CONSIDERATIONS WHEN FORMING AN OPINION OF VALUE WHEN THERE IS A SHORTAGE OF MARKET TRANSACTIONS

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Guidance Papers

Objectives

The principal objective of a Guidance Paper (GP) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices, and procedures and to discuss their use and implementation.

A GP is designed to be of assistance to Members and those who use Members' services. They serve as a guide and measure of acceptable professional practice and conduct of a Member.

The intention of a GP is to:

a) provide information on the characteristics of different types of assets that are relevant to the advice.

b) provide information on appropriate practices and their application.

c) provide information that assists Members in exercising the judgements they are required to make in specific situations.

d) convey elements of what is considered "competent professional practice" for Australian Property Institute (API) Members and "best practice" for Property Institute of New Zealand (PINZ) Members and New Zealand Institute of Valuers (NZIV) Members.

A GP is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation.

Member Obligations

The Member is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each Member to decide the appropriate practice in any situation, and if they are unclear, seek professional advice from others, or contact the Institute(s). Members have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a GP.

The Institute(s) do not warrant that anything contained in this or any GP is the definitive or final statement on any issue. Members must perform their own work pursuant to their own professional expertise and experience and if required, seek additional advice which might include legal advice.

Court or Tribunal Reliance

A court or tribunal may consider the contents of any relevant GP or other document relating to a recommended professional practice published by Institute(s) in deciding whether the member acted to a standard required by law.

Currency of Publication

Case law and relevant legislation may change over time and whilst the Institutes(s) consider this GP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings and if necessary, seek further advice prior to having regard to this GP.

Departure or Non-Compliance

Where a Member considers that a circumstance exists that warrants the departure from or non-compliance with any of this GP, the Member's report (or other advice) must include a statement that outlines:

a) the reasons for the departure or non-compliance with this GP; and

b) any impact the Members departure or non-compliance may have on the content of the report.

Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

Enquiries

If any Member considers any information or advice in this GP to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this GP, please refer this to

API contact: standards@api.org.au

PINZ/NZIV contact: standards@property.org.nz

1.0 Introduction

1.1 Scope of this GP

This GP applies to Institute Valuer Members (Valuers) undertaking valuations of property where there is a shortage of market transactions. The objective of this TIP is to set out guidance to assist Valuers with forming a professional opinion as to the value of an asset when there is a shortage of market transactions available for use as valuation inputs as at the date of valuation. For the purposes of this GP, references to 'market transactions' and 'prices' includes both sales and leasing.

Valuers providing valuations must do so to the standard of professionalism and skill required and consistent with membership of the Institute(s) and in compliance with the law.

This GP should be read in conjunction with any other relevant GPS, TIPs, Guidance Notes and any other relevant publications from the institute(s).

1.2 International Valuation Standards

International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) are adopted by the Institute(s).

It is the Valuer's responsibility to comply with the IVS applicable at the date of valuation, keep informed of any changes and, apply them appropriately and consistently when providing valuations.

This GP is also intended to be consistent with the concepts and definitions contained in the IVS, however, there may be departures from the IVS to reflect Australian law and practice. This GP refers to and uses IVSC definitions to promote consistency.

2.0 Definitions

The definitions contained below, or elsewhere in this GP are applicable to this GP and have been included for the interpretation and understanding of certain stated terms used within this GP. Where a defined term is included in this TIP it is identified as a capitalised term.

Institute(s)	All references to Institute(s) mean, as the context requires, API, PINZ and /or NZIV.
Member	A Member of the API, PINZ and/or NZIV.

3.0 Basic Principles

Valuers should always investigate and reflect market conditions and sentiment, at the valuation date, in forming their opinion of value, even when there is a shortage of market transactions available for use as valuation inputs as at the date of valuation.

Where there is evidence that market conditions have changed, analysis of this evidence should be considered by the Valuer to assist with forming an opinion of value.

Where there is a shortage of transactional evidence, it is incumbent on the Valuer to compile as much evidence as reasonably necessary to assist the formation of an opinion of the market value of the asset and in accordance with accepted valuation practice.

4.0 Information Sources

Below is a non-exhaustive list of information sources that may assist Valuers in forming an opinion of adjustments that may be necessary when applying prior transactional evidence in relation to the prevailing market as at the date of valuation.

4.1 Prior transactions (empirical historic data)

Prior transactions may provide a foundation to which the current available market evidence can be applied. Market information may provide sufficient useful information, when properly analysed and compared to prior or previous transactions, to form an opinion on the change in the market conditions.

It is critical that prior (dated) transactions are not simply adjusted to apply to the current circumstances. The prior transaction must stand on its own, that is, as evidence of the market at that time. It is only in the application of the evidence that adjustments can be made for differences in the market between the date of the transaction and the date of the valuation.

Valuers need to be aware previous (dated) market transactions reflect the market conditions prevailing at the transaction date and may be at higher (or lower) prices than current values.

4.2 New mandatory codes and legislation

Government Codes or legislation may be enacted during and/or for a period of time there is an event that results in market disruption. For example, in Australia the *National Cabinet Mandatory Code of Conduct – SME Commercial Leasing Principles During COVID-19* which was introduced in 2020 and was required to be taken into consideration at that time.

The implementation of these codes and legislation may differ from jurisdiction to jurisdiction and may not be applicable uniformly across all property markets. Valuers need to know the details and workings of these codes and legislation to understand how they will impact the market in which the property is assumed to transact and therefore the valuation.

4.3 Market intelligence from market participants

Where an event occurs that creates significant market uncertainty the Valuer should converse with a broad range of market participants to understand the impact on the market. Those that have influence on the market include all market participants.

Valuers are encouraged to collect any current market information from any market participants including, but not limited to, buyers, sellers, agents, researchers, and valuers, as reasonably possible as at the date of valuation so that they are aware of factors influencing the market and current market sentiment as at the relevant date.

4.4 Market transactional data

The volume of transactions at the relevant date is likely to be less than previous levels, however the survey of market activity and collation of data for analysis remains relevant. For example, information on the amount of stock on the market, monitoring median prices and transaction volumes for trends, marketing and selling periods, new listing activity, listing volumes, asking prices and vacancy rates are all very good sources of data to assist with understanding current or changing market conditions as at the valuation date.

When undertaking a valuation of improved property, the Valuer should also consider that changes in the underlying land value component may also need to be considered.

Changing economic and market conditions may have an impact on multiple valuation inputs, for example rents and yields. At times of weaker economic activity this can result in lower rents and weaker/higher yields for impacted sectors. Yields may also increase due to increased market uncertainty and risk regardless of changes in the cost of capital (interest rates).

Re-sales of properties can be very helpful indicators of market movements notwithstanding that some re-sales, in a short time period, may be the consequence of unfavorable market conditions due to the event that caused the market uncertainty. Sales of very similar property (for example identical units) at different sale dates can also be very helpful in understanding changes in values over that time.

Paragraph 30.7 of *IVS 105 Valuation Approaches and Methods* outlines key principles regarding comparable transactional information. Paragraph 30.8 notes that *“A valuer should analyse and make adjustments for any differences between the comparable transactions and the subject asset”* and then outlines some *“… common differences that could warrant adjustments …”*.

Where there are no recent transactions available then existing market trends as at the date of valuation should be considered. In these situations, the Valuer may need to revert to an assessment of past value or valuation inputs based on the last available market evidence and then make adjustment to those inputs to reflect current conditions. This could be made by way of adjusting for market movement, capital adjustments for a factual change in circumstances such as a loss of rent during a rental rebate period, loss of rent from a defaulting tenant or in the case of valuation of a going concern, a loss of profits for a period. Any such adjustments must be explained in the valuation report so that it is clear to the reader what adjustments and/or allowances have been made.

4.5 Unsettled market transactions

Unsettled transactions may be relevant for consideration. For example, transactions that have not yet settled or even transactions that failed to settle may add to the understanding of the prevailing market at the relevant date.

The general principle is that market value is the price a willing vendor is willing to accept. Whilst an unsettled market transaction, or a signed heads of agreement document, is not definitive evidence of the value of the asset being valued it may set the upper range of value, if it showed the price the willing vendor would accept.

Valuers are reminded of the principles outlined in paragraph 30.7 (g) of *IVS 105 "actual transactions provide better valuation evidence than intended transactions"*.

4.6 Observations from previous crisis events

Valuers should reflect on previous situations that have impacted on economies and markets, such as bushfires, earthquakes, pandemics, and the Global Financial Crisis (GFC). The indicators of market recovery after these situations may provide anecdotal evidence of how individual markets have recovered from 'events' in the past.

It is emphasized that this would only apply when the Valuer or the Valuer's employer has specific information regarding the previous circumstance/event.

For example, the COVID-19 pandemic's impact on the economy was more severe than past market corrections because economic activity was significantly constrained. It must also be remembered that not all asset classes were impacted in the same way, as restrictions were not consistent across all locations and all sectors.

4.7 Observations of the stock market

In times of economic uncertainty, financial and equity/share markets can become volatile. By contrast markets for tangible assets such as land and buildings, with significant costs of entry and exit, tend to react more gradually. There can also be a lag before real estate values are affected as some market participants (both buyers and vendors) will withdraw from the market. Listed Real Estate Investment Trusts (REITs) and their announcements or reports can be a valuable source of information in understanding market conditions affecting certain sectors of the market. Valuers should be aware that REIT prices are impacted by broader sentiments on stock exchanges or entity, or sector specific issues so changes in prices or indexes may not reflect changes in the asset values held by REITs.

The published 'book value' of assets held by REITs and contained in company registers, annual reports and company announcements may be a further source of information from which a Valuer may gain an understanding of the prevailing market, remembering that 'book values' themselves are not evidence of market transactions or value. Changes in 'book values' may be of assistance in understanding changes to the market caused by the event.

4.8 Market research from reputable sources

Credible market research gained from reputable researchers/organisations should also be considered. The Valuer should not simply adopt the opinion of another person or entity. The Valuer should form their own opinion giving weight to the available market research. Research, properly referenced, could be included in the valuation report to help explain why the opinion of the Valuer was reached.

5.0 Reporting Requirements

In situations where there is a shortage of market transactions available for use as valuation inputs as at the date of valuation, Valuers are advised to reflect carefully on the interest that they are valuing and relevant value determinants that market participants would factor into their value judgements. For example, economic disruption could significantly impact the value of businesses or going concerns but the value implication for real estate may be different.

The following should be taken into consideration by Valuers and where deemed necessary appropriate commentary should be included in valuations.

5.1 Valuation methodology

The Valuer should consider whether the pre-event methodology should be maintained during or after the event that resulted in the shortage of market transactions. In accordance with IVS it is obligatory on the Valuer to provide detailed explanations as to why the methodology was adopted.

5.2 Disclosure of significant market uncertainty

If there is market uncertainty, then the report needs to state whether this results in a more subjective opinion of value or significant valuation uncertainty.

In times of significant market uncertainty, a sensitivity analysis could be included within the report.

5.3 Sources of valuation inputs

Explanation of the methodology adopted is critically important when the Valuer has a shortage of recent transactional evidence to support the valuation opinion provided. The Valuer must explain the source of valuation inputs.

5.4 Risk analysis

The analysis and reporting on risk issues are a critical issue in valuations. In some markets an elevated risk for 'market conditions' may be the norm. It is however important that the user of the valuation is provided a detailed commentary to ensure the rationale of the valuation assessment is clearly understood.

Valuers should reflect changing conditions in risk ratings and comments. Valuers undertaking residential mortgage valuations using the PropertyPRO format are referred to the API PropertyPRO Supporting Memorandum which gives guidance on risk ratings. In the case of other property types or valuation purposes, commentary around risk, or a SWOT analysis may be included, particularly a discussion about any applicable market uncertainty.

5.5 Selling methods and periods

There maybe market segments where restrictions are in place regarding personal (public) inspections and public auctions. Real estate agents adapted to restrictions on public gatherings during the COVID-19 period by introducing alternative marketing and selling processes including private inspections, digital (virtual) inspections, and online auctions. Valuers should be aware that market dynamics change, and different marketing methods should be noted and considered in valuations, including any extended selling periods that arise as a result.

5.6 Leased property considerations

Tenancy risk is an important consideration for leased property in times of economic uncertainty. Where a property is leased, the Valuer may need to reflect on the risk of a tenancy default and vacancy or the need for rental relief.

5.7 Valuation sensitivity analysis

There may be circumstances where the provision of a sensitivity analysis indicating a range of values would be of assistance. A single valuation must still be provided.

6.0 Effective Date

This GP is effective from 1 January 2025. Earlier adoption is permitted and encouraged.

This GP replaces *ANZVGP 110 Considerations when forming and opinion of value when there is a shortage of market transactions* which was in effect from 1 July 2021 and was withdrawn 31 December 2024.