Standards & Valuation Uncertainty

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PINZ VALUATION AND PROPERTY STANDARDS BOARD

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Overview

COVID 19 Pandemic & Lockdown

- New Zealand has moved into Level 4 Alert Status under the COVID 19 pandemic.
- Valuation is currently deemed to be a "Non Essential" Service by MBIE. What this means is that Valuers, like every other Government prescribed 'Non-Essential' service, are in lock-down and must stay at home.
- NZIV are continuing to communicate with MBIE about "Non-Essential" status.
- If any other investigations are undertaken to complete a valuation during the lock-down, and while Valuers are deemed "Non-Essential" without physical inspection, that is a contractual arrangement between the Valuer and the client.
- However, we advise that Valuers to be aware and fully understand that Valuers must comply with IVS 20.1 – 20.7 and the Code of Ethics 1.4, 1.5 and 1.7 (c) and (d).
- Valuers should also have clarity of their insurance position.

NZIV Code of Ethics

Professional Responsibility

- 1.1 The first duty of each and every member is to render service to the member's client or the member's employer with absolute fidelity, and to practise their profession with devotion to high ideals of integrity, honour and courtesy, loyalty to the Institute, and in a spirit of fairness and goodwill to fellow members, employees and subordinates.

- 1.4 No member shall prepare or certify any statement which is known to be or ought to be known to be false, incorrect, misleading, deceptive or open to misconstruction by reason of a misstatement, omission or suppression of a material fact, any deceptive act, or otherwise.

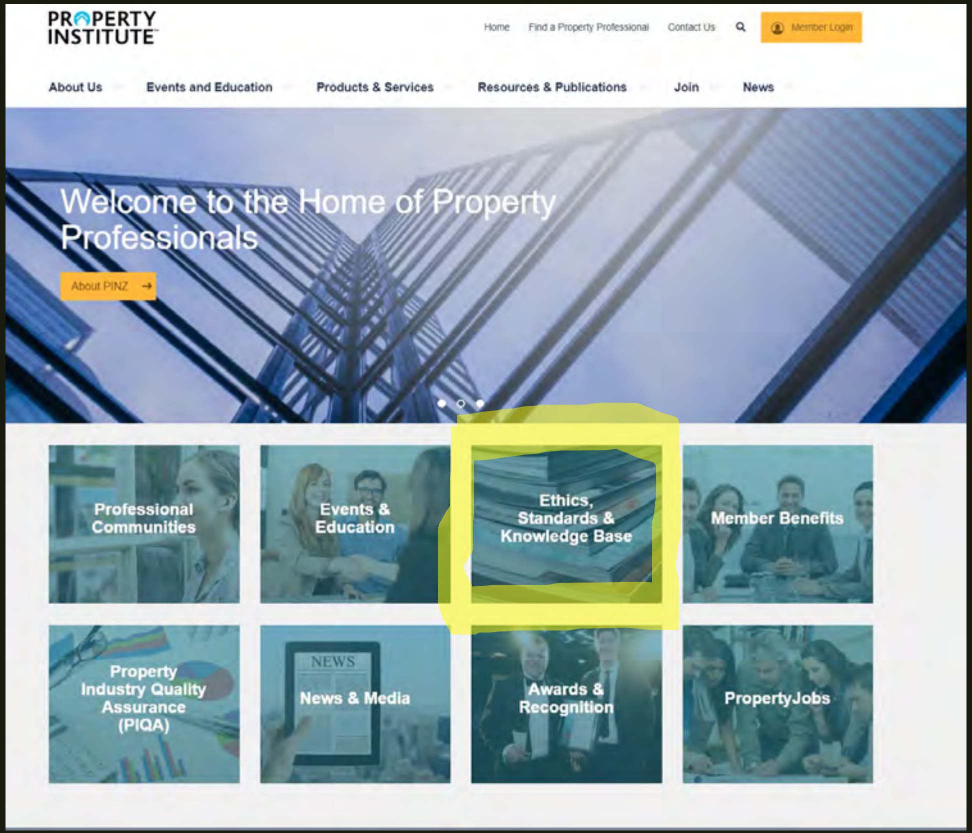
- 1.5 A member shall exercise the utmost care and good faith to ensure the maintenance of the highest standards in the preparation of statements, reports and certificates, as these constitute one of the most valuable assets of the profession, being relied upon by clients, employers, shareholders, investors, creditors and the public.

NZIV Code of Ethics

Professional Responsibility

- 1.6 When asked for a valuation of real property, or an opinion on a real estate matter, no member shall give an unconsidered answer. A member's counsel constitutes professional advice which must be prepared to the highest standards of competency and rendered only after having properly ascertained and weighed the facts.
- 1.7 A member must maintain the strictest independence and impartiality in the performance of the member's professional duties. To this end no member shall
- a) adopt the role of advocate to the exclusion of that independence and impartiality
- b) allow the performance of that member's professional duties to be improperly influenced by the preferences of clients or others as to the result of their professional work
- c) rely improperly upon information supplied by clients or others in the performance of their professional duties or
- d) act in any other way inconsistent with the duties of independence and impartiality.

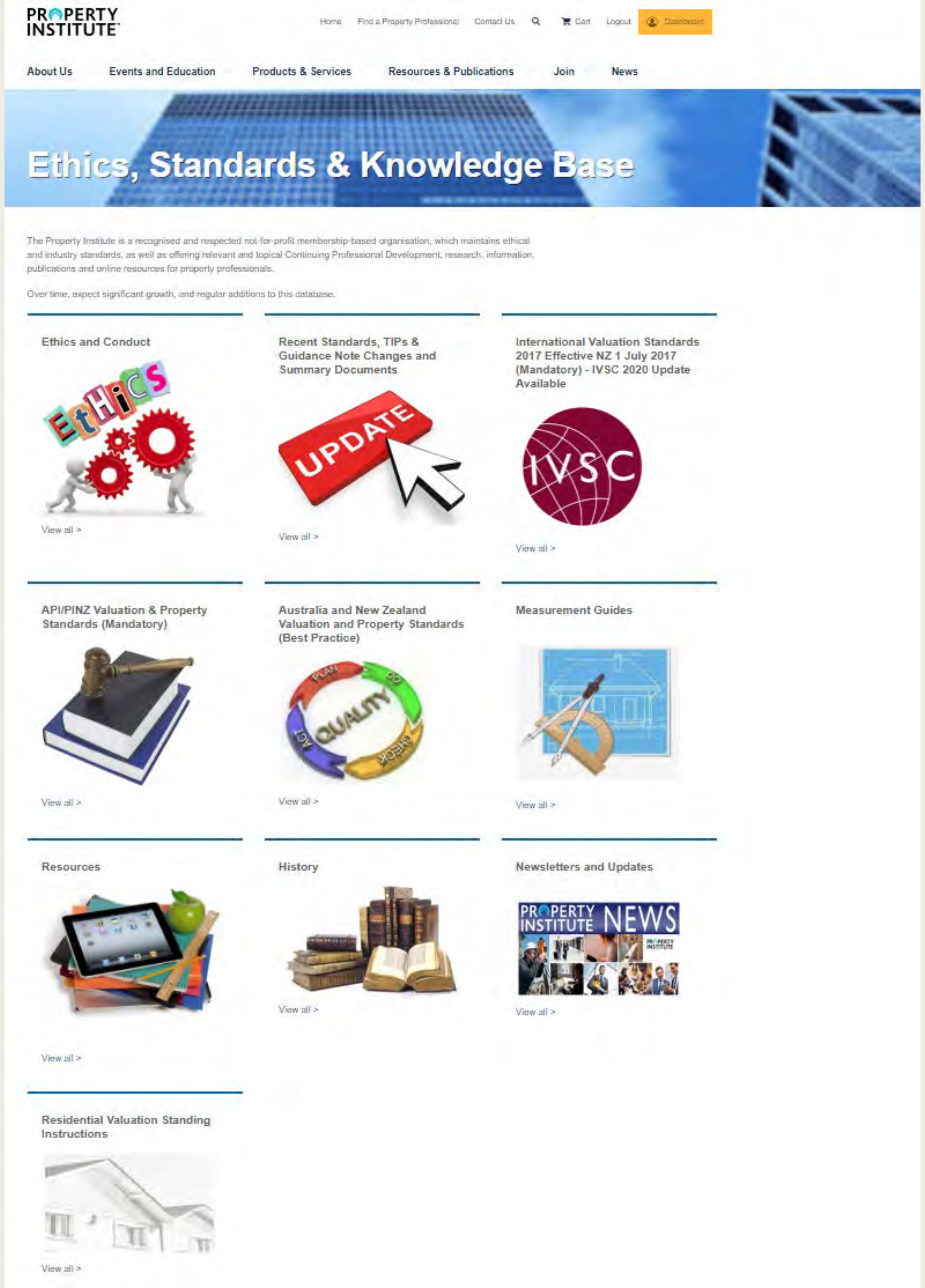
Compliance with Standards



- As a member of PINZ and / or NZIV you are required to comply with Standards.
- To be compliant you must adhere to IVS as adopted by PINZ / NZIV.
- Any departure must be documented and agreed.
- The Institute's have adopted **IVS** (effective 31 January 2020).
- Guidance Notes and TIPS are designed to provide additional guidance specific to NZ.
- Where do I find the Standards?
- *Note - You must be logged into the PINZ website to view the IVS Standards.*

Where can I find the Standards?

https://propertyinstitute.nz/



International Valuations Standards Introduction

- The objective of IVS is to increase the confidence and trust of users of valuation services by establishing transparent and consistent valuation practices.
- The focus is on building confidence and public trust by producing standards and securing their universal adoption and implementation for valuation assets.
- The IVS consist of mandatory requirements that **must** be followed in order to state that a valuation was performed in compliance with IVS.
- Certain aspects of the standard do not direct or mandate any particular course of action but provide fundamental principles / concepts that **must** be considered.

IVS 101
Scope of Work Communicate

A valuer must communicate the scope of work to its client prior to completion of the assignment including the following (IVS 101, 20.3 (a)-(n)) :

- Identity of the valuer and any material connection must be disclosed.
- Identity of the Client.
- Identity of other intended users.
- Assets being valued must be clearly identified.
- The valuation currency.
- The purpose of the valuation which typically determines the basis of value.
- Define the basis of value which must be appropriate for the purpose.
- Valuation date.
- Nature and extent of work.
- Nature and source of information relied upon.
- Any significant assumptions and/or special assumptions.
- The type of report being prepared.
- Any restrictions on use, distribution and publication.

IVS 101
Scope of Work Communicate

- A written SOW may not be necessary. However, since valuers are responsible for communicating the SOW to the client, a written SOW should be prepared.
- Changes to the SOW may occur during the valuation process. Any changes made over time must be communicated to the client before the assignment is completed and the valuation report is issued.
- NZIV advise to have a SOW and TOE signed by both parties especially in this crisis.

Scope of Works & Terms of Engagement

- **IVS 101 Scope of Works** becomes part of the contract detailing the asset you are valuing, on what basis, identifies the client, agrees who will provide information, certifies valuer objectivity and competence, compliance with standards and key assumptions.
- Your Terms of Engagement covers your business association with your client – how much you will be paid, when you will be paid, your liability and any other business matters.
- Both “contracts” need to be agreed to ensure both parties understand what is being provided and your respective responsibilities.
- If the scope of the instruction changes you must revise and update the scope of works. Avoid ‘Scope Creep’.

IVS 102 Investigations and Compliance

10. General Principal

- 10.1. To be compliant with IVS, valuation assignments, including valuation reviews, must be conducted in accordance with all the principles set out in IVS that are appropriate for the purpose and the terms & conditions set out in the Scope of Works.

20. Investigations

- 20.1. Investigations made during the course of the assignment must be appropriate for the purpose of the valuation and basis(es) of value.

- 20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When with the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.

- 20.3. Limits may be agreed on the extent of valuers' investigations and noted in the SOW. However valuers are required to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

IVS 102
Investigations and Compliance

20. Investigations - Continued

- 20.4. When a valuation assignment involves reliance on information supplied by a party other than the valuer, consideration should be given as to whether the information is credible or that the information may otherwise by relied upon without adversely affecting the credibility of the valuation opinion. Significant inputs provided to the valuer (eg, by management/owners) should be considered, investigated and/or corroborated. In cases where credibility or reliability of information supplied cannot be supported, consideration should be given as to whether or how such information is used.
- 20.5. In considering the credibility and reliability of information provided, valuers should consider matters such as:
  - (a) the purpose of the valuation,
  - (b) the significance of the information to the valuation conclusion, 12 General Standards General Standards – IVS 102 Investigations and Compliance
  - (c) the expertise of the source in relation to the subject matter, and
  - (d) whether the source is independent of either the subject asset and/or the recipient of the valuation (see IVS 101 Scope of Work, paras 20.3 (a)).

IVS 102
Investigations and Compliance

20. Investigations - Continued

- 20.6. The purpose of the valuation, the basis of value, the extent and limits on the investigations and any sources of information that may be relied upon are part of the valuation assignment's scope of work that must be communicated to all parties to the valuation assignment (see IVS 101 Scope of Work).

- 20.7. If, during the course of an assignment, it becomes clear that the investigations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation assignment will not comply with IVS.

30. Valuation Record

- 30.1. A record must be kept of the work performed during the valuation process and the basis for the work on which the conclusions were reached for a reasonable period after completion of the assignment, having regard to any relevant statutory, legal or regulatory requirements. Subject to any such requirements, this record should include the key inputs, all calculations, investigations and analyses relevant to the final conclusion, and a copy of any draft or final report(s) provided to the client.

Limited Inspections

Preamble

- In dealing with a COVID-19 (novel coronavirus) several members have made enquiries to PINZ on how they are able to meet Valuation Standards whilst also having restricted access to property for inspection purposes.

Property Inspections

- All members must as part of their agreed Scope of Works and preferably signed with the instructing party agree and detail under IVS 101 Scope of Works (i)
- (i) The nature and extent of the valuers work and any limitations thereon: any limitations or restrictions on the inspection, enquiry and/or analysis in the valuation assignment must be identified (see IVS Framework, Paras 60.1–60.4) if relevant information is not available because the conditions of the assignment restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 104 Bases of Value, 200 Assumptions and Special Assumptions (200.1 -200.5) made as a result of the restriction must be identified.
- Valuation Ordering Panels (VOP) contracts require registered valuers signing the report to have inspected the property. It is recommended that members contact their VOP and obtain from them a departure to make assumptions on the property, if inspection is limited. Any departures should be clearly documented and agreed with the VOP.
- We are of the view that it could be considered that the government's recommendation on travel and congregation is a regulatory requirement that will limit inspections. As COVID-19 is a pandemic, employers also have Health and Safety at Work Act 2015 considerations to make.
- A regulatory requirement meets the departure definitions of IVS is as detailed below. (IVS Framework)

Limited Inspections (Departures)

IVS Framework - 60. Departures

- 60.1. A "departure" is a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a valuer must comply with legislative, regulatory and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to be in compliance with IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances.
- 60.2. The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.
- 60.3. As required by IVS 101 Scope of Work, para 20.3 (n) and IVS 103 Reporting, para 10.2 the nature of any departures must be identified (for example, identifying that the valuation was performed in accordance with IVS and local tax regulations). If there are any departures that significantly affect the nature of the procedures performed, inputs and assumptions used, and/or valuation conclusion(s), a valuer must also disclose the specific legislative, regulatory or other authoritative requirements and the significant ways in which they differ from the requirements of IVS (for example, identifying that the relevant jurisdiction requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be used).
- 60.4. Departure deviations from IVS that are not the result of legislative, regulatory or other authoritative requirements are not permitted in valuations performed in accordance with IVS.

General

- When undertaking a property inspection, all members have a shared responsibility under the Health and Safety at Work Act 2015 and to minimise impact on themselves and others when dealing with COVID-19 and to follow Ministry of Health advice.
- For COVID-19 health advice and information, contact the Healthline team (for free) on 0800 358 5453 or +64 9 358 5453 for international SIMS.

Valuation Uncertainty

Preamble

- In making a valuation of real property valuers rely on empirical data to assess value. The empirical data available today (9 April 2020) on which those valuation decisions are being made in most cases would not have been influenced by the current world events and the uncertainty created.
- In the case of the sharemarket there is instant empirical data however real property decisions are generally made over a longer period of time with the reporting of sales not being as instant as the sharemarket.
- This raises the question as to how accurate the valuer considers their assessment of value is and if this should be qualified or quantified. Valuation uncertainty is not a product of a restricted inspection it arises from the valuation process (valuation model or inputs) or events external COVID-19 (novel coronavirus).

Valuation Uncertainty – The Nature of Valuation Uncertainty

- A valuation is not a fact; it is an estimate of the most probable range of possible outcomes based on the assumptions made in the valuation process. Market valuations are estimates of the most probable price that would be paid in a transaction on the valuation date. However, even where assets are identical and exchanged in contemporaneous transactions, fluctuations in the prices agreed between different transactions can often be observed. These fluctuations can be caused by factors such as differences in the objectives, knowledge or motivation of the parties. Consequently, an element of uncertainty is inherent in most market valuations as there is rarely a single price with which the valuation can be compared.

Valuation Uncertainty (definition)

- The possibility that the estimated value may differ from the price that could be obtained in a transfer of the same asset or liability taking place at the same time under the same terms and within the same market environment.

Causes of Uncertainty

- Material uncertainty can be caused by various factors. These are divided into the following categories in this Market Alert, market uncertainty, model uncertainty and input uncertainty. Model and input uncertainty arise from the valuation process, are closely related and may be measureable. Market uncertainty arises because of events external from the valuation process and is not normally measureable.

Valuation Uncertainty

Market Uncertainty

- Market uncertainty arises when a market is disrupted at the valuation date by current or very recent events such as sudden economic, natural disaster or political crises. The disruption can manifest itself in a number of ways for example either through panic buying or selling or by a loss of liquidity due to a disinclination by market participants to trade. An outbreak of sudden trading activity in response to a crisis may cause rapid price changes that are not necessarily representative of those that would be agreed between parties acting “knowledgeably and prudently”. Conversely, a loss of liquidity will mean fewer contemporaneous or relevant recent transactions which may impact on the reliability of the valuation.

- Events causing market uncertainty may be macroeconomic, eg the terrorist attacks of September 11th 2001, the Lehman Brothers insolvency in 2008, and COVID 19 pandemic in 2020 or microeconomic, eg an unexpected change in the law disrupting a sector of the market or disruption to the supply chain of an industry.

- Such events create valuation uncertainty, because the only inputs and metrics available for the valuation are likely to relate to the market before the event occurred and the impact of the event on prices will not be known until the market has stabilised.

- Market uncertainty should not be confused with market risk. Market risk is the risk that an asset may lose value over time due to changes in market conditions that occur after the valuation date. The possibility of market conditions changing in the future and the potential for the price of an asset to be affected by those changes is something that is considered by market participants when negotiating a transaction and will be reflected in market prices.

Valuation Uncertainty

Materiality

- IVS 103 Reporting, para 10.2 requires the valuation report to set out a clear and accurate description of the scope, purpose, intended use and disclosure of any assumptions, special assumptions, "*significant*" uncertainty or limiting conditions that directly affects the valuation. As indicated in most valuations contain an element of uncertainty but it is only to be disclosed when it is significant/material and has a direct effect on the valuation. A requirement to discuss and disclose uncertainty in all cases would over complicate the reporting of many valuations, and potentially raise unwarranted concern as to the reliability of the valuation opinion, which would not be helpful to users.

- It is therefore necessary to consider whether uncertainty is material. Materiality should be considered from two aspects; first whether the impact on the valuation figure is significant and second whether it is of concern to a user of the valuation having regard to the purpose for which it is required.

- In considering whether the impact of the uncertainty is significant, regard should be had to the impact on the overall potential profit or risk of loss to which either the owner of the asset or a third party relying on the valuation is exposed as a result of the uncertainty. This cannot be expressed in absolute terms but will vary depending on the purpose of the valuation and the nature of the asset.

- Even if it is judged that the uncertainty could have a significant effect on the reported valuation, whether this is a matter of relevance to a user will vary depending factors such as:

    - whether the valuation is required for internal purposes by the commissioning party or whether it will be disclosed to and relied upon by third parties. The threshold of materiality is likely to be lower if the valuation is to be relied on by third parties;
    - whether it is the only asset in which the users of the valuation are interested or whether it is part of a portfolio in which the other assets are not affected;
    - whether the cause of the uncertainty was known to the commissioning party or a third party relying on it when the valuation was commissioned
    - whether the effect of the uncertainty could expose the commissioning party or a third party relying on the valuation to significant risk of loss.

Valuation Uncertainty

- When a valuation is being prepared for financial reporting, the relevant accounting standard often stipulates when an uncertainty disclosure is required. For example IFRS 13 Fair Value Measurements has extensive disclosure requirements. The most relevant to valuation uncertainty, although the term is not actually used, are in section 93:

IFRS13 93
Specific Disclosures Required (inter-alia) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy: a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, the entity also provides a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated.

- IFRS 13 sets out a "fair value hierarchy" of Levels 1, 2 and 3. It will be noted that the disclosures required by IFRS 13 section 93 only apply where Level 3 inputs are used. These are "unobservable inputs" which are defined in the IFRS as inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
- Where Level 3 inputs have been used, the IFRS only requires a narrative description of the sensitivity of the valuation to changes in these inputs if this would result in a significantly higher or lower figure.
- For financial instruments slightly different criteria need to be considered. Firstly the alternative inputs considered must be "reasonably possible". If it is decided that these alternatives are reasonably possible and that that they would result in a significant change to the value then it is necessary to calculate the effect of that alternative input. Significance is judged by reference to total assets and liabilities or to total equity.
- For valuation purposes other than financial reporting under IFRS it is important to recognise that valuation uncertainty can and does affect valuations that use inputs that would be classified in either Level 1 or Level 2 in the IFRS 13 hierarchy and the fact that an explicit disclosure is not required for financial reporting does not mean that a disclosure may not be required to comply with IVS 103.

Valuation Uncertainty

- Whether a potential alternative input is “reasonably possible” can be a useful concept to help determine whether valuation uncertainty is material for purposes other than valuations under IFRS 13. The term is not defined in IFRS 13 and no specific quantitative probability level is implied. What is, or is not, reasonably possible will depend on the facts of each situation and requires judgement. From a valuation perspective a key consideration would be the distribution pattern and spread of potential alternative inputs. If the data follows a normal pattern of distribution, or bell curve, data in the tails could usually be safely disregarded as falling outside the range of being reasonably possible. However, other distribution patterns may mean that greater weight may need to be given to certain outliers.

- Although model or input uncertainty is less likely to arise where the inputs would fall within Levels 1 or 2 if being undertaken for financial reporting under IFRS, any of the levels in the IFRS hierarchy could be affected by market uncertainty. For example a listed blue chip stock may still be affected by a sudden decrease in trading activity and abnormal levels of price volatility immediately following a market shock.

Valuation Uncertainty

Nature of Disclosure

- If valuation uncertainty is deemed to be material the next question to be addressed is whether the disclosure to it in the valuation report should be only qualitative, ie descriptive, or whether a quantitative, ie numeric, indication of the uncertainty should also be provided.
- The requirement in IVS 103 is to provide “a clear and accurate description” of any material uncertainty. This indicates that a qualitative description should always be provided for all valuations for whatever purpose where any identified uncertainty meets the materiality criteria. This requirement is also consistent with IFRS 13. As can be seen from the extract above a narrative description of the sensitivity of the fair value measurement to changes in the inputs must be provided, for all valuations which meet the criteria listed.
- A qualitative description of valuation uncertainty should explain the source of the uncertainty, the effect that this has on the market, the valuation process or both. In the case of market uncertainty it may be possible to comment on any consensus view on how long it may be until the effect of the event can be assimilated and stability returns to the market. In the case of model or input uncertainty a description of the reason why the selected models or inputs were used can be provided
- The question of whether a numeric indication of the effect of the uncertainty should be also provided is more problematic. Valuation uncertainty often arises because of either a shortage or lack of empirical data inputs to support the valuation. Where this is the case, providing a quantitative statement of uncertainty may be unrealistic, as if the data needed to quantify the uncertainty is available then it could have been used to reduce the uncertainty in the valuation process.

Valuation Uncertainty

- A related potential problem in providing a quantitative measure of uncertainty is to avoid implying a false precision. While it may be possible to provide a quantitative measure by using an alternative input, by definition that input must be one considered to be less probable or relevant than the one used in the reported valuation. For this reason it is always appropriate to provide a verbal explanation of the uncertainty and any quantitative illustration of the possible effect of that uncertainty.
- A simplistic expression of valuation uncertainty might be to provide a range within which the value is considered to fall. However, this is not recommended for the following reasons:
  - For many valuation purposes a single valuation figure is required and a range would not be acceptable.
  - Determining the extremes of the range may also be unrealistic because the very factor that created the uncertainty in the first place is likely to mean that previously observed price fluctuations will no longer be relevant.
  - Users may assume that an equal probability attaches to any outcome within the range when this might not be the case.
- Users may assume that there is no possibility of a valuation falling outside of the indicated range.

Valuation Uncertainty

Measuring Uncertainty

- While caution is required in presenting any numeric indication of uncertainty, there are circumstances where this can be reasonably provided and be useful to a user of the valuation. As discussed in paras above, model and input uncertainty may be measureable by observing the effect on the valuation of using either an alternative model or input.
- The value of financial instruments is dependent upon the amount, timing and security of future cash flows between the counter parties. Variations in these mainly numeric inputs over a fixed time horizon are more readily measureable than those that might be involved in the valuation of other types of tangible or intangible assets held for an indefinite period, such as the comparative quality or utility of the asset or its potential for an alternative use.
- Where the value of a financial instrument is uncertain because there is no market data available for an identical or similar instrument it is necessary to make an estimate of certain inputs into the valuation based on the assumptions that a market participant might make. In these circumstances it is more likely that two or more alternative figures that could be reasonably be chosen for a key input into the calculation. Where this occurs it is recommended that the reported valuation is based on the most likely of these outcomes, but a sensitivity analysis is provided showing the effect of the range possible outcomes on the reported value.
- The principle of quantifying uncertainty by the use of a sensitivity analysis can also be applied to assets other than financial instruments where there were a number of reasonably possible alternative numeric inputs that could have been selected on the valuation date.
- To establish what might be considered a reasonably possible alternative input, statistical techniques may be used, although if there is market uncertainty at the valuation date the relevance of input ranges based on previous fluctuations may be of limited relevance.

Valuation Uncertainty

- 38. If a quantitative measure of valuation uncertainty is to be provided, the following principles should be considered and applied as appropriate:

  - A quantitative measure should always be accompanied with a narrative describing the cause and nature of the uncertainty. A purely numeric illustration will only confirm uncertainty, not explain it. There is no useful purpose served by providing such a quantitative expression of uncertainty if this will not result in a better understanding of the valuation by the user.
  - Quantifying valuation uncertainty does not involve forecasting a worst case scenario. The objective is not to stress test a valuation to an extreme case. Any test of valuation uncertainty should address the impact on the reported value of reasonable and likely alternative assumptions. When choosing alternative assumptions to measure uncertainty, selection needs to be made among possibilities that are not located in the tail of the distributions (where events are very unlikely to happen) but rather in their central areas (where events are likely to occur).
  - The objective of any uncertainty analysis is not to provide a forecast of possible fluctuations in the reported value at future dates but to provide information about the variability of fair value measurement at the specific valuation date.
  - When quantifying the impact of uncertainty the interdependence or correlation between significant inputs needs to be considered when it is practical to do so. Incorporating correlation analysis is technically and operationally challenging and potentially costly; but an analysis that does not consider interdependence provides less relevant information to users. When uncertainty is measured without proper correlation of interdependent inputs the degree of uncertainty may be overestimated.
  - When measuring a portfolio of financial instruments, interdependence and potential netting effects across products should be considered. However, such analysis should complement, rather than be a substitute for, a disaggregated asset by asset uncertainty measurement. The reason is that potential netting effects across assets are only relevant when a transaction of all the products of the portfolio takes place at the same time.

Valuation Uncertainty

<u>Interim COVID-19 significant valuation uncertainty sample statement</u>

- Given the unknown impact that the current COVID-19 outbreak will have on the New Zealand real estate market, NZIV considers that Valuers should include a disclosure relating to valuation uncertainty.
- Given the unknown impact that the current COVID-19 outbreak will have on the real estate market, the API and PINZ also considers that its Members should include a disclosure relating to significant Valuation Uncertainty in their valuation reports. Below is a sample disclosure statement that could be included in valuation reports. Members should review any disclosure statements regularly to ensure that they reflect the prevailing conditions at the date of valuation.

"The market that the property/asset is transacted in is being impacted by the uncertainty that the COVID-19 outbreak has caused. Market conditions are changing daily at present. As at the date of valuation we consider that there is a market uncertainty resulting in significant valuation uncertainty.

This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value.

Given the valuation uncertainty noted, we recommend that the user(s) of this report review this valuation periodically."

Valuation Considerations
Date of Inspection v Date of Valuation

IVS 101 Scope of Work

- 20.3(h) Valuation date: The valuation date must be stated. If the valuation date is different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed then where appropriate, these dates should be clearly distinguished.

ANZVTIP 11 – Valuation Procedures - Real Property

- 4.3 Date of Valuation: The date of valuation is usually the date of inspection of the property unless otherwise specified e.g. rent reviews, retrospective valuations.

Valuation Considerations

Residential

- Supply and demand
- Access to mortgages/funding
- Income uncertainty

Development Sites

- Increasingly limited availability of funding
- Supply and demand
- Extended period for completion and sell down.

Commercial/Industrial

- Consider tenants business such as: essential/non-essential, retail, industrial
- Analyse tenants, cashflow and rents
- Consider factoring in the following:
  - Periods of loss of income,
  - Abatements,
  - Deferred rents,
  - Increased incentives,
  - Tenant failure and
  - Extended periods of vacancy.
- Asset class
- Prime v Secondary
- Tenant quality/covenant and security of cashflow

FAQs

Question	Answer
Is valuation an essential service?	As of 27 March 2020, MIBE has determined that valuation is not an essential service. NZIV advise members to consider all valuation as a non-essential service until we have clarification from MIBE.
Under COVID 19 Level 4 can I inspect a property for valuation purposes?	NZIV advise members to consider all valuation as a non-essential service based on advice to NZIV on 27 March 2020 from MIBE, therefore you are not able to inspect property and should stay at home in line with the COVID 19 Level 4 alert
What is Significant Valuation Uncertainty?	The possibility that the estimated value may differ from the price that could be obtained in a transfer of the same asset or liability taking place at the same time under the same terms and within the same market environment.
Can I provide without inspection?	Members are advised to agree a Scope of Works and have a signed Terms of Engagement for the services they will provide. IVS 101 Scope of Works (i) provides guidance on any limitations or restrictions on inspection, enquiry and/or analysis.
Can I still comply with IVS without inspection?	Yes providing you get agreement with your client and declare a departure under IVS Framework. See full advice (IVS Framework 60 Departures)
Can I retrieve files from my office?	Under COVID 19 Level 4 alert you must stay at home, therefore you would be breaching those requirements in returning to your office valuation services.

FAQs

Question	Answer
Can I undertake a drive by/curb side inspection?	Valuation is not considered an essential service therefore you should not be undertaking an inspection and should be staying at home in line with the COVID 19 Level 4 alert.
Should I put limitations on my valuation if I cannot physically inspect?	Yes first of all get agreement with your client as to the service or product you will be providing. NZIV advise to limit reports to desktop estimates until such times as an appropriate inspection can be made. If the valuation request is through a valuation ordering panel agree on the product and inspection before undertaking the valuation/market estimate.
Can I use third-party photographs?	NZIV advise than unless the photographs are from a reliable source and can be corroborated then limited weight should be placed on them. IVS 102 Investigations and Compliance 20.4 gives appropriate direction. See full advice (IVS 102 20 Investigations)
How can I corroborate third party information?	You may request the provider of the information to certify the authenticity of the information. We advise to give appropriate weighting to that information in your valuation consideration. See further advice (IVS Glossary 20.19)
Can I refuse to undertake a valuation?	NZIV advise unless you can agree a Scope of Works and get a signed Terms of Engagement that you can ethically comply with, then you should not undertake the valuation. See full advice COE 1.4, 1.5, 1.7 (c) and (d)
Will the FAQ be revised?	The FAQ will be updated on a regular basis as information comes to hand.

FAQs

Question	Answer
Can I provide a valuation range?	You must provide a "pinpoint" valuation. It is not acceptable to provide a range only. It may be appropriate to provide a valuation range in some circumstances. The IVS market value definition states "the estimated amount"…. ANZTIP 11 - 4.19 the market value should be expressed as a single valuation amount and the GST status should be clearly defined.
Can I use historic sales evidence?	Historic sales evidence has traditionally been the basis for real property valuation and will be the starting point for your determination. You need to qualify the market conditions since the last sales evidence which may include vacancies, stopping or partial rent payments, share value of listed property companies and other evidence. Sectors will be affected differently. There may initially be little effect on essential service business property or primary industry but significant effect on tourism, retail and transport etc.
Has New Zealand experienced similar (probable) market adjustments?	Yes; our more stately members will recall the removal, in the early 1980s of the supplementary minimum price scheme in the rural sector when values more than halved. The share market crash of 1986. The Asian crisis of the 1990s. 9/11. 2007 global financial crisis. 2010 Christchurch earthquakes, 2016 Kaikoura earthquakes. We are resilient, - talk to your senior members.
I have a further question	please address further questions to standards@property.org.nz

Summary

- **Refer to Standards and Guidelines**
- **Communicate and Disclose**
- **Comment and Qualify**
- The situation is fluid and changing rapidly as additional information becomes available. There will be continuing updates and advice.
- Do not take this webinar as final.
- Commentators may word things slightly differently that will resonate with you but not with someone else. There will be different views on the same information. It is a fluid situation.
- The Standards Board is continuing to refine and amend the advice to you.
- We are working closely with API on joint recommendations/protocols.
- **Stay safe and comply with Level 4 alert guidelines.**