

VALUATION OF DWELLINGS UNDER CONSTRUCTION, AND DWELLINGS TO BE BUILT OR PREVIOUSLY UNOCCUPIED NEW DWELLINGS

Reference:

NZVGP 504 Valuation of Dwellings Under Construction, and Dwellings to be Built or Previously Unoccupied New Dwellings

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1.0 Guidance Papers

1.1 Objectives

1. 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.
2. 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.
3. 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; and
 - d) convey elements of what is considered "best practice" for Property Institute of New Zealand (PINZ) Members and New Zealand Institute of Valuers NZIV members.
4. 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.

2.0 Scope of this Guidance Paper

5. This Guidance Paper has been prepared for all members of the New Zealand Institute of Valuers involved in valuing dwellings under construction, dwellings to be built or previously unoccupied new dwellings.

2.1 Member Obligations

6. 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.
7. 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.

2.2 Court or Tribunal Reliance

8. 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.

2.3 Currency of Publication

9. 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.

2.4 Departure or Non-Compliance

10. 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.
11. Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

2.5 Enquiries

12. 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

PINZ contact: standards@property.org.nz

3.0 Valuation of Dwellings to be Built or Under Construction

3.1 Preamble

13. The valuers role is to provide a market value of the property to be built or under construction at the date of valuation.
14. The market value is not reviewed during the interim construction reporting or on completion, except where plans or specifications are changed. The market value is reviewed as at the initial date of valuation with consideration of the changed plans or specifications only.
15. The market value will be "As if Complete" informed by sales of new or previously occupied dwellings.
16. Interim construction reports are provided when requested to inform the lender of the estimated stage of construction and estimated cost to complete.
17. The final construction report may be provided only after construction is complete and should be after the code compliance certificate(s) have been sighted by the valuer.
18. Here the property is subject to the issue of a new record of title the final payment report should only be provided after sighting the record of title.

4.0 Initial Construction Report

19. When the valuation assessment is conditional on completion of the development, the Valuer must assess Market Value on an 'As if Complete' basis (see IVS 410 Development Property).
20. When a valuation is being made assuming completion of the development, the Valuer shall state in clear and concise language that the property has not yet been completed and that all values assume that the property is or will be completed in accordance with the approved plans and specifications provided and the issuing upon completion of a Code Compliance Certificate by the territorial authority (some development projects require multiple Code Compliance Certificates).

4.1 Date of Valuation

21. The Valuer should clearly establish the date to which the valuation applies. This would normally be the date of the initial inspection.

4.2 Cost Estimation and Schedule of Works

22. A valuation report prepared on a dwelling partially completed, or on a proposed dwelling prepared from plans and specifications, should describe in detail the nature of

the building materials, accommodation, quality and nature of the fittings and finishes upon which the valuation is based.

23. Cost estimation and a schedule of work shall be provided to undertake a valuation of a dwelling partially completed, or a proposed dwelling prepared from plans and specifications. For some dwellings, build cost may be higher than the apportioned value of improvements in the Market Value 'As if Complete' valuation.
24. If the estimated construction costs are not typical of those that would be agreed in the market on the valuation date, then it is necessary to estimate these costs reflecting the reasonable expectation of participants on the valuation date.
25. The open market evidence of partially completed dwellings is uncommon. Such properties are rarely transferred in their partially completed state on a Market Value basis.
26. The Valuer should assess the value of a dwelling partially completed on the 'As if Complete' basis together with the vacant Land Value and percentage of the proposed improvements complete including the costs of preliminaries and statutory permissions. The Valuer should also note the estimated cost to complete the work in accordance with the cost estimation and the approved plans and specifications (paragraphs 24 and 25 should be read in conjunction with the paragraphs 6.3 and 6.4 of ANZVGP 112 Valuations for Mortgage and Loan Security Purposes, where the valuation is prepared for mortgage and loan security purposes).
27. Full details of any sitework which are included in the valuation should be specified.

4.3 Changes to Schedule of Work

28. If the proposed improvements change during construction, an adjustment to the original Market Value 'As if Complete' valuation, as at the original valuation date, may be required.
29. The valuation of a dwelling partially completed, or a proposed dwelling prepared from plans and specifications will include assumptions and special assumptions confirmed in the Scope of Work regarding the condition and status of the property when complete.

5.0 Interim Construction Report

30. If a Construction Progress Inspection is required of building works in progress it is incumbent on the Valuer to verify that the work in progress conforms with the approved plans and specifications provided, including check measuring of the building(s).

5.1 Reference to Initial Construction Report

31. When requested to report on work in progress the Valuer must refer to the original Market Value "As if Complete" valuation. The Valuer should note in their Interim Construction Report not only the work completed with percentage of the proposed

improvements complete but also the estimated cost to complete the work in accordance with the considered cost estimation and approved plans and specifications.

32. Economic conditions and trends and their potential impact on the estimated cost to complete should be considered in the application of the construction costs required to complete the work.

5.2 Loose Building Materials

33. Loose building materials i.e., those not fixed in place, should not be included in the valuation of work completed. If the Valuer considers it relevant, however, reference may be made to such loose building materials.

6.0 Final Construction Report

34. When requested to undertake a Final Construction Inspection of the property the Valuer should refer the client to the initial valuation as at the original valuation date and the value assessed.
35. In some cases, the Code Compliance Certificate has been issued but some construction work is still continuing on the property (e.g., landscaping or HVAC facilities). The Valuer should always comment on any unfinished works and the likely cost to complete them in the Final Construction Report.
36. The Valuer should inform the client as to whether the final balance of the monies outstanding may be released, or if a further retention should be made and the reasons why. This may be that the property is to be subject to a new Record of Title.

6.1 Code of Compliance

37. It is recommended that the Valuer is provided with a copy of a completed Code Compliance Certificate before the final inspection. When issuing the Final Construction Report, the Valuer must confirm whether the completed Code Compliance Certificate was available and if the Valuer has sighted a copy Code Compliance Certificate.
38. The Final Construction Report is conditional upon a final Code Compliance Certificate being issued. The Valuer should inform the client of the importance of obtaining a completed Code Compliance Certificate (some development projects require multiple Code Compliance Certificates) before releasing any final monies.

7.0 Record of Title

39. Traditionally a dwelling under construction has been completed on a stand-alone site for which a separate Record of Title exists. This model has changed, due to the popularity of more complex higher density housing including developments under the Unit Titles Act 2010 and large block of land subdivisions. In the new environment there is often a time lag between physical completion of an asset and issuing of the new Record of Title and the titles are in themselves usually more complex.

40. If a Valuer has not been provided with any information on future interests to be registered against a new Record of Title, which might impact the property value and marketability, a valuation should contain a statement that the valuation is based on an unencumbered Record of Title issued with no registrations affecting value or negotiability.
41. If a dwelling (including different types) is either under construction or is to be built or a site is to be developed with a multi-unit project and a Record of Title has not yet been issued, the Valuer should make a comment in their "As if Complete" valuation report on any potential interests of note, such as covenants and encumbrances they are aware of, which may be registered against the new Record of Title. Those covenants and encumbrances may be found in the parent Record of Title or the Sale and Purchase Agreement. Their potential impact on the property's value should also be commented on.
42. In some cases, new dwellings are completed and the Code Compliance Certificate (it can be more than one Code Compliance Certificate for a multi-unit project) issued, before the new Record of Title is issued. The Valuer must assess the Market Value on an 'As if Complete' basis and address this issue in their report and comment on any assumptions made regarding the (proposed) new Record of Title. That may include that they have been provided with a draft Record of Title.
43. When asked to certify a dwelling as complete it is important to also consider the status of the Record of Title. This should include obtaining a copy of the new Record of Title.

8.0 Final Payment Report

44. When issuing a Final Payment Report, the Valuer must confirm whether the completed Record of Title was available and the Valuer has sighted a copy of Record of Title. The Final Payment Report is conditional upon an unencumbered freehold Record of Title being issued.
45. The Valuer should inform the client of the importance of obtaining a completed Record of Title before releasing any final monies.

9.0 Valuation of Previously Unoccupied New Dwellings

46. Valuers should be aware that it is essential when valuing previously unoccupied new dwellings- either those completed or to be built - that consideration of comparable sales evidence should include not only similar new dwellings but also re-sales of similar properties.
47. Some new dwellings are offered for sale on finance terms favourable to the initial purchaser and this is often reflected in the initial purchase price. In addition, the initial purchase price may reflect the building cost. The Valuer should have regard to all such factors in determining the final value estimate.

- 48. The re-sale value of a dwelling - particularly a previously unoccupied new property can be adversely affected by incomplete development of the property, whether the dwelling itself or the site development.
- 49. The Valuer should always comment on any differential between the purchase price of a new dwelling where known, and the assessed market value as a new dwelling.
- 50. Where mortgage recommendations are provided the Valuer should base such recommendation on the re-sale value of the property.

10.0 Duty of Care

- 51. Valuers are reminded of the duty of care and responsibility they owe to their client, mortgagees and third parties who may rely upon their valuations.

11.0 Limitation Clauses

- 52. It is recommended that a valuation report which assumes the completion of a dwelling and/ or site development which is either under construction or is to be built or developed should include clauses on the following basis:
- 53. “As at the date of inspection the proposed improvements were approximately ___% complete. However, this report assumes that the dwelling will be developed and completed according to the Council approved plans and specifications and the Survey (or Resource Consent) Plans described herein and that the standard of construction is in accordance with that assumed within the report. It should be specifically noted that any significant deviation in respect of style, layout, design or construction standards would invalidate the value conclusions reached in this report.”
- 54. “The values reported herein are based on data available, collected and reviewed as at the date of the valuation. The valuer assumes no responsibility for unforeseeable events including those which alter market conditions prior to or at the completion of the development.”

12.0 Effective Date

- 55. This GP is applicable from XX XX XXXX. Earlier adoption is permitted and encouraged.
- 56. This GP amends *NZVGP504* which was in effect from 1 July 2021 and was withdrawn on XX XX XXXX.