

# ANZVGN 1

## VALUATION PROCEDURES – REAL PROPERTY

### 1.0 Introduction

#### 1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members undertaking valuations of any real property for any purpose.

#### 1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of 'The Valuation and Property Standards Manual'.

#### 1.3 Scope of this Guidance Note

This guidance note applies to Members providing valuations in respect of any real property for any purpose. It should be used, as far as applicable, in conjunction with other guidance notes and practice standards that are either over-arching or directly applicable to the type of real property, purpose or issues involved. As there are many types of properties and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This guidance note is not intended to outline methods of valuation of any particular type of property but may comment on matters that should be addressed in reports in respect of certain properties types or uses. Where appropriate, methods of valuation are covered in other guidance notes.

### 2.0 Instructions

#### 2.1 Confirmed in Writing

Instructions should be confirmed in writing, and include details regarding access arrangements, identification, ownership, agreed fee (or basis for its calculation) and, if applicable, the purchase price and the selling agent.

The instructions should also list the parties intended to rely on the valuation, the purpose of the valuation, and agreed time for completion of the report.

### 3.0 Scope of work

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Before commencing any valuation it is important to clarify with the client what is to be included in the scope of work.

#### 3.2 Fixtures and Non-Fixtures/ Chattels

Often the distinction between fixtures (ie items that are included with real property) and not fixtures/chattels is contentious. An example of a fixture may include heating/ air conditioning installations including ventilation systems etc. An example of a non-fixture/chattel may include a moveable article of property such as household furniture. Borderline cases often arise and it is important that the Member clearly identifies what items have been included and what items have been excluded

#### 3.3 Examples of Fixtures

There are certain items that are generally regarded as fixtures (i.e. usually included with real property). These may include the following:

- electric wiring to light points and power sockets, lighting systems, etc.;
- fire and smoke detector, fire alarm and other hazard warning systems;

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- heating/air conditioning installations including ventilation systems, etc.;
- goods and passenger lifts, escalators and power walkways;
- domestic water systems and domestic effluent waste disposal plants; and
- fire fighting installations including sprinkler systems, together with water tanks, pumping sets, etc., rising mains, fire hose reels and other fire extinguishing installations.

## 3.4 Examples of Non-Fixtures

As a guide items that are generally regarded as plant and equipment and therefore excluded from a real property valuation include the following:

- electric power distribution associated with the process or production of plant and equipment, including generators, transformers, switch panels and cabling;
- lifting equipment including overhead travelling cranes, swivel jib cranes, lifting beams and chain blocks;
- effluent treatment plants specifically installed for process and trade effluent;
- steam raising plants and boilers primarily used in connection with the manufacturing process including exhaust stacks and reticulation systems; and
- telephone installations and computer cabling.

## 3.5 Interpretation in Specific Cases

Where there is doubt regarding the classification of an item it should be clarified with the client.

## 4.0 Report Content

All valuation reports must include content as is relevant to the type of property and the style of report (unless using a pro-forma required by a client). The extent of detail under any heading will vary depending on the style of report and the nature of the property. Report content usually includes:

### 4.1 Instructing Party

Details of instructing party and/or client who is to rely on the valuation.

### 4.2 Purpose

A statement as to the purpose of the valuation.

### 4.3 Date of Valuation

The date of valuation is usually the date of inspection of the property.

## 4.4 Basis of Value

The basis or bases of value on which the valuation is conducted.

## 4.5 Methodology, Reconciliation and Value Range

Unless not required in a pro-forma report, the methodology should be appropriately outlined for each approach along with important calculations and rationale. A reconciliation of the approaches adopted should be included. A value range may be expressed before being reconciled to a single point figure.

## 4.6 Legal Description

The legal description of the property, noting any encumbrances on the available title documentation and the impact on value and marketability of the property. Members are encouraged to conduct their own title searches. A Member should indicate if a title search has not been undertaken.

## 4.7 Nature of Interest

The nature of the interest valued. This will usually be fee simple vacant possession, fee simple subject to tenancy or in some cases the value of the lessee's interest.

## 4.8 Lease or License Details

Where the property is the subject of a lease, licence or other occupancy agreement, then the Member should note all relevant details applicable to that lease/licence/agreement and its impact (if any) upon the value. If the Member is unable to obtain or sight the original lease documents/licence/agreements, or a proper copy thereof, then reference to that fact should be noted in the property report with an appropriate qualification that the detail is to be confirmed before relying on the valuation. A Member could recommend or request that a copy of the executed or registered documents be forwarded to the Member for confirmation.

## 4.9 Dimensions and Area

The land area should be included in a report and measurements may also be provided.

## 4.10 Location and Locality

The location requires a statement as to the position of the property relative to the CBD, nearest

main town or regional centre. Locality requires a description of the immediately surrounding neighbouring development, drawing attention to any positive and/or negative features which may affect value.

#### **4.11 Town Planning/Resource Management**

Provide town planning (NZ - Resource Management) details, noting the name of the Planning Instrument or Authority and comment on the present use of the property in relation to its zoning and any proposed alterations to the zoning. A Member should consider:

- the need to sight and review any development or other consent and the conditions thereto affecting the property.
- and make comment on the 'highest and best use' of the property, particularly when that use is different to the current use of the property.
- any public or private authority reservations, designations or proposals.

#### **4.12 Site, Services and Environmental Hazards**

A description of the nature of the site, its services and details of any significant observable/visual and/or known defects or hazards, eg. flooding, landslip, observable or known site contamination, inadequate drainage, etc. If Members are concerned as to the possibility of site contamination at inspection they should where possible make all appropriate enquiries, including enquiries of the relevant statutory authority (local or otherwise) as to the history and previous use of the site. An appropriate qualification as to the result of such investigation should where necessary, be incorporated within the property report.

A Member should indicate that they are not expert in contamination issues (unless that is the case) when comment is made on such matters.

#### **4.13 Structural Improvements**

A description of the structural improvements including, approximate age, area and accommodation of buildings and their general state of repair. Any integral plant included in the valuation should be identified. If the Member observes that the improvements are affected by any deleterious substances, (eg. asbestos), or items of obvious non-compliance in relation to relevant

regulatory codes, appropriate comments should be made. Comment should however be made on whether the building is functional for its current use and if there is significant obsolescence or over-capitalisation.

Members are not usually expert in structural matters and should recommend the use of other experts where appropriate.

#### **4.14 Lease(s)**

Where a property is subject to a lease(s), an appropriately detailed epitome should be included. A statement regarding the source of the documents should also be made and whether they have been sighted. In the event that the lease has not been sighted a qualification should be made in the report to this effect.

#### **4.15 Outgoings and Recoveries**

Where a property is subject to one or more leases which warrant the use of the income capitalisation approach, actual and/or estimated building outgoings and operating expenses should be noted along with any recoveries under the lease. Where appropriate, actual outgoings should be compared to historic actuals, current budget and those for comparable properties (explicit evidence should be noted where available).

#### **4.16 Marketability**

Comment on any inherent or external features favourably or adversely affecting the marketability of the property.

#### **4.17 Further Investigation Other Experts**

Any factors that the Member feels require further investigation and/or information should be noted including, for example, matters that other professionals may be required to provide because of the limit of a Member's qualifications, experience or knowledge.

#### **4.18 Condition of the Market**

Comment on the condition or state of the market for the class of property. In appropriate circumstances, a more detailed analysis of the market dynamics may be appropriate.

#### **4.19 Market Evidence**

The basis of valuation adequately detailed for the type of property, type of report, the condition of

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the market and providing a reasoned approach to the valuation.

Comment on any sale of the subject property within the previous 3 years (or a longer period if the Member considers this relevant) and any known circumstances or conditions pertaining to that sale.

Comment on any known contract for sale including price and any circumstances or conditions relating to that sale contract, if these are known to the Member. A current or recent sale of the subject should be considered against other evidence as it has been a test of the market.

In the case of property this should include sales and rental data evidence and justification by reference to market evidence of any capitalisation rate adopted. As warranted, the application of this data should be shown or explained.

### 4.20 Single Valuation Figure

The Market Value should be expressed as a single valuation amount.

### 4.21 Sale in One Line or Single Transaction

Where a Member undertakes a valuation of multiple properties in one development, such as lots in a subdivision or units in a building, the sum of the individual values or gross realisation assessed on the basis of an orderly marketing and sale program should be clearly defined as the total gross realisation.

The valuation of multiple properties in one development should be completed on the basis of a single transaction or sale in one line to one buyer. This valuation approach should incorporate an appropriate discount to reflect the costs incurred in realising the proceeds from the sale of the individual properties. These costs normally include marketing and sale costs, holding costs and a profit and risk factor.

### 4.22 Proposed Developments

Where the subject of a report is a proposed development of the property the report should clearly state:

- the source of information upon which the report is based,
- the valuation on an 'As If Complete' basis, and

- any assumptions necessary to ensure the basis of the report is clear.

Further guidance is included below at 8.0

### 4.23 General Market Advice

It is acknowledged that Members may, in certain circumstances, be requested to provide general market advice to clients on a specific property. However Members should be aware that such market advice may still be interpreted in a legal sense as a valuation. The scope of work should be defined to protect the interests of all parties who may rely on the advice.

### 4.24 Going Concerns

Where the property being valued is operating as a 'Going Concern' and is to be valued on that basis, trading figures would normally be considered. The report should:

- state the source of the trading figures,
- have annexed to it, a copy of trading figures supplied, and
- show any adjustments made to those figures in the valuation process.

Further guidance is included below at 9.0

### 4.25 Disclaimers and Qualifications

Appropriate disclaimers and qualifications should be included in a valuation report. These are designed to inform the client of the level of reliance that can be placed on the report and whether further action is required. *ANZ Real Property Guidance Note 1* [ANZRPGN 1] 'Disclaimer Clauses and Qualification Statements' provides a range of clauses for consideration for inclusion in reports as appropriate as well as guidance in drafting them and incorporating them into a report.

#### *Due Consideration*

These disclaimers and qualifications should not be incorporated in valuation reports without due consideration. Each individual case will determine the qualifications that are appropriate. ANZRPGN 1 makes recommendations as to how they should be included.

#### *Third Party Disclaimers*

To the extent that such disclaimers are permitted by law, it may be appropriate, and indeed required by a Member's professional indemnity insurer to include a third party disclaimer in a valuation

report, although Members should recognise the fact that no one third party disclaimer will cover every possible situation. Examples of these clauses are also included in ANZRPGN 1.

**4.26 Signing the Report**

The report shall be signed by the person who conducts the valuation (who must be the person who inspects the property). Where the report is counter-signed, the capacity in which the counter-signatory is signing the report must be clearly stated (especially if the counter-signatory has not personally inspected the property and carried out the research and report). This is to avoid misunderstanding by anyone relying on the report who might otherwise be under the impression that a co-signatory signing as a ‘Member’, would have also inspected the property and had significant involvement in the valuation process. As an example, the following clause could be used:

*The counter signatory, who has read and signed this report, verifies that the report is genuine and is endorsed by [firm name]. The opinion of value expressed has been arrived at by the person who conducted the valuation.*

**5.0 Inspection and Enquiry Guidelines**

**5.1 Identification**

A Member should obtain sufficient information and carry out sufficient on-site observations to allow the property to be adequately identified. The source of the information should be noted. A member should exercise due caution and confirm where necessary before relying on information provided by other parties.

**5.2 Confirm Street Address by Plan Reference**

While identification of the subject property by street number and street name should be confirmed where the property has such, the street address is not the legal description of the property. A Member, where possible, should also sight a cadastral plan, deposited plan or other document enabling the actual identification of the property by lot and plan/section number and reference to physical features such as cross streets, public reserves, or other local features. These details may be found on a Certificate of Title. The availability

and use of digital mapping cadastres also provides for Geographic Positioning Systems (GPS) which can be a suitable aid in confirming the location of the property in an ‘on site’ situation.

**5.3 Sight Contract of Sale and Certificates**

It is desirable where possible for the Member to sight a contract of sale for the property and, where possible, obtain and/or sight any certificates attached to the contract of sale such as a survey certificate, sewer diagram, title plan, zoning and/or any other local government certificates. (NZ-Land Information Memorandum, Resource Consent)

**5.4 Within Fenced Boundaries**

When carrying out a valuation without the benefit of a current survey (cadastral) report or an accurate Geographic Positioning System (GPS) a Member is not qualified to advise lenders as to whether buildings or other improvements are within the title boundaries. A Member may indicate after observation that the buildings are within the fenced boundaries but should not generally comment in relation to the title boundaries without the benefit of a survey report (other than to indicate the need for a survey report). Any check measurement carried out to assist in this process should be appropriately qualified.

**5.5 Inspection of Buildings and Other Improvements**

Buildings and other significant improvements should be measured and inspected internally and notes taken recording the fixtures, fittings and the general state of repair and condition of the building (or buildings) and improvements at the time of inspection. A Member should also take appropriate photographs and comment upon the services available to the property at the time. Those notes and/or dictation recording should be clearly and accurately recorded in writing in the form of the Member’s ‘field notes’. Members should not discard their ‘field notes’ or any other documents relied upon in undertaking their valuation. A dictated recording made at the time of inspection is acceptable provided it is then converted to either hard copy format, or an electronic format enabling hard copy production upon request.

**5.6 Preferred Method of Inspection**

Subject to any specific instructions from the Client and as relevant to the property type, the preferred

method of inspection and notation of that inspection is as follows:

### *Sketch Plan of Main Building*

Sketch the external walls and record dimensions of the main building (preferably to scale) and record details of the internal layout (unless a copy of a building plan is obtained, checked and retained). While not imperative, noting on the plan positions of doors and windows, cupboards, special fixtures and services and prime cost (PC) items, could prove beneficial for subsequent reflection and reporting. Note also adjacent improvements and buildings. The Member may use suitable alternative methods of recording this information.

### *Items to Note*

During the course of inspection all relevant items should (as practical and as applicable to the type of property) be described and commented upon including:

- Services connected or available to the site;
- Flooring;
- Wall and Roof Framing;
- External wall coverings;
- Ventilation;
- Roof drainage;
- Internal linings to walls and floors;
- Ceilings;
- Ceiling heights;
- Roof coverings;
- Special design or architectural features;
- Building services, eg. sprinklers, hydrants, hose reels, ventilation/air conditioning, security systems, auxiliary power and lighting, escalators and elevators;
- Natural and artificial lighting;
- Prime Cost Items;
- Amenity and storage areas;
- Car parking facilities;
- Loading and unloading facilities;
- Courier access;
- Excavations;
- Landscaping;
- Vehicular access points and manoeuvring areas;

- Design features – spacing of columns or clear spans, internal height, minimum clearances to roof frame, door clearances (height and width);
- Ancillary structures and ground improvements;
- Hard-stand and storage areas; and
- Fencing.

The Member should also note:

- Any obvious significant external and/or internal defects, or items of non-compliance with Building and Fire Regulations which fall within the Member's area of expertise (noting any recommendations for obtaining advice from other professionals/experts in relation to those defects or items);
- Overall general condition, maintenance and/or state of repair of the building(s), building services and improvements as far as can be ascertained by ready visual inspection.
- Any current certificates on the land such as white ant certificates, Health orders, Council orders, Non-conforming uses

### *External Features*

Note any views, lines of sight and the nature of surrounding development.

### *Strata/Community Title Plan*

In the case of strata, unit and community title properties, obtain a copy of the relevant plan and any relevant documents.

### *Photographic Records*

A Member should take appropriate photographs as a record of the improvements and the other features of the property.

## 6.0 Market Evidence and Market Analysis

### 6.1 Research

Relevant market transactions should be researched and analysed along with other market indicators. The extent of the research and analysis should be appropriate to the type of property and the report.

#### *Sales Evidence*

Details of a number of comparable sales should be included in any valuation report, (though a much wider range of data may be considered and analysed).

***Local Transactions***

Sales researched should, as far as possible, be recent transactions. Where more than six months has elapsed since a sale (or if the market is changing rapidly, some lesser period), appropriate comments may need to be made about any change in the market since the sale occurred.

***Adjustment of Sales Evidence***

Where sales are not directly comparable as to date of sale or other factor, but in the same locality, the Member should provide an explanation.

***Company Title***

For company title units obtain details from the Company Secretary of any share transfers and review the articles and memorandum of association and any other relevant documents.

**6.2 Outside Evidence**

Where the property to be valued is within a new subdivision or development and is being purchased from the developer, re-sales or sales from other comparable developments should also be provided and considered where available as a cross reference.

**6.3 Consideration of Sale Price of Subject**

The selling price of the subject property should be researched and considered by the Member in relation to other sales evidence, the overall state of the market and the requirements set out in the definition of Market Value. If it appears inconsistent with the market, it may be appropriate to check with the agent or solicitor for any unusual circumstances surrounding the sale or special conditions in the contract. If it is confirmed as an inconsistent sale, this, and the reasons, should be specifically noted in the report.

**6.4 Written Down Values Of Plant**

The Written Down Value of plant and equipment for taxation purposes, when included with a property valued, should be commented upon in relation to any substantial departure from Market Value.

**7.0 Valuation**

**7.1 Methodologies**

Valuations should be based on the available market evidence and using one or more of the following methods as appropriate:

- Sales Comparison Approach, which includes direct comparison on a unit basis or the summation approach
- Income Capitalisation Approach; and
- Cost Approach (Depreciated Replacement Cost or DRC)

noting the relevance or limitations of any approach adopted and reconciling the various approaches.

**7.2 Owner-Occupied Property**

For owner-occupied properties the valuer should consider the purpose of the valuation (eg for financial reporting or mortgage and loan security purposes) to determine the correct valuation basis.

**7.3 Specialised Properties**

Where a property includes significant specialised improvements for which there could be limited demand, comment should be provided on alternative uses and how this might impact on value and marketability. It should also include comment on the strength of the market for the design use.

**7.4 Calculations**

Valuation calculations should be summarised in the report.

**7.5 Valuation**

A single amount should be recorded for the value in line with traditional valuation practice. A report may however address the value range or tolerance within which the valuation falls. The valuation will normally be arrived at after consideration of several valuation methodologies. The value assessed by the Member should relate to the market conditions existing at the date of valuation (which will normally be the date of inspection) and should reflect the appropriate definition of value.

**7.6 Marketing Period**

The assessment of Market Value does not envisage an indefinite marketing period, nor does it state a time period. It should reflect a typical marketing period for the class of property in the then current market conditions. Conceptually, this period is envisaged as having preceded the date of valuation. A Member should, if requested, provide an estimate of the likely marketing period necessary to achieve the assessed 'Market Value'. In such circumstances the Member should also

provide a statement of the dynamics of that market.

## 7.7 Specified Marketing Period

If a client requests a valuation reflecting a specified marketing period, careful consideration should be given as to whether it should be called 'market value'.

## 7.8 Forced Sale

Market Value does not reflect mortgagee-in-possession or other forced sale conditions, where the realisable price under certain market conditions is likely to be less than Market Value. Refer ANZVGN 3 Valuations for Mortgage and Loan Security Purposes (Forced Sale).

## 8.0 Value as If Complete

### 8.1 Valuation of Proposed Improvements

A Member may provide a valuation of a proposed building or project assuming completion at the date of valuation. This is a 'Value As If Complete' valuation. Members should refer to Guidance Note ANZVGN 2.

### 8.2 Proposed Lease(s)

Where a lease(s) is proposed over a property the valuation should be expressed as "Value As If Complete" and treated in a similar manner to a valuation of proposed improvements.

## 9.0 Valuation of Going Concerns

### 9.1 Basis

Valuations in relation to Going Concern properties should identify the interests valued as one of the following:

- Going Concern, walk-in, walk-out (plus Stock at Valuation (SAV))
- lessors interest (sometimes known as the freehold)
- lessees interest (sometimes known as the leasehold).

### 9.2 Trading Figures for Going Concerns

Trading figures for Going Concerns should be obtained, analysed and commented upon. Where possible audited or verified figures should be

used. Where figures are not sufficiently detailed or reliable or do not cover a sufficient period, comment should be made as to the impact this could have on the value and/or marketability of the property. If a Member is specifically instructed to carry out a valuation without adequate figures, the report should be appropriately qualified.

### 9.3 Chattels, Plant and Equipment

Where chattels, plant and equipment are part of the 'going concern', they should be noted in the report.

### 9.4 Management

The impact of management on the trading figures should be addressed.

### 9.5 Unusual Operations

Where the subject of the report is an property used for an unusual operation, the dynamics of the market for its product should be explained.

## 10.0 Licences, Rights and Permits

### 10.1 Preservation of Rights

Where a property has a licence, right or permit the Member should examine its terms and provide an epitome in the report. The Member should note any measures required to keep the element current or to preserve the licence, right, or permit in the event of the mortgagee having to enter into possession.

### 10.2 If Personal Property

Care should be exercised to ensure that the licence, right or permit attaches to the land (and/or improvements) and is not personal property, as a mortgage would not normally encompass personal property. A special charge may need to be taken over the element involved.

## 11.0 Transmission of Reports

Where a member proposes to provide a document to a client in an electronic format, the Member should:

- (a) obtain the client's prior consent to send the document electronically (as opposed to sending a traditional paper-based document) and
- (b) agree with the client on acceptable types of electronic signature to be used to sign the document.



Where Practice Standards require certain documents to be counter-signed, and where such documents are to be sent electronically, the Institute recommends that the member should obtain the clients consent in accordance with the section outlined above.

The Member should include a prominent disclaimer in the electronic transmission of the document (see *ANZ Real Property Guidance Note 1* for further information on Disclaimer Clauses and Qualification Statements). An example of such a disclaimer is as follows (*note: the Member should use their own skill and judgement when determining whether this example is appropriate for its circumstances*):

**"[COMPANY NAME] NOTICE**

The information in this electronic transmission (including any attached files) is intended only for the person or entity to which it is addressed and may contain confidential and/or sensitive material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please notify us immediately by reply e-mail [*or insert other contact details*] and delete the information from any computer."

## **12.0 Special Issues**

### **12.1 Adverse Impact**

A Member should be particularly alert to special issues which may impact adversely on the value and/or marketability of particular properties rather than properties in general. These could include but are not limited to:

- the potential for or the existence of a Native Title claim, a land claim or in New Zealand, Treaty of Waitangi claim
- actual or potential site contamination
- other environmental issues such as urban or rural salinity

## **13.0 Post Valuation Consultancy**

Where a Member has provided a valuation report and matters are raised with the Member by the instructing party, it is the Member's professional responsibility to respond to any such reasonable queries, even though no additional fee is offered. However, the Institute recognises that in the case of a variation from the original instructions, it may be appropriate for the Member to seek an additional fee.