



Australian Property Institute

**9.0 - PP 1 PropertyPRO™ Residential Valuation and
Security Assessment Pro-forma Supporting Memorandum
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*PropertyPRO*TM Residential Valuation and Security Assessment Pro-forma Supporting Memorandum

PP 1: 1.0

Introduction

Purpose

PP 1: 1.1 The purpose of this Supporting Memorandum is to provide an explanation of the Australian Property Institute (API) *PropertyPRO* "Residential Valuation and Security Assessment" Pro-forma Report for Mortgage Purposes.

Scope

PP 1: 1.2 This Supporting Memorandum applies to Members of the Australian Property Institute (API) using the *PropertyPRO* "Residential Valuation and Security Assessment" Pro-forma Report for Mortgage Purposes. It is also for the guidance of Mortgage Clients and related third parties who rely on such reports, to acquaint them with:

- initial instructions to the Valuer and what information should be provided,
- the information the Valuer should provide in the report,
- the matters the Valuer may provide restricted comment on,
- what the valuer should do in the event of a departure from any provision,
- matters the Valuer understands will be checked by the lender and/or its solicitor (and which may subsequently be referred back to the Valuer for comment), and
- the information and documentation the Valuer could be expected to hold on file.

Copyright

PP 1: 1.3 The Institute reserves Copyright of the *PropertyPRO* "Residential Valuation and Security Assessment" Pro-forma Report. This has been deemed necessary to retain the integrity and consistency of the report format. The Report format is available through the Institute under the *PropertyPRO* Trademark. It is produced out of a database program that is only available to Institute Members.

Certification

PP 1: 1.4 Valuers using this report format certify that the report is made in accordance with this Supporting Memorandum and advise that the report must be interpreted with it.

Brief Report For Residential Mortgage Purposes Only

PP 1: 1.5 It should be noted that the format is specifically designed for the purpose of providing a brief report on residential property for mortgage purposes only and is not designed for use for other purposes. The Institute recommends that lenders request Valuers to provide more comprehensive reports:

- where the property has significant potential for re-development or where a major redevelopment project is proposed, or
- if special circumstances warrant, such as potential for an alternative non-residential use.

Use Encouraged

PP 1: 1.6 Subject to PP 1: 1.5, the Institute encourages residential mortgage lenders and related third parties to require Valuers to use the *PropertyPRO* format. The Institute also asks its Valuer Members to provide the format to residential mortgage clients who do not specify a particular report format and to encourage its use in the interests of consistency and quality.

Feedback Invited

PP 1: 1.7 The report format (and the computer program), have been produced after extensive consultation with, and feedback from, parties involved in the residential mortgage process. On-going feedback is invited so that the Institute can facilitate up-grading of a system which produces a report format that continues to meet the needs and requirements of the majority of those using or relying on it.

PP 1: 2.0 Initial Instructions to Valuer and Supply of Information

Standing Instructions [CF2] **PP 1: 2.1** It is normal and appropriate for clients requiring frequent reports, to appoint panel Valuers to whom standing instructions may be issued and with whom, in some instances, a service contract may be entered into. Model Standing Instructions can be found in the Client Focus section of 'Professional Practice' to be produced annually and due for first release in September 1998.

Instructions in "writing" **PP 1: 2.2** Instructions for individual reports are normally provided in "writing". Any instructions transmitted electronically should be produced in a hard copy form for retention in the Valuer's file. Any instructions provided verbally in the first instance should be confirmed in "writing" by the client, or failing that, it would be prudent for the Valuer to confirm the instructions in "writing" and retain a file copy.

Desirable and Necessary Detail **PP 1: 2.3** While a Valuer can in due course produce a report after being provided with very little information by the client, considerable extra time and cost will be involved for the Valuer in ascertaining necessary detail. Where some information is not readily available to the Valuer, the report may be "qualified" to the extent of that information. Where necessary information is already in the hands of the lender, its provision to the Valuer should enhance the reliability of the report. One of the purposes of the short-form report however, is to facilitate an expedited, cost-effective report. To achieve these benefits, *as much of the following information and documentation as possible* should be provided in or with the instructions for a Residential Valuation and Security Assessment. Some of the information may be obtainable by the intending borrower from the selling agent where the property is for sale. (For Clients' assistance, a publication to be released around September 1998 titled "Professional Practice 1999" will contain a Model Request Form in the Client Focus section). The information shown below in ***bold italics*** is considered the most crucial information required.

[CF 3]

- Valuer the name of the firm to which the instructions are addressed
- Date(s) date of request
date required (if applicable and not a contract condition)
- **Lender** ***the name of the instructing organisation***
appropriate references and organisation contact details
- Borrower name(s) of borrower(s) and any reference number(s)
- Loan Amount \$
- **Property Address** ***full street address, locality name*** and postcode
- **Title detail** ***legal description***
copy of search or title document
copy of deposited or registered plan, strata or unit plan or survey report
- **Property Type** ***e.g. Dwelling, unit, hobby farm***
- **Contract Price** ***If current sale involved (or price and date if recent sale)***
- Extracts from Copy of Contract Copy of any special conditions, certificates, etc.
For residential investment properties, serviced apartments and community title, access to the contract should be arranged for the valuer. A special fee may be appropriate for perusal of any substantial extra documentation.
- Borrower's Estimate If no current or recent sale is involved
- **Contact for Access** ***Contact's name*** (if property has been sold or leased, the names of any real estate or leasing agents involved should be provided)
Contact's Phone number(s) – and whether am or pm

- If Tenanted Tenant's name, rent being paid and expiry date
- Special Instructions Any applicable
- **Tender Details** If proposed dwelling, renovation or extension:
Arrange for the valuer to receive:
Copy of latest tender or quote with priced schedule of fittings/PC items.
Copy of plans and specifications preferably approved.
 Builder's name and licence details
- Any Other Relevant E.g. Zoning certificate, development approval, pest report, etc.
- **Report Dispatch** **To where and how the report should be forwarded.**

PP 1: 3.0

Information which should be Provided in the Report

Layout Designed to Facilitate Easy Checking

PP 1: 3.1 The *PropertyPRO* Residential Valuation and Security Assessment Pro-forma report layout intentionally has most of the key information, the risk analysis, valuation and assessments (and their certification) on the first page, while supporting information, data and comments follow. While this is primarily to facilitate easy checking by the lender and/or trustee and mortgage insurer, **it is recommended that the whole report be read.** The risk analysis on the front page with its graphic presentation particularly serves to draw immediate attention to any risks rated 'Medium to High' or 'High', and to appropriate comments later in the report.

Property-Specific and Market Related Risks

PP 1: 3.2 It is particularly intended that the report will contain not just a current value assessment, but also sufficient and appropriate information to advise the lender and/or trustee and/or any authorised mortgage insurer, of property-specific and market related risks associated with mortgage lending on the property. It is intended that this will not merely provide "point in time" information but also forward-looking advice to provide guidance to the client on the period of initial exposure.

Brief Facts, Points and Concise Statements

PP 1: 3.3 As the report is a pro-forma report, it should present its information in brief pertinent facts, points and concise statements rather than elaborate detail (especially that which is not significant to the client and the purpose). However, inherent and external features impacting significantly on the property should be adequately noted. The report should not be loaded with generic statements that add little real worth to the individual report. The format has been designed to suit a majority of situations. Where required, the "Comments" section can be expanded to cover less common properties and "one-off" situations. While the first page is fixed length, some fields on the second page have the capacity to expand, creating an extra page (or more) if needed.

Information in Report

PP 1: 3.4 Information to be provided in the report under each main section's sub-headings is outlined briefly below in those instances where some clarification may be warranted. Annexure 1 provides a worked example report for an existing dwelling. It indicates the type of information sought in that instance. There are minor form variants for strata and proposed dwellings/extensions/renovations, and for properties subject to long term lease. Some label variations are available to suit particular situations, e.g. 'Built About'/'Year Built', while others only appear if relevant, e.g. 'Actual Rent'. A 'vacant land' variation deletes a number of headings.

Item	Requirement
Lender	The lending organisation's name. Where parties other than the lender (e.g. lender's mortgage insurers and securitisers) are required to be noted on the report, these will be inserted at the end of the document.

Lender and Borrower References Provide field labels relevant to those used by the lender.

1. PROPERTY SUMMARY

PROPERTY ADDRESS: Street Address, including State and Postcode

TITLE DETAILS: Legal Description of parcel(s) of land

Encumbrances/Restr'ns: Type, extent and location of encumbrances or restrictions

Site Dimensions: Shown using convention of frontage/rear then one side/other, but where no ' / ' is shown, indicates same dimension for each.

ZONING/INSTRUMENT: Status of zoning and name of zoning scheme/plan

LGA: Local Government Area name

MAIN BUILDING: Broad type classification
e.g. Dwelling, Residential Unit, Duplex, Vacant Land, Other

No. of Bedrooms Include sleepouts

No. of Bathrooms Include ensuites

Current Use: To alert the lender to situations where main building not used for its designed purpose.

Built About/Year Built: "About" is used more often as the exact year built is often not readily ascertainable. An alternative label "year built" is available for selection in instances where the exact year is known.

Addition(s): Aims to alert the lender to the possible need for an updated survey if addition(s) made since most recent survey available to lender or its solicitor.

Actual Rental/until: Noted in instances where rent is being paid and is readily ascertainable. 'Until' indicates the expiry date of the current term on the tenancy/lease. These insert in the report only when applicable. Where a lease is for a term exceeding six months, this detail should be included. The market value assessed should reflect this lease and the valuer should also provide a separate Vacant Possession Basis value.

AREAS: Rounded to one decimal place. Practical use of most measuring systems will not produce results reflecting any greater accuracy. In many instances the nearest whole number will be realistic.

Outdoor areas include areas of open verandahs, patios, pergolas, porches, etc. Their individual areas are aggregated for the purpose of these reports.

MARKETABILITY: A brief comment as an overall rating of the ease of sale of the property i.e. how saleable is the property? If it is not in keeping with market expectations for the area, does it adversely impact on ease of sale? How do the inherent and external features of the property impact on its market appeal? Does it have features which could make the property harder than average to sell? Low ratings need to be explained in 'Additional Comments'. (Marketability in this instance is not intended to be a comment on the condition of the market). Expand as necessary in 'Additional Comments'

Heritage Issues: Do any heritage issues, either adverse or beneficial affect the property? Requires a 'Yes' or 'No' response. If 'Yes', further comment required over page.

ENVIRONMENTAL ISSUES

This should record any aspects that currently impact on the property or may impact periodically or infrequently. It covers matters such as (but not limited to):

- Flooding or significant surface run-off
- Landslip
- Erosion
- Urban salinity
- Acid sulphate soils
- Mine subsidence
- Noise nuisance (aircraft, road traffic, industry)
- Air pollution
- Contamination - observed, potential, or notified issues that the Valuer has become aware of, **either on the subject property or arising from neighbouring properties**, that may impact on the value or marketability of the subject property.

[GN 15]

Any of these matters may warrant a report by appropriately qualified experts or a certificate from an appropriate authority.

The Valuer is not normally an expert in these matters. The Valuer's role is to **assist** in identifying issues in the first instance and to recommend any further reports or certificates for confirmation or clarification. (Any issues or uncertainties should be explained more fully in 'Additional Comments'). Should any issues be subsequently confirmed, the Valuer should be asked for further comment in view of any certificates or other experts' reports (and their estimated costs of remediation or recommended work).

Where no cause for concern is identified the Valuer may comment "none readily apparent" or "unlikely in this area" or similar.

ESSENTIAL REPAIRS**Indicative Cost Estimate**

List significant items only, which if not attended to, could cause significant deterioration and loss in value or could have a significant adverse effect on marketability. Where the total cost is significant, say more than \$5,000, the lender will need to be informed as it could affect the borrower's cashflow and ability to meet repayments. (A more detailed list may be included in the 'Additional Comments' section if necessary). The report is not intended as a structural or building survey report though the Valuer may report on observed defects or other matters of concern. **'Indicative Cost Estimate'** is a guide or allowance only pending a qualified builder's or trades person's quote.

The 'Existing Property' value reflects the current condition. Where there is an 'Indicative Cost Estimate' shown for Essential Repairs, a 'Value after Repairs' can be provided immediately below the current 'Market Value'.

TBE (To Be Erected)/ Extension/Renovation

TBE will show and applies only where a building project is involved, i.e. a new building. A separate heading is available for an extension or substantial renovation. The valuation provided in each instance will be on the basis of 'As if Complete'. In each case builder's name and tender details should be shown.

Check Cost:	This is the Valuer's estimate of the cost of the project under contract builder conditions. The purpose is primarily to identify if the tender is in line with market costs and if any significant items have not been included. It is not expected that a detailed costing will be conducted. An overall rate per square metre check weighted for variable factors will often be adequate for the purpose. Incentives should be excluded. If the Check Cost is significantly different to the tender, the possible reasons and risks should be explained in "Additional Comments".
Information Supplied	The Valuer should indicate what information has been supplied including an indication as to whether the plans and specifications sighted have been "Council approved".

2. RISK ANALYSIS

The Risk Analysis indicates the level of **adverse impact** each stated aspect has, or (based on information that is common knowledge and/or readily ascertainable in the market and reasonably foreseeable events), in the near future, might have on the property's value and marketability. Each Risk Rating is presented in a combined numerical and graphical format aimed at providing a bold, clear caution indicator to the lender. In the case of higher level ratings, it also provides an indicator of the presence of relevant comments in the 'Additional Comments' section on the following page.

..... Risk Ratings

Risk Ratings focus on four property-specific aspects and four market-related aspects. Each of these aspects can involve consideration of a range of elements relative to it. Any other significant risks identified, which do not come under these aspects, should also be commented upon in 'Additional Comments'.

..... not a highly technical analysis

It is not intended that the valuer would conduct a highly technical analysis. Provided the valuer has adequate experience in the type of property and the particular market, reliance may be placed on up-to-date, broad knowledge of the dynamics of the market in which the property is situated. Otherwise, a valuer with that experience should supervise the valuer's work or sufficient research should be carried out to provide an informed opinion.

..... level of adverse impact or risk

It is accepted that each aspect is likely to have some possibility of adverse impact or risk, however low or nominal. Therefore, low or nominal adverse impacts or risks are rated as "1" and are graphically depicted as a short bar. High adverse impacts or high risks are rated as "5" and are graphically depicted as a long bar. The ratings are approximate only. It is not intended that ratings be given other than in whole numbers.

..... the risk ratings

The ratings which are outlined below the bar graphs are:

"1" - Low

"2" - Low to Medium

"3" - Medium

"4" - Medium to High

"5" - High

Any Risk Ratings of 4 or 5 or the existence of three or more "3" Risk Ratings MUST BE EXPLAINED in the "Additional Comments" section.

Ratings of “3” or below may be commented on.

For the purpose of these reports, the risk rating reflects:

- the level of adverse impact the stated aspect has upon the current value and/or marketability of the security property, and/or
- the **currently perceived** level of adverse impact the stated aspect could have on the value or marketability of the security property within the initial 2-3 year period of the security.

..... adverse impact

Adverse impact in relation to a property can arise from such things as:

- where it is and what it is near or not near,
- what it is subject to or does not have the benefit of,
- what it does not provide but the market expects,
- what defects it has,
- what external controls it is subject to,
- its micro and macro economic environment,
- the dynamics of the local real estate market,
- the specific dynamics of its market segment.

The number of possible factors would be extensive, so no attempt is made to list them all here.

..... extent of impact

The extent of the impact needs to be seen in terms of the local market and the effects on marketability and value. What may cause a significant adverse impact in one market may have low impact in another. The extent of their individual adverse impact can vary significantly, so no attempt is made in this memorandum to provide a standard grading for various impacts.

..... adverse and favourable impacts offset

The rating adopted for each of the listed aspects requires a balanced overview for that aspect. Properties often have many beneficial features. Adverse impacts need to be weighed against strengths or favourable impacts under the same aspect. For example, when considering the aspect ‘Location & Neighbourhood’, a significant adverse impact may result from being adjacent a petrol station. However, across the road is parkland lined with Norfolk pines and beyond that a surf beach, all of which can be seen from the subject property. In the local market, the benefits of the latter far outweigh the adverse impact of the petrol station and the overall rating adopted is “2” - Low to Medium.

..... comment on high individual adverse impacts

The valuer is not required to provide additional comment for **overall** ratings below “4”. However a comment would be warranted on a significant adverse impact (that individually would rate “4” or “5” but is off-set by strong beneficial impacts in the same aspect to produce an overall rating below “4”).

..... cumulative impacts

While there can be offsets in the overall rating for an aspect heading such as the above, there may also be cumulative effects from several adverse impacts. For example, the location may be 10 km from the CBD, there are no neighbourhood shops nearby and properties nearby are generally old and poorly maintained. Individually these might be rated at “2”, but the cumulative effect may warrant a rating of say “4” for the ‘Location & Neighbourhood’ aspect overall.

..... common knowledge and reasonably foreseeable events

The basis of any “forward-looking” element of a rating is restricted to information that is currently common knowledge and/or readily ascertainable in the market and to events that are reasonably foreseeable. Information which is “privileged” cannot be reflected in the rating.

..... effect of higher level risk ratings

Higher level Risk Ratings of 4 or 5 do not necessarily mean that a property is not suitable security, though they may influence the lenders’ decision on the amount loaned or the LVR.

..... level of lending

The ratings themselves do not reflect the intended level of lending, as this is a decision for the lender.

A brief explanation of each aspect is outlined below:

Property Risk Ratings

Location & Neighbourhood

This Risk Rating reflects an overall rating for these two aspects. Refer to comments below re section 4 of the report for details on ‘Location & Neighbourhood’.

As an example, the neighbourhood is on the fringe of town, very near an area under investigation for rezoning to industrial use and is considered likely to result in a change of zoning to industrial. This possibility has not had any significant impact on prices at this stage. The likelihood of a change to the neighbourhood is seen as posing a medium to high risk of an adverse impact on the value and marketability of the property in the next few years. ‘Location & Neighbourhood’ is given a Risk Rating of 4 and must be explained in the “Additional Comments” section.

Land (incl. planning, title)

Land in this instance refers not only to the land physically, but also to access, services, planning and title.

For example, the land is steep requiring a particularly steep driveway. This is considered to have a low to medium impact on the value and marketability of the property and ‘Land’ is given a Risk Rating of 2. No comment is required but nevertheless it may be provided in the Comments section if not already noted under ‘Site Description & Access’.

Environmental Issues

This aspect of the Risk Analysis covers a range of environmental issues including contamination (refer Environmental Issues heading above).

For example, a property may be in an area mildly affected by a 1:100 year flood event that may warrant a “3” Risk Rating for the current adverse impact on marketability and value. In addition however, a new jet standard airport is under construction nearby and the property is under the flight path. This alone warrants a “Medium to High” or “4” Risk Rating. The cumulative effect of this with the rating for the flood situation warrants a “5” rating overall for this aspect. Comment is required.

Improvements

This aspect refers to all improvements, whether the main building or ancillary improvements (and for a TBE - Proposed Dwelling, Extensions or Renovations, would include concerns about aspects of the project or tender).

For example, there may be evidence of old, minor white ant damage that justifies a pest report as a precaution.

White ants are known to be a common problem in the general neighbourhood. A Risk Rating of "4" may be warranted pending a satisfactory report (requiring comment). There would obviously be an on-going risk which in itself may be rated at "3" and may warrant a recommendation for an annual pest inspection report.

As a further example, a 1.8 metre high retaining wall beside an in-ground pool is badly cracked and has bowed out considerably. A neighbour's garage is close by and could be endangered if there is a collapse. This has a significant adverse impact on the value of the property due to the cost to make good and the risk that it could collapse beforehand, taking the neighbour's garage with it. Due to the potential seriousness and urgency, a Risk Rating of "5" may be warranted (requiring comment), and a recommendation for an engineer's report.

Yet again, the improvements may not be in keeping with the expectation for the locality. This could increase the risk by reducing its marketability and increasing the selling period.

Market Risk Ratings

Reduced Value next 2 - 3 yrs

This Risk Rating is an indication of the level of risk of this property reducing in value over the next 2-3 years. It is a forward-looking summary rating taking into account aspects affecting, or likely to affect, the value of the property. The assessment is made on the basis of information that is common knowledge and/or readily ascertainable in the market and having regard to reasonably foreseeable events as at the date of the assessment. The rating cannot be expected to reflect information that was not common knowledge, or conditions, events or circumstances that occur subsequently or unexpectedly.

Market Volatility

This aspect reflects the risk of the market changing direction rapidly and having a significant adverse impact on the value of the property. While this will reflect historical performance, reasonably foreseeable events should also be taken into account if they are likely to change the pattern of volatility.

For example, an area has tended to experience moderate "boom – bust" cycles. It may warrant a Risk Rating of 4 if the next "bust" could happen in the next 2-3 years (which must be explained in the Comments section). The more severe the likely bust could be and the sooner it might occur, the higher the risk rating. Prospects of an imminent, sharp and severe bust could be a "5".

Local Economy Impact

This aspect reflects the extent to which a significant change in the local economy is impacting adversely and/or the risk that it may impact adversely on the value of the property in the 2-3 year time frame.

For example, in a small town, there may be the prospect of a major business or industry closure or downsizing, though it has not been confirmed or happened yet. A Risk Rating of 4 may be warranted at this stage (which must be explained in the Comments section).

Lenders and related third parties should note that the

Market Segment Conditions

global economy impact on the Australian market generally is not addressed unless it specifically impacts on the particular local economy. A market with significant foreign investment could warrant a higher rating and comment if conditions overseas meant foreign investors were starting or likely to sell out or withdraw interest in the market.

This aspect reflects the extent to which the condition of the market in **this particular market segment** is impacting or may impact adversely on the property.

For example, the market for inner-city medium quality residential units may currently be strong, however a significant over-supply is emerging. A Risk Rating of 4 or even 5 may be appropriate (which must be explained in the Comments section).

3. VALUATION & ASSESSMENTS SUMMARY**Interest Valued**

This will normally be Fee Simple with Vacant Possession. The "fee simple" indicates the nature of the interest in the property, while the "vacant possession" reflects that the property would transfer with that occupancy status.

Even if an interest in fee simple is held, a property may be subject to a long lease that could prevent vacant possession being available until expiry. In this case a value subject to long-term lease is provided, however a vacant possession basis value is also provided.

An interest less than fee simple can be held. If so, the nature of the interest should be stated and its effects explained in the Additional Comments section.

Valuations

The report can include various valuations depending on the type of property and the circumstances:

- **Existing Property** - showing both the land value and the added value of improvements as components of Market Value. This presentation of figures is suitable for any developed property (but not strata). Further, where a significant Extension/Renovation project is involved or significant repairs are required, there is also provision for an 'As if Complete' (see below) valuation to be included immediately below the Existing Property 'Market Value'.
- **'As if Complete'** - for use with TBE/Proposed Dwellings primarily. 'As if Complete' is an assessment which envisages the proposed work as if it is already complete at the date of valuation and reflecting the current market. **It does not attempt to anticipate what the market level will be when in fact the proposed work is completed.**

For 'As if Complete' basis valuations, the lender should request a final inspection by the Valuer to confirm satisfactory completion and to confirm the valuation as at the original report date (this will not normally be an updated valuation unless specifically requested).

- **Vacant Land** - while this report variation shows the land value, it also provides for showing the added

value of minor improvements to arrive at market value.

- **Strata Title Property** - for use with residential units. This shows a single figure only as land value is not relevant to strata.
- **Vacant Possession Basis Value** - where more than 6 months of a long term lease remains, the valuer should provide the market valuation of the property subject to the lease. In addition a fee simple vacant possession basis 'Market Value' should be included also.

The main valuation in each instance is shown in both words and figures.

The valuations are 'point in time' assessments relevant to the date of valuation (date of inspection). Real estate markets are dynamic and subject to change. However, several of the aspects under the Market Risk Ratings heading ('Reduced Value next 2-3 yrs.' and 'Market Volatility') should be helpful in indicating the 'sustainability' of the assessed value level.

Market Value

A single figure amount is recorded for the market value in line with traditional valuation practice. The figure will normally be arrived at after consideration of several valuation approaches such as Sales Comparison and Summation. The Capitalisation approach may be used for investment property that is subject to a long-term lease. Immediately above the market value is an apportionment of that value into its main components - the value of the land and the added value of the improvements. For Strata Title property a single value only is recorded, as an apportionment is inappropriate.

As an additional security measure, the 'Market Value' is also provided in words.

The market value assessed by the Valuer relates to the market conditions existing at the date of valuation (which will normally be the date of inspection).

Market value is defined as

'The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'

A detailed explanation of market value will be found in the General Concepts, Principles and Definitions section of 'Professional Practice 1999' (and subsequent editions).

Market Value does not envisage an indefinite marketing period, nor does it state a time period. It should reflect a typical marketing period for the class of property. Conceptually, this period is envisaged as having preceded the date of valuation.

If a typical marketing period in any location appears to be more than three to four months, the Valuer should provide an estimate of the likely marketing period necessary to achieve the assessed 'Market Value'. In such circumstances, the valuer should also provide a statement of the dynamics of that market in the 'Additional Comments' section.

Market Value should reflect the level of risk that would be

apparent to 'knowledgeable' and 'prudent' parties. It should not include risks that are not market knowledge. It does not attempt to predict the future.

If the valuer is in possession of information that is not market knowledge and it could impact adversely on the property in the foreseeable future, the valuer should provide special comment in 'Additional Comments' provided it is not privileged information.

The valuation does not reflect mortgagee-in-possession or other forced sale circumstances where the realisable price under certain market conditions is likely to be less than market value. A forced sale value can be provided in the future should such circumstances arise and should then be accompanied by appropriate advice reflecting the then current market conditions and selling circumstances.

(Chattels)

The Institute supports the inclusion of the following chattels in mortgage valuations:

- fixed floor coverings,
- window coverings, and
- light fittings.

It should be noted however that at law these items may be regarded as personal property as opposed to real estate. Therefore, where high percentage lending is involved, a lender may choose to secure such items by an appropriate charge or specifically instruct the valuer to exclude them (which could be noted in 'Additional Comments'). Chattels not included are furniture that is not built in, loose floor coverings, lamps and items not fixed with the intent that they are to remain in place and pass with a sale of the property. The report will not normally indicate separately the value of chattels included in the valuation.

Other Assessments

The report could include other assessments depending on the type of property and the circumstances as noted below:

- **Rental Value Unfurnished.** This reflects the most probable market rental for the property assessed in the same condition as the property is valued. The rental is not to include rent for furniture unless:
 - a charge is held over the items,
 - the charge is sighted by the valuer,
 - a copy is annexed to the report, and
 - the valuer makes specific note of the inclusion of furniture in 'Additional Comments'.
- **Replacement Insurance.** This is an assessment of an insurable sum under replacement and reinstatement conditions. This would normally include:
 - estimated current construction cost,
 - provision for cost escalation during period of insurance and rebuilding process,
 - allowances for demolition and clean up, and
 - professional fees.

Cost of alternative rental accommodation is not included. In some instances a lender may require variations to these. Provided any variations are

recorded in the standing instructions to the Valuer and the lender's name is recorded on the report, it should not be necessary to specifically note the variation on the report.

Where a TBE, Extension or Renovation is involved, the assessment for Replacement Insurance should include the proposed work. No assessment is provided for a strata unit as insurance will normally be the responsibility of the Body Corporate for the whole development.

- **'x' day Sale Value.** If a lender specifically requests that a value be assessed reflecting a shorter (or longer) marketing period than the market currently reflects, a further assessment may be provided under 'Other Assessments'. The number of days for the restricted marketing period should be stated. As this valuation would not likely meet the 'after proper marketing' provision of the Market Value definition, it should not be provided in the 'Market Value' position (where it would reflect 'after proper marketing'). See 'Market Value' above. Where this value is requested, a copy of the client's written instructions to provide it should be retained on file.

Recommendation

It might be noticed that no provision for a security recommendation is included in the report. The decision as to the suitability of the security is a commercial decision for the lender. That decision may not only be based on the content of the report but may also extend to factors beyond the property itself.

It is not normally appropriate for the Valuer to recommend a loan to valuation ratio (LVR) or percentage to advance. However, if a lender specifically requires either a security recommendation or an LVR, it could be included in the 'Additional Comments' section.

Rec. Documents to Sight

The recommendation should only include those certificates and documents considered **essential** for the particular property to ensure the value ascribed to it is confirmed. There should not be an "automatic" list; only after individual consideration should they be included.

Some documents (whether nominated by the valuer or not), may reveal matters not disclosed in the valuer's report. If they might impact on the value, marketability or risk analysis, they should be referred back to the valuer for further consideration, comment and confirmation or otherwise of the valuation.

While the report may identify or comment on various aspects to alert the reader to various issues, it does not substitute for recommended reports by appropriate experts, specialists or authorities.

Certification

The certification relates to personal inspection of the property by the signing valuer, carrying out of the assessments, and disclosure of conflict of interest and financial interests.

Date of Valuation

The certification also notes that the date of inspection is also the date of valuation.

Limitation

The report includes a standard restriction as to user and purpose. If the report is passed to other parties, it may not be used or relied upon by them or used for any purpose. It

further notes that the report is not a structural survey report.

Valuer

The Valuer will be the person who inspects the subject property and makes the assessments. That person must be appropriately qualified and experienced in accordance with the current requirements of the Institute or any higher level requirements of the lender. It is not acceptable for a valuer who has not personally inspected the property and carried out the necessary research, enquiry and assessments, to sign as 'valuer'. (However, a valuer who has not carried out these tasks may authorise a report for issue - see below.)

Authorised for Issue By

This is included to address instances where a director of the valuation firm is required by the client to also sign the report. A person signing in this capacity is merely authenticating the report as from that firm. It should not be construed as endorsing or co-signing the valuation. This would be inappropriate unless the co-signatory had, at the date of valuation, also inspected the property and been actively involved in the research and assessments. As a safeguard, the person authorising may choose not to include professional qualifications so as to avoid giving the false impression of being a co-signatory to the valuation.

Firm ID.

The Firm ID is a unique, pre-set, identifier in each copy of the PropertyPRO software. The Firm ID number system could be adopted by the lender as the identifier for that firm. If adopted widely it would have benefits for firms in being able to quote a consistent number for each lender.

Client Valuer Number

Provision is also made for a client allocated valuer (or firm) number to cover instances where the client does not wish to use the pre-set identifier and supplies a different number.

4. THE LAND**Property Identification**

This is to provide an indication of the means, other than street address, by which the property has been identified. The Valuer should, where possible, sight a cadastral map, deposited/registered/strata or unit plan, survey plan or other document. Property identification by confirmation of lot and plan/section number and/or reference to physical features such as cross streets, public reserves or other features is required. Where no such means other than street address has been used, the valuer should indicate "identification not confirmed".

Valuers are not normally experts in survey matters and therefore no part of the report should be construed as a survey report. If the valuer's inspection indicates there is a reasonable possibility of any encroachment over easements or boundaries, it would be appropriate for the valuer to recommend a survey report to clarify the issue.

Has title search been sighted?

This requires either a 'yes' or 'no' answer to inform the lender if the Valuer has had the benefit of a search, however obtained. It in itself is not indicating any requirement for the Valuer to carry out a search. If the answer is 'no', the lender could consider obtaining a current title search to confirm appropriate content in the valuer's report.

Zoning Effect	This should provide an indication as to whether the development is considered (subject to confirmation by appropriate certificate) to be a permitted development and use. Note should also be made as to whether the zoning has any significant adverse effects on the property. Any proposed rezoning directly or indirectly affecting the property should be noted.
Location	This requires a statement as to the position of the property relative to the nearest town centre (CBD) and, if not a significant town, distance to the nearest main town or regional centre. It should indicate distances from other features such as schools, public transport and beaches. It does not require a description of the locality (this is provided under 'Neighbourhood').
Neighbourhood	This requires a description of the immediate locality and neighbouring development, drawing particular attention to any positive or negative features or aspects that impact on the value or marketability of the property including significant demographic changes.
Site Description & Access	This requires a brief description of the shape and topography of the site, its relationship to road level, its suitability for building, its aspect and any significant views, adverse outlooks or 'features' as relevant. Access should be described if difficult legally, physically or due to traffic.
Services	Requires notation of the utilities connected to the site or those provided on-site such as septic, bottled gas or tank water. It also requires detail on street surfacing, kerbing and guttering and footpaths.
 5. MAIN BUILDING	
Style	This comprises a two-part description defining the building in terms of its number of levels and/or elevation and degree of attachment, e.g. split level detached; two storey terrace; high rise part floor; high-set multi-level detached, etc.. (Other style aspects such as architecture or period, can be noted in 'Additional Comments' if warranted).
Street Appeal	This relates to the kerb-side appeal or attractiveness of the building. For consistency, it has a five level rating ranging from 'high appeal' to 'low appeal'. It is not meant to describe its presentation, which is reflected more in 'external condition'.
Main Interior Linings	If there are numerous interior linings used, only the dominant ones are noted. Any feature linings such as timber panelling can be noted in 'Fixtures & Features'.
Internal Condition	For consistency, this has a five level rating ranging from 'excellent' to 'poor' and reflects both repair and apparent physical condition including cracking and movement.
External Condition	For consistency, this has a five level rating ranging from 'excellent' to 'poor' and reflects both repair and apparent physical condition including cracking and movement.
Accommodation	Number of bedrooms (includes sleep-outs) is stated first, followed by number of bathrooms (includes ensuites), other main rooms, then service or utility rooms and outdoor areas.
PC Items	A list of the Prime Cost Items preferably starting with those in the kitchen, then laundry, bathroom(s), toilet and

others servicing the whole building such as hot water service, air conditioning and ducted vacuum cleaner.

It is not meant to cover all items that might be included in a specification as 'Provisional Cost' items e.g. wall and floor tiles, door furniture, etc.. These can, if unusual or particularly expensive, be included in Fixtures and Features.

Fixtures and Features

A list of built in items (such as cupboards and robes) and main feature finishes (such as non-wet area tiled floors and wood panelling).

6. ANCILLARY IMPTS

A list of ancillary improvements other than the 'main building', starting with significant items such as in-ground pool, tennis court, shed, etc., followed by secondary ancillary items such as fencing, paving, driveway, landscaping.

7. SALES EVIDENCE & THE MARKET

Sales Evidence

The three most recent comparable sales available should be provided. More sales may be considered. Details of these should be retained on file but should not be included in the report.

Where in the Valuer's opinion there are insufficient or no recent comparable sales, older sales should be included and adjusted. Where sales quoted are older than 6 months (three months in a rapidly changing market), this should be noted in 'Additional Comments'. An explanation should be provided as to the method of valuation, the market dynamics and likely movement of the market since any older sales that have been relied on.

Sales relied upon should, as far as possible, be realistic comparisons in price range, type of property and location. Where the sale price evidence differs significantly (say +/- 15%) from the value adopted on the subject property, the valuer should provide suitable comment on the dynamics of the market to explain why it has been necessary to rely on such evidence. Similarly if a different class of property is used as evidence, or if a sale in a substantially different location is relied on, reasons should be stated in 'Additional Comments'.

Sales affected by significant incentives or rental guarantees should be avoided.

If sales involve the same developer or builder and the same development or estate as the subject property, the valuer should also consider:

- re-sales in the development or estate if available, or
- other general market evidence outside the development or estate.

Brief Comments

Each comparable sale should be briefly described, noting where appropriate:

- approximate year built,
- number of bedrooms,
- style,
- construction,
- type of main building (e.g. 'dwelling' or 'unit'),
- area of main building,

- car accommodation,
- significant ancillary improvements, and
- site area.

In Comparison to Subject

For consistency and clarity, the comparison should be the sale property compared to the subject property (not the other way around). For example, if the comparison states “generally inferior” it should mean that the sale property is generally inferior to the subject property. Where warranted, it should also contain a brief note of any major differences not apparent from the description, eg. “steeper block” or “badly needs paint”.

Latest sale* of subj. property

Where a sale of the subject property has occurred in the past 3 years, it should be noted. Specific comment should be made if a current sale is not considered to be in line with the market or is known to be affected by special circumstances or incentives.

The valuer will not sight a copy of the contract as a matter of course, however if the lender is aware of special circumstances or incentives, the valuer could be supplied with details and asked to comment.

Where the valuation varies significantly from a current or recent sale of the subject property, the reasons should be outlined in ‘Additional Comments’.

It is not uncommon for the subject property to be valued “at purchase price”. If there is a known current sale of the property, the valuer is expected to consider it against other evidence, as it has been a test of the market. As most properties sell within the normal market value range or tolerance, it will be reasonable for the purchase price to be adopted if it is considered to be within that range. Where the price has been at the top end of the range, additional comments would be warranted and the risk rating considered for any resultant increase in the risk of ‘reduced value next 2 -3 years’.

Level of Market Activity

A brief note to describe the level of market activity as an indicator of the condition of the market. Adverse market conditions will reflect in the Risk Analysis and should be further commented on within the requirements of that section.

Recent Market Direction

A brief note of the recent direction (and strength) of movement in prices.

Two or multi- tiered market?

A tiered market includes two-tier and multi-tier markets. A ‘Yes’ or ‘No’ answer is required. If ‘Yes’, the Valuer should confirm that the valuation is based on evidence that is reflective of informed purchasers and realistic marketing conditions or strategies such as would be readily available to an individual owner on resale.

8. ADDITIONAL COMMENTS

Any Risk Ratings of “4”, or “5” or the existence of three or more “3” Risk Ratings from Section 2 ‘RISK ANALYSIS’ **MUST** be explained here. Additional comments can be made about the content of other sections of the report but it should be comment that enhances or elaborates on what has already been provided and not merely repeats what has already been stated. This section can be expanded on to another page if necessary. It can also be used to

explain any unusual aspects that the format does not specifically address.

It is the Valuer's responsibility to ensure that the client is adequately informed. A balanced view of the property and market should be presented. Adverse aspects should not be over-emphasised nor should favourable features be exaggerated.

Comments can be in either narrative or dot point form.

9. SECURITISATION REQUIREMENTS

This section appears only if selected. It provides brief comment on issues specifically required by some mortgage securitisers and conveniently groups them under one heading even though some will have been addressed elsewhere in the report. Where any of the statements are adverse, they should be further commented on in section 8 'Additional Comments'.

NB. Statements on these issues are based on observations on site and where necessary, appropriate verbal enquiries without the benefit of searches, surveys, etc. The valuer reserves the right to review the valuation and the report if the lender's searches and enquiries reveal contrary conditions or any matters not addressed therein.

NOMINATED ADDITIONAL PARTIES

This section appears only if it contains information. If the instructing Organisation/Lender requires the report to nominate additional parties who may rely on the report, they can be stated in this section.

Report Clarification - Amended Report

PP 1: 3.5 If parties entitled to rely on a report are unclear on any aspect of its content, or consider that inadequate information has been provided, the valuer should be contacted before acting on the report. If additional information is supplied to clarify or enhance the report, an amended report should be issued with a note that the original report is withdrawn and should be returned to the valuer. There should be no additional fee unless the valuer was incorrectly instructed in the first instance.

ANNEXURES

Photo(s)

The report should be accompanied by a coloured photograph of the front (or other appropriate) elevation of the property unless the Client directs that one is not required (in which case a photo should be taken and retained on file or electronically stored). Where significant adverse features are apparent it may be appropriate to provide additional photos showing relevant detail. These may include features nearby which impact on the property.

PP 1: 4.0

Matters the Valuer may provide Restricted Comment On

Aspects Requiring

PP 1: 4.1 The Valuer's report may provide restricted or limited comment on a

Specialists Reports range of matters primarily to draw attention to aspects that may require action by others before confirmation of the report by the valuer. These tend to be in specialist areas where the Valuer often will have some knowledge but in which the Valuer is either not an expert or is not permitted under some act or regulation, to express a definitive opinion. The comments could note some observed condition or indication of a possible problem area and could lead to recommendations for reports from such experts as:

- Pest Controllers
- Land Surveyors
- Geo-technical Engineers
- Structural Engineers
- Building Inspectors
- Solicitors
- Environmental Surveyors
- Solicitors
- Town Planners
- Regulatory Bodies and Authorities

**Valuers Initial
Comments Indicative
Only**

PP 1:4.2 The Valuer's comments should be taken as indicative only and not definitive on the particular matter. For example, the Valuer's inspection may note that the building appears to be too close to what appears to be the boundary. The Valuer's report may then note this and recommend that a surveyor's report be obtained. In this way the Valuer serves to highlight need for a particular action. Any valuation or risk assessment provided will normally be subject to such reports being satisfactory.

Refer Back to Valuer

PP 1: 4.3 When the specialist's report has been obtained, it should be referred back to the Valuer for comment as to how it impacts on the valuation, the risk analysis or the marketability of the property.

PP 1: 5.0

Departure Provisions

PP 1: 5.1 When circumstances arise which the valuer considers warrant departure from the provisions of this Supporting Memorandum, the reason for the departure should be clearly stated in 'Additional Comments'. The lender should be adequately advised of the possible impact of such action on the assessments and the report contents.

PP 1: 6.0

Matters to be Checked by Lender and/or its Solicitor

Refer Back to Valuer

PP 1: 6.1 Some of the information provided in the report may be obtained by expedient means or from sources with no evidentiary value, rather than applying, paying and awaiting receipt of, appropriate official documentation such as a solicitor would request in carrying out a conveyance or creating a mortgage. This is not only to expedite the Valuer's process, but also to reduce duplication and save extra expense. Sometimes a report will provide information, which documentation or certificates subsequently obtained by the lender or its solicitor reveal to be either incorrect or incomplete or not commented upon at all in the report. When any of these occurrences is discovered by subsequent checking, it would be appropriate to refer the matter back to the Valuer for further comment and advice as to how it affects the valuation and security assessment.

**Lender or Solicitor
to Check**

PP 1: 6.2 Matters reported in the Valuation and Security Assessment Report which the Valuer assumes the lender and/or its solicitor will confirm or ascertain by checking appropriate documentation or certificates include:

- Title details including restrictions and encumbrances
- Zoning or town planning

- Building Contract
- Matters arising from the numerous searches a solicitor may conduct including, where relevant, searches of Body Corporate records and amounts held in sinking funds.
- Matters arising from any certificates or documents that the report specifically recommends are obtained.

PP 1: 7.0

Information the Valuer could be Expected to Hold on File

Valuer's File Should Contain

PP 1: 7.1 A Valuer's file for any valuation report using the *PropertyPRO* "Residential Valuation and Security Assessment" Pro-forma could be expected as a good practice to contain:

- Copy of Instructions,
- Copy of the Report,
- Copy of any documents provided by the client, its solicitor or the borrower,
- Copy of any block, subdivision or strata plans relied upon,
- Copy of Valuer's inspection notes for the subject property including:
 - ◆ a plan of the main buildings, (preferably drawn to scale using graph paper) showing external and internal walls and recording external wall dimensions. While the plan could also show approximate positions of door and window openings, positions of fixed cupboards, PC items and special fittings, the valuer's recording system may use other appropriate means of recording this detail. (Where a floor plan is provided, the Valuer should conduct sufficient check measurements and observations to verify that the building has been built to plan, or if not, what variations have occurred. Variations should be noted in the report. If the building plan states areas, it would be appropriate for the valuer to check these by calculation). Building areas required in the report are to be based on measurement and calculation.
 - ◆ adequate notes to record any necessary detail beyond that required in the report covering construction of the main building, its quality, finishes, condition and any essential repairs,
 - ◆ adequate notes of ancillary improvements.
- Copy of Valuer's inquiry sheet if appropriate adequately recording any additional research information obtained and preferably from whom and/or where,
- Print of photo (or photocopy of original),
- Copy of Valuer's work sheet referencing the sales data relied upon, any adjustments or calculations made and reconciliation of the methods of valuation used in carrying out the assessment(s). Where a TBE/Extension/Renovation is involved, calculations for the Check Costing should also be on file.
- Copy of any special document relied on that the Valuer considers relates to the property specifically rather than properties in general.

NOTE:

1. Where any of these notes are recorded on tape or by other electronic means, either the tape should be retained with the file or a hard copy of the recording or electronic record should be produced and retained with the file.
2. While valuers may use a variety of methods to record their field notes, as a guide, information recorded and retained on file should be adequate:
 - to demonstrate that a proper inspection has been carried out, and
 - to allow the valuer to discuss the property and the report with the client or its service providers at some point in the future (which may be some years hence).