

# VALUATIONS FOR MORTGAGE AND LOAN SECURITY PURPOSES

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## Table of Contents

1.0	Introduction .....	1
1.1	Scope of this Guidance Paper .....	1
1.2	International Valuation Standards .....	1
2.0	Definitions .....	1
3.0	The Role .....	2
4.0	Instructions .....	2
4.1	Instructions from Lender .....	2
4.2	Other Instructions.....	2
5.0	Report Content .....	3
5.1	Risk Analysis.....	3
5.2	Valuation Approaches.....	3
5.3	5.3 Market Value.....	3
5.4	Value Subject to a Special Assumption .....	3
5.5	Alternative Use Value .....	4
5.6	Price .....	4
5.7	Future Value .....	4
5.8	Recommendations .....	4
5.9	Insurance Replacement Cost Estimate .....	5
5.10	PropertyPRO Pro-Forma Reports (Australia).....	5
6.0	Valuations on an 'As if Complete' Basis .....	6
6.1	Market Value 'As If Complete' .....	6
6.2	Instructions.....	6
6.3	Construction, Cost Estimates, and Inspections by Others.....	7
6.4	Value 'As If Complete' Report Qualifications .....	7
6.5	Value under Construction .....	8
7.0	Exclusions from Market Value.....	8
8.0	Disclaimers, Qualifications, Limitations & Warnings in Advice.....	8
9.0	Effective Date .....	8

## **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 acceptable 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.
- d) convey elements of what is considered "competent professional practice" for Australian Property Institute (API) Members and "best practice" for Property Institute of New Zealand (PINZ) Members and New Zealand Institute of Valuers (NZIV) 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 professional advice from others, or contact the Institute(s). Members have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a GP.

The Institute(s) do 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 any relevant GP or other document relating to a recommended professional practice published by Institute(s) in deciding whether the member acted to a standard required by law.

### **Currency of Publication**

Case law and relevant legislation may change over time and whilst the Institutes(s) consider this GP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings and if necessary, seek further advice prior to having regard to this GP.

### **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) must 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.

Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

### **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)

PINZ/NZIV contact: [standards@property.org.nz](mailto:standards@property.org.nz)

## **1.0 Introduction**

### **1.1 Scope of this Guidance Paper**

This GP applies to Members providing valuation services for mortgage and loan security purposes. Members providing valuation services must do so to the standard of professionalism and skill required and consistent with membership of the Institute(s) and in compliance with the law.

This GP should be read in conjunction with IVS and any other relevant Guidance Notes, and any other relevant publication from the Institute(s).

The Institute(s) do 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 if required, seek additional advice which might include legal advice. Members have the responsibility of deciding when it is inappropriate to follow a GP.

A court or tribunal may consider the contents of any relevant GP or other document related to a recommended professional practice published by the Institute(s) in deciding whether the Member acted to a standard required by law.

Where Members depart from the practices recommended in this GP, it is recommended reasons for not complying are recorded. Members are advised to seek legal and/or other advice before departing from the practice recommended in the GP.

### **1.2 International Valuation Standards**

International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) are adopted by the Institute's. It is the Members responsibility to follow IVS, keep informed of any changes, and apply them consistently in their professional tasks.

## **2.0 Definitions**

The definitions contained below have been included for the interpretation and understanding of certain stated terms used within this GP. Where a defined term is included in this GP it is identified as a capitalised term.

Institute(s)	All references to Institute(s) mean, as the context requires, API, PINZ and /or NZIV.
Member	A Member of the API, PINZ and/or NZIV.
Professional Member Obligations	Professional obligations for Members are contained in a variety of documents published or adopted by the Institute(s).  This includes valuation and property guidelines prepared and published by the Institute(s) and any other professional guidelines adopted by the Institute(s).

### **3.0 The Role**

The primary role for Members is to advise the market value of the asset(s) for mortgage and loan security purposes as at the date of valuation which will normally be the date of inspection (unless otherwise instructed). Additional information, opinion, and advice in accordance with instructions received from the lender should also be provided. The Member may advise factors that could impact adversely on the property as security or the need to reassess the security value if risks eventuate.

Members are required to abide by the API Code of Professional Conduct, API Code of Ethics, NZIV Code of Ethics, PINZ Rules of Conduct, and the requisites of API Certification and NZ valuer registration.

### **4.0 Instructions**

Instructions should generally cover items listed in IVS 101 Scope of Work.

The instructions should be agreed prior to the valuer beginning work, and clearly define the professional services agreement between the Member and the client.

Instructions should include the terms of engagement, asset/s to be valued, purpose of the valuation, reliant parties, intending mortgagee, disclosures, contact for access, any recent or pending sale transactions and details, special assumptions, specific reporting requirements and agreed fees. Any documentation relevant to the task should be included with the instruction such as lease agreements, licences, planning consents, financial statements and plant and equipment schedules.

The Scope of Work and terms of engagement should be annexed to the valuation report.

#### **4.1 Instructions from Lender**

Instructions to Members to undertake valuations for mortgage and loan security purposes are ideally received from the lender. It is important that the terms of engagement are between the party relying on the valuation (the lender) and the Member. Instructions can also be via a third-party panel manager.

#### **4.2 Other Instructions**

It is recognised that at times, intending mortgagors (borrowers) or their agents may instruct Members directly to provide a valuation for mortgage purposes. This could be e.g. 'instructed for an intending mortgagee', or 'borrower instructed for [a specific] ...Bank'. In such cases the Member should disclose this in their valuation report.

Where a valuation is 'instructed for an intending mortgagee', the valuation should be qualified, including that the report cannot be relied upon until consent is granted by the reporting Valuer, in writing. Prior to a Member addressing their report to a lender, if they agree, confirmation of instructions should be received from the lender. A new report is to be issued to the lender which includes the purpose of the report, reliant parties, and any other requirements. See additional documentation published by the Institute(s) relating to Disclaimers, Limitations, Qualifications, Assumptions and Warnings in Advice.

## **5.0 Report Content**

Refer to IVS 103 Reporting.

Refer to lender's standing instruction and any other professional guidelines considered applicable.

APIV Limitation of Liability Scheme requirements include Prudent Lending Clause and Market Movement Clause.

Members must comply with their Professional Indemnity Insurance obligations.

### **5.1 Risk Analysis**

The main risk issues should be addressed. Reporting may include real and potential market related factors and property related factors, which could include cashflow, asset management, planning, construction, approvals, use, function, location, environmental, market, business. The valuation report should reconcile these risk factors with the specific nature of the property. The Member may present in a numerical or graph format or other.

Elements of risk that will assist the lender in making security assessment should be reported. The assessment of the risk levels provides information to the lender relating to probability of that risk and indicates the perceived impact of that risk on value and marketability.

### **5.2 Valuation Approaches**

Refer IVS 105 Valuation Approaches and Methods.

### **5.3 Market Value**

Refer IVS 104 Bases of Value - Defined Basis of Value – Market Value

Owner-occupied property (which includes related entity occupied property) should be valued on a vacant possession basis (unless otherwise instructed).

Some lenders may ask for a vacant possession value where a property is subject to a lease with an imminent expiry and the value of a property on a vacant possession basis is, or is likely to be, significantly different from the value of the property subject to the existing lease.

The Member must report the GST status of their valuation. In NZ that is either; \$MV, GST Inclusive, if any or \$MV, plus GST if any.

An estimated selling period should be provided.

### **5.4 Value Subject to a Special Assumption**

This applies where a Member receives an instruction to assess the value of the asset on an alternative basis e.g. 'as if complete', 'subject to vacant possession', 'subject to a proposed lease'.

If a lender requests a Member to assess the value of an asset subject to a special assumption, the report should include;

- a) market value 'as is'
- b) details of the 'special assumption'



- c) value subject to the 'special assumption'
- d) supporting sales evidence and analysis comments linking to both assessments

Any material difference between the value "as is" and the value subject to the special assumption should be commented upon. A valuation provided based on a special assumption should include a qualifying statement.

See IVS 104 Bases of Value, Premise of Value – Forced Sale, and ANZVGP103 Addressing the Concept of 'Forced Sale'.

## **5.5 Alternative Use Value**

Where the value of a property that is purpose designed for an occupier and is not suitable to an alternative occupant then both the value for that occupant and the alternative use value should be reported to ensure that a lender is fully informed.

Members are advised to refer any instruction to the lender for guidance and clarification if required.

## **5.6 Price**

The Member should make comment on any current or conditional pending sale where it is not confidential and has been made known to the Member.

The valuation report should comment on any difference between their value and the sale price.

Market Value for mortgage security purposes excludes sale incentives e.g. cashbacks.

## **5.7 Future Value**

The market value assessed is at the date of valuation and the Member should not predict future value levels or future market conditions. General market commentary may include current conditions and historical trends.

The Member should highlight any obvious future risks and expand on this pertinent issue within the body of the report, under a heading such as "Risks".

Members should check and must comply with their PI Insurance and APIV requirements.

## **5.8 Recommendations**

A lender may ask the Member to comment on the property's suitability for mortgage security. Members may comment as appropriate. Members should note that lending for mortgage security is a commercial decision of the lender. The report should be qualified accordingly.

[Refer APIV Limitation of Liability Scheme & Resources, professional guidelines - Disclaimers, Qualifications, Limitations & Warnings in Advice, and Member's own PI Insurance requirements.]

Members may provide a synopsis of the risk profile of the property based on the risk analysis assessment. Recommendations to reliant parties may include steps that may be taken to mitigate risks identified.



Unless required by State or Federal legislation or, in the case of New Zealand, legislation such as The Trustee Act 1956 and amendments, the Lawyers and Conveyancers Act (Lawyers: Nominee Company) Rules 2008, or the Securities Act (Contributory Mortgages) Regulations 1988 or any lender whom the Member is aware is acting in the capacity as a Trustee, it is not generally appropriate for the Member to recommend a maximum or minimum loan percentage or amount or recommend a loan period.

The quality of the information provided and relied upon for the valuation report should be noted.

## **5.9 Insurance Replacement Cost Estimate**

If requested to provide an insurance replacement cost estimate for insurance purposes, the report should include an indication of the reinstatement cost of the buildings and other built improvements, or proposed buildings or other built improvements to be constructed as at the date of valuation.

A summary for insurance replacement cost estimate, without workings, could be provided. Insurance replacement advice should be qualified, referencing published guides relied upon.

Insurance replacement cost estimate should include:

- a) costs for demolition, site clearance and removal of debris.
- b) reconstruction costs including professional, council and statutory authority fees and charges.
- c) an allowance for cost inflation through the insurance period from the date of valuation.
- d) an allowance for cost inflation during the approval and re-construction period.
- e) an appropriate contingency allowance.

The insurance replacement cost estimate is an indication only and is provided by Valuer Members who are not experts in construction, construction cost and/or engineering matters. [Members should not hold themselves out to be experts in this field unless they are so qualified, and reports should include disclaimers as such.]

Where the Member does not have the required expertise to provide an insurance replacement cost estimate due to e.g. the specialised nature or heritage nature of the building improvements, the Member should advise the lender to engage the services of a suitably qualified Quantity Surveyor or similar with sufficient experience.

## **5.10 PropertyPRO Pro-Forma Reports (Australia)**

To assist its Members to serve residential mortgage clients, the API has developed the PropertyPRO 'Residential Valuation and Security Assessment' pro-forma report and supporting memorandum (PPSM) for mortgage purposes.

Members engaged in providing PropertyPro reports are also encouraged to familiarise themselves with 'The Australian Banking and Finance Industry - Residential Valuation Standing Instructions' (ABFI RVSI) as updated and amended from time to time and to observe these instructions where relevant.

If there is conflict between the PPSM and ABFI RVSI, PPSM is the authoritative document.

## 6.0 Valuations on an 'As if Complete' Basis

See IVS 410 Development Property

### 6.1 Market Value 'As If Complete'

If the valuation assessment is conditional on anything, either physical or legal occurring, the Member must assess the market value on an 'as if complete' basis.

The value 'as if complete' is assessed utilising relevant documentation. This could include plans, costings, scope of works, any proposed tenancy agreements, and any other pertinent information.

A valuation 'as if complete' assumes the proposed work is already completed at the date of valuation and reflects the market conditions at that date.

In the report, the Member should reserve the right to review and if necessary, vary the valuation if there are changes to the project and/or other relevant terms of the proposal.

An existing market value (or 'as is' market value) should be provided where an 'as if complete' valuation is issued.

### 6.2 Instructions

Instructions from clients to value proposed improvements should clearly confirm the basis of valuation (e.g. 'as is', 'as if complete', 'vacant possession', 'subject to the proposed lease to ABC Pty Ltd').

Instructions ideally include:

- a) Documents detailing the consent authority, date of consent and conditions of approval.
- b) A copy of the builder's quotation, contract or tender.
- c) In the case of an owner-builder, a schedule of costs on a trade-by-trade basis and including as relevant, the builder's licence number or the owner-builder's licence number.
- d) Full copies of plans. Approved copies should be sighted but if they are not available at the time of instruction, the valuation should be appropriately qualified.
- e) Copies of any quantity surveyors report where relevant.
- f) Scope of works and schedule of fixtures and finishes noting any works not being carried out by the builder
- g) Copies of any agreements to lease or other form of pre-commitments if applicable.

If the information the valuer requires to complete the task is not supplied, the lender should be advised, and the further documents requested.

### 6.3 Construction, Cost Estimates, and Inspections by Others

In undertaking a valuation of a property, a Member should not hold themselves out as having qualifications in a building/structural discipline unless they have such qualifications. The report should be qualified accordingly.

Where a Member is requested and has requisite skill and experience, a check cost can be made and reported utilising cost-guide publications. Such reporting is not recommended for complex residential or complex commercial property.

In the event that Members lack the requisite experience they should recommend and advise the client that an assessment of costs or a report on any departures from acceptable standards of construction and/or relevant Australian and New Zealand Construction Standards be provided by another suitably qualified person e.g. Quantity Surveyor.

Any significant difference between a tender and a check costing should be advised, and a recommendation made for the lender to obtain further advice from a suitably qualified person.

A Member should recommend a suitably qualified person conduct progress inspections throughout construction if appropriate.

### 6.4 Value 'As If Complete' Report Qualifications

A Member, in assessing the market value of a on an 'as if complete' basis should qualify their report accordingly and reserve the right to review their valuation if the completed state varies from original instructions.

The report should include qualifications such as:

- a) Conditional upon satisfactory completion of the improvements in accordance with the plans, specifications and details as provided.
- b) Issue of all relevant approvals.
- c) An assumption that the plans provided (if not consent authority approved) are the same as those that are consent authority approved.
- d) A condition that no construction funds should be released until the approved plans are sighted and confirmed as being the same as those relied upon for the valuation.
- e) Sighting of any reports from other experts who have provided advice in aspects of the construction of the buildings.
- f) An assumption that construction will be completed satisfactorily with the above documents, the Building Code of Australia and in New Zealand, NZ construction codes.
- g) That all necessary final certificates are issued on completion i.e. building completion certificate under the appropriate legislation.
- h) Such other matters/issues that the Member is of the opinion should be drawn to the attention of the client.
- i) Assumptions about the level of occupancy 'as if complete'.

## **6.5 Value under Construction**

If construction is in progress and an 'as is' value is also required, consideration should be given as to whether or not the cost of the work to date is fully reflected in value. It should not be assumed that the added value of the work to date equals the cost of the work. Comment could also be made about the marketability of a partly completed project.

## **7.0 Exclusions from Market Value**

In Australia, chattels are not normally included in a valuation of real property for mortgage and loan security purposes. (If such items are included, this must be clear to the reader of the report and would only be in response to lender instructions e.g. circumstances such as a serviced apartment in use subject to a management agreement.)

When undertaking a valuation of a residential property, for mortgage security purposes, the API supports the inclusion of the following items in the reported assessed market value:

- a) fixed floor coverings.
- b) window coverings; and
- c) light fittings.

In New Zealand, PINZ supports the exclusion of the items below and that they are to be listed as a chattel amount in residential mortgage valuations.

- a) fixed floor coverings.
- b) window coverings; and
- c) light fittings.

## **8.0 Disclaimers, Qualifications, Limitations & Warnings in Advice**

Members should familiarise themselves with other publications from the Institute(s) relating to 'Disclaimers, Limitations, Qualifications, Assumptions and Warnings in Advice'. Where any uncertainty regarding the use and placement of these exists, Members should obtain their own legal advice and ensure their report satisfies requirements.

## **9.0 Effective Date**

This GP is effective from 1 July 2021.

The Institute(s) permit early adoption from the date of publication/release and is encouraged.

In Australia, ANZVGP112, replaces ANZVTIP 12 effective 1 October 2019 and was withdrawn 30 June 2021

In New Zealand ANZVGP112 replaces ANZVTIP 12 effective 1 January 2020 and was withdrawn 30 June 2021