

Dear Sir

Re: IAS 17 and IAS 40

I am writing in my capacity as a real estate analyst with over Twenty years experience in the industry. My main interest in reported numbers are that they should be clear, and as objective as possible.

I have concerns about some of the proposals.

IAS 17

The treatment of land values and building values as separate items has some intellectual merit, but their respective values vary all the time. Moreover given that most UK leases contain full repairing and insuring covenants the main risk to building value is obsolescence rather than depreciation.

As a result fixing their respective values at the inception of the lease (para 11B) is most likely to be the wrong treatment in the UK context. This may be accounting practice in other countries but this probably reflects the fact that the economic reality of their leases are much shorter than the UK practice and some don't revalue.

This in fact raises I believe the major problem with this one rule fits all approach. If a lease is fairly short say three years or longer but with fixed returns (say indexation) a separation of land and buildings is subjective but within certain financial boundaries. However if the lease is 25 years and subject to open market review at 5 year intervals then the valuation decision becomes more complex, the subjectivity is greater and the result at inception could become misleading over time.

One solution would be to vary the relationship between land and buildings in line with fair value. This leads to yet more annual restated numbers surely one of the banes of current of financial statements? However it would be more accurate. Of course if no division is made there would be no problem.

Personally (and I suspect the property investment industry) find one fair value and one income stream (rent) as being the clearest representation of the economics of property investment. These changes over elaborate.

IAS 40

I am pleased that leaseholds can now be treated as investment property.

Yours sincerely
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