

Australian Property Institute Limited

STANDARDS REMINDER VALUATION PROTOCOL – GUIDANCE FOR RISK RATINGS DURING THE DECLARED “CRISIS/STATE OF EMERGENCY”

Reference Standards Reminder - Valuation Protocol – Guidance for Risk Ratings during the declared
“Crisis/State of Emergency”

Effective 17 September 2021

Owner Manager Professional Standards

Standards Reminder

Valuation Protocol – Guidance for Risk Ratings during the declared “Crisis/State of Emergency”

This Standards Reminder relates to the member alert published by the API on 24 April 2020.

The purpose of this Valuation Protocol is to provide guidance for Valuer Members (Valuers) in relation to risk rating assessments during the API declared Crisis/State of Emergency period for valuations undertaken utilising the [API PropertyPRO Supporting Memorandum](#) and those undertaken subject to the [ABFI ADDENDUM Special Instructions Residential Valuation Standing Instructions for PropertyPRO Valuations Reports](#).

API Guidance for Risk Rating Assessment

Valuers are referred to the following API resources which gives guidance on risk ratings for valuations completed using the PropertyPRO Report format:

1. [API PropertyPRO Supporting Memorandum](#) gives guidance on risk ratings for valuations for mortgage purposes for residential property.
2. [ABFI ADDENDUM Special Instructions Residential Valuation Standing Instructions for PropertyPRO Valuations Reports](#) provides guidance on the ‘Improvements’ risk rating where a full physical inspection of the property was not undertaken by the Valuer.
3. API COVID-19 Online Resources. Please note that there are further resources available on the [API COVID-19 Hub](#).

General Principles of Risk Rating Assessment

The purpose of risk ratings is to highlight pre-defined risk issues applicable to a particular asset and the market segment in which the property will transact, not the performance of the general market. The underlying principles when applying risk ratings are set out in the Risk Analysis section in the PPSM.

A property may have multiple risk issues where each issue would be assigned a different risk category. It is the Valuer’s responsibility to apply the risk ratings in accordance with the PPSM risk rating framework including providing the specific comments relating to what is happening in the market that the property is located and transacted that may negatively/adversely impact on the value or marketability of the subject property, limited to the Valuer’s area of professional expertise.

The API has not prescribed risk ratings because markets are diverse. It is the Valuer who is required to make a professional judgement as to the assessed risk rating level for each risk rating/category.

The API reminds Valuers that page 4 of the [ADDENDUM](#) prepared by the RVI Group prescribes that the ‘Improvements’ risk rating must be assessed at a minimum of ‘4’ where a full physical inspection of the property by the Valuer was not able to be undertaken. The Addendum notes;

Risk Ratings

A Risk Rating of “4” or “5” must be applied to “Improvements” if a full physical inspection has not been completed. This should be determined dependent upon the type of inspection that took place and after due consideration regarding the reliability of any additional resources that have been relied upon during the valuation assessment.

Commentary on the Macro Economy of Australia

The API does not consider it appropriate for Valuers to provide economic/financial advice on the broader macro economy via the risk ratings. Broader economic and property market conditions may be discussed elsewhere in the report (eg: general market commentary).

How is COVID-19 Impacting the Subject Property and the Market?

Valuers should provide an explanation as to what is occurring within the marketplace the subject property is located and transacted including, where appropriate, outlining the impact that COVID-19 is having on the value and marketability of the subject property. Valuers should also consider whether any applicable Valuation Risk Alerts (VRAs) should be triggered.

It is the role of the Valuer to provide their professional opinion as to the market value of the subject property taking into account the prevailing market conditions and identify and report on known or observable risks.

Consistency in risk reporting within the Report

The Valuer should ensure that the response to the *Level of Market Activity* field (within Section 7) is consistent with the risk ratings adopted as well as any applicable risk rating commentary included in the report.

If you have any questions or concerns regarding this recommendation, please do not hesitate to contact us at standards@api.org.au.