

RICS Commercial Property Valuation Information Alert

The RICS Valuation Group Board issued the "Valuation Information Alert" (VIA) regarding "Guidance to Lenders and Valuers when conducting Loan Security Valuation Reviews" at the end of May 2009. This gives guidance to both valuers and lenders on the advice that can be provided when conducting loan security valuation reviews of commercial property in circumstances when values are changing rapidly. It focuses on issues to be considered and reported upon in looking at the future prospects for a property. It is additional guidance when advice on a likely level of value is provided for the immediate period after the date of valuation. Lenders may request advice that not only focuses on the Market Value today, but also advice that looks forward into the immediate future. It is emphasised that Market Value is the starting point for the provision of good valuation advice and any forward looking view must always be provided in addition to an opinion of Market Value in certain strictly defined circumstances.

Valuers do not make forecasts. Therefore, among others in the VIA it is pointed that valuation reports for secured lending are likely to address the following issues:

1. What is the anticipated period in which to achieve a sale

- The valuer should comment upon any issues which are likely to influence the marketing period and saleability of the property.
- Whether the status of the tenant as perceived by the market may impact upon both saleability and marketing period
- How the supply of similar property in the vicinity or in the relevant sector may influence saleability.
- Will the asset achieve best price by a sale now; what would be the consequence of delaying a sale.
- What is the likely time period before a buyer is found and a sale is completed.

2. The market for the asset and the best method of achieving a sale.

- Will a disposal be readily achieved by private treaty, tender or auction.
- What are the prospects for achieving a sale and what sort of parties may be in the market for the asset, and how will they be motivated to buy.
- The ability or otherwise to secure loan finance. Comments on whether there is a lending appetite for the particular asset type and whether the lot size may restrict the potential to secure a loan. Lenders and Valuers may want to state in the letter of engagement whether the Market Value will be based on a specific level of debt availability. This may take the form of a special assumption that the assumed debt is on favourable or unfavourable terms and whether it would be available to all purchasers in the market. Similarly, if the Market Value is to be based on a specific favourable level of debt being available, then the valuer should be asked to give an opinion of Market Value if debt is provided at a more normal level.

3. The strength of the market as a whole.

- How do the wider conditions in the property market impact on the foreseeable price.
- What are the perceived threats to price and prospects for movement in price? Distinction should be made between prospects for market movement which are property specific and those driven by market conditions.

- What type of purchasers may be in the market for the property?
- 4. Action that can be taken to improve the assets saleability.
- 5. Threats to Market Value price and saleability.
- 6. The consequence of local market factors.
- 7. The impact of current macroeconomic and property forecasts and sentiment.
- 8. The degree or severity of market movement expected in the foreseeable future.
- The key factors here are severity and degree of volatility of expected market change. This to be seen in the context of the general market prospects for the location and asset type.

There are times when markets can experience rapidly changing pricing of assets, with the consequence that a valuation can become out of date very rapidly. It is during periods such as this that a client, particularly a lender conducting a loan security review, may seek additional advice from the valuer. This is likely to be not only focus upon the Market Value today, but also what it might be in the near future. It is the valuer's role to observe the market and to look at trends and evidence. It is recognised that, in rapidly changing markets, the definition of Market Value would not deliver the same result if the marketing period started on the date of the valuation. In addition to providing an opinion of Market Value, a valuer can provide a view upon the potential market sale price with a marketing period commencing on the date of the valuation. The marketing period should be specified by the valuer. Any expression as to the potential price in the future must be provided in such a way so as to caution the client that it may include opinions which may be rapidly overtaken by events and should not be relied upon in isolation. According to the VIA any such view must always be provided in addition to an opinion of Market Value.

Note:

RICS is the world's leading professional body in land, property and construction with over 150,000 members in more than 146 countries practising in 17 specialisms. It operates under a Royal Charter, which means that, unlike a trade association, it is committed to giving a high priority to the public interest rather than simply advancing the interests of its members. To this end, it has developed and operates high standards of entry to the profession together with a continuing commitment to maintain and advance the highest technical, professional and regulatory standards.