair Value* as a going concern."
- 6.11 The term "forced sale" is often used in circumstances where a seller is under compulsion to sell and/or a proper marketing period is not available. The price obtainable in these circumstances will not meet the definition of *Market Value*. The price that could be obtained in these circumstances will depend upon the nature of the pressure on the seller or the reasons why proper marketing cannot be undertaken. It may also reflect the consequences for the seller of failing to sell within a specified period. Unless the nature of, and reason for, the constraints on the vendor are known, the price obtainable in a forced sale cannot realistically be predicted. The price that a seller will accept in a forced sale will reflect its particular circumstances rather than those of the hypothetical willing seller in the *Market Value* definition. The price obtainable in a forced sale will bear only a coincidental relationship to *Market Value*, or any of the other bases defined in this standard. It is not a *Basis of Valuation* as the forced sale is a description of the situation under which the transfer takes place, not a distinct measurement objective.
- 6.12 The third category of valuation bases comprises those set by statute, regulation or contract. Statutory bases are often prescribed for taxation purposes. Examples of private contracts, prescribing valuation definitions and assumptions, include criteria for setting the price payable under an option or for reviewing the payments made under a lease. The detailed interpretation of both statutory and contract provisions are often subject to precedent, established by court decisions. Although many of the bases defined by statute and contract may appear similar to bases defined in these standards, unless unequivocal reference is made to these standards, their detailed application may require an approach different from that required by these Standards. Further discussion of statutory or contractual valuation bases is outside the scope of International Standards.

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- 6.13 All valuations will involve different assumptions, which must be clearly identified by the Valuer and reported with the valuation. In some situations, it may be appropriate to provide alternative valuations based on alternative assumptions to illustrate the effect of these assumptions.

### **7.0 Disclosure Requirements**

- 7.1 Valuation Reports must not be misleading. All valuations shall meet the requirements of section 5 above. The Code of Conduct requires that the purpose and intended use of any valuation be clearly reported, and that full disclosure be made of the basis for the valuation estimate, its applicability, and its limitations.
- 7.2 If a valuation by an Internal Valuer is made, there shall be a specific disclosure in the Valuation Report of the existence and nature of any such relationship. (IVS 3, 7.1).
- 7.3 If a Valuer is involved in a valuation assignment in a capacity other than as a Valuer, for example, as an independent or impartial agent, as a consultant or advisor to a business entity, or as a mediator, the Valuer should disclose the specific role taken in each assignment. (IVS 3, 7.2)
- 7.4 The Valuer shall disclose the regulatory framework and any departure required from these Standards to comply with local legislation, regulation (including accounting rules), or custom. (IVS 3, 7.3)

### **8.0 Departure Provisions**

- 8.1 In following this Standard any departures must be in accordance with directions provided in IVS 3, Valuation Reporting.

### **9.0 Effective Date**

- 9.1 This International Valuation Standard became effective 31 July 2007.

# VALUATION REPORTING

## REVISED 2007

### 1.0 Introduction

- 1.1 The critical importance of a Valuation Report, the final step in the valuation process, lies in communicating the value conclusion and confirming the basis of the valuation, the purpose of the valuation, and any assumptions or limiting conditions underlying the valuation. The analytical processes and empirical data used to arrive at the value conclusion may also be included in the Valuation Report to guide the reader through the procedures and evidence that the Valuer used to develop the valuation.
- 1.2 The Valuation Report indicates the value conclusion. It contains the name of the Valuer and the date of the valuation. It identifies the property and property rights subject to the valuation, the basis of the valuation, and the intended use of the valuation. It discloses all underlying assumptions and limiting conditions, specifies the dates of valuation and reporting, describes the extent of the inspection, refers to the applicability of these Standards and any required disclosures, and includes the Valuer's signature.
- 1.3 Because of the key role of the Valuation Report in communicating the conclusion of a valuation to users and third-party readers, this Standard sets forth the following as its principal objectives:
  - 1.3.1 To discuss reporting requirements consistent with professional best practice
  - 1.3.2 To identify essential elements to be included in Valuation Reports

### 2.0 Scope

- 2.1 The reporting requirements addressed in this Standard apply to all types of Valuation Reports.
- 2.2 Compliance with these reporting requirements is incumbent upon both Internal and External Valuers.
- 2.3 Some instructions involving valuations undertaken for specific purposes and property types, e.g., financial reporting, and lending, may differ from those given for other assignments. The

reader is advised to consult those sections of the International Valuation Standards (IVSs) that address these situations, i.e., International Valuation Applications 1 and 2 (IVA 1 and IVA 2).

### 3.0 Definitions

- 3.1 *Compliance Statement.* An affirmative statement attesting to the fact that the Valuer has followed the ethical and professional requirements of the IVSC Code of Conduct in performing the assignment.
- 3.2 *Oral Report.* The results of a valuation, verbally communicated to a client or presented before a court either as expert testimony or by means of deposition. A report communicated orally to a client must be supported by a work file and at a minimum followed up by a written summary of the valuation.
- 3.3 *Special, unusual, or extraordinary assumptions.* Before completing the acquisition of a property, a prudent purchaser in the market typically exercises due diligence by making customary enquiries about the property. It is normal for a Valuer to make *assumptions* as to the most likely outcome of this due diligence process and to rely on actual information regarding such matters as provided by the client. *Special, unusual, or extraordinary assumptions* may be any additional assumptions relating to matters covered in the due diligence process, or may relate to other issues, such as the identity of the purchaser, the physical state of the property, the presence of environmental pollutants (e.g., ground water contamination), or the ability to redevelop the property. (See para. 5.1.7 below.)
- 3.4 *Specifications for the Valuation Assignment.* The first step in the Valuation Process, which establishes the context and scope/extent of the assignment and resolves any ambiguity involving the valuation issue or problem. A Valuer ensures that the analyses, information and conclusions presented in the report fit the specifications for the assignment. The *specifications for the value assignment* include the following seven elements:

## INTERNATIONAL VALUATION STANDARDS 3

- 3.4.1 An identification of the real, personal (plant and machinery; furniture, fixtures, and equipment), business or other property subject to the valuation and other classes of property included in the valuation besides the primary property category;
- 3.4.2 An identification of the property rights (sole proprietorship, partnership, or partial interest) to be valued;
- 3.4.3 The intended use of the valuation and any related limitation; and the identification of any subcontractors or agents and their contribution;
- 3.4.4 A definition of the basis or type of value sought;
- 3.4.5 The date as of which the value estimate applies and the date of the intended report;
- 3.4.6 An identification of the scope/extent of the valuation and of the report. and
- 3.4.7 An identification of any contingent and limiting conditions upon which the valuation is based
- 3.5 *Valuation Report.* A document that records the instructions for the assignment, the basis and purpose of the valuation, and the results of the analysis that led to the opinion of value. A Valuation Report may also explain the analytical processes undertaken in carrying out the valuation, and present meaningful information used in the analysis. Valuation Reports can be either oral or written. The type, content and length of a report vary according to the intended user, legal requirements, the property type, and the nature and complexity of the assignment.
- 3.6 *Written Report.* The results of a valuation communicated to a client in writing, which includes electronic communication. Written reports may be detailed narrative documents containing all pertinent materials examined and analyses performed to arrive at a value conclusion or abbreviated pertinent narrative documents, including periodic updates of value, forms used by governmental and other agencies, or letters to clients.

### AUSNZ 3.6.1

**Refer to Business Focus 2, Reports, Content and Compilation.**

## 4.0 Relationship to Accounting Standards

- 4.1 Where applicable, the Valuation Report shall meet or exceed the requirements of the International Financial Reporting Standards (IFRSs)/International Accounting Standards (IASs) and International Public Sector Accounting Standards (IPSASs).
- 4.2 Valuation for Financial Reporting, which is the focus of IVA 1, should be read in conjunction with this Standard.

## 5.0 Statement of Standard

To perform valuations that comply with these Standards and Generally Accepted Valuation Principles (GAAP), it is mandatory that Valuers adhere to all sections of the IVSC Code of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4, 5, 6, and 7).

- 5.1 Each Valuation Report shall
  - 5.1.1 clearly and accurately set forth the conclusions of the valuation in a manner that is not misleading;
  - 5.1.2 identify the client, the intended use of the valuation, and relevant dates:
    - 5.1.2.1 the date as of which the value estimate applies,
    - 5.1.2.2 the date of the report, and
    - 5.1.2.3 the date of the inspection;



**AUSNZ 5.1.2.4 Date of Valuation**

All valuations undertaken by Members must be assessed as at the date of inspection of the property except where the valuation instructions are to assess the value at a retrospective date.

When a retrospective valuation is reported, the date of the valuation must be recorded next to or immediately above or below the valuation figure in the report.

In all other cases the valuation date must be clearly linked to the valuation figure in the report.

A Member must not provide an assessment of Market Value at a future date. This does not preclude members from making residual value forecasts for plant & equipment leasing transactions.

When a valuation is required for financial reporting purposes at a future date, the valuation shall be recorded as at the date of inspection and the valuer may make comment on the use of that valuation as at that future date subject to the relevant factors influencing the value and the property being unchanged as at that future date.

In these circumstances, a Member shall include an appropriate qualification to the valuation.

- 5.1.3 specify the basis of the valuation, including type and definition of value;
  - 5.1.3.1 When any component of the valuation is valued on more than one basis of value, a clear distinction must be made between the bases.
- 5.1.4 identify and describe the
  - 5.1.4.1 property rights or interests to be valued,
  - 5.1.4.2 physical and legal characteristics of the property, and
  - 5.1.4.3 classes of property included in the valuation other than the primary property category;
- 5.1.5 describe the scope/extent of the work used to develop the valuation;
- 5.1.6 specify all assumptions and limiting conditions upon which the value conclusion is contingent;
- 5.1.7 identify special, unusual, or extraordinary assumptions and address the probability that such conditions will occur;
- 5.1.8 include a description of the information and data examined, the market analysis performed, the valuation approaches and procedures followed, and the reasoning that supports the analyses, opinions, and conclusions in the report;
- 5.1.9 contain a clause specifically prohibiting the publication of the report in whole or in part, or any reference thereto, or to the valuation figures contained therein, or to the names and professional affiliation of the Valuers, without the written approval of the Valuer;
- 5.1.10 include a Compliance Statement that the valuation has been performed in accordance with IVSs, disclose any departure from the specific requirements of the IVSs and provide an explanation for such departure in accordance with the IVSs Code of Conduct;
- 5.1.11 include the name, professional qualifications, and signature of the Valuer.
- 5.2 When Valuation Reports are transmitted electronically, a Valuer shall take reasonable steps to protect the integrity of the data/text in the report and to ensure that no errors occur in transmission. Software should provide for security of transmission.
  - 5.2.1 The origin, date and time of the sending as well as the destination, date and time of receipt should be identified. Software should allow confirmation that the quantity of data/text transmitted corresponds to that received and should render the report as 'read-only' to all except the author.
  - 5.2.2 The Valuer should ensure that the digital signature(s) is/are protected and fully under the Valuer's control by means of passwords (PIN numbers), hardware devices (secure cards), or other means. A signature affixed to a report electronically is considered as authentic and carries the same level of responsibility as a written signature on a paper copy report.
  - 5.2.3 A true electronic and/or paper copy of an electronically transmitted report must be retained by the Valuer for the period required by law in his or her jurisdiction, in any event not less than five years. Files of the records of electronically transmitted reports may be kept on electronic, magnetic, or other media.
- 5.3 The presentation of a Valuation Report is decided by the Valuer and the client based

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on the instructions or specifications for the assignment.

- 5.4 The type, content, and length of a report depend on the intended user of the report, legal requirements, property type, and the nature and complexity of the valuation issue or problem.
- 5.5 For all Valuation Reports, sufficient documentation must be retained in the work file to support the results and conclusions of the valuation and must be held for a period of at least five years after completion.

### AUSNZ 5.6 Value as if Complete

#### 5.6.1 Proposed Improvements

Where a Member undertakes a valuation of a proposed building or other improvement the valuation must be expressed as “Value As If Complete” and appropriate cautions, including the requirement for a final inspection by the valuer on completion to confirm or vary the valuation figure, shall be included.

The “Value As If Complete” valuation must be the market value at the date of inspection.

#### 5.6.2 Documentation

A Member shall not undertake a valuation on an “As If Complete” basis without appropriate and sufficient documentation.

#### 5.6.3 Proposed Lease(s)

Where a Member undertakes a valuation of a property on the assumption of a proposed lease (or multiple leases), the valuation must be subject to appropriate cautions, including the requirement for finalisation and execution of the lease(s)

in accordance with the original proposed lease(s).

### AUSNZ 5.7 Sale in One Line or Single Transaction

Where a valuation is undertaken of multiple properties in one development the sum of the individual values must not be reported as the value of the development, but if aggregated must be reported as the total gross realisation.

A Sale In One Line valuation must be based on the assumption of a single transaction for the total holding or a sale in one line to one buyer.

### AUSNZ 5.8 Goods and Services Tax

In Australia a valuation shall be expressed as being GST inclusive, GST exclusive or GST free.

In New Zealand non-residential valuations shall be stated as plus GST (if any) and residential valuations shall be stated as including GST (if any). Any exceptions to the standard treatment of GST shall be clearly stated.

## 6.0 Discussion

- 6.1 The context in which a valuation figure is reported is as important as the basis and accuracy of the figure itself. The value conclusion should make reference to the market evidence, and procedures and reasoning that support that conclusion.
- 6.2 Communicating the answer to the valuation question in a consistent and logical manner demands a methodical approach that enables the user to understand the processes followed and their relevance to the conclusion.
- 6.3 The report should convey to the reader a clear understanding of the opinions being expressed by the Valuer and also be readable and intelligible to someone with no prior knowledge of the property.
- 6.4 The report should demonstrate clarity, transparency, and consistency of approach.
- 6.5 The Valuer should exercise caution before permitting the valuation to be used other than for the originally agreed purpose.

## 7.0 Disclosure Requirements

- 7.1 When valuations are made by an Internal Valuer, specific disclosure shall be made in the Valuation Report of the existence and nature of the relationship between the Valuer and entity controlling the asset.
- 7.2 If a Valuer is involved in a valuation assignment in a capacity other than as a Valuer, for example, as an independent or impartial agent, as a consultant or advisor to a business entity, or as a mediator, the Valuer should disclose the specific role taken in each assignment.
- 7.3 The Valuer shall disclose the regulatory framework and any departure required from these Standards to comply with local legislation, regulation (including accounting rules), or custom.

## 8.0 Departure Provisions

- 8.1 No departure is permissible from the requirements that each Valuation Report clearly and accurately set forth the conclusions of the valuation, and clearly disclose any assumptions and limiting conditions, which affect the valuation and value conclusion.
- 8.2 If a Valuer is asked to perform an assignment that departs from these requirements or calls for something less than, or different from, the work normally performed in compliance with the IVSs and the IVSC Code of Conduct, the Valuer should accept and perform such services only when the following conditions can be met:
  - 8.2.1 The Valuer determines that the instructions will not tend to mislead the intended users.
  - 8.2.2 The Valuer determines that the valuation is not so limited that the results are no longer reliable and credible for the intended purpose and use of the valuation.
  - 8.2.3 The Valuer advises the client that the instructions for the assignment involve a departure from the Standards that must be disclosed in full in the Valuation Report.
- 8.3 In any circumstances involving a departure from the reporting of *Market Value*, the Valuer should clearly identify that the valuation reported is other than *Market Value*.

## 9.0 Effective Date

- 9.1 This International Valuation Standard became effective 31 July 2007.

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