

# RENTAL VALUATIONS AND ADVICE

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## Guidance Papers

### Objectives

The principal objective of a Guidance Paper (*GP*) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices and procedures and to discuss their use and implementation.

A *GP* is designed to be of assistance to *Members* and those who use *Members'* services. They serve as a guide and measure of competent professional practice and conduct of a *Member*.

The intention of a *GP* is to:

- (a) provide information on the characteristics of different types of assets that are relevant to the advice;
- (b) provide information on appropriate practices and their application;
- (c) provide information that assists *Members* in exercising the judgements they are required to make in specific situations'; and
- (d) convey elements of what is considered "competent professional practice" for Australian Property Institute (*API*) *Members*.

A *GP* is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach or method should or should not be used in any specific instruction or situation.

### Member Obligations

The *Member* is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each *Member* to decide the appropriate practice in any situation and, if they are unclear, seek legal advice. *Members* have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a *GP*.

The *API* does not warrant that anything contained in this, or any *GP* is the definitive or final statement on any issue. *Members* must perform their own work pursuant to their own professional expertise and experience and, if required, seek additional advice which might include legal advice.

### Court or Tribunal Reliance

A court or tribunal may consider the contents of this *GP* to be relevant when deciding whether a *Member* acted to a standard required by law.

### Currency of Publication

This *GP* is current at the time of publication, based on current case law and legislation.

### **Departure or Non-Compliance**

Where a *Member* considers that a circumstance exists that warrants the departure from or non-compliance with any of this *GP*, the *Member's* report or other advice should include a statement that outlines:

- (a) the reasons for the departure or non-compliance with this *GP*; and
- (b) any impact the *Members* departure or non-compliance may have on the content of the report.

### **Enquiries**

If any *Member* considers any information or advice in this *GP* to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this *GP*, please refer this to

API contact: [standards@api.org.au](mailto:standards@api.org.au)

## **1.0 Introduction**

### **1.1 Scope of this GP**

For the purpose of this *GP rental advice* comprises:

1. a *Valuer* assessing *rent*; and
2. a *Member* providing advice relating to *rent* that does not include assessing *rent*.

The objective of this *GP* is to provide information, commentary, and guidance to *Members* including *Valuers* who provide *rental advice* on real property.

*Members* providing *rental advice* must do so to the standard of professionalism and skill required and consistent with membership of the *API* and in compliance with the law.

This *GP* should be read in conjunction with any other relevant *GPs*, professional standards papers, and any other relevant professional guidelines published or adopted by the *API*.

For the purpose of this *GP* the word 'landlord' is interchangeable with 'lessor' and the word 'tenant' is interchangeable with 'lessee'.

### **1.2 International Valuation Standards**

International Valuation Standards (*IVS*) published by the International Valuation Standards Council (*IVSC*) are adopted by the *API*.

It is the *Valuers* responsibility to comply with the *IVS* applicable at the date of valuation, keep informed of any changes and, apply them appropriately and consistently when providing valuations.

This *GP* is also intended to be consistent with the concepts and definitions contained in the *IVS*.

## 2.0 Definitions

The definitions contained below and used in this *GP* are applicable to this *GP* and have been included to assist with the interpretation and understanding of certain stated terms used within this *GP*.

Whilst a defined term may also have a common meaning or interpretation, their use in this *GP* is so limited.

Where a defined term is included in this *GP* it is shown in italics.

Lease	A contractual agreement whereby the landlord grants the right to a tenant to occupy, or use specified real property, for an agreed period of time, in return for payment or a series of payments or other consideration.
Market Rent ( <i>IVS</i> )	The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Member	An individual who holds Provisional, Associate, Fellow or Life Fellow membership of the <i>API</i> .
Rent	The payment by a tenant to a landlord for the right to occupy or use specified real property for a defined period in accordance with a <i>lease</i> .
Rental Advice	The assessment of <i>rent</i> and/or providing advice to assist in <i>rent</i> or <i>lease</i> negotiation.  The assessment of <i>rent</i> is undertaken by a <i>Valuer</i> in accordance with <i>IVS</i> .  <i>Rental advice</i> also includes a <i>Member</i> assisting a client in a <i>rent</i> or <i>lease</i> negotiation matter.
Valuer	A <i>Member</i> who holds the certification of CPV or RPV with the <i>API</i> .

## 3.0 Primacy of Lease

Where real property is subject to a lease the terms and conditions or expressions within a *lease* have primacy, unless contrary to law.

Where there is no definition of a word or expression within a *lease* the common interpretation of the word or expression is to apply.

## 4.0 Common Terms relating to Rental Assessments

Different terminology is utilised and adopted in the drafting of *leases*. There is nothing to prevent a person drafting a *lease* to use any of the ‘common terms’ as defined below or to vary the definition of a term for the specific *lease*. It is critical for those providing *rental advice* to have regard to any terms defined within a *lease*.

The ‘common terms’ below are included in the *GP* to assist with the interpretation and understanding of concepts and guidance in this *GP*.

Whilst a ‘common term’ is defined below it may also have a common meaning or interpretation, and its use in this *GP* is so limited.

Where a ‘common term’ is utilised in this *GP* it is shown in italics.

effective rent	The actual liability for <i>rent</i> after adjustments for any <i>incentives</i> to the <i>face rent</i> are taken into account.
equivalent rent	Refers to the <i>rent</i> being adjusted for the effects of any market <i>rent reviews</i> that will occur in the period of consideration.
face rent	The <i>rent</i> shown on a <i>lease</i> which may or may not include <i>incentives</i> and may or may not include <i>outgoings</i> .
fair market rent <sup>1</sup>	<p>“... the rent which it would be fair for the particular landlord and particular tenant to have agreed under the lease in question having regards to all the circumstances relevant to any negotiations between them of a new rent from the review date. The test is largely subjective.”</p> <p><i>Fair market rent</i> may be different from <i>market rent</i> as at the relevant date which is;</p> <p>“...the rent is determined on the basis of the rent the premises would bring on the open market, having regard to the rents paid for comparable premises in the same or a comparable area. The test is objective.”</p>
gross rent	The <i>rent</i> where there is no further obligation on the tenant to pay any other property costs ( <i>outgoings</i> ) other than tenancy utilities and cleaning.

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<sup>1</sup> Ricciardello v Caltex Oil (Australia) Pty Ltd [1991] ANZ ConR 445. Malcolm CJ

incentives	<p>Inducements offered/provided by landlords to attract tenants to lease an interest in real property.</p> <p>Examples may include but are not limited to; rent free periods, provision of fitout by the landlord, cash <i>incentives</i>, payout of previous lease and other similar inducements.</p>
rental value <sup>2</sup>	<p>“... the sum arrived at after proper allowance of all collateral advantages and disadvantages ascertained upon proper examination of all arrangements made between the lessor and lessee including the various rights and obligations under the terms of the lease which reflects the net consideration passing to the lessor from the lessee under the lease and associated collateral arrangements.”</p> <p>Effective market rent is interchangeable with market rental value.</p>
net income	<p>The income to the landlord free of all <i>outgoings</i> (ie. gross income less all outgoings including land tax).</p> <p>The <i>net income</i> to the owner of an asset is often utilised to calculate the market value of the asset utilising the income approach.</p>
outgoings	<p>The expenses incurred in owning and operating real property. These expenses include but are not necessarily limited to statutory <i>outgoings</i> (rates/taxes and charges) and operating expenses such as insurance, repairs, maintenance, and management fees [non-exhaustive].</p> <p><i>Outgoings</i> may be charged to tenants under the terms of the <i>lease</i>.</p>
passing rent	<p>The <i>rent</i> specified and paid by the tenant under the terms of a <i>lease</i>. (Sometimes known as contract rent).</p> <p>A <i>passing rent</i> may equate to <i>market rent</i>, however, may also differ substantially.</p>

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<sup>2</sup> McCafferty v. the Queensland Treasury Corporation [1991] QSCFC 148. Ambrose J



profit rent

The amount by which the *passing rent* is greater than the *market rent*. (Sometimes referred to as over-rent).

## 5.0 Instructions

### 5.1 In Writing

Instructions must be agreed and be in writing prior to the *Member* beginning work, and clearly outline the professional services agreement between the *Member* and the client.

It is critical when agreeing the instructions to establish whether an estimate of rent in accordance with IVS is to be provided.

There must be no ambiguity in the instructions. Where the *Member* perceives ambiguity, the instructions must be referred to the instructing party/client to resolve the ambiguity.

Any variations to instructions during the course of the work must also be in writing.

*Valuers* must obtain instructions in writing that cover items listed in IVS 101 – Scope of Works paragraph 20.3.

### 5.2 Role of the Member

The *Member's* role is to provide their opinion of the *rent* or other advice relating to a *lease* of real property, in accordance with the instructions agreed between the *Member* and the client.

*Members* should be cognisant of court precedents relating to *rent reviews* and, if in any doubt, seek legal advice.

### 5.3 Accepting Instructions

Prior to accepting an instruction, the *Member* must possess the necessary skill, knowledge and experience to provide the *rental advice* unless the *Member* obtains fully informed written consent from the client to provide the *rental advice*, or they undertake the services in conjunction with another *Member* having the required competence.

The instructions should provide the *Member* with sufficient information to enable the *rental advice* to be provided.

If the *Member* has not been provided with sufficient information:

- the instruction may be declined, or
- the instructions must be clarified to agree the *rental advice* will be appropriately qualified.

In deciding whether to decline or qualify the *rental advice* consideration should be given to the party/parties entitled to rely on the advice.

### 5.4 Purpose of the Rental Advice

A *Member* may be instructed to provide *rental advice* for a variety of purposes, including but not limited to:

- (a) Assessing *market rent* in accordance with IVS;
- (b) Assessing *rent* in accordance with IVS to be used in a market value assessment;

- (c) Understanding the factors relevant to the assessment of rent, when acting as either an expert *Valuer* or an advocate, to assist in negotiating a *rent* or *lease*;
- (d) Acting as an advocate by providing a submission to a determining valuer; or
- (e) Setting or determining a rent under the lease or other relevant document(s) whether as an expert or, if the Member is appropriately qualified, as an arbitrator.

#### **5.4.1 Warning to Valuers**

When establishing the scope of work *Valuers* should consider whether the *rental advice* could extend to the *Valuer* providing a submission to a determining valuer. In those circumstances the *rental advice* should not include the *Valuer's* opinion or confirmation of *rental value*, which is a valuation.

To purport that an advocate position and a valuation are synonymous is a breach of the Rules of Professional Conduct. Viz Rule 4.1:

A Member must not:

- “(a) adopt the role of advocate in a case where their duty is to exercise independence and impartiality” - a submission by its very nature is an advocate role whereas the duty in a valuation is to exercise independence and impartiality.
- “(b) act as both an advocate and *Valuer* in the same matter”
- “(e) allow the performance of their professional duties to be improperly influenced by the needs or preferences of a client or other party”, - as it must be in preparing a submission, whether or not the recommended *rent* varies from *market rent*.”

### **5.5 Basis of the Rent to be Assessed**

The *rent* may be *market rent* or some other basis other than *market rent*. This must be clearly detailed in the instructions.

### **5.6 Supporting Documentation**

All relevant information in the possession, knowledge, or control of the instructing party relevant to the *rental advice* should be provided to the *Member*;

- (a) by the instructing party, or
- (b) the *Member* may request such information from the other parties subject to the agreed instructions.

Where the instruction is to rely on information provided by the client, or others, the *Member* should satisfy themselves that the information:

- is suitable for the purpose to which the advice is prepared; and
- will not affect the credibility of the advice.

The agreed instructions should be clear that the report will be qualified that there is full disclosure.

In all cases the instructions must disclose the degree of reliance, if any, on information provided by or sourced from other parties/entities.

*Members* should draw to the attention of the client, any known, identified, or perceived inadequacies relating to supporting documentation requested or provided. Where appropriate it is also important to recommend the client to seek verification of supporting documentation by suitably qualified third parties.

The *Member* should undertake all reasonable steps to be satisfied on the veracity of any anecdotal information on which any reliance is placed.

### 5.6.1 Supporting documentation not provided

Any reluctance on the part of an instructing party, client or client's agent, or others to provide requested supporting documentation should give rise to a decision, by the *Member*, whether to proceed or not with any instructions.

When providing an assessment of the *rent* under a *lease*, whether actual or notional, and all relevant information is not provided to the *Valuer*, the instructions must be clear that the report or other advice will be appropriately qualified.

### 5.6.2 Documents Relevant to the Lease

Documents relating to the specific *lease* may include but are not limited to:

- (a) Original *lease* documentation preferably, duly executed including leases, deeds of variation and assignments. Where other than executed documentation is provided the status of the documentation provided should be clearly detailed in the report or other written advice;
- (b) Copy of the lease plan including all licence areas (where applicable);
- (c) If the *lease* is of the whole of the land, building plans may be required;
- (d) Copies of all collateral agreements together with a statement from the client confirming the *lease*, lease plan and collateral agreements provided comprise the whole of the agreement between the parties;
- (e) Details of the *passing rent* being paid;
- (f) Details of the current *outgoings* being paid by the tenant;
- (g) Sufficient details of historic *outgoings* and budgeted *outgoings* to enable a full appreciation of *gross rent* that would be considered by the hypothetical parties negotiating the *rent* under the *lease*;
- (h) All correspondence between the parties relating to the *rent review*, if a rent determination, albeit, not 'Without Prejudice' correspondence (see AVGP 304 Rent Determinations);
- (i) Comprehensive details of any *incentives* provided to the tenant;
- (j) Details of the fitout or other fixtures, fittings and chattels to be taken into consideration or to be disregarded;
- (k) In the case of specialised property, where business potential relates directly to the property, sufficient details of the tenant's business, including for example historic turnover, to assist in understanding the business potential of the property under average competent management (see section 6.4.2);
- (l) Details of timing of payments by the tenant under the existing *lease* and details of any arrears;
- (m) Asbestos Register (if applicable);
- (n) Identification of matters to be kept confidential and not disclosed in detail in the report or other advice;
- (o) Contact details to arrange inspection of the tenancy; and

- (p) Other general matters such as building plans, current town planning certificate, development permits, certificate of occupancy, contaminated land search, environmental report, flood search, resuming authority search, pest certificate.

### 5.6.3 Documents Relevant to Other Evidence

Documents relating to other evidence may include but are not limited to:

- (a) Copy of tenancy schedule of the building/development, if applicable;
- (b) Details of other recent rental negotiations by the instructing client specifically including details of *outgoings* and *incentives* paid to enable the *gross effective rent* to be calculated;
- (c) Copies of leases and amendments of relevant lease transactions identified by the *Member*, including all supporting documentation and collateral agreements to verify the agreement. If a *Member* is not confident all relevant information relating to a lease transaction is known and understood, that lease transaction should be given little or no weight.

## 6.0 Rent Considerations

### 6.1 Subject to an Existing Lease

When considering the *rent* of property held under the terms of a *lease* or the independent determination thereof, *Members* must follow the directions, if any, provided under the *lease*.

*Members* must comply with all specific provisions contained in a *lease* unless:

- (a) the parties have agreed to vary that provision and have advised the *Member* in writing of any agreed variations; or
- (b) the provision is contrary to law.

The wording of each *lease* must be considered individually. There is no compulsion on those drafting *leases* to adopt common terms or existing definitions of terms. It is important for *Members* to note that they need to have a full understanding and consideration of the definitions of terms contained in a *lease* and to give those definitions their natural meanings within the context of the *lease*. No two *leases* are necessarily drafted in the same way and definitions of a similar term may vary dependant on the draftsman. It is common to see definitions in *leases* for what otherwise might be commonly accepted terminology.

While it is critical to consider precedent “Great care must be taken when utilising judicial dicta on a differently worded rent review clause.”<sup>3</sup> The term “judicial dicta” is a term indicating judicial reference to particular issues in a judgment from which the reader may obtain some understanding and/or direction of what a particular Court has considered and/or concluded and why.

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<sup>3</sup> Alcatel Australia Limited v Scarcella & Ors [2001] NSWCA 401

*Market rent*, as defined by the IVSC and adopted by the API, is a commonly accepted and understood term, although it is often redefined in *leases*. There are also other terms that have been considered in precedents. For example, some of these concepts are detailed below with reference to precedent, however it is the context in which the term is used, rather than the term itself that is critical. Where a term is not otherwise defined in the *lease* then the term is to be interpreted in accordance with what is the normal commercial purpose of the clause as drafted and having regard to the word's natural meanings.

“What the court is seeking to identify and declare is the intention of the parties to the lease expressed in that clause. Thus, like all points of construction, the meaning of this rent review clause depends on the particular language used interpreted having regard to the context provided by the whole document and the matrix of the material surrounding circumstances. We recognise therefore, that the particular language used will always be of paramount importance. Nonetheless it is proper and only sensible, when construing a rent review clause to have in mind what normally is the commercial purpose of such a clause.”<sup>4</sup>

## 6.2 Where no Lease exists

*Members* must take care to clearly detail the commercial *lease* terms that are assumed when providing *rental advice* where no *lease* exists at the assessment date.

Appropriate *lease* provisions for vacant premises are the usual terms and conditions of *leases* of similar premises albeit having regard to the most likely use to which the premises will be put.

If it is the market norm for lettings to include a payment or concession by one party to the other as an *incentive* to enter into a *lease*, and this is reflected in *leases* and the general level of *rents* agreed, then the assessed *market rent* should also be expressed on this basis. The nature of the *incentive* assumed must be stated by the *Valuer*, along with the assumed appropriate *lease* terms.

*Lease* terms to be assumed include, for example, but are not exhaustive, where appropriate, the following elements:

- (a) permitted use;
- (b) the premises, including full identification of all physical components;
- (c) date of commencement;
- (d) expiry date;
- (e) option(s) for renewal;
- (f) adopted rent;
- (g) period to which the *rent* applies, which may be different from the term of the *lease*, which may be:
  - (i) a period equivalent to the term of the *lease*; or
  - (ii) a period equivalent to the unexpired term of the *lease*; or
  - (iii) a period equivalent to the interval between *rent review*; or

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<sup>4</sup> Basingstoke & Deane Borough Council vs Host Group [1988] 1 WLR 348 at 353

- (iv) another period;
- (h) method and frequency of *rent reviews*;
- (i) lessor's and lessee's liability for *outgoings*;
- (j) assignment clause and subleasing rights;
- (k) treatment of *incentives*; and
- (l) make-good provisions.

### 6.3 (Market) Rent Reviews

*Rent reviews* in a *lease*, that relate to market conditions enable the *rent* to be varied to reflect changes in the market between the date on which the *lease* commenced or the *rent* was last reviewed and the relevant review date subject to the terms and conditions of that *lease*.

The fundamental starting point to any assessment of *rent*, at *rent review*, is the terms and conditions contained in the *lease*. A full understanding of the *lease* is required before the *rent* can be assessed.

Whilst a market *rent review* should reflect that prevailing market conditions at the time, the parties to the *lease* may agree to adopt a variation of *market rent*. Therefore, the *rent* agreed between the parties on review may not always reflect the prevailing market conditions at the time but, will reflect the agreement between the parties subject to the terms and conditions in the *lease*.

### 6.4 Market Evidence

In assessing *market rent* the *Valuer* should consider the most appropriate evidence in the marketplace. The circumstances applicable when the *lease* was entered into are also relevant. There is a hierarchy to weight that is placed on evidence. That priority is:

1. New *lease* to a new tenant;
2. Where *market rent* is agreed between the landlord and tenant at a mid-term review or exercise of an option, or where the rent is to be the *market rent* and, if not agreed, can be set by determination;
3. Where *market rent* is set by determination at a mid-term review or exercise of an option. In this case the evidence used by the determining valuer may also have relevance;
4. New *lease* to a sitting tenant on expiry of an existing lease term where the tenant has no right of continuing tenure. In this circumstance consideration must be given as to whether a premium *rent* was agreed by the tenant rather than lose the goodwill and benefit of an existing fitout; and
5. Evidence of *passing rents* for sitting tenants.

#### 6.4.1 Non-Specialised Property

Non-specialised property is, in general terms, where the business potential of the premises does not have a direct correlation to the premises. The business derives its potential from other than the premises themselves.

In many instances, the area of the tenancy of non-specialised property is the most appropriate measurement for comparison of the evidence and the subject property. This approach is often the most suitable unit of comparison for office and industrial property although may need to be balanced against the shape of the tenancy.

A retail lease, like all businesses, is contingent on the envisaged business potential during the term of the *lease* in the hands of the average competent operator for the current/permitted use. The best unit of comparison may be the area of the premises, but this is for the *Member* to determine based on investigations and analysis of the market. Variations to be considered include the size and shape of the premises as well as the normal locational considerations.

In regard to retail premises, sufficient details of the tenant's business should be requested/obtained to assist bench-marking the business potential of the premises under average competent management.

#### **6.4.2 Specialised Property**

Specialised property includes those properties where the design of the property is for a particular use. In many instances, any change of use will require capital expenditure to enable the property to be used for an alternative use. Generally, the *market rent* for specialised property is limited to consideration of the current use of the premises and the business potential of the premises for that specific use. That does not mean evidence to be considered is limited to that use.

Where business potential relates directly to the property, sufficient details of the tenant's business, such as historic turnover, to assist in understanding the business potential of the property under average competent management, should be considered. A *Member* should not assume that the current tenant is an "average competent operator". The goodwill of the tenant is normally excluded when providing *rental advice*.

The best unit of comparison for specialised property may be units of comparison other than lineal or area measurement. It may be based on the business potential itself and supported by a second direct comparison unit.

Some units of comparison, reflecting the business potential under average competent management, include but are not limited to:

- (a) Accommodation hotels and motels are often compared on a number of rooms basis.
- (b) Backpackers and Boarding Guest Houses can be compared on the number of rooms and the number of beds.
- (c) Carparks are simply compared on the number of bays although separate consideration may be required for tandem bays, larger disabled bays and small car bays.
- (d) Child Care Centres may be compared on the number of children for which the centre is licensed however there may be different values for the licensed age of the children.
- (e) Cinemas may be measured in terms of seating capacity and number and types of auditoriums. There may be variations considered giving consideration to other items such as concession sales areas and other retail.

- (f) Clubs and taverns may be compared on *rent* occupancy basis which refers to the commonly used principal allocation of *rent* as a proportion of gross sales basis having regard to conference facilities, bars, restaurants, auditoriums and gaming facilities.
- (g) Licensed Premises may be compared on the turnover of various components of the business.
- (h) Hospitals, nursing homes and hostels could be compared on area basis but more appropriately on the number of beds balanced against the level of care.
- (i) Service Stations are often compared on cents per litre of fuel volume, although care is needed with this simplistic approach. The shop to fuel ratio is also a relevant factor and it may be preferable to use a summation type approach for each component of the service station including fuel, shop, workshop, carwash, tanks and pumps/dispensers and with a separate relevant unit of comparison. For example, fuel may be proportionate on gross margin, shop on a percentage of turnover, workshops per bay, carwash per bay, tanks per litre capacity (subject to the capacity needed for the throughput and the type of tank) and pumps / dispensers on a per hose basis.

In all circumstance the application of the evidence must use the same unit of comparison as used for the analysis of the evidence.

## 6.5 Calculating Gross Effective Rent

*Gross effective rent* is the actual liability for *rent* and *outgoings* after adjustments for any *incentives* to the *face rent* are taken into account. Any *incentives* should be converted into a periodic equivalent over the term of the *lease* ('term certain').

Any *effective rent* should represent the most valid interpretation of the transaction concerned for comparison purposes, which may not necessarily represent *market rent*.

*Incentives* are commonplace in *leases*. They may be detailed in the *lease* itself or in a collateral agreement. It is important to ensure when assessing *rent* that all documents/information comprising the agreement are taken into account.

There is inconsistency in the property industry when it comes to calculating the actual value of an *incentive*. A common mistake is to reduce the *incentive* simplistically to a percentage over the term certain. For example, one year rent free in a five-year lease is described as a 20% incentive. What is not stated however is when the rent-free period applies. If it is for the first year of the *lease*, the *incentive* is greater than 20% and, if it is for the last year of the *lease*, the *incentive* will be less than 20%.

The most accurate method of calculating the actual value of the *incentive* is to utilise a cash flow model comprising two components. The first component is the actual cash flow which would include the *incentives*. The net present value of that cash flow is calculated. The second component is to calculate the net present value of a cash flow without the *incentives*. It is then a simple matter of determining, at what initial rent the net present value without the *incentives*, equals the net present value with the *incentives*.

The discount rate to be used depends on the nature of the cash flows. Non-escalated cash flows can be discounted at an equivalent of the capitalisation rate whereas escalated cash flows should be discounted at an equivalent to the internal rate of return. Monthly cash flows provide a more accurate analysis than annual cash flows.



## 6.6 Method of Comparison

The *gross effective rent* is considered to be the best method of comparison unless directed otherwise under the specific *lease*. For example, a *lease* may include a provision such as, “Make no reduction for incentives in the subject lease, available to a tenant in the marketplace or, in any market rental evidence.”

Adjustment is still required in applying the evidence to reflect the actual terms and conditions of the *lease* being assessed. For instance, if the *lease* had increments not reflected in the evidence or the length of tenure differed from the evidence.

## 6.7 GST Considerations

In analysing and reporting market transactions or the *Members* advice regarding *rent*, the basis of GST treatment should be the manner in which the market participants treat GST for the type of property and *lease* in accordance with GST legislation.

## 7.0 Reports

### 7.1 General Requirements

A rental valuation report undertaken in accordance with the IVS should have regard to the requirements contained with *IVS 103 Reporting*.

Unless contrary to the *lease*, a rental valuation report should clearly detail the matters taken into consideration and state detailed reasons for the opinion of *rent* provided.

Reports and/or any other advice should satisfy any requirements contained within the instructions agreed between the *Member* and the instructing party, and may also contain the following information:

- Reference to the instructions received;
- Details of the asset;
- Purpose to which the report may be put and any specific limitations;
- Client and any other parties who can use or rely on the report;
- An appropriately worded third party disclaimer;
- Valuation date, inspection date and date of issue of the report, as applicable;
- The approach selected, and method or methods applied;
- Supporting evidence for comparison purposes (e.g. market rental evidence);
- Details of any assumptions made;
- The conclusion(s) of rent if applicable and explanation for any conclusion(s) reached; and
- Details of any limitations, conditions, or qualifications on the report.

## 7.2 Specific Requirements

### 7.2.1 Application of Evidence for Rental Valuation Reports

It is generally not sufficient to detail a basket of rental evidence and jump to a conclusion. The basket of evidence is used to gain an understanding of a particular market, and this should be stated in the report or other written advice. Where specific evidence is used for comparison the basis of comparison should be clearly stated.

Comparison terminology should be clear to the reader/user of the report or other advice and use appropriate language so there is no confusion as to whether it is the subject property or the comparable property that is being referenced.

- Qualitative Comparison - the subject property is superior / inferior to the comparable property.
- Size Comparison - the subject property is larger / smaller than the comparable property.
- Value Comparison - the pro rata/total *gross rent* applying to the subject property should be higher / lower including potentially to what extent it should be higher or lower than the comparable property and the reasons why that conclusion was reached.

### 7.2.2 Reporting of Areas

When reporting areas, the API *Technical Information Paper – Methods of Measurement* and the standards issued by the International Property Measurement Standards Coalition (IMPSC) should be applied by Members.

### 7.2.3 GST

GST is a complex and detailed piece of legislation.

*Members* are not tax, accounting or legal experts and should recommend that the client conduct their own investigations relating to the treatment of GST in relation to the assessment of *rent* provided.

Notwithstanding the above, the report should clearly state the assumed treatment of GST of the *rent* provided.

*Members* should seek expert advice on GST issues if required.

## 8.0 Effective Date

This *GP* is applicable from 1 July 2023. Earlier adoption is permitted and encouraged.

This *GP* part replaces AVGP 301 – Assessing Rent and Rent Determinations which was in effect from 1 July 2021 and withdrawn 30 June 2023.

*Valuers* undertaking rental determinations, including those instructed via the API Chair Nomination process are directed to AVGP 304 - Rent Determinations.