

Australian Property Institute and
Property Institute of New Zealand

EXPOSURE DRAFT TECHNICAL INFORMATION PAPER - VALUATIONS FOR MORTGAGE AND LOAN SECURITY PURPOSES

***Warning.** Exposure Drafts do not have any formal standing until such time as they are adopted by the API and National Councils of PINZ as being suitable for use by Members. They must not be relied upon, reproduced or used by any Member or any other party for any reason whatsoever. Reliance should be given to currently adopted/ approved/ sanctioned Practice Standards, Guidance Notes and Technical Information Papers only. Members and the general public are warned that Draft Practice Standards, Guidance Notes and Technical Information Papers may be at various stages of the rigorous development and review process discussed within this TIP and that they may change or be amended during this development process. Therefore only current PS, GN and TIPs contained within the Australia and New Zealand Valuation and Property Standards should be used.*

Reference Exposure Draft –TIP - Valuations for Mortgage and Loan Security Purposes
Exposure Draft Period Open 28 November 2018 – Close 8 February 2019
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Technical Information Papers (TIPs)

A Technical Information Paper (TIP) is a paper published by the API that clarifies professional and industry processes, outlines best practices and procedures, and discusses their use and implementation. A Technical Information Paper is designed to be of assistance to Members and those who use Members' services.

A TIP will:

- Provide information on the characteristics of different types of assets that are relevant to the advice;
- Provide information on appropriate practices and their application;
- Provide information that assists Members in exercising the judgements they are required to make in specific situations; and
- Explain elements of what is considered "competent professional practice" for Australian Property Institute Members and "best practice" for Property Institute of New Zealand (PINZ) Members.

A TIP is not intended to provide comprehensive training, instruction or prescriptive practices and procedures. A TIP will also not direct that a process, professional approach or method should or should not be used in any specific instruction or situation.

The Member is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. While TIPs are not mandatory, they serve as a guide and measure of acceptable professional practice and conduct of a Member.

While the API and the PINZ consider this TIP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings. As case law and relevant legislation may change over time, further advice regarding the TIP should be sought where necessary.

If any Member considers any information or advice in this TIP to not be accurate or up to date, refer this to standards@api.org.au and standards@property.org.nz.

Valuations for Mortgage and Loan Security Purposes

1.0 Introduction

This TIP applies to Members providing Valuation Services for mortgage and loan security purposes. Members providing Valuation Services must do so to the standard of professionalism and skill required and consistent with membership of the API and PINZ and in compliance with the law.

This TIP should be read in conjunction with any other relevant TIPs, Guidance Notes and Professional Guidelines.

The API and PINZ do not represent or warrant that anything contained in this or any other TIP is a definitive or final statement on any issue. Members must perform their own work pursuant to their own professional expertise and seek additional advice if required. Members have the responsibility of deciding when it is inappropriate to follow a TIP.

Where a court or tribunal makes a finding on whether a Member has acted to a standard required by law, it may take into account both the contents of any relevant TIP or any other document related to a recommended professional practice. Other documents are restricted to the publications of both the API and the PINZ.

Where a Member wishes to depart from the practices recommended in this TIP, it is suggested that Member:

- makes a record of the reasons for not complying with the TIP; and
- seeks legal and/or other advice before departing from the practice recommended in the TIP.

1.1 International Valuation Standards

Members should review to the following International Valuation Standards

IVS 101 Scope of Works
IVS 102 Investigations and Compliance
IVS 103 Reporting
IVS 104 Bases of Value
IVS 105 Valuation Approaches and Methods
IVS 400 Real Property Interests
IVS 410 Development Properties

2.0 Terms

The following are terms used in this Technical Information Paper.

Institute	All references to Institute mean, as the context requires, API and /or PINZ.
Member	All references to Member is a specific reference to a Member of the API and/or PINZ and in certain circumstances may also be a reference to an employer of a Member where that employer is the party entering into a contract for services with a client as referred to in this TIP.
Professional Guidelines	Professional Guidelines means: <ul style="list-style-type: none">(a) The Australia and New Zealand Real Property Guidance Notes and the Australia and New Zealand Practice Standards, which contains the API Code of Professional Conduct, the PINZ Code of Ethics and the PINZ Rules of Conduct.(b) In relation to Australia, the API Valuation and Property Standards and International Property Measurement Standards.(c) In relation to New Zealand, the PINZ International Valuation Standards 2017, the New Zealand Valuation Guidance Notes and the Real Property Guidance Notes.

3.0 Instructions

3.1 Instructions from Lender

Instructions to Members to undertake market valuations for mortgage and loan security purposes should preferably 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 Valuer. Lenders should issue instructions directly to the firm/member.

3.2 Other Instructions

It is recognised that at times, intending mortgagors (borrowers) may instruct Members directly to provide a valuation for mortgage purposes. In such cases the Valuer should prominently disclose this in their valuation report.

In these cases, the valuation should be qualified, including that the report cannot be relied upon until consent is granted by the reporting Valuer, in writing. When a Valuer is asked to assign their report to a lender, if they agree, confirmation of assignment instructions should be received from the lender. A new report must be issued to the lender which includes purpose of the report, reliant parties, and any other requirements.

See TIP – Disclaimers, Limitations, Qualifications, Assumptions and Warnings in Advice.

4.0 Report Content

4.1 Recommendation

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 affecting the asset (see Risk Analysis).

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

4.2 Risk Analysis

Identification and an assessment of the risks that may impact property value is required. The risk assessment matrix will include:

- Property specific risk ratings – location and neighbourhood, land, resource consent issues, and improvements.
- Market risk ratings – market volatility, local market impact and market segment conditions.
- Any other risk deemed appropriate, to be identified by the Valuer.

Elevated risks should be clearly discussed within the valuation report and how they apply to the subject property, including issues such as:

- Building Consent or Resource Consent, or areas of non-compliance.
- Flood, erosion, subsidence or land slip risks.
- Earthquake impacted areas.
- Land identified as having a high risk of liquefaction.
- Requirement or Designations for proposed public works.
- Sites or areas of significance to Tangata Whenua, NZ.
- Heritage features.
- Essential repairs.
- Building defects including weather tightness or other deterioration.
- Proximity to infrastructure such as a mobile phone tower or transmission lines/pylons.
- Restrictions on access to the property.
- Proximity to railway lines, main roads or airport/flight path.

A Member should advise the lender of any factors that could impact adversely on the property as security. This may include those factors which, assessed on information that is common

knowledge, readily ascertainable in the market and/or reasonably foreseeable, and may have an adverse impact on the property's value and/or marketability.

4.3 Risk Rating

Risk ratings can be used to convey the risk analysis, particularly regarding:

- a) property specific risks; and
- b) market specific risks.

The assessment of the risk levels provides information to the lender relating to probability and consequence of that risk. Risk ratings are presented in numerical or graph format and indicate the perceived impact of that risk on value and marketability. Any risk issue mentioned in the report should be reflected in the risk ratings. Risk ratings are an indicator only, limited to the Valuer's expertise and should not be relied upon alone in lending decisions.

(Ref: PropertyPRO Supporting Memorandum)

4.4 Future Value

The market value assessed is at the date of valuation and the Valuer should not predict future value levels or future market conditions. General market commentary may include current conditions and historical trends. At no time should future estimates or projections be made.

4.5 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.

Members are also encouraged to familiarise themselves with 'The Australian Banking and Finance Industry - Residential Valuation Standing Instructions' as updated and amended from time to time.

4.6 Alternative Use Value

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.

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

4.7 Reporting a Vacant Possession Value

When a property is subject to a lease with an imminent expiry, and the value of a property on a vacant possession basis is, or is likely to be, significantly different from the value of the property subject to an existing lease, then both values should be reported to ensure that a mortgagee/lender is fully informed.

By way of guidance, some financiers may wish for a vacant possession value to be reported where an expiry is up to 2 years from the date of valuation.

Members are encouraged to refer any ambiguous instruction to the financier for guidance and clarification if required.

5.0 Valuations on an 'As if Complete' Basis

5.1 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, costings and specifications and any proposed tenancy agreements, 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, or a proposed lease.

5.2 Instructions

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

- Council approval for the proposed construction, including date of consent and conditions of approval.
- A copy of the builder's quotation, contract or tender.
- 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.
- Full copies of plans and specifications. (Council approved and stamped copies should be sighted prior to the lender relying on the valuation to advance construction funds if they are not available at the time of instruction, in which case the valuation should be appropriately qualified.)
- Copies of any accepted tenders or builder's quotes, or quantity surveyors report.
- Full prime cost and/or provisional cost allowance item list noting any works not being carried out by the builder
- Copies of any agreements to lease or other form of pre-commitments if applicable.

If the above information is not made available to the Member, the lender should be advised and the further documents requested. At a minimum, plans, specifications and builder's tender must be provided to the Valuer before the report can be completed.

5.3 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. The report should be qualified accordingly.

5.4 Cost Estimates and Inspections by Others

If a Valuer Member has appropriate costing expertise, a check costing can be made utilising accepted cost-guide publications in the market, and any discrepancies noted.

In the event that Members are not qualified in a building/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. Quantity Surveyor.

A Valuer Member may recommend a suitably qualified person conduct the progress inspections throughout construction if appropriate.

5.5 Advise Significant Difference Between Costing and Tender

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

5.6 Value 'As If Complete' Report Qualifications

A Member, in assessing the Market Value of a property based on plans, costings and specifications and/or a proposed lease(s) on an 'As If Complete' basis should qualify their report accordingly.

The report should be subject to qualifications such as:

- Satisfactory completion of the improvements in accordance with the plans, specifications and details as provided.
- An assumption that the plans provided (if not council approved) are the same as those council approved. A qualification that no construction funds should be released until the approved plans are sighted and confirmed as being the same as those relied upon for the valuation.
- An assumption that construction will be completed satisfactorily with the above documents, the Building Code of Australia and in New Zealand, NZ construction codes, and that all necessary final certificates are issued on completion.
- 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.

5.7 Confirmation at Original Valuation Date

Any confirmed or varied valuation will relate to the market conditions existing at the date of the original valuation.

If there are any changes to the project after the original 'as if complete' valuation, an updated figure may be required, or provided at the specific request of the client, and additional fees may be chargeable for this review.

5.8 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.

5.9 Significant Repairs and/or Renovations

Where significant repairs and/or renovations are involved, a valuation 'as is' should reflect the market conditions on this basis.

The lender may request an 'as if complete' valuation also. In this case, an estimate of cost for works should be provided by a suitably qualified person acceptable to the lender. A Member should ensure that the current condition of the property is described, and the scope of works required is addressed. An 'as if complete' valuation on this basis assumes the repair or renovation works are complete as at the date of valuation and the report should be qualified accordingly.

Members should have regard to International Valuation Standards 2017 - Asset Standards IVS 410 Development Property.

6.0 Pro forma Reports and Standing Instructions

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

In New Zealand and Australia, Members are encouraged to familiarise themselves with the 'Australian Banking and Finance Industry Residential Valuation Standing Instructions' as updated and amended from time to time.

7.0 Chattels

7.1 Australia

In Australia, 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 and would generally only be in response to lender instructions eg circumstances such as a serviced apartment valuation 'in use'.) Chattels are

regarded at law as personal property and are not included in a mortgage. The API supports the inclusion of the following items in residential mortgage valuations:

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

7.2 New Zealand

In New Zealand, the Property Institute New Zealand supports the exclusion of the items below in residential mortgage valuations.

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

Chattels not included in mortgage valuations are items such as furniture that is not built in, loose floor coverings, lamps and other items not fixed and not intended to remain in place and pass with a sale of the property.

7.3 Australia and New Zealand

The Valuer should state items included in the valuation including:

- Air conditioning
- Solar panels and batteries
- Dishwashers
- Stoves
- Pool filters, pumps
- Hot water service.

8.0 Effective Date

This TIP is effective from **Day Month Year**. Earlier adoption is permitted.

The above TIP, ANZVTIP #, replaces the superseded Guidance Note “ANZVGN 2 Valuations for Mortgage and Loan Security Purposes” which operated from ### to ##.