Singapore Institute of Surveyors and Valuers

SISV PRACTICE GUIDE (1/2018)
Dated: 25 June 2018

SISV PRACTICE GUIDE FOR VALUATION REPORTING for REITs, Listed Companies and Initial Public Offerings (IPOs) including inclusion in Prospectus and Circulars

A) PURPOSE

The purpose of this Practice Guide is to assist Valuers in the preparation of Valuation Reports for REITs, Listed Companies and Initial Public Offerings (IPOs). This is a supplement to the SISV Valuation Standards and Practice Guidelines on Valuation Report (REV 2.6 Valuation Report). It provides additional information that is required to be shown in compliance with Singapore Exchange (SGX) rules for Listed companies and REITs. The Guide also lists the information that should be obtained from Clients in order to assist in the valuation.

B) SCOPE

The scope covers not only for Valuation Reports of REITs, Listed Companies and Initial Public Offerings but also the Prospectus and Circulars. This Practice Guide is to be adopted for valuation reporting for the following Asset Class: Office/Retail/Industrial/Hotel/Hospitality and Development Site.

1) Prospectus and Circulars

The following requirements are for inclusion in Summary Letter and to be accompanied by individual Property's Valuation Certificate.

1.1 Summary Letter (SL) for Inclusion in Prospectus and Circulars

1.1.1 To clearly state name of the party(s) that has given instruction for the valuation.

1.1.2 Statement on Valuation Instruction. The Purpose and Material Date of Valuation must be stated in the SL.

1.1.3 Reference is to be made that a comprehensive valuation report has been prepared and that they are to be vested with the issuer or REIT or Trust Manager appointed for the portfolio.

1.1.4 Basis of Valuation

1.1.4.1 For the purpose of the Basis of Valuation, the valuation is prepared taking into consideration the SISV Valuation Standards and Practice Guidelines (2018), which is in compliance with the International Valuation Standards 2017 on the definition of Market Value.

1.1.4.2 In this section, Market Value is defined as *"Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an "arms-length" transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently, and without compulsion".*

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1.1.4.3 It is to be noted that the definition of Market Value used in the valuation, if different, should correlate materially with the definition as stated above, if otherwise a statement has to be made to that effect.

1.1.5 Brief Property Description

1.1.5.1 To include in the SL a tabulation of the pertinent property details, namely, tenure (in the case of leasehold property, to state the remaining lease term of the Property), land area, gross floor area and the net lettable area of the Property.

1.1.5.2 Tenancy Profile

To include in the SL, where possible, names of the major tenants (e.g. top 3 to 5 major tenants by lettable area), occupancy status of the Property and the average remaining lease term of the Property [i.e. Weighted Average Lease Expiry (WALE)].

1.1.6 Master Lease (ML) and/or Income Support (IS)

1.1.6.1 Master Lease: For disclosure, the following items are to be included in the SL:

a) For Master Lease, the SL is to state briefly the pertinent terms within the Master Lease Agreement; namely the Master Lease rent, the rent structure (eg gross, double net or triple net) and the basis of calculating the rent ie based on gross floor area or net lettable area; lease term and rent review structure.
b) Prevailing market rent, on similar rental structural basis, that is adopted in the valuation.
c) Comparable rent on similar rental structural basis. A sentence stating the range of comparable rent will suffice. Details of comparable rents to be included in the Valuation Report.
d) Rental growth projections adopted in the Discounted Cash Flow (DCF) analysis.
e) To disclose any significant capital expenditure (CP) forecast.
f) Any other assumptions adopted that may have a material impact on the valuation.

1.1.6.2 For properties with Income Support (IS), the SL to state:

a) The amount of the IS (with breakdown for each year if IS is provided for more than 1 year) and where possible, the brief description of the IS structure.
b) The Market Value of the Property with and without IS.

1.1.7 Valuation Rationale

1.1.7.1 The SL has to state the methodology(ies) adopted in deriving at the valuation and the reason for the choice of the methodology(ies). To include a brief description of each of the methodologies adopted; the pertinent assumptions and parameters adopted, namely, the capitalisation rate, discount rate, terminal yield and to provide an explanation on how these parameters are being derived and the assumptions or forecast made.

In addition, the Valuer has to state the rationale for the adopted value e.g. Where the adopted value is based on, say the weightage of 50% for each of the derived value from the two methodologies being adopted (refer to 2nd paragraph in Section 2.8 below).

1.1.8 Disclosure of pertinent factors and or parameters that have a significant impact on the value such as in cases where the Property is affected by land acquisition.

1.1.9 Summary of Values is to be provided in the SL where there is more than one property in the portfolio to be valued.

1.1.10 Opinion of Value of the Property is to be clearly stated and the Total Portfolio Value is to be provided where there is more than one property in the portfolio to be valued.

1.1.11 To include in the SL Statement on source of information; and

1.1.12 To include assumptions, disclaimers, limitations & qualifications.

1.2 Valuation Certificate which is required for the purpose of inclusion in Prospectus and Circulars

Valuation Certificate is to be provided for individual Property that is within the portfolio to be valued.

The Valuation Certificate (VC) should be designed to be a concise summary of the pertinent information that are contained within the Valuation Report. This is typically a one to two pages document.

The VC is to include the following:

i) Address of Property
ii) Name of Client
iii) Purpose of Valuation
iv) Interest to be valued e.g. whether the Property is to be valued based on freehold or leasehold interest or on the percentage equity stake; say e.g. 50% stake in the Property.
v) Basis of Valuation. e.g. the Market Value of the Property subject to existing tenancies and the occupational arrangements, Market Value which is based on "as-is" basis and/or Market Value to take into account the Master Lease Contract.
vi) Registered Owner. To include name of the registered owner of the Property as reflected in the registered Title document of the Property.
vii) Tenure of Property. If leasehold, to state the number of years of the leasehold, the commencement date and the remaining lease term as at date of valuation.
viii) Master Plan Zoning. To reflect the latest Master Plan zoning including the permissible plot ratio (where applicable) and to include information on the approved plot ratio where available.
ix) Brief Description of Property
x) Tenancy Profile. To include, where possible, the names of the major tenants (e.g. top 3 to 5 major tenants by lettable area); occupancy status and the WALE of the Property. If it is a Master Lease, the VC should summarise the pertinent terms within the Master Lease Agreement; namely, Master Lease rent, the rent structure (eg gross, double net or triple net) and the basis of calculating the rent ie based on gross floor area or net lettable area; lease term and rent review structure.
xi) Income Support. Where applicable, to state the pertinent terms of the income support and this should include the amount of the IS and duration of the IS.
xii) Gross Floor Area (GFA)
xiii) Net Lettable Area (NLA)
xiv) Valuation Approach. To state the valuation approach which has been adopted in arriving at the valuation. This should include the key approaches, namely, the Capitalisation Method, Discounted Cash Flow (DCF) Analysis, Direct Comparison Method and Residual Method which are typically adopted in the valuation.

xv) Date of Valuation. If date of valuation differs from date of report, the latter has to be clearly stated in the VC.
xvi) Assessed Value. In cases where the IS is provided, the VC to provide the following (1) Assessed value with IS and (2) Assessed Value without IS
xvii) Capitalisation Rate
xviii) Terminal Capitalisation Rate
xix) Discount Rate
xx) Market Value based on $psm/$psf Gross Floor Area (GFA)
xxi) Market Value based on $psm/$psf Net Lettable Area (NLA)
xxii) Assumptions, Disclaimers, Limitations & Qualifications – a summarised brief paragraph to be provided.

2) Valuation Report

The Valuation Report should be a document that provides comprehensive information for the reader to identify the Property being valued and to understand the financials related to the Property as well as the valuation methodologies, parameters and assumptions adopted in deriving the value of the Property.

Individual valuation firms are to design their own presentation format of the Valuation Report, Valuation Certificate and Executive Summary. The Valuation Certificate and Executive Summary should be enclosed at the front section of the Valuation Report and should contain pertinent information relating to the Property such that these two documents would allow a reader to have a good understanding of the facts of the Property and the valuation.

Comprehensive Valuation Report is to be prepared for each Property being valued and the following to be provided in the Valuation Report:

2.1 Valuation Certificate. This is to be provided in the same format as that described in Section 1.2 above.

2.2 Executive Summary. This is typically provided as a one-page summary which is designed to contain the pertinent financial and occupational property information which may include rental analysis, net lettable area analysis, lease expiry profile and other relevant information.

The Executive Summary is to contain the minimum information for disclosure as listed below:

i) Date of Valuation
ii) State the Valuation Approaches
iii) Adopted Market Value
iv) Adopted Market Value on a $psm and/or $psf basis
v) Capitalisation Rate
vi) Terminal Capitalisation Rate
vii) Discount Rate
viii) Initial Yield
ix) Weighted Average Lease Expiry (WALE)
x) Gross Income of the Property
xi) Net Income of the Property
xii) Operating Expenses
xiii) Property Management Fee
xiv) Property Tax
xv) Compounded rental growth rate over 5 years and 10 years as adopted in the DCF when this methodology is being adopted

xvi) Compounded Consumer Price Index over 5 years and 10 years as adopted in the DCF when this methodology is being adopted
xvii) Net Lettable Area breakdown for each asset class where applicable

2.3 Introduction

2.3.1 This section to include the following information:

i) Instructions
ii) Critical Assumptions
iii) GST Assumptions – Statements to qualify if the income and expenses adopted in the valuation are inclusive of GST or otherwise
iv) Extension of Liability & Confidentiality
v) Market Value definition
vi) Valuer's Interest
vii) Qualifications
viii) Limitations of Liability

2.4 Site Details

2.4.1 Location

To include a description of the locality and respective location of the Property including that of the surrounding developments and availability of public transport, amenities and/or facilities.

2.4.2 Site & Services

To include information relating to the sites and services of the Property

i) Configuration of the site
ii) Topography of the site:
iii) Site Area
iv) Street Frontages
v) Availability of Services which is to include provision of utility services
vi) Description of any site challenges that may have an impact on the value of the Property. This is to include flooding, site contamination or any hazardous items on site.

2.4.3 Legal Details

To include details of the legal information of the Property. A Valuation Report with a cover note advising that the "Title has not been fully searched and the valuation is on the basis that the Property is free from any encumbrances" is not sufficient for reporting. In the event that the relevant document is not available, it is important for the Valuer to provide some qualifications in the report.

The Valuation Report to entail the following:

i) Property details such as lot number of the Property and lease number or any related legal information for identification of the Property.
ii) Name of the Registered Owner(s)
iii) Easements & Encumbrances where information is available.

2.4.4 Town Planning & Statutory Assessments

i) Master Plan Zoning. To indicate the latest Master Plan (MP) zoning including the permissible plot ratio (where applicable) and to include any significant development controls within the zone such as plot ratio, height control and any other restrictive use of the land. Where available, the Valuer has to include information on the approved plot ratio.
ii) Annual Value of the Property
iii) Property Tax Rate
iv) Existing use. The Valuation Report has to state whether the existing use conforms to the MP zoning and "as-built" plot ratio (where the information is available).

v) Public Scheme. Where information of any public scheme is made available by the Client, the Valuer has to make comment on the impact of such public scheme. The public schemes may include
   a) Road Line Plan
   b) Drainage Interpretation Plan
   c) Railway Protection Plan
   d) Government Gazette Notification

2.5 Property Description

2.5.1 To include in the Valuation Report the following:

a) A general description of the Property which is to include information on Gross Floor Area (GFA), Net Lettable Area (NLA), design and the floor layout of the building.
b) Construction of the building and this is to entail a brief description of the method or material used for foundation, structure of the building, external/internal walls, floors, doors/windows and roof.
c) Internal finishes.
d) Services within the Property and this is to include air-conditioning, loading/unloading bay and car parks etc.
e) Condition & Repairs of the Property and this is to include the perceived state of repairs, including commentary on the immediate maintenance requirements where applicable.
f) Capital Expenditure items outstanding or required in near future if this information is made available by the Client.
g) Recent refurbishment or capital expenses programs that are underway or recently completed in the Property, of which the details are to be provided by the Client.

2.6 Occupational /Financial details.

2.6.1 To include in the Valuation Report a summary of the major and other tenancies including:

i) Expiry Profile
ii) Vacancy Rate
iii) Rental incentives including ongoing Lessor obligations where applicable.
iv) Tenant mix & profile (this is applicable to retail property).
v) Graphical representation of lease expiry (on floor area basis) from date of valuation.
vi) Commentary on the Property's WALE by income and by area.
vii) Where appropriate, to include major tenants' details such as floor level, floor area occupied; rental contribution as a percentage of total income and lease expiry dates.
viii) Where information has been made available, the Valuer is required to make (a) a full commentary on any clauses that are considered to be onerous and/or unusual within a commercial lease for premises such as the Property and their effect on the Market Value and (b) whether the assignment clause contained within the lease removes the ongoing Assignor's liability (if this is applicable).
ix) Outgoings –To provide the adopted outgoings expenses and where available the current year forecast/budget outgoings. Outgoings expenses to be itemised and where possible group them into broad categories. These should include utilities, repairs & maintenance, cleaning (e.g. cleaning services, garbage removal), staff cost, insurance, marketing cost and any other costs related to the operation of the Property.
x) For Property with Master Lease Agreement, the Valuer has to provide details of the pertinent terms within the Master Lease Agreement; namely the Master Lease rent, the rent structure (eg gross, double net or triple net) and the basis of calculating the rent ie based on gross floor area or net lettable area; lease term and rent review structure. In addition, the Valuer has to give an opinion on whether the contracted Master Lease rent as at the date of valuation is considered to be at market level or otherwise. The Valuer has to indicate in the report the market rent adopted (as opined by the Valuer) in the valuation.

xi) Income Support – The Valuer, where applicable, has to state in the report the pertinent terms of the Income Support and this should include the amount and duration of the income support and to state if the rental, taking into account the Income Support, is at market level.

2.7 Market Commentary

2.7.1 Individual valuation firm has to decide on the information to be provided in the Market Commentary after discussing with the Client. It is generally required for the Valuation Report to include a brief overview of the market (either general market overview or specific to the asset class that the Valuer is valuing); demand and supply and market outlook of the asset class that is being valued.

2.7.2 Sales Evidence

The Valuer has to provide in the Valuation Report the sales evidence, where the information is available and appropriate, within the report. The Valuer has to make sure that information provided is not subjected to any confidentiality agreement that has been signed with the Client nor is this sensitive information that is not normally available publicly:

i) Sales Date
ii) Sales Price
iii) Tenure
iv) Land/Floor Area (GFA and/or NLA)
v) Brief description of the Comparable properties
vi) Occupancy, if available
vii) Passing Net Operating Income if available
viii) Initial Yield if available
ix) Capitalisation Rate,if this has been reported
x) Discount Rate, if this has been reported
xi) Sales price In $psm/$psf

2.8 Valuation Rationale

The valuation of the Property must be based on one or more of the recognized and approved methodologies, namely the Discounted Cash Flow (DCF) Analysis, the Capitalisation Method, the Direct Comparison Method or Cost Approach and in the case of development site, the Residual Method.

With the global adoption of the IVS 2017, where more than one or two valuation methods are adopted in the valuation, Valuers are to use computation by weightage (100% weight of one method or to state the percentage weightage e.g.50% / 50%, when there are two methods) and not the averages of the methods adopted.

For DCF and Capitalisation Method, full disclosure of all calculations performed must be provided and the rationale adopted for any assumptions used, should also be detailed and assessed as reasonable, in arriving at the Market Value.

2.8.1 Capitalisation Method

2.8.1.1 In presenting the Capitalisation Method, the full calculation has to be shown clearly.

2.8.1.2 In undertaking the Capitalisation Method, the Valuer is required to consider the impact of the passing rent and the market rent as at date of valuation. The Valuer is required to opine and make appropriate adjustments for leases within the Property that are under or over rented as at the date of valuation, and appropriate reversionary rental adjustments are to be made.

2.8.1.3 Allowance for Capital Expenditure

2.8.2 Discounted Cash Flow (DCF) Analysis

2.8.2.1 For a proper DCF Analysis to be undertaken, the Valuer is strongly advised to model the DCF Analysis on a lease by lease basis as this allows the contractual terms and expiry of each lease to be taken into consideration. Otherwise the analysis may not be meaningful.

2.8.2.2 In presenting a summary of the DCF Analysis, the following items are to be shown or described clearly:

i) Annual summation of rental cashflows over the investment horizon.
ii) Annual summation of other income generated by the Property.
iii) Annual summation of recoverable and non-recoverable outgoings over the investment horizon.
iv) Annual summation of other property related outgoings and this should include ground rent, MCST service charges, sinking fund and any other property related costs.
v) Forecast capital expenditure per annum.
vi) Annual summation of net cashflows.
vii) Present value (PV) of the net cashflows (including separate assessment of the terminal value).
viii) Terminal Capitalisation Rate(s) and discount rate(s) utilized.
ix) Annual rental growth rates utilized and compound 5 & 10-year rental growth rates.
x) Annual Sundry & Other Income growth rates.
xi) Annual Consumer Price Index adopted.
xii) Annual outgoing expense growth rates.
xiii) Annual vacancy rate.
xiv) Acquisition and selling costs.

2.8.3 Direct Comparison Method

2.8.3.1 To provide the list and pertinent details (such as sales date, sales price, sales price on a $psm or $psf basis, land area, GFA and/or NLA, tenure and for leasehold properties to indicate the remaining lease term from sales date) of comparable properties adopted in deriving the value of the Property. Where possible, the Valuer is encouraged to provide brief description of the comparable properties adopted in deriving the value of the Property.

2.8.4 Residual Method

2.8.4.1 To denote the source of information adopted in the residual calculation, where possible. This should include the estimated construction cost as advised by the Client. The Valuer has to state clearly the assumptions adopted for the various parameters within the residual calculations. This should include the percentage efficiency adopted to derive the lettable or saleable floor area (if this is not provided by the Client), assumption on financing of construction and other related costs.

2.9 Summary of Concluded Value

2.9.1 To set out clearly the value of the Property which has been derived from each of the adopted methodologies in the Valuation Report. The concluded value and concluded value in terms of $psm and/or $psf has to be clearly stated in the Valuation Report.

2.9.2 Where the scope of work requires the Replacement Value or Fire Insurance Value to be reported, the Valuer has to clearly set out in the report the Replacement or Fire Insurance Value. It is optional to provide the calculation and rationale in arriving at the Replacement or Fire Insurance Value Unless it is part of the scope of work.

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2.10 Appendices

2.10.1 The Valuer has to decide on the information to be provided in the Appendices of the Valuation Report namely:

i) Photographs of the Property
ii) All calculations and analyses requested (depending on the format of the Valuation Report)
iii) Site Plan
iv) Floor Plans (if available)
v) Certificate of Title (when instructed)
vi) Location Map
vii) Relevant authority development approvals (if applicable)

C) INFORMATION REQUEST LIST

In tandem with the requirement for a comprehensive valuation reporting, the Guide also provides guidance on the information required, via the Information Request List, which is to be provided by the Client.

The Information Request List is required for the valuation of Property of the following Asset Class: Office, Retail, Industrial, Hotel, and Hospitality.

a) Property Details

i) Address of the Property to be valued including the lot number, Mukim/Town Subdivision, and strata lot number where applicable.
ii) Completion date of the Property – where possible this should include copy of the Temporary Occupation License (TOL) or Certificate of Statutory Completion (CSC).
iii) Site Layout and full set of Architecture Floor Plans.
iv) Gross Floor Area (GFA) and where applicable and if available, the breakdown by use category.
v) Number of car park lots.
vi) Brief specification of finishes.
vii) If leasehold, copy of the land lease or JTC/HDB Lease Agreement where applicable.
viii) Annual Value of the Property.
ix) JTC/HDB Land Rent bill.

b) Tenancy & Related Information

i) Detailed Rent-roll (in soft copy excel format with details such as unit number, tenant's name, trade category/tenant type, leased floor area, gross rent, service charge, lease term (number of years), option term, commencement date, expiry date and salient terms (this should include step rent, rent review clauses, incentives, fitting-out reimbursement and other related items) of each tenancy. For retail properties, to include terms of percentage rent and advertising & promotion contribution where applicable. The rent roll is to include vacant units where applicable.
ii) Occupancy Rates: Current and historical 3 to 5 years where available;
iii) Master Lease Arrangement – to provide pertinent information including lease and rental structure, floor area to be leased/floor area whereby rent is computed, rent review, step rent and related items where applicable.
iv) Income Support – to provide pertinent details of the structure. This should include the amount of income support (yearly, if applicable) and period of support.
v) Lease abstracts – to highlight any key terms within the leases of the Property that may impact the rental. (this should refer to pertinent terms other than those provided in item (i) above)
vi) Operating Expenses – to provide Year-To-date (YTD) operating expenses, budget/forecast for current year of valuation and actual for last three years. Details of major components (including utilities, repairs and maintenance, cleaning/garbage disposal, insurance, security, marketing expenses including advertising & promotion cost, commission, administrative cost, staff cost, car park operating expenses, property tax and property management fee along with any other costs not detailed above; and MCST service charge and sinking fund (where applicable) are to be provided. Operating Expenses should be recurring items and to highlight "one-off" expense/items where applicable.

vii) Other income components (YTD, budget/forecast for current year of valuation and actual for last three years) including details on turnover rent, car park income, sundry income such as kiosks, telecommunication facilities, banner space, advertising panels, and related income. Other income items should be recurring and to highlight "one-off" income where applicable.

viii) For retail tenancies, contracted sales turnover terms for tenants with turnover rent arrangement.

ix) Property and lease management fee structure.

c) Capital Expenditure

i) Capital Expenditure forecast for current year and the following 3 to 5 years where available. To disclose any significant capex forecast and/or other assumptions that may have an impact on valuation.

ii) Brief description of asset enhancement works/major renovation carried out for the last 5 years.

d) Asset Enhancement initiative (AEI)

i) Affected AEI areas in existing development – to provide plans demarcating the space affected by the proposed AEI area and floor area of space affected by the AEI. If AEI is carried out in phases, Client to advise accordingly.

ii) To provide the proposed new layout plan and floor area upon completion of AEI.

iii) The proposed start and completion dates of the AEI. If AEI is carried out in phases, it is to be advised accordingly

iv) List of existing tenants/units affected by the AEI including details/terms of pre-termination (this should include pre-termination date, compensation and other related information) if applicable.

v) Information on targeted handover and lease commencement and leasing details (lease term, rental arrangements) for new AEI units.

vi) Proposed/budgeted capex outlay for AEI and expected period to incur the capex.

e) Additional Information for Hotel/Hospitality Property

i) Room details – This should include the number of rooms, number of rooms by type (singles, doubles, suites) and size of rooms.

ii) Food and beverage facilities – Number of outlets, Area of each outlet and seating capabilities.

iii) Conference and meeting facilities – Size and number of rooms.

iv) Public area details – this should include size of reception, size and number of shops.

v) Other facilities – This should include swimming pools, tennis courts, gym, spa, grounds and other recreational facilities.

vi) Details of the management structure of the hotel and if it is leased, the pertinent lease details.

vii) Historic actual annual management accounts in the Uniform System of Accounts format for the hotel since opening.

viii) Current year actual trading details as well as budget and forecast figures and the budget for the forthcoming year, if available.

ix) Latest monthly manager's report for the hotel as at date of valuation.

x) Competitor trading analysis, if available.

xi) Average Daily Rates and Occupancy details on a monthly basis for the same period as the management accounts for the past 3 to 5 years.

xii) Source of business by geography and type of business.

xiii) Existing marketing materials.

f) Development Site

i) Outline Planning Permission/Provisional Planning Permission/Written Permission.
ii) Full set of proposed development floor plans where available
iii) Contracted/estimated development cost (with breakdown for construction cost, professional fees, contingency and related costs).
iv) Estimated construction period, commencement date of construction and proposed date of completion.
v) Proposed net lettable area within the proposed development (to provide breakdown if there are more than one use component).

g) Others

i) Contact for arrangement of site inspection and for retail and hotel/hospitality property, discussions with Centre Manager and General Manager respectively.
ii) To make arrangement for Valuer to sight the summary of mechanical and electrical services report.