Marianne Tissier and Chris Thorne welcome you to our latest Newsletter

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We wish you a happy and prosperous New Year. If you provide, commission or rely on valuations we have compiled a short overview of some recent developments to help you plan your year of valuation ahead.

A new RICS Red Book

Few members of RICS can have missed the announcements that a new edition of the RICS Valuation – Global Standards, aka the “Red Book” was issued in late 2024. This becomes effective from 31 January 2025, this somewhat curious date being selected for consistency with effective date of the latest IVS. The good news is, while there has been quite a bit of tidying up of the presentation to reduce repetition and bring related matters together, there is little that should result in a significant change to how most members undertake and report valuations. The most obvious change is an increase in the number of VPSs from five to six and a change in the numbering. This reorganisation is to mirror a change in the IVSs but has little practical impact.
Some of the other changes include:

- PS1 clarifies that providing the result of an Automated Valuation Model alone is not a “Red Book Valuation” unless it has been subject to the valuer’s professional judgement and is provided in a way that complies with all the other requirements in the standards.

- PS1 includes an additional exception from the need to comply with the VPSs where valuation advice is provided expressly in preparation for, or during, negotiations or litigation. Although acting or preparing to act as an Expert Witness has always been excepted, it has been recognised that valuation advice may be required before a dispute reaches a stage where the appointment of an expert witness needs to be considered. This new exception covers such situations.
- VPS1 now clarifies that where a master service agreement is in place with a client, the valuer must still make sure that all the matters required by the standard which are specific to each instruction are still confirmed in writing.
- The additional standard is VPS 5 "Valuation Models". This clarifies that the requirement in the IVS for the valuer to undertake and document testing and validation is applicable only to "complex or proprietary" models. While care is obviously required in undertaking any calculation, this does not mean that members must test and document every calculation method they use.
- VPGA 1 has been completely rewritten to provide a guide to all the different valuation requirements in the International Financial Reporting Standards.
- VPGA 8 now has a separate section on ESG matters that valuers may need to consider when valuing real property.
- The language in VPGA 10 on Material Valuation Uncertainty has been significantly simplified to more clearly explain when, and when not, MVU statements are appropriate.
- A new VPGA 11 has been added on the valuer's relationship with auditors.

As a member of the Valuation Standards Advisory Working Group Chris has insight into many of the discussions that led to the changes, and perhaps just as importantly, why some requested changes were not made. If you have any specific questions on how you think a change in the Red Book may impact on the valuation work you undertake, we may be able to help.

New RICS standard for owner occupied residential valuations in the UK

At the end of November RICS issued a consultation draft of a new Practice Standard "Residential property valuation for owner occupation". This sets the scope of investigations that would normally be appropriate for valuing different types of owner occupied residential property in the UK. Comments are due in by 10th January, although we understand some leeway is being allowed because of the Christmas and New Year breaks.

In many respects it replaces content that used to appear in VPGAs in the UK Red Book Supplement prior to 2023. The draft still refers to the principles in UK VPGA 11. The main question we have for RICS is why material that used to be designated as guidance is now part of a mandatory Practice Standard and how the inherent contradictions that arise from mandatory standards referring non mandatory guidance in the Red Book should be dealt with, by both members and the RICS Standards and Regulation Board. If you share this concern we urge you get a comment into RICS asap.

Do you understand Market Value?

Although the definition of Market Value originally agreed by the IVSC more than thirty years ago is widely used around the world, especially but not exclusively for valuing real property, it is still continually misrepresented by many involved in the buying and selling of assets and commentators in the markets. The European Central Bank recently collated examples of where lenders across Europe had been relying on inappropriate interpretations or applications of Market Value for their commercial real estate lending. Chris was involved in this exercise and then in authoring a Supervision Newsletter which examined these and explained the approaches that should have been adopted. While aimed at lenders in the Eurozone, we know that many of the arguments made to justify figures other than the price that would be agreed in a transaction on the relevant date are heard elsewhere. We recommend it as a useful refresher for anyone involved in providing valuations for lending.

Prudent Value – proceed with prudence!

Banking regulators in many countries have either recently introduced, or are planning to introduce, amendments to implement internationally agreed protocols in the Basel Accord relating to how real property should be valued when calculating the capital adequacy of a lending institution. Unsurprisingly, given that the Basel Committee's objective is the "prudent regulation" of banks to ensure financial stability, the Basel 3.1 Accord requires such valuations to be "prudentially conservative".

The European Union has updated its Capital Requirements Regulations (CRR) with effect from the start of 2025. A change to the wording of Article 229 relating to the valuation of real estate collateral has attracted considerable comment. Some have argued it means valuers will need to provide something called "prudent value" which somehow differs from Market Value. We disagree for the reasons set in our recent article Prudence arising from the mist and have yet to see banks requesting their independent valuers to provide anything other than Market Value

RICS Europe has recently issued a Position Paper which advocates that all stakeholders including valuer organisations, lender representatives and regulators across EU agree what are "prudently conservative valuation criteria" to ensure their consistent application. This is largely a response to the different interpretations of the revised wording in the CRR and does not mean that RICS believes that a change in the value required from a lender's independent valuer is required.

In the UK the Prudential Regulation Authority is still updating its Rule Book on Capital Requirements to reflect the Basel changes but the current indications are that it is not intending to use the "p" word in connection with the valuation of immoveable property. The final draft indicates that the collateral should not be determined at more than the Market Value or, if the loan is financing the asset's purchase, the price agreed if this is lower than the Market Value.

Automating compliance

Compliance with the Red Book for RICS registered valuers is non-negotiable and is critical to both financial and reputational protection. Many of these requirements require information that is specific to each instruction and much time can be spent in researching this and reproducing or integrating it into the documents sent to the client. More and more firms are using automation to help speed the production of appropriate terms and reports, thus allowing the valuer to focus on answering the central question of value.

Valuology has been working with Valos, a company formed four years ago by two real estate valuers bored with the repetitive process of manual report writing. Valos provides automated valuation report templates customised to a firm's specific design and content requirements. Their software searches the internet for most publicly available information about a property, relevant market reports and produces location and site plans. The valuer can then select the information they wish to appear in the report to produce a customised draft for each instruction that includes most of the relevant facts.

Together with Valos we have produced compliance checklists for terms of engagement and reports, which aim to explain the RICS requirements and what is needed to comply in simple, practical terms. We are also working with Valos on creating a simple standard report template aimed for smaller firms that do not need a bespoke product or deal with complex properties or instructions.

See the checklists here

Please Get in Touch

We help firms and organisations design and implement valuation processes and procedures to help them maximise quality and minimise risk. If you would like to discuss how we might be able to help you please do not hesitate to contact us, either via our website or simply by replying to this email. You can also follow us on Twitter or LinkedIn, and follow our Blog on www.valuology.org.