AUSTRALIA AND NEW ZEALAND

VALUATION
AND PROPERTY
STANDARDS
Published by Australian Property Institute

ABN 49 007 505 866
ARBN 007 505 866
6 Campion Street
Deakin ACT 2600 Australia
Tel: 02 6282 2411
Fax: 02 6285 2194
E-mail: national@api.org.au
Internet: www.api.org.au

Australian Property Institute (Inc)
ISBN: 0-9975414-0-1
Editions:
September 1998
September 1999
November 2001
February 2004
May 2006
June 2008
January 2012

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FOREWORD

It is with great pleasure that we introduce the latest publication of the Australia and New Zealand Valuation and Property Standards (formerly Professional Practice). This represents the third joint publication of the Standards by the Australian Property Institute (API) and the Property Institute of New Zealand (PINZ).

For property professionals in both Australia and New Zealand there has been an increasing shift towards International Valuation Standards (IVS). International Financial Reporting Standards are now formulated in full consultation with representatives of the International Valuation Standards Committee and there is now the practical requirement to be aware of IVS. Both the API and PINZ are strong supporters of and have played an active role in the work of the International Valuation Standards Committee (IVSC).

This edition of the Australia and New Zealand Valuation and Property Standards represents a further stage toward the harmonisation of valuation and real property standards within Australia and New Zealand and reflects the continued move towards IVS. This edition includes all IVSC Applications, Standards and Guidance Notes, which have been drawn from IVS 2007. Interposed within the IVSC material is additional information to assist members in meeting local valuation and real property reporting requirements.

There are several important changes in this edition, including new and revised documents. The new documents being:

- IVA3 Valuation of Public Sector Assets for Financial Reporting
- IVGN15 Valuation of Historic Property
- ANZVGN8 Valuation For Use in Offer Documents
- ANZVGN9 Assessing Rental Value
- ANZVGN10 Valuation of Agricultural Property

The IVSC extensively revised the following:

- IVS2 Bases Other Than Market Value
- IVA2 Valuation for Secured Lending Purposes

and updated throughout the document to ensure consistency with the new and rewritten components.

In presenting this edition of the Australia and New Zealand Valuation and Property Standards we acknowledge the substantial work and effort of the following:

- Australian and New Zealand Valuation and Property Standards Boards (AV&PSB)(NZV&PSB).
- The National Professional Board representatives of the API and PINZ.
- Many individual members from both the API & PINZ who responded to requests for assistance and comment.

The end product is a team effort and is presented to all members as best practice, having regard to current law and accounting concepts.

It is the intention that the Australia and New Zealand Valuation and Property Standards will be available electronically on the respective web sites. Updates will also be made available upon release, both on the web and in hard copy for those who have purchased a copy of this edition of the Standards.

Yours faithfully,

James Pledge
National President
Australian Property Institute

Chris Stanley
President
Property Institute of New Zealand
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1.0 The Australian Property Institute & The Property Institute of New Zealand

The Australian Property Institute and the Property Institute of New Zealand have both enjoyed a long and proud history representing property professionals in Australia and New Zealand.

The Australian Property Institute is the successor to the Commonwealth Institute of Valuers formed in 1926. The Property Institute of New Zealand was formerly the New Zealand Institute of Valuers established in 1942.

The two Institutes today represent the interests of more than 11,000 property specialists throughout Australia and New Zealand.

The primary role of the two organisations is to set and maintain high standards of professional practice, education, ethics and discipline.

Members include experts in property such as valuers, property advisors, property managers, property analysts and facilitators. Membership of either organisation has become synonymous with qualities of integrity, experience, professionalism and specialist expertise.

The two Institutes are committed to maintaining a strong professional base to ensure the future of the property professions through education and broadening of the expertise and knowledge of the Membership.

The clients of members are also considered to be clients of the Institute. Both Institutes are interested in assisting their members to provide high quality professional services that are relevant to the current and changing needs of clients and the community at large.

Both Institutes recognise their roles as guardians of the status and standing of the property profession and of their duty to protect and further the public interest.

The Australian Property Institute and the Property Institute of New Zealand acknowledge that the privileges accorded to professional persons by the community are accompanied by responsibilities to client and community, which cannot be waived.

For more information about the Australian Property Institute (API) and Property Institute of New Zealand (PINZ) please visit their websites: www.api.org.au or www.property.org.nz

2.0 Valuation and Property Standards Manual

This Manual sets out the duties, responsibilities and professional standards of members of the Australian Property Institute and of the Property Institute of New Zealand.

2.1 Scope

This edition adopts the International Standards and Guidance Notes of the International Valuation Standards Committee (IVSC) in their entirety. Where there are departures or differences in application in either Australia or New Zealand, an appropriate note has been included in the IVSC documents in this Manual.

Areas of practice not covered by the IVSC standards and guidance notes are covered by Australian and New Zealand standards and guidance notes.

Australia and New Zealand have both been closely involved with the development of IVSC standards and guidance notes. These documents represent world best practice and very few departures are included in this edition of the Valuation and Property Standards Manual.

This edition also retains the Business Focus papers, which were in the previous professional practice publications.

2.2 Copyright

The following sections (excluding material interposed by the Australian Property Institute and the Property Institute of New Zealand) are copyright by the International Valuation Standards Committee:

The International Valuation Standards Committee,

- IVSC Code of Conduct,
- IVSC Valuation Standards 2007,
- International Valuation Standards,
- International Valuation Applications, and
- International Valuation Guidance Notes.
INTRODUCTION

All rights are reserved, subject to permission having been granted to the Australian Property Institute and Property Institute of New Zealand to reproduce the 8th Edition of International Valuation Standards in their Valuation and Property Standards Manual.

No responsibility is accepted by the IVSC for the accuracy of the information contained in the Manual text as republished by the API & PINZ.

The full text of the official version may be obtained from the IVSC International Headquarters, 12 Great George Street, London SW1P 3AD, UK. www.ivsc.org

2.3 Amendments and Updates

Amendments and updates to this edition of the Valuation and Property Standards Manual will be published by the API and PINZ on their websites.

2.4 Date of Application

This edition of the Valuation and Property Standards Manual becomes operative from 1 August 2008.

3.0 Development of Practice Standards & Guidance Notes

3.1 Process before Release

The two most important elements in the Manual are practice standards and guidance notes. From the initial identification of the need for a particular issue to be addressed, these elements go through an extensive development process.

Potential practice standards and guidance notes may be proposed by a number of sources but require the consent of the National Professional Board (NPB) prior to development. Initial development will often be through a particular state, branch, professional board or ad-hoc committee before being examined by the NPB. The NPB will establish the requirement for a practice standard or guidance note and if satisfied that such a document is required, will formulate any policy and professional aspects, which must be addressed in the practice standard or guidance note.

The initial brief requesting development of a practice standard or guidance note along with the policy requirements are then forwarded to the Australian Valuation & Property Standards Board (AV&PSB), which is responsible for managing the development and review process of practice standards and guidance notes.

Once the draft document reaches a standard that satisfies the AV&PSB it is then forwarded to the NPB, which must satisfy itself that the draft document adequately addresses all of the requirements established by the Board.

At least 50% of the AV&PSB is made up of API Members, the balance comprising representatives of invited organisations such as:

- The Australian Accounting Standards Board
- The Property Institute of New Zealand
- The Australian Bankers Association
- The Law Council of Australia (Property Law Group)
- The Financial Services Institute of Australasia
- The International Valuation Standards Committee
- Mortgage Industry Association
- State Valuers General
- Commonwealth Government

If satisfied, the AV&PSB will then issue the draft document as an Exposure Draft within the API and PINZ and to appropriate organisations inside and outside of the profession. Comments are then forwarded to the authors and assimilated where appropriate.

After consideration of the comments received, a final draft will be presented by the AV&PSB to the NPB, and if no further amendments are required, it will be released for issue. This representation and external exposure process is designed to ensure that practice standards and guidance notes are consistent with the requirements of the Corporations Law, Australian and New Zealand Accounting Standards, Statements of Accounting Concepts and, where applicable, circulars from the Insurance and Superannuation Commission. It is also intended that all standards are to be consistent with the concepts and definitions contained in the International Valuation Standards, except where Australian or New Zealand law and practice requires otherwise.

The National Secretariat administers the process of the production of practice standards and guidance notes.
Preamble

The Code of Professional Conduct ("the Code") is a public statement of the principles, values and behaviour expected of Members of the Institute, as determined by the National Council.

The purpose of the Code is to ensure that high standards of corporate and individual behaviour are observed by all Members.

Every Member of the Institute must comply with the Code. A breach of this Code may constitute Professional Misconduct which may be investigated by the Institute in accordance with the complaints procedures under the By-Laws.

In order to maintain public confidence in the professional standards of Members of the Institute it is essential that those Members exhibit, and are seen to exhibit, professional standards in carrying out their duties.

This Code does not attempt to provide a detailed or exhaustive list of what to do in every situation. Instead, the Code represents a framework for professional conduct and aims to provide assistance and clarification.

Effective Date: 1 August 2011

Rule 1: Relations with Clients

1.1 Members must carry out their professional duties ethically, with honesty, competence, and in good faith, without personal bias, and in a manner which upholds the values and reputation of the property and valuation profession.

1.2 Members must comply with the Professional Rules as amended from time to time.

1.3 A Member must act promptly and efficiently in the servicing of the client’s instructions.

1.4 A Member must, in the case of unavoidable delay, communicate to the client the progress being made in respect of the instructions issued to the Member.

1.5 Members must not falsify or misrepresent his or her professional qualifications, grades of membership, experience or prior responsibilities.

1.6 A Member must operate within the limits of his or her qualifications and experience and must not accept instructions in a field of practice in which he or she possesses insufficient knowledge and skill to provide competent services to the client, unless the Member obtains fully informed consent from the client to undertake the services in conjunction with a person having the required competence.

1.7 A Member must obtain or confirm in writing all instructions and variations of instructions of the client or the client’s representatives.

1.8 A Member should properly supervise all services carried out for and on the Member’s behalf.

1.9 A Member must take such steps as are reasonably necessary to maintain and improve his or her knowledge and skill in the fields in which he or she practises.

1.10 A Member must not provide any advice or make any statement without reasonable foundation unless it is appropriately qualified or limited.

1.11 A Member must complete the work or services required by the Member’s retainer, unless:

(a) the Member and the Member’s client have otherwise agreed;

(b) the Member is discharged from the retainer by the client; or

(c) the Member terminates the retainer for just cause, and on reasonable notice to the client.

1.12 A Member must not, during, or after termination of a retainer, disclose to any other person, who is not a partner or employee of the Member’s firm, any confidential information provided directly or indirectly by a client or to a client, unless:

(a) the client authorises the disclosure;

(b) the Member is permitted or compelled by law to disclose;

(c) the Member discloses information for the sole purpose of avoiding the probable commission or concealment of a felony; or

(d) necessary for replying to or defending any charge or complaint as to conduct or professional behaviour brought against the Member or his or her partners, associates or employees.
API CODE OF PROFESSIONAL CONDUCT

1.13 Fees may be negotiated with a client on an agreed basis, provided however that the fees payable to a Member do not depend upon a client-nominated outcome of any valuation.

1.14 Where information critical to the assignment being undertaken is relied upon by a Member, the source of that information must either be disclosed in the relevant report or contained in the working papers supporting the relevant report and be appropriately attributed in either case, unless the information is protected by confidentiality, or the Member is prevented by privacy or other like laws from disclosing or referring to the source.

1.15 A Member must not include false or misleading claims in any advertisement for his or her services.

1.16 A Member must not directly or indirectly exert undue pressure or influence on any persons, whether by the offer or provision of any payment, gift or favour or otherwise, for the purpose of securing instructions for work, or accept instructions from any person where there is reason to believe that undue pressure or influence may have been exerted by a third party in expectation of receiving a reward for the introduction.

Rule 2: Conflict of Interest

2.1 A Member must take reasonable steps to identify circumstances that could be construed as a conflict of interest.

2.2 A Member must not, in any dealings with a client allow the interests of the Member or an associate of the Member to conflict with those of the client.

2.3 Subject to Rule 2.4, a Member must not accept instructions from a client or continue to provide services to a client where accepting the instructions or continuing to provide the services is likely to create either a real or perceived conflict of interest.

2.4 Where a conflict of interest arises, or where a Member identifies circumstances that could be construed as a conflict of interest, the Member must:
   (a) inform the client, and any other interested party, of the actual or potential conflict of interest;
   (b) encourage the client to obtain independent professional advice;
   (c) inform the client that neither the Member or the Member’s firm can act or continue to act for the client unless the instructions are confirmed in writing with an acknowledgement of the actual or potential conflict of interest;
   AND a Member must only accept the instructions or continue to provide the services if:
   (d) the client provides a written confirmation of their instructions with an acknowledgement of the actual or potential conflict of interest;
   (e) any other interested party provides confirmation that the Member and the Member’s firm may accept the instructions or continue to provide the services to the client; and
   (f) the Member discloses the conflict of interest in any relevant document or report prepared for the client relating to that matter.

2.5 A Member must not accept a payment or favour from another party which may affect their relationship with a client, unless the circumstances are fully disclosed to, and agreed by all interested parties.

Rule 3: Impartiality

3.1 A Member must maintain the strictest independence and impartiality when making a valuation and/or where the exercise of objective judgement is required. In such circumstances, a Member must not:
   (a) adopt the role of advocate in a case where their duty is to exercise independence and impartiality;
   (b) act as an advocate and as an expert in the same matter;
   (c) act as an advocate in a matter where another member of the same firm as the Member has acted as an expert in that matter;
   (d) act as an expert in a matter where another member of the same firm has acted as an advocate in that matter;
   (e) allow the performance of their professional duties to be improperly influenced by the needs or preferences of a client or other party;
   (f) rely upon critical information supplied by a client without appropriate qualification or confirmation from other sources; or
   (g) act in any way inconsistent with the duties of independence and impartiality.
Rule 4: Members and the Institute

4.1 A Member must not:
   (a) purport to represent the views of the Institute unless expressly authorised to do so;
   (b) reflect adversely on the professional integrity of the Institute or its Members.

4.2 A Member must not maliciously or carelessly do anything to injure, directly or indirectly, the reputation, prospects or business of other Members.

4.3 When dealing with the Institute a Member must be frank and honest and subject to any express requirement set out in the By-Laws, a Member must fully cooperate with any request for information or directive from the Institute where a complaint has been lodged or where there is deemed to be a prima facie breach of the Professional Rules.

4.4 A Member must notify the Institute of any complaint against the Member.

Rule 5: Copyright

5.1 A Member must not, without appropriate acknowledgement, reproduce, paraphrase or summarise any work, words, ideas or intellectual property of another person which creates the impression that it is their own, and all reports prepared by Members must give appropriate acknowledgement of the ideas, scholarship and intellectual property of others insofar as these have been used.

Rule 6: Property Valuations

6.1 When undertaking a valuation, except with the written agreement from the client or the client's representative:
   (a) a Member must personally inspect any property to be valued; and
   (b) an inspection of the property must be sufficiently comprehensive to enable the Member to complete the valuation in accordance with the accepted valuation practice.

6.2 If the property is not inspected or is only partially inspected, in accordance with the written agreement from the client or the client's representative, the Member must disclose this in the valuation report and state the effect that the failure to conduct an inspection or a complete inspection has on the valuation provided.

6.3 When undertaking a valuation, a Member must take reasonable steps to:
   (a) gather sufficient relevant data in forming an opinion of value or, in the absence or deficiency of such data, explain in the valuation report the basis on which the opinion of value was formed; and
   (b) ascertain and verify such relevant facts and information as a prudent valuer would have ascertained or verified in order to provide a professional valuation of a property.

6.4 A Member must include in a valuation report:
   (c) confirmation that they have personally inspected the property;
   (d) a statement of all assumptions made in arriving at an opinion of value and all conditions, requirements or limitations arising from the client's instructions or arising due to any other circumstances;
   (e) where all facts or information have not been ascertained or verified, written disclosure of this, together with a statement of the extent, if any, to which the failure to ascertain or verify the facts or information in question qualifies or affects the valuation provided;
   (f) the degree of reliance (if any) on professional opinion from outside experts; and
   (g) where the Member is a co-signatory, the extent of their involvement and the capacity in which they are signing.

6.5 A Member must retain in a place of safe keeping, adequate records of all valuation reports, all instructions from the client or the client's representative, and all other records and information upon which the valuation opinion was based, for a minimum of 6 years.
Rule 7: Student and Provisional Members

7.1 Student Members must not undertake valuations in their own right but may assist in undertaking a valuation and may assist in the preparation of the valuation report.

7.2 A Provisional Member must not undertake or sign a valuation unless they comply with Rules 7.3, 7.4 or 7.5.

7.3 A Provisional Member who holds the designation of Residential Property Valuer may undertake a Residential Property Valuation, provided that the valuation report is co-signed by a Supervising Valuer.

7.4 A Provisional Member who holds the designation of Residential Property Valuer may undertake a Non-Residential Property Valuation, provided that the property is co-inspected and co-signed by a Supervising Valuer.

7.5 A Provisional Member who has completed an Institute approved valuation qualification, but does not hold the designation of Residential Property Valuer, may assist in undertaking a Residential Property Valuation or a Non-Residential Property Valuation, provided that the property is co-inspected and co-signed by a Supervising Valuer.

7.6 A Supervising Valuer must not sign or co-sign a valuation prepared by a Provisional Member, unless the Supervising Valuer:
   (a) Holds the certification of Certified Practising Valuer
   (b) has formed an independent opinion as to value;
   (c) is the primary signatory; and
   (d) has co-inspected the subject property.

7.7 A Supervising Valuer must not counter-sign a valuation of Residential Property, as defined in this Code of Professional Conduct, undertaken by a Provisional Member, who holds the designation of Residential Property Valuer, unless the Supervising Valuer:
   (a) Holds the certification of Certified Practising Valuer
   (b) has reviewed the valuation and working papers prepared by the Provisional Member holding the designation of Residential Property Valuer;
   (c) has, based upon such review and appropriate questioning of the Provisional Member, obtained reasonable satisfaction that the value opinion contained in the valuation has been reached by the Provisional Member, based on reasonable grounds.

7.8 When signing a valuation report, a Provisional Member must state that they are a Provisional Member of the Australian Property Institute and (if relevant) a Residential Property Valuer.

Rule 8: Non-Compliance

8.1 Where a Member considers circumstances exist that warrant departure from or non-compliance with any rule herein, the Member's report must include a statement that outlines the reasons for the departure or non-compliance and any impact on the content of the report.
DEFINITIONS

In this Code:

(a) Any expressions, words or phrases defined in the Constitution or the By Laws of the Institute shall have the same meaning in the Code unless otherwise defined by these definitions;

(b) "Certified Practising Valuer" means a person who has been certified as a Certified Practising Valuer by the Institute under the By Laws;

(c) "Non-Residential Property Valuation" means a valuation of land which is not a Residential Property Valuation.

(d) "Provisional Member" means a person admitted as a Provisional Member of the Institute under the By Laws;

(e) "Residential Property" means:

(i) Vacant land on which the construction of a dwelling is not prohibited by law;

(ii) Land or a lot on which there is not more than 2 dwellings (either existing or in the course of construction) and any other improvements incidental thereto;

(iii) Rural residential land;

(iv) A unit or entitlement (including a proposed unit or entitlement) under a Strata Scheme or other group title scheme comprising not more than one dwelling (either existing or in the course of construction) and other improvements incidental thereto;

(v) A single residential "company title" apartment which is covered under the exemption provided to the Institute by ASIC;

Provided however that:

(vi) The highest and best permitted use of the land must be residential use;

(vii) The land or lot must not be used wholly or predominantly for non-residential purposes;

(viii) The land or lot is not capable of being subdivided into two or more parcels;

(ix) The land does not contain a residential strata development under single ownership; and

(x) The land is not within a retirement village.

(f) "Residential Property Valuation" means a valuation of a Residential Property, including but not limited to:

(i) A valuation for potential marketing purposes;

(ii) A rental valuation for a Residential Property;

(iii) A valuation of land that is not freehold;

(iv) A valuation for rates, tax or insurance purposes (see viii below);

(v) A mortgage security valuation; and

(vi) A valuation of individual entitlements under Strata Title or similar;

But does not include:

(vii) A valuation of Residential Property for compensation or resumption purposes;

(viii) An insurance valuation on behalf of an owners corporation for a strata scheme;

(ix) A valuation of common property within a residential strata scheme;

(x) A valuation of Residential Property for the purposes of providing any expert evidence or Family Law Court related valuations; or

(xi) A valuation of residential timeshare interests.

(g) "Residential Property Valuer" means a person designated as a Residential Property Valuer by the Institute under the By Laws;

(h) "Student Member" means a person admitted as a Student Member of the Institute under the By Laws;

(i) "Supervising Valuer" means a current Member of the Institute who is a Certified Practising Valuer.
2.2 PINZ CODE OF ETHICS AND RULES OF CONDUCT

NZIV CODE OF ETHICS (as provided in Rule 133)

The Joint Code of Ethics as approved at the 2004 annual general meeting is the legal document for all PINZ members. This document refers to NZIV and other matters relating to NZIV because it was intended to be a joint code of ethics. However, this was not passed by the Minister of NZIV so the 1996 code of ethics for NZIV is still in force.

The Code of Ethics comprises two parts:

A: Public Statement of the principles, values and behaviour expected of Members of the Institute:

1. Compliance with Standards

Members shall, at all times, observe the requirements of the Code of Ethics and Rules of Conduct, and (where applicable) the Constitution, Bylaws or Rules of the Institute, the Practice Standards of the Institute and compliance with Continuing Professional Development (CPD) requirements.

2. Professional Duty

It is the duty of Members to render service to their clients and employers with fidelity, to practise their vocation with integrity, honour and professionalism, to act impartially and objectively when providing independent advice, and to respect the public interest.

3. Competence

A Member shall not accept instructions in a matter where, based on a reasonable objective standard, the Member does not have the competence, skill and/or experience to complete the assignment to the acceptable professional standard in accordance with this Code of Ethics, and the Practice Standards of the Institute, unless the assignment is completed in conjunction with a qualified and suitably experienced practitioner.

4. Conflict of Interest

Members shall consider and identify any actual or potential conflict of interest when carrying out their professional duties, and shall not act in a matter where such conflict or potential conflict has been identified by the Member or any other interested party unless all interested parties have been made aware of the situation and have consented to the Member continuing in the task.

5. Confidentiality

Members must observe the requirements of confidentiality in their dealings with clients and the public.

6. The Profession

Members shall at all times conduct business in a manner befitting their profession in accordance with reasonable public expectations of professional persons.
2.3.1

PINZ RULES OF CONDUCT

The following clauses are an expansion of the preceding public statement.

1.0 Professional and Personal Conduct

1.1 Members shall conduct their professional duties and activities in a manner that reflects credit upon themselves and their profession. High standards of competence, honesty, loyalty, integrity and fairness shall be observed at all times.

1.2 Members are bound by and agree to abide by the Code of Ethics and Rules of Conduct, and (where applicable) the Constitution, Bylaws or Rules of the Institute, Practice Standards and compliance with Continuing Professional Development (CPD) as adopted by the Institute.

1.3 Members shall not accept an assignment that is contingent upon or influenced by any condition or requirement for predetermined results where the exercise of objective judgement is required. Members shall maintain the strictest independence and impartiality in undertaking their professional duties. To this end, no Member shall:
   a. adopt the role of advocate in a case where their duty is to exercise independence and impartiality;
   b. allow the performance of their professional duties to be improperly influenced by the needs or preferences of a client or other party;
   c. rely upon critical information supplied by a client without appropriate qualification or confirmation from other sources;
   d. act in any other way inconsistent with the duties of independence and impartiality.

1.4 Members in providing a valuation of real property or an opinion on a real estate matter must give a considered and reasoned answer. A member’s counsel constitutes professional advice which must be prepared to the highest standards of competency and rendered only after having properly ascertained and weighed the facts.

1.5 Members shall not claim or present professional qualifications which may be subject to erroneous interpretations or which they do not possess.

1.6 Members shall be fair and honest in any public criticism of the Institute or fellow Members.

1.7 Members shall not maliciously or carelessly do anything to injure, directly or indirectly; the reputation, prospects or business of other Members.

2.0 Instructions, Inspections and Reports

2.1 Instructions accepted by Members should preferably be in writing and/or be confirmed in writing by the Member in sufficient detail to avoid any misinterpretation. Any variations or extensions of the original instructions should similarly be confirmed in writing.

2.2 Members shall not accept instructions beyond their competence; however, assignments may be undertaken in conjunction with a person having the required competence after disclosure to the client.

2.3 A valuation shall not be performed by a Member without an inspection of the property concerned. The inspection shall in all cases be sufficiently comprehensive to enable the Member to complete the valuation in accordance with the Practice Standards of the Institute. Where, however, a client’s instructions expressly exclude the requirements for a comprehensive inspection and these instructions are accepted by the member then the limitations to the valuation must be clearly acknowledged by the member and client.

2.4 Members shall not reproduce any work or reference prepared and presented by any other Member, person, body or authority which creates the impression that it is their own.

2.5 Members shall include in reports reference to any relevant assumptions, conditions, requirements and limitations arising from their instructions or enquires, or imposed from any other source.

2.6 Members shall retain for as long as legally required, adequate file notes which substantiate their opinions by way of inquiry, objective comparison, deduction and calculation.

2.7 Where information critical to the assignment being undertaken is relied upon by a Member, the source of that information should either be disclosed in
the relevant report or contained in the working papers supporting the relevant report, and be appropriately attributed in either case, unless the information is protected by confidentiality, or the Member is prevented by privacy or other like laws from disclosing or referring to the source.

2.8 Members shall accept full responsibility for the content of their reports. Where the report relies on professional opinion from outside experts, the degree of reliance must be indicated.

2.9 Co-signatories to reports shall indicate the extent of their involvement or the capacity in which they are signing.

3.0 Fees and Payments

3.1 Fees may be negotiated with a client on any agreed basis that does not:
   (a) infringe the Code of Ethics or any Statute or Regulation;
   (b) depend on the outcome of any valuation or other independent objective advice.

3.2 No Member shall pay by commission, allowance or other benefit to any person who may introduce clients to them.

3.3 Members shall not accept payment or favours from another party, which may affect their relationship with a client.

4.0 Use of Member’s Name and Designation

4.1 A Member should avoid the use of the Member’s name by, or personal association with, any enterprise or activity which may bring the Member, the Institute, or the profession into disrepute.

4.2 Where applicable
   (a) The initials FNZIV and ANZIV denoting Members’ status, and statutory designations “Registered Valuer” and “Public Valuer”, as appropriate, are personal to individual Members and shall be used only following or immediately in connection with the Member’s name.
   (b) A Member’s name and signature must appear on every valuation or report undertaken, together with the approved initials indicating their status and where appropriate the designation of “Public Valuer”, “Registered Valuer” or such other designation as the Institute may from time to time approve.

4.3 For Members of the Property Institute of New Zealand, the use of post nominals indicating the status of Members and “Registered” designations may only be used as permitted by the Property Institute of New Zealand Bylaws.

5.0 Conflict of Interest

5.1 Members shall not accept or carry out any instruction where there may be, or may reasonably be construed to be a conflict of interest. Members shall withdraw from any instruction if a conflict of interest arises or becomes known after an instruction has been accepted. An exception to this clause is where the conflict of interest is disclosed to and accepted by the party or parties.

5.2 Where a conflict of interest arises or could arise a Member shall promptly disclose the relevant facts to the client and where appropriate:
   (a) advise the client to obtain independent professional advice;
   (b) inform the client that neither the Member nor the firm can act or continue to act for the client unless the appointment or instruction is confirmed in writing acknowledging the actual or potential conflict of interest; and
   (c) disclose the matter in any relevant document or report.

5.3 Where a conflict arises or could arise between the interests of different clients of a Member or a firm or company of which a Member is a partner director or employee, a Member shall promptly disclose the relevant facts to the instructing client and where appropriate:
   (a) advise the client to obtain independent professional advice;
   (b) inform the client that neither the Member nor the firm can act or continue to act for the client unless the appointment or instruction is confirmed in writing acknowledging the actual or potential conflict of interest; and
   (c) disclose the matter in any relevant document or report.

6.0 Client Relationships

6.1 Members shall not disclose to any other person or party any confidential information provided directly or indirectly by a client or to a client without the permission of the client except where there is a legal requirement for disclosure or the information is of public or common knowledge.
6.2 Members shall conduct themselves in a manner and demeanour which is neither detrimental to their profession nor likely to lessen the confidence of clients or the public in the Institute or the profession.

6.3 Members shall act promptly and efficiently in the servicing of their client's instructions.

6.4 Members shall, in the case of unavoidable delay, communicate to the client the progress being made in respect of the instructions issued to the Member.

6.5 Consistent with the duty of a Member to preserve the confidentiality of client's affairs, a Member shall not accept a retainer to act for another person in any action or proceedings against, or in conflict with, the interests of the client.

7.0 Advertising

7.1 Any advertising by a Member must not reflect adversely on the professional integrity of the Institute or its Members.

7.2 Members shall not include exaggerated or false claims in any advertisement.

8.0 Reference to the Institute

8.1 No Member shall:
   (a) purport to represent the views of the Institute unless expressly authorised to do so;
   (b) publicise the Institute or its Members generally in terminology which has not either already appeared in an advertisement published by the Institute or received the approval of the Institute.

9.0 Inducements for the Introduction of Clients

9.1 No Members shall invite instructions for work except in accordance with the Code of Ethics.

9.2 No Member shall directly or indirectly exert undue pressure or influence on any persons, whether by the offer or provision of any payment, gift or favour of otherwise, for the purpose of securing instructions for work, or accept instructions from any person where there is reason to believe that undue pressure or influence may have been exerted by a third party in expectation of receiving a reward for the introduction.

10.0 General

10.1 Members shall fully co-operate with any request for information or directive from the Institute where a complaint has been lodged or where there is deemed to be a prima facie breach of the Code of Ethics.

10.2 A Member who is convicted of any offence involving dishonesty is in breach of the Code of Ethics.

10.3 A Member (NZIV Members) shall at all times faithfully observe and perform all the Member's obligations under the Valuers Act .1948, with its Amendments and the Regulations thereunder; and the Rules of the Institute.
NEW ZEALAND INSTITUTE OF VALUERS CODE OF ETHICS
(As provided in Rule 133)

Note: If you are a member of both NZIV and PINZ the NZIV Code of Ethics takes precedence.

Approved by members at the Annual General Meeting of the Institute held on 12 April 1996, and approved by the Minister in Charge of the Valuation Department in accordance with Section 16(3) of the Valuers Act 1948, on 9 May 1996.

The following is the Code of Ethics of the Institute, and every person referred to in Rule 8 of the Rules of the Institute is bound by this Code. A breach of any of the provisions of this Code may render the person concerned liable to disciplinary action.

I. Professional Responsibility

1.1 The first duty of each and every member is to render service to the member’s client or the member’s employer with absolute fidelity, and to practise their profession with devotion to high ideals of integrity, honour and courtesy, loyalty to the Institute, and in a spirit of fairness and goodwill to fellow members, employees and subordinates.

1.2 A member’s conduct shall at all times uphold the reputation of the Institute and the dignity of the profession and abide by all laws, statutes, regulations and rules relevant to their professional practice.

1.3 Each and every member shall maintain the high standards of their profession and should refer to the Institute, any act or omission of a fellow member they are aware of and which may appear to bring discredit on the Institute or its members.

1.4 No member shall prepare or certify any statement which is known to be or ought to be known to be false, incorrect, misleading, deceptive or open to misconstruction by reason of a misstatement, omission or suppression of a material fact, any deceptive act, or otherwise.

1.5 A member shall exercise the utmost care and good faith to ensure the maintenance of the highest standards in the preparation of statements, reports and certificates, as these constitute one of the most valuable assets of the profession, being relied upon by clients, employers, shareholders, investors, creditors and the public.

1.6 When asked for a valuation of real property, or an opinion on a real estate matter, no member shall give an unconsidered answer. A member’s counsel constitutes professional advice which must be prepared to the highest standards of competency and rendered only after having properly ascertained and weighed the facts.

1.7 A member must maintain the strictest independence and impartiality in the performance of the member’s professional duties. To this end no member shall

a) adopt the role of advocate to the exclusion of that independence and impartiality
b) allow the performance of that member’s professional duties to be improperly influenced by the preferences of clients or others as to the result of their professional work
c) rely improperly upon information supplied by clients or others in the performance of their professional duties; or,
d) act in any other way inconsistent with the duties of independence and impartiality.

2. Responsibility to Clients

2.1 Every member shall act towards that member’s clients in all professional matters strictly in a fiduciary manner. Any information of a confidential nature given to the member by a client shall be kept confidential and not disclosed to any other party without the consent of the client. A member shall not be deemed to commit a breach of this requirement by reason of a member answering any question which the member is legally compellable to answer in any judicial proceedings in which the member is called as a witness.

2.2 A member must not accept or carry out any instruction where there is, or may reasonably be construed to be, a conflict of interest and must withdraw from any instruction if such a conflict of interest arises or becomes known after the instruction has been accepted, unless such conflict of interest is fully disclosed in writing to all relevant parties and all such parties agree that the
2.3 A member must inform the member’s client or clients of the nature of any business connections, interests or other affiliations the member may have in connection with the service to the client or clients.

2.4 A member should not undertake any work for which the member is not qualified or where the member is in any doubt or ought to be in any doubt as to the adequacy of the member’s professional competency and or experience to undertake the work unless such work is completed under the supervision of a person of adequate competence.

3. Professional Fees

3.1 No member shall in respect of the member’s professional work levy a fee to the member’s client that is other than reasonable in all the circumstances. A member shall make known the basis of the member’s fee if requested by the client.

3.3 Fees may be negotiated on any mutually agreeable basis. However, no fee shall be contingent upon the reporting of a predetermined value or direction of value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

3.4 A member shall not pay by commission or otherwise any person who may introduce clients to the member.

3.5 A member’s charge to the member’s client or clients shall constitute their only remuneration in connection with their professional advice.

4. Professional Work by Members in Employment

4.1 A member in employment shall not accept professional work on the member’s own account unless with the knowledge and consent of the member’s employer or unless the member’s employment contract expressly provides such authority.

5. Professional Competency

5.1 As part of maintaining the standards of professional competency referred to under Clause 1.6 and 2.4 hereof every member shall, unless exempted by Council, participate in an ongoing annual programme of Continuing Professional Development in accordance with guidelines published to members from time-to-time by the Institute.

6. Use of Member’s Name and Designation

6.1 A member should avoid the use of the member’s name by, or personal association with, any enterprise or activity which may bring the member, the Institute, or the profession into disrepute.

6.2 The initials F.N.Z.I.V. and A.N.Z.I.V. denoting members’ status, and statutory designations “Registered Valuer” and “Public Valuer”, as appropriate, are personal to individual members and shall be used only following or immediately in connection with the member’s name.

6.3 A member’s name and signature must appear on every valuation or report undertaken, together with the approved initials as set out in the Rules of the New Zealand Institute of Valuers indicating their status as a Fellow or Associate and where appropriate the designation of “Public Valuer”, “Registered Valuer” or such other designation as the Institute may from time to time approve.

6.4 A member acknowledges that when signing reports as the primary professional the member accepts full responsibility for the content of those reports including content that may be the result of inquiries or development by others.

7. Advertising and Promotion

7.1 A member may advertise or promote the member’s professional services, either individually or collectively, provided that such advertising or promotion complies with the following:

7.1.1 It must not contravene, or be inconsistent with, the other provisions of the Code of Ethics.

7.1.2 It must not contain any reference to a client without that client’s consent having first been obtained.

7.1.3 The content does not carry the implication of any ability to influence any court, tribunal, regulatory agency, or similar body or official.
PINZ RULES OF CONDUCT

7.2 A member when advertising or presenting practice stationery shall not do so in a manner that may be construed as misleading.

7.3 A member is responsible for any advertising or promotion which the member has expressly or impliedly authorised or which is for the member’s benefit.

7.4 Neither the Institute’s crest or logo may be used without first obtaining approval of the Council.

8. General

8.1 A member shall at all times faithfully observe and perform all the member’s obligations under the Valuers Act 1948, with its amendments and the Regulations thereunder, and the Rules of the Institute.

8.2 A member shall at all times abide by every lawful decision of the Council or of the Committee of the Branch of which they are a member or of any general meeting of the Institute or of that Branch.
ANZPS 1 VALUATIONS FOR COMPULSORY ACQUISITIONS

This Practice Standard relates to ANZ Valuation Guidance Note 5

1.0 Introduction

1.1 Underlying Principle
A Member undertaking a valuation as part of a compulsory acquisition process affecting an interest in land, shall observe the requirements of this Practice Standard and must conform with the Institute’s Code of Ethics and Rules of Conduct and any relevant law, or regulation that may apply from time to time.

1.2 Status
Practice Standards have mandatory status.

1.3 Scope
This Practice Standard applies to a Member involved in an acquisition or the pre-acquisition process affecting an interest in land, whether acting for a Public Authority or a claimant.

2.0 THE MEMBERS ROLE

2.1 Advocate
A Member is entitled to act as a claimant’s advocate during the acquisition process, however the advocacy role is subject to proper professional practice in conducting negotiations on a client’s behalf and that role must be declared to all parties. A Member may conduct negotiations on a clients behalf based on valuation principles and practice but must not act as an advocate then as an expert in the same matter.

2.2 Ambit Claims
A Member shall not prepare a valuation, report or advice which cannot be supported by the application of market evidence and accepted valuation principles.

Members must support their clients claim by the preparation and submission of a valuation report.

2.3 Experts Report
A Member acting as an expert valuer shall prepare a valuation report as an independent expert in accordance with this Practice Standard having regard to relevant legislation and decisions of relevant Courts and which:

- addresses the elements or heads of compensation,
- explains the basis of the assessment,
- provides a description of the methodology, assumptions and calculations which have been utilised,
- rationalises the market evidence relied upon in assessing the value of the claimant’s interest, and
- can be relied on as evidence of value at any stage of negotiations or as required under the settlement process by agreement, arbitration or court proceedings.

If required by the client a Member shall support the assessment (with relevant support from other professionals and experts) in any discussions with the other party or its representatives or consultants and if required, present evidence in a court or tribunal.

3.0 DEPARTURE PROVISIONS
Where a Member considers circumstances exist that warrant departure from or non-compliance with any rule herein, the Member’s report shall include a statement that outlines the reasons for the departure or non-compliance and any impact on the content of the report.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members undertaking valuations of any real property for any purpose.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of ‘The Valuation and Property Standards Manual’.

1.3 Scope of this Guidance Note
This guidance note applies to Members providing valuations in respect of any real property for any purpose. It should be used, as far as applicable, in conjunction with other guidance notes and practice standards that are either over-arching or directly applicable to the type of real property, purpose or issues involved. As there are many types of properties and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This guidance note is not intended to outline methods of valuation of any particular type of property but may comment on matters that should be addressed in reports in respect of certain properties types or uses. Where appropriate, methods of valuation are covered in other guidance notes.

2.0 Instructions

2.1 Confirmed in Writing
Instructions should be confirmed in writing, and include details regarding access arrangements, identification, ownership, agreed fee (or basis for its calculation) and, if applicable, the purchase price and the selling agent. The instructions should also list the parties intended to rely on the valuation, the purpose of the valuation, and agreed time for completion of the report.

3.0 Scope of work

3.1 Scope of Work
Before commencing any valuation it is important to clarify with the client what is to be included in the scope of work.

3.2 Fixtures and Non-Fixtures/ Chattels
Often the distinction between fixtures (ie items that are included with real property) and not fixtures/chattels is contentious. An example of a fixture may include heating/ air conditioning installations including ventilation systems etc. An example of a non-fixture/chattel may include a moveable article of property such as household furniture. Borderline cases often arise and it is important that the Member clearly identifies what items have been included and what items have been excluded.

3.3 Examples of Fixtures
There are certain items that are generally regarded as fixtures (i.e. usually included with real property). These may include the following:

- electric wiring to light points and power sockets, lighting systems, etc.;
- fire and smoke detector, fire alarm and other hazard warning systems;
8.1.2

- heating/air conditioning installations including ventilation systems, etc.;
- goods and passenger lifts, escalators and power walkways;
- domestic water systems and domestic effluent waste disposal plants; and
- fire fighting installations including sprinkler systems, together with water tanks, pumping sets, etc., rising mains, fire hose reels and other fire extinguishing installations.

3.4 Examples of Non-Fixtures
As a guide items that are generally regarded as plant and equipment and therefore excluded from a real property valuation include the following:
- electric power distribution associated with the process or production of plant and equipment, including generators, transformers, switch panels and cabling;
- lifting equipment including overhead travelling cranes, swivel jib cranes, lifting beams and chain blocks;
- effluent treatment plants specifically installed for process and trade effluent;
- steam raising plants and boilers primarily used in connection with the manufacturing process including exhaust stacks and reticulation systems; and
- telephone installations and computer cabling.

3.5 Interpretation in Specific Cases
Where there is doubt regarding the classification of an item it should be clarified with the client.

4.0 Report Content
All valuation reports must include content as is relevant to the type of property and the style of report (unless using a pro-forma required by a client). The extent of detail under any heading will vary depending on the style of report and the nature of the property. Report content usually includes:

4.1 Instructing Party
Details of instructing party and/or client who is to rely on the valuation.

4.2 Purpose
A statement as to the purpose of the valuation.

4.3 Date of Valuation
The date of valuation is usually the date of inspection of the property.

4.4 Basis of Value
The basis or bases of value on which the valuation is conducted.

4.5 Methodology, Reconciliation and Value Range
Unless not required in a pro-forma report, the methodology should be appropriately outlined for each approach along with important calculations and rationale. A reconciliation of the approaches adopted should be included. A value range may be expressed before being reconciled to a single point figure.

4.6 Legal Description
The legal description of the property, noting any encumbrances on the available title documentation and the impact on value and marketability of the property. Members are encouraged to conduct their own title searches. A Member should indicate if a title search has not been undertaken.

4.7 Nature of Interest
The nature of the interest valued. This will usually be fee simple vacant possession, fee simple subject to tenancy or in some cases the value of the lessee’s interest.

4.8 Lease or License Details
Where the property is the subject of a lease, licence or other occupancy agreement, then the Member should note all relevant details applicable to that lease/licence/agreement and its impact (if any) upon the value. If the Member is unable to obtain or sight the original lease documents/licence/agreements, or a proper copy thereof, then reference to that fact should be noted in the property report with an appropriate qualification that the detail is to be confirmed before relying on the valuation. A Member could recommend or request that a copy of the executed or registered documents be forwarded to the Member for confirmation.

4.9 Dimensions and Area
The land area should be included in a report and measurements may also be provided.

4.10 Location and Locality
The location requires a statement as to the position of the property relative to the CBD, nearest...
main town or regional centre. Locality requires a description of the immediately surrounding neighbouring development, drawing attention to any positive and/or negative features which may affect value.

4.11 Town Planning/Resource Management
Provide town planning (NZ - Resource Management) details, noting the name of the Planning Instrument or Authority and comment on the present use of the property in relation to its zoning and any proposed alterations to the zoning. A Member should consider:

- the need to sight and review any development or other consent and the conditions thereto affecting the property.
- and make comment on the ‘highest and best use’ of the property, particularly when that use is different to the current use of the property.
- any public or private authority reservations, designations or proposals.

4.12 Site, Services and Environmental Hazards
A description of the nature of the site, its services and details of any significant observable/visual and/or known defects or hazards, eg. flooding, landslip, observable or known site contamination, inadequate drainage, etc. If Members are concerned as to the possibility of site contamination at inspection they should where possible make all appropriate enquiries, including enquiries of the relevant statutory authority (local or otherwise) as to the history and previous use of the site. An appropriate qualification as to the result of such investigation should where necessary, be incorporated within the property report.

A Member should indicate that they are not expert in contamination issues (unless that is the case) when comment is made on such matters.

4.13 Structural Improvements
A description of the structural improvements including, approximate age, area and accommodation of buildings and their general state of repair. Any integral plant included in the valuation should be identified. If the Member observes that the improvements are affected by any deleterious substances, (eg. asbestos), or items of obvious non-compliance in relation to relevant regulatory codes, appropriate comments should be made. Comment should however be made on whether the building is functional for its current use and if there is significant obsolescence or over-capitalisation.

Members are not usually expert in structural matters and should recommend the use of other experts where appropriate.

4.14 Lease(s)
Where a property is subject to a lease(s), an appropriately detailed epitome should be included. A statement regarding the source of the documents should also be made and whether they have been sighted. In the event that the lease has not been sighted a qualification should be made in the report to this effect.

4.15 Outgoings and Recoveries
Where a property is subject to one or more leases which warrant the use of the income capitalisation approach, actual and/or estimated building outgoings and operating expenses should be noted along with any recoveries under the lease. Where appropriate, actual outgoings should be compared to historic actuals, current budget and those for comparable properties (explicit evidence should be noted where available).

4.16 Marketability
Comment on any inherent or external features favourably or adversely affecting the marketability of the property.

4.17 Further Investigation Other Experts
Any factors that the Member feels require further investigation and/or information should be noted including, for example, matters that other professionals may be required to provide because of the limit of a Member's qualifications, experience or knowledge.

4.18 Condition of the Market
Comment on the condition or state of the market for the class of property. In appropriate circumstances, a more detailed analysis of the market dynamics may be appropriate.

4.19 Market Evidence
The basis of valuation adequately detailed for the type of property, type of report, the condition of
the market and providing a reasoned approach to the valuation.

Comment on any sale of the subject property within the previous 3 years (or a longer period if the Member considers this relevant) and any known circumstances or conditions pertaining to that sale.

Comment on any known contract for sale including price and any circumstances or conditions relating to that sale contract, if these are known to the Member. A current or recent sale of the subject should be considered against other evidence as it has been a test of the market.

In the case of property this should include sales and rental data evidence and justification by reference to market evidence of any capitalisation rate adopted. As warranted, the application of this data should be shown or explained.

4.20 Single Valuation Figure
The Market Value should be expressed as a single valuation amount.

4.21 Sale in One Line or Single Transaction
Where a Member undertakes a valuation of multiple properties in one development, such as lots in a subdivision or units in a building, the sum of the individual values or gross realisation assessed on the basis of an orderly marketing and sale program should be clearly defined as the total gross realisation.

The valuation of multiple properties in one development should be completed on the basis of a single transaction or sale in one line to one buyer. This valuation approach should incorporate an appropriate discount to reflect the costs incurred in realising the proceeds from the sale of the individual properties. These costs normally include marketing and sale costs, holding costs and a profit and risk factor.

4.22 Proposed Developments
Where the subject of a report is a proposed development of the property the report should clearly state:

• the source of information upon which the report is based,

• the valuation on an ‘As If Complete’ basis, and

• any assumptions necessary to ensure the basis of the report is clear.

Further guidance is included below at 8.0

4.23 General Market Advice
It is acknowledged that Members may, in certain circumstances, be requested to provide general market advice to clients on a specific property. However Members should be aware that such market advice may still be interpreted in a legal sense as a valuation. The scope of work should be defined to protect the interests of all parties who may rely on the advice.

4.24 Going Concerns
Where the property being valued is operating as a ‘Going Concern’ and is to be valued on that basis, trading figures would normally be considered. The report should:

• state the source of the trading figures,

• have annexed to it, a copy of trading figures supplied, and

• show any adjustments made to those figures in the valuation process.

Further guidance is included below at 9.0

4.25 Disclaimers and Qualifications
Appropriate disclaimers and qualifications should be included in a valuation report. These are designed to inform the client of the level of reliance that can be placed on the report and whether further action is required. ANZ Real Property Guidance Note 1 [ANZRPGN 1] ‘Disclaimer Clauses and Qualification Statements’ provides a range of clauses for consideration for inclusion in reports as appropriate as well as guidance in drafting them and incorporating them into a report.

Due Consideration
These disclaimers and qualifications should not be incorporated in valuation reports without due consideration. Each individual case will determine the qualifications that are appropriate. ANZRPGN 1 makes recommendations as to how they should be included.

Third Party Disclaimers
To the extent that such disclaimers are permitted by law, it may be appropriate, and indeed required by a Member’s professional indemnity insurer to include a third party disclaimer in a valuation report.
4.26 Signing the Report

The report shall be signed by the person who conducts the valuation (who must be the person who inspects the property). Where the report is counter-signed, the capacity in which the counter-signatory is signing the report must be clearly stated (especially if the counter-signatory has not personally inspected the property and carried out the research and report). This is to avoid misunderstanding by anyone relying on the report who might otherwise be under the impression that a co-signatory signing as a ‘Member’, would have also inspected the property and had significant involvement in the valuation process. As an example, the following clause could be used:

*The counter signatory, who has read and signed this report, verifies that the report is genuine and is endorsed by [firm name]. The opinion of value expressed has been arrived at by the person who conducted the valuation.*

5.0 Inspection and Enquiry Guidelines

5.1 Identification

A Member should obtain sufficient information and carry out sufficient on-site observations to allow the property to be adequately identified. The source of the information should be noted. A member should exercise due caution and confirm where necessary before relying on information provided by other parties.

5.2 Confirm Street Address by Plan Reference

While identification of the subject property by street number and street name should be confirmed where the property has such, the street address is not the legal description of the property. A Member, where possible, should also sight a cadastral plan, deposited plan or other document enabling the actual identification of the property by lot and plan/section number and reference to physical features such as cross streets, public reserves, or other local features. These details may be found on a Certificate of Title. The availability and use of digital mapping cadastres also provides for Geographic Positioning Systems (GPS) which can be a suitable aid in confirming the location of the property in an ‘on site’ situation.

5.3 Sight Contract of Sale and Certificates

It is desirable where possible for the Member to sight a contract of sale for the property and, where possible, obtain and/or sight any certificates attached to the contract of sale such as a survey certificate, sewer diagram, title plan, zoning and/or any other local government certificates. (NZ-Land Information Memorandum, Resource Consent)

5.4 Within Fenced Boundaries

When carrying out a valuation without the benefit of a current survey (cadastral) report or an accurate Geographic Positioning System (GPS) a Member is not qualified to advise lenders as to whether buildings or other improvements are within the title boundaries. A Member may indicate after observation that the buildings are within the fenced boundaries but should not generally comment in relation to the title boundaries without the benefit of a survey report (other than to indicate the need for a survey report). Any check measurement carried out to assist in this process should be appropriately qualified.

5.5 Inspection of Buildings and Other Improvements

Buildings and other significant improvements should be measured and inspected internally and notes taken recording the fixtures, fittings and the general state of repair and condition of the building (or buildings) and improvements at the time of inspection. A Member should also take appropriate photographs and comment upon the services available to the property at the time. Those notes and/or dictation recording should be clearly and accurately recorded in writing in the form of the Member’s ‘field notes’. Members should not discard their ‘field notes’ or any other documents relied upon in undertaking their valuation. A dictated recording made at the time of inspection is acceptable provided it is then converted to either hard copy format, or an electronic format enabling hard copy production upon request.

5.6 Preferred Method of Inspection

Subject to any specific instructions from the Client and as relevant to the property type, the preferred
method of inspection and notation of that inspection is as follows:

**Sketch Plan of Main Building**

Sketch the external walls and record dimensions of the main building (preferably to scale) and record details of the internal layout (unless a copy of a building plan is obtained, checked and retained). While not imperative, noting on the plan positions of doors and windows, cupboards, special fixtures and services and prime cost (PC) items, could prove beneficial for subsequent reflection and reporting. Note also adjacent improvements and buildings. The Member may use suitable alternative methods of recording this information.

**Items to Note**

During the course of inspection all relevant items should (as practical and as applicable to the type of property) be described and commented upon including:

- Services connected or available to the site;
- Flooring;
- Wall and Roof Framing;
- External wall coverings;
- Ventilation;
- Roof drainage;
- Internal linings to walls and floors;
- Ceilings;
- Ceiling heights;
- Roof coverings;
- Special design or architectural features;
- Building services, eg. sprinklers, hydrants, hose reels, ventilation/air conditioning, security systems, auxiliary power and lighting, escalators and elevators;
- Natural and artificial lighting;
- Prime Cost Items;
- Amenity and storage areas;
- Car parking facilities;
- Loading and unloading facilities;
- Courier access;
- Excavations;
- Landscaping;
- Vehicular access points and manoeuvring areas;

- Design features – spacing of columns or clear spans, internal height, minimum clearances to roof frame, door clearances (height and width);
- Ancillary structures and ground improvements;
- Hard-stand and storage areas; and
- Fencing.

The Member should also note:

- Any obvious significant external and/or internal defects, or items of non-compliance with Building and Fire Regulations which fall within the Member’s area of expertise (noting any recommendations for obtaining advice from other professionals/experts in relation to those defects or items);
- Overall general condition, maintenance and/or state of repair of the building(s), building services and improvements as far as can be ascertained by ready visual inspection.

- Any current certificates on the land such as white ant certificates, Health orders, Council orders, Non-conforming uses

**External Features**

Note any views, lines of sight and the nature of surrounding development.

**Strata/Community Title Plan**

In the case of strata, unit and community title properties, obtain a copy of the relevant plan and any relevant documents.

**Photographic Records**

A Member should take appropriate photographs as a record of the improvements and the other features of the property.

### 6.0 Market Evidence and Market Analysis

#### 6.1 Research

Relevant market transactions should be researched and analysed along with other market indicators. The extent of the research and analysis should be appropriate to the type of property and the report.

**Sales Evidence**

Details of a number of comparable sales should be included in any valuation report, (though a much wider range of data may be considered and analysed).
Local Transactions
Sales researched should, as far as possible, be recent transactions. Where more than six months has elapsed since a sale (or if the market is changing rapidly, some lesser period), appropriate comments may need to be made about any change in the market since the sale occurred.

Adjustment of Sales Evidence
Where sales are not directly comparable as to date of sale or other factor, but in the same locality, the Member should provide an explanation.

Company Title
For company title units obtain details from the Company Secretary of any share transfers and review the articles and memorandum of association and any other relevant documents.

6.2 Outside Evidence
Where the property to be valued is within a new subdivision or development and is being purchased from the developer, re-sales or sales from other comparable developments should also be provided and considered where available as a cross reference.

6.3 Consideration of Sale Price of Subject
The selling price of the subject property should be researched and considered by the Member in relation to other sales evidence, the overall state of the market and the requirements set out in the definition of Market Value. If it appears inconsistent with the market, it may be appropriate to check with the agent or solicitor for any unusual circumstances surrounding the sale or special conditions in the contract. If it is confirmed as an inconsistent sale, this, and the reasons, should be specifically noted in the report.

6.4 Written Down Values Of Plant
The Written Down Value of plant and equipment for taxation purposes, when included with a property valued, should be commented upon in relation to any substantial departure from Market Value.

7.0 Valuation
7.1 Methodologies
Valuations should be based on the available market evidence and using one or more of the following methods as appropriate:

- Sales Comparison Approach, which includes direct comparison on a unit basis or the summation approach
- Income Capitalisation Approach; and
- Cost Approach (Depreciated Replacement Cost or DRC)

noting the relevance or limitations of any approach adopted and reconciling the various approaches.

7.2 Owner-Occupied Property
For owner-occupied properties the valuer should consider the purpose of the valuation (eg for financial reporting or mortgage and loan security purposes) to determine the correct valuation basis.

7.3 Specialised Properties
Where a property includes significant specialised improvements for which there could be limited demand, comment should be provided on alternative uses and how this might impact on value and marketability. It should also include comment on the strength of the market for the design use.

7.4 Calculations
Valuation calculations should be summarised in the report.

7.5 Valuation
A single amount should be recorded for the value in line with traditional valuation practice. A report may however address the value range or tolerance within which the valuation falls. The valuation will normally be arrived at after consideration of several valuation methodologies. The value assessed by the Member should relate to the market conditions existing at the date of valuation (which will normally be the date of inspection) and should reflect the appropriate definition of value.

7.6 Marketing Period
The assessment of 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 in the then current market conditions. Conceptually, this period is envisaged as having preceded the date of valuation. A Member should, if requested, provide an estimate of the likely marketing period necessary to achieve the assessed ‘Market Value’. In such circumstances the Member should also
provide a statement of the dynamics of that market.

7.7 Specified Marketing Period
If a client requests a valuation reflecting a specified marketing period, careful consideration should be given as to whether it should be called ‘market value’.

7.8 Forced Sale
Market Value does not reflect mortgagee-in-possession or other forced sale conditions, where the realisable price under certain market conditions is likely to be less than Market Value. Refer ANZVGN 3 Valuations for Mortgage and Loan Security Purposes (Forced Sale).

8.0 Value as If Complete

8.1 Valuation of Proposed Improvements
A Member may provide a valuation of a proposed building or project assuming completion at the date of valuation. This is a ‘Value As If Complete’ valuation. Members should refer to Guidance Note ANZVGN 2.

8.2 Proposed Lease(s)
Where a lease(s) is proposed over a property the valuation should be expressed as “Value As If Complete” and treated in a similar manner to a valuation of proposed improvements.

9.0 Valuation of Going Concerns

9.1 Basis
Valuations in relation to Going Concern properties should identify the interests valued as one of the following:

- Going Concern, walk-in, walk-out (plus Stock at Valuation (SAV))
- lessor’s interest (sometimes known as the freehold)
- lessee’s interest (sometimes known as the leasehold).

9.2 Trading Figures for Going Concerns
Trading figures for Going Concerns should be obtained, analysed and commented upon. Where possible audited or verified figures should be used. Where figures are not sufficiently detailed or reliable or do not cover a sufficient period, comment should be made as to the impact this could have on the value and/or marketability of the property. If a Member is specifically instructed to carry out a valuation without adequate figures, the report should be appropriately qualified.

9.3 Chattels, Plant and Equipment
Where chattels, plant and equipment are part of the ‘going concern’, they should be noted in the report.

9.4 Management
The impact of management on the trading figures should be addressed.

9.5 Unusual Operations
Where the subject of the report is an property used for an unusual operation, the dynamics of the market for its product should be explained.

10.0 Licences, Rights and Permits

10.1 Preservation of Rights
Where a property has a licence, right or permit the Member should examine its terms and provide an epitome in the report. The Member should note any measures required to keep the element current or to preserve the licence, right, or permit in the event of the mortgagee having to enter into possession.

10.2 If Personal Property
Care should be exercised to ensure that the licence, right or permit attaches to the land (and/or improvements) and is not personal property, as a mortgage would not normally encompass personal property. A special charge may need to be taken over the element involved.

11.0 Transmission of Reports
Where a member proposes to provide a document to a client in an electronic format, the Member should:

(a) obtain the client’s prior consent to send the document electronically (as opposed to sending a traditional paper-based document) and

(b) agree with the client on acceptable types of electronic signature to be used to sign the document.
Where Practice Standards require certain documents to be counter-signed, and where such documents are to be sent electronically, the Institute recommends that the member should obtain the client's consent in accordance with the section outlined above.

The member should include a prominent disclaimer in the electronic transmission of the document (see ANZ Real Property Guidance Note 1 for further information on Disclaimer Clauses and Qualification Statements). An example of such a disclaimer is as follows (note: the member should use their own skill and judgement when determining whether this example is appropriate for its circumstances):

“[COMPANY NAME] NOTICE

The information in this electronic transmission (including any attached files) is intended only for the person or entity to which it is addressed and may contain confidential and/or sensitive material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please notify us immediately by reply e-mail [or insert other contact details] and delete the information from any computer.”

13.0 Post Valuation Consultancy

Where a Member has provided a valuation report and matters are raised with the Member by the instructing party, it is the Member's professional responsibility to respond to any such reasonable queries, even though no additional fee is offered. However, the Institute recognises that in the case of a variation from the original instructions, it may be appropriate for the Member to seek an additional fee.

12.0 Special Issues

12.1 Adverse Impact

A Member should be particularly alert to special issues which may impact adversely on the value and/or marketability of particular properties rather than properties in general. These could include but are not limited to:

- the potential for or the existence of a Native Title claim, a land claim or in New Zealand, Treaty of Waitangi claim
- actual or potential site contamination
- other environmental issues such as urban or rural salinity
1.0 INTRODUCTION

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members undertaking valuations of property, plant and equipment for mortgage and loan security purposes.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance Note applies to members producing valuation reports for mortgage and loan security purposes. As there are many types of assets and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This Guidance Note is not intended to outline methods of valuation of any particular type of asset but may comment on matters that should be addressed in reports in respect of certain property types or uses. Where appropriate, methods of valuation are covered in other guidance notes.

1.4 International Valuation Standards
This Guidance Note is intended to be consistent with the publication International Valuation Standards 2007 as issued by the International Valuation Standards Committee. However, there may be departures from IVSC Standards to reflect Australian and New Zealand law and practice.

1.5 The Role
In addition to the responsibilities covered in IVS 3, IVA 2 and ANZVGN 1 the Member’s role is to advise:

• the market value of the assets for mortgage and loan security purposes at the date of inspection. Market trends may also be advised.

• factors that can or could impact adversely on the property as a security. The Member may attempt to quantify the adverse impact or risk or draw the client’s attention to the need for re-assessment should these risks eventuate.

2.0 INSTRUCTIONS

2.1 Instructions from Lender
It is desirable that all instructions to Members to undertake market valuations for mortgage and loan security purposes should be received from the lender and not from the borrower. It is important that the contract should be between the party relying on the valuation (the lender) and the member. Lenders should issue instructions direct to the firm/member.

2.2 Other Instructions
It is recognised that intending mortgagors (borrowers) may instruct members to provide a valuation for borrowing purposes. This is considered an undesirable practice because of the potential impact particularly of insurance cover, in some cases.
ANZ VALUATION GUIDANCE NOTE 2

NZ 2.3 Other Instructions

“While receiving instructions directly from a lender is preferable, in New Zealand it is more usual for borrowers to issue instructions. Where instructions do originate directly from an intending borrower, members should be careful to confirm that their instructions are appropriate in the context of a potential lender’s requirements and that the valuer member acts impartially.” This replaces the last sentence in 2.2 Other Instructions (previous page).

3.0 REPORT CONTENT

3.1 Recommendation

In Australia, unless specifically requested by a lender, a recommendation should not be made as to the suitability of the asset as a security as this is a commercial decision of the lender, which may involve other factors. It is however appropriate to comment on asset-specific and market factors impacting adversely on the asset (see Risk Analysis), as well as positive aspects. Unless required by State or Federal legislation it is not generally appropriate for the Member to recommend a maximum or minimum loan percentage or amount or recommend a loan period.

3.2 Risk Analysis

A Member should advise the lender of factors that could impact adversely on the property as a security. This may include those factors which, assessed on information that is common knowledge, readily ascertainable in the market and/or reasonably foreseeable, may have an adverse impact on the property’s value and marketability.

3.3 Risk Rating

In the case of real property a rating method can be used as part of the risk analysis. The rating adopted for each aspect of any risk analysis needs a balanced overview. A property may have many counter balancing features.

3.4 Future Value

While forward-looking advice may be provided to the client the market value assessed should not attempt to predict future value levels.

3.5 Pro-Forma Reports

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 for mortgage purposes.

3.6 Alternative Use Value

When 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 an existing lease or, when the value of a property purpose-designed for the occupier has an alternative use value which is significantly different, then both values should be reported to ensure that a mortgagee/lender is fully informed. If leased, the valuer should draw attention to the potential for different values to be applied.

4.0 VALUATIONS ON AN ‘AS IF COMPLETE’ BASIS

4.1 Valuation of Proposed Improvements

A ‘Value As If Complete’ valuation assumes the proposed work is already complete at the date of inspection and reflects the market at that date. The Member assesses the value from plans and specifications having regard to the market at the date of inspection. In the original valuation, the member should reserve the right to review the valuation, and if necessary, vary the valuation if there are changes in the property itself or in property market conditions and prices.

4.2 Instructions

Instructions from clients to value proposed improvements to be erected should include:

- A copy of the builder’s quotation, contract or tender or 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
- A copy of plans and specifications, however council approved and stamped copies should be sighted prior to completion if not available at the time of instruction (in which case the valuation should be appropriately qualified);
- Engineer’s details of the proposed building for concrete slab floors and other structural elements as applicable
8.2.3 ANZ VALUATION GUIDANCE NOTE 2

ANZ VALUATION GUIDANCE NOTE 2

- A copy of any accepted tender or builders quote
- Full Prime Cost and/or provisional cost allowance item list noting any works not being carried out by the builder
- A copy of any agreement to lease or other form of pre-commitment if applicable.

4.3 Information Not Available

If the above information is not made available to the Member, this should be drawn to the attention of the lender and further information requested.

4.4 Member’s Building Qualifications

In undertaking a valuation of a property on which the dwelling or project is to be erected, a Member should not hold themselves out as having qualifications in a building/structural discipline unless they have such qualifications.

4.5 Cost Estimates and Inspections by Others

In the event that Members are not qualified in a buildings/structural discipline, 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. Engineer, Architect or Quantity Surveyor.

4.6 Advise Significant Difference Between Costing and Tender

If a Member has appropriate costing expertise a check costing can be made and discrepancies noted.

4.7 ‘Value As If Complete’ Qualifications

A Member in assessing the Market Value of a property based on plans and specifications and/or a proposed lease(s) on an “As If Complete” basis should be subject to qualifications such as:

- Satisfactory completion of the improvements in accordance with the plans, specifications and details as provided
- An inspection by the Member following practical completion of construction
- Confirmation or variation of the original valuation figure relevant to the original valuation date, following an inspection of the project and any leases after practical completion
- Issue of all relevant approvals including a satisfactory building completion certificate under the appropriate legislation
- Sighting of any reports from other experts who have provided advice in aspects of the construction of the buildings
- Such other matters/issues that the Member is of the opinion should be drawn to the attention of the client
- The right to review and, if necessary, vary the valuation if there are changes in the project itself or leasing

4.8 Confirmation at Original Valuation Date

Any confirmed or varied valuation will relate to the market conditions existing at the date of the original valuation. An updated figure may be provided at the specific request of the client and additional fees may be chargeable for this review.

4.9 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.

4.10 Significant Repairs and/or Renovations

Where significant repairs and/or renovations are involved, a valuation on an ‘as if complete’ basis may also be required. A Member should ensure that the current condition of the property is appropriately described in any description of improvements, and the existing and proposed improvements should be addressed separately.

5.0 CHATTELS

5.1 State if Included

Chattels are not normally included in a valuation of real property if such items are included, this must be clear to the reader of the report. Chattels are regarded at law as personal property and are
not included in a mortgage. In Australia the API supports the inclusion of the following items in residential mortgage valuations:

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

In New Zealand, the PINZ supports the exclusion of the above items in residential mortgage valuations. Chattels not included are items such as furniture that is not built in, loose floor coverings, lamps and items not fixed with the intent that they should not remain in place and pass with a sale of the property.
ANZ VALUATION GUIDANCE NOTE 3

ANZVGN 3  VALUATIONS FOR MORTGAGE AND LOAN SECURITY PURPOSES (FORCED SALE)

1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to address the issue of providing a ‘forced sale value’ of property and its relation to the assessment of Market Value for mortgage purposes.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance Note applies to Members valuing and providing various forms of reports over property for mortgage finance purposes. It should be used in conjunction with other guidance notes and practice standards which are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 Market Value Policy [Def. Market Value]
It is the policy of this Institute that mortgage valuations must be provided by Members on a Market Value basis. A professional market valuation of a property will be consistent with the Market Value definition adopted by the Institute.

2.0 Forced Sale

2.1 Forced Sale Value inconsistent with Market Value
The expressions ‘forced sale value’ and ‘distress sale value’ are considered to be inconsistent with the concept of ‘Market Value’ and represent expressions of property prices achieved under different selling conditions.

2.2 May be Provided
Valuers may, when requested, provide an estimate of a realisable price when forced or distress sale circumstances exist. The reporting of a range of value can be appropriate in these circumstances.

2.3 Distress Sale
‘Forced sale’ and ‘distress sale’ are taken to have a similar meaning for the purposes of this statement. The term ‘fire sale’ has even less certainty of meaning than these terms and in relation to property its use should be avoided.

2.4 Essential Element(s) Missing
A sale of property under forced sale conditions does not meet all the criteria of a normal market transaction in that there is some element of undue compulsion or influence affecting the seller. One of the essential elements of a market valuation is therefore missing.

2.5 Circumstances
The circumstances surrounding a forced sale usually involve:
• An owner under some form of duress or pressure, financial or otherwise, to sell the property, or,
• A third party such as a receiver or mortgagee in possession of the property.
2.6 Marketing Conditions
A forced sale of property may involve:

• An inadequate exposure to the market.
• An unreasonably short period in which to achieve a sale.
• An inappropriate selling method.
• A vendor with a primary objective of recouping a loan or secured amount rather than obtaining the market price.
• Potential buyers being aware of the circumstances of sale and the seller’s weakened bargaining position.
• Other unusual factors.

Any one or all of the above can have a negative impact on the realisable price.

2.7 Effect of Varying and Various Markets
In some market conditions and in certain selling situations there may be little or no difference between a forced sale price and the market value of a property. The state of the market, the supply factors and the strength of the demand will influence each result.

3.0 VALUATION ADVICE

3.1 Lender Requirements
The provision of a forced or distress sale ‘value’ in addition to a market value for a proposed mortgage is considered by this Institute to be a generally undesirable practice. However it is recognised that some lenders require valuers to provide forced or distress sale assessments.

3.2 Use of Term and Endorsement
In these circumstances it is considered prudent for the valuer to use the term current forced sale price and to include an endorsement along the following lines:

‘This current forced sale assessment is based on a sale by the mortgagee (or receiver, etc, as appropriate) at public auction or within a reasonable period after such auction having regard to the nature of the subject property, after full and proper marketing and it reflects the valuer’s view of the market conditions prevailing at the date of this report.’

3.3 Forced Sale Imminent
In circumstances when a forced sale is imminent such as when a mortgagee is in possession of a property, a valuer may provide an opinion of a forced sale expressed as a realisable price range and/or a most probable price based on the market conditions and the specified selling circumstances at the time.

3.4 Realisable Forced Sale Price Range
The realisable forced sale price range and/or most probable forced sale price is likely to vary in relation to actual selling circumstances at the time of sale.

3.5 Not Generally Indicative
Any forced realisation of a property will usually reflect the particular and special selling circumstances of that transaction and a sale price achieved in these circumstances is therefore not generally indicative of realisable prices for other similar properties under normal marketing conditions unless it can be viewed as consistent with most other transactions in the market.

3.6 GST Caution
Specific legal and/or accounting advice will need to be sought regarding the GST implications for this Guidance Note.
1.0 INTRODUCTION

1.1 Purpose
The purpose of this Guidance Note is to provide information to valuers employed or engaged by government or statutory authorities to assess valuations for use in the determination of Rates, Taxes and other statutory charges over land.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note does not cover the administration of valuation lists or determine their use. That process is achieved by complementary legislation that prescribes the categories of properties to be valued and any exemptions or omissions from the valuation rolls of property in public ownership.

1.4 Compliance
Valuers engaged to assess valuations for rating and taxing, purposes should comply with statutes and precedents relevant to the type of valuations being made.

1.5 Statutory Responsibility
The professional responsibilities of valuers engaged to make rating and taxing valuations, are prescribed by regulatory jurisdiction in each State or Territory of Australia and New Zealand. Under the relevant legislative authority, the Valuer-General is responsible for maintenance of valuation standards.

1.6 Authorities
For the purpose of this Guidance Note, Rating and Taxing Authorities Include:

- The States and Territories of Australia,
- New Zealand,
- Local authorities,

Any statutory authority which is financed by revenue from a Rate or Tax.

2.0 BASES OF VALUATION

2.1 Form of Rating or Taxing Bases.
Each State and Territory of Australia and New Zealand has its own legislation defining the various bases of rating valuations. Practitioners should ensure that they are familiar with the legislative definitions and supporting case law in the jurisdiction in which they are practising. The bases comprise the types of valuation used to form the valuation roll, such as Improved Values, Unimproved Values, Site Values, Land Values, Gross Rental Values, Estimated Annual Value or Assessed Annual Values as defined in the various statutes. Such valuations shall be in accordance with market evidence at a common date, generally referred to as the Date of Valuation. Other information may be required to be included in the valuation lists such as the date of inspection of the relevant property and the prescribed date for effective use of the valuation for rating or taxing purposes. A qualification or reference to the legislation making such direction must be noted on the return of valuations.

2.2 Determining the Value of Land
In determining the value of land, including stratum, members may, amongst other valuation criteria, be required to take into account:

- The highest and best use to which the land might reasonably be expected to be put at the relevant date,
• The detrimental effect on value of any lease, mortgage, covenant or other charge over land,
• The actual use to which the land is being put at the relevant date and any potential use,
• The effect of any legislation, regulation, local law, planning scheme, including heritage provisions or any other such instrument which affects or may affect the use or development of such land,
• The shape, size, topography, soil quality, situation and aspect of the land,
• The situation of the land in respect to natural resources and to transport and other amenities, facilities and services,
• The extent, condition, and suitability of any improvements on or to the land,
• The actual and potential capacity of the land to yield a monetary return.

CAUTION: WHERE THE REQUIREMENTS OF A STATUTE AND GENERALLY ACCEPTED VALUATION PRINCIPLES ARE IN CONFLICT, THE STATUTE IS THE OVERRIDING AUTHORITY.

2.3 Land Values
Land Values are a widely used bases for the taxation of land. They are also provided to the Federal Government for the equitable distribution of Financial Grants to the States.

2.4 Determination
Land Values can be determined under 2.3 for most areas of the continent, islands and Territories of Australia and New Zealand. Measures of land value are usually readily available by reference to sales of comparable land or analysis of improved land transactions.

2.5 Vacant Land
Rating and taxing legislation generally refers to vacant land in two ways:
• Land in its raw undeveloped state is referred to as Unimproved Value. API members engaged to provide this type of valuation, must be familiar with the legislation applicable in the State within which they are operating, in order to know the type of land value to be applied.
• Land having merged improvements is referred to as Site Value, which is usually applied within urban areas or townsites where merged improvements may add value beyond the undeveloped land value and where the form of the land in its original state can no longer be determined. The categories and extent of the merged improvements are prescribed in the applicable legislation.

2.6 Continuing Land Use
In all instances, unless otherwise directed by local legislation, the valuer is to ignore the “existing use” in favour of the potential “highest and best use”, unless the former gives rise to a greater valuation than as a result of considering the latter. This includes land that is reserved for public purpose. The provisions of heritage or valuation legislation may bring about an exception to the highest and best use principle by prescription of existing use values for affected properties.

2.7 Rental Values.
Rental values are used in many States and Territories of Australia and in parts of New Zealand, generally for the assessment of Municipal and Water rating of improved properties. In some States, rental values are used by State Governments for the distribution of grants to Local Governments. Evidence of lettings is generally available for most classes of buildings. However, most legislation provides rules for the determination of rentals to be applied to properties of a type not normally rented. Rating and taxing legislation refers to rental value in Australia in several forms:

2.8 Gross Rental Value
The Gross Rental Value is the annual rent passing between landlord and tenant for the use of land or land and buildings on the assumption that the landlord is liable for all outgoings necessary to maintain the value of the land. Where a rent cannot be determined, legislation may provide a statutory formula for the calculation of the Gross Rental Value.

2.9 Assessed Annual Value
Assessed Annual Value. In some legislation, gross rental value or a percentage of gross rental value may be used to create what is known as “annual value”. This is usually accompanied by associated restrictions within the legislation as to its
application or modification. Annual Value should not be confused with “annual valuation” which refers to a periodic valuation on an annual basis.

2.10 Net Annual Value or Estimated Annual Value
Net Annual Value or Estimated Annual Value. The net annual rental of a property is generally the amount that a property is likely to rent from year to year less an amount equal to the charges and costs required to maintain the property in a lettable state. These costs may vary with legislation and regulation, but usually include Rates, Taxes, insurance, and other expenses necessary to preserve the level of rent commanded.

2.11 Capital Values/ Improved Value
Capital Value is also referred to in rating and taxing legislation as Improved Value and applies to all parcels of land including vacant, improved or held in stratum. Such a value, unless specifically stated by the legislation, would not normally include any plant, machinery, tools, or other appliances, that are not fixed to the premises in a way that would justify inclusion in the real estate under the law of fixtures. In the case of a stratum the valuer will typically assume that if the stratum is wholly or partly in an excavation, that the excavation of the stratum had been made; has access, that access may be used or continue to be used; is capable of use, that it is used, may be used, or may continue to be used or could have been used at the date of valuation.

3.0 VALUATION ACCURACY AND UNIFORMITY

3.1 Accuracy and Uniformity
In accordance with the statutory responsibility of Valuers-General and other regulatory authorities, valuations for rating and taxing purposes must conform with standards of valuation accuracy and uniformity.

The terms of valuation contracts where they apply will specify the required standards.

3.2 Measurement of Accuracy and Uniformity
The parameters of valuation accuracy and uniformity expected of valuation contractors and professional practitioners will be dictated by regulatory policy. These parameters are often expressed in the terms of valuation contracts by reference to statistical tests and other means of comparing subsequent sales with the valuation data presented in the valuation roll. Appendix 1 sets out accepted processes of statistical comparison to enable determination of valuation accuracy and uniformity.

4.0 PROVISION OF REPORT

4.1 Revaluation Reports
The regulations that form part of the respective State and Territorial Acts may contain the requirements for the provision of a Report with which practitioners should be familiar.

4.2 Report Contents when Creating a Valuation List
In the case of creating a roll for the Valuation Authority, the report must contain:
- Purpose of the roll including any other likely use of the valuations.
- Definitions of the type of valuation to be recorded in the roll and the enabling legislation under which it is created.
- The date of valuation (note use of multiple dates if required in some States).
- The date at which the valuations are to come into force.
- A schedule of evidence used to support the roll including market evidence and comments.
- A schedule of any evidence excluded and the associated qualification why this was necessary.
- A current cost schedule at the date of valuation should the type of roll require calculation or be supported by costs.

4.3 Report Contents when Amending a Roll
In the case of creating a supplementary valuation or amending a valuation list the report must contain:
- Type of valuation to be recorded in the roll and the enabling legislation under which it is created.
- The reason for amending the roll (e.g. Addition or deletion of improvements, amended area etc.).
8.4.4 ANZ VALUATION GUIDANCE NOTE 4

• The date the original valuation came into force.
• The date of valuation.
• The date at which the amended valuation is to come into force

5.0 CONFORMITY AND PROFESSIONAL RESPONSIBILITY

5.1 Valuation Principles and Statutory Requirements

The valuer engaged or employed by a rating or taxing Authority should be cautious in carrying out valuations if the direction given by the Authority is contrary to established valuation principles or statutory requirements. If such a direction is given a qualification should be provided with the valuation.

5.2 Professional Responsibility and Confidentiality

In the valuer’s relationship to the Authority, there should be a declaration of any pecuniary or other interest that may arise in meeting the Authority’s requirements. In many instances there will also be established a position of confidentiality, either by contract or by statute. It is the responsibility of the practitioner to honour any requirements contained in the vehicle of engagement or employment subject to 5.1 above.

5.3 Conformity and Professional Responsibility

Additional information on this topic may be obtained from the Institute’s Valuation Principles and Practice: Second Edition, Chapter 20: Rating and Taxing.

The performance of all valuation assignments should conform with generally accepted valuation principles and standards promulgated by the Australian Property Institute and the Property Institute of New Zealand.

6.0 SUPPLEMENTARY VALUATIONS

6.1 Requirement

Supplementary or Interim valuations are required in most valuation rolls as a result of changes that are advised or occur after the adoption of the general valuation roll.

6.2 Occurrence

Supplementary valuations are new entries to the roll or substitute for land in the original roll. Changes may result from;
• zoning amendments.
• addition or removal of merged improvements.
• construction of, addition to, or removal of buildings.
• acquisition or resumption.
• physical changes to the land.
• errors and omissions.
• changes in value levels in relation to the balance of the properties recorded on the roll.
• movement of rating or authority boundaries by statute or prescription.

6.3 Calculation

Supplementary values are calculated under definitions and in accordance with the methods described for general values listed on the roll. In nearly all instances the supplementary values are to be calculated at the valuation date of the original roll, taking into account all of the factors affecting value listed at 2.2 and provided to the Authority as shown in 4.0 above.

7.0 VALUATION CONTRACTS

7.1 Outsourcing

There is an increasing trend in Australian municipal valuation practice towards valuation authorities engaging the services of professionally accredited contractors for the provision of municipal valuation services. The trend towards outsourcing has been driven by national competition policy and implemented in many cases by Government directive.

7.2 Valuation Contracts

Typical valuation contracts will contain the following provisions:
• Description of municipal area.
• Requirements for inclusion in the valuation roll of property types and any exclusions.
Confidentiality Agreement

Valuation definitions to be provided eg. Land Value, Site Value, Unimproved Value, Improved Value, Capital Value, Assessed Annual Value.

Required valuation methodologies eg. summation, residual valuation, capitalisation, deprival value for public sector entities and how these methodologies are to apply to various property types.

The names of nominated staff to undertake the duties of supervision, field inspections and any sub-contractors to be employed.

The level of inspection required for various property types.

Time frame for progressive and final submission of revaluation data.

Penalty provisions for non-compliance.

Termination provisions for non-compliance.

Standardised data sets for the return of data in digital format.

Requirements for ongoing maintenance of the valuation roll.

Submission of subsequent sales information and statistical tests required for standards of accuracy and uniformity.

Contract price and progressive or lump sum payment arrangements on submission of completed data for revaluation and maintenance of the valuation roll.

Appendix 1

Valuation Accuracy and Uniformity

It is important that valuations in a valuation roll are both accurate and uniform, in order to display equity and to be supportable before tribunals or courts of law. The following describes methods of measuring accuracy and uniformity. The methods shown here use evidence of sales and rentals to compare and make judgements about the accuracy and uniformity of entries included in the valuation roll. Differing methods may be adopted in each jurisdiction and the practitioner must ensure that the relevant requirement is met.

Accuracy

Measurement of accuracy must be subject to established standards of accuracy and be capable of independent audit.

Accuracy is measured against current market evidence to the date of valuation. Current practice in some States and Territories is to test the value against evidence two months before and two months after the date of valuation, as within this relatively short period, factors affecting the value of land are unlikely to change. However should API members be valuing in times of rapidly rising or falling markets, the period for the selecting of evidence should be adjusted accordingly. The degree of acceptable variation will reflect the volume and comparability of the market evidence.

Accuracy is easily understood as percentage error. For example it might be said that a valuation is within 10% of the actual price where actual price is the evidenced price in the base period (sale or rental, analysed and adjusted). Where the valuation is less than the actual price, the percentage error is computed from the formula 100(actual price - valuation)/actual price If the valuation is greater than the actual price the percentage error is computed as (valuation – actual price)/actual price.

While the ideal is to produce a percentage error of zero, a value within 15% is generally regarded as acceptable.

The ratio 100(valuation / actual price) is an equivalent measure of accuracy which is equal to 100 minus the percentage error if the valuation is less than the actual price or 100 + percentage error if the valuation is greater than the actual price. Thus a percentage error of 10% is equal to a ratio of 90% if the valuation is less than the actual price or is 110% if the valuation is greater than the actual price.

Any measure of accuracy should be subject to the following considerations:
8.4.6 ANZ VALUATION GUIDANCE NOTE 4

- The sales or rentals must be investigated and shown to be at arms-length. Sales or rentals discarded following investigation, should still be listed as part of the evidence, together with a qualification statement clearly indicating why they were excluded.
- The values must reflect the general level of sales or rentals occurring within the base period and for the sub-market of which they are typical or indicative.

Measures of Accuracy and Uniformity

There is a need to combine the values for accuracy of individual valuations in aggregate samples to produce a combined measure of accuracy and uniformity. The term accuracy relates to the closeness of valuations to actual prices. The term uniformity is a measure of the consistency of the percentage errors or ratios. Thus a valuer who values three properties each at 80% of actual price is uniform in the valuation process but is not accurate.

Some useful measures of accuracy and uniformity are listed below together with conditions for their use and guidelines on interpretation of their values.

Any valuation methodology used for the roll must be subject to standards of consistency and be capable of audit.

Uniformity must be measured with reference to evidence, usually against the median percentage error or median ratio from all parcels in the aggregate sample. Accuracy is measured against the ideal percentage error of 0 or ideal ratio of 1.

The evidence for accuracy and uniformity should be based on an aggregate sample of current market evidence relevant to the date of valuation. Each jurisdiction should determine the appropriate base period for supporting the valuation roll. If no such determination is made by a jurisdiction, the practitioner should qualify the roll by stating the period within which the evidence sample supports the valuation. Present practice indicates that the use of evidence occurring two months before and two months after the date of valuation should be used to test the values in the roll effectively.

Listed below are some useful measures of valuation accuracy and uniformity. Each measure is described in words and interpretation of its values and conditions for its application are discussed. Mathematical formulae used to calculate the statistics are provided in the subsequent ‘Formulae’ section.

1. Coefficient Of Dispersion (COD)

This is a widely used and accepted measure that is based on the differences between individual ratios of valuations to actual prices and the median of all ratios in the aggregate sample. It is formed as the average of such differences (ignoring the signs of the differences) divided by the median ratio and expressed as a percentage. Values of COD less than 15% are expected.

The COD is firstly a measure of uniformity since it is formed from differences between individual ratios and the median ratio. Thus a collection of identical individual ratios of say 90% would yield a COD of 0 even though the valuations are not accurate. However, in practice, where not all ratios are identical, the use of the median ratio as a divisor does provide a form of adjustment for inaccuracy. Thus the COD is a combined measure of uniformity and accuracy.

The COD can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of accuracy across diverse collections.

2. Median Percentage Error (MPE)

This is a simple and robust measure of accuracy. It is formed as the median percentage error. It will have a value of 0 when all valuations are identical with corresponding actual prices and increasing values of MPE imply decreasing accuracy. Values of MPE less than 10% are expected.

The MPE can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of accuracy across diverse collections.

3. Median Difference (MD)

Where there is interest in expressing the likely size of the difference (in $ terms) between valuations and actual prices a simple calculation using the median percentage error is available. Multiply any chosen actual price by the MPE and divide by 100 to obtain the MD. For example, if the MPE is 5% and the chosen actual price is $100,000 then MD is $5,000.

Interpretation is simple: Based on a valuation system that produces an MPE of 5%, one half of the valuations on $100,000 properties will lie within $5,000 of the actual price.

Note that because the likely size of the difference is proportional to the actual price the size of the MD will double if the actual price doubles. Thus with an MPE of 5% for properties with an actual price of $200,000 one half of the valuations will lie within $10,000 of the actual price.
4. Percentage of High Valuations (PHV)

Interest in accuracy not only centres on how close valuations are to actual prices but also on possible bias in valuations. Valuers need to be aware if they are consistently undervaluing or overvaluing properties. Ideally the valuations should centre on the actual prices so that approximately equal numbers of valuations are on either side of the actual prices. A simple measure of bias is provided by counting the number of valuations in an aggregate sample that are above the corresponding actual prices, dividing this number by the total number of valuations that are either below or above the corresponding actual prices and multiplying by 100 to give the percentage of high valuations (PHV).

Valuations in the aggregate sample are without bias if the PHV is 50%. The further the PHV goes above 50% the more evidence that consistent overvaluation is occurring. The further the PHV goes below 50% the more evidence that consistent undervaluation is occurring. Values of PHV outside the range 35% to 65% are cause for concern, although these guidelines only apply if the sample size is at least 40. The use of PHV is not recommended for sample sizes that are less than 40.

The PHV can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of bias across diverse collections.

An additional role for the PHV is to check for internal consistency in an aggregate sample. If the actual prices are sorted by size, the PHV can be computed for two or more price subgroups and the values obtained provide a means of checking on consistency across subgroups.

Formulae

Valuations and actual prices are presumed to be available from n properties. The calculation of the measures defined below are based on the following table:

<table>
<thead>
<tr>
<th>Property</th>
<th>1</th>
<th>2</th>
<th>...</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation</td>
<td>v₁</td>
<td>v₂</td>
<td>...</td>
<td>vₙ</td>
</tr>
<tr>
<td>Actual price</td>
<td>a₁</td>
<td>a₂</td>
<td>...</td>
<td>aₙ</td>
</tr>
<tr>
<td>Ratio</td>
<td>r₁ = v₁/a₁</td>
<td>r₂ = v₂/a₂</td>
<td>...</td>
<td>rₙ = vₙ/aₙ</td>
</tr>
<tr>
<td>Percentage error</td>
<td>p₁ =</td>
<td>v₁–a₁</td>
<td>/a₁</td>
<td>p₂ =</td>
</tr>
</tbody>
</table>

Note that enclosing an expression between two bars, e.g., |v₁–a₁|, implies that the expression should be treated as a positive number. In mathematical terms it is called ‘taking the absolute value’ of the expression.

1. **COEFFICIENT OF DISPERSION (COD)**

   Compute the median of the ratios, \( \tilde{r} \). Then
   
   \[
   \text{COD} = 100 \left[ \frac{\sum |r_i - \tilde{r}|}{n} \right] / \tilde{r}
   \]

2. **MEDIAN PERCENTAGE ERROR (MPE)**

   \[
   \text{MPE} = \text{median of } \{ p₁, p₂, ..., pₙ \}
   \]

3. **MEDIAN DIFFERENCE (MD)**

   For an actual price of $a,
   
   \[
   \text{MD} = ax \times \text{MPE}/100
   \]

4. **PERCENTAGE OF HIGH VALUATIONS (PHV)**

   Let \( n_+ \) be the number of valuations above the corresponding actual prices and \( n_- \) be the number of valuations below the corresponding actual prices, then
   
   \[
   \text{PHV} = 100n_+ / (n_- + n_+)
   \]

Note that \( n_- + n_+ \) is equal to the total number of properties minus the number of properties in which the valuation is equal to the actual price.
ANZVGN 5 VALUATIONS FOR COMPULSORY ACQUISITIONS

1.0 INTRODUCTION

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members involved in preparing valuations for compensation purposes including pre-acquisition advising and any subsequent discussions, negotiation or representation as part of a Public Authority acquisition process. This Guidance Note applies equally to valuers providing valuations to claimants (owners) and a Public Authority.

1.2 Status
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance Note applies to Members involved in preparing valuations for compulsory acquisition* of interests of land. It should be used in conjunction with other guidance notes and practice standards as applicable to the type of property or issues involved.

* Whilst “resumption” is historically referred to in the context of compulsory acquisition proceedings, most recent statutes have adopted the word “acquisition” as standard terminology. For the purpose of this Guidance Note and its accompanying Standard these words are taken as referring to the same process. Acquisitions can be either by compulsory process or by negotiation.

1.4 Members Client
A Member may be involved in the process acting for either the Public Authority, or the claimant of an interest in land affected by the proposed or actual acquisition. In many cases when acting for a claimant, the Member’s reasonable fees will be reimbursed by the Public Authority. This may be subject to certain conditions such as production of a copy of the report or production of a report meeting certain criteria. Where disputed claims are referred to a Court for determination, the Court will make an award as to costs. In such cases, both the claimant and the Public Authority are at risk in the recovery of costs. Where disputed claims are determined by agreement, the Public Authority will generally reimburse reasonable fees in respect to a valuation report carried out by the Member acting for the claimant. The party for whom the Member acts is the client regardless of who pays the fee.

1.5 Instructions
Members should accept instructions in writing in accordance with Rule 1.20 of the Rules of Conduct. As some dispossessed claimants may not fully understand the compulsory acquisition and related valuation processes, it may be appropriate for valuers to recommend that such claimants obtain expert advice from other appropriate specialists such as a suitably experienced solicitor or accountant (where there may be taxation issues). This process should ensure that the claimant is properly advised, that the Member is correctly instructed and is provided with a source of expert interpretation on points of law and taxation related aspects. It also assists in placing the Member at “arm’s length” from the
dispossessed claimant to ensure that the Member’s opinion is expressed as an independent expert. An acquiring authority may accept liability for a claimant’s reasonable professional expenses but confirmation of this should be obtained by the client in writing from the acquiring authority.

1.6 Valuers Entry into the Process
The Member’s entry into the process may be at any time between notification from a Public Authority of an intention to acquire through to litigation. Early involvement by the Member will result in that member being in a better position to provide appropriate and timely advice. This Guidance Note applies equally in pre-acquisition stages.

1.7 Agreeing the Fee Basis and Payment
It is important that agreement is reached prior to commencement of the task on the basis of the Member’s fees. This agreement should recognise that the Public Authority may offer to pay part or all of these fees. However, the agreement should also recognise that the client may be liable for additional fees.

1.8 Post Consultancy Report
Post Consultancy should be provided if required. As there is a reasonable probability of consultancy being required beyond the report phase, it is prudent to establish this position with the client at the time of taking instructions. In addition to agreeing the initial fee, it is recommended that from the outset Members agree in writing the following:

• basis of continuing consultancy fee
• basis of fee for any additional work or preparation required as a result of work by other experts on the team or as required by legal representative
• basis of fee for representation at any meetings, mediation or court hearing.

As the process can be protracted, it is recommended that agreement be made for rendering periodic accounts.

1.9 Other Professionals
In some matters, the Member may be the only professional engaged, in others the Member could be part of a team which includes various legal representatives, accountants, town planners, engineers, surveyors, etc. Whilst strategic direction may be provided by legal representation, the Member is responsible for ensuring their own professional integrity when acting as an expert. It is appropriate to include a note in a valuation report which identifies any outside professional advice relied upon.

2.0 BASIS of COMPENSATION ASSESSMENT

2.1 Legislation
Acquisitions and resumptions are effected under various legislation which affects many different types of property and many different interests in property (refer to “Property” in the Glossary of Property Terms).

2.1.1 Enabling Legislation
Acquisitions and resumptions are effected under enabling legislation. This will normally contain provisions for compensation assessment or invoke the provisions of other over-arching legislation. An understanding of such legislation is fundamental to assessing compensation.

2.1.2 Interest to be Assessed
The subject of the assessment is not simply the property but rather the claim of the claimant for compensation which could include the value to the claimant of the interest being acquired, plus claims under various other heads such as injurious affection, betterment, severance, disturbance and reinstatement. As an expert, the Member has a responsibility to consider all heads of claim identified in the relevant legislation.

2.1.3 Market Value of Claimants Interest
The value of the owner’s interest is usually required to be assessed in accordance with the provisions of the relevant act. The claimant’s interest will include the market value of the property together with other heads of compensation.

2.1.4 Court Decisions
Many of the principles of compensation assessment have been laid down in Court decisions. A sound knowledge of the application of these legal precedents is fundamental to assessing compensation. Some decisions may be from other states or countries or have been given in terms of prior legislation and therefore their relevance may need to be considered.
2.1.5 Examination of Issues

Both the assessment of the claimants interest in the property, which includes various heads of claim are likely to involve the examination of a range of issues. Where these are complex and outside the valuer’s area of expertise, it may be prudent to instruct (with the client’s written consent and appropriate understanding on fees) other experts. They should be briefed in writing and advised that they may be called to give evidence.

2.1.6 Legal Representation

Where a legal representative, experienced in compensation matters, is engaged as part of the team, it would be appropriate for that person to examine both the letter of instruction to the valuer and the report, or other specialist advice before it is issued. In such cases it may be preferable for the legal representative to issue instructions to other experts.

2.1.7 Date of Assessment

Any pre-acquisition assessment should relate to the current market. It is prudent, to advise the client that if the matter proceeds to formal acquisition, then the date at which compensation is assessed may change depending on the statutory requirements.

2.1.8 Guidance on Methodology

This Guidance Note is not intended to provide detailed assistance with methodology, and the valuer should refer to publications specialising in both the subject and court decisions. Most valuation publications will contain chapters dealing with the subject and the Institute’s own professional journal has over many years reported court decisions and articles on compensation matters.

3.0 INSPECTION & INQUIRY GUIDELINES

3.1 Other Standards & Guidance Notes

Other standards and guidance notes provide direction and guidance for most elements of the property inspection, inquiry, research and analysis and these should be referred to. However due to the task requiring the assessment of the owner’s interest and claims under other heads, special comment is warranted on certain aspects which the Member should address.

3.1.1 Improvements Demolished before Settlement

Members should be aware that instances may arise where they will be required to discuss or defend their assessment long after the improvements on the property have been demolished. It is important therefore that full and accurate inspection notes are maintained, and that these are supported by sketches and colour photographs (or video where appropriate). The property inspection must be completely objective and must record both the positive and negative aspects of the property. Significant features of surrounding properties which might also be acquired and which impact on the subject property should also be recorded.

3.1.2 Interview the Owner

It is important for the Member, whether acting for the claimant or the Public Authority, to discuss with the claimant(s), the details of the property being acquired and the acquisition process to ensure that all relevant particulars of the property and the owner’s legal past and future use (if part only or an easement taken), but also so that the claimant feels that their position is well understood and that they will be adequately compensated. Note that this is likely to be a significant and unfamiliar event for the owner and occurring in an environment over which the owner has limited control. It is an opportunity to demonstrate professionalism and appropriate sensitivity, no matter which party is represented by the Member. An interview with the claimant should also be used to confirm other interests in the property, and how those interests affect those of the claimant for whom the report is prepared.

3.1.3 Interviews and Discovery

There could be unusual aspects requiring investigation and research both for the property and other heads of claim. These should be well documented and obtained where possible in writing from the source of the information. It is appropriate to explain circumstances sufficiently to your information source so they properly understand the nature of the information required (this could save embarrassment and damage to your case under cross examination for you or your information supplier). In particularly important or difficult cases it may be necessary to obtain copies of contracts of sale as appropriate confirmation if litigation is involved (you will also need to establish that the contracts contain no special clauses which would impact on their use to determine value). In order to obtain copies of contracts it
may be necessary to utilise the discovery powers of the court however valuers should explore other methods before turning to the court for assistance.

3.1.4 Public Authority
Where part of a property is required (including an easement), it is particularly important to interview staff from the Public Authority involved. While the acquisition notification will usually indicate the purpose of the acquisition, details of proposed works are important for establishing injurious affection, severance, betterment and reinstatement where applicable. The extent of works could impact significantly on the assessment. It is likely that the authority will have carried out studies of any impact. Members should obtain copies of plans and studies, examine and discuss them with the Authority and claimant who will possibly be able to indicate how these will impact on the use of the property.

3.1.5 Report Notes
Members should ensure that they keep full and accurate field notes of all inspections, meetings, sources of information, calculations and basis of their valuations. Photographs should also be obtained.

4.0 REPORT CONTENT

4.1 Other Standards & Guidance Notes
Other standards and guidance notes provide direction and guidance on contents of reports. In addition to considering those headings, the points to address and the annexures to provide in the report, the particular requirements of your client should be considered. Members should check if a preliminary report is required. The following should also be considered for inclusion.

4.1.1 Acquisition or Resumption Date
Details of the acquisition or resumption should be noted and a copy of any notification annexed to the report. Most important are:

- date of the acquisition (if gazetted),
- date of Notice to Treat/Notice of intention to acquire/Notice of Acquisition,
- stated public purpose and scheme description,
- interest acquired,
- legal description of land resumed,
- name of the Public Authority.

- Legislation under which the interests have been acquired.

4.1.2 Effect of the Acquisition or Resumption
Where part only of the property has been acquired, it is particularly important to note in some detail the impact of the acquisition on the residue of the property. Such issues as injurious affection, betterment, severance, disturbance and reinstatement may have to be considered and commented upon, as appropriate.

4.1.3 Town Planning / Resource Management
Town planning or Resource Management details should always be included in a report, however additional detail is warranted where the current or proposed zoning may have been or is a step in the acquisition process (and as such may have to be ignored in the assessment of compensation). In such a case comment on the most likely alternative zoning should be included (supported if necessary by a planning consultants report).

4.1.4 Reference Material
At appropriate points in the report, reference should be made to reports by other experts and publications or documents relied upon. Where appropriate, copies of these or extracts there-from should be annexed to the report.

4.1.5 Heads of Claim
Heads of claim should be explained and their qualification/quantification adequately detailed.

4.1.6 Summary of Claim
At some point in the report provide a summary of the amounts claimed for the value of the interest in the property taken and amounts under the heads of claim. This should be set out in such a way as to comply with any particular requirements of the relevant legislation and to enable any prescribed claim form to be completed. A total of the assessments or values of the claims should also be shown.

4.1.7 Separate Valuation Statements
If the Member has prepared a number of valuations reflecting different interpretations of the law, planning or other matters, it is appropriate that separate valuation statements be made, clearly setting out the basis of each valuation.

4.1.8 Degree of Detail
Members may be directed by the claimant’s legal representatives as to the degree of detail to be
4.1.9 Suitable for Exchange

The Member should produce a report suitable for exchange prior to any discussions of value or negotiations (subject to direction from any legal representative). This will enable the parties to better understand the points of difference between them and will ultimately assist the Court. Exchange will normally be at the direction of the client or the team leader who may be a Property Professional, or legal representative.

4.1.10 Expert Witness

Members should be aware of any relevant court rules of practice directions or regulations relating to expert witnesses and should be conversant with and comply with their requirements.

5.0 POST ASSESSMENT CONSULTANCY

5.1 After the Assessment

A significant part of a Member’s work can occur after the assessment has been carried out. This can take the form of discussions and negotiation, preparation and proof of evidence for appeal hearing, giving evidence and being cross-examined. If not prepared to carry through to these stages the Member acting as a valuer should notify the client and, if necessary, decline the instructions. It is desirable for the member’s brief to extend beyond the assessment to include the negotiation of a settlement of the compensation claim. It is generally unacceptable for a Member acting as a valuer who has carried out an assessment to subsequently refuse to participate in the resolution process. The provisions of this clause apply equally to Members acting for acquiring authorities and claimants. Instances may occur where negotiations are undertaken by another professional who instructs a Member. In these cases this clause applies to the Member.

5.2 Negotiation with other Professionals

Professionals assessing compensation claims following acquisition by a Public authority will often be called upon to negotiate with other property professionals. In any negotiation it is essential that both Members be prepared to substantiate their opinions by reference to market evidence, facts and reasoned argument in accordance with the relevant legislation and court procedures.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to set out matters to be addressed in addition to those required by IVA 2 Valuation for Secured Lending Purposes and ANZVGN 2 Mortgage Security Reports on Real Property.

1.2 Status of Guidance Notes
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note should be applied to properties that are valued with regard to their trading potential, including Accommodation Hotels, Motels and Serviced Apartment complexes of 3 star standard and higher. This Guidance Note is not specifically intended to cover licensed hotels (pubs), whether free standing or part of, Accommodation Hotels.

1.4 International Valuation Standards
This Guidance Note recognises the International Valuation Standards 1 and 2, and International Valuation Application 2 by the International Valuation Standards Committee and it is intended to be consistent with the concepts and definitions contained in those standards, however, there may be departures from IVSC Standards to reflect Australian & New Zealand law and practice.

1.5 Role of the Valuer
The valuer needs to demonstrate in a report an understanding of the operation of the subject property, the operator and/or lessee, the Hotel’s market place, competition and any unique features it possesses.

1.6 Basis of Valuation
The valuation should clearly state whether it reflects the terms of an Operating or Management Agreement, or an occupational lease or whether the valuation is on a vacant possession basis. It should also state whether it has been undertaken as a ‘going concern’ on a ‘Walk In Walk Out’ basis inclusive of all plant, equipment, furniture and fittings but excluding stock.

1.7 Interests
The valuer should be aware of the different interests in a property, and should apply the same valuation principles to all interests based on the term of the management agreement or lease.

2.0 Compliance

2.1 Statement
A valuation of a property defined in 1.3: Scope of this Guidance Note should state that it complies with this Guidance Note.

2.2 Accepting an Instruction
Prior to accepting an instruction, a valuer must be confident of having the necessary expertise and sufficient information to undertake the valuation. For example, if the valuer does not have complete or appropriate access to comparable sales and trading data, then the valuation instruction should be declined, or undertaken in conjunction with a valuer who has the expertise and access to such information.

3.0 Review of Improvements

3.1 Key Factors
The improvements need to be considered in the context of their specialist use, with the following being examples of relevant factors:
8.6.2 ANZ VALUATION GUIDANCE NOTE 6

- summary of room numbers by size/type/aspect
- location and adequacy of kitchen(s)
- appropriateness of food and beverage outlets
- size, location and appearance of entrance lobby and front desk
- layout and capacity of meeting rooms
- back of house facilities
- other facilities (e.g. Health Club, pool, etc)
- on-site car parking (numbers/adequacy)
- technological facilities (e.g. visual display units, communication/media access facilities)

3.2 Specialised Features

The valuer should consider the design characteristics and appeal of the property, including unique or specialised features that may impact upon the viability of operation, value and marketability. Factors to be considered include the efficiency of the layout in relation to guest servicing and labour costs, back of house servicing and adequacy of storage space (wet/dry/cold rooms).

4.0 Repair and Condition

4.1 State of Repair

Comment on the state of repair of the improvements of the property, including any outstanding works to be completed, and any modification or maintenance work required. Make comment upon the condition of Fixtures Fittings & Equipment, back of house equipment (e.g. kitchens), in the context of the Fixtures Fittings & Equipment Reserve.

4.2 Refurbishment

Comment on the feasibility and extent of possible refurbishment likely to be necessary over a normal investment period. Comment upon economic and functional obsolescence and the need or capability to upgrade improvements.

4.3 Capital Expenditure

The valuer should provide an estimate of likely required Capital expenditure, in respect to building works/services, refurbishment and Fixtures Fittings & Equipment Replacements.

4.4 Balance in FF&E Reserve

The valuer should establish whether there is an existing balance in the FF&E Reserve, and comment on its adequacy and appropriateness in relation to current and future Capital Expenditure requirements. Whether such balance has been reflected in the valuation figure should be clearly stated.

5.0 Approvals and Authorities

5.1 Building and Planning

Where necessary, issues relating to building compliance, heritage, environmental and planning classification should be reviewed and any consequent impact on value fully explained.

5.2 Non-Compliance

Whilst it is acknowledged that the valuer may not be qualified in these areas, based upon the inspection (noting limitations of such), comment should be made on any possible occupational health and safety requirements or requisitions recommending further inspection by qualified experts where appropriate.

In addition, the valuer should seek from the instructing party details of any notices of non-compliance of which the instructing party is aware.

5.3 Licences

The valuer should sight and comment on all licences required for the property's operation and note that these are included in the valuation.

5.4 Legislation

Comments are required as to whether the building is compliant with any current and pending legislation. Whilst it is recognised that the valuer is not an expert in this area, the report should highlight any potential risks in this regard through inspection and inquiry.

6.0 Trading Performance

6.1 Accounts

Where possible, accounts should be presented and analysed in accordance with the Uniform System of Accounts for Hotels. State whether the figures that have been relied upon have been audited.

The valuer should make a specific notation where relying upon information provided without being
able to verify it, and clearly state any consequent limitations to the advice as a result.

6.2 Summary of Detailed Figures
The valuer should provide a summary of detailed figures for the hotel, showing trading performance for the last 3 years on a departmentalised basis, together with year to date trading figures. Appropriate periodic occupancy and average room rate statistics should be considered and commented upon.

6.3 Expenses/Outgoings
The valuer should itemise all expenses/outgoings in schedule form including management, all fixed costs, capital expenditure, and FF&E allowances, where possible in accordance with the Uniform System of Accounts for Hotels. Compare and contrast the current trading with the previous year's actuals, YTD figures versus budget, and comment upon any major variances. These figures should also be compared with appropriate industry benchmarks.

6.4 Trading Levels
The valuer should comment in detail on the current level of trading being achieved, the stability of the income and the projected maintainable trading performance of the property compared to the operator's projections.

6.5 Business Mix
The valuer should comment upon the business mix, typically analysed where available by geographical source, market segment and by guest type.

6.6 Operational Review
The valuer is not expected to carry out a detailed Operational Review, but would be expected to make appropriate comment upon:
- the marketing plan
- budget vs actual performances
- effectiveness of referrals within the operating group
- a fair market share analysis
- profile of operator

7.0 Trading Environment

7.1 Benchmarking
Benchmark the performance of the hotel in comparison to the Following:
- accepted market and industry indices,
- comparable and competing properties, to the extent that such data is available as well as identifying any items of revenue/expense which are outside acceptable market parameters.

7.2 Competition
The valuer should provide full details of current and proposed competition within the catchment area, incorporating demand and supply criteria.

7.3 Current State of Industry
The valuer should analyse the current state of the hotel and tourism industry and in particular the subject property's target market, and detail any changes (current or anticipated) which may impact on the long term income sustainability and growth potential of the asset. Statistics and research data should be used to highlight trends and as a basis for projections.

8.0 Management Agreement / Tenancy Details

8.1 Commentary
The valuer should:
- Sight a copy of the Management Agreement / Operating Lease. A summary of the Agreement / Lease should be incorporated together with commentary on the general market acceptability of its terms and conditions. If these terms are outside typical market practice this should be stated and some commentary on what is considered acceptable should be provided.
- Read and understand all factors in the agreement or lease which could affect value, such as quality and certainty of income, income guarantees and associated clawbacks, break clauses, owners involvement. The valuer should also comment on remedies of default, assignability, termination clauses, non-disturbance clauses and the quality of the lease covenants.
8.6.4

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- Provide a brief profile on the hotel operator including details of its brands, number of hotels/rooms and geographical spread.
- Investigate and comment upon the existence of any agreements between the owner and manager/operator which may affect value. Similarly, comment upon any agreements between the operator and other properties in the vicinity that may affect the operation of the property, for example, non-compete clauses, shared costs and expenses.
- Where the hotel forms part of a mixed-use project, all leases relating to the property should be reviewed by the valuer. Tenancy information should be summarised in schedule form. Comment upon the relationship of the hotel with the other components of the property.

9.0 Earnings Potential

9.1 Sustainable Net Return
Calculate the sustainable net return to the owner after reflecting appropriate outgoings. The treatment of Management Fees and FF&E Reserve varies, but as a general guide valuers should apply as they analyse and reflect the manner in which the market is capitalising. Although net return is typically expressed after Management Fees and FF&E Reserve, an owner operated property may be considered on a ‘before fees’ basis.

9.2 Existing Agreement
Fees and FF&E provision should reflect any existing Management Agreement, or prevailing market rates. The net return should also be expressed before depreciation, amortisation, interest, tax and Capital Expenditure.

9.3 Projections
Any projections should be in accordance with the ‘Uniform System of accounts for Hotels’, and preferably undertaken for a period of five years or beyond, reflecting the method adopted to analyse sales.

9.4 Upgrades/Capital Expenditure
Have regard to any upgrading or capital expenditure which would impact on the trading performance of the hotel or its marketability.

9.5 Cashflow
A detailed analysis of the cashflow is an essential requirement. The calculations should be completely self explanatory. Details of the discount rate, time period, etc, should be shown.

9.6 Changes
Comment upon the anticipated changes to outgoings, timing of capital expenditure, particularly significant items (eg major contract renewals, rating changes, etc.

9.7 Variation
Comment on variations between the operator’s projections and those assumed by the valuer, with rationale supporting any variations.

9.8 Analysis
A sensitivity analysis for key variables may be appropriate.

10.0 Market Commentary

10.1 Purpose
This should address the following sectors, as relevant to the specific hotel – global, local (regional), comparison of design features with market demand and competitive supply.

10.2 Market Conditions
This requires both a current and forward looking view (typically 3-5 years) rather than an historic view of market conditions. Typically this commentary should include:
- Investment activity including depth of market and identification of key ‘players’;
- Building activity including competition and likely additions to supply;
- A discussion of the major drivers of supply/user demand over the period under review;
- A valuer should consider a model of future supply and demand to project average occupancies and room rates within the market and to form the basis of a fair market share assessment.
11.0 Sales Evidence

11.1 Sales Analysis
It is not always possible to obtain sufficient information to fully analyze every sale; however, the valuer still needs an appropriate level of sales that have been adequately analyzed in order to arrive at an opinion of value. To simply quote a yield or a room rate from a sale, without first seeking the information to analyze the sale is unsatisfactory.

11.2 Trading Performance
The future trading performance of the adopted sale or sales being analyzed should be explored for each sale, in combination with the sale's historic performance. This is required, in order to allow the formation of an acceptable level of consistency between the sale being analyzed and the subject property, to allow informed comparison.

11.3 Relativity of Sale
The relativity of each sale should be commented on and explained.

11.4 Recent Sales History
The valuer should indicate recent sales history of the subject property. Where the property is being transacted, the contract for sale should be sighted and commented upon.

12.0 General Issues

12.1 Vacant Possession
Where owner occupied properties are valued on a vacant possession basis in existing condition, an indication of net income after management expenses and replacement reserve should also be provided for comparison purposes.

12.2 Leases, Plant and Equipment
The valuer should comment on leases of plant and equipment where the lease payments for plant and equipment are substantial so as to have a material effect on value if the costs are deducted from income. In such an instance the costs may be ignored if instead a payout figure can be ascertained and deducted from the value assessed.

12.3 Leasehold Title
In cases of hotels held upon leasehold title, the impact of the ground rent on returns/incomes should be fully considered and reflected in the valuation. As with any other leasehold the valuer may need to consider the value of the hypothetical unencumbered freehold and then consider the value of the Lessor's Interest, the Lessee's Interest, and potential Marriage Value of the interests concerned. See separate guidance note on Partial Interests.

12.4 Impact of Valuation
The impact on valuation of the separation of the various title components, related options, obligations and impediments, potential loss of tenure, etc should be identified and fully explored in relation to both sales and the subject property.

12.5 GST Caution
The Valuer should consider the manner in which similar properties are bought and sold from a GST perspective and adopt the most appropriate treatment of GST accordingly.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide members with an awareness of some of the principal issues to be considered in the valuation of a partial interest in a property held within a co-ownership structure.

Status of Guidance Notes
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.2 Scope
This Guidance Note applies to partial (fractional) interests in property held (jointly) in co-ownership structures.

This Guidance Note does not apply to strata title, community title or other similar divisible title property or a part share in the common property thereof.

This Guidance Note does not apply to interests that are not partial interests in property held in co-ownership structures.

Accordingly, this Guidance Note does not apply to such interests as that of a single lessor and a single lessee under a lease. (Refer IVGN 2 Valuation of Lease Interests).

1.3 Definition
A partial interest may be described as a divided or undivided ownership right in property that represents less than the whole.

1.4 Freehold or Leasehold
There are many forms of co-ownership structure. Partial interests may be in a freehold or leasehold co-ownership structure.

Leasehold co-ownership may be comprised under a ground lease, development lease or similar leasehold interest usually subjugating the interests of the freeholder for an extended period of time.

1.5 Sector
Partial interests may occur in a wide range of property sectors, including residential, small and large commercial and retail, leisure, rural and others.

Plant and Machinery Assets are also sometimes held in joint ownership.

1.6 Entity
The valuation of partial interests is becoming increasingly common, particularly amongst members who undertake valuations for listed property trusts, wholesale funds, family law and estate matters.

2.0 Instruction

2.1 Clarity of Instruction
In accordance with Rule of Conduct 1.20, members should ensure clarity of instructions concerning the interest that is to be valued.

2.2 Subject of Instruction
The subject of the potential instruction to value may comprise:

- all or part of the physical underlying asset unencumbered by the co-ownership structure;
- all or part of the physical underlying asset encumbered by the co-ownership structure;
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- the form of entity comprising the co-ownership structure; or
- a partial interest in the form of entity comprising the co-ownership structure.

2.3 Competence
In accordance with Rule of Conduct 1.6, members should not accept instructions beyond their competence.

2.4 ASIC Licence
In Australia, Members should not value securities unless they are licensed to do so by the relevant licensing authority (ASIC).

2.5 Exclusion
Unless holding a relevant licence (being an Australian Financial Services Licence in Australia), members should assure themselves that the partial interest in a property held in co-ownership to be valued does not comprise an interest for which such a license is required.

3.0 General

3.1 Distinction
For the purposes of valuation, the property (3.2, below) is distinguishable from the co-ownership structure (3.3 and 3.4, below), which are each distinguishable from the property held in a co-ownership structure.

3.2 Property
The property comprises the physical underlying asset, which may be valued subject to relevant Practice Standards and Guidance Notes (4.0, below)

3.3 Co-Ownership
The co-ownership structure comprises the form of entity in which the property is held. This may include a joint tenancy, tenancy in common (divided or undivided), companies, trusts, unincorporated joint ventures, partnerships or other form of entity (5.0, below).

3.4 Rights and Obligations Created
The co-ownership structure may create rights and obligations for consideration that impact upon the value of the co-ownership interest (6.0, below).

3.5 Property in Co-Ownership
The valuation of a partial interest in a property held in a co-ownership structure represents a combination of consideration of the issues impacting upon the value of the physical underlying asset and the issues impacting upon the value of the interest in the co-ownership structure.

3.6 Proportional Share
It is possible that the value of a partial interest in a co-ownership entity may be greater or less than the value of the proportional share of the physical asset held by the co-ownership entity (5.0 and 6.0 below).

3.7 Sum of Parts
It is possible that the sum of the partial interests in a co-ownership entity may be greater or less than the value of the physical asset held by the co-ownership entity (5.0 and 6.0 below).

3.8 Value and Worth
IVS 1 defines market value as:

Market Value is the estimated amount for which a property 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 knowledgably, prudently, and without compulsion.

with IVS 2 explaining worth (or investment value) to be the value of a property to a particular investor, or class of investors, for identified investment objectives.

3.9 Value vs Worth
Having regard to 3.8 (above), in the valuation of a partial interest in a physical underlying asset held in a co-ownership structure, the value of an interest may be distinguishable from the worth of an interest.

In determining the worth of an interest and depending upon the nature of instruction received, debt finance taxation issues may require consideration.
4.0 Valuation of Physical Underlying Asset

4.1 Property Valuation Approach
In accordance with ANZVGN 1, the comparability of the property comprising the physical underlying asset (3.2, above) to sales evidence should be measured against established criteria of quality relative to a property’s peer stock and the overall property market.

4.2 Suitability For Co-Ownership
The quality of the physical underlying asset should also be considered in the context of the form of co-ownership structure and the appropriateness of the assets ownership to such division.

4.3 Cash Flow
For investment property, the nature, quality, divisibility, liquidity and security of the underlying cash flow should be considered.

4.4 Value of Part
Whilst a valuation of a partial interest may include an assessment of the value of the physical asset underlying the partial interest, it should only address the value of the relevant partial interest in a property held in a co-ownership structure which may not, necessarily, be its pro-rata value (5.0 and 6.0 below).

4.5 Market Value
Where the value of the partial interest is more or less than the proportional ownership share, the valuation should note such variance and comment on any potential marriage value, which may be realised in the event of conversion to a single interest.

5.0 Co – Ownership Principles

5.1 Influences on Value
The form of entity comprising the co-ownership structure (3.3 above) may influence the value of a partial interest in a property held in such co-ownership structure through such aspects as:

• the ongoing costs of supporting the co-ownership structure;
• the treatment of asset and property management costs;
• the mechanism and basis for treating commitments to capital expenditure;
• the ability to use an interest as security for debt;
• the timetable for unit pricing calculation, where relevant;
• the basis upon and timing of a termination of the co-ownership relationship;
• the ease (or otherwise) of disposing of the interest on the open market;
• the cost of disposing of an interest in the co-ownership structure;
• the cost of terminating the co-ownership structure and disposing of the underlying asset;
• the basis of and terms applying to any disposal of the underlying asset;
• the constraints and other terms of any disposal of the relevant interest including:
  - first and subsequent right of refusal provisions or other priorities of the co-owner;
  - any absolute restrictions on disposal;
• the implications of ongoing liabilities of a co-owner after disposal of the relevant interest; and
• taxation implications.

6.0 Co – Ownership Issues

6.1 Influences On Value
The principal rights and obligations for consideration (3.4 above) which impact upon the value of the co-ownership interest may include:

• control of the interest (being the extent to which the co-ownership interest confers the right to direct); and
• liquidity of the interest (being the ease with which the interest can be converted into cash).
6.2 Level of Control

Control relates to the right to direct the interests of the investment at the owner’s absolute discretion. Where an ability to direct is diminished through co-ownership structure, the impact of that inability to direct should be considered and reflected in the valuation.

6.3 Control Issues

Control issues for consideration may include:

- number of parties in the co-ownership structure;
- voting rights where disproportional to the pro-rated interest;
- cost allocation where disproportional to the pro-rated interest;
- revenue allocation where disproportional to the pro-rated interest;
- complexity of process and time taken to direct;
- protection at law for minority rights;
- use of dispute resolution levels and mechanisms;
- pre-emptive rights; and
- existence of a controlling interest.

6.4 Liquidity Issues

Liquidity issues for consideration may include:

- the proportionality of the interest - where the interest being valued is considered in the context of the overall holding and the number of other co-owners;
- the right to divide an interest, unfettered, and deal with that interest - this includes the rights of co-owners and the obligations the co-owner of an interest to its fellow co-owners;
- effect of pre-emptive rights – where a co-owner has a right to acquisition of other co-owners interests on a basis that may be prescribed;
- non-structural impediments to liquidity - these may include disengagement from a co-owner or co-owners with incompatible investment philosophies and complexity of process and timing in connection with disposal of the interest and disposal of the underlying asset; and
- the reasonable selling period for the interest - both in the context of the ownership structure and any co-ownership agreement selling constraints.

7.0 Comparable Evidence

7.1 Comparability

Comparability of evidence of sales transactions should be considered in the valuation of both the physical underlying asset (3.2 above) and the co-ownership interest (3.4 above).

In both the valuation of the physical underlying asset and the co-ownership structure, the precise extent of comparability of evidence of sales transactions should be carefully considered.

7.2 Available Evidence

Some forms of co-ownership structure may be traded on the open market and directly comparable evidence is therefore available to the member for consideration.

In such cases of directly comparable evidence, the level of adjustment of that evidence for application to the subject interest to reflect the differences between each may be limited.

7.3 Relevance of Comparable Evidence

Members should assure themselves that such evidence is directly comparable in respect of control, liquidity and other relevant issues.

In the event of differences in respect of control, liquidity or other relevant issues, members should ensure that adjustment is made to appropriately reflect such differences.

7.4 No Available Evidence

Some forms of co-ownership structure may not be traded on the open market and directly comparable evidence is therefore not available to the member for consideration.

In the absence of directly comparable evidence, the level of adjustment of available evidence for application to the subject interest may be significant.

7.5 Appropriate Adjustment

In the absence of directly comparable evidence, the member should consider available, relevant comparable evidence from whole or other partial interests.
In the event of differences in respect of structure, control, liquidity and other relevant issues, members should ensure that adjustment is made to appropriately reflect such differences.

7.6 Relevant Information

In completing the valuation of a partial interest, a member should obtain relevant information from the instructing party concerning control, liquidity and other issues, for review.

7.7 Checklist

Such information may include:

- relevant documents supporting the ownership structure, including amendments to those documents, such as:
  - shareholders/unit holders agreement;
  - trust deed and trustee structural arrangements;
  - joint venture agreement;
  - articles of association;
  - partnership agreement; or
  - any other similar arrangement document;
- co-ownership agreement regulating the relationship between the co-owners; including fee or other co-owners remuneration arrangements;
- notice of any agreements between the co-owners which vary any of the terms of the agreements including board or management meeting minutes;
- any financing agreements relevant to the entity;
- financial statements, statements of compliance with accounting standards, auditors reports and tax returns;
- any option or other right of sale, acquisition agreements, first right of refusal or pre-emption agreements between the co-owners and pertinent to the relevant interest;
- details of any other agreement, arrangement or obligation likely to impact on the value of the relevant interest; and
- an extract of the valuation component of the compliance plan of the single responsible entity if the relevant interest is owned by a managed investment scheme.

7.8 Vigilance

The above list is not intended to be exhaustive and members should be vigilant to seek any documents relevant to a particular ownership structure being valued.
1.0 INTRODUCTION

1.1 Purpose
The purpose of this Guidance Note is to provide advice to Members providing valuations for inclusion in offer documents. This Guidance Note does not purport to be a comprehensive description of the law and members should obtain independent legal advice.

1.2 Status of Guidance Notes
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note applies to Members providing valuations of real property and related assets that are to be included in an offer document.

This Guidance Note addresses general concepts and principles to be followed by Members when preparing valuations for inclusion in offer documents.

Offer documents may include, but not be limited to, regulated offer documents (including prospectuses and product disclosure statements), unregulated offer documents (including information memorandums) and bidder’s and target’s statements.

1.4 Structure of This Guidance Note
The advice for Members provided in this Guidance Note includes:

- advice on process including:
  - responsibility of Member;
  - instructions;
  - obligations;
- style;
- statement of valuation;

- advice on transparency including:
  - conflicts of interest;
  - assumptions and qualifications;
  - forecasts;
  - value statement;
  - risk statement;
  - development properties; and
- advice on regulatory observance.

1.5 International Valuation Standards
This Guidance Note is intended to be consistent with Standards and Guidance Notes published by the International Valuation Standards Committee, except as otherwise stated.

2.0 PROCESS
The following comprises advice to Members concerning issues of process in the provision of valuations for inclusion in offer documents

2.1 Responsibility of Member
2.1.1 Requirement for Valuation
A Member may be instructed to provide a valuation for inclusion in an offer document at the request of a party such as the promoter, manager or trustee but for the benefit of potential or existing investors.

Such a valuation is likely to be an important consideration within a range of matters considered by a potential investor in determining whether or not to make an investment.

A Member should be aware that the valuation may be considered by other parties involved in the offer including lenders, accountants, auditors and lawyers.

A Member may be required to provide both a full report and a summary report for inclusion in the offer document.
2.1.2 Role of Member

A Member is fulfilling the role of an informed professional in providing an objective and impartial view and drawing the attention of a reader to key issues impacting on value.

A Member should, therefore, provide disclosure of relevant information (including assumptions and qualifications) to assist a reader understand the basis of the valuation (when included).

A Member should aim for maximum rather than minimum disclosure, seeking to exceed technical compliance in order to exceed public expectations, in their full report. A summary report should, therefore, seek to mirror the spirit of this approach within the confines of brevity and cross-referencing to other parts of the offer document where relevant.

The level of information provided should be such as potential investors and their advisers would reasonably require and reasonably expect to find in an offer document in relation to property value for the purpose of making an effective, fully informed decision.

A Member should not provide comment on the merit of the offer.

2.1.3 Relevant Skills and Expertise

In accordance with Rule of Conduct 1.6, a Member should not accept an instruction beyond their competence.

If a Member does not have the relevant skills and expertise to undertake the provision of a valuation, the Member should decline the instruction or retain an appropriate specialist to provide advice.

2.2 Instructions to Member

2.2.1 Written Instructions

In accordance with Rule of Conduct 1.20, a Member should accept instructions in writing.

Written instructions should be obtained prior to the valuation being undertaken.

2.2.2 Clarity of Instructions

In accordance with Rule of Conduct 1.20, a Member should ensure clarity of instructions concerning the interest that is to be valued.

2.2.3 Contents of Instructions

Such instructions should be clear and include all relevant details, which may be provided in a letter of instruction, contract between the parties or other form of appointment.

A Member should note that the form of appointment may be regarded as a public document.

A Member should consider attaching a copy of the instructions to the valuation report.

2.2.4 Incomplete Instructions

In the event that any of the following are omitted from the instructions:

a) identification of the instructing party;

b) acknowledgment of respect for the Member’s independence;

c) provision to meet the cost of independent legal or other expert professional advice for the Member, if required;

d) exact scope of the valuation, disclaiming responsibility for matters outside such scope;

e) basis of valuation;

f) date of valuation;

g) purpose/reasons for valuation including a statement that it is for use in an offer document;

h) the manner of distribution and likely recipients of the valuation including, if the valuation is to be used in an offer document;

i) any requirements for a summary report for inclusion in an offer document;

j) confirmation that, if a summary report is required, potential investors can have access to the full report;

k) unfettered rights to inspect the property;

l) the facts of the proposal;

m) any data relevant to the proposal;

n) any partial ownership arrangements or other restrictions on marketability;

o) if the subject property is subject to current or previous acquisition, relevant details such as contract of sale, survey, due diligence reports and related documents;

p) details of any consultants with whom the Member should liaise regarding the offer document, with costs arising there from to be borne by the instructing party;
q) reference to statutory requirements and any additional requirements contained within the documents constituting the offer or entity;

r) requirement for the instructing party to review and confirm the factual accuracy of the draft valuation report;

s) whether any assumptions or qualifications have been prescribed by the instructing party, the reasonableness or achievability of such prescribed assumptions or qualifications and the sensitivity of the valuation to variations or non-compliance with such prescribed assumptions or qualifications;

t) requirement for the Member to provide their consent to being named in the offer document and a description of any consents the Member may be required to sign in connection with the inclusion of their valuation in an offer document;

u) specific requirements of the instructing party for the scope of continuous disclosure; or

v) provision of draft offer documents together with adequate time for review and the right to control edited versions of the valuation contained therein a Member should consider requesting same from the instructing party.

2.3 Obligations of Members

2.3.1 Duty to Prospective Investors

A Member should consider their responsibility to potential investors to whom the report is directed for their information and decision making.

If a Member is uncertain concerning their responsibility, they should seek independent legal or professional advice.

2.3.2 Nature of Information to be Included

A Member should, if not provided by the instructing party with all information required for consideration or appropriate access to records, premises, etc as required, decline to provide a valuation.

2.3.3 Significant Change in Information

A Member should be aware of the obligation on the issuer of any offer document to issue a supplementary offer document if a significant change occurs.

A Member should promptly inform the issuer of any offer document in which a Member’s valuation report is contained of any matter that could have a material impact on the valuation.

In the event that the valuation becomes impacted by a significant change during the offer period and the instructing party does not amend or withdraw the offer document accordingly, the Member should consider withdrawing their consent to being named in the offer document.

2.4 Style

2.4.1 Goal

A Member should consider the test of a valuation to be measured as much by its clarity and utility to users as by the sophistication of its analysis and its information content.

2.4.2 Written Style

A valuation should be worded and presented in a clear, concise and effective style using plain and direct language.

2.4.3 Terminology

A Member should use terminology consistent with widely accepted industry guidelines, but without unnecessary technical jargon.

Where unavoidable, technical jargon should be used consistently and with an explanatory glossary provided in the full report, especially where, the definition or interpretation of specific or technical terms is central to the valuation.

2.5 Statement of Valuation

2.5.1 Member’s Consent

It is recommended that a Member’s valuation not be published in part or full in an offer document without the Member consenting to the form and context in which it will appear.

Before consenting, a Member should confirm by sighting that the valuation has been accurately reproduced in the offer document and is being used for the purpose for which it is produced.

A Member should be vigilant to ensure misrepresentation or omission of factors, assumptions or qualifications that may be relevant to a party likely to rely on the offer document does not occur.

A Member should limit their responsibility for an offer document to solely their contribution to the offer document.
A Member may withdraw consent for the inclusion of a valuation in an offer document at any time. A Member should withdraw consent for the inclusion of a valuation in an offer document if:

- the Member becomes aware of something occurring after the issue of the valuation which would cause the valuation, or a statement in the offer document to which a Member has consented, to be misleading or deceptive;
- the Member has informed the issuer of the occurrence; and
- the issuer has refused to issue a supplementary offer document or otherwise inform potential investors of the nature of the occurrence and its impact on the valuation.

2.5.2 Summary Valuation
If a Member provides a valuation and then also provides a summary valuation, it is recommended that each refer to the other.

The valuation, when read in full, should not contain any unexpected material issues for a reader who has previously read the summary valuation.

2.5.3 Currency of Valuation
A Member should make it clear that the valuation is applicable at the valuation date and that any change in circumstances or market condition after that date would require the valuation to be reviewed.

2.5.4 Assumptions and Qualifications
A Member should detail all assumptions and qualifications affecting the valuation (section 3.2 below).

The use of sensitivity analysis is encouraged to highlight those assumptions and qualifications that significantly impact the valuation.

2.5.5 Risk Statement
A Member should include a risk statement (section 3.5, below).

3.0 Transparency
The following comprises advice to Members concerning issues of transparency in the provision of a valuation for inclusion in offer documents.

3.1 Conflicts of Interest
3.1.1 Independence
It is of paramount importance that a Member is and is seen to be independent of the parties making the offer.

3.1.2 Declaration of Interests
A Member should be independent of the parties making the offer, their advisers and associates for the duration of that period from first approach to publication of final report for its required purpose.

A Member should disclose any conflicts of interest (real, perceived or potential) including any interest by a Member's employer, family or associate or related parties.

A Member should disclose, clearly and prominently, any interest in the subject matter of the valuation even if it is considered that no conflict exists.

3.1.3 Business Relationship
A Member should consider whether any previous, existing or intended future business relationship (within last two years or longer if sufficiently significant), with any relevant parties has the potential to affect or to be perceived to affect the independence of the Member.

3.1.4 Performance Fees
In accordance with Rule of Conduct 1.7, a Member should not negotiate a fee contingent on the success of the offer.

3.1.5 Client Interaction
A Member should not discuss the merits of an asset or the approach that may be adopted in the valuation until after the party making the offer has provided written instructions.

A Member must assess the merits of the asset independent of the party making the offer or anybody associated with that party.

A Member may supply the instructing party with a draft copy of a report for review and confirmation of factual accuracy only.

The party making the offer may seek to provide further information to, or clarification of matters for a Member, which a Member may then verify and consider.

Having regard to the correction of factual errors or following verification and consideration of further information or clarification, a Member may review their valuation.

Otherwise, it is inadvisable for a Member to change judgemental assessments in a draft report.
(such as rental, growth, capitalisation or discount rates or opinion of value) following comment by the party making the offer.

A Member should keep accurate written records of such interaction with the party making the offer and of any changes that may be made by the Member to the draft in order to substantiate independence in the event of a claim otherwise.

3.2 Assumptions and Qualifications

3.2.1 Statement of Assumptions and Qualifications

It is recommended that a Member's valuation clearly discloses any assumptions or qualifications made or relied upon.

A valuation concerning a development property is often subject to assumptions and/or qualifications (section 3.6.2 below).

Accordingly, a Member should take as much care with the formation and publication of assumptions and qualifications as with the valuation itself.

The use of sensitivity analysis is encouraged to identify those assumptions and qualifications that significantly impact the valuation.

3.2.2 Prescribed Assumptions and Qualifications

Where the instructing party has prescribed assumptions or qualifications, to be included in a valuation, the Member should restate these in the report and write explanatory comments where necessary.

A Member should critically evaluate information provided by an instructing party, taking note of any grounds for questioning the veracity, accuracy or completeness of such information and undertake whatever checks, inquiries, analyses and verification procedures as are considered necessary.

If assumptions or qualifications provided by an instructing party result in advice that differs from Market Value, a Member should report such difference and/or effect and the reasons why.

3.2.3 Reliance on Advice or Reports by Others

If a Member relies on advice or a report by another expert, the material should preferably be reproduced in full or, if in part, the member should be aware of the risk of material omissions and include a statement of the material on which a Member has relied and (if applicable) how this has impacted upon the valuation.

If a Member has relied on advice or a report by another party without conducting any independent investigation into the matters contained therein, the Member should clearly state this in the valuation.

3.3 Forecasts

3.3.1 Basis of Forecasts

A Member may be required to undertake forecasts in the preparation of a valuation.

Advice concerning development properties is often reliant on forecasts (section 3.6.3 below).

Members should have regard to International Valuation Guidance Note 9, concerning the use and basis of forecasts.

Forecasts should be supported by reasoned assumptions, recognising that past trends may not be a guide to future trends.

A Member should make sufficient inquiries to establish that forecasts are prepared on a reasonable basis. Appropriate documentation should be retained to prove such reasonable grounds.

A statement of assumptions relevant to the forecasts’ is essential for the proper assessment of information contained in the forecast. A Member should clearly disclose any such assumptions in the valuation.

A Member should seek professional advice concerning the need for accreditation or licensing for the provision of information in an offer document and should ensure that the reliant party does not adopt any such forecasts as the basis for their own forecasts in the offer document without the Member's prior written consent.

3.3.2 Sensitivity Analysis

Members are encouraged to include a sensitivity analysis within the valuation to ensure that readers are aware of the degree of uncertainty which such forecasts entail. Such analysis should address key risks which may impact upon the valuation outcome.

Members should, avoid potential confusion by clearly indicating which is their opinion of value.

3.4 Reporting The Value

3.4.1 Value

After considering all the issues affecting the property, including various approaches to
valuations and any sensitivity analysis, Members are encouraged to provide a single point value.

### 3.4.2 Market Volatility
Members are encouraged to discuss the implications of market volatility in relation to the value ascribed.

### 3.5 Risk Statement

#### 3.5.1 Risk Statement
It is recommended that a Member’s valuation include a risk statement comprising a balanced view of the negative and positive risks associated with the subject of the valuation.

#### 3.5.2 Unusual Attributes
A Member’s advice should draw the readers’ attention to any atypical features or influences associated with the subject of the valuation.

Advice concerning development properties may be expected to include extensive analysis of risk (section 3.6.4 below).

#### 3.5.3 Marketability
A Member should comment upon the marketability of the property.

### 3.6 Development Properties

#### 3.6.1 Value As if Complete
If a Member provides a valuation of a property or asset to be subject to a material change of state, the Member is encouraged to report the value of the asset “as is” and the value of the asset in the “as if complete” state.

(For example, an offer document may contemplate the acquisition of a block of land upon which will be built an income producing multi-storey office property.)

#### 3.6.2 Assumptions and Qualifications
If the “as if complete” value is dependent upon stated assumptions and qualifications, these should be fully addressed together with the implications should any fail to materialise.

(For example, an offer document may be based on development approval, a building contract and certain tenants to change a block of land into an occupied, income producing multi-storey office property.)

#### 3.6.3 Forecasts
If the “as if complete” value is dependent upon forecasts, these should be fully addressed and the Member should include a discussion of the reasonableness of such forecasts.

(For example, an offer document may contemplate certain time frames for the achievement of development approval, a building contract at a certain price and tenants at certain rentals to change a block of land into an occupied, income producing multi-storey office property.)

#### 3.6.4 Risk Analysis
Advice concerning a material change of state may include extensive risk analysis.

A Member should comment on the risks involved and upon the vulnerability to multiple risks, both related and unrelated.

(For example, a valuation may include a detailed statement of the various risks involved in contemplating the acquisition of a block of land on which an income producing multi-storey office building will be built)

### 4.0 Regulatory Observance

#### 4.1 Financial Services Licence
In Australia, the inclusion of a valuation report in an offer document may constitute the provision of financial product advice. Members that do not hold, or are not covered by an Australian Financial Services Licence, are advised to seek independent legal advice before providing a valuation report for inclusion in an offer document.

If it does constitute financial product advice, there may be an exemption from the requirement to hold a licence available if the following conditions are met:

- a) the valuation is included in a document issued in connection with an offer of a financial product;
- b) the advice is an opinion on matters other than financial products and does not include advice on a financial product;
- c) the document includes a statement that the person is not operating under an Australian Financial Services Licence when giving advice; and
- d) the person discloses in the document information about any remuneration or other benefits received or any interests, associations or relationships that might reasonably be
expected to be or to have been capable of influencing the person in providing the advice.

This exemption is narrow in operation and will not apply to the following documents where they do not possess a ‘connection’ with the ‘offer of a financial product’:

a) an explanatory booklet for a scheme of arrangement;

b) a compulsory acquisition notice under Chapter 6A of the Corporations Act; or

c) an offer made in the circumstances where the shares to be acquired are held by shareholders dissenting from a scheme or contract approved by the majority.

4.2 Relevant Law

In Australia, relevant law may include but not be limited to:

a) Common Law – including potential liability to a third party for loss suffered as a consequence of reliance upon negligent information or advice where it was not unreasonable for the third party to rely on the information or advice;

b) Statute – including but not limited to:
   - Corporations Act – in particular;
     - s9 concerning the definition of an expert (being distinguished from a professional and/or an adviser);
     - s1041E relating to an offence of making false or misleading statements in relation to a financial product or service;
     - s1041H relating to a civil offence to engage in misleading or deceptive conduct in relation to a financial product or a financial service, and
     - ss 710 and 1013C(3) concerning information that should be included within prospectuses and product disclosure statements respectively;
   - Trade Practices Act – in particular, s52 concerning misleading or deceptive conduct or conduct that is likely to mislead or deceive;
   - ASIC Act – in particular s12DA concerning the prohibition against misleading or deceptive conduct in relation to financial services; and

In New Zealand, relevant law may include but not be limited to:

- Common Law – including the potential liability to a third party for loss suffered as a consequence of reliance upon negligent information or advice where it was not unreasonable for the third party to rely on the information or advice;

- Statute – including but not limited to:

  a) Securities Act 1978 and Amendments;

  b) Securities Act (Real Property Proportionate Ownership Schemes) Exemption Notice 1996 – in particular the Second Schedule which outlines mandatory matters to be specified in Independent Registered Valuer’s reports;

  c) Securities Act (Contributory Mortgage) Regulations 1988 – in particular Schedule 3 (Information and Other Matters to be Contained in Valuation Reports). The inclusion of these specified details is mandatory; and


4.3 Relevant Guidance

In Australia, relevant guidance may include but not be limited to:

- ASIC

- Practice Note 42 – Independence of Expert’s Reports;

- Practice Note 43 – Valuation Reports and Profit Forecasts;

- Practice Note 55 – Disclosure Documents and PDS: consent to quote;

- Policy Statement 56 – Prospectuses;

- Policy Statement 74 – Acquisitions Agreed to by Shareholders;

- Policy Statement 75 – Independent Expert Reports to Shareholders;

- Policy Statement 77 – Property Trusts and Property Syndicates;

- Policy Statement 146 – Licensing: Training of Financial Product Advisers;
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- Policy Statement 170 – Prospective Financial Information;
- Policy Statement 175 – Licensing: Financial Product Advisers – Conduct and Disclosure; and

In New Zealand, relevant guidance may include but not be limited to:
- Securities Commission
- Inquiry into the 1 Parliament Street Car Park Limited Contributory Mortgage – 3rd May 2002

4.4 Texts

In Australia, relevant texts may include but not be limited to The Legal Liability of Valuers by Lindsay Joyce and Keith Norris (Southwood Press, Second Edition), particularly pages 48 to 53 and Chapter 2.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary and advice to Members assessing rental value.

1.2 Status of Guidance Note
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note applies to Members assessing the market rent of premises held under an actual or hypothetical lease and preparing a report thereon. Rental Value is a generic term including the term “rent”.

1.4 International Valuation Standards
This Guidance Note is intended to be consistent with the publication “International Valuation Standards 2007” as issued by the International Valuation Standards Committee. However, there may be departures from “International Valuation Standards 2007” to reflect Australian and New Zealand law and practice.

This Guidance Note should be read in association with the Practice Standards, Guidance Notes and related documents in Professional Practice, in particular IVGN 2 ‘Valuation of Lease Interests’

2.0 Instructions

2.1 Prior Written Instructions
In accordance with the relevant Rules of Conduct (API or PINZ), a Member should confirm acceptance of instructions in writing prior to the valuation being undertaken.

2.2 Content of Instructions
Members should have regard to relevant provisions within Professional Practice concerning the content of instructions.

2.3 Supporting Documentation
In assessing rental value, the following documentation should be considered:
- original lease documentation (including collateral agreements and executed documents) to be sighted where possible, otherwise the copy relied on should be executed;
- confirmation of current rent and other matters as may be appropriate;
- documents relating to financial implications such as outgoings;
- details of the floor areas, preferably surveyed in accordance with an industry accepted method such as ANZRP4N4 Methods of Measurement, PCNZ/PINZ Guide for the Measurement of Rentable Areas or the Property Council of Australia’s ‘Method of Measurement for Lettable Area’;
- if applicable, a statement from the lessor and lessee as to the extent that information obtained from the parties may be detailed in the report;
- details of the fit-out or other incentives provided by the lessor, if applicable; and
- details of the lessor’s and/or lessee’s improvements.

2.4 Relevant Skills and Expertise
In accordance with the relevant Rules of Conduct (API or PINZ), a Member should not accept an instruction beyond their competence.

If a Member does not have the relevant skills and expertise to assess rental value, the Member should decline the instruction or retain an appropriate specialist to provide advice.
2.5 **Full Disclosure**

Full disclosure of all relevant information by the parties is critical to the assessment of rental value. Where a Member suspects that information provided by a party, or the parties to a dispute is false, incomplete or misleading, the Member should advise the parties and, if not resolved, the Member may decide to decline the instructions.

2.6 **Further Advice**

It may be necessary for a Member to address legal or other issues where these are in dispute. The Member should obtain legal or other appropriate interpretation to ensure the correct course of action is taken. Where a Member is uncertain on the issues, the Member may:

- advise the parties to the dispute of the necessity to obtain such advice;
- provide to the parties a quote relating to obtaining such advice;
- obtain confirmation in writing from the appropriate party/parties accepting liability for the cost of that advice; and
- obtain confirmation from the parties that any time limitation that is imposed on the Member for completing the determination is appropriately extended.

3.0 **Definitions**

3.1 **Primacy of Lease Definitions**

In assessing or independently determining the rental value of premises held under the terms of an actual lease, the definition of terms contained within that lease have primacy, unless contrary to any legislation.

3.2 **Common Terms**

The following terms are in common use and are defined in the joint API, PCA & REIA publication, *Glossary of Property Terms* (2007):

- rent (including gross, net, face, effective, passing/contract and market);
- rent review;
- lease;
- leasing incentives;
- tenant;
- landlord;
- lessor;
- lessee;
- profit rent;
- rental shortfall; and
- permitted use.

The definitions adopted in the *Glossary of Property Terms* (2007) are provided in Appendix 1.

4.0 **Assessing Rental Value**

4.1 **Impartiality**

In assessing rental value the Member should maintain an independent, unbiased and balanced state of mind.

4.2 **Purpose of Assessing Rental Value**

Assessing rental value may comprise:

- assessing the rental value of premises held under the terms of an actual lease; or
- assessing the rental value of vacant or owner occupied premises, assumed to be held under the terms of a hypothetical lease; or
- independently determining the rental value of premises held under the terms of an actual lease.

4.3 **Market Rent Reviews**

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

The fundamental starting point to any assessment of market rent, at rent review, is therefore the lease. A full understanding of the lease is required before the market rent can be assessed.

The agreed rental on review will reflect not only the market influences but also the terms and conditions in the actual lease document.

4.4 **Issues for Consideration**

When assessing rental value, a Member should have regard to:

- relevant legislation operating in Australia and New Zealand, including any retail and commercial tenancy legislation;
- directions to the valuer pursuant to the Lease; and
- Court decisions.

4.5 Lease Directions
When assessing the rental value of premises held under the terms of an actual lease or the independent determination thereof, members should follow the directions, if any, provided under the lease.

A Member should comply with any specific provisions contained in a lease unless:
- the parties have further agreed to vary that provision and have advised the member in writing of any agreed variations; or
- the provision is contrary to law.

4.6 Unspecified or Assumed Lease Terms
When undertaking an assessment of rental value under the terms of a lease and also when notional lease terms are to be assumed, the Member should address (where appropriate) the following elements:
- the name of the lessor (where applicable);
- the name of the lessee (where applicable);
- description of the premises;
- permitted use under the lease;
- date of commencement;
- term of lease;
- date of assessment;
- option(s) for renewal;
- commencing rental;
- current passing rent (if applicable);
- method and frequency of rent reviews;
- period to which the rental being assessed is applicable which may be:
  - a period equivalent to the term of the lease; or
  - a period equivalent to the unexpired term of the lease; or
  - a period equivalent to the interval between rent review; or
- another period;
- lessor's and lessee's liability for outgoings;
- assignment clause;
- sub-lease rights;
- fitout and fitout costs;
- treatment of incentives; and
- make-good provisions.

4.7 Sources of Comparable Evidence
In assessing market rent the Member should consider the most appropriate evidence in the market place.

The best evidence is generally rentals which have been agreed in comparable tenancies, at the relevant date with vacant possession (i.e. new lettings between arms-length parties), and in particular, where the use is the same or a substantially similar use as the permitted use under the lease.

In the absence of new lettings evidence, the member may have to consider the following:
- rentals agreed between arms-length parties at lease renewal or at the exercise of an option to renew an existing lease;
- rentals agreed at market rent reviews; and
- the outcome of mediations or determinations.

4.8 Application of Comparable Evidence
The terms and conditions of a subject lease may vary from the terms and conditions for leases of comparable premises. These variations should be taken into account in the assessment of the market rent under the subject lease.

When a Member is required to assess a rental under an existing lease which relates to market rent or similar terminology, a distinction may need to be made between an assessment of market rent under the usual terms and conditions of similar leases/tenancies and the terms and conditions of the actual lease, with adjustments for differences.

5.0 Independent Determination

5.1 Purpose
In the event of a dispute between a lessor and the lessee, a Member may be instructed or appointed to undertake
an independent determination of the rental value of the
premises held under the terms of an actual lease.

5.2 Basis of Appointment
Depending on the requirements of the lease, a Member
may be appointed to undertake an independent
determination by acting as an Expert or as an Arbitrator.
The terms Expert and Arbitrator are defined in the Glossary
of Property Terms (2007) and are provided in Appendix 1.

5.3 Conflict of Interest
When acting as an expert and the potential for a conflict
of interest arises, Members are referred to ANZRPGN 2
‘Acting as an Expert Witness, Advocate or Arbitrator’ and
the Institute’s Rule of Conduct 1.3.

6.0 GST
Members should explicitly state the treatment of GST in
their report.

7.0 References
Relevant texts may include, but are not limited to:
Hyam, A The Law Affecting Rent Review Determinations,
The Federation Press, November 2005
Duncan, WD Commercial Leases in Australia, The Lawbook

8.0 Appendix
Terms as defined in the Glossary of Property Terms (2007):

Arbitrator
An independent person who is contracted by the parties
to conduct an arbitration. It is usually a person with
experience and/or qualification in a particular field and
may be nominated by the parties.

Advocate
A person who represents the cause or interest of another,
even if that cause or interest does not necessarily
coincide with one’s own beliefs, opinions, conclusions, or
recommendations.

Expert
A person who is recognised as having special knowledge
or skills.

Rent
A payment made periodically by a lessee to a lessor for the
use of premises.

The term “Rent” is often associated with a variety of other
terms outlined below:

Base: The minimum acceptable rental provided
in a lease. In retail leases the base rent generally
refers to the commencing rent which is
supplemented with a ‘percentage rent’ based on
the tenants turnover.

Break-Even: The point at which a tenant’s base
rent is equal to an agreed level of sales above
which percentage rent takes effect.

Concessionary: A discounted rent, usually during
the initial lease term.

Effective: The actual liability for rent and
outgoings after adjustments for any incentives to
the face rent are taken into account.

Equivalent: Equivalent refers to the rent being
adjusted for the effects of any market rent reviews
that will occur in the period of consideration.

Face: The rent shown on a lease document which
may or may not include incentives and may or may
not include outgoings.

Gross: In a gross lease, all operating costs of the
property (excluding direct tenancy expenses) are
included in the rental.

Market: The estimated amount for which a
property, or space within a property, should lease
on the date of valuation between a willing lessor
and a willing lessee on appropriate terms in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Whenever Market Rent is provided, the “appropriate lease terms” which it reflects should also be stated.

**Net:** In a net lease the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

**Passing (or contract):** The rent specified by a given lease agreement; although a given contract rent may equate to the Market Rent, in practice they may differ substantially, particularly for older leases with fixed rental terms. The term, contract rent is North American usage; passing rent is Commonwealth usage. (IVSC)

**Peppercorn:** A term used where it is desired to reserve only a nominal rent for any period. A minimal rent which is below market value.

**Turnover / Percentage / Participation Rent:** Any form of lease rental arrangement in which the lessor receives a form of rental that is based upon the sales of the lessee. Percentage rent is an example of a turnover rent. (IVSC).

**Rent Review**
A periodic review of rental under a lease using a predetermined method.

For example, increase in line with Consumer Price Index (CPI), or in accordance with a market valuation.

**Lease**
(a) A contract arrangement in which rights of use and possession are conveyed from a property’s title owner (called the landlord, or lessor) in return for a promise by another (called a tenant or lessee) to pay rents as prescribed by the lease. In practice the rights and the duties of the parties can be complex, and are dependent upon the specified terms of their contract;

(b) An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

**Leasing Incentives**
Inducements offered by landlords to attract tenants to lease space. Typically occurs when supply exceeds demand, but in order to maintain value by not lowering face rent or contract rent, tenants are given incentives such as rent free periods, cars and other gifts. Often such inducements are secret. The discount or contribution offered to a lessee at the commencement of a lease which may be applied at the start, during, or at the end of the lease term and is outside the lease terms.

**Outgoings**
The expenses incurred in generating income. In real estate, these expenses include but are not necessarily limited to property rates, repairs, insurance, repairs and maintenance and management fees. Operating expenses when subtracted from gross income equal net operating income.

**Profit Rent**
The difference between the market rent and the current rent or ground rent resulting in a leasehold interest.

**Rental Shortfall**
The amount by which rent is less than the market rental.

**Tenant**
A person or entity paying rent in exchange for the occupancy of a building or dwelling. See also Lessee.

**Landlord**
The owner of leased property. The lessor.

**Lessor**
The owner of a property who transfers the right to occupy and use property to another by way of a lease agreement.

**Lessee**
A person / legal entity who receives the right to occupy and use a property under the terms of a lease.

**Permitted Use**
The allowable use within the premises specified in the lease contract (not to be confused with ‘permissible use’).

**Vacant Possession**
In real estate this refers to a right to possession of land or built-up property in respect of which there is no current occupant.
ANZVGN 10 VALUATION OF AGRICULTURAL PROPERTIES

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide advice to Members undertaking valuations of any agricultural property for any purpose.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This guidance note applies to Members providing valuations in respect of any agricultural property for any purpose. It should be used, as far as applicable, in conjunction with other guidance notes and practice standards that are either overarching or directly applicable to the type of real property, purpose or issues involved.

This guidance note is not intended to outline methods of valuation of any particular type of property but may comment on matters that should be addressed in reports in respect of certain properties types or uses. Methods of valuation are covered in other guidance notes and authoritative texts.

1.4 International Valuation Standards

This Guidance Note is intended to be consistent with Standards and Guidance Notes published by the International Valuation Standards Committee, except where otherwise stated.

Members are specifically directed to read IVS Guidance Note 10 – Valuation of Agricultural Properties and ANZVGN 1 – Valuation Procedures – Real Property.

In addition to the above, this guidance note specifies any departures from IVS Standards or other particular circumstances which reflect Australian and New Zealand law and practice.

2.0 Valuation Considerations

In addition to the requirements of other relevant standards, members completing valuations of agricultural properties should consider the following factors, as applicable:

2.1 Land Tenure and Native Title Rights

Unlike most urban land, other forms of land tenure are common in relation to agricultural land. Valuations should have regard to the nature of tenure and interest held which can usually be established by title or lease search or other enquiries with the land holder.

Valuations of agricultural land which is not held by freehold title should be appropriately qualified eg Valuation of Leasehold Interest, Valuation of Crown Leasehold etc.

It should also be noted that some Crown tenures convey only a right of occupation to the land and infer no ownership or transferable right. An example of this is a license, which may be terminated at will by the relevant minister and is not transferable, and therefore may have no market value (albeit could have a value to the sitting licensee).

Agricultural land in many parts of Australia and New Zealand may be subject to Native Title or Treaty of Waitangi (NZ). Members should consider the possible impact of any known or potential claims for Native Title or the Treaty of Waitangi (NZ) and provide a statement within the valuation report as to how such issues have been treated.

2.2 Additional Rights

In addition to typical land rights, other rights can be conveyed to agricultural land which may have a material impact on the value of that land. Examples include water or irrigation rights, excavation or mineral rights etc.
Normally the value of any mineral rights are ignored in valuations, or are at least implicit within sales evidence, unless the existence of minerals is known or probable. Additional rights may be separately transferable to the sale of land and accordingly valuations should make qualifying statements as to what rights are excluded or included with the valuation of the land.

2.3 Planning or Legal Constraints
Particular planning (resource management in NZ) or legal constraints may impact on the valuation of agricultural land. These may include (but not be limited to):

- prohibitions on subdivision
- prohibitions on construction of dwellings
- coastal and landscape protection policies
- forest or conservation reserves
- emissions
- water use
- effluent disposal and leeching
- possible need for planning approval of change in agricultural usage in some jurisdictions.

2.4 Land Use
The existing use of land may not necessarily represent the highest and best use of the land and the land could have a higher value for alternative agricultural uses. Examples may include:

- grazing land which has a higher value for forestry;
- dry grazing land which has access to water rights for irrigation purposes for cropping land;
- conversion of grazing land to intensive agriculture eg orchards

The highest and best use of land may change over time. In such cases members should consider changes in market cycles or trends and the potential costs incurred in changing the use of the land.

2.5 Accessibility and Locational Attributes
Accessibility to services including community facilities (eg schools, shops, medical services etc) and transport infrastructure (eg major roadways, ports, railway etc) could have an impact on the value of agricultural land from the perspective of its appeal as a place to live, and farming operations and profitability. The locational attributes of agricultural land should therefore be considered by members and specific comments provided in valuation reports.

2.6 Climate
Australia and New Zealand are subject to varying climatic conditions, in particular rainfall, which can have a significant impact on the productivity and hence value of agricultural land.

In relation to extreme weather conditions the regularity of such conditions and the long term impact of such occurrences could be factors which prospective purchasers consider in assessing the value of agricultural land.

2.7 Topography
Australia and New Zealand have varying topographies ranging from exposed coastal lands, river flats, plains, arid dry lands, to mountainous highlands. These topographic features can have a significant impact on the productivity and hence value of agricultural land. Factors which have such an impact include (but are not be limited to):

- latitude
- altitude
- aspect
- access to natural or man-made water resources
- susceptibility to flooding
- landslip
- coastal or inland

Flooding can have an impact on productivity from the perspective of the potential for topsoil removal or erosion; or lost production, equipment or livestock. The impact of flooding may vary depending on the nature of the agricultural use of the land. For example a flood could cause significant damage to cropping land however the impact on grazing land may be less severe.

2.8 Soils, Salinity & Erosion
Australia and New Zealand have varying soil profiles ranging from rich alluvial soils, basalt soils, to more sandy soils. Soils can have a significant impact on the productivity and hence value of agricultural land. Accordingly members should consider the soil profile in assessing the value of agricultural land.
Soil salinity or the proneness to rising water tables and ground salts, as a consequence of land clearing or prolonged heavy irrigation, and soil erosion (including underground tunnel erosion) can have a dramatic detrimental impact on productivity and hence value of agricultural land. Accordingly members should consider the susceptibility of soil salinity or soil erosion in assessing the value of agricultural land, and make specific comment on any farming management practices which the farmer may have taken to minimise the risks of such issues.

2.9 Classification

The classification of the land is a primary consideration in the valuation of agricultural land.

Common land classes based on use include horticultural land, arable land, intensive grazing land, extensive grazing land, open run grazing, native bushland, conservation areas etc. Factors such as zoning, availability of water and easements are taken into account when determining the potential highest and best use of the land.

The classification land is obtained from various sources including title plans, past cropping areas, irrigated land by reference to available water resource agreements, topographical maps, aerial photos and geographical information systems.

Members should apply the land classification consistently to both the analysis of sales evidence and the valuation.

2.10 Site Contamination

Some agricultural uses may cause site contamination which could require either implementation of appropriate management practices or remediation. Examples of site contamination on agricultural properties include:

- sheep or cattle dips
- sources of effluent disposal (especially intensive livestock operations)
- chemicals used in fertilisers or sprays
- fuel storage tanks
- waste dump sites
- crop or livestock diseases

Members should consider the impact of any possible or known causes of site contamination on the value of the property, and report any assumptions and qualifications where required.

2.11 Weeds and Pests

Pests and weeds may impact on the productivity and hence value of agricultural land. In particular rabbits, foxes, blackberries, gorse bush or other introduced flora or fauna have had a devastating impact. Native fauna (for example possums, locust, or game) can also cause significant damage to pasture or crops, particularly when at plague proportions.

Farming management practices which have been implemented or which are required on an ongoing basis to control weeds or pests should be considered and detailed within valuation reports.

2.12 Pasture or Crop Management

Farming practices in terms of pasture or crop management can have an impact on the productivity of agricultural land. Issues such as pasture improvement, crop rotation or fertilising programs (and the sustainability of such practices) may need to be considered in the valuation of agricultural land.

2.13 Water Resources

Water and drainage (domestic/livestock/irrigation/effluent disposal) is becoming increasingly critical to agricultural or pastoral property. Water is a valued and scarce resource that is shared between potentially competing users eg rural industry, communities, and the environment.

The water resource which is held by a farming enterprise may be personal property. This should be considered in the valuation. It can comprise a significant element of value of an agricultural property. In some areas, if the water component is removed, the property may not be of a viable size for dry land production.

Licenses and/or consents are normally required to pump and/or store water from a river, stream or ground aquifer whilst alternative systems provide for the purchase of water (usually measured on a volumetric basis e.g. mega litres per annum) from either public or privately owned water reserves.

Water is an over allocated resource in many catchments and may be subject to reduced allocations during dry periods which can impact on productivity.

Members should have consideration of any legislation/regulation affecting water.
2.14 Improvements

The added value of improvements is an important consideration in the valuation of agricultural land. Generally the value of the main homestead is a critical consideration however the value of other improvements can also be significant. The value of farm improvements is limited by the degree of economic and functional obsolescence.

Members should carefully consider the treatment of integral farming improvements in the comparison of sales evidence and treatment in valuation calculations.

2.15 Past Carrying Capacity or Production History

The past carrying capacity or production history of agricultural land may be an important consideration in the valuation of agricultural land.

Whilst carrying capacity or production can vary significantly due to seasonal variations or farming management, such data may assist members in undertaking a valuation. Examples include:

- comparison of long term averages to recent productivity may indicate a decline or improvement in soil quality or farm management practices
- long term averages may be useful as a form of direct comparison with sales evidence on a productivity basis (e.g., rates per dry sheep equivalent)
- the life cycle of trees and yields from orchards or other intensive agricultural operations
- the sustainability of the current use of the property and potential to be used for alternative uses

2.16 Trading Performance

Generally most agricultural property is valued based on comparison with sales evidence; however, in some cases the past and/or current trading performance may be relevant in determining the market value of specialised agricultural enterprises. Examples include poultry and aquaculture farming operations.

Where the net profit is used to determine the market value, the valuation will represent the value of the enterprise as a going concern. In such cases members should acknowledge and report that the valuation includes the value of land, improvements, and the business including fixed and non-fixed plant and equipment, business licenses and goodwill (if applicable).

Members are cautioned that some inclusions may be wasting assets and in such cases valuations for mortgage security purposes should advise the intending mortgagee to treat such assets differently from a mortgage lending perspective.

In order to adequately consider risk, valuations for mortgage security purposes which have been assessed on a going concern basis should also report the value of land and improvements on an alternative use basis if significantly different.

2.17 Inclusions

Other assets may be valued with agricultural properties. Examples include:

- Biological assets (including crops, timber, stock)
- Integral plant and equipment (e.g., irrigation pipes, sprayers or pivot irrigators, dairy plant etc)
- Non integral plant and equipment (e.g., tractors or other farm equipment, portable fencing or stockyards etc)
- Resource Consents (NZ). Resource consents are a right (asset) that is generally provided for a fixed term and often go through a renewal regime with the issuing authority having the ability to amend as it sees fit at renewal or during the consent process. These are not necessarily a wasting asset, but a right to the land that can have significant impact on value if discontinued or altered.

Typically such items are excluded from valuations unless a property is valued on a “walk in walk out” basis, in which case appropriate adjustments for the respective inclusions with comparable sales evidence may be required.

In order to prevent confusion as to the extent of inclusions, when providing valuations on a “walk in walk out” basis members should separately itemise valuations into the following categories:

- Land
- Improvements (including integral plant and equipment and other rights)
- Biological assets (including crops, timber, stock)
- Non-integral plant and equipment

Members may need to obtain separate expert advice in relation to the value of biological assets and non-integral plant and equipment.
2.18 Consideration of Sales Evidence

The existence of specific factors which may impact on the value of agricultural land as discussed within this guidance note, may or may not be reflected by the prices paid for comparable properties.

Sales of properties in proximity to a subject property may have a significantly different value due to particular characteristics. Examples include:

- different climatic conditions (e.g. susceptibility to frosts)
- different topographical features (e.g. northerly aspects in higher latitudes, rainfall shadows etc)
- different water or irrigation rights,
- different plant and equipment or stock,
- soil classification

Typically analysis of sales evidence for agricultural properties includes an analysis of land values per hectare, the added value of improvements, values on a rate per carrying capacity or production basis.

In the absence of sales of directly comparable properties, differences that exist between the sales evidence and the subject property may warrant appropriate adjustments to be made.

3.0 Terminology

Different terminology is adopted from country to country. This is particularly evident in the agricultural or rural sector. Members utilising the relevant standards and guidance notes should attempt to adopt relevant and accepted terminology appropriate in the specific location in which they are involved.

Common terms used within the valuation industry for agricultural land include:

- broad acre - a term used to describe large land holdings generally used for grazing purposes
- dry sheep equivalents (dse) - a measure of carrying capacity with reference to the potential number of wethers (dry sheep) that can be sustainably carried on the land;
- stock units - a measure of carrying capacity with reference to the potential number of stock that can be sustainably carried on the land;

4.0 Goods and Services Tax (GST)

Members should explicitly state the treatment of GST in their report.
ANZVGN 11 VALUATION OF SELF STORAGE FACILITIES

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to set out matters to be addressed in the valuation of operating self storage facilities. The items addressed in these notes are in addition to those required by ANZVGN2 Valuations for Mortgage and Loan Security Purposes and IVGN12 Valuation of Specialised Trading Properties.

1.2 Status of Guidance Notes

Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note applies to Members involved in the preparation of valuations relating to self storage facilities. It should be used in conjunction with other guidance notes and practice standards which are either over-arching or directly applicable to the issues involved.

1.4 International Valuation Standards

This Guidance Note recognises the International Valuation Standards prepared by the International Valuation Standards Council. This Guidance Note is also intended to be consistent with the concepts and definitions contained in those Standards, however, there may be departures from IVSC Standards to reflect Australian and New Zealand law and practice.

2.0 General Explanation of Self Storage Operations

Self storage operations involve the licensing of storage areas to private and business users for the storage of goods. Storage users may select from a range of storage unit sizes provided within the property.

Self Storage Operators typically apply a standard storage licence agreement and apply a monthly storage fee. Storage fees vary depending on the size and location of the storage unit occupied. Because the licence agreement typically operates on a month to month basis the operator may review the storage licence fee at any time. The frequency and amount of storage fee increases will depend on the management strategy of the operator, the level of competition and storage fees applied in competing facilities.

It is a fundamental element of operation of a self storage facility that the operator does not take care, custody or control of the goods stored. In a limited number of cases operators receive and hold goods on behalf of customers. This requires a specific, modified storage agreement.

It should be noted that the storage industry generally compares pricing levels for individual units on a dollars per month basis.

In addition to direct storage fees, self storage facilities may also derive revenue from late payment charges, cleaning charges when storage units are vacated, sale of storage related merchandise, and sale of insurance for customer goods in storage.

3.0 Instructions and Basis of Valuation

3.1 The Role of the Valuer

The Valuer needs to demonstrate in a report an understanding of the operation of the subject property, the operator’s management arrangements, the self storage market place, surrounding competition and any specialised features of the facility.
It is important that the Valuer obtains sufficient detail in relation to the current storage unit configuration, storage unit occupancy, current revenues, operating expenses and arrears status of occupied storage units. It is incumbent upon the party instructing the Valuer to ensure that the Valuer has access to records and information from which the above detail may be extracted.

3.2 Going Concern

The valuation should clearly state that it has been undertaken as a ‘going concern’ self storage facility on a ‘walk in walk out’ basis inclusive of all plant, equipment, furniture, fittings and merchandise stock as appropriate.

Going concern valuations are based on the net income associated with the operation of the whole of the self storage activities on the property.

3.3 Facilities Subject to Lease to an Operator

Some self storage facilities are subject to leasehold interests. Valuation of a self storage facility subject to a long term leasehold interest of land and buildings is not a going concern valuation. Valuation of self storage facilities subject to leasehold interests should reflect the net cash flow associated with the lease and the specific terms of the lease.

3.4 Accepting an Instruction

Prior to accepting an instruction, a valuer must be confident of having the necessary expertise and sufficient information to undertake the valuation. For example, if the valuer does not have complete or appropriate access to comparable sales and trading data for the subject self storage facility, then the valuation instruction should be declined, or undertaken in conjunction with a valuer who has the expertise and access to such information.

It is important that the valuer should, as a term of their retainer, ensure the client has an obligation to provide access to records and information concerning the site (as set out in Clause 3.1). It is important that the client and the valuer agree that the valuation cannot be completed until such information is provided.

4.0 Operational Detail

Operational arrangement may vary from facility to facility and there are variations in management and operation arrangements in various regions. Accordingly the valuation should identify and describe the operation arrangements applied in the facility being valued. This would include a description of the following items

- The form of storage agreement utilised,
- Storage unit fee payment arrangements,
- Late payment fee policies,
- Insurance of customers’ stored goods,
- Arrangement for the display and sale of merchandise,
- Office operating hours and
- Access hours for existing customers.

5.0 Building Improvements

5.1 Building Construction and Services

The valuer should consider the design characteristics and form of construction of the property, including specialised features that may impact upon the ability to attract self storage customers, viability of operation, and marketability.

The construction, design and general condition of improvements need to be considered in the context of their specialised use, with the following being examples of relevant factors:

- The form of construction and materials used including consideration of the buildings’ ability to provide adequate ventilation, insulation against temperature extremes and protection against water penetration;
- The size and mix of storage units, accessibility of storage units including vehicular access, corridor layout and width and lift or hoist systems where multi-level storage is utilised,
- Signage,
- Size, location and appearance of reception and merchandise display areas,
- Onsite caretakers or managers accommodation,
- Customer parking and docking arrangements,
- Access systems including gate access controls and arrangement for after hours access and
• General site security and unit security including perimeter access control, unit alarms and video monitoring.

5.2 Repair and Condition

The valuation should comment on the state of repair of the improvements of the property, including any outstanding works to be completed and any modification or maintenance work required. Any item that may affect the continuing efficient operation of the self storage facility should be identified.

An annual repair and maintenance expense allowance is a normal item of operating expense and the valuation should include a provision for repair and maintenance as part of normal operating expenses. However it may also be necessary to apply an initial capital expense amount in valuation calculations where building defects present an immediate impediment to continued efficient and competitive operation of a self storage facility.

6.0 Valuation Calculation

6.1 Valuation Methodology

Capitalisation of net operating income is the most commonly applied method in valuation of self storage facilities. Discounted Cash Flow (DCF) analysis is also a very effective and complementary methodology, particularly for substantial self storage facilities. The net operating income should be calculated before depreciation, amortisation, interest, tax and capital expenditure deductions. Such calculations being on a GST exclusive basis.

Experience suggests that the market initially places greater weight on capitalisation (yield) calculations in negotiation of transaction prices. However, informed purchasers and vendors are clearly aware of the variations in net income levels that occur with variations in occupancy. This and other variables are often best displayed in DCF analysis.

The results of both methodologies should be applied in the valuation of larger self storage facilities particularly where occupancy levels may not have reached a full, mature level. Because of the static nature of capitalisation calculations this methodology develops complexities and anomalies when applied to facilities operating at a less than mature occupancy level.

Calculations should demonstrate a transparent connection between actual calculations and current performance levels of the facility. If calculations apply revenue or expense details that vary from actual current amounts there should be a clear explanation and rationale provided for the variations.

An extensive range of operating expenses typically applies in the good management of operating self storage facilities. It is necessary to ensure that complete and realistic expenses are applied in the valuation calculations.

Calculations should display all critical assumptions and inputs, including the capitalisation rate applied. In DCF analysis there is a need to provide a disclosure of other valuation elements including escalation rates, discount rate applied to future revenues and value calculations applied at the end of the assumed investment period.

6.2 Revenue and Trading Performance

The Valuer should clearly establish the current, actual revenue of the facility at the date of valuation. This should be supported by disclosure of elements supporting the actual revenue. This will involve:

• Identification and description of the total net rentable storage area available.
• A clear disclosure of the units and unit areas that are occupied and accruing storage fees.
• Detail of the current actual storage fee rates achieved and accrued (excluding incentives or other distorting factors) for occupied storage areas.
• Details of other income amounts including such items as late fees, sale of goods in custody insurance, merchandise sales or other areas of incidental revenue.
• Analyse and make provision for customer delinquency and delinquency write-offs.
• A month by month history of occupancy level and associated accrued storage fees over time. A 12 month history is generally sufficient to identify any correlation between occupancy and revenue trends.
• Where available, up to a 3 year trading history is generally sufficient to assist in identifying any correlation between occupancy and revenue trends. If there is less than a 3 year trading history, then a complete trading history will be required.
The Valuer should also examine the unit configuration, characteristics and features of the occupied space compared with unoccupied space and where significant variations exist make reasonable adjustment in projected revenues and occupancy to account for the differences.

Accrued and potential storage fee revenue is typically equated to a rate per square metre of occupied space per annum (rate per square metre per month X 12) for analysis and comparison purposes. Analysis of variations in the achieved storage fee rate per square metre will illustrate pricing performance over time. It should also be noted that storage fee revenue rates may be influenced by additions or modifications to the number of storage units or the mix of storage unit sizes.

Where a valuation applies a revenue or occupancy level that differs from the current level being achieved, this should be clearly stated. In these circumstances the Valuer should also state the basis upon which variation in revenue or occupancy will occur including the period over which the Valuer considers these variations will occur.

6.3 Operating Expenses / Outgoings

The valuation should establish the operating expenses applied in the calculations.

Detail of full year operating expenses associated with the normal operation of the facility should be included in the valuation. This should be provided on an itemised basis and include, but not be limited to, advertising costs, site management wages, insurance costs, rates and taxes, bank charges, power costs, telephone charges, merchandise purchases and maintenance costs.

An amount for head management fees should be included in valuation calculations. This amount is in addition to the direct site operating expenses. While this amount is not always incurred as a direct site expense, a management fee would be incurred if the facility were to be purchased and operated on a true investment basis.

The Valuer should critically review operating costs provided, and where it is evident that costs are out of line with industry standard management practices or where significant items have been omitted, the Valuer should make appropriate adjustments to bring costs in-line with industry standards. These adjustments should be clearly disclosed and explained in the valuation report.

6.4 Existing Licence and Management Agreements

It is not uncommon for facilities to operate under management or general branding agreement. The valuation should provide detail of these agreements where applicable including detail of fees and charges applicable under such arrangements. The valuation should clearly state if the assessment is subject to continuation of the Licence or Management Agreement.

6.5 Facility Operator and Customer Agreement

The Valuer should also review the standard terms of the agreement between the facility operator and customer to satisfy themselves that the terms of such agreement are consistent with industry standards and in particular whether the agreement contains clauses which provide that the operator has the appropriate rights to deal with goods left by the customer and that the agreement does not expose the operator to risks that may impact upon running the business.

6.6 Surplus Land / Additional Capacity

It is often the case that self storage facilities have not fully utilised the whole of the site or the whole of the building within which they operate. It is not unreasonable to attribute a value to undeveloped areas within a self storage facility which are not currently income producing or at full income potential. However the value attributed to these areas should be realistically assessed and clearly described in the valuation. Application of revenues based on hypothetical potential does not typically provide a reliable assessment of the current market value. Values based on immediately achievable use are more reliable.
7.0 Competition

The performance of a self storage facility is impacted by the level of competition from other self storage facilities. The Valuer should be conscious of current and proposed competition within the customer catchment area of the self storage facility being valued and where possible discuss the performance of the competing self storage facilities.

Customer catchment areas may vary and are influenced by the position and number of other self storage facilities in the area, transport corridors, natural barriers such as waterways and the demographics and population density of immediately surrounding suburbs.

8.0 Sales Evidence

8.1 Sales Analysis

It is not always possible to obtain sufficient information to fully analyse every sale. However, the Valuer still needs an appropriate level of sales that have been adequately analysed in order to arrive at an opinion of value.

It is not uncommon for self storage facilities to be combined with other uses such as more traditional industrial premises or vacant land. Sales analysis and examination of property yields should identify these varying property uses and make specific adjustments to reflect the component elements.

The sale of ‘going concern’ self storage facilities typically involves the concurrent and interdependent sale of real property and a sale of a business. Accordingly reliance upon a reported property transfer amount that may be shown in general property data base material can be misleading as it is often only the property component of the transfer that is recorded. In analysis of sale of going concern transactions, it is essential for the Valuer to determine the total consideration paid including both property and business transfer amounts.

8.2 Initial Yield vs. Equivalent Yield

The simplest yield analysis is the calculation of the passing net income (gross revenue less operating expenses) as a percentage of the Purchase Price. This is referred to as the Initial or Passing Yield.

It is however, quite common for self storage facilities to be purchased at occupancy levels that are below a mature occupancy level. This will result in the initial yield being at a relatively low level. In practice, purchasers may pay amounts reflecting the expectation that occupancy levels will increase and there will be a corresponding increase in storage fee revenues and net income. The yield calculated on the basis of expected increased occupancies and associated net income is referred to as an Equivalent Yield. In effect, this is the rate that the Valuer should compare to the adopted capitalisation rate.

9.0 General Issues

9.1 Leasehold Tenure

In cases of self storage facilities held upon leasehold title, the impact of the ground rent on returns/incomes should be fully considered and reflected in the valuation calculations.

9.2 GST Caution

The Valuer should consider the manner in which similar properties are bought and sold from a GST perspective and adopt the most appropriate treatment of GST accordingly. Properties transacted on a ‘going concern’ basis may be exempt from GST.

9.3 Disclaimer

The Valuer should consider whether the valuation report should contain a qualification concerning the storage of hazardous or illegal goods on the premises and any implications upon value.

10.0 Effective Date

This Guidance Note is effective from 1 January 2011.
1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members determining market values of property, plant and equipment where those assets are integral to a going concern business. These guidance notes cover various situations to assist Members in undertaking such valuations.

It is also intended this Guidance Note will assist users of valuation reports to understand the basis upon which valuations of property, plant and equipment are undertaken in these circumstances.

This Guidance Note is not intended to repeat information already covered in Practice Standards and other Guidance Notes. Practice Standards and other Guidance Notes which should be read in conjunction with this Guidance Note include:

- IVS 1 Market Value Basis of Valuation
- IVS 2 Valuation Bases Other Than Market Value
- IVA 1 Valuation for Financial Reporting
- AVGN 1 Valuations for use in Australian Financial Reports
- NZVGN 1 Valuations for use in New Zealand Financial Reports
- IVA 2 Valuation for Lending Purposes
- IVGN 1 Real Property Valuation
- IVGN 3 Valuation of Plant and Equipment
- IVGN 4 Valuation of Intangible Assets
- IVGN 8 Depreciated Replacement Cost
- IVGN 9 Discounted Cash Flow Analysis for Market and Non-Market Based Valuations.

1.2 Status of guidance notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this guidance note

The scope of this guidance note is to provide guidance in any situation where a market valuation of property, plant and equipment forming part of a going concern business is required. This assumes that the assets would be sold as part of a going concern or continuing business. The market value determined for the property plant and equipment must be supported by the cash flows of the going concern business in which they operate.

Often these assets are specialised operational assets, the value of which cannot be readily assessed by reference to market prices. Non-operational, surplus assets that will not continue to be used as part of the going concern business (e.g. assets which are approaching or at the end of their economic life) should be valued based on their market value assuming they will be sold separate from the going concern business. Such a value may be higher or lower than the value as part of the going concern business depending upon the specific circumstances, but should reflect the highest and best use of the assets assuming they will no longer be used as part of the going concern business.

This may include alternative use value in the case of real estate. In respect of plant & equipment such a value should assume that the assets will be sold for removal (commonly referred to as net realisable value).
1.4 Assets included

Where the income approach has been used to assess the market value of a going concern business, the value determined will include all the assets used in the business, including tangible and intangible assets and liabilities (to the extent they are used to derive income).

Tangible assets may include real property and plant and equipment, and intangible assets may include business licenses, patents, patterns, designs, intellectual property, goodwill, etc.

Depending upon the purpose of the valuation, an apportionment of value to the various asset classes may be required.

2. Test of adequate potential profitability/service potential

As a basic premise, the market value determined for the property plant and equipment should be supported by the cash flows of the business.

IVGN8 (which covers depreciated replacement cost valuations for financial reporting purposes) requires that:

“where the value of a specialised asset is estimated by the depreciated replacement cost method, a statement should be made that it is subject to a test of adequate potential profitability in relation to the whole of the assets held by a for-profit entity or cash generating unit”.

“For not-for-profit public sector entities, the reference to a test of adequate profitability is replaced by a test of adequate service potential.”

This statement is important as it is intended to alert the reader of the valuation to the fact that the valuation assumes and is dependent upon (i.e. subject to) the reporting entity being profitable (i.e. having adequate potential profitability), or in the case of not for profit entities, continuing to provide the service for which the asset is used (i.e. having adequate service potential).

Valuations of assets contained in a business that assume continuation of the going concern business or service should not be construed as representing the market value of those assets in the event that the going concern business or service ceases to exist.

When assessing market value under the cost approach, the test of adequate potential profitability (or service potential) has traditionally been seen as the responsibility of the entity’s directors or auditors.

However Members may complete the test of adequate potential profitability (or service potential) rather than reporting a value subject to that test being completed by others.

It should be noted that existing guidance provided in respect of the test of adequate profitability is restricted to valuations for financial reporting purposes completed using the cost approach (IVGN 8). The test of adequate profitability is effectively used as a means to identify the potential existence of economic obsolescence. However, economic obsolescence is a matter that should be considered in many valuations that are completed using the cost approach.

It should be noted therefore that if a Member does not include the statement that the valuation is reported subject to the test of adequate profitability (or service potential), the valuation may be construed as reflecting all forms of obsolescence (including economic obsolescence).

A valuation that reflects profitability or service potential as described in this guidance note will result in an opinion of market value. By implication therefore a valuation that does not consider and reflect profitability (economic obsolescence) or service potential will not result in an opinion that represents market value until such tests have been completed.

3. Highest and best use

In undertaking market valuations of property, plant and equipment as part of a going concern business Members should consider whether the current use of those assets represents their highest and best use.

If an asset potentially has a higher and better use, Members may need to assess and report the value of the asset for its alternative use, but in doing so Members should also consider the costs that may be incurred in changing use or decommissioning the asset as well as the potential impact on the future use and therefore value of other interdependent assets.

ANZVGN2 Valuations for Mortgage and Loan Security Purposes requires that where assets have a lower value for alternative uses the Member should report both values. It is noted however that circumstances may occur where the agreed scope of work does not include that requirement.

4. Valuation methods

In assessing valuations of property, plant and equipment as part of a going concern business, the sales comparison approach, cost approach and income approach are all considered appropriate methods of valuation depending on the nature of the assets and the information available.
4.1 Sales comparison approach

It is generally difficult to find and analyse sales of specialised property, plant and equipment. Such assets are usually sold as part of the going concern business along with all its other tangible and intangible assets and liabilities. They may also be sold as part of a group or portfolio of assets and as a result apportionment of the business acquisition price to the various assets may not be available or reliable.

Where comparable sales evidence exists for real property being transacted as part of a going concern business, the sales comparison approach can be used to determine the value to an owner occupier. The value of the property for its alternative use or value with vacant possession may be different.

The implication for Members is that comparable sales of properties sold for redevelopment or with vacant possession may not provide a true indication of the value of a property for use as part of a going concern business.

In some cases the value as part of a going concern business may be lower than the property’s value for its highest and best use. IVS 1, 2 & 3 require valuations to be assessed on a highest and best use basis, but Members should consider possible costs that may be incurred in changing the use of the asset as well as the potential impact on the use and therefore value of other inter-dependent assets.

For plant and equipment this may mean assessing the value of individual assets or production units on a comparable sales basis and weighting that value for installation and any enhancements/modifications.

The comparables sales should be adjusted to reflect any variations from the subject asset.

In some cases it may be appropriate to use a combined approach to value: the sales comparison approach (where comparable sales can be found) and the cost approach for the installation component that brings those assets into use within the business.

In applying the cost approach to the installation component of an asset’s value, Members should take into account any obsolescence in order to determine the depreciation to be applied to the installation cost component.

Members should also have regard to the market place by understanding the context of each sale and should be aware of, but not rely upon, asking prices for equivalent assets in developing a complete understanding of the market place.

4.2 Cost approach

The cost approach is the most commonly used valuation method to determine the value of specialised assets. Under the cost approach the current replacement cost is calculated and then any loss in value caused by physical deterioration and functional and economic obsolescence is deducted to arrive at the market value of the asset.

4.2.1 Forms of obsolescence:

The Member should consider three forms of obsolescence:

1. Physical deterioration. This is the loss in value resulting from the consumption of the useful life or service potential of the asset caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors.

   a. It should be noted that the consumption of the useful life or service potential of an asset may be constant over the life of an asset and on other occasions this may occur more quickly at the beginning or at the end of the asset’s life. This can result from variations in the intensity of use to which the asset is subjected at different stages of its life. These variations in the consumption of useful life or service potential of an asset will likely be reflected by variations in the level of maintenance costs.

   b. The useful life of an asset may be expressed in terms of years of service but may also be expressed in terms of units of production. When assessing remaining useful life Members should have regard to the condition of the asset at the time of assessment which may alter the total life of the asset as compared to its expected life when new.

2. Functional (sometimes called technological) obsolescence is the loss in value resulting from inefficiencies in the subject asset compared to a more efficient or less costly asset. Such excess operating costs and/or excess capital costs can be used to measure the extent of functional obsolescence.
3. Economic obsolescence (sometimes called external obsolescence) is the loss in value caused by factors which are external to the asset itself. Such factors often relate to the economics of the industry in which the business operates or the business in which it is employed. New legislation (or fear/risks of it) may also contribute to economic obsolescence.

a. Economic obsolescence may result from over capacity. The replacement cost of a plant that has a capacity equal to need may be significantly lower than the reproduction cost of the plant as installed. The extent of economic obsolescence in these circumstances can be measured by comparing the reproduction cost of the subject assets to the replacement cost of the assets required to meet the expected demand. If the plant’s capacity is limited by an asset within the plant rather than by external factors then the obsolescence may be regarded as technological (i.e. functional) and may be curable.

b. Economic obsolescence can also be a result of other external factors such as increased raw material costs or reduced product sales/value. These factors may be specific to a particular location or more generally experienced throughout an industry sector.

c. It is important when investigating the impact of economic obsolescence that Members understand and consider the connection with the profitability of the business. This might be evident from the acquisition price (in a business transaction scenario), or reported business value. To the extent that a contemporaneous transaction involving the sale of the going concern business indicates a lower value than that of the property, plant and equipment used by that going concern business, this may provide an indication of economic obsolescence.

d. Economic obsolescence may also be observed for some assets (predominantly real estate) by considering whether the going concern business could afford to pay a market rent for the assets and still return a profit.

Having regard to the various forms of obsolescence discussed above, Members should be wary of using depreciation tables which only reflect physical deterioration or methods which purport to represent all forms of obsolescence in one calculation without having regard to the circumstances and use of each asset.

In the case of new businesses, the sum of the market value of the assets may indicate the business is yet to achieve a level of profitability which provides an appropriate return on the assets employed and capital outlay. The test of adequate profitability (or economic obsolescence) will therefore necessarily have regard to a longer term projection of expected cash flows rather than those experienced in the start-up phase.

Observation and analysis of sales of comparable businesses may be helpful in determining whether the subject business can support the assessed values of the tangible assets.

It is recognised that Members may not have access to the information necessary to determine the value of a business as a going concern however it is prudent to investigate factors that may indicate economic obsolescence and discuss these with the client prior to drawing a conclusion as to the value of the assets. For instance it would be prudent for Members to inform themselves of the details of relevant discoverable information (such as a recent sale of the going concern business that owns the assets) which might alert the Member to the possible existence of economic obsolescence.

Members should be careful to individually assess all forms of obsolescence for each asset as different assets within the same business may be impacted differently by obsolescence.

Valuations determined having regard to all three forms of obsolescence under the cost approach will result in an unqualified opinion of market value of the asset.

In applying the cost approach to real property, the Member should assess the market value of the land and add the value of the improvements after assessing all forms of obsolescence (including economic obsolescence).

4.2.2 Guidance on the identification and quantification of obsolescence

Specialised assets are rarely leased and therefore, it is difficult to identify market rental income or income capitalisation rates from the market.

Whilst these assets are typically used to produce income, the income that is produced is consolidated in the overall business enterprise
income and as such is produced by a combination of real estate, plant and equipment, and intangible assets functioning together as an integrated going concern business.

It is often difficult therefore to separate this business enterprise income into the particular components that represent income in respect of the individual tangible assets.

Specialised assets do not sell regularly in the secondary market and as a result it is difficult to identify and analyse comparable sale transactions. Transactions involving the sale of specialised assets are relatively infrequent and when they do occur, the property, plant and equipment are sold as part of a going concern business. In such situations, the individual values attributable to the property, plant and equipment are typically not disclosed to the marketplace.

In some cases Members may have access to contracts of sale that provide an indication of the values attributed by the parties to the transaction to the individual assets. However such allocations may be arbitrary or influenced by other considerations such as tax and as a result may not be a true reflection of the value of each component.

For these reasons, the cost approach is commonly used to value specialised assets. The identification and quantification of all forms of obsolescence is a fundamental procedure in a cost approach valuation.

The quantification of functional and economic obsolescence is however often challenging for the following reasons:

- It is difficult to visually identify the existence and effects of functional and economic obsolescence.

- The data needed to quantify some forms of obsolescence are often only available from the owner of the assets and therefore independent verification may be difficult.

- With regard to economic obsolescence, the causes of the obsolescence are, by definition, factors that are external to the subject asset.

- The identification and quantification of some forms of obsolescence is often comparative in nature and therefore requires data in respect of both the subject asset and comparable assets.

Functional and economic obsolescence may be identified from reviewing financial documents or operational reports but may also be identified from comparison with and knowledge of comparable assets.

With regard to economic obsolescence, it will most likely be necessary to analyse asset-specific financial data in order to identify the causes of obsolescence.

Negative movements in gross margin can also be an indicator of economic obsolescence. The gross margin is represented by the difference between a business’ revenues and its cost of raw materials.

These inputs can be measured using units of production where the current year’s gross margin can be compared to previous years.

**Functional obsolescence**

Common examples of functional obsolescence include:

- excess operating/maintenance costs
- excess capital costs

Examples of excess operating costs include:

- the subject asset may require ten operators while a comparative asset only requires five.
- the subject asset may produce ten units per period while a comparable asset produces twenty units per period.
- the subject asset may produce more scrap/waste material than a comparative asset.

In each case the present value of the excess operating costs in terms of labour, efficiency or raw materials is used to arrive at a measure of functional obsolescence.

An example of excess capital costs is where the subject asset is considered to be over-engineered for its required function. This can arise where methods (and costs) of construction or materials of construction have improved (reduced) since the subject asset was originally put into service.

Functional obsolescence can be quantified and captured by:

- reducing value by an amount equal to the present value of the excess operating costs embodied in the subject asset(s)
- reducing value by an amount equal to the excess capital cost embodied in the subject asset(s)
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• reducing value by an amount equal to the estimated capital costs to cure the functional deficiency embodied in the subject asset(s)

Economic obsolescence

Economic obsolescence relates to a decrease in the value of an asset due to influences that are external to the subject asset and occurs when the asset owner can no longer earn an appropriate rate of return on the ownership/operation of the subject asset, (i.e. the asset does not meet the test of adequate potential profitability).

It is acknowledged that economic obsolescence is typically the hardest form of obsolescence to identify and quantify.

Because economic obsolescence is usually a function of external factors that affect an entire going concern business (i.e. all tangible and intangible assets) rather than individual assets, it is sometimes measured using the income approach or by using the income approach to help identify the existence of economic factors that may be having an impact on value.

When the operating level of an asset is significantly lower than its capacity, and this situation is expected to continue for the foreseeable future, this form of economic obsolescence can be measured using the cost approach.

In its simplest form this can be measured by adopting the cost-to-capacity concept. The economic obsolescence penalty can be calculated on a percentage basis by comparing the actual operating level to the rated capacity using the cost-to-capacity concept. The penalty factor is deducted after physical deterioration and functional obsolescence because economic obsolescence is independent of the asset(s).

This is based on the logic that a prudent purchaser will only pay for capacity that can be used profitably.

It should be noted that the cost of assets of different capacities tends to vary exponentially rather than linearly because of economies of scale.

For example, in the case of plant & equipment, the cost of a conveyor of 100 metres in length will typically be less than twice the cost of a conveyor of 50 metres in length (all other things being equal) due to the economies of scale available in constructing a larger asset.

4.3 Income approach

In assessing valuations of real property assets as part of a going concern business, capitalisation and discounted cash flow analysis (cash inflows and outflows) may be appropriate methods of valuation.

Whilst direct market evidence of sale prices may not exist for specialised assets, Members may use other market evidence or benchmarks to assess the value of assets as part of a going concern business, either in their entirety or as individual components.

Examples may include assessment of rents of specialised assets having regard to likely returns required within the market for assets employed within similar industry sectors.

In other cases capitalisation of net profit may be appropriate to assess the value of the entity as a going concern however Members are cautioned that valuations assessed on this basis include both tangible and intangible assets, and an apportionment may be required (refer Section 1.4).

There are few instances where the income approach can be used to value individual plant and equipment assets without also capturing other assets such as intangibles and working capital. The income approach may be able to be utilised for leased plant and equipment assets that generate an income stream or a group of assets that can produce a saleable product.

It is recognised however that it is rarely possible to identify an income stream and allocate it to individual assets. As a result, it is generally very difficult, if not impossible, to assess values for individual assets by reference to the income approach. It is also arguable that any cash flow based valuation will, by default, include more than just the plant and equipment assets.

5 Effective Date

This Guidance Note is effective from 1 August 2011.
1 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary, advice and recommendations to Members undertaking valuations of property, plant and equipment for insurance purposes.

1.2 Status of guidance notes
Guidance notes are intended to embody recognised “good practice” and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of “Professional Practice”.

1.3 Scope of this guidance note
This Guidance Note applies to Members undertaking valuations for insurance purposes. As there are many types of assets and various levels of reporting, Members should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This Guidance Note is not intended to outline methods of valuation of any particular type of asset but may comment on matters that should be addressed in reports in respect of certain property types or uses. Where appropriate, methods of valuation are covered in other Guidance Notes.

1.4 International Valuation Standards
This guidance note is intended to be consistent with the publication “International Valuation Standards 2007” as issued by the International Valuation Standards Committee (IVSC). However, there may be departures from IVSC Standards to reflect local law and practice.

1.5 The Role
Insurance valuation services are commonly required for one of the following reasons:

1.5.1 To determine the amount of insurance required for the purpose of establishing insurance cover (i.e. to assist in assessing declared value or sums insured).

1.5.2 To determine the sum to be paid following loss or damage as a result of an insured peril.

While this Guidance Note focuses primarily on insurance valuations for the purposes of determining the sums insured, a broad understanding of loss assessment following loss or damage is helpful. Furthermore, some Members provide loss assessment services.

In New Zealand, insurance valuations are also required as a basis for calculation of the Fire Service levy.

In addition to the responsibilities covered in IVS 1, IVS 3 IVA 2 and ANZVGN 1 the Member’s role (subject to the scope of work agreed with the client) is to advise:

- The reinstatement cost estimate and/or indemnity value estimate of the assets for insurance purposes at the date of valuation.
- Whilst risk managers and/or insurers commonly address factors that can or could impact adversely on the assets in respect of insurance issues, such as, upgrade requirements, loss of existing use rights, issues associated with party walls, proximity to nearby high risk activities, etc., Members can add value by attempting to quantify the adverse impact of risk or drawing the client’s attention to the need for reassessment should these risks eventuate.

The assessment of insurance valuations requires a broad range of professional skills and experience, such as for example:

- an appreciation of costs for the construction or supply of assets of a similar size and utility;
- an appreciation of demand and supply of building materials and labour, professional services and planning and building approval processes which determine the timeframe for rebuilding;
- an appreciation of installation and
commissioning costs and timeframes for plant and machinery insurance valuations;

• planning scheme provisions which could affect whether a building can be rebuilt in its present form;

• heritage issues;

• general insurance policy terms (including in particular difference between reinstatement and indemnity, inclusions and exclusions, co-insurance and averaging provisions);

• inflation on building costs;

• market rental values (for loss of rent or allowance for alternative accommodation);

• the size and extent of all improvements including building structures and ancillary improvements.

2.0 Common Insurance Policies and Terms

2.1 Background

The following information is provided to assist Members in understanding the common types of insurance policies available and some of the terminology commonly used in those policies, but members should be aware that each policy of insurance could be subtly or dramatically different in how it defines the terms discussed below. The mechanism by which values or costs of reinstatement are calculated will differ in each policy of insurance.

It is preferable for members to state whether they have or have not read or referenced the insurance policy associated with the property insured. If a policy has been referenced, a statement of any specific issues that have affected the member’s assessment should be noted, and if it has not been referenced, members should acknowledge the same and ensure that the basis of their assessment is clear to the party to whom the report is addressed.

2.2 Common Insurance Policies

There are many different types of insurance policies available. The most common policies relating to the insurance of buildings and contents are:

2.2.1 Common Householders Policy:

There are two main types of common householders policy:

a. Common policies where the insurer may elect to replace, repair, or indemnify in the event of a loss.

b. Replacement with new policies, which sometimes can have age provisions or can be regardless of age.

2.2.2 Industrial Special Risk (ISR) Policy.

The ISR policy is the most common policy for commercial/industrial insurance. This type of policy typically addresses many areas in addition to buildings and contents.

Both of the above types of policies are most commonly offered on the basis of reinstatement cost and/or indemnity value, however, other valuation bases such as reproduction cost or replacement cost can also apply.

2.3 Insured

The insured is a person or entity whose interests are protected by the insurance policy.

2.4 Situation

Situation is a term commonly used in insurance policies to refer to the specific location of the insured assets. The insured may have many situations covered by the same insurance policy.

2.5 Property Insured

Property insured is a term commonly used to describe the property that is covered under the insurance policy. Insurance policies typically provide insurance cover for all real and/or personal property of every kind and description, unless specifically excluded, belonging to the insured or for which the insured is responsible or has assumed responsibility to insure.

In some circumstances a property owner may self-insure some assets and these should be identified. The property insured also extends to all property in which the insured may acquire an insurable interest during the period of insurance. An insurable interest may result from the completion of an agreement to purchase an asset even though settlement may occur at a future time.

2.6 Declared Value and Sum Insured

Declared value and sum insured are terms used to describe the sum total of all property insured at each situation declared by the insured and calculated in accordance with the basis of
settlement including foreseeable expenses such as fees associated with planning, architects, surveyors, consulting engineers, legal advisors, etc.

2.7 Typical Policy Indemnity Cover

Typical policies provide that in the event of any physical loss, destruction or damage, which has not been specifically excluded under the policy, the insurer will indemnify the insured in accordance with the applicable basis of settlement.

The insurer will also typically indemnify the insured, in addition to the cost of rebuilding, for the following, provided the liability of the insurer does not increase beyond the limit of liability:

- Fees associated with the cost of rebuilding such as those applicable to architects, surveyors, consultant engineers, legal advisors, etc.
- Government fees and charges.
- Costs and expenses incurred for the purpose of extinguishing a fire at or in the vicinity of the property insured and threatening to involve such property.
- Costs associated with making the property safe after a loss.
- Costs of replacing locks, keys or safe combinations in appropriate circumstances.
- Costs and expenses necessarily incurred in respect of removal of debris.
- Damage to tools and clothing belonging to Directors and employees of the Insured whilst on the Premises.
- Temporary protection of undamaged property.
- Temporary repairs.
- Property of others for which insured is legally liable.

2.8 Indemnity Value

In placing the insurance cover the insured may elect to insure on an indemnity value basis. If the basis of insurance under the policy is indemnity value, or, in the event of a loss, if the insured elects not to replace/reinstate or repair the asset, then the insurer may make a payment on the basis of the indemnity value of the asset(s) at the time of the loss.

Indemnity value is typically defined as follows:

The cost necessary to replace, repair and or rebuild the asset insured to a condition and extent substantially equal to but not better or more extensive than its condition and extent at the time that the damage occurred, taking into consideration the age, condition and remaining useful life of the asset.

2.9 Reinstatement Cost

Reinstatement cost is typically defined as follows:

Where property is lost or destroyed, in the case of a building, the rebuilding thereof, or in the case of property other than a building, the replacement thereof by similar property in either case in a condition equal to, but not better or more extensive than its condition when new.

Where property is damaged: the repair of the damage and restoration of the damaged portion of the property to a condition substantially the same as, but not better or more extensive than its condition when new.

Members should ensure that the valuation does not give rise to betterment. That is, the valuation should not be based on a more substantial or superior property than that which existed when the property was new.

2.10 Extra Cost of Reinstatement

Policies for buildings and site improvements typically extend to include the extra cost of reinstatement of damaged property to comply with the requirements of building regulations in place at the time the loss occurs.

This extension is typically subject to the following provision:

The amount of the claim cannot include the cost of complying with a requirement which existed prior to the loss occurring and with which the insured was required to comply.

As a general rule the insurer will only insure the assets as they exist, not as they may be replaced. The reason for this is the incidence of a partial loss where repairs are made to the existing structure. However, it may not be possible to reinstate an existing structure following a loss because it no longer complies with current building and fire regulations or other statutory encumbrances.

Insurers therefore allow the insured to insure for the extra costs associated with complying with these regulations.
2.11 Reinstatement Rights/Existing Use Rights

In the event of a total loss and where as a result of the exercise of statutory powers by a regulatory authority, the reinstatement of a building as it existed prior to the loss may be prohibited or restricted, the insurer may pay in addition to any other amount payable on reinstatement of the building the difference between:

- the actual cost of reinstatement; and,
- the cost of reinstatement if it were not prohibited or restricted.

Any payment made for the difference between (a) and (b) above would be made as soon as the difference is ascertained upon completion of the rebuilding works. In a number of policies this provision is only in respect of the floor space ratio index or plot ratio.

2.12 Co-insurance Clauses

Co-insurance clauses provide that, if at the time of the loss the value of the property insured exceeds the amount of cover, the insured is considered to be self-insuring for the difference in value and therefore bears a rateable proportion of any loss (including a partial loss). This process of sharing a rateable proportion of the loss is also referred to as averaging.

2.13 Limit of Liability

Insurance policies often include a limit of liability. Members are not usually required to assess this amount directly. The limit of liability is the amount representing the maximum liability of the insurer for any one loss or series of losses arising out of the one event at any insured situation. It therefore includes the total cost of reinstatement from the time that the policy commences up to the time reinstatement takes place after a loss.

In the worst case scenario, a loss could occur on the last day of the insurance period. The limit of liability would therefore include the reinstatement cost at the start of the policy, plus the reinstatement inflation for the policy period and the lead time and rebuild period, plus the cost of demolition.

2.14 Fiduciary Interests

Members should be aware that other parties, for example, lessors, financiers, trustees, mortgagees and the like, may have interests in the property insured and should act in the knowledge that liability may extend to those other parties. If a member does not wish to extend their liability to parties other than the person who has commissioned the valuation for insurance purposes then the member should include an appropriate disclaimer.

3.0 Instructions

3.1 Instructions from Client

As with any other valuation, the scope of work, basis of value, effective valuation date and any other factors relevant to the valuation should be agreed and confirmed with the client.

Ideally the client will provide the Member with a copy of the insurance policy which will detail the basis of insurance and extent of inclusions and exclusions under the policy.

In the event the Member is not provided with a copy of the policy it would be prudent for the Member to obtain clear instructions from the client confirming the scope of the work and any special inclusions or exclusions that are required. In circumstances where this is not possible the Member should state within the insurance valuation report the basis of assessment (e.g. reinstatement or indemnity) and the extent of inclusions and exclusions within the insurance valuation.

It is recognised that in many cases Members will be asked to prepare insurance valuations without the benefit of insurance policies. These situations include where a client is yet to select an insurer or policy, or where a Member has been asked to provide an insurance valuation in addition to a market valuation on behalf of a third party (i.e. not the insured).

Members may be asked to provide an insurance valuation as part of a valuation for mortgage security purposes, under instructions from a financier, in order to ensure the interests of the financier are appropriately insured. In these circumstances it is unlikely the Member will have access to insurance policy terms and the Member should qualify the valuation in terms of inclusions and exclusions having regard to typical insurance policy terms for that type of asset.

In the event a Member has been engaged to assess an insurance claim under an existing insurance policy, it would be prudent for the Member to request and consider the terms and conditions of
the actual insurance policy. When considering the terms and conditions of the actual insurance policy it may be prudent for the member to obtain legal advice as to the operation of particular clauses within the policy.

4.0 Assessing Reinstatement Cost

Reinstatement cost is sometimes referred to as the cost of reinstating an asset to an as new condition or new for old. The reinstatement cost notionally assumes a total loss.

In the case of a partial loss, reinstatement cost also covers the cost of repairing the property insured to its condition when new. The extent of damage and therefore the cost of repairs cannot be anticipated prior to an actual loss occurring. The cost of repairs may be more or less than the reinstatement cost of the property insured.

To the extent the estimated cost of repairs is greater than the estimated cost to completely replace or reinstate the property insured, it is to be assumed that the insurer would seek to completely replace or reinstate rather than repair the property insured. In any case, the assessment of repair costs is typically within the area of expertise of a loss adjustor or loss assessor and can only be completed after a loss has occurred.

It can be seen therefore, that seeking to estimate the costs of repair is neither possible nor relevant when completing valuations for the purpose of setting the amount of cover.

In completing valuations on the basis of reinstatement cost a valuer should consider the items below.

4.1 Reinstatement Cost Estimates

There are a number of ways of providing an estimate of reinstatement cost for buildings, structures and site improvements. Two of the more common approaches are:

• an estimate based on building cost guides; and

• an estimate based on elemental costs.

In the former the estimate of reinstatement cost is based on construction cost rates (typically, but not always, rates per square metre) published in building cost guides and/or construction contract rates. This commonly used method is intended to provide indicative cost estimates. Elemental building cost estimates determine the construction cost of a building, structure or site improvement by reference to the estimated cost of the individual components or elements of that building, structure or site improvement. The application of such an approach requires specific training and knowledge.

Members who are qualified to complete elemental cost estimates typically obtain detailed building plans and specifications or gather such information from a physical inspection of the site to assist in the accuracy of the determination. Where information is available, recent constructions of a similar nature may assist to determine the appropriate cost for each element. Consideration should be given to the reliability of evidence available and the information assessed in terms of comparability to the subject asset.

All other things being equal an elemental cost estimate is likely to produce a more robust cost estimate than an estimate based on building cost guides as is evidenced by the statement that the latter is intended to provide an indicative cost estimate.

In applying the selected method(s), Members should have regard to the following factors (if quantifiable):

• Specific materials used in the building (e.g. mixture of stone, brick, plasterboard, etc.)

• Location factors (e.g. remote or rural sites v metropolitan)

• Design of building including soil type, special footings, etc.

• External dimensions of a building (some cost guides relate only to internal building measurements)

• All fees associated with reconstruction including architects, survey and engineering fees

• Cost increases/decreases between the date of issue of published cost guides and / or the date of construction contracts, and the date of valuation

Valuations undertaken in non-metropolitan and remote areas would usually reflect regional costs associated with labour and materials. It may be possible to estimate the location factor by investigating local construction costs and / or by examining a sample of costs and relating them to known costs.

In respect of common householder policies, unless specifically excluded, the following items are required to be included in the determination of the
insured value for buildings:
• Building shells and services
• Fixtures
• Walls
• Gates and fencing
• Paving
• External signs and lighting
• Radio and television masts and antennae
• Other improvements
• Underground tanks
• Services and connections including supply mains and meters

In the case of industrial premises items such as masts, antennae, underground tanks and other similar items of equipment are more commonly included as part of the insured value of plant and equipment.

Unless specifically excluded under the terms of the policy or other legal requirement all site improvements should be specified and included in the sums insured.

Where there is plant and equipment and/or other services associated with a building, or where various components of the buildings, plant, equipment and other services are being assessed separately by different valuation specialists, it may be necessary for the different valuation specialists to confer to ensure that no components are either missed or double counted.

The reinstatement cost for plant and equipment should be based on the replacement cost of currently available equipment, including costs of transport, installation, commissioning, consultants’ fees, engineering, procurement and construction management (EPCM) costs and non-recoverable taxes and duties. Design, EPCM and other similar costs (sometimes referred to as ‘common distributable costs’) are considered from the point of view of the reconstruction of a complete facility, rather than the cost of the original assets.

Members should be aware that the insurance basis for Heritage Assets (refer section 6.6 of this Guidance Note) may require a reproduction or replication based assessment.

4.2 Fees and Contingencies

Members should assess in each case the extent of involvement of professionals such as architects, surveyors, consultant engineers, etc. and where applicable, should include an appropriate allowance for their fees.

4.3 Lead Time

Lead time is the period of time after a loss occurs when the remaining improvements are demolished, plans and specifications of the replacement building are drafted and agreed upon, appropriate approvals are sought and obtained from the appropriate authorities and all matters are completed in preparation for rebuilding.

To the extent it is included within the agreed scope of work cost increases during this period need to be calculated. As this is a future estimate, it will require suitable qualification and a disclaimer. For plant and equipment, the unpredictability of future cost inflation/deflation, especially that caused by foreign exchange rate fluctuations, means that any such allowance is subject to significant potential estimation error and, if provided, should therefore be suitably qualified and subject to a disclaimer.

For this reason Members may elect not to provide such an estimate.

For plant and equipment that is located within a building, in the event of a loss, the building will usually have to be replaced before the plant and equipment can be replaced. Therefore, the total lead time allowance may need to also include the building lead time.

Whether the valuation is to include an allowance for cost increases during lead time will be determined by the scope of work agreed between the Member and the client. The valuation report should state whether the values reported are inclusive or exclusive of such costs.

4.4 Reconstruction Period

The reconstruction period is the period from the time building approvals have been obtained to completion and handover of the new facility. To the extent it is within the agreed scope of work, cost increases during the reconstruction period need to be calculated.

For plant and equipment only, it is not common place to include such items in the scope of work, however, where it is to be provided, it is noted that:
• For substantial installations, a lengthy period of time may be required whilst the plant is constructed, installed and commissioned.

• Cost increases should be included only to the extent that the building or plant and equipment is completed in various stages. Members should consider each element of construction to determine what allowance for cost increases should reasonably be made. As this is a future estimate it will need suitable qualification and a disclaimer.

• For plant and equipment that is located within a building, in event of a loss, the building will usually have to be replaced before the plant and equipment can be replaced. Therefore, the total reconstruction period allowance may need to also include the building reconstruction period.

• The unpredictability of future cost inflation/deflation, especially that caused by foreign exchange rate fluctuations, means that any estimate of the reconstruction period is subject to significant potential estimation error and if provided, should therefore be suitably qualified and subject to a disclaimer. For this reason, Members may elect not to provide such an estimate.

Whether the valuation is to include an allowance for cost increases during the reconstruction period will be determined by the scope of work agreed between the Member and the client. The valuation report should state whether the values reported are inclusive or exclusive of such costs.

4.5 Demolition and Removal of Debris Estimate

Where possible, and to the extent it is within the agreed scope of work, the cost of demolition and removal of debris should be estimated by having regard to any known demolition and removal costs for similarly constructed assets in the locality, and/or demolition costs published in building cost guides. Members should have regard to the relative difficulty of demolishing and removing the asset.

Consideration should be given to any generally known presence of asbestos or similar hazardous materials - particularly the potential for asbestos to contaminate the site and surrounding areas in the event of major damage to the property. If available an asbestos report should be obtained or noted if not available. Difficult access to a site may also be a factor that should be noted and addressed. Members should assume that all assets would be destroyed in a loss situation and would require removal prior to reinstatement.

Whether the valuation is to include an allowance for demolition and debris removal will be determined by the scope of work agreed between the Member and the client. The valuation report should state whether the values reported are inclusive or exclusive of such costs.

4.6 Goods and Services Tax (GST)

GST is payable on building costs, plant & equipment and professional fees, however, the manner in which a claim is settled may determine whether it is possible to claim the GST back as an input tax credit. For example, most insurers are eligible to claim back GST paid, however, the GST status of the insured may determine whether the insured is able to claim back GST paid. For most industrial and commercial assets, GST is therefore not typically included as either the insured and/or the insurer will generally be able to obtain the benefit of the input tax credit.

Accordingly, Members should clearly state whether the values reported include or exclude GST.

4.7 Heritage Assets

A heritage asset is one that is deemed worthy of preservation usually because it is a good example of its type, has historical, cultural or environmental significance, rarity, or a combination of these factors. Where a heritage asset has been officially designated as such by relevant heritage authorities, legislation may prevent renovations, modifications additions and the like by imposing strict requirements and lengthy approval processes. Many governments have enacted measures to safeguard specific historic properties or to protect whole areas/precincts of special architectural or historic interest.

In the case of a total loss where a heritage building has been destroyed along with the element of heritage to be preserved, then the historic significance is likely to have been lost.

In such circumstances heritage restrictions may then be lifted and the owner may be at liberty to replace the building or redevelop the site as per planning requirements, unaffected by heritage issues on the subject property.
However the risks arising from partial losses are heightened in heritage assets, given heritage legislation may require making good of damaged areas and this may require repairing or reproducing every component of the building in a style and form of construction that most closely resembles the remaining original structure. Increased costs may be incurred due to the engagement of suitable trades people, such as those skilled in stone masonry, iron tracery and stained glass, etc.

Given the risks of increased costs of reinstatement in the event of partial claims sums insured are therefore typically determined using a reproduction cost basis (i.e. the cost of rebuilding the structure as it exists allowing for all extra costs of reinstatement). This method establishes the current cost of reproducing every component of the building in a style and form of construction most closely resembling the original.

In completing valuations of heritage assets Members should consider likely increased lead times, higher constructions costs and professional fees. Members may also need to consider implications in terms of reinstatement/existing use rights or planning controls within heritage precincts (whether the subject building is or is not heritage listed).

In some instances, an owner may have the option to replicate rather than reinstate with a modern equivalent asset, even though replication may not be compulsorily required in the event of a loss, and will obtain an insurance policy that provides this basis of settlement. If this is the case, Members will require clear instructions as to the basis of assessment. In such cases, the asset will need to be insured and valued on a reproduction cost basis.

4.8 Other Related Bases of Value

This Guidance Note outlines the bases of value most commonly adopted in insurance policies in Australia and New Zealand. Numerous other bases of value are used by insurers. Whilst it is impossible to provide an exhaustive list here, the following definitions of reproduction cost and replacement cost are included as they provide a useful reference.

Reproduction cost - The IVSC defines reproduction cost as:

The current cost of reproducing a new replica of the asset being appraised using the same, or closely similar, materials.

Replacement cost - The IVSC defines replacement cost as:

The current cost of a similar new asset having the nearest equivalent utility as the asset being appraised.

It is clear therefore that it is important for Members to ascertain which basis of value applies before commencing the valuation.

5.0 Assessing Indemnity Value

The common definition of indemnity established in case law is the loss that would be suffered by the insured in the event the asset was destroyed. This can be, but is not necessarily, the market value of the asset destroyed or damaged.

The measure of loss in the event an asset is destroyed can be estimated using either a market comparison approach or a depreciated replacement cost approach, depending on the nature of the asset, client instructions and the circumstances.

It is recognised that a single insurance valuation which covers multiple assets (for example, plant and equipment valuations may include both specialised and non-specialised assets) may require both types of approach to assessing indemnity value. Equally, Members may be requested to undertake a market-based estimate of indemnity value and/or a depreciated replacement cost estimate of indemnity value.

However established the indemnity value assessment should take into consideration the age, condition and remaining useful life of the asset.

In the case of insurance, useful life is not synonymous with economic life, but rather only reflects physical life. The insured is entitled to insure the remaining physical life of an asset, even though the economic life may have expired.

Therefore, the determination of indemnity value using a depreciated replacement cost approach requires in the first instance, the assessment of reinstatement cost and then an assessment of the likely physical life of the asset and the life expired. The expected physical life of an asset is assessed on the basis that reasonable maintenance is carried out to preserve the existing use.

Members should consider the expected life of assets in the location of the valuation and elsewhere as appropriate.

It is common practice to apply a straight-line method of depreciation when determining indemnity value, (especially in respect of specialised buildings, structures, plant and equipment) which assumes that the remaining service potential of the asset is used up at a constant
rate assuming reasonable maintenance. However, there are types of plant and equipment, particularly those that experience rapid technological and functional obsolescence, for which other methods including the diminishing value method, are more appropriate.

To the extent plant and equipment is valued on the basis of indemnity value using a market comparison approach, the indemnity value may comprise two components, depending on the nature of the asset. The first component is the cost of acquiring a comparable item of equipment from the second-hand market to which is added the (un-depreciated) cost of installing and commissioning that item.

Members should include reference within their report/covering letter that a depreciated replacement cost based indemnity value may not be the same as one determined using a market comparison approach, and in some cases, the difference might be material.

As for any other valuation, valuers should fully explain any assumptions, the methodology adopted and the reasoning that supports their conclusion as required by IVS 3. This will invariably require information, which should be included in the insurance valuation report or covering letter.

6.0 Report Content

6.1 Buildings

In addition to those items covered under IVS 1, IVS 3 and ANZVGN 1, (and with reference to section 2.5 of this Guidance Note) an insurance valuation report for buildings and site improvements should include, to the extent included within the agreed scope of work:

- A brief description of assets including a clear statement as to whether floor coverings, internal partitions, fit-out or other services are included in or excluded from the valuation.
- A reinstatement cost estimate and/or indemnity value estimate as at the date of inspection.
- An estimate of the cost of demolition and removal of building debris.
- An estimate of the cost increases during the policy period (this and the following two cost increase allowances are typically provided as separate inflationary estimates).
- An allowance for cost increases during the lead time, i.e. the period after a major loss when debris is removed, building plans are drafted and necessary approvals are obtained.
- An allowance for cost increases during rebuild period.
- A statement as to the treatment of GST.
- A statement of specific valuation exclusions such as plant, equipment tools, furniture, stock and materials in trade, and the costs of removal/disposal of these.
- Reference to the method and extent of fire protection services.
- A statement regarding the treatment of financing costs during reconstruction and whether it is assumed they are met by way of progress payments as costs are incurred.
- Any relevant qualifications and disclaimers, which includes comments upon any unverified information or assessments of future events.

Loss of rent/profits may also be required depending on the agreed scope of work.

6.2 Plant and Equipment

For plant and equipment assets, the report content should include or explain the following to the extent included within the agreed scope of work:

- A brief description of the assets.
- A reinstatement cost estimate and/or indemnity value estimate as at the date of inspection.
- An estimate of the cost of demolition and removal of plant and equipment debris.
- An estimate of the cost increases during the policy period (this and the following two cost increase allowances are typically provided as separate inflationary estimates).
- An estimate of the cost increases during the lead time, i.e. the period after a major loss when debris is removed, building plans are drafted and necessary approvals are obtained (often any buildings housing plant will have to be reinstated before the plant can be reinstated) plus any additional lead time associated with the plant reconstruction and installation. This period can be substantial. Because inflation and, if applicable, foreign exchange rate changes can be volatile, any such estimates will require qualification.
- The treatment of obsolete assets. It is common...
for obsolete or unused assets to be excluded from a valuation; where this is the case, this should be explicitly noted.

- An allowance for installation and commissioning costs.
- A statement as to the treatment of GST.
- A statement regarding the treatment of financing costs during reconstruction.
- Any relevant qualifications and disclaimers, which includes comments upon any unverified information or assessments of future events.

6.3 Location (situation)

The location (situation) of the insured property should be identified. An owner may have many locations (situations) covered by the same insurance policy. Additionally, all freestanding buildings on a site will usually be separately identified as they may represent separate insurance risks.

7.0 Other Issues

Large-scale catastrophes and disasters can result in unforeseen escalations in building and other related costs due to the high demand for building materials and labour. Declared values or sums insured are usually determined on the basis of a single loss and not in the context of a more widespread catastrophe such as an earthquake, flood or bushfire.

Because such events can give rise to shortfalls between the declared values or sums insured and the ultimate cost of reconstruction, Members may wish to include suitable disclaimers when completing valuations for the purpose of setting sums insured, excluding possible cost escalations arising from such catastrophic events.

8.0 Effective Date

This Guidance Note is effective from 1 October 2011.
Addendum A – Legislation and Other Matters Specific to New Zealand

A1.0 Legislation

Members should be aware that in New Zealand, the insurance valuation report provided may be used in the context of the following legislation:

A 1.1 Fire Service Act

In New Zealand the Fire Service levy is collected from the insured and it is generally calculated as a prescribed percentage of the indemnity value of the insured asset. Therefore it will usually be necessary for indemnity value to be assessed even though the insured may have insured on the basis of Reinstatement.

Indemnity is not defined in the Fire Service Act and, if it is assessed for Fire Service Levy purposes, should be assumed to have the same meaning as in the insurance industry and in insurance case law. Please refer to Section A2.11 for more detail in relation to the Indemnity Value estimates carried out for Fire Service Levy purposes.

Certain categories of property (mainly ancillary structures such as roads, paths, drains, bridges, tunnels, reservoirs, etc.) are exempted from the Fire Service Levy (refer Section 467B (Third Schedule) of the Fire Service Act). On a large site these may comprise a substantial portion of the total indemnity value. The insured may wish to have these assets identified separately, so as not to pay levies that are not legally required.

A1.2 Earthquake Commission Act

In New Zealand the Earthquake Commission Act (“ECA”) provides for cover against natural disaster. It applies only to residential property.

Cover under and the ECA may be based on the floor area and therefore insurance valuations of residential buildings should include the gross floor area for each individual unit within the insured property, either within the asset description or in the covering letter/report.

Furthermore, services within eight metres of the perimeter of an insured building are generally covered under the ECA. However, certain categories of property (such as roads, drives, bridges, culverts, drains, fences, swimming pools, septic tanks, etc., as per Schedule 2 of the ECA), are not covered.

Historically, in relation to site development, Members have commonly only included assets which are located within eight metres of the perimeter of the insured structure. However, the “eight metre” requirement only applies to residential structures referenced under the ECA.

Members should be aware that the “eight metre” requirement above, only applies to ECA cover, and should not be applied for general insurance cover, which is discussed more fully in this Guidance Note.

A2.0 New Zealand Insurance Form

A2.1 Insurance Form

The insurance form commonly used by PINZ and NZIV Members (both land and building and plant and machinery valuers) is attached as Addendum B. Generally:

- The purpose of the report is to provide useful information to clients as well as the insurance industry and in an easily recognisable summary format.
- Only those values or estimates required should be entered on the Valuation Report Form with a notation, ‘not required’ or ‘not provided’ placed against the other headings, where appropriate. The intention is to allow for a range of information tailored to the needs of the insurance industry.
- The opportunity exists for all valuers to liaise closely with clients so that useful and quality information will allow a decision to be made as to appropriate levels of insurance cover.
- There may be instances where the information provided in standard form is insufficient to meet client requirements. In such cases, a more detailed report should be provided.

A2.2 Asset Description

Members should include a brief description of the insured assets. For buildings, a general description of the main building(s), site development and essential construction components should be included.

For the purposes of the underwriters risk
assessment, Members are encouraged to identify the method of fire protection (for example, sprinkler system or heat/smoke detectors and automatic alarm) and this should be noted along with the extent of coverage (for example, warehouse/office/canopies). For commercial buildings, the valuation should state whether floor coverings, heating ventilation and air conditioning services, internal partitions or other fit-out are included or not.

All freestanding buildings on a site should be separately identified as they represent separate insurance risk.

A2.3 Upgrade Requirements

Due to ongoing legislative changes, many buildings will not comply fully with building ordinances and the like. The modern equivalent asset assumption is intended to embody upgrade requirements without necessarily explicitly addressing compliance deficiencies. Typically, it will be helpful to summarise major differences between the insured asset and the modern equivalent asset under the heading Upgrade Requirements.

A2.4 Age

This is the earlier of the estimated year of completion of the asset or the commissioning date. The year of any significant upgrade or addition should be noted.

A2.5 Land Contour (Building valuations only)

This is a classification of the land contour containing the building/s and immediate yard areas. To ensure uniformity, classification should correspond in general terms with those specified in the text, Urban Valuation in New Zealand, Volume 1, 1991 by Rodney L Jefferies, published by PINZ, PO Box 27-340 Wellington. (page 9.14).

A2.6 Subsoil Type (Building valuation)

This information is required by Underwriters as a broad indicator of seismic stability. The perception gained from the definition can have a significant impact on insurance cost particularly in earthquake prone areas throughout New Zealand. It is important to discuss this aspect with your client and where potential penalties could arise; the insured should be encouraged to seek more detailed information from the Local and Regional Authority or engineering specialists. An entry should only be made in this portion of the report when the valuer has accurate knowledge as to the sub-soil type.

A2.7 Other Known Characteristics

These will include any items not otherwise covered within the report, which will be of assistance to the client and/or insurers and should only be detailed when information is known on the particular characteristics e.g. locational factors, surrounding property uses, etc.

A2.8 Use/Occupation

This should include a short description of the main site use. Where mixed use occurs, e.g. commercial/residential, this should be recorded. Members should be aware that the use of insured property is an important factor for insurers.

A2.9 Reinstatement Cost Estimate (1.0 A)

This definition on the reverse of the form has been redefined in line with common insurance valuation practice in New Zealand as:

“an estimate of the cost, as at the date of valuation, including relevant fees, of replacing the asset with a new modern equivalent asset, including where appropriate the use of current equivalent technology, materials and services. This is intended for the purpose of assisting the parties to the insurance contract in negotiating insurance premiums and, unless specified elsewhere, is not based on a detailed elemental and schedule of quantities approach as would be undertaken by a quantity surveyor or costing engineer. In construction unanticipated problems often arise and actual rebuilding, repair or replacement costs may vary from the estimate.”

However, Members who have suitable experience and relevant information may undertake a more detailed, elemental, (see Section 4.1 of this Guidance Note) approach to estimating the Reinstatement Cost, and may provide an amended definition. If reproduction cost is provided (and where agreed with the client, the existing construction materials/methods are not modern materials/methods), then the standard Reinstatement Cost Definition will certainly require modification.

The Reinstatement Cost Estimate is only valid as at a particular date (generally the date of inspection) unless stated otherwise. Notwithstanding that for insurance valuation purposes, valuers may give
an indication of inflationary provision. Insurance values are not to be provided as at future dates as per IVS 3, AUSNZ 5.1.2.4.

Additional clarification is included to explain that the Reinstatement Cost Estimate does not include any allowance for catastrophic events (for example an earthquake) that may drive up replacement costs within a locality by increasing demand for repairs and rebuilding and creating an unusual shortage of labour and materials.

Members should note that no specific identification is made in the Reinstatement Cost Estimate of the cost of different materials and additional services. Should separate identification and calculation of costs be required, then this should be supplied on request. However, for any major items required, including a summary of such items may be appropriate.

A2.10 Inflationary Provision (Reinstatement Cost) (1.0 B)

This should include for cost inflation during the lead time and construction period. It should be noted that no allowance is to be made for any delay due to the need to comply with the provisions of the Resource Management Act including possibly the requirement to reinstate on an alternative site. All inflationary estimates provided should be suitably qualified.

A2.11 Indemnity Value Estimate

The valuation covering letter / report should reference the methodology applied in assessing indemnity value, acknowledging the comments referenced in Section 5.0 of this Guidance Note. A suggested explanation of the approaches to indemnity is provided as follows:

(1) Market Related Estimate (2.0 A)

Market related value is 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.

For buildings, this excludes any land, and will be the added value that the asset gives to the market value of the land (assuming that, if appropriate, the property is leased at market rental). Should the insured wish to have

indemnity estimate based on actual income, then this must be stated by the valuer. This situation may arise for property which is over or under rented and where the client specifically requires rent recognition.

For plant and machinery, personal property and loose chattels, market related value equates to the cost of a second hand equivalent asset plus the (un-depreciated) cost of installation and commissioning (if applicable), as at the date of valuation.

(2) Depreciated Replacement Cost (DRC) (2.0 B)

For buildings, DRC this is the current cost of replacing an asset with its modern equivalent less deductions for age and physical deterioration.

For plant and equipment, DRC is the current cost of replacing an asset with its modern equivalent asset, less deductions for age, physical deterioration and technical and functional obsolescence, taking into account the total estimated life of the asset and anticipated residual value (if any). The value does not allow for economic obsolescence (if any).

Members may be requested to undertake a market related indemnity value estimate and/or a depreciated replacement cost estimate; the New Zealand Insurance Form (Addendum B) provides two options for reporting indemnity, being 2.0 A Market Related Value and 2.0 B Depreciated Replacement Cost. Where Depreciated Replacement Cost is provided, as is common for example with valuations completed for Fire Service Levy purposes, and the Member considers that this figure is not consistent with a Market Related Estimate, a clear statement noting this disparity should be provided in the covering letter/report accompanying the Insurance Form.

A2.12 Inflation Provision (Indemnity) (2.0 C)

If cost inflation is likely to exceed the depreciation over the insurance period, (usually one year) an allowance for indemnity inflation is necessary. Some asset classes, for example, computer equipment, are unlikely to experience cost inflation in excess of depreciation over the same period, but indemnity inflation is common for buildings and other assets that depreciate slowly.
A2.13 Functional Replacement Cost (3.0 A)

Functional Replacement Cost is the estimated cost required to replace all assets with new assets that perform similar tasks but under optimum current design and layout conditions with capacity requirements not greater than currently available.

This would apply to assets unlikely to be reinstated to the same extent, or to the same design or construction material as existing. This would be required when demand necessitates a smaller or different asset due to changes in technology, economics and other factors. Examples could be a dated, two-level, freezing works, which would better be replaced by a single level structure, through to a two-story retail/office building in a district where there is no demand for first floor office space and the ground floor retail would therefore likely only be replaced.

A2.14 Demolition Estimate (4.0)

This normally assumes that the total asset to be demolished has been damaged beyond repair. The Demolition Estimate covers the cost of demolition and removal as debris of the asset, excluding the cost of removal of any noxious materials such as asbestos, or removal of debris on adjoining premises. Where there is generally known presence of asbestos or similar hazardous material, this should be noted. If allowance is required to be made for the salvage or removal of fixtures, fittings and contents, then this should be specified and referred to in an attached letter. This could also apply to undamaged plant which must be removed from the property if considered necessary.

The Demolition Estimate does not include for shoring up any structures, either on the insured property or neighbouring properties. Furthermore, it does not include for the removal of building contents.

A2.15 Site Improvements

The Reinstatement Cost Estimate, Indemnity Value Estimate and Functional Replacement Cost figures, if required, should relate to the asset(s) together with other assets within or adjoining the structure, as referenced in Section 4.1 of this Guidance Note.

A2.16 Valuer’s Signature, Qualifications and Name

These must be clearly stated. If the letterhead logo of the NZIV or PINZ is used, the name of the Member’s firm or organisation should also be shown at the bottom of the report. This would not be required if the company’s letterhead is used.

A2.17 Valuation Date

This is the effective date of valuation, which will usually be the date of inspection. Members should avoid statements that the value is valid for periods in the future. Only the inflation estimates may be estimated for a future period. Members must follow the provisions of IVS 3, particularly AUSNZ 5.1.2.4 Date of Valuation.

A2.18 Lessee’s Improvements

The valuation figures should exclude items installed and paid for by a lessee, unless requested by the client and detailed in the asset description. For buildings, the asset description should also state whether the valuation report includes any plant or equipment.

A2.19 Disclosures

The Valuation Report should also disclose any key assumptions and explain the reasons for the adoption of the particular methodology or methodologies utilised.
Addendum B - New Zealand Insurance Form

VALUATION FOR INSURANCE PURPOSES

Name of Client:
Address of Assets:
Asset Description:

Upgrade Requirements:

Age: Use/Occupation:
Land Contour: Subsoil Type:
Other Known Characteristics:

1.0 REINSTATEMENT
   A. Reinstatement Cost Estimate
   B. Inflationary Provision

2.0 INDEMNITY
   A. Market Related Estimate
   B. Depreciated Replacement Cost
   C. Inflationary Provision

3.0 FUNCTIONAL REPLACEMENT
Refer to valuation report/letter for the specification of the functional design
   A. Functional Replacement Cost
   B. Inflationary Provision

4.0 DEMOLITION ESTIMATE

VALUER’S SIGNATURE: QUALIFICATIONS:
NAME & COMPANY:
VALUATION DATE:

Please note: this report summary must be read in conjunction with the attached covering letter/report.

(a) All figures quoted are exclusive of Goods & Services Tax, finance costs and other indirect costs.
(b) All figures are exclusive of any allowance for land value.
(c) This form must be read in conjunction with the definitions of terms on the reverse hereof.
(d) The information in this report has been prepared to establish insurance values and may not be used for other purposes without the written consent of the Valuer.
(e) All figures assume compliance with building regulations and bylaws.
Definitions of Insurance Valuation Terms

The following definitions pertain to and form an integral part of the Valuation on the reverse hereof.

### General

<table>
<thead>
<tr>
<th>Name of Client</th>
<th>Normally the insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>Physical location, including street address at which the assets are situated.</td>
</tr>
<tr>
<td>Asset Description</td>
<td>General description giving sufficient detail to identify the range of assets encompassed in the valuation including details of principal structure showing main construction materials. Any exclusions should be noted.</td>
</tr>
<tr>
<td>Upgrade Requirements</td>
<td>Typically, it will be helpful to summarise major differences between the insured asset and the modern equivalent asset.</td>
</tr>
<tr>
<td>Age</td>
<td>Estimated year of completion and dates of any major additions and upgrades.</td>
</tr>
<tr>
<td>Use/Occupation</td>
<td>Nature of main activity carried out at location.</td>
</tr>
<tr>
<td>Contour</td>
<td>Valuer's classification of the land contour containing building and immediate yard areas:</td>
</tr>
<tr>
<td>Subsoil Type</td>
<td>General classification of land supporting building and immediate yard areas:</td>
</tr>
<tr>
<td></td>
<td>1) Level</td>
</tr>
<tr>
<td></td>
<td>2) Gentle</td>
</tr>
<tr>
<td></td>
<td>3) Easy</td>
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<td></td>
<td>4) Medium</td>
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<td></td>
<td>5) Steep</td>
</tr>
<tr>
<td></td>
<td>6) Other – as specified</td>
</tr>
</tbody>
</table>

### Reinstatement

| A. Reinstatement Cost Estimate | Is an estimate of the cost at date of valuation (including relevant fees) of replacing the asset with a new modern equivalent asset, including, where appropriate, the use of current equivalent technology, material and services. This is intended as a guide for the purpose of setting insurance premiums and, unless specified elsewhere, is not based on a detailed elemental and schedule of quantities approach as would be undertaken by a quantity surveyor or costing engineer. In construction, unanticipated problems often arise and actual rebuilding, repair or replacement costs may vary from the estimate. In the case of partial destruction no specific allowance has been made for any additional requirements that any Council, Government or other Authority may require as additional expenditure to upgrade, alter or amend the undamaged portion of the asset. Reinstatement does not allow for cost escalation due to a catastrophic event causing a general or localised surge in demand for new assets or rebuilding/repairs. Where an asset has elements of an historic or heritage nature, unless otherwise specified, reinstatement does not include for reproduction of the existing asset with the original heritage features, but allows for a modern asset of similar size. |
| B. Inflationary Provision | This amount has been estimated on the basis of a loss occurring on the last day of a 12 month insurance period, if appropriate. The inflation provision under 1.0B and 3.0B incorporates an allowance for the additional time required for damage inspections, demolition, preparation of new preliminary proposals and their approval by the Territorial Authority, preparation of working drawings and specifications, schedules of quantities, in addition to an estimated period of construction contract. No allowance is made for any delay due to the need to comply with the provisions of the Resource Management Act. All inflationary provisions are future projections, based on recent trends and are given without prejudice. Inflation and in particular, foreign exchange rate fluctuations affecting imported assets, are notoriously difficult to predict and the valuer cannot be responsible for any inaccuracy. |

### Indemnity

| A. Indemnity Value Estimate | Is an estimate of the loss that would be suffered by the insured in the event the asset was destroyed. This may be assessed using the Sales Comparison approach, Income Approach or the Depreciated Replacement Cost approach, as appropriate. (See valuation report for guidance). |

### Functional Replacement

| A. Functional Replacement Cost | Is the estimated cost required to replace all assets to perform similar tasks but under optimum current design and lay-out conditions with capacity requirements not greater than currently available. The value of any partial loss has been disregarded in this context. |

### Demolition Estimate

| For the purpose of valuation, it is assumed that 100% of the assets have been damaged beyond repair and have no salvage value. Unless otherwise noted in the valuation covering letter, Demolition Estimate covers the cost of demolition and removal as debris of the assets valued only excluding the cost of removal of any noxious materials, or removal of debris on adjoining premises. The Demolition Estimate does not include for: |
| 1) shoring up any structures, either on the insured property, or neighbouring properties |
| 2) the removal of building contents. |
This Guidance Note should be read in conjunction with International Valuation Application 1 (IVA 1) & International Valuation Guidance Note 8 (IVGN 8)

1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members producing valuations of property, plant & equipment assets (including heritage and infrastructure assets) for use in Australian financial reports and to assist users of those financial reports to understand the basis upon which property, plant and equipment valuations are undertaken.

1.2 Objectives
The objectives of this Guidance Note are to:
- Provide guidance to Members when preparing property, plant and equipment asset valuations for use in financial reports; and
- Assist users of financial reports to understand the basis upon which property, plant and equipment asset valuations are undertaken.
- Address general concepts and principles for use in the preparation of valuations for use in financial reports.

1.3 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.4 Scope
This Guidance Note applies to Members valuing property, plant and equipment assets for use in Australian financial reports.

This Guidance Note does not apply where a valuation is undertaken for purposes other than for use in Australian financial reports.

1.5 Development of Accounting Standards
The development of accounting standards involves an extensive process, including the preparation and publication of discussion papers and exposure drafts, and extensive industry consultation, by the Australian Accounting Standards Board (AASB).

1.6 Relationship to Accounting Standards
Australian Standards issued by the AASB have the force of the Corporations Law.

1.7 Financial Statements
Financial statements report the assets, liabilities, equity, revenues, expenses (the “elements” of financial statements) and cash flows of the entity.

1.8 Materiality
Accounting Standards are subject to the concept of materiality which is defined to mean “in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the entity”.

Members should reflect this concept when completing valuations for financial reporting purposes.

2.0 Accounting Framework

2.1 Introduction
The 2005 AASB accounting standards apply to annual reporting periods beginning on or after 1 January 2005. This Guidance Note has been developed to reflect with the adoption of the Australian equivalents to International Financial Reporting Standards.
In the Australian context it is important to consider the relationship between Australian Standards and International Standards.

The International Accounting Standards Board (IASB) was charged with preparing a set of International Financial Reporting Standards in 2000. The intention was to develop a single set of Accounting Standards that would be accepted by capital markets worldwide.

The International Valuation Standards Committee (IVSC), has formulated and published, in the public interest, valuation standards and promotes those standards for worldwide acceptance and observance. IVSC valuation standards have been developed for the procedural guidance of the valuation of assets for a variety of purposes including for use in financial statements and to harmonise standards amongst the world states and bring uniformity.

The IVSC works closely with the IASB and other international bodies such as the International Federation of Accountants, International Organisation of Security Commissions and BASEL Committee on Banking supervision. The IVSC also provides advice and counsel relating to asset valuation to the accounting profession.

The IVSC has developed International Valuation Standards 7th Edition, 2005, the relevant sections of which comply with the International Financial Reporting Standards as at 1 January 2005. In its press release regarding the publication of its new standards dated 9 February 2005, the IVSC stated:

“In 2004 the International Accounting Standards Board (IASB) made a number of significant changes to the Accounting Standards concerned with Real Estate and other fixed assets as part of its own improvements project. The IVSC revised its standards for the 2005 edition to reflect these changes.

The two standards most affected by the revised International Financial Reporting Standards are International Valuation Application 1 – Valuation for Financial Reporting; and International Valuation Guidance Note 8 – The Cost Approach for Financial Reporting – DRC.

In Australia the Corporate Law Economic Reform Program Act of 1999 established the basis for new standard setting arrangements as a part of the Commonwealth Government’s Corporate Law Economic Reform Program.
The table below shows the relationship between the previous and new standards:–

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2.2 International Valuation Standards

The International Valuation Standards Committee (IVSC) publication International Valuation Standards 2005, discusses the term Fair Value at paragraph 8.1 (Pgg 31-33) of General Valuation Concepts and Principles by stating:

“The expression market value and the term fair value as it commonly appears in accounting standards are generally compatible, if not in every instance exactly equivalent concepts. Fair value, an accounting concept, is defined in international financial reporting standards and other accounting standards as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Fair value is generally used for reporting both market and non-market values in financial statements. Where the market value of an asset can be established this value will equate to fair value.”

2.3 AASB 116 – Property, Plant and Equipment

This standard prescribes requirements for the recognition, measurement at recognition and measurement after recognition, and de-recognition of property, plant and equipment assets. After recognition as an asset, an item of property, plant & equipment is measured using the cost model or the revaluation model (at fair value).

The objective of AASB 116 is to prescribe the accounting treatment of property, plant and equipment so that the users of any Financial Report may discern information about the entity’s investments in its property, plant and equipment and any changes in such investments.

The standard also prescribes requirements for depreciation of property, plant and equipment assets.

AASB 116 is equivalent to IAS 16 Property, Plant and Equipment issued by the IASB.

Current Australian standards require heritage assets to be recognised as they satisfy the definition of property, plant and equipment. Therefore AASB 116 applies to heritage assets.

2.4 Relationship with Other Standards

AASB 116 is related to other standards which consider the Fair Value concept in certain specific areas. Depending on the classification of an asset it may be necessary to consider asset valuation requirements of the following:-

- AASB 117 – Leases;

It is noted that AASB 117 may apply to the disposal of an asset by way of sale and leaseback. This is important in considering the valuation of an asset by way of sale and leaseback where necessary (Refer definitions under Addendum “A” of IVA 1).

- AASB 136 – Impairment of Assets;

The main requirement of this standard is to ensure that assets are carried at amounts that are not in excess of their Recoverable Amount. The requirement to test for impairment is the responsibility of the directors of the reporting entity.

The Recoverable Amount of an asset or cash-generating unit is defined as the higher of its Fair Value less costs to sell and its Value In Use. Value in Use is defined as the present value of future cash flows expected to be derived from the asset or cash-generating unit or, the depreciated replacement cost of the asset (when the future economic benefits of the asset of a not for profit entity are not primarily dependent on the assets
ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefit.

The standard also requires that where the Recoverable Amount of an asset is less than the assets Carrying Amount the Carrying Amount of the asset is reduced to its Recoverable Amount and the reduction is an Impairment Loss.

The standard also requires the immediate recognition of Impairment Loss as an expense in the Profit and Loss for assets carried at cost or in accordance with the revaluation accounting for assets carried out at the revalued amount.

• AASB 140 – Investment Property;

This standard requires an entity to measure an investment property after recognition at Fair Value or using the Cost Model specified in AASB 116. The standard applies to reporting periods beginning on or after 1 January 2005.

Investment property is defined as “Land or a Building or a Part of a Building or Both” held by the owner (or by the Lessee under a Finance Lease) to earn rentals or for capital appreciation or both rather than for:

(a.) Use in the production or supply of Goods and Services or administrative purposes; or
(b.) Sale in the ordinary course of business.

Owner occupied property is property held (by the owner or by the Lessee under a Finance Lease) for use in the production of supply of goods or services for administrative purposes.

• AASB 3 – Business Combinations

This standard requires business combinations to be accounted for by applying the purchase method. It requires an acquirer to recognise separately, at the acquisition date, the acquiree’s identifiable assets that meet certain recognition criteria, regardless of whether they had been previously recognised by the acquiree.

The standard requires the identifiable assets that satisfy the stipulated recognition criteria to be measured initially by the acquirer at their fair values at the acquisition date, irrespective of the extent of any minority interest.

• AASB 5 – Non Current Assets Held For Sale and Discontinued Operation.

This standard requires that assets that are classified as Held For Sale be measured at the lower of the Carrying Amount and Fair Value less costs to sell.

It also requires that assets that meet the criteria as being classified as Held For Sale be separately presented on the face of the balance sheet.

2.5 Fair Value

Fair Value is defined in AASB 116 as follows:-

“... the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.”

Fair value is considered further in non-mandatory “Australian Guidance” as an accompaniment to AASB 116 set out below.

Fair Value

G1 The fair value of an asset is the best estimate of the price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. The estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, or concessions granted by anyone associated with the sale.

G2 Underlying the paragraph 6 definition of fair value is a presumption that the entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Similarly, to determine the fair value of an asset, it is assumed that the asset is exchanged after an adequate period of marketing to obtain its most advantageous price. The fair value of an asset is determined by reference to its highest and best use, that is, the use of the asset that is physically possible, legally permissible, financially feasible, and which results in the highest value. Opportunities that are not available to the entity are not taken into account. Where it is the market’s assessment that it is rational to continue to use the asset, the revalued amount shall include estimated entry costs. Where the asset is held for sale AASB 5 Non-current Assets Held for Sale and Discontinued Operations applies.

G3 Where a quoted market price in an active and liquid market is available for an asset, that price represents the best evidence of the asset’s fair value. When a quoted market
price for the asset in an active and liquid market is not available, the fair value is estimated by reference to the best available market evidence of the price for which the asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. This evidence includes current market prices for assets that are similar in use, type and condition ('similar assets') and the price of the most recent transaction for the same or a similar asset (provided there has not been a significant change in economic circumstances between the transaction date and the reporting date). Current market prices for the same or similar assets can usually be observed for land, non-specialised buildings, used motor vehicles, and some forms of plant and equipment. For land and buildings, these prices can also be derived from observable market evidence (e.g. observable current market rentals) using discounted cash flow analysis.

G4 In some circumstances the fair value of the asset is not able to be determined from market-based evidence as the market buying price and market selling price of an asset differ materially because the asset usually is bought separately in the new asset market, but if sold separately, could only be sold for its residual value. In other circumstances the fair value of the asset is not able to be determined from market-based evidence as there is no market evidence of the asset’s market selling price. These circumstances will usually arise where the transaction price evidence arises in a monopoly context or the asset is specialised and rarely sold, except as part of a continuing business.

G5 Where the fair value of an item of property, plant and equipment cannot be reliably determined using market-based evidence as the market buying price and market selling price of an asset differ materially because the asset usually is bought separately in the new asset market, but if sold separately, could only be sold for its residual value. In other circumstances the fair value of the asset is not able to be determined from market-based evidence as there is no market evidence of the asset’s market selling price. These circumstances will usually arise where the transaction price evidence arises in a monopoly context or the asset is specialised and rarely sold, except as part of a continuing business.

2.6 Depreciated Replacement Cost

IVSC Definitions

Depreciated Replacement Cost. The current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Specialised Property. Property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to uniqueness arising from its specialised nature and design, its configuration, size, location, or otherwise.

Improvements. Buildings, structures, or modifications to land, or a permanent nature, involving expenditures of labour and capital, and intended to enhance the value or utility of the property. Improvements have differing patterns of use and economic lives.

Adequate Profitability. When an asset has been valued by reference to depreciated replacement cost, adequate profitability is the test that the entity should apply to ensure that it is able to support the depreciated replacement cost conclusion.

Service Potential. The capacity to provide goods and services in accordance with the entity’s objectives, whether those objectives are the generation of a net cash inflows or the provision of goods and services of a particular volume and quantity to the beneficiaries thereof. In the public sector, the concept of service potential takes the place of the test of adequate profitability applied in the private sector.

Modern Equivalent Asset (MEA). An asset similar to an existing asset and having the equivalent productive capacity, which could be built using modern materials, techniques, and design. Replacement cost is the basis used to estimate the cost of constructing a modern equivalent asset.

Impairment Loss. The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. International Accounting Standard 36 (IAS 36), para. 6.

Optimisation. The process by which a least cost replacement option is determined for the remaining service potential of an asset. It is a process of adjustments reducing the replacement cost to reflect that an asset may be technically obsolescent or over-engineered, or the asset may have a greater capacity than that required. Hence
optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining the depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity.

2.7 **IVSC Guidance**

Depreciated replacement cost is used where there is insufficient market data to arrive at Market Value by means of market-based evidence.

AASB 116, Property, Plant and Equipment, paragraph 33, provides that in the absence of market-based evidence an entity may need to estimate the fair value of a specialised asset using an income or a depreciated replacement cost approach.

International Public Sector Accounting Standard (IPSAS) 17, Property, Plant and Equipment, paragraphs 42 and 43, prescribe the use of depreciated replacement cost for valuing specialised buildings and other man-made structures as well as items of plant and equipment of a specialised nature.

Property, plant and equipment that is commonly traded in the market should be distinguished from specialised assets.

The classification of an asset as specialised should not automatically lead to the conclusion that a depreciated replacement cost valuation must be adopted. Even though an asset may be specialised, it may be possible in some cases to undertake a valuation of a specialised property using the market comparison approach and/or the income capitalisation approach.

In the absence of direct market evidence, depreciated replacement cost is regarded as an acceptable method of assessing the value of specialised assets but the methodology must incorporate market observations by the Valuer with regard to land value (for property assets), current cost, and depreciation rates. The methodology is based on the same theoretical transaction between rational informed parties as the Market Value concept.

- In applying the depreciated replacement cost methodology, the Valuer should refer to IVGN 8

2.8 **Specialised Properties**

The conceptual approach to the valuation of specialised assets has not altered in relation to assets which are not traded in the market place. In the absence of direct market transaction evidence for specialised assets, the use of depreciated replacement cost or income methodologies, is endorsed at paragraph 33 of AASB 116 as follows:-

“If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.”

The depreciated replacement cost approach for financial reporting is considered in GN8, IVSC Standards 2005.

The term fair value less costs to sell used in Australian accounting standards is not applicable unless the asset is held for disposal. Market value will still apply in this circumstance to property, plant and equipment, but not as part of a going concern.

2.9 **Application**

Points that valuers should note are:

a) In the majority of instances in relation to property, fair value will be equivalent to market value.

b) For specialised properties the application of the depreciated replacement cost approach or the income approach is an acceptable methodology for valuations for financial reporting purposes provided the value determined is consistent with the fair value definition.

c) In the absence of direct (market) transaction evidence, when the depreciated replacement cost approach methodology is applied, valuers should consider the elements of depreciation and their application.

d) Wherever possible, depreciation should be based on market evidence. (See IVSC GN8). Valuers constantly analyse market transactions which indicate a relationship between new cost, depreciation and value. These transactions can be indicative of depreciation for depreciated replacement cost purposes if care is taken to exclude influences such as economic depression affecting property sold for a use other than its original purpose-design use.
e) Where the depreciated replacement cost approach is adopted and the value of the land for an alternative use is equal to or higher than the value of the (total) asset - after allowing for the cost of works to bring the land to a state in which the alternative use can be exploited (e.g. demolition and removal of plant and equipment and its cost of relocation) - then the land value, net of these costs, is the value of the asset.

f) Consideration should also be given to the potential alternative use value of improvements on the land e.g. a building shell after removal of all plant and equipment. The alternative use value assessment does not necessarily mean that the improvements have no value for the alternative use.

g) When an asset used in a for-profit enterprise has been valued by reference to the depreciated replacement cost, adequate potential profitability becomes the test (an “impairment” test) applied by the entity to the depreciated replacement cost estimate to determine whether the asset can be carried at that amount.

h) The depreciated replacement cost approach methodology is expressed as subject to the test of the adequate profitability (or service potential in the case of assets employed in a not-for-profit enterprise) of the assets held by the entity.

2.10 Fair Value Responsibility

The application of Australian Accounting Standards and International Accounting Standards is complex. Valuers of property, plant and equipment assets for financial reporting purposes should be aware of the inter-relationships and complexities.

The application of Market Value concepts by professional valuers will normally be the foundation of an independent assessment of value for financial reporting purposes.

However, ultimately the determination of Fair Value is the responsibility of the reporting entity.

3.0 Categorisation of Assets

3.1 Operational Assets

Operational Assets are categorised as follows:

- Non-Specialised, or
- Specialised

3.2 Degree of Specialisation

Operational Assets may be Non-Specialised or Specialised in whole or part. The valuer assesses the degree of specialisation having regard to the following:

- the use to which the asset is put,
- the degree of special adaptation,
- the location,
- whether that category of asset has a readily definable market; and
- any guidance by the directors and/or technical staff of the entity.

3.3 Non-Specialised Assets

Non-Specialised Assets are those normally traded in an open market where market-based price indicators are available to guide both market participants and market observers. These Non-Specialised Assets can be further categorised as those assets which are common and regularly traded in the marketplace and include offices, warehouses, shops, etc. and those that generate an income or profit by their operation and are traded in the open market and include trading hotels, hospitals and casinos.

3.4 Specialised Assets

Specialised Assets are those not normally traded in any market, except as part of a total enterprise by reason of their specific design, size, location or other factor. These assets include, but are not limited to, oil refineries, power stations, communication towers, notable public buildings, roads and drains, parks and gardens, and can include standard buildings such as offices or warehouses in a market where there is little or no demand for the asset if it is no longer an operational asset.

3.5 Other Considerations

The degree of specialisation will determine the valuation methodology adopted.
Some assets may possess elements that fall into more than one category, for example multi-purpose or mixed use properties. Each element of the asset should be valued on the designated basis reflecting the degree of specialisation or non-specialisation.

A Value in Use determination is entirely the prerogative of the entity. Where the Fair Value of specialised assets is calculated by the depreciated replacement cost approach and advised to the entity for inclusion in financial statements, the valuation will be subject to the impairment test. Both Fair Value and Fair Value less costs to sell are said to be asset specific whilst Value in Use is entity specific. In current Australian financial reporting practice, carrying amounts reported at Fair Value are tested for impairment by the Fair Value of the cash generating operation.

The depreciated replacement cost of specialised assets and their Value in Use are different approaches to value, which may not yield consistent figures. Valuers should be aware that depreciated replacement cost determinations will include items of functional and economic obsolescence as well as physical depreciation. These items are asset specific and will take into account current market conditions for the particular assets at the date of valuation.

### 4.0 Other Issues

#### 4.1 Liaison with Auditors

Auditors may request a valuer to provide information or explanations related to the valuations and may also seek assurance that valuers have experience in the location and category of the assets being valued.

Auditors may also communicate with valuers to:

- specify items the auditor expects the valuation report to cover
- clarify the valuers relationship with the client; and
- clarify the assumptions and methods to be used by the valuer.

Auditors require assurance that the valuers work constitutes appropriate audit evidence. Issues which are of particular relevance to auditors are the sources of data used, assumptions and methods used and their appropriateness and consistency with the prior period. The auditor will consider these matters and the valuation itself in the light of the auditors overall knowledge of the entity’s business.

The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the valuer. The audit needs to determine that they are not unreasonable, based on the auditors knowledge of the entity’s business.

Internal valuers will normally be under instruction to comply with any request from an auditor. While independent valuers may not be under a statutory or contractual obligation to comply with any reasonable request from an auditor, it is in the interests of the entity, its ownership group and the valuer that the valuer should comply as failure to do so may mean that the auditor will not be able to express an unqualified opinion. In such circumstances the approval of the client should be obtained.

The valuer, whether internal or independent, should co-operate reasonably and responsibly if approached by the auditor.

It is of particular importance that any special assumptions and/or limiting conditions be clearly and unequivocally disclosed by the valuer.
AVGN 2 VALUATIONS FOR INSURANCE PURPOSES

This Guidance Note should be used in conjunction with IVS 1 & IVS 3 in particular.

1.0 Introduction

1.1 Purpose

The purpose of this guidance note is to provide information, commentary, advice and recommendations to members undertaking valuations of property, plant and equipment for insurance purposes.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This guidance note applies to API members undertaking valuations for insurance purposes. PINZ members are referred to a separate guidance note specific to New Zealand (NZVGN 2 – Insurance Valuation Reports). As there are many types of assets and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This Guidance Note is not intended to outline methods of valuation of any particular type of asset but may comment on matters that should be addressed in reports in respect of certain property types or uses. Where appropriate, methods of valuation are covered in other Guidance Notes.

1.4 International Valuation Standards

This guidance note is intended to be consistent with the publication “International Valuation Standards 2007” as issued by the International Valuation Standards Committee. However, there may be departures from IVSC Standards to reflect Australian law and practice.

1.5 The Role

In addition to the responsibilities covered in IVS 1, IVS 3, IVA 2 and ANZVGN 1 the Members role (subject to the scope of work agreed with the client) is to advise:

- The replacement/reinstatement and/or indemnity value of the assets for insurance purposes at the date of valuation, in accordance with the requirements of policy wording.
- Factors that can or could impact adversely on the assets in respect of insurance issues. The Member may attempt to quantify the adverse impact or risk or draw the client’s attention to the need for re-assessment should these risks eventuate.

2.0 Instructions

2.1 Instructions from Client

All instructions to members to undertake valuations for insurance purposes should be confirmed in writing by the client.

2.2 Policy Issues

Clear instructions need to be obtained from the client confirming the scope of the work, policy conditions under which the assets are insured, and the extent of inclusions under the policy.

3.0 Report Content

3.1 Buildings

In addition to those items covered under IVS 1, IVS 3 and ANZVGN 1, a replacement/reinstatement and/or indemnity insurance valuation report for building and site improvements should include:
• A replacement/reinstatement with new value and/or indemnity value as at the date required.
• The extra necessary costs, if any, to comply with current building and fire regulations.
• The cost of demolition and removal of building debris.
• Cost increases during policy period.
• An allowance for cost increases during lead time, ie the period after a major loss when debris is removed, building plans are drafted, and necessary approvals are obtained.
• An allowance for cost increases during rebuild period.
• Estimated limit of liability.
• A statement as to the treatment of GST.
• A statement of specific valuation exclusions such as plant, equipment, tools, furniture and the like.
• A full description of assets.
• Extent of betterment, if any, should the replacement asset be better or more extensive than its condition when new.
• Any change impacting on land value caused by loss of the improvements should be noted.

The loss of rent may be required as a separate request to the insurance valuation.

3.2 Plant & Equipment

For plant and equipment assets, report content should clearly state or explain the following.

• The reinstatement/replacement with new value and/or indemnity value as at the date required.
• The foreign exchange rates prevailing at the date of valuation for equipment manufactured overseas.
• The treatment of obsolete assets.
• The treatment of cost inflation.
• The treatment of the cost of money during the replacement process.
• Installation and commissioning costs.
• The treatment of debris removal costs.
• The treatment of GST.
• The extent of betterment, if any.

• Valuation exclusions such as landlord’s fixtures and fittings, stocks and materials in trade, and the like.

4.0 Insurance Policies

4.1 Policy Types

There are different types of policies available. The most common are:

1. Common Householders Policy:

   There are two main types:
   (a) Common policies where the insurer may elect to replace, repair, or indemnify in the event of a loss.
   (b) Replacement with new policies, which sometimes can have age provisions or can be regardless of age.

2. Industrial Special Risk (ISR Policy)

   The most common policy for commercial/industrial insurance. This policy addresses many areas in addition to asset insurance.

4.2 Policy Wording

When undertaking an insurance valuation of improvements or plant and equipment, the valuer should seek client instructions. Where instructions are not clear the valuer should seek clarification and in respect to policy wording, a copy of the insurance policy document may need to be obtained together with definitions. The wording thereof may need to be examined to establish the correct basis and methodology for the valuation. Some of the issues to consider when reading a policy document are described below and are taken from a typical policy.

4.3 Situation

The situation is the particular location of the insured assets. It should be defined in a precise way as to where the assets are located. An owner may have many situations covered by the same insurance policy.

4.4 Property Insured

The typical policy document insures all real and personal property of every kind and description, unless specifically excluded, belonging to the insured or for which the insured is responsible or has assumed responsibility to insure.
In addition to the buildings, plant and equipment other assets may include:

- External paving,
- Sheds, carports, etc,
- Lighting,
- Awnings,
- Flagpoles,
- Radio and television masts and antennae,
- Above and below ground tanks,
- Signage,
- Fire services,
- Water and electrical reticulation throughout site,
- Walls, fences and gates.

In some circumstances a property owner may self-insure some assets and these should be identified. The property insured also extends to all such property in which the insured may acquire an insurable interest during the period of insurance. An insurable interest may result from the completion of an agreement to purchase an asset even though settlement may occur at a future time.

### 4.5 Typical Policy Indemnity

The typical policy provides that in the event of any physical loss, destruction or damage, which has not been specifically excluded under the policy, happening at the situation to the property insured, the insurer will indemnify the insured in accordance with the applicable basis of settlement.

The insurer will also typically indemnify the insured for the following, provided the liability of the insurer does not increase beyond the limit of liability (refer 4.13):

- Fees associated with the cost of rebuilding such as those applicable to architects, surveyors, consultant engineers, legal and the like.
- Government fees and charges.
- Costs and expenses incurred for the purpose of extinguishing a fire at or in the vicinity of the property insured and threatening to involve such property.
- Costs associated with making the property safe after a loss.
- Costs of replacing locks, keys or safe combinations in appropriate circumstances.
- Costs and expenses necessarily incurred in respect of removal of debris.
- Damage to tools and clothing belonging to Directors and employees of the Insured whilst on the Premises.
- Temporary protection of undamaged property.
- Temporary repairs.
- Property of others for which insured is legally liable.

Modern policy wording, such as the above, has moved away from the concept of providing “blanket” cover for multiple ownerships (many situations) and requires each situation to have adequate cover. That is, each building at each location is required to be insured fully and correctly. This implies that, for the determination of limit of liability proper allowances are made for the above fees and costs on an individual basis.

### 4.6 Basis of Settlement

The most common insurance policies provide for settlement on a Replacement / Reinstatement basis.

If the insured elects not to replace/reinstate or repair the asset then the insurer may make a payment on the basis of the indemnity value of the asset at the time of the happening of the damage, where indemnity value is, for example:

*the cost necessary to replace, repair and/or rebuild the asset insured to a condition and extent substantially equal to but not better or more extensive than its condition and extent at the time that the damage occurred, taking into consideration the age, condition and remaining useful life of the asset."

The insured may elect to insure on an indemnity basis only.

### 4.7 Interest of Other Parties

Insurable interests of parties such as lessors, financiers, trustees, mortgagees, owners and the like which are specifically noted in the records of the insured may be included in the cover without notification or specification. The nature and extent of such interests should be disclosed by the insured in the event of damage.

The valuer should be aware of other party interests.
and should act in the knowledge that liability for the valuation may extend to those other parties.

4.8 Replacement / Reinstatement

Where this is a basis for settlement then typically, the amount payable is calculated as the cost of reinstatement of the damaged asset insured at the time of its reinstatement, subject to the following provisions and subject to the defined limit of liability in the policy.

Replacement/Reinstatement is typically defined as follows:

• Where property is lost or destroyed: in the case of a building, the rebuilding thereof or in the case of property other than a building, the replacement thereof by similar property in either case in a condition equal to, but not better or more extensive than, its condition where new.

• Where property is damaged: the repair of the damage and the restoration of the damaged portion of the property to a condition substantially the same as, but not better or more extensive, than its condition when new.

The valuer should ensure that the valuation does not give rise to betterment. That is, where the assessed value is based on a more substantial or superior property than that which exists. If betterment is unavoidable, then an offsetting allowance should be made against the assessed value.

4.9 Provisions

Typical provisions are:

• Rebuilding, replacing or repairing must commence as soon as possible after the loss and may be carried out upon any site and in any manner subject to the liability of the insurer not being thereby increased.

• In the case of a partial loss the cost of the damage cannot exceed the total sum insured.

• A claim for a loss may be subject to a co-insurance clause (refer 4.12).

• No payment will be made until a sum equal to the cost of reinstatement has been incurred.

Replacement/Reinstatement not only relates to assets at the situation, but also, for buildings and site improvements, requires the determination of limit of liability to be assessed at the time of its reinstatement. That is, for the insured to be adequately covered, the valuer should determine all costs associated with reinstatement/replacement of assets assuming a worst case scenario that a loss may occur on the last day of the policy period.

4.10 Extra Cost of Reinstatement

Policies for buildings and site improvements may extend to include the extra cost of reinstatement of damaged property to comply with the requirements of any Act of Parliament or regulation made thereunder or any by-law or regulation of any municipal or other statutory authority.

These would include current building and fire regulations. This extension is typically subject to the following provision:

• The amount of the claim cannot include the cost of complying with a requirement which existed prior to the loss occurring and with which the insured was required to comply.

An insurance company will only insure the assets as they exist, not as they may be replaced. The reason for this is the incidence of a partial loss where repairs are made to the existing structure. However it may not be possible to determine a reinstatement/replacement value for an existing structure because it no longer complies with current building and fire regulations or other statutory encumbrances.

Insurance companies therefore allow the insured to insure for the extra costs associated with complying with these regulations. Accordingly, the insured may wish to declare a sub-limit in respect to extra costs of reinstatement. The valuer may determine this amount on an elemental basis by aggregating the additional elemental costs required to comply with the regulations.

4.11 Reinstatement Rights

In the event of a total loss and where as a result of the exercise of statutory powers by a regulatory authority, the reinstatement of a building as it existed prior to the loss may be prohibited or restricted. Accordingly, the insurer may pay in addition to any other amount payable on reinstatement of the building the difference between:

a. the actual cost of reinstatement; and,
b. the cost of reinstatement if it is not prohibited or restricted.
Any payment made for the difference between (a) and (b) above would be made as soon as the difference is ascertained upon completion of the rebuilding works and certified by the architect acting on behalf of the insured in the reinstatement of the building.

4.12 Co-Insurance

A standard clause in a typical policy document relating to this matter may read as follows:

“In the event of damage to property insured hereunder at any Situation caused by any peril hereby insured against, the Insurer shall be liable for no greater proportion of such damage than the amount of the Insured’s declaration of value of such property on the day of the commencement of the Period of Insurance bears to the sum representing eighty five percent (85%) of the actual value of property insured at such Situation on the day of commencement of the Period of Insurance but not exceeding the Limit of Liability expressed in the Schedule.”

For this example, the insured and the insurer agree that they will share the liability of any claim according to the ratio of the declared amount and 85% of the actual value of the property insured. If the declared value is the lower amount then the clause comes into effect.

While 85% is the usual percentage applied to the calculation of the insurer’s liability, other percentages may be adopted.

4.13 Limit of Liability

When assessing sums insured for buildings and site improvements, the limit of liability is the amount representing the maximum liability of the insurer for any one loss or series of losses arising out of the one event at any one situation. That is, the determination by a valuer of the limit of liability should be all embracing including the following:

- The immediate replacement/reinstatement of value of the asset, including an allowance for preliminaries and contingencies.
- Extra cost of reinstatement to comply with current building and fire regulations.
- Cost of removal of debris.
- Professional fees.
- Statutory fees.
- Cost increases incurred in the policy period.
- Cost increases during lead-time during which demolition takes place, building plans are drafted and submitted to council for approval (assuming the loss occurs on the last day of the policy period).
- Cost increases during reconstruction period (assuming the loss occurs on the last day of the policy period).

4.14 Loss Situation

Insurance companies (insurers) employ skilled loss adjusters and forensic scientists when property destruction or damage occurs to adequately protect the insurers from both poorly calculated loss claims and inflated claims.

The insured may also employ its own assessor to make certain all aspects of a claim are considered by the insurer.

5.0 Replacement/Reinstatement Cost for Buildings

In completing a Replacement/Reinstatement cost valuations a valuer should consider the items below and have regard to section 4 above.

5.1 Elemental Costs

For buildings, the determination of the current reinstatement/replacement value may require establishing the elemental cost of construction of the various structural components. Building plans and specifications should be obtained whenever possible to assist in the accuracy of the determination.

Recent constructions of a similar nature assist the valuer to determine the appropriate cost for each part of the construction process. The valuer should consider the evidence available and assess the information in terms of comparability to the subject site and form an opinion as to the appropriate cost to adopt for each particular element of construction.

Alternatively or as a check method the valuer may refer to building cost guides for any variation against indicative ranges. If there were a variation then the valuer would be alerted to establishing reasons for the justification of the valuation adopted.

A further check can be made by having regard to the percentage of each element against total cost and comparing this to industry standards. Again,
any marked variation would require reasoned, researched explanations.

In certain circumstances it may be appropriate for the valuer to forego this part of the valuation in lieu of establishing an average rate per square metre for the total construction.

Valuations undertaken in non-metropolitan and remote areas would usually reflect regional costs associated with labour and materials. The location factor can be assessed by investigating local construction costs and/or by examining a sample of costs and relating them to known cost centres.

Unless specifically excluded, all property assets are required to be included in the determination of insurable value. These may include:

- Building shells and services,
- Fixtures,
- Walls,
- Gates,
- Fences,
- Paving,
- Awnings,
- External signs and lighting,
- Flagpoles,
- Radio and television masts and antennae,
- Other structural improvements including sheds, carports, etc,
- Underground tanks,
- Services and connections including supply mains and meters.

5.2 Building Rates

A valuer may provide a client an estimate of insurable value based on rates published in building cost guides, but care should be taken in their application. The estimate will provide a modern equivalent cost and not necessarily the cost to replace the existing structure. Such rates are intended to provide broad estimates. The Member should have regard to variations such as:

- Specific materials used in the building (eg mixture of stone, brick, plasterboard, etc).
- Location factors (i.e. non metropolitan sites).

- Design of building, including soil type, special footings, etc.
- Extra cost of reinstatement to comply with current building and fire regulations.
- Recovery of value for materials in a demolition.
- External dimensions of a building (rates per square metre published by some cost guides relate only to internal building measurements).
- All fees associated with reconstruction including architects, survey and engineering fees.

5.3 Fees and Contingencies

The valuer should assess in each case the extent of involvement of professionals such as architects, surveyors, consultant engineers and the like, and needs to continually research the prevailing level of fees relating thereto, as they can fluctuate considerably between high and low demand periods.

5.4 Lead Time

This is the period of time after a loss occurs when remaining improvements are demolished, plans and specifications of the replacement building are drafted and agreed upon, appropriate approvals are sought and obtained from local government authorities and all matters are completed in preparation for rebuilding.

The valuer’s assessment of this period should have regard to industry experience and continual research into the time required to complete each of these tasks including process and approval times for local government.

For buildings and site improvements, cost increases during this period need to be calculated and added to the determination of the total sum insured.

For plant and equipment the unpredictability of future cost inflation, especially that caused by foreign exchange fluctuations, generally precludes an allowance to be made under this heading.

5.5 Reconstruction Period

This is the period from the time building approvals have been obtained to completion and hand-over of the new facility.

Cost increases should to be added to the total sum insured but only to the extent that the building is completed in various stages.
The valuer should consider each element of construction to determine what allowance for cost increases should reasonably be made.

As noted above, for plant and equipment the unpredictability of future cost inflation, especially that caused by foreign exchange fluctuations, mostly precludes an allowance to be made under this heading.

5.6 Demolition & Removal of Debris

The amount determined under this heading is calculated by having regard to demolition and removal costs of similar construction in the locality of the situation. The valuer should allow for the amount able to be recovered by the demolition contractor for the building materials.

Further consideration should be given to the presence of known asbestos within a building, difficulty in gaining access to a site, the hazardous nature or otherwise of the debris after a major loss on the basis of total destruction of the site. The valuer should assume that all assets would be destroyed in a loss situation and would require removal prior to reinstatement.

5.7 Limit of Liability

As described in the policy, this is the amount representing the maximum liability of the insurer for any one loss or series of losses arising out of the one event at any one situation. It should therefore encompass the total cost of replacement/reinstatement from the time the policy commences up to the time replacement/reinstatement takes place after a loss.

In the worst case scenario a loss could occur on the last day of the policy period. If this was so, the insured would expect that there is sufficient cover to include all the likely costs not only associated with reconstruction but also in respect to making the property safe and secure, protecting undamaged property and the like.

6.0 INDEMNITY VALUE ASSESSMENT

6.1 Buildings

The indemnity value assessment should take into consideration the age, condition and remaining useful life of the asset. In the case of insurance, useful life is not synonymous with economic life, but rather, physical life. The insured is entitled to insure the remaining physical life of an asset, even though the economic life may have expired.

Therefore, the determination of indemnity value requires in the first instance, the assessment of replacement/reinstatement value in accordance with the methodology stated above and then an assessment to be made of the likely physical life of the asset and the life expired. The expected physical life of an asset is assessed on the basis that reasonable maintenance is carried out to preserve the existing use.

The valuer should undertake research into the expected life of assets in the location of the valuation and elsewhere as appropriate.

It is common to apply a straight-line method of depreciation when determining indemnity value, which assumes that the remaining service potential of the asset is used up at a constant rate assuming reasonable maintenance. There are however other methods including reducing balance (diminishing value).

6.2 Plant and Equipment

The indemnity value of plant and equipment is an amount equal to the cost of replacing an existing asset with an identical or substantially similar asset of comparable age, in comparable condition and of similar but not better utility together with the cost of transport, installation, commissioning any other directly attributable costs.

7.0 HERITAGE ASSETS

The principles of valuing buildings for insurance purposes either on a reinstatement/replacement or indemnity basis apply equally to determining an insurable value for a heritage building.

A building worthy of preservation as determined by relevant heritage authorities is usually because it is a good example of some aspect of heritage. Legislation in most jurisdictions may prevent renovations, modifications, additions and the like by imposing strict requirements and lengthy approval processes. However, in the case where part or the whole of the building has been destroyed along with the element of heritage to be preserved, then that heritage is lost and the owner can only ever replicate it.

The valuer should investigate the relevant legislation to confirm whether or not replication is a compulsory requirement after a loss.

The approach to the insurance valuation is the same as above. The valuer determines the elemental costs in
rebuilding the structure as it exists allowing for all the “add-ons”, such as extra cost of reinstatement, fees and contingencies, and the like, to comply with policy wording. This method establishes the current cost for repairing or replacing every component of the building in a style and form of construction most closely resembling the original. The valuer should ensure that the engagement of suitable craftspersons, such as those skilled in stone masonry, iron tracery and stained glass, are accurately costed into the calculations.
This Guidance Note should be read in conjunction with IVA 1: Valuation for Financial Reporting.

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members producing asset valuations for financial reporting purposes in New Zealand and to assist users of financial reports to understand the basis upon which asset valuations for financial reporting purposes are undertaken.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of ‘Professional Practice’.

It should be noted that Financial Reporting Standards are mandatory. Accordingly, in effect, IVA 1 and this Guidance Note are mandatory.

1.3 New Financial Reporting Standards

New Zealand reporting entities will be required to apply New Zealand Equivalents of International Financial Reporting Standards (NZ IFRS) in the preparation of their external financial reports for periods commencing on or after 1 January 2007. Entities have had the option to adopt NZ IFRS early from 1 January 2005 but those electing to do so must make a complete shift to NZ IFRS, that is, they must adopt all of the standards.

The term ‘IFRS’ refers to the standards and Framework issued by the International Accounting Standards Board (IASB). The standards comprise:

1. International Accounting Standards (IASS) (the standards inherited by the IASB from its predecessor body, the International Accounting Standards Committee (IASC) but in most cases revised by the IASB) and the interpretations of these standards (SICs) issued by the IASC’s Standing Interpretations Committee;

2. International Financial Reporting Standards (the new standards developed and issued by the IASB), and the interpretations of these standards (IFRICs) issued by the IASB’s International Financial Reporting Interpretations Committee.

NZ IFRS contain all the provisions of the corresponding IFRS, and may include additional disclosure requirements that apply to all entities, and also additional disclosure, recognition or measurement requirements that apply only to public benefit entities.

Profit oriented entities that comply with NZ IFRS simultaneously comply with IFRS. However, public benefit entities that comply with the additional recognition or measurement requirements in NZ IFRS will not simultaneously comply with IFRS. In this context, public benefit entities are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return.

1.4 New NZ IFRS Re: Property Valuations

Under NZ IFRS, property assets will normally fall into one of the following categories:

- Investment property – to be valued and accounted for in accordance with NZ IAS 40 Investment Property
- Non-current Assets Held for Sale - to be valued and accounted for in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
10.1.2 NZ VALUATION GUIDANCE NOTE 1

- Property, plant and equipment - to be valued and accounted for in accordance with NZ IAS 16 Property, Plant and Equipment.

At the end of this Guidance Note is a summary of changes that have been made in adapting IFRS to NZ IFRS in respect of property assets.

NZ IAS 40 replaces SSAP-17 and NZ IFRS 5 and NZ IAS 16 replace FRS-3. Set out on the chart below is a summary of property asset classifications and the corresponding NZ IFRS:

As noted above, New Zealand reporting entities will be required to apply NZ IFRS for periods commencing on or after 1 January 2007. Up until then, the adoption of NZ IFRS is optional, but those entities electing to do so must make a complete shift to NZ IFRS, that is, they must adopt all of the NZ IFRS standards. Accordingly, up until 2007, valuations may be required to be completed in accordance with SSAP-17 or FRS-3, or their replacements – NZ IAS 40, NZ IFRS 5 and NZ IAS 16.

Members are referred to NZ IAS 40, NZ IFRS 5 and NZ IAS 16 for full details of the valuation requirements under each standard. There are no material changes to the way assets are to be valued (where revaluations are required) under the new NZ IFRS however, the following changes are highlighted:

- Under NZ IAS 16, the valuation guidance has been reduced in general terms, except as it relates to Public Benefit Entities where much of the content from FRS-3 has been repeated.

- Under NZ IAS 16, the requirement to revalue every five years as a minimum, has been deleted. Revaluations are however to be undertaken “with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.” (NZ IAS 16, paragraph 31)

- Under NZ IAS 16, the requirement for “recent” experience in the location and category of the asset being valued has been added in terms of the independent valuer. (NZ IAS 16, paragraph NZ 35.2)

- Under NZ IAS 16, specific disclosures as to the valuers, both internal and independent external, where inhouse valuations have been completed have been added (NZ IAS, paragraph 77.2).

- Under NZ IAS 40, the property is revalued to its fair value, and there is no longer a requirement to assess (and deduct) estimated disposal costs.

- Under NZ IAS 40, a revaluation is now able to be conducted internally, where the entity has in its employ a person sufficiently experienced to conduct a valuation, so long as the basis of valuation has been subject to review by an independent valuer (NZ IAS 40, paragraph NZ 33.1)

- Under NZ IAS 40, the requirement for “recent” experience in the location and category of the asset being valued has been added in terms of the independent valuer. (NZ IAS 40, paragraph NZ 33.2)

With the exception of the summary of changes that have been made in adapting IFRS to NZ IFRS in respect of property assets, the balance of this Guidance Note remains unchanged from that which became effective 15 February 2002 (with specific references to SSAP-17 and FRS-3 only). This Guidance Note will however be completely revised once NZ IFRS are required to be fully adopted by New Zealand reporting entities.

1.5 Scope of this Guidance Note

This Guidance Note applies to Members valuing assets for financial reporting purposes in New Zealand.

Compliance with this Guidance Note will ensure asset valuations are consistent and in accordance with the Institute of Chartered Accountants of New Zealand Financial Reporting Standard 3 - Accounting for Property, Plant and Equipment (’FRS-3’) and Statement of Standard Accounting Practice 17 - Accounting for Investment Property and Properties Intended for Sale (’SSAP-17’).
1.6 Financial Statements

Financial statements must report the assets, liabilities, equity, revenues, expenses (the “elements” of financial statements) and cash flows of the entity.

2.0 Relationship to Financial Reporting Standards

The New Zealand financial reporting standards FRS-3 and SSAP-17 provide primary guidance on the basis upon which assets are to be revalued for financial reporting purposes.

Both FRS-3 and SSAP-17 require valuations to be prepared in accordance with the API/PINZ Valuation Standards (or in the case of FRS-3, standards and guidance comparable to the valuation pronouncements issued, or officially endorsed, by the PINZ - see FRS-3 paragraph 7.8 and SSAP-17 paragraph 4.13).

FRS-3’s requirement for Fair (or Market) Value has brought about a fundamental change from the previous PINZ Valuation Standard 3, which required ‘Market Value for the Existing Use’ (i.e. a valuation assumption that the asset would continue to be used in its existing use).

3.0 Materiality

Most Accounting Standards are subject to the concept of materiality, which is defined to mean “in relation to information, that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body of the entity”.

The concept of Fair Value has been embraced and encapsulated in accounting and financial reporting standards in Australia and New Zealand.

4.0 Definitions

4.1 FRS-3 Definitions

‘Borrowing Costs’ are interest and other costs incurred by an entity in connection with the borrowing of funds (FRS-3, paragraph 4.1).

Borrowing costs include:

(a) interest on bank overdrafts, short and long term borrowings;
(b) amortisation of discounts and premiums relating to borrowings;
10.1.4 NZ VALUATION GUIDANCE NOTE 1

(c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(d) the cost of hedging contracts entered into, including the forward point differential at inception of the hedging arrangement (FRS-3, paragraph 4.2).

Borrowing costs do not include exchange differences arising on foreign currency borrowings except as provided in (d) above (FRS-3, paragraph 4.3).

‘Carrying Amount’ is the amount at which an asset or liability is included in the statement of financial position (FRS-3, paragraph 4.5).

‘Depreciated Replacement Cost’ is a method of valuation that is based on an estimate of:

(a) in the case of property:
   (i) the Fair Value of land; plus
   (ii) the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity;

(b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity (FRS-3, paragraph 4.10).

‘Depreciation’ is the measure of the consumption of the economic benefits embodied in an asset whether arising from use, the passing of time or obsolescence (FRS-3, paragraph 4.22).

‘Fair Value’ is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction (FRS-3, paragraph 4.23).

Other terms commonly used to describe ‘Fair Value’ include ‘Market Value’, ‘Open Market Value’ and ‘Current Market Value’ (FRS-3, paragraph 4.24).

‘Net Market Value’ is the Fair Value at a particular date less the costs of disposal that could reasonably be anticipated at that date (FRS-3, paragraph 4.33).

‘Optimisation’ refers to the process by which a least cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have a greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity (FRS-3, paragraph 4.13).

‘Property, Plant and Equipment’ are tangible assets that:

a) are held by an entity for use in the production or supply of goods and services, for rental to others or for administrative purpose, and may include items held for the maintenance or repair of such assets; and

b) have been acquired or constructed with the intention of being used on a continuing basis (FRS-3, paragraph 4.35).

‘Recoverable Amount’ is the greater of:

a) net market value; and

b) value-in-use (FRS-3, paragraph 4.40).

‘Value-in-use’ is the present value of the net future cash flows obtainable from an asset’s continuing use and ultimate disposal (FRS-3, paragraph 4.54).

4.2 SSAP-17 Definitions

‘Property’ is, for the purposes of SSAP-17, an interest in land or buildings in which the reporting entity, or any of the members of a group, singly or in combination, does not occupy or intend to occupy more than 20 percent of the area of the land or buildings (SSAP-17, paragraph 3.1).

‘Development Property’ is either investment property or property intended for sale, depending on the intention of the reporting entity, which is both being developed and is identifiable as a separate project (SSAP-17, paragraph 3.4).

‘Development Margin’ on a development property is the difference between (i) expected net current value on completion and expected cost in the case of investment property, or (ii) net sale price and expected cost in the case of property intended for sale (SSAP-17, paragraph 3.5).

‘Investment Property’ is property held, or development property intended to be held, primarily for capital growth or rental or similar income (SSAP-17, paragraph 3.2).

‘Net Current Value’ is open market value, less the costs of disposal that could reasonably be anticipated. Open market value is the price for which a property might reasonably be expected to
be sold at the operative date (SSAP-17, paragraph 3.6). Thus, net current value is Fair Value net of disposal costs and therefore is the same as net market value as defined in FRS-3, paragraph 4.33. ‘Net Realisable Value’ is the same as net current value.

‘Property Intended for Sale’ is all property, other than investment property, held with the intention of realisation in the ordinary course of business (SSAP-17, paragraph 3.3).

4.3 IVSC Definitions

‘Highest and Best Use’ is the most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued - (IVS General Valuation Concepts and Principles)

‘Market Value’ is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion - (IVS General Valuation Concepts and Principles)

‘Obsolescence’ is a loss in value due to a decrease in the usefulness of property caused by decay, changes in technology, people’s behavioural patterns and tastes, or environmental changes (IVS -2003, Glossary of Terms).

‘Service Potential’ is the future economic benefits embodied in the asset in terms of its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Service potential is measured as the level of productive capacity that would have to be replaced if the entity were deprived of the asset (IVS -2003, Glossary of Terms).

5.0 Revaluation of Non-current Assets

5.1 Asset Classification under Financial Reporting Standards

In the ordinary course of an engagement, a Valuer will be provided with guidance from the entity from whom valuation instructions are received as to the classification of an asset between FRS-3 and SSAP-17 for financial reporting and valuation purposes.

The Valuer may be required to exercise professional judgement to determine the most appropriate classification. The following property will generally be accounted for in accordance with FRS-3:

a) owner-occupied property;
b) property held for short-term rental where the entity is actively managing that property;
c) property whose rental is directly linked to the risks and rewards of the business being operated from that property.

Other property, including property held for rental and capital growth, is to be accounted for in accordance with SSAP-17. Thus owner-operated hotels are normally accounted for in accordance with FRS-3, whereas shopping centres and office blocks are normally accounted for in accordance with SSAP-17 (adapted from FRS-3, paragraph 4.36).

Diagram 1 provides additional guidance on the classification of property assets between FRS-3 and SSAP-17 for financial reporting and valuation purposes.

Where the Valuer is required to exercise professional judgement to determine the most appropriate classification, the determination and its basis must be fully disclosed in the valuation report by the Valuer.

Care should be taken to confirm the entity for whom the valuation is being prepared, particularly in the case of a group, as to whether the valuation is for the financial statements of a specific entity within the group or the group as a whole. The classification of the asset could be different under each which would mean a different valuation basis.

5.2 Basis of Valuation

The terms ‘Fair Value’, ‘Current Value’ and ‘Open Market Value’ used in financial reporting standards FRS-3 and SSAP-17 are synonymous with ‘Market Value’.

Portfolios of investment properties or property, plant and equipment are usually valued on the basis of summing the individual asset values. The market value of such assets viewed or treated as a portfolio or as an assembled group of properties could exceed, or could be less than, the sum of the ‘Market Value’ of each asset individually. Where this is the case, the fact that this difference exists should be reported separately to the entity from whom valuation instructions are received.
5.3  FRS-3

‘Property, Plant and Equipment’ is valued at Fair Value. Where an item of property, plant and equipment is able to be reliably determined using market based evidence, market value represents Fair Value.

Where the Fair Value of a property, plant and equipment asset is not able to be reliably determined using market-based evidence for the same or a similar asset, depreciated replacement cost is to be used to estimate Fair Value.

Disposal costs are not to be deducted from the assessed Fair Value of a property, plant and equipment asset for financial reporting purposes under the provisions of FRS-3, unless an asset has been withdrawn from use and there is an intention to dispose of the asset.

5.4  SSAP-17

‘Investment Properties’ are valued for financial reporting at net current value (market value less the costs of disposal). The valuer should report both market value and disposal costs.

5.5  Apportionments of Value/Componentisation

For the purposes of FRS-3, valuers are to separately identify property asset values between land and buildings.

FRS-3 requires asset components that have different useful lives or which provide a different pattern of economic benefits to an entity to be recorded separately for financial reporting purposes. The valuer will be required to undertake further valuation apportionments of property, plant and equipment assets where requested by the instructing entity.

5.6  Disclosures

The valuer’s written report should disclose the following information:

- The nature of instructions and purpose of the valuation;
- The date of valuation;
- The financial reporting standard governing the accounting treatment of the asset and whether the classification has been made by the instructing entity or the valuer;
- The basis of the valuation, including type and definition of value;

- Tenure of assets;
- Assumed lease details for owner-occupied property, where applicable;
- Identification of the assets and their locations including the date and extent of inspections;
- Values for each asset (and apportionments as appropriate);
- The assumptions underlying construction costs, construction period and borrowing costs, where appropriate;
- How any restoration, dismantling or removal obligations associated with an asset has been treated, where applicable;
- The names, qualifications and contributions of outside professional persons who have provided assistance, where used;
- Any key and/or special assumptions and/or limiting conditions;
- Sufficient detail to support the valuation conclusion as required in the API/PINZ Standards and Guidance Notes; and
- Such other matters that are pertinent to the valuation.

5.7  Liaison with Auditors

At the client’s request, and subject to appropriate consent, valuers shall respond to the entity’s auditor to discuss and explain the valuations openly. The client has the primary responsibility for the form and content of the financial statements. The auditor has the responsibility for forming and expressing an independent opinion on whether the financial statements, prepared by the client fairly present the financial position and performance of the entity, and comply with relevant financial reporting standards.

6.0  Discussion

6.1  FRS-3: Property, Plant and Equipment

When an entity chooses to revalue property, plant and equipment, FRS-3 requires that it be revalued to Fair Value. As mentioned -previously ‘Fair Value’ is synonymous with ‘market value’.

The Fair Value of an asset is determined by reference to its highest and best use, that is, the most probable use of the asset that is physically possible, appropriately justified, legally permissible,
Where the Fair Value of an asset is able to be determined by reference to the price in an active market for the same asset or a similar asset, the Fair Value of the asset is determined using this information. Where the Fair Value of an asset is not able to be determined in this manner, the Fair Value of the asset is determined using other market-based evidence, such as by a discounted cash flow calculation using market estimates of the cash flows able to be generated by the asset and a market-based discount rate. Where Fair Value of the asset is not able to be reliably determined using market-based evidence, depreciated replacement cost is considered to be the most appropriate basis for determination of Fair Value. This situation will usually only arise where an asset is specialised or the only transaction price evidence arises in a monopoly context (FRS-3, paragraph 4.26).

For property assets, market-based evidence may exist concerning either the land component or the property in aggregate. Depreciated replacement cost is used as an estimate of the Fair Value of property only where the Fair Value of the property in aggregate (that is, for land and improvements) cannot be reliably determined using market-based evidence (FRS-3, paragraph 4.11).

In the case of property, depreciated replacement cost methodology is based on the Fair Value of the land plus the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity. Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. In determining depreciated replacement cost, optimisation for obsolescence is made by reducing the reproduction cost of the specific asset held to the cost of a modern equivalent asset that provides equivalent service potential to that of the specific asset held (FRS-3, paragraph 4.14).

Surplus capacity may arise from either over-design or from surplus components of an asset. In determining depreciated replacement cost, optimisation is applied only to surplus capacity that is not required currently and for which there is no reasonable prospect it will ever be required in utilising an asset in its current form (FRS-3, paragraph 4.15).

In determining depreciated replacement cost, the extent of any reduction in value for surplus capacity subject to optimisation depends on whether that surplus capacity has an alternative use to the current use of the asset. Where there is no alternative use, the optimised value of the surplus capacity is zero. Where there is an alternative use, the optimised value of the surplus capacity is the value of the highest and best alternative use of that surplus capacity (FRS-3, paragraph 4.16).
To illustrate the distinction described earlier between surplus capacity not having an alternative use to the current use of the asset and that which does, consider the following example. Assume depreciated replacement cost is to be determined for a network of water pipes where the pipe diameter is greater than that required or ever expected to be required (including that necessary for stand-by or for safety purposes). There is also a discrete segment of the piping network that is similarly not required for the current use of the asset but which can be closed off and used for other purposes, such as a liquid storage facility. In this case, the surplus diameter of the piping would be disregarded for valuation purposes but the surplus segment of the piping network would be valued at its highest and best alternative use (FRS-3, paragraph 4.17).

In most cases, surplus capacity subject to optimisation is expected to be disregarded in determining the depreciated replacement cost of an asset. Such surplus capacity is unlikely to have an alternative use unless it is physically and operationally separable from the required capacity (FRS-3 paragraph 4.18).

In determining depreciated replacement cost, optimisation for obsolescence and relevant surplus capacity is applied only to the extent that it reflects the most probable use of the asset that is physically possible, appropriately justified, legally permissible and financially feasible (FRS-3 paragraph 4.19).

Optimisation is applied only to the depreciated replacement cost of plant, and equipment and in determining an estimate of the value of improvements component of the depreciated replacement cost of property (adapted from FRS-3, paragraph 4.20).

Optimisation is not applied in determining the value of the land component of the depreciated replacement cost of property. The value of the land component will always reflect the market value of the actual land held, in terms of both its size and location, even if such factors are underutilised (adapted from FRS-3, paragraph 4.20). The Fair Value of land would normally be determined from market based evidence. However, in the rare instances where extensive works have been carried out in order to prepare land for use in the entity's business, available market evidence will normally relate to land of the same size and in the same general vicinity but which is priced for uses that are sub-optimal relative to the use for which the works were carried out. In these rare instances the Fair Value of the land should be determined by having regard to the replacement cost of the land. For example, consider the case where an airport or port company acquires a section of seabed, fills it in and builds a seawall in order to produce flat land for use in the entity's business. The reclaimed land is in the precise location where the entity requires land. Market evidence may exist for other land of the same size and in the same general vicinity as the reclaimed land, but that other land is not suitable for the use intended by the entity. Thus, the market evidence on the Fair Value of that other land is not relevant to the reclaimed land, and the best indicator of the Fair Value of the reclaimed land would be the replacement cost of that land. Land resulting from extensive works by a local or central government body in constructing new road provide a similar example. (FRS-3, paragraph 4.26A).

6.2 SSAP-17: Investment Properties

Investment properties by their nature are able to be valued using market based evidence. Applicable disposal costs (agency, legal etc.) are also able to be determined from the market.

Development properties intended to be held as investment properties which meet certain specified criteria are recognised in financial statements at cost plus accumulated development margins to date, determined on a percentage of completion basis. The development margin is the difference between expected net current value on completion and expected cost. Development properties intended to be held as investment properties which do not meet the specified criteria are carried at the lower of cost and net realisable value (see SSAP-17, paragraph 5.5).

The specified criteria referred to above are:

In the case of a development property intended to be held by the reporting entity, the following conditions should be met in order to provide the required degree of reliability for recognition of a development margin in the financial statements:

i) the property should unconditionally be pre-let to at least 80 percent of the anticipated annual rental revenue to be received from entities external to the reporting group; and

ii) all costs incurred and expected to be incurred by the entity can be reliably be estimated (SSAP-17, paragraph 4.14)
If a property, previously accounted for as an investment property, is now intended to be sold, it should be reclassified accordingly but continue to be recorded at the carrying amount at the date of change of intention except where carrying amount is greater than net realisable value, in which case, it should be written down to net realisable value (see SSAP-17, paragraph 5.8).

6.3 Apportionment of Value/Componentisation

Valuers will frequently be required to undertake an apportionment of reported property values, allocating value separately to the land element (non-depreciable) and the buildings (depreciable). Valuers should, as far as it is possible, continue to apply market concepts. While it is acknowledged that buildings cannot be separated from the land that they occupy, valuers should recognise that the purpose of carrying out the apportionment is to establish a basis for measuring the consumption in the financial statements. Typically, the land value should be established and deducted from the total value to arrive at the depreciable amount for the buildings (adapted from IVS-2003, IVA 1 -, paragraphs 5.4 and 6.2.5).

FRS-3 requires asset components that have different useful lives or which provide a different pattern of economic benefits to an entity to be recorded separately for financial reporting purposes. This requirement will necessitate the valuer to undertake further valuation apportionments where instructed by the reporting entity. For example, the value apportioned to buildings may need to be further split into the structure, building services and fitout (and in some cases, further sub-components within these components).

Paragraph 5.21 of FRS-3 states:

“Judgement will be required to decide which components of complex items of property, plant and equipment are accounted for separately. Components will not need to be accounted for separately if materially the same total depreciation expense, carrying amounts and revaluation movements will otherwise result. For entities with asset management plans, it is expected that items of property, plant and equipment will be accounted for at a higher aggregation level (i.e. at a lesser level of detail) than that recorded in the asset management plans.”

The implication of the above is that component apportionments should be limited to major components which are clearly separately identifiable. In any event, valuers should liaise and discuss the required level of componentisation with the instructing entity.

For the purposes of componentisation, the costs attributed to the components should be based on an apportionment of the overall replacement costs (or value) i.e. ‘top down’ as opposed to ‘bottom up’. The reason for this is that the top down approach will more accurately reflect the market replacement cost/value since aggregating the replacement costs/values of individual parts from a ‘bottom up’ approach will usually produce a higher overall figure.

Valuers may be further requested to advise on appropriate useful lives over which asset components should be depreciated for accounting purposes.

In some circumstances where apportionment of values is appropriate this will require the valuer to seek the professional assistance of specialist valuers (e.g. plant & equipment valuers) or other experts such as engineers or quantity surveyors, where the valuer does not have the necessary expertise.

6.4 Revaluation Frequency

Where an entity chooses to revalue its assets under the provisions of FRS-3, revaluations are to be undertaken on a systematic basis:

(i) with sufficient regularity to ensure that no individual item of property, plant and equipment is recorded for financial reporting purposes at a valuation that is materially different from its Fair Value; and

(ii) at a minimum, every five years (FRS-3, paragraph 7.1 (b)).

While the annual revaluation of items of property, plant and equipment is not required by FRS-3, the adoption of a system involving annual revaluation, especially for land and buildings assets, is encouraged in order to provide more relevant information to users of an entity’s financial report (FRS-3, paragraph 7.2). FRS-3 states that the principle for determination of the frequency of revaluations as being that revaluations must be carried out with sufficient regularity to ensure that the carrying amount of a revalued asset is not materially different from its Fair Value. Accordingly, under changing market conditions, revaluations may be required to take place more frequently. Examples of changing market conditions include:
NZ VALUATION GUIDANCE NOTE 1

- Introduction of new technology;
- Demand changes resulting from, for example, centralisation or decentralisation;
- Movements in inflation and borrowing costs;
- Government policy and legislation.

Property assets classified as investment properties under the provisions of SSAP-17 are to be revalued annually.

6.5 Owner-Occupied Properties

Where the primary approach to valuation of owner-occupied properties for financial reporting purposes is capitalisation or discounting of future rental income, the valuer shall assume that a notional lease is in place on market terms and conditions reflecting the current use.

The valuer’s report shall set out the basic terms of the assumed lease including the notional lease term, market rental, responsibility for outgoings, the basis and frequency of rental reviews and any other terms and conditions applicable to a typical lease of like nature in the market at the date of the valuation.

The capitalisation or discount rate utilised in the valuation shall reflect the notional lease terms and conditions.

Informal and unenforceable lease or occupancy arrangements between related entities or subsidiaries should not be taken into account or used as the basis of a valuation. The asset which is the subject of that agreement should be treated as owner-occupied.

The presence of a formal lease or occupancy agreement between related entities or subsidiaries which is legally enforceable consequently changes the interest in the properties being valued. Such properties should therefore be classified as investment properties. The reporting entity should declare these arrangements in the valuation instructions. In the context of a group, the classification of the properties is required to be reconsidered - and valued in accordance with the appropriate valuation basis applicable at the group level.

6.6 Assistance with Impairment Reviews

Where an item of property, plant or equipment is not revalued for financial reporting purposes, a review by the reporting entity is required at each reporting date to assess whether there is any indication that the item may be impaired (see FRS-3, paragraph 9.3). Paragraph 9.4 of FRS-3 sets out the indications of possible impairment which must, as a minimum, be considered.

Where an item’s future economic benefits are directly related to its ability to generate future cashflows, and there is indication that the carrying amount of the item exceeds the item’s recoverable amount, the entity must estimate the item’s recoverable amount (FRS-3, paragraph 9.3). If the recoverable amount is less than the carrying amount, the item must be written down to recoverable amount.

Where the future economic benefits of an item are not directly related to its ability to generate net cash in flows, the carrying amount of the item must not exceed net market value. However, where net market value cannot be determined because such items rarely, if ever, are sold in the open market except as part of the sale of a business in occupation, then the carrying amount must not exceed depreciated replacement cost.

It follows - that valuers may be requested to assist entities to estimate an item’s recoverable amount. Valuers requested to assist entities in this way should have regard to the relevant requirements and guidance in FRS-3 and elsewhere in this Guidance Note.

6.7 Liabilities Associated with Assets

When an entity incurs an obligation to dismantle or remove an item of plant or equipment or restore a site, to the extent that a provision (liability) is recognised under FRS-15: Provisions, Contingent Liabilities and Contingent Assets, this is capitalised by the reporting entity as part of the cost of bringing the item of property, plant and equipment to working condition for its intended use.

The accounting treatment described - above applies in relation to both the initial recording of an item of property, plant and equipment (see paragraph 5.6 of FRS-3) and subsequent to initial recording (see paragraph 6.5 of FRS-3.)

When undertaking valuations of property, plant and equipment which have restoration, dismantling or removal obligations associated with them, the valuer must request guidance from the entity from whom valuation instructions are received about how such obligations are to be dealt with in the valuation. In all such circumstances, the valuation report is to disclose how such obligations have been treated.
6.8 Appropriateness of Rating and Other Valuations

Paragraph 7.10 of FRS-3 states that:

“A valuation carried out for purposes other than financial reporting, for example a rating valuation, is not to be used as the basis for recording a revaluation unless the basis of valuation has been confirmed as appropriate, in accordance with the requirements of this Guidance Note, by an independent valuer.”

A valuer requested to confirm the appropriateness of a rating or other valuation for financial reporting purposes must determine whether the valuation meets the requirements of FRS-3 and this Guidance Note. The valuer must comply with all the requirements of this Guidance Note.

For plant and equipment, where there is an active market or readily available price indices that establish the item’s Fair Value with reasonable reliability, the valuation need not be conducted by an independent valuer or experienced employee (FRS-3, paragraph 7.1(d)).

For the purposes of the above paragraph, a valuation may be undertaken without the need for an independent valuer or experienced employee only where there is sufficient objective market information available which enable two or more non-experts to determine materially the same Fair Values of the particular item of plant and equipment. The above paragraph is not applicable where depreciated replacement cost is the most appropriate basis for determination of the Fair Value of an item of property, plant and equipment (FRS-3, paragraph 7.9).

6.9 Independent Review of Employee Valuations

FRS-3 permits valuations to be conducted by employees who possess expert knowledge and experience in the location and category of property, plant and equipment being valued. The basis, methodology and assumptions underpinning valuations conducted by such experienced employees of the reporting entity are to be reviewed by an independent valuer to ensure the appropriateness of the valuation approach. (See paragraphs 7.1(c)(ii) and 7.7 of FRS-3.)

When a valuer is requested to undertake an independent review of a valuation undertaken by an employee of the reporting entity, the valuer must satisfy themselves that the basis and methodology of valuation and the assumptions underpinning the valuation are appropriate for a valuation for financial reporting purposes as set out in this Guidance Note. The valuer must review the written report of the employee valuer and ensure that all matters have been properly dealt with. The valuer must be able to confirm that nothing has come to their attention to suggest that the valuation is not appropriate for financial reporting purposes.

6.10 Public Sector and Infrastructure Asset Valuation

Public sector assets comprise a number of different asset types, including conventional properties as well as heritage and conservation assets, infrastructure (e.g., public utility plants), recreational assets, and public buildings.

The valuation of public sector assets is to be undertaken following the same procedures and approaches as adopted in the valuation of private sector assets.

6.11 Disclosure Requirements

The valuation report shall contain a clause specifically prohibiting the publication of the report in whole or in part, or any reference thereto, or to the valuation figures contained therein, or to the names and professional affiliations of the valuers, without the written approval of the valuer as to the form and context in which it is to appear.

The valuation report shall also contain an affirmative statement that the valuation has been prepared in accordance with these or other recognised Standards, that the engagement was performed independently and without bias towards the client or others, and other disclosures required elsewhere in this Guidance Note.

The valuer shall require as a condition of the engagement that any special limitation, assumption, or departure be disclosed in any published document in which reference is made to the valuer’s opinion.

6.12 Effective Date

This Guidance Note was previously PINZ Valuation Standard 3 and became effective on 15 February 2002 and has been updated on 15 February 2006.
ADDENDUM

IFRS to NZ IFRS – Summary of Changes in Respect to Property Assets.

The numbering in this addendum is not sequential as it corresponds to the applicable NZ IFRS reference.

1.0 Introduction

NZ IFRS refers to the New Zealand equivalent to (i) IFRS: International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), (ii) IAS: International Accounting Standards adopted by the IASB and (iii) SIC: Interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

NZ IFRS contain all the provisions of the corresponding IFRS, (including IAS and SIC) and may include:

(i) additional disclosure requirements that apply to all entities, and
(ii) additional disclosure, recognition or measurement requirements that apply only to public benefit entities.

Profit oriented entities that comply with NZ IFRS simultaneously comply with IFRS. However, public benefit entities complying with additional recognition or measurement requirements in NZ IFRS will not simultaneously comply with IFRS.

Public Benefit Entities are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return.

In respect of property, plant and equipment assets, set out below are the changes that have been made in adapting IFRS to NZ IFRS. The changes listed should be read in the context of the standards from which they are drawn, the New Zealand Preface and the New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements.

NZ IFRS 4: Insurance Contracts

All Entities

Appendix C

(Life Insurance Entities):

10.3 Investment property that is within the scope of NZ IAS 40 Investment Property and that backs life insurance liabilities or life investment contract liabilities, shall be measured at fair value under NZ IAS 40.

10.4 Property, plant and equipment that is within the scope of NZ IAS 16 Property, Plant and Equipment and that backs life insurance liabilities or life investment contract liabilities shall be measured using the revaluation model under NZ IAS 16.

10.4.1 An insurer applies NZ IAS 16 to its property, plant and equipment. Under NZ IAS 16 property includes owner-occupied property and property being constructed or developed for future use as investment property. Under NZ IAS 16, the cost model, for measurement subsequent to initial recognition, is to carry property, plant and equipment at cost. However, NZ IAS 16 has a revaluation model: an entity, subsequent to initial recognition, may carry its property, plant and equipment assets at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

10.4.2 Those property, plant and equipment assets that are within the scope of NZ IAS 16 and that the insurer considers back life insurance liabilities or life investment contract liabilities are measured using the revaluation model under NZ IAS 16, that is, they are measured at fair value with increases in fair value credited directly to equity and decreases recognised as an expense unless they reverse a previous increase.

Appendix D

(Financial Reporting of Insurance Activities):

15.3 Investment property within the scope of NZ IAS 40 and that backs general insurance liabilities shall be measured using the fair value model under NZ IAS 40.

15.4 Property, plant and equipment that is within the scope of NZ IAS 16 Property, Plant and Equipment and that backs general insurance liabilities, shall be measured using the revaluation model under NZ IAS 16.
15.4.1 An insurer applies NZ IAS 16 to its property, plant and equipment. Under NZ IAS 16 property includes owner-occupied property and property being constructed or developed for future use as investment property. Under NZ IAS 16, the cost model, for measurement subsequent to initial recognition, is to carry property, plant and equipment at cost. However, NZ IAS 16 also has a revaluation model: an entity, subsequent to initial recognition, may carry its property, plant and equipment assets at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

15.4.2 Those property, plant and equipment assets that are within the scope of NZ IAS 16 and that the insurer considers back general insurance liabilities are measured using the revaluation model under NZ IAS 16.

NZ IAS 2: Inventories

Public Benefit Entities

NZ 8.1. Inventories held by public benefits entities may include:
(a) ammunition;
(b) strategic stockpiles (for example, energy reserves);
(c) stocks of unissued currency; and
(d) postal service supplies held for sale (for example, stamps).

NZ 9.1. In respect of public benefit entities, inventories held for distribution shall be measured at the lower of cost and current replacement cost.

NZ 9.2. A public benefit entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an entity has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount of entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made.

NZ 9.3. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 9 (that is, inventory is then measured at the lower of cost and net realisable value).

NZ 10.1. In respect of public benefit entities, where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition.

NZ IAS 16: Property, Plant and Equipment

All Entities

NZ 5.2. Under NZ IAS 40, paragraph 53, an entity is permitted to use the cost model for investment properties only where the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.

NZ 35.1. Subject to paragraph NZ 35.3 valuations shall be conducted either:
(a) by an independent valuer; or
(b) where an entity employs a person sufficiently experienced to conduct a valuation, by that person, so long as the valuation has been subject to review by an independent valuer.

NZ 35.2. The fair value of property, plant and equipment is determined or reviewed by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property, plant and equipment being valued.

NZ 35.3. For plant and equipment, where there is an active market or readily available price indices that establish the item’s fair value with reasonable reliability, the valuation need not be conducted or reviewed by an independent valuer or experienced employee.

NZ 77.2. An entity shall disclose in respect of each valuation conducted in accordance with paragraph NZ 35.1:
(a) the name of each valuer;
(b) a statement in respect of each valuer as to whether they are an employee of the
entity or whether they are contracted as an independent valuer;

(c) the total fair value of property, plant and equipment valued by that valuer;

(d) where the valuation has been conducted by an employee of the entity the name of the independent valuer who reviewed the valuation; and

(e) the date(s) of such valuations.

NZ 77.3. Where an entity has not used an independent valuer because there is an active market or readily available price indices that establish the fair value an item of plant or equipment with reasonable reliability in accordance with paragraph NZ 35.3, an entity shall disclose this fact.

Public Benefit Entities

NZ 15.1. In respect of public benefit entities, notwithstanding paragraph 15 (that is, an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost), where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition. The fair value of the asset received must be recognised in the income statement.

NZ 15.2. In most instances when property, plant and equipment is acquired, the cost of the item provides a measure of its value to the entity at the date of acquisition. When property, plant and equipment is donated, or the acquisition is subsidised, the cost of the item (if any) is not a reliable indication of its value to the entity. This standard therefore requires the fair value of such items to be determined as a substitute for the cost of purchase, and the amount of the donation or subsidy received to be recognised as revenue in the income statement.

NZ 33.1. In the context of this Standard and in relation to public benefit entities, depreciated replacement cost is a method of valuation that is based on an estimate of:

(a) in the case of property:

i. the fair value of land; plus

ii. the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity; and

(b) in the case of plant and equipment,

the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity.

NZ 33.2. Fair value is defined in paragraph 6 of this Standard (that is, the amount for which an asset could be exchanged between knowledgable willing parties in an arms length transaction). Depreciated replacement cost is an acceptable estimate of the fair value of an asset only where the fair value of the asset is not able to be reliably determined using market-based evidence in accordance with paragraph 32 of this Standard.

NZ 33.3. In the context of this Standard and in relation to public benefit entities, depreciated replacement cost is based on the reproduction cost of a specific asset. In principle, it reflects the service potential embodied in the asset. However, in some cases the reproduction cost of the specific asset is adjusted for optimisation in determining depreciated replacement cost.

NZ 33.4. Optimisation refers to the process by which a least-cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity.

NZ 33.5. Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. In determining depreciated replacement cost, optimisation for obsolescence is made by reducing the reproduction cost of the specific asset held to the cost of a modern equivalent asset that provides equivalent service potential to that of the specific asset held.

NZ 33.6. Surplus capacity may arise from either over-design or from surplus components of an asset. In determining depreciated replacement cost, optimisation is applied only to surplus capacity that is not required currently and for which there is no reasonable prospect it will ever be required in utilising an asset in its current form.
Optimisation is not applied to surplus capacity that, while rarely or never used, is necessary for stand-by or for safety purposes.

NZ 33.7. In determining depreciated replacement cost, the extent of any reduction in value for surplus capacity subject to optimisation depends on whether that surplus capacity subject to optimisation depends on whether that surplus capacity has an alternative use to the current use of the asset. Where there is no alternative use, the optimised value of the surplus capacity is zero. Where there is an alternative use, the optimised value of the surplus capacity is the value of the highest and best alternative use of that capacity.

NZ 33.8. To illustrate the distinction described in paragraph NZ 33.7 between surplus capacity not having an alternative use to the current use of the asset and that which does, consider the following example. Assume depreciated replacement cost is to be determined for a network of water pipes where the pipe diameter is greater than currently required or ever expected to be required (including that necessary for stand-by or for safety purposes). There is also a discrete segment of the piping network that is similarly not required for the current use of the asset but which can be closed off and used for other purposes, such as a liquid storage facility. In this case, the surplus diameter of the piping would be disregarded for valuation purposes but the surplus segment of the piping network would be valued at its highest and best alternative use.

NZ 33.9. In most cases, surplus capacity subject to optimisation is expected to be disregarded in determining the depreciated replacement cost of an asset. Such surplus capacity is unlikely to have an alternative use unless it is physically and operationally separable from the required capacity.

NZ 33.10. In determining depreciated replacement cost, optimisation for obsolescence and relevant surplus capacity is applied only to the extent that it reflects the most probable use of the asset that is physically possible, appropriately justified, legally permissible and financially feasible.

NZ 33.11. As evident from the definition of depreciated replacement cost, optimisation is applied only in determining the depreciated replacement cost of plant and equipment and in determining an estimate of the value of the improvements component of the depreciated replacement cost of property. Optimisation is not applied in determining the value of the land component of the depreciated replacement cost of property. The value of the land component will always reflect the fair value of the actual land held, in terms of both its size and location.

NZ 33.12. In instances where the land is underutilised, the fair value of the land will be determined by reference to the highest and best use of such land. For example, in a case where specialised manufacturing facilities are located in a prime central business district site but the operation would be able to be run from a smaller sized and/or less valuable alternative site offering the same service potential, the fair value of the land would be the open market value of the entire central business district-located site.

NZ 33.13. The fair value of land would normally be determined from market based-evidence. However, in the rare instances where extensive works have been carried out in order to prepare land for use in the entity’s business, available market evidence will normally relate to land of the same size and in the same general vicinity but which is priced for uses that are sub-optimal relative to the use for which the works were carried out. In these rare instances the fair value of the land should be determined by having regard to the replacement cost of the land. For example, consider the case where an airport or port company acquires a section of seabed, fills it in and builds a seawall in order to produce flat land for use in the entity’s business. The reclaimed land is in the precise location where the entity requires land. Market evidence may exist for other land of the same size and in the same general vicinity as the reclaimed land, but that other land is not suitable for the use intended by the entity. Thus, the market evidence on the fair value of that other land is not relevant to the reclaimed land, and the best indicator of the fair value of the reclaimed land would be the replacement cost of that land. Land resulting from extensive works by a local or central government body in constructing new roading provides a similar example.

NZ 33.14. If an entity adopts the allowed alternative treatment in NZ IAS 23, an amount equal to the amount of borrowing costs that would be embodied in the fair value of the asset...
is included as a component of depreciated replacement cost. The inclusion of such an amount as a component of depreciated replacement cost is consistent with the principle underlying the inclusion in the initial cost of an asset of borrowing costs eligible for capitalisation as permitted by NZ IAS 23. The amount to be included as a component of depreciated replacement cost is determined on the basis of the average debt-to-equity ratio and average cost of debt applicable to entities undertaking the same activities as the entity reporting.

NZ 77.1. Public benefit entities are not required to disclose, for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, as required by paragraph 77(e).

NZ IAS 36: Impairment of Assets

Public Benefit Entities

NZ 2.1. This Standard shall be applied in accounting for the impairment of all assets of public benefit entities, other than:

(a) [assets excluded by paragraph 2;] and
(b) assets whose future economic benefits are not directly related to their ability to generate net cash inflows.

NZ IAS 38: Intangible Assets

Public Benefit Entities

NZ 124.1. Public benefit entities are not required to comply with the requirement in paragraph 124(a)(iii) to disclose, in respect of intangible assets accounted for at revalued amounts, the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model in paragraph 74.

NZ IAS 40: Investment Property

All Entities

30-32 [An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

56 [An entity is not permitted to use the cost model except in the circumstances outlined in paragraph 53.]

53 There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity shall measure that investment property using the cost model in NZ IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply NZ IAS 16 until disposal of the investment property.

NZ 33.1. Valuations shall be conducted either:

(a) by an independent valuer; or
(b) where an entity has in its employ a person sufficiently experienced to conduct a valuation, by that person, so long as the basis of valuation has been subject to review by an independent valuer.

NZ 33.2. The fair value of investment property is determined or reviewed by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

NZ 75.1. An entity shall disclose in respect of each valuer employed:

(a) the name of the valuer;
(b) the total fair value of property valued by that valuer; and
(c) the date(s) of such valuations.

Public Benefit Entities

NZ 9.1. In respect of public benefit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under NZ IAS 16, for example:

(a) property held for strategic purposes; and
(b) property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

NZ 20.1. In respect of public benefit entities, notwithstanding paragraph 20, where an investment property is acquired at no cost or for nominal cost, its cost shall be deemed to be its fair value as at the date of acquisition.
The New Zealand Valuation & Property Standards Board issues the following guidance note to all members of the Property Institute of New Zealand and the New Zealand Institute of Valuers.

Insurance Valuation Reports

Following on from changes to the provisions for insurance under the Earthquake and War Damage Act 1951 the NZIV revised its “Certificate of Valuation for Insurance Purposes (Buildings)”. In November 1994 the NZIV published to members a revised insurance reporting format, together with a guidance note.

The revised insurance report “Valuation for Insurance Purposes” the “definitions of insurance valuation terms” and the “Guidance notes for use of Insurance Valuation Report” are now issued to members for their use and included in this “Technical Handbook” for members’ information.

Stocks of the Insurance Reports and guidance notes are available from the National Office - NZIV.

Readers should note that the Format of this insurance report is Copyright to the NZIV and IPMV.

Background

On the 1st September 1992 the New Zealand Institute of Valuers appointed a working group to review the Insurance Certificate which had been commonly used for a period of almost 20 years.

The working group was required to consider the need for a Certificate its wording and format.

Certification is no longer required but there is a need to provide a Valuation Report. The Valuation Report to which these guidance notes refer has been developed for use by members of the New Zealand Institute of Valuers and The Institute of Plant and Machinery Valuers.

The most significant changes to the former Certificate is the inclusion of Risk Management Information and the provision of market related value.

00.1 GENERAL

The most important feature of the Insurance Report is that it is a report and not a Certificate.

Valuers of both land and buildings and plant and machinery are able to use the report format.

The purpose of the report is to provide useful information for the client as well as the insurance industry and in an easily recognisable summary format.

Only those values or estimates required should be entered on the Valuation Report Form with a notation, “not required” or “not provided” placed against the other headings, where appropriate.

The intention is to allow for a range of information tailored to the needs of the insurance industry.

The opportunity exists for all valuers to liaise closely with clients so that useful and quality information will allow a decision to be made as to appropriate levels of insurance cover.

There may be instances where the information provided in standard form is insufficient to meet client requirements. In such cases a more detailed report should be provided. A report should be made available.

General Information

0.1 NAME OF CLIENT:

While this is noted as normally “the insured”, there will be occasions when it is not the insured as in the case of a “fund manager”. The name of the client is the actual client of the valuer, broker and insurer.

0.2 ASSET DESCRIPTION:

This will include, in the case of the plant and machinery valuations any structure housing these items. It should be noted that when valuing residential property where the floor area is less than 100 square metres as in the case of smaller unit title units, the floor area should be provided in a covering letter or within the asset description, to enable appropriate coverage under the Earthquake Act.

0.3 UPGRADE REQUIREMENTS

Major items could include, but are not limited to:
**NZ VALUATION GUIDANCE NOTE 2**

Sprinkler systems, lifts, major structural and/or machinery componentry, etc.

**0.4 AGE**

The estimated year of completion of the asset, not the commissioning date.

**0.5 LAND CONTOUR**

To ensure uniformity classification should correspond in general terms with those specified in the text, Urban Valuation in New Zealand, Volume I, 1991 by Rodney L Jefferies, published by NIV, PO Box 27-146, Wellington, N.I.

**0.6 SUB-SOIL TYPE (if known):**

This information is required by Underwriters as a broad indicator of seismic stability. The perception gained from the definition can have a significant impact on insurance cost particularly in earthquake prone areas throughout New Zealand. It is important to discuss this aspect with your client and where potential penalties could arise, the insured should be encouraged to seek more detailed information from the Local and Regional Authority or engineering specialists. An entry should only be made in this portion of the report when the valuer has accurate knowledge as to the sub-soil type.

**0.7 OTHER KNOWN CHARACTERISTICS:**

These will include any items not otherwise covered within the report, which will be of assistance to the client and/or insurers and should only be detailed when information is known on the particular characteristics e.g. locational factors, surrounding property uses etc.

**0.8 USE/OCCUPATION:**

This should include a short description of the main site use, but where mixed use occurs e.g. commercial/residential, this should be recorded.

**1.0 Reinstatement**

**1.1 REINSTATMENT ESTIMATE:**

The definition on the reverse of the report will apply but valuers should note that no specific identification is made in the Reinstatement Estimate of the cost of different materials and additional services. Should separate identification and calculation of costs be required, then this should be supplied on request as with details on partial losses (refer reverse of report, and 0.3 of guidance notes). However any major items required as per 0.3 of the guidance notes must be shown under Upgrade Requirements.

**1.2 INFLATIONARY PROVISION:**

It should be noted that no allowance is to be made for any delay due to the need to comply with the provisions of the Resource Management Act including possibly the requirement to reinstate on an alternative site.

**1.3 COST ESTIMATE:**

In relation to the reinstatement, is as at a particular date (date of report) unless stated otherwise.

**2.0 Indemnification**

**2.1 MARKET RELATED VALUE**

If this value is required by the client, it is the value of the asset, excluding any land (Note b) on the front of the report, assuming that if appropriate, it is leased at a market rental. This would provide a similar value of the asset, as if it had been assessed in terms of the Valuation of Land Act 1951, being the added value which the asset gives to the land. As the property could be owner occupied, vacant or subject to rent review, it is considered appropriate to adopt this ‘market related value” basis, and a market rental for the calculation of the value of the asset.

Should the insured wish to have Indemnity Value based on actual income then this must be stated by the valuer. This situation may arise in properties which are over or under rented, and when the client specifically requires rent recognition.

**2.2 DEPRECIATED REPLACEMENT COST:**

Note that this approach recognises physical depreciation only.

**2.3 INFLATION PROVISION:**

As detailed on the report, this would be calculated for the higher of “A” or “B” above. When only one of the two indemnification figures are being requested by the client, inflationary provision will apply to that only.

**3.0 Functional Replacement**

**3.1** This would apply to assets unlikely to be reinstated to the same extent, or to the same
design or construction material as existing. This would be required when demand necessitates a smaller or different asset due to changes in technology, economics and other factors. Examples could be a freezing works through to a two storey retail/office building in a district where there is no demand for first floor space and would never be rebuilt. Any functional replacement assessment must be supported by a brief specification either provided by, or created in conjunction with, the client. A brief specification only is required, but if more detail is necessary this should be obtained from the client.

3.2 INFLATIONARY PROVISION:
There is also the requirement to complete the Inflationary Provision during the reconstruction period on the same basis as the Reinstatement Estimate.

3.3 When this basis is used, then item 1.0 on the valuation form, REINSTATEMENT, must also be shown so the difference between the two methods is shown.

4.0 Demolition Estimate

4.1 DEMOLITION ESTIMATE:
This normally assumes that the total asset to be demolished has been damaged beyond repair. A Demolition Estimate covers the cost of demolition and removal as debris of the asset, excluding the cost of removal of any noxious materials or removal of debris on adjoining premises. If allowance is required to be made for the salvage or removal of fixtures, fittings and contents, then this should be specified and referred to in an attached letter. This could also apply to undamaged plant which must be removed from the property if considered necessary.

5.0 Other matters

5.1 SITE IMPROVEMENTS:
The Reinstatement Estimate, Indemnification and Functional Replacement figures if required should relate to the assets together with other assets within 8 metres of the external walls of the main structure or such other additional areas of the site likely to be damaged during reinstatement of the asset. If further infrastructural assets are required to be estimated they should be clearly identified.

5.2 VALUER’S SIGNATURE, QUALIFICATIONS & NAME:
These are as stated. If the letterhead of the NZIV or IPMV is used, the name of the valuer’s firm’s organisation should also be incorporated at the bottom of the report. This would not be required if the company’s letterhead is used.

5.3 VALUATION DATE:
This is the date of the report. If the effective date of the valuation is different, or the valuation date is to cover a particular period other than a normal 12 months period of policy, then this information needs to be provided.

5.4 LESSEE’S IMPROVEMENTS:
The valuation figures should exclude items installed and paid for by a lessee, unless requested by the client and detailed in the asset description. The asset description should also state whether the valuation report includes any plant or machinery.

Definitions of Insurance Valuation Terms

The following definitions pertain to and form an integral part of the Valuation on the reverse hereof.

GENERAL

Name of Client
Normally the insured.

Address
Physical location, including street address at which the assets are situated.

Asset Description
General description giving sufficient detail to identify the range of assets encompassed in the valuation including details of principal structure showing main construction materials. Any exclusions should be noted.

Upgrade Requirements
If the reinstatement estimate is based upon the use of different materials and/or additional services from those existing briefly describe the major item.

Age
Estimated year of completion and dates of any major additions and upgrades.

Use/Occupation
Nature of main activity carried out at location.
Contour
Valuer’s classification of the land contour containing building and immediate yard areas:
1) Level
2) Gentle
3) Easy
4) Medium
5) Steep
6) Other - as specified

Subsoil Type
General classification of land supporting building and immediate yard areas:
1) Bedrock
2) Finn natural ground
3) Filled ground
4) Other - as specified

As a geotechnical survey has not been undertaken the description is without prejudice.

1.0 Reinstatement
A. Reinstatement Estimate
Is the estimated cost at date of valuation (including relevant fees) of reinstating the asset to an as new condition, including, where appropriate, the use of current equivalent technology, material and services. In the case of partial destruction no specific allowance has been made for any additional requirements that any Council, Government or other Authority may as additional expenditure to upgrade, alter or amend the undamaged portion of the asset.

B. Inflationary Provision
This amount has been estimated on the basis of a loss occurring on the last day of a 12 month insurance period, if appropriate.

The inflation provision under 1.0 and 3.0 incorporates an allowance for the additional time required for damage inspections, demolition, preparation of new preliminary proposals and their approval by the Territorial Authority, preparation of working drawings and specifications, schedules of quantities, in addition to an estimated period of construction contract. No allowance is made for any delay due to the need to comply with the provisions of the Resource Management Act.

All inflationary provisions are given without prejudice.

2.0 Indemnification

A. Basis of Valuation
(i) Market Related Value
Market Related Value is the estimated amount for which an asset leased at a market rent, if appropriate, should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion.

(ii) Depreciated Replacement Cost
Is the Replacement Cost at the beginning of the insurance period, reduced by factors providing for age and physical depreciation.

3.0 Functional Replacement
Is the estimated cost required to reinstate all assets to perform similar tasks but under optimum current design and lay-out conditions with capacity requirements not greater than currently available. The value of any partial loss has been disregarded in this context.

4.0 Demolition Estimate
For the purpose of valuation, it is assumed that 100% of the assets have been damaged beyond repair and have no salvage value.

Unless otherwise noted in the valuation covering letter, Demolition Estimate covers the cost of demolition and removal as debris of the assets valued only excluding the cost of removal of any noxious materials, or removal of debris on adjoining premises.
VALUATION FOR INSURANCE PURPOSES

Name of Client: ...................................................................................................................................................................

Address of Assets: ................................................................................................................................................................

.................................................................

Asset Description: ................................................................................................................................................................

Upgrade Requirements: ...........................................................................................................................................................

Age: ............................................................................................................... Use/Occupation: .................................................................

Land Contour: ........................................................................................ Subsoil Type: .................................................................

Other Known Characteristics: ..............................................................................................................................................

1.0 REINSTATEMENT
   A. Reinstatement Estimate
   B. Inflationary Provision

2.0 INDEMNIFICATION
   A. Market Related Value
   B. Depreciated Replacement Cost
   C. Inflationary Provision (For the higher of ‘A’ or ‘B’ above during a 12 month insurance period if appropriate)

3.0 FUNCTIONAL REPLACEMENT
Refer to valuation report/letter for the specification of the functional design
   A. Functional Replacement Cost
   B. Inflationary Provision

4.0 DEMOLITION ESTIMATE

VALUER’S SIGNATURE: ................................................................. QUALIFICATIONS: ...............................................................

NAME: .................................................................................................................................

VALUATION DATE: ......................................................................................................................

(a) All figures quoted are exclusive of Goods & Service Tax, Finance costs and other indirect costs.
(b) All figures are exclusive of any allowance for land value.
(c) This form must be read in conjunction with the definitions of terms on the reverse hereof.
(d) The information in this report has been prepared to establish insurance values and may not be used for other purposes without the written consent of the Valuer.
(e) All figures assume compliance with building regulations and bylaws.

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Revised September 1994

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Issued 1 January 1995
GN5
NZVGN 3 VALUATION OF HOUSES UNDER CONSTRUCTION, AND HOUSES TO BE BUILT OR PREVIOUSLY UNOCCUPIED NEW HOUSES

The New Zealand Valuation & Property Standards Board issues the following guidance note to all members of the Property Institute of New Zealand and the New Zealand Institute of Valuers.

1.0 Introduction

1.1 This Guidance Note has been prepared for all members of the New Zealand Institute of Valuers involved in valuing houses under construction, houses to be built or previously unoccupied new houses.

2.0 Houses to be Built or Under Construction

2.1 When a valuation is being made assuming completion of the development, the valuer shall state in clear and concise language that the property has not yet been completed and that all values are based on the assumption that the property is or will be completed in accordance with the plans and specifications provided and the issuing upon completion of a Code Compliance Certificate by the territorial authority. The valuer should clearly establish the date to which the valuation applies. This would normally be the date of the report.

2.2 A valuation report prepared on a house partially completed, or on a proposed house prepared from plans and specifications, should describe in detail the nature of the building materials, accommodation, quality and nature of the fittings and finishes upon which the valuation is based.

2.3 Full details of any site works which are included in the valuation should be specified.

2.4 If it is anticipated that there will be any significant change in the value of the property between the date of the valuation, and the expected date of completion of the building works, then this should be set out together with the reasons for the anticipated difference.

2.5 The effect, if any, on saleability and value of the property as at the valuation date due to such matters as partially developed site improvements, uncompleted building works and such like should be taken into account and commented upon in the valuation report.

2.6 It is recommended that a valuation report which assumes the completion of a house and/or site development which is either under construction or is to be built or developed should include clauses on the following basis:

"As at the date of inspection the proposed improvements were approximately __% complete. However, this report is based on the assumption that the house will be developed and completed according to the plans and specifications described herein and that the standard of construction is in accordance with that assumed within the report. It should be specifically noted that any significant deviation in respect of style, layout, design or construction standards would invalidate the value conclusions reached in this report."

"The values reported herein are based on data collected and reviewed as at the date of this report. The valuer assumes no responsibility for unforeseeable events that alter market conditions prior to the completion of the development."

3.0 Progress Payment Inspections

3.1 If a valuation is required of building works in progress it is incumbent on the valuer to verify that
the work in progress conforms with the plans and specifications provided, including check measuring of the building(s).

3.2 The valuer should note in his/her valuation of “Work in Progress” not only the value of the work completed but also the estimated cost to complete the work in accordance with the plans and specifications.

3.3 Loose building materials, i.e., those not fixed in place, should not be included in the valuation of work completed. If the valuer considers it relevant, however, reference may be made to such loose building materials.

4.0 Final Payment Inspection

4.1 When requested to undertake a final inspection of the property the valuer should refer the client to the original valuation and date thereof, and refer to the client details of any work remaining to be done.

4.2 The valuer should inform the client as to whether the final balance of the monies outstanding may be released, or if a further retention should be made and the reasons why.

4.3 The valuer may wish to draw to the attention of the client prior to the final inspection being made of the importance of obtaining a Code Compliance Certificate.

4.4 The valuer should inform the client of the importance of obtaining a completed Code Compliance Certificate before releasing any final monies.

5.0 Valuation of Previously Unoccupied New Houses

5.1 Valuers should be aware that it is essential when valuing previously unoccupied new houses - either those completed or to be built - that consideration of comparable sales evidence should include not only similar new houses but also re-sales of similar properties.

5.2 Some new houses are offered for sale on finance terms favourable to the initial purchaser and this is often reflected in the initial purchase price. In addition the initial purchase price may reflect the building cost. The valuer should have regard to all such factors in determining the final value estimate.

5.3 The re-sale value of a house - particularly a previously unoccupied new property can be adversely affected by incomplete development of the property, whether the house itself or the site development.

5.4 Where the valuer considers that there is likely to be a significant difference between the value of a new house and its re-sale value in its same condition then this should be stated clearly in the valuation report, showing both value as a previously unoccupied new property and the re-sale value. The valuer should always comment on any differential between the purchase price new where known, and the assessed market value as a new house.

5.5 Where mortgage recommendations are provided the valuer should base such recommendation on the re-sale value of the property.

6.0 Duty of Care

Valuers are reminded of the duty of care and responsibility they owe to their client, mortgagees and third parties who may rely upon their valuations.

All enquiries should be addressed to:
Chief Executive Officer
New Zealand Institute of Valuers
P O Box 27-146
WELLINGTON
ANZ REAL PROPERTY GUIDANCE NOTE 1

ANZRPGN 1 DISCLAIMER CLAUSES AND QUALIFICATION STATEMENTS

1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide advice to members in the drafting and notifying disclaimer clauses and qualification statements when reporting to clients.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance Note applies to members reporting to clients on any solution to a property problem. It relates specifically to the need for, and the drafting and notifying of, disclaimer clauses in those reports and should be used in conjunction with other guidance notes and practice standards which are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 International Valuation Standards
This Guidance Note recognises the International Valuation Standards 1 and 2, and the International Valuation Application 2, effective from 2007 by the International Valuation Standards Committee and it is intended to be consistent with the concepts and definitions contained in those standards; however, there may be departures from IVSC Standards to reflect Australian & New Zealand law and practice.

1.5 Unlikely Instructions if Seek Exemption
Members are unlikely to be given instructions to value or give advice on property if they seek exemption from liability to their clients.

1.6 Protect from Unrelated Third Parties
They may, however, wish to protect themselves from unrelated third parties by attempting to limit the class of person to whom a duty of care may be owed. For that purpose members will often, and indeed, may be required by their professional indemnity insurer to, use a variety of third party disclaimers.

1.7 Qualification Statements
Similarly, a Member may wish to include qualification statements in a property report to bring to the attention of the reader assumptions and/or other issues concerning factors which might affect the property, and ultimately its value and any other conclusions in the report.

2.0 Third Party Disclaimer Clauses

2.1 Third Party Disclaimer Clauses
Third Party Disclaimer Clauses can take many forms, but would usually contain one or more of the following components:

- the purpose for which the valuation was prepared.
- the person for whom the report was prepared.
- a statement as to who can rely on the information contained in the report.
- a statement that the signatory/firm accepts no responsibility (other than to the client) for the document or its contents.

2.2 Not Able to Exclude Liability
A disclaimer will not, of itself, be able to exclude a member’s liability in negligence where such a liability would otherwise exist. [Refer Barwick C.J in the Evatt’s case and Allen J in Burke and Ors v Forbes Shire Council (1987), Supreme Court of New South Wales, Australian Torts Reports 80-122].
2.3 Disclaimer Clause May be Effective
However, in spite of those rulings a disclaimer clause may be effective. The presence of such a clause is one factor which could be considered relevant in establishing whether there was a sufficiently close relationship between the parties, in particular whether it was reasonable, in the circumstances, for the third party to rely upon the information set out in the report.

2.4 Legislation
Similarly, under the various legislation e.g. Federal Trade Practices Act and the various State Fair Trading Acts in Australia, and the Fair Trading Act in New Zealand, it is not possible to avoid liability to third parties simply by stating that the member does not accept responsibility to that person.

2.5 May be Effective Where Limitation Reasonable
A disclaimer may be effective to avoid liability under these acts where the limitation upon liability to third parties sought to be created by the member is reasonable having regard to all the circumstances including the instructions provided, the purpose of the report, the intended circulation of the report (who is likely or intended to receive and rely upon it) and the clarity of the disclaimer.

2.6 Sufficient Warning to Third Parties
In such circumstances, the third party disclaimer will be effective because it provides a sufficient warning to third parties that it may not be safe to rely upon the report without further recourse to the author. A report containing such a third party disclaimer may be held not to be misleading or deceptive to a person of the class of third parties to which liability has been claimed.

2.7 Specifically Drafted
Accordingly, at both common law and under the Trade Practices Act and state Fair Trading Acts in Australia, and the Fair Trading Act in New Zealand, the most effective third party disclaimer will be one that is specifically drafted for the circumstances of the particular report and which, thereby reflects the instructions, purpose and intended recipients of the report.

2.8 Most Impact at the Beginning of Report
Generally, the clause is more likely to be effective if included at the beginning of the report.

2.9 Ambiguity
Where there is any ambiguity in the meaning of the clause, a Court is likely to interpret the disclaimer in a manner which is least helpful to the party relying on that clause. It is therefore necessary to consider carefully each set of instructions and to adopt clear, concise wording appropriate to the particular valuation or property report being undertaken.

2.10 Inappropriate Disclaimer
Members should also note that the use of a third party disclaimer, where the disclaimer is inappropriate to the instructions, purpose and intended recipients of the report, could itself constitute misleading or deceptive conduct in breach of the Federal Trade Practices Act or State Fair Trading Acts in Australia, and the Fair Trading Act in New Zealand.

2.11 Instruction Paragraph Details
Ideally, the instruction paragraph should set out the details of the party issuing the instruction, the date of their written instructions, the party to whom the report is addressed, the names of any other parties to whom liability is extended under the report and the purpose of the report. For example:

Acting on written instructions from ... dated ..., we have inspected the property situated at ..., for the purpose of assessing the current Market Value of that property for mortgage security purposes.

This valuation may only be relied upon by ... The report has been prepared for the private and confidential use of the above parties and it should not be reproduced in whole or in part or relied upon for any other purpose or by any party other than ... without express written authority.

3.0 Qualification Statements

3.1 Highlight Factors Affecting Reliability
Qualification statements should be used whenever the quality of the information provided by the member can be improved by highlighting any factor which may affect the reliability of that information.
3.2 Clearly Inform the Reader
Qualification statements should clearly inform the reader of:
- any factors which might affect the reliability of information in the report;
- any additional steps which the reader should take to make the information more reliable;
- the potential effect on the value if the information is not correct.

3.3 Not a Substitute - Highlight Limitations
Qualification statements should not be used as a substitute for the member’s own reasonable enquiries and verification of information. They do, however, have a legitimate role in highlighting particular aspects of the instructions, limitations upon the extent of enquiry, which the member is reasonably able or expected to carry out, and/or limitations in expertise.

3.4 Most Impact Adjacent Information Intended to Qualify
Qualification statements will have the most impact on the reader if they are included in the body of the report immediately adjacent to the information which they are intended to qualify. Where particular qualification statements (including assumptions) are of central importance to a particular property report, it may be good practice to repeat those qualification statements in a prominent place such as adjacent to the conclusion or statement of valuation opinion.

3.5 Mould to the Circumstances
While it is useful to have a standard set of commonly used qualification statements to act as a reminder or ‘trigger’, members should take care to mould the appropriate qualification statements to the circumstances of each particular report. A slavish adherence to standard qualification statements may undermine the effectiveness of those statements.

3.6 Appended Page Less Useful
Similarly, a page of qualification statements appended to a property report may not assist the reader of the report to focus on the issues and may be less useful in assisting the Member to resist allegations of negligence and/or misleading or deceptive conduct.

3.7 Must Inform the Reader
Qualification statements do not have any ‘magic’ effect. In order to be of assistance in minimising liability they must actually inform the reader in a way that allows the reader to assess the information provided by the property report in a balanced and informed manner. By doing so qualifications will assist the member to meet his or her duty of care and avoid information in the property report creating a misleading or deceptive impression.

3.8 Examples Relevant to Situations
Some examples of qualification statements which may be relevant to situations commonly encountered by members are set out below. The manner in which these examples are designed to address limitations in the member’s role, instructions or expertise should be noted. They may assist to draft specific qualification statements to address particular circumstances or reports, however they should be used as a guide only. Disclaimer clauses should be specifically designed to suit particular instructions as appropriate.

3.9 Site Survey
Member Generally not Qualified
The member is often asked to state that the improvements on a property are located within the boundaries of the site. Generally the Member is not qualified to make that certification, unless also qualified and registered as a Surveyor.

3.10 Survey Qualification
The Institute suggests that the following qualification may be appropriate for inclusion in reports.
‘A current survey has not been sighted. The valuation is made on the basis that there are no encroachments by or upon the property and this should be confirmed by a current survey report and/or advice from a Registered Surveyor. If any encroachments are noted by the survey report, the member should be consulted to reassess any effect on the value stated in this report.’

3.11 Town Planning/Resource Management
Verbal Enquiries
In most instances a member will only make verbal enquiries of the Local Authority or the State Planning Department as to the zoning or planning
area of a property. In some locations - it is not possible to obtain a ‘zoning or planning area certificate’ and obtaining written confirmation of zoning can take considerably more time than is generally available to the Member and/or the client.

3.12 Extent and Nature of Enquiries
It is therefore necessary to set out the extent and nature of the enquiries made in ascertaining the zoning and development requirements of the subject property. For example:

Town planning information was verbally obtained from offices of the Town Planning Department. ........................ Council, however, we recommend that this zoning or planning area should be verified by application to Council for the issue of a zoning certificate pursuant to Section 149 of the Environmental Planning and Assessment Act, 1979.

3.13 Environmental/Contamination Issues

Increased Awareness
An increased awareness of environmental issues in the community today has brought about a need for members reporting on property to be conscious of influences which may affect the value of a particular property at the time of reporting or at some time in the future.

Issues Include
Those issues may include:

- contamination - through petroleum or chemical products;
- nutrient management for properties adjacent to rivers/streams or over underground water supply sources;
- conservation - including rare flora and fauna species;
- Native title claims.

Examples
Some examples of clauses relevant to this issue include the following:

- Environmental Issues
  Our enquiries at ...... Council indicate that the site has not previously been utilised for any industrial or manufacturing use or for the storage (either above ground or underground) of any chemical substance.

Our verbal enquiries at EPA indicate that the Authority is unaware of the existence of any site contamination. Whilst our inspection of the site surface confirms the results of these enquiries, we have not investigated the site beneath the surface or undertaken vegetation or soil sampling. This valuation is therefore subject to a satisfactory contaminated site assessment report from environmental consultants.

or

The site is (or has been) occupied by an undertaking which, having regard to the nature of process or chemicals used or stored, has a potential to cause soil contamination. Whilst our enquiries at EPA indicate that the Authority is unaware of contamination, we recommend a site inspection by an Environmental Consultant.

- Petroleum products
  The subject property is operated as a service station and workshop and therefore fuels, oils and other products capable of causing contamination are used on the site as part of the operation. There are no visible signs of any pollution on the property; however, we are unable to certify that there is no contamination of the property beneath the surface of the soil.

- Asbestos
  Inspection of the improvements showed the use of asbestos products in the building. We must point out that we are not experts in this area and therefore, in the absence of an environmental consultant’s report concerning the presence of any asbestos fibre within the subject property, this valuation is made on the assumption that there is no health risk from asbestos within the property. Should it subsequently transpire that an expert report establishes that there is an asbestos related health risk we reserve the right to review this valuation.

- Pest Affectation
  The subject property is located in an area considered susceptible to termite infestation. Inspection of the subject improvements did not reveal any apparent termite infestation. This should however, be confirmed by a certified pest control firm.
• Right to Review
The right is reserved to review and if necessary vary the valuation figure if any contamination or other environmental hazard is found to exist.

3.14 Improvements
Extent of Investigations
In describing the improvements to a property, and their condition, it is important to highlight in the report the extent of the member’s investigation as to the structural integrity of the building and its plant and equipment. For example:
• An inspection of all readily accessible parts of the improvements on the property has been carried out by the member.
• We have not sighted a qualified engineer’s structural survey of the improvements, or its plant and equipment. The member is not a building construction and/or structural expert, and is therefore unable to certify as to structural soundness of the improvements. Prospective purchasers or mortgagees would need to make their own enquiries in this regard.
• We have not sighted a structural report on the property nor have we inspected unexposed or inaccessible portions of the premises. We therefore cannot comment on the structural integrity, defect, rot or infestation of the improvements nor can we comment on any knowledge of the use in construction of material such as asbestos or other materials now considered hazardous.

3.15 Tenancy Details
Extent of Investigation of Lease Details
In reporting the specific lease details of a property it is important to advise the extent of the investigation of lease documents and other supporting documentation undertaken by the Member.

Valuation of a Proposed Development
On occasions, particularly when undertaking an ‘as if complete’ valuation of a proposed development, lease negotiations or preparation of documentation may not have been concluded. In those circumstances it is necessary to specify in the report that the valuation is subject to satisfactory conclusion of those lease negotiations and the sighting by the member of a stamped lease agreement by the parties. For example:

This assessment of Market Value is based on the assumption that the proposed lease agreements outlined earlier in this report are all executed, signed and stamped.

Upon being stamped those documents should be referred to the member for sighting to confirm that the particulars of the document concur with those set out in this report.

3.16 Value As If Complete
Requires a Variety of Assumptions
In Australia it is normal practice in valuing a proposed development for mortgage security purposes to assess the market value of that development as though the property were completed at the date of valuation. Such a process requires a variety of assumptions to be made, which may include:
• construction and development costs;
• in accordance with plans and specifications at the time of valuation;
• the impact of existing and future competition;
• the level of sale prices; and
• in the case of income properties, the likely level of rents, the lease-up period, rental concessions and commissions, capitalisation rates, discount rates, etc.

3.17 Set Out in Detail Assumptions Made and Qualifying Clauses
It is therefore imperative that the Member, in undertaking an ‘As If Complete’ valuation, sets out in detail the assumptions made and inserts a qualifying clause in the valuation report stating that the valuation is subject to the assumptions outlined in the report, particularly where those assumptions are based on purported lease negotiations or pre-sale contracts. These qualifying clauses could include:
• Satisfactory completion of the improvements in accordance with the plans, specifications and details as provided.
• An inspection by the valuer following practical completion of construction.
• Confirmation or variation of the original valuation figure relevant to the original valuation date, following an inspection of
the project and any leases after practical completion.

- Issue of all relevant approvals including a satisfactory building completion certificate under the appropriate legislation.
- Sighting of any reports from other experts who have provided advice in aspects of the construction of the buildings.
- Such other matters/issues that the valuer is of the opinion should be drawn to the attention of the lender.
- The right to review and, if necessary, vary the valuation if there are changes in the project itself or leasing.

An example of what could be stated follows:

‘The Value As if Complete assessed herein is the Market Value of the proposed improvements as detailed in the report on the assumption that all construction had been satisfactorily completed in all respects at the date of this report. The valuation reflects the valuer’s view of the market conditions existing at the date of the report and does not purport to predict the market conditions and the value at the actual completion of the improvements because of time lag.

Accordingly, the ‘As if Complete’ valuation must be confirmed by a further inspection by the valuer, initiated and instructed by the lender, on completion of improvements. The right is reserved to review and if necessary, vary the valuation in this report if there are any changes in relation to the project itself or in property market conditions and prices’.

### 4.0 GST Qualification

In analysing the sales and/or leasing evidence referred to herein, it is noted that we have attempted to ascertain whether or not the sale price/rental is inclusive or exclusive of Goods and Services Tax (GST). In relation to sales evidence, it is emphasised that Land Titles Offices in Australia and the Land Registry Offices in New Zealand do not currently differentiate between or record whether or not the sale price is inclusive or exclusive of GST.

Where we have not been able to verify whether or not GST is included in the sale price or rental, we have assumed that the record of sales price or the rental is inclusive/exclusive of GST. Should this not be the case for any particular sale or letting used as evidence, we reserve the right to reconsider our valuation.
ANZ REAL PROPERTY GUIDANCE NOTE 2

11.2 ANZRPGN 2 ACTING AS AN EXPERT WITNESS, ADVOCATE OR ARBITRATOR

1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide information, commentary, opinion, advice and to Members acting as experts in judicial or quasi-judicial proceedings.

1.2 Status of Guidance Notes
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note applies to Members acting as experts in judicial or quasi-judicial proceedings and is intended to provide information on what is considered to be good practice where a member is required to give expert evidence.

2.0 Responsibilities

2.1 General
The duties and responsibilities of expert witnesses in civil cases include the following:

- Expert evidence presented to the Court should be, and should be seen to be, the independent product of the expert.
- An expert should provide independent assistance to the court by way of objective unbiased opinion in relation to matters within the experts expertise. An expert witness should not assume the role of an advocate.
- An expert should state the facts or assumptions upon which an opinion is based.
- An expert should state when a particular question or issue falls outside the experts expertise.

2.2 Instructions
On receipt of instructions the expert should establish whether any conflict of interest may arise. If a conflict of interest exists or may exist the expert should either refuse the assignment or seek
written confirmation of instructions following disclosure.

3.3 Purpose of Evidence
The purpose of expert evidence is to assist a judicial body in exercising its functions. The evidence given should, therefore, give all the necessary detail from which conclusions have been drawn in order to enable the judicial body to judge the appropriateness of the conclusions based upon the facts submitted.

3.4 Evidence of Fact
The expert witness is often required to assist the judicial body in establishing, clarifying and ordering logically the relevant facts and issues to be addressed. The expert should be aware that evidence to the judicial body may take precedence over any contractual, professional or other duty. Where an expert is instructed to give an opinion based on assumption or number of assumptions, the experts report should state the assumption or assumptions.

A written report provided by an expert should include a schedule of the documents relied upon and where necessary, copies of such documents or the relevant portions thereof. The expert should indicate the source of factual information relied upon.

3.5 Giving Evidence
Expert evidence must be objective, independent and unbiased. Opinion should not be exaggerated or seek to obscure alternative views. When experts are instructed to meet to agree facts they may be instructed also to endeavour to agree opinions and, in such instances they should disclose facts and information relevant to their evidence and where they disagree the reasons for disagreement should be recorded and reported.

Where an expert changes their opinion, for whatever reason, such change should be communicated immediately in writing to the appointer, with whom the responsibility will lie to communicate it to other parties and the judicial body.

4.0 Acting as an Advocate
A member is entitled to act as an advocate for a client however the advocacy role is subject to proper professional practice in conducting negotiations on the clients behalf and that role must be declared to all parties. A member must not act as an advocate then as an expert in the same matter (see ANZPS 1).

5.0 Acting as an Arbitrator
Experts appointed as arbitrators are usually required to act in accordance with the uniform commercial arbitration legislation.

The Institute of Arbitrators and Mediators Australia and New Zealand conducts education and training for arbitrators and mediators and grades arbitrators according to experience.

Experts should not act as arbitrators unless they have the appropriate education, training and experience in relation to the commercial arbitration legislation.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide information, guidance and advice on leasing incentives to Members undertaking tasks involving the assessment or analysis of rental and capital values.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note applies to Members assessing the impact of leasing incentives on rental and capital values particularly in relation to commercial property.

1.4 International Valuation Standards
This Guidance Note recognises the International Valuation Standards 1 and 2, and the International Valuation Application 2, effective from 2007 by the International Valuation Standards Committee and it is intended to be consistent with the concepts and definitions contained in those standards, however, there may be departures from IVSC Standards to reflect Australian & New Zealand law and practice.

1.5 Cyclical Market
Since the 1960’s the commercial property market has experienced increased volatility. This is primarily because demand lead time is far shorter than the time needed to create more supply. This cyclical pattern is unlikely to change in the foreseeable future so that valuation methodology and techniques and the practitioners themselves must be able to cope with the varying market conditions – no matter how extreme.

1.6 Over Supply Leading to Incentives .... analysis of evidence essential
Oversupply of office space in most of the major cities has led to incentives being offered to prospective and existing tenants. Whilst these incentives are of prime importance to the parties directly concerned, they are also important to the market place as a whole to the extent that they may affect market rental values. The analysis of rental evidence for comparative purposes is an essential part of the valuation process and is of particular relevance where rent reviews and asset valuations are under consideration.

1.7 Range of Opinions
The range of opinions amongst valuers and their clients as to how leasing incentives should be interpreted has resulted in a broad ranging public debate.

1.8 Intention of Clarifying Principles
In response to specific requests, this Guidance Note has been prepared with the intention of clarifying the principles involved.

1.9 No Uniformity of Market Conditions
A review of the situation in the various cities clearly shows that there is little uniformity in market conditions. This tends to be the normal situation and makes it impractical to enunciate Practice Standards on how matters must be evaluated.

1.10 Skill of the Valuer is to Investigate
The traditional skill of the valuer is to investigate, report and evaluate the specific situation being considered, taking into account the differing factors which affect rental levels and capital values in the particular location or market.

1.11 Many Factors to Consider
These factors include the wording of the pertinent lease clause (of which there are countless variations), the state of the building, the general market, the size and duration of the lease, case law, and many other factors of which incentives granted on new leases are but one.
2.0 Leasing Incentives

2.1 Rent Freely Negotiated Between Two Parties

The consideration paid for the right to occupy premises owned by another usually takes the form of a periodic rent which, in the case of new lettings, is negotiated freely between the two parties. Rental value is assessed by various methods. In the case of office space, the method most frequently used in rental review determinations is to analyse rents paid for comparable space, thereby deriving a rental rate to be applied to the subject accommodation. Rental values normally refer to accommodation that has been completed up to the stage of the tenant's fit out.

2.2 Supply and Demand ....excess of supply

The fundamental laws of economics apply and in the case of the office market, it is difficult, given the lead time involved in supplying new space to the market, for supply to respond quickly to rise or fall in demand. Surplus space can be withdrawn from the market place but owners are understandably reluctant to take this course. Accordingly, once a significant excess of supply over demand is demonstrated, rental values may fall.

2.3 Incentives for Leasing New Building

In periods of oversupply of accommodation, incentives are often granted during the leasing up of a new building and these amounts are regarded by the owner/developer as part of the capital costs.

2.4 Incentive to Move

The cost of fitting out and relocating can be high and without an incentive from the landlord which meets all or at least a substantial part of these capital costs tenants would, in many instances, not move to new premises.

2.5 Sustaining Rental Levels in Times of Over Supply

If rentals are to be sustained in times of oversupply, some form of compensatory consideration may be required to achieve new lettings. That consideration, where it occurs, is also part of the incentive in whatever form it may take.

2.6 Incentive Benefit Offset Against Commitment

The consideration of incentive, may take the form of a capital payment or relief from a revenue obligation. In either case the tenant receives a benefit which will be offset against the totality of the tenant's rental commitment and fit out cost.

2.7 Incentives Even in Balanced Market

It is relevant to note that lessors have often given incentives to in-going tenants, even when the leasing market has been balanced in terms of supply and demand.

2.8 Extent Incentive is a Reduction of Rent

What has to be assessed is the extent to which a particular incentive package includes an amount, which might be regarded as a reduction from the stated rent. It is noted that leasing incentives have sometimes increased in anticipation of increasing vacancy factors and may be perceived to create a false rental base, which may cause difficulty in the analysis and assessment of rentals and capital values.

2.9 Valuer to Decide Appropriate Technique

There are several techniques for arriving at a value, which are well known to practising valuers some of which are appropriate to different situations. It is up to the judgment of the Valuer in each case to decide which of the techniques to use. In many cases the Valuer may utilise more than one technique in the process of producing a valuation.

3.0 Effective Rental Value

3.1 Converting Incentive Into Periodic Equivalent

Where it is determined that an incentive has been paid, the valuer is called to utilise judgment in the light of the current conditions in the location concerned as to whether any element of the incentive should be regarded as a de facto rent reduction. This element should be converted into a periodic equivalent over the term of the lease. This periodic equivalent should be deducted from the nominated or passing rent in order to arrive at the effective rent. Any effective rental should represent the most valid interpretation of the transaction concerned for comparative purposes, which may not necessarily represent market rent.
3.2 Interpretation of an Incentive in Terms of Cash Flow

Care should be taken to ensure the correct interpretation of an incentive in terms of cash flow. For example, a lump sum payment equal to three years rental, paid at the start of the lease, will not equate to an actual rent-free period of three years.

4.0 Rent Reviews

4.1 Points to Consider in Rent Reviews

In reaching a view as to the rent that should be adopted on review the valuer may take many points into consideration including:

- The specific wording of the subject lease clause.
- Relevant case law.
- The rents being agreed between landlord and tenants on review for similar tenancies in the area.
- The size of the tenancy concerned relative to the size of space of available comparable rentals.
- The fact that a review to market rent may not necessarily be influenced by the level of rent previously passing unless required under the lease conditions.
- Rents on review may fall as well as rise according to prevailing market conditions unless there is provision in the lease to prevent the rental falling.
- Guidance should be sought from a wide range of rentals including rentals freely negotiated at review dates and rentals for new lettings both of which may or may not truly reflect the rent which would be paid in the market. The circumstances of the rentals must be fully investigated and appropriate adjustments may be required up or down in the valuation process.
- The possibility of incentives having an effect on the stated rent as outlined in points 3.1 and 3.2 where new lettings are considered in reaching a view on the current market rent.
- The valuer should have regard to this practice and decide as to whether the amount of the inducement is greater than a reasonable inducement to move and assess as to whether, in all the circumstances, all or part of the incentive granted would be regarded as a rental rebate.

4.2 Deciding the Weighting to Apply to Evidence

From time to time a valuer will be faced with rent reviews occurring, some of which have had regard to the level of effective rent created by incentive payment while others in the same building (or similar buildings) demonstrate a disregard for such consideration. Obviously the Valuer should examine the particular premises, the remainder of the term available and the particular conditions of the lease before deciding the weighting he needs to apply to such evidence in the process of assessing market rent. In fact the lease conditions may require an assessment of a rent level that is not market rent.

5.0 Secrecy Clauses

5.1 Encouragement for Full Disclosure

Secrecy clauses and side agreements in leasing arrangements are a negative development and every encouragement should be given to lessors and lessees to provide full disclosure of all lease arrangements.

5.2 Secrecy Undesirable

Secrecy arrangements are clearly against the operation of an informed market and are thus undesirable.

5.3 Serious Repercussions Can Flow

The Institute recognises that two parties have the right to confidentiality of their commercial arrangements. However, the Institute believes that serious repercussions can flow from the use of non-disclosure or secrecy clauses particularly when their use may distort valuations based on inadequate information.

5.4 Ascertaining Existence

Before accepting instructions valuers should where possible:

- Enquire in writing as to the existence of any secrecy clauses or side agreements.
- Obtain a written response.

5.5 Refuse to Act

The valuer has a right to refuse to act in instances where it is considered that the lack of information
prejudices the valuer’s ability to discharge the responsibility of making the assessment.

5.6 Professional Responsibility

In discharging this responsibility the valuer should be aware of the liability for potential claims for professional negligence or fraudulent conduct.

6.0 Capital Values

6.1 Adjustments

The capital value of an income producing property should be arrived at by capitalising the market rent making adjustments for any continuing rent free periods, vacancies, leasing up costs, reversions, outstanding repairs/renovations, the strength of lessees’ covenants, lease terms and so forth. In a stable market, the assessment of market rental value and the appropriate capitalisation rate can be undertaken without undue difficulty, notwithstanding the degree of research required. The introduction of incentives coupled with a relatively inactive market makes the valuation process more complicated and, possibly more subjective.

6.2 Matters for Consideration

It is recommended that careful consideration should be given to the following matters in addition to the matters referred to above:

- The relativity between the passing rent and market rental value indicated by the long-term rental trend line in the relevant market.
- The need to distinguish between passing rents, market rents and effective rents and their relative growth patterns and the relationship with real net cash flow.
- The proper assessment of the sustainable level of net income.
- Due allowance for the reversionary value of lower than market level rents.
- The capitalisation rate to be applied in the light of market rental levels and the position of the property market in its cyclical movement.
- The danger of applying a capitalisation rate to a passing rent which, for whatever reason, does not represent market rent.
- The precise interpretation of the rent review clause(s).

- Where appropriate, a comparison between the Internal Rate of Return derived from the cash flow as analysed in the above process and the Internal Rate of Return required by buyers in the market place at the date of valuation.
- Adequate allowance for letting up and leasing incentives for vacant areas.
- Adequate allowances for any building works or refurbishments needed.
- Any possible tax implications.

7.0 The Market

7.1 Valuers Interpret

Valuers do not set the market, they interpret it.

7.2 Interpreting Varying Conditions

The market and market practices are subject to continuous change. Consequently, the valuer should interpret these varying market conditions in the application of established methodology.

7.3 Market Dictates Value

The Courts have often noted that it is the market that dictates value (Broken Hill Pty Co Ltd v Australian Mutual Provident Society, reference The Valuer, Vol. 29 at 340).
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide a national guide to members for the consistent measurement of buildings. It is intended to be used for the purpose of valuations, property management, property analysis, leasing and sales.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
In Australia properties covered by this guideline are listed in 6.0, below. For the purpose of consistency, the Property Council of Australia (PCA) Method for the Measurement of Lettable Area (Copyright 1997) has been adopted for the purpose of defining lease space in Commercial, Retail and Industrial premises. Properties not within the scope of the PCA document are included in this guideline and additional properties may be added from time to time. This is a national document and is being harmonised with international practice.

New Zealand Members Note:
This guidance note was originally intended for use by Australian Members. Sections are relevant to New Zealand, although some Australian definitions differ from those used in New Zealand. New Zealand Members are specifically referred to the PCNZ/PINZ Guide for the Measurement of Rentable Areas revised in 2006. This publication is an update of the former BOMA/PLEINZ guide.

1.4 Use of this Guidance Note
The guideline provides definitions of the various types of measurement generally used in the property industry. It then lists property types in alphabetical order together with the relevant method of measurement.

1.5 Limitations
Some building areas (particularly retail) may be defined in some state and territory legislation and will over-ride the definitions in this Guidance Note where appropriate.

2.0 Principles of Measurement

2.1 Accuracy
Physical measurements are a matter of fact (not opinion) and should be accurate. The degree of accuracy, for example ‘rounding’ (see 2.2, below), will depend upon the circumstances, but should never be misleading. Where appropriate, an area may be obtained from a registered surveyor to ensure accuracy.

2.2 Unit of Measurement
All measurement should usually be in Square Metres (sq m) and/or cubic metres (cub m). There may be some circumstances where cubic capacity may be relevant such as in industrial buildings. Recommended guidelines include:

- Areas <100 sq m usually shown to one (1) decimal place (e.g. 85.6 sq m)
- Areas >100 sq m usually rounded to nearest whole figure (e.g. 120.4=120 sq m)

Measurement of buildings is usually rounded up if ‘.5’ or more

(e.g. 120.5=121 sq m).

2.3 Height
In some types of property such as industrial, the height or cubic capacity of the premises can be an important aspect of the measurement of the building. This is usually shown in the building description, with a reference to a ‘clear span’ building height from the finished floor surface to the underside of a beam or roof truss.
2.4 Agreement
Where an area of measurement is to be used for negotiations or determinations, it is important for the parties to agree the method of measurement and the area before entering into negotiations or making a valuation determination.

2.5 Analysis
The guidelines seek only to set out an acceptable method of measurement for each type of property. The methodology for analysing market information, including a judgement on the relative building efficiency, design, presentation, quality, etc, is generally outside the scope of this guideline. It is either covered by other Standards & Guidelines or left to the professional judgement of the member.

2.6 Method Adopted
The method of measurement adopted can vary depending upon the purpose for which it is used. For example, an area may be used for calculating building costs or insurance (gross basis), or it may be used for assessing rents (net basis). Care should be taken to ensure the purpose and method of measurement is clearly stated.

2.7 Shared Facilities
Where there are shared or common facilities, a separate area should be provided for the space used as a sole occupancy, with a separate description (and where appropriate) a separate area provided for the shared space.

2.8 Use Of Premises
For the purpose of analysis, the use of the property will generally determine the method of measurement, but not in all cases. For example, a house located on a zoned industrial site may be used as a residence and may not necessarily be the highest and best use of the building. In this case the method of measurement could be either (GBA or GLA) depending upon the purpose of the report. The methodology used and reasons for adopting a certain method of measurement should be clearly stated.

3.0 Area Definitions (Commonly Used)

3.1 Gross Building Area [GBA]
Gross Building Area (GBA) is the most commonly used method of measurement. The Gross Building Area is the area of the building at all building levels, measured between the normal outside face of any enclosing walls (or the centre line of common walls between different properties), balustrades and supports. The enclosed and unenclosed areas (see FECA and UCA definitions for detail) are usually shown separately and added together to give the total GBA.
(Note: Gross Building Area should not be confused with Gross Floor Area)

3.2 Strata Area (leases) [Various PCA]
The strata area is usually measured from the inside face of the wall. The area is calculated by a registered surveyor and is shown on a registered strata plan. The strata area is not usually used for the purpose of leases (although this may occur in some markets). Rental valuations and lease negotiations should usually be based upon the appropriate PCA definition for retail, commercial and industrial premises.

3.3 Stratum Area [SUA]
The stratum area is the area shown on a registered plan of subdivision as calculated by a registered surveyor. Adopt the same principles as for Strata (sales) and Strata (leases).

3.4 Strata Area (sales) [SA]
The market generally adopts the strata area shown on a registered strata plan as the basis of negotiation and sale. The strata area is usually measured from the inside face of the wall and the area calculated by a registered surveyor. The strata area is usually adopted as the basis for negotiations for individual and whole building strata units. Valuations generally show the PCA leasable areas for the capitalisation approach and the strata area for analysis of direct comparables (this may vary in some markets). In all cases, the basis for the method of measurement being used should be clearly stated.

3.5 Company Title
Company Title units should generally be treated on the same basis as strata title.
3.6 Community Title
Community Title areas definitions should be treated on the same basis as strata title, except where specific legislation over-rides this approach.

4.0 Area Definitions (Property Council of Australia)

Gross Lettable Area Retail [GLAR]
Applies to retail uses.

Gross Lettable Area [GLA]
Applies to warehouses, industrial buildings, freestanding supermarkets, and showrooms.

Net Lettable Area Office Buildings [NLA]
Applies to office buildings, offices, and business parks.

5.0 Area Definitions (Others)

5.1 Building Area [BA]
(See Gross Building Area definition)

5.2 Equivalent Main Area [EMA]
The calculation of the EMA of a building is usually used for analysis and costing, with only a $ rate per square metre to be stated as a single figure, rather than a set of different $ values on each component of the building. The EMA uses the Gross Building Area as the basis of common measurement. The main building is counted as 100% of the GBA, with the other components of the building counted at lower percentages (see Residential) in accordance with their associated added value. Detached improvements including rooms, studios, garages, carports, swimming pools and other improvements are not included in the EMA.

The EMA should not be quoted in a report unless its calculation is also shown as it maybe misleading. It should also be clearly noted as an EMA.

Floor Space Area [FSA]
(See Gross Floor Space definition)

5.3 Fully Enclosed Covered Area [FECA]
The Fully Enclosed Covered Area (FECA) is the sum of all areas at all building floor levels, including basements (except unexcavated portions), floored roof spaces and attics, garages, penthouses, enclosed porches and attached enclosed covered ways alongside buildings, equipment rooms, lift shafts, vertical ducts, staircases and any other fully enclosed spaces and usable areas of the building, computed by measuring from the normal inside face of exterior walls, but ignoring any projections such as plinths, columns, piers and the like which project from the normal inside face of exterior walls. It shall not include open courts, light wells, connecting or isolated covered ways and net open areas of upper portions of rooms, lobbies, halls interstitial spaces and the like, which extend through the storey being computed. (See N.P.W.C)

5.4 Gross Floor Area [GFA]
The GFA (or FSA) is the sum of the ‘Fully Enclosed Covered Area’ and ‘Unenclosed Covered Area’ (as defined by Quantity Surveyors and Architects).

The GFA (also described as the FSA) is often used by councils to define the floor space that can be developed on a site based upon its Floor Space Ratio. It can be used for determining the development potential of sites. Care should be taken that GFA is clearly defined (and not confused with Gross Building Area) if used in analysing values or in negotiations for development sites.

Definitions change in various LGAs and States and individual codes should be checked. A typical definition is as follows:

GFA means the sum of the areas of each floor of a building where the area of each floor is taken to be the area within the inside face of the external walls as measured at a height of 1,400 millimetres above each floor level, excluding the following:

- Columns, fin walls, sun control devices, awnings, and any other elements, projections or works outside the general lines of the outer face of the external wall;
- Lift towers, cooling towers, machinery and plant rooms and ancillary space and vertical air-conditioning ducts;
- Carparking needed to meet the requirements of the Council and any internal access thereto;
- Space for loading and unloading of goods;
- Internal public arcades and thoroughfares, terraces, balconies with outer walls less than 1400 millimetres high and the like.
5.5 Unenclosed Covered Area [UCA]

The sum of all such areas at all building floor levels, including roofed balconies, open verandahs, porches and porticos, attached open covered ways alongside buildings, undercroft and usable space under buildings, unenclosed access galleries (including ground floor) and any other trafficable areas of the building which are not totally enclosed by full height walls. Computed by measuring the area between the enclosing walls or balustrade (i.e. from the inside face of the UCA excluding the wall or balustrade thickness). When the covering element (i.e. roof or upper floor) is supported by columns, is cantilevered or suspended, or any combination of these, the measurements shall be taken to the edge of the paving or to the edge of the cover, whichever is the lesser. UCA shall not include eaves overhangs, sun shading, awnings and the like where these do not relate to clearly defined trafficable covered areas, nor shall it include connecting or isolated covered ways. (See N.P.W.C).

6.0 Special Building Types [Method of Measurement]

6.1 Backpacker Hostels [GBA]

To be measured using the GBA method. It is also desirable to show both the number of rooms and beds in the description, and indicate whether there is a manager’s residence or room, number of bathrooms (showers, toilets per bed), kitchens, living room, laundry area.

6.2 Banks (Retail) [GLAR]

To be measured in accordance with the GLAR Method. The building area should include vaults and substantial masonry walls.

6.3 Boarding (Guest) Houses [GBA]

To be measured using the GBA method. It is also desirable to show both the number of rooms (singles, doubles, etc) in the description, and indicate whether there is a manager’s residence or room, number of bathrooms, kitchens, and laundry area, etc.

6.4 Bottle Shops [GLAR or GBA]

If the bottle shop (same as liquor store) is a stand-alone operation it should be measured in accordance with the GLAR method. However, if it is part of a larger hotel operation, it should be measured using the GBA method.

6.5 Carparks (Commercial) [GBA]

To be measured on GBA basis. It is desirable to provide a separate break-up of the parking bays/vehicle circulation area and the service areas (office toilets and amenities). The parking bays/vehicle circulation can be analysed on the number of cars to gross floor area to show the efficiency ratio (e.g. 1 space to 28 sq.m of gross floor space). Where there is a ‘split floor’ system, the GBA is calculated on the total gross floor plate area.

6.6 Cinemas [GLAR or GLA]

Freestanding cinemas should be measured on a GLA basis. Cinemas located in retail and commercial complexes should be measured on a GLAR basis. Measurement should include the foyer, box office, concessions sales areas, toilets, back of house, ‘bio box’ or projection area and cinema auditorium area. The seating capacity and cinema screen numbers is usually part of the market analysis.

6.7 Clubs (Recreation) [GBA]

Clubs should generally be measured using the GBA method. A description can provide a break-up of the uses in the club including reception, office administration and boardroom areas auditorium, restaurants, gaming areas, recreation facilities such as bowling greens, etc.

6.8 Hotels (Accommodation) [GBA]

The accommodation component of hotels should be measured on a GBA basis. A further description of the upper floors is desirable showing the number of rooms, average rooms sizes and net efficiency between the room sizes and common areas (service core and lifts, corridors, linen rooms, etc) on typical upper floors. Specialised uses such as retail arcades, which are attached to the hotel, should be measured as separate components and in accordance with the PCA retail method of measurement.

6.9 Industrial [GLA]

To be measured using the GLA method

6.10 Liquor Stores [GLAR or GBA]

If the liquor store (same as bottle shop) is a stand-alone property it should be measured in accordance with the GLAR method. However, if
it is part of a larger hotel operation, it should be measured using the GBA method.

6.11 Motels [GBA]
To be measured using the GBA method. It is desirable to show separate areas for the following:

• Managers Residence
• Office and Back of House
• Motel Rooms
• Restaurant
• Facilities (games room, pool, etc)

(Market analysis is usually on a per room and/or per bed basis.)

6.12 Nursing Homes & Hostels [GBA]
To be measured on a GBA basis. It is desirable to show separate areas for the following:

• Wards (including approved and actual number of bedrooms/beds)
• Managers Residence
• Offices
• Garages
• Parking Spaces Facilities and common area

(A market analysis may also show a component break-up based upon the various levels of care.)

6.13 Offices [NLA]
To be measured using the NLA method.

6.14 Residential (Houses, Units, Town Houses, Flats)

1. [GBA]
Residential property is generally measured on a GBA basis (non strata) or SA (strata) basis where there is a registered strata plan. Investment flats which are not on strata title are usually shown on a GBA basis.

or 2. [EMA]
For the purpose of analysis or costing, the GBA can be converted to an Equivalent Main Area (EMA) using the example percentages shown below:

Main Structure - Masonry (example only)
• Solid construction - under main roof 100%
• Solid Construction - skillion roof 75%
• Timber, cement sheet, iron or glass wall under main roof 66%
• Timber, cement sheet, iron or glass wall under skillion roof 66%
• Unlined timber framed walls 33%

Main Structure- Timber or Steel Framed
• (with external cladding such as timber, cement sheets, etc)
• Solid construction under main roof 100%
• Solid construction under skillion roof 75%

General (masonry, timber or steel framed)
• Porch under main roof 33%
• Verandah under main roof 33%
• Verandah not under main roof 25%
  but true to style
• Extensive Verandah (e.g. homesteads) 20%
• Galvanised Iron verandah attached to dwelling 0%

Car Parking - (Dwellings Only)
• Garage under main Roof 66%
• Basement Garage and under main roof 66%
• Carport under main roof with brick pillars or timber posts 33%
• Carport under main roof with parapet wall 50%
• Skillion galvanised iron or timber post carport attached to dwelling 0%
• Space under elevated house 0%

These percentages may vary between States and Territories and from region to region due to variations in relative costs.

6.15 Restaurants [GLAR or GBA]
If a restaurant is a stand alone operation it should be measured in accordance with the GLAR method. However, if it is an integral part of a larger hotel operation, it should be included in the measurement of the hotel using the GBA method.

6.16 Retirement Villages [GBA]
To be measured showing separate areas for the following:

• Residential units
• Garages
• Managers Residence
• Offices
• Facilities and common areas

6.17 Rural Buildings [GBA]

Rural buildings should generally be measured on a GBA basis. Note homesteads should be measured in accordance with the residential guideline. In addition the following information may be used as a further unit of description/comparison.

<table>
<thead>
<tr>
<th>Type</th>
<th>Additional Unit Of Description/Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Strips</td>
<td>Length</td>
</tr>
<tr>
<td>Bore</td>
<td>Flow rate (litres per second)</td>
</tr>
<tr>
<td>Broiler Sheds</td>
<td>Bird Capacity (number of mature birds accommodated comfortably)</td>
</tr>
<tr>
<td>Dairies</td>
<td>Capacity Per Head at any one point in time</td>
</tr>
<tr>
<td>Dams</td>
<td>Volume (per cubic metres)</td>
</tr>
<tr>
<td>Fruit Drying Racks</td>
<td>Length (and Capacity)</td>
</tr>
<tr>
<td>Grain Storage Sheds</td>
<td>Capacity (Tonnes)</td>
</tr>
<tr>
<td>Grain Silos</td>
<td>Capacity (Tonnes)</td>
</tr>
<tr>
<td>Haysheds</td>
<td>Expressed as either square or round bale capacity</td>
</tr>
<tr>
<td>Homestead</td>
<td>See definitions in Residential</td>
</tr>
<tr>
<td>Piggeries</td>
<td>Capacity Per (Lactating) Sow at any one point in time</td>
</tr>
<tr>
<td>Pipelines</td>
<td>Length (in metres) and Diameter (express in mm)</td>
</tr>
<tr>
<td>Shearers Quarters</td>
<td>Number of Shearers plus Cook accommodation</td>
</tr>
<tr>
<td>Shearing Sheds</td>
<td>Number of Stands or Per Head Basis</td>
</tr>
<tr>
<td>Stables</td>
<td>Number of Stalls i.e. individually subdivided stalls</td>
</tr>
<tr>
<td>Stock Yards</td>
<td>Maximum capacity ie, the number of head (cattle or sheep) the yards could hold &amp; remain workable and/or number of panels/rails within each panel</td>
</tr>
<tr>
<td>Tanks</td>
<td>Volume in Litres Capacity</td>
</tr>
<tr>
<td>Winery SS Store Litres</td>
<td></td>
</tr>
<tr>
<td>Winery Barrel Store</td>
<td>Barrel Capacity</td>
</tr>
<tr>
<td>Windmills</td>
<td>Diameter (windmill head) &amp; Height (of Tower)</td>
</tr>
</tbody>
</table>

6.18 Service Stations [GLAR]

Service stations are generally to be measured in accordance with the GLAR method. However, some larger service centres may need to be broken into other categories as follows:

- **Office** NLA Square Metres.
- **Workshop** GLA Square Metres. Number of Work Bays.
- **Other** Number of Pumps
- **Canopies** Covered Roof Area Square Metres
- **Tanks** Number and volume in litres
- **Hardstand/Parking** Square Metres

6.19 Shopping Centres, Shops (Strip shops, In commercial Buildings, semi-detached, terraces) [GLAR]

To be measured using the GLAR method.

- **Showrooms [GLA]**
- **Supermarkets (Freestanding) [GLA]**
- **Warehouse [GLA]**

To be measured using the GLA method.
This Guidance Note is divided into three parts:

• Part A - Approach
• Part B - Report Contents
• Part C - Worksheets

PART A – APPROACH

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide Members with a framework in which to conduct and prepare feasibility studies and determine the viability of undertaking development of real estate.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note covers the preparation and collection of relevant information, the evaluation of development potential, the estimation of development costs, the valuation of the development on completion and the profit margin and rate of return. It should be used in conjunction with other guidance notes and Practice Standards, which are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 Feasibility Study

For the purpose of this Guidance Note, a ‘feasibility study’ is defined as the process of undertaking an assessment to identify the opportunities and risks of a property development project and to estimate the projected costs, revenues and profit potential of the project. This Guidance Note assumes the feasibility study to be in a full report format, clearly describing the project in all respects and it should include a financial feasibility, using either a static analysis, dynamic analysis or discounted cash flow method of analysis.

1.5 Static Analysis

Static Analysis - With this approach costs are generally summed as at the date of completion of the project and income is assessed as at the same date with allowances for vacancies and letting up periods. This is the less complex financial analysis which is suitable for preliminary feasibility studies and for calculating profit and risk or land value. A ‘static analysis’ assumes no change in prices or costs during the period of development.

1.6 Dynamic Analysis

Dynamic Analysis – allows for potential movements in prices and costs over the period of the development.

1.7 Discounted Cash Flow Method

Discounted cash flow method - With this approach, both costs and income are assessed over an appropriate time period and then discounted back to present value, generally being the date of the commencement of the project. This is the more complex financial analysis that should include interest rate calculations based on a 100% funded basis (an equity basis may also be included if required).

1.8 Terminology and Principles

The terminology used in this Guidance Note generally reflects commercial development schemes for investment purposes, but the principles apply equally to owner occupied schemes, to residential developments and developments for other non-commercial uses.

2.0 General Considerations

2.1 Choice of Comparables

The preparation of a feasibility study generally relies on comparison of unit costs and rates from similar development schemes which are then applied to the particular development to be
analysed. In using this approach, reasonable care must be taken in the choice of comparables to ensure that unit rates for other schemes do not reflect particular circumstances (e.g. exceptionally poor ground conditions, grossly different building specifications, different planning constraints). Equally, particular circumstances pertaining to the feasibility study being prepared should be carefully considered and reflected in the feasibility analysis.

2.2 Number of Variables

In preparing a feasibility study, the number of variables to be considered is large and the Member should be aware of the errors which may arise from using comparable transactions which require a significant number of adjustments. If an attempt is made to adjust for too many variables, the usefulness of the comparison may be destroyed.

2.3 Time and Program Constraints

In large, phased schemes the Member should have regard for time and program constraints and should make use of discounted cash flow techniques if appropriate.

2.4 Sensitivity Analysis Using Alternative Assumptions

The Member should state clearly the assumptions made and should be in a position to justify them by reference to evidence, research and sound reasoning. If a particular variable cannot be assessed objectively, it will often be appropriate to undertake and provide a sensitivity analysis demonstrating the results that would flow from using alternative assumptions for that variable.

2.5 Purpose of Feasibility Study

Any feasibility study to establish site worth that takes account of the client’s specific circumstances cannot purport to be an open market assessment. There is an important distinction between an assessment for the purpose of establishing Market Value and one carried out for specific purposes (e.g. to determine how much to bid for a site). The Member should ensure that the instructions are clear as to the purpose of the feasibility study.

2.6 Limitations of Residual Valuation Process

The Member should, therefore, be wary of presenting the estimate of site worth arising from a residual valuation approach pertaining to a feasibility study as a precise statement of value. If the instructions permit, it may be preferable to indicate a range of values. In any event the Member should ensure that the client is aware of the limitations of the residual valuation process for development property and should indicate the areas in the calculation carrying the greatest sensitivity.

3.0 Agreeing Scope of the Feasibility Study with the Client

3.1 Discuss Client’s Requirements

Before proceeding with the feasibility study, the Member should discuss and confirm the client’s requirements to formulate the brief, i.e. obtain full and proper instructions from the client as to the extent of the feasibility study, the scope of the development and the scope of services to be provided by relevant parties.

3.2 Concept Plans

The concept plans of the proposed development on which the feasibility study is based need to be clearly agreed with the client.

3.3 Changes to Scope of Development

During the feasibility study, information may come to hand which justifies changes to the scope of the development. Any changes in scope or changes in assumptions applicable to the feasibility study must be agreed in writing with the client.

4.0 Methodology

4.1 Elements in a Feasibility Study

This and the succeeding paragraphs of this Guidance Note focus on the individual elements in a feasibility study.

4.2 Stages in Study

The stages in undertaking a feasibility study may be summarised as follows:

- obtaining written instructions agreeing the scope of the development with the client including pre or post taxation assessment and depreciation considerations;
- preparation and collection of information;
- evaluation of development potential;
• estimating development costs;
• assessing value on completion; and
• determining profit margin and rate of return.

4.3 Guidance Note Not Exhaustive
This Guidance Note should not be taken as exhaustive and the Member is responsible for ensuring that all relevant factors are taken into account. The Member should retain satisfactory records to support assumptions made and data used in the evaluation process, to provide an ‘audit trail’ should it prove necessary to justify the results.

4.4 Level of Detail
The level of detail which is practical, when assessing development potential and costs, will vary according to the circumstances of the feasibility study. This Guidance Note assumes that a comparatively high level of accuracy is to be achieved. The Member will need to make a judgement (perhaps in consultation with the client) as to what is appropriate in each case. If information obtained from other consultants or experts (architects, quantity surveyors, leasing agents, valuers, etc) is relied on, the Member should identify the source and state the information on which he or she has relied.

5.0 Preparation and Collection of Information

5.1 The Development Site
Inspection will familiarise the Member with the subject property and will establish a strong visual reference to any matters which affect either value or cost. In the case of development properties, referencing should include, where relevant and practical, the following:
• drawings showing the buildings or site, or measurement of site or buildings to ascertain frontage, width, depth and built measurements;
• shape of site and ground contours;
• plot ratio and site density evaluation;
• existing building height and that of adjoining properties;
• efficiency of existing building (if to be retained);
• access;
• party wall, boundary and rights of light issues;
• ground conditions and evidence of contamination;
• availability and assessment of services; main drainage, water, gas, electricity and telephone;
• any evidence of the existence of rights of way, easements, encumbrances, open water courses, mineral workings, filling, tipping, etc;
• any matters which will affect the cost or practicality of the construction process (e.g. poor access, cramped site conditions);
• sources of all relevant material used to establish underlying assumptions, e.g. building plans and specifications provided by building consultants.

If any of this information is unavailable or cannot reasonably be obtained, the Member should state what assumptions have been made.

5.2 Third Party Interests
In brief, the Member should investigate the following factors which may affect value and the practicality of development:
• the extent and nature of the client’s interest in the project;
• other interests in the property (actual or implied by law) including leases and other rights of occupation; and
• easements, restrictive covenants, rights of way, rights to light, drainage or support, registered charges, etc.

5.3 Planning and Other Statutory Requirements
The Member should investigate a range of issues relating to planning permission and policy and statutory controls.

5.4 Planning Permission
A feasibility study may be requested on the basis of an existing planning permission. In other circumstances, it will be necessary to form a view as to the best permission of which there is a reasonable prospect, and the cost of complying with any planning agreements likely to be required in order to secure the permission. Depending
on market conditions, it may be appropriate to
discount the site value to reflect the risk of not
obtaining such permission and/or the delay that
might be caused if it were to prove necessary
to appeal against refusal or the imposition of
conditions.

5.5 Planning Policies

Planning policies are also relevant in that they
control future additions to the supply of particular
types of building. They may, therefore, affect
the Member’s opinion of the potential supply
of competing buildings and hence the letting or
sale period, future rental or price prospects and
investment yields.

5.6 Particular Issues

Particular attention is drawn to the following
issues:

• current planning policies, i.e. zoning/Planning
  Area and use controls, affecting the subject
  site and surrounding area. Normally, these
  will be found in Regional and Local Authority
  statutory plans; supplementary guidance
  prepared by the local authority planning
  officer or an independent Town Planner may
  be appropriate and prudent;

• any existing valid permission and related
  conditions or reserved matters;

• the requirements of any legally binding
  agreements with statutory authorities;

• any special controls that may apply, e.g.
  heritage restrictions, heritage listing of
  buildings, conservation area designation, tree
  preservation orders;

• permitted and non-conforming use approvals
  relating to existing buildings (if to be
  retained);

• environmental protection legislation (e.g.
  noise abatement, control of emissions,
  requirements for asbestos removal);

• building regulation requirements (e.g.
  sprinklers, fire escape arrangements, etc); and

• special/specific statues and regulations
  affecting the particular type of development
  proposed;

5.7 Development Program

An outline program will be required covering:

• preparation and agreement with client of
  concept plans for the proposed development;

• the pre-contract period; site assembly,
  obtaining possession, adjoining owner
  negotiations, the planning process,
  architectural and engineering design to the
  required level, soil investigations, the building
  contract tender period, etc;

• the building contract, including demolition
  and any necessary site preparation (it may be
  appropriate to seek advice from a quantity
  surveyor, engineer or architect); and

• the post-contract period - usually defined as
  the period up to the full letting or sale of the
  completed development.

6.0 Evaluation of Development
Potential

Optimum Balance Between Market and Potential

In order to evaluate the development options, the
Member will need to consider both the market
requirements for the proposed development and
the physical potential of the site and will need to
determine the optimum balance to maximise the
return. The Member should also consider whether
there is scope for enhancing the development
potential of the site by merging it with adjacent
land. Conversely, if it is necessary to acquire
adjacent land or rights over it (e.g. for access),
allowance will have to be made for the cost of
such acquisition. It must be recognised that, in the
absence of compulsory purchase powers, it may
prove very difficult or expensive (or perhaps even
impossible) to acquire such rights and the Member
should draw attention to such risks in relevant
cases.

6.1 Form of Development

The Member will need to make an accurate
assessment of the form and extent of physical
development which can be accommodated on
the site, having regard to the site characteristics
and the likelihood of obtaining permission. This
assessment may be undertaken in consultation
with appointed project consultants, such as
architects and quantity surveyors but, if this is
not possible, the Member will have to make an
independent assessment. The Member should take
into consideration and balance the requirements
of:
• occupiers’ preferences for particular design features, building layouts and specification;
• investors’ requirements;
• the time likely to be taken to produce the new buildings, in relation to market requirements, financing and cost; and
• achieving a high efficiency ratio (net internal area expressed as a percentage of the gross external area) without unduly compromising quality.

6.2 Demand and Market Analysis

The Member will need to analyse the market, both current and projected, for the proposed new buildings, in order to provide his or her best view of occupier demand for the alternative forms of development that may be possible. Such assessment requires an understanding of economic, fiscal and social trends at national, regional and local level, to the extent that they affect occupier demand for specific types of property at a time relevant to the date that the completed development is due to be marketed. Occupier demand will be influenced by many factors, which are likely to include:

• the location of the property;
• access;
• the availability of transport routes;
• car parking facilities;
• amenities attractive to tenants and/or purchasers;
• the size of the development in terms of lettable packages;
• form of development;
• incentives that may apply currently or in the future that may affect the viability of the project; and
• market supply, including actual or proposed competing developments.

7.0 Estimating Development Costs

7.1 Land Cost

The land cost should generally be established by reference to actual cost or by reference to comparable land sales. In some instances, the aim of the feasibility study is to establish land worth by calculating the residual land value after deducting cost of development from value created. Land cost should include ancillary costs such as purchase fees, stamp duty, etc. If the development is to be carried out in stages, the implications for the cash flow and the various categories of cost should be considered.

7.2 Site-Related costs

Costs incurred in obtaining vacant possession, acquiring necessary interests in the subject site or adjacent property, extinguishing easements or removing restrictive covenants, rights of light compensation, etc. The allowance should be realistic, recognising the fact that the other party will expect to share in the development value generated by the site assembly.

7.3 Building Costs

Estimated costs relating to the construction of the buildings, which should include preliminary survey and investigations, soil testing, demolition, temporary protection and enabling works, hoardings, public utility works, diversion of services, works to adjoining sites, other interested parties’ accommodation works, highway improvements, etc.

The accuracy with which costs can be assessed will vary greatly with circumstances. Members should be aware that the use of ‘rules of thumb’ to estimate costs will compromise the accuracy of the building cost estimate. Ideally, an estimate should be prepared by a quantity surveyor.

A decision has to be made as to whether to adopt a projected out-turn cost (i.e. including increases due to inflation, comparable to a fixed price contract) or a ‘day-one’ cost (i.e. comparable to the initial contract sum in a fluctuating price building contract). It may be necessary also to consider the effects of any time lapse between the valuation date and the likely placing of the building contract. For further comments on this see 8.0 below. In general, it is advisable to consult a quantity surveyor if any projection of costs is contemplated.

7.4 Professional Fees and Expenses

The costs relating to the appointment of professional consultants to secure procurement of the building. The number and type of consultants,
and nature of their appointment, will depend upon the building procurement method chosen. It will normally include an architect, a quantity surveyor and a structural engineer with additional specialist services being supplied as appropriate by mechanical and electrical engineers, a landscape architect, traffic and civil engineers, an acoustic consultant, a project manager and others. More specialised disciplines may be required depending on the nature of the development and allowance for these should be reflected in the assessment of fees. Expenses and costs excluded under the normal conditions of appointment should be added where necessary (e.g. models, printing). Fees vary significantly according to the size and nature of the project and the Member should take care to reflect current fee levels for the type of project envisaged.

7.5 Letting Expenses
The costs to be incurred in securing tenants for the completed buildings, generally comprising letting agents’ fees and promotion costs (possibly including a show suite). An allowance should be included where necessary for capital contributions or other inducements needed in order to secure lettings, unless these are discounted in the letting terms assumed.

7.6 Legal Costs and Fees
Costs incurred for legal advice and representation in connection with such matters as site acquisition, town planning, building contract matters, occupational leases (unless assumed to be recoverable from the tenant) and raising finance.

7.7 Planning and Building Regulation Cost
The cost of securing planning permission (development approval), a building licence and concluding any agreement under relevant Town Planning Acts. It may be appropriate to allow for a model and the cost of a planning appeal if one seems likely.

7.8 Cost of Raising Finance
Costs related to the raising of development finance, including professional fees for monitoring draw-downs vis a vis construction progress.

7.9 Holding Costs
The total attendant costs (excluding interest) in holding the completed building up to the assumed date of letting, including such items as insurance, security, cleaning and fuel (or a proportion of the service charge on partly let properties) together with rates and taxes.

7.10 Sale Costs
Costs to cover the developer’s sale fees (agents and legal costs) if the sale of the completed development is intended or assumed. The costs of the purchaser are usually allowed for in the valuation of the completed development, but forward sale agreements may contain different provisions.

7.11 Interest Charges
Interest charges reflecting the actual or assumed financing arrangements for the development and the projected program during the pre-contract, contract and post-contract stages. For the purposes of the development appraisal, it is usual to make an allowance for short-term finance during the development period on the assumption that the completed and fully let development will be sold or long-term finance will be obtained on its transfer to the developer’s investment portfolio.

It is normal for interest to be treated as a development cost up to the assumed letting date, unless a specific forward sale agreement dictates otherwise. Appropriate assumptions will have to be made regarding cash flow and the rate of draw-down. The rate of interest adopted should be based on realistic assumptions both as to the finance market and the status of the developer (whether the Client or a hypothetical purchaser).

8.0 Value ‘As if Complete’ and ‘At Date of Completion’
Capital Value ‘As if Complete’ or Net Rental Income
The Member may require the services of a qualified valuer for this aspect of the feasibility study, depending on the nature of the study and the parties for whom it is intended. Depending on the profit criterion used (see below) it will be necessary to estimate either the capital value ‘as if complete’ and/or the net rental income likely to be generated by the completed development. In addition to the usual considerations relevant to such valuations, particular issues arise which are peculiar to development schemes.
8.1 Capital Value
If a capital value is required, it is normal to assume that the building is let and income producing, due allowance having been made in the assessment of development costs for the expenses incurred in achieving the letting(s) and for the finance and other costs of holding the property during the letting period. Rent-free periods granted under the lease are dealt with variously, e.g. by continuing interest charges on the development costs, by treating the ‘lost’ income as a development cost or by taking account of the rent-free period in the valuation of the completed development. The Member should be aware that the appropriate approach towards voids and rent-free periods may be dictated by financing or forward-sale agreements and should seek information from the Client where appropriate. If the objective of the feasibility is to make an open market assessment of capital value, the appropriate approach would be to take account of rent free periods in the valuation of the income stream likely to be generated by the development.

8.2 Take Account of Delay
Unless the development has been pre-let and/or pre-sold on fixed terms, the Member will not only have to make those normal assumptions which are required in every vacant possession case, but will have also to decide how to take account of the delay between the date of the study and the date on which the eventual letting is expected to take place. The Member should have regard for market conditions at the date of the study and the factors that may cause changes in the future, e.g. supply and demand, inflation, interest rates, etc.

8.3 Sensitivity Analysis
The Member may wish to present an appraisal based on provable values with a sensitivity analysis to show the effect on profit of differing assumptions as to the future rent and yield. The Member should aim to assist the Client in assessing the likely value on completion, by reference to present and future market trends and likely shifts in supply and demand. Wherever possible, the treatment of these issues should be discussed with the Client.

8.4 Potential Changes in Rental Values, Yields and Costs
The treatment of potential changes in rental values and yields, may be influenced by the extent to which potential cost changes are also reflected, particularly the effect of inflation on building costs, but also likely changes in interest rates. Rather than attempt forecasts, it may be appropriate to adopt a ‘current rent, current cost’ approach, but it is advisable to accompany this with a sensitivity analysis to show the effect on site value of differing assumptions as to future rents, yields and costs. In any event, unless the Member’s instructions specify the basis to be adopted he or she should familiarise himself or herself with common practice at the time of the valuation and adopt a method of valuation, which is consistent with market conditions.

8.5 Estimated Value at Date of Completion
It should be noted that the estimated value on completion should not be discounted back to the valuation date. The inclusion of interest charges within the development cost makes the completion of development the date at which cost and value are to be compared.

8.6 Distinction
Value ‘on completion’ or ‘at date of completion’. reflects the anticipated value of the project at the time the project is actually completed. This is in contrast to a value ‘as if complete’ which assumes the project to be complete at the date of the assessment or feasibility study. It is appropriate to clearly state which basis the assessment has been made on and to provide an appropriate explanation (as well as assumptions and limitations).

9.0 Profit Margin and Rate of Return

9.1 Profit as a Percentage of Total Development Cost
When using the residual method to establish the development site value, it is usual to assume that the developer will seek a capital profit expressed as a percentage of the total development cost (including interest) or of gross development value. This derives from the traditional financing arrangement whereby the development is sold on completion to a long-term investor. It is also common practice for development companies, which retain completed schemes in their investment portfolios to judge the success of a scheme in terms of the enhancement of the
9.2 Other Criteria
There are, however, other criteria that are sometimes adopted, whether as a substitute for profit yield or as an additional test of profitability. These include:

9.3 Initial yield on cost
The net rental return calculated as the initial full annual rental on completion of letting expressed as a percentage of the total development cost. This criterion may be significant in establishing whether the developer could service a long-term mortgage loan, or for evaluating the effect of the development scheme on the profit and loss account of a company.

9.4 Cash-on-cash (or Equity Yield)
The capital uplift or (more usually) net income (after interest charges on any long-term mortgage loan) expressed as a percentage of the long-term equity finance provided by the developer.

9.5 Discounted Cash Flow Methods
The income stream is projected with explicit assumptions about rental growth and end sale value and discounted back to a net present value (NPV) using an appropriate discount rate. The scheme is deemed viable if NPV exceeds the total development cost. The discount rate should include an allowance (profit margin) for the management requirements and risk of investing in a development project rather than an existing fully let property. This approach is particularly appropriate for large, phased schemes.

9.6 Internal Rate of Return
The discount rate that equates the present value of the net cash flows of a project with the present value of the capital investment. It is the rate at which the Net Present Value (NPV) equals zero. The IRR reflects both the return on the invested capital and the return of the original investment, which are basic considerations of potential investors.

9.7 Amount of cover
The extent to which the rent or sale price can be reduced, or the letting or sale period extended (often expressed as a number of months of rolled-up interest or loss of rent) without suffering an overall loss on the scheme.

9.8 Transition from Non-Viable to Viable
If an appraisal is carried out in the course of advising a Client, it will be appropriate to seek instructions on both the nature of the criteria to be adopted and the critical value, which, to that Client, represents the transition from non-viable to viable. Where this guidance is not available, the Member will have to exercise his or her own judgement, based on experience.

9.9 Capital Profit Test or Alternative Criterion
Traditionally, the capital profit test has been the most widely used. However, the Member should acquaint himself or herself with common practice among developers and should be prepared to consider and, if appropriate, adopt an alternative criterion if experience shows it to be in wide use.

9.10 Developer's Level of Profit
The level of profit to be assumed in the appraisal cannot be specified as a standard, as market requirements will vary from time to time having regard for the nature of the development. Evidence may be deduced (possibly with difficulty) by analysing transactions, but is better obtained by first-hand experience of developers' requirements.

9.11 Appropriate Profit Influenced by Risk Profile
In any event, it must be recognised that the appropriate profit to be expected from a particular development will be influenced by a number of factors, which might lead to a departure from the market ‘norm’. High amongst these will be the general risk profile (e.g. whether or not rents and cost are inflated, whether the interest rate is fixed, whether the scheme is pre-let or pre-sold) but also relevant will be the scale of the development, the amount of financial exposure and the time scale.
PART B-REPORT
CONTENTS FEASIBILITY STUDY CHECKLIST

It is recommended that a feasibility study report make reference to the following checklist of items. There may be circumstances where not all headings need to be included in the report, but the Member should be satisfied that the omission of a section will not mislead or distort the findings of the feasibility study.

Basis of Appointment
- The person/party for whom the feasibility study is being prepared.
- Details of the instructions including any special conditions and/or assumptions.
- The date and basis of the feasibility study.
- The purpose of the feasibility study.

Land Description
- Title details (including title searches).
- Registered proprietor.
- Encumbrances.
- Lease details.
- Details of any options, conditional contracts, etc.

Location
- A general description of the location of the property, transport, shopping, etc.
- Surrounding development and land use.
- Special features such as views, etc.

Site Details
- Dimensions.
- Area.
- Services (water, sewer, drainage, electricity, gas, and communication) detailed analysis of the availability and location of services, relevant authorities, any special problems, etc.
- Geo-technical, filled ground, landslip.
- Flooding.

Planning and Other Statutory Requirements
- Details of current zoning/planning area and allowable uses under statutory planning legislation.
- Details of any existing planning approvals on the site.
- Detailed analysis of all relevant planning requirements affecting the proposed development.
- Heritage details (if applicable).
- Comment on the local community and political environment and the affect this could have on the project.
- The requirements of any legally binding agreements with statutory authorities.

Existing Improvements
- A detailed description of any existing improvements including any compliance problems with the Building Code of Australia (NZ Building Act 2004) and statutory authorities.
- Any comments in relation to demolition, site access, cramped site conditions, etc.

Environmental Audit
- Full history on the types of uses the property has been used for.
- A detailed analysis of any contamination issues including Environmental Assessment by an independent consultant where available. Reference should also be made to the Institute’s Guidance Note GN15 Reporting on Contaminated Land.

Evaluation of Development Potential
- Market potential (supply and demand).
- Physical capacity of the site.
- Planning controls on the site, e.g. plot ratio, car-parking controls.
- Potential for merging with adjoining sites.

Proposed Development
- Detailed description of the proposed development, which is the subject of the feasibility analysis.
- Details of any development approvals, building approvals, subdivision plans, etc.
- Comments on proposed Design and Finishes.

Development Program
An outline program will be required covering:
- Concept approval by client.
- Site Assembly.
- Design documentation.
- The building contract period.
- Period for letting up or sale of completed development.

Demand and Market Analysis
- General economic influences.
- Market supply, including actual or proposed competing developments.
- Historic and projected demand.
Estimating Development Costs

- Land cost.
- Site-related costs.
- Building costs.
- Professional fees and expenses.
- Letting expenses.
- Legal costs and fees.
- Planning and building regulation costs.
- Cost of raising finance.
- Site holding costs.
- Sale costs.
- Interest charges.

Income Estimate

- Assumed letting up period.
- Rents.
- Tenancy incentives, e.g. rent free periods, etc.

Capital Value Estimate

- Capitalisation rates (static analysis).
- Discount rate (discounted cash flow analysis).
- Comparable market evidence.

Profit Margin and Rate of Return

- Developer's risk and profit margin.
- Initial rental yield on cost.
- Return on capital.
- Capital Profit (cost vs value created).
- Internal Rate of Return.
- Comparison with normal market returns.

Sensitivity Analysis

The Member may carry out a sensitivity analysis to test the financial assumptions. The results of the sensitivity analysis should be clearly set out in this section of the report.

Conclusion and Recommendations

The Member should summarise the results of the feasibility analysis in terms of the original brief and instructions.

Sample Disclaimers

The following disclaimers are illustrative samples for consideration for inclusion in any Feasibility Study report.

It must be recognised that the real estate market and building industry fluctuate with market forces. The results of this feasibility study are based on the information available as at the date of this report and the assumptions stated in this report. Reliance after an extended period from the date of this report or reliance on the findings of this report for modified development plans should only be made after written confirmation that it is appropriate to do so by the Author.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified in all cases. No warranty is given as to the accuracy of such information.

This report is for the use only of the party to whom it is addressed ............ (instructing party nominated) and is for ......................... (reason for the feasibility study) purposes and no other purposes. Under no circumstances will responsibility be accepted to any third party who may use or rely on the whole or any part of the contents of this feasibility study. Any third party wishing to use this report should obtain prior written approval from ......................... (name of author or firm preparing the report).

Attachments

- Feasibility Checklist
- Financial feasibility.
- Development approvals and plans.
- Title searches.
- Planning certificates.
- Surveys (building and site).
- Services diagrams (sewer, etc).
- Any appropriate documentation supporting assumptions.
### DEVELOPMENT CHECKLIST

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<td>Legal Costs</td>
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<td>5</td>
<td>Vacant Possession</td>
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<td>6</td>
<td>Zoning/Planning Certificate (also see 21)</td>
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<td>7</td>
<td>Services/ Sewer Water Diagram</td>
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</tr>
<tr>
<td>8</td>
<td>Geo Technical Report</td>
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<td>9</td>
<td>Title Searches/Easements</td>
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<td>Contamination Report</td>
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<td>11</td>
<td>Contract Special Conditions</td>
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<td>20</td>
<td>TOWN PLANNING</td>
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<td>Zoning/Planning Certificate (also see 6)</td>
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<td>Local /Regional/State Environmental Planning Controls</td>
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<td>Development Control Plans (FSR’s. height, setbacks, etc)</td>
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<td>Car Parking Code</td>
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<td>Unhealthy Building Land Certificate</td>
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<td>Sulphuric Soils Investigations</td>
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<td>Flooding/Earthquake Investigations</td>
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<td>Sewerage/Water Diagram</td>
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<td>Heritage Local/Regional/State/National</td>
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<td>STATUTORY AUTHORITIES</td>
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<td>DA Fees/Construction Certificate/Occupation Certificate/Design Assessment</td>
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<td>Contributions -Low Cost Housing/Parking/Community/Open Space/etc</td>
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<td>Long Service Leave Contribution</td>
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<td>Public Art Contribution</td>
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<td>Footpaths, Kerbing &amp; Guttering (Repairs &amp; Replacement)</td>
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<td>Power Authority Fees</td>
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<td>Council Bonds (footpaths, etc)</td>
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<td>Architect (Design, Documentation, Construction Supervision)</td>
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<td>Interior Architect</td>
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<td>Engineer - Services (water, sewer, AC, hydraulic, lifts)</td>
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<td>Quantity Surveyor</td>
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<td>Town Planner – (Statement of Environmental Affects NSW)</td>
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<td>Environmental Design Consultant</td>
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<td>Heritage/Conservation Architect</td>
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<td>Heritage (photographic record)</td>
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<td>53</td>
<td>Acoustic Report</td>
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<td>Surveyor Identification, Survey/Levels, Strata, Floor Areas, etc</td>
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<td>Landscape Architect</td>
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<td>56</td>
<td>Traffic Engineer</td>
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<td>Accessibility Consultant</td>
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<td>Wind &amp; Reflectivity Reports</td>
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<td>Economic/Social Impact Statements</td>
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<td>Archaeologist Report</td>
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<td>Waste Management Plan (Construction/Operational)</td>
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<td>63</td>
<td>Energy Audit Report</td>
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<td>64</td>
<td>Demographics/Market Research Report</td>
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<td>65</td>
<td>Management Operational Consultant/Report (hotels, backpackers, etc)</td>
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<td>Model Maker</td>
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<td>67</td>
<td>Feng Shui Report</td>
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<td>Endangered Fauna &amp; Flora</td>
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<td>70</td>
<td>CONSTRUCTION</td>
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<td>Demolition/Excavation/Hoarding</td>
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<td>Construction Contract (Tender, GMP, D&amp;C, Cost Plus, Const Mgt, etc.)</td>
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<td>76</td>
<td>Building Contract/Specification/Bill of Quantities/Cost Plan</td>
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<td>Contingency (check QS report)</td>
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<td>Rise &amp; Fall/escalation</td>
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<td>Furnishings (Carpets, Blinds, etc)</td>
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<td>GST (check if in QS figures)</td>
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<td>FINANCE COSTS</td>
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<td>91</td>
<td>Interest</td>
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<td>92</td>
<td>Establishment Costs – Senior Debt</td>
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<td>93</td>
<td>Establishment Costs – Mezzanine Debt</td>
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<td>94</td>
<td>Line Fees</td>
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<td>95</td>
<td>Legal – Financier &amp; Borrower progress payments</td>
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<td>Valuation</td>
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<td>ADMINISTRATION</td>
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<td>Accounting</td>
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<td>Legal- General</td>
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<td>113</td>
<td>Operational Overheads</td>
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<td>MARKETING</td>
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<td>121</td>
<td>Advertising</td>
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<tr>
<td>122</td>
<td>Brochures, models, signs</td>
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<td>123</td>
<td>PR, Research &amp; Consultants</td>
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<td>124</td>
<td>Display Suite</td>
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<td>Launch Event</td>
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<td>SELLING COSTS</td>
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## ANZ REAL PROPERTY GUIDANCE NOTE 5

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<td>Rental Guarantee on sale</td>
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<td>136</td>
<td>Cost of Issuing New Title</td>
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<td>HOLDING COSTS</td>
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<td>Council rates</td>
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<td>142</td>
<td>Water Rates</td>
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<td>Land Tax</td>
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<td>148</td>
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<tr>
<td>162</td>
<td>Rental Income</td>
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Notes:

1. Feasibility usually carried out on a pre-tax basis (i.e. excluding depreciation allowances, etc)
2. GST is usually shown as a cost for new residential projects (check if the “margin scheme” approach is applicable)
Part C-Worksheets

Feasibility Studies

This section has been drawn from Rawlinsons Australian Construction Handbook, and is reproduced with permission.

The purpose of feasibility studies is to calculate the return that will be derived from a particular project.

The return can be expressed as an annual percentage return or as a terminal percentage return. An annual percentage return will be used where the project will be generating rent for the owner, while a terminal return is used when the project is to be sold.

The calculated returns are important only for comparisons, i.e. to compare one project with another or to compare one project’s return with the return that would be achieved by investing elsewhere.

The following pro-forma represents a suggested set out to calculate the return. Item 3.0 is shown in alternative forms. The first alternative is applicable to an annual return and the second to a terminal return.
## 1.0 PRIMARY INFORMATION

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<td>Gross Floor Area</td>
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<td>Net Rentable Area</td>
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<td>Building Cost</td>
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<td>Preliminary Sketch Plans</td>
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<td>Development Approvals</td>
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<tr>
<td>(Design Development Stage) to calling of Tenders and</td>
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<tr>
<td>including Bill of Quantities)</td>
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<td>Calling Tenders and Awarding Contract</td>
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## 2.0 CAPITAL EXPENDITURE

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<td>LAND COSTS</td>
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<td>Purchase Price</td>
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<td>Stamp Duty @ % on first $</td>
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<td>Plus % on remainder</td>
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<td>Legal Costs</td>
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<td>Vacant Possession Costs</td>
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<td>Soil Tests</td>
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<td>Land Surveyor's Fees</td>
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<td>BUILDING COSTS</td>
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<td>Demolitions</td>
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<td>Contract Price</td>
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<td>Architects, Engineers &amp; Consultants Fees</td>
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<td>Project Management Fees</td>
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<td>Quantity Surveyors Fees</td>
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<td>Local Council &amp; Planning Authority Fees</td>
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### 2.0 CAPITAL EXPENDITURE (continued)

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<tr>
<td>on the relevant value</td>
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</tr>
<tr>
<td>Land Tax @</td>
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<tr>
<td>in $</td>
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<tr>
<td>on the relevant value</td>
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<tr>
<td>Water</td>
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<tr>
<td>Sewerage</td>
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<tr>
<td>Drainage</td>
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<tr>
<td>(+ 12)</td>
<td>= $</td>
<td>per month</td>
</tr>
<tr>
<td>Planning and Construction Time ( ) months</td>
<td>_____________</td>
<td>months</td>
</tr>
<tr>
<td></td>
<td>=</td>
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</tr>
<tr>
<td><strong>ADD</strong></td>
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</tr>
<tr>
<td>Interest ( @ % per month simple)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On Land Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On Rates and Charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On Building Costs</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td><strong>SUNDRY COSTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner’s Moving Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furnishing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Studies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising and Signs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premises Department’s Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner’s Overhead Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Letting Agent’s Fees @ %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenant Inducements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>=</td>
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</tr>
<tr>
<td><strong>TOTAL CAPITAL EXPENDITURE</strong></td>
<td>$</td>
<td>*</td>
</tr>
<tr>
<td>Allow for G.S.T. on applicable</td>
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</tr>
<tr>
<td>Items of the foregoing @ 10% -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G.S.T. refund for applicable clients/owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As defined in TAXABLE on page 790 -</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURE INCLUDING G.S.T.</strong></td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

* NO ALLOWANCE FOR LIFE CYCLE COSTING
### 3.0 ANNUAL INCOME AND EXPENDITURE

<table>
<thead>
<tr>
<th>INCOME</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Parking, cars @</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground Floor sqm @</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper Floors sqm @</td>
<td></td>
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</tr>
</tbody>
</table>

**TOTAL ANNUAL INCOME $**

### ANNUAL EXPENDITURE

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Rates</td>
<td></td>
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<tr>
<td>Land Tax</td>
<td></td>
</tr>
<tr>
<td>Water &amp; Sewerage Rates</td>
<td></td>
</tr>
<tr>
<td>Insurance combined @ %</td>
<td></td>
</tr>
<tr>
<td>Electricity to Public Areas</td>
<td></td>
</tr>
<tr>
<td>Garbage Removal</td>
<td></td>
</tr>
<tr>
<td>Caretaker &amp; Cleaning @ per sqm</td>
<td></td>
</tr>
<tr>
<td>Window Cleaning</td>
<td></td>
</tr>
<tr>
<td>Security Service</td>
<td></td>
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<tr>
<td>Fire Alarm &amp; Sprinkler Service</td>
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<tr>
<td>Lift Maintenance and Operation</td>
<td></td>
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<tr>
<td>AC Maintenance and Operation</td>
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</tr>
<tr>
<td>Management Fees at Scale (say 4%) of total letting</td>
<td>$</td>
</tr>
</tbody>
</table>

**TOTAL ANNUAL EXPENDITURE $**

### PROVISIONS

<table>
<thead>
<tr>
<th>PROVISIONS</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Building Maintenance</td>
<td></td>
</tr>
<tr>
<td>Building Depreciation years @ %</td>
<td></td>
</tr>
<tr>
<td>Plant Depreciation years @ %</td>
<td></td>
</tr>
<tr>
<td>Vacancies - say %</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL ANNUAL EXPENDITURE $**

**NET ANNUAL INCOME $**

**ANNUAL RETURN = \( \frac{\text{Net Annual Income} \times 100}{\text{Total Capital Expenditure}} \) %**

ANZ REAL PROPERTY GUIDANCE NOTE 5

11.5.18
### ALTERNATIVE

#### 3.0 TERMINAL INCOME & EXPENDITURE

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>$</th>
<th>$</th>
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</thead>
<tbody>
<tr>
<td>SALE PRICE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SELLING EXPENDITURE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council Rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Tax</td>
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<tr>
<td>Water &amp; Sewerage Rates</td>
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</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security Service</td>
<td></td>
<td></td>
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<tr>
<td>Agents Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
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</tr>
</tbody>
</table>

**NET SALE PRICE** $

**TERMINAL RETURN** = \( \frac{\text{Net Sale Price} - \text{Total Capital Expenditure}}{\text{Total Capital Expenditure}} \times 100 \) %
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide a guide to Members as to the due diligence process which a prudent purchaser would undertake prior to entering into a contractual obligation to acquire a commercial property.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note applies to Members performing due diligence or involved in the due diligence process in relation to commercial property.

1.4 Comprehensive and Probing Investigation
These guidelines are intended to provide a guide to the due diligence review process which a prudent purchaser would undertake prior to entering into a contractual obligation to acquire commercial property. There is no single definition of “due diligence”, although the expression is now in common usage, particularly in relation to securities law where a specific due diligence defence is available to directors of companies in certain circumstances. In general terms, however, a due diligence exercise is taken to involve the type of comprehensive and probing investigation which a prudent adviser would bring to bear on the matter in question.

1.5 Numerous Issues ....a checklist
These guidelines also aim to alert interested parties to the numerous issues which ought to be examined and addressed in order to ensure that such parties are fully informed regarding the attributes of a particular property, and the risks associated with a proposed transaction. Whilst we have aimed to make the guidelines as comprehensive as possible, they have been drafted so as to provide no more than a checklist of points and issues which ought to be considered in a property transaction. (A checklist is included as Annexure 1).

1.6 Necessity of Engaging a Team of Experts
It is not intended that these guidelines provide a do-it-yourself checklist for property investors and other relevant parties. Indeed, the numerous issues set out in this document should alert users of the guidelines to the necessity of engaging a team of qualified professionals to undertake the due diligence review. This team may include experts such as valuers, land economists, structural engineers, consulting engineers, solicitors, architects, financial and taxation consultants, quantity surveyors, urban consultants, etc.

1.7 Advice on Changes to the Law
Though efforts are made to keep guidance notes current, advice should be obtained regarding any changes to the law and practice in more recent times.

2.0 Valuation

2.1 General
Advice that may be obtained from a Valuer or Member could include following matters.

2.2 Importance of Establishing Value
Any purchaser of property must, of necessity, form a view as to what the particular property is worth. Ultimately, one’s assessment of value will be a key factor in determining how much to pay for a property or an interest in property and, from the point of view of a vendor, how much to accept for the sale of a property. Equally, the value of a property will be of critical importance to a lender who proposes to advance money against the security of a property. Valuations may also be
required for the purposes of financial statements, for insurance purposes, and to assist in analysing investment performance.

2.3 Appoint a Valuer to establish Market Value

[Definitions - Market Value]

In order to obtain an expert and impartial assessment of the value of a property, a suitably qualified, experienced and (where required) registered or licensed valuer (being a Member of the Institute) should be appointed to prepare a valuation of the property on an appropriate basis. Usually, this will involve an assessment of the property’s “Market Value” which is defined by the International Valuation Standards Committee (whose definition has been adopted by the API and PINZ).

2.4 Forced Sale Price

On occasions, a valuation report may include advice concerning the price that might be achieved for a property in the circumstances of a forced sale. Similarly, an assessment of the replacement cost of a property may sometimes be required.

2.5 Valuation Methodologies

There are several valuation methodologies which may be used in assessing the value of a property, and different methodologies may often produce different outcomes. It will often be appropriate for more than one methodology to be considered, and a valuer needs to form a view as to which method or methods best suit the particular property. Methodologies commonly used in valuing a property are:

- comparable sales evidence
- alternate investments
- rental received / rental growth potential / market rental levels
- lease terms
- types of tenants / financial strength
- type of ownership - freehold or leasehold
- supply and demand
- economic factors / inflation rate / bond yields
- supply and demand
discounted cash flow / target internal rate of return - assumptions need to be made regarding:
- required discount or target rate
- rental income / future rental predictions
- covenant of the tenant(s)
- taxation / capital gains
- outgoings
- inflation
- exit capitalisation rates
- terminal value
- forecast period

hypothetical development (for development sites) - assumptions need to be made regarding:
- best permitted development for the site
- time required to obtain approvals, develop and lease
- development cost
- future rental income
- initial yield
- development profit
- valuation on completion of development

summation method (direct comparison) - points to be considered include:
- land value rate
- building value rate
- comparable sales evidence

(Note: Care should be taken with the use of this method in relation to properties with investment potential)
2.6 Contents of Valuation Report

Although the contents of a valuation report will vary depending on the type of property and the purpose of the valuation, generally speaking, a valuation will need to address the points listed below:

Basis of valuation
- Market Value
- forced sale
- replacement cost

Land and title
- title reference
- name of the registered proprietor(s)
- identification of encumbrances such as easements,
- covenants etc
- identification of registered leases

Location of the property
- description of location
- commentary on access / public transportation
- proximity to major commercial / retail centres
- special features such as views, adjoining developments
- demographics

Site description and services
- land dimensions and area
- site accessibility
- services
- site problems, ie. drainage, potential flooding, apparent contamination, soil characteristics etc

Town planning/Resource Management
- current zoning (including restrictions which may affect future potential of the property)
- extent to which use constitutes a non-conforming use
- proposed amendments to planning scheme
- development codes, site ratios, development guidelines
- transferable floor area issues

Improvements
- description of improvements and materials used in construction including, structure, floors, service core, walls, roof
- description of internal finish including, wall finishes, ceiling finishes, floor finishes, doors
- description of general accommodation including, toilet facilities, tea rooms etc
- commentary on age and condition of improvements and building services including, air conditioning, lifts, fire services, security system, backup power supplies
- analysis of net lettable area
- compliance with current building regulations

Environmental Issues

Tenancy details
- description of all leases, licenses and agreements including commencement date, name of lessee / licensee, demised premises, term / options, current rental, rent reviews, lessee's obligations etc
- commentary as to whether leases have been executed
- comparison of actual rentals and market rentals
- consideration of current and potential future vacancy levels including timing and costs of re-letting premises
- consideration of impact of future rent reviews
- commentary on rental arrears
- review of outgoings
- commentary on financial strength of tenants
- detail current incentives / financial obligation to tenants (ie. carpet, painting, fit out etc)

2.7 Market Overview

- general market overview (including legal, political, economic)
- overview of specific region in which property is located
- both overviews would usually address factors including:
  - demand and supply
  - vacancy factors
3.0 Structure

3.1 General
Professional advice should be obtained on any structure.

3.2 Engage Structural Engineer and others
A Structural Engineer should be engaged to examine and report on the structural condition of the property. It may be appropriate for a structural engineer to be engaged together with other specialist engineering disciplines and / or, depending on the nature of the building, also an architect. For example, on a high rise building with a curtain wall facade, there would normally be a need for an architect with specialist ability in this technology to work with the structural engineer. Clearly, the types of report required will vary, depending on the size and nature of the subject property.

3.3 Co-ordination of Reports into one
Where a building is significant, it may be advisable for an architect to co-ordinate all of the reports from the various engineers into one “Condition Report”. This report should not only identify problem areas, but also provide an indication of the cost to rectify and when rectification will be required.

3.4 Due Diligence Process
The Due Diligence process should involve:
Review of documentation including:
- as built architectural drawings
- structural drawings
- structural calculations
- geotechnical report
- other specialist reports such as wind engineering, facade testing
- shop drawings, particularly of performance specified facades
- construction quality control reports
- any reports on building problems
- warranties

Building Code Compliance
- Advise on whether the structure meets relevant building code or other legislation as well as cost to upgrade the building to comply (if viable)

3.5 Inspection of Property
- Inspect together with building superintendent (or other person familiar with maintenance of the building)
- Obtain information regarding problem areas, maintenance program, any major maintenance items (i.e. roofing replacement) etc.
- Inspection of tenant fit outs - do fit outs comply with statutory requirements?
- Talk to occupants

Design Criteria
- Review basic design loads for different parts of the building
- Examine how design loads relate to codes and industry standards, including floor live loads, wind loads and earthquake loading

Durability
- Report on durability problems, such as rust staining, spalling of the surfaces, and comment on implications and reparability
- Comment on any potential durability problems having regard to specification of the materials, and known general industry practices at the time of construction

Serviceability
- Examine performance of structures in delivering and maintaining a flat floor
• Consider necessity for confirmation survey to respond to signs of lack of flatness

**Wear and Tear**

• Itemise all items of defect in the structure, floor and wall finishes, and comment on reparability

**Exterior of Building**

• Review all exterior coverings
• Report on condition of the roof and sealants
• Report on availability of a building maintenance unit (BMU)
• Inspection of facade using BMU
• Consider water penetration from all exterior surfaces, both above and below ground

**Building Interior**

• Report on finishes on the interior of the building
• Note presence of cracks in floor or wall finishes, delamination of cladding, poor performance of joint filling materials, condition of tiles in bathrooms, floors and walls, presence of cracks in masonry walls and the like

**Occupational Health and Safety**

• Asbestos survey

### 4.0 Mechanical & Electrical Condition

#### 4.1 General

The quality of building services is becoming an increasingly important influence in the value of a property.

#### 4.2 Condition of Building Services

The condition of building services is an important factor to be evaluated by a purchaser of property, as it will affect the demand for rental space and the operational costs of the building, with a flow-on impact on the value of the property. Indeed, the quality of the building services is becoming an increasingly important influence in the value of a property, as tenants begin to appreciate the benefits of a “smart” building in terms of productivity and flexibility.

#### 4.3 Mechanical and Electrical Engineer

A mechanical and electrical engineer should be engaged to report on the status of the systems within a building, such as:

- heating, ventilating and air conditioning systems
- electrical systems
- fire protection systems
- hydraulics
- lifts
- communication
- security systems

#### 4.4 Report on Compliance and Cost to Upgrade

The report should include advice as to the extent of compliance with current regulations and cost to upgrade to comply if systems are currently inadequate.

#### 4.5 Other Specialists May be Required

It may be appropriate for other specialists, such as architects, quantity surveyors or building regulation specialists, to also be engaged to report on these systems.

#### 4.6 Due Diligence Process

The Due Diligence process should involve:

Review of documentation including:

- architectural drawings
- design drawings for each discipline:
  - heating, ventilating and air conditioning
  - electrical
  - fire protection
  - hydraulics
  - lifts
  - communications
  - security systems
- specifications for each of the above disciplines
- as built drawings for the above disciplines
- maintenance manuals
- maintenance reports and logs
- information in relation to building outgoings
Inspection of Property
- Inspect property together with building superintendent or other party with experience with the operation of the systems in the building and understanding the maintenance trends
- Talk to occupants

Design Criteria - report on issues such as:-
- air conditioning and heat loads (and after hours capabilities)
- power requirements
- air filtration
- location and maintenance of cooling towers
- life safety systems including sprinkler systems, ventilation for smoke removal, location of fire fighting devices
- flexibility to meet tenants’ requirements

Installation - inspect the installation to ascertain:
- consistency between the design and what has been installed
- quality of the installation works
- simplicity of servicing the systems
- years of operation
- life expectancy (if appropriate, report on replacement costs or costs of remedial works).

Operation and Maintenance
- Review of as built drawings and maintenance manuals to determine how well maintenance and operation has been carried out
- Inspection of maintenance records and logs to ensure there has been regular systematic maintenance of the various systems
- Inspection of records relating to maintenance of fire protection items, e.g. extinguishers, hose reels, fire panels, evacuation systems, etc
- Summary of maintenance contracts and standard of service

5.0 Legal Due Diligence

5.1 General
The legal aspect of the due diligence process calls for a consideration of the issues relevant to ownership of the property including the ownership structure, the nature of the title and the various matters listed (GN 3: 5.4) that impact on use, enjoyment and value. In the case of properties which are leased, the legal due diligence process also calls for a detailed review of the lease or leases. Expert legal advice should be obtained in each case. (Note: Legislation relating to property varies from State to State).

5.2 Ownership Structures
The following ownership matters should be considered:
Apart from ownership by an individual in his or her own name, there are basically four legal structures that may be used for property ownership, being: -
- company
- trust (unit or discretionary)
- partnership
- joint venture (incorporated or unincorporated)

5.3 Joint Ownership
In addition, where interests are being acquired jointly by two or more parties, consideration needs to be given as to whether the owners should be “joint tenants” or “tenants in common”.

5.4 Importance of Accountants’ and Solicitors’ Advice
The selection of the wrong ownership structure is likely to have serious implications in terms of the taxation treatment of the investment and costs involved in rectifying the situation may be prohibitive as a result of the likely imposition of stamp duty on the transaction. Accordingly, it is extremely important that advice is obtained from accountants or solicitors regarding the most appropriate ownership vehicle.

5.5 Determining Ownership Vehicle
In determining the property ownership vehicle, regard should be had to the following:-
- income tax
- capital gains tax (Australia)
- ability to utilise income and capital losses
- stamp duty (Australia)
- transferability of shares / units
- proposed level of borrowings
- administration and management
- liability of the beneficial owners
- the number and type of beneficial owners.
5.6 Types of Title
There are basically four types of title, each of which is briefly described below. When acquiring a leasehold interest, particular care needs to be paid to the terms and conditions affecting the leasehold, including the term of the lease, restrictions on the use of the property, rights to purchase etc.

Torrens - This is the modern system of title where a certificate of title issues in the name of the registered proprietor showing all registered interests. This category includes units in “strata” developments.

General / Old System/Law Title – In Australia, this is the common law system which was in place before the adoption of the Torrens system by the various States. Pockets of it still remain today. A feature of this system is that “title” is actually a chain of documents tracing ownership backwards from the present owner to either the original Crown Grant or at least to a good “root of title” which, in most jurisdictions, must be at least 30 years old.

Crown Leasehold – In Australia this interest is derived from a lease with the Crown which traditionally will be for a long term. The interest may include a right of purchase on the lessee - usually conditional upon the lessee carrying out certain improvements. Since the Wik decision, leasehold interests which do not give exclusive occupancy, are potentially vulnerable to Native Title claims. It should be ascertained:
• whether a claim has been lodged with the NNTT, and/or determined,
• whether it is likely a claim will be forthcoming from potential native title holders
• what the effect of the above is on the activities currently carried out under the lease

Crown Land - Vacant Crown Land is also potentially open to a Native Title claim in Australia and Waitangi Treaty claim in New Zealand. Similar inquiries to the first two points above should be made.

Leasehold - This is the interest that every lessee acquires whether under a head lease, sub-lease, ground lease, riverbed lease etc.

Matters Affecting Title and Purchase Price
The following matters should be considered for their effect on Title and Purchase Price:
• Occupation / title boundaries (site survey to determine horizontal and vertical encroachments)
• Mortgages and charges
• Unpaid rates and taxes
• Restrictive covenants
• Easements (expressed and implied)
• State Planning Agreements
• Caveats
• Sewers and drains
• Rules of body corporate (where applicable)
• Leases
• Confirm lettable floor areas (by reference to an accepted method of measurement eg. Property Council of Australia or PCNZ/PINZ)
• Planning status (including rezoning ability, future roads, future flight path, proximity to heritage buildings)
• Heritage status
• Unauthorised structures
• Non-compliance with Building Regulations
• Certificate of Occupancy and classification
• Flood levels
• Notices relating to planning/building matters
• Contamination and hazardous building materials (refer API and PINZ guidance notes relating to contaminated land)
• Retail tenancy legislation
• Quarantine orders (in relation to farm land)
• Filling
• Fencing notices
• Currency of defects rectification rights and plant warranties
• Vegetation protection

5.7 Planning Controls / Resource Management
Town Planning matters should be examined.

5.8 Value Affected by Town Planning
The value of a property will be directly affected by the town planning/resource management regulations which relate to that property, particularly in so far as those regulations constrain
the development potential of the property. Where it is intended that a property be acquired for the purposes of redevelopment, it is extremely important that detailed inquiries be made to ascertain the planning controls which apply to the particular property by legislation, lease control or some other method.

5.9 Use Regulated by Planning Controls

The use to which a property may be put is regulated by the planning controls. The status of a property may vary as follows:

- use as of right - permit not required
- entitlement to permit if premises meets specified requirements
- entitlement to permit if specified conditions satisfied
- prohibited use
- non-conforming use
- amendment of the planning scheme required

Issues Affecting Development Potential

There are numerous planning issues which may affect development potential. These include:

- zoning (i.e. residential (ranging from single family to high density dwelling), business, industrial, rural)
- height controls
- floor space ratio
- transfer of plot ratio
- setback
- overshadowing
- loss of views
- traffic generation
- sight lines
- car parking ratios
- access to the property (proposed road works, traffic islands, restricted highways etc)
- minimum frontages / lot sizes
- density controls / number of employees
- approvals (adjoining owners, cash in lieu payments)
- heritage / conservation issues
- Aboriginal interests / claims

5.10 Copy of Development Approval

A copy of the original development approval should be obtained to ensure that the building complies.

Foreign Investment Review Board (Australia)

The need for certain proposed real estate acquisitions by foreign interests to be examined by the Foreign Investment Review Board should be considered.

The Foreign Acquisitions and Takeovers Act 1975 is a federal statute regulating foreign investment in Australia. Under the terms of this Act, all proposed real estate acquisitions by foreign interests must be submitted to the Foreign Investment Review Board ("FIRB") for examination, unless the acquisition falls within a specific exemption category.

The Foreign Acquisitions and Takeovers Act defines a foreign interest as:-

- a natural person not ordinarily resident in Australia; and
- any corporation, business or trust in which there is a holding of 15% or more by a single non-resident person or foreign corporation or holdings of 40% or more in aggregate by two or more non-resident persons or foreign corporations.

The exemptions to the requirement for obtaining FIRB approval are set out in the Foreign Acquisitions and Takeovers Regulations and include:-

- Acquisitions of an interest in land on which a dwelling will be constructed where the treasurer has certified that the sale of the interest to foreign persons is not contrary to the national interests (usually conditional on an undertaking from the developer that no more than one half of the units in any development will be sold to foreign interests).
- Acquisitions of industrial or commercial real estate that are wholly and directly incidental to the conduct of the business of the foreign interests.
- Acquisition of direct interest in non-residential commercial real estate with a value of less than $5 million.
- Acquisitions of residential real estate by intending migrants who have received approval to take up permanent residence in Australia.
• Acquisitions of interest in timeshare schemes where the entitlement of the foreign interest is less than four weeks per year.

**Overseas Investment Commission (New Zealand)**

In New Zealand the need for certain proposed real estate acquisitions by foreign interests to be examined by the Overseas Investment Commission, should be considered.

(Note: Both the legislation and rules relating to foreign acquisitions are subject to change)

### 6.0 Taxation Issues

#### 6.1 General

Commercial investment properties are generally acquired for the specific purpose of providing short or long term income and capital growth. Prima facie, both income and capital gains are subject to taxation in Australia, and this may significantly alter the after tax rate of return of a particular investment. In New Zealand there is currently no capital gains tax. Both the vehicle, which is used to acquire a property and the manner in which an acquisition is structured and financed may have a significant bearing on the tax effectiveness of the investment, and it is therefore extremely important that expert tax advice is sought prior to entering into a property transaction.

#### 6.2 Specific Tax Issues

A range of specific Tax Issues affecting various processes in dealing with property should be examined.

#### 6.3 Acquiring Property

Tax Issues on Acquiring Property:

- Ascertain tax depreciable value on purchase of plant and equipment and building
- Determine appropriate allocation of total consideration to plant and equipment (depreciable items should be listed in the contract)
- Application of depreciation deeming provisions to transfers of plant and equipment between parties not dealing at arm’s length
- Determination as to whether properties constitute trading stock
- Determination as to whether properties constitute revenue or capital assets

- Deductibility of financing costs

#### 6.4 Holding Property

Tax Issues on Holding Property:

- Ascertain level of historical construction costs for purposes of building allowance
- Determine appropriate building depreciation allowance rate
- Consider structural improvements for purposes of building allowance
- Determination of whether fixtures are depreciable and to whom
- Determination of appropriate depreciation rates
- Application of investment allowance to acquisitions of plant and equipment
- Deductibility of financing costs
- Tax deductibility of repairs and particularly initial repairs

#### 6.5 Selling Property

Tax Issues on Selling Property:

- Ascertain assessable depreciation balancing charge or tax deductible write-off
- Elections to offset assessable depreciable balancing charge against other plant and equipment
- Ascertain capital gains tax liability on sale of property, plant and equipment
- Application of capital gains tax deeming provisions to transfers of plant and equipment between parties not dealing at arm's length
- Assessability of profits on disposal of plant and equipment as ordinary income
- Disallowance of investment allowance for short term sales
- Ascertain basis of profit realisation for long-term construction contracts
- Assessability and capital gains tax implications of compulsory government acquisitions
7.0 Stamp Duty (Australia)

7.1 General
In any property acquisition in Australia, stamp duty is likely to represent a material cost to the purchaser and should be taken into account when evaluating the returns from the property. Stamp duty is levied on legal instruments and, in relation to property conveyancing, will generally be payable on a sliding scale based on the value of the property. (Note: The rate of duty may vary from State to State.) Stamp duty is also payable on leases (being a percentage of the rental payable during the term of the lease) and on loan securities.

7.2 Due Diligence Issues
Issues which may need to be considered for due diligence include:
- Determine appropriate jurisdiction
- Identify dutiable instruments and deemed instruments
- Consider ex gratia, reconstruction and other relief entitlements
- Consider specific exemptions from duty
- Consider specific concessions from duty, such as in relation to off the plan purchases
- Determine rates
- Ascertain stamping requirements for all documentation, including financing and lease documents, with particular emphasis on method of stamping, period for lodgement of documents and period for payment of duty
- When acquiring shares in a company or units in a trust which owns property, regard must be had to the potential application of the land rich entity provisions which may effect the rate of duty payable on such transactions

8.0 Locational Influences

8.1 Location Considerations
Locational influences vary according to the type of building. It may be appropriate, particularly in significant commercial property transactions, to commission a suitable qualified consultant to report on the strengths, weaknesses, opportunities and threats (SWOT analysis) in relation to locational influences. The most important considerations for the major categories of non-residential commercial property are listed below.

8.2 Office Buildings
Location Considerations for Office Buildings:
- Proximity to retail facilities
- Proximity to public transport
- Availability of parking, either on-site or publicly provided nearby
- Proximity to leading hotels and restaurants
- Commentary on surrounding areas including future development and land use, vacancy rates

8.3 Industrial Buildings
Location Considerations for Industrial Buildings:
- Ease of vehicular access to the site
- Proximity to public transport
- Proximity to customers (for minimising transport)
- Proximity to raw materials, supplies and services
- Proximity to vocational training facilities
- Proximity to means of freight transportation (rail terminals, ports, airports)
- Proximity to related industry
- Commentary on surrounding areas including future development and land use, vacancy rates

Retail Shopping Centres
Location Considerations for Retail Shopping Centres:
- Population in the primary, secondary and tertiary trade areas
- Demography of trade area population
- Trading mix
- Configuration of the centre
- Any artificial or natural barriers (roads, rivers) which may affect the trade areas
- Ease of vehicular access to the site
- Prospects for competition (both present and future)
- Marketing and promotion
9.0 Design Influences

9.1 Design Considerations
Design influences can affect the ability of a property to operate to its maximum efficiency and effectiveness. Any prospective purchaser should consider engaging the services of a suitably experienced architect to assess the appropriateness of the buildings which are being acquired as well as to assess what capital may be required to rectify any design shortcomings.

9.2 Office Buildings
- Design Influences for Office Buildings:
  - Condition of external cladding and ease of cleaning
  - Lobby size, configuration, finishes
  - Adequate lift facilities (including goods lift)
  - Adequate heating and air conditioning
  - Column-free floor space (and flexible floor space for tenancy layouts)
  - Sound insulated windows
  - Adequate car parking
  - Adequate security system
  - Adequate toilet and shower facilities
  - Adequate facilities for the disabled
  - Adequate after hours occupation requirements (eg. air conditioning)
  - Sufficient floor to ceiling height
  - Sufficient stand-by facilities for equipment and/or facility failures
  - Compliance with occupational health and safety regulations

9.3 Industrial Buildings
Design Influences for Industrial Buildings:
- Appropriate office to warehouse ratio
- Adequate level of natural light in the warehouse area
- Adequate load bearing capacity of the warehouse floor
- Adequate distance between columns in the warehouse allowing for use of forklift trucks
- Adequate loading and servicing facilities
- Adequate height between spans
- Adequate ingress / egress
- Adequate thickness of driveways
- Adequate room for trucks to manoeuvre once on site
- Ability to install gantries where needed
- Hard stand parking and storage

9.4 Retail Shopping Centres
Design Influences for Retail Shopping Centres:
- Established anchor tenant
- Appropriate tenancy mix between anchor and specialty shops
- Uniform shop fronts and signage
- Width of shopping malls
- Adequate lighting facilities, either natural or artificial
- Appropriate heating and air-conditioning facilities
- Appropriate space allocation to entertainment facilities
- Appropriate sight lines
- Ease of access and egress from retail area to carpark
- Layout to ensure efficient retail operation
- Location of dead frontages
- Provision of adequate car parking and under cover car parking for wet weather conditions
- Provision for expansion

10.0 Leases

10.1 General / Legal Issues
Leases are a vital component in most commercial properties and any due diligence process should include a thorough analysis of all lease covenants effecting the subject property. Issues which would ordinarily be considered include:-
- Financial status of tenant
- Trading strength of tenant
- Whether and to what extent the lease has been stamped
- Term of the lease
• Is there an option for renewal? If yes, has it been exercised?
• Does the lessee have a right of early termination?
• Is the rent a market rent?
• Is the rent based on turnover?
• What provision is there for adjustment or review?
• Can the rent reduce on a review?
• Procedure for rent reviews
• Outgoings recovery, including plant maintenance and replacement
• Repair obligations
• Tenant’s obligation to contribute to a promotion fund
• Tenant’s obligation to provide turnover information
• Redecoration obligations
• Make good at end of term
• Insurance obligations - lessor/lessee
• Does the lessor have any non-standard obligations?
• Who owns the fit out?
• Control in relation to use
• Restrictions on assignment and sub-letting
• Does lessor have the right to modify or alter the building?
• Does lease deal with issues relating to base building comfort levels / performance criteria?
• Are the termination and damages provisions adequate?
• What are the provisions relating to damage and destruction?
• Are the premises “retail” premises? If yes, does the lease comply with the relevant legislation?
• Are tenancy areas properly defined in the lease?
• Arrears position
• Licence Agreements (eg. parking)
• What security is held:
  - personal guarantees and indemnities
  - security deposit
  - performance bonds
  - bank guarantee?
• Determine whether the lease deals with issues of:
  - contamination
  - hazardous materials
  - ozone depleting substances

10.2 Tax Issues
Tax Issues which would normally be considered include:
• Assessability / tax deductibility of lease incentives received / provided
• Assessability / tax deductibility of lease premiums received / provided
• Assessability / tax deductibility of lease surrender payments received / provided
• Timing of assessability / tax deductibility of lease payments received / paid in advance
• Tax deductibility of lease payments
• Categorisation of “lease” as either genuine lease or instalment purchase for tax purposes
• Consider disallowance of interest, depreciation and building allowance tax deductions for assets leased to public bodies and non-residents
• Application of withholding tax for leases involving non-residents.

11.0 Contamination – Environmental Audit
Consider the desirability of having an environmental audit of the land and building, covering matters such as contamination, asbestos, air conditioning, filling, underground tanks etc., to be carried out by specialist environmental companies.
12.0 General

The process should also involve a review of the following:

- Access to Building Reports
- Condition Report
- Asbestos Report
- Contaminated Land Report
- Plant and Equipment Report
- Depreciation Report
- Current construction contracts, plans, specifications

- List of goods and chattels to pass with the sale
- Ongoing review of Sale Contract.
- Preparation of rental arrears list
- Agreement as to treatment of rental arrears
- Files, books and financial statements held by owners and managing agents
- Access to files
- Ownership of files on settlement
- Site Survey
- A surveyor should be employed to identify the boundaries of the subject property, and horizontal or vertical encroachments and to confirm the status of any improvements in relation to the boundaries.
- Insurance - Details and claims records
- Bill of Sale over tenant's plant and equipment
- Talk to tenants and other occupiers. In many cases their practical experience will be an important indicator of building problems.
- Property Management
- Outgoings
- Review building outgoings
- Sight receipts
- Review outgoings budget

Consider the managerial styles that may be used for a property, for example:

- owner manager
- joint venture manager
- external manager.

The due diligence process should include:

- Interviewing existing property manager and building manager
- Reviewing maintenance and service agreements (management agreements, cleaning contracts, air conditioning contracts, lift contracts). Can they be assigned? Will they be terminated?
- Management staff entitlements such as long service leave, superannuation, holiday pay.
### Annexure 1- Suggested Due Diligence Check List

<table>
<thead>
<tr>
<th>ACTIONS</th>
<th>RESPONSIBILITY</th>
<th>COMPLETION DATE</th>
<th>ESTIMATED COST</th>
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<td>1.7 Consultant Letters of Appointment</td>
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<td>4.0 Building Services</td>
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<td>Performance Testing</td>
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<td>Service Agreements</td>
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<td>Insurance</td>
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<td>Site Survey</td>
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<td>Property Management Agreement</td>
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<td>Contract of Sale</td>
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<td>Acquisition Structure</td>
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<td>Settlement</td>
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<td>Depreciation Allowances</td>
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### ANZ REAL PROPERTY GUIDANCE NOTE 6

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<td>8.0 Location Influences</td>
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<td>Economic &amp; commercial Overview</td>
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<td>Traffic Management</td>
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<td>9.0 Design Influences</td>
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<td>Architectural and Town Planning</td>
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<tr>
<td>Quantity Surveyor</td>
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<td>10.0 Leases</td>
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<td>11.0 Contamination - Environmental Audit</td>
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<td>12.0 Other Influences</td>
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<td>Documentation</td>
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<td>Public Relations Audit</td>
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<td>13.0 Final Approval for Purchase</td>
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<td>14.0 Exchange of Executed Contract</td>
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<td>15.0 Settlement of Contract</td>
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<td>16.0 Management Systems</td>
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</table>

Note: The above list of comprehensive actions is merely a guide, but would be endorsed by Auditors for due diligence examination.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to assist Members to understand the essential elements of managing insurance programs in relation to existing buildings by broadly outlining issues relating to the insurance environment and risk management.

1.2 Status of Guidance Notes
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance Note applies to Members who are called upon to advise clients in matters pertaining to the insurance of their properties and, in some cases, arrange the relevant insurances on their behalf. It deals with the management of risk and protection from risk using Insurance as an important element in achieving these objectives. Specifically, the Guidance Note deals with:

• a general background to insurance;
• aspects of risk management;
• relevant classes of insurance; and
• other relevant matters

1.4 Not Technical Advice
This Guidance Note does not seek to provide technical advice on specific valuation issues.

1.5 Beyond the Scope
Similarly, issues associated with insurances for new construction or major refurbishment projects are beyond the scope of this Guidance Note. Members will need to be aware of these types of insurance from other sources.

1.6 Consultation
Whilst a guidance note of this nature can address the broad issues, it cannot be definitive and you are, therefore, urged to consult with the insurer, an insurance broker or your legal adviser to discuss any aspects requiring clarification or expansion.

1.7 Disclaimer
This paper was produced by the Australian Property Institute to provide general information, in summary form to its Members. The contents do not constitute legal advice and should not be relied on as such. Formal legal/insurance advice should be sought in particular matters.

2.0 Preamble

2.1 Protect From Risk of Loss
Since the beginning of commerce and trade, humankind has sought to protect itself from the risk of loss, be that loss associated with property (real or personal), life or the ability to provide food and shelter for the individual, family or community.

2.2 Convey Risk to Another
The need to convey the risk of loss to another party has seen the development of a number of risk transfer mechanisms, the most notable probably being the concept of insurance.

2.3 Insurance is a Contract
Insurance is a contract between two parties where, for a consideration (premium), one party agrees to pay for a stipulated loss suffered by the other party. The payment of the claim simply fulfils the contract.

2.4 Risk Transfer and Risk Combination
Thus, at the heart of insurance is the principle of both risk transfer and risk combination. Risk combination allows the risk to be spread, usually via an insurance fund, over a very large number of individuals or corporate entities.
2.5 Common Pool
The combination of many potential risks into a common pool or fund allows the law of averages of large numbers to operate to the benefit of the unfortunate few who suffer loss.

2.6 Statistical Data to Predict
With a large number of homogenous items (be they motor vehicles, lives, units or real property, etc) grouped together, it is possible from statistical data to predict within reasonable limits the number and cost of losses that will occur within the group. With this knowledge premiums can be calculated that are needed to pay the losses and the expenses of operating the fund and to provide an acceptable profit.

2.7 Offer Long Term Security
So that the insurance fund is able to offer long term security to its policyholders, premiums must be sufficient to enable it to meet both immediate claims and those that arise well into the future. The fund’s long term viability is also dependent upon the level of investment income generated, operating expense levels and the sum of returns paid to investors (be those investors shareholders or owners in a mutual organisation).

2.8 Premium Rates
Whilst premium rates are determined by many complex factors, most of which are outside the direct control of the purchasers of the insurance protection, property owners can, however, take some actions that will affect the premium they are required to pay.

2.9 Modern Risk Management Practices
Modern risk management practices, careful analysis of the risks to be covered, and the level of the risk that the property owner will retain, are but a few of the factors that will determine the amount of money that will be spent on loss prevention and insurance protection.

2.10 Insurance Issues
This paper deals with some of the insurance issues that face Members in their management and development of real property.

3.0 General Insurance Environment

3.1 Premium Rates Fluctuate
Premium rates available to companies and individuals seeking the protection of insurance fluctuate in accordance with both local and international insurance market conditions, the level of natural and man made disasters (ie. claims), the economic climate and business cycles.

3.2 Management of Insurance Programs
The management of insurance programs has thus taken on an increased importance for professionals involved in producing satisfactory returns from property investments.

3.3 Amount Spent
With the development during the 1980s of very large property assets which in themselves require insurance cover of many hundreds of millions of dollars, the amount spent on property insurance has become very significant, both in aggregate terms and as a cost of operating property portfolios.

3.4 Insurance Necessary
Insurance is necessary because it offers:
• security to lenders and other stakeholders;
• comfort to customers;
• continuing of business operations; and
• safeguards to employees’ jobs (ie. financial protection following a loss)

3.5 Insurance Costs Controlled
To ensure that insurance costs are controlled, it is important that owners and their asset managers are able to demonstrate to underwriters the qualities of their buildings and management controls they maintain.

3.6 Risk Management
This is best done by risk management and ‘anticipation of risk, rather than by reaction to loss.’

3.7 Control Premiums
If this is observed, it will not only assist all property owners to control their risk but also their premiums.
4.0 Risk Management
Responsibility of Officers and Directors to Owners

4.1 Some Have a Legal Obligation
Practising effective risk management procedures is not simply a matter of good management, some people have a legal obligation to their employer.

4.2 Legal Responsibility
The officers and directors of a business have a legal responsibility for the proper management of pure risks. Pure risk is the loss of, or damage to, property or injury or death of persons using the property. It can be accidental or fortuitous, foreseen or unforeseen. They have an overall legal duty and a specific obligation to use care and be diligent in the administration of the affairs of the corporation and in the use and preservation of its assets. Courts have recognised that the failure to effect proper insurance coverage, to pay premiums when due, or to keep coverage in force, may well be the basis for personal liability suits against the officers or directors of a business. The legal standard of performance is that officers and directors must exercise the care that an ordinary prudent person would exercise under similar circumstances.

5.0 Risk Management

5.1 Process to Identify and Quantify Exposures
Risk Management of Real Property is the process through which an organisation can identify and quantify its exposures to loss, access priorities and develop strategies to avoid losses or, if they do occur, deal with them effectively.

5.2 Benefits
The benefits of the Risk Management approach are:
- Prior recognition of Real Risks to an Organisation;
- Optimal Insurance/Self Insurance;
- Increased Management Awareness;
- Effective Reporting Mechanism;
- Helps Avoid or Minimise Losses;
- Reduced Cost of Risk;

- Satisfies Due Diligence Requirements;
- Conforms with Best Practice;
- Facilitates Corporate Governance;
- Increased profits;
- Better Management of Resources;
- Improved Productivity.

5.3 One Objective
Risk Management has one objective; i.e. to ensure the economic continuity of the goods and services of an organisation whilst minimising the costs of both expected and unexpected losses. The activities of the Risk Manager are influenced by the Owner’s general insurance philosophy which can be summarised:
- Eliminate or reduce as far as practicable the conditions and practices may cause insured or uninsured losses’.

Note:
- outsource non-core functions or inappropriate activities;
- transfer contractual liability of consequences, eg. tenants take public liability risk; insurance and/or indemnity is required of contractors working on site or supplying services or goods;
- imposition of insurance, indemnity and hold harmless conditions in agreement with contractors; and
- when premises are rented risks may be transferred from owners to tenants or from tenants to owners, depending on the lease conditions.
- The extent of elimination or reduction affects insurance costs;
- When risk cannot be eliminated or reduced to workable levels;
- Purchase commercial insurance that will provide indemnity for catastrophic losses;
- Either insure or assume those risks not considered to be of major importance to the operating or financial position of the Owner.

5.4 Importance and Complexity
The risk management function continues to grow in importance and complexity. Management is becoming more cost conscious and more aware...
of how sound risk management helps to minimise expenses.

5.5 Strategy
For this reason, it is always important to have a risk management strategy which can protect tenants as well as the owner and also assist by demonstrating to insurers that the business is aware of potential exposures and is implementing procedures to ensure such exposures are controlled. This will benefit all parties and lead to more economical insurance premiums.

5.6 Identifies & Controls Potential Loss
The risk management process identifies and controls potential loss situations which can affect an organisation’s financial security, reputation and viability.

5.7 Identify Risks
In order to identify the risks, it is important for the owner of the property to be aware of potential hazards and to implement a control to enable management to always be conscious of changes in tenants and likely hazards.

5.8 Procedure
The procedure should include risk identification, risk management and risk control.

5.9 Specific Risks – Risk Identification
Process Systematically and Continuously Identifies
This is the process by which a business systematically and continuously identifies property, liability and personnel exposures as soon as they emerge. Unless these risks are identified, all potential losses will unconsciously be retained by the company.

Most Risks Easily Recognised
Most risks are easily recognised, and would be known within an organisation. These should be identified by either the insurance broker or the ownership entity, after discussions with staff and staff should be given on-going support from Management in the identification of risk. The risks shown below are normal within the property industry, and it is in order to insure against perils such as these that an insurance policy is purchased.

- Storm and Tempest
- Water Damage
- Flood (not readily available in flood prone areas)
- Sprinkler Leakage
- Explosion
- Business Interruption (including loss of rent)
- Loss of Machinery/Boilers
- Demolition and removal of debris
- Earthquake
- Impact by Vehicles or aircraft
- Malicious Damage
- Theft
- Accidental Damage
- Legal liability to third parties
- Workers’ Compensation (compulsory) called ‘WorkCover’ in some States
- Motor Vehicle (Third Party injury insurance is compulsory).
- Breach of professional duty
- Liability of directors and offices arising out of a wrongful act
- Consultants fees
- Contract works (principal controlled contractor’s liability policy)
- Environmental damage
- Pollution

Check List
However, to identify all the potential losses, a check list of all assets of the company should be drafted, and a systematic approach used to discover which of the potential losses provide the most exposure to the company. This is best done internally by the person whose responsibility it is to control insurance, or can be carried out by an independent firm, such as a broker/risk management company. Any independent firm should work in liaison with the firm’s internal risk Manager when conducting a risk identification survey.

Risk Profile
As each property is unique, both as to its operation, usage, location, construction and cash
flow pattern, it is important that a risk profile be developed for each property, ie. Pro-forma profiles may overlook some feature unique to a particular property.

**Exercise Will Correctly Inform**

Although this is a time consuming exercise, it is the only means which will correctly inform the company of the risks/exposures it carries, and will:

- identify exposures which can be insured, therefore the exposure is transferred from the company to an insurer;
- where the exposure cannot be insured, management controls can be implemented which will diminish the risk to the company.

**Risks Prioritised**

Risks should be prioritised by analysing both the probable frequency of an occurrence and the impact (ie. severity) on the company. Risks that are assessed as having a high likelihood (ie. frequency), together with a high impact, should be fully insured.

**Excess**

The starting point is the excess under the policy. This indicates the level of risk the company can absorb.

### 5.10 Risk Management

#### Potential Losses Measured

After the risk has been identified, the potential losses must be measured in order to determine their relative importance.

**NB.** Replacement/reinstatement costs do not necessarily equal market value.

**Calculated Periodically**

Asset values should be calculated periodically by consulting professionals who will assess the dollar value at risk to ensure, at the time of a major loss, the value of both property (ie. physical structures excluding land value) and business interruption is adequately insured. This will ensure that the business does not need to fund part of the loss, which could impact on the viability of the organisation. Extra costs may be incurred if regulatory changes are triggered.

**Quantity Surveyor**

A quantity surveyor can be used to establish replacement cost estimates. It is generally believed studies reveal that a significant number of buildings are underinsured. The impact of averaging insurance [GN 22: 9.5] means that exposure previously thought to be insured is now only partially so.

**Engineering Survey**

Specialist risk management engineering surveys can be engaged to identify specific, or peculiar exposures at each location.

**Physical Survey**

A physical survey, implemented by both management or a risk management consultant, should include a review of:

- management controls
- fire protection systems
- inspection programs for fire hazards and other exposures
- general housekeeping
- staff training
- environmental risks
- security
- emergency evacuation
- bomb threats

Note: extra costs are referred to later in this Guidance Note.

Loss recording is a vital step in the risk management process. If an organisation does not record all losses, it is unable to take an informed decision to carry a risk, ie. higher deductibles, which can minimise premiums.

### 5.11 Risk Control

**Elimination or Minimisation**

The aim of risk control is elimination or minimisation. After risks are identified, practical and cost effective recommendations can be made regarding the physical protection of assets.

**Monitored and Investigated**

If all losses are monitored and investigated, the organisation is in a position to take effective measures to either eliminate or reduce recurring losses.

**Familiarity Contributes**

The organisation is well placed to effectively contribute to risk control due to their familiarity.
with the property.

Tenancy Supervision

Tenancy supervision is also an aspect of risk control and a procedure should be implemented whereby there is regular liaison with tenants to ensure that their standards, or physical protection and housekeeping, are in line with that provided in common areas.

Controls Influence Premiums

If these controls are achieved, the risk of losses is minimised, which significantly influences premiums.

6.0 Risk Financing, Risk Transfer and Insurance

6.1 Total Cost of Risk

The Total Cost of Risk includes such items as:

- Capital expenditure on fire protection and security equipment;
- Upgrades to electrical and mechanical plant;
- Repairs and maintenance;
- Insurance policy excesses or deductibles;
- Risk management consultancy fees;
- Insurance premiums; and
- Associated administration costs

The way in which the Total Cost of Risk is absorbed or otherwise paid for can be referred to as Risk Financing.

Risk Transfer

Risk Transfer of the operational or financial consequences of an event can be effected in several ways, eg:

Lease Agreements

Requirement in Lease Agreements that tenants effect Glass and Public Liability insurance.

Note:

- The amount of the policy excess can be greater than the value of the glass;
- Public Liability insurance will generally be restricted to the tenant’s operations unless that tenant is the sole occupant;
- Policies should be in the joint names of the Lessor and Lessee;
- Lessor may effect insurance if Lessee fails to insure;
- Lease documents should reflect Lessor’s requirements.

Service Providers

Contacts with service providers to include insurance, indemnity and hold harmless provisions in favour of the owner.

Purchase of Insurance

Purchase of insurance, ie. transferring the ultimate risk to an insurance company per medium of effecting an insurance policy or policies.

7.0 Types of Insurance

7.1 Type of Policy Depends on Value

The types of policy or policies of insurance to be effected will to some extent depend on the value of the property. The criteria as to which insurances are appropriate for a given property vary from insurer to insurer but as a general rule:

- Properties with values less than, say, $1-2,000,000 and perhaps up to $5,000,000 will be insured under Business Insurance or similarly titled package policies; and
- Properties with values greater than these amounts will generally be insured under individual policies for each category of risk to be covered.

7.2 Business Insurance

Business Insurance policies generally offer a range of cover choices and those most relevant to the insurance of property are likely to be as follows:

- Fire, lightning, explosion and other specified perils to cover physical loss or damage to the property caused by those nominated perils;
- Consequential Loss, i.e. loss of gross rentals and increased costs of work arising as a result of a peril insured by the preceding section;
- Breakdown of electrical and mechanical plant and machinery and consequential losses arising there from; and
- Public Liability, i.e. legal liability in respect of claims by third parties for personal injury or death or damage to property arising out of an occurrence in connection with the ownership or occupancy of the property.
7.3 Separate Policies for Higher Value Property

The kind of separate insurance policies likely to be effected in the case of a higher value property are as follows:

- Industrial Special Risks (ISR) which insures ‘Physical loss or damage (and consequential losses arising there from) not otherwise excluded’ - the ISR policy therefore combines and expands upon the first two elements of the Business Insurance policy as above;
- Breakdown of electrical and mechanical plant and machinery and consequential losses arising there from (which are exclusions under the standard ISR policy); and
- Public Liability, i.e. legal liability in respect of claims by third parties for personal injury or death or damage to property arising out of an occurrence in connection with the ownership or occupancy of the property.

7.4 Specific Policies

In addition to industrial special risks (ISR) policies on a full reinstatement basis, other specific policies in relation to property can be adopted to suit specific requirements or specific loss categories. The requirement for these will vary according to individual circumstances. These polices include:

- Insurance of contents;
- Loss of master key insurance;
- Capital works insurance as an addition to conventional contract to cover such works as tenancy fit outs or refurbishments.
- Fidelity Guarantee, i.e. misappropriation of money or goods by employees;
- Credit Insurance, i.e. bad debts following tenant insolvency;
- Key person Insurance;
- Professional Indemnity; and
- Directors and Officers Liability;
- Any other appropriate insurance.

7.5 Workers Compensation

The requirement for Workers Compensation insurance differs from State to State and Territory to Territory. Care must be exercised to ensure that, if there are any employees, the appropriate insurance or statutory arrangement is put into place.

8.0 Issues to Consider in Choosing Insurance Cover

8.1 Assessing a Building’s Risk

The main criteria for an insurer when assessing a building’s risk is:

- The materials used in the construction of the building.
- Compliance with ordinances. For obvious reasons insurers will not provide competitive quotations where a site does not comply with ordinances as the insurer would postulate that the lack of compliance would increase the risk.
- Fire Protection, eg. sprinklers, are always an advantage, as it assists with minimising the risk for insurers and, hence, results in lower premiums.
- Tenancy of buildings. Insurers will always assess the exposure of tenants and quote accordingly, eg. a mechanic is a higher exposure than a bank - this will be reflected in the premium.
- Building security.
- Neighbouring environment - eg. explosives/chemical plant, bushland, etc.
- Limitation of road access.
- Location of premises (eg. on an existing flood plain).
- Compliance with ordinances eg. asbestos contamination (authorised removal is required following an asbestos audit).

8.2 Comments at the Planning Stage

Most major insurance brokers and insurance companies are able to provide comments on building design, fire protection and security. Ideally this should be provided at the planning stages, but later if need be. They will also be able to advise on risk management techniques tailored to the individual property.

8.3 Three Basic Functions

A core insurance program as discussed fulfils three basic functions for a property owner/manager:

- Conservation of all assets (Property insurance)
• Preservation of income/profits (Consequential loss)
• Protection against liabilities (Public liability)

Note: The extent to which insurance fulfils these functions is subject to the terms, conditions and exclusions of the policy, e.g.
• generally a liability policy will only cover sudden and accidental pollution;
• asbestos is generally an exclusion unless it is in static form.

8.4 Extensions to Policies
Taking the above into consideration, there are some extensions to Business Insurance and ISR policies which should be compulsory to any prudent property owner. These are:

Indemnity Period
The indemnity period should be long enough to provide for the following in the event of destruction (e.g. by fire):
• planning
• tendering
• approvals
• construction
• letting

8.5 Removal of Debris
Removal of debris. At times, the local council tip will not be able to handle all the debris from a building due to either the content (asbestos) or due to the bulk. This may incur very large charges/costs where the debris may need to be removed by specialists and sent to a processing plant which will accept the waste. Always ensure that the insurance limit will adequately reflect the cost of disposal. As a rule 10% of the value of the asset would be a minimum but this varies dramatically depending on factors such as the height and construction of the building. (Note: Removal of asbestos has extraordinary cost implications and may involve 50-100% of the value of a building).

8.6 Reinstatement and Replacement
Always ensure that the policy provides for reinstatement and replacement conditions - including the ability to rebuild on the site where development controls may have changed.

8.7 Extra Costs
The policy should include the extra costs of reinstatement, which is the extra costs incurred to comply with any requirement of any Act of Parliament or Regulation, By-Law or Regulation of any Municipal or other Statutory Authority

8.8 Increases in Cost of Working
Increases in the costs of working, which covers any reasonable expenses incurred in order to minimise any long-term effect of a loss on profit/revenue, e.g. Overtime wages, the costs of leasing other premises, including fees, advertising and promotional expenses.

8.9 Flood Insurance
Flood insurance - to cover damage to property caused by flooding. This may be provided subject to strict underwriting guidelines.

8.10 Policy Excess
Most policies will be subject to an excess or deductible, i.e. the amount of each loss which must be met by the insured following a claim.

8.11 Excess will Vary
The amount of the excess or deductible will vary from insurer to insurer and the nature of the property being insured.

8.12 Can Elect Higher Excess
Property owners can elect to assume higher excess or deductible than that being imposed by the insurer although it is recommended that this only be entertained where the insurer is prepared to offer a substantial premium discount in return.

8.13 Policy Exclusion
Policy Exclusions: All insurance policies contain exclusions and it is important that owners/managers familiarise themselves with those exclusions applicable to their own policies.
9.0 The importance of Valuations and Insurance Average Clauses

9.1 Definitions
In the context of insuring property it is important to be cognisant of the definitions which apply to the various types of policy.

9.2 Business Insurance
Business Insurance policies generally require separate sums insured to be specified for:

- Buildings, including architects and professional fees (the term ‘Buildings’ is understood to include the structure itself together with fixed electrical and mechanical plant, sprinkler and fire alarm systems and landlord’s fixtures and fittings).
- Contents - in this regard the insurer should be asked to advise if carpeting and floor coverings, for example, would be considered as part of the building or would require a separate sum insured.
- Computer and electrical equipment.
- Costs of demolition and removal of debris.

9.3 ISR Policy Covers
An ISR policy covers ‘all real and personal property of every description’ under a single declared value for each property. Care should however be taken to ensure that the value declared takes all the above items into account.

Land Not Included
The value of land is not to be included in either case.

Under-insurance
Business Insurance and ISR Insurance are quite different in the way they deal with under-insurance and, irrespective of which policies operate for a particular property or portfolio, care will need to be taken in assessing the sums insured or limit of liability as applicable. Generally properties are insured for their replacement cost and the following aspects should be taken into account.

Sum Insured
The sum insured under Business Insurance is the insurer’s limit of liability in the event of loss or damage. It is therefore necessary to project the sum insured nominated at the commencement of the policy period to cater for inflation and other cost variables during the policy period.

ISR Policy
An ISR policy does not contain a sum insured per se but has:

Declared Value
Declared Value, i.e. the estimated value of the property insured at the commencement of the period of insurance - as well as being relevant to the test of coinsurance or average, this amount is utilised for the purpose of premium calculation; and

Limit of Liability
Limit of Liability, i.e. the maximum liability of the insurer in the event of loss or damage - this need not and should not be the same as the declared value but should represent what the replacement value of the property would be if, for example, it was totally destroyed on the last day of the period of insurance. (Sub-limits are also generally applied to contingencies such as accidental damage, burglary and demolition/removal of debris costs).

Coinsurance or Average
However, both Business Insurance and ISR Insurance contain Coinsurance or Average clauses which permit the insurer to reduce the amount of loss if the:

- Sum Insured at the time of loss or damage in the case of Business Insurance; or
- Declared Value at the commencement of the period of insurance in the case of ISR Insurance.

is less than 100%, 90%, 85% or some other specified percentage depending on the insurer’s policy wording and/or the value of property concerned.

Example
Assuming that there was a 100% Coinsurance or Average Clause in the policy, the following example demonstrates how under-insurance can reduce the amount of a claim.

\[
\frac{S \times A}{P} = \text{Claimable Amount}
\]

Where
S = the sum insured or declared value in the policy
A = the amount of the loss
P = the correct value of all property
In this example
S = $50,000
A = $100,000
P = $200,000

$50,000 x $100,000 = $25,000 (Claim settlement)
$200,000

This has occurred because, in this example, only 25% of the values were selected as either the sum insured or declared value as applicable. Note that the equation would vary in the case of, for example, a 90% or 85% Coinsurance or Average Clause although the underlying principles are the same.

Ensuring Fully Insured
The best way of ensuring that a property is fully insured is to have the property valued and the policy figure updated on a regular basis. The valuer should be instructed to prepare the valuation so that the valuation accords precisely with the basis of insurance eg. Reinstatement, replacement and extra costs insurance or indemnity value as applicable and include costs of demolition and removal of debris and professional fees. At the very least, if a professional valuer is not to be utilised, it is recommended that reference publications such as Rawlinsons Australian Construction Handbook or Cordells be consulted.

Sum Insured or Declared Value for Consequential Loss
It is similarly important to direct considerable attention towards assessment of the sum insured or declared value for Consequential Loss insurance - generally thought of as Loss of Rents insurance in the context of the insurance of property. This insurance is also subject to coinsurance or average provisions.

Indemnity Basis
It is also possible to seek insurance cover on an indemnity basis being either the market value of the building less the land value or the depreciated value of the property. This can, under certain circumstances, provide greater flexibility in the event of a catastrophic loss but may lead to complications in regard to a partial loss.

Different Levels of Insurance Within One Complex
It should also be noted that different levels of insurance cover can be taken for structures within one property complex but at different levels of risk, eg. a factory and its outbuildings on the same site where the factory might be under reinstatement conditions, and the outbuildings insured for their indemnity values.

Public Liability
Public Liability insurance is subject to a limit of liability for any one occurrence ie. the maximum amount the insurer will pay for all claims arising out of the one event. This means that the limit of liability selected must:

- be sufficient to cover all claims from all claimants arising out of the one occurrence;
- recognise that injuries can take several years to stabilise to the point where some claims can be taken to Court - there can be both inflation and escalation in the amounts of damages awarded in the intervening period; and
- take account of the possibility that at least some of the potential claimants will be juveniles and that claims in respect of such persons cannot be finalised until a juvenile reaches the age of 18.

The most appropriate limit of liability will be to some extent, influenced by both location and occupancy of the property concerned.

Contract Waivers Recover Loss Against a Third Party
Contract Waivers: When an insurer has agreed to indemnify a company for a loss, it retains the right to recover its loss against a third party if they caused the loss. If the insured party has contractually waived the insurer’s right of recovery against another party, the insurance policy can become null and void. The insured party should ensure that he has neither accepted nor waived liability.

Hold Harmless
At present there are many contracts that are regularly utilised in the commercial environment that contain ‘hold harmless’, ‘waiver of subrogation’ or warranty clauses. These can be found predominantly in maintenance agreements and some lease agreements.

Negotiate a Wording
Prior to signing or recommending any of these agreements, always refer to either the insurance broker or insurer who will either negotiate a wording which is acceptable to all parties or, if this
is not possible, will endorse the contract on either the property or liability policy.

10.0 Conclusion

Not All Exposures Are Insurable

Not all exposures are insurable events, eg. wear and tear, damage by vermin.

Read Insurance Contract

It is surprising the number of persons who do not read their insurance contract and/or obtain either legal advice or advice from a professional insurance adviser as this is perhaps the only contract that will ensure the ongoing viability of the business if a major catastrophe occurs. Although an insurance policy can be complex to read, it is important to understand, at the very minimum, the policy exclusions and conditions. If any part of the insurance contract causes concerns to the purchaser, they may be able to negotiate changes to policy conditions and wording. However, this can only be accomplished where the insurance purchaser understands the contract.

Very Large Programs

For very large insurance programs, it may be advisable to recommend that the insurance adviser/broker to meet with the owner, the owner’s solicitor and the insurer to design (draft) policy wordings and conditions. It is also reasonably common for a nominated loss assessor acceptable to both the owner and insurer to be agreed, as this can facilitate claims settlement when losses occur.

New Products and Changes to Taxation Provisions

Finally, Members should be aware that as with all market sectors, the insurance industry is subject to continual review and there is the potential for significant change in the future. New insurance products regularly become available, and changes to taxation provisions or other Government regulation can effect the utilisation of insurance.

Ensure Insurance Covers are Specifically Tailored

As indicated, this Guidance Note addresses broad issues, relating to the property insurance environment and risk management. However, just as the property market is not homogeneous and each property has different characteristics, so it is with the insurance market and individual policies of insurance. Thus the professional adviser needs to ensure that the insurance covers are specifically tailored to individual properties and their risk profile.
1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to provide a general reference to preparing real estate for sale. The Guidance Note addresses the steps taken in preparing property for sale prior to the actual commencement of marketing proper. It covers the period of preparation of the physical state of the property for sale together with any required financial or technical information bought together in a selling document prior to the placement of the property on the open market.

1.2 Status of Guidance Notes
Guidance Notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance note is applicable to Members involved with most forms of real estate. However, the practitioner should be aware of particular idiosyncrasies which may apply to specialised property e.g. rural holdings, hospitals, nursing homes and other properties of a specialist nature which these notes do not attempt to address.

1.4 Schedule
Provided to the rear of the Guidance Note is a schedule of various types of property and an indication of the more specific information which must be assembled when preparing a particular property use for sale.

1.5 Preparation of Property
The preparation of the property as covered by this Guidance Note relates to aspects of both physical appearance and accumulation of information required to provide the market with an immediate description of the asset it is considering to purchase. The information assimilated for the marketing material should be accurate given the responsibility imposed by Section 52 of the Trade Practices Act and preferably, all information should be verified by the Vendor’s written certification of its accuracy. Matters relating to title should be requisitioned from the vendor’s solicitor so that appropriate documents can be considered and be available for perusal. These could include title search, zoning certificate and current survey report.

2.0 Physical Preparation of the Property

2.1 Importance of Physical Presentation
The physical condition or state of presentation of the property is generally speaking, very important in achieving the highest possible price. A positive first impression is essential to maximising value, as the buyer is aware that a well-maintained property will not require maintenance expense in the early period of ownership. Pre disposal planning should be agreed with the Vendor and individually tailored to each property’s need.

2.2 Areas Requiring Physical Attention
The practitioner should identify areas requiring physical attention, list items of physical deterioration, poor state of repair or areas of untidy appearance and discuss these with the vendor with the objective of rectification. Issues may include:
- Upgrading the external appearance, which may include cleaning, minor repairs, repainting or landscaping maintenance.
- Attention to obvious maintenance requirements such as water damage, cracking to walls, repairs to roofing or down pipes, estate road resurfacing and numerous other possibilities should be noted for discussion.
2.3 Redevelopment Potential

Exceptions however do exist where a property has redevelopment potential and the “run down” condition of the improvements would have little effect on the value of the property with the possible exception to a reduction in price due to cost of demolition or removal. In this instance the buyers focus would be more on the characteristics of the location and land itself rather than the condition of the improvements thereon.

3.0 Preparation of the Property’s Financial Details

3.1 Soundness of Income

The most critical issue in preparing property for sale where it is an investment is the soundness of the income produced by the property. The length of leases, tenant profile and terms and conditions of the leases, including building outgoings, are all issues of paramount importance to the investor.

3.2 Tenancy and Lease Status

In preparing a property for sale the practitioner should review a property’s tenancy and lease status and undertake the following checklist to ensure that the property is presented in its best financial position. Be aware of a potential owner occupier who may be looking for space to occupy in a partially vacant building.

3.3 Occupancy Levels

- Fully leased property is the most attractive to the broader investment market. If vacancies exist, and the vendor can allow the time, it would be prudent, in order to maximise the selling price, to delay the sale to lease the property.
- If vacancies exist, the owner should be advised of the chances of re-leasing the premises, expected market rental level, and time frame for re-leasing the property.

3.4 Tenancy Security

- Ensure that all leases have been signed, stamped and/or registered, and that a comprehensive set of leases is available for scrutiny by potential buyers.
- Ensure that all personal or bank guarantees have been obtained and copies of each are attached to the leases.
- Provide a resume of the tenant(s) business history, number of outlets and other available information as this will assist in the purchasers acceptance of the security.

3.5 Lease Tenures

- If lease terms are about to expire, endeavours should be made to secure either new leases or lease renewals over existing tenancies.
- At the very least enter into correspondence with existing or potential tenants to provide a positive outlook as to the future letting of space which may otherwise appear as potential vacancy.

3.6 Re-negotiation of Unsatisfactory Lease Terms

- If there are undesirable lease terms and conditions that detract from the value or saleability of the property, it is desirable in the pre-sale period to re-negotiate lease terms, which are more commercially acceptable. This could relate to outgoings provisions, rent reviews or rental levels, for example.

3.7 Preparation of Tenancy Schedule

Cross-reference the tenancy schedule with the lease documentation (if available) to ensure that the tenancy schedule presents an accurate record of the leasing status of the property. The tenancy schedule should include at least the following vital information:

- Description to identify the area leased, eg. Shop number, floor level, suite number etc.
- Lessee’s name, (including trading name).
- Area leased in square metres.
- Gross or net rent per annum (including rate per $/m2 pa).
- Lease commencement and expiry dates.
- Lease rent review dates and method of rent review ie market rent review or fixed increase or CPI adjustment.
- Tenant’s proportion of recoverable outgoings.
- Comments in relation to particular items of variation of a tenant’s lease to the standard lease, eg. non recovery of certain outgoings.
- Who owns fit-out and if included in sale.
3.8 Other Sources of Income
Details of other sources of income should be summarised. These could include:
- Carparking
- Naming/signage rights
- Licence agreements
- Telecommunication agreements/licences

3.9 Outgoing Schedules
- These can be provided either in the form of past actual outgoings or budgeted outgoings and preferably a combination of both.
- The outgoings budget should identify each item of outgoings together with the annualised amount of past actual outgoings and future budgeted outgoings.
- Trends can be established and analysed if several previous years’ outgoings are obtained.

3.10 Arrears Schedule
- This document will provide the Member with an opportunity to address problem tenants with the vendor to ascertain the impact of arrears on the expected achievable price and/or a program of back rent collection prior to placing the property on the market for sale.
- Every effort should be made to minimise arrears prior to the property being offered to the market otherwise the poor record of tenant payment could have a negative effect on price and marketability.

3.11 Depreciation Allowances
Purchasers of commercial, retail and industrial properties often require information on both building and plant and equipment, depreciation allowances in order to assess the property’s after tax payment earning potential. This is a specialist area requiring input from accountants or quantity surveyors specialising in this subject.

3.12 Overseas Purchasers
This situation will require Foreign Investment Review Board approval in Australia and Overseas Investment Commission in New Zealand.

4.0 Marketing Strategy and Budget

4.1 Target Market Determines Marketing Strategy
The target market determines the marketing strategy. For smaller properties there is a greater reliance on brochure mail out, enquiries from advertising and signboards. The larger properties require greater emphasis on direct presentation of the property to identified prospective purchasers.

4.2 Discussion with Vendor
The marketing strategy requires discussion with the vendor in relation to the recommended marketing campaign/procedure and associated costs.

4.3 Marketing Costs
Depending on the marketing strategy adopted, costs may be incurred in relation to a combination of the following:
- Media production
- Advertising costs
- Website
- E-mail
- Internet
- Brochure/video production and cost of circulation
- Cost of producing a comprehensive information memorandum
- Cost to the preparation and erection of signage.
- Mailing and courier costs
- Photographic costs
- Travel expenses
- Cost of other specialists consultants advice (if required)
- Cost of auction venue (if required)
- Auctioneer’s fee (if applicable).

4.4 Budget
The marketing budget for a sales campaign will depend on the marketing strategy recommended. There is no direct correlation of the size of the marketing budget to the property but generally the larger the property’s dollar value the greater the marketing budget.
There should be a schedule of the agreed marketing strategy as to which newspapers or chosen modes of advertising were agreed to including the agreed dates, costs and the length of the advertising campaign.

5.0 Method of Sale

5.1 Decided in Consultation With Owner

The method of sale is decided in consultation with the owner and is determined as part of the marketing strategy. A recommendation as to the method of sale is based on the following factors:

- Potential competition
- Dollar value of the property
- Target market
- Competing properties
- Timing of sale
- Requirements of the vendor
- Complexity of the property
- Confidentiality requirements of the vendor
- State of the market

5.2 Methods

The method of sale will generally comprise one of the following main methods:

- Private treaty
- Public auction
- Public tender
- Calls for expressions of interest

5.3 Variations

There are also other methods which may apply e.g. international tender, minimum sealed bid, informal tender and declared minimum price tender. The Member would adopt the most appropriate method of sale having determined market demand and target market.

5.4 Primary Methods

The four primary methods of sale are described hereunder:

5.5 Private Treaty

This method of sale requires an opinion of price. Pricing a property for sale may be unacceptable to the vendor in a rising or falling market. However, providing a price estimate allows the market to judge the vendor’s expectations and determine whether or not the vendor is genuine.

5.6 Flexible

The option of private sale allows flexibility in sale terms and conditions and allows each party the opportunity to negotiate to its best advantage. There is no exclusivity afforded to any purchaser. However, the process may be prolonged if the vendor is unrealistic on price expectation.

5.7 Popular at Lower End of Market

Public Auction

This method of sale remains popular at the lower end of the market. It may be less suited to larger investment properties but this will depend on your markets’ practices. It is less popular with off shore investors whom may not have the ability to attend or the market knowledge necessary to give confidence to bidding at auction. In all cases, purchasers have already procured finance are required to undertake their enquiries prior to auction and therefore bid unconditionally. The benefit of the auction system is to provide a sales outcome to achieve the maximum price through competitive bidding.

5.8 Outcome within Defined Time

The auction system can provide a sales outcome within a defined time period on sales terms acceptable to the vendor, usually an unconditional contract, with 10% deposit and settlement in 30 to 60 days depending on the common practice adopted in your state.

5.9 Seen as Fairest for Estates and Forced Sales

The system is also seen and recognised by the courts as the fairest method for property disposal, especially for deceased estates and “forced sales”.

5.10 Unconditional Disadvantages

However, as mentioned there are potential purchasers that are either uncomfortable with the auction process or are unable to bid under an unconditional contract. They may have the ability to pay a higher price with the opportunity to vary the contract in a minor way. The practitioner's judgement as to target market and level of competition for a property is therefore vital to the successful outcome of an auction.
5.11 Confidential Offer

Public Tender

The Public Tender process allows purchasers to submit a confidential offer without fear of it being disclosed to competing parties. Offers are in the form of an unconditional contract prepared by the vendor's solicitors and are accompanied by a refundable deposit. Tenders are irrevocable and remain open for acceptance by the vendor for a set period of time. The time period for acceptance is determined having regard to issues like expected level of competition and complexity of the offering. The time frame enables vendors to compare offers, seek clarification or any variations to the terms of an offer, and extract the highest possible purchase price from the marketplace.

5.12 Used where Propriety is Paramount

Sale by Public Tender is the formal step beyond Expressions of Interest. It is used in situations where propriety is paramount eg. Government offering property for sale and where the best price is generally accepted on uniform terms and conditions. It is used in the case whereby a property is likely to be keenly sought by a number of purchasers.

5.13 An Initial Calling

Expressions of Interest

This involves a sale method incorporating an initial calling for Expressions of Interest with suitably qualified parties identified from this initial stage either being subject to direct negotiation following closing of the Expressions of Interest or invited to participate in a further closed bid to determine the most acceptable offer.

5.14 Benefits

This method provides the following:

- Greater reliance on due diligence in assessing the property prior to offer.
- National and International market acceptance due to the opportunity to participate in the first stage of the process with limited time and costs associated.
- Flexibility in terms offered can often influence the purchase price. Expressions of Interest allow variations to a standard contract of sale enhancing the prospect of maximisation of price to the vendor.

5.15 Two Staged Process

A two staged Expressions of Interest process works as follows:

- The property is offered publicly to the investor market, and interested parties are invited to submit by a nominated date an Expression of Interest form confirming their interest, capability and price range.
- From the Expressions of Interest, suitably qualified parties are selected and invited to submit, on a due date, a formal bid. Final bids would be in the form of a contract.

The highest bidder (having regard to conditions and capability) is then accepted by the vendor and the balance of deposit paid.

6.0 Preparation of Disclosure Material

6.1 Due Diligence an Integral Part of Preparation

For larger properties in particular, due diligence has become an integral part of an offer to purchase and subject to the outcome of this activity will determine the purchasers preparedness to proceed to an unconditional contract. The due diligence package is now an integral part of the preparatory work for preparing property for sale. If the vendor is unwilling to address this issue before sale, and extended selling period is almost certainly assured.

6.2 Extent and Complexity Varies

The extent of material exhibited generally becomes more significant and complicated as the property's value increases. The due diligence information should include all relevant information relating to the property that is likely to impact on the purchaser's decision to proceed to settlement.

6.3 Recommended Prior to Marketing

Due Diligence information is often assembled after commencement of Marketing. As this process has gained particular relevance (and could potentially de-rail the transaction) it is recommended that preparation of the due diligence material be undertaken prior to commencement of marketing. The Member then has the opportunity to advise the owner of any adverse issues that could effect
both the potentiality of sale and achievable price. It is important to address these issues prior to sale than them becoming an insurmountable obstacle to settlement. It is better that all detrimental issues are dealt with prior to offering the property for sale.

6.4 Due Diligence Items ANZRPGN 6

Following is a list of Due Diligence items that are appropriate for inclusion in a “due diligence package”:

- Easement Documentation - copies of easement documents and easement plans identifying the location of any easements on the property, the grantee, and requirements of that easement on the property and the owner.

- Leases - copies of all leases on the property or part thereof.

- Encumbrances - all encumbrances on title should be disclosed and relevant evidence provided.

- Contamination - a contamination report from the relevant State Government Department showing the status of the property. If the status indicates the property is contaminated or likely to be contaminated it is important to undertake further testing to provide a contamination report, including the extent of the contaminants and the cost of clearing the site. It may be necessary to undertake decontamination work (remediation) prior to marketing the property.

- Heritage / Land Use Issues - if a property is subject to a Native Title or Waitangi Tribunal claim, information regarding this land claim must be provided. If the property is listed as having some heritage significance, information relating to this must be identified and provided. It is further advisable to include any local government registration as this could have an impact on future dealings with the property.

- Main Roads / Local Government - Any requirements by either of these authorities for road widening, truncation or dedication must be identified and information provided.

- Flood Information - a flood report from the relevant local authority should be provided showing any history of inundation of a property due to flooding.

- Outgoings - an audited report on previous years’ outgoings together with the current year’s outgoings budget is important to provide an accurate outgoings estimate.

- General Rates and Land Tax Assessment Notices – it is important to include the most recent notices.

- Depreciation Information – both Building and items subject to Depreciation Allowance should be scheduled to provide the purchaser with knowledge of possible deductions against income for tax purposes.

- Council Compliance Certificate – inclusion of this document confirms absolutely Council’s approval of the completed development at the time of construction.

- Approvals - any related approvals to the site for development or other future redevelopment.

- Other Reports - any other property reports that are relevant to the property and are likely to influence the purchaser’s interest in the property and / or the sale price. This should include a full copy of building plans, any relevant site or soil reports, building structure reports, services reports, engineers reports, etc.

- Other Issues – refer ANZRPGN 6 Performing Due Diligence for guidance on other issues which may be applicable in certain circumstances.

Obviously the type and size of the property will influence the amount of relevant information. For instance, a residential house is unlikely to have any leases encumbering the property and much of the other information detailed above will probably not be appropriate.

7.0 Marketing Material and Tools

7.1 Budget Determines Extent

The marketing strategy and budget will determine the extent of marketing material but in most cases the marketing tools available to the Member will be a combination of:

- Signage
- Advertising
- Brochure / video presentation
• Property information memorandum
• E-mail
• Internet
• Website

7.2 Due Diligence Material
The due diligence material would normally be at an accessible location for inspection by prospective purchasers. This could be the vendor’s agent’s offices or vendor’s solicitor’s offices.

7.3 Information Memorandum
The information memorandum is the most comprehensive marketing tool and addresses the following aspects of the property:

• Location
  Issues to be addressed are:
  • Accurate description of the property’s location
  • Proximity to public transport and amenities
  • Quality of surrounding development including description of surrounding uses.
  • Benefits of the location to the particular property eg. a high profile site has a considerable volume of passing traffic, an elevated site has unrestricted views, etc.
  • Ease of ingress and egress.

• Photograph
The inclusion of a quality photograph highlighting the key aspects of the property is one of the strongest marketing tools available. The photograph should be digital to allow greater flexibility.

• Title Description
The full legal description should be inserted in the document with a photocopy of the title document if possible. Title description would give details of the lot, registered plan, parish and county together with land area and dimensions. This information provides the purchaser with an accurate identity of the property being acquired.

• Building Description
This description can be brief or comprehensive depending on the nature of the asset being sold. Obviously a detailed description gives the purchaser a better understanding of the asset being acquired. Items for mention include, date of construction, date of additions or refurbishment, extent of built area, style of architecture, building construction methods, materials and finishes, services and maintenance.

• Land Description
Provides the purchaser with an understanding of the physical nature of the land, street access, services and particular features of the site, whether beneficial or adverse, which enable a full understanding of the nature of the land being acquired.

• Tenancy Information
Of more relevance to an investment property, the tenancy profile information and tenancy schedule give a full break down of tenancy information. Income, Outgoings and Financial Analysis complete the picture for the purchaser.

• Financial Details
Information as described under the heading “Preparation of the Property’s Financial Details” would be provided in the information memorandum.

• Property Plans
Inclusion of floor plans and elevational drawings is desirable if available.

• Statutory Information
In addition to the financial information provided on an investment property there is usually the inclusion of council rates and tax information.

• Town Planning/Resource Management
This section of the report would cover such aspects as:
  • Current zoning
  • Permitted development
  • Status of existing uses
  • Alternate consent uses and prohibited uses.
  • Details of specific approvals obtained and certifications of any completed development.
  • Detail of any external issue that is likely to affect the value of the property eg. land resumption due to road widening.

• Market Commentary
The information memorandum for larger properties, particularly of an investment nature can incorporate information on trends in rental values, property yields, competing property, comparable
sales and economic factors which may affect the future likely returns of the property. This, however, is at the discretion of the agent and client. In any event it is prudent for prospective purchasers to make their own enquiries.

8.0 Commencement of Marketing

8.1 Conclusion of Preparation

Prior to the commencement of marketing a due diligence review of all information to become public needs to be conducted to ensure accuracy. The commencement of marketing which may be confirmed by formally placing the property on the open market, press release, or the appearance of the first advertisement offering the property for sale; signifies the conclusion of the preparation of the property for sale.

FOOTNOTE:

These notes have been prepared for general guidance. It is acknowledged that various State Governments have similar but not always identical legislation and consequently the practitioner is required to be aware of relevant legislation and local customs in applying these notes eg many of the items set out under headings such as “Preparation of Financial Details” and “Preparation of Disclosure Material” are covered in Victoria in the Vendor’s Statement, prepared by the vendor’s solicitor pursuant to Section 32 of the Sale of Land Act. The vendor’s solicitor will generally liaise with the vendor and the appropriate authorities in collating the material. Nevertheless the practitioner should be familiar with the above prescription in Preparing Property For Sale and should not deviate from scrutinizing the process to ensure that a comprehensive professional and successful outcome is facilitated.

<p>| SCHEDULE |
|-----------------|--------------------------------------------------|
| Property Type   | Specific Information Required in Preparing Property for Sale |
| Commercial      | Supply / demand statistics                        |
|                 | Car parking ratios                                |
|                 | Lift and air conditioning performance criteria and maintenance details |
|                 | Ceiling heights                                   |
|                 | Ownership of fixtures and fittings                |
|                 | Asbestos report                                   |
| Shopping Centres| Trade area statistics and demographics information |
|                 | Percentage rental and turnover rent history       |
|                 | Door counts and other pedestrian traffic statistics |
|                 | Expansion potential of the existing centre        |
|                 | Tenancy mix in regard to attraction to shoppers and a proportional breakdown of anchor tenants, national chain specialty shops and sole traders |
|                 | Accessibility, transport and car-parking interface |
|                 | Arrears history                                   |
|                 | Industrial Contamination report                   |
|                 | Transportation infrastructure                     |
|                 | Onsite heavy vehicle movement and access          |
|                 | Height and clear span dimensions                  |
| Short Stay Accommodation | Trading history                                  |
|                 | Projected performance                             |
|                 | Performance guarantees                            |
|                 | List of FF &amp; E together with ownership and age    |
|                 | Related facilities and profit centres, eg. food and beverage, conference and recreational |
|                 | Occupancy levels                                  |
|                 | Average room rates                                |
|                 | Customer profile                                  |
|                 | Licensing issues                                  |</p>
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<td>Any approved development material</td>
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<td>Alternate use studies</td>
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1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide a checklist for Members engaged in Development Management whilst also providing a pro forma ‘Terms of Appointment’ for those acting as a consultant to a development project.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This Guidance Note applies to Members appointed as Development Manager in the role of the Principal’s representative in the development process, including the initial concept, feasibility and design, obtaining approvals, documentation, construction, compliance, co-ordination of leasing and sales campaigns, (or any part or parts of this development process). It should be used in conjunction with other guidance notes and practice standards which are either over-arching or directly applicable to the type of property, purpose or issues involved.

2.0 Development Projects

2.1 Diverse Range

There is a diverse range of property development projects undertaken. These mainly include:

- Subdivisions
- Housing Estates
- Commercial
- Retail
- Industrial
- Hotels and Resorts
- Infrastructure

These projects may be new, redevelopment, refurbishment, strata, etc.

Managed by Highly Trained Professionals

It is important that this development process is managed by highly trained professionals who understand property development and the principles of delivering the right development, in the right location, at the right time.

3.0 The Role of the Development Manager

3.1 Responsibilities

The Development Manager's responsibilities are mainly in the following areas:

- Manage the process of defining the client's project goals and objectives.
- Acting as the representative and certifier of the Principal in the co-ordination of all professional, technical, administration and other services to be provided.
- Prepare Consultants briefs, analyse proposals, fees submissions and make recommendations.
- Appointment of Consultants on behalf of the Principal.
- Manage the process of achieving the client's stated goals and objectives.
- Carrying out the functions described in the following “Checklist”, either directly or through appropriate consultants.
3.2 Broader Development Management Role

It is intended this paper be used as a guide to the broader development management role. It is not intended to be used for the purpose of project or construction management and supervision.

4.0 Development Consultancy Checklist

4.1 List of Duties

The following is a check list of duties for a development project and may involve the appointment of specialist consultants.

Project Site Acquisition/Consolidation

- Negotiations with vendors
- Instruction of Solicitors, Valuers, Surveyors, Town Planners, etc
- Pre-purchase investigations
- Contamination Report
- Due diligence [ANZRPGN 6]

Preliminary Feasibility Study

- Preliminary Market Research
- Town Planning/Resource Management Criteria
- Design Criteria
- Services (water, sewerage, drainage, etc.)
- Legal (title, easements, etc.)
- Defining Highest and Best Use Options
- Value Management Exercise on options
- Preliminary Financial Analysis and Cash Flow
- Development Management Strategy and Program

Concept Design and Planning

- Design Brief
- Global Planning
- Testing Design Options
- Liaison with Authorities
- Initial Dilapidation Report
- Detailed Site Analysis
- Environmental Audits and Impact Statements
- Insurances (Building, Public Risk, Professional Liability, etc.) [ARPGN 1]
- Appointing Development Team*
- Redefine Client’s Goals and Objectives

(*Architects, Builders, Engineers, Quantity Surveyors, Town Planners, Surveyors, Environmental Scientists, Solicitors, Selling, Leasing and Managing Agents, Valuers, Financiers, etc.)

Financial Feasibility

- Financial Analysis
- Sensitivity Analysis
- Competitive Analysis
- Finance Establishment
- Marketing Options
- Project Cash Flow
- Project Time Charts

Approvals

- Liaison with Statutory Authorities
- Liaison with Community, Resident Action, etc
- Development/Building Approvals
- Rezoning Applications
- Court Appeals
- Strata and Stratum Title, Dual Occupancy, Community Title, Cluster Title, etc.
- Land Subdivision Approvals

Pre-Construction

- Value Management Assessment
- Liaison with Existing Tenants
- Working Documents/Alternative Procurement Methods
- Appointing Builder/Construction Manager
- Tender Process
- Environmental Controls
- Construction Staging
- Cost Control and Accounting Systems

Construction

- Dilapidation Report
- Monitoring Construction/Variations
- Site Meetings
- Construction Finishes
- Cost Control and Budgets
5.0 Development Management Fees

5.1 Percentage Basis
The most common method of fee is charged on a percentage basis on the total development cost (including land, building, interest, etc.). This usually ranges between 1% - 3% depending upon the complexity and size of the project.

5.2 Methods
The main methods of calculating fees include:
- Percentage Fees
- Hourly Rates
- Fixed Fee
- Maximum Guaranteed Fee in Agreed Scope of Works
- Incentive Fee
- Disbursements
- Default Interest (in the case of not being paid on time by the Principal).

A detailed schedule is set out in the attached Terms of Appointment (see Appendix).

6.0 Feasibility Study
The Development Manager should prepare a feasibility study, time planning program and cash flow including a financial analysis at the beginning of the appointment. This can be used as the basis of the Development Plan and Strategy for the project and be regularly reviewed during the project. All assumptions should be clearly set out.

7.0 Meetings
It is preferable that the Principal and Development Manager meet at least monthly. The Development Manager should arrange and conduct the meeting, the keeping of records and issuing of minutes including responsibility for actions and a client status report.

8.0 Consultancies
The Development Manager can advise and make recommendations to the Principal on the appointment of and terms of agreement with Consultants. The Development Manager’s advice should include details of professional indemnity insurance.

9.0 Terms of Appointment

9.1 Guide for Appointment
The attached Terms of Appointment (see Appendix) is provided as a guide for Members and their clients for the appointment in the role as a Development Manager.

9.2 Not All Inclusive
It is not intended to be an all inclusive agreement but a guide for an agreement between a development manager and his/her client.
10.0 Caution

10.1 Guide Only

This paper is intended as a guide only and all parties should seek their own legal advice as to the basis of specific agreements.
APPENDIX TERMS OF APPOINTMENT OF DEVELOPMENT MANAGEMENT CONSULTANT

BETWEEN THE DEVELOPMENT MANAGEMENT CONSULTANT:

[Name of Company] .................................................................................................................. (‘the Consultant’)

ACN ...............................................................................................................................................

[Registered Address] .....................................................................................................................

..................................................................................................................................................

Represented by ........................................................ (‘Development Manager and the Consultant’s Representative’)

AND THE CLIENT:

[Name of Company] ................................................................................................................... (‘the Client’)

ACN ...............................................................................................................................................

[Registered Address] .....................................................................................................................

..................................................................................................................................................

Represented by ........................................................ (‘the Client’s Representative’)

1. Date of Issue

This Memorandum was issued to the Client by the Consultant on

This ............... day of ............... , 20 ........

2. Scope and Intention of this Document

i. The purpose of this Memorandum is to confirm the appointment of the Consultant by the Client on a retainer to undertake development management work on terms encompassing or exclusively defined by the following terms and conditions.

ii. The Client may accept or ratify these terms and conditions either by executing this Memorandum or by other actions described in Clause 4 which may have the effect of confirming the appointment of the Consultant on these terms.

iii. Upon the happening of the events described in Clause 4 and subject to the operation of that Clause, the Client shall be deemed to have accepted the terms and conditions set out in this Memorandum as applying from the starting date which is established under Clause 3 and these terms shall be binding on the parties from that date.

iv. This Memorandum shall be dated by the Consultant as at the date of issue of the Memorandum to the Consultant and that date is not necessarily the date of commencement of the terms of this Agreement.

v. Where acceptance or ratification by the Client of these terms and conditions occurs by execution of this Memorandum or separately in writing, any statement, representation, warranty or condition made by either party prior to the date hereof is expressly excluded except as may be required to establish the date of appointment of the Consultant if such appointment occurs separately from or independently of, this document.

vi. The terms and conditions contained in this Memorandum which are expressed to be essential may not be varied by either party except in writing signed by both parties.

3. Starting Date

The terms of this Agreement are effective and operate to govern the appointment of the Consultant by the Client on the earliest of the dates that correctly appear in either a. or b. or c. below:

a. The parties agree that the Consultant commenced work at the request of the Client on the following date, namely .................................................................

..................................................................................................................................................

[insert date that instructions to start were received or that work started, otherwise leave blank]

Or: [delete Clause as applicable]

b. This appointment shall commence on the following date, namely on .................................................................

..................................................................................................................................................

[insert date only if agreed in negotiations, otherwise leave blank]

Or: [delete Clause as applicable]

c. The date after receipt by the Client of this Memorandum upon which the Consultant is
4. Acceptance or Ratification by Client
i. The Client shall have accepted or ratified the terms and conditions as set out herein either:
   a. Upon execution of this Agreement by the Client whereupon Clause 4.ii below applies; or
   b. By conduct of the Client amounting to confirmation or acceptance made at any time after receipt by the Client of this document, whereupon Clause 4.iii below applies.
ii. In further definition of Clause 4.i.a. above, upon execution by the Client, this document sets out conclusively the agreement between the parties.
iii. In further definition of Clause 4.i.b. above, even if this document is not signed by the Client, where the Client utilises the services of the Consultant concerning the subject project or property without first expressing non-acceptance of the offer implicit in this Memorandum, a Consultancy Agreement will, to the extent that the context and circumstances permit, come into existence between the parties on the terms and conditions as set out in this Memorandum. If the Client excludes some but not all of the terms and conditions set out herein, and the terms and conditions that remain contain an actionable agreement, the offer remains open to acceptance by conduct of the Client on those terms and conditions that remain.

5. Term of Appointment
i. The term of appointment is for either:
   a. Such reasonable period as may be required by the Consultant to undertake the work as specified herein and as otherwise requested by the Client.
      Or: [delete wording not required]
   b. The appointment shall terminate either on the happening of the following event or at the expiration of months/years, whichever shall first occur.
      Event referred to:
   ii. In the event of there being any extraordinary delay in implementing the brief for reasons beyond the control of the Consultant, the term of the appointment shall be extended by the period of any such delay. [delete if not applicable]
   iii. The term of this appointment shall be extended by any period of delay due to a stand down occurring under Clause 27.

6. Nature of Appointment
i. The Consultant is engaged as an independent contractor and the relationship of employer and employee is expressly excluded as between the client and the consultant or any person engaged by the consultant including the Development Manager and the Consultant’s Representative.

ii. The Consultant takes complete responsibility for employment and engagement by it of the Development Manager and indemnifies the Client in respect of any claim for remuneration the Development Manager may make against the Client related to or arising from the employment of the Development Manager.

7. Representatives and Authority
i. The Client is represented by the person whose name appears in Item 3 of Schedule 1 to whom full responsibility for the subject property and the proposed development has been delegated by the Client including the power to provide instructions to the Development Manager and the Consultant and to vary or waive the terms of this Agreement.

ii. The Consultant is represented by the person whose name appears in Item 2 of Schedule 1 in all aspects relating to the interpretation and implementation of this Agreement and that person is the sole person responsible for any variation, terms, amendment or addendum to this Agreement made on behalf of the Consultant.

iii. The Consultant appoints the person whose name appears in Item 1 Schedule 1 as Development Manager and makes this person available to undertake all of the development management work on behalf of the Consultant required under this Agreement.

iv. The Consultant and the Development Manager shall report to and accept directions and supervision at all times from the Client’s nominated representative or such other person as may be duly authorised by the Client’s nominated representative and or the Client to provide such directions or supervision.

v. Either:
   a. The Consultant may substitute another person as Development Manager only with the consent of the Client whose consent shall not be unreasonably withheld.
      Or: [delete Clause not applicable]
b. It is an essential term of this Agreement that the person whose name appears in Item 1 of Schedule 1 shall remain as the Development Manager throughout the life of this Agreement.

8. Qualifications and Experience
i. A resume of the qualifications and experience of the Consultant is attached as Schedule 2.
ii. A resume of the qualifications and experience of the Development Manager is attached as in Schedule 3.

9. Subject Property
i. The street address of the property which is the subject of this Agreement is: ..........................................................
ii. The legal or title description of the property the subject of this Agreement is: ..........................................................
iii. Survey Plan - attached/not attached

10. General Description of Proposed Development
i. Type of Development ...........................................
ii. General Description ...........................................
iii. Number of Storeys ...........................................
iv. Proposed Gross Floor Area (where applicable) .......

11. Development Consent Authorities
i. The Consent Authority with power initially to approve the proposed development is: ...........................................
ii. If the above Authority refuses the proposed development, a right of appeal or review lies with: .........................
iii. Other relevant authorities whose consent may be required: ...............................................................%

12. Planning Instruments
a. The relevant planning instruments controlling the development potential of the subject property are: ........
Or: [delete wording not required]
b. The relevant planning instruments as disclosed in the attached Certificate issued by the relevant Consent Authority. [Section 149 in NSW]
ii. Other relevant planning policies or controls: ........

13. Development Brief
i. The Client’s objectives in relation to the design and implementation of the proposed development are referred to as “the Brief”.
ii. The Client and the Consultant undertake to the
extent that each is able, to ensure that the Brief specifies:

a. The expected or agreed time frame for the happening of critical events;

b. The scope of works to be undertaken by the Consultant including any foreseeable additional work due to possible contingencies; and

c. Any other essential or agreed assumptions.

iii. The Brief as it stands as at the date hereof is set out in Schedule 4.

iv. If Schedule 4 is blank at the date hereof:

a. The Brief may be inferred from all relevant matters communicated between the parties prior to the date hereof, whether orally or in writing, or both.

b. The Client may require that the Consultant prepare the Brief and any document prepared by the Consultant which gives effect to this instruction, becomes the initial Brief.

v. The Client may vary the Brief at any time provided that:

a. Any such variation is given to the Consultant in writing; and

b. If the variation involves a material or substantial change in either the time frame, scope of works or agreed assumptions, the parties undertake to review the fees payable under Clause 17 and to try to reach an agreement to adjust these amounts to figures that are considered appropriate under these circumstances to be in keeping with any increase or decrease in the scope or complexity of the task. In the event of failure to agree upon any such adjustment, or in the case of arbitration of this issue under Clause 29 where a party does not accept the determination which is made, either party shall be entitled to terminate this Agreement whereupon Clause 28 shall apply.

vi. The Client undertakes, as far as is possible to provide advance warning of changes to the Brief and to discuss with the Development Manager the implications and effects of any such change including the expectations of the Client in relation to any review of the fees payable under Clause 17.

14. General Nature of Work to be Undertaken

The work to be undertaken by the Consultant comprises:

i. Provide the Client with advice that may reasonably assist the Client to make management and investment decisions directed towards maximising the asset value of the subject property and or maximising the profits of the Client from the subject property.

ii. In the case of new development schemes or variation of existing schemes:

Use its professional skill and expertise to attempt to obtain approval where appropriate from the relevant Consent Authority for a development scheme or schemes for the subject property which:

a. Maximises the development potential of the site.

And or

Maximises the residual land value of the site when analysed using a Feasibility Study based on reasonable assumptions.

b. Takes account of relevant market factors.

c. Takes account of the physical capability and constrains of the site.

d. Takes account of planning and development controls.

e. Complies with the Brief issued by the Client.

f. Follows the express instruction of the Client (“standing instructions”) whether in variation of the Brief or otherwise.

g. To the extent that the Brief issued by the Client or the standing instructions of the Client compromise or conflict with the objectives stated in a. to d. above, the Brief or the instructions shall prevail.

iii. In the case of construction:

a. To ensure the production of detailed working documents and specifications.

[insert own details]

iv In the case of disposal:

[insert own details]

v In the case of detailed costings being required:

[insert own details]

vi In the case of a market study being required:

[insert own details]

vii In the case of feasibility studies being required:

[insert own details]

viii. Other

[insert own details]

15. Specific or Special Duties

Specific or Special duties are as set out in Schedule 5 hereto.
16. Standing Instructions

i. The Client may issue instructions from time to time relating to the carrying out of this consultancy which must be followed by the Consultant except where any such instruction is inconsistent with this Agreement.

ii. Such instructions shall be referred to as the “Standing Instructions”. These instructions shall be recorded by the Development Manager when and as issued and shall be maintained in a register of all such instructions.

17. Fees and Disbursements Payable

i. The Development Manager shall be entitled to a fee for those services as follows:

a. Percentage Fee (based on the total cost of the development including land, building interest, OR percentage of Gross sales) .................................... %
   This is payable in equal monthly instalments estimated to be $ ...................... pcm
   (Payments may also be paid on a staged basis if specified)

b. Rates per Hour:
   Executive Director $ ............ per hour
   Development Manager $ ............ per hour
   Assistant Development Manager $ ............ per hour
   Other $ ............ per hour

OR

c. Fixed Fee $ .........................

d. Incentive

The Development Manager may be paid lump sum payments upon achieving certain objectives (e.g Rezoning, Development Approval, Practical Completion, etc).

e. Fee Upon Termination

In the event of termination by the Client under Clause 28 or upon the ruling of an Arbitrator under Clause 29, the Consultant shall be paid a termination fee as specified in Clause 28.

f. Disbursements

The Consultant will be reimbursed by the Client for:

- Travelling expenses including fuel expenses incurred in the use of a motor vehicle during business hours and for work related purposes.
- Accommodation where reasonably required or where the project is more than 50 kilometres from the office of the Consultant.
- Photographs, plan printing and document production costs.
- Such other disbursements as may be approved by the Client from time to time.
- Such other disbursement costs as specified below.

$ ............................

ii. In the event that the scope or complexity of the brief increases, the Consultant shall:

a. Undertake any additional work that may be required at the hourly rates specified in Clause 17.i.b.

OR

b. Give notice to the Client that in lieu of a. above, any additional work shall be undertaken only if the Client agrees to increase the amounts or rates payable under 17.i.a., c. or d. (as may be applicable) in proportion to any such increase in scope or complexity.

iii. Nothing in Clause 17.ii. shall limit the rights of either party to re-negotiate the fees payable in the event of a material or substantial change in the Brief as set out in Clause 13.v.b.

iv. The rates set out in Clause 17.i.b shall be increased annually in line with any annual increase in inflation during the year immediately before the relevant date, as published by the Australian Bureau of Statistics in the CPI or such other appropriate indice.

18. Standard of Conduct

i. The Development Manager and the Consultant shall at all times exercise proper or reasonable care in the performance of the duties under this Agreement.

ii. Work undertaken under this Agreement must always be of a good professional standard.

iii. The Consultant shall use its best endeavours to perform this Agreement and either:

a. The Consultant will try at all times to elicit or promote the best possible outcome for the Client but does not warrant to obtain any particular result.

Or: [delete Clause not applicable]

b. The Consultant warrants that it will procure or achieve the following result by the date specified.
iv. The loss claimable against the Consultant for failure to procure or achieve the above result by the date specified shall not exceed the total remunerisation payable under this Agreement.

19. Duty to Report

i. The Development Manager representing the Consultant will report to the Client on a regular basis and otherwise as may reasonably be requested by the Client.

ii. The Development Manager and where applicable the Consultant shall seek the directions of the Client on a regular basis and at any time where by the standard of prudent management, it would be appropriate to seek such direction on any relevant issue including but not limited to issues such as the conduct of negotiations for development or building approval, any change in design, change in materials or specifications or documentation, problems arising during contract negotiations or administration, matters affecting construction progress, weather or industrial delays, supply logistics, variations, quality problems, budget changes, cash flow, marketing and leasing and tenancy co-ordination.

20. Duty Not to Bind Client

Neither the Development Manager nor the Consultant shall bind the Client to any legal or commercial obligation nor sever or vary any Contract involving or affecting the Client without the express authority of the Client.

21. Duty to Communicate

i. The Development Manager shall keep the Client fully informed of all significant events affecting or concerning the development when and as the Development Manager becomes aware of such events.

(a) The Client shall be entitled to communicate with the Development Manager between 7 am and 9 pm on weekdays and 9 am and 5 pm on weekends and holidays.

(b) The Development Manager will be available for communication with the Client whenever it is reasonable and practicable to do so between the hours referred to in sub-paragraph (a) of this sub-clause.

ii. The Development Manager shall promptly suggest in writing to the Client such variations to the Brief or to any standing instructions applicable to the development as the Development Manager considers from time to time may be desirable or necessary.

22. Duty to Control and Direct Others

i. The Development Manager representing the Consultant is required to direct and have the care and control of other Consultants involved in the development as directed by the Client.

ii. Except to the extent otherwise agreed between the parties, the Consultant is not responsible for the appointment of any other consultant or for the payment thereof or for any delay or error occasioned by any such consultant, these matters being the sole responsibility of the Client.

23. Normal Work Load

The Development Manager shall be available to work on the tasks required or envisaged by this Agreement as follows:

i. The Development Manager shall undertake work in performance of this Agreement at such times and for such periods as the Consultant considers as may be reasonably required to complete this Agreement.

ii. The Development Manager shall during the period of this Agreement, work either:

a. A minimum of hours per week.

Or: [delete where applicable]

b. An average not less than hours per week.

iii. The Development Manager shall be available at any time reasonably required by the Client.

24. Holidays and Leave

The Development Manager may be absent from active duties on the following occasions and at such time the Consultant shall not be liable to make a replacement person available:

i. The Development Manager shall be entitled to be absent for the purpose of holidays to a maximum of four (4) weeks per annum to be taken at such times agreed between the Client and the Consultant.

ii. The Development Manager shall be entitled to be absent from duties on all public holidays so designated in this State.

iii. The Development Manager shall be entitled to be absent from duties on all public holidays so designated in this State.

iii. The Development Manager shall be entitled to be absent from duty whilst on sick leave for any continuous period not exceeding 10 working days provided that the Consultant must advise the Client of such absence and produce to the Client a Medical Certificate upon request. In the event of sickness exceeding 10 working days, the Consultant shall
make an alternative person of comparable skill available in place of the Development Manager unless exempted from this requirement by the Client.

25. Health and Medical Condition
i. A condition of appointment is that the Development Manager is of good health sufficient to fulfil all reasonable duties.

ii. The Development Manager must submit to any independent medical examination as may reasonably be required by the Client.

26. Other Employment or Business
i. The Development Manager shall not engage in any other employment or business activity during the continuance of the appointment without the prior approval in writing of the Client whose approval may be given or withdrawn at any time without reasons given.

ii. The Consultant and Development Manager may during the period of this Agreement take instructions from any other client and be involved in any other development project except where there may be any possible conflict of interest with this Agreement.

iii. In any event, the Consultant and or the Development Manager must disclose to the Client all other Consultancy appointments relating to projects or properties the undertaking of which may reasonably be expected to have some bearing on the performance by the Consultant under this Agreement:
   a. Forthwith, if that other consultancy is current.
   b. Hereafter, prior to entering any other such consultancy.
   c. At any time whenever a possible conflict of interest comes to the attention of the Consultant and or the Development Manager.

27. Stand-Downs
i. The Client may suspend this Agreement at any time that the Development Manager cannot usefully be employed because of any strike, mishap, closure of business or stoppage of work or for any other cause for which the Client cannot reasonably be held responsible. This does not break the continuity of this appointment for the purpose of entitlements.

ii. Upon recommencement following any stand down under this Clause, the Consultant shall be entitled to a reasonable allowance for start up costs payable on an hourly rate (in addition to the amounts to which the Consultant is otherwise entitled under Clause 17).

28. Termination
i. This Consultancy may be terminated by either party for any reason by serving on the other party Notice of Termination in accordance with this clause.

ii. A Notice of Termination shall specify the date on which this Consultancy is to terminate and the reason if any for such termination, and must be served on the other party personally or by registered mail at the last known or published address of that party.

iii. In the event of termination by the Client without there having been any Default by the Consultant of a fundamental term of this Agreement:
   a. If the basis of remuneration includes payment under Clause 17.i.b. (hourly rates), upon termination without default by the Consultant the Client shall pay to the Consultant $
   
   b. If the basis of remuneration includes payment under Clause 17.i.a. or c. (percentage fee or fixed fee), upon termination without default by the Consultant the Client shall pay to the Consultant $
   
   c. If the basis of remuneration includes payment under Clause 17.i.e. (incentive), upon termination without default by the Consultant the Client shall pay to the Consultant $
   
   d. Paragraphs a, b and c above operate independently and any amounts payable thereunder are payable cumulatively.

iv. In the event of termination by the Client following a default by the Consultant of a fundamental term of this Agreement:
   a. If the basis of remuneration includes payment under clause 17.i.b. (hourly rates), upon termination the Client shall pay to the Consultant notwithstanding any default, any amount due up until the termination takes effect.

   (1) If in the basis of remuneration includes payment under Clause 17.i.a. (percentage fee) or 17.i.b. (fixed fee), upon termination the Client shall pay to the Consultant notwithstanding any default, reasonable remuneration in respect of the work performed up to the date of termination.

   (2) The amount of such reasonable remuneration shall be agreed between the parties or, failing such agreement, shall be determined by an arbitrator appointed by the parties or failing agreement by the parties, by the President of the APRA at the request of either party.
(3) In determining the amount of such reasonable remuneration, the parties or the arbitrator as the case may be, shall have regard only to:

a) The totality of the work required to be performed under this Agreement by the Consultant.

b) The percentage of that total work which has been completed by the Consultant.

c) Any additional work performed by the Consultant.

d) The quality and competence of the work performed by the Consultant.

e) The time spent on the work performed by the Consultant.

f) The level of remuneration to the Consultant under this Agreement.

g) Any other amounts payable to the Consultant pursuant to this Agreement.

h) Any other relevant factors including (but not limited to) the difficulty and complexity of the assignment; the value if any added to the profitability or asset value of the Client as a consequence of the work of the Consultant and the nature of the default by the Consultant.

(4) The Client shall be immediately entitled to payment of incidental expenses incurred in appointing another Consultant to complete the work.

(5) Other than as provided in Clause b(4) hereof, the Consultant shall not be liable for any loss or damage suffered by the Client as a result of the breach or the termination, whether directly or indirectly and the Client hereby agrees to indemnify and keep indemnified the Consultant in respect of any claim for such loss or damage.

v. In the event of termination by the Consultant the Client shall pay the Consultant forthwith such amounts under Clause 17.i.b. (hourly rates) and 17.i.f. (disbursements) as may be due to the Consultant.

Where termination by the Consultant follows a change in the Brief and failure by the parties to agree on adjusted fees as described in Clause 13.v.b., the Client shall also pay the Consultant the amounts specified in Clause 28.iii.a., b., c. & d.

vi. Notwithstanding any other provision, this Consultancy may be terminated summarily by the Client for reasons of dishonesty, gross incompetence or neglect of duty, proven criminality involving minors, violence and or dishonesty of the Consultant or the Development Manager, effective upon receipt by the Consultant of a Notice of Termination given under this Clause that states the reason which reason is true.

29. Dispute Resolution

If any dispute or grievance concerning this appointment arises, it must be dealt with in the following manner:

i. A party claiming that a dispute has arisen must give written notice to the other party specifying the nature of the dispute.

ii. The matter in dispute specified in the notice must be discussed between the nominated representatives of the parties in an attempt firstly to settle the matter.

iii. If the matter is not resolved within seven (7) days or within such further period as the parties may agree, the dispute or grievance must be submitted for mediation by a Mediator appointed by the parties or failing agreement for such appointment, a Mediator appointed by the President of the Australian Property Institute (API);

iv. The mediation shall be conducted in accordance with Mediation Guidelines published by the Australian Commercial Disputes Centre Limited (ACDC) or its successor excluding those guidelines dealing with selection of the Mediator;

v. If after mediation the dispute has not been settled, the dispute shall be submitted to arbitration conducted in accordance with the ACDC’s Arbitration Guidelines the terms of which are deemed to be incorporated into this Agreement;

vi. The parties agree to submit the dispute to arbitration and, if so agreed, to abide by the rules of arbitration administered by the ACDC and will accept any determination made by arbitration subject to any right of appeal on a matter of procedure or law that may be available except if Clause 13.v.b applies in which case either party may refuse to accept the outcome of arbitration;

vii. Until the matter is determined by mediation or arbitration, or until this Agreement is terminated, the work required under this Agreement must continue at the direction of the Client; and

viii. The parties must co-operate to ensure that these procedures are carried out expeditiously.

30. Confidentiality

i. The parties must not divulge or use, either for their own benefit or that of others, any confidential information acquired during this appointment. Confidential information refers to any information (written or oral) which is not publicly available and this obligation extends beyond the date the Consultant ceases work for the Client under this Agreement.
ii. The Consultant must not communicate information of any kind relating to the Client, the Board of Directors, shareholders, Managing Director or General Manager of the Client to staff of the Consultant or to persons outside the Client except as is necessary for the business and objectives of the Client.

iii. The Development Manager shall not engage in discussions nor communicate with any Member of staff or contractor of the Client concerning the terms of this Agreement or specific details of the work being undertaken pursuant to this Agreement.

31. Copyright
i. All plans, reports, drawing, printed and handwritten documents produced by the Consultant relating to the proposed development shall remain the property of the Client except where otherwise agreed by the Client (e.g. architect’s copyright).

ii. The Consultant shall be entitled to retain a copy of all such plans, drawings, reports and the like for its own records.

iii. Copyright in all plans, drawings, reports, documents and the like is vested in the Client subject to such other rights that may exist.

iv. Copyright in any method or system devised by or owned by the Consultant including any software program, worksheet or spreadsheet shall remain vested in the Consultant.

32. Notices
Notices other than notices of termination may be served by either parties by fax subject to machine printed proof of transmission being retained by the sender and being produced on request to the receiver. Notice of termination must be served personally or by mail at the last known or published address of the other party.

33. Guarantee
i. The performance of the obligations of the Client are guaranteed by the following natural person:

..................................................
("the Guarantor")

ii. The Guarantor unconditionally guarantees the due and punctual performance, any obligation of the Client to pay moneys to the Consultant which are payable.

iii. This guarantee is a fundamental term of the appointment.

iv. This guarantee is:

a. A principal obligation and is not ancillary or collateral to any other right or obligation.

b. To be enforced against the Guarantor with/without the Consultant first exhausting any remedy it may have against the Client.

c. Is a continuing guarantee for all moneys payable as and when the same ought to be paid and for the due and punctual performance by the Client of its financial obligations to the Consultant.

d. Is irrevocable and will remain in full force and effect until the Consultant has received all moneys due and payable to it by the Client.

34. Essential Terms
The following clauses of this document and the annexures thereto are essential terms of this Agreement;

i. Those clauses expressed to be essential terms.

ii. Clauses 2, 3, 4, 5, 7.I., 17, 18, 20, 28, 29, 30, 32, 33, 34

iii. The following clauses;

[Insert Clause No. of any other essential term]

.................................................................

35. Some Agreed Terminology
In the interpretation of this document except to the extent the same is excluded or contrary to the construction or intended meaning taken in its context:

i. This Memorandum shall be referred to as “The Consultancy Agreement” which is further abbreviated in this document as “the Agreement” or “this Agreement”.

ii. The natural person whose name appears in Item 1 of Schedule 1 shall be referred to as “the Development Manager”.

iii. Any reference to “the Consultant” is a reference to the Development Management Consultant.

iv. Any reference to a duty or obligation of the Development Manager is also a reference to the duty or obligation of the Consultant and vice-a-versa.

v. The Client and the Development Management Consultant may be referred to as “the parties”.

vi. Any reference to a “person” means a natural person.

vii. Any reference to “mediation” means a reference to a private negotiation between the parties before an independent third party (the Mediator) as further described in Schedule 6.

viii. ‘Extraordinary delay’ means delay which is not expected by the parties at the date of this Agreement.
SCHEDULE 6 - MEDIATION

- Mediation is a private negotiation between the parties before an independent third party (the Mediator). It is not open to any other party.
- The Mediator's role is to manage the communication process and assist the parties to resolve the dispute.
- A mediation is generally an informal process.
- The Mediator opens the hearing and invites the person who has requested help to present an outline of the facts. The other party will then be asked to respond.
- Either party may present a proposal to resolve the issues at any time during the mediation.
- The Mediator has no legal jurisdiction to issue orders or give directions. His role is to assist the parties to reach an agreement.
- Following negotiations an agreement may be reached or alternatively the parties may seek an adjournment to consider matter raised in the mediation.
- If agreement is reached during a mediation, a Mediation Agreement should be signed by both parties and the Mediator. The Mediation Agreement is then binding on both parties.
- The cost of the mediation, and sometime the meeting place should be shared equally by the parties.
- In some cases mediation may be unsuccessful. Should this occur, the Mediator will certify that the mediation has failed and if one or both parties requires, the matter may be referred to the Australian Commercial Disputes Centre Limited for a determination by arbitration.
- To the extent that any of the matters set out above are contrary to or inconsistent with the Mediation Guidelines from time to time of the Australian Commercial Disputes Centre Limited ACN 003 042 840 or its successor ("the ACDC"), the ACDC Mediation Guidelines shall prevail.
1.0 Introduction

1.1 Purpose
Members providing Leasing Agent Services must do so to the standard of professionalism and skill required and consistent with membership of the Institute and with compliance to law.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note
This Guidance Note applies to Institute Members providing Leasing Agent Services to Clients. It must be used in conjunction with other practice standards and guidance notes that are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 Client
In all cases, ‘client’ shall mean building owner, landlord, lessee or their appointed representative.

2.0 Professional Conduct

2.1 Standards of a Technical Nature
Members shall abide by any principles or standards of professional conduct of a technical nature laid down in the By-Laws of the Institute’s Constitution.

2.2 Code of Ethics
Members must at all times conduct themselves in accordance with the standards set out in the Institute’s Code of Ethics.

2.3 Legislation
Members shall act in accordance with relevant legislation.

3.0 Client Relationship

3.1 Clients Instructions and Best Interests
Members shall at all times act in the best interests of the client and in accordance with the client’s instructions.

3.2 Confirm Instructions in Writing
Upon appointment to act for the client, the Member shall immediately confirm in writing to the client the basis of the appointment, the scope of services the Member will provide to the client, and the basis of the fee structure for those services unless covered under a previous agreement.

3.3 Frequent and Regular Communication
The Member shall on a frequent and regular basis, or as agreed between Member and client, communicate to the client the progress being made in respect of the instructions issued to the Member.

3.4 Act Promptly and Efficiently
The Member shall at all times act promptly and efficiently in the servicing of the clients instructions.

3.5 Notice of Illegal or Unethical Concerns
If receiving an instruction from the client, which the Member believes to be illegal or unethical, the Member shall communicate such concerns to the client in writing as soon as possible.

4.0 Leasing Agency Appointments

4.1 Claim to Act
No Member shall claim to act for a client unless appointed in writing to do so.

4.2 Methods of Acting
The Member, when accepting an appointment to act as Leasing Agent for the client shall act generally by one of the following methods:
• Sole agency or exclusive agency appointment
• Co-ordinating or Joint Agency
• General or open agency appointment

4.3 Act for Tenant
Where the Member is appointed to act for a tenant, their client shall be deemed to be the tenant and the Member shall not seek a fee from anyone other than the tenant, and shall disclose to all parties that they act for the tenant.

4.4 Not Claim to Act Unless Appointed
No Member shall claim to act for a tenant unless appointed in writing to do so.

4.5 Not Contact Client of Sole Agent
No Member shall directly contact the client of another agent where that agent has been appointed to act on the basis of either a sole or exclusive or a co-ordinating agency (unless they are also the joint coordinating agent) or have unequivocal consent from the appointed agent to do so.

4.6 Not Undermine Another Member
No Member shall seek to undermine the reputation or the ability of another Member.

4.7 Not Claim Agency Where None Exists
No Member shall claim to have an agency appointment in the knowledge that no such appointment exists.

4.8 Conflict of Interest
The Member must disclose to their client any actual or potential conflict of interest that may arise as a result of their appointment.

5.0 Leasing Agency Practice

5.1 Seeking to Nominate a Tenant
Any Member seeking to nominate a tenant for a property shall do so to the appointed agent unless the property is available by way of an ‘open’ or ‘general’ agency and then the nomination shall be to the client.

5.2 Accepting Nominations
Members as sole or coordinating agents may accept nominations from outside agents at their discretion, but generally shall accept nominations of tenants with whom they have had no prior contact.

5.3 Written Nominations
Members shall effect all nominations in writing. Upon receipt of written nomination from an Introducing Agent, Members shall immediately confirm acceptance to Introducing Agent in writing.

5.4 Nominations from Agents Exercising Control
In general, Members shall accept nominations only from those agents that can demonstrate, or exercise control over the nominated tenant, by way of a physical inspection of the property.

5.5 Joint Coordinating Agent
Where appointed as a joint coordinating agent, the Member will confer with their joint agent prior to accepting any nominations from outside agents.

5.6 Tenant Introductions
Where a Member has introduced a tenant to one or more properties by way of nominations or direct introduction, and is not appointed to act for the tenant, that Member must act in the best interest of the lessor and must not advise the tenant or proffer any advice that may be contrary to the lessor’s best financial or other interests.

5.7 Fee Structure
When nominating or accepting nominations, Members shall confirm the basis of the fee structure applicable for the nomination if successful.

5.8 Consent for Inspection
No Member shall inspect a property with a tenant without the consent of the client or the appointed agent.

5.9 Commercial Viability of Prospective Lessees
Where a Member has reasonable grounds for questioning the solvency or commercial viability of any party introduced as a prospective lessee of the property, the client should be so advised.
6.0 Marketing

6.1 ‘For Lease’ or Other Marketing Board
No Member shall place a ‘For Lease’ or other marketing board on a property without client consent, or where another agent has been appointed as sole or co-ordinating agent.

6.2 Not Advertise Lease Without Consent
No Member shall advertise a property as being for lease without client consent.

6.3 No Inspection Without Prior Consent
No member shall conduct an inspection of a tenancy without the prior consent of the tenant in occupation.

6.4 Property Information
Members shall present property information on the basis of fact and not on assumption and shall endeavour to provide full details of the premises to be leased and the lease terms.

6.5 Confidentiality
In spite of the absence of any specific confidentiality provision within the Agency Agreement, a Member shall not issue any press release without the client's written agreement. Any agreement so granted is a specific agreement to the form of words or content that has been submitted to the client for approval.

7.0 Other

7.1 Pay Fees Promptly
Members shall pay fees to nominating agents promptly following payment of their own fees by the client.

7.2 Fee on Basis of Written Agreement
Members must base their fees on the basis of the written agreement with their client and must not seek to knowingly overcharge or take false profits.

7.3 Account to Co-ordinating Agent
When acting as the nominating agent, unless instructed otherwise by the sole or co-ordinating agent, Members must account to the sole or co-ordinating agents for their fees and not to the client direct.
1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to outline information, issues, and approaches relating to contamination of land. The Institute recommends that it be used by Members as a guide for the valuation, assessment or reporting of land which is contaminated or whose contamination status is unknown or uncertain. Land includes improvements, structures or additions to the land.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note applies to Members reporting on property and it deals with broad examples of environmental contamination and their potential effect on value and marketability. It offers guidance on general concepts and concerns, and suggests approaches that are considered to have merit. It does not purport to provide a definitive coverage of the environmental issues, which may arise, or the manner in which Members should deal with these issues. Many issues of land contamination are poorly defined and involve complex or unresolved matters. Formulaic approaches to the valuation and assessment of contaminated land, are not adequately developed. The appropriate procedures will vary according to the circumstances of each property being valued or assessed. Members should apply their own skill and judgement in applying the information contained herein to their own practice. This Guidance Note should be used in conjunction with other guidance notes and practice standards that are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 International Valuation Standards

This Guidance Note recognises the International Valuation Standards 1 and 2, and the International Valuation Application 2 by the International Valuation Standards Committee and it is intended to be consistent with the concepts and definitions contained in those standards, however, there may be departures from IVSC Standards to reflect Australian & New Zealand law and practice.

1.5 Member Involvement

Members are able to provide appropriate skilled advice in relation to valuation and property matters with the assistance of and in accordance with this Guidance Note and bearing in mind the limitations referred to herein.

1.6 Marketplace More Aware

Increased environmental consciousness within the general community, environmental protection legislation, litigation associated with pollution and land contamination, and incidents where property users suffer financial loss directly or indirectly from such cases, have made the marketplace more aware of the potential adverse effects of chemical, radiation, noise and other contaminants in air, groundwater, soil and the overall environment. The market can overreact and prices may be artificially depressed. Further, limited information about a particular contaminant that is thought to be present on a property can cause a secondary ‘stigma’ effect on values. Conversely, the market seems to be increasingly aware that contaminated properties can be redeemed and redeveloped into viable assets.

1.7 Advice about Commercial Impact

Clients, whether they are property owners, vendors, purchasers, financial institutions, receiver-managers, holders of major or minor property portfolios, etc, will often look to Members of the Institute for advice and guidance on how land contamination affects their financial security.
Members are encouraged to actively foster professional association with consultants specialising in the identification and treatment of contamination.

2.0 Types of Contaminants and Examples

2.1 Wide range
There is a wide range of potential environmental contaminants, varying from liquid and solid chemicals to corrosive gases and radioactive substances.

2.2 Physical Contaminants
Each contaminant must be considered for its potential physical and non-physical impact. Examples of physical contaminants include asbestos, hydrocarbons, lead, mercury, arsenic, cyanide and pesticides, but are not limited to these substances. Mining by-products can include nutrients and arsenic compounds amongst others. Unexploded ordinances have been another environmental difficulty associated with former defence force lands. Organic compounds such as formaldehyde are problem sources. Coal tars from coal-using powerhouse operations, asbestos, or PCBs can cause toxicity problems. These are but some examples.

2.3 Non-Physical Contaminants
These are contaminants that include non tangible, physical substance. However, they should be considered as ‘real’ as physical contaminants. A typical problem could be forms of radiation, intense radio wave transmissions and excessive heat.

2.4 Radon
Radon is a naturally occurring radio-active gas that is responsible for about half our exposure, which is unavoidable, to background radiation. The inhalation of radon and its decay products increases the risk of lung cancer. Radon emanates from particular radioactive materials in the ground and, to a small extent, from building materials. It disperses in the open air, but elevated levels may be found in spaces like poorly ventilated basements and caves, although such levels have not been found to be a health hazard in Australia.
2.5 Toxins in the Internal Home Environment

These comprise a long list of substances, including insecticides, lead based paint, wood preservatives, polishes, weed killers, bleaches and numerous other substances. Certain timber related or artificially produced materials used for home insulation, furniture and fittings may release formaldehyde or other traces of preservatives that create health problems for some individuals. (Many of these home toxins are not structural but transient and may be removed through relatively low cost means.) Unless specific circumstances exist such as the use of these products in commercial quantities, comments on domestic use in a valuation report are considered excessive.

2.6 Changes in Lists and Definitions of Hazardous Substances

Lists and characteristics of substances constituting hazardous waste and amounts of substances considered detrimental change frequently as new information becomes available. Such information is often available from State or local environment agencies. Preliminary lists are provided in Appendices 1 and 2. The ANZECC/NHMRC Australian and New Zealand Guidelines for the Assessment and Management of Contaminated Sites, January 1992, also contain a substantial list.

2.7 Environment Related Court Cases

Environment related court cases, particularly the Federal Court, have the potential to affect value if judgements establish new areas as a result of previous activities or management. Where doubt exists, this case law may prove appropriate investigation.

3.0 Identifying and Quantifying Contamination

3.1 Information on Possible Contamination

Information on possible contamination of the site is crucial to the property professional. The two main sources of such information are a Historical Land Use Survey and a scientific Survey of Environmental contamination as would be conducted by an Environmental Engineer/Auditor.

Three Phases of Investigation

Phase 1: Preliminary Site Investigation

A Phase 1 is the preliminary assessment of any contamination on the site. It includes the following steps:

- An investigation of site history
- A physical site inspection
- A basic sampling and analysis to determine the presence of contamination
- A report prepared

Phase 2: Detailed Site Investigation

If the Phase 1 investigation shows further investigation is required, a detailed site investigation is carried out to assess:

- The concentration of various contaminations
- The volume of soil to be remediated
- The leachability and mobility of contaminants
- Any contamination of groundwater
- Any possibility of off-site migration of contaminants.

Phase 3: Health and Environmental Assessment and Determination of Remediation Plan.

The results from Phase 2 investigation provide information to determine the potential ‘human exposure and environmental impact’ of the contaminants on the existing and intended land uses. If the intended use will cause unacceptable impact on the environment, then, depending on the conditions, a partial or full remediation, or other land contamination management strategy has to be implemented. A health and environment risk assessment has to be carried out, and a site specific remediation plan has to be prepared.

(Footnote 4)

3.2 Phase 1 Survey : Background Research & Historical Land Uses

Previous owners and employees can be a good source of information on the property’s history. Local councils can provide a wealth of information on more prominent properties, and a search of titles can provide some indication of former use. Many state governments have aerial photos that can assist in identifying some former uses. Government departments such as those involved with mining, public water supply, environment and health, may have regulating records and other useful information.
3.3 Look for Signs

It is important to look for signs that suggest a former use, if not a present use, which may have lead to, or caused, some form of contamination. Following the preparation of a site history, there will need to be a complete detailed site inspection. There are often tell-tale signs on the site that can indicate the possible presence of some forms of contamination. The member should look for disturbed or coloured soils, disturbed vegetation, the presence of any chemical containers, or chemical odours, and view the quality of any surface water. In addition, surface soils or earth fill may have been introduced to the site from other locations. The potential for contamination from off-site sources should also be considered. An Environmental Assessment Checklist is provided in Appendix 3. The ANZECC/NHMRC Australian and New Zealand Guidelines for the Assessment and Management of Contaminated Sites include a useful chapter on identifying and quantifying contamination.

3.4 Member’s Role

Members should be aware however, that their role and expertise is limited to the detection and preliminary identification of discoverable contamination by reasonable site inspection and enquiries of appropriate authorities, and subsequent reporting. Detailed identification quantification of contamination should be left to those who specialise in that field. Where, however, information is available to the Member, this should be provided to the client together with a statement of the source (whether it be a neighbour, former owner or environmental expert) and an appropriate qualification.

3.5 Register of Contaminated Sites

Some States compile a register of contaminated sites which is maintained by the relevant State environmental authority and is available for public inspection. Where the Member discovers or suspects that a site may be contaminated it would be prudent to inspect the Contaminated Sites Register in applicable States. This will help to provide the Member’s client with useful information, thereby enhancing the level of service provided and discharging the Member’s professional obligations. Members should not be over-reliant on these registers as they are not exhaustive, especially in those States where they are not formally required by legislation. Absence from a register should not be taken to imply that a site in not contaminated. Even in the absence of a register of contaminated sites, Department of Environment staff may still be willing to provide relevant information regarding some sites.

3.6 Potential or Actual Contamination Issues

A Member conducting an inspection of a property for the purpose of providing a valuation or other report should be aware of the potential of site contamination of any property. During an inspection for this purpose, the Member should attempt to identify from on-site observations any potential or actual contamination issues and report accordingly, recommending further expert advice where appropriate. Other site factors to initially consider include site layout and contours, storage areas, geology, water features and nearby developments which may affect the subject land.

3.7 Report by Suitably Qualified Expert

Phase 1 of Investigation.

A report on the site history of the property, provided by suitably qualified expert, may address the following issues:

- present and past land uses;
- processes and/or activities carried out on the site;
- major processes and/or activities that were carried out near the site;
- locations within the site of each process and/or activity;
- duration of each process and/or activity;
- waste disposal activities;
- source of contamination and effluent migration pathways;
- presence and purpose of underground tanks;
- signs of spills of hazardous materials.

Phase 2 of Investigation

If, after carrying out an investigation and inspection, the Member is concerned or suspects that the property is or could be subject to potential contamination that could either restrict the future use of the site or militate against a financial consideration, the Member is obliged to recommend that the client seek more detailed advice from appropriately qualified professionals.
Such advice should be formed having regard to both the current and future use of the site. A Phase 2 Investigation by a specialist environmental engineer or scientist or other suitably qualified professional may include any or all of the following:

- historical land use survey;
- environmental risk inventory;
- evaluation of special contaminants such as asbestos, PCB’s, acids, poisons such as arsenic, and radionuclides;
- remote sensing surveys;
- identification of on-site toxic vapours;
- surface soil and water samplings and laboratory analysis;
- sub-surface soil sampling and laboratory analysis;
- groundwater sampling and laboratory analysis;
- a site plan specifying locations of contaminants
- a health and safety plan.

The survey may include, in terms of a particular purpose or specific conditions of a site, a recommendation as to whether or not the contamination has reached an action level where remediation or risk reduction levels are necessary.

**Phase 3 of Investigation**

Subsequently, it may be necessary for the appointed environmental consultant to move into a third phase of consultancy including site characterisation, the preparation of a preliminary remedial action plan with cost estimates, the conduct of negotiations with regulatory agencies, the design of remediation systems and continuing management, and the development of suitable future monitoring arrangements.

**3.8 Whether Expert Engaged**

A Member needs to be aware of the process of the Phase 1 investigation sufficient to advise a client as to the need for the engagement of a suitably qualified expert. The Member should also take detailed field notes that may or may not be used in the final report but will nevertheless stand as a record that the valuation or assessment was carried out having regard to the potential presence of contamination.

**3.9 Not Expert**

The Member should not hold himself or herself out as an expert in issues of site or other contamination.

**3.10 Recommending a Survey of Environmental Contamination Where Detailed Information Cannot Be Obtained**

Ultimately, only through scientific testing can the level of contamination be verified properly. Such testing can be both expensive and time consuming and cannot in itself provide a complete guarantee that contamination is not present.

Where contamination is suspected and where detailed information cannot be obtained, the Member should assess on the basis that a property is free of contamination, and qualify that value on the basis that some contamination may be present that could have an impact on the value. The following provides an example of the type of qualification which may be appropriate in these circumstances:

‘From our inspection of the property we consider that there is (or could be) a potential for (detail past/current contamination) to exist and would recommend that advice should be obtained from a suitably qualified environmental expert. Please note that our valuation has been assessed on the basis of no on-site contamination. Should the above mentioned environmental advice reveal any contamination our valuation may require revision.’

The greater the perceived risk of contamination being present, the stronger the ‘qualification’ and the more specific should be the accompanying advice.

**4.0 Remediation Practices and Techniques**

**4.1 Remediation Techniques Rapidly Changing**

The practice of remediation of environmentally contaminated property is rapidly changing. New techniques are being developed, new standards are being set, both by the professions themselves and those who legislate standards.

**4.2 Remediation Defined**

Remediation has been defined as ‘an act of attempting to moderate the severity of the..."
contamination of soil, groundwater, service water or buildings by various measures and methods’. Note that remediation can include measures that alleviate the effect of contamination without destroying or removing the contaminants, as with ‘clean-up’ technologies.

4.3 Influence on Value
The influence of remediation or clean-up on value will depend on such factors as whether the contamination is contained (restricted) on-site, technology available the EPA controls affecting it, the length of time required to make good to permit development and use of the land and the possible need for further analysis and monitoring after the remediation process. The risks associated with achieving remediation in accordance with the defined plans may have to be factored into the value assessment.

4.4 Remediation Techniques
Remediation techniques could involve removal of affected soil from the site and replacement with clean fill, the extraction and ‘airing’ of hydrocarbon-affected soil from lower depths, the pumping out of contaminated groundwater or chemical neutralisation, eg. the use of lime to neutralise high acid content, and a wide variety of other measures. One difficulty with soil removal is that local authorities tend to be reluctant to allow disposal of contaminated soil.

4.5 New Technology
The new technology that is becoming available may potentially reduce the extent of the negative effect of contaminants on property and its value. Technology that permits safe, efficient and inexpensive clean-up of contaminants tends to minimise impact on value. However, clean-up costs can still be prohibitively expensive because of difficulties in disposing of contaminated soil, toxic waste and chemicals. Members should keep abreast of technological advances relating to this topic. The ANZEC/NHMRC Guidelines (Footnote 5) provide a site-specific approach to the management of contaminated sites, and indicate that remediation can be tailored to the actual proposed use of the land. Such awareness will assist the Member in advising appropriately on the potential risks associated with contaminated sites and the need for their clients to seek further information from appropriately qualified experts. Nevertheless, as previously referred to, Members should avoid giving advice outside their area of expertise.

4.6 Clean Up Methods
As far as the removal of the contaminant source is concerned, there are different clean up methods. The common ones include:

- On site treatment
The contaminants are destroyed or broken down while the soil remains in-situ or excavated on site, eg. bio remediation, land farming, vertical mixing and chemical fixation.

- Off site treatment
The contaminated soil is excavated, removed from the site and taken to a depot for treatment, eg. high temperature incineration, soil washing, thermal absorption, particle-size separation, chemical treatment like base catalyzed dechlorination (BCD), ball-mill pulverisation and super-critical fluid extraction.

- Off site disposal
The contaminated soil is excavated and removed from the site for disposal at a controlled landfill. Given that it is a controversial issue to allow transport of a contaminated soil on public roads, it is unlikely that the authority will approve this remediation method today.

- Containment on site
This method is to keep the contaminated soil in-situ and to restrict access to it and prevent leaking and leaching by suitable means, eg. encapsulation and capping (Footnote 6).

In addition to the above, recycling may also be an acceptable remediation method, eg. silver is recovered from recycling silver bromide used in the photo processing industry. However, given the high cost of recycling, this method is feasible only for end products with high value.

5.0 Impact on Value: General areas of Cost Impact

5.1 Responsible Party
Depending upon the relevant legislation, it is usual that the responsible party bear the clean-up costs of contaminated properties. Where responsibility cannot be determined, the chain of title is
generally followed with the current owner most likely to be liable. Members should refer to their relevant state legislation when determining the responsible party and the chain of responsibility.

5.2 Effect on Present and Future Utility
Remediation costs can range from mild instances requiring low expenditure with little impact on value, to severe cases where virtually no use of the property is possible for the present or foreseeable future and prohibitive costs are needed to correct the problem. The degree to which contamination affects the present and future utility of the property must be quantified before a value can be readily assessed.

Due to the specialist work involved in assessing the type, extent and cost of remediation, Members are strongly advised not to provide their own estimate.

5.3 Initial Survey Costs
The first cost associated with environmental contamination is the cost of discovering the extent of any problem.

5.4 Cost to Remedy
The cost of remediation of a particular problem can be major, but care needs to be taken not to understate or overstate the impact on value. For example, property may be able to maintain an income stream while remediation process is in progress. In some cases these costs may be amortised over a period rather than as a one-off cost.

5.5 All Costs with Clean-up
The cost to remedy a contamination problem includes all costs resulting from and associated with the clean-up. These include the cost of the physical clean-up, monitoring remedial measures, legal fees and continuing costs. Costs may also involve a capital improvement such as a more efficient, less polluting system that enhances residual property value significantly.

5.6 Develop & Maintain Cost Information File
Members may develop and maintain files of clean-up cost information. This information should not, however, be used to give detailed environmental advice or cost estimates to clients. Appropriate experts should be retained for this purpose.

5.7 Physical Clean-up and/or Remedial Costs
This can involve a variety of techniques such as simply removing and replacing contaminated soil (recognising that an acceptable location to receive contaminated material is often very difficult to find), extracting harmful chemicals in groundwater by pump extraction, or isolating and permanently sealing off contamination. Neutralising the contaminants with special chemicals is a possible solution in some cases. Environmental engineers and other experts can explain the options for remedial work or hazard reduction and provide cost estimates for undertaking this work.

5.8 Legal Costs
Legal costs associated with contamination may be considered part of the cost to cure the problem. The extent of these legal costs will vary according to the circumstances of each particular property. Members should refer to these costs in their report, where appropriate, and ensure that they are addressed by any expert environmental report obtained. The potential for litigation or pending litigation may affect marketability and further affect value by deterring prospective buyers. Such effects will usually be included within the Stigma component of environmental liabilities. Alternatively, Members may include a separate ‘contingency figure’ to cover these effects. Such a figure should either be provided by an environmental expert or estimated by the Member following suitable enquiries of solicitors. It should always be qualified to inform the client that it is a contingency figure only and that it may not reflect the costs actually incurred should litigation eventuate.

5.9 Continuing Costs
Final costs are often unknown before the completion of any clean-up. These costs often exceed original estimates, especially when future, more stringent regulations are anticipated. In addition, perceived or actual risks remaining after completion of clean-up may result in higher insurance costs. Members should ensure that figures obtained from environmental experts make allowance for these continuing costs and that these costs are appropriately spread over a period corresponding to anticipated plant or improvement life or the period of the remediation.
5.10 Indirect Costs

These can include anything that affect the property’s income producing potential during or after the clean-up. For example, tenants may not be able to live in a rental unit during lead paint removal. Another example would occur if one portion of an industrial plant could not be used because of toxic contamination and an intermediate product manufactured in that area was no longer able to be produced on-site. Additional expenses would be incurred and the operation’s earnings could suffer accordingly. Holding costs, due to delays in development caused by the need for prior remediation, are another form of indirect cost.

5.11 Financing

There can be an adverse effect through financiers applying more conservative lending policies where there is a perception that a property may be secondary due to the effects of contaminants. (A Member, however, has a responsibility to ensure that mortgage clients are adequately informed of risks associated with known contamination.)

5.12 Indemnification Agreements

Some indemnification agreements, as set out by the seller, agree to retain responsibility for current and future costs related to environmental contamination. From the point of view of market sales information, the sale price would need to be discounted. The valuer wherever possible makes enquiries to establish the extent of the indemnification.

5.13 Stigma

This is an intangible factor that may not be measurable in terms of cost to cure but may have real impact on Market Value. It arises from the effect of present or past contamination upon the market’s perception of the property and represents a discount, beyond the direct and indirect costs likely to be incurred, required to compensate for the risks associated with contaminated or previously contaminated property including the risk of achieving the planned remediation.

5.14 Market Perception

The market may perceive stigma exists because of:

- Risks associated with the effectiveness of remediation;
- A full ‘cure’ of the site being unattainable;
- Concern at possible hidden clean-up costs;
- Prejudice arising out of prior site uses;
- Alternative site uses being restricted;
- Legislative site uses being restricted;
- Possible future financing and marketability difficulties;
- Risks associated with public liability.

Stigma makes property less desirable, even when a complete remediation or cleanup has been carried out. That is, where there is a market perception that a property is or has been contaminated, despite the availability of information that cleanup has taken place, the market will often pay less than normal unaffected values. This situation is similar to obsolescence and represents a lingering detriment to a property. In some cases the stigma effect is variable with time or is transitory.

5.15 Effect May be Out of Proportion

The stigma effect on value may be out of proportion to the cost to cure the problem, and can persist at varying levels for many years.

Main Causes of Market Value Loss

There are three broad categories of market value loss caused by land contamination:

- cost and risk of remediation including consultancy, legal and monitoring costs;
- liability to the public; and
- stigma (affecting marketability and suitability for mortgage security).

5.16 Contaminants may not Necessarily Reduce Value

The presence of contaminants within a property may not necessarily reduce its value within the land use class or industry in which it is operating. Under State laws an existing use might be continued without remediation being required. For example, an industrial tailings pond having protective confines within land may contain toxic compounds that form part of a valuable industrial process for which there is a long term market demand. Special licensing generally accompanies these processes and the property can continue to be used as it is. A valuer reporting a value under these circumstances
Daniel should also advise the client that the valuation could be significantly different should the current use cease.

6.0 Potential Problems for Lenders

6.1 Lenders have Potential Exposure

Lenders have potential exposure to risk through land contamination as follows:

- loss of market value of collateral (property);
- a borrower’s inability to repay loans because of clean-up costs, penalties or inability to continue business activities;
- lender’s liability for clean-up costs following foreclosure of a mortgage, entering into possession as mortgagee in possession, or even exercising control under a scheme of arrangement.

7.0 Legislation

7.1 Legislation Increasing

Legislation affecting property contamination and related environmental matters is increasing in this country and overseas. A list of some of the relevant legislation and agreements is offered in Appendix 6.

7.2 Environmental Protection Authorities in Australia

A list of the internet addresses for the Environmental Protection Authorities in Australia is offered in Appendix 7.1.

7.3 Certain State Legislation Embody ‘the polluter pays’

Members who are acting for the vendor of a property should recognise that certain State legislation embodies the principle that in matters of land contamination, there is a principle ‘the polluter pays’, and this means that if a vendor has caused the land being valued to be contaminated, they may not be able to avoid responsibility for subsequent remediation even though the property has been sold. Members should refer to their own State legislation in this regard. Future Federal legislation may influence liability issues.

7.4 Responsibility for Lessees

The lessor could be responsible for the activities of a lessee who is unable to pay remediation costs or penalties. Many leases now contain provisions to prohibit activities that would result in contamination. Where the lessee could be engaging in activities that could result in contamination, the valuation should comment on inadequate provisions of the lease.

8.0 Indemnity Insurance

8.1 Policy Exclusions

Members should be aware of any exclusions within their professional indemnity insurance policy related to pollution, contamination or specific contaminants. Some policies do not provide cover in relation to claims arising from or in connection with these matters. For example, many policies exclude liability for claims arising from nuclear radiation. Furthermore, a Member may in some instances not be covered by a policy where the Member has failed to confine himself or herself to their field of expertise. Members should consult their professional indemnity insurance brokers in this regard.

9.0 GST CAUTION

Since the introduction of the GST on 1st July 2000 specific legal and/or accounting advice will need to be sought regarding the GST implications for this Guidance Note.
APPENDICES

APPENDIX 1
United Nations Hazard Classes

1. Explosives
2. Flammable Gas
3. Non-Flammable/Compressed Gas
4. Poison Gas
5. Highly Flammable Liquid
6. Flammable Liquid
7. Flammable Solids
8. Substances Liable to Spontaneous Combustion
9. Substances Emitting Flammable Gases when Wet
10. Oxidising Agents
11. Organic Peroxides
12. Poisonous (Toxic) Substances
13. Infectious Substances
14. Radioactive Substances
15. Corrosives
16. Miscellaneous Dangerous Substances

The categorisation of contaminating substances into these ‘Hazard Classes’ has been provided by the United Nations. These classes are not necessarily exclusive. Members should not confine their attention to substances falling within these classes.

APPENDIX 2
Potentially Contaminating Activities, Industries and Land Uses

1. Abattoirs and Animal Processing Works
1b. Arsenic
2. Acid/Alkali Plant and Formulation
3. Agricultural Activities (Vineyards, Tobacco, Sheep Dips, Market Gardens). Heavy metals
6. Asbestos/Asbestos Production
8. Bottling Works
9. Breweries. Pesticides, oils and greases, underground storage tanks
10. Brickworks
12. Cement Works
13. Cemeteries
15. Chemical Manufacture and Formulation
17. Defence Works
18. Docks. Oils and greases, TPH and BTEX compounds, TCE (solvent cleaning), pesticides, heavy metals.
19. Drum Reconditioning Works
21. Electricity Distribution. PCB compounds.
23. Ethanol Production Plants
24. Engine works. TPH, BTEX compounds, organic compounds (associated with solvents).
25. Explosives Industries
26. Fertiliser Manufacturing Plants
27. Gasworks
28. Glass Manufacturing Works
29. Horticulture/Orchards. OCP and OPP pesticides.
30. Industrial Tailings Ponds. Heavy metals, organic compounds, TPH, BTEX.
31. Iron and Steel Works
32. Landfill Sites. Variety of possible contaminants.
33. Limeworks
34. Marinas and Associated Boat Yards. Heavy metals – particularly Tri butyl tin
35. Metal Treatment. Heavy metals.
36. Mineral Sand Dumps
37. Mining and Extractive Industries
38. Munitions Testing and Production Sites
39. Oil Production, Treatment and Storage
40. Paint Formulation and Manufacture
41. Pharmaceutical Manufacture and Formulation
42. Photographic Developers. Heavy metals – Ag Cl used as part of process.
43. Piggeries. Pesticides and heavy metals.
44. Plant Nurseries
45. Plant or Fibreglass
46. Power Stations
47. Prescribed Waste Treatment and Storage Facilities
50. Properties Containing Underground Storage Tanks. TPH, BTEX, PAH, solvents.
51. Radioactive Materials, Use or Disposal
52. Railway Yards
54. Sawmills and Joinery works. Copper, chrome, arsenic.
55. Scrapyards. TPH, BTEX.
56. Service Stations
57. Sewerage Works
58. Smelting and Refining
59. Sugarmill or Refinery
60. Tanning and Associated Trades (eg. Fellmongery)
61. Timber Treatment works. Formaldehyde, copper, chrome, arsenic.
62. Transport/Storage Depots
64. Waste Treatment Plants in which Solid, Liquid Chemical, Oil, Petroleum or Hospital Wastes are Incinerated, Crushed, Stored, Processed, Recovered or Disposed of.
65. Wood Storage Treatment. Formaldehyde, copper, chrome, arsenic.

Other Activities, Industries and Land Uses

1. Sites of incidence: road or rail spillage involving hazardous substances; fires involving hazardous substances.
2. ‘Hot spots’ of likely contamination by agricultural chemicals and their by-products, eg. spray mixing sites; sheep and cattle dips; pesticide disposal sites.

The above lists are illustrative only. They are not intended to be exclusive.
APPENDIX 3  Suggested Environmental Checklist

The following Checklist 3 is not intended to be exhaustive. It is included to illustrate the type of factors Members should be aware of when undertaking a visual inspection of a property. Members should exercise their own professional judgement in deciding what factors are relevant to the particular property being valued.

Hazardous Materials, Storage and Disposal

1. Are there any drums, tanks or other holders of hazardous materials like chemicals, pesticides, cleaners, solvents on the property?
   Y/N N/A Comment:
   Unknown N/A Comment

2. If so, is there any indication of spills, leaks or discharges to the ground from the drums, tanks, other holders of hazardous material?
   Y/N N/A Comment:
   Unknown N/A Comment

3. Are there any areas observed with stains on the ground or with dead or stressed vegetation?
   Y/N N/A Comment:
   Unknown N/A Comment

4. Is the facility on the property a generator of hazardous waste?
   Y/N N/A Comment:
   Unknown N/A Comment

5. If hazardous waste is generated at the property, does it appear to be improperly monitored or not transported off the property by professional hazardous waste disposal contractors?
   Y/N N/A Comment:
   Unknown N/A Comment

6. If the property generated hazardous waste, does it have statutory environmental authority approval, or is it licensed to do so?
   Y/N N/A Comment:
   Unknown N/A Comment

7. Does the property appear to have any pits, ponds, lagoons (other than normal water retention ponds required by some local councils) or other dumping areas?
   Y/N N/A Comment:
   Unknown N/A Comment

8. Is there any evidence of radioactive products being utilised on the property?
   Y/N N/A Comment:
   Unknown N/A Comment

9. Does the facility appear to be free of any obvious sources of air emissions that have chemical odours, fumes or mists?
   Y/N N/A Comment:
   Unknown N/A Comment

10. Does the facility appear to be free of any noise pollution and are controls in place?
    Y/N N/A Comment:
    Unknown N/A Comment

11. Is there any evidence of any source of infectious waste (medical pathological wastes) on the property?
    Y/N N/A Comment:
    Unknown N/A Comment

12. If there is any source of infectious waste, are facilities for its disposal inadequate or not functioning properly?
    Y/N N/A Comment:
    Unknown N/A Comment

13. If the current use of the property does not indicate any of the above, could prior uses of the land involve hazardous materials, storage and disposal?
    Y/N N/A Comment:
    Unknown N/A Comment

14. Is the property registered on any Government register of contaminated land or its equivalent?
    Y/N N/A Comment:
    Unknown N/A Comment

15. Are the existing or past operations on the property subject to local environmental concerns expressed by the local community, Council, Health Department or EPA?
    Y/N N/A Comment:
    Unknown N/A Comment

16. Do the existing operations comply with current regulatory permits and licensing?
    Y/N N/A Comment:
    Unknown N/A Comment
17. With reference to storage of hazardous chemicals, are the storage structures designed to minimise contamination in the event of fire or natural disaster?

Y/N   N/A   Comment:
Unknown N/A   Comment

Management Controls: Hazardous Waste

1. Does this facility have a policy document and is it available to all staff?

Y/N   N/A   Comment:
Unknown N/A   Comment

2. Does the facility have an action plan in place for monitoring and reviewing environment controls?

Y/N   N/A   Comment:
Unknown N/A   Comment

3. Does the facility have an emergency plan and/or procedures in the event of a spill, explosion or breakdown?

Y/N   N/A   Comment:
Unknown N/A   Comment

4. Are copies of licenses and/or registrations easily visible and are they up to date?

Y/N   N/A   Comment:
Unknown N/A   Comment

5. Verify the current status on any current orders

Y/N   N/A   Comment:
Unknown N/A   Comment

6. Verify the status on current audits

Y/N   N/A   Comment:
Unknown N/A   Comment

Extractive Industries

1. Is there any extractive industry currently being operated on the site?

Y/N   N/A   Comment:
Unknown N/A   Comment

2. If yes, is there an Environmental Impact Statement available for perusal?

Y/N   N/A   Comment:
Unknown N/A   Comment

3. If yes, is there a current Development Approval available for inspection?

Y/N   N/A   Comment:
Unknown N/A   Comment

Asbestos

1. Is asbestos apparent on the property?

Y/N   N/A   Comment:
Unknown N/A   Comment

2. Does a walk through the facilities reveal any obvious evidence of asbestos in ceilings, pipes, ducts, roofing, boiler insulation or structural beams, etc, that appears to be fireable, flaking or damaged?

Y/N   N/A   Comment:
Unknown N/A   Comment

3. Were the facilities on the property constructed prior to 1980 when the use of asbestos was banned?

Y/N   N/A   Comment:
Unknown N/A   Comment

4. Has an asbestos survey/audit of the facilities been conducted?

Y/N   N/A   Comment:
Unknown N/A   Comment

5. Did the survey find the buildings to be free of asbestos containing materials?

Y/N   N/A   Comment:
Unknown N/A   Comment

Polychlorinated Biphenyls (PCBs)

1. Is there any electrical equipment (transformers, capacitors, etc) that contain polychlorinated biphenyls (PCBs) on the property?

Y/N   N/A   Comment:
Unknown N/A   Comment

2. If PCB containing electrical equipment is presently on the property, is there any evidence of leaks or spills on the ground near the equipment?

Y/N   N/A   Comment:
Unknown N/A   Comment

Underground Storage Tanks (USTs)

1. Are there any underground storage tanks (USTs) containing petroleum products or hazardous chemicals on the property?

Y/N   N/A   Comment:
Unknown N/A   Comment
2. If USTs exist on the property, are leak detection equipment or secondary containment systems not installed on the tanks?
   Y/N N/A Comment:
Unknown N/A Comment
3. Have they ever been tested for leaks?
   Y/N N/A Comment:
Unknown N/A Comment
4. Has there ever been an incident of a leak, spill or discharge?
   Y/N N/A Comment:
Unknown N/A Comment
5. Have the owners or lessees of the property undertaken any environmental audit pertaining to underground storage tanks on the property?
   Y/N N/A Comment:
Unknown N/A Comment
6. Have the proper registration forms been submitted to the designated regulatory authorities?
   Y/N N/A Comment:
Unknown N/A Comment

Land Fills
1. Is there any evidence that the site is currently being filled or has been filled?
   Y/N N/A Comment:
Unknown N/A Comment
2. Have the filling operations been approved by Council and the EPA?
   Y/N N/A Comment:
Unknown N/A Comment
3. Do the filling operations allow for putrescible, non-putrescible or toxic wastes?
   Y/N N/A Comment:
Unknown N/A Comment
4. Do the filling operations require a licence and/or Performance Guarantee and License from the EPA?
   Y/N N/A Comment:
Unknown N/A Comment

Agricultural-Type Properties
1. If the property has previously been used for horticultural, orchard or market garden purposes, is there any historic evidence of past land uses having involved persistent pesticides, such as dieldrin or DDT?
   Y/N N/A Comment:
Unknown N/A Comment
2. Are there any environmental audits available evaluating the presence of pesticides?
   Y/N N/A Comment:
Unknown N/A Comment

Former Defence-Oriented Property
1. Does the land contain unexploded munitions, radioactivity or other hazardous substances that could be associated with defence works?
   Y/N N/A Comment:
Unknown N/A Comment
2. Is there any information available from the Department of Defence or local authorities regarding the presence of unexploded munitions?
   Y/N N/A Comment:
Unknown N/A Comment

Environmental Hazards on Adjacent Properties
1. Do any adjacent properties appear to have any improper storage or dumping of hazardous materials, drums or containers that could impact on the value of the subject property?
   Y/N N/A Comment:
Unknown N/A Comment
2. Are there any landfills, dumps or other waste disposal facilities within one kilometre of the subject property?
   Y/N N/A Comment:
Unknown N/A Comment
3. Is there any indication of operations such as gas stations, chemical plants, bulk storage tanks, manufacturing plants or other land uses which potentially involve land contamination (as outlined in this document), on any of the adjacent properties?
   Y/N N/A Comment:
Unknown N/A Comment
APPENDIX 4  Sample Environmental Balance Sheet

The following is a relatively simple non-costed Environmental Balance Sheet for example purposes.

**IMPAIRED VALUE OPINION BALANCE SHEET**

<table>
<thead>
<tr>
<th>UNIMPAIRED</th>
<th>VALUE OPINION</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Less : ENVIRONMENTAL LIABILITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due Diligence/Initial Environment Consultants Costs</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Quantification &amp; Alternative Strategy Development Costs</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>PRESENT VALUE OF ACTION PLAN COMPONENTS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remediation/Clean-Up Action Costs</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Contamination Control and Management Measures</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Redesign of Production Facilities</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Avoidance of Migration of Contamination to Adjacent Sites</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Notification, Training and Record Keeping</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Allowance for Emergency Response Actions</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Legal Costs</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Indemnity Insurance for the Future</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Monitoring Costs</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Licensing Costs where Applicable</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>SUBTOTAL: Present Value of Action Plan</strong></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Estimated Negative Intangible (Stigma) Impact</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>TOTAL ENVIRONMENTAL LIABILITIES</strong></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>OWNER’S IMPAIRED POSITION</strong> $</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The GREATER of Zero or Unimpaired Value LESS any Environmental Liabilities.
APPENDIX 5  A Method of Assessing Stigma

Unimpaired Value of the Land (a medium hazard risk property) $  
Present value of remediating costs $  
Impaired value 1 - not allowing for stigma $  

<table>
<thead>
<tr>
<th>Case Study Number</th>
<th>Indicated percentage of impaired value 1 lost to stigma</th>
<th>Comparison to the property being valued</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25.9%</td>
<td>Treatment completed, stigma caused by fear of additional contamination, less severe than the subject property.</td>
</tr>
<tr>
<td>2</td>
<td>29.2%</td>
<td>No treatment proposed at present, continued industrial use, similar risk level to subject property</td>
</tr>
<tr>
<td>3</td>
<td>20.9%</td>
<td>Site not contaminated but is situated adjacent to a contaminated site</td>
</tr>
<tr>
<td>4</td>
<td>32.7%</td>
<td>Similar type of contamination to subject property but slightly more severe</td>
</tr>
<tr>
<td>5</td>
<td>45.4%</td>
<td>Heavily contaminated site, derelict land, more severe than the subject property</td>
</tr>
</tbody>
</table>

Range of stigma effects indicated by comparables 20.9% to 45.4%

Comparables closest to subject property, numbers 2 and 4, 29.2% to 32.7%

Therefore percentage stigma applicable to the subject property is 31%

Amount of stigma @ 31% of impaired value 1 $  
Impaired value 2 (taking account of treatment and associated costs and stigma) $  
Add value of buildings $  
Total value of asset say $  
Percentage reduction in value attributable to contamination 21.60%

Source: Developed from Patchin (1994) and Syms (1995) (UK)
APPENDIX 6 Environmental Legislation in Australia

For legislation in Australia see Australian Legal Information Institute (AUSTLII) Website

The following list is not intended to be exhaustive. It should, however, illustrate the wide variety of existing environmental legislation which may affect the value of a particular interest in land.

Commonwealth of Australia
1. The Inter-Governmental Agreement on the Environment.

Australian Capital Territory
2. Public Health Act 1982
3. Poisons Act 1993
4. Radiation Act 1983
5. Air Pollution Act 1984

New South Wales
6. Clean Air Act.

Queensland
5. Pollution of Waters by Oil Amendment Bill 1992 (Proposed).
9. River Improvement Trust Act 1940.

South Australia
1. Planning Practice Circular (distributed by the Department of Environment and Planning to Local
COUNCILS, PLANNERS AND CONSULTANTS IN OCTOBER 1990).


3. Proposal for South Australian Environmental Protection Authority and Chapter on Environmental Policy.


TASMANIA


NORTHERN TERRITORY


VICTORIA


2. Pollution of Waters by Oil and Noxious Substances (Amendment) Act 1991.


7. Various State Environmental Protection Policies made under the Environment Protection Act 1970 covering air environment, control of noise, ground waters, etc.


WESTERN AUSTRALIA


5. Pollution of Waters by Oil and Noxious Substances Act 1987.


11. Health Act 1911.


APPENDIX 7  Internet Address of Environment Protection Authorities of Australia

Environment Australia – Department of the Environment and Heritage (Commonwealth)
http://www.ea.gov.au

Department of Lands Planning and Environment, NT

Department of Environment and Heritage, QLD

Department of Environment, Heritage and Aboriginal Affairs, SA

Department of Primary Industries, Water and Environment, TAS

Department of Environmental Protection, WA

Environment ACT

Environment Protection Authority, NSW

Environment Protection Authority, SA

Environment Protection Authority, VIC

Footnotes:

2. Research on Radon is being conducted by Murdoch University in Western Australia.

3. The Institute gratefully acknowledges the assistance of the NSW Property Valuation Department of the Commonwealth Bank of Australia in the preparation of this Appendix.


5. National Environmental Protection Council is to release a National Environment Protection Measure which will supersede the relevant sections of the ANZECC/NHMAC Australia and New Zealand Guidelines for the Assessment and Management of Contaminated Sites 1992.

ARPGN 2 NATIVE TITLE ISSUES

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to outline information and issues, and indicate approaches in cases involving the valuation and management of land subject to native title claims (or where native title may exist, has been claimed or has been determined). The National Council of the Australian Property Institute recommends that it be used by members for the valuation of co-existing property interests subject to native title in Australia. The Institute recognises that Members need to be aware of the potential for native title to coexist with certain tenures, whether there is a claim for native title or not. In this regard, they should obtain a copy of the Native Title Act (Clth) 1993 as amended on 30 September 1998.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This Guidance Note applies to Members reporting on land and deals with broad examples of the phenomenon, which results when native title coexists on land, and the resultant value effect. It offers guidance on pertinent general concepts and concerns relating to native title, and suggests the approach that ought to be adopted. It does not purport to provide a definitive coverage on the issue of the valuation or management of co-existing rights, or the manner in which Members should deal with these issues. Co-existing property rights where native title exists is a phenomenon which has resulted in much public debate particularly since the decision in Wik Peoples v Queensland ((1996) 141ALR 129) (Wik) on 23rd December 1996 and involves complex and sometimes unresolved matters. However, contrary to public perceptions of the Wik decision, as long ago as September 1993 in Pareroutilja v Tickner ((1993) 42 FCR 32) it was held that:

... the extent to which Native Title over land may co-exist with leasehold tenure is not a question fully explored in Mabo (No. 2). Much may depend on the nature and extent of the leasehold estate (eg a monthly tenancy or lease for 99 years) and inconsistency, if any, between Native Title and the lessor’s reversionary interest.

‘Formula’ approaches to the valuation or management of co-existing interests subject to native title are almost certainly inadequate and the procedures for each report will vary according to the circumstances of each parcel of land. Members should apply their own skill and judgement in applying the suggested approaches contained herein to their own practice.

This Guidance Note should be used in conjunction with other guidance notes and practice standard which are either over-arching or directly applicable to the type of land, purpose or issues involved.

Native Title is different from State and Territory based ‘land rights’ legislation and cultural heritage protection legislation.

1.4 International Valuation Standards

This Guidance Note recognises the International Valuation Standards 1 and 2, and the International Valuation Application 2 by the International Valuation Standards Committee and it is intended to be consistent with the concepts and definitions contained in those standards, however, there may be departures from IVSC Standards to reflect Australian & New Zealand law and practice.

1.5 Property Expert Involvement

Members are able to provide appropriate skilled advice in relation to Valuation and property matters with the assistance of and in accordance with this Guidance Note and bearing in mind the limitations referred to herein.

1.6 Market Response

Increased awareness within the general community of Indigenous issues, recent legislation, such as the Native Title Act, litigation associated with native
title and incidents where property users allege financial loss as a result of native title claims (or the likelihood thereof), have made the marketplace more aware of the potential effect of native title co-existing with existing land titles. Anecdotal evidence may suggest that prices can become artificially depressed. Further, limited information about a particular native title claim (or prospect thereof) that is thought to be present on land may cause a ‘stigma’ effect on values. Conversely, the market appears to be aware that the impact upon the utility of properties with co-existing native title may vary significantly from case to case.

1.7 Advice about Commercial Impact

Clients will be looking to Members of the Institute for advice and guidance on how native title affects their financial security and asset value. Members cannot and should not promote themselves as authorities who are fully capable of measuring, recording and providing detailed advice. However, they should be able to provide a significant level of advice to the client about the commercial impact of the coexistence or likely coexistence of native title in relation to a particular parcel of land.

1.8 Issues Requiring Further Investigation

Members of the Institute should take all reasonable care in these matters. Members who attempt to mitigate their responsibilities by adding a disclaimer saying that the property has been valued or assessed ‘without regard to the question of the presence of native title’, are not providing the level of expertise expected by clients and would not satisfy the standards of practice required by the courts. Therefore, the Institute recommends that its Members become sufficiently knowledgeable about native title processes contained in Commonwealth and complementary State/Territory legislation, and case law associated with this topic and its effect on property values to meet the above standards. This involves Members qualifying advice, where appropriate, so as to properly inform the client of potential issues which may require further investigation, and thereby meet the Member’s professional obligations.

1.9 May Affect a Broad Range of Non-Exclusive Estates

Except where Members are valuing or managing land identified as an “exclusive possession grant” which extinguishes native title (s.23B (2)(c) Native Title Act) (See Appendix 1 of this Guidance Note), Members will rarely be in possession of enough information or evidence to totally discount the presence of native title as a co-existing property right. Items of Indigenous cultural heritage (ie middens, rock carvings etc) can be a useful marker for native title, however this may not be conclusive. Members should be aware that Indigenous cultural heritage is a separate but related issue to native title. Native title as a co-existing property right may affect the full spectrum of non exclusive possession estates (eg. non exclusive possession leasehold or reserve land) and should therefore be considered.

Members should utilise Appendix 1 to assist them in distinguishing the likelihood of coexistence. The majority of ordinary titles, both private freehold and specific leasehold, listed in Appendix 1, have the status of “exclusive possession grants” which extinguish native title. In these circumstances native title does not need to be considered further.

1.10 Definition of Native Title

As defined in Mabo – v - the State of Queensland (No.2) (1992) (175 CLR 1) (Mabo), native title is the term used to describe the rights and interests held by Aboriginal and Torres Strait Islanders to land and waters under their custom and customary law. The National Native Title Tribunal (NNTT) describes native title as:

‘.... A common law right that pre-dates European settlement of Australia’


In addition to the above, native title is defined in the Native Title Act 1993 as:

‘the communal, group or individual rights and interests of Aboriginal peoples or Torres Strait Islanders in relation to land or waters, where:

(a) the rights and interests are possessed under the traditional laws acknowledged, and the traditional customs observed, by the Aboriginal peoples or Torres Strait Islanders; and

(b) the Aboriginal peoples or Torres Strait Islanders, by those laws and customs, have a connection with the land or waters; and

(c) the rights and interests are recognised by the common law of Australia.’

(s223(1))
Also,

‘[w]ithout limiting subsection (1), ‘rights and interests’ in that subsection includes hunting, gathering, or fishing, rights and interests.’

(s223(2))

As a useful summary, it should be noted that native title:

• is not necessarily equivalent to other forms of legal tenure;
• is what the common law recognises;
• comprises a range of rights and interests which may vary from group to group and place to place;
• rights and interests to an area of land or waters may be held by more than one group;

when tested for survival (and co-existence), the inconsistency test set out in detail in the judgements of the High Court in Wik Peoples v Queensland and Fejo v Northern Territory of Australia are to be adopted.

The laws and customs and traditional uses, which define native title, were not frozen at the time of British settlement and as long as physical, cultural and/or spiritual connection with the land is maintained, it is understood that the defining laws and customs are able to evolve. It is often misunderstood that for native title to be intact must be maintained in a manner existing at the time of British settlement.

Conceptually this is not significantly different to the customs and traditions of every other society or group which have evolved or adapted to change throughout the course of history.

The manner in which native title continues to exist may not be given practical expression in a form which is easily recognised by non-Indigenous people. That substantial development may have occurred on or near land being considered in a property valuation or assessment, ought not lead to a presumption that native title does not continue to exist, and hence does not exist as a property right.

Kado Muir of the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) provides useful guidance as follows:

‘... where Indigenous laws are practised and acknowledge[d] then those laws will also contain property rights. The process of inquisition into the nature, extent and incidents of property rights derived from the Indigenous laws is not essential to establishing the existence of native title.’

The fundamental issues to be addressed by the Court when it is required to determine that native title exists are essentially threefold:

• who holds the interest?
• where is the interest, ie the boundary?
• what are the rights and interests held?

These requirements are set out in s.225 of the Native Title Act 1993, as follows:

A determination of native title is a determination whether or not native title exists in relation to a particular area (the determination area) of land or waters and, if it does exist, a determination of:

(a) who the persons, or each group of persons, holding the common or group rights comprising the native title are; and

(b) the nature and extent of the native title rights and interests in relation to the determination area; and

(c) the nature and extent of any other interests in relation to the determination area; and

(d) the relationship between three rights and interests in paragraphs (b) and (c) (taking into account the effect of this Act); and

The relationship to the extent that the land or waters in the determination area are not covered by a non-exclusive agricultural lease or a non-exclusive pastoral lease – whether the native title rights and interests confer possession, occupation, use and enjoyment of that land or waters on the native title holders to the exclusion of all others.

1.11 Point of Reference

Members must obtain relevant initial information from specialist native title sources such as the NTTR Registers, other relevant State and Commonwealth agencies and officials, and native title representative bodies (NTRBs) (see 3.1, below).

Other important points of reference are anthropologists and archaeologists. The Australian Anthropological Society, at the University of Sydney tel: (02) 9351 5489 should be contacted for advice as to contacts in these disciplines. In addition, valuable research information can be accessed from the Aboriginal and Torres Strait Islander Commission (ATSIC), traditional owners, and industry organisations who are stakeholders in native title, eg: farm industry organisations.
A further useful resource is the Australian Local Government Association (ALGA) publication Working with Native Title: A Practical Guide for Local Government, which provides a detailed description of the processes involved.

It is important that members obtain information that is representative of the broad spectrum of issues and views in respect of native title to ensure that they do not negligently disregard research information.

2.0 Types of Co-Existing Estates

2.1 Wide Range of Non-Exclusive Estates

There is a wide range of non-exclusive possession estates which may co-exist with native title, varying from State to State in the level of exclusivity, and hence the quality of tenure and/or the potential for co-existing interests or native title in particular.

An example of such estates are the Western Division leases in New South Wales, and two and possibly four types of Queensland pastoral leases, (ie Pastoral Holding, Pastoral Development Holding and possibly Preferential Pastoral Holding and Stud Holding), and possibly Occupation Licences, and Special and Term Leases for grazing purposes.

Members should however note that certain statutory estates now extinguish native title and are referred to in Schedule 1 of the recent Native Title Amendment Act 1998. It is important to ascertain whether the State or Territory has enacted complementary legislation to validate and to confirm the effect on native title of the tenure listed in Schedule 1 of the Commonwealth Act.

Appendix 1 of this Guidance Note lists these estates, and are shown in chronological order of legislation by State or Territory, for ease of reference.

Caution should be exercised when consulting Appendix 1 as some non exclusive possession estates (i.e. Preferential Pastoral Holdings and Stud Holdings in Queensland) may extinguish native title, to the extent of the inconsistency only. Extinguishment by such estates has yet to be considered by the courts, and it is recommended that legal advice be obtained. In addition, some classes of Special Leases (e.g. for watering purposes) are provided for in the Act as extinguishing native title.

2.2 Tenure

Each non-exclusive possession estate must be considered in assessing the impact of the rights being asserted in a native title determination application upon the property. In some States much of the non-urban land is held in private freehold (i.e. Victoria) which extinguishes native title permanently. However, in some States and Territories this land is held under statutory estates, commonly called pastoral leases.

2.3 Conditions of Tenure

There are prerequisites, conditions and obligations attached to various forms of leasehold which define the nature of the ownership. The term of the statutory estate, especially the period unexpired, the rights, if any, of renewal, the capacity and limitations upon transfer, and other terms and conditions are critical to determining the degree of exclusivity of the particular estate, and how closely the tenure approaches the benchmark of private freehold.

The degree of exclusivity granted to a leaseholder has a complimentary effect on the ability of the statutory estate to co-exist with native title. The duration of leases can vary from perpetuity to only a few months, and the issue to be addressed by Members is whether duration per se is fundamental in determining the impact of native title.

Leases of a shorter duration may be more vulnerable to the bundle of rights comprising native title than those of longer duration, given that longer leases may have the ‘flavour’ of private freehold whilst others may be little more, in practice, than an agistment right.

It should be noted that the length of the term of the statutory estate was only one of a number of deciding issues in the Commonwealth Government’s decision as to whether or not to include a particular statutory estate in the Schedule (see Appendix 1 in this Guidance Note). Relevant factors in determining whether a statutory estate was to be listed in the Schedule were, terms and conditions, third party rights, grantee obligations and restrictions, upgrade capacity, purpose, tenure history, location, and size. However, the terms of a lease and the actual activities were not determining factors, whilst all of the above factors were to be balanced to determine whether a lease had eligibility as a Scheduled Interest. Caution should however be exercised regarding
the presence (or lack of) a statutory estate in the Schedule to the Act, as the recent decision in Ward v State of Western Australia (1998) 159 ALR 483 (Miriuwung Gajerrong) may have clouded the issue of extinguishment.

2.4 Consequences of Existing and Past Activities

Since Mabo, native title can be extinguished by not only a plain and clear intention to do so (Mabo at p.68) but also by the consequences of existing and past activities.

Members should be aware that the consequences of present and previous activities performed on the lease land can have significance for the likelihood of native title surviving. This may be deduced from an inspection of the property and is irrespective of questions of exclusivity, duration or reservations contained in the lease document.

At an extreme level, the complete obliteration of all natural land forms as a result of past mining activity is likely to severely limit the ability of traditional activities to be performed on site, or possibly for any meaningful relationship with the land to continue to exist. Substantial private developments for say, a sporting complex, also provide a further example. Even with less intrusive pursuits such as low impact farming, it is likely that any traditional profits a prendre activities would have been severely curtailed. There is also the category of ‘public work’ (s253) and lands incidental to the ‘public work’ (s251D) which also extinguish native title.

Nevertheless, Members should be aware that a direct physical contact with land is not the only medium by which native title is sustained (ie cultural and spiritual).

The Miriuwung-Gajarrong decision of the Federal Court in 1998 has however cast doubt upon the extinguishing capacity of existing and past activities. Members should exercise caution and obtain specialist advice in this area from anthropologists, and archeologists, NTRBs and traditional owners in order to identify the level of effect.

2.5 Related Court Cases

Members should also pay close attention to important court cases in the Federal or High Courts which have implications for co-existence. These cases have the potential for providing guidance in the valuation of specific types of estates over which there has been a native title application. The NNTT and the Federal Court have separate functions under the legislation, and the States and Territories can establish their own ‘recognised bodies to perform the functions of the Federal Court, and ‘equivalent bodies’ to perform the functions of the NNTT. However, the NNTT still retains responsibility to maintain the Registers, while the role of the Federal Court is to receive applications, refer them to the NNTT (or equivalent body) for registration, to decide on the parties, to make determinations and orders.

3.0 Identifying Co-Existing Native Title

3.1 Information on Native Title

Identifying where native title exists or may exist is crucial in all property valuations or assessments. It is important to be aware of the possibility that native title may exist in certain circumstances and in areas where it has not been extinguished regardless of whether there is currently a native title application or determination to indicate its existence.

It is not necessary to have a determination, by agreement or judicially after a contested hearing, for native title to exist. It is an existing right and may continue to exist in areas where it has not been extinguished by legislative or executive acts of government, even though the identity of the native title holders is unknown. In such circumstances it is possible that an area may be subject to an application for a native title determination at a later date.

The main sources of information in circumstances where the holders of native title rights and interests are unknown, are the NTRBs, the local Indigenous peoples with an historical connection with the area in question, local historical societies, local genealogical societies, the relevant ATSIC Regional Council and the local Council historical records.

Where an application for native title has been made, the primary sources of information are the Register of Native Title Claims held by the NNTT or equivalent State/Territory bodies, and the NNTT Schedule of Applications for native title determinations that have not passed the statutory registration test under the Native Title Act 1993 and the Federal Court’s records of common law native title applications.
The list of Scheduled Interests, together with tenure information held by state government registries is also a major source of information (see Appendix 1 in this Guidance Note).

Native title issues can arise where there has been a determination (by agreement or judicially), where an application for a determination has been made or, importantly, where the native title holders are presently unknown and no application or determination exists.

3.2 Searches

There are various searches that should be undertaken.

3.3 Tenure Searches.

After undertaking the enquiries mentioned above and prior to conducting a search of the NNTT registers, it is important to prepare a tenure history of the land.

This is best undertaken by a registered surveyor who should provide copies of documentary evidence of the tenure history both by way of title documents and other descriptive sources such as deposited plans and Crown Land survey information.

The tenure search is pivotal in deciding whether native title has survived, the nature of the surviving property rights associated therewith and the nature of impairment or even extinguishment of such rights. Often, it is necessary to closely examine the initial tenure searches and to request more detailed particulars from the surveyor in order to conclude this aspect of the Member’s report. Tenures included in Schedule 1 of the Native Title Act 1993, and as enacted in complementary States/Territory legislation are not subject to native title. (See Appendix A of this Guidance Note)

3.4 Background Research & Historical Land Use

After undertaking the research referred to above, the use of the land may be relevant if native title has not been extinguished by present or previous grants of tenure. Members should be aware that previous grants of freehold title extinguish native title permanently (viz. Fejo v Northern Territory of Australia), and that the Native Title Act provides for previous extinguishing acts. Before embarking on a formal search of the Registers held by the NNTT, or equivalent State/Territory body, there are several areas of enquiry to take advantage of

- the existing and previous owners (and employees) are often an excellent source of information on the land use history of a property.
- local councils can provide detailed information from their building planning and subdivision records on past history and land uses.
- aerial photographs can be obtained from the relevant Crown Lands Departments or their equivalent in each State or Territory that can also assist in documenting former uses, such as public works. Such photographs can be obtained as far back as the 1940’s and are a much under-utilised resource.
- government departments dealing with utilities, health and environment, industry and mining also have approval and licensing records and other useful information.

3.5 Native Title Registers

Four registers are held by the NNTT covering land and waters in each State and Territory and deal respectively with registered claims, determinations, Indigenous Land Use Agreements (ILUAs) and unregistered claims.

Upon request, a formal search of the registers will be conducted by Tribunal staff. The Tribunal’s fee to search the registers upon receipt of a request is $20.00 per 15 minutes, plus photocopying at 50 cents per A4 page.

The NNTT does not have a set application form for written inquiries, however members seeking such information should attempt to follow the format of similar applications, such as those made to roads and electricity supply authorities.

The information provided to the NNTT in support of a written application for a search of the Registers should be as detailed as possible to expedite the search. Details such as county, parish and local government area are a starting point, however the provision of Deposited Plans or other survey information will also assist the Registry staff.

The written application can also be forwarded to the relevant Registry by facsimile, providing a shortening of the response time. Experience suggests that the turn around time can vary from one or two days to three weeks, subject to workload.

3.6 Indigenous Records

When the member receives confirmation from
the NNTT Registry that land is subject to a native title claim, (that has or may pass the registration test) or is reasonably confident that native title continues to exist on the land in question, it is prudent to make other enquiries of the relevant Indigenous representative bodies (such as NTRBs) or traditional owners. These interested parties particularly the relevant NTRB will assist the member in gaining an understanding of the ambit of existing or likely native title claims. Also, such enquiries will establish whether or not native title is a consideration for the particular task at hand.

In addition, other Indigenous records and information can be obtained from State or Territory Indigenous heritage authorities and their Registers. The District or Regional Offices of the relevant National Parks and Wildlife Authorities may be able to assist with detailed information about local Indigenous people and their relicy. Local historical societies are also important resources as they often hold rare and valuable information about early non-Indigenous settlement and their interface with the local Indigenous people.

All of the above will assist the member in providing the client with factual and dispassionate information thereby enhancing the level of service provided and discharging the member’s professional obligations.

### 3.7 Site Inspection

A Member conducting an inspection of a property for the purpose of providing a valuation or other property assessment should be aware of the potential of coexisting native title prior to the inspection.

During an inspection for this purpose, the Member should attempt to identify from on-site observations any physical evidence of Aboriginal cultural heritage site and items that could suggest the exercise of native title rights. Members should be aware that the presence of physical evidence of Indigenous occupation is not necessarily a good diagnostic marker for native title in many areas of Australia. Whilst not conclusive, nevertheless the Member should look for evidence of camp sites, other occupation sites, natural or introduced food or remains or other disturbance to soils or vegetation. Finally, the Member should look for any evidence of artifacts or in rocky country, stone grooves, rock paintings, or other utilitarian or artistic evidence.

Members should exercise great caution if they suspect the presence of such evidentiary material prior to an on site inspection. It is possible that offence may be unwittingly given to Indigenous people through either photographing such materials, or even by entering an area which has special significance.

If the Member identifies from onsite observations any potential for native title arising from the presence of Aboriginal cultural heritage items and sites, a recommendation should be made for further expert advice where appropriate, or enquiry of potential native title holders.

### 3.8 Role and Expertise

Members should recognise that their role and expertise is limited to the detection and preliminary identification of discoverable physical evidence of Aboriginal cultural heritage items and sites, which may be a diagnostic marker for native title. It should be remembered that sites of significance to Indigenous people are not necessarily evidenced by the presence of recognisable topographical features such as rock outcrops or caves. Such sites can sometimes be present in apparently featureless tracts of land, which would be otherwise ignored by untrained or uninformed observers.

Evidentiary proof of native title and the ascertaining of the ambit of the property rights must be left to those with specialist qualifications in the fields of anthropology and archeology. Where information is available to the Member on the likely existence of, (and ambit of) native title, this should be provided as an annexure to the Member’s report together with a statement as to the literature source and an appropriate qualification. It is recommended that caution should be exercised where heavy reliance is placed on literature, given that the history of Indigenous occupation was not always properly recorded.

### 3.9 Whether Expert Engaged

A member needs to be aware of the results of site inspection raised in 3.7, above: ‘Site Inspection’ and 3.8, above: ‘Role and Expertise’ and to do sufficient research to establish whether an appropriate qualified expert should be recommended for engagement. The Member should take detailed case notes, which may not necessarily be used in the preparation of the final report but will provide evidence that the property valuation or assessment was carried out with full regard to the potential existence of native title.
3.10 Engaged Qualified Experts

A report by a suitably qualified expert in the field of anthropology or archeology is required to provide evidence that native title is or is not being exercised on land and/or that connection with the land by Indigenous people is extant. The report is critical to the task of the Member in producing a property valuation or assessment of land where native title is present as a co-existing property right.

In providing a report on the property, the suitably qualified expert should address the following issues based upon inter alia field research, oral evidence, and literature:

- present and past Indigenous and non-Indigenous land uses;
- locations on the land where these land uses were carried out;
- duration of the land uses;
- on-site Indigenous religious; 
- sites of Indigenous spiritual and/or cultural significance;
- level of co-existence of Indigenous and non-Indigenous land uses.

3.11 Qualification if no obvious Native Title

If there is no obvious evidence of native title as a result of research or inspection of land by a Member and no expert report is to be made available to the Member, then the Member's report should be suitably qualified to reflect the relevant extent of the Member's expertise in relation to native title and to place the onus upon parties relying upon the report to make their own enquiries.

Although any qualification used should be specifically worded to suit the particular circumstances of the property valuation or assessment, the following clause provides an example of the type of qualification that should be made:

‘A visual site inspection and (detail other research) has not revealed any obvious presence of native title. Nevertheless, we are not experts in native title or the property rights derived therefrom and, have not been supplied with appropriate anthropological, ethnoecological and/or ethnographic advice. Therefore, the property valuation or assessment is made subject to there being no actual or potential native title affecting:

- The value or marketability of the property;
- The land (… as applicable).

Verification that the property is not subject to co-existing native title interests should be obtained from a suitably qualified expert. Should subsequent investigation show that the land is subject to existing or potential co-existing native title interests this property valuation or assessment will require revision.’

Once a native title claim has been lodged, irrespective of whether it is registered or unregistered, Members cannot include a disclaimer stating that they have ignored native title.

3.12 Not Expert

A Member who has the relevant experience or has undertaken the Institute’s approved course of studies is entitled to carry out the valuation of co-existing property interests subject to native title.

3.13 Recommending a Detailed Native Title Report

It should be recognised by Members that only through exhaustive research can the ambit of Indigenous property rights be verified properly. Such research is inherently expensive and time consuming, and cannot in itself provide a complete guarantee that such property rights are, or are not present. Only the courts can provide such a definitive declaration.

If, after carrying out preliminary research and site inspections, the Member is concerned or suspects that the property is or could be subject to co-existing native title that could either restrict the future use of the site or mitigate against a financial consideration, the Member is obliged to recommend that the client seek a detailed native title assessment from appropriately qualified professionals. Such advice should be formed having regard to both the current and future financial considerations as well as the future use of the land. A detailed native title assessment by suitably qualified disciplines will include the issues detailed in 3.8, above: ‘Role and Expertise’, together with such other information as deemed necessary to provide the fullest description of the presence of native title.
Subsequently, it may be necessary for the appointed disciplinary consultants to move into a third stage of consultancy including the preparation of alternative methods of either non Indigenous land management or the exercise of Indigenous property rights and interests.

3.15 Where Detailed Information Cannot be Obtained

Where detailed information cannot be obtained, the Member should prepare his/her report on the basis that the property is not subject to a co-existing native title interest, and qualify that report on the basis that some elements of native title rights and interests may exist, and if present, could have an impact on the value, usage or future development of the property. The following provides an example of the type of qualification which may be appropriate in these circumstances:

‘From our inspection of the property we consider that there is (or could be) a potential for (detail possible native title rights and interests) to exist and would recommend that advice should be obtained from a suitably qualified expert. Please note that our valuation (or report) has been prepared on the basis of no survival of native title rights and interests. Should the above mentioned expert advice reveal any evidence of native title our valuation (or report) will require revision.’

It is critical that members be aware that the greater the perceived likelihood of native title rights and interests may exist, the stronger the ‘qualification’ must be and more specific must be the accompanying advice.

4.0 Native Title Predictive Practices

4.1 Native Title predictive practices changing

The predictive practices for the determination of the likelihood of native title survival is rapidly changing. New investigative field techniques are being developed by the anthropology and archeology disciplines and those who legislate standards (i.e. the Native Title Act 1998 as recently amended). As Professor Garth Nettheim of the Aboriginal Law Centre UNSW states:

“... although we can readily identify areas held by Aboriginal people and Torres Strait Islanders through grants under various Land Rights Acts over the past 20 years, the task of mapping those residual areas of Australia held as ‘native title’ has scarcely started.

... The general characteristics of most forms of land title are reasonably well-known. By contrast, the nature of ‘native title’ rights and interests depend on the laws of the particular Indigenous peoples concerned, and will vary from place to place.”

4.2 Native Title predictive

The predictive practices which have developed by the disciplines involved in determining the likelihood of the survival of native title, are founded in both established academic literature and existing field practices, especially in the area of anthropology and archeology. Note that the definition of such practices is notoriously difficult and can present some difficulties for members recommending to a client from a panel of appropriately qualified consultants.

4.3 Practices Defined Influence on Value of

The influence on value of such practices, will depend on such factors as whether the native title rights and interests are restricted or more diverse. In addition, there is the effect of the possible need for further detailed analysis after the preliminary research.

4.4 Co-Existing Interests subject to Native Title Predictive Practices

Predictive practices could involve a detailed review of existing and historic literature, a search of government survey and tenure records, the obtaining of oral evidence from native title claimants, and/or traditional owners, and the testing of any conclusions against other predictive work already published or otherwise available.

A difficulty with any predictive practice is that Indigenous people tend to be reluctant to share their understanding of native title rights and interests, due often to cultural and spiritual imperatives and due to understandable suspicion. It must be remembered that Indigenous cultural heritage is significantly based on spiritual concepts, and there is the danger that areas of significance may attract unwanted attention which could lead to desecration.
4.5 New Practices

New practices in the disciplines of anthropology and archeology are developing in the light of current litigation which will almost certainly result in exhaustive testing in the courts of any opinions expressed by such consultants.

However, the cost of predictive practices are already inherently expensive and time consuming, and it must be recognised that clients may be unwilling to undertake such work if the existing Market Value of a property.

Members should keep abreast of research and technological changes relating to predictive practices. Such awareness will assist the member in advising appropriately on the perceived likelihood of the survival of native title rights and interests and the need for clients to seek further information.

Members must avoid giving advice beyond their area of expertise.

5.0 Impact on Value of Co-Existing Interests Subject to Native Title: General Issues

5.1 Responsible Party for Compensation

Depending upon the relevant Commonwealth or State/Territory legislation, it is as a general rule the responsibility of government to bear the cost of any compensation if practices on the property are proven to have resulted in the loss, extinguishment or impairment of native title.

Any new activity to be authorised on a property, may result in the consent authority (eg. state and local governments, Western Lands Commission) requiring that any compensation be met by the holder of the co-existing interest subject to native title. However, compensation for future acts by third parties only applies to those acts affecting native title after 23 December 1996.

It is noted that present activities on land subject to a co-existing native title interest (or application for a native title determination) are generally unaffected as regards ongoing present uses conducted on the property. Where land use changes are proposed, minor changes may not cause a claim for compensation for the loss, extinguishment or impairment of native title. The important issue here is not whether there is a change of use, but whether the lease permits the activity. If the lease allows the proposed action there are no native title implications regardless of how the land is currently being utilised.

Members should exercise caution when forming a view as to the effect that a co-existing native title interest (or application for a native title determination) may have on present and future utility of a property. The activities which are permissible, and the procedural pathways to be followed are set out in s.24 of the Native Title Act.

It is necessary for the Member to be thoroughly aware of these activities and procedures in forming a view as to the affect of co-existing native title on present and future utility. Members should be careful that they are not misled to concluding that minor (or greater) changes in utility may or may not be relevant.

In some circumstances, some changes in the nature of activities may merely have been undertaken neglectfully, and thus inappropriately without the relevant permits and authorities. Members should be aware that provided lessees abide by the conditions of their potentially co-existing leases, and have exhibited an awareness of cultural heritage obligations, the procedures under s.24 may not have been transgressed.

Members should be aware that Indigenous Land Use Agreements (ILUAs) are becoming more common place, and can apply to any area or class of activity. ILUAs can impact upon property management as to when they are registered, as it is provided for in the Native Title Act that they are binding on the parties to the Agreement. The NNTT has a register of ILUAs throughout Australia.

Due to the specialist advice required in assessing the impact of future activities on the value of co-existing interests subject to native title, members are strongly advised to seek formal advice from appropriately qualified specialists.

5.2 Legal Costs

Legal costs arising from the co-existence of interests subject to native title will vary in extent according to the circumstances of each particular property. Members should refer to these costs in their report, where appropriate, and ensure that they are addressed in any subsequent expert preliminary (or detailed) report obtained.

Members should recognise that the potential for litigation or pending litigation may affect marketability and further affect value by deterring prospective buyers of properties.
It should be recognised that there is very little case law in this area and future judicial direction will clarify whether the current valuation methods are appropriate. When considering the impact of native title on co-existing property rights, some guidance is available in the literature and members should endeavour to keep abreast of legal and practice developments.

The effect of legal costs should be included within any discount, or separate contingency figure for the existence (or likelihood) of co-existing native title. This is not dissimilar to the allowance for the effect of legal costs usually recommended to be included within the stigma component of environmental liabilities when contaminated land is valued.

This discount or separate contingency figure should be based upon information either provided by an appropriately qualified expert (in the disciplines of anthropology, ethnecology or ethnography) or estimated by the member following appropriate legal advice.

As a warning, such discount or contingency figure should always be qualified to inform the client that it is an estimate only and that it may not reflect the costs actually incurred should litigation for compensation eventuate.

5.3 Mortgage Security

It is accepted practice that mortgage lenders prefer to lend funds on freehold rather than lessor tenures. Whilst freehold title may be seen as more definite, it should be noted that there are many secure titles which are listed in Schedule 1, Native Title Act 1993 (Appendix 1). These exclusive possession leases do not require that native title be considered, and mortgage lenders would not require any further enquiry.

Nevertheless, for some particular uses, such as industrial:

Leasehold properties effectively only provide an income stream and the present value of this reduces as the loan term continues. Because of this reducing interest and the lesser acceptance of leasehold properties in the marketplace, lenders will usually charge a higher interest rate for this style of property.  

In significant areas of Australia where land is subject to native title, the predominant form of property interest is a statutory estate commonly known as a pastoral leasehold. As of the historic absence of freehold interests in such areas, the security offered to mortgage lenders is the pastoral lease. Because pastoral rights prevail over co-existing native title rights to the extent of any inconsistency (viz. Wik Peoples –v– State of Queensland) ([1996] 141 ALR 129), there is little concern that these tenures are not secure.

Nevertheless, the perceived dysfunctional nature of co-existing multiple property rights has resulted in a broad public debate since the Wik decision. There may be an adverse effect through financiers requiring higher interest rates where there is a view that a property may be diminished in Market Value due to the perceived effect of native title.

It is reported that whilst mortgage lenders do not appear to have made any changes to existing rural loans, it is anticipated that they will exercise greater caution in granting new loans. Members should be aware that the inclusion of ‘land rights’ as an ‘Event of Default’ in some security documents has been reported however, this is probably not unreasonable given the developing nature of due diligence. It should also be noted that the term ‘land rights’ encompasses a broader area of Indigenous property rights than native title, which is recognised by the common law.

It is important to note that the identification of ‘land rights’ (more correctly, native title) appears to be only viewed adversely if circumstances arise which materially diminish the value of the mortgage security or effect the financial position of the parties.  

Members should be aware that mortgage lenders will seek professional advice from them as to whether the value of the security has been reduced, such that the identification of native title (or the possibility thereof) is grounds for an ‘Event of Default’. Members have a responsibility to ensure that mortgage lenders are adequately informed of the likelihood of co-existing native title and the consequences for the Market Value of a specific property. This task is undertaken by examining the market sales evidence.

It should be noted that the effect of co-existing native title upon pastoral leases may be analogous to the relatively nominal value effect which occurs when a high tension transmission line easement is placed over freehold land. This effect often amounts to little more than a blemish upon the freehold title, and its Market Value. This should not be construed however as in any way suggesting that the value of native title is merely a residual.
5.4 Indemnification Agreements
Where a member is instructed to specifically ignore native title when valuing a co-existing property right, the Institute recommends that to satisfy the standard of practice required by the Courts, and the member's professional obligations, that a Deed of Release and Indemnity be executed protecting the member.
If a Deed of Release and Indemnity is unable to be obtained from the client, the Institute does not consider that the level of best practice as required of members, will be met and the instructions should be returned with appropriate reference to this section of ARPGN 2.

6.0 Valuation Approach
6.1 Co-Existing Native Title may or may not impact upon Value
The presence of co-existing native title over a property may not necessarily reduce its value within the current class of use. However, there are two scenarios in respect of the impact of coexisting native title.
Firstly, it can be argued that whilst pastoral leases may be subject to an application for a determination, if the pastoralist is utilising the land in a manner which conforms with the rights (specific or implied) and obligations flowing from the grant of the pastoral lease, then the utility and income flow from the business remains unaffected for which there is a long term market demand. In this scenario, the value of the pastoral lease is unaffected and would be supported by appropriate sales evidence.
Secondly, there may be situations where coexisting native title could reduce the value of a pastoral lease, even though utility and income flow from the business remains unaffected. The mere presence of native title may be viewed by potential purchasers as requiring a discount of the value of the pastoral lease. Again, in this scenario such assertions as to value would be supported by appropriate sales evidence.

Given the above qualifications, Members should advise that the property can continue to be used and developed in accordance with its purpose, terms and conditions and subject to any required permits, licenses and authorities.

6.2 Two Main Approaches
Where a co-existing native title claim (or the possibility thereof) is identified, it is recommended that one of the following methods should be utilised depending on the specific circumstances:
• Unaffected valuation approach, comparing like with like;
• Special considerations approach because no suitable comparable basis exists.

6.3 Unaffected Valuation Basis
Provide a valuation on an unaffected basis, together with an outline of the likely content of any presence of native title and the inclusion of a qualification in the report indicating that the property valuation or assessment does not reveal any diminution due to the possible presence of native title. The example of the type of qualification that should be made is detailed above in 3.11: ‘Qualification if no obvious Native Title’.

6.4 Affected Valuation Approach
After obtaining the client’s approval, the member should arrange for an expert preliminary (or detailed) report to be prepared to provide affirmation that native title is being exercised on land and/or that connection to the land by Indigenous people is extant together with inclusion of costing for any further reports or negotiations.
The Member should then calculate the property’s discounted value upon the above expert report. This is critical to the formation of a view by the member as to whether native title necessitates a discounted value being placed on the co-existing pastoral lease (or other less than freehold estate).
Alan Hyam LFAP, Barrister has provided useful guidance listing the following matters that regard should be had when members attempt to value property subject to native title:
• “The nature of the rights conferred by the native title. It must be established whether they entitle the native people to access only or other rights are conferred, such as, the right to camp or dwell on the land, the right to fish and hunt game.
• The frequency at which the rights will, or are likely to, be exercised; the number of people who may enjoy the rights.
• The number of occasions upon which the rights have been exercised in the past.
• The impact which the exercise of the rights will have on the interest of the co-existing owner in the land.
• The attitude of the hypothetical prudent purchaser to the co-existing rights...”

Assessment of the ‘affected value’ (and hence discount) indicated above would, where sales are available involve the comparative approach. There may be only limited instances where direct comparison of affected property sales can be made, but endeavours should be made to establish whether this sales evidence is available in order that the comparative approach may be successfully applied. With caution, Members should ensure that properties are being compared truly evidence comparability, both in terms of the pastoral lease and the native title thereon.

Members should not make judgements as to the comparability of affected sales without access to the report of experts in relation to any properties sought to be used as comparables.

6.5 Detail on How Valuation Reached

Where a discount attributable to native title is applied by a member, it is strongly recommended that full details should be provided as to how the final valuation figure was reached. It is recommended that care be exercised when applying a discount as it was the view in Wik that native title yields to the statutory rights and interests granted by the Crown. In addition, the interests detailed in Schedule 1 of the Native Title Amendment Act 1998 (see Appendix A of this Guidance Note) confirm that those interests are not vulnerable to native title.

The Member should state clearly in the report that the discount applied was arrived at based upon information obtained from expert reports and that the Member has not formed an opinion as to the veracity of that information. A copy of the expert’s report should be annexed to the member’s report. The discount may be arrived at through sales evidence, income flows or other appropriate market information.

It should be noted that the Institute is concerned that members discharge their professional responsibility as regards the determination of the discount arising from the likelihood of co-existing native title. To that end, it is recognised that clients may have a particular (and often strong) personal view concerning the effect of native title rights and interests.

In some cases, these views may not be based upon a factual and dispassionate assessment of the consequences of native title claims (or the possibility thereof) upon Market Value of a specific property. It is recognised by the Institute that such situations may impact upon the professional interpersonal relations of member and client.

Extreme caution should be exercised by members in such situations, and given early recognition it is recommended that the member ensures the client is aware of the impartial and independent nature of the market advice that the member is to provide. In the event that the client does not accept the member’s professional standpoint the Institute does not consider that the level of best practice as required of members, will be met and the instructions should be returned with appropriate reference to this section of GN27.

6.6 Obtain Cost Estimates of preliminary or detailed Expert Report

Members should not provide their own estimate of the cost of expert’s preliminary (or detailed) reports. These estimates should only be obtained from appropriately qualified experts.

A preliminary (or detailed) native title report will include the issues detailed in 3.8, above: ‘Role and Expertise’ and reflect the recommendations in 3.13, above: ‘Recommending a Detailed Native Title Report’ and 4.0, above: ‘Native Title Predictive Practices’. It should be recognised that such research cannot provide members with a complete guarantee as regards Indigenous property rights and caution should be exercised by Members.

The member should clearly state in his or her report that any conclusions based upon the information contained in the preliminary (or detailed) expert report. The Member should advise that an opinion has not been formed as to the accuracy of that expert report.

A failure to include such a qualification could result in the member being held to have adopted without question the conclusions contained in the expert report.

A qualification in the following form or to a similar effect may be appropriate where this method is adopted:

“The valuation opinion contained herein has been formed utilising information and conclusions as to the identification of native title and the ascertaining of the ambit of such property rights obtained from (state name of
expert) on instructions from you. A copy of the (the expert’s report is annexed to this report as Annexure ‘A’. (The member) has not formed an opinion as to the accuracy of this information or conclusions and accepts no responsibility for them. Any enquiries in relation to this information or conclusions should be directed to (the expert).’

7.0 Legislation

7.1 Commonwealth Legislation increasingly complex

Commonwealth legislation dealing with native title and related administrative matters is growing in line with overseas experience. At present, the primary piece of legislation is the Native Title Act (Cth), 1993 (as amended 30 September 1998). Members are encouraged to obtain an up to date copy of the 2nd edition of the amended Native Title Act, and be aware of Schedule 1 (See Appendix 1) and s24 in particular. Copies are available from commonwealth government bookshops.

The Act provides members with additional useful information, in particular explaining that private freehold and the majority of leasehold interests provide the right to exclusive occupation and extinguish native title. It also highlights that lessor interests may co-exist with native title. Importantly, the Act highlights that land held by government authorities does not automatically convey exclusive possession, and extinguish native title although the usage or public works may.

7.2 Complementary State/Territory Legislation

Members should be aware that complementary State/Territory legislation is being enacted dealing with native title.

8.0 Indemnity Insurance

8.1 Policy Exclusions

Members should be aware of any exclusions within their professional indemnity insurance policy relating to native title or ‘land rights’. Because of the newly emerging law in this area, policies may not provide cover in relation to claims arising from or in connection with these matters. In addition, a Member may in some instances not be covered by a policy even where native title or ‘land rights’ is within their field of expertise. Members should consult their professional indemnity insurance brokers in this regard.

8.2 GST Caution

Since the introduction of the GST on 1st July 2000 specific legal and/or accounting advice will need to be sought regarding the GST implications for this Guidance Note.

Footnotes:

1 Muir, K This Earth has an Aboriginal Culture Inside. Land, Rights, Laws: Issues of Native Title Series - Issues Paper No. 23 (Canberra: AIATSIS, July 1998), p4
3 Nettheim, G ‘Which way now for the Wik judgement?’ Sydney Morning Herald, 14 January 1997, p13
4 The Attorney General’s Legal Practice Legal Implications of the High court Decision in the Wik PEOPLES v QUEENSLAND Current Advice, Canberra: Attorney General’s Department, 23 January 1997
5 Australian Institute of Valuers and Land Economists and Royal Australian Planning Institute, Native Title Background Paper (Deakin/Hawthorne: The Institute, 1997)
6 Horrigan, B and Young, S (eds) Commercial Implications of Native Title (Annandale: The Federation Press in association with The Centre for Commercial and Property Law, Queensland University of Technology, 1997)
8 Fingleton, PG, et al. ‘Industrial Property’ in Australian Institute of Valuers and Land Economists Valuation Principles and Practice (Deakin: The Institute, 1997)
10 op cit, Sheehan, J and Wensing, E, p43.
11 Hyam, A ‘A Valuation of Native Title Lands’ Paper presented to Native Title Workshop AIVLE, Sydney 22nd May 1997

Note

Further useful background on native title can be obtained in the Australian Local Government Association (ALGA) 1999, Working with Native Title: A Guide for Local Government publication. The Guide is in two parts: Part A describes a six-step process for determining when native title exists, may exist or has been extinguished, and recommended approaches in dealing with land or waters affected by native title. Part B Usefully details other sources of information.
APPENDIX 1
Scheduled Interests

The following is a list of scheduled interests which the States and Territories assert to confer a right of exclusive possession that extinguishes native title rights and interests over the land or waters concerned. The list is included in the amended Native Title Act 1993 (Cth) and forms Schedule 1 to the amended Act. For ease of reference, the list has been rearranged in chronological order of the statute under which the interest was created.

NSW

Public Parks Act 1854
s.5 lease (defined uses)

Crown Lands Occupation Act 1861
s.30 special purposes lease

Crown Lands Act 1884
s.89 special lease
s.90 special lease (defined uses)
s.92 special lease (defined uses)
conditional lease

Public Parks Act 1884
s.6 lease (defined uses)

Crown Lands Act 1895
s.50 residential lease (original or additional)
homestead selection or grant (original or additional)
settlement lease (original or additional)(defined uses)

Crown Lands Act 1889
s.48 residential lease (original or additional)

Western Lands Act 1901
s.23 lease (defined uses)
s.28A special lease (defined uses)
conditional lease

Public Parks Act 1902
s.7 lease (defined uses)

Crown Lands (Amendment Act) 1905
conditional purchase lease – (original or additional)

Crown Lands (Amendment Act) 1912
Crown lease (original or additional; defined uses)
suburban holding (original or additional)
town land lease within an irrigation area
homestead farm (original or additional)
irrigation farm lease or non-irrigable lease

Crown Lands Consolidation Act 1913
s.69A lease (defined uses)

s.74 special lease (defined uses)
s.75 or s.75B special lease (defined uses)
s.76 special lease (defined uses)
s.80 residential lease (original or additional)
s.82A town land lease
Part 111A lease (defined uses)
Div. 3 (Part 111B) lease (defined uses)
settlement lease (original or additional; defined uses)
conditional lease
conditional purchase lease (original or additional)
Crown lease (original or additional; defined uses)
suburban holding (original or additional)
town land lease within an irrigation area
homestead farm (original or additional)
irrigation farm lease or non-irrigable lease
week-end lease
special conditional purchase lease (original or additional)

Returned Soldiers Settlement Act 1916
s.4 lease

Closer Settlement Amendment (Conversion) Act 1943
group purchase lease
closer settlement lease
settlement purchase lease

Kosciusko State Park Act 1944
ss. 11(3) lease

National Parks and Wildlife Act 1967
para.. 30(1)(a) or (b) lease

National Parks and Wildlife Act 1974
para. 151 (1)(a), (b), (c), (d), or (e) lease
Schedule 9A lease (defined uses)

Crown Lands Act 1989
s34 lease (defined uses).
Division 5 (Part 5) lease (defined uses)

VICTORIA

Land Act 1862
s..XXI, lease
s.XXIII lease
s.XLVIII lease
s.L lease (defined uses)

Amending Land Act 1865
s.13 lease
s.37 lease (defined uses)
s.38 lease
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Land Act 1869
  s.20 lease
  s.31 lease
  s.33 lease
  s.46 lease
  s.45 lease (defined uses)
Victorian Water Conservation Act 1881
  s.75 lease
Land Act 1884
  s.18 lease
  s.44 lease
  s.49 lease (defined uses)
  s.92 lease
  s.94 lease
  s.85 drained and reclaimed swamp land lease (defined uses)
  s.91 lease (defined uses)
  agricultural allotment lease
  agricultural lease
Land Act 1890
  s.18 lease
  lease (non-residence licence conditions)
  s.85 drained and reclaimed swamp land lease (defined uses)
  s.97 lease (defined uses)
  s.100 lease
  agricultural allotment lease
  agricultural lease
Melbourne and Metropolitan Board of Works Act 1890
  s.147 lease (defined uses)
  s.148 building or improving lease (defined uses)
Water Act 1890
  s.68 lease (defined uses)
  s.243 lease (defined uses)
  s.277 lease
  s.292 lease (defined uses)
Settlement on Lands Act 1893
  village community allotment lease
  township allotment lease
  homestead section lease
Land Act 1896
  s.2 lease
Land Act 1898
  s.51 (defined uses)
  s.61 grazing allotment lease
  agricultural allotment lease
  agricultural lease
  perpetual lease
  conditional purchase lease
Land Act 1900
  s.19 lease
  agricultural lease
  agricultural allotment lease
  perpetual lease
  conditional purchase lease
Land Act 1900 (No.2)
  agricultural allotment lease, or agricultural lease
  perpetual lease
  conditional purchase lease
Land Act 1901
  s.18 lease
  s.50 lease (defined uses)
  s.131 drained and reclaimed swamp land lease (defined uses)
  s.142 lease (defined uses)
  s.143 lease
  s.144 lease
  s.309 lease
  s.311 lease
  s.402 lease
  s.411 lease
  agricultural allotment lease,
  agricultural lease
  village community allotment lease
  township allotment lease
  homestead section lease
  perpetual lease
  conditional purchase lease
  residential lease (selection purchase allotment)
  non-residential lease (selection purchase allotment)
  selection purchase lease
Land Act 1904
  s.28 lease
  perpetual lease
Water Act 1905
  s.213 lease
  s.299 lease (defined uses)
Murray Settlements Act 1907
  conditional purchase lease
Land Act 1911
s.73 lease
agricultural allotment lease,
agricultural lease
perpetual lease
conditional purchase lease
residential lease (selection purchase allotment)
non-residential lease (selection purchase allotment)
selection purchase lease

Land Act 1915
s.110 drained and reclaimed swamp land lease
(defined uses)
s.125 lease (defined uses)
s.127 lease
s.128 lease
agricultural allotment lease,
agricultural lease
perpetual lease
conditional purchase lease
residential lease (selection purchase allotment)
non-residential lease (selection purchase allotment)
selection purchase lease

Land Act 1915 (No 2)
s.4 lease
residential lease (selection purchase allotment)
non-residential lease (selection purchase allotment)
selection purchase lease

Melbourne and Metropolitan Board of Works Act 1915
s.209 lease (defined uses)
s.210 building or improving lease (defined uses)

Water Act 1915
s.184 lease
s.299 lease (defined uses)

Land Act 1933
conditional purchase lease

Land (Residential Areas) Act 1935
residence area occupancy right

Land Act 1941
ss.126(2) lease
ss.7(2) lease (defined uses)
s.14 lease (defined uses)
agricultural allotment lease
agricultural lease
perpetual lease
conditional purchase lease
residential lease (selection purchase allotment)
non-residential lease (selection purchase allotment)
selection purchase lease

Soldier Settlement Act 1946
settlement interim lease
settlement purchase lease
purchase lease

North-West Mallee Settlement Areas Act 1948
perpetual lease (defined uses)

Land (Development Leases) Act 1951
development lease

Land Settlement Act 1953
perpetual lease

Land (Improvement Purchase Lease) Act 1956
improvement purchase lease

Education Act 1958
s.17 lease (defined uses)
s.20A lease (defined uses)

Forests Act 1958
s.51 lease (defined uses)
s.57B lease

Harbour Boards Act 1958
s.35 lease (defined uses)
Land Act 1958
- s.110 drained and reclaimed swamp land lease (defined uses)
- s.133B cultivation lease
- s.134 lease (defined uses)
- s.135(2) lease
- s.136 lease
- s.137 lease
- s.151E lease
- s.222A lease
- s.222B lease
- Subdn.1 Div 9 Pt.I lease (defined uses)
- Div.3 Pt.II perpetual lease (defined uses)
- agricultural allotment lease
- agricultural lease
- conditional purchase lease
- perpetual lease (defined uses)
- residence area occupancy right development lease
- improvement purchase lease
- industrial lease
- industrial purchase lease
- industrial development lease
- settlement interim lease
- settlement purchase lease
- purchase lease
- residential lease (selection purchase allotment)
- non-residential lease (selection purchase allotment)
- selection purchase lease

Land Settlement Act 1958
- perpetual lease
- conditional purchase lease

Melbourne and Metropolitan Board of Works Act 1958
- s.235 lease (defined uses)
- s.236 building or improving lease (defined uses)

Port of Geelong Authority Act 1958
- ss. 46(1) lease (defined uses)
- para.24(2)(b) lease (defined uses)
- para.26B(1)(a) lease (defined uses)

Port of Melbourne Authority Act 1958
- s.50A lease (defined uses)
- para.50(2)(b) lease (defined uses)
- para.56(A)(1)(a) lease (defined uses)

Port of Portland Authority Act 1958
- ss.19(2) lease (defined uses)
- para. 17A(2)(b) lease (defined uses)
- para. 17E(1)(a) lease (defined uses)

Railways Act 1958
- s.76 lease (defined uses)

Soldier Settlement Act 1958
- ss.43 lease (pending interim lease grant)
- settlement interim lease
- settlement purchase lease
- purchase lease

Water Act 1958
- s.200 lease
- s.324 lease (defined uses)

Land Settlement Act 1959
- s.47 lease
- settlement interim lease
- settlement purchase lease
- purchase lease
- temporary lease

Land (Surf Life Saving Association) Act 1967
- s.3 lease

Albury-Wodonga Agreement Act 1973
- ss.7(2) lease (defined uses)
- para.15(1)(f) lease (defined uses)

National Parks Act 1975
- para.19(2)(a) lease or tenancy
- para.19(2)(b) building tenancy
- s.31AA lease (defined uses)
- s.30AA lease or tenancy
- s.32AB lease or tenancy
- s.32B lease or tenancy
- s.32C tenancy (defined uses)

Emerald Tourist Railway ACT 1977
- para.41(1)(a) lease (defined uses)

Melbourne Market Authority Act 1977
- para.7(2)(a) lease or tenancy (defined uses)

Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977
- para.6(2)(a) lease or tenancy (defined uses)

Crown Land (Reserves) Act 1978
- s.14D lease (defined uses)
- s.16 lease (defined uses)
- s.17C lease (defined uses)
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Railway Construction and Property Board Act 1979
subpara.21(1)(i) lease (defined uses)
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Alpine Resorts Act 1983
s.28A lease
ss.28(2) lease (defined uses)
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Transport Act 1983
para.47(2)(b) lease (defined uses)

Rural Finance Act 1988
settlement interim lease
settlement purchase lease
purchase lease

Water Act 1989
s.132 lease (defined uses)

Casino Control Act 1991
s.128K lease

Docklands Authority Act 1991
ss.20(2) lease (defined uses)
ss.24(1) lease (defined uses)

Royal Botanic Gardens Act 1991
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Melbourne Sports and Aquatic Centre Act 1994
ss.24(2) deemed lease (defined uses)
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Australian Food Industry Science Centre Act 1995
Port Services Act 1995
para.65(4)(d) lease (defined uses)

Zoological Parks and Gardens Act 1995
para.33(2)(a) lease (defined uses)

QUEENSLAND

Alienation of Crown Lands Act 1860
s.XII lease

Leasing Act 1866
Lease

Crown Lands Alienation Act 1868
s.51 lease
s.69 special lease

Gold Fields Town Lands Act 1869
lease

Gold Fields Homestead Act 1870
homestead lease

Homestead Areas Act 1872
homestead selection

Crown Lands Alienation Act 1876
s.28 lease
s.70 special lease
homestead selection

Gold Fields Homestead Act Amendment Act 1880
lease

Crown Lands Act 1884
agricultural farm

Gold Fields Homestead Leases Act 1886
homestead lease

Crown Lands Act 1891
unconditional selection

Mineral Homesteads Leases Act 1891
homestead lease

Agricultural Lands Purchase Act 1894
agricultural farm

Agricultural Lands Purchase Act 1897
agricultural farm

Land Act 1897
s.188 special lease
agricultural farm
agricultural homestead
free homestead
perpetual lease selection
perpetual town allotment lease
perpetual suburban allotment lease
prickly pear frontage selection
prickly pear infested selection
unconditional selection

Prickly Pear Selections Act 1901
miner’s homestead lease (or pursuant to any Act repealed by this Act.)

Special Agricultural Homesteads Act 1901
agricultural homestead

Special Agricultural Selections Act 1901
agricultural farm

Closer Settlement Act 1906
agricultural farm
perpetual lease selection
perpetual town lease
auction perpetual lease (that is a perpetual town lease)
perpetual country lease
auction country lease (that is a perpetual country lease)
perpetual suburban lease
auction perpetual lease (that is a perpetual suburban lease)
settlement farm lease
unconditional selection

Land Act 1910

s.119A lease
ss.185(2) lease (defined uses)
agricultural farm
agricultural homestead
designed settlement farm lease
free homestead
perpetual lease selection
perpetual town lease
auction perpetual lease (that is a perpetual town lease)
perpetual country lease
auction country lease (that is a perpetual country lease)
perpetual country lease without competition
perpetual suburban lease
auction perpetual lease (that is a perpetual suburban lease)
perpetual suburban lease without competition
perpetual lease prickly-pear development selection
prickly-pear selection
prickly-pear development selection
settlement farm lease
special lease (defined uses)
unconditional selection

Miners’ Homestead Leases Act 1913
miner’s homestead perpetual lease
miner’s homestead lease

Clermont Flood Relief Act 1917
s.8 perpetual lease

Discharged Soldiers’ Settlement Act 1917
perpetual lease selection
perpetual town lease
auction perpetual lease (that is a perpetual town lease)
City of Brisbane (Flood Mitigation Works Approval) Act 1952
- perpetual country lease (without competition)
- perpetual town lease without competition
- perpetual suburban lease without competition

Land Acts Amendment Act 1952
- designated agricultural selection

Harbours Act 1955
- s.64A lease

Crown Land Development Act 1959
- development lease (defined uses)

Amoco Australia Pty Limited Agreement Act 1961
- s.3 special lease (cl.3 Agt.)

Brigalow and Other Lands Development Act 1962
- agricultural farm
- perpetual lease selection
- purchase lease
- settlement farm lease

Irrigation Areas (Land Settlement) Act 1962
- agricultural farm
- perpetual lease selection
- perpetual town lease
- auction perpetual lease (that is a perpetual town lease)
- perpetual country lease (non-competitive)
- perpetual country lease
- auction country lease (that is a perpetual country lease)
- perpetual town lease without competition
- perpetual town lease (non-competitive)
- perpetual suburban lease
- auction perpetual lease (that is a perpetual suburban lease)
- perpetual suburban lease (non-competitive)
- settlement farm lease
- special lease (defined uses)
- special lease purchase freehold

Industrial Development Act 1963
- ss. 6A(2) sub-lease
- para.24(b) lease

Austral-Pacific Fertilizers Limited Agreement Act 1967
- s.3 (cl.4(b) Agt) lease
- s.3 (cl.4(c) Agt) lease
- s.3 (c.4(d) Agt) special lease

Gateway Bridge Agreement Act 1980
- s.4 (cl.1(5)Pt.III Agt.) special lease

Mining Titles Freeholding Act 1980
- mining titles freeholding lease

Motorways Agreements Act 1987
- s.4 (cl.1(4)Pt.III Agt) special lease

Land Act 1994
- ss.57(1) lease (defined uses)
- Sched.6 freeholding lease
- term or perpetual lease (defined uses)
- grazing homestead freeholding lease

WESTERN AUSTRALIA

Land Regulations 1829
- town land lease (defined uses)

Land Regulation 1872
- special occupation land lease

Land Regulations 1887
- cl.46-53 conditional purchase lease

Mineral Lands Act 1892
- s.12(5) lease

Homestead Act 1893
- homestead farm
- homestead lease
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North West Gas Development (Woodside) Agreement Act 1979
lease (other than a mineral lease) (defined uses)

Diamond (Argyle Diamond Mines) Agreement Act 1981
lease (other than a mineral lease) (defined uses)

Shark Bay Solar Salt Industry Agreement Act 1983
lease (other than a mineral lease) (defined uses)

Camballin Farms (AIL Holdings Pty Ltd) Agreement Act 1985
lease (other than a mineral lease) (defined uses)

Western Mining Limited (Throssell Range) Agreement Act 1985
lease (other than a mineral lease) (defined uses)

Iron Ore (Channar Joint Venture) Agreement Act 1987
lease (other than a mineral lease) (defined uses)

Iron Ore (Marillana Creek) Agreement Act 1991
lease (other than a mineral lease) (defined uses)

SOUTH AUSTRALIA

Scrub Lands Act 1866
lease with right of purchase

Scrub Lands Act Amendment Act 1867
lease with right of purchase

Waste Lands Amendment Act 1868-9
credit agreement
agreement of sale and purchase on credit

Scrub Lands Act Extension Act 1870 – 71
lease with right of purchase

Miscellaneous Leases Act 1872
s.1 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)

Waste Lands Alienation Act 1872
credit agreement,
agreement of sale and purchase on credit
s.39 lease with right of purchase (defined uses)

Crown Lands Amendment Act (No.86) 1877
s.58 lease with right of purchase
s.92 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
Pt. III (excl.s.58) lease with right of purchase (defined uses)
credit agreement
agreement of sale and purchase on credit

Crown Lands Amendment Act 1880
credit agreement

agreement of sale and purchase on credit

Crown Lands Amendment Act 1881
credit agreement
agreement of sale and purchase on credit

Crown Lands Amendment Act 1882
s.20 lease with right of purchase
credit agreement
agreement of sale and purchase on credit

Agricultural Crown Lands Amendment Act 1884
Pt.II lease with right of purchase
Pt. III selector's lease
credit agreement
agreement of sale and purchase on credit

Crown Lands Amendment Act 1885
s.29 lease (other than Aboriginal reserve leases)

Crown Lands Consolidation Act 1886
Pt.II grazing and cultivation lease (defined uses)
Pt.II grazing and cultivation lands lease (defined uses)
Pt.III selector's lease
Pt.XI working man's block perpetual or term lease
(other than Aboriginal reserve leases)
Pt.XI working man's block term lease (defined uses)
Pt.XI homestead block perpetual or term lease (other than Aboriginal reserve leases)
Pt.XI homestead block term lease (defined uses)
Pt.II lease with right of purchase
s.159 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
credit agreement
agreement of sale and purchase on credit

Crown Lands Amendment Act 1887
Pt.III lease with right of purchase

Crown Lands Act 1888
Pt.II lease with right of purchase (defined uses)
Pt.VII working man's block perpetual or term lease,
(other than Aboriginal reserve leases)
Pt.VII homestead block perpetual or term lease
(other than Aboriginal reserve leases)
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perpetual lease (defined uses)
right of purchase lease (defined uses)

Crown Lands Amendment Act 1893
perpetual lease (defined uses)
lease with right of purchase (defined uses)
s.80 villager's lease
ANZ VALUATION AND PROPERTY STANDARDS

AUSTRALIA REAL PROPERTY GUIDANCE NOTE 2

12.2.24

Closer Settlement Act 1897
s.11 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
perpetual lease (defined uses)

Broken Hill Proprietary Company Limited's Hummock Hill to Iron Knob Tramways and Jetties Act 1900
s.8 perpetual lease

Crown Lands, Closer Settlement, and Blockholders' Loans Amendment Act 1901
perpetual lease (defined uses)

Village Settlements Act 1901
Pt.IV horticultural or commonage land perpetual lease

Closer Settlement Act 1902
s.11 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)

Crown Lands Act 1903
Pt.IX agreement
Pt.IX working man's block perpetual or term lease, (other than Aboriginal reserve leases)
Pt.IX homestead block perpetual or term lease (other than Aboriginal reserve leases)
s.80 miscellaneous lease (other than Aboriginal reserves leases) (defined uses)
s.126 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
perpetual lease (defined uses)

Irrigation and Reclaimed Lands Act 1908
s.24 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
irrigation area block perpetual or term lease

Irrigation and Reclaimed Lands Act 1914
s.26 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
irrigation area block perpetual or term lease

Crown Lands Act 1915
Pt.IX working man's block perpetual or term lease, (other than Aboriginal reserve leases)
Pt.IX homestead block perpetual or term lease (other than Aboriginal reserve leases)
s.83 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
s.128 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
perpetual lease (defined uses)

Returned Soldiers Settlement Act 1915
perpetual lease (defined uses)
term lease (defined uses)

Discharged Soldiers Settlement Act 1917
perpetual lease (defined uses)
term lease (defined uses)

Lyrum Village Association (District Extension) Act 1921
horticultural or commonage land perpetual lease

Agricultural Graduates Land Settlement Act 1922
perpetual lease (defined uses)

Irrigation Act 1922
s.48 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
irrigation area block perpetual or term lease
irrigation area town allotment perpetual or term lease

Hummock Hill to Iron Knob Tramway Extension Act 1927
s.5 perpetual lease

Crown Lands Act 1929
Pt.IX working man's block perpetual or term lease, (other than Aboriginal reserve leases)
Pt.IX homestead block perpetual or term lease (other than Aboriginal reserve leases)
Pt.V perpetual lease (defined uses)
Pt.VIII horticultural or commonage land perpetual lease
s.77 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
s.78B miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
s.182 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
s.66A perpetual lease (defined uses)
s.199 perpetual lease (defined uses)

Irrigation (Land Tenure) Act 1930
s.27 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
s.44 miscellaneous lease (other than Aboriginal reserve leases) (defined uses)
irrigation area block perpetual or term lease
irrigation area town allotment perpetual or term lease

Discharged Soldiers Settlement Act 1934
perpetual lease (defined uses)
term lease (defined uses)

Broken Hill Proprietary Company's Indenture Act 1937
lease (cl.11 Indenture in Schedule to Act) (defined uses)
Marginal Lands Act 1940
perpetual lease (defined uses)

National Parks and Wildlife Act 1972
s.35 lease (defined uses)

Crown Lands Development Act 1943-1973
perpetual lease (defined uses)

War Service Land Settlement Agreement Act 1945
perpetual lease (Agreement to Schedule to Act)

TASMANIA

Crown Lands Act 1890
s.81 lease
s.82 lease
s.24 lease (defined uses)

Crown Lands Act 1903
ss.128(1) lease
ss.128(2) lease (defined uses)
s.24 lease (defined uses)
s.129 lease

Crown Lands Act 1911
ss.108(1) lease
ss.108(2) lease (defined uses)
s.11 lease (defined uses)
s.109 lease

Closer Settlement Act 1929
Pt.V (excl. s.41-2) lease (defined uses)

Crown Lands Act 1935
ss.7(2) lease (defined uses)
ss.77(1) lease
ss.77(4) lease (defined uses)
s.23 lease (defined uses)
s.78 lease
building lease

Crown Lands Act 1976
s.29 lease (defined uses)

NORTHERN TERRITORY

Northern Territory Land Act 1872 (South Australia)
s.30 lease
s.81 lease
s.83 special purposes lease (defined uses)

Northern Territory Crown Lands Consolidation Act 1882
(South Australia)
s.30 lease
s.77 lease
s.79 special purposes lease (defined uses)

Northern Territory Crown Lands Act 1890 (South Australia)
s.54 lease
s.77 special purposes lease (defined uses)
s.78 special purposes lease (defined uses)
s.78 lease (defined uses)
Pt.II lease

Crown Lands Ordinance 1912 (No.3 of 1912)
Div. 3 Pt.III agricultural lease (defined uses)
Div. 3 Pt.III agricultural land lease (defined uses)
Div. 4 Pt.III town land lease (defined uses)
Div. 5 Pt.III miscellaneous lease (defined uses)

Crown Lands Ordinance 1912 (No.8 of 1912)
Div. 3 Pt.III agricultural lease (defined uses)
Div. 3 Pt.III agricultural land lease (defined uses)
Div. 4 Pt.III town land lease (defined uses)
Div. 5 Pt.III miscellaneous lease (defined uses)

Crown Lands Ordinance 1924
s.73A garden land miscellaneous lease
Div. 3 Pt.III agricultural lease (defined uses)
Div. 3 Pt.III agricultural land lease (defined uses)
Div. 4 Pt.III town land lease (defined uses)
Div. 5 Pt.III miscellaneous lease (defined uses)

Crown Lands Ordinance 1927 (Territory of North Australia)
s.69 garden land miscellaneous lease
Div. 3 Pt.III agricultural lease (defined uses)
Div. 3 Pt.III agricultural land lease (defined uses)
Div. 4 Pt.III town land lease (defined uses)
Div. 5 Pt.III miscellaneous lease (defined uses)

Crown Lands Ordinance 1927 (Territory of Central Australia)
s.69 garden land miscellaneous lease
Div. 3 Pt.III agricultural lease (defined uses)
Div. 3 Pt.III agricultural land lease (defined uses)
Div. 4 Pt.III town land lease (defined uses)
Div. 5 Pt.III miscellaneous lease (defined uses)

Crown Lands Act 1931 – 1991 (Northern Territory)
s.6A lease
s.16A experimental farm agricultural lease (defined uses)
s.25CF town land lease (defined uses)
s.25CG agricultural lease (defined uses)
s.25CG agricultural land lease (defined uses)
s.25DAA agricultural lease (defined uses)
s.25DAA agricultural land lease (defined uses)
s.25DAA miscellaneous lease (defined uses)
s.68A lease
s.68B lease
s.68C lease
s.68D lease
s.68E lease
s.68F lease
s.68G lease
s.68H lease
s.70 garden land miscellaneous lease
s.74A agricultural lease (defined uses)
s.74A agricultural land lease (defined uses)
s.74A town land lease (defined uses)
s.74D agricultural lease (defined uses)
s.74D agricultural land lease (defined uses)
s.74D miscellaneous lease (defined uses)
s.74D town land lease (defined uses)
s.74E miscellaneous lease (defined uses)
s.112A lease
para.23(b) lease (defined uses)
para.23(c) lease (defined uses)
Div.3 Pt.III agricultural lease (defined uses)
Div.3 Pt.III agricultural land lease (defined uses)
Div.4 Pt.III town lease (defined uses)
Div.5 Pt.III miscellaneous lease (defined uses)
Div.6 Pt.III town land subdivision lease

Darwin Leases (Special Purposes) Ordinance 1946
s.2 lease

Darwin Short Term Leases Ordinance 1946
s.3 lease

Church Lands Leases Ordinance 1947
s.3 lease

Darwin Town Area Leases Act 1947-1979 (Northern Territory)
s.4 lease
s.16A lease
s.16AA lease
s.16B lease
s.16C lease
s.16D lease
s.29A lease

Agricultural Development Leases Ordinance 1956
s.14 agricultural lease (defined uses)
s.14 agricultural land lease (defined uses)
agricultural development lease (defined uses)

Rice Development Agreement Ordinance 1956
Agricultural land lease (Agt. In Sched. to Act)
(defined uses)
Agricultural lease (Agt. In Sched. to Act) (defined uses)
APPENDIX 2 GLOSSARY

Anthropology
The study of humankind’s physical characteristics, historical and present geographical distribution, racial classification, group relationships and cultural history.

Application
An application for a determination of native title is the document required to be lodged with the Federal Court and the due processes that follow under the Native Title Act 1993 (Cth) or complementary legislation.

Claim
The rights and interests being asserted in an application for a determination of native title.

Ethnoecology
A two fold discipline that deals with cultural or social anthropology, including the comparative and analytical study of cultures combined with the interrelationship of humankind and its environment focussed on natural cycles and rhythms, community development and structure, interaction between different groups of humankind, geographic distributions and population alterations.

Ethnography
A branch of anthropology that deals historically with the origin and family relationships (filiation) of races and cultures.

Extinguish
In relation to native title, ‘extinguishment’ means to permanently extinguish the native title rights and interests. This means there is no possibility of their revival after the extinguishment occurs even if the extinguishing act ceases to exist. (Section 237A of the Native Title Act 1993 (Cth)).

Land or Waters
In the context of the Native Title Act 1993 (Cth), land or waters refers to:
- inland waters;
- subterranean waters;
- coastal waters within limits of the State or territory, including areas above the low water mark and waters within some bays, or between the coast and some nearby islands; and
- the bed or subsoil under, or airspace over any waters.

Non-extinguishment principle
In relation to native title, the ‘non-extinguishment principle’ means that an activity does not wholly or partially extinguish native title, and that when the activity ceases or is wholly removed, the native title rights and interests again have full effect. (Section 238 of the Native Title Act 1993 (Cth)).

Registered native title claimant
Person or persons whose name or names appear in an entry on the Register of Native Title Claims as the applicant in relation to getting a determination of native title in relation to the land or waters.

Representative Body
A representative body is an organisation approved by the Commonwealth Minister under the provisions of the Native Title Act 1993 (Cth) to represent the interests of Aboriginal peoples or Torres Strait Islanders within a particular region on native title matters. These bodies are elected local Indigenous land councils or legal aid services that have special responsibility to assist and represent native title holders and claimants. (Section 202 of the Native Title Act 1993 (Cth)).
NZ REAL PROPERTY GUIDANCE NOTE 1

NZRPGN 1 VALUATION OF CONTAMINATED LAND

The New Zealand Valuation & Property Standards Board issues the following guidance note to all members of the Property Institute of New Zealand and the New Zealand Institute of Valuers.

THE VALUATION OF CONTAMINATED LAND

Introduction

The growing world wide concern on environmental issues and the impact of hazardous substances on human life and real estate property has lead the New Zealand Institute of Valuers to prepare this guidance note for members.

Various studies have identified potential hazards and contaminated sites within New Zealand and make broad assessments of associated issues (refer bibliography). Valuers should be aware of the types of hazard that should warrant further investigation being initiated by either them or their client (acting on the valuer’s advice).

In summary the valuer must

- recognise environmentally sensitive situations
- seek (with the client’s consent) expert advice where warranted
- properly reflect in the market value of the property, the effect of any adverse environmental considerations.

Specific considerations

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For convenience, pollution and contamination are taken to be synonymous and the latter is used to describe those environmental factors which may have an adverse effect on human safety or significantly affect the environmental quality of land or buildings.

The importance of contamination to valuers in particular depends upon:

(a) the state of knowledge at any time of the existence and effect of the particular form of contamination.
(b) the current interpretation of the law.
(c) the effect of possible changes in legislation.
(d) current technology and expected changes in technology.
(e) the previous use of the land/buildings.
(f) the existing use of the land/buildings.
(g) the proposed use of the land/buildings; and
(h) the financial effect of the above.

Land

There are essentially three broad respects by which land may be affected by contaminants:

(a) contaminants attached to and contained within the ground itself;
(b) contaminated water, which may be static or migrating onto or off the site, in ground;
(c) airborne contaminated gases emanating from substances in the ground.

Accordingly land itself may be physically unsuitable for particular forms of development due to contamination or other physical factors, for five main reasons.

(i) Naturally occurring ground problems. These include: groundwater, solution of soluble rocks, land slipping, compressibility, movement, chemical effects (radon and methane). These all tend to be related to geology and since they occur naturally can be distinguished from the remainder of this list.

(ii) Chemical contamination. Waste tips
   Industrial sites/buildings
   Gas works
   Chemical works
   Animal product works
   Shipyards
   Defence and research Establishments
   Sewage works

Contamination as a result of these uses may cause contamination to water courses.
On site, there may be evidence such as: dead ground, ash, settling tanks, spoil heaps, artificial levels, made ground etc. Direct or indirect local knowledge is important.

More recently, modern technologies have introduced a wider range of contaminants, both site specific such as petro-chemical plants, power stations and nuclear facilities, and more dispersed in the form of consumer goods and services involving, such as, CFCs.

(iii) Mineral extraction and processing.
This description covers both surface and underground workings, much of which can be evidenced from records. Often geographically based its effect will vary according to the type of mineral operation and the extent to which unstable or contaminated materials have been tipped into mineral excavations.

(iv) Disposal of waste by land fill tipping.
(v) Agriculture and agricultural related industries.
These can cause both chemical and biological contamination to water and land.

Buildings
Each generation of building technology has experienced its particular defects and failings, typically the use of asbestos, high alumina cement and wood wool slabs. Some of these have structural implications, others have environmental implications.

Air conditioning systems give rise to various concerns: cost in use, quality of environment, bacteriological problems, chemical problems. In the latter case, the use and replacement of CFCs will be an increasing problem, with a high degree of obsolescence.

Some materials may be considered unsuitable by investors.

Looking further ahead, efficiency in energy use will place additional emphasis on insulation materials and buildings may, in the long term be analysed to establish their carbon generation and potential for recycling.

Current Use
The actual process of the construction of buildings and civil engineering work can cause contamination or diminished environmental quality, both on and off site and above and below the surface.

The use of a building may cause problems, including:

Air and noise contamination
The escape of hazardous materials Waste management and disposal

Occupiers, landlords and lenders all need to ensure that any contamination arising from the current use of the site is identified by inspection and/or enquiries of site management and that it is recorded.


Valuation Basis
The general principle is that the valuer should reflect all relevant issues in his/her valuation.

Unless otherwise instructed the valuer should cause to be made such enquiries as in his/her professional judgement are necessary to establish any existence of, and the probable extent of contamination.

The enquiries may be undertaken by the valuer, an appropriate consultant appointed by the valuer in consultation with the client, or the client or may be met by the client providing information which the valuer considers adequate. The enquiries will be typically part of the valuation procedure of establishing current and past users of the subject land, including enquiries of the relevant authorities.

The type of enquiries would be a result of any initial on-site evidence of contamination or evidence in the location and the user/proposed user of the site.

Any apparent evidence of possible contamination arising from adjacent property should be noted and considered.

In all cases, the valuer is under a duty to advise the client if an issue has been identified which is outside his/her competence, (and for which the appointment of a consultant is recommended prior to the valuation being completed and/or any commitment being made.)

There is a tendency of lenders, sometimes at the insistence of insurers, to ask of valuers questions in standard forms which the valuer is not qualified or able to answer. The valuer should take care not to commit him/herself in such cases just because the instructions imply that the service to be provided so requires.

The effect on value
A valuer is unlikely to have the skills to undertake an environmental audit or interpret its significance, as it requires detailed technical knowledge and analysis.

The reduction in value attributable to contamination is generally measurable using the same methods and techniques that are used to measure loss in value or depreciation from other causes, for example residual and “before and after” valuation. Valuers should, however,
bear in mind that the market value of a property after remedial works, less the cost of such works may, for various reasons, be either greater or less than the mathematical sum.

Costs to be taken into account by the valuer include:
(a) clean-up of on-site contamination;
(b) effective contamination control and management measures;
(c) re-design of production facilities;
(d) penalties and civil liabilities for non-compliance;
(e) indemnity insurance for the future;
(f) the avoidance of migration of the contamination to adjacent sites;
(g) the control of migration from other sites; and
(h) the regular monitoring of the site.

The valuer should consider whether:
(a) the source of the contamination or hazard can be successfully and economically eliminated; or
(b) the contamination or hazard cannot be entirely eliminated but can be covered or contained so as to make the property fit for a particular use for a specified, perhaps limited, period; or
(c) it is possible to mitigate the effect of the contamination or hazard in any way; or
(d) the contamination or hazard has no effect on the market value of the property for existing use/alternative use; or
(e) a negative value may exist, particularly where an authority has a right to take action and charge the "owner".

In those cases, however, where it may be possible to eliminate the source or rectify the effects of the contamination or hazard, then the reported valuation may be assessed taking into account the market’s view of the relevant estimated costs of such elimination or rectification together with other influences affecting market value, such as:
(a) inability to effect a total ‘cure’;
(b) stigma;
(c) the risk of failure of treatment;
(d) compensation for disturbance or reduced enjoyment of the property or adjoining sites;
(e) risk of legislation/remedial standards changing;
(f) a reduced range of alternative uses of the site;
(g) uncertainty.

There is a need to avoid double counting in company accounts. Where a contingent liability for clean-up has been provided by the entity there may be no need for the valuer to make a deduction in the valuation assessment. The valuer should consult with management of the entity where appropriate.

Contaminated land issues do not affect only market values of owner-occupied property. They may affect rental valuations and the valuation of freeholds in respect of leases which subsist, and the valuation of the leasehold interests themselves. Valuations in such cases need to reflect the respective responsibilities of the parties and the likely action of the other in cases of breach of those responsibilities, which will usually depend upon the precise wording in the leases. Particular aspects for consideration include repairing covenants and service charge provisions, which relate to the physical condition of both the site and the buildings; rent review clauses, which typically provide for the assumption that all tenants’ covenants and statutory requirements have been complied with; and whether the landlord may be able and wish to refuse an application for assignment or oppose the granting of a new lease on grounds of breach of covenant.

Valuation for acquisitions and disposal (including letting) may attract similar considerations. Moreover the cost to a potential purchaser of procuring a report on possible contamination may limit interest and result in vendors deciding to procure surveys for the information of prospective purchasers, who would, however, need to consider the extent of the legal responsibility to them on the part of the provider of the report. Purchasers of the assets of a business as a going concern may require indemnities relating to past contaminative uses, and such requirements may impact upon the valuation.

The potential availability of grant aid, in particular programmes in respect of derelict land, and the roles of government agencies are factors to be considered in preparing valuations, and it may be appropriate to reflect the potential availability of a grant in the valuation. The valuer will carefully consider the appropriateness of so doing where the agency has not yet committed itself to an approved scheme.

All enquiries should be addressed to:
The Standards Committee
New Zealand Institute of Valuers
P O Box 27146
WELLINGTON
ENVIRONMENTAL ISSUES

A Selected Bibliography (compiled August 1994)

All the following articles or publications are held in the NZIV library, Wellington and are available on request.

NOTE: Readers may update this readings list by reference to Valuers’ NewsLine and the New Zealand Valuers’ Journal, and the annual Index to the New Zealand Valuers’ Journal.

JOURNAL ARTICLES

The Appraisal Journal

April 1991 - Contaminated Properties - Stigma Revisited
Peter J Patchin MAI

- An Evaluation of the Impact of a Well-Designed Landfill on Surrounding Property Values
Donald H Bleich PhD, M Chapman Findley III PhD, G Michael Phillips PhD

July 1992. - Lenders’ Perspectives on Environmental Issues
Patricia R Healy & John R Healy Jnr MAI

- Owners Get Tax Refund Due to Asbestos
NY Appeals Court decision

October 1992 - The Impact of Hazardous and Toxic Material on Property Value: Revisited
Bill Mundy MAI PhD

January 1993 - Issues in the Valuation of Contaminated Property
James A Chalmers PhD & Scott A Roehr

- Impact of Hazardous Waste Sites on Property Value and Land Use: Tax Assessors’ Appraisal
Michael Greenburgh PhD and James Hughes PhD

The Canadian Appraiser

Autumn 1990 - Toxic Real Estate and the Role of the Professional
Mary C Hall

Summer 1991 - Legal Liability and Toxic Real Estate
Larry 0 Dybvig

The Valuer & Land Economist

Volume 23 - Impact of Environmental Planning on the Valuation Process, 23:518-21 Thomas H 0

- Re-use of Land to Improve the Environment, 23:330-6 - Thomas H 0

- Safeguarding the Environment, 23:39-43 - Blanch j

Volume 24 - Ecology Movement Effecting Land Values, Environmental Impact Studies and the Valuer,
24:364-5 - Thomas H 0

Volume 29 - Valuations - The Impact on Environment Planning - Robinson I D January 1986 p5-8

Volume 31 - Valuers and the Environment (August 1991 p500-511)

The impact of hazardous waste on appraisal - Kerry Herron FVLE

The importance of environmental risk management - Andrew Marr

The Hidden risk of industrial investment - Bevan Schwaiger

Contaminated sites - John T Mundy
| Volume 31 | - Why Valuers should consider Environmental Contamination and Compliance Issues  
- *Peter Menylees*. (November 1991 p567-571) |
- Contaminated Sites: Remediation, Development and Marketing  
- *Annand P G* (November 1993 p598) |
| Volume 32 | - Contaminated Sites: Assessment, Remediation and Value-Added Strategies  
- *McNamara M* (November 1993 p596)  
- Contaminated Sites: Lenders’ Concerns and Requirements to Reduce Environmental Risks  
- *Schwaiger B* (November 1993 p588)  
- Contaminated Sites: Standard for Valuation of Contaminated Land in Australia  
- *Spencer J A* (November 1993 p585) |
| Volume 33 No 2 | - (AIVLE) Contaminated Land Practice Standard (May 1994) |

**New Zealand Valuers’ Journal**

- June 1992 - Environmental Audits - *J D Lynch*
- March 1993 - Effect of Environmental Factors and Pollution. TIAVSC Information Paper # 11
- March 1994 - Environmental liability and the Banker-Valuer Relationship - *Xan Harding*

**Monographs held by the NZW**

- Real Estate Issues (Winter 1991) - Lenders’ Perspectives on Environmental Issues  
  - Environmental Counselling Cases  
  - Landfills Aren’t All Bad: Considerations for Real State Development  
  - How a Garbage Dump Became a Post Office  
  - The Effects on Residential Real Estate Prices from Proximity to Properties Contaminated with Radioactive Materials  
  - Current Legal Issues Raised by environmental Hazards Affecting Real Estate  
  - A Case for an Environmental Real Estate Market  
  - The Valuation of Contaminated Properties  
  - Rationalizing Environmental Cleanup  
- IAAO Standard. (August 1992) - Standard on the Valuation of Property Affected by Environmental Contamination  
- Appraisal Institute of Canada - Contaminated Real Estate Implications for real estate appraisers  
- (NZ) Ministry for the Environment - Potentially Contaminated Sites in New Zealand  
  - A Broad Scale Assessment (November 1992)  
- Appraisal Institute - Measuring the Effects of Hazardous Materials Contamination on Real Estate Values: Techniques and Applications  
- Royal Forest & Bird Protection Society - Handbook of Environmental Law  
- Australian & NZ Environment & Conservation Council - Australian & NZ Guidelines for the Assessment and Management of Contaminated Sites (January 1992)
SEMINAR PAPERS HELD IN THE NEW ZEALAND INSTITUTE OF VALUERS LIBRARY

Distance Teaching Seminar 1993
Seminar No 2 “Environmental issues”, papers covering
- Asbestos
- Dairy effluent disposal and noxious dumps
- Environmental issues impacting on the valuation process
  - What a valuer needs to know from a legal perspective
- Contaminated sites - updates for valuers
- Environmental Risk, valuers, and valuations - a banking perspective

1994 Auckland Branch AGM
“The Environment”
Contaminated Land - associated issues for valuers
Valuers in the environment
Some effects of the RMA on property
Organic
Waste Management
Valuing the Environment

All enquiries should be addressed to:
The Standards Committee
New Zealand Institute of Valuers
P O Box 27146
WELLINGTON

Issued 1 January 1995
NZRPGN 2 COUNTER-SIGNING OF VALUATION REPORTS PREPARED BY UNREGISTERED VALUERS

The New Zealand Valuation & Property Standards Board issues the following guidance note to all members of the Property Institute of New Zealand and the New Zealand Institute of Valuers.

Members are referred to the New Zealand Institute of Valuers’ Code of Ethics, Clauses 1.4, 1.5, 1.6, 2.4.

1.0 Introduction

1.1 This Guidance Note has been prepared for all members of the New Zealand Institute of Valuers, in particular those registered valuers counter-signing reports prepared by non-registered valuers, often in a “valuer-in-training” situation.

2.0 Registered Valuer Responsibility

2.1 A registered valuer who signs a valuation report prepared by another person accepts full responsibility for the valuation and content of the report.

2.2 The responsibility of registered valuers cannot be limited by the use of conditional clauses in respect to the valuation.

3.0 Counter-Signing of Non-Registered Valuer Reports

3.1 A registered valuer, counter-signing a report prepared by a non-registered valuer, unequivocally accepts full responsibility for the valuation and contents of the report. Responsibility cannot be limited by the use of conditional clauses.

4.0 Recommendations

4.1 It is recommended that the registered valuer counter-signing the report inspect the property being valued and be familiar with all physical and valuation aspects pertinent to the property.

4.2 It is recommended that the counter-signer liaise with the other parties responsible for preparing the report to ensure accuracy and competency.

5.0 Disclosure

5.1 The counter-signing registered valuer is to include in the report a statement specifying the level of their involvement in preparing the valuation report.
Purpose

The purpose of this Business Focus section is to outline for Members some of the measures available to improve their businesses through professional development and various forms of communication including reports.

Benefits to Members and Clients

Most of the Valuation and Property Standards Manual is intended to firstly benefit Members and secondly their clients. It will give Members a better understanding of what the property profession expects of them as Members of the Australian Property Institute and Property Institute of New Zealand while at the same time assisting them to increase the benefits and relevance of the service provided to clients.

Clients Needs and Problems

The main reason for being in business is to serve and benefit a client. Benefits come from solving client problems. This requires an understanding of client needs and an awareness that those needs for some of our client groups are frequently changing. If we are to remain relevant to them we must know how to change what we do so we continue to solve their problems.

Forward Looking

The Australian Property Institute and Property Institute of New Zealand have strengthened their focus on Members’ client groups and will assist Members in the process of solving clients’ property-related problems. Your Institute is constantly looking forward trying to see what is over the horizon and working on appropriate responses.

Expansion of Business Focus

This Business Focus section will be expanded in the future to provide greater assistance to Members in meeting clients’ needs and solving their property-related problems especially as the era of electronic commerce develops. If Members would like to see anything in particular developed to assist them, the Institute would be pleased to discuss their requirements.

The Institute trusts that the Manual and this Business Focus section in particular, will benefit Members and their clients.

Want to Know More

Visit the Institute’s web site:
www.api.org.au or www.property.org.nz
1.0 Introduction

1.1 Purpose
The purpose of this Business Focus element is to inform Members of various professional activities that can be undertaken to increase expertise and professional standing as a foundation for improved business and/or career prospects as well as contribution to the advancement of the body professional.

1.2 Points towards CPD
Most of the activities listed below will qualify for CPD points. Check Business Focus 4: ‘CPD Requirements, Activity Planner & Record’ for eligibility details.

1.3 Professional Groups
Around Australia & New Zealand are groups of Members of the API & PINZ who meet regularly to discuss matters of interest at a professional level and to network and enjoy professional camaraderie. These are usually low cost activities of several hours duration, often featuring a guest speaker. In metropolitan areas it should be possible to find a group that suits your interests and professional activities. Numbers in non-metropolitan areas usually mean only one group per region. Most groups will have a Chairperson as well as other office bearers. These are further opportunities for professional advancement. Contact your Divisional office/Branch for details of groups near you.

1.4 CPD Modules
The Institute’s have developed a wide range of module topics to periodically offer Members. These range from several hours duration to full day workshops and some spread over a number of weeks. New topics are constantly being developed to meet demand in our dynamic property area. Most of these run on a cost recovery basis. Contact your Divisional office/Branch for details of modules coming up (though most will mail out flyers with newsletters).

1.5 Risk Management Module (RMM)
To further professionalism as an integral component part of bringing about improved Professional Indemnity Insurance market conditions on behalf of members, the Australian Property Institute initiated a compulsory Risk Management Module (course) for all practising valuers as part of the continuing professional development program. The Risk Management Module includes topics such as best practice, better communication, better client selection, the stages of valuation, principles of law, a review of the API's Rules of Conduct and Code of Ethics together with disciplinary proceedings and the regulatory framework, professional office procedures and an awareness of insurance issues.

The intent of the Risk Management Module is to kerb the deteriorating Professional Indemnity Market conditions which has been characterised by rapidly rising premiums, rapidly rising self insured excesses or deductibles and deteriorating policy wordings.

1.6 Conferences
Most API Divisions will hold conferences with some events long established and attracting hundreds of Members and other interested parties. Some conferences are urban focussed while others are rural. While many are held in capital cities and regional centres as appropriate, others are held at resort destinations for those who like to combine professional activities and tax advantages. PINZ holds an annual national conference which attracts more than 500 property professionals, organises national seminars and an annual national audio conference. PINZ Branches provide local seminars and educational events. International conferences are also available. Conferences are not only an excellent way of earning CPD points and gaining knowledge, but they are also an excellent opportunity for networking and catching up with professional acquaintances. And if cost is an issue, some study groups also organise low cost half and one day conferences and workshops. Details on conferences are usually included in Institute publications.
BUSINESS FOCUS 1

1.7 Tapes, Videos and Papers

From some of the above activities a range of tapes, videos and papers are produced and are available for purchase at low cost from the Divisional/Branch offices while videos are often available for hire. These are excellent ways to learn and gain more CPD points at a time and place of your choosing.

1.8 Boards, Councils and Committees

Most API Divisions have Professional Boards and all have Divisional Councils. Most API Divisional Council positions are member-elected while a few are appointed as are Board positions. Potential exists to progress to National Council, National Professional Board and Australian Valuation and Property Standards Board. PINZ operates an elected Board and NZIV operates an elected Council. Reporting to both of these groups are national Committees and Boards together with Branch Committees. All these are excellent opportunities to contribute to the advancement of the profession. The Institutes are keen to have the benefit of input from more recently qualified Members. Occasionally the opportunity arises for Members to be part of short term ‘ad hoc’ committees, usually to address specific issues.

1.9 Articles for Professional Journal

The Editorial Board of the professional journal of API and PINZ is interested to receive articles of interest from Members. These do not have to be highly technical but can have broad appeal rather than being narrowly focused on local issues.
REPORTS, CONTENT AND COMPILATION

1.0 Introduction

1.1 Purpose

The purpose of this Business Focus element is to provide Members with an indication of some of the types of reports which can be produced for clients, what they could contain and how they might be compiled.

1.2 Scope

This Business Focus element applies to Members providing an array of reports to clients on a wide range of property types and issues, and for numerous purposes.

1.3 Definition

For the purpose of this Business Focus element, a report is any written or oral communication of a property assessment, analysis, consulting service that is forwarded, conveyed or transmitted to the client upon completion of an assignment.

1.4 Oral Report

Where a report is conveyed to a client in an oral communication, it is recommended that the advice be confirmed in a hard copy or other electronic or digital format capable of producing a text version. If instructed not to provide anything in writing, it is important to ensure this is noted in the file along with a written record of the oral advice provided.

2.0 Report Purpose

2.1 Purpose dictates Report Type, Format and Content

Reports can have many names, but most, if not all, property reports are basically aimed at providing solutions to property problems to meet clients’ needs and purposes. The problem may be as simple as not knowing some information about a property, it may involve a client’s need to know what would be the best use to which to put the property, whether it is suitable for a mortgage advance, or as complex as establishing the feasibility of a mixed category, multi-stage development proposed for a rapidly expanding area where the site needs rezoning and remediation of contamination. The purpose for which the client needs the report and the nature of the problem to be solved will both tend to dictate the:

- type of report,
- format of the report, and the
- content of the report.

3.0 Types of Reports

3.1 Three Main Categories

Most report styles tend to fall into one of the following three categories:

- Self-contained or comprehensive style
- Summary or short form style
- Restricted or proforma style

The substantive content of a report and not the size of the document alone influences which category a report fits into. Each item in each type of report should be addressed in the depth and detail as appropriate for the item, the type of report and purpose.

3.2 Self-contained or Comprehensive

A self-contained or comprehensive style report generally ‘describes’ its information at a comprehensive level of detail. It should contain all information significant to the solution of the property problem. It will often involve in-depth detail on each of many points under numerous headings in sections containing like information.

3.3 Summary or Short Form

A summary or short form style report generally ‘summarises’ its information in a more concise form. It should contain a summary of all information significant to the solution of the property problem. It will often involve one or
several paragraphs summarising in abbreviated narrative or tabular format, the main points under a major heading or section.

3.4 Restricted or Proforma
A restricted or proforma style report ‘states’ much its information in a minimal presentation. The headings are often decided by the client (who tends to be a volume user of Members reports) who requires information briefly stated. It will often involve a combination of brief narrative statements and simple fact statements or bulleted points.

3.5 Deciding type or style
In deciding the type or style of report appropriate in any instance, the following should be considered:
- the client’s requirements,
- the client’s level of understanding of the particular type of property and its market,
- the purpose of the assignment or task.

4.0 Report Formats

4.1 Institute does not Dictate Format
While the Institute does not dictate the form, format or style of reports, it may assist Members by indicating what could be provided or it may produce formats for particular client groups to enable the benefits of uniformity to be gained.

4.2 Word Processor Report Templates and other Useful Features
Modern word processing programs often provide report templates. They also include many features enabling very professional reports to be produced readily. These include:
- page headers and footers
- automatic page numbering
- automatic table of contents
- great variety of font types, sizes and enhancements such as bolding and italics
- table format control
- spell and grammar checks
- import data and graphs
- and many others.

New features are continually being added to these programs. Even if you have an existing program which appears to still be doing the job after three or four years, the advances are well worth the cost of upgrading. Many packages are offered today which include word processing, spreadsheet, database, graphics, organisers and presentation assistants. The package cost is often less than the cost of a single program just a few years ago and there are many more features. Databases can also be used to produce a report while capturing data to add to the database or using information already in it. Making the move can also be an ideal opportunity to upgrade hardware as well. Often, all a client sees of you is the reports you send in. Don’t sell yourself short by submitting poorly presented and formatted reports. The annexure to this Business Focus element will also give an indication of how your report could be formatted.

4.3 E-commerce Era
The electronic commerce era is gathering pace. In the US and Canada it is already having significant impact on our profession in the residential mortgage reporting market. e-commerce for our profession is not about e-mailing files as many of us at first thought. Reports are generated out of a database and the content transmitted to the client as data fields. A significant number of Australian lenders are already well advanced in their plans in this area. e-commerce will have a significant impact on our professional lives. Our quick uptake in this area will be necessary if we are to remain relevant to our clients in their new ways of doing business. Initial indications are that it will best suit shorter form reports which will need to be consistent in format.

5.0 Report Content

5.1 Deciding on Content
The content of reports will vary greatly. With comprehensive and summary style reports the content can be decided by focussing on the subject, the purpose and the client’s needs or problems and objectives.

5.2 Comment on Extent of Process
It is recommended that in each type of report that you comment on the extent of the process of collecting, confirming and reporting data. However this description should not be out of proportion to the length of the report.
With a comprehensive report the full extent of the process should be apparent to the report reader so such comment can be briefly stated.

With a summary report the full extent of the process may not be apparent to the reader, so to protect yourself, summarise the process.

With a pro-forma report the full extent of the process will not be apparent to the reader so either the pro-forma or a supporting memorandum referenced in the report should describe the process.

5.3 Reference to File Material

It is also recommended with the summary and pro-forma reports that reference be made to the existence of appropriately detailed file material in support of the conclusions and that from these a comprehensive report can be compiled by further arrangement.

5.4 Caution any Limitation on Content

Where a client requests less content than is considered appropriate for the purpose, it would be prudent to include a covering comment on this limitation in the report noting that the detail is held on file and can be provided by further arrangement, (while also cautioning if the omission of that content could mislead or not adequately inform the client or any party authorised to rely on the report). If any restriction or limitation is imposed by the client on ‘normal processes’, great care should be taken.

5.5 Clearly and Logically Presented and Adequately Detailed

It is important for the content of a report to be clearly and logically presented and adequately detailed for the purpose. This applies especially to self-contained or comprehensive style reports. These will tend to comprise the following main parts:

- Summary - of the report and its findings or recommendations
- Body of the report comprising:
  - Property and/or Project - adequately described for the purpose.
  - Market - relevant dynamics and data.
  - Assessments, Consideration of Issues and Risk Analysis (if relevant).
  - Solutions if relevant.
- Annexures (addenda, appendices etc.) which are generally support material providing additional detail which has often been gathered from other sources.

6.0 Report Balance

6.1 Focus on the Problem and Solution not the Subject

It is important to keep reports in balance. The description of the subject should not out-weigh your focus on the market and the development of your solution to the property problem. In the past there has been client comment that some reports provide lots of detail about the property but very little about the market or the solution to the ‘property problem’, and that the position should be reversed.

As a Member and a property professional, your point of difference is your ability to provide solutions to property problems, not just describing property, - which is sometimes well known to the client anyway.

The key is in ‘value adding’ - putting content in your report which adds to your client’s knowledge, not putting in lots of content which the client already knows or is not relevant to the current problem. The information which you have is not knowledge until it is in the hands of a client who can turn it into value. You can turn it into value for your client by solving his property problems with it.

6.2 Sufficiently Detailed Summary

Balance is also achieved by understanding the client’s requirements and situation. While a client may require a comprehensive report (or in cases where such is warranted and provided), it is becoming increasingly obvious that busy clients do not have time to fully read the whole document. Though many reports provide an ‘Executive Summary’, often these do little more than indicate that the property has been inspected, that it contains certain improvements and a brief note of the particular property solution. Some clients then have to go through the whole report to prepare their own summary.

Balanced reporting at the ‘stand alone’ or ‘comprehensive’ level should provide a summary sufficiently detailed that it could almost pass as a Summary or Short form Report.

The reader should be able to gain an adequate understanding of the subject of the report, the
relevant market, the main considerations and the solution to the property problem. Any aspect of concern can be explored further in the body of the report, the reader can come back to the balance of the report as time permits, or the report can be referred to someone else to follow up. The ‘Summary’, which could be 2-7 pages long, should touch on the main points of the report so that the reader will gain an overview of the purpose and subject of the report, the relevant market, the main considerations and the solution to the property problem.

6.3 Balance in Issues and Language
Balance in report content also requires a balance in the issues addressed and the language used. The report should:

- Objectively address upside and downside potential;
- Not be over-glowing in the positive aspects or unduly critical in negative aspects;
- Not infer things which should be detailed or explained;
- Not avoid or be silent on important issues;
- Not use jargon, abbreviations or unexplained technical terms unless suited to the client;
- Lead to a conclusion clearly supported by the report content.

6.4 Balance in Short-form Reports
Balance is also important in summary or short-form reports. While many practices use standard descriptions of a town or city, it looks obvious and out of balance when one suitable for a comprehensive report is inserted into a short-form report. It too should be scaled down to a summary version only.

6.5 Challenge of Pro-forma Reports
Pro-forma reports sometimes pose a challenge in deciding just what and how much information needs to be provided. Pro-formas are often designed or utilised by the client to meet a need (usually to gather just the important information in ‘stated’ or point form covering key aspects only). However, if a particular key aspect of the subject property is so important that the client should be informed beyond the space provided on a fixed field pro-forma, it is appropriate to provide an addenda to the pro-forma.

7.0 Report Content Prompters
There are many ways/combinations of techniques to produce a report. With the benefit of word processors, some people save a duplicate copy of a similar property report and change it as necessary. There are several inherent dangers with this method. Firstly, some detail that should be changed or deleted might not be, and secondly, some points that may not have been relevant in the first might be overlooked in the second. Perhaps a safer method is a report layout template containing any standard content with prompters built in. Annexed to this Business Focus element is a Report Compilation Prompter which you can be use to select major section headings for your report and points under a range of sub-section headings from which to choose appropriate content. Out of this you can build a report template or shell with your standard content into which you insert the variables based on a selection of the prompters as relevant. While the headings and points are comprehensive, they are not exhaustive. Whatever system you use you will probably find it handy in building your reports. Add to it as necessary.
Annexure 1 - Comprehensive Report

(Nature of Problem Addressed)

Type of Property/Market Segment

Address of Property

Photo if appropriate

Under Instructions From:

For the Use and Benefit Of:

Your Ref. / Order No:

Our Ref:
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1.0 Summary

1.1 Summary of Report
- Brief summary of client details and objectives
- Note any special conditions, assumptions or limitations required
- Brief summary of the subject of the report
- If includes a project, describe briefly
- Summarise market analysis
- Outline main issues
- Outline main findings

1.2 Recommendations
- List Recommendations (or alternatives)
- Report Date
- Signature of Member
- Name, Qualifications etc
- Draw attention to assumptions and limitations contained in report (or list)
- ‘Report is for the use only of ..........’
- ‘No extract from this report may be included ..........’

1.3 Assessments
- State the extent of the process of collecting, confirming and reporting data
- What interest has been assessed and for what purpose
- Date of assessment
- Market Value definition
- If a project, define ‘as if complete’ or ‘on completion’
- Assessment in words and figures
- Note any special inclusions or exclusions which are not real property

2.0 Client

2.1 Client Details, Purpose and objectives
- Client name (if an organisation, include name of instructing representative)
- Purpose for which the report is required
- Statement of understanding of Client requirements and objectives

2.2 Required Assumptions and Limitations
- State any assumptions required by client or limitations imposed

3.0 Property
In this Section, choose headings as appropriate and re-number

3.1 Title and Property Detail
- Known As/Situated
- Legal Description
- Area
- Dimensions
- Title and Reference
- Restrictions, Encumbrances, leases etc. noted therein
- Recorded Ownership
- Nature of interest in the property
- Rating and taxing information

3.2 Planning Control
- Zoning and Scheme Reference
- Objectives of the zoning
- Allowable uses without consent
- Allowable uses with consent
- Prohibited uses
- Existing approvals and prior approvals and reference
- Any Heritage implications
- Planning requirements affecting any proposed uses or development
- Community and political environment
- Any Approvals for nearby properties
- Other broad Council policies which could affect the property eg. buffer zones, height restrictions, heritage areas etc.
- Any particularly important State Environmental Planning Policies
- Any proposed changes of zoning or draft plans
- Statutory Charges applicable
- Landscaping requirements
BUSINESS FOCUS 2

- Carparking requirements
- Sunset clauses
- Subdivision requirements
- Floor Space Ratios
- Site setbacks
- Permitted densities
- Planning Certificates sighted

3.3 City or Town (or nearby main town) – by name
- Profile as relevant to the task and client
- Provide extra detail for non-local clients and indicate relative position to main centres

3.4 Location and Locality
- Side of street and nearest cross street (distance & direction)
- Nature of street (highway, main arterial, local through street, cul-de-sac)
- Number of lanes, median strip
- Traffic flow
- Locality or suburb name
- Km to CBD
- Nearby development
- Trend - redevelopment
- Changes - traffic flow pattern, population, demographics, new developments, existing traffic generators ceasing or changing operations
- Proximity to beneficial features
- Any particularly adverse features

3.5 The Land
- The site has been identified by reference to (DP, Survey Plan etc.)
- Shape
- Size
- Inside/corner
- Elevation in relation to street level
- Slope
- Soil type
- Fill
- Landslip
- Erosion risk
- Drainage
- Flooding or watercourse
- Easements, (or service conduits without easements)
- Suitability for building - geo-technical report required?
- Possible encroachments, setbacks from apparent boundaries
- Impact of adjacent properties
- Aspect
- Views
- Buffer zones
- Other environmental hazards eg. wind, fire, salt air, urban salinity
- Hazardous or offensive development
- Legal access
- Physical ingress/egress for vehicles and pedestrians & ease of
- Passing trade
- Noise Nuisance including flight paths and road noise
- Comment on history of site as a lead in on contamination
- Any apparent cause for contamination concern
- Is any proposed use likely to cause contamination
- Air pollution
- Mine subsidence proclamation area
- Conservation orders or Heritage issues
- Native Title – claim or prospects thereof

Rural - (additional to any relevant from above list)
- Altitude (range?)
- Rock
- Millable timber
- Carrying capacity
- Rainfall incidence and variation
- Land slip
• Salting
• Access to & within the property
• Topography
• Original timber
• Average yields crops
• Versatility of land use
• Flooding
• Weeds
• Erosion
• Soil compaction
• Views
• Soil types/areas
• Timber remaining
• Crop types typical and actual
• Drought
• Pests
• Acid soils
• Frost or hail prone
• Home site
• Various SEPP's (NSW) including
• SEPP 14 (Coastal Wetlands)
• SEPP 30 (Feedlots & Piggeries)
• SEPP 37 (Continued Mines & Extractive Industries)
• SEPP 46 (Clearing - Flora & Fauna)

Farm Improvements (other than main buildings)
• Internal roads
• Erosion / landslip control measures
• Fencing - boundary & subdivision
• Water - natural, catchment, storage & reticulation, domestic supply
• Irrigation - licences and details, controlling authority, water supply source & cost, reliability & current availability, delivery system & cost, layout, drainage.
• Pasture - types, condition and fertiliser history
• Plantations - type, number/area, age, condition, yields.
• Timber regeneration areas / woodlots

3.6 Services
• Electricity
• Gas
• Kerb & gutter
• Schools m/km
• Services adequate
• Water
• Phone
• Footpath
• Shops m/km
• Distance to silos
• Sewer/septic
• Road surface
• Transport m/km
• Parking
• Distance to Markets
• Where relevant, provide location of services

3.7 Improvements

Main Structure
• Present use
• Building Type
• Built circa/exact year
• If strata, being one? of x units in the development

3.8 Construction
• External walls
• Floors
• Roof covering
• Wall frame
• Footings
• Roof frame
• Internal linings
• Windows
• Ceiling linings
• Shop front
• Ceiling height
• Awning
BUSINESS FOCUS 2

Accommodation / Use Areas
• List main rooms / use areas (in a bulleted list or run-on style)

Approximate Areas
• List each main part of a building and show areas offset to the right

As applicable:
Living areas m2
Patio & Verandah m2
Garages m2
Commercial Building m2 GBA/m2 NLA
Lockup Shop m2 NLA
Warehouse m2 GBA
• Functional plan
• Correct design criteria
• If purpose built - adaptable? /alt. uses?
• Adequacy of areas
• Suit current use
• Obsolescence
• Loading areas
• Design aesthetics
• Any obvious non-compliance

Features and Standard
• Built-in features
• Floor coverings
• Air conditioning
• P.C. Items list/quality
• Window coverings
• Tenant improvements/fit-out
• Light fittings

Building Services (mainly commercial & industrial)
• Aircond./ventilation
• Special Electrical
• Elevators & escalators
• Sprinklers
• Lighting
• Goods lift
• Hydrants/fire hoses
• Security system
• Special Technology

Y2000 (Y2K) Compliance CGT Issues Impacting
• Effect on property/business
• Effect on value/security risk
• Market sentiment on issue

Structural Condition
• List any significant problems or state if none readily apparent.
• Note if engineer’s certificate required

Repairs and Maintenance
• List any significant items/state if no readily apparent major items outstanding
• List major refurbishment or upgrading required and estimated cost

Pests
• Note any apparent problems/state if no termites or pests evident.
• Recommend inspection by reputable pest control company if warranted

Occupational Health & Safety
• Asbestos
• Trade Waste
• Un-healthy building

Farm Buildings and Structures
• Brief description of use, size/capacity of each in bulleted form.

Ancillary Improvements
• List these in bulleted form broadly classified, (eg. fencing, paving, landscaping, detached minor buildings, carparking, service areas, signage, yard lights etc.)
• If strata, general description of shared amenities, facilities, common property.

3.9 Occupancy and Outgoings
Epitome of leases - following detail as available or appropriate
• Premises identification
• Lessee
• Commenced
• Expiry
• Term
• Commencing rent
• Current (passing) rent
• Total occupancy cost
• Area occupied
• Car spaces if included
• Lessee outgoings
• Review method & frequency
• Next review
• Option(s)
• Use permitted by lease
• Unusual provisions
• Option to purchase
• Original or copy
• Sighted
• Signed/Stamped

Comments
• Occupancy status - vacant/owner-occupied/ tenanted
• Note areas unable to inspect and give reason
• Sight rent review documents (comment if not available)
• Terms certain remaining
• Total Passing Rent
• Naming rights rental
• Face rents/effective rents
• Overage rent
• Rack rents
• Reversions
• Characteristics of the income stream
• Security of rental income
• Arrears or non-payment
• Arms length dealing
• Deposits or guarantees held
• Tenant fitouts
• Incentives given
• Highlight leases expiring, options being exercised or new leases pending
• Tenancy mix

• Vacancy factor
• Vacancy history
• Standing of major tenants
• Any retail leases legislation compliance
• If a project, asking rents and any pre-commitments
• Incentives offered or required by the market to maintain or attract tenants
• Is the property managed & if so does it appear effective
• Is there any excess land for which no effective rent is paid
• If the property is owner-occupied, what would be reasonable market terms and conditions for a lease
• Term
• Options
• Initial Rent
• Review method
• Review frequency
• Outgoings responsibility
• If the property is not leased at present, allowance for loss of rent and leasing up?

Outgoings (actual or estimated) and Recoveries (actual)

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<thead>
<tr>
<th>Outgoings</th>
<th>Recoveries</th>
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<td>Rates</td>
<td>$</td>
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<tr>
<td>Land Tax</td>
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<tr>
<td>Insurance</td>
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<tr>
<td>Repairs and Maintenance</td>
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<tr>
<td>Cleaning</td>
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<td>Air Conditioning</td>
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<td>Lift Maintenance</td>
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<td>Pest Control</td>
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<td>Security</td>
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<td>Body Corporate Fees</td>
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<tr>
<td>TOTALS</td>
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</table>

REPORTS, CONTENT AND COMPILATION

BUSINESS FOCUS 2
BUSINESS FOCUS 2

- Outgoings equate to approximately $ per m² of net/ gross lettable area
- Is major expenditure above normal R&M required to maintain rental levels? Comparison with normal building maintenance costs.

Rental Income Summary

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Rental Income</td>
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<td>Plus Recoveries</td>
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<td>Gross Rental Income</td>
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<td>Less Outgoings</td>
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<tr>
<td>Net Rental Income</td>
<td>$</td>
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3.10 Trading

If a specialised trading property and goodwill is included, consider the following:

- Nature of trade and management
- Comments about trade - past, present and trend.
- Outline/summarise trading figures as supplied and/or adjusted
- Adequacy of business records/financial returns kept - if inadequate or not available, what effect on capitalisation rate and marketability.
- Business systems adequacy including Y2K compliance
- Explain any adjustments
- Treatment of chattels, plant and equipment

4.0 Project

4.1 Project Details

- Describe project/renovation program
- Building approval detail and conditions
- Extent of plans and documentation prepared
- Fees, levies and charges paid to date
- Builder
- Plans & Specifications
- Estimated Cost
- Licence No.
- Engineer's Details
- Work by owner
- Quote/Contract Price
- Construction Period
- Progress Inspections
- Development Program
- If work in progress, indicate:
  - stage of construction
  - Estimated cost of work carried out in relation to contract price
  - Estimated cost to complete the project under the current contract
  - Estimated completion period

5.0 Market Analysis

5.1 Marketability

- SWOT analysis - Strengths, Weaknesses, Opportunities & Threats - go through sections on property and project to address significant aspects especially location, and if a project, timing
- Overall market appeal and/or status of the property
- Any subdivision potential - position of any structures
- Any onerous encumbrances on title
- If any contamination, is stigma likely after remediation
- Economic/functional obsolescence, costs and merits of remedying
- Code non-compliance - cost and allowable time frame to meet requirements
- Purpose built building - suitability for conversion and cost
- Year 2000 compliance - anything affected e.g. lifts, air conditioning
- CGT Impact on marketability, value and replacement insurance
- Alternative uses
- Is existing use Highest and Best Use otherwise what is
- Physical capacity of site
- If a redevelopment site, demolition, site access problems or cramped site conditions
- Under/over capitalisation
• Any land surplus to current requirements or for which no rental return achieved
• Native Title issues
• Heritage/National Trust issues
• Strength of tenancies
• Any significant reversionary income
• Upcoming vacancies
• Likely tenant profile
• Buyer motivation and requirements
• Vendor motivation
• How good is the total package
• Comparative position in the market place - market segment
• Any measures which would improve the property’s market position and advantage
• Is there any ‘marriage value’ potential
• Is there any potential to fragment or disaggregate the property
• Any inherent factors which could impact favourably or adversely on value
• Any other special factors bearing in mind the purpose of the Report
• Marketing method alternatives
• Marketing strategy
• Any adverse impact of legislation e.g. Disability Discrimination Act

5.2 Condition of the Market
• Supply - sales/leasing listings level, private offerings
• Supply trend - new product being constructed/developed, approved
• Asking prices trend
• Demand level - sales/leasing rate, enquiry level, pent up demand
• Demand trend
• Rates of Return (yield) trend
• Buyer’s/Seller’s market
• Current position in the property cycle
• Prospect of market turning
• Ease of sale/leasing - likely marketing/letting up period
• Vacancy rate and trend
• Rental value trend
• Current marketing/leasing period and trend (if extended, give reasons)
• Incentives being offered/demanded
• Finance availability and cost
• Building cost trend
• Timing of project - anticipated market conditions on completion
• Existing competition - prospects of increased competition
• Prospects of change in Council or Govt. policy or regulations
• General economic indicators - CPI, interest rate climate, bond rate
• Prospect of market rising and/or falling in the short and medium term - local, national or international factors likely to which might impact on market
• If rural enterprise, price trend for produce - local & global factors affecting
• Current seasonal conditions

5.3 Market Dynamics
• Profile of sellers/buyers in this market segment
• Most likely type of buyer
• Profile of lessors/lessees in this market segment
• Most likely type of lessee
• Main market drivers
• Considerations made by typical buyers/sellers, lessors/lessees
• Investor activity
• Mortgagee sales activity
• Motivation of vendors and purchasers/lessors/ lessees
• Historical market volatility
• Influence of marketing agents
• Predominate sales/leasing method
• Market sentiment - consumer & business confidence levels & trends, unemployment
• Market price range and typical market segments
5.4 Market Data / Market Indicators

5.4.1 Property Sales

- Sources of information
- Sales details and analyses
  - Address/Name of property
  - Legal description
  - Date of Contract
  - Price
  - Land Area
  - Zoning
  - Improvements
  - Lessee
  - Term of lease
  - Net lettable area (NLA) - GBA for industrial
  - Net rent
  - Net Profit
  - Indicates - yield or appropriate unit of value
  - Comments (including any special conditions or circumstances)

- Current/Most recent sale of the subject property - movement since
- Asking prices (including subject property)
- Offers (including for subject)
- Evidence of market movement - recent and long term trend line.

5.4.2 Property Rentals

- General summary of rental levels, or
- When detail readily available and public knowledge:
  - Premises
  - Area occupied
  - Use permitted
  - Car spaces if included
  - Lessee/occupant
  - Term
  - Commenced
  - Expiry
  - Option(s)
  - Review method & frequency

- Next review
- Commencing rent
- Current rent
- Lessee outgoings
- Total cost of occupancy
- State if actual rents on subject are in line with the market
- Any reversionary income for subject property
- If a vacancy exists or occurs at present, could the area be leased at a similar rental and how long could it take to find a new tenant
- If a development project, are the asking rentals achievable and sustainable
- What is level of competition from existing developments and other proposals or developments which could come on-line in a similar marketing period

5.4.3 Rates of Return

- Discuss the relevance and application of each sale which indicates a cap. rate
- Considered range applicable to this property

5.4.4 Developer’s Profit

- Where available, provide analysed market evidence of developer’s profit
- Where analysed evidence is not available, provide indication of profit expectation

5.4.5 Vacancy Rates

- Historical and current vacancy rate for the subject property
- Historical and current vacancy rate in this market segment
- Vacancy rate trend.

6.0 Assessments

6.1 Valuation Approaches

Indicate which methods of valuation adopted and why

6.1.1 Sales Comparison Approach

- Brief explanation of what the approach does
- Compare sales with subject property making appropriate adjustments for differences in the property itself and for such factors as movement in the market and in circumstances of sale, or alternatively
• Deduce rates per unit of comparison (m², unit/flat, hectare etc) and apply to the subject property.
• Indicate value or value range indicated

6.1.2 Capitalisation Approach
• Brief explanation of what the approach does
• Set out the approach, which could be along the following lines (adjusted as necessary) and include reference to section of report the figure used was derived from

| Rental Income | (section 6.1.2) $ |
| Plus Recoveries | (section 6.1.2) $ |
| Gross Rental | $ |
| Less Vacancy | (section 6.1.2) $ |
| Outgoings | (section x.x.x) $ |
| Net Rental | $ |
| Capitalised (section x.x.x) @ % = $ |

Adjustments
Where no effective rent paid for 'excess land'

Plus Excess land (section 6.1.2) $ Where major expenditure required to achieve adopted rental level

Less Significant
R & M (section 6.1.2) $ Cost to Convert (section 6.1.2) $ Where vacant or valued on vacant possession basis

Less Loss of Rent (section 6.1.2) $ Leasing Fees (section 6.1.2) $ Indicated Value Range $  

6.1.3 Summation Approach
• Brief explanation of what the approach does
• Set out the approach, which could be along the following lines (adjusted as necessary) and include reference to section of report the figure used was derived from

As applicable:
Land $ 
Main Structure $  

6.1.4 Hypothetical Development/Residual Value Analysis
• Brief explanation of what the approach does
• Set out the approach as appropriate to the particular exercise

6.1.5 Financial Modelling/Discounted Cash Flow
• Brief explanation of what the approach does
• Set out the approach as appropriate

6.2 Assessment(s)
• Explain market sensitivity - value is most probable selling price within a range
• Insert value definition as appropriate:
  • Market Value
  • Alternate use value
  • Value as if complete/Value on completion
  • Rental value etc
  • Reconcile the approaches adopted
  • Indicate why any of the usual methods may not have been used
  • Set out the value(s) adopted

7.0 Project feasibility (evaluation)

7.1 Feasibility Study (Project Evaluation)
• Refer Real Property Guidance Note 5 [ANZRPG N 5]

7.2 Sensitivity Analysis
• Refer Real Property Guidance Note 5 [ANZRPG N 5]
BUSINESS FOCUS 2

8.0 Issues
In this Section, identify and explain the relevance of the issues (under the following headings as relevant) that impact on the needs and objectives of the client or the purpose of the report.

8.1 Subject Property
8.2 Project
8.3 Neighbouring Properties and Neighbourhood
8.4 Market
8.5 Assessments
8.6 Feasibility

9.0 Risk analysis

9.1 The Property/Project, The Market and Trends

10.0 Strategy (if relevant)

10.1 Alternatives
• List

11.0 Recommendations (if relevant)
• List

Annexures
• Include as necessary to support and enhance report.
1.0 Introduction

1.1 Purpose
The purpose of this Business Focus element is to explain the role of the Member in providing Property Action Planning services to clients.

1.2 Scope of this Business Focus Element
This Business Focus element applies to Members providing Property Action Planning services to clients covering any opportunity, threat or problem associated with property.

1.3 Definition
Property Action Planning is the provision of suitable and adequate information and sound advice in response to the needs and objectives of a client relevant to any opportunity, threat or problem associated with property.

1.4 A Form of Consultancy
Property Action Planning is a form of consultancy which enables Property Professionals to focus their property and market knowledge, apply their research, analytical and technical skills and use balanced judgement in providing sound advice in response to clients’ property opportunities, threats and problems. It may relate to purchase or sale of real estate, the development or redevelopment potential of property, or financial management and property planning activities. It can include involvement in purchase and marketing strategies, security risk analysis and risk minimisation, performance analysis and improvement, negotiation and expert representation, project feasibility and sensitivity analysis, potential identification and re-zoning. The range of Property Action Planning consultancy services which Members can offer is very broad given the dynamics of property and their ability to tailor services to a client’s particular needs and objectives. Annexed to this Business Focus element is a list of some Property Action Planning scenarios.

2.0 Establishing the client’s needs and objectives

2.1 Develop a Clear Understanding
It is fundamental to develop from the outset a clear understanding of the client’s specific needs and objectives. Assuming the initial consultation is in person, this will involve listening to what the client has to say and asking appropriate questions. This will be particularly necessary where the client is a new client or is unsure as to what is required. This process should extend beyond the actual issue to establish the context in which the consultancy is to be carried out. While it may involve developing some understanding of the client’s financial arrangements, it should not attempt to supplant the role of a financial planner. A basic understanding of other property assets and longer term objectives of the client will be important in many instances. Other circumstances may need to be considered. The property action plan needs to suit this particular client as well as the property. It is an action plan for the client, not just for the property.

2.2 Confirm in Writing
At the initial consultation, as much information as possible should be taken down at the time in note form. When it appears that the subject has been well covered, summarise the position with the client to ensure you clearly understand his needs and objectives. It would be beneficial to confirm this in writing for the client as well as indicating what plan of action you propose, what type of report you consider appropriate and the basis of your fee. Provide an extra copy of this letter for the client to sign and return as acknowledgment.

2.3 Personal Consultation
If initial instructions are received ‘in writing’, you should arrange an initial personal consultation or if not practical, make verbal contact with the client to help personalise the relationship and open up lines of communication. Any additional information obtained should be noted on file and where appropriate confirmed in writing along with the other matters as referred to above.
2.4 The Importance of Communication
Consultancy will often require frequent communication with the client especially if the task is complex, has many phases, involves other experts or involves a development project. If the task will take some weeks or months, it is important to keep your client informed of progress even if no problems are being encountered or you need no additional information from your client. A brief letter every one or two weeks just to let the client know that the Property Action Plan is progressing will do much for the client’s peace of mind and your reputation. Of course, it may also be wise to schedule further meetings especially where alternatives need to be considered before progressing the plan.

2.5 Obtaining and Relying on Other Experts Reports
Where it is considered that other expert’s reports are necessary, you should obtain your client’s written approval and an undertaking on payment of the fee (or a confirmation letter signed by the client). You should explain to your client that you will rely on the information provided in arriving at any assessments or recommendations in your Property Action Plan.

2.6 An Opportunity to Extend Your Service
At times you may be contacted to simply provide a valuation report, however as you communicate with the client, you may find that the need may actually be for a Property Action Plan. Many clients may not realise just how much assistance you can provide. By letting them know you can increase the benefits you provide and your relevance to them.

3.0 Content of Property Action Plans

3.1 What Issues to Address
Property Action Planning covers a very broad range of property-related issues addressing clients’ needs and objectives. The possible issues to address will therefore be numerous, but by focussing on the subject, the purpose and the client, you will be able to decide what issues to address.

3.2 Detailed Report
More often than not, the overall report will be detailed. That is not to say that all sections of the report will need to be detailed. For example, if the client knows the property well and is primarily interested in development alternatives, planning and timing, then the report on his Property Action Plan should not need a detailed description of the property. It would however, be prudent to include a statement to the effect that ‘the property is understood to be well known to the client and for the purpose of the plan is not considered to warrant detailed description, but rather is briefly described as follows’. (Similarly in other cases where only brief or limited detail is provided, some comment should be made as to why this amount was considered adequate.) The report could be expected to be detailed in relation to the specific issues important to the client’s needs and objectives. In the above instance, development alternatives, planning and timing and any related assessments, feasibility studies and sensitivity analyses would be detailed. With detailed reports, it is beneficial to provide a very good summary which would probably run to between two and five pages. It should give your client a good overview of the main aspects of the report and the Property Action Plan. As a guide, it should be capable of almost standing on its own as a Summary or Short-form Style Report.

3.3 Summary Style Report
Where specifically required by a client, a summary style report can be provided. This could take the form of the first two sections of a detailed report (i.e. summary and client detail) but without a table of contents. In such cases it is recommended that the client section include note of this limitation. This could be to the effect of ‘We are instructed to provide a Report Summary only which we are informed is adequate for our client’s current requirements. A comprehensive report can be obtained if further and better particulars are subsequently required’.

3.4 Checklist
Annexed to this Business Focus element is a short checklist of headings which may be useful as a prompter in the initial consultation. You can use it to decide what the Property Action Plan report will include and the order in which points will appear. In Business Focus 2 [BF 2], there is a Report Compilation Prompter which has a series of dot points as content prompters for each report heading and sub-heading. By no means is the list intended to be exhaustive nor is it intended that you would need to address every point under any selected heading. Use it to help you decide
(or remember) what points to address under the headings you select. You decide the order as well.

3.5 Valuation Techniques Applicable but Not Always Required
Consultancy and Property Action Planning is not divorced from property valuation. Most, if not all of the techniques used in valuation studies are also applicable to the analyses performed in consulting and Property Action Planning. However a Property Action Plan may not require any valuation, or it may use one or more valuations as part of a broader analysis.

3.6 Maintain Objectivity and Support Findings
Although the tools common to valuation and consulting may be used differently in each Property Action Planning assignment, Members should at all times maintain their objectivity and support their findings with facts extracted from competently conducted research. By their nature, Property Action Planning assignments are often more subjective than valuation assignments. Therefore, a Member undertaking a Property Action Planning Assignment should identify and evaluate both facts and judgments and then relate findings to the financial decisions under consideration.

4.0 Property Action Plan Workshops
If you are interested in diversifying your practice by providing this type of service, you may do so as soon as you like. If you wish to be able to use the report formats developed by the Institute, you will need to attend a workshop. This will give you a better understanding of how to provide the service and how to promote it. Contact your divisional office for details of the next workshops nearest to you.

Annexure 1 Property Action Plans
A Property Action Plan is tailored to a client’s situation and objectives. It may cover one, or a combination of several, of the following property action plan scenarios involving property, development and construction projects, investments and markets.
- Sale Price Maximisation and Marketing Strategies
- Purchase Price and Purchase Risk Minimisation
- Property Investment Analysis, Assessment and Recommendations
- Property Aggregation Potential and Strategy
- Property Dis-Aggregation to Optimise or Expedite Realisation
- Investment Opportunity Identification and Portfolio Suitability
- Property Portfolio Performance and Composition Review
- Comparative Investment Property Yields and Income Volatility
- Development Alternatives, Planning and Timing
- Re-Development Profit Potential and Risk
- Extension and Refurbishment Cost-Benefit Analysis
- Changing Technology and Regulations Impact Assessment
- Change of Use Potential and Process
- Re-zoning to a more Profitable or Beneficial Use
- Development Consent to Enhance Marketability or Undertake Project
- Highest and Best Use Potential Identification and Capitalisation
- Project Feasibility, Timing and Finance
- Security Risk Analysis, Risk Minimisation and Equity Outlook
- Equity Recovery Maximisation Strategy
- Purchase and Development Funding to Leverage into Opportunities
- Operating Cost Reduction to Improve Return and Add Value
- Holding Cost Minimisation Pending Opportunity Capitalisation
- Specialised Trading Property and Business Opportunity Analysis
- Improving Tenancy Mix to Secure Income and Increase Value
- Public Authority Acquisition Compensation Maximisation
- Property Partition to Resolve Partnership Problems
- Lease Terms and Conditions Advice, Assessment and Negotiation
- Dispute, Tribunal Hearing or Litigation Expert Evidence Presentation
- Insurance Adequacy Advising and Assessment

The range of potential services Members of the API can offer is broad given the dynamics of property and their ability to tailor services to a client’s particular needs and objectives.
Property Action Plan

Prepared by a Member of the API for

OWNERS

Sale
Development Analysis
Performance Optimisation

Property Action Plans provide relevant, concise and timely advice to meet the needs and objectives of a Client.

Property Action Plans identify and analyse property-specific Strengths, Weaknesses, Opportunities and Threats. A Report sets out recommended client actions to enhance and capitalise on property strengths and opportunities and to minimise and reduce weaknesses and threats. It may also identify areas of uncertainty or concern, recommending specialists reports or production of documents prior to, or as a condition of, any binding agreements. Where warranted, the report also provides appropriate assessments of Market Value or rent.

A Property Action Plan can address such issues as:

- Marketing Strategy
- Purchasing Strategy
- Market Analysis
- Risk Minimisation
- Property Suitability
- Specialists Reports
- Highest and Best Use
- Operating Cost Reduction
- Tenancy Mix
- Yield Analysis
- Holding Cost Minimisation
- Profit Analysis
- Income Volatility
- Development Options
- Timing
- Insurance Adequacy
- Development Consent
- Change of Use
- Cost-Benefit Analysis
- Sensitivity Analysis
- Re-zoning

BUYERS

Purchase
Investment Analysis
Opportunity Identification

Broad Vision, Balanced Judgement and Sound Advice

Members of the API look objectively at individual properties or portfolios, initial concepts or development-approved projects. They research and analyse market data and dynamics, bringing broad vision, balanced judgement and sound advice to your Property Action Plan.

Maximise Profit and Returns
Reduce Risks and Expenditure
Capitalise on Opportunities
Consult a Member of the API for your Property Action Plan
CPD REQUIREMENTS, ACTIVITY PLANNER & RECORDER

1.0 Continuing Professional Development (CPD) Defined:
Continuing Professional Development is the participation in ongoing education to improve knowledge/skills and develop the personal qualities necessary for the performance of technical, managerial and administrative duties throughout a professional person’s career.

2.0 Making CPD work for you
Recent years have seen many client-driven changes in the services offered by Property Professionals. Through CPD Members can be certain that they will continue to keep abreast of the knowledge and skills required to successfully compete in an increasingly dynamic and challenging environment. CPD is essential in ensuring that all Members of the API and PINZ maintain a high standard of professionalism. Furthermore a high level of professionalism ensures that clients, employers, the public, government, other professions and relevant parties recognise the Members of the API and PINZ as the premier property professionals in Australia. Therefore CPD is not about collecting points, it is about:
- Continuing learning throughout your professional life
- Professional maintaining knowledge and skills relevant to your work
- Development progressing your business, your career and your personal development

3.0 Take stock and plan
Use the Planner in this document to determine:
- Where are you going professionally
- Where do you want to be in one year’s time
- What additional knowledge and skills you will need

4.0 Levels of competence

Expert
Acknowledged by others as an authority in the area (subject)

Skilled
Able to work in the area/use the skills; occasional reference to information is necessary

Competent
Able to work in this area/use the skills; regular reference to further information is necessary

Familiar
Some knowledge/skills in the area; requires additional training as well as regular reference to information

No knowledge/skills
No knowledge/skills in the subject; requires full training

5.0 Members choose CPD activities
Each Member can choose the CPD activities from the list below that he/she wishes to undertake. However, a maximum of 10 CPD points (hours) per year will be recognised for on-the-job learning from performing additional/new vocational/professional functions and/or private planned study, i.e., a Member can obtain a maximum of 10 points from private planned study and no
points from learning on-the-job or vice versa or a Member can obtain a maximum of 10 points from a combination of private planned study and learning on-the-job.

6.0 CPD Requirements

- CPD is compulsory for all Members who are Graduates, Provisional Members, Associates, Fellows and Life Fellows. Students are not required to undertake CPD since they are already involved in substantial study periods.
- Non-practising and retired Members are only exempt from CPD if they have formally transferred to non-practising or retired status with the API.
- Members must achieve 20 points per calendar year of which at least 10 points must be from Property topics.
- Each Member assesses whether or not a given topic qualifies for CPD.
- One hour of CPD gives one point.
- A maximum of 10 CPD points can be carried over from one year to the next however, Members must obtain a minimum of 10 points per year from Property topics.

Property topics cover all areas related to property and can include such areas as the global and Australian economies; foreign language study to service overseas clients; and the study of trends in a particular industry such as cotton if providing valuation or property advice to people engaged in the cotton industry.

If in doubt about whether a topic qualifies as a property topic, Members should contact their Divisional office for confirmation.

- Members who have transferred to the non-practising affiliate class must obtain 20 CPD points prior to their transfer back to their former membership class. They will also be required to complete CPD points for the year of return on a pro-rata basis.
- New Members or Members transferring from affiliate membership part way through the year are required to complete CPD points on a pro-rata basis.
- Members resident overseas may gain 20 CPD points per year from private planned study.

7.0 RECOGNISED CPD ACTIVITIES

Section 1 of the CPD Record

- attendance at seminars, conferences, workshops, field days, modules as well as breakfasts, luncheons or dinners with keynote speakers on business/property topics conducted by
  - API/PINZ including Study/Discussion Groups
  - other professional associations
  - industry bodies
  - tertiary institutions
  - employers
  - other relevant course providers
- preparation and presentation of papers (one point per hour for both) to API/PINZ, other professional, educational or in-house functions
- authorship of published articles and/or text books or books (one point per hour)
- membership of committees examining technical/professional issues
- membership of an administrative committee of API/PINZ (maximum 2 points p.a.)
- formal individual study provided by distance education courses, programmed learning units, audio and video tapes
- formal study in Property or Business/Personal Skills resulting in an award such as a certificate or degree

Section 2 of the CPD Record

- private planned study in areas relevant to the Property professions

Section 3 of the CPD Record

- Additional/New Vocational/Professional Functions
  These functions refer to situations where learning takes place on-the-job by performing the function. Undertaking the functions either requires the gaining of new knowledge and/or skills or the improvement of existing knowledge and/or skills.

Examples where the undertaking of additional/new vocational/professional functions can occur include:
• managing the introduction of change (new computer systems, introduction of quality assurance procedures)
• merging with/acquiring a practice/starting your own practice
• being seconded to another organisation/being seconded or transferred to another department (part) of the organisation
• changed existing job description or new position within same department.

IN SUMMARY, the CPD record contains 3 sections:

Section 1 - record seminars, conferences, in-house training, workshops, modules, papers etc
Section 2 - record private planned study
Section 3 - record learning on-the-job from additional/new vocational/professional functions

To obtain a CPD Certificate of Compliance you are required to complete the relevant sections, total your CPD points, sign and forward your CPD Record to your Divisional Office in Australia or National Office in New Zealand.

8.0 Annual CPD Minimum
15% Random Audit of CPD Records

• A Minimum 15% of Members required to undertake CPD are randomly selected for the audit.
<table>
<thead>
<tr>
<th>New knowledge/skills required or which need updating</th>
<th>Competence Level</th>
<th>Strategies for improving knowledge/skills</th>
<th>CPD Hours</th>
<th>Possible sources of evidence of improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example: Cash flow analysis using computers</td>
<td>Familiar</td>
<td>Computer course from API or other provider</td>
<td>10</td>
<td>Passing course assessment</td>
</tr>
<tr>
<td>API DCF Practice Standard</td>
<td>Competent</td>
<td>Private Study on API DCF Practice Standard</td>
<td>3</td>
<td>Acceptance of cash flow analysis by employer/client</td>
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<tr>
<td></td>
<td></td>
<td>Using cash flows on-the-job</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>
**ANNUAL API/PINZ CPD RECORD** *(for the period 1 January to 31 December 2007)*

Name: ................................................................. ..........................................................................................................................

First Names ................................................................. Surname

Address: ..........................................................................................................................................................................................................................................................................................................

Employer: .................................................................................................................................................................................................................................................................................. Tel (Work) ........................................................................................................................................................................................................................................................................ Fax (Work) ...................................................................................................................................................................................................................................................................

☐ Please tick if you wish to receive a CPD Certificate of Compliance

You must complete the following two questions:

☐ Please tick this box if you have completed a valuation during this CPD reporting period (i.e. 1 January to 31 December 2007)

Please state the last time you completed an API approved Risk Management Module  .......... / ..........  OR  ☐ Never

Month Year

**Section One**

<table>
<thead>
<tr>
<th>Date</th>
<th>CPD Activity (eg seminar, conference, workshop, course, tape, technical committee, prepared and presented paper) / Topic / Presenter</th>
<th>CPD Activity Provider (eg API, RMIT, Qld Govt)</th>
<th>CPD Hours</th>
<th>CPD Points (1 point per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Property</td>
</tr>
<tr>
<td>Eg. 20/3/07</td>
<td>Valuation of Specialised Asset Classes – Service Stations</td>
<td>API - VIC</td>
<td>2</td>
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</table>

**Subtotal**
## 2007 ANNUAL API/PINZ CPD RECORD  
*(for the period 1 January to 31 December 2007)*

### Section 2 - Private Planned Study Completed During 2007

<table>
<thead>
<tr>
<th>Topics Studied</th>
<th>Name of Publication</th>
<th>Author(s)</th>
<th>Publisher</th>
<th>CPD Hours</th>
<th>CPD Points (1 point per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>eg. Easements</td>
<td>Easements – Law &amp; Valuation</td>
<td>Webster, Watkins, Holland</td>
<td>API (Seminar paper)</td>
<td>1</td>
<td>1 Non Property</td>
</tr>
</tbody>
</table>

Subtotal

### Section 3 - Additional / New Vocational / Professional Functions Undertaken in 2007

<table>
<thead>
<tr>
<th>Additional / New Function(s) Performed</th>
<th>Knowledge/Skills gained or updated from learning on-the-job</th>
<th>Competence Level 2006 Year End 2007</th>
<th>Evidence of Improvement</th>
<th>CPD Hours</th>
<th>CPD Points (1 point per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>eg. Marketing</td>
<td>Knowledge of marketing strategies for small professional practice</td>
<td>Familiar Skilled</td>
<td>Developed &amp; implemented marketing plan for small professional practice</td>
<td>8</td>
<td>8 Non Property</td>
</tr>
</tbody>
</table>

Note: Maximum of 10 points is recognised for Section 2 plus Section 3

Subtotal

Total 2007 CPD Points

2006 Points Carried Forward

Total CPD Points

Signature .............................................  Date ..................................................
Purpose

The purpose of the Client Focus section is to provide an outline of services available from Members. It also includes tools to assist clients in instructing Members. Additionally it provides advice on feedback to Members and the Institute.

Benefit Clients, Benefit Members

While it might be said (and rightly so) that the Institute’s clients are its Members, the Members’ clients (and in some instances their service providers) could be seen as de-facto clients of the Institute. Therefore, anything that the Institute can do to assist or benefit Members’ clients should also benefit Members.

The Valuation and Property Standards Manual for the Benefit of Clients

The Manual is intended both for Members and their clients and interested third parties. It will give them a better understanding of the property profession and what can be expected of Members of the Australian Property Institute and the Property Institute of New Zealand. At the same time it will give Members a clearer focus as to what level of professional performance they should be providing to clients.

Client Needs

The main reason for being in business is to serve and benefit a client. Normally, benefits come to clients from solving clients’ problems. This requires an understanding of clients’ needs and an awareness that those needs are frequently changing. The Australian Property Institute and the Property Institute of New Zealand have strengthened their focus on Members’ client groups and will assist their Members in the process of solving clients’ property-related problems. Sometimes this will require direct dealings by the API or PINZ at high level in client organisations. The API and PINZ welcomes direct contact from clients at this level.

Expansion

This Client Focus section will be expanded in the future to provide greater assistance to clients in utilising Members’ services especially as the era of electronic commerce develops. If clients would like to see anything in particular developed to assist them in dealing with Institute Members, the Institutes would be pleased to discuss requirements.

The Institutes trusts that the Manual, and this Client Focus section in particular, will benefit Members’ clients.

Want to Know More?

Visit the API’s Institute’s web site at: www.api.org.au and/or the PINZ web site at: www.property.org.nz
10. Introduction

1.1 Purpose

The purpose of this Client Focus element is to inform existing and potential clients of API & PINZ Members of the broad range of services Members can provide.

1.2 Property is Diverse

It is easy to think of property as real estate alone, yet there are many different classes of property. Property in a broad sense is anything which can be owned or in which an interest can be held, over which some control can be exercised, which can be traded or left in an estate or from which current or future rights to receive benefits can be held. Property can include, but is not limited to, real estate and associated interests therein, personal property, intellectual property, rights, licences and options, plant and machinery, art and jewellery, goodwill and shares. While the majority of Member activities are related to real estate and plant and machinery, the other areas are attracting some specialist focus.

1.3 Many Different Capacities

Members of the API & PINZ are involved with property in many different capacities in both the private and public sectors. You will find API & PINZ Members who are:

- Investment trust managers
- Rural property brokers
- Property developers
- Business brokers
- Property finance consultants
- Valuers (real estate and/or plant and machinery)
- Property researchers
- Asset managers
- Sales and leasing negotiators
- Portfolio managers
- Property managers
- Litigation specialists
- Legal practitioners (dual qualifications)

And within each of these capacities you could find Members who specialise in a particular type of property and/or activity. For example, a property developer may specialise in inner city commercial developments or residential land subdivision; a property manager may specialise in shopping centres; a valuer may specialise in hotel or motel valuation or in property acquisition or specialise in certain plant and machinery valuation.

1.4 Many Different Services

Many Members have extensive and varied experience in property. This enables them to perform a wide range of tasks on different types of property for varying purposes. You will find Members of the API & PINZ who can provide:

- Property and Advisory Services (see Business Focus 3 – Property Action Plans)
- Valuations and Feasibility Studies
- Sales, Acquisitions and Leasing
- Investment Analysis, Corporate Advisory and Research
- Property and Asset Management
- Property Funds Management
- Development and Project Management
- Plant and Machinery Valuations

API & PINZ Members are skilled, knowledgeable and experienced to identify and capitalise on opportunities, deal with threats and facilitate solutions to property problems. No matter what type of property, no matter what your purpose, needs or objectives, you will find a Member of the API or PINZ who will be able to assist you.
INSTRUCTING VALUERS

A Guide for the Mortgage Industry

This Element of Client Focus is divided into two parts:

• Part A – Instructions and Supporting Documentation (what you should provide when instructing)

• Part B – Report Content (what valuers should provide in their reports)

plus Annexures:

• 1 – Model Standing Instructions (part of terms of engagement)

• 2 – Model Instruction Proforma (individual valuation instruction)
1.0 Introduction

1.1 Purpose
The purpose of this Client Focus element is to provide clients in the mortgage industry who are involved in instructing Valuers, with an understanding of what information should be supplied when ordering a valuation. It also provides an understanding of what information could be expected to be included in the Valuer’s report.

1.2 Scope
The information contained in this element is for the understanding and benefit of clients in the mortgage industry who instruct Valuers or rely on their reports. This document may also be used by Valuers to assist in the service they provide to clients.

1.3 Expert and Impartial Report
For mortgage purposes, a Valuer provides an expert and impartial report on the property, highlighting the security risks associated while incorporating an estimate of the Market Value of a property. Valuers also assess, classify and reflect the separate influences that create, maintain or diminish value. Instructions to Valuers are an essential part of the process of obtaining a report that meets a lender’s requirements and which addresses all the relevant issues.

1.4 Seek Further Advice In Areas Outside Valuer’s Expertise
There are many areas in which Valuers do not claim to be experts. These include, for example, contamination matters, land surveys and legal interpretation of titles. Valuers will, however, if properly instructed report within the extent of their expertise, on the understanding that lenders will seek further advice where necessary on matters outside the Valuer’s area of expertise.

1.5 Responsibility and Disclaim or Limit Liability
Valuers should be encouraged to view, enquire, analyse and report. This will only occur if there is a clear understanding between lenders and Valuers of their respective areas of responsibility in relation to the lending and valuation process and of the Valuer’s right to disclaim or limit liability for matters outside the Valuer’s area of expertise.

1.6 Market Value
The Australian Property Institute and Property Institute of New Zealand have adopted the International Valuation Standards Committee definition of Market Value:

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

“Asset” includes property.

[Def. Market Value ]

It is considered that the definition paraphrases the elements of Market Value as defined in Spencer v The Commonwealth and it is intended that it includes the essential elements of that definition.

1.7 Alternative Value
When preparing mortgage valuations, valuers should exercise caution in understanding valuations based on the doctrine of continuation of the existing use where that used is a specialised use which is not regularly traded in the market place (i.e it can not be supported by a body of market transaction sales evidence).

In circumstances where a valuation is to be relied on for mortgage purposes of a property which is not regularly traded in the marketplace, a valuation on the basis of highest and best alternative use as zoned should be undertaken for mortgage fund advancement purposes. In other words, in the even that the specialised use which is not regularly
traded in the market place were to cease, a mortgagee in possession would most likely sell the property based on its highest and best alternative use as zoned.

The definition of alternative use value is one in the same as market value, however ignoring the existing use and adopting the highest and best use of the property under the existing zoning, town planning and development constraints.

1.8 General Purpose Instructions
These model instructions are for general purpose properties including commercial, industrial, retail, residential and other urban properties.

1.9 Going Concern
A valuation of a property and business trading as a going concern may require the use of further headings, information and documents.

2.0 Instructions to the Valuer

2.1 Letter of Instruction to the Valuer
A letter of instruction to the Valuer should state the Mortgagee’s requirements and provide information to the Valuer in order to assist in the valuation. The information provided can reduce the time taken to complete the valuation, and, more importantly, provide the Valuer with information necessary to provide sound advice to the potential mortgagee. Set out hereunder, are the key elements of the letter of instruction, and the supporting documentation which, if available, should be provided. With specialised properties, such as hotels, motels and similar trading concerns, trading figures constitute essential information.

2.2 Form and Content
Instructions to a Valuer should issue from the Mortgagee or its representative, not the borrower. In New Zealand it remains common practice for instructions to be issued by either the borrower or mortgage broker. They should be in writing (or confirmed in writing if verbal initially) and should clearly specify:

• The instructing party and/or,
• The party or parties to whom the valuation is to be addressed.
• The use to which the valuation will be put, ie. mortgage lending, provisioning decisions on existing loans, mortgage sale advice or other purpose.

• The basis of the valuation will be Market Value (unless requested otherwise).
• The interest to be valued, ie. freehold – fee “fee” simple; leasehold – lessor or lessee’s interest; fractional freehold – partial interest.
• The nature of the property - owner occupied or subject to tenancy.
• The date of valuation will be the date of inspection (unless requested otherwise).
• That the valuation should be in accordance with appropriate API & PINZ Practice Standards and Guidance Notes.
• Any additional matters which the valuation should address.
• The basis of and responsibility for the Valuer’s fee if not already agreed.
• Details for access and contacts for information and supporting documentation.
• Requirements in relation to supporting documentation.

2.3 Fee Paid by Instructor not Borrower
If there are difficulties in determining the basis of the valuation, advice should be sought from the Valuer. The Valuer’s fee should be negotiated and paid by the instructing party, not the borrower. In New Zealand it remains common practice for the borrower to issue instructions and pay the fee.

2.4 Frequent Instructions warrant Standing Instructions
Where instructions are issued frequently to the same valuer or firm, it may be appropriate to incorporate terms of engagement into a set of Standing Instructions. As firms often have many clients, there is therefore the likelihood of multiple sets of instructions. The Institute therefore supports the adoption of the Model ‘Standing Instructions’ which are provided for you as Annexure 1 to this element.

2.5 Instruction Pro-forma
Where instructions issue frequently and are of a consistent nature, it may be expedient to use a pro-forma. A Model Instruction Pro-forma is provided as Annexure 2 to this element and may be used or adapted for your use. The API will
forward the layout by E-Mail or on disc should you wish, email national@api.org.au

3.0 Supporting Documentation

3.1 Supporting Documentation
The Valuer will review a number of documents in his investigations and is required to consider all matters affecting the value of the proposed security. Delays in completing a valuation are sometimes caused by the failure to provide all relevant details. The following discussion on individual documents should assist in determining those which should be available and provided with the letter of instruction. Information and documentation provided by the borrower to the Instructor should be identified as such by the Instructor when forwarding this to the Valuer, with where appropriate, an indication as to whether the Valuer should rely on the information or documentation or make further inquiries.

3.2 Certificate of Title Folio Identifier Survey
It is highly preferable that a current title search is considered by the Valuer and commented upon. Should a current search be available, it should be provided by the Instructor. If this is not available, the correct title description including Lot and Plan number, together with the Folio Identifier or Certificate of title reference, should be provided. If a site survey is available this should also be included.

3.3 Encumbrances
The Instructor should provide all details within its knowledge on matters affecting the title, for example, details of encumbrances, restrictions or encroachments. It is the Instructor's and/or solicitor's responsibility to confirm title information, encumbrances and restrictions set out in the Valuer's report and any divergence should be referred to the Valuer for comment and amendment of the valuation if necessary.

3.4 Town Planning
Obtaining a zoning certificate is time consuming and costly and often an excessive requirement for valuation purposes. The Valuer may make independent investigations but should qualify the valuation appropriately. If a current zoning certificate is available it should be provided to the Valuer. The Valuer should be requested to indicate the source of town planning inquiries and to comment on the current use of the property in relation to the zoning.

3.5 Certificate of Compliance
Unless construction is obviously not in accordance with building regulations and other ordinances, the Valuer is likely to qualify the valuation to the effect that it is assumed that a Certificate of Compliance is available. Lending institutions may delay advancing funds until the certificate is obtained. It is important, therefore, for intending mortgagees to determine and advise the extent of documentation required. The borrower may be requested to provide information on compliance in some cases.

3.6 Building Plans & Specifications
Where a proposed or recently completed building or development is involved, detailed building plans and specifications if available, or schematic plans to scale, are of great assistance to the Valuer, and should preferably be a council-approved copy.

3.7 Tenancy Details
In most circumstances, depending on the nature of a valuation, the Valuer should not be requested or encouraged to rely solely on a tenancy schedule. The Valuer will usually need access to all lease documents and any supporting documents or collateral agreements of which the lender is aware. If only one or two leases exist, copies should be provided otherwise arrangements should be made for all leases and associated documentation to be available in one location for detailed analysis by the Valuer. A vacancy history should be provided. The Valuer may require the owner's consent to verify some lease details with tenants. Any tenancy which is not at arms length from the owner of the property should be identified to the Valuer.

3.8 Outgoings
For income producing properties, year-to-date budgeted outgoings with actual year-to-date comparisons, are required. If available, actual outgoings for the previous year and estimated outgoings for the ensuing year should also be provided. Any extraordinary items, such as capital works, should be brought to the attention of the Valuer.
CLIENT FOCUS 2

3.9 Miscellaneous Documents
Documentation on pest control, structural stability reports, environmental audits, Department of Main Roads searches, soil surveys, permissive occupancies, licences, environmental impact statements, engineering reports on plant and machinery, should all, if possible, be made available to the Valuer. It is rare for all these to be made available, however, if they are, the end report will give the user more confidence in the property as a security. If any of these searches is not provided, the Valuer may qualify the report appropriately.

3.10 Trading Figures
Where the property and business operates as a "going concern", trading figures must be supplied or made available. Ideally an audited three year history of trading figures should be provided. Insufficient or poorly documented trading figures are likely to affect the marketability and the value of the going concern and its suitability as a security.

3.11 Turnover
Shopping centre leases often contain clauses where rent is based on turnover. To assist the Valuer to assess the potential rental growth, a full history of turnover should be available. Three years or more is preferable. However, due to changes of ownership and the constant re-mixing of centres, the Valuer may only have one or two years trading results to consider.

3.12 Environmental Issues
Where an Instructor has an environmental assessment report or other environmental documentation which may affect the value of the property, this should be provided. Should the Instructor be aware of any matters which could affect value, or should they have specific environmental policy directives for the type of property, or for the type of industry located on the property, the Valuer should be advised before the time of inspection.

The Valuer is not usually able to provide expert advice on site contamination and this should be acknowledged by lenders so as to encourage Valuers to attempt to identify and report on any possible problems.

The Lender or its solicitor should carry out a search of the STATE or LOCAL AUTHORITY CONTAMINATED SITES REGISTER where it deems it necessary and advise the Valuer of the results.

3.13 Properties Under Construction ‘As if Complete’
Where the Valuer is required to value a property under construction on the assumption of ‘as if complete’ (which assumes the development to be in a completed state as at the date of valuation and reflects current market conditions), the Instructor should provide or arrange supporting documentation for the development. The Valuer should always be requested to provide an ‘as-is’ valuation (valuing the property with the project to its current stage) as well as the ‘as if complete’ value.

3.14 Report Qualifications
Where a Valuer has been instructed to value a property subject to certain assumptions (completion of construction, signing of leases, etc) the Valuer should qualify the report accordingly. It is important that the lending officer confirms such events (in the case of lease signing) or withholds funds (in the case of construction).

3.15 Verbal Enquiries
Due to time delays in obtaining certain information (eg. town planning information) the Valuer may rely on verbal inquiries in these circumstances and the report should be qualified accordingly.
PART B – REPORT CONTENT

4.0 Report Content

4.1 Comply with Institute Standards and Guidance

The Australian Property Institute and the Property Institute of New Zealand have developed and continues to develop Practice Standards and Guidance Notes as well as Client and Business Focus sections. These elements, along with the Code of Ethics and Rules of Conduct are incorporated in the Valuation and Property Standards Manual. A lender may elect to simply instruct that the valuer should comply with, and give due recognition to, these elements as far as they apply to the type of property, purpose, issues and professional conduct in the provision of the service including the content of the report.

4.2 Report Headings

Alternatively, the Instructor may choose to indicate to the Valuer what should be included or emphasised in the valuation report. This may be done conveniently by the provision of a list of headings indicating matters to be reported upon.

4.3 Common Report Headings

The matters considered by a Valuer will vary according to the type of property (industrial, retail, commercial, special purpose, etc) being valued and the purpose of the valuation. They could include the following:

- Valuation Summary
- Introduction
- Land & Title
- Location
- Site Description & Services
- Town Planning/Resource Management
- Statutory Valuation & Charges
- Improvements
- Environmental Matters
- Comments on the Property
- Basis of Valuation
- Tenancy Details

4.4 Annexures or Report Inclusions Where Appropriate

The report may be supplemented by annexures:

- Location Map
- Certificate of Title or Folio Identifier
- Other Searches
- Deposited Plan
- Strata/Unit Plan
- Zoning Certificates (if available)
- Tenancy Schedule
- Sales Evidence*  * If not in the body of report.
- Rental Evidence*
- Valuation Calculations*
- Any Other Relevant Documentation
- Photographs
- Authorities/Persons Consulted

4.5 Report Content

The Valuer should incorporate the headings required by the Instructor and address points contained within each heading where such points are appropriate for consideration. Information
supplied by the Instructor and assumptions required to be made should be treated as follows:

4.6 Information Provided Critically Appraised

Information provided by a borrower or by any other party (including the lender) should be verified by the Valuer as far as possible and critically appraised.

4.7 Defined Assumptions

If instructions include the requirement to base the valuation on defined assumptions, the assumptions should be acknowledged and included in the Valuer’s report.

4.8 Unrealistic or Unusual

Any assumptions or instructions which are either unrealistic, unusual or abnormal should be drawn to the attention of the lender and highlighted in the report. In some circumstances the requirements of the instructing party may be such that the instructions should be declined.

4.9 Contents

Valuation Summary

A comprehensive style report will usually feature an executive style summary prior to the body of the report. As well as capturing the essence of the report and highlighting any significant risks, it will usually include a certified valuation.

Introduction

- The person/party for whom the valuation is being prepared.
- Details of the instructions including any special conditions and/or assumptions.
- The date and basis of the valuation.
- The purpose for which the valuation is to be used, e.g. mortgage purposes.

Land and Title

- The title reference of the property and the title description.
- The name of the registered proprietor(s).
- The identification and reporting of title encumbrances such as easements, covenants, rights of carriageway. Comments should be made on the effect of any such matters under the valuation section of the report.
- Note which leases are registered on title and also note their expiry dates.

Location

- A general description of the location of the property and its access, the availability and accessibility of public transport.
- Comments on the nature of the surrounding development and land use.
- Proximity to major centres, educational facilities and retail facilities.
- Special features relating to the property such as views, adjoining developments, recreational facilities, etc.
- Any signs of apparent potential contamination from surrounding properties.

Site Description and Services

- Comment on the nature of the site, the dimensions and area, any positive or negative features and the siting of any buildings.
- Identify the services connected and available to the property.
- Comment on any potential flooding or landslip problems.
- Comment on site accessibility, roads and the nature of the traffic in the area.
- Visually identify any site problems such as any readily apparent contamination, drainage problems, obvious encroachments, filled ground.

Comment on any other relevant factors such as alternative access, impact on property of adjoining or neighbouring development.

Town Planning/Resource Management

- The report should provide details on the current zoning/planning area.
- Comment if the use of the property constitutes a non-conforming use under the town planning guidelines and whether the property has the apparent benefit of existing use rights.
- Comment on development codes, site ratios, development guidelines and densities where appropriate.
- The Valuer should inquire, if possible, as to any intention of Council to amend the planning scheme and if the property is
affected by any detrimental or beneficial planning proposals.

The Valuer should provide brief details of any current development consent affecting the property and any conditions to that consent affecting the valuation or the proposal.

Statutory Valuation and Charges

- Provide relevant information regarding statutory valuations and assessments for rating and taxing purposes.

Improvements

- Provide a description of the improvements including the materials used in construction and the accommodation provided with, where appropriate, gross building areas and/or net lettable areas. It may be necessary to define these terms.

- Comment on any detrimental features or unusual matters and the requirement for refurbishment or upgrading.

- Comment on the age and condition of the improvements including observable building deterioration and any recent upgrading/refurbishment works. Emphasise any adverse structural features.

- Where appropriate the Valuer should comment on the suitability of the improvements to the current use of the property and on any economic or functional obsolescence factors.

- Comment on the specialised nature of any of the improvements or features of the property.

- Comment on possible alternative uses particularly for specialised properties.

- Comment on any obvious non-compliances with statutory codes or fire provisions and recommend any expert advice where necessary.

- Comment on the effect of any outstanding orders where these are discoverable by reasonable verbal enquiry.

- For development proposals a description should be provided under the heading ‘Proposed Improvements’ and comment should also be made on any condition of the development consent affecting the proposal.

Environmental Matters

- The existence of any past, current or potential environmental hazard or contamination should be reported to the lender if identified by the Valuer. If necessary the Valuer should advise the requirement for an environmental audit before proceeding with the valuation. Where an adequately detailed environmental assessment report is available the Valuer should comment, if possible, on the effect of the contamination on the value and marketability of the property.

Comments on the Property

- A summary comment on the property may be appropriate especially relating to how they affect the marketability of the property.

- Locational factors both positive and negative.

- The overall state of the improvements and their functionality.

- Foreseeable or likely changes to or affecting the property.

- Actual or potential obsolescence factors affecting the buildings and the property.

- Observations in relation to statutory compliances.

- Any other features, disadvantages or unusual features.

Basis of Valuation

- The Valuer will provide an assessment of the Market Value of the property as at the date of inspection.

- Owner occupied properties shall be valued on a vacant possession basis for valuations for lending purposes.

- Tenancies or leases which are not at arms length should be ignored.

- The valuation should (where applicable) indicate inclusions and exclusions within the valuation assessment.

- The Valuer should consider the highest and best use before arriving at the valuation.

- Any assumptions made by the Valuer should be clearly highlighted under this heading.

- Information provided by the intending borrower must be critically assessed by the Valuer and acknowledged in the report.

Tenancy Details

- The valuation shall have regard to the existing tenancy position, subject to the points under ‘Basis of Valuation’.
• Where the property has lease structures in place, the Valuer will provide details of tenancy information either within the body of the report, or as an annexure.
• The Valuer will have regard to and confirm the actual rentals received, and should comment on current market rental levels, potential future vacancies, re-lettability, letting-up allowances and costs and the tenants’ liability for the payment of outgoings.
• The Valuer will have regard to the impact of impending and other rental reviews, the basis of such reviews, the remaining term of each lease (and option periods) and other relevant matters. If leases have not been sighted the Valuer should clearly state this in the report.
• A schedule of arrears of rental and outgoings should be obtained if applicable and details of any tenancy disputes.
• The Valuer is to comment on achievability of rental levels for proposed developments, letting up periods, incentives required and competition in the market from other similar developments.

Valuation Rationale Or Approach
• The Valuer will indicate to the mortgagee the basis upon which the valuation has been assessed, i.e. capitalisation of net income, direct comparison, summation or discounted cash flows.
• Details of comparable sales and other market evidence should be discussed in relation to the subject property. Where the Valuer has selected one or more methods of valuation, all matters considered in these methods should be outlined or detailed for the mortgagee, eg. rental shortfalls or overages, identification of outgoings, allowances for continuing vacancies, items identified as being of a capital nature for which an allowance must be made, monies required to complete the construction of the property, profit and risk factors, letting up periods, note of salient assumptions made within the discounted cash flows as to rental growth, outgoings growth, terminal yields and discount rates.
• A reconciliation of the various valuation approaches used may be required and the Valuer should justify the conclusions accordingly.

• Advise on what level of current and potential competition exists in the market for the letting and sale of the property.

Market Review or Summary
• Valuers should provide an overview of market conditions in relation to the property being considered and comment in relation to supply and demand. There should be some identification of the kind of demand, ie. owner occupier, investor or other and the general trends in the market which are apparent at the time.

Risk Analysis
• Valuers should provide a Risk Analysis appropriate for the type of property and its Market Value.

Valuation
• This will certify the Market Value of the property at the relevant date for mortgage lending purposes subject to any qualifications in the report.
• The Valuer should certify if requested that neither the valuer nor the firm has any interest, financial or otherwise in the property or the outcome of the loan application.
• For properties under construction or development the valuation figure should be CLEARLY IDENTIFIED AS A VALUATION ‘AS IF COMPLETE’. This should be subject to the issue of the appropriate building or other certificates and a final confirmation by the Valuer at completion.

Qualifications and Disclaimers
• The Valuer may include a qualification as to the intended use of the valuation identifying the party or parties relying on the report.
• Any qualifications on other matters contained in the report, should be included within the body of the report at the appropriate place, and/or next to the valuation, and/or as an annexure.
• Any disclaimer required by the Valuer’s professional indemnity insurer should be included.
• Any other disclaimer.
Annexure 1 – Model ‘Standing Instructions’

<Lender’s Name>

PREAMBLE
This document serves to set down the professional and service standards required by <Client Name> as lenders, engaging <Firm Name> as valuers to report on property for mortgage purposes.
It is set down in two parts:
Part A – Professional Standards
Part B – Service Standards

PART A – PROFESSIONAL STANDARDS
1. <Client Name> recognises that the Australian Property Institute (API) / Property Institute of New Zealand (PINZ) is the representative professional body for property professionals including valuers.
2. The API/PINZ has developed and continues to develop Practice Standards and Guidance Notes as well as Client Focus and Business Focus sections. These elements, along with the Code of Ethics and Rules of Conduct are incorporated in the Valuation and Property Standards Manual.
3. <Client Name> requires <Firm Name> to comply with, and give due recognition to, these elements as far as they apply to the type of property, purpose, issues and professional conduct in the provision of services to <Client Name>.

PART B – SERVICE STANDARDS
The Lender
For its part <Client Name> as lender, agrees to supply:
• Instructions in writing which will normally be forwarded by <means>.
• Information as recommended in the API/PINZ document Client Focus 2 sufficient for <Firm Name> to undertake its instructions. Should <Firm Name> consider that insufficient information has been provided for the purpose of the assessment and the type of report required, <Client Name> should be contacted immediately.
• <Client Name> will pay accounts by <method> and on a <time> basis.

The Valuer
For its part, unless specifically instructed to the contrary, <Firm Name> as valuers, will delegate specific instructions to a qualified and appropriately experienced member of the firm (unless a particular valuer is nominated) and agrees to provide:
Report Format <specify>
Turn Around Time <specify if appropriate>
Report Delivery <specify method(s) if appropriate>
<Firm Name> encloses evidence of its current Professional Indemnity Insurance Policy in the sum of $<amount>.

Signed: <Client>
Signed: <Firm>
Annexure 2 - Instructions for Valuation & Security Assessment

To VALUER:  <Firm Name>  Fax/E-Mail  
From LENDER:  <Client Name>  Date:  
Business Unit:  
Postal Address:  Fax:  
Street Address:  Reference 1:  
(for courier)  Reference 2:  
Borrower:  Reference 3:  Reference 4:  
Loan Amount:  $  
Contract Price:  $  E.M.V.:$  
Purchaser's Solicitor:  Phone:  

REQUEST: Please provide a Valuation and Security Assessment on the following property:

Type of Property:
Address:
Legal Description:

Please Provide for
- PropertyPRO Residential Valuation & Security Assessment (RV&SA)
- Short Form Valuation & Security Assessment
- Comprehensive Valuation & Security Assessment Report

Special Instructions:

FOR THE REPORT:

Date of Valuation:  Date of Inspection  Other: / / <Year>
Interest to be Valued:  Fee Simple vacant possession basis  Other:
If subject to Lease(s):  Yes – Rent $  Expires: / /  No
Copy of Lease(s):  Enclosed  Available From:
Plans & Specs:  Enclosed  Available From:
Tender/Quote:  Enclosed  Other Documents Enclosed:

ACCESS/KEYS:

Contact’s Name/s:  Phone – am/pm:  
Directions:  
Vendor:  Phone – am/pm:  
Tenant’s Name:  Phone – am/pm:  
REQUIRED:  URGENTLY  BY  A.S.A.P.
REPLY:  FAX  E-Mail  COURIER  POST
FEE:  $  PLEASE QUOTE
PAYMENT:  ON ACCOUNT  HEREWITH  IN MAIL  COLLECT
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SECTION A - INTRODUCTION

Preamble

1 The purpose of this Advisory Note is to provide a basis upon which Members of the Australian Property Institute (API) (Members) should prepare residential Desktop Assessments.

2 The Advisory Note may also be used by Members’ Clients to understand the procedures adopted in preparing Desktop Assessments and how they should be used.

3 The API considers that Desktop Assessments are suitable only for use by Members or Members’ Clients for mortgage security valuations of residential property. In addition Desktop Assessments should only be used in connection with transactions which represent a low to moderate lending risk and, then, only where the requirements of this Advisory Note have been otherwise met.

4 The Valuer is providing an Indicative Assessment (with conditions) of the Subject Property, based on the information obtained, following the procedures set out in this Advisory Note and / or contractual agreement.

5 The Indicative Assessment is not, and should not be construed to be, a representation as to the Market Value of the Subject Property, as defined in the Valuation and Property Standards Manual and the Practice Standards and Guidance Notes contained therein. A Desktop Assessment is merely Indicative Assessment made without the benefit of an inspection of the subject property. If a formal valuation of the subject property is made based on an inspection it may vary significantly from the results of any Desktop Assessment. Clients should be aware that the Desktop Assessment methodology carries with it risks which entail a degree of likely variation greater than might be expected to be produced by a Valuation.

6 The subject property is not inspected by the valuer.

Status and Scope

7 Members undertaking Desktop Assessments should comply with this Advisory Note.

8 Compliance with the Advisory Note means Members should:

  8.1 make their Clients aware of this Advisory Note;
  8.2 meet minimum qualifications criteria;
  8.3 ensure that sufficient Information is obtained; and
  8.4 follow all procedures required by this Advisory Note.

Terminology

9 A Desktop Assessment is a report prepared:

  9.1 by Valuers relying on specified documents and information; and
  9.2 that does not involve an inspection of the Subject Property; and
  9.3 that produces an Indicative Assessment (with conditions) of value of the Subject Property.

10 Other definitions which apply to the terminology used throughout the Advisory Note are contained in Annexure A. Defined terms are indicated by use of highlighting.
SECTION B - PRELIMINARY ISSUES

Contractual arrangements

11 Clients requesting Desktop Assessments should be made aware of the process being undertaken by the Valuer in preparing a Desktop Assessment (as distinct from any other Valuation Services provided by Members). The Valuer should provide a copy of this Advisory Note to Clients instructing the Valuer to prepare Desktop Assessments.

12 If the Valuer is not able to comply with this Advisory Note in preparing the Desktop Assessment, the Valuer should:
   12.1 confirm that a Desktop Assessment cannot be completed;
   12.2 recommend an alternative Valuation Service or Restricted Valuation if appropriate; and
   12.3 not issue the Desktop Assessment (complete or incomplete) to the Client.

Understanding

13 Valuers preparing Desktop Assessments should be familiar with this Advisory Note.

14 API members using Systems to prepare Desktop Assessments should ensure that there is adequate training of the System prior to undertaking a Desktop Assessment using the System.

Valuer qualifications

15 Desktop Assessments should only be prepared by Valuers who are:
   15.1 current members of the API (CPV or RPV); and
   15.2 registered Valuers (in accordance with the relevant State/Territory requirements); and
   15.3 continuously engaged in the provision of Valuation Services for at least 50% of their overall practising time; and
   15.4 continuously engaged in the provision of Valuation Services within the appropriate postcode. The valuer should have sufficient knowledge of the area within which the subject property is located for a period of not less than 6 months.

16 Where a Valuer is not able to satisfy the requirements set out in paragraph 15, the instruction to prepare a Desktop Assessment should be declined. The Valuer may, however make recommendations and accept alternative instructions from the Client to provide Valuation Services and/or a Restricted Valuation.
SECTION C - DESKTOP PROCUREMENT AND RISK

General

17 Desktop Assessments require the Valuer to be specifically instructed not to perform certain aspects of the processes involved in preparing Valuations including, but not limited to the inspection of the Subject Property. The aspects of the usual valuation that are not completed in preparing a Desktop Assessment include, inter alia, the following:

17.1 An internal or external inspection;
17.2 Land Topography and Aspect;
17.3 Roads and Access;
17.4 Site Defects;
17.5 Impact of adjoining development;
17.6 Environmental Risks;
17.7 Encumbrances;
17.8 Permissible Land Uses and Land Use Conformity;
17.9 Improvements; and
17.10 Leases and Tenancies.

18 Due to these aspects of the usual valuation process not being completed there are risks that the outcome of a Desktop Assessment may be inaccurate. These include:

18.1 the risk of inaccuracy of information contained in the Desktop Assessment as compared to Valuations is increased;
18.2 the fact that the Valuer cannot verify the accuracy of information contained in a Desktop Assessment as would be provided in a Valuation; and
18.3 the fact that Desktop Assessments will have significant limitations when compared to Valuations, including a greater degree of variation in the resulting Indicative Assessment.

Allocation of risk

Acceptance of Commercial Risks of a Desktop Assessment.

19 The API considers that there are inherent risks to a Lender / Client who relies on a Desktop Assessment but acknowledges that the Lender / Client has expressed a commercial need for such an assessment to be carried out by Valuers.

20 The Lender / Client expressly acknowledges and confirms that:

20.1 in producing the assessment contained in the Desktop Assessment, the Valuer has not carried out the usual range of enquiries that a Valuer is required to make by professional practice standards (as determined by the API and at law) in carrying out a Valuation of property and that this is at the specific request of the Lender / Client; and
20.2 the Lender / Client fully understands and accepts the risks inherent in such circumstances.

21 Accordingly, but subject to compliance by the Valuer with the requirements of the Desktop Assessment, this Advisory Note and the stated instructions of the Lender / Client, the Lender / Client agrees that it will have no cause of action against the Valuer whether in contract tort or otherwise by reason only that the Lender / Client suffered loss or damage by relying upon a Desktop Assessment.

22 Furthermore the Lender / Client acknowledges that it accepts that a Desktop Assessment is not and will not be construed to be a valuation in the same meaning as a valuation conducted in accordance with the General Concepts, Principles and Definitions as detailed in the standards promulgated by the API, which is based on an inspection of the subject property.

23 The Lender / Client further agrees that it will indemnify the Valuer against any claim for loss or damage by a third party invited or permitted by the Lender / Client to rely upon a Desktop Assessment, whether arising in contract tort or otherwise and
arising out of or in conjunction with reliance by that third party on a Desktop Assessment.

24 The Indemnity to be provided by the Lender / Client will not apply where the valuer has been fraudulent or dishonest.

25 Valuers shall not assign, readdress or reissue Desktop Assessments.

Risk management

26 In an effort to reduce the risks associated with the use of Desktop Assessments (as described in this Section C), the Valuer should adopt a procedure whereby:

26.1 the instruction from the Client is checked to ensure that the Subject Property is not of a type considered unacceptable by the API (Annexure B);

26.2 sufficient Information is obtained before a Desktop Assessment can be completed or issued.

27 It is the responsibility of Lenders / Clients to prepare appropriate and prudent risk management protocols to ensure that Desktop Assessments are used only in low to moderate risk categories.

Risk categories

28 The API considers that the following transaction types are unacceptable for Desktop Assessment:

28.1 all non-residential mortgage lending;

28.2 all lending on security other than a first registered mortgage;

28.3 all lending transactions connected with non-arms length sales; and

28.4 transactions where the security consists of, or includes, more than one security property located within a single development.

This list is not intended to be exhaustive.

29 The API considers certain categories of property to be unacceptable for Desktop Assessment. Annexure B to the Advisory Note is a non-exhaustive list of these unacceptable properties.

30 It is expected that the Client/Lender should implement procedures to monitor:

30.1 the compliance of their internal procurement practices with this Advisory Note and / or specific contractual arrangements;

30.2 the compliance of Valuers and/or Valuation Firms retained by the Client/Lender to provide Desktop Assessments with this Advisory Note and / or specific contractual arrangements.
SECTION D: DESKTOP PROCESS

Information

Essential

31 It is essential for a Lender / Client instructing a valuer to prepare a Desktop Assessment to provide to the valuer, at the time of first issuing instructions, all information required in this section. The essential Information to be provided by the Lender / Client to enable a Valuer to complete a Desktop Assessment is:

31.1 The Subject Property data, namely:
31.1.1 full property address;
31.1.2 legal description;¹
31.1.3 purchase price (if applicable);
31.1.4 land area or plan with measurements;
31.1.5 property type (vacant land, residential dwelling, townhouse, unit);
31.1.6 external improvements (eg, swimming pool);
31.1.7 main building type;
a) approximate build date;
b) details of significant renovations including date;
31.1.8 main walls and roof;
31.1.9 number bedrooms, bathrooms;
31.1.10 car accommodation (eg, garage, car port or car space); and
31.1.11 services;
31.1.12 a full copy of the contract (where Desktop Assessment sought in connection with a purchase or proposed purchase) and any other contractual arrangement affecting price.

(Collectively referred to as Subject Property Data); and

31.2 At least two visual identifiers of the Subject Property from the following categories:

31.2.1 Location map;
31.2.2 property frontage photograph; or
31.2.3 aerial/cadastral photograph.

32 The Valuer should obtain all Subject Property Data from the Client and/or the Customer (or Third Party) collectively. In the event that not all Subject Property Data can be obtained from the Client and/or Customer (or Third Party) collectively, the instruction to prepare a Desktop Assessment should be declined. The Valuer may, however, make recommendations and accept alternative instructions from the Client to provide Valuation Services or a Restricted Valuation.

Sales Evidence

33 Sales Evidence is to be collected for 4 comparable properties each of which should:

33.1 have transacted within the last six months; and
33.2 be known to the Valuer based upon a prior inspection by the Valuer or by a qualified valuer within the Valuer's firm.

Indicative Assessment

34 The Valuer is providing an indication of the value of the Subject Property, based on the information obtained, following the procedures set out in this Advisory Note (Indicative Assessment).

35 The Indicative Assessment (with or without conditions) is not a representation as to the Market Value of the Subject Property, as defined in the Valuation and Property Standards Manual and the Practice Standards and Guidance Notes contained therein. Clients should be aware that the Desktop Assessment methodology carries with it risks which entail a degree of likely variation greater than might be expected to be produced by a Valuation.

¹ Unless stated otherwise, fee simple with vacant possession is to be assumed. The Valuer is not expected to search the title or to enquire about any leases or occupancy rights.
CLIENT FOCUS 3

Reporting requirements

36 All notes, revised instructions and changes made to documents provided and collated as part of the Desktop Assessment process are to be maintained on the Valuer’s file (hard copy or electronic).

37 Systems used to prepare Desktop Assessments may provide an audit trail of any changes made to System during the Desktop Assessment process. All changes should be logged by reference to the user, time and date of change. The Valuer should have access to this log trail at all times.

Security

38 Valuers using a System to prepare Desktop Assessments should ensure that:

38.1 details necessary to access the System are kept secure and not misused; and

38.2 any electronic signature generated as part of the System is used only by the Valuer.
## ANNEXURE A: DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Practising Valuer (CPV) or Valuer</td>
<td>A Valuer meeting the requirements for Certified Practising Valuers as defined by the API.</td>
</tr>
<tr>
<td>Client</td>
<td>The party instructing the Valuer to prepare the Desktop Assessment. The Client may be the Supplier, Lender or a financial intermediary.</td>
</tr>
<tr>
<td>Continuously engaged</td>
<td>A Valuer is continuously engaged in the relevant postcode where the Valuer has undertaken multiple valuations of that type over the whole (and note merely some part) of the period specified.</td>
</tr>
<tr>
<td>Customer</td>
<td>A person who seeks to grant a mortgage over the Subject Property to the Lender in support of a proposed Loan.</td>
</tr>
<tr>
<td>Desktop Assessment</td>
<td>A report prepared: 1) by Valuers relying on specified documents and information; and 2) that involves no inspection of the Subject Property; and 3) that produces an Indicative Assessment of value of the Subject Property.</td>
</tr>
<tr>
<td>Indicative Assessment</td>
<td>An indication of the value with any limiting conditions of the Subject Property, based on the information obtained, following the procedures set out in this Advisory Note.</td>
</tr>
<tr>
<td>Lender</td>
<td>The financial institution issuing instructions (or on whose behalf instructions are issued) to the Valuer. The Lender may have the same meaning as the Client.</td>
</tr>
<tr>
<td>Essential Information</td>
<td>Essential information, specified in the Advisory Note, that the Valuer requires in order to conclude the Desktop Assessment.</td>
</tr>
<tr>
<td>Non-Essential Information</td>
<td>Information that may be of assistance to the Valuer in preparing the Desktop Assessment but is not Essential information.</td>
</tr>
<tr>
<td>One-Off Services</td>
<td>Desktop Assessments requested by a Client where the instructed Valuer is not part of a panel of approved Valuers who provide Valuation Services to that Client.</td>
</tr>
<tr>
<td>Advisory Note</td>
<td>This Desktop Assessment Advisory Note produced by the API (including any API revisions, updates or additions from time to time).</td>
</tr>
<tr>
<td>Property PRO™</td>
<td>Valuations prepared in accordance with the API Property PRO™ Residential Valuation and Security Assessment Supporting Memorandum.</td>
</tr>
<tr>
<td>Restricted Valuation</td>
<td>A valuation prepared in accordance with the API Restricted Valuation Supporting Memorandum.</td>
</tr>
<tr>
<td>Sales Evidence</td>
<td>Sales data that relates to properties that have characteristics comparable to the Subject Property.</td>
</tr>
<tr>
<td>Subject Property Supplier</td>
<td>The property for which the Client instructs the Valuer to prepare a Desktop Assessment report. A party that acts as an intermediary between Lenders and Valuers in connection with the procurement by the Lender of Valuation / Desktop Assessment services. The Supplier typically: • issues instructions to Valuers to prepare Valuations and/or Desktop Assessments for Lenders. • owns the System.</td>
</tr>
<tr>
<td>System</td>
<td>Any computer system, portal, database, application service, program or any other technology utilised: • in preparing Desktop Assessments; and/or • to track, deliver, produce and coordinate Desktop Assessments.</td>
</tr>
<tr>
<td>Valuation</td>
<td>A valuation carried out in accordance with the General Concepts, Principles and Definitions of the Valuation and Property Standards Manual, excluding Desktop Assessments and Restricted Valuations.</td>
</tr>
<tr>
<td>Valuation Services</td>
<td>Preparing market valuations based on inspecting the subject property (including sales analysis and property inspections and other ancillary work) required for the preparation of Valuations.</td>
</tr>
</tbody>
</table>
ANNEXURE B: UNACCEPTABLE PROPERTY TYPES LISTED BY API

1) Any property under construction or a new house and land package.
2) Any security property known or disclosed to be greater than 2.2 hectares in land size.
3) Any property known or disclosed to be zoned for other than residential purposes.
4) An income-producing rural property.
5) Part of a development which has been converted from another usage.
6) Serviced apartments.
7) Properties designed, zoned or used for commercial purposes (excluding residential usage units in a commercially zoned development).
8) Properties that are unique, or have restricted usage.
9) Properties to be constructed by an owner–builder (in whole or part).
10) Leasehold properties other than Crown lands in the ACT.
11) Purple title (WA) or Moiety title (SA).
12) Under a ‘timeshare’ arrangement.
13) Land subject to licence to occupy.
14) Limited title (any defects).
15) Mobile or temporary homes.
16) Boarding houses/homes supporting residential services.
17) Land/improvements contaminated.
19) A strata unit of less than 40 square metres.
20) Crown land (excluding the ACT).
21) Properties under the Western Lands Act.
22) Properties purchased off-the-plan.
23) Properties within a known flood height level higher than the lowest floor level.
24) A multiple occupancy security that is a single property comprising of more than one unit of living accommodation.
25) A property located on an island without sealed road connection to the mainland (excluding Tasmania).
26) A studio apartment or bed-sitter (no separate bedroom).
1.0 The Importance of Relevant and Timely Feedback

1.1 Purpose
The purpose of this Client Focus element is to outline for clients of API or PINZ Members the importance of providing feedback on the services provided and to let it be known that the Australian Property Institute and New Zealand Property Institute is also interested in receiving feedback, not only on the performance of its Members but also on the Institute's itself.

1.2 Importance of Clear and Precise Instructions
Clear and precise instructions are an important part of receiving service that delivers the level and type of output clients require. Sometimes, though what is delivered may not meet requirements. Causes may include misunderstanding or failure to comply with API or PINZ Code of Ethics, Rules of Conduct, Practice Standards or reasonably align with Guidance Notes.

1.3 Feedback before Acting on Advice if Concern
It is important for clients to realise that it is totally reasonable and preferable for them to check back with the service provider for clarification, correction or supplementation whenever it is perceived that any output does not meet requirements of the instructions or professional expectations. This feedback should be done before acting on the advice provided.

1.4 Members to Respond
It is the Member's professional responsibility to respond to any reasonable queries or feedback even though no additional fee is offered. However the Institute recognises that in the case of additional work resulting from unclear original instructions or variation to the original instructions, it may be appropriate for the Member to seek an additional fee.

1.5 Positive Response to Exceptional Service
The Institute also encourages clients to respond positively to its service providers where the level of service or advice is considered to be exceptional. Further if this feedback is provided to the Institute, it can develop a better understanding of what clients would like to receive and look to measures that might raise the overall standard of its Members.

1.6 Feedback to Institute if Concern
At the same time the Institute recognises that there will be occasions when a client considers that the quality of the service provided seriously falls short of its expectations or those of the Institute's Code of Ethics, Rules of Conduct, Practice Standards or Guidance Notes. While a client may be reluctant to lodge an official complaint, the Institute would nonetheless like to be made aware of the client's perception. This can even be done without advising the Member's name if so desired. The communication may include all or part of a report to highlight any concern. It should be addressed to the Divisional Office of the API in the state in which the Member's office is located or national office of the PINZ.

1.7 Importance of Feedback
It is important for the reputation of the membership at large that the Institute is informed. This way it can consider if what is raised is a one-off issue or something that is becoming a more widespread issue to be addressed with the membership at large. If the Institute considers it important for the Member involved to be counselled, it may request that the Member's name be revealed, but this will ultimately be up to the client.

1.8 Institutes Performance
The Institutes would also like to know how Member's clients as well as Members feel about the performance of the each Institute. Again it is by being aware of how the Institutes are
CLIENT FOCUS 4

perceived that they can review what they do and how they do it so as to benefit and be relevant to Members and their clients. Such comments should be forwarded to the API National Secretariat in Canberra or the PINZ National Secretariat in Wellington.

Contact Details for the API and PINZ are located on page 16.5.1.
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1.0 Introduction

1.1 Purpose
This Supporting Memorandum provides the basis upon which Members of the Australian Property Institute (API) will provide valuations of residential properties for first mortgage purposes using the PropertyPRO ‘Residential Valuation and Security Assessment’ Pro-forma Report for Mortgage Purposes (Report). It is also the basis on which their lender-clients and any applicable approved lenders mortgage insurer(s) (LMI(s)) accept(s) and use(s) such Reports.

1.2 Scope
This Supporting Memorandum sets out limitations and qualifications inherent in valuations, and in particular the risk analysis, provided in the Report format. A lender-client/LMI who instructs a Valuer to provide a Report agrees to accept and be bound by the process contained in this Supporting Memorandum. In particular, it provides important information to lender-clients/LMIs and Valuers in relation to:

- initial written instructions to the Valuer and what information must be provided,
- the information the Valuer must 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 is aware will be checked by the lender-client/LMI and/or its/their solicitor(s) and or others on behalf of the lender-client/LMI (and which must subsequently be referred back to the Valuer for comment and review, and in particular by reference to a different value),
- the information and documentation the Valuer is expected to hold on file, and
- the responsibilities and obligations assumed by lender-clients/LMIs.

Valuations using the Report format are provided for and may be relied on by lender-clients and, if agreed in writing between the Valuer and the lender-client, their LMs only. Any agreement by the Valuer and the lender-client/LMI to a third party other than the lender-client/LMI relying upon the Report must be in writing and signed by each of the Valuer and the lender-client/LMI. In that case, valuations using the Report format must only be used for the purpose(s) outlined herein and any reference in this Supporting Memorandum to the lender-client/LMI will be taken to also be a reference to that third party.

1.3 Copyright
The API 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 API under the PropertyPRO Trademark. It is produced out of a database program that is only available to Members of the API.

1.4 Certification
Subject to what is contained herein, a Valuer who provides a Report must do so in accordance with this Supporting Memorandum. Likewise a lender-client/LMI who instructs a Valuer to provide a Report or whom it is agreed by the Valuer can rely upon the Report must do so and can only rely on such Report in accordance with this Supporting Memorandum.

1.5 Brief Report for Single Residential First Mortgage Purposes Only
The Report is specifically designed for the purpose of providing a brief report on a single residential property for first mortgage purposes only.

A “single residential property” is:

- A single house/dwelling
- A single home unit or apartment
- A serviced apartment that is suitable for permanent occupation and can be used for permanent occupation within a relatively short period of time (that is, not more than 12 months).
- A single residential allotment.
- Non income producing rural property where a single residential use is permissible and no underlying redevelopment potential exists
- Dual occupancy property in which two dwellings are contained on the one allotment of land

Single residential property does not include land or a lot that is used wholly or predominantly for non residential purposes.

All other properties and/or property types are excluded from the definition of a ‘single residential property’ and must be subject to a full valuation report with agreed fees reflecting the extent of such valuation instructions. Valuations of properties that are not ‘single residential properties’ as defined herein will be subject to specific separate written instructions which will not include the terms of this Supporting Memorandum unless otherwise agreed to by the parties in writing.

Exclusions from the definition of a “single residential property” include:

- Serviced apartment subject to a management
16.1.3

agreement that restricts its use for permanent occupation

• Serviced apartment subject to a lease-back arrangement
• Student accommodation
• Retirement homes
• Boarding houses/hostels
• Mobile or temporary homes
• Purpose built residential property used for commercial purposes
• Residential property where in the Valuer’s reasonable opinion its market value may exceed $5 million

The PropertyPRO Report format is not suitable for valuation of a development site or englobo land for any property including dwellings with shop fronts and any other underlying potential use including subdivisional, retail, commercial and industrial. The Report format is suitable for valuation of residential premises with the relevant zoning in place.

The PropertyPRO Report format is not suitable for and is not to be used for mortgagee in possession valuations.

1.6 Supervision Guidelines for API Members

1.6.1

For the purposes of this Supporting Memorandum and in accordance with the API Capped Liability Scheme:

‘Supervising Member’ means a Member of the API who holds Certified Practising Valuer (CPV) status and is:

(a) An Associate of the API (AAPI)

(b) A Fellow of the API (FAPI)

(c) A Life Fellow of the API (LFAPI)

‘Member’ means a financial practising member of the API and does not include a non-practising member.

1.6.2

A Report must not be signed by a Member unless the Member has fully inspected the subject property.

A Supervising Member is not required to physically inspect the subject property.

A Report cannot be signed in any capacity by a Student Member or Provisional Member unless that Provisional Member has Residential Property Valuer (RPV) status.

1.6.3

Reports signed by a Provisional Member of the API (PMAPI) with RPV status, a Graduate Member of the API (GAPI), Provisional Associate of the API (PAAPI), or Associate Member of the API (AAPI) (in transition to CPV) are only acceptable when they are countersigned by a Supervising Member who is a CPV - who has:

• Reviewed the draft valuation, working papers and any additional documents from the valuation file relevant to the value opinion (Review); and

• Based upon the Review and appropriate questioning of the Member or Associate who performed the valuation, is satisfied that there is a reasonable basis for the value opinion contained in the draft valuation.

1.6.4

If the valuation is for a sum greater than $1 million:

(a) the Report may be signed by a PMAPI with RPV status, a GAPI, a PAAPI, or an AAPI (in transition to CPV). However, the Report must be countersigned by a CPV who is a director, principal, partner or other client agreed member of the firm, where the CPV who is a director, principal, partner or other client agreed member of the firm who has conducted a Review and based upon the Review and appropriate questioning of the Member or associate who performed the valuation, is satisfied that there is a reasonable basis for the value opinion contained in the draft valuation.

Should a lender-client/LMI require a CPV to be the primary signatory to the Report, the above applies unless the primary signatory CPV is a director, principal or partner of the firm, in which case only one signature is required. Where the Member is operating as a sole practitioner and has CPV status, only one signature is required.

1.6.5

A Member must not accept instructions in relation to a valuation where the Member does not have competence in either:

• the geographical area of the subject property being valued; or

• the type of valuation being undertaken, including the basis of valuation (ie valuation methodology).

Assignments may be undertaken in conjunction with a person having the required competence after disclosure to the lender-client/LMI.

1.6.6

For the purposes of this Supporting Memorandum:
Director, Principal or Partner of the firm relates to Members with CPV status who are legally liable as such.

For the avoidance of doubt a person who merely has a role or title ‘Director’, ‘Principal’ or ‘Partner’ should not sign in the capacity of a legally recognised ‘Director’, ‘Principal’ or ‘Partner’.

However, it is acknowledged that it is not practical in all circumstances for such a person to sign reports and it is therefore necessary for Members that agreement is reached with lender-clients/LMIs regarding other CPV Members signing in the capacity of a counter signatory.

2.0 Initial Instructions to Valuer and Supply of Information

2.1 Standing Instructions

Valuers should ensure that instructions to provide a Report are on the basis of a standing instruction or a specific instruction that the provision of the Report will be subject to the terms of this Supporting Memorandum.

2.2 Instructions in “writing”

Instructions for individual Reports must be in “writing”. Any instructions transmitted electronically should be able to be produced in a hard copy form for retention in the Valuer’s file. Any instructions provided verbally in the first instance must be confirmed in “writing” by the lender-client/LMI before commencement of the valuation, or failing that, the Valuer must confirm the instructions in “writing” and retain a file copy.

2.3 Desirable and Necessary Detail

A Valuer may produce a Report after being provided with very little/minimal information by the lender-client/LMI, such Report being appropriately qualified. The lender-client/LMI must provide to the Valuer all information in its possession or readily available to the lender-client/LMI for passing on to the Valuer that may impact on the valuation of the subject property. By way of example only, as much of the following information and documentation as possible should be provided in or with the instructions for a Report. As outlined above, where some information is not readily available to the Valuer, the Report may be appropriately qualified.

- **Valuer**
  - The name of the firm to which the instructions are addressed.

- **Date(s)**
  - Date of request and date required (if applicable and not a contract condition).

- **Lender**
  - The name of the instructing organisation and any other parties who may rely on the Report.
  - Appropriate references and organisation contact details.

- **Borrower**
  - Name(s) of borrower(s) and any reference number(s).

- **Property Address**
  - Full street address, including locality name, state/territory and postcode.

- **Title detail**
  - Legal description.
  - Copy of search or title document including encumbrances etc. The Valuer will not be required to obtain or refer to a Title Search unless specifically instructed.
  - Copy of deposited or registered plan, strata or unit plan or survey report.

- **Property Type**
  - eg Dwelling, unit.

- **Contract Price**
  - If a sale of the subject property has occurred within the past 3 months (price and date of sale) - note if it is an ‘off the plan’ purchase.
  - For the purpose of this provision, “occurred” refers to the entering into of a Contract for Sale which may or may not have been completed.

- **Full Copy of Contract**
  - Where reasonably available, a full copy of the Contract including any special conditions, certificates, etc, must be provided to the Valuer.

- **Contact for Access**
  - Contact’s name (if subject property has been sold or leased, the names of any real estate or leasing agents involved should be provided).
  - Contact’s telephone number(s) – and what time(s) of day contact is preferred.

- **If Tenanted**
  - Tenant’s name, rent being paid and expiry date(s) of the lease(s).

- **Special Instructions**
  - Any applicable.

- **Tender Details**
  - If proposed dwelling, renovation or extension, arrange for the Valuer to receive:
    - Copy of building contract, latest tender or quote with priced schedule of fittings/PC items.
    - Copy of plans and specifications preferably.
approved.
- Builder’s name, licence details and phone number(s) and/or such details for an Owner Builder.

- **Any Other Relevant Information**
  Eg. Zoning certificate, development approval, building approval, other information about affectations which may impact on value, etc.

- **Report Dispatch**
  Where and how the Report should be forwarded.

### 3.0 Format of Reports

#### 3.1 Layout Designed to Facilitate Easy Checking

The 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-client/LMI, the whole Report must be read and any failure to do so will not constitute reliance by such party asserting reliance on the Report. The risk analysis on the front page with its graphic presentation particularly serves to draw immediate attention to any risks rated higher than or equal to 3, and to appropriate comments later in the Report.

#### 3.2 Brief Facts, Points and Concise Statements

As the Report is a pro-forma report, it presents its information in brief pertinent facts, points and concise statements. Any significant adverse issue mentioned in the body of the Report must be flagged via the Risk Ratings (ie assigning risk ratings higher than or equal to 3). However, features impacting significantly on the subject property must be adequately noted. The format has been designed to suit a majority of situations. Where required, the ‘Additional Comments’ section can be expanded to cover less common properties. 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. A Valuer will not be precluded in any way from adding whatever additional comment/information as is deemed to be required by that Valuer, in completing the Report in accordance with this Supporting Memorandum.

There are formats for strata and proposed dwellings/extensions/renovations, vacant land and for properties subject to long term lease. Some label variations are available to suit particular situations, eg ‘Built About’/‘Year Built’, while others only appear if relevant, eg ‘Actual Rent’. A ‘vacant land’ variation deletes a number of headings.

#### 3.3 Information which must be provided in the Report

The Valuer must provide in the Report, under each sub heading in each main section, the information and comment referred to below. This is subject to what is contained within this Supporting Memorandum and any limitations and qualifications set out below and subject to the information being common knowledge and or readily ascertainable and or provided by the lender-client/LMI within the time frame available to complete the Report.
## ITEM | REQUIREMENT
--- | ---
Lender | The lending organisation’s name. Where additional lender-clients/LMIs and/or other parties are required to be noted on the Report, these will be inserted at the end of the document.
Lender / Borrower References | Provide field labels relevant to those used by the lender-client/LMI.

### 1. PROPERTY SUMMARY

**PROPERTY ADDRESS:** Full street address, including locality name, state/territory and postcode

**TITLE DETAILS:** Description of land and title details where available.

Note: The Valuer is not required to obtain a Title Search unless specifically requested. The requirement for this information is subject to the issues referred elsewhere in the Supporting Memorandum.

**Encumbrances/Restrictions:** A comment as to whether any encumbrances/restrictions, either adverse or beneficial, affect the subject property within the knowledge of the Valuer. Comment in the form “Known” or “Not Known”. If “Known”, further comment required in Section 8 (Additional Comments) of the Report.

**Site Dimensions:** Where available or able to be described use the convention of frontage/rear then one side/other (where no ‘/’ is shown, this indicates the same dimension for each), or otherwise provide site area.

**ZONING/INSTRUMENT:** Status of appropriate authority(ies) zoning and name of most relevant planning instrument

**LGA:** Local Government Area name

**MAIN BUILDING:** Broad type classification eg Dwelling, Residential Unit, Duplex, Vacant Land, Other

**No. of Bedrooms**

**No. of Bathrooms** Include ensuites

**Current Use:** Advise 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):** Approximate age of major extensions.

**Actual Rental/Until:** Note actual rent and lease expiry date subject to lender-client’s/LMI’s requirements and availability.

**CAR ACCOMMODATION** Describe car accommodation and note area in square metres or number of car spaces as appropriate.

**AREAS:** Area measured or ascertained. Practical use of most measuring systems will produce an approximate result.

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

**AREAS – HOME UNITS** The outdoor areas should be separate and excluded from the living areas of home units, villas or townhouses. Car parking and storage areas should be listed separately.

**MARKETABILITY:** A brief comment as an overall rating of the ease of sale of the subject property (ie how saleable is the subject property as at the date of valuation?). This should be based on any inherent or external features favourably or adversely affecting the marketability of the
subject property. Low or below average ratings need to be explained in the ‘Additional Comments’ section of the Report. (Marketability in this instance is not intended to be a comment on the condition of the market). Otherwise expand as necessary in the ‘Additional Comments’ section of the Report.

For the purposes of this Supporting Memorandum, the word ‘marketability’ means the suitability of the subject property to be sold at the date of the Report at the value as referred to in the Report or such other value as is within a reasonable range of that value as determined by law, based upon all relevant facts, matters and/or circumstances current and known to the Valuer as at the valuation date.

**HERITAGE ISSUES:** A comment as to whether any heritage issues, either adverse or beneficial affect the subject property within the knowledge of the Valuer. Comment in the form “Known” or “Not Known”. If “Known”, further comment required in Section 8 (Additional Comments) of the Report.

**ENVIRONMENTAL ISSUES** A comment as to whether any environmental issues, either adverse or beneficial, affect the subject property within the knowledge of the Valuer. Comment in the form “Known” or “Not Known”. If “Known”, further comment required in Section 8 (Additional Comments) of the Report.

This should record any significant, observable, visual and/or known defects or hazards or visual or observable or known site contamination. Where a defect or hazard is recorded, further comment is required in Section 8 (Additional Comments) of the Report.

Any identified 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 the ‘Additional Comments’ section of the Report. Should any issues be subsequently confirmed, the Valuer must be asked for further comment in view of any certificates or other experts’ reports (and their estimated costs of remediation or recommended work).

**ESSENTIAL REPAIRS**
In undertaking a valuation, a Valuer has a duty to identify and comment on the presence of any obvious and patent and observable building and/or construction defects which are revealed upon inspection of accessible areas only. Furthermore, the extent to which such defects and faults impact upon value needs to be considered and commented on in the Report.

The Valuer should identify only those items observed by the Valuer and which, in the Valuer’s opinion, if not attended to, could cause significant deterioration and loss in value or could have a significant adverse effect on marketability of the subject property. The Report is not intended as a structural or building survey report.

Where the Valuer identifies such defects, however, the cost and mode of rectification (and therefore any value adjustments) is outside the scope of the Valuer’s expertise. The Valuer should recommend that a separate expert report be undertaken. Where a Valuer has reduced the value of the subject property because of the need for essential repairs, such adjustments need to be identified and included in Section 8 (Additional Comments) of the Report. Any estimate of costs to repair as provided by the Valuer must be confirmed by an appropriate expert.

The Valuer should state that the valuation figure, based on the current condition of the subject property, is conditional upon the cost of rectification (to be advised by another
expert) being considered so as to be able to conclude the valuation. Furthermore, the Valuer should recommend that any such defect / fault be thoroughly investigated including the cost of rectification of the fault (by an appropriate expert), prior to any loan fund advance. In this way, the Valuer is warning the lender-client/LMI that any figure stated in the Report is subject to a cost deduction or adjustment from the figure provided once another expert report is obtained.

Relevant comments to be included in Section 8 (Additional Comments) of the Report.

The ‘Existing Property’ value reflects the current condition of the subject property.

TBE (To Be Erected)/ Extension/Renovation – Please Note TBE’s are to be the subject of a separate review.

TBE will show and applies only where a building project is involved, ie 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’ as at the date of the Report provided that the material/information as noted elsewhere in this Supporting Memorandum is provided/supplied to the Valuer. In each case the builder’s name and building contract or tender details should be shown.

Check Cost

A Check Cost will only be provided by the Valuer where the Valuer has adequate cost indicators for that style of construction. The purpose is primarily to identify if the tender is broadly in line with market costs. It is not expected that a detailed costing will be conducted. If the Check Cost is significantly different to the tender then this matter will be drawn to the lender-client’s/LMI’s attention.

Information Supplied

The lender-client/LMI must request that the borrower provide copies of all Council approved documentation/plans and specifications and inform the Valuer whether such documents, plans and specifications will be provided and, if so, by whom and when. 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 in the Report format is the Valuer’s assessment of the current impact on the subject property of a number of specified factors presented in a numerical/graphical format.

The purpose of risk ratings is to alert the lender-client/LMI to anything that is readily apparent and known to the Valuer at the date of valuation and that may impact on the current market value or marketability of the subject property, limited to the Valuer’s area of professional expertise.

Risk Ratings are an indicator only and should not be relied upon alone in lending considerations.

Any significant adverse issue mentioned in the body of the Report should be flagged via the Risk Ratings.

This is a simplified analysis based on the current experience and knowledge of the Valuer and is not a technical analysis. The lender-client/LMI cannot expect that the Valuer brings to the task any greater level of common knowledge or ability to foresee events than can be expected of persons experienced in the market for that class of property in its market place (which may be local or broader). The risk analysis is the product of the current experience of the Valuer based on information that is common knowledge and/or readily ascertainable in the market for that class of property in its market place. The risk analysis does not reflect information that is privileged or to which the market for that class of property in its market place does not have ready access and it does not reflect decisions, announcements, releases, articles and the like that the Valuer has not had reasonable time and opportunity to assess and consider, or would in the ordinary course of acting as a valuer with respect to PropertyPRO valuation instructions become aware of or have access to. Subject to these limitations, the risk analysis indicates the level of adverse impact each stated aspect has on the subject property's value and marketability as at the date of valuation. In the case of higher level ratings, it can also provide an indicator of the presence of relevant comments in Section 8 (Additional Comments) of the Report.

Lender-clients/LMIs are encouraged to discuss Risk Ratings no matter at what level they are with the Valuer.
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.

It is accepted that each aspect is likely to have some possibility of adverse impact or risk, however low or nominal. The assessment of the level of adverse impact or risk includes assessment of both the probability and consequence of the risk.

The ratings which are outlined below the bar graphs are:

‘1’ – Low – no readily identifiable adverse issue

‘2’ - Low to Medium – minor adverse issue only not warranting comment

‘3’ – Medium – there is an adverse issue for the lender/client/LMI to note

‘4’ - Medium to High – there is an important adverse issue in the Report for the lender-client/LMI to consider before relying upon the Report

‘5’ - High – there is an extremely important/urgent adverse issue in the Report that could have a major impact on the current value and/or marketability of the subject property

Any Risk Ratings of ‘3’, ‘4’ or ‘5’ must be commented upon in Section 8 (Additional Comments) of the Report.

As outlined above, for the purpose of the Report, the risk rating reflects the Valuer’s assessment of the level of adverse impact the stated aspect has upon the current value and/or marketability of the subject property.

Underlying Principles When Applying Risk Ratings

- **Risk ratings address the likely level of adverse impact each risk aspect has on the subject property’s current value and/or marketability.** For the purpose of the Report, the risk rating reflects the Valuer’s assessment of the level of adverse impact the risk aspect may have upon the current value and/or marketability of the subject property and/or the currently known perceived level of adverse impact the risk aspect could have on the current value and/or marketability of the subject property.

- **A high risk rating is not necessarily intended as a ‘don’t lend’ advice.** Valuers are in the property valuation business, not the lending business and as such a Valuer’s role is to flag potential risk issues that are apparent at the date of valuation and which might impact on the current market value of the subject property.

- **‘Risk ratings’ and ‘Market Value’ are mutually exclusive and must be assessed independently of each other.** Market Value represents the price that could reasonably be expected to be achieved from the sale of the subject property at the date of valuation (as defined in the Australian and New Zealand Valuation and Property Standards Manual). Risk Ratings represent the level of adverse impact each stated risk aspect might have on the subject property’s current value and/or marketability. It is not appropriate to adjust the market value to achieve a desired risk rating.

- **Risk ratings should reflect the current status of the subject property within the broader economy and property market.** They should not reflect general/macroeconomic/property market fluctuations. Broader economic and property market conditions should be discussed elsewhere in the Report. The reason being is that the purpose of risk ratings is to highlight likely under performance of a particular asset not the general performance of the market.
• **A risk should only be assessed once under a single risk aspect.** While a risk may logically fall under a couple of risk aspects, it could be interpreted as there being several issues with the subject property when realistically there is only one issue of concern.

**Risk Rating User Guide**

• The following provides a guideline on the allocation of risk ratings. The guideline is just that, a guideline only, and is not meant to deal with every situation but rather to provide some consistency in how risk ratings are applied more so from an interpretative point of view.

**Market Risk Ratings**

The ‘Recent Market Direction’ has been included in the Market Risk Ratings section because it deals with matters of risk and requires further comment when what is happening in the current market indicates risk (application of a ‘3’, ‘4’ or ‘5’) which is consistent with the requirements that apply to other risk ratings. A Valuer is not required to and must not provide any advice or opinion in relation to the possible value of the subject property at any time in the future.

The below graphic is included for illustrative purposes only and should not be relied upon to interpret any provisions of this Supporting Memorandum but is provided to assist the Valuer to advise upon ‘Recent Market Direction’.

Any lender-client/LMI that has any concerns no matter how minor such concerns may be as to the various risk analysis ratings contained within a Report must submit in writing to the Valuer an explanation of those concerns and allow a reasonable period of time for the Valuer to comment on those concerns. No request(s) to a Valuer for change(s) to the Risk Ratings can be made by any lender-client/LMI other than in writing, and specifying reason(s) for such change(s), and the Valuer reserves the right to consider, agree and/or reject such request.
### Property Risk Ratings

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Location / Neighbourhood</th>
<th>Land (including planning, title)</th>
<th>Environmental Issues</th>
<th>Improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Low risk</td>
<td>Sought after residential areas.</td>
<td>Block is freehold, near level and regular shaped.</td>
<td>Nothing at all to suggest there may be environmental issues.</td>
<td>Refers to all improvements, whether the main building or ancillary improvements (and for a TBE - Proposed Dwelling, Inclusions or Renovations, would include concerns about aspects of the project or tender).</td>
</tr>
<tr>
<td></td>
<td>Prestige locations including but not limited to CBD and/or inner suburbs.</td>
<td>Title and plan of subdivision sighted.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Standard suburban location.</td>
<td>No apparent adverse issues.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Residential zoning.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Land physically, but also to access, services, planning and title.</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>This is measured relative to the market the subject property is in.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Land (including planning, title)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environmental issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - Low to medium risk</td>
<td>Less preferred parts of suburban areas, but still nearby to all facilities and amenities.</td>
<td>No title and plan sighted.</td>
<td>Minor environmental issues not warranting comment such as overgrown vegetation, insects, etc.</td>
<td>Existing home or ancillary improvements with normal wear and tear not warranting comment.</td>
</tr>
<tr>
<td></td>
<td>Stable residential areas.</td>
<td>Battle axe / narrow fronted block.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Minor encumbrances, easements or encroachments but little effect on current marketability and/or value (eg storm water/sewerage access points).</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Perpetual Leases.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Property near or affected by main road, train line and moderate traffic noise.</td>
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<tr>
<td></td>
<td></td>
<td>Known 100 year flood water in yard but not in the house.</td>
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<td></td>
<td></td>
<td>Storm surge area.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Property adjacent to or affected by airport, major arterial roadway, train line, major traffic noise, transmission lines, service stations, electrical substation, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leasehold title where there is relatively poor security of tenure (eg a limited lease period tenancy).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - Medium risk</td>
<td>Secondary locations.</td>
<td>Major zoning restriction (eg current use does not comply with planning, zoning).</td>
<td>Property requiring completion, including TBE.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limited facilities and amenities.</td>
<td>Very steep land and costly to build on, possible geotechnical issues.</td>
<td>Repairs and maintenance required.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proximity to other housing improvements of inferior market quality.</td>
<td>Access issues (eg by ferry only).</td>
<td>Dwellings with unusual layout or design.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proximity to cemeteries.</td>
<td></td>
<td>Owner built and of a lesser standard to a tradesman built home.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proximity to correctional centres.</td>
<td></td>
<td>Any evidence of past termite damage (recommend sighting a current pest certificate).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leasedhold title where there is relatively poor security of tenure (eg a limited lease period tenancy).</td>
<td>Presence of asbestos, but not unusual in this market.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Major zoning restriction (eg current use does not comply with planning, zoning).</td>
<td>No evidence of approvals.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Very steep land and costly to build on, possible geotechnical issues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access issues (eg by ferry only).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 - Medium to high risk</td>
<td>Non sought after.</td>
<td>Leasehold title where there is relatively poor security of tenure (eg a limited lease period tenancy).</td>
<td>Gutted building.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uncomplimentary surrounding development.</td>
<td>Major zoning restriction (eg current use does not comply with planning, zoning).</td>
<td>Construction issues, including observable asbestos.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proximity to nonresidential property uses.</td>
<td>Very steep land and costly to build on, possible geotechnical issues.</td>
<td>Possible building code issues (eg low ceiling height).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Remote from major facilities and amenities.</td>
<td>Access issues (eg by ferry only).</td>
<td>Damage by fire, flood.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market stigma to area.</td>
<td></td>
<td>Oblivious or suspected active termites (recommend a pest report and treat the cost to repair as a discount to present value).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dwellings in industrial areas.</td>
<td></td>
<td>Appears constructed too close to boundaries.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adjoining major industry.</td>
<td>Dwellings with less than 50m² living areas.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Isolated community.</td>
<td>TBEs where the progress payments are front-end loaded.</td>
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<tr>
<td></td>
<td></td>
<td>Market attracts a poor perception to this area.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Other extreme risk.</td>
<td></td>
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<tr>
<td>5 - High risk</td>
<td>Adjoining major industry.</td>
<td>Does not comply with planning, zoning etc (eg very little chance a house could be built).</td>
<td>Known site contamination from a previous land use (industrial or land fill).</td>
<td>Evidence of major detrimental structural faults or issues.</td>
</tr>
<tr>
<td></td>
<td>Isolated community.</td>
<td>Cultural heritage issues.</td>
<td>Evidence of soil contamination or radioactive material.</td>
<td>Other extreme risk.</td>
</tr>
<tr>
<td></td>
<td>Market attracts a poor perception to this area.</td>
<td>No or extremely difficult access.</td>
<td>Next to a polluting industrial site.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other extreme risk.</td>
<td>Affected adversely by any current or known future authority proposals and/or requirements.</td>
<td>Other extreme risk.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adjoining major industry.</td>
<td>Property adversely affected by mining subsidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Isolated community.</td>
<td>Other extreme risk.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Market attracts a poor perception to this area.</td>
<td>Property affected by coastal erosion.</td>
<td></td>
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<td></td>
<td></td>
<td>Other extreme risk.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Adjoining major industry.</td>
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<td></td>
<td></td>
<td>Other extreme risk.</td>
<td></td>
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<tr>
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<td></td>
<td>Market attracts a poor perception to this area.</td>
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<td></td>
<td></td>
<td>Other extreme risk.</td>
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<td></td>
<td></td>
<td>Environmental issues</td>
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<td></td>
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<td></td>
<td></td>
<td>Improvements</td>
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</tbody>
</table>

**Note:** There is an adverse issue for the lender/client/LMI to consider before reliance upon the Report.
### Market Risk Ratings

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Recent Market Direction (price)</th>
<th>Market Volatility (changes in direction rapidly)</th>
<th>Local Economy Impact</th>
<th>Market Segment Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Low risk</td>
<td>Stable prices.</td>
<td>Stable market.</td>
<td>Local economy stable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No readily identifiable adverse issue</td>
<td></td>
<td>Local economy is broad based and not overly exposed to only a few strong sectors.</td>
<td></td>
</tr>
<tr>
<td>2 - Low to medium risk</td>
<td>Strengthening prices.</td>
<td>Subject to normal market cycles</td>
<td>Normal fluctuation in local economy (i.e., construction and tourism)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Minor adverse issue only not warranting comment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - Medium risk</td>
<td>Low volatile prices.</td>
<td>Historically market has gone through 1 cycle outside the wider market in the last 10 years i.e., with apartments and investment grade properties - as supply can change quickly Above average fluctuation in the local economy.</td>
<td>Unique property with longer marketing period of up to 6 months.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Low declining prices.</td>
<td></td>
<td>Limited sales evidence within the last 6 months.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>There is an adverse issue in the Report for the lender-client/LMI to consider before reliance upon the Report</td>
<td></td>
<td>Sales evidence suggests a fairly broad range in value.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Over capitalisation.</td>
<td></td>
</tr>
<tr>
<td>4 - Medium to high risk</td>
<td>Moderate volatile prices.</td>
<td>Historically market has gone through 2 cycles outside the wider market in the last 10 years. Significant fluctuations in the local economy (i.e., occurring in mining, rural or drought exposed industries).</td>
<td>Unique property with longer marketing period of up to 12 months.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moderate declining prices.</td>
<td></td>
<td>Limited sales evidence within the last 12 months.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>There is an important adverse issue in the Report for the lender-client/LMI to consider before reliance upon the Report</td>
<td></td>
<td>Market largely driven by interstate/overseas investors and other factors.</td>
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<td></td>
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<td></td>
<td>Sale not in line with local market.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Inflated contract price.</td>
<td></td>
</tr>
<tr>
<td>5 - High risk</td>
<td>High declining/heated market.</td>
<td>Historically market has gone through 3 cycles outside the wider market in the last 10 years. Significant decline evident in the local economy.</td>
<td>Long marketing period expected of over 12 months.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Other extreme risk.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Thinly traded market and hard to find a buyer, and there are no recent comparable sales.</td>
<td></td>
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<tr>
<td></td>
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<td></td>
<td>Inflated contract price over 10%.</td>
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<tr>
<td></td>
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<td></td>
<td>Note: Do not use 5 if the area is thinly traded due to it being tightly held and highly desired by the market.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other extreme risk.</td>
<td></td>
</tr>
</tbody>
</table>
3. Valuation & Assessments Summary

The valuation will be carried out in accordance with the General Concepts, Principles and Definitions section of the Valuation and Property Standards Manual and the Practice Standards and Guidance Notes of the API contained within the guide from time to time. The comments below relate specifically to the Report.

**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. 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).

**( Chattels)**

PropertyPro valuations include the following chattels:

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

**Rental Assessments**

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 the Section 8 (Additional Comments) section of the Report.

**Insurance Assessment**

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.

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.

It is agreed that Valuers are not experts in construction, construction costs and/or engineering matters and therefore where applicable an appropriate qualification, relating to Valuers not being experts in construction, construction costs and engineering matters, will be impliedly included in the Report unless expressly done so.
Recommendation

The decision as to the suitability of security for a lending transaction and/or a mortgage insurance transaction is a commercial decision for the lender-client/LMI. That decision must not only be based on the content of the Report but should also extend to other factors beyond the subject property itself.

However, a lender-client/LMI may ask the Valuer for further comment as to whether the subject property itself, as observed, is in a satisfactory condition both internally and externally, and is habitable and readily saleable at the assessed market value.

Should the subject property have any observable and/or readily known easements, restrictions, environmental, planning or heritage issues and/or building defects that potentially affect marketability the Valuer must recommend further investigation by the lender-client/LMI (with comment in Section 8 (Additional Comments) of the Report). This does not relieve the lender-client/LMI from drawing to the Valuer’s attention such matters known or readily ascertainable by the lender-client/LMI.

If instructed to provide such the ‘yes’ / ‘no’ tick box in the Report format should be utilised.

The following are clear examples of where a Valuer must comment that a subject property is not in a satisfactory condition.

- Uninhabitable (includes no serviceable bathroom or kitchen)
- No utilities to the subject property

It is not appropriate for the Valuer to recommend a loan to value ratio (LVR) or percentage to advance.

Lenders Reference to Valuer

The lender-client/LMI must obtain documents (whether on the recommendation of the Valuer or not), which may reveal matters not disclosed in the Report. If they might impact on the content of the Report (such as the value, marketability or risk analysis), they must 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 is not a substitute for recommended reports by appropriate experts, specialists or authorities.

Documents to Sight

This section will ask a yes / no question in relation to documents to be sighted by the lender-client/LMI.

Subject to what is contained herein, all documents necessary for the Valuer to provide a Report must be provided by the lender-client/LMI. However, if unable to obtain such documents prior to issuing the Report and the answer is ‘yes’, comment is to be made in Section 8 (Additional Comments) of the Report subject to the other provisions of this Supplementary Memorandum. The below table provides guidance (only) of when documents should be obtained/sighted by the lender-client/LMI after receipt of the Report and prior to reliance and before entering into a loan or mortgage transaction. It is not exhaustive.

In all cases where a document should be provided, if the Valuer feels that it may contain information that may affect the value of the subject property, this should be drawn to the lender-client/LMI’s attention.

The provision/identification of the following documents are entirely subject to the other provisions of this Supporting Memorandum.
<table>
<thead>
<tr>
<th>Document</th>
<th>Examples When It Should Be Recommended</th>
</tr>
</thead>
</table>
| Contract of Sale – Full Copy                  | • When the subject property is under contract and the full contract of sale has not been sighted by the Valuer.  
• Chattels are included in the sale.  
• When the Valuer suspects rebates, a lesser purchase price other than referred to in the Contract, or other issues that may affect value. |
| Building Inspection or Engineer’s Report      | • Observable structural issues are identified in the improvements.                                                                                                                                                                    |
| Building Certificate and Approvals            | • When extensions to main building do not appear to comply with building regulations.                                                                                                                                                |
| Council Approved Plans                        | • If the Valuer suspects the buildings are non-approved.  
• If only a preliminary plan has been provided for a TBE valuation.                                                                                                                                                                 |
| Building Contract                             | • Any time a TBE valuation, including alterations and/or renovations, is complete and the building contract has not been provided.                                                                                                        |
| Certificate of Occupancy                      | • For all TBEs.  
• If doubt exists about whether the dwelling has final council approval.                                                                                                                                                           |
| Full Specifications                           | • Anytime a TBE valuation is complete and the building contract has not been provided or when not all details supplied.                                                                                                               |
| Plan (or proposed plan) of Subdivision        | • When the Valuer suspects issues may be revealed that may affect the value.                                                                                                                                                           |
| Certificate of Title                          | • When apparent or suspected significant encumbrances have been noted.  
• When the subject property is valued from proposed or preliminary plans.                                                                                                                                                     |
| Site Survey                                   | • When encroachments are suspected.                                                                                                                                                                                                    |
| Heritage Status                               | • When the subject property may have heritage issues.                                                                                                                                                                                  |
| Zoning Certificate                            | • When the subject property may have zoning issues or the zoning is uncertain.                                                                                                                                                           |
| Flood Search                                  | • When the subject property may have flood issues that cannot be quantified and need to be.                                                                                                                                              |
| Asbestos Report                               | • When the improvements may have observable unstable asbestos, including but not limited to observable disturbed/broken/friable asbestos materials.                                                                                           |
| Contaminated Land Search                      | • When the subject property may have contamination issues.                                                                                                                                                                             |
| Pest Inspection                               | • When the subject property may have termite or other pest issues.                                                                                                                                                                     |
| Body Corporate / Community Management Statement| • Whenever a unit is valued and the Community Management Statement has not been sighted.                                                                                                                                              |
| Management Agreement                          | • Only when the unit is in a rental pool.                                                                                                                                                                                              |
| Leased Documents                              | • When a lease is in place and it is considered to affect value or risk.                                                                                                                                                                 |
| Deposited Plan                                | • When the Valuer suspects issues may be revealed that may affect the value.                                                                                                                                                           |
| Strata Plan                                   |                                                                                                                                                                                                                                       |
| Crown Plan                                    |                                                                                                                                                                                                                                       |
| Title Plan                                    |                                                                                                                                                                                                                                       |
| Mining Subsidence                             | • When the subject property is located on old mining sites.                                                                                                                                                                             |

Should a Valuer not have sighted all the documents necessary for the final completion and provision of the Report, the Report should indicate what the Valuer has / has not been provided with and be qualified accordingly.
Signing of Valuation Report

Section 1.6 above refers.

In signing a Report the primary signatory will state:

"I hereby certify that I personally inspected this property on the date below and have carried out the assessments above as at that date. Neither I, nor to the best of my knowledge, any member of this firm, has any conflict of interest, or direct, indirect or financial interest in relation to this property that is not disclosed herein."

In stating that a Valuer has personally inspected the property, this means an external and internal inspection of such which must be sufficiently comprehensive to enable a Valuer to complete the valuation in accordance with accepted valuation practice at law.

The counter signatory, who undertakes a Review will state:

"Whilst not having inspected the property, I have reviewed the draft valuation and working papers, and based upon that review and appropriate questioning of the Valuer obtained reasonable satisfaction that the value opinion contained in the valuation has been reached, based on reasonable grounds."

The Report will also state:

"This Report is for the use only of the party/ies to which it is addressed for first mortgage purposes only and is not to be used for any other purpose. No responsibility is accepted or undertaken to third parties in respect thereof. No responsibility is accepted or undertaken in the event that the party/ies to which it is addressed use this Report for any other purpose apart from that expressly outlined above."

It should be noted the party/ies as agreed may or may not include the LMI or such other agreed party although no such assumption of responsibility will occur on the part of the Valuer unless the Valuer gives a written consent to the LMI or such other agreed party being able to rely upon the Report and strictly pursuant to the terms of the Supporting Memorandum.

Should the lender-client/LMI provide a copy of the valuation to “interested/third parties” without the written approval of the Valuer, no responsibility is accepted for the valuation by the Valuer.

The Report will further state:

"This Report is made in accordance with the PropertyPRO Residential Valuation and Security Assessment Pro-forma Supporting Memorandum and must be interpreted with that Memorandum. The agreed parties are bound by the provisions of the Supporting Memorandum. The Supporting Memorandum is available at www.api.org.au”.

Transmission of Reports

When Reports are transmitted electronically, a Valuer must take all reasonable steps to protect the integrity of the data/text in the Report and to ensure that no errors occur in transmission.

The Valuer should ensure that the digital signature(s) is/are protected and fully under the Valuer’s control. A signature affixed to a Report electronically is considered as authentic and carries the same level of responsibility as a written signature on a paper copy Report.

A true electronic and/or paper copy of an electronically transmitted Report must be retained by the Valuer for the period required by law in his or her jurisdiction. Files of the records of electronically transmitted Reports may be kept on electronic, magnetic, or other media.

Where a Valuer proposes to provide a Report to a lender-client/LMI in an electronic format, the Valuer must:
(a) obtain the lender-client/LMI’s prior consent to send the document electronically (as opposed to sending a traditional paper-based document); and

(b) agree with the lender-client/LMI on acceptable types of electronic signature to be used to sign the Report.

Before relying upon the Report and entering into any lending transaction/mortgage insurance policy with a borrower/mortgagor, a lender-client/LMI must read and fully understand the entire Report and also ensure that the signatory provisions on the Report are as agreed and/or consistent with any general instructions issued as between the lender-client/LMI and the Valuer.

Draft Reports must not be requested or issued.

4. THE LAND

Property Identification

This is to provide an indication of the means, other than street address, by which the subject property has been identified where this is the case. Where no such means other than street address has been used, the Valuer should indicate ‘identification not confirmed’.

Valuers are not 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, a lender-client/LMI must obtain a survey report to clarify the issue following which it must provide that survey report to the Valuer. Reliance upon the Report without such a survey report will not be considered reasonable reliance and the Valuer will not have assumed responsibility for the valuation in such a circumstance.

Has title search been sighted?

Subject to what is contained herein, this requires either a ‘yes’ or ‘no’ answer to inform the lender-client/LMI if the Valuer has had the benefit of viewing a Title Search, however obtained. However, it is not the responsibility of the Valuer to carry out a Title Search, nor is it the responsibility of the Valuer to consider issues/matters referred to in that Title Search other than those that might obviously affect value even if the Valuer is not fully qualified to ascertain how such affectation may occur.

Zoning Effect

Subject to what is contained herein, it is the Valuer’s responsibility to report upon whether the development/improvements conform with the permitted development and town planning use requirements. The Valuer should also report upon whether or not the zoning as applicable has any likely significant adverse affects on the subject property and any known proposed rezoning directly and indirectly affecting the subject property should be noted.

Location

This requires a statement as to the position of the subject 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 subject 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.
## 5. MAIN BUILDING

Valuers are not construction/building experts and their responsibility in respect to construction, building and engineering issues is therefore to provide comments as to visual/observable issues or other issues drawn to their attention.

### 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 Section 8 (Additional Comments) of the Report if the Valuer considers this relevant.

### 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 Walls & Roof
This refers to the construction material of the walls (e.g., full brick, brick veneer, timber or fibre cement cladding). The roof may be described as flat or pitched, with examples of cover being corrugated iron, terracotta or concrete tiled.

### Window Frames
Describe construction material of frames (e.g., aluminium or timber).

### 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’.

### Flooring
Describes type of construction (e.g., timber floorboards, concrete slab, particle board, etc). Comment on floor finishes may also be appropriate in the fixtures and features section if tiled, paved, polished, carpeted etc.

### 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 is stated first, followed by number of bathrooms (includes ensuites), other main rooms, then service or utility rooms and outdoor areas.

### Interior Layout
Refers to practical layout and flowing floor plan or unconventional and impractical floor plan.

### 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 IMPROVEMENTS

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

PropertyPRO is specifically designed to assess the market value of a single residential property to be held as security for first mortgage purposes. As such its value must be assessed on the basis upon which it is, or is intended to be, held as a security. In principle this means that when applying “market value” such value would represent selling practices that would normally apply to an individual owner selling an individual residential property.

Sales Evidence

The sales evidence in the Report should, subject to what is set out elsewhere in this Supporting Memorandum:

- Include a minimum of three sales of properties considered by the Valuer to be comparable properties; and
- Be within six months of the date of valuation; and
- Be within 15% (plus or minus) of the market value adopted in the Report.

Comparable properties should be, as far as reasonably ascertainable, of similar type, location, age, condition and size to the subject property.

Where this is not achievable (that is, where there is limited or no sales evidence of comparable properties) a Valuer must provide additional and specific comment in relation to sales evidence. A Valuer should advise what adjustments have been made and the basis of comparison in Section 8 (Additional Comments) of the Report (eg dated sales or out of area sales).

When considering sales evidence for new home units, where possible, a Valuer must provide a minimum of three sales external to the subject development. This does not mean that sales in the subject complex be discarded, but that they need to be compared against the market.

A Valuer should consider the following secondary information and, as a minimum retain on file, or include in the ‘Additional Comments’ section of the Report:

- Contracts for sale that have been entered into but not completed
- Developer sales that are from the same development and not settled
- Properties currently on the market
- Any other matters not considered to be secondary sales information but which a reasonably competent valuer, in all the circumstances, would consider relevant.

Brief Comments

Each comparable sale should be briefly described. A Valuer has a duty to at least externally inspect all comparable sales relied on in the Report and to undertake adequate and proper analysis and adjustment of the information obtained from such external inspection.

In Comparison to Subject

In reconciling between the subject property and sales of comparable properties the Valuer should consider issues addressing location, land and site improvements. The Valuer needs to draw a conclusion as to whether each sale of comparable property is overall superior, similar or inferior.

It is acknowledged and agreed by lender-clients/LMs that use of the terms ‘superior’, ‘similar’ or ‘inferior’ where used in the Report do not constitute a representation(s) as to the extent of such inferiority, superiority or similarity of properties referred to in the Report as comparable sales. A Valuer at his/her discretion may provide a comment as to the extent of such ‘superiority’, ‘similarity’ or ‘inferiority’.

Comment on the overall comparability of each sale of a comparable property in relation to the subject property. Where appropriate, the Valuer should consider the location, view, accommodation, topography, aspect, improvements in terms of size, quality,
age, condition and design, shape and size of site area and other relevant features. In addition, home unit comparison should include level/floor, number of units in complex and strata area (living and total) for the comparables.

For consistency and clarity, the comparison should be made between the comparable property compared to the subject property (not the other way around). Subject to what is contained herein for example, if the comparison states ‘inferior’ it should mean that the comparable 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’.

Under Brief Comments below, Valuers are required to provide as full as description of the construction type as is reasonably observable during the inspection or subsequent further inspection and enquiry.

The table below is included for illustrative purposes only and should not be relied upon to interpret any provisions of this Supporting Memorandum but is provided to assist the Valuer in determining what information to include when outlining the sales evidence portion of the Report.

<table>
<thead>
<tr>
<th>Address</th>
<th>Sale Date</th>
<th>Price</th>
<th>Brief Comments</th>
<th>In Comparison to Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Slightly superior location, slightly inferior land area, similar street appeal, inferior overall improvements. Overall inferior.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Slightly inferior location, similar street appeal, inferior overall improvements. Overall inferior.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Inferior location, superior land area, slightly inferior street appeal, similar overall improvements, superior site improvements. Overall superior.</td>
<td></td>
</tr>
<tr>
<td>6 Eagle Street, Smithville</td>
<td>22/08/2010</td>
<td>$540,000</td>
<td>A circa 2006, brick, 4 bedroom, 2 bathroom, single residence with colorbond roof. Areas: living - 218 sqm; land - 690 sqm. Ancillary impts include below ground pool.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Slightly inferior location, similar street appeal, similar overall improvements, superior site improvements. Overall superior.</td>
<td></td>
</tr>
</tbody>
</table>

**Sale of subject property**

Where a sale/s of the subject property has occurred in the past 3 years, it must be noted. Specific comment should be made by the Valuer 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.

Subject to what is contained herein, the Valuer may not (be able to) sight a copy of the contract. If the lender-client/LMI is aware of special circumstances or incentives, the Valuer must be supplied with details by the lender-client/LMI and may be asked to comment.

It is a requirement that a Valuer give consideration to the ‘purchase price’ of the subject property, subject always to the date of such purchase. The Valuer is expected in such consideration to also have regard to other sales of comparable properties in determining the weight that the Valuer attributes to the ‘purchase price’ of the subject property as representing the best evidence of the subject property's market value.

Where the valuation varies significantly from a current or recent sale of the subject property, the reasons should be outlined in Section 8 (Additional Comments) of the Report.
Level of Market Activity

A brief note to describe the level of existing/current and known 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. As a guide only but for consistency the following are reflected in drop boxes identified below as part of the Report.

<table>
<thead>
<tr>
<th>Description</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Sales Activity</td>
<td>– Undersupply</td>
</tr>
<tr>
<td></td>
<td>– Very short selling periods (that is less than 30 days)</td>
</tr>
<tr>
<td></td>
<td>– High auction clearance rate</td>
</tr>
<tr>
<td></td>
<td>– High levels of optimism</td>
</tr>
<tr>
<td>Strengthening Sales Activity</td>
<td>– Signs of sales volumes increasing</td>
</tr>
<tr>
<td>Sales Beginning to Strengthen</td>
<td>– Early signs of sales volumes increasing but difficult to quantify</td>
</tr>
<tr>
<td>Stable Sales Activity</td>
<td>– Auction clearance rates at long term averages</td>
</tr>
<tr>
<td></td>
<td>– Activity approximating long term average for area</td>
</tr>
<tr>
<td></td>
<td>– Average selling period of circa 30 to 60 days</td>
</tr>
<tr>
<td></td>
<td>– Balanced supply and demand</td>
</tr>
<tr>
<td>Sales Beginning to Weaken</td>
<td>– Early signs of sales volumes declining but difficult to quantify</td>
</tr>
<tr>
<td>Weakening Sales Activity</td>
<td>– Signs of sales volumes declining</td>
</tr>
<tr>
<td>Limited Sales Activity</td>
<td>– Rebates being offered</td>
</tr>
<tr>
<td></td>
<td>– Oversupply</td>
</tr>
<tr>
<td></td>
<td>– Lengthening selling periods (that is, greater than 12 months)</td>
</tr>
<tr>
<td></td>
<td>– Little enquiry level</td>
</tr>
<tr>
<td></td>
<td>– General market pessimism</td>
</tr>
</tbody>
</table>

Selling Period > 6 months

A ‘Yes’ or ‘No’ answer is required. If the selling period is expected to be greater than 6 months further comment is required in Section 8 of the Report, advising why the extended period is necessary.

In line with the “market segment conditions” of the risk ratings, as a minimum, such properties should have a 4 “medium to high” risk rating.

Is the sale in line with Local Market?  

A ‘Yes’ or ‘No’ answer is required. If ‘Yes’, the Valuer is confirming that the sale price of the subject property is based on evidence that is reflective of informed purchasers and realistic marketing conditions or strategies as is commonly known at the time and such as would be readily available to an individual owner on resale. In other words “What the subject property could be expected to sell for if offered as an individual property through a competent local agent adopting a marketing strategy that would normally apply to a property of this nature being marketed as an individual property”.

Contract of Sale

This requires a ‘Yes’ or ‘No’ statement in response to the question ‘Has a full copy of the Contract of Sale been sighted?’ Where the contract of sale has not been sighted by the Valuer it is a requirement that any party relying on the Report undertake their own enquiries to obtain a full copy of the Contract for Sale to read and consider and to ensure there are no special circumstances or incentives which may affect the market value of the subject property.

The Valuer is to provide comment in Section 8 on what has been provided / relied upon.
8. ADDITIONAL COMMENTS

Any Risk Ratings of ‘3’, ‘4’, or ‘5’ must be commented on here. Additional comments can be made about the content of other sections of the Report but it should be a 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 Report format does not specifically address.

Comments can be in either narrative or dot point form.

As a protocol the comments should follow the order below:

- Risk Rating commentary
- Property commentary
- Market commentary
- Additional comments

9. IMPORTANT NOTES AND QUALIFICATIONS

Nominated Additional Parties

This section appears only if it contains information. If the instructing lender-client/LMI requires the Report to nominate others as additional parties who may rely on the Report, and subject to the Valuer’s written consent to such requirement, they must be stated in this section.

Report Clarification - Amended Report

A Report once submitted cannot be altered or amended without a specific written request by the lender-client/LMI in relation to a concern about the Report and in particular the Risk Ratings. After provision of the Report by the Valuer to the lender-client/LMI and before any reliance thereon by the lender-client/LMI, if the lender-client/LMI would like the Valuer to undertake additional enquiries, the lender-client/LMI must inform the Valuer in writing. If additional enquiries or investigations are undertaken and identify matters different to those outlined or assumed in the Report or which clarify or enhance the Report, the Valuer reserves the right to alter the content of the Report, if required. Should this occur, an Amended Report must be issued with a note that the original Report is withdrawn and all copies of it must be returned to the Valuer.

When amending a Report, the Valuer must ensure the words ‘AMENDED REPORT’ are clearly marked on the front page of the document.

Furthermore, if parties entitled to rely on a Report do not understand or accept any part of its content, or consider that inadequate information has been provided, the Valuer must be contacted in writing before any reliance on the Report including any reliance upon the Report for the purpose of a mortgage transaction or a mortgage insurance transaction.

Photographic Evidence

Valuers should, as permitted at the time of inspection and as reasonably possible, take a minimum of five colour photographs of relevant parts of the subject property, including at least one photo of the front elevation, rear elevation, kitchen, bathroom and other significant improvements including those observed as in need of repair (e.g. harbour view, swimming pool, structural defects etc.).

Photographs will not only assist the lender-client/LMI in understanding the nature and value of the subject property, but also assist in any future dispute resolution.

Qualifications

The lender-client/LMI acknowledges that the Report may be provided based upon specific assumptions and may be subject to specific qualifications as outlined in the Report. This may be for a variety of reasons. The lender-client/LMI must satisfy itself in respect of such assumed or qualified matter(s) prior to relying upon the Report. The lender-client/LMI acknowledges
that the Valuer does not warrant or represent that any assumed or qualified matter is accurate or correct.

In the event that a Report is qualified or based on any assumption(s) then it is the lender-client’s/LMI’s sole responsibility to request clarity and/or confirmation of the qualification(s) and/or assumption(s) referred to before reliance upon the or any part of the Report, for any purpose. Such request must be made in writing to the Valuer.

The intent of using qualifications and disclaimers should be from a position of providing a more fully understood Report where the reader of such obtains at least some if not all of the following (which list of itself is not extensive):

- A clear understanding of the purpose for which the Report is given.
- Those to whom the Report is clearly being given, and as such, those to whom the Report is not being given (for the purpose of reliance).
- Clarifying issues that remain unresolved in order to complete the Report as a product.
- The setting out of clear and unambiguous “warnings/cautions” to a reader to ensure that the reader can make a well informed decision based on what is in the Report in the form of a qualification or disclaimer.
- A full appreciation of the extent of the retainer and obligations that the Valuer has taken on, in order to provide the Report/advice.

Accepted practice is to include within the Report a statement to the following effect:

'This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of general market movements or factors specific to the subject property or factors that the Valuer could not have reasonably become aware as at the date of the Report). Liability for losses arising from such subsequent changes in value is excluded as is liability where the valuation is relied upon after the date of the valuation'.

Reliance on a Report by a lender-client/LMI must be reasonable in all the circumstances. This is especially so after the date of the Report. For example, in some circumstances it may be reasonable for the lender-client/LMI to rely on the Report at a time up to 90 days from the valuation date. This time period may vary, dependent upon any number of circumstances arising after the valuation date.

The Valuer will not assume any responsibility for reliance by the lender-client/LMI on the Report after the expiration of 90 days from the date of valuation, or the expiration of what is considered to be a reasonable time, whichever is the lesser. A Valuer does not warrant, guarantee and/or represent that the content of the Report will remain unchanged for any period of time beyond the date of the Report and depending upon known and/or foreseeable facts that might impact upon such value, such further time as maybe reasonable in all of the circumstances. The lender-client/LMI should therefore review and consider the Report, regularly and frequently, before reliance.

Subject to the contents herein, lender-clients/LMIs will not rely upon a Report notwithstanding what time has elapsed since the valuation date in the event that such lender-clients/LMIs become aware of or ought reasonably to have become aware of any information of any type and/or description that would in the opinion of the lender-client/LMI or a reasonable and prudent lender-client/LMI, alter or likely alter the Report in any way.

Valuers should be aware of the requirements of some professional indemnity insurers who require certain clauses to be included in Reports (such as ‘Market Movement’ or ‘Prudent Lending Clauses’), as a condition of insurance coverage. This issue should be raised with lender-clients/LMIs at the time of instruction.

Assigning Valuations

As a general rule assignments should not be undertaken, however if the Valuer agrees to assign a Report it should:

- Be in writing with the express understanding, knowledge and agreement of the Valuer that the assignment can only be used and relied upon by the assignee.
- Be subject to this Supporting Memorandum as set out in the Report.
- Subject to what is contained herein, not be given without the Valuer being able to undertake further investigations to confirm (or otherwise) the original Report.
PROPERTY PRO SUPPORTING MEMORANDUM

- Only be given having regard to the requirements of a Valuer’s professional indemnity insurance policy
- Be subject to payment of an additional fee.

The Valuer may decline to assign the Report to any third party for any reason. In the event that a Valuer agrees to such assignment and is not instructed to undertake a further inspection and/or investigations, then such assignment of the Report will be at the value as determined by the Valuer as at the date of the valuation in the Report and such Report will be pursuant to the terms of this Supporting Memorandum.

GST – Valuations for Mortgage Lending Purposes - Residential

Residential Mortgage Valuations are undertaken on the basis of market value which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm’s length transaction, after proper marketing, wherein the parties had each acted knowledgably, prudently and without compulsion”. In respect of GST, the assumption is made that the transaction is between parties not registered (and not required to be registered) for GST.

The subject property should always be treated as though GST is not applicable.

In the case of a TBE report on an “As If Complete” basis this assumption remains valid. The cost of land (in some cases) and construction include a GST component, however, the subject property is being valued to market value in the same way as an existing residential property. The valuation is assessed with reference to sales of comparable properties to which GST is not applicable and the valuation does not have regard to the specific circumstances of the actual parties involved.

No change is required to the established treatment of GST, however it is proposed to clarify that residential mortgage valuations do not include GST through the inclusion of the following clause in the Important Notes & Qualifications section of the Report:

GST Report Clause

“Valuations of residential property for mortgage security purposes are undertaken on the basis that GST is not applicable. This valuation is prepared on the assumption that the subject property does not constitute a ‘new residential premises’ as defined under ATO Ruling GSTR 2003/3. Further it is assumed that the subject property will transact as a residential property between parties not registered (and not required to be registered) for GST. The market valuation herein reflects a market transaction to which GST is not applicable.”

The lender should satisfy themselves of the GST position of the borrower prior to extending funds.

10. CAPPED LIABILITY SCHEME

All members of Australian Property Institute Valuers Limited seeking to enjoy the benefits of the Limitation of Liability Scheme are required to include the following statement in their Report:

‘Liability limited by a scheme approved under Professional Standards Legislation.’

The statement must be printed in a size not less than the face measurement of Times New Roman typeface in 8 point.

It may only be used by those covered by the Scheme.
4.0 Matters on which the Valuer may provide Restricted Comment

4.1 Aspects Requiring Specialists Reports
The Report may provide restricted or limited comment on a range of matters primarily to draw attention to aspects that may require information and/or advice from others before confirmation of the Report by the Valuer. These may 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 (without limiting the extent of such experts or other sources of information):

- Pest Controllers
- Land Surveyors
- Geo-technical Engineers
- Structural Engineers
- Building Inspectors
- Solicitors
- Environmental Surveyors
- Contamination experts and/or authorities
- Town Planners
- Regulatory Bodies, Authorities and Government(s)

4.2 Valuer's Initial Comments Indicative Only
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.

4.3 Refer to Valuer
When the specialist's report(s) and/or other relevant sources of information have been obtained, they must be referred back to the Valuer by the lender-client/LMI and/or anyone acting on their behalf and with their authority for comment as to how it impacts on the valuation, the risk analysis or the marketability of the subject property. Any reliance upon a Report without such matters having been referred to the Valuer in accordance with this paragraph will not be considered reasonable reliance and the Valuer will not assume responsibility for any such reliance.

5.0 Departure Provisions
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 Section 8 (Additional Comments) of the Report and/or, if possible, drawn to the lender-client/LMI's attention prior to completion of the Report.

6.0 Matters that must be reviewed and checked by lender-client/LMI and/or its solicitor or others on the lender-client's/LMI's behalf

6.1 Refer to Valuer
A Report may be based upon information or documents, the content of which is subsequently revealed to be either incorrect or incomplete or inconsistent with what has been outlined in the Report. When any of these occurrences is discovered by subsequent checking, it must be referred to the Valuer for further comment and advice as to how it affects the valuation and security assessment. Reliance upon the Report without such referral back to the Valuer will not be considered reasonable reliance and the Valuer will not have assumed responsibility for the valuation in such a circumstance.

6.2 Lender-client/LMI or solicitor/legal representative must check
There are many issues and matters reported in the Report which the Valuer either requires or assumes that the lender-client/LMI and/or its solicitor(s)/legal representative(s) and/or others instructed by the lender-client/LMI will confirm or ascertain prior to any lending transaction/mortgage transaction taking place. The responsibility is on the lender-
client's/LMI's solicitors and/or others instructed by the lender-client/LMI to read the entirety of a Report and comment upon and provide advice to the lender-client/LMI prior to any reliance by them for the purpose of a mortgage/LMI transaction.

The lender-client/LMI acknowledges that, if the lender-client's/LMI's solicitors are on notice of facts that cast doubt on the correctness of the content of the Report, the lender-client's/LMI's solicitors and/or those instructed by the lender-client/LMI to undertake such work have a duty to draw this to the lender-client's/LMI's attention notwithstanding any specific contractual relationship between them.

In the event that such solicitor(s)/legal representative(s) draw to the attention of the lender-client/LMI facts and/or information of the type referred to in this paragraph, then before any reliance can occur on the Report the lender-client/LMI must provide the Valuer with such facts and/or information. Failure to do so and subsequent reliance on the Report will not constitute reasonable reliance on the Report.

The relevant areas of checking include, but are not limited to:

- Title details including all restrictions, encumbrances, etc; full zoning and/or town planning and development approval issues.
- Environmental issues in relation to things such as flora and fauna that may well affect the value because of zoning restrictions.
- The building construction and development applications and building contracts.
- All other matter(s) arising from every search the solicitor undertakes in relation to a property transaction as solicitor for the lender-client/LMI including searches and responses from any relevant authority, the relevant searches of all body corporate records and amounts held in sinking funds and all other issues for consideration in strata title property valuations.
- Any other matter(s) considered to be within the expertise of a solicitor/legal representative of the lender-client/LMI.

### 7.0 Information the Valuer could be expected to hold on file

#### 7.1 Valuer's File Should Contain

A Valuer's file for any Report could be expected to contain:

- Copy of Instructions.
- Copy of the Report as submitted to the lender-client/LMI.
- Copy of any documents provided by the lender-client/LMI, 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, (recording external wall dimensions). 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.
  - Photographs (or photocopy of original).
  - Copy of Valuer's work sheet. Where a TBE/Extension/Renovation is involved, calculations for the Check Costing and for Progress Draws (where applicable) should also be on file.
  - Copy of any special document relied on that the Valuer considers relates to the subject property specifically rather than properties in general.

**NOTE:**

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 subject property and the Report with the lender-client/LMI or its service providers at some point in the future (which may be some years hence).
8.0 Date of Effect

The effective date of the Supporting Memorandum is 1 March 2012. Earlier adoption is permitted.
RESTRICTED VALUATION – RESIDENTIAL PROPERTY

PART A - As far as possible, information in this section is to be provided by the lender.

THE LENDER: Dated:
Reference 1: Reference 2:

VALUATION FIRM: Fax/E-Mail:

Borrower: Loan Ref. No:

Type of Property: Purchase Price: $ Date:

Property Address:

Legal Description: Land Area: m² / ha

Main Building Type: Main Walls and Roof:

with Bedrooms and Bathrooms Est. Area: m²

Other Accommodation: Est. Living Area: m²

Car Accommodation: car garage / carport

Built About: Addition(s) about:

Instructions: The Lender hereby instructs the valuation firm to carry out a Restricted Valuation of the above property in accordance with the Australian Property Institute’s ‘Restricted Valuation Supporting Memorandum’ and this valuation instruction. The Lender agrees to be bound by the provisions of the Supporting Memorandum and requires the valuation firm in accepting this valuation instruction to be bound by the provisions of the Supporting Memorandum.

In providing this valuation, note that:

• any records you have for the property should be checked. This includes registered plans, zoning information and any sales of the property in the past three years,
• the property must be identified at its street frontage,
• an external inspection from outside the boundaries of the property is to be conducted,
• the property is to be photographed and the photo retained on file,
• any property information supplied above that is known to be incorrect should be corrected, otherwise assume all information supplied to be correct,
• the condition and quality of what is visible is to be assumed as indicative of the nature and condition of the property,
• unless stated otherwise, fee simple with vacant possession is to be assumed,
• unless ascertained within these limitations or physically obvious, it is to be assumed that there are no easements or encumbrances,
• recent comparable sales from your records must be reviewed, and
• within the above limitations, you are to provide <Lender’s Name> with an indicative market value range for the property.

Note: The Lender in issuing these instructions acknowledges and accepts the commercial risks of relying on your ‘Restricted Valuation’ provided it is given in compliance with these instructions and in accordance with the Australian Property Institute’s Restricted Valuation Supporting Memorandum, and confirms the immunities and indemnities provided in RV: 9.3 of the Supporting Memorandum will apply. The Lender will not convey the ‘Restricted Valuation’ or any part of it to the borrower or other third parties and will keep it confidential for its mortgage security purposes only. The ‘Restricted Valuation’ will not be used for mortgage insurance purposes.

PART B - Indicative Market Value Range $ to $

If you consider that there are or may be any significant factors in relation to this property that warrant inspection, research or enquiry beyond the scope of a ‘Restricted Valuation’, you should recommend below that a PropertyPro Residential Valuation and Security Assessment be carried out. The Lender will then decide in view of its overall lending position, if it requires such a valuation.

☐ I recommend that a PropertyPro ‘Residential Valuation and Security Assessment’ be conducted for the main reason as stated below:

Reason:

Firm: Signature: Co-Signature:

Advising Date: Name:

RETURN TO:

Fax No:

Phone No: Attention:

Copyright API 2001
1.0 Introduction

1.1 Purpose
This Supporting Memorandum (“Memorandum”) provides the basis upon which Members of the Australian Property Institute (API), who are a Certified Practising Valuer (CPV) or Residential Property Valuer (RPV), will carry out Restricted Valuations for residential mortgage purposes and the basis upon which their Lender clients will use and accept Restricted Valuations.

1.2 Definition
A Restricted Valuation is a valuation carried out in accordance with this Supporting Memorandum in the format titled “Restricted Valuation – Residential Property” Copyright API 2001.

1.3 Scope
A CPV/RPV who provides a Restricted Valuation for residential mortgage purposes must do so in accordance with the provisions of this Memorandum. Any CPV/RPV carrying out a Restricted Valuation in accordance with the provisions of this Memorandum and the Restricted Valuation - Residential Property pro-forma report will not be in breach of the Institute’s Constitution, By Laws, Rules of Conduct or professional practice standards.

2.0 Background

2.1 The Institute acknowledges that Lender clients will not always require a PropertyPRO Residential Valuation and Security Assessment report but instead may have the need for a lower level of valuation assurance which the Institute and the Lender client recognises as a Restricted Valuation.

2.2 The Institute reserves Copyright of the Restricted Valuation Residential - Property’ pro-forma report. This is deemed necessary to retain the integrity and consistency of the report format. The report format is available through the Institute.

2.3 Although the Institute has approved the use of Restricted Valuations in the manner contemplated by this Supporting Memorandum it does not accept any responsibility for the content of any Restricted Valuation.

2.4 Any CPV/RPV who provides or any Lender client who uses or relies upon a Restricted Valuation agrees to be bound by all of the provisions of this Supporting Memorandum.
ANZ VALUATION AND PROPERTY STANDARDS

RESTRICTED VALUATION SUPPORTING MEMORANDUM

3.0 Provision of the ‘Restricted Valuation’ Service

3.1 In providing a Restricted Valuation, a CPV/RPV is not required to exceed the terms of the Lender clients’ instructions as noted on the Restricted Valuation - Residential Property pro-forma report and as further explained in this Supporting Memorandum.

3.2 A Restricted Valuation must only be provided by a CPV/RPV who has had recent relevant valuation experience in the locality (within, at a maximum, the past six months or, in rapidly changing market conditions, within the past three months), and has researched that market place for the purpose of valuing similar properties.

3.3 Where a CPV/RPV is not able to satisfy the requirements of RV 3.2 the instruction must be declined. In these circumstances the CPV/RPV may alternatively advise the lender that the CPV/RPV is prepared to undertake a PropertyPRO Residential Valuation and Security Assessment of the Property.

4.0 Restrictions on the Provision and Use of a Restricted Valuation

4.1 A Restricted Valuation must only be carried out by CPV/RPV for the valuation of existing single residential dwellings, strata or community plan units, vacant single residential sites and hobby farms for mortgage security purposes. A Restricted Valuation must not be used for the valuation of proposed dwellings or extensions/renovations to existing dwellings and must not be used for the valuation of unique residential properties or those falling within upper market levels. A Restricted Valuation must not be provided for a valuation of any other type of property for any purpose.

4.2 A Restricted Valuation as defined in this Supporting Memorandum must only be provided on the Restricted Valuation - Residential Property pro-forma report annexed hereto after Part A has been completed (as far as possible) by the Lender client, as the pro-forma constitutes both a letter of instruction and a report format. The Restricted Valuation - Residential Property pro-forma report is copyright by the Australian Property Institute and must not be modified in any way without approval in writing from the Australian Property Institute.

4.3 The Institute considers that a Restricted Valuation is not suitable for high percentage lending. A Restricted Valuation undertaken by a CPV/RPV must not be used by a Lender client to approve a mortgage loan where the Loan to Current Purchase Price Ratio (if any) exceeds 80%.

4.4 A Restricted Valuation must not be used for mortgage insurance purposes.

5.0 Information to be provided to the CPV/RPV

The CPV/RPV requires certain information to undertake a Restricted Valuation. The Lender client is required to provide the following minimum information to the CPV/RPV:

Essential information:
- full property address (lot number is insufficient unless plan number also supplied).
- Number/type of rooms, number of bedrooms and bathrooms,
- Estimated living area
- External improvements (eg Swimming pool)
- Land area.

Important information:
- title detail / legal description / survey or registered plan.

Provision of both the property address and the title detail / legal description are important to enable the correct property to be identified and confirmed as other normal means of confirmation will not be available to the CPV/RPV conducting a Restricted Valuation. Where the Lender client is unable to supply title detail / legal description, the CPV/RPV is entitled to assume that the address supplied by the Lender client is correct and to rely upon it. The Lender client acknowledges that where only an address is provided to the CPV/RPV, the risk of incorrect identification increases and the Lender client indemnifies the CPV/RPV against any such mis-identification.

Should the CPV/RPV consider that there is a possibility that a property address has been incorrectly described by the lender, the CPV/RPV will notify the Lender client of such in the Restricted Valuation report and will recommend that the Lender client obtains a PropertyPRO Residential Valuation and Security Assessment.

Desirable information:
- Main building type
- Main walls and roof.
6.0 Limitations and Requirements of a Restricted Valuation

6.1 It is important that both CPV/RPV and Lender clients are aware of the extent and limitations of a Restricted Valuation provided by the CPV/RPV. In utilising this service, the Lender client agrees to waive the requirement for many of the processes that a CPV/RPV would undertake in carrying out a full valuation of a property. (An appreciation of extent by which a Restricted Valuation falls short of the valuation methodology required to be employed by a Member in valuing a residential property can be gained by reference to the PropertyPRO Residential Valuation and Security Assessment Supporting Memorandum).

6.2 A Lender client requesting a CPV/RPV to carry out a Restricted Valuation does so on the express understanding and agreement that the CPV/RPV is instructed not to conduct a comprehensive inspection of the property. The Lender client agrees to accept the Restricted Valuation having regard to the risks inherent in relying upon a valuation which does not have the benefit of a comprehensive inspection.

6.3 The Lender clients requirements for CPV/RPVs providing this Restricted Valuation service are set down in point form within the Instruction section of the Restricted Valuation - Residential Property pro-forma report. For the guidance of both Lender clients and CPV/RPVs these requirements are elaborated upon below:

- ‘any records that you may possess in respect of the property should be checked. This includes registered plans, zoning information and any sales of the property in the past three years’
  
  This extends only to existing records that are held at the time of instruction in the CPV/RPV’s office.

- ‘the property must be identified at its street frontage’
  
  Using the address, (and title details/legal description if provided), and any plans the CPV/RPV has, identify the property.

- ‘an external inspection only of the property is to be conducted’
  
  The extent of the inspection of the property is to be limited to a point or points at or near its legal frontage(s). The CPV/RPV must not enter onto the property. Where this inspection and the information provided to the CPV/RPV do not enable the CPV/RPV to gain a reasonable impression of the property, the CPV/RPV will be entitled to either increase the market range of the value for the property and/or recommend that a PropertyPRO Residential Valuation and Security Assessment be conducted.

  - ‘the property is to be photographed and the photo retained on file’
    
    This should be taken, without entering the property, from a point or points near the property’s legal frontage.

  - ‘any property information supplied above that is known to be incorrect should be corrected, otherwise assume all information supplied to be correct’
    
    The CPV/RPV will not be held responsible if the information provided by the Lender client is incorrect, but where the CPV/RPV knows information supplied by the Lender client to be incorrect, the CPV/RPV must correct it. There is no obligation on the CPV/RPV to supply any missing information.

  - ‘the condition and quality of what is visible is to be assumed as indicative of the nature and condition of the property’
    
    If, for example, the visible part of the exterior appears in good condition and of above average quality, the CPV/RPV is entitled to assume that the remainder of the exterior and the interior is of the same condition. The Lender client acknowledges that such assumptions will not always be correct, but for the purpose of a Restricted Valuation, the Lender client agrees that the CPV/RPV is entitled to make that assumption.

  - ‘unless stated otherwise, fee simple with vacant possession is to be assumed’
    
    The CPV/RPV is not expected to search the title or to enquire if there are any leases or occupancy rights.

  - ‘unless ascertained within these limitations or physically obvious, it is to be assumed that there are no easements or encumbrances’
    
    The CPV/RPV is not expected to search the title, but must take into account any title
information supplied or easements noted on plans already in the possession of the CPV/RPV or which are obvious from the restricted inspection.

- ‘recent comparable sales from your records must be reviewed’

Available sales data held in the CPV/RPV’s office should be considered.

In agreeing to undertake a Restricted Valuation the CPV/RPV is required, in accordance with RV: 3.2 above, to have recently researched the relevant market place and to be familiar with the most recent sales and market direction. The Lender client agrees that it is therefore not necessary for the CPV/RPV to carry out additional comparable sales research.

- ‘within the above limitations you are to provide (the client) with an indicative market value range for the property.

The Lender client acknowledges that the limitations imposed by the Lender client on the CPV/RPV in relation to inspection, research, enquiry and other aspects of due valuation process prevent the CPV/RPV from carrying out a fully researched valuation assessment of the property. The Lender client also acknowledges that, based upon the limited known information available to the CPV/RPV, an indicative market value range is more appropriate than a single valuation figure and the Lender client further acknowledges that the market value range is likely to be sufficiently wide to reflect the above limitations.

6.4 Any material relied upon or notes taken should be retained on file by the CPV/RPV Member with a copy of the Restricted Valuation report.

6.5 All information provided by the Lender client, including instructions, is to be in writing in Part A of the Restricted Valuation - Residential Property pro-forma report.

6.6 The Restricted Valuation is to be provided by the CPV/RPV to the Lender client in writing in Part B of the Restricted Valuation - Residential Property pro-forma report.

7.0 Indicative Market Value Range

7.1 It should be noted that a market valuation is property-specific and provides a single point assessment in accordance with the definition of Market Value as follows:

‘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.’

7.2 A Restricted Valuation is a qualified opinion of value of a property provided in accordance with this Supporting Memorandum in response to a specific instruction by the Lender client not to carry out the usual enquiries and investigations associated with a market valuation.

A Restricted Valuation is:

an indication of the value range that the market value of the property is likely to fall within should a CPV/RPV be requested to carry out a fully researched valuation assessment of the property in accordance with the PropertyPRO Residential Valuation and Security Assessment’ and the definition of market value in 7.1’.

7.3 The value range provided by the CPV/RPV should be sufficiently wide to reflect the limitations of the Restricted Valuation process such as, but not limited to, the extent to which the property is visible, the degree to which it can be gauged within the limitations of the Restricted Valuation, the very limited research and enquiry and the limited known information. The greater the level of uncertainty that results from those limitations, the wider the range will likely be.

Where that range is greater than 20% (of the difference measured against the lower figure), the CPV/RPV should also recommend that the Lender client obtains a PropertyPRO Residential Valuation and Security Assessment of the property in question. A market value range should still be provided, even if broader than 20%, as it may be adequate for the Lender client's requirements.

It is specifically acknowledged by the Lender client that, based on the limited known information available to the CPV/RPV, the CPV/RPV will not be able to undertake a Restricted Valuation to the same level of accuracy as a PropertyPRO Residential Valuation and Security Assessment.

7.4 If a Restricted Valuation is provided in a marketplace where two-tier or multi-tier markets are in existence, the range provided should reflect an informed purchaser’s and realistic marketing
8.0  Recommending PropertyPRO Residential Valuation and Security Assessment Report

8.1  Aware of factors which impact or could impact adversely on the property. Where it is thought this adverse impact could be significant, but can only be established or confirmed by inspection, research and/or enquiry beyond the intended scope of a Restricted Valuation, the CPV/RPV should recommend that a PropertyPRO Residential Valuation and Security Assessment report be prepared. The recommendation can be made by ticking the box provided.

8.2  Where a recommendation is made for the preparation of such a report, the CPV/RPV should also briefly note the main reason for the recommendation.

9.0  Acceptance of Commercial Risks of a Restricted Valuation

9.1  The Institute considers that there are inherent risks to a Lender client who relies on a Restricted Valuation but acknowledges that the Lender client has expressed a commercial need for such a valuation to be carried out by CPV/RPV Members of the Institute.

9.2  A Lender client, in providing its instructions for a Restricted Valuation using the Restricted Valuation - Residential Property pro-forma report, agrees to accept and be bound by the process contained within this Supporting Memorandum.

9.3  The Lender client expressly acknowledges and confirms:

   (a)  in producing the valuation advice contained in a Restricted Valuation the CPV/RPV has not carried out the usual range of enquiries that a CPV/RPV is required to make by professional practice standards in determining a valuation of property, and that this is at the specific request of the Lender client.

   (b)  that the Lender client fully understands the risks inherent in relying upon a valuation carried out in such circumstances.

Accordingly, but subject to compliance by the CPV/RPV with the requirements of the Restricted Valuation - Residential Property pro-forma report, this Supporting Memorandum and the stated instructions of the Lender client, the Lender client agrees that it will have no cause of action against the CPV/RPV whether in contract tort or otherwise by reason only that the Lender client suffered loss or damage by relying upon a Restricted Valuation.

The Lender client further agrees that it will indemnify the CPV/RPV against any claim for loss or damage by a third party invited or permitted by the Lender client to rely upon a Restricted Valuation, whether arising in contract tort or otherwise and arising out of or in connection with reliance by that third party on a Restricted Valuation.

Nothing in this clause 9.3 shall affect the liability of the CPV/RPV in relation to a Restricted Valuation where the CPV/RPV failed to carry out a Restricted Valuation in accordance with the provisions of the Restricted Valuation - Residential Property pro-forma report, this Supporting Memorandum and the stated instructions of the Lender client.

The Lender client will not convey a Restricted Valuation or any part of it to the borrower or other third parties, and will keep it confidential and will use it for its mortgage-related purposes only.
**ANNUAL API/PINZ CPD RECORD**  
*(for the period 1 January to 31 December 2007)*

Name: .......................................................................................................................... ..........................................................  
*First Names*  
Surname  
Address: .......................................................................................................................... ..........................................................  
Employer: ..........................................................................................................................  
Tel (Work) .......................................................... Fax (Work) ..................................................  
☐ Please tick if you wish to receive a CPD Certificate of Compliance  

You must complete the following two questions:  
☐ Please tick this box if you have completed a valuation during this CPD reporting period (i.e. 1 January to 31 December 2007)  

Please state the last time you completed an API approved Risk Management Module  
[Month] / [Year]  OR  ☐ Never

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**Section One**

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<td>eg. Easements</td>
<td>Easements – Law &amp; Valuation</td>
<td>Webster, Watkins, Holland</td>
<td>API (Seminar paper)</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Subtotal

**Section 3 - Additional / New Vocational / Professional Functions Undertaken in 2007**

<table>
<thead>
<tr>
<th>Additional / New Function(s) Performed</th>
<th>Knowledge/Skills gained or updated from learning on-the-job</th>
<th>Competence Level</th>
<th>End 2007</th>
<th>Evidence of Improvement</th>
<th>CPD Hours</th>
<th>CPD Points (1 point per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>eg. Marketing</td>
<td>Knowledge of marketing strategies for small professional practice</td>
<td>Familiar</td>
<td>Skilled</td>
<td>Developed &amp; implemented marketing plan for small professional practice</td>
<td>8</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Maximum of 10 points is recognised for Section 2 plus Section 3

Subtotal

Total 2007 CPD Points

2006 Points Carried Forward

Total CPD points
AUSTRALIAN PROPERTY INSTITUTE & PROPERTY INSTITUTE OF NEW ZEALAND OFFICES

NATIONAL SECRETARIAT (Canberra)
Mr. Grant Warner
National Director
Australian Property Institute
6 Campion Street
DEAKIN ACT 2600
Tel:  (02) 6282 2411
Fax:  (02) 6285 2194
Email: national@api.org.au
Web:  www.api.org.au

ACT (Canberra)
Mrs Catherine Sirel
Executive Officer
API – ACT Division
PO Box 145
CURTIN ACT 2605
(6 Campion Street DEAKIN ACT 2600)
Tel:  (02) 6282 5541
Fax:  (02) 6282 5536
Email: act@api.org.au

WESTERN AUSTRALIA (South Perth)
Ms Gail Walker
Executive Officer
API – WA Division
PO Box 502
SOUTH PERTH WA 6951
(27 Charles Street SOUTH PERTH WA 6151)
Tel:  (08) 9474 2784
Fax:  (08) 9474 1157
Email: wa@api.org.au

SOUTH AUSTRALIA (Kent Town)
Ms Moira Mundy
Executive Officer
API – SA Division
PO Box 246
KENT TOWN SA 5071
(5a/15 Fullarton Road KENT TOWN SA 5071)
Tel:  (08) 8132 0092
Fax:  (08) 8132 0480
Email: sa@api.org.au

TASMANIA (Hobart)
Mr Tony Stevens
Executive Officer
API – TAS Division
GPO Box 745
HOBART TAS 7001
(Association House, 123 Bathurst Street
HOBART TAS 7000)
Tel:  (03) 6234 6511 or (03) 6234 7577
Fax:  (03) 6234 6955 or (03) 6234 7566
Email: tas@api.org.au

VICTORIA (Port Melbourne)
Mr Peter Ralton
Executive Officer
API – VIC Division
10 Beach Street
PORT MELBOURNE VIC 3207
Tel:  (03) 9646 1977
Fax:  (03) 9646 4635
Email: vic@api.org.au

Continued over page
OFFICES

QUEENSLAND
(Spring Hill)

Mr. Andrew Bell
Executive Officer
API – QLD Division
PO Box 106
SPRING HILL QLD 4004
(2nd Floor, 131 Leichhardt Street SPRING HILL QLD 4000)
Tel: (07) 3832 3139
Fax: (07) 3839 0438
Email: qld@api.org.au

NEW SOUTH WALES
(Sydney)

Ms Gail Sanders
Executive Officer
API – NSW Division
Level 3
60 York Street
SYDNEY NSW 2000
Tel: (02) 9299 1811
Fax: (02) 9299 1490
Email: nsw@api.org.au

PROPERTY INSTITUTE
OF NEW ZEALAND

NATIONAL SECRETARIAT
(Wellington)

Mr. Glenn Clark
Chief Executive Officer
PINZ INC.
Level 5, ANZAC House
181 Willis Street
PO Box 27-340
WELLINGTON
New Zealand
Tel: (04) 384 7094
Fax: (04) 384 8473
Email: national@property.org.nz
Web: www.property.org.nz