

Australian Property Institute Limited

VALUATION PROTOCOL – CLADDING ON BUILDINGS

(RE-ISSUED WITH AMENDMENT TO 'IMPROVEMENTS RISK RATING' FOR 'APPEARS TO BE CLAD'
AND WHAT TO DO WHEN 'NON-COMPLIANT CLADDING KNOWN TO BE PRESENT')

Reference Valuation Protocol – Cladding on Buildings
Effective 27 June 2018
Owner National Manager – Professional Standards

Valuation Protocol – Cladding on Buildings – Amended 27 June 2018

This advice relates to mortgage security valuations of residential units/apartments in medium or high-rise apartment buildings/developments (that is, above three (3) stories) for banks/lenders. However, the general principles outlined also apply to non-mortgage valuations of both residential apartment buildings/developments and high rise non-residential properties where ‘cladding’ is utilised on the exterior of the building.

This advice has been prepared in consultation with the major Lenders and LMIs as well as Valuation Firms.

The purpose of this advice is to provide guidance to Members (Valuers) when preparing valuation reports that address ‘cladding’ in a consistent manner.

Members undertaking valuations of real property need to ensure that they are not holding themselves out as building/construction experts, unless they hold appropriate qualifications/certification. Expert assessment by a building surveyor or certifier is required to determine whether cladding is building code compliant.

A Valuer’s role is to report on risk items that are identifiable from the inspection of the subject property in accordance with accepted valuation practice. Valuers should remember that they are not qualified building/construction experts and should not be assuming or stating that ‘cladding’, or the method of attachment, on a particular building is compliant or non-compliant.

The Valuer should however identify whether the building, in which the subject property is located, appears to be ‘clad’ and note this in the valuation report.

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

Lenders/LMIs accept that Valuers:

- are not experts in building materials; and
- are not qualified to conclusively determine the existence of ACP or EPS cladding system (or similar) is present in a development from a visual inspection alone; and
- are not able to identify from a visual inspection whether the cladding used is compliant or non-compliant; and
- are not expected to make their own enquiries into whether ACP or EPS cladding (or similar) is compliant or non-compliant.

Improvements Risk Rating:

Where the Valuer has identified that a building/development “appears to be clad”, the Improvements Risk Rating (for a PropertyPRO Report) must be raised to a minimum of 4, and a comment made along the lines of;

“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 or non-compliant.

A Certificate of Compliance and Certification of building materials within the development has not been sighted nor confirmed. 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, regulatory requirements and codes. Should this not be the case, we reserve the right to review our valuation.”

The above wording is an example only. The Valuer may include additional information if available/appropriate.

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.

Non-Compliant Cladding known to be present:

Where the Valuer is aware, made aware or becomes aware that non-compliant 'cladding' has been used on a building/development, the request should be referred back to the Lender along the following lines:

“We are aware from <information source> that the subject property is in a building/development that contains non-compliant ‘cladding’. Please advise how you wish to proceed in this matter.”

If the Valuer subsequently receives written instructions to proceed with a valuation in a development that is known to contain non-compliant 'cladding' the Improvements Risk Rating must be raised to a 5 and VRA 1 triggered, and a comment along the lines of;

“The subject property is situated in a building/development which is known to contain non-compliant cladding. We recommend that prior to reliance on the Report by the Lender/LMI, the Lender/LMI make their own enquiries regarding the building construction (materials and methods of attachment) as well as confirmation that all appropriate insurances are in place.”

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.