

IVSC TAB Meeting Update May 2024

This IVSC Update highlights preliminary decisions of the IVSC Tangible Assets Board (Board). Projects affected by these decisions can be found on the IVSC Publication Schedule. The Board's final decisions on IVS® Standards and Amendments as set out in the IVSC Standards Review Board Due Process and Working Procedures.

The Board met remotely on 8 May 2024. The topics in order of discussion were:

Administration

- IVSC TAB Meeting Update March 2024
(*IVSC TAB New York Meeting Update March 2024*)

Global Insights & Markets Update

Around the World – Introductions and Markets update 2024

- *Africa – Molefi Kubuzie*
- *North America – James Gavin, Brendan Gallagher, Kyle TenHuisen*
- *South America – Eduardo Rottman*
- *Asia/Oceania – CK Lau, Sandip Kumar Deb, Kim Hildebrandt*
- *Europe – Ludmila Simonova, Becky Gaughan*
- *Middle East – Paakow Winful, Ron Cohen-Seban*

Agenda Consultation

- IVS Agenda Consultation – All
(*2024.05.02. IVSC Agenda Consultation 2024 without track changes*)
 - *Review of TAB Key Topics and Timing*

Perspective Papers

- Approval of Inspection Perspectives Paper to be sent to the SRB – All
(*2024.05.06. Draft IVSC TAB Perspectives Paper on Inspection without track changes*)
- Perspectives Paper Update – Kim Hilderbrandt/Alexander Aronsohn
 - A. Prudential Value Perspectives Paper*
 - B. Listed vs Unlisted Perspectives Paper*
 - C. ESG and Plant Equipment and Infrastructure*

Discussion

- Valuation Risk Discussion – All
 - *Types of Valuation Risk*
 - *Reasonable Range*

Administration

- IVSC TAB Working Group – All
(*2024.05.06. IVSC TAB Working Groups*)
 - A. TAB MV and Prudential Value Working Group*
 - B. TAB ESG Working Group*
 - C. TAB Inspection Working Group*
 - D. AI Working Group*
- Stakeholder Engagement/Outreach – All
(*UPAV, European Mortgage Federation (EMF), Bulgarian Chamber of Professional Valuers*)

- ESG Survey – Alexander Aronsohn
- AOB – All

The Board was asked if there were any conflicts of interest in relation to the proposed topics and no conflicts were declared.

Administration

IVSC TAB Meeting Update March 2024 (IVSC TAB Meeting Update March 2024)

The Board reviewed the IVSC meeting update and agreed that it was an accurate report of the meeting. There were no further revisions suggested and the meeting update was approved by the TAB.

Next steps

No action required.

Global Insights & Markets Update

Around the World – Introductions and Markets update

All the members of the Board including the new members provided a short verbal biography of themselves and their current work experience.

The Board provided general market updates.

- *Africa*
South Africa - Molefi Kubuzie
 - MK was absent so was unable to provide a market update for South Africa.
- *North America*
USA - James Gavin
 - Nothing to add from previous update. 2024 is seen very much as a transition year due to the forthcoming US elections.*USA - Kyle TenHuisen*
 - KTH was absent so no further market update for.*Canada – Brendan Gallagher*
 - No further update re Canada. Situation as previously advised.
 - Currently seeing multiple interest rate decreases and the interest rate is currently at 4% so increased due diligence and Merger and Acquisition activity.
 - Market expecting further rate cuts in 2024.
 - Most work relating to impairment work and refining of values and market volatility has led to an increase in valuation instructions in some areas.

- Inflation currently stands at 3/4%.

- *Europe*

- Ludmila Simonova*

- War ongoing and situation still difficult and market uncertain and many Ukrainians have relocated to the West.
 - War has had a big impact on the Ukrainian economy and energy prices are continuing to increase.
 - Different investors are looking at Ukraine and wanting to invest in Ukraine.
 - There are still ongoing discussions in relation to war reparations.
 - LS also advised that she recently published an article on the war in Ukraine within the RICS Journal.

- Becky Gaughan*

- Markets are reinvigorating and there is more comparable evidence available, which is making valuations slightly less challenging.
 - Finding intensive questioning from auditors at the moment, any additional time spent on audits will incur an hourly rate.
 - Other members of the TAB confirmed that they had similar issues in their.
 - There have been some data issues in the market at the moment and valuers have been advised to be careful about sharing data on public platforms.
 - There have also been some issues in relation to data and data ownership when companies are assigned to review other valuers reports. As a result many valuers are very cautious about the sharing and ownership of data.
 - Other members of the TAB advised that many firms will also not share working models as these are seen as their proprietary ownership.

- Charles Golding*

- There is currently a reform of residential ground rents and leases in England and Wales to make it cheaper for tenants to buy out leases.
 - As part of this process the government is suggesting a cap for ground rent contracts.
 - At this point in time it is not known how this will effect valuations an there and there is an element of material uncertainty in relation to the development of ground rents.
 - TAB generally discussed this change in UK legislation and whether this will stop people from investing in ground rents in future.
 - The Energy Performance Directive is currently going through the European parliament.

- This raises questions in relation to what the valuer does in relation to embodied carbon and how this relates to existing ESG requirements.
- Furthermore the valuer will have to consider the decarbonisation pathway and the proposed capital expenditure to meet these requirements, both of which may have an effect on value.
- CG advised that the RICS have provided new governance procedures on regular purpose valuations and the valuer rotation policy.
- CG further advised that the RICS have also been considering requirements in relation to Trade Related Property (operational real estate) particularly in relation to the use of the profits method or EBITDAR for student housing, data storage etc.

Paloma Arnaiz

- In Spain the most important market is the residential market and over the past years there has been a scarcity of housing units, which has caused a continual increase in residential housing prices.
- There is also a new housing law that foresees regional governments setting rent limits in future, which is causing uncertainty within the residential lettings market.
- The National Valuation Standards for mortgages is currently being reviewed by governments in relation industrial units and real estate.
- In Spain many developers are including pre-manufactured parts and want to include this in the mortgage valuation of the client.
- There are also a number of discussions in relation to whether the National Valuation Standards should reference ESG criteria and the EU taxonomy.
- Finally the AEV standards need to be reviewed to align with IVS (31/01/2025).

- *South America – Eduardo Rottman*

- ER was absent so was unable to provide a market update for South America.

- *Middle East*

Paakow Winful

- TAQEEM are currently focussed on updating their manuals to embed IVS (31/01/2025).
- TAQEEM have also nearly completed their translation of IVS (31/01/2025) into Arabic.
- AA, HO and PW will be providing a presentation on IVS (31/01/2025) to Arabic speaking members of TAQEEM on the 22nd May 2024.

- In the Royal Kingdom of Saudi Arabia the commercial and residential market is continuing to heat up with a 10/15% price increase year on year particularly in Riyadh.
- The growth in Riyadh is largely due to government plans to double the population within the kingdom from 8million to 16 million in the next six years.
- There is also a push for growth in infrastructure to meet the needs of the projected population growth.
- Riyadh also has an ongoing green project for Riyadh and the government is also planning to construct the world's largest solar farm.

Ron Cohen-Seban

- In Israel the biggest influence on the market is the war but the market is improving now the war is winding down.
- The Israeli standards Institute want to formally adopt IVS in January 2025.

- *Asia/Oceania*

CK Lau

- In Hong Kong the market is quite slow due to high interest rates and there had been an increase in vacancy rates for offices.
- In China the market has also slowed down and there are not many transactions.
- In Singapore prices have increased and as a result there are not many transactions.
- In Japan the market has improved and there are a number of transactions taking place.
- In South Korea there has been increased interest in investment.

Leo Lo

- In Thailand the market is quite active particularly in relation to resorts where a number of investors are coming from China and Russia.
- In South Korea a number of projects are not performing well and are requiring bridging loans and are seeking foreign investors.
- In Singapore the new prime minister will be announced shortly and people are expecting that post-election there will be an increased focus on revitalising capital markets.
- In Singapore there is also an increasing number of valuation enquiries for IPO's and Merger and Acquisitions .

Sandip Kumar Deb

- In India there is an election in June this year and number of changes are expected which have affected current valuation activity.

- As part of this process a valuation bill is being considered by the Indian parliament and this is expected to be a historic moment , which will change the valuation scenario in India.
- In Bangladesh the banks have set up an initiative to empower valuers throughout the country as previously there were no panel valuers but in future a list of panel valuers will be maintained by the central bank of Bangladesh.

Kim Hildebrandt

- Interest rates are a prominent issue within Australia and though talks around interest rates have been regarding cuts, there were now discussions in relation to future interest rates increases.

Next steps

None.

Agenda Consultation

Agenda Consultation (2024.05.02. IVSC Agenda Consultation 2024 without track changes)

AA advised that the SRB was still in the process of reviewing the Agenda Consultation and would be discussing the Agenda Consultation at the next SRB physical meeting in London Between the 15th and 17th May.

AA further advised that there are the following three major valuation topics included in the Agenda Consultation:

- Environmental, Social and Governance (ESGs)
- Technology in Valuation
- Valuation Risk

AA advised that the SRB were still in discussion in relation to the prioritisation of topics, but the current prioritisations were as follows:

- Short term 0 to 2 years
- Medium Term 2 to 4 years
- Long Term 5 years plus

AA further advised that the current key topics were as follows:

Short Term Topics (0-2 years)

- Digital Assets
- Investigations and Evidence (Inspections)
- Internally Generated Intangible Assets
- Private vs Public Markets
- Prudential Value

Medium Term Topics (2-4 years)

- Agricultural and Plantation Land /Biological Assets
- Bases of Value
- Calibration
- Capital Structure Considerations
- Discounts and Premia
- Early-Stage Business Valuation
- Impairment of financial instruments
- Quality Control and Individual Valuer
- Transfer Pricing
- Valuation Reviews

Long Term Topics (5 years plus)

- Compulsory Purchase
- Funding Valuation Adjustments
- Insurance Valuations

AA requested draft TAB feedback by the 24th of May 2024.

AA also advised that he would be sending the TAB a revised agenda consultation post the SRB London Physical meeting and in advance of the next TAB meeting on the 12th of June 2024 for consideration and review.

Next steps

TAB to provide feedback to AA on the Agenda Consultation draft by the 24th of May 2024. AA to send a revised Agenda Consultation to the TAB in advance of the next SRB meeting for consideration and review.

Perspective Papers

IVSC Perspectives Paper on Inspection (2024.05.06. Draft IVSC TAB Perspectives Paper on Inspection without track changes)

The Board was advised that some IVSC VPO's had mandated physical inspections for the valuation of real estate assets.

The Board was further advised that the issue was raised at the Paris AGM when some VPO's had requested that IVS should include mandatory physical inspection within the IVS tangible asset standards.

The Board was also advised that the perspective paper provides an overview of different organisations standards in relation to site inspection.

The Board was informed that the perspective paper explores what site inspection actually means.

The Board was advised that the paper was sent to the SRB , BVB and FIB for consideration and review.

The Board was further advised that the TAB had received some minor comments from the BVB and IJ of the SRB and had made revisions, where appropriate.

The Board was also advised that the perspectives paper would be considered by the SRB during their London meeting for publication approval.

The Board was informed that the IVSC TAB Inspection working group had met recently and there had been some discussion in relation to the use of the word homogeneous and the Working group had revised this accordingly.

TAB generally discussed inspection requirements in different markets and noted that in the USA you can have restricted appraisal without site inspection.

The Board was further advised that the word "*hierarchy*" was removed and replaced with "*classification*" as the level of inspection required largely depended on the basis of value, the intended use and the terms of engagement etc. Further to discussions the Board agreed that the revised perspectives paper should be sent to the SRB for publication approval.

Next steps

AA to send the revised perspectives paper to the SRB for publication approval.

Perspectives Paper Update

- A. Prudential Value Perspectives Paper*
- B. Listed vs Unlisted Perspectives Paper*
- C. ESG and Plant Equipment and Infrastructure*

AA advised that AA and KH were still in the process of drafting the perspective papers on Prudential Value, Listed vs Unlisted and ESG and Plant, Equipment and Infrastructure and would share the draft perspective papers in due course.

AA further advised that KH and AA aimed to have the draft perspectives paper on prudential value completed in advance of the next TAB meeting.

Next steps

AA to share the draft perspective papers on Prudential Value with the TAB in advance of the next TAB meeting.

Discussion

Valuation Risk Discussion

- *Types of Valuation Risk*
- *Reasonable Range*

AA provided a brief overview on valuation risk and highlighted that this was an important topic for the Boards to discuss over the next few years.

AA further advised that this was a key topic within the IVS Agenda Consultation.

AA also advised that the SRB and the SRB Valuation Risk working group would be exploring different types of valuation risk such as precisions risk, resilience risk and governance risk.

TAB generally discussed the inclusion of reasonable range within IVS but noted that in many countries the level of acceptable valuation risk came from litigation and case law and court rulings.

CG advised that in addition to litigation valuation risk also related to PII (*Professional Indemnity Insurance*) and was handled under procedural risk. Furthermore many judges have different points of view in relation to valuation risk.

The TAB also noted that all basis of value were valuations at a point in time and so the concept of reasonable range was not applicable to bases of value though may be applicable to the inputs within a valuation.

Next steps

Valuation Risk and Reasonable range to be included as topic for discussion in the "Around the World Update of the next TAB conference call on 12 June 2024.

Administration

IVSC TAB Working Group (2024.05.06. IVSC TAB Working Groups)

- A. TAB MV and Prudential Value Working Group*
- B. TAB ESG Working Group*
- C. TAB Inspection Working Group*
- D. AI Working Group*

The new TAB members were asked to review the working group lists and to advise AA if they wished to be included in any working groups.

Next steps

TAB new members to review the existing TAB working groups and to advise AA if they wished to be included in any of the TAB working groups.

Stakeholder Engagement/Outreach (UPAV, European Mortgage Federation (EMF), Balkan Finance Forum, Bulgarian Chamber of Professional Valuers and TAQEEM)

AA advised that KH and AA were providing presentations on IVS (effective 31/01/2025) to the Balkan Finance Forum, Bulgarian Chamber of Professional Valuers, TAQEEM and UPAV over the next few weeks.

AA also advised that he would be attending the EMF meeting in Stockholm.

Next steps

None.

ESG Survey

AA advised that the EG survey for valuation advisers was closing on the 31st of May 2024.

AA asked TAB members to participate in the ESG survey and to share the ESG survey with relevant stakeholders.

AA further advised that an ESG survey report would be published later this year.

AA also advised that there would be future ESG surveys aimed at firms and investors to be published later this year.

Next steps

TAB members to participate in the ESG survey and to share the survey with relevant investors and stakeholders.

AOB

There was no other business raised by the TAB.

Next steps

None.