



Valuation of real estate assets for accounting purposes

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- IAS 16: Property, Plant and Equipment
Property (owner occupied) is initially recognised at cost. Subsequent to initial recognition, property is carried either at cost or at the revalued amount. The revalued amount is **Fair Value** at the date of revaluation
- IAS 36: Impairment of assets
Assessment of **Fair Value** as part of an impairment test
- IAS 40: Investment property
Investment property is land or buildings held to earn rentals or for capital appreciation or both. Investment property is initially held at cost. Subsequent to initial recognition, investment property is carried either at cost or **Fair Value**



Definition of Fair Value

Fair Value is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction



- **TEGoVA membership survey:**

Responses received from 16 countries confirm that the provision of valuation for accounting purposes already is or is becoming a significant business for most TEGoVA members. The vast majority apply Market Value as Fair Value

- **IAS 16, para 32:**

Fair Value of land and buildings is normally determined from market-based evidence

- **IAS 40, para 29:**

Fair Value of investment property shall reflect market conditions at the balance sheet date



- **Identified issues for discussion:**

- what happens if there is no market: application of replacement cost value ?
- how to deal with properties to be valued as a business unit: existing use value ?
- how to deal with highest and best use ?
- how to deal with speculative assets ?
- how to deal with loss making businesses ?
- how to deal with development potential ?

- **Missing conceptual framework of the Fair Value definition**

- Fair Value simply refers to an arms length exchange between willing parties and unlike Market Value, it does not have a conceptual framework
- Market value will normally be Fair Value but Fair Value needs not be Market Value



- IAS 40 Interpretation Rules offer a 3-level-approach
 - 1st level: market value of the property (requirements ?)
 - 2nd level: comparison value (value derived from market values of similar properties regarding location, use, age, size etc.)
 - 3rd level: appraisal value (valuation based on recognised valuation methods: value comparison approach, income capitalisation approach, cost approach and discounted cash flow)
- IASB announces further guidance on Fair Value measurement (on the basis of US FSAB)



TEGoVA's role

- liaise with IVSC regarding endorsement of International Valuation Application 1 'Valuation for Financial Reporting'
- consider forthcoming IASB guidance on Fair Value Measurement
- provide Blue Book guidance for the transposition of the Fair Value valuation requirements into the European valuation practice
 - how to deal with IASB's 3-level-approach in the daily business (market requirements, data availability, comparability, derivation of parameters etc)
 - how to deal with special properties and non-market situations
 - how to communicate with accountants and clients regarding the classification of the property into the different categories (IAS 2/5/16/40)