

## New National President for Institute

**MR CLYDE EASTAUGH** was elected National President of the Australian Property Institute at the association's Annual General Meeting in Launceston on Friday 28 May 2004.

Mr Eastaugh brings nearly 40 years of experience in property to the role of National President of API. He has both practical and technical experience in the areas of real estate and town planning, including project and development work.

He is currently the Director of a Tasmanian company based in Devonport, specialising in business and financial consulting, town planning, real estate valuation, property feasibility and development. Mr Eastaugh has been actively involved with API as a Divisional member in Tasmania and also as National Councillor and Senior Vice-President and Chairman of the National Education Board and National Membership Board.

"The API has had a busy past-year, particularly with the recent referendum to vote on a closer alignment with the Royal Institute of Chartered Surveyors, so I think it's a good time for API to concentrate on its primary stake holders – its members," Mr Eastaugh said.

"The API National Strategic Plan is firmly committed to delivering significant and valuable services to its members in the areas of education, communication and professionalism. Through consolidation API will achieve these objectives and continue to grow while positioning itself as the premier property professional organisation in Australia" said Mr Eastaugh. "My focus as National President will be on API's members and on promoting the professional credibility of membership."



Mr Clyde Eastaugh, incoming National President, presents Mike Collins, immediate Past-National President, with the National President's Certificate for his service to API throughout the past year at the API AGM in May 2004.



API National Councillors: From left to right: Mike Collins, Barry Brakey, Marcia Bowden, Clyde Eastaugh, David Eades, Ric Lohmeyer, Greg Preston, John McNamara.

## Thrills, Spills and Adventure in Property

The first joint New Zealand Property Institute/Australian Property Institute Conference

**THERE IS LESS** than a month left to register for the NZPI/API joint conference *Thrills, Spills and Adventure in Property*. The conference will be held between 22–23 July 2004 in Queenstown, New Zealand. Please book your accommodation as soon as possible because July is a busy time of year for this destination.

The Millennium Hotel is already fully booked, however, accommodation is available at the Copthorne Hotel and Rydes Hotel at conference rates.

Sessions are also filling fast and there is only a limited capacity to duplicate sessions, so book your session timetable early to avoid disappointment.

For information about the conference or to download a registration form visit the API national website at:  
<http://www.propertyinstitute.com.au/pdf/nzregistration.pdf>

Or contact Jenny Houdalakis at NZ/API Property Institute Conference, Telephone: 0011+64+4384 7094

# API members vote against closer RICS alliance

**THE API-RICS REFERENDUM** on whether the Institute should investigate a closer alliance with the Royal Institute of Chartered Surveyors (RICS) resulted in a ‘no’ vote at the end of counting in May this year.

The referendum question put to members, “Should the API proceed with the API-RICS Memorandum of Agreement?” was resolved in the negative, with 61 per cent of API members voting against the proposal and 39 per cent voting in its favour.

The API-RICS Memorandum of Agreement (MOA) had established a structured dialogue between API and RICS in Australia to investigate and report on the benefits of closer cooperation, including the possible unification or merger of the two organisations in Australia.

The MOA was signed by API last year on the basis that a process of consultation would occur within API to confirm support for the alliance. This support was sought from the national membership by way of referendum.

Mr Mike Collins, API’s National President at the time the referendum took place said, “API members voted against the Memorandum of Agreement and do not want the Institute to proceed with it. Accordingly, API will now take the necessary steps to formally terminate the Memorandum of Agreement with RICS and the Institute will not engage in any further discussions with RICS on this matter.”

“In light of the referendum result, the API will also need to review its relationship with the RICS,” Mr Collins said. “The

continuing energy devoted by the Institute to international property affairs demonstrates the desire of the API to be forward thinking and the place, role, identity and influence of the Institute in the broader professional property market place.”

“It is vital that the Institute continues to regularly engage with kindred organisations on the international front, and in this context it will be important for the Institute to continue to engage with the RICS as an important and closely regarded colleague in the international property profession matters, as well as a competitor organisation in Australia, and an important player in the Australian property market. However, this will be done in a manner which is consistent with the referendum outcome”, Mr Collins said.

## API-RICS referendum results across API State & Territory Divisions

Division	Yes	%	No	%	Total
ACT	32	60.4	21	39.6	53
NSW	191	15.2	1067	84.8	1258
QLD	236	56.2	184	43.8	420
SA	99	61.5	62	38.5	161
TAS	11	39.3	17	60.7	28
VIC	270	70.5	113	29.5	383
WA	138	65.7	72	34.3	210
Nationally	977	38.9	1536	61.1	2513

## PropertyPro Version 2

**PROPERTYPRO VERSION 2** has been available to API members since March 2004. A member user group has tested the new version to ensure it meets user needs and expectation and standards, however this thorough testing uncovered a few unforeseen ‘bugs’ in the program which are currently being rectified.

It is anticipated that a web enabled version of PropertyPro Version 2 will be available to members soon.

To ensure you receive your software as soon as possible visit the API website for an order form.

Order forms can be downloaded from the API national website at:  
<http://www.propertyinstitute.com.au>

Fax the completed order form to  
API National Office on:  
Facsimile 02 6285 2194.

PropertyPro is a valuation software tool that was designed solely for the purpose of Residential Mortgage Security Valuation only and no other use.

It is the Institute’s view that valuers completing valuations other than residential valuation on PropertyPro reports are not indicating clearly their instructions, nor correctly describing the purpose of the report, both fundamental requirements of valuations. Most valuers are also required to do this to satisfy their professional indemnity insurance obligations.

Similarly, recipients of the PropertyPro Residential Valuation and Security Assessment report other than Lenders, would not be aware of the detailed assumptions and methodology that the PropertyPro Supporting Memorandum details or the narrow focus of the report. This could easily result in decisions being made, by those seeking independent advice to assist significant real estate matters, based on incorrect valuation information.

Institute members who are found to have used the PropertyPro Residential Valuation and Security Report for work other than residential mortgage valuations may be in breach of the Institute’s Rules of Conduct and Code of Ethics and may therefore be subject to disciplinary measures.

# Valuations for Financial Reporting Purposes Seminar



**API'S PROFESSIONAL EDUCATION PROGRAM** is conducting state-by-state seminars on "Valuations for Financial Reporting Purposes" designed specifically for API members. The seminars are aimed at informing and preparing API members for the important changes to International Accounting Standards that will take effect in January 2005.

## Revision of International Valuation Standards

The implementation of changes to International Accounting Standards has resulted in a significant revision of International Valuation Standards for financial reporting purposes.

There is an international move towards "fair value" accounting and the valuation profession has been working hard to assimilate fair value into its principles and practice. Valuation methodologies are being refined and the emphasis, more than ever is on market linkage.

The API Financial Reporting Standard recognises the International Valuation Standards 1 and 2, and the International Valuation Applications 1 and 2 as determined by the International Valuation Standards Committee (IVSC).

## Significance of changes to API members

API Members undertaking property and related assets valuations for financial reporting purposes are required to treat those assets in a consistent manner and to conform with the requirements of the Corporations Law, Australian Accounting Standards, Statements of Accounting Concepts, and where applicable circulars from the Insurance and Superannuation Commission.

## Presenter

Robert Connolly, Bolton Connolly Pty Limited. Mr Robert Connolly will review the effects of the changes to International Accounting and Valuation Standards and address issues relating to valuations for financial reporting purposes, commonly referred to by valuers as "asset valuations".

**Seminars will commence in August and travel to different states throughout the year.**

**To confirm your place at the "Valuations for Financial Reporting Purposes" seminar contact your local API Division:**

API-Queensland Division – 9 September 2004 (TBC). Tel: 07 3832 3139.  
 API-Tasmania Division – 10 September 2004 (TBC). Tel: 03 6234 6511.  
 API-ACT Division – Date TBA. Tel: 02 6282 5541  
 API-NSW Division – Date TBA. Tel: 02 9299 1811  
 API-SA Division – Date TBA. Tel: 08 8431 9411  
 API-VIC Division – Date TBA. Tel: 03 9646 1977  
 API-WA Division – Date TBA. Tel: 08 9474 2784

**For more information about this seminar and other API National Professional Education initiatives contact:**

Sally Allen  
 National Professional Education Program Director,  
 Australian Property Institute – National Office  
 Tel: 02 6282 2411  
 Email: sally.allen@propertyinstitute.com.au



## Technical Alert No. 1, 2004

**MEMBERS ARE ADVISED** that following a recommendation from the National Professional Board, and approval by the Australian Valuation & Property Standards Board, National Council has adopted the International Valuation Standards Committee's global valuation standards as overarching standards for Australia.

As such, all future valuation Practice Standards and Guidance Notes issued by the Australian Property Institute will focus on addressing those areas where Australian law, custom or valuation practice differs from the International Standard or where additional information is required.

Members are also advised that the Australian Government is in the process of harmonising the Australian Accounting Standards with International Accounting Standards. At the same time International Valuation Standards are being harmonised with International Accounting Standards.

This will have a direct impact on valuers in Australia, particularly in relation to the valuation of fixed assets for financial reporting purposes, which is to be covered in International Accounting Standard 16 relating to *Property, Plant and Equipment* and the corresponding Australian Accounting Standards Board AASB 116 *Property, Plant and Equipment*.

Members are advised that the new accounting standard AASB 116 *Property, Plant and Equipment* will apply for annual financial reporting periods beginning on or after 1 January 2005.

This means that valuers undertaking the valuation of assets for financial reporting purposes for the annual reporting period ending 30 June 2004, 31 December 2004 and 30 June 2005 will still utilise the existing accounting standards. Valuers undertaking the valuation of assets for financial reporting purposes for the annual reporting period ending 31 December 2005 and 30 June 2006 (and beyond) will need to utilise the new accounting standards. However,

Clients may seek early advice on the standard in preparation for the changes. Some publicly listed companies may choose to note accounts earlier for disclosure reasons.

Please note that AASB 116 *Property, Plant and Equipment* currently has the status of a "Pending Standard" and it is the AASB's intention that it be formally made as an Accounting Standard in July or August of this year.

Following its formal adoption, the new AASB 116 *Property, Plant and Equipment* will supersede the following accounting standards;

- ♦ AASB 1015 and AAS 21 *Acquisitions of Assets* (as it applies to the initial measurement of property, plant and equipment),
- ♦ AASB 1021 and AAS 4 *Depreciation*, and
- ♦ AASB 1041 *Revaluation of Non-Current Assets*.

Further information is available on the AASB website at: [www.aasb.com.au](http://www.aasb.com.au)

## API & NZPI Professional Practice 4th Edition

**PROFESSIONAL PRACTICE 4TH EDITION** is the first joint Australian Property Institute (API) and New Zealand Property Institute (NZPI) practice publication and manual. The publication represents the Australian Property Institute's and the New Zealand Property Institute's professional practice guidelines.

The purpose of *Professional Practice* is to present for the benefit of API and NZPI members, and their clients, information that will impact in varying ways. The text seeks to clearly assert practice requirements, to guide where warranted, and to enhance the services provided by the Institutes to their members and by members to their clients.

The fourth edition of *Professional Practice* includes the different codes, rules and standards considered appropriate for a variety of situations. It defines, clarifies and provides a basic understanding of property-related concepts and principles while providing guidance to members on a wide range of topics. Both members and their clients will benefit from the business related information contained in this

manual, which has been designed to promote effective communication, and to give practical advice and solutions to problems.

*Professional Practice* contains comprehensive chapters dedicated to:

- ♦ Ethics and Conduct of Members
- ♦ Client Focus
- ♦ IVSC Valuation Standards
- ♦ International Valuation Applications
- ♦ API & NZPI Practice Standards
- ♦ API & NZPI Guidance Notes
- ♦ Business Focus
- ♦ Valuation Proforma

To obtain the latest copy of *Professional Practice* telephone API on 02 6282 2411 or visit the website for an order form at <http://www.propertyinstitute.com.au/publications/professionalpractice/professionalpractice.html>

## 22nd Pan Pacific Congress of Real Estate Appraisers, Valuers & Counsellors

**THE 22nd PAN PACIFIC CONGRESS** of Real Estate Appraisers, Valuers and Counsellors will be held in Taipei from 18–20 October 2004. The Congress will bring together leaders in the field of property valuation from the Pan Pacific area to exchange their experiences.

The theme for the congress will be “Trends in restructuring of real estate in an economy in transition”.

For more information or if you would like to submit a paper visit ‘Conferences’ on the API national website at:

<http://www.propertyinstitute.com.au>

## Professional Standards Bill Amendments

**THE TREASURY LEGISLATION** Amendments (Professional Standards) Bill was passed in the Senate on 25 June 2004.

This Bill amends the Trade Practices Act 1974, the Australian Securities and Investments Commission Act 2001 and the Corporations Act 2001, to bring them into line with the State laws on professional standards.

Currently professional standards legislation is in place in NSW, WA and Victoria, and is under consideration or development in other States or development in other States and the Northern Territory.

These amendments to the Federal legislation are a significant development, which paves the way for the API to move forward with its applications for a professional indemnity capped liability scheme for its members.

## International Standards IAS 17 and IAS 40

### IAS 17 Leases

The simple valuer’s guide to the revised standard published December 2003

<b>What’s it about?</b>	Treatment of leased assets in accounts
Scope	Sets out standards for treatment by both leases and lessors
Classification of Leases	Leases have to be classified as either Operating Leases or Finance Leases. Different treatments apply to each classification. Special rules apply to leases of land and buildings.
Measurement of Leases	Different measurement rules apply for lessees and lessors.  Finance leases have to be recognised on balance sheet of lessee. Where lessor grants a financial Lease, it amounts to an effective disposal.  Operating Leases are accounted for in P&L statement of lessee. Lessors include assets subject to Operating Leases in balance sheet according to nature of asset.
<b>Exclusions</b>	Investment property, (except to the extent that its provisions are applied by IAS 40), biological assets, mineral assets, leases of copyrights and by other intellectual property.  The standard requires consideration of the substance of transaction, not the legal form of contract or whether title is passed. Consequently a hire purchase or similar agreement is a lease under IAS 17. On the other hand, because land and buildings are regarded as separate assets for accounting purposes, buildings and improvements on leased land may not necessarily be regarded as leased assets, even though legally they form part of the leasehold estate.
<b>Notes on Classification</b>	
Definitions	A finance Lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset from a lessor to lessee. Title may or may not eventually be transferred.  An operating Lease is a lease other than a finance lease.
Land and buildings	When classifying a lease of land and buildings, the land and buildings elements are considered separately. As land normally has indefinite economic life, leases of land are deemed to be Operating

*IAS 17 Leases continued*

Leases, regardless of length, as the eventual reversion to the lessor means that there is never a transfer of substantially the whole of the risk and rewards.

For this reason IAS 17 requires apportionment of a lease of land and buildings between two elements **at inception of the lease**. The minimum lease payments are allocated between the land and building elements in proportion to the relative fair values of the leasehold interests in the land and buildings elements. The building element is then classified as an Operating or Finance Lease by applying the classification criteria in the standard. (see below)

If the payments cannot be allocated reliably between land and buildings, the whole lease is classified as a Finance Lease unless it is clear that both elements are Operating Leases, in which case the whole lease is classified as an Operating Lease.

Apportionment is **NOT** required in relation to investment property being accounted for as though it were a Finance Lease under IAS 40.

## Tests to determine if Finance Lease:

The following criteria are used to determine if the lease is a Finance

Lease. In the case of a lease of land and buildings it is applied to the building element, unless this cannot be reliably separated, see above.

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset on advantageous terms;
- (c) the lease term is for the major part of the economic life of the asset even if the title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payment accounts to at least substantially all of the fair value of the leased asset;
- (e) the leased assets are of such specialised nature that only the lessee can use them without major modifications;
- (f) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- (g) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee.
- (h) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

If any of these criteria are not met then lease is an Operating Lease. In the case of the building element of property leases, the effect of test (d) suggests that short leases will usually be Operating Leases and long leases Financial Leases, although number of years at which classification change occurs will depend upon the discount rate (yield) used to capitalise the minimum lease payments at the lease inception. However, a contingent rent or regular upward only rent reviews is also indicative of an Operating Lease, as this prevents the transfer of substantially all the risks and rewards of ownership to the lessee (the growth risk stays with the lessor).

Because many long leases have upward only rent review clauses, the building element of most property leases will be Operating Leases; Finance leases will generally arise only where the lease is clearly designed as a way of funding the eventual purchase of the property outright by the lessee.

## Effect of change

Current UK Standard (SSAP 21) has guidance that if PV of minimum lease payments amounts to 90% of fair value of asset, it will be Finance Lease. IAS 17 relies just on the "substantially all" test. Unlikely to make much difference in practice.

SSAP 21 does not require a land/building apportionment. Apportionment will reduce PV of the future rent liability for the buildings element relative to fair value of the whole, meaning that some property previously classified as Finance Lease under the 90/10 guidance in UK GAAP may now be classified as Operating Lease under IAS 17.

## Implications for Valuers

Can expect to be asked to provide an allocation of the initial rent between the land and buildings element, or to advise whether such an allocation can be reliably made.

Further advice may also be required to assist client in determining whether either the buildings element, of the lease of the whole where no allocation is possible, is either a Finance Lease or an Operating Lease by applying the tests to determine whether substantially all the risks and rewards of ownership are transferred to the lessee.

*IAS 17 Leases continued***Notes on Measurement**

Lessees- Finance Leases	<p>Lessees shall initially recognise Finance Leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset. Any amount paid by the lessee to acquire the lease is regarded as commuted rent and forms part of the calculation of the present value of the minimum lease payments.</p> <p>The substance and financial reality of a Finance Lease is that the lessee acquires the economic benefits of the use of leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, to the fair value of the asset and the related finance charge. IAS 17 requires both the benefits and the liability to be reflected in the balance sheet.</p>
Implications for Valuers	Although valuers should always report the current MV of the leasehold interest, to assist the client in the preparation of financial statements input may additionally be required on the present value of the minimum lease payments at the commencement of the lease.
Lessees-Operating Leases	Rental payments are accounted for in the lessees P&L account on a straight line basis, with certain disclosures.
Implications for Valuers	Valuers will rarely be required to have any input into the way in which Operating Leases are reported by lessees, except in the case of Operating Leases of Investment Property, which IAS 40 requires to be accounted for as though they were Finance leases under IAS 17 (see above).
Lessors- Finance Leases	A lessor recognises its interest in a Financial lease in the balance sheet based on the value of the lessor's investment in the lease, with certain disclosures.
Implications for Valuers	The value of the lessor's investment will be the PV of any income receivable. Valuers will recognise this as normally being the current market value of the lessor's interest in the asset. A feature of a Finance Lease is that there will not normally be a significant residual (reversionary) value accruing to the lessor.
Lessors-Operating Leases	Lessors shall present assets subject to Operating Leases in their balance sheets according to the nature of the asset, subject to disclosures.
Implications for Valuers	The value of the lessor's investment will be the PV of the income receivable and the residual value accruing to the lessor at the end of the lease term. Valuers will recognise this as normally being the current Market Value of the lessor's interest in the asset.

**IAS 40 Investment Property**

The simple valuer's guide to the revised standard published December 2003

**What's it about?**

**Treatment** of freehold and leasehold Investment Property in company accounts.

**Scope**

Investment Property is defined as property (land or a building- or part of a building- or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes
- (b) sale in the ordinary course of business.

It also applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease.

**Measurement of Investment Property**

Freehold investment property is initially measured at cost.

Subsequent recognition is at either cost less accumulated depreciation or at fair value. Once fair value model adopted it must continue to be used until the property ceases to be an investment property. If cost model is adopted, fair value still must be disclosed.

**IAS 40 Investment Property continued**

Investment property held under an Operating Lease is accounted for in Financial Statements of a lessee as though it were a Finance Lease in accordance with IAS 17.

**Exclusions**

Biological assets, mineral assets, recognition of lease income from investment property, measurement in a lessor's financial statements of its net investment in a finance lease, accounting for sale and lease back transactions.

Land and buildings held for sale or development, which are classified as inventory and accounted for under IAS 2.

**Notes on measurement**

**Fair Value (Freehold Property)** The "Fair value model" in the standard describes fair value in its context in very similar terms to Market Value and its supporting commentary in IVS (and RIC Red Book). For all practical purposes connected with this part of the standard they can be regarded as synonymous.

**Fair Value (Leasehold Property)**

IAS 17 rules on classification and allocation between land and building's element do not apply to investment property. Most leasehold investment property will be an Operating Lease in the hands of the lessee, but IAS 40 requires it to be accounted for as long as though it were a Finance Lease in accordance with IAS 17, thus requiring it to be recognised on balance sheet at the lower of the fair value of the asset or the PV of the minimum lease payments. However, IAS 40 modifies this to make it clear that firstly, the fair value of the asset relates to the value of the leasehold interest, not the underlying value of the property, and, secondly that any premium paid for the lease is treated as part of the minimum lease payments, to be included in the cost of the asset but excluded from the calculation of the liability.

IAS 17 also requires the economic benefits and liabilities at the inception of a Finance Lease to be separately stated. However, this is modified by IAS 40, which acknowledges that the fair value of an investment property held under a lease will reflect expected cash flows over the life of the lease, net of outgoing rent and other liabilities. Accordingly, it provides for the adding back of the recognised liability for future rental payments to a valuation obtained of the leasehold interest in order to arrive at the fair value of the investment property for accounting purposes under IAS 17. This is then balanced by a liability for the same amount in the balance sheet.

**Impact of changed valuation**

Revaluation gains and losses are reflected in the investor's P&L account. This differs from UK GAAP (SSAP 19), where revaluation gains and losses are disclosed as movement in investment valuation reserve.

**Implications for valuers**

For freehold property there is no change from the previous IAS 40 – it is valued at Market Value.

Although the rules on the inclusion and treatment of investment property are all new, from the valuer's perspective the Market Value of the leasehold interest is still the figure that should be reported. However, additional input may be required to help assess the present value of the minimum lease payments at the inception of the lease, and to confirm explicitly the anticipated future liabilities reflected in the Market Value.

The standard encourages the use of independent qualified valuer to determine fair value but this is not mandatory, nor is the term further defined.

The standard requires disclosure of the methods and significant assumptions made in determining the fair value.

Members are advised that in any reproduction of these (International Standards IAS 17 Leases and IAS 40 Investment Property) it should be acknowledged that these were prepared by Chris Thorne of the UK on behalf of the IVSC as a summary only and that any member/person dealing in these matters must obtain and review the whole Standard.

Amendments to IVSC Standard IVA 1 Valuation for Financial Reporting incorporating commentary on International Accounting Standards IAS 17 Leases and IAS 40 Investment Property are currently being developed.