

REIS EXPOSURE DRAFT
Proposed Revision to REIS for Changes Made to Chapter 1:
Property Valuation Standards

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

July 15, 2006

The accompanying document is an exposure draft of proposed changes to Real Estate Information Standards (REIS). The purpose of this exposure draft is to solicit comments from interested parties for consideration as part of the REIS standards process. Comments should be received by September 15, 2006, and sent via electronic mail to Marybeth Kronenwetter, NCREIF Consultant at reiakron@aol.com

Executive Summary

This new version of Chapter 1 will be effective for periods beginning on or after December 31, 2006, with earlier adoption encouraged.

The exposure draft summarizes proposed changes to REIS Chapter 1 – Property Valuation Standards (“Chapter 1”). As noted in the REIS Constitution, REIS intends to supplement established standards from authorized bodies including, in part, the valuation standards established through the Uniform Standards of Professional Appraisal Practice (USPAP) in order to improve standardization of valuation procedures. In addition, Chapter 1 was revised in order to promote consistency, comparability and transparency of valuation information provided to investors and other decision makers within our industry.

Key Issues and Questions for Consideration by the Industry

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?*
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?*
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.*

Proposed Modification to REIS Standard

Incorporate Changes to Chapter 1 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.~~

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:

- Internal hierarchy of appropriate management levels responsible for the valuation process;
- Process by which external appraisals are conducted;
- Frequency of valuations;
- External valuer and/or advisor selection process;
- Role of USPAP in the valuation process;
- Debt Valuation procedures;
- Minimum scope and documentation requirements for both external and internal valuations;
- Value acceptance and/or dispute resolution procedures.

Direct real estate investment market values must be reported in accordance with accounting requirements in Chapter 2, Accounting on a quarterly basis. 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

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

External appraisals completed by independent third-party appraisers must be performed in accordance with USPAP, or the appropriate authoritative standard in the country in which the property resides.

If a value different from the external appraised value is utilized, reasoning for the variance must be documented and disclosed.

Internal Valuation Requirements

Scope should be sufficient to demonstrate that the value of each property has been appropriately determined.

—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.~~