



*Australian Property Institute*

**9.1 - PP 2 Restricted Assessment Supporting Memorandum**  
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# Restricted Assessment Supporting Memorandum

Approved 1998

## PP 2: 1.0 Introduction

**Purpose** **PP 2: 1.1** The purpose of this Supporting Memorandum is to provide additional information on the Australian Property Institute (API) *PropertyPRO* 'Restricted Assessment' pro-forma for residential mortgage purposes.

**Scope** **PP 2: 1.2** Members using the *PropertyPRO* 'Restricted Assessment' pro-forma for residential mortgage purposes are to comply with this Memorandum. The memorandum provides Mortgage Lenders requesting Restricted Assessments with an understanding of:

- prerequisites for the provision of this 'Restricted Assessment',
- the type of property it is intended for,
- information to be provided to the valuer,
- the restricted assessment process and responsibility,
- the provision of an indicative 'Typical Property' Market Range,
- recommending a Valuation Report,
- the acceptance of the commercial risks of relying on this level of advice, and
- the restriction on the release of the report to third parties.

## PP 2: 2.0 Background

**PP 2: 2.1** The Institute acknowledges that lenders will not always require a *PropertyPRO* 'Residential Valuation and Security Assessment' pro-forma report, and may sometimes require a Restricted Assessment before deciding whether or not to request such a report.

**PP 2: 2.2** The Institute is satisfied that if the service is provided in terms of this Supporting Memorandum and in the form of the 'Restricted Assessment' – Residential Property pro-forma, the interests of Members will be protected.

**PP 2: 2.3** Any parties providing, using or relying on a 'Restricted Assessment' acknowledge and agree to the provisions of this Supporting Memorandum and indemnify the Institute and its employees against any action however arising.

## PP 2: 3.0 Provision of 'Restricted Assessment' Level of Service

**PP 2: 3.1** In providing a Restricted Assessment, a valuer is required to do no more than is specifically instructed under the terms of the lender's instructions as noted on the Restricted Assessment pro-forma and as further explained in this Supporting Memorandum.

**PP 2: 3.2** The 'Restricted Assessment' level of service may only be provided by valuers who have in the past six months, (or in rapidly changing market conditions, in the past three months), researched the market for broadly similar properties in the same marketplace.

**PP 2: 3.3** Where a valuer is not able to satisfy the requirements of PP 2: 3.2, the instruction should be declined. The valuer may, however, in a covering letter or verbally, advise the lender that the valuer is prepared to accept instructions to undertake a *PropertyPRO* 'Residential Valuation and Security Assessment'.

**PP 2: 3.4** There is no obligation on Members of the Institute to provide this 'Restricted Assessment' service. It is a decision for each valuer Member as to the level of service to provide to a client.

## PP 2: 4.0

### Restrictions on the Provision and Use of Restricted Assessments

**PP 2: 4.1** The 'Restricted Assessment' service is an adjunct to the *PropertyPRO* 'Residential Valuation and Security Assessment'. It is intended that it only be provided for mortgage purposes covering residential property including vacant land and hobby farms. It should not be provided covering proposed dwellings or extensions/renovations. It is not intended for upper level markets or unique properties.

**PP 2: 4.2** Parties providing, using or relying on Restricted Assessments made in terms of this Supporting Memorandum, acknowledge that the assessment of the 'Typical Broadly Similar Property' Market Range does not constitute a valuation nor does it relate to any specific property.

**PP 2: 4.3** Restricted Assessments made in terms of this Supporting Memorandum may only be provided on the pro-forma annexed hereto after it has been filled in (as far as possible) by the lender, as the pro-forma constitutes both a letter of instruction and a report format. The pro-forma must not be modified in any way without the approval in writing from the Institute.

**PP 2: 4.4** The Institute prefers that this type of assessment not be provided for high percentage lending ie. levels where normal mortgage industry practice is to obtain a formal valuation. However the Institute acknowledges that it is the lender's decision as to the level of lending and that sometimes there will be other factors the lender will consider in making a commercial decision. The range provided in the Restricted Assessment will not reflect the level of lending proposed.

## PP 2: 5.0

### Information to be Provided to the Valuer

**PP 2: 5.1** The valuer requires certain information to undertake the task. The more information that can be provided by the lender to the valuer, the better.

**Essential information:**

- full property address (lot number is insufficient unless plan number also supplied).

**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. Where the Lender is unable to supply title detail / legal description, the valuer may assume that the address is correct and rely on it (but should recommend a normal valuation if any description of improvements provided indicates the possibility of an incorrect address). Lenders should be aware that where only an address is provided, the risk of incorrect identification increases.

**Desirable information:**

- Main building type
- Main walls and roof
- Number of bedrooms and bathrooms
- Land area

The remaining headings all assist to improve the 'picture' for the valuer.

## PP 2: 6.0

## Limitations and Requirements of Restricted Assessment

**PP 2: 6.1** It is important that both parties know the extent of the restricted service that is to be provided. In utilising this level of service, the lender agrees to waive the requirement for **many** of the processes a valuer would undertake in providing a valuation report. (An appreciation of extent by which this falls short of the normal level of service required for the formal valuation can be gained by perusing the *PropertyPRO* 'Residential Valuation and Security Assessment' Supporting Memorandum).

**PP 2: 6.2** The client's requirements for valuers providing this restricted service are set down in point form within the instruction/advice pro-forma. These points are elaborated on below:

- ***'any records you may have for 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 in the valuer'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 valuer has, identify the property.

- ***'a non-intrusive viewing of the property is to be conducted'***

The extent of the viewing of the property is to be limited to some point or points near its legal frontage(s). The valuer will, under no circumstance, enter onto the property or be intrusive. Where this viewing and the information provided to the valuer do not enable the valuer to gain a reasonable impression of the property, the valuer may need to increase the breadth of the market range and 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 also without being intrusive.

- ***'any property information supplied above that is known to be incorrect should be corrected, otherwise assume all information supplied to be correct'***

The valuer cannot be held responsible if the information provided is incorrect, but where the valuer knows it to be, it should be corrected. There is no obligation on the valuer 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 remainder of the exterior and the interior should be assumed to be the same. It is acknowledged that this will not always be correct, but for the purpose of the restricted assessment, is assumed to be the case.

- ***'unless stated otherwise, fee simple with vacant possession is to be assumed'***

The valuer 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'***

Again, the valuer is not expected to search the title, but must take into account any title information supplied or easements noted on plans already on hand or which are obvious from the restricted inspection.

- ***'recent comparable sales from your records must be reviewed'***

Available data should be considered. It is not necessary to carry out additional research as the valuer is required to have recently researched this market place.

- **'within the above limitations you are to provide (the lender) with an indicative market range for a 'typical broadly similar property' in this locality'**

The Lender acknowledges that these limitations on inspection, research, enquiry and due process prevent a valuation assessment and risk analysis from being carried out. The Lender also acknowledges that an indicative market price range is more appropriate under these conditions and understands that the range is likely to be sufficiently wide to reflect the above limitations and the resultant greater uncertainty. The range stated does not apply to this property specifically, but rather is indicative of a typical broadly similar property in the same locality.

**PP 2: 6.3** Any material relied upon or notes taken should be retained on file with a copy of the advice.

**PP 2: 6.4** The valuer should not make inquiries of the owner, agents or other interested parties.

**PP 2: 6.5** Information provided by the client is to be in writing on the pro-forma. Any information provided verbally is to be ignored.

## PP 2: 7.0

### Typical Broadly Similar Property Market Range

**PP 2: 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.'*

**PP 2: 7.2** The 'Restricted Assessment' is not property-specific and provides a range. It is an indication of the likely market range for a typical property similar to the one 'viewed' and situated in the same locality. **It is not an assessment of the property 'viewed'**. The 'Restricted Assessment', while not a valuation, is market related and draws on some elements of the above definition.

A Restricted Assessment is:

*an indication of the price range in which a sale of a typical property broadly similar to the one viewed would be most likely to occur at the date of the assessment 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.'*

**PP 2: 7.3** The range provided should be sufficiently wide to reflect the limitations of the restricted assessment 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 Assessment and the very limited research and enquiry. 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 valuer should consider also recommending a valuation report. A range should still be provided even if broader than 20%, as it may be adequate for the lender's requirements.

**PP 2: 7.4** If a Restricted Assessment is provided in a marketplace where two-tier or multi-tier markets are in existence, the range provided should reflect informed purchasers and realistic marketing conditions such as would be available to an individual owner on re-sale.

## PP 2: 8.0      **Recommending a Valuation Report be Prepared**

**PP 2: 8.1**      During the 'Restricted Assessment' process within the terms of this Supporting Memorandum, the valuer may suspect or become 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 scope of those limitations, the valuer should recommend that a *PropertyPRO* 'Residential Valuation and Security Assessment' report be prepared. The recommendation can be made by ticking the box provided.

**PP 2: 8.2**      Where a recommendation is made for the preparation of such a report, the valuer should also briefly note the main reason for the recommendation.

## PP 2: 9.0      **Acceptance of Commercial Risks of Limited Advice**

**PP 2: 9.1**      The Institute considers that there are inherent risks in relying on an assessment and advice provided under these limitations but acknowledges that the Lender has expressed a need for this restricted level of advice.

**PP 2: 9.2**      The Lender in providing its instructions for a Restricted Assessment using the pro-forma recognises and accepts this Supporting Memorandum.

**PP 2: 9.3**      The Lender also accepts the commercial risks of relying on the restricted advice in the Restricted Assessment pro-forma provided it is given in accordance with the listed requirements and this Supporting Memorandum. The lender agrees that no action for professional negligence against a valuer will be initiated by it or any of its service providers where:

- the stated instructions have been followed by the valuer, or
- a valuation report has not been recommended in the absence of any obvious cause for concern.

**PP 2: 9.4**      The Lender will not convey the advice to the borrower or other third parties and will keep it confidential and used for its mortgage-related purposes only.

**Note:** The API has developed a special one page instruction format for this service which doubles as the report back to the lender. It also sets out a specific list of things the service provider is to do for the lender to agree to accept the commercial risks of relying on that level of service and to agree not to take any action for professional negligence against the service provider.

If a client proposes any changes to the format or requirements as listed, they should be asked to contact the API. If a lender advises that it does not want a photo taken, this advice should be obtained in writing and retained in a master file for that client.

It is important that lenders are the ones initiating the request for this level of service. Any API members approached about provision of the service who do not receive the instruction in that format, should put the API National Secretariat in contact with the client so that the service can be explained and a copy of the format and Supporting Memorandum provided. Contact details can be found at the rear of this publication.