

REIS ADOPTING RELEASE
Summary of Property Valuation Standards and Related REIS
Modifications

Issued by the Real Estate Information Standards Council in Conjunction
With the National Council of Real Estate Investment Fiduciaries

November 15, 2006

Executive Summary:

The indicated modifications to Chapter 1 will be effective for periods beginning on or after December 15, 2006, with earlier adoption encouraged.

This adopting release summarizes changes made to REIS Chapter 1 – Property Valuation Standards (“Chapter 1”). The changes were made to REIS in order to improve standardization of valuation procedures and promote consistency, comparability and transparency of valuation information provided to investors and other decision makers within the industry. The valuation standard was clarified to: 1) address minimum required elements of a written valuation policy which is to be disclosed to clients and others; 2) permit non-U.S. external valuation standards to be accepted within REIS if a property resides outside of the U.S.; and 3) establish minimum internal valuation requirements.

Modifications to REIS Standards:

Modify paragraph .02 and delete paragraph .03 as shown below so that Chapter 1, Property Valuation Standards will be included in REIS as follows:

Chapter 1--- Property Valuation Standards

.01 Introduction

The development of Property Valuation Standards resulted from investor requirements to carry assets at fair value and the need for useful information in support of transaction decision processes. Generally, the standards follow the Uniform Standards of Professional Appraisal Practice (“USPAP”) as set forth by the Appraisal Standards Board of The Appraisal Foundation with respect to process and documentation requirements.

.02 Required and Recommended Practices

~~—.02 Required Practices:~~

- ~~1. Each direct real estate investment be valued by an independent, professionally designated property valuer or appraiser at least once every thirty six months.~~

- ~~2. External appraisals completed by independent third-party appraisers must be performed in accordance with USPAP.~~
- ~~3. Valuation Policy, including methods and procedures must be disclosed.~~
- ~~4. Direct real estate investment market values must be reported on a quarterly basis. Quarterly valuations can be completed either internally or externally. This requirement supports quarterly production of the NCREIF Property Index, the industry's current primary benchmark.~~
- ~~5. If a value different from the external appraised value is utilized, reasoning for the variance must be disclosed.~~

1. A written Valuation Policy, including methods and procedures must be maintained and disclosed to clients and others, as appropriate. Required elements of a policy include:
 - a. Internal hierarchy of appropriate management levels responsible for the valuation process;
 - b. Process by which external appraisals are conducted;
 - c. Frequency of valuations;
 - d. External valuer and/or advisor selection process;
 - e. Role of USPAP in the valuation process;
 - f. Debt valuation procedures;
 - g. Minimum scope and documentation requirements for both external and internal valuations;
 - h. Value acceptance and/or dispute resolution procedures.
2. Direct real estate investment market values must be reported on a quarterly basis in accordance with accounting requirements in Chapter 2, Accounting. Quarterly valuations can be completed either internally or externally, and must be appropriately documented and approved in writing. This requirement supports quarterly production of the NCREIF Property Index, the industry's current primary benchmark.
 - a. External Valuation Requirements
 - i. Each direct real estate investment must be valued by an independent, professionally designated property valuer or appraiser at least once every thirty-six months.
 - ii. External appraisals completed by independent third-party appraisers must be performed in accordance with USPAP for U.S. investments, the International Valuation Standards ("IVS") as promulgated by the International Standards Committee, or the appropriate authoritative standard in the country in which the property resides.
 - iii. If a value different from the external appraised value is utilized, reasoning for the variance must be documented and disclosed.
 - b. Internal Valuation Requirements
 - i. Scope should be sufficient to demonstrate that the value of each property has been appropriately determined.

~~.03 Recommended Practices:~~

~~Current internal valuation practices vary and individual organizations have established and maintain their own policies governing quarterly valuation activities. Current practice ranges from performing an internal valuation, which mirrors the external valuation process to valuation on an “exceptions only” basis.~~

~~The Uniform Standards of Professional Appraisal Practice (“USPAP”) as set forth by the Appraisal Standards Board of the Appraisal Foundation are the recognized standards within the appraisal industry. All major professional appraisal organizations and all state appraisal certification laws recognize USPAP and require conformance. It is recommended that internal valuation work be performed in accordance with USPAP.~~

Appendix A- Basis for Conclusions Reached

A.1. The REIS Council concluded that the Property Valuation standards required clarification in order for the standards to be ultimately subjected to compliance and verification. As an initial step towards compliance and verification, the REIS Council concluded that disclosures of minimum standards to clients and others are appropriate and as such, they have been incorporated into the valuation standards of REIS. The REIS Council, in conjunction with the Valuation, Performance and Accounting Committees will supplement the valuation standards by providing guidance with respect to financial statements and performance disclosures. Such activities will serve to further evidence compliance and facilitate accountability, consistency, credibility, comparability and transparency of performance by and between properties, investments, accounts and managers.

A.2. REIS governs tax-exempt institutional investments in real estate and applies to those who invest in or manage such investments in the United States. The REIS Council recognized that certain U.S. funds have investments in real property located outside of the U. S. USPAP is the standard on which REIS depends for valuations, however, USPAP is not an authoritative standard world-wide. The Board of Directors of the Appraisal Institute has approved the inclusion of the IVS into the Appraisal Institute’s Standards of Professional Appraisal Practice. Accordingly, the REIS Council concluded that the standard for external appraisals for these non-U.S. properties should follow the International Valuation Standards as promulgated by the International Valuation Standards Committee or the appropriate authoritative standard in the country in which the property resides.

A.3. Previously, REIS contained no requirements for internal valuations. The NCREIF Property Index is produced quarterly. In addition, quarterly valuations are incorporated into periodic investor reporting and other reports produced and used by managers and others. The REIS Council concluded that minimum requirements for internal valuations supported these activities. The REIS Council and the Valuation Committee will provide guidance with respect to what constitutes sufficient scope and documentation, which would be required in order to demonstrate that the value of each property has been determined appropriately.

Appendix B- Public Comment Process

The sixty day public comment process ended on September 15, 2006. A total of four responses were received. The key issues and questions considered by industry participants as part of the public comment process for the Chapter 1, Property Valuation Standards exposure draft are as follows:

1. In the version of REIS (dated 2003), it was required that a valuation policy should exist and it would disclose methods and procedures utilized for valuation. In order to promote consistency, comparability and transparency and provide standards which can be subjected to compliance and verification; the REIS standard was clarified to address minimum required elements of a written valuation policy that is to be disclosed to clients and others. These elements address: responsible parties; external processes; frequency; external valuer/advisor selection; role of USPAP; debt valuation; minimum scope for external and internal appraisals; and value acceptance and/or dispute resolution procedures. *Do you agree that REIS should address specific minimum standards for valuation policies? Do you agree that the minimum standards described within the proposed Chapter 1 are adequate and appropriate?*

The respondents agreed that REIS should address specific minimum standards for valuation policies. The respondents also agreed that the minimum standards described are adequate and appropriate. The respondents indicated that disclosure was paramount to providing transparency and maintaining consistency and credibility for the industry.

2. In the version of REIS (dated 2003), USPAP was the depending standards body for valuation. The REIS Council acknowledges that certain funds or accounts have real estate investments located outside the United States and other appropriate authoritative valuation bodies exist outside of the United States which can establish valuation standards for these non-U.S. properties. *Do you agree that REIS should allow the external appraisal valuation standards established by non-U.S. appropriate authoritative bodies if the property resides outside the United States?*

The respondents agreed that REIS should allow the external appraisal valuation standards established by non-U.S. appropriate authoritative bodies if the property resides outside the United States. The International Valuation Standards Committee (IVSC) suggested that REIS recommend the use of the International Valuation Standards for properties outside of the U.S. The REIS Council concluded that the standard for external appraisals for non-U.S. properties should follow the IVS as promulgated by the International Standards Committee, or the appropriate authoritative standard in the country in which the property resides.

3. In the version of REIS (dated 2003) it was required that direct real estate market values be reported on a quarterly basis in order to support the quarterly production of the NCREIF Property Index. In addition, in REIS (dated 2003) it was required

that each direct real estate investment value be independently determined, using USPAP standards every thirty-six months. REIS (dated 2003) contained no requirements for internal valuations but rather recommended that internal valuation work be performed in accordance with USPAP. This new version of Chapter 1 also requires quarterly valuations in order to support the quarterly production of the NCREIF Property Index and other NCREIF data collection efforts and to also promote consistency in policies and procedures for NCREIF's constituency. These quarterly valuations are reflected within NCREIF's data collection procedures. In addition, investment managers incorporate quarterly valuations within their periodic reporting to investors and others. Therefore, the REIS Council has concluded that internal valuation requirements should be established. These standards require: a) a minimum scope sufficient to demonstrate that the value of each property has been appropriately determined; and b) documentation within the written valuation policy. *Do you agree that REIS should establish and require a minimum standard for internal valuations? Do you agree that the standards established herein which require a minimum scope sufficient to demonstrate that the value of each property has been appropriately determined and disclosed are appropriate? Please comment.*

The respondents agreed that REIS should establish and require a minimum standard for internal valuations and that the standard described in REIS was sufficient in scope to demonstrate that the value of each property as determined and disclosed are appropriate.