Property valuations - common pitfalls

Being awarded an instruction to value a property or portfolio of real estate assets is often not given sufficient regard by some firms, says TC Chetty, country manager for South Africa for the Royal Institution of Chartered Surveyors (RICS).

Graham Stockey, principal assurance surveyor, Regulation for RICS

“While new business is always welcome, new business is not necessarily ‘good’ business if insufficient attention is paid to actual qualification and competence, and this puts any valuer in a potentially risky situation.

“When cash flow is tight, there may be pressure to accept any valuation instruction, which may lead to firms accepting instructions where they are unable to demonstrate detailed sector knowledge or where they don’t have the correct specialist skills.”

Lack of necessary training and experience

In South Africa, all practicing valuers must be registered with the South African Council for the Property Valuers Profession.

Graham Stockey, principal assurance surveyor, Regulation for RICS, explains further: “This includes a range of scenarios such as practitioners from a non-valuation discipline carrying out valuation instructions without the necessary training or experience, a valuer accepting instructions in a country or location where they do not possess the required detailed knowledge of the local market, or where a valuer who only has experience of valuing residential property is asked to provide a valuation report on a huge property portfolio which spans many locations and includes hotels and commercial and industrial property.

“If you were a client in the latter instance, you would not be happy to know that your valuer didn’t have much experience on mixed-use and commercial property.”

Stockey says when undertaking a valuation the Terms of Engagement document between client and valuer is the most important in a case file. This document details the responsibilities and the scope of work required.

Essential basics

“Practitioners can often leave out essential basics which we categorise as ‘Who am I?’. This includes qualifications, competence and status. Who is my client and other intended users, and why do they want the valuation? After that, really poor terms of reference may fail to include the four key pillars, namely address/ type of property/ user/interest to be valued, the valuation date, basis of value and special assumptions.

“When large sums of money are involved, it is critically important that valuers set out limitations of their due diligence. This is particularly important for the purposes of professional indemnity insurance and relates to limitations to inspections and investigations, assumptions and the source of all information and reliability.”

He says a good Terms of Engagement document should also include general declarations about publication and sharing, third party reliability, compliance with International Valuation Standards (IVS) or ‘Red Book’ and any other regulation or legislation. It should also include a complaints handling procedure statement confirming that the valuation report has been produced in accordance with IVS and RICS Valuation Professional Standards, and the fee or how the fee will be calculated.”

Avoid conflict of interest

Stockey also points out that a conflict of interest may arise and is anything that impedes or might be perceived to impede an individual's or firm's ability to act impartially and in the best interest of a client. A conflict of interest can cast doubt on a valuer’s integrity and can also have a damaging effect on his or her firm and the profession as a whole.

“RICS requires valuers to act independently and objectively and without conflicts of interest.

“Valuers must make a file note of all checks carried out into previous involvement with any aspect of the valuation instruction, including all parties to the property transaction, the property itself and any cross-discipline connection they may have with parties involved in the transaction.”

He says acting when a clear conflict of interest exists - and not declaring it to clients is unacceptable for a valuer and does not comply with RICS Rules of Conduct or Red Book requirements. Where a conflict, or potential conflict is identified, not giving due consideration as to whether the instruction should be accepted or declined is also not acceptable.

“Results of any conflict of interest check should always be recorded as this is the valuer’s only way to demonstrate having confirmed his or her independence prior to commencing with the task. Failure to clearly define and record steps taken to manage a potential conflict in the case file, Terms of Engagement and the report is where valuers can fall down.

“Equally, if not more important for a valuer, is to maintain a record of any discussions, emails, or letters relating to the management of any potential conflict of interest. Otherwise, how can you later prove you informed your client if that person chooses to challenge you?" concludes Stockey.