

Australian Property Institute Limited

API/APIV MEMBER ALERT UPDATE – REQUESTS FOR LETTERS OF COMFORT/MATERIAL CHANGE TO VALUE/MARKET UPDATE

Reference MEMBER ALERT UPDATE – Requests for Letters of Comfort/Material Change to Value
Effective 2 September 2020
Owner API Acting General Manager, Standards and Compliance and
General Manager, Compliance & Risk (APIV Limited)

API/APIV MEMBER ALERT UPDATE – REQUESTS FOR LETTERS OF COMFORT/MATERIAL CHANGE TO VALUE/MARKET UPDATE

This update clarifies and expands on the Member Alert published on Friday 21 August 2020. This updated Member Alert replaces the previous guidance.

The purpose of this Member Alert is to provide API Valuer Members with guidance when requested to provide a ‘letter of comfort’ or ‘material change’ or ‘market update’, or similar, advice subsequent to the initial or previous valuation of specific property or properties.

It has come to API and APIV’s attention that Valuer Members have been requested to provide what are commonly referred to as “material change” or “letters of comfort”.

These requests are typically termed in such a fashion as to suggest that there has been no change in value, without directly alluding to the valuation amount in question. These requests typically request the valuer comment on the following areas:

- *Recent sales/if any (post the valuation date);*
- *Relevant, current comments on the market and market sentiment; and*
- *Any material changes to the assumptions adopted in the previous valuation.*

With a closing comment to the effect that “...the assumptions adopted in the <date of report> are still relevant and remain valid...”

The implication, therefore of answering the above questions in the affirmative, is that the valuation amount also remains unchanged.

A Valuer Member providing such advice would be deemed to be expressing an opinion of value and therefore a ‘valuation’.

It is important to note that these requests typically do not require:

- a re-inspection of the subject property; or
- a review of the current financials, zoning or condition of the subject property.

API Standards Reminder - Providing an opinion of Value

A Valuer Member providing an opinion of value or confirmation of a previous value would be deemed to be providing valuation advice. Valuer Members are reminded that providing an opinion of value that is not in accordance with accepted valuation practice and supported by appropriate due diligence may be in breach of API standards, the API Code of Professional Conduct and International Valuation Standards.

It is essential that any valuation opinion provided by a Valuer Member, regardless of the extent and form of inspection by the Member (which may be a full comprehensive inspection, a restricted/limited inspection or, if so instructed by the client, a desktop assessment where no physical inspection of the property is undertaken by the Valuer Member) involves a review of the property details, available market evidence and the prevailing market conditions/sentiment as at the date of valuation.

The API reminds Valuer Members of the requirements contained within the International Valuation Standards (IVS) under *General Standards IVS 102 Investigations and Compliance, paragraphs 20.1 to 20.7*, which outline the requirements for a valuation to comply with IVS.

API/APIV Guidance

A Valuer Member should not provide an opinion of value in the form of a 'letter of comfort' without following accepted valuation practice and appropriate due diligence. Any request of this type should be declined by the Valuer Member, with a recommendation to the client that an updated valuation be undertaken.

The API and APIV stress that not following accepted valuation practice and undertaking appropriate levels of due diligence **may result in the member's professional indemnity insurance insurer denying cover in the event of a claim.**

If there are any questions regarding this Member Alert, please do not hesitate to contact us at standards@api.or.au or apiv@api.org.au

Foot note: The API has previously provided similar advice in relation to these matters in the past.