

# The **Trials** and **Tribulations** of the **Professional Valuer** in a Rapidly Changing Market Place

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Whether it's commercial, residential, industrial or agricultural property or whether it's for marketing purposes, is tax related or is for financing or refinancing, it's definitely a testing time for the professional valuer. Over the last 6 to 9 months property values have been falling on an unprecedented weekly basis, which has required extra vigilance in determining property values. Some feel these values have further to fall while others say that they are bottoming out. Who knows what the answer is? However, what is clear is that, going forward, the role of the professional valuer will carry an ever increasing responsibility.

In light of the issues that are arising, Avis Carter and I, on behalf of the IAVI, met the Irish Banking Federation to address concerns that our members have on a day-to-day basis. These discussions are ongoing and members will be updated as they progress.

Matters that were discussed include drive by valuations, opinion of value, re-instatement figures, boundaries, photographs, new completed homes, comparables, contracts, disclaimers and the economics involved in undertaking the level of research now required by lenders in order to carry out the valuation function.

These were viewed as the main areas of concern for our members and I propose to examine each of these issues to see how we can address them.

## 1. Drive by 'Valuations'

This is a major bone of contention for many valuers. This type of instruction was only introduced c. 7-8 years ago, seemingly for two reasons. The first was cost, as they normally cost only 50% of a standard valuation. The second was to speed up the lending process. A condition of these instructions was that the valuer must have previously carried out the full report. However, this condition was ignored by some lenders and as a consequence the IAVI became concerned and in February 2007 issued a Practice Note to members banning drive by valuations unless the member involved had previously internally inspected the property.

It is to be expected that the practice will become less common in future as the lending institutions tighten up on their procedures and, with either a falling or stagnant market likely for the short to medium term, they will be very careful to ensure that they have values as precise as possible.

Members who are carrying out drive bys on properties they have previously internally inspected are advised to be extremely cautious if there is any level of uncertainty as to value. If the exercise is undertaken, the normal requirement of ensuring that there is sufficient comparable evidence available and that this is noted in your records becomes even more important.

## 2. Fees

I have received a number of queries from members on the issue of fees. As we all know the standard recommended fees by the bank are approximately €130 including VAT @21.5% for a residential valuation. This can vary slightly. This is the figure that was introduced some years ago and has remained unaltered for many years.

This is obviously not cast in stone and it is up to each individual valuation firm to determine what reimbursement they are happy to accept. During the recent boom there tended to be significant competition in the valuation market with many valuations being carried out for significantly less.

It is clear that the size of the valuation panels has decreased in recent years for a number of reasons:

- (a) Decrease in volume of transactions with banks deciding to reduce the size of panels as a consequence;
- (b) Natural wastage with many valuers leaving the property market altogether due to economic reasons. I would expect that this will continue to be the case. And –
- (c) Some lenders have removed a number of valuers having taken standards and quality of reports into consideration.

Many valuers have changed their procedures in processing fees. For administrative purposes, many valuers are now reluctant to carry out the valuation unless paid in advance. One of the reasons for this is refusal by the applicant to pay the fee if they are not satisfied with the figure. This is significantly more common nowadays, with values having fallen 30 – 40% in a two year period. Again, each member is advised to adapt a process with which they are comfortable. This may depend on the different working relationship each valuer has with brokers, banks etc. This would obviously apply to both residential and commercial valuations.

### 3. Re-instatement Valuations

Most lenders request a re-instatement figure. This, save for the most basic of residential houses, is not within the professional competence of most valuers and such assessments for any other type of property should be left to architects or quantity surveyors.

If providing a re-instatement figure for a house valuers should use the up to date recommendations of the SCS as per their website. Most lending institutions will not accept a valuation report if there is no re-instatement figure submitted. This figure will obviously differ for different parts of the country. The most recent figures were in the regions of €130-€180 per square ft. for standard residential properties.

One would imagine that this will fall somewhat due to the reduction in building costs. These recommendations apply to traditional residential buildings. However, there are issues that arise when valuing the likes of a protected structure and it is recommended not to submit a figure as this is not within our remit as valuers.

If questioned, it is reasonable to advise lenders that they require professional indemnity insurance but that P.I. cover cannot apply when a professional deliberately strays beyond his or her area of expertise and that, in such circumstances, no P.I. cover would attach to the Reinstatement figure given.

### 4. Boundaries

A lender recently inserted in their agreement that the valuer must provide a certified site map from the applicant's solicitors. If the property is being sold this will be provided by the vendor's solicitor. For most valuers this could be a logistical nightmare and in many cases would slow down the process for the lender significantly.

### 5. Photographs

Some lenders are now looking for up to four photographs of each property, which may include some internal shots. Some lenders are now requesting a photograph for a drive by valuation, which may not be a bad idea as, in at least one case, it emerged that the wrong property had been 'valued'.

### 6. New Builds

Another very important area for caution in the current climate is newly constructed dwellings, whether in a new development or a one-off situation. In some cases 18 months may elapse between the original inspection and the final inspection at completion stage. In the current climate, the difference in value between the two may be significant. It is important from the valuers perspective that the up-to-date figure is included in the final inspection.

### 7. Comparables

It is now common for lenders to request comparable evidence. However, under the Data Protection Act, the valuer who is also a selling agent cannot reveal prices obtained by his/her agency for similar properties. In most cases currently, valuers are providing asking prices that are freely available on property websites and often in today's market they are significantly higher than the price that will be obtained. Of course the valuer must use his or her knowledge of actual sale prices for similar property in assessing value, but he or she cannot furnish such information to the lender. The problem of providing true comparative data needs to be explained to the lender by the valuer and any caveats regarding data provided should be stated.



### 8. Legal Agreements

All valuers are encouraged to examine carefully the up to date agreement they have in place with each individual lending institution. These can vary significantly and it would seem generally that they are becoming more and more onerous for the valuer. Do not assume that the agreement on the desk to be signed for a particular lender is the same as the previous agreement that was in place - if it were, there would be no need for the new document. There are a number of areas that require close attention and legal advice may be required.

### 9. Disclaimers

Each member is encouraged to examine and review disclaimers used as these may need to be re-worded and up dated in a changing market. Even though they may not provide a cast iron defence, it is surprising that a small number of valuers still fail to include any disclaimers in their valuation reports.

In summary, even though the new Property Services (Regulation) Bill 2009 does not cover bank valuations, it can be assumed that those giving instructions for valuations, i.e. Banks, Solicitors, Accountants, Government bodies and private individuals will be looking for more and more reassurance from the professional/valuer they employ going forward. This presents an opportunity for all of our members to increase their volume of valuation work as such valuations will require the knowledge and expertise associated with the IAVI through its education and CPD programmes.

Some anticipate that, five years hence, only half the current mortgage providers for both residential and commercial properties may remain active in the Irish market. However, from those that remain and from other regular sources of valuation instructions there will be an ever increasing demand for the professional valuer as we embark upon these uncharted waters.