

Australian Property Institute Limited

MEMBER REMINDER VALUATION PROTOCOL— CLADDING ON BUILDINGS

Reference Member Reminder - Valuation Protocol – Cladding on Buildings
Effective 1 May 2019
Owner General Manager – Professional Standards (Residential)

Member Reminder

Valuation Protocol – Cladding on Buildings

This Member Reminder relates to the Valuation Protocol published by the API on 10 October 2018.

For more information and to view the current and withdrawn valuation protocols please go to: www.api.org.au/standards/cladding-buildings

Introduction

This Valuation Protocol, and its purpose, is to provide guidance for the completion of mortgage security valuations of residential units/apartments in medium or high-rise apartment buildings/developments (that is, above three (3) stories) for banks/lenders, and their LMIs utilising the PropertyPRO Report format. However, the general principles and guidance outlined in this protocol also applies to mortgage and non-mortgage valuations of both residential apartment buildings/developments and non-residential buildings/developments where cladding (as defined below for the purpose of this protocol) is utilised on the exterior of the building.

However, this protocol is not provided, by the API, as a substitute for Valuer Members exercising their own professional skill and judgement in relation to cladding issues as referred to in this protocol and more generally. Nor is this protocol provided as prescriptive guidance on cladding issues or is it provided by the API in lieu of legal and or other advice on cladding issues.

Definitions

Defined terms for the purpose only for assisting understanding of the contents of this Valuation Protocol:

“Appears to be clad” means that the building/development appears to be either wholly or partially ‘clad’ with aluminium composite panel (ACP), expanded polystyrene (EPS) or similar products, excluding glazed areas.

“Cladding” in the case of building construction, is the application of one material over another to provide a ‘skin’ or extra layer to the exterior of a building/development. It is used to provide a degree of sound and thermal insulation and weather resistance, and to improve the appearance of buildings.

“Compliant cladding” means ACP, EPS or similar ‘cladding’ products and/or the method of their attachment as are from time to time designated as compliant/conforming to Laws and Codes (defined below); that is, meeting or in accordance with Laws and Codes applicable.

“Known to be clad” means that the Member is aware that the building/development is either wholly or partially ‘clad’ with aluminium composite panel (ACP), expanded polystyrene (EPS) or similar products, excluding glazed areas.

“Laws and Codes” means any Laws, Legislation, Regulation, Codes and or any relevant and applicable Australian Standard relating to cladding and the fixing/attachment of that cladding in building construction.

“Member” means Members of the API who provides valuation advice relating to the issues covered in this Valuation Protocol and includes the term **“Valuer Member”**.

“Non-Compliant cladding” means ACP, EPS or similar ‘cladding’ products and/or the method of their attachment as are from time to time designated as non-compliant/non-conforming to Laws and Codes; that is, not meeting and not in accordance with Laws and Codes applicable.

General Principles

Members undertaking valuations of real property must ensure that they are not holding themselves out in any way either expressly or impliedly, as building/construction experts, unless they hold appropriate qualifications/certification that would be recognised at law.

Expert assessment by a building/construction expert (for example but not exclusively an engineer, builder, building surveyor or certifier) is required to determine whether cladding is compliant/conforming with Laws and Codes.

The Member’s duty is to report on risk items that are reasonably identifiable from the inspection of the subject property in accordance with accepted valuation practice.

Members who identify what appears to be a cladding issue which gives rise to any suspicion on the Member’s part of possible non-compliance/non-conformance with Laws and Codes should report on that suspicion in a clear and unambiguous way that would provide a “warning” to the reader of the valuation report. These comments should make it clear that professional building or other similar expert advice is required before any reliance can be placed on the valuation report.

The Member should identify whether the building/development, in which the subject unit/apartment is located, appears to be or is known to be clad and refer to this clearly in the valuation report.

The advice that Members provide in valuation reports is on the following bases (and as such reports should include appropriate wording to confirm these bases – see below examples provided for guidance only);

that Valuer Members;

- are not experts in building materials; and or
- are not qualified to determine the existence of ACP or EPS cladding system (or similar) is present in a building/development from a visual inspection alone; and or
- are not able to identify from a visual inspection whether the cladding used, or method of attachment, is compliant/conforming or non-compliant/non-conforming; and
- as such are not expected to make or required to make any enquiries into whether ACP or EPS cladding (or similar) is compliant/conforming or non-compliant/non-conforming.

Building/Development ‘appears to be clad’

Where the Member has identified that a building/development appears to be clad, the Improvements Risk Rating, in the PropertyPRO Report, must be raised to a minimum of 4, and a comment along the lines of the following included in the Report;

“The building/development appears to be clad. We are unable to identify from our visual inspection whether the cladding used, or method of attachment, is compliant/conforming or non-compliant/non-conforming.

This valuation report has been prepared under the assumption that the building materials used, as well as the application and installation of those materials, comply with all approvals, relevant law, legislation, legal codes and or standards. Should this not be the case, we reserve the right to review our valuation.

We are not experts in ‘cladding’ or methods of attachment and are not qualified to determine the existence of non-conforming or non-compliant cladding. We do not accept responsibility or liability for any losses whatsoever arising from the Valuer failing to identify non-conforming or non-compliant cladding.

Prior to any reliance on the Valuation Report by any Lender/LMI, the Lender/LMI and any other party nominated in the Report as being entitled by the Valuer to rely upon the Report, those parties must make their own enquiries regarding the cladding used, including the application, installation, specification and utilisation of the cladding, and its compliance with all approvals, relevant law, legislation, legal codes and or standards.”

The above wording is an example only. Members are reminded to that a note in the report in the form of a qualification and or “warning” as to any unconfirmed suspicions that they might have arising from their visual inspection of the subject property and the building/development that it is located within.

Members must seek appropriate advice as to proper use and applicability of any proposed and or suggested qualifications, assumptions, disclaimers, limitations and or “warnings” where any uncertainty as to cladding and or the method of fixing/attachment of cladding exists.

Building/Development ‘known to be clad’

Where the Member is aware that the building/development in which the unit/apartment, that is the subject of the Valuation Report, is known to be clad, the API recommends the Member follow the same approach as outlined above, with changes to the first paragraphs, along the lines of;

“The building/development is known to be clad. We are unable to identify from our visual inspection whether the cladding used, or method of attachment, is compliant/conforming or non-compliant/non-conforming.

This valuation report has been prepared under the assumption that the building materials used, as well as the application and installation of those materials, comply with all approvals, relevant law, legislation, legal advice and or standards. Should this not be the case, we reserve the right to review our valuation.

We are not experts in cladding or methods of attachment and are not qualified to determine the existence of non-conforming or non-compliant cladding. We do not accept responsibility or liability for any losses whatsoever arising from the Valuer identifying or failing to identify non-conforming or non-compliant cladding.

Prior to reliance on the Valuation Report by any Lender/LMI, the Lender/LMI and any other party nominated in the Report as being entitled by the Valuer to rely upon the Report, those such parties must make their own enquiries regarding the cladding used, including the application, installation, specification and utilisation of the cladding, and its compliance with all approvals, relevant law, legislation, legal codes and or standards.”

Members should also state in the report the basis and source of their knowledge relating to the presence of cladding.

The above wording is an example only. Members are reminded to that a note in the report in the form of a qualification and or “warning” as to any unconfirmed suspicions that they might have arising from their visual inspection of the subject property and the building/development that it is located within.

Members must seek appropriate advice as to proper use and applicability of any proposed and or suggested qualifications, assumptions, disclaimers, limitations and or “warnings” where any uncertainty as to cladding and or the method of fixing/attachment of cladding exists.

'Non-Compliant Cladding' known to be present

Where the Member is aware, made aware or becomes aware that non-compliant/non-conforming cladding has been used, and/or the method of attachment is non-compliant/non-conforming, on a building/development, the Member must raise the Improvements Risk Rating to a 5 and trigger VRA 1 in the PropertyPRO Report and include a comment along the following lines;

“The subject property is situated in a building/development which is reasonably known to the Valuer through publicly known information to contain non-compliant/non-conforming cladding.

Prior to reliance on the Valuation Report by the Lender/LMI, the Lender/LMI or other party entitled by the Valuer to rely on the report, must make their own enquiries regarding the cladding used including the application, installation, specification and utilisation of the cladding and its compliance with all approvals, relevant law, legislation, legal codes and or standards.

We are not experts in building materials and are not qualified to determine the existence of non-conforming or non-compliant cladding. We do not accept responsibility or liability for any losses whatsoever arising from identifying or failing to identify non-conforming or non-compliant cladding.

This valuation is prepared based on information publicly available, as at the date of valuation, relating to the subject building/development and as such has been completed on the basis of the Valuers professional opinion as to any negative impact of this information.”

Members should also state in the report the basis and source of their knowledge relating to the presence of cladding.

The above wording is an example only. Members are reminded to that a note in the report in the form of a qualification and or “warning” as to any unconfirmed suspicions that they might have arising from their visual inspection of the subject property and the building/development that it is located within.

Members must seek appropriate advice as to proper use and applicability of proposed and or suggested qualifications, assumptions, disclaimers, limitations and or “warnings” where any uncertainty as to cladding and or the method of fixing/attachment of cladding exists.

Value and/or Marketability Issues

Where there is known to be an adverse impact on the value and/or marketability of the subject property, the Valuer must 'risk rate' the report appropriately including supporting comments. This is in addition to raising the Improvements Risk Rating for 'cladding' as noted above.

Sales evidence and market information

Re-sales within the subject development should be included where available and any known market information regarding the sale should be commented on. Properties 'on the market' in the same development could also be commented on.

As noted previously, this Valuation Protocol is provided as a guide for Member Valuers and is not a substitute for Member Valuers exercising their own professional skill and judgement.

If there are any comments or feedback, please do not hesitate to contact the API via standards@api.org.au. The API is committed to the promotion of best practice within the property industry and welcomes feedback to help this goal be achieved.