

**HONG KONG
GUIDANCE NOTES**

on

THE VALUATION OF PROPERTY ASSETS

prepared by

A JOINT WORKING GROUP

of the

HKIS and RICS (Hong Kong Branch)

1st Edition

June 1988

FOREWORD

to the First Edition

The major expansion of Hong Kong, both as a centre of corporate and financial activity and as one of the major international cities in the Pacific Rim, has led to a significant increase in the demand for the valuation of property assets by professionals who are qualified and experienced in the field. The relative importance of the property sector in the overall economy can be measured by the fact that over 60% of the constituent companies forming the Hang Seng Index are property related corporations.

With the increased demand for valuations comes the need to ensure that there is uniformity in the standards and methods used and that there is consistency as regards the bases of valuation. With this in mind, the professional bodies most directly involved formed a joint Working Group to put together a set of Guidance Notes and Background Papers as a source of reference for all those concerned with the valuation of property assets.

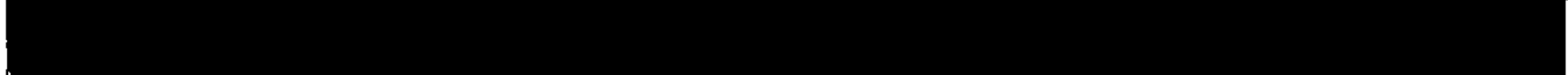
As President of The Hong Kong Institute of Surveyors and Chairman of The Royal Institution of Chartered Surveyors (Hong Kong Branch), we strongly support and endorse the publication and will actively encourage our members to adopt the Guidance Notes which we consider will be of considerable practical help and will lead to the furtherance of professional standards here in Hong Kong.

Special thanks for preparing the Notes and Papers should be extended to stalwart members C.Y. Leung and Bill Robinson who sat on the Group from beginning to end, and to Hermann Hui, Memfus Wong, Jolyon Culbertson and Suyan Lai who were involved for part of the time.

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President
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June 1988



**THE HONG KONG INSTITUTE OF SURVEYORS
THE ROYAL INSTITUTION OF CHARTERED SURVEYORS
(HONG KONG BRANCH)**

**THE VALUATION OF PROPERTY ASSETS
GUIDANCE NOTES
(1ST EDITION)**

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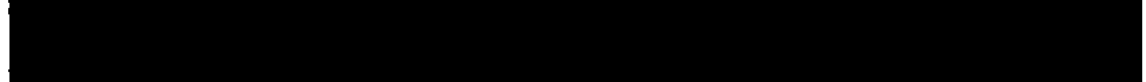
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Introduction

- 1.1 There has been a growing need since the 1970's for a Hong Kong version of the 'Guidance Notes on The Valuation of Assets' which are issued in London by The Royal Institution of Chartered Surveyors.
- 1.2 With the UK Guidance Notes as a starting point, a Joint Working Group of the RICS (Hong Kong Branch) and the HKIS, have laboured for two years to produce this first Hong Kong Edition of the Notes which presently comprises 13 Guidance Notes and 9 Background Papers. Other Notes and Papers may be issued later.
- 1.3 Except where otherwise stated, the Guidance Notes are generally applicable to the Valuation of all fixed property for incorporation in Company Accounts, financial statements, and the other purposes referred to in Guidance Note No. GN(HK) 1.
- 1.4 The Guidance Notes have been compiled in consultation with other professional bodies where appropriate, and are intended for use by members of The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors and others dealing with the valuation of Company Assets, both within Hong Kong and overseas. Where overseas assets owned by Hong Kong companies are being valued it may be necessary to comply with certain Hong Kong requirements or procedures, and members are advised to ensure that they conform to these.
- 1.5 Although every care has been taken in compiling these Notes, The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors (Hong Kong Branch) can accept no responsibility for the interpretation of any Ordinances or related regulations, and it is emphasised that any definition contained in the Notes can in no way override the definition which may have to be adopted for the purpose of valuation under any Ordinance. If any doubt arises, members should consult their clients with a view to legal advice being obtained.
- 1.6 It is emphasised that while these Guidance Notes are compiled to assist members in preparing reports and valuations, it remains the responsibility of individual members to prepare such reports and certificates and to provide relevant information in proper form.
- 1.7 If members, or others who refer to these Notes, wish to comment on the Notes in any way, they may do so by writing to the Joint Office of the Institute and Institution in Swire House, Suite 1936, Central, Hong Kong.



PRINCIPLES TO BE OBSERVED IN PREPARING ASSET VALUATIONS IN HONG KONG

1. General

- 1.1 The Guidance Notes in this Handbook apply to the valuation of Land and Buildings in Hong Kong. They cover valuations for incorporation in Company Accounts and other financial statements and for investment and security purposes. They also deal with valuations in connection with take-overs and mergers.
- 1.2 The general principles to be observed in preparing valuation of Land and Buildings are set out below.
- 1.3 The form of Valuation Certificate and associated Schedules are set out in Guidance Note No. GN(HK) 5.
- 1.4 The Background Papers in Section 3 of this Handbook discuss certain aspects of the guidance given in the Guidance Notes. *See BP(HK) 1—
BP(HK) 9*

2. Bases of Valuation

- 2.1 'Open Market Value' (OMV)
 - 2.1.1 Valuations of Land and Buildings will normally be on the basis of open market value and will have regard to evidence of open market transactions in similar properties. *See GN(HK) 12*
 - 2.1.2 Such valuations may reflect either:
 - (a) the use of the property for the same or similar purposes as hitherto (Open Market Value for Existing Use). This includes properties normally sold as fully operational business units and valued with regard to trading potential, such as hotels, public houses, cinemas and many other properties; *See BP(HK) 1
BP(HK) 7*
 - (b) The prospective use of the property for other purposes (Open Market Value for Alternative Use). *See BP(HK) 2*

- 2.1.3 The purpose of the valuation will determine the choice between (a) and (b) above, as explained in the Background Papers. 'Open Market Value' without the limitation of the words 'for existing use' or 'for alternative use' will have regard to both existing and alternative uses to the extent to which these are reflected in the price obtainable on the open market.
- 2.2 'Depreciated Replacement Cost' (DRC)
 - 2.2.1 There are some kinds of property for which evidence of comparative transactions does not exist, and in these cases their value for existing use can only be arrived at on the basis of 'depreciated replacement cost'.
 - 2.2.2 Examples of the type of property to which this basis will apply are given in Background Paper No. BP(HK) 3.
 - 2.2.3 The 'Depreciated Replacement Cost' basis requires an estimate of the open market value of the land for its existing use, and an estimate of the new replacement cost of the buildings and other site works from which deductions are then made to allow for age, condition and functional obsolescence.
 - 2.2.4 DRC should always be expressed as subject to adequate potential profitability related to the value of the total assets.
- 2.3 'Going Concern Value'
 - 2.3.1 Because the value of a business in accountancy terms must take account of intangibles (particularly goodwill) and reflect overall earning capacity, such value cannot normally be apportioned to any particular property assets of the entity. It follows, therefore, that the expression 'going concern valuation' in relation to company property, should not be used.

3. Extent of Instructions

- 3.1 Members are advised to discuss and agree with the client and his advisers the properties to be valued, the basis of valuation, and the plant and machinery to be included with the buildings.
- 3.2 It is helpful if, in connection with the basis of valuation, the client will disclose the purpose for which the valuation is required. This is particularly important in those cases where a property portfolio is being divided between more than one Valuer, or where the client gives definite instructions to adopt unusual assumptions.

4. Properties to be included

Valuations should only include properties where the beneficial or legal interest is vested in the client. Properties which are under contract to purchase, or are the subject of an option to purchase, should normally be excluded unless the client and his advisers require their inclusion. In that event, the precise position should be made clear.

5. Date of Valuation

Where a number of properties or legal interests in land are concerned, these should normally be valued as at one day, and the Valuer must state this valuation date clearly in the Valuation Certificate.

6. Special Assumptions

In arriving at open market value, the Valuer will have to take into account the assumptions which the market would generally make in the particular circumstances. He should, however, exercise extreme caution in making assumptions which might be unrealistic, e.g. that land in which no interest is owned could be acquired or that consents for development would be forthcoming. The Valuer may be required to justify the use of such assumptions.

7. Allowances for Taxation and other Expenses

It should be clearly stated whether or not any allowance for taxation or expenses of realisation have been made.

8. Rental Valuations

Rental Valuations which are to be used for:

- (a) the purpose of a share or company transaction;
- (b) inclusion in a circular to shareholders;
- (c) a profits forecast; or
- (d) a purpose which may affect the asset valuation of a company or organisation

should conform to the valuation bases, standards and procedures as set out in this handbook, as if the land and/or buildings were being valued for capital purposes.

9. Inter-company leases

Any property occupied by a company under an inter-company leasing arrangement within a Group falls to be valued as owner-occupied.

10. Negative Values

- 10.1 Negative values may arise on leasehold interests where there is an income shortfall, or the open market rental value is less than the reserved rent and/or there are onerous covenants on the lessee's part. *See BP(HK) 6*
- 10.2 Negative values could also exceptionally arise where onerous obligations exist and the costs of compliance are in excess of the value of the property if such obligations did not exist.
- 10.3 It is not correct in such cases to report a 'nil' figure of value. The negative figure should be reported separately and not set off against positive values on other property.

ASSET VALUATION STANDARDS

1. General

- 1.1 These Guidance Notes on the Valuation of Assets refer to a variety of circumstances where advice and recommendations to members may be helpful in complying with the requirements of the law, regulatory authorities or other bodies, and also to conform to professional standards.
- 1.2 Asset valuations are those which are undertaken for use in financial accounts and the other purposes set out in Guidance Note No. GN(HK) 1.
- 1.3 It is clearly entirely a matter between the client and the Valuer as to the scope of his instructions so long as the valuation is used by the client for his private purposes. Sometimes a Valuer will be given definite instructions from a client to adopt assumptions which the Valuer would not normally make, or the client restricts the Valuer's normal investigatory procedures. In such cases, it is important that the Valuer should recite in his report what has been omitted from the valuation procedures which a client otherwise could reasonably expect a Valuer to adopt, and to make it clear that this has been done with the agreement of the client.
- 1.4 If a valuation prepared on this basis is passed to a third party — even though the Valuer may have endeavoured to contract out of any responsibility to a third party (the Hedley Byrne principle) it may well be that the recipient or reader will not fully appreciate the restricted worth of the valuation. *See GN(HK) 4*
- 1.5 If such a valuation becomes available to the public there is always a danger of it being misquoted and misunderstood. This in turn may bring into question the standing of the Valuer and the profession.
- 1.6 Members are advised, therefore, wherever possible not to permit such restricted valuations to be used for other than the originally agreed purposes, and if there is a risk that they may be passed to third parties, particularly the public, to consider whether the instructions should be declined unless the restrictions can be lifted both in the general and in their own interest.

- 1.7 It follows that when an asset valuation is required for a purpose with which the public may be concerned or the valuation may be used by a third party, members are advised not to provide a restricted valuation except in circumstances which can be justified by the member.
- 1.8 To assist members, the following are the principal matters which a Valuer should consider in his procedures for an asset valuation. It is recognised that each valuation may call for additional matters to be considered whilst some of those listed in the following paragraphs may not be relevant.

2. Referencing

- 2.1 Characteristics of locality, availability of communications and facilities affecting value.
- 2.2 Age, description, use, accommodation, construction of any building, its installations, amenities and services.
- 2.3 Dimensions and areas of the land and buildings.
- 2.4 State of repair and condition.
- 2.5 Site stability.

3. Nature of interest

- 3.1 Tenure with reference to relevant restrictions, terms of leases, easements and encumbrances.
- 3.2 Details of lettings and other occupations.

4. Planning and statutory requirements

- 4.1 Results of town planning, highways and other enquiries.
- 4.2 Contravention of any statutory requirements.
- 4.3 Outstanding statutory notices.

5. Other Factors

- 5.1 Rating assessments and other outgoings
- 5.2 Any plant and machinery which would normally form an integral part of the building and, therefore, is included in the valuation.
- 5.3 Absence or otherwise of deleterious materials.
- 5.4 Allowances for disrepair.
- 5.5 Any development potential.

6. Market Analysis

- 6.1 Details of comparable market transactions for either existing use or alternative use(s).
- 6.2 Market conditions and trends.
- 6.3 If valued on a depreciated replacement cost basis the appropriate factors used.

7. The Valuation Report

- 7.1 The presentation of the Valuation Report will have regard to the need for any special format (e.g. Companies Ordinance) but will usually include a summary of the matters referred to in paragraphs 2-5 above together with a reference to:
 - 7.1.1 The purpose of the valuation.
 - 7.1.2 The basis of the valuation.
 - 7.1.3 The date of the valuation.
 - 7.1.4 If with vacant possession (whole or in part).
 - 7.1.5 Any special assumptions.
 - 7.1.6 Caveats as to:
 - 7.1.6.1 Structure and the presence of deleterious materials (exclusion of a structural survey).
 - 7.1.6.2 Site conditions.
 - 7.1.6.3 Non-publication.
 - 7.1.6.4 Responsibility to third parties.
 - 7.1.6.5 The verification and sources of information.
 - 7.1.7 The value in figures and words.

DEFINITION OF AN ASSET VALUER

1. The attention of members is drawn to the definitions of asset valuers given below and the need to be sure that they meet the requirements laid down when accepting instructions for the various purposes referred to in this Guidance Note.

2. **Qualified Valuer**

A 'Qualified Valuer' is a Corporate Member of The Royal Institution of Chartered Surveyors, or The Hong Kong Institute of Surveyors, with appropriate post-qualification experience, and with knowledge of valuing land in the location and of the category of the asset.

3. **Internal Valuer**

An 'Internal Valuer' is a qualified Valuer who is a director (or equivalent status thereto) or an employee and who has no significant financial interest in the company or organisation.

4. **External Valuer**

An 'External Valuer' is a qualified Valuer who is not an Internal Valuer and where neither he nor any of his partners or co-directors are directors or employees of the company or of another company within a group of companies or have a significant financial interest in the company or group, or where neither the company nor the group has a significant financial interest in the Valuer's firm or company. 'Company' includes any other form of organisation, e.g. a Trust.

5. **Joint Valuers**

The term 'Joint Valuers' should only be used on those occasions where two (or more) Valuers are jointly (and severally) appointed to provide a valuation. In such cases a single Valuation Certificate should be provided carrying the signatures of the joint Valuers together with their names and addresses.

6. **Additional Valuers**

Where the properties to be included in the Valuer's instructions include land in a location or of a category in respect of which the Valuer does not have the appropriate knowledge and experience, and for which he would not, therefore, be a 'Qualified Valuer', then:

- (a) the Valuer may employ (with the consent of his principal) as a sub-agent any person whom the Valuer regards as having the appropriate knowledge and experience;
- or
- (b) the Valuer may advise that an 'Additional Qualified Valuer' be appointed by the principal to value the particular asset.

7. Independent Valuer

'Independent Valuer' is an External Valuer who has no other recent or foreseeable potential fee earning relationship concerning the subject property apart from the valuation fee and who has disclosed any past or present relationship with any of the interested parties or any previous involvement with the subject property.

8. Independent Valuations

- 8.1 Independent valuations are those which require to be carried out by an Independent Valuer as defined above. Valuers who are asked to provide an Independent Valuation should inquire of their clients as to its purpose and the identity of any other party who may be concerned with it.
- 8.2 The Valuer should also disclose any past or present relationship with any of the interested parties or previous involvement with the subject property so that the parties can decide if the Valuer is 'independent' for the particular circumstances and if they are still prepared to instruct him in the light of the information disclosed by him.

9. Company and Other Financial Accounts

Either internal Valuers or external Valuers may qualify to carry out valuations in accordance with guidelines of the Hong Kong Society of Accountants.

10. General

The valuation should incorporate a statement to the effect that the Valuer conforms to the particular requirements for the purpose of the valuation.

CONDITIONS OF ENGAGEMENT

1. The Valuer shall advise the Client as to his opinion of the value of the relevant interest in the property, as specified by the Client.
2. The purpose for which the valuation is required shall be as agreed between the Client and the Valuer.
3. Unless otherwise specifically agreed, the value advised by the Valuer shall be the open market value current at the date of valuation.
4. Subject as hereinafter provided, the Valuer shall carry out such inspections and investigations as are, in his professional judgement, appropriate and possible in the particular circumstances. *See GN(HK) 2 para. 1.8*
5. The Valuer shall unless otherwise expressly agreed rely upon information provided to him by the Client or the Client's legal or other professional advisers relating to tenure, tenancies and other relevant matters.
6. The Valuer shall have regard to the apparent state of repair and condition of the property but unless otherwise agreed shall be under no duty to carry out a structural survey of the property nor to inspect woodwork or other parts of the structure which are covered, unexposed or inaccessible; neither shall he have a duty to arrange for the testing of electrical, air-conditioning or other services.
7. The Valuer shall provide to the Client a report setting out his opinion of the value of the relevant interest in the property. The report will be provided for the stated purposes and for the sole use of the named Client. It will be confidential to the Client and his professional advisers. The Valuer accepts responsibility to the Client alone that the report will be prepared with the skill, care and diligence reasonably to be expected of a competent qualified surveyor, but accepts no responsibility whatsoever to any person other than the Client himself. Any such person relies upon the report at his own risk. Neither the whole nor any part of the report or any reference to it may be included in any published document, circular or statement nor published in any way without the Valuer's written approval of the form and context in which it may appear.

8. The Client shall pay to the Valuer in respect of the said professional advice a fee to be agreed between the Client and the Valuer. Unless otherwise agreed, the Client will reimburse the Valuer the cost of all reasonable out-of-pocket expenses which he may incur.

THE VALUATION CERTIFICATE

1. General

- 1.1 The form of Certificate used in any particular case must obviously have regard to the nature of the instructions to the valuer and the use the client proposes to make of the valuation. The amount of detail to be given in the Certificate will also be dependent upon the client's requirements and whether or not it is to be accompanied or followed by a further report(s) on the property or properties.
- 1.2 Valuers should keep in mind that any insurances which they have effected to protect themselves against claims for negligence under professional indemnity policies may contain requirements as to the repetition of certain saving clauses in every report and valuation. If this be the case such words should be repeated unless the insurers agree either to modification or to a complete waiver. *See GN(HK) 2*
- 1.3 Whilst the form in which the valuation is reported is a matter of discretion for the Valuer, it is recommended that in normal circumstances every Valuation Certificate should include the following matters unless they are clearly not applicable:

2. Addressee

The Certificate will normally be addressed to the 'The Directors' of a company, 'The Trustees' of a Trust, 'The Partners' of a partnership, etc.

3. Date and Purpose

The date at which the valuation has been made and the purpose, e.g. for balance sheet, or security for a loan.

4. Basis of Valuation

- 4.1 The basis of valuation should be stated and will normally be 'open market value' (OMV) or 'depreciated replacement cost' (DRC) and the Valuer should state that the valuation is made in accordance with the Guidance Notes on the Valuation of Property Assets published by The Hong Kong Institute of Surveyors and The Royal Institution of Chartered Surveyors (Hong Kong Branch). If for some special reason another basis is adopted this should be adequately explained. Similarly, any qualifying words to OMV should be given and their meaning carefully explained. *See GN(HK) 1*
See GN(HK) 12

4.2 In the case of properties which have been valued on a DRC basis because they come within the category of those rarely, if ever, sold, except by way of the sale of the business as a whole, the valuation should be expressed as subject to the adequate potential profitability of the business compared with the value of the total assets. *See BP(HK) 3*

4.3 Where property valued on a DRC basis or at OMV for the existing use has a materially different value for an alternative use, and this is likely to be relevant, the alternative use value should also be stated. *See BP(HK) 2*

5. Information and Assumptions

5.1 The sources and nature of information relied upon should be stated, e.g. details of tenure, tenancies, building plan approvals, planning consents, planning proposals, contravention of any statutory requirements, outstanding statutory notices and building and site areas. Any assumptions made should also be stated and explained and any information which remains to be verified should be indicated. *See GN(HK) 6*

5.2 If the date of inspection was materially different from the date of valuation or no internal inspection was made of any property or part, this should be made clear, and in the former event an indication made if there is any material change in values between the two dates.

6. Constructional Details and State of Repair

6.1 It should be stated that structural surveys of buildings and the testing of service installations have not been carried out.

6.2 Reference may be appropriate to the general state of repair.

6.3 Appropriate reference should be made to deleterious substances, and to the exclusion of latent defects.

7. Taxation and Costs of Acquisition or Realisation

The valuer should make it clear whether or not any allowance has been made for liability for taxation which may arise on disposal, whether actual or notional, and whether or not his valuation reflects costs of acquisition or realisation.

Note: Open market values would normally be the 'contract' sale price before adjustment for costs, but a depreciated replacement cost valuation would include the costs of creating the asset. No allowance will normally be made for the existence of a mortgage or similar financial encumbrances on or over the property.

8. Overseas Properties

- 8.1 Members are advised to consult with the directors and auditors in the country concerned when preparing valuations of overseas properties.
- 8.2 Those properties should be divided into the same separate sections as apply to the Hong Kong properties. Separate schedules should be prepared in respect of each country to facilitate exchange rate conversions.
- The schedules should include the valuation in the local currency and, if required, in Hong Kong Dollars, with specific comments concerning:
- (a) the conversion rate;
 - (b) the date of conversion.
- 8.3 In the preparation of a valuation in respect of overseas properties a note should be made as to whether or not an allowance has been made in respect of existing or proposed local legislation relating to taxation on the realisation of the property asset.
- 8.4 The valuations should normally reflect the open market value in the country concerned and it should be made clear that no allowance has been made for the transference of such funds from that country to Hong Kong or between the various companies of the Group.
- 8.5 Members are reminded that acquisition and sale costs overseas can be substantial.

9. Non-Publication Clause

- 9.1 There should be a clause prohibiting publication without consent so as to prevent errors and omissions in publication.
- 9.2 A suggested wording for such a clause is:
- 'neither the whole nor any part of this Valuation Certificate or any reference thereto may be included in any published document, circular or statement nor published in any way without the valuer's written approval of the form and context in which it may appear'
- 9.3 The Valuer's letter of consent should only be given when a final proof of the document, etc., is available, and the consent should refer to a specimen annexed and signed as identification of what has been approved.

10. Liability to Third Parties

It is customary for Valuers to conclude a valuation with a savings clause having regard to the Hedley Byrne case under which no responsibility is accepted to third parties.

11. Property Schedules

- 11.1 If the Valuation Certificate relates to a number of properties, the Valuer will probably find it convenient to show these in schedules which may be appended to the Certificate. In that event it would be desirable to include a summary of the values shown in the schedules within the body of the Certificate. The information likely to be required in the summary and schedules is shown in the examples which are attached.
- 11.2 'Negative values' should be stated in the schedules and carried forward to the summary and not set off against the positive values of assets in the same category.
- 11.3 'Current net monthly rents' means the current net monthly income (ignoring any special receipts or deductions) arising from the property before tax on profits and any allowances for interest on capital or loans but after making deductions for superior rents (but not for any amortization) and all disbursements including the expenses of managing the property and appropriate allowances to maintain it in a condition to continue to command its rent.
- 11.4 'Current net monthly rents' include the Valuer's estimate of the net monthly rental value of any vacant or owner-occupied parts within the property, and where appropriate, the time required to lease these parts.

12. Signing the Certificate

The name, address and qualifications of the Valuer must be given together with the date of his Certificate and a statement to the effect that the Valuer conforms to the particular requirements for the purpose of the valuation.

A. PROPERTIES HELD AS INVESTMENTS

Property	Description and Tenure	Terms of Tenants' Leases	Estimated Current Monthly Rent (Exclusive of Rates before tax)	Capital Value in Existing State
<p>HIC House, LMN Trading Estate, ABC Road, Hong Kong.</p> <p>Part of the Remaining Portion of Inland Lot No.XXX.</p>	<p>A 21-storey industrial/ godown building with container hoist and central chilled water system for air-conditioning. The building has a gross floor area of 546,955 sq.ft. (50,813.36 sq.m.) and a saleable area of 400,000 sq.ft. (37,161 sq.m.) excluding carparks and loading/unloading areas. The building was completed in 1979.</p> <p>999 years from 1st April 1899.</p>	<p>The building is fully let except for two car parking spaces. There are a number of well-known major occupiers some of whom have fixed escalations in rent. All rents are exclusive of rates and management and air-conditioning charges.</p> <p>The majority of leases are for 3 years.</p>	<p>HK\$3,675,983 inclusive of car park rental.</p>	<p>HK\$328.2 million</p>

B. PROPERTIES UNDER DEVELOPMENT

Property	Description and Tenure	Capital Value in Existing State	Estimated Completion Date	Estimated Cost of Completing Development (Excluding Interest)	Estimated Capital Value When Completed
UK Heights, Phase I, XY Road, Kowloon. Kowloon Inland Lot No.XXX.	<p>On completion, the property will comprise four 11-storey residential towers with a total of 132 flats and 191 car parking spaces. Total gross floor area is 159,845 sq.ft. (14,850 sq.m.) and total saleable area is 130,234 sq.ft. (12,099 sq.m.).</p> <p>Substructural works have been completed and the superstructure contract is about to be awarded. The property occupies part of a site having an area of 457,515 sq.ft. (42,504.18 sq.m.).</p> <p>999 years from 1st July, 1898.</p>	HK\$54.62 million	March 1990	HK\$120.3 million	HK\$239.7 million

Note:

It should be noted that our valuation under "Estimated Capital Value When Completed" is based on the value of the development as if it were completed at 30th June, 1988 and on approved building plans and other information provided to us.

C. PROPERTIES HELD FOR FUTURE DEVELOPMENT

Property	Description and Tenure	Terms of Tenants' Leases	Capital Value in Existing State
No.XXX, Garden Road, Hong Kong. Inland Lot No. XXX.	The property comprises a row of 4-storey apartment blocks built in the 1930's and is considered ripe for redevelopment. The site which has an area of 84,497 sq.ft. (7,850 sq.m.) is capable of being redeveloped into 805,332 sq.ft. (74,817 sq.m.) of commercial accommodation. 999 years from 18th April, 1900.	The property was not occupied or subject to any lease at the date of valuation.	HK\$500 million (reflecting the redevelopment potential as described).

D. COMPLETED PROPERTIES HELD FOR SALE

Property	Description and Tenure	Terms of Tenants' Leases	Capital Value in Existing State
All Domestic Units in Towers K & L, Stage I, EF City, GH Road, Hong Kong.	The property comprises all the 80 domestic flats in Towers K and L of EF City which was completed in August 1983. The flats have a saleable size range of between 600 sq.ft. (55.74 sq.m.) and 800 sq.ft. (74.32 sq.m.). Total saleable area is 56,000 sq.ft. (5,203 sq.m.).	One unit is currently vacant, one unit is leased on a 5-year term expiring in 1989 and the remaining units are leased on 2-year terms expiring in late 1990 and early 1991.	HK\$50 million
Inland Lot No.XXX.	999 years from 18th April, 1900.		

E. PROPERTIES OCCUPIED PRIMARILY BY THE COMPANY

Property	Description and Tenure	Capital Value in Existing State
GROUP I — PROPERTIES OWNED BY THE GROUP		
Ground Floor, and 7th to 11th Floors (inclusive), ABC Industrial Building, XYZ Road, Kowloon. 1260/2565th shares of and in Kowloon Inland Lot No.XXX.	The property comprises six factory floors in a 14-storey industrial building completed in 1982. The total saleable area of the property is 79,000 sq.ft. (7,339 sq.m.). The property is currently occupied by a member of the Group as workshops and production areas with ancillary offices. 75 years from 1st July, 1978.	HK\$31,800,000
GROUP II — PROPERTIES RENTED BY THE GROUP		
Unit WXY, 10th Floor, STU House 22-24 NOP Road, Kowloon. 100/1200 shares of and in Kowloon Inland Lot No.XXX.	The property comprises an office unit on the 10th Floor of a 12-storey plus basement commercial building completed in 1963. The saleable area of this unit is 2,000 sq.ft. (185.80 sq.m.). The property is leased by a member of the Group for a term of three years from 1st March 1986 at a rent of \$7,590 per month, exclusive of rates. The lease is not assignable.	No commercial value.

THE VERIFICATION OF INFORMATION SUPPLIED TO OR ADOPTED BY A VALUER

1. Introduction

- 1.1 The attention of members is drawn to the desirability of adhering to the procedures which the legal profession and the valuation profession should follow on the need to verify information supplied to, or adopted by, a Valuer.
- 1.2 It is accepted that a Valuer will be supplied by the client or his representative with information upon the accuracy of which the valuer relies for his valuation and/or report. The Valuer will also obtain information from his survey or other sources, which may require verification as to its accuracy.
- 1.3 The Valuer has a responsibility to state clearly the information on which he is relying and the sources of it and (where relevant) its date.

2. Valuations may be required for different purposes, including:—

- 2.1 *Stock Exchange Quotations and Circulars* where prior verification of information is of the greatest importance. Where a valuation involves a substantial number of tenanted properties it may not be practicable or necessary to set out or verify all the details of each tenancy and in these circumstances it may be reasonable for the information supplied and verified to be in detail as to the term, rent and any rent review but to be in broad general terms in other respects e.g. merely that the tenancies are on a full repairing and insuring basis. In these cases both the valuation and the verification should contain a note that this broad generalisation has been employed.
- 2.2 *Advising on the security for a loan* where verification in detail can reasonably take place in most cases while the legal formalities of the disposition, loan or other financial commitments are being processed.
- 2.3 *Inclusion in Annual Accounts* where in the early years and where a large number of properties are concerned, broad generalisations as mentioned in 2.1 above may be required but nevertheless verification is an essential ingredient in the long run.

- 2.4 *Other purposes* where verification must accord with the particular requirements and the Valuer should bear in mind the purpose of the valuation and consider what degree of detail he needs for his valuation/report which should be appropriately expressed.
- 2.5 In all cases, it is important to bear in mind the purpose of the valuation.
- 2.6 Subject to these matters the Valuer should (in most, if not all cases) make it clear that information on which the valuation/report is based needs to be verified by the client's or other interested parties' legal advisers before the valuation or the report is issued. Any discrepancies revealed on a legal investigation will need to be referred to the Valuer so that he may confirm or amend his valuation or report.

3. The Valuer should generally approach the subject in accordance with the following guide lines:

3.1 Title

The Valuer should state the length of the unexpired term of the lease, the amount of the current rent and the basis and dates of rent reviews. It will be assumed unless otherwise stated that the lease contains no unusual covenants or prohibition of assignments and sub-lettings (other than a prohibition against assigning or sub-letting a part) which would affect the value of the property. The Valuer should enquire as to the terms of the user covenant and specifically state whether it is assumed to be restricted to the present use or to be unrestricted. If the lease is stated to be full repairing and insuring the Valuer will assume that the lessee is responsible for the rates, repairs, maintenance, management (directly or by service charge), insurance (either by insuring himself or reimbursing premiums), and all other outgoings of the property so that the lessor receives the rent free from any deduction or liability. If the lease is not on a full repairing and insuring basis the Valuer should state the liabilities of the lessor and lessee.

The Valuer should provide from his survey a sufficient description with or without measurements of the land to enable the deeds to be checked. A plan is often provided by the Valuer.

3.2 Easements

Details of any dominant or servient easements affecting value either provided to the Valuer or noted by him on his survey should be given, it being assumed unless otherwise stated that the dominant owner is responsible for the cost of maintenance.

3.3 Lettings

A statement (or schedule in the case of multi-lettings) should be provided of the leases giving the tenants' names, extent of demise, unexpired term (often the length of term and commencement date is given), rent and provisions for review, responsibility by the lessor and tenant for rates, repairs, maintenance, management and insurance, and user. The Valuer should note on inspection any other occupations than the named lessees.

Unlet premises and any parts let but not occupied should be noted. Any unusual arrangements with lessees, e.g. options, covenants to improve, etc., notified to the Valuer should be specified.

3.4 Town Planning

The Valuer should state if he has made written or oral enquiries of planning authorities as to zoning and possible presence of any adverse planning proposals. The Valuer should also give details of planning consents made available to him and note any conditions which adversely affect value.

3.5 Development Proposals

Where a valuation is based on development proposals supplied by clients whether in the form of descriptions and/or plans (approved or otherwise), a Valuer should make reference to the details of the proposals, e.g. date of preparation of the plans, date of approval, if any, name of the authorized person, etc. in his valuation report.

3.6 Construction Costs and Construction Period

The Valuer should make reference to the source of his information concerning outstanding construction costs, and estimated completion date of a property under development, where this information has been made available to him.

3.7 Insurances

The Valuer makes no enquiry, unless specifically instructed, as to insurance and amounts of cover.

3.8 Mortgages

Unless otherwise stated the Valuer should assume the property is uncharged for the purpose of his valuation and will not reflect the cost of redeeming or releasing the property from any charge.

4. It is recognised that when periodic valuations are being undertaken it will not always be practicable for the whole of the information relied upon to be re-verified. All changes notified by the client should be mentioned and need verification but otherwise the responsibility for notifying such changes to the Valuer must rest finally with the client.

INFORMATION REQUIRED OF A VALUER BY AN AUDITOR

1. This Note sets out the relationship between the asset Valuer and the auditor.
2. Section 141(5) of the Hong Kong Companies Ordinance states:
'Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the officers of the company such information and explanations as he thinks necessary for the performance of the duties of the auditors:'.
3. By Section 141(6) of the Hong Kong Companies Ordinance:
'If the auditors fail to obtain all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit, they shall state that fact in their report'.
4. Cases may thus arise where the auditor asks the Valuer to produce the working papers in respect of the valuations, and an internal or an external Valuer may be involved.
5. It is to be realised that the inclusion of information relating to the valuation of assets in the accounts of a company is the directors' responsibility. The Tenth Schedule of the Hong Kong Companies Ordinance [para. 12(7)] requires the disclosure of the amount and in the year of valuation the name of the Valuer and the Valuer's professional qualifications and the basis of valuation used by the Valuer.
6. In the United Kingdom, the RICS has obtained legal advice on the extent of its members' responsibility, and this indicates that there is no legal relationship between the auditor and an external Valuer. An external Valuer can refuse to produce his file and even refuse to answer an auditor's questions. That does not apply to an internal Valuer who is an officer of the company. Nevertheless, if an external Valuer were to so refuse he will be inviting the auditor to qualify the accounts and make some comment that he has been unable to corroborate the information contained in the Valuer's report.

7. The audit considerations include the following:
 - (a) that there has been compliance with accounting and auditing standards and the Hong Kong Companies Ordinance disclosure requirements;
 - (b) that a true and fair view has been presented;
 - (c) that the Valuer is independent, where this is appropriate.
8. Accordingly it is in the Valuer's interest that he should assist the auditor in his ascertaining what instructions the client gave the Valuer. Such instructions ought, therefore, to be in writing, and where the Valuer has relied upon information provided by the client the auditor should test-check the information. The auditor would need also to obtain confirmation of the basis of valuation used by the Valuer.
9. It is in the Valuer's own interest that the auditors should, if they so wish inspect the whole of his file, in that a negligent act or incorrect information might be ascertained before damage is caused; failure to produce a file could conceivably lend colour to more serious allegations where there was any subsequent action alleging something beyond negligence.
10. The auditor is not himself valuing but checking the basis on which a Valuer has arrived at the valuation. The auditor must be satisfied that the valuations are reasonable and in some circumstances this may only be done by the auditor obtaining his own independent advice.
11. Members should be prepared to co-operate reasonably and responsibly if they are approached by auditors.
12. It is for external Valuers to judge for themselves how much detailed information they provide to their client other than for this specific requirement.
13. Valuation is a matter of subjective opinion and therefore the main function of audit scrutiny is likely to tend towards approval of the basis, the facts relied upon and the arithmetic rather than the subjective aspects of the Valuer's workings.
14. The duties of an internal Valuer are circumscribed by his terms of employment, and no difficulties are likely to arise if he is questioned by a responsible officer of the company, or directly by the auditor.

15. This Note, therefore, is primarily for external Valuers. If they should feel themselves in difficulty in some unusual instance, they should seek the further advice of the HKIS and RICS (HK Branch).

ASSET VALUATIONS FOR INCORPORATION IN COMPANY ACCOUNTS OR DIRECTORS' REPORTS AND OTHER FINANCIAL STATEMENTS

1. General

- 1.1 The principles set out in Guidance Note GN(HK) 1 apply to Asset Valuations for the above purposes.

Attention is drawn to the following matters:

2. Alternative Use Value

Basic accounting concepts postulate that the accounts are to be prepared on the understanding that the enterprise will continue in operation for the foreseeable future and, in particular, that the profit and loss account and balance-sheet assume no intention or necessity to liquidate or curtail significantly the scale of operation. Alternative use values of assets without which the business could not function, therefore, have no relevance. Such values may, however, be relevant to an overall appraisal of the company's situation and, where significant, preferably should be disclosed in the Directors' Report.

See BP(HK) 2

3. Depreciated Replacement Cost

- 3.1 The Depreciated Replacement Cost basis will be used in the case of specialised properties of the type described in Guidance Note No. GN(HK) 1. This approach to the valuation of assets for financial accounts should only be adopted when the Valuer makes a statement in the valuation that an open market value for existing use cannot in his judgement be applied to the particular asset.
- 3.2 Depreciated Replacement Cost must always be expressed by the Valuer as subject to adequate potential profitability. If the Directors cannot accept this qualification it will be for them to assess the economic value of the land and buildings and associated plant and machinery. If the Directors have, therefore, to assess and adopt an economic value in the financial accounts, the Valuer may be asked to express an opinion as to the open market value of the land and buildings in order that the Directors can assess the deduction for sale expenses to arrive at net realisable value.

4. Requirement to Value Investment Properties

SSAP 13 on investment properties issued by the Hong Kong Society of Accountants requires that investment properties, other than those subject to depreciation be included in the balance sheet at their open market value. In the case of all listed companies with investment properties and those unlisted companies with investment properties the book carrying value of which is in excess of HK\$50 million, and the carrying value of which is greater than 15% of the carrying value of total group assets, a valuation should be carried out:

- (a) annually by persons holding a recognised professional qualification and having recent post-qualification experience in the location and category of the properties concerned; and
- (b) at least every five years by an external Valuer with similar qualifications to those in (a) above.

5. Depreciation

- 5.1 Directors may require advice regarding depreciable amounts and future economic useful lives in order that they may meet the requirements of SSAP 6 — “Depreciation accounting”.
- 5.2 SSAP 13 provides that periodic charges for depreciation are not required for investment properties, except for those held on lease when the unexpired term is 20 years or less.

6. Post Balance Sheet Events

- 6.1 SSAP 9 of the Hong Kong Society of Accountants’ ‘Accounting for post balance sheet events’, published in 1983 and revised in March 1984, refers to events which occur between the balance sheet date and the date on which the financial statements are approved by the Directors and imposes upon the Directors certain obligations regarding disclosure. Such events may be classified as ‘adjusting events’ or ‘non-adjusting events’.
- 6.2 ‘Adjusting events’ are those which provide additional evidence relating to conditions existing at the balance sheet date and which should be included in financial statements, e.g. the subsequent determination of the purchase price or the proceeds of sale of fixed assets purchased or sold before the year end.
- 6.3 ‘Non-adjusting events’ are those which occur after the balance sheet date and which could not have been anticipated at that time, e.g. purchases and sales of fixed assets, catastrophes such as fire or flood, or other changes in the value of property resulting from unforeseen circumstances.

- 6.4 The Valuer should draw the attention of the Directors to any matters of which he becomes aware which are likely to come within the category of material post balance sheet events, whether they be adjusting or non-adjusting events, in order that the Directors may ensure that these factors are included in financial statements or referred to in notes in financial statements as may be appropriate.
- 6.5 Events which occur after the date on which financial statements are approved by the Directors do not come within the scope of SSAP 9 (revised March 1984), but Directors are advised if such events are material to publish relevant information so that users of financial statements are not misled.

ACCOUNTING FOR DEPRECIATION OF PROPERTY ASSETS

1. The attention of members is drawn to the publication by the Hong Kong Society of Accountants (HKSA) of Statement of Standard Accounting Practice 2.106 (SSAP6) entitled 'Depreciation accounting' which deals with depreciation and circumstances where assets have been revalued in financial statements, and to Statement of Standard Accounting Practice 2.113 (SSAP 13) entitled 'Accounting for investment properties' which deals with the treatment of investment properties.

Members who undertake asset valuations may be consulted by companies and other financial organisations on the valuation of land and buildings for depreciation, and are recommended to read the Statements which are available from the HKSA at 17th Floor, Belgian House, 77-79 Gloucester Road, Wanchai, Hong Kong.

2. Introduction

- 2.1 Depreciation is the term used by accountants for the measure of the wearing out, consumption or other loss of value of a fixed asset whether arising from use, effluxion of time or obsolescence through technological and market changes.
- 2.2 The technical definitions used in the HKSA SSAP 6 are as follows:
 - (a) "depreciation is the allocation of the depreciable amount of an asset over its estimated useful life";
 - (b) depreciable amount in turn is defined as follows:
"depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost (i.e. valuation) in the financial statements, less the estimated residual value" (see (e) below);
 - (c) depreciable assets are assets which:
 - (i) are expected to be used during more than one accounting period;
 - (ii) have a limited useful life; and
 - (iii) are held by a company for use in the production or supply of goods and services, for rental to others, or for administrative purposes (e.g. a company's own office premises)"; and
 - (d) the final element in the definition is that of useful life which is either:
 - (i) the period over which a depreciable asset is expected to be used; or
 - (ii) the number of production, or similar, units that is expected to be obtained from the asset".

- (e) residual value is not defined in SSAP 6 but it is generally taken to be the value to a business of an asset at the end of that asset's useful life.

The residual value may be the resale value of the asset at that time, or the value of scrap and salvage derived from the asset. In the case of buildings, the residual value would take into account the cost of demolition and removal of materials.

These concepts are dealt with in the guidance and commentary which follows and which deal specifically with depreciable assets which are properties.

The term "depreciation" when applied to leased property assets is usually referred to as "amortization". However as the principles are the same, for simplicity the term "depreciation" is used in this Note to cover both terms.

- 2.3 HKSA SSAP 6 requires that for all financial statements for periods starting on or after 1 April 1978, depreciation of buildings (except for investment properties), and in the case of land where the unexpired term of the lease is less than 50 years, shall be allocated so as to charge to the profit and loss account on a systematic basis for each accounting period, the estimated amount of the asset consumed during the expected useful life of the asset. All buildings have a limited useful life due to technological and environmental changes and they should be depreciated on the basis of their remaining useful life to the business. This requires an assessment of the future economic life of the buildings and an estimate of their cost or value to the business at the relevant date.
- 2.4 It should be noted that HKSA SSAP 6 does not cover investment properties which are dealt with in HKSA SSAP 13. This Guidance Note deals with depreciable property assets and thus valuations in the context of HKSA SSAP 6. Investment properties in the context of HKSA SSAP 13 are covered by Guidance Note (HK) 9.
- 2.5 Leasehold land and buildings must by their nature have a limited life to the lessee although the unexpired term of a lease may exceed the life of the buildings on the land. Regard must, however, be paid to any contractual or statutory rights to review the rent or determine or extend a lease.
- 2.6 The assessment of the depreciable amount and the useful life of the asset are the responsibility of the directors of the company or their equivalent in other organisations but it can be expected that Valuers may be consulted on these matters or on factors which are relevant to their assessment, e.g. degree of obsolescence, condition, market factors, etc. The directors may also seek advice from a number of other disciplines such as quantity surveyors, and building surveyors where gross and net replacement costs of buildings are required, to ascertain the depreciable amount.

See BP(HK) 8

3. Useful Life

3.1 In order to form an opinion as to the useful life of buildings the Valuer should take account of the following matters:

- (a) Physical obsolescence — the age, condition and probable costs of future maintenance.
- (b) Functional obsolescence — suitability for the present use and the prospect of its continuance or use for some other purpose by the business. In the case of buildings constructed or adapted to meet the requirements of particular uses, including particular industrial processes, the Valuer would need to consult with the directors to ascertain their future plans.
- (c) Expected physical wear and tear.
- (d) Legal and other limits on the use of the asset.
- (e) Environmental factors — existing uses should be considered in relation to the present and future characteristics of the surrounding area, planning policies and restrictions likely to be imposed by the planning authority on the continuation of their uses.

3.2 It is frequently difficult, if not impossible, to put a precise life on a building or group of buildings, and Valuers may, therefore, have to resort to 'banding' of lives. Information should be available to identify buildings which are unlikely to have a useful life beyond, say, 20 years, and at the other extreme buildings with a life of more than, say, 50 years should be noted as having a life of 'not less than 50 years'. It is apparent that the Valuer's task is made easier by the use of broad bands and in the majority of cases it is likely these would meet the company's requirements. Where a property comprises a number of separate buildings, for example, large factory premises, it is suggested that in such cases the buildings should be grouped and, wherever possible, a single life allocated to all buildings comprising the property. Such an approach can be justified by the fact that the life of individual buildings can usually be extended within reasonable limits by a higher standard of maintenance or minor improvement as it is normally uneconomic to carry out piecemeal redevelopment. The allocation of a single life to all the buildings on a site would not be appropriate where parts of a property are used for different industrial processes which may give rise to changing accommodation requirements or where the company requires that each building should be considered individually.

3.3 If consulted on the useful life in the case of leaseholds the Valuer will also have regard to the duration of the lease, any options to determine or extend, or the date of the next rent review and whether this is to full or a proportion of rental value.

4. Depreciable Amount

4.1 Property assets are incorporated in financial statements of companies under one of the following bases:

- (a) Actual cost on acquisition — referred to by accountants as “ historical” cost — which may be determined by:
 - (i) the price paid for completed properties plus the purchasing costs; or
 - (ii) the cost of land and the cost of erecting the building including the purchasing costs.
- (b) A professional valuation made on an open market value basis in a previous period.
- (c) A directors’ valuation, or other valuation not prepared by a professional Valuer, made on an open market value basis in a previous period.
- (d) A current professional valuation made on an open market value basis.
- (e) A current directors’ valuation or other valuation on an open market value basis, not prepared by a professional Valuer.

Any one of these values can form the basis of the depreciable amount which is defined in paragraph 2.2(b) by reference to historical cost or “other amount substituted for historical cost” i.e. a valuation.

4.2 Whether stated at historical cost, or, one of these valuations, the stated value (or “carrying value”) of a property asset will normally be subject to depreciation, with the exception of land with an unexpired lease term of 50 years or more. Thus the carrying value of a property asset will be either its historical cost or one of these valuations, less the associated depreciation accumulated to the date of the financial statements. Where the carrying value is cost, or valuation, less accumulated depreciation, it is sometime referred to as “net book value” or “written down value”.

4.3 Any of the carrying values referred to in paragraph 4.1 above which form the basis of the depreciable amount may contain a land and a building element.

The estimated useful life of these two elements will usually be different. This means that the period over which the depreciable amount will be depreciated will be different.

Similarly the estimated residual value of the land and the buildings will be different. For example land leases and leased buildings usually have no residual values whilst the residual value of other buildings will depend on the value of scrap and other recoveries on demolition and the cost of the demolition.

The effect is to require a separation of the land value and the building value.

The separation of the values of the two elements may require an apportionment of:

- (i) the purchase price paid for a property consisting of land and buildings (4.1 (a)(i) above); or
- (ii) the subsequent valuation of a property consisting of land and buildings (4.1 (b),(c),(d) and (e) above).

5. Apportionment Between The Values For Land And Buildings

- 5.1 The apportionment may be arrived at in one of two ways:
- (a) By deducting from the cost, or valuation of the whole asset, the value of the land for its existing use at the relevant date. In many instances there will be ample evidence of land values upon which a notional apportionment can be made. However, where there is little or no evidence of land values, greater reliance will have to be placed on method (b) below.
 - (b) By making an assessment of the net replacement cost of the buildings at the relevant date and deducting this from the cost or valuation of the whole asset. The figure for the buildings will be derived from gross replacement cost which will then be reduced to the written-down value or net replacement cost per paragraph 5.4(b) to reflect the current value of the asset to the business.
- 5.2 In any particular case it should be possible for the Valuer to arrive at a depreciable amount for the buildings which fairly reflects that part of the open market value or cost of the whole property at the time it was acquired or valued, which can be expressed as the value to the business at that time.
- When providing figures for the purpose of depreciation the Valuer should emphasise in the report that the resultant figures, i.e. the building element and land element, are informal apportionments and that the individual figures do not represent the separate open market value of the building and land elements.
- 5.3 Where a past or current valuation has been made on the depreciated replacement cost basis under paragraph 5.1(b) no problems of apportionment arise.
- 5.4 For the purpose of para. 5.1 gross and net replacement cost are defined as follows:
- (a) Gross Replacement Cost — the estimated cost of erecting the building or a modern substitute building having the same area as that existing at prices current at the relevant date. This figure may include fees, finance charges appropriate to the construction period and other associated expenses directly related to the construction of the building.
 - (b) Net Replacement Cost — the gross replacement cost reduced to reflect the physical and functional obsolescence and environmental factors so as to arrive at the value of the building to the business.
- 5.5 The Valuer should consult the directors and auditors as to the basis of calculating the depreciable amount, recognising that in future years it will be desirable to maintain consistency of practice.
- 5.6 The depreciation methods used (e.g. straight line or reducing balance) are not primarily the concern of the Valuer but attention should be drawn to the method employed in leasehold valuations.

VALUATION OF PROPERTY ASSETS HELD FOR INVESTMENT

1. Where the property being valued is held for or comprises an investment, the undermentioned considerations apply.
2. The attention of members is drawn to the publication by the Hong Kong Society of Accountants (HKSA) of Statement of Standard Accounting Practice 2.113 (SSAP 13) "Accounting for investment properties". Members should also refer to Guidance Note (HK) 9 which deals with valuations in connection with the depreciation of property assets in accordance with HKSA SSAP 6 "Depreciation accounting".
3. Investment properties are regarded by accountants as investments which are held in the form of property assets.
4. The technical definitions used in HKSA SSAP 13 are as follows:

"an investment property is an interest in land and/or buildings:

- (a) in respect of which construction work and development have been completed; and
- (b) which is held for its investment potential, any rental income being negotiated at arm's length. However,
 - (i) a property, or that part of a property, which is owned and occupied by a company for its own purposes is not an investment property; and
 - (ii) a property, or that part of a property, let to and occupied by another company in the group is not an investment property for the purposes of its own accounts or the group accounts."

5. Accounting Principles

- 5.1 HKSA SSAP 13 states that property assets which meet the investment property criteria should not normally be depreciated under HKSA SSAP 6 (see GN(HK) 8). Instead the investment properties should be carried at their open market value.

The only exceptions are that:

- (a) investment properties with an unexpired lease term of 20 years or less should be depreciated over the remaining years of the lease; and
- (b) that part of partly owner-occupied investment properties occupied by the owner should be depreciated over the useful life of the properties.

- 5.2 HKSA SSAP 13 requires that:

- (i) all listed companies; and

- (ii) unlisted companies with investment properties of an existing book carrying value of more than \$50 million, and the carrying value of which is greater than 15% of the carrying value of total group assets, should obtain the open market value of their investment properties:
 - (a) annually, by a suitably qualified professional Valuer who may be an employee of the company or its group; and
 - (b) at least every five years by a suitably qualified external professional Valuer.

6. Valuation Qualifications

6.1 The suitable qualifications are:

- (a) that he have a recognized professional qualification; and
- (b) have recent post-qualification experience in the location and category of properties being valued.

The HKSA SSAP 13 does not define what is to be regarded as a recognized qualification because there is no legal definition or qualification for Valuers in Hong Kong. However the SSAP 13 terminology mirrors the definition of “qualified Valuer” in Guidance Note 3. Hence, it is understood that it refers solely to membership of The Hong Kong Institute of Surveyors or The Royal Institution of Chartered Surveyors, Hong Kong Branch.

6.2 The reference in the SSAP 13 to experience in “the location and category of properties being valued”, which also mirrors the Guidance Note 3 terminology, is taken to mean that persons having recognized professional qualifications should also have recent experience in Hong Kong and in the type of building in question. Thus for example a Valuer whose recent professional experience has been gained largely in valuing agricultural land overseas or even in the New Territories, would not be suitably qualified to value “Core Central” commercial property.

6.3 HKSA SSAP 13 is silent on the qualifications for valuing investment properties in unlisted companies with investment properties of less than \$50 million book value or where those properties represent less than 15% of total group assets.

It is assumed that investment properties held by these companies will be valued without reference to an external Valuer either by the directors or by a qualified Valuer employed by the company.

However it is likely that these companies will periodically engage an external qualified Valuer either of their own accord or at the request of bankers or creditors.

7. Valuation Principles

7.1 In any of the situations referred to above, the principles to be applied are the same, and the open market value should be determined by reference to Guidance Note (HK) 12.

7.2 Valuers are urged, particularly when acting for property companies or other bodies owning investment properties, to require that their Valuation Certificate (in a suitably summarised form when appropriate) should be published in the Annual Report and Accounts.

REVIEWING OF VALUATIONS

Valuers may be asked to carry out reviews of their previous valuations, or valuations previously undertaken by another Valuer. Due to the vagaries of the Hong Kong property market and the infrequency of formal valuations, Valuers should refrain from carrying out reviews and should insist that property revaluations, preferably with re-inspections of the properties, be carried out.

LAND AND BUILDINGS DEFINITIONS OF 'OPEN MARKET VALUE' AND 'FORCED SALE VALUE'

1. Open Market Value

- 1.1 'Open Market Value' means the best price at which an interest in a property might reasonably be expected to be sold at the date of valuation assuming:
- (a) a willing seller;
 - (b) a reasonable period in which to negotiate the sale taking into account the nature of the property and the state of the market;
 - (c) that values will remain static during that period;
 - (d) that the property will be freely exposed to the open market; and
 - (e) that no account will be taken of any additional bid by a purchaser with a special interest.
- 1.2 The HKIS and RICS (HK Branch) stress that if a Valuer considers it appropriate to apply any qualifying words to 'Open Market Value', the meaning of those words should be discussed and agreed with the client before instructions are finally accepted. The Valuer should incorporate in his report the agreed meaning of the qualifying words.
- 1.3 It is emphasised that this definition can in no way override the definition of market value which may have to be adopted for the purpose of valuation under any law.

2. Forced Sale Value

- 2.1 'Forced Sale Value' is the Open Market Value as defined above with the proviso that the vendor has imposed a time limit for completion which cannot be regarded as a 'reasonable period' as referred in Para. 1.1.
- 2.2 If the term 'Forced Sale Value' is used, members are advised that the time limit should be discussed and agreed with the client.

VALUATION OF PROPERTY ASSETS AS SECURITY FOR LOANS

1. When a property is valued as security for a loan by way of mortgage or debenture, the basis of valuation should be open market value. It would be usual for the Valuer to be asked to express an opinion as to the suitability of the property as security for a loan. It is, however, a matter for the lender to assess the risk involved and express his assessment in fixing the terms of the loan, such as the percentage of value to be advanced, and provision for repayment of the capital and the interest rate. The Valuer should refer in his Valuation Certificate or in his detailed report where one is to be provided, to all matters which are within his knowledge and which may assist the lender in his assessment of the risk.
2. It is not normally appropriate to value property to be used as security for a loan at forced sale value. Where, however, a bank or other lending institution requires the Valuer to report forced sale value, either in addition to or in place of open market value, the Valuer should ascertain from the client, as a condition of providing such a valuation, the period of time in which a sale is desired and whether or not such period is to include completion of the legal formalities.



EXISTING USE VALUE

1. Fixed assets which are included in the balance sheet should, in accordance with existing law and accountancy practice, be stated on the basis of cost, or at a valuation (which may or may not be current). When assets are stated at a valuation it is assumed that the business will continue and in many cases the basis to be adopted is open market value for existing use with vacant possession.
2. Open market value for existing use as a basis for valuation to be incorporated into a Company's balance sheet, or for reference to in the notes, takes into account the HKIS and RICS (HK Branch)'s definition of open market value but with the added assumption that the property will continue as owner-occupied in its existing use, and thus ignores any possible alternative use of the property, any element of hope value, any value attributable to goodwill and any possible increase in value due to special investment or financial transactions such as sale and leaseback which would leave the company with a different interest from the one which is to be valued.
3. Open market value for existing use would, however, include the possibilities of extensions or further buildings on undeveloped land or redevelopment of existing buildings providing such construction can be undertaken without major interruption to the continuing business.
4. Existing use for the valuation of land and buildings in company accounts does not necessarily mean the particular trade currently being undertaken on the property. Many buildings are general purpose structures suitable for a wide variety of different trades. Similar industrial buildings will probably have the same values irrespective of the different trades that are carried on, and this would also apply to shops. A factory is valued as a factory, not as a particular type of factory, and a shop as a shop, not as a particular type of shop (unless the market differentiates between the two).
5. There is a separate Background Paper "Adaptation Works and Costs" on the treatment of properties which have been adapted to meet the special requirements of the business in occupation. Likewise there is a further Background Paper "The Depreciated Replacement Cost Basis of Valuation" applicable to properties which are of the type that are rarely, if ever, sold in the open market for their existing use except by way of a sale of the business in occupation. *See BP(HK) 4*
See BP(HK) 3

6. There are certain types of property designed or adapted for particular uses, including hotels, cinemas and clubs. Such properties are normally valued having regard to trading potential and a separate Background Paper deals with the subject. *See BP(HK) 7*

ALTERNATIVE USE VALUE

1. Land and buildings may possess a value differing from their existing use value when the prospective use of the property for some other purpose is reflected (i.e. 'alternative use value').
2. Normal accounting concepts assume an ongoing business and where properties are occupied for the purpose of the business an alternative use value, which could only be realised on liquidation or a closure or removal of the business to other premises, is not suitable for inclusion in the accounts.
3. Such alternative use value may, however, have relevance to an overall appraisal of the company's situation. Where it differs materially (either above or below) from existing use value, it should be reported by the Valuer whether the existing use value is an open market basis or by reference to depreciated replacement cost.
4. Where the alternative use value can only be realized by :—
 - (a) modifying lease conditions, or;
 - (b) obtaining permission from the relevant authorities, e.g. Town Planning and Building Authorities, the alternative use value, if stated, should be qualified accordingly.
5. It is probable that the alternative use value will be referred to in the notes to the accounts or the Directors' Report if it is above the open market value for existing use.
6. Where land and buildings are declared by the Directors to be surplus to trading requirements, they will be assessed to open market value which takes into account any possible alternative use. Such properties will be shown separately in the Valuation Certificate to enable the company to make a deduction for the estimated expenses of sale to arrive at the recoverable amount.
7. Land and buildings held as investments or for development will also be valued on an open market basis, subject to relevant existing tenancies and this will take into account any alternative use if appropriate.

THE DEPRECIATED REPLACEMENT COST BASIS OF VALUATION

1. The value to the business of properties which come within the category of those rarely, if ever, sold in the open market for their existing use can only be arrived at on the basis of depreciated replacement cost. Examples of the type of properties to which this basis will apply are:
 - 1.1 oil refineries and chemical works where usually the buildings are no more than structures or cladding for highly specialised plant;
 - 1.2 power stations and dock installations where the buildings and site engineering works are related directly to the business of the owner and it is highly unlikely that they would have a value to anyone other than a company acquiring the undertaking; and
 - 1.3 properties located in particular geographical areas for special reasons or of such a size, design or arrangement as would make it impossible for the Valuer to arrive at a conclusion as to value from the evidence of open market transactions.

2. A depreciated replacement cost basis of valuation requires an estimate of the open market value of the land in its existing use and an estimate of the new replacement cost of the buildings and other site works, from which deductions are then made to allow for the age, condition, functional obsolescence and other factors which result in the existing property being worth less than a new replacement. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the valuation date.

3. With regard to land, there may be a difference between value in the existing use and the value of undeveloped or virgin land. Many properties which fall to be valued on a depreciated replacement cost basis include large areas of land. If the land was to be looked upon as a virgin site being offered for sale in the open market, the price that would be obtained would allow for the fact that it may take the purchaser many years to carry out the development. This obviously does not arise where consideration is being given to land which is already fully developed. It is, therefore, necessary to have regard, when putting a value on the land, to the manner in which it is developed by the existing buildings and site works, and the extent to which these realise the full potential value. Incidental acquisition costs where material should be added to the amount of the value of the land.

4. The gross replacement cost of a building should take account of the following:
 - 4.1 A modern substitute building of the same area might cost substantially less than an identical replacement of the one on the site by taking advantage of current building techniques and the use of modern materials. The lower figure is the one to use.
 - 4.2 The Valuer is concerned not with what it would cost to erect a building in the future but rather what it would have cost if work had commenced at the appropriate time so as to have the building available for occupation at the valuation date.
 - 4.3 Additions will normally need to be made to the estimated building contract price for professional fees and finance charges, which may be quite substantial when dealing with a large property which may take several years to develop.
5. The gross replacement cost of the building is only the first part of the calculation, as the Valuer must then go on to consider what deductions should be made to allow for the quality of the property as existing. Deductions will normally be made under three main headings:
 - 5.1 Economic obsolescence — the age and condition of the existing building and the probable cost of future maintenance as compared with that of a modern building.
 - 5.2 Functional obsolescence — suitability for the present use and the prospect of its continuance, or use for some other purpose by the business. For example, a building constructed or adapted for specialised uses, including particular industrial processes, may have an apparent useful life longer than that contemplated for the actual operation carried on. The Valuer should always consult with the directors to ascertain their future plans.
 - 5.3 Environmental factors — existing uses should be considered in relation to the surrounding area and local and national planning policies.
6. The Valuer should qualify every valuation prepared on a depreciated replacement cost basis as being subject to the adequate potential profitability of the business compared with the value of the total assets employed. It is for the directors to decide if the business is sufficiently profitable to be able to carry the property in the balance sheet at the full depreciated replacement cost or whether some lower figure should be adopted. In the case of leasehold land the Valuer will need to draw attention to the amount of rent payable both in the present and future and any unusual onerous covenants which could affect the directors' judgement on the adequacy of profits.

7. The directors, in consultation with the Valuer, will need to make an assessment of the remaining economic useful life of the buildings, and this is discussed in more detail in Guidance Note No. GN(HK) 9 on Accounting for Depreciation of Property Assets.
8. Where a property is valued on a depreciated replacement cost basis, the amount of the valuation must be reported separately, as this basis is shown separately from open market valuations in the accounts under 'Land and Buildings'.

ADAPTATION WORKS AND COSTS

1. It is customary for some properties to be acquired by purchase, or to be taken on lease, in a physical state not capable of occupation for the purpose of the business, without further building and fitting out works (referred to as adaptation works) to suit a particular user's requirement. It is not unusual for a lessee to covenant to carry out these adaptation works at his own expense and be liable to pay the full rental value of the property as adapted, with effect from the first rent review.
2. New store and unit shops are frequently completed only to a shell condition with bare brick or concrete walls and rough screeded concrete floors. The occupier has to provide such items as shop fronts, suspended ceilings, floor and wall finishes and electrical wiring. Some, but by no means all, shop fronts can suit a variety of retail activities.
3. Many industrial buildings need works of adaptation to suit a particular trade or process which enhance the value only for the kind of special occupation.
4. New offices are often let on the basis of the lessee providing such partitioning as is needed for the business, but lighting and often, carpets are provided by the lessor. Some office owners and occupiers may have standards of finishes and layout arrangements which do not meet the requirements of the majority of other potential office users.
5. In these circumstances the directors may decide that the value to the business of such property should be arrived at on either of the following ways, depending on the accounting policies being used:
 - (a) open market value for the existing use of the property at the relevant valuation date as in its state after adaptation; or
 - (b) open market value for the existing use of the property at the relevant valuation date as in its state before adaptation and, as a separate amount, the depreciated replacement cost of the works of adaptation.
6. Where in the case of 5.(b) the separate amount calculated on the depreciated replacement cost basis is significant in relation to the open market value of the property in its state before adaptation, the resultant total value should be expressed as subject to adequate potential profitability.

7. In these situations, the asset Valuer will need to discuss at an early state the appropriate basis of valuation with the directors and perhaps also the auditors (if the valuation is to be included in or referred to in the notes to the accounts) so as to agree which approach may be appropriate in the circumstances and having regard to the accounting policies used.

LEASEHOLD INTERESTS

1. Where a leasehold interest has a short term before expiry or to a review date to full rental value, the value to the business may not be material. The asset Valuer should, therefore, discuss with the directors whether or not these short leasehold interests should be valued. If they are omitted, then, on a valuation of an entire portfolio, the Valuation Certificate will need to contain a reference to their omission on the grounds that their values are not material.
2. Where leasehold land and buildings which are in the occupation of a business are being valued for the company's accounts, basic accounting concepts assume an on-going business and require the valuation to be at net current replacement cost, which in most cases will be on the basis of open market value for existing use.
3. In circumstances where onerous lease covenants adversely affect saleability but not the value of the property to the business they should be ignored by the Valuer. The Valuer should, however, draw particular attention to the lease covenants and the fact that they have been disregarded and express the amount of his valuation as 'subject to adequate potential profitability of the business'. It would also be prudent to draw attention to the fact that where these circumstances apply the value to the business is not necessarily obtainable on a sale in the open market.

3.1 Examples where this situation may arise will include:

Bankruptcy and Liquidation Clauses

The value to the business of an interest subject to this provision may be assessed as if it were absent.

4. Lease covenants which affect open market value and the value of the property to the business in occupation, whether to its advantage or disadvantage, should be taken into account. This situation may arise in connection with restriction on user and restriction to a particular trade or type of business.
 - 4.1 These restrictions will be relevant when determining both rental and capital value. In many instances the effect will be to reduce values, but in some circumstances monopoly values may be created.
5. The Valuer is advised to draw attention to such covenants and comment upon their effect in the Valuation Certificate.

NEGATIVE VALUES

1. Land and buildings which are an asset of a company will normally be valued on an open market basis unless they come within the category of those rarely, if ever, sold on the open market for their existing use because of their nature or locality, when the basis of valuation will be the depreciated replacement cost. These values are arrived at by normal valuation procedures. There are, however, properties which do not constitute an asset but a liability to a company and these are said to have a negative value.
2. Negative values will normally arise on leasehold interests and where the rent reserved under the lease exceeds the open market rental value and/or there are onerous covenants on the lessee's part.
3. If the positive value of a company's assets is to be shown in the accounts then it would seem proper that the negative value of its liabilities should also be shown, and to report the value of an interest which is a liability as 'nil' does not correctly indicate the true position. Any negative value should be reported separately in the Valuation Certificate and should not be set off against positive value on other property.
4. There will, of course, be occasions when it would be correct to indicate a 'nil' value for a property. For example, where the expense of meeting a liability is more than the resultant positive value but there is no legal liability on the owner to incur the expense of removing the liability. An instance of this would be extensive derelict buildings standing on low value land when site clearance costs exceed the residual value.

5. Difficulty arises in capitalising a negative cash flow arising out of a wide variety of properties. There are two possible methods of arriving at the negative value. Firstly, by comparison with reverse premiums paid in the open market as an inducement to a tenant to take a lease or assignment of a lease at a rent in excess of its open market value or to a purchaser to take over a liability. It is unlikely that there will be much market evidence of this sort of transaction. Secondly, where there is no open market evidence by assessing the capital sum which would need to be set aside to offset the negative cash flow over a given period. In both cases, regard should be had to any reduction in the loss over the period which could mitigate the liability.

OPEN MARKET VALUATIONS HAVING REGARD TO TRADING POTENTIAL

1. Guidance Note GN(HK) 1 relating to the valuation of company property assets recommends that valuations should be on an open market basis by reference to comparable transactions or, where no such evidence exists, by reference to depreciated replacement cost. The Guidance Note also recommends that the expression "going concern valuation" should not be used in relation to Company property assets.
2. It has always been recognised that there are certain types of property designed or adapted for particular uses, which invariably change hands in the open market at prices based directly on trading potential for a strictly limited use. Examples of such properties which normally are sold as fully operational business units include hotels, cinemas, theatres, petrol filling stations, specialised leisure and sporting facilities.
3. Open market transactions which involve the sale of properties which come within this category, as opposed to those involving the sale of companies which own such properties, can provide evidence of value for use when valuing this type of property for balance sheet purposes. When analysing the price paid for comparable properties and preparing a valuation of the subject property, the Valuer will normally have regard to the trading accounts for previous years, where these are available, and form an opinion as to the future trading potential and level of turnover likely to be achieved.
4. The example of hotels is typical of the type of property where these circumstances can apply, as they are usually sold as a fully operational business including fixtures, fittings, furniture and stock. The new owner will normally engage the existing staff and sometimes the management and would, of course, expect to take over the benefit of future bookings which are an important feature of the continuing operation.
5. Where the Valuer is required to provide a figure for the land and buildings for balance sheet purposes, this will normally include the landlord's fixtures and fittings and items of plant and machinery. Obviously, for this purpose the valuation should exclude, if necessary by apportionment from a global figure, the value of furniture, tenant's fixtures and fittings, stock and goodwill which has been created in the business of the present owner as opposed to such value which is reflected in the trading potential which runs with the property. Separate figures may be required by the Directors for these latter items for balance sheet purposes. It is, of course, essential that the Valuer should in his Valuation Certificate clarify the basis of valuation and in the case of an hotel it would, for example, be appropriate to use words such as "open market value for the existing use as a fully operational hotel"

6. When problems are encountered in differentiating between the value of the trading potential which runs with the property and the value of goodwill which has been created in the business by the present owner and which may be transferable to other properties in the event of the subject property being sold, it is recommended that the Valuer when assessing future trading potential should exclude any turnover which would only be available to the present owner or management, but he should reflect any trading potential that might be realised in the hands of a more efficient operator.
7. Where a property has been closed down and perhaps stripped of fixtures, fittings and furniture, it will normally be available for redevelopment, refurbishment or change of use and should be valued accordingly as surplus to requirements, if so declared by the directors. Where, however, there is an intention that such property will be reopened for the purposes of the business, its value for balance sheet purposes should reflect the additional costs which would need to be incurred as compared with an existing fully operational property and this should be explained in the Valuation Certificate.
8. Guidance Note GN(HK) 9 which deals with the subject of depreciation, applies to these properties. The building element of the valuation for balance sheet purposes, or the whole of such value in the case of leaseholds, together with fixtures and fittings and furniture, need to be depreciated. It would normally be appropriate to assess the depreciable amounts of these items by reference to net replacement cost.
9. Where the business use referred to in this Background Paper is carried on subject to statutory licence, it is essential that the valuation be based on the assumption that the licence will be continued and this should be stated in the Valuation Certificate.

ACCOUNTING FOR DEPRECIATION

Apportionment of Value between Land and Buildings

1. Guidance Note No. GN(HK) 9 sets out the approach to the apportionment for depreciation purposes of cost or valuation of a property asset as between buildings and land to arrive at the building element. *See GN(HK) 9 para. 4*
2. Guidance Note No. GN(HK) 9 also points out that apportioned figures calculated for the purposes of depreciation are purely an apportionment of value or cost and do not necessarily have any relevance in terms of open market value of either element of the whole property asset.
3. Depending upon the circumstances, the apportionment may be arrived at in one of two ways, viz:
 - (a) By deducting from the cost or valuation of the whole property asset the value of the land for its existing use, or
 - (b) By making an assessment of the net replacement cost of the buildings and deducting that from the cost or valuation of the whole property asset.
4. In the former case it is necessary to make a valuation of the land. This is to be valued for its existing use, and it is not appropriate to consider alternative uses unless they are reflected in the value at which the property has been included in the balance sheet.
5. The purpose of the apportionments should be kept firmly in mind, i.e., the removal of the land element from the cost or valuation of the whole property asset so as to depreciate only the building element. Site works, such as roads, fences, paved areas and the like, are normally included in the value of the buildings and do not, therefore, feature in the land valuation.
6. At the end of the useful life of the buildings, the full potential of the site for redevelopment within existing planning limitations would be realisable. The price likely to be obtained for the property site itself at this stage in the open market for redevelopment, would make allowance for the costs of demolition of the worn out buildings and other structures, if such cost would be significant.
7. As to being significant, it is appreciated that in some cases such as major structures without the benefit of salvageable materials, the estimated demolition costs may be high and this may have a significant impact on the calculation of the depreciable amount of the buildings and thus may indirectly affect the apportionment of cost or valuation between land and buildings. In practice, however, such circumstances are probably exceptional and in the majority of cases it should not be necessary to make any specific allowance for demolition costs.

VALUATION OF DAMAGED PROPERTIES

1. General

- 1.1 Properties may require to be valued by reference to a date at which buildings are standing in a damaged state due to fire, storm, impact or the like.
- 1.2 The properties involved may be held as an investment or owner-occupied, specialised or non-specialised, and may require to be valued for a variety of purposes. The extent of damage might range from superficial to total loss, and at the date of valuation, works of repair may or may not have been commenced.
- 1.3 This Background Paper examines the valuation considerations which arise in these various circumstances on the assumption that the damage, even where superficial, is sufficiently material to the value to merit special consideration.
- 1.4 Damaged buildings are in some ways similar to buildings in the course of development. Thus, it would be appropriate to adopt, where applicable, the guidance on the valuation of buildings in the course of development which is contained in the Guidance Notes.

2. Open Market Value — Investment Properties

- 2.1 Bearing in mind the foregoing, the valuation of damaged properties would have to take into account the fact that if a sale took place at the valuation date, the property would be sold in its existing damaged state and the vendor would normally retain the benefit of any direct claims against insurance, since policies of insurance are not normally assignable (although the proceeds of a claim may be paid to others). Where the landlord has a right of claim or enforced reinstatement against a lessee, a sale might require the vendor to pass on the benefit of such claims to a purchaser, and the valuation might in this event be prepared on this basis.

2.2 The amount of the valuation should reflect any special restrictions affecting reinstatement and the particular circumstances of the damage, e.g.,

- (a) In superficial damage cases the property would be valued as reinstated with an appropriate deduction to reflect the cost and general effect on market value of the need to carry out reinstatement works.
- (b) In total loss cases site value would be appropriate after allowing the cost and associated market impact of the need to demolish any remaining structures or foundations. Where the site is valued with vacant possession the value could include potential for development for a different use or in a different form than previously, subject to current building regulations and planning considerations. It should be emphasised that the effect on an insurance claim of publishing this basis of valuation must be borne in mind.
- (c) In intermediate damage cases the Valuer will need to adopt one of the above alternatives, given that on the one hand he should not indulge in unrealistic projections, but that on the other, he should have regard to practical problems in the reinstatement of the buildings.
- (d) If the property is tenanted the terms of all leases and any underleases, and the obligations of the parties, must be established. Where the leases are not determinable there may be no alternative but to reinstate the original building, regardless of the extent of the damage. The Valuer will need to refer to the terms of any leases or underleases to establish the precise obligations of the landlord and the tenant.

3. Open Market Value — Owner-Occupied Properties

3.1 Where properties are occupied for the purposes of a business, other considerations will apply, viz:

- (a) If not essential for the continuation of the business and reinstatement is not intended, the property becomes 'held for disposal' and OMV will apply. The client may need to be made aware that a sale could affect both the quantum and the basis of any insurance claim and that he should consult his insurance advisers.
- (b) If reinstatement is intended for occupation by the business, the valuation would normally be based on OMV for the existing use having regard to the state of the property at the date of valuation. If the property is fully insured it is a reasonable assumption that it will be reinstated within the appropriate time scale.

- 3.2 To provide a true picture of the assets situation the basis of valuation needs to be discussed with the client and other professional advisers, but Valuers should not involve themselves in endeavouring to quantify insurance claims since this is a matter for the Directors and their insurance advisers.
- 3.3 Depending upon circumstances, valuation treatment might range from valuing the property as reinstated, making allowance only for deferment, to valuing the site for existing use. The basis adopted should, in any case, be clearly set out in the valuation report.



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