NIA Inertia

More than a year after the International Property Measurement Standard (IPMS) was introduced, clients continue to request net internal areas as well as IPMS data, Kevin Perrina from Aimcon Surveys reports.

A concept introduced by the World Bank in 2014 through the formation of the IPMS collation and standard setting committee, and made mandatory by the RICS in the UK on 1st January 2016, IPMS was created by organisations from across the globe, which came together to agree one shared international standard for property measurement.

Of course it makes sense to have an agreed standard. The world is an increasingly smaller space and investors are building portfolios of properties in their home countries and abroad. The growth of cross-border property investment and expansion by global corporate occupiers understandably led to a demand for transparency in what previously amounted to many differing national and local building measurement conventions.

When the World Bank first proposed the changes in 2013, the intention of IPMS was to enable buildings to be measured, and the resulting calculated areas to be provided, on a consistent and transparent basis across international borders. The standard certainly increases market efficiency because it gives both investors and occupiers greater confidence by providing consistent property measurements for transactions and valuations.

It was an acknowledged fact that different countries use different floor area elements in transaction and valuation practices and IPMS enables a more efficient comparison through the use of a common measurement language. IPMS 3 – Office refers to the floor area available on an exclusive basis to an occupier, but excluding standard facilities, and calculated on an occupier-by-occupier or floor-by-floor basis for each building. It is similar to the old measurement of net internal area (NIA) but in the period since it became mandatory, I have never been instructed to carry out a survey for IPMS3 - Office without also being required to produce an NIA report.

This is serious because, whilst an IPMS survey costs less than an NIA survey, the cost of doing both is 20% higher than a NIA-only survey. The reason for requiring both measures is that NIA surveys measure the total usable area of floor space, whereas IPMS includes areas which are unusable, such as columns and areas where the floor to ceiling height is less than 1.5m. In terms of value based upon usable space, clients still seem to perceive NIA areas as more accurate than IPMS areas. On average IPMS areas are 8% greater than NIA areas, but experience shows that the difference can be anything from 1% to 13%.

This means that the only benefit of IPMS within Britain is that it is possible to accurately compare the areas of offices between different countries. That is fine when international transactions are involved, but for transactions wholly in one country, it is hard to see value in the additional cost. Adoption of IPMS is being driven by the banks rather than the customer and serves their interests because they are more concerned in the value of their portfolio than the value of an individual property.

The committee conceded from the start that it expected IPMS to work, initially, in parallel with local standards and that there would be dual reporting until the new standards were more familiar and accepted. Even with the dual standards running for almost a year and a half, I don't think total adoption will happen for another generation at least, if at all.

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Separating Measurement from Valuation

The NIA provides the usable area of a floor or building, which means measurement and valuation were one and the same. Negotiations involved argument about what constituted a 'usable' area, resulting in an 'agreed' area to be used for rents etc., which might not be the true area of the building. With IPMS the intention is to separate the measurement and valuation functions and therefore demands a change in the way that surveyors think and work. IPMS provides consistency to measurement reporting across the globe, enabling straight-forward comparison of different buildings. This is particularly important in London's globalised commercial and residential property market, which has seen phenomenal growth in the past few years.

Limited Use Areas

Under IPMS, everything is measured and included in the total area of the floor or building. Certain areas are then detailed out as 'limited use areas' like columns, window cills, areas of limited height and so on. The negotiation between the landlord and tenant

then revolves around the value of these limited use areas to provide the agreed rental figure. In this way the IPMS figure is maintained as the true area of the building and not adjusted as part of negotiations.

IPMS is currently seen as the starting point for negotiations – just as NIA was. Michael Gallie and Partners report that the first report is never the final report. It goes through multiple revisions as one side or the other concedes on certain items - and this can be for every tenant or leaseholder within an overall development. The most effective way to accommodate the subsequent revisions is to scan the building and extract the data from the point cloud when needed. This has the added benefit of recording the site conditions at the time of survey. Often, area reports are required before the site is finished and it is not unusual to get a phone call later asking why certain walls haven't been measured etc. when they didn't exist at the time of survey.

Tom Pugh argues that IPMS has been over-complicated by practitioners and is in fact very simple. He further argues that the new standard is being driven by the RICS and he would indeed like to see it more enthusiastically adopted by the banks.

The move to IPMS should result in measurement being carried out by land surveyors and valuations being made by valuation surveyors, which should in turn be good for the land surveying profession. But in a world where data collection is being ‘democratised’, will valuers be tempted to do it themselves, or will they recognise the value of a professional measurement service?

Compiled from contributions by Tom Pugh, Senior Associate, Malcolm Hollis LLP and Patrick Collins and Sam Lloyd from Michael Gallie and Partners.

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