

NCREIF Timber Valuation Policy Changes

Presented at:



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Outline

- **NTI Best Appraisal Practices**
- **The issue with 2009 NTI returns**
- **Changes to NTI appraisal policy**
- **The changing landscape for TIMOs & appraisers**

NTI Best Appraisal Practices

▣ NCREIF mission → Contribute to development of RE information services → Provide members with transparency around performance → Engender confidence in performance reports → attract \$ to RE as an investment opportunity

▣ Appraisal function is a key part of this transparency

▣ Need for consistency recognized in 2006 survey by Mike Clutter – consistent with Sewall’s internal client survey

▣ NTI formed Appraisal Practices Sub-committee → develop guidelines for NTI data contributors “to improve the quality and consistency of timberland appraisal results reported to NCREIF”

“Best Appraisal Practices” Approved Dec 2000

NTI Appraisal Practices Sub-committee Members

Bret Vicary, Sewall (principal author) | Jeff Mayo, RMK | Bill Lilely Pöyry Consulting | Steve Holland, Campbell Group | Joyce Niggley, RMK | Mike Clutter, Univ. Georgia

Recommendations for external appraisals; not mandatory

11 Recommendations cover two general categories:

Appraiser qualifications

Asset manager administration of the appraisal process

NCREIF (NTI) 2009 Returns – a *disconnect*

- ▣ -6.2% value change in NTI for the year
- ▣ Only 40% externally appraised in 4Q → cluster of prop's around -40%, and a single at +120%
- ▣ 4Q external appraisals alone → -9.9%
- ▣ *Appraiser rotation* caused most of the appraisal increases
- ▣ For NTI data contributors, this placed the focus on:
 - ▣ More consistent inputs for internal appraisals
 - ▣ More frequent external appraisals

NTI Appraisal Policy Changes

▣ Require annual external appraisals

- ▣ Proposal goes before NCREIF board in Sept 2011
- ▣ Would be effective 1Q 2012
- ▣ 1st external appraisal must be by 4Q 2012
- ▣ No proposal to make BAPs mandatory

▣ Develop consistent format for internal appraisals

- ▣ Details yet to be worked out
- ▣ Focus on updating “objective” inputs – e.g., GIS, timber volumes
- ▣ May avoid “subjective” changes – e.g., timber prices, land values, discount rates
- ▣ Clear disclosure to mitigate abuses

The Changing Landscape for Appraisers

- ▣ **What NTI fund reporting may mean for appraisers**
 - ▣ **Appraisers may be asked to appraise fund-level groups of properties?**
 - ▣ **Fund performance more relevant than property-level?**

- ▣ **Broadening reality of whom the “intended user” comprises**
 - ▣ **Comingled investors extend beyond the “client”**
 - ▣ **SEC audits of fiduciaries impinge on appraisers**
 - ▣ **Lenders involved**
 - ▣ **Multiple valuation standards with combinations of domestic & offshore investors in a property or fund**
 - ▣ **Is the appraiser entitled to know who will use the report?**



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Biosketch

Bret Vicary is Vice President of Forestry & Natural Resource Consulting at James W. Sewall Company. A forestry consultant since the late 1970s, he joined Sewall in 1989. Sewall has provided forestland investors with valuation and due diligence services throughout the Continental U.S., Hawaii, Canada, Central America, South America, Australia, New Zealand, & Africa. Typical clients include timber investment management organizations (TIMOs), REITs, pension funds, forest industry, lenders, attorneys, public agencies, and conservation groups.

Bret specializes in timberland investment analysis & appraisal, conservation easements and timber tax litigation. He holds the MAI designation from the Appraisal Institute, is a Faculty Associate at the University of Maine where he earned his PhD in Forest Economics, and is a frequent contributor to the NCREIF Timberland Committee.

The forestry consulting group at Sewall, with offices in Maine, North Carolina, South Carolina, and Minnesota, is the oldest in North America, dating back to 1880. Sewall annually appraises some \$20 billion in forest assets worldwide, and was the lead consultant for the acquisition of International Paper's 5.7 million acres, the largest land deal since the Louisiana Purchase.

Sewall forestry services: appraisal & investment analysis | forest inventory | growth & yield modeling | harvest scheduling | forest management | economic analysis | resource studies | training | litigation support | GIS & mapping | aerial photography

