

# ISPT Valuation Policy

Policy Reference	VAL001
Policy Owner	Valuations Manager
Applicability	ISPT Pty Ltd <sup>1</sup>
Policy Approval Authority	ISPT Pty Ltd Board
Date of Approval	19 September 2019

<sup>1</sup> The ISPT Group incorporates ISPT Pty Ltd, subsidiary companies and their associated trusts.

### Document Revision

Author	Version	Date	Revision details
Mark Maltar	0.01	18 June 2012	Committee requested separate Valuation Policy for DOF funds.
Mark Maltar	2.01	June 2013	Consolidation of all Valuation Policies into one policy
Tom Sherborne	2.02	May 2015	Update
Tom Sherborne	3.0	April 2016	Annual review
Tom Sherborne	4.0	December 2017	Update to align to APRA Valuations guidance
Francis Lynch	5.0	August 2019	Expansion of Definitions, specifically, Ancillary Property, Development Project and Residual Approach.

### Endorsement

Name	Position	Notes	Date
Darren Schultz	CFO		
ACC			06 May 2016
ACC		Subject to suggested amendments	03 Nov 2017
ACC		Resolved to recommend Board approval	19 September 2019

### Sign Off

Name	Position	Notes	Date
ISPT Board		Approved via minutes	May 2015
ISPT Board		Approved via minutes	June 2016
ISPT Board		Approved via minutes	September 2019

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# 1 Introduction

ISPT Pty Ltd ('ISPT') is responsible for the provision of fair market valuations on Authorised Investments in accordance with respective Trust Deeds and the requirements of any applicable standards.

Each Trust Deed defines the requirements for valuations. The Board of Directors of ISPT has prime responsibility for approval and oversight of all valuations for each Trust.

## 1.1 Purpose

The purpose of the Policy is to ensure Management values properties in accordance with the respective Trust Deed requirements and to ensure asset values are measured reliably enabling the equitable distribution of investment earnings to beneficiaries. The Policy aligns to the APRA guidance on valuations detailed in Prudential Practice Guide (SPG 531), where appropriate for ISPT.

This Policy outlines the expected outcomes for valuations and defines the Board's minimum requirements in relation to operational and investment responsibilities, in order to:

- Meet the requirements of the Trust Deeds; and
- Ensure an efficient and effective process that responds to operational risks.

This Policy is reviewed on a biennial basis.

## 1.2 Responsibility

The Board has delegated operational responsibility for valuations to the CEO through the approval of this policy.

Valuation roles and responsibilities are identified in Section 9 – Roles and Responsibilities. Functional responsibilities are allocated between the Board of Directors, Audit and Compliance Committee, CEO and Audit.

## 1.3 Scope

This Policy applies to the following Trusts:

- ISPT Core Fund;
- ISPT 50 Lonsdale Property Trust;
- ISPT Development and Opportunity Fund No. 1 (DOF 1);
- ISPT Development and Opportunity Fund No. 2 (DOF 2); and
- ISPT Retail Australia Property Trust (IRAPT).

Where Core Fund has purchased units in a separate trust, such as the 1 William Street Unit Trust or the Pellicano Trusts, the Core Fund can rely on valuations commissioned by the Trustee of those funds. It is acknowledged these valuations may not comply with the Valuation Policy because they are not under the instruction of Core Fund.

## 2 Definitions

The definitions provided below, whilst not necessarily used in the policy, are provided to assist in identifying key elements of the valuation process.

- **Ancillary Property:** An Ancillary Property is one which is located adjacent to an existing property
- **Authorised Investment:** Land and real estate and interests in land and real estate of every description including (without limitation) buildings, improvements, fixtures and fittings erected or installed on land.
- **Authorised Investment (ISPT Development and Opportunities Trust Deeds Definition):** The acquisition of Real Property or any interest in Real Property, including buildings, improvements, fixtures and fittings erected and installed on Real Property.
- **Development Project:** development, redevelopment or refurbishment of the whole or part of an Authorised Investment resulting in all or part of the Authorised Investment not producing any significant income during the period of development, redevelopment or refurbishment.
- **Due Diligence:** Co-ordination of financial and physical documentation for the purchaser, and management of the legal, valuation and sale price and negotiations, including the entitlements and liabilities attaching to and arising from a real estate asset or assets, usually for sale or compliance purposes.
- **Improvement (ISPT Development and Opportunities Trust Deeds Definition):** Any building, structure, works or improvement of any nature made or affixed on or to Real Property.
- **IVSC:** International Valuation Standards Council
- **Real Property (ISPT Development and Opportunities Trust Deeds Definition):** Land and any improvements on land.
- **Valuation Date:** All valuations prepared as at last day of the quarter are adopted as book values as at the last day of each quarter.
- **Residual Approach:** The methodology to determine the project related investment value (residual value), based on the forecast on completion market value of the property, deducting the remaining cost of development and a margin for profit and risk.
- **RICS:** Royal Institute of Chartered Surveyors
- **API:** Australian Property Institute

## 3 Board Principles

The Board has defined its expectations in respect of valuations in terms of the following overarching principles:

- Implement a Valuation framework and process commensurate with ISPT's assessment of the business risk and which clearly defines responsibilities and delegations;
- Determine a fair price for unit-holders using valuation industry standards for all properties;
- Conduct regular reviews, no less than annually, to ensure the agreed Valuation Principles, framework and processes remain achievable and current with business and operational targets; and
- Under special circumstances, the Audit and Compliance Committee can provide authority for valuations outside the policy principles set above.

In addition to these overarching principles, the Board, via the Trust Deed, specifies its expectations in respect of valuation governance, methodology and assumptions, frequency of

valuations, and the selection of valuers, as detailed within this Policy.

## 4 Frequency of Valuations

### 4.1 Valuation Dates

The Trust Deed specifies that valuations of all Authorised Investments shall be conducted annually as at 30 June and at such other times as the Trustee considers necessary or appropriate.

For Core Fund, IRAPT and 50 Lonsdale Property Trust the ISPT Board has adopted stricter requirements and each property is to be valued on a quarterly basis, i.e.as at 31 March, 30 June, 30 September and 31 December.

For DOF 1 and 2 valuations are conducted annually at 30 June.

### 4.2 Valuation Report Types

Valuers are appointed for a two year period over which time they will prepare eight reports. The first valuation report prepared by a newly appointed valuer is to be a full report. The following three reports are to be in the short-form style specified in the Valuation Standard. The fifth report is to be a full report followed by another three short-form reports.

### 4.3 Interim Valuations

Given the prescribed three monthly valuation frequency for Core Fund, IRAPT and 50 Lonsdale Property Trust, interim valuations are not considered necessary, noting it usually takes about a month to prepare an externally sourced valuation report and comparable sales transactions are often infrequent.

## 5 Selection of Valuers

### 5.1 Source of Valuations

The Trust Deed states that external valuers shall be selected who are suitably qualified to carry out valuations in real estate. Suitably qualified valuers are defined as valuers that are members of RICS or API and have no less than five years' experience carrying out valuations of similar properties in the locality. It is valuation policy that external valuations are required apart from when there are exceptional circumstances, when Directors valuations are acceptable provided they are in accordance with Trust Deed requirements.

### 5.2 Valuer Rotation

It is valuation policy that the appointment of an individual valuer and firm must not be for a term greater than two years. In exceptional circumstances a Policy exception may be requested of the Audit and Compliance Committee.

### 5.3 Valuer Concentration

For Core Fund the appointed individual valuer must not be appointed to value more than six properties at any one time (excluding new acquisition valuations) or more than 15% of the Trust's assets by value (excluding new acquisition valuations).

For IRAPT the appointed individual valuer must not be appointed to value more than eight properties at any one time (excluding new acquisition valuations) or more than 30% of the Trust's assets by value (excluding new acquisition valuations).

#### **5.4 Valuer Conflicts of Interest**

The Trust Deed states that the appointed valuers shall have no pecuniary or other interest that could be reasonably regarded as being affecting his or her ability to provide an unbiased valuation. Confirmation in respect of the absence of conflicts of interest must be obtained as part of every engagement and stated in each valuation report.

## **6 Methodology and Assumptions**

#### **6.1 Valuation Methodology**

External valuers must decide the appropriate valuation methodologies, however, in the majority of cases it is expected that valuers will undertake capitalisation and discounted cashflow calculations. For properties within the ISPT investment funds which are Development Projects, the Residual Approach is expected to be used in most cases.

#### **6.2 Basis of Valuation**

The Trust Deed specifies all valuations of real property investments shall be on the basis of market value subject to all existing leases, occupancies and encumbrances. Market value means the price at which an interest might reasonably be expected to be sold at the date of valuation assuming:

- A willing seller and a willing buyer; A reasonable period has been allowed for the notional sale, having regard to the nature of the property and the state of the market for property of a similar kind;
- That the property was freely exposed to that market;
- That no account is taken of any higher price that may be paid by a person with a special interest in the property; and
- That reasonable resources are available in negotiating the sale and exposing the property

Valuations must comply with the basis of valuation specified in current accounting and professional body standards. These must be referenced in the ISPT Valuation Standard.

## **7 Valuations for Acquisitions**

The Trust Deed states that for new acquisitions it is necessary to obtain an independent external valuation report. The valuer must be suitably experienced and qualified and must not have any pecuniary or other interest in the investment that could be reasonably regarded as being capable of affecting his or her ability to provide an unbiased valuation.

Acquisition valuations shall not be dated earlier than three months prior to the date of the contract of purchase. The acquisition valuation amount can be booked as the quarterly valuation provided the next quarterly Valuation Date is not more than three months from the date of acquisition. For valuation quarter dates more than three months from the date of acquisition a new valuer must be appointed.

The Trust Deed specifies that the purchase price of an investment shall not be more than 10% higher than the acquisition valuation.

In the case of an acquisition of a property which is ancillary to an existing property, it is permissible to commission the incumbent valuer to also value the new Ancillary Property until the expiry of the valuation appointment.

## 8 Valuation Governance

### 8.1 Board Governance/Oversight of Valuations

At the conclusion of each valuation quarter the valuation outcomes are reported to the Board. Management makes recommendations that the valuations are adopted for reporting purposes.

### 8.2 External and Internal Audit Review of Valuations, Valuation Policies and Processes

An external audit is performed on an annual basis to ensure properties are valued in accordance with AASB 140 Investment Property, which requires investment properties to be measured at fair value with any changes in fair value recognised in the statement of profit and loss. In consultation with Management, the auditor will nominate and review a selection of valuations ensuring coverage by value, state and valuer. Any issues must be appropriately addressed.

Internal audit may perform periodic reviews on the overall quality and effectiveness of valuation management and compliance with the ISPT Valuation Policy as part of the annual Audit Plan.

### 8.3 Valuation Standards

All valuation reports must comply with the ISPT Valuation Standard which complies with current industry best practice and professional standards set by the Australian Property Institute (API) and Royal Institute of Chartered Surveyors (RICS).

## 9 Roles and Responsibilities

Function	Roles and Responsibilities
Board of Directors	<ul style="list-style-type: none"><li>• Approval of the policy biennially</li><li>• Delegation of powers and responsibilities</li></ul>
Audit & Compliance Committee	<ul style="list-style-type: none"><li>• Oversight of Management's implementation and compliance with this policy.</li></ul>
CEO/CFO	<ul style="list-style-type: none"><li>• Operational responsibility for Valuations including implementation of the policy.</li><li>• Ensuring that adequate resources are available to maintain Valuation activities.</li><li>• Reporting of any breaches of policy compliance to the Audit and Compliance Committee</li></ul>
Internal Audit	<ul style="list-style-type: none"><li>• Periodic review and reporting (in line with the annual Audit Plan) on the overall quality and effectiveness of valuation management.</li></ul>
External Audit	<ul style="list-style-type: none"><li>• Annual review and reporting on the overall quality and effectiveness of valuation management.</li></ul>



## **10 Related Policies and References**

Internal processes and procedures for valuation procurement and reporting are to be set out in a document for internal purposes. The processes shall be reviewed annually and the document updated as necessary. The aim of the valuation processes are to properly implement Valuation Policy, report accurately and punctually.

Other documents which may be relevant include:

- ISPT Valuation Standards
- ISPT No. 1 and No. 2 – Consolidated Trust Deeds
- ISPT 50 Lonsdale Property Trust Deed
- ISPT Development and Opportunity Fund No. 1 and No. 2 Trust Deeds
- ISPT Retail Australia Property Trust Deed
- ISPT Pty Ltd Delegated Authorities