

ANZVGN 1

VALUATION PROCEDURES – REAL PROPERTY

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members undertaking valuations of any real property for any purpose.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of 'The Valuation and Property Standards Manual'.

1.3 Scope of this Guidance Note

This guidance note applies to Members providing valuations in respect of any real property for any purpose. It should be used, as far as applicable, in conjunction with other guidance notes and practice standards that are either over-arching or directly applicable to the type of real property, purpose or issues involved. As there are many types of properties and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This guidance note is not intended to outline methods of valuation of any particular type of property but may comment on matters that should be addressed in reports in respect of certain properties types or uses. Where appropriate, methods of valuation are covered in other guidance notes.

2.0 Instructions

2.1 Confirmed in Writing

Instructions should be confirmed in writing, and include details regarding access arrangements, identification, ownership, agreed fee (or basis for its calculation) and, if applicable, the purchase price and the selling agent.

The instructions should also list the parties intended to rely on the valuation, the purpose of the valuation, and agreed time for completion of the report.

3.0 Scope of work

3.1 Scope of Work

Before commencing any valuation it is important to clarify with the client what is to be included in the scope of work.

3.2 Fixtures and Non-Fixtures/ Chattels

Often the distinction between fixtures (ie items that are included with real property) and not fixtures/chattels is contentious. An example of a fixture may include heating/ air conditioning installations including ventilation systems etc. An example of a non-fixture/chattel may include a moveable article of property such as household furniture. Borderline cases often arise and it is important that the Member clearly identifies what items have been included and what items have been excluded

3.3 Examples of Fixtures

There are certain items that are generally regarded as fixtures (i.e. usually included with real property). These may include the following:

- electric wiring to light points and power sockets, lighting systems, etc.;
- fire and smoke detector, fire alarm and other hazard warning systems;

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- heating/air conditioning installations including ventilation systems, etc.;
- goods and passenger lifts, escalators and power walkways;
- domestic water systems and domestic effluent waste disposal plants; and
- fire fighting installations including sprinkler systems, together with water tanks, pumping sets, etc., rising mains, fire hose reels and other fire extinguishing installations.

3.4 Examples of Non-Fixtures

As a guide items that are generally regarded as plant and equipment and therefore excluded from a real property valuation include the following:

- electric power distribution associated with the process or production of plant and equipment, including generators, transformers, switch panels and cabling;
- lifting equipment including overhead travelling cranes, swivel jib cranes, lifting beams and chain blocks;
- effluent treatment plants specifically installed for process and trade effluent;
- steam raising plants and boilers primarily used in connection with the manufacturing process including exhaust stacks and reticulation systems; and
- telephone installations and computer cabling.

3.5 Interpretation in Specific Cases

Where there is doubt regarding the classification of an item it should be clarified with the client.

4.0 Report Content

All valuation reports must include content as is relevant to the type of property and the style of report (unless using a pro-forma required by a client). The extent of detail under any heading will vary depending on the style of report and the nature of the property. Report content usually includes:

4.1 Instructing Party

Details of instructing party and/or client who is to rely on the valuation.

4.2 Purpose

A statement as to the purpose of the valuation.

4.3 Date of Valuation

The date of valuation is usually the date of inspection of the property.

4.4 Basis of Value

The basis or bases of value on which the valuation is conducted.

4.5 Methodology, Reconciliation and Value Range

Unless not required in a pro-forma report, the methodology should be appropriately outlined for each approach along with important calculations and rationale. A reconciliation of the approaches adopted should be included. A value range may be expressed before being reconciled to a single point figure.

4.6 Legal Description

The legal description of the property, noting any encumbrances on the available title documentation and the impact on value and marketability of the property. Members are encouraged to conduct their own title searches. A Member should indicate if a title search has not been undertaken.

4.7 Nature of Interest

The nature of the interest valued. This will usually be fee simple vacant possession, fee simple subject to tenancy or in some cases the value of the lessee's interest.

4.8 Lease or License Details

Where the property is the subject of a lease, licence or other occupancy agreement, then the Member should note all relevant details applicable to that lease/licence/agreement and its impact (if any) upon the value. If the Member is unable to obtain or sight the original lease documents/licence/agreements, or a proper copy thereof, then reference to that fact should be noted in the property report with an appropriate qualification that the detail is to be confirmed before relying on the valuation. A Member could recommend or request that a copy of the executed or registered documents be forwarded to the Member for confirmation.

4.9 Dimensions and Area

The land area should be included in a report and measurements may also be provided.

4.10 Location and Locality

The location requires a statement as to the position of the property relative to the CBD, nearest

main town or regional centre. Locality requires a description of the immediately surrounding neighbouring development, drawing attention to any positive and/or negative features which may affect value.

4.11 Town Planning/Resource Management

Provide town planning (NZ - Resource Management) details, noting the name of the Planning Instrument or Authority and comment on the present use of the property in relation to its zoning and any proposed alterations to the zoning. A Member should consider:

- the need to sight and review any development or other consent and the conditions thereto affecting the property.
- and make comment on the 'highest and best use' of the property, particularly when that use is different to the current use of the property.
- any public or private authority reservations, designations or proposals.

4.12 Site, Services and Environmental Hazards

A description of the nature of the site, its services and details of any significant observable/visual and/or known defects or hazards, eg. flooding, landslip, observable or known site contamination, inadequate drainage, etc. If Members are concerned as to the possibility of site contamination at inspection they should where possible make all appropriate enquiries, including enquiries of the relevant statutory authority (local or otherwise) as to the history and previous use of the site. An appropriate qualification as to the result of such investigation should where necessary, be incorporated within the property report.

A Member should indicate that they are not expert in contamination issues (unless that is the case) when comment is made on such matters.

4.13 Structural Improvements

A description of the structural improvements including, approximate age, area and accommodation of buildings and their general state of repair. Any integral plant included in the valuation should be identified. If the Member observes that the improvements are affected by any deleterious substances, (eg. asbestos), or items of obvious non-compliance in relation to relevant

regulatory codes, appropriate comments should be made. Comment should however be made on whether the building is functional for its current use and if there is significant obsolescence or over-capitalisation.

Members are not usually expert in structural matters and should recommend the use of other experts where appropriate.

4.14 Lease(s)

Where a property is subject to a lease(s), an appropriately detailed epitome should be included. A statement regarding the source of the documents should also be made and whether they have been sighted. In the event that the lease has not been sighted a qualification should be made in the report to this effect.

4.15 Outgoings and Recoveries

Where a property is subject to one or more leases which warrant the use of the income capitalisation approach, actual and/or estimated building outgoings and operating expenses should be noted along with any recoveries under the lease. Where appropriate, actual outgoings should be compared to historic actuals, current budget and those for comparable properties (explicit evidence should be noted where available).

4.16 Marketability

Comment on any inherent or external features favourably or adversely affecting the marketability of the property.

4.17 Further Investigation Other Experts

Any factors that the Member feels require further investigation and/or information should be noted including, for example, matters that other professionals may be required to provide because of the limit of a Member's qualifications, experience or knowledge.

4.18 Condition of the Market

Comment on the condition or state of the market for the class of property. In appropriate circumstances, a more detailed analysis of the market dynamics may be appropriate.

4.19 Market Evidence

The basis of valuation adequately detailed for the type of property, type of report, the condition of

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the market and providing a reasoned approach to the valuation.

Comment on any sale of the subject property within the previous 3 years (or a longer period if the Member considers this relevant) and any known circumstances or conditions pertaining to that sale.

Comment on any known contract for sale including price and any circumstances or conditions relating to that sale contract, if these are known to the Member. A current or recent sale of the subject should be considered against other evidence as it has been a test of the market.

In the case of property this should include sales and rental data evidence and justification by reference to market evidence of any capitalisation rate adopted. As warranted, the application of this data should be shown or explained.

4.20 Single Valuation Figure

The Market Value should be expressed as a single valuation amount.

4.21 Sale in One Line or Single Transaction

Where a Member undertakes a valuation of multiple properties in one development, such as lots in a subdivision or units in a building, the sum of the individual values or gross realisation assessed on the basis of an orderly marketing and sale program should be clearly defined as the total gross realisation.

The valuation of multiple properties in one development should be completed on the basis of a single transaction or sale in one line to one buyer. This valuation approach should incorporate an appropriate discount to reflect the costs incurred in realising the proceeds from the sale of the individual properties. These costs normally include marketing and sale costs, holding costs and a profit and risk factor.

4.22 Proposed Developments

Where the subject of a report is a proposed development of the property the report should clearly state:

- the source of information upon which the report is based,
- the valuation on an 'As If Complete' basis, and

- any assumptions necessary to ensure the basis of the report is clear.

Further guidance is included below at 8.0

4.23 General Market Advice

It is acknowledged that Members may, in certain circumstances, be requested to provide general market advice to clients on a specific property. However Members should be aware that such market advice may still be interpreted in a legal sense as a valuation. The scope of work should be defined to protect the interests of all parties who may rely on the advice.

4.24 Going Concerns

Where the property being valued is operating as a 'Going Concern' and is to be valued on that basis, trading figures would normally be considered. The report should:

- state the source of the trading figures,
- have annexed to it, a copy of trading figures supplied, and
- show any adjustments made to those figures in the valuation process.

Further guidance is included below at 9.0

4.25 Disclaimers and Qualifications

Appropriate disclaimers and qualifications should be included in a valuation report. These are designed to inform the client of the level of reliance that can be placed on the report and whether further action is required. *ANZ Real Property Guidance Note 1* [ANZRPGN 1] 'Disclaimer Clauses and Qualification Statements' provides a range of clauses for consideration for inclusion in reports as appropriate as well as guidance in drafting them and incorporating them into a report.

Due Consideration

These disclaimers and qualifications should not be incorporated in valuation reports without due consideration. Each individual case will determine the qualifications that are appropriate. ANZRPGN 1 makes recommendations as to how they should be included.

Third Party Disclaimers

To the extent that such disclaimers are permitted by law, it may be appropriate, and indeed required by a Member's professional indemnity insurer to include a third party disclaimer in a valuation

report, although Members should recognise the fact that no one third party disclaimer will cover every possible situation. Examples of these clauses are also included in ANZRPGN 1.

4.26 Signing the Report

The report shall be signed by the person who conducts the valuation (who must be the person who inspects the property). Where the report is counter-signed, the capacity in which the counter-signatory is signing the report must be clearly stated (especially if the counter-signatory has not personally inspected the property and carried out the research and report). This is to avoid misunderstanding by anyone relying on the report who might otherwise be under the impression that a co-signatory signing as a ‘Member’, would have also inspected the property and had significant involvement in the valuation process. As an example, the following clause could be used:

The counter signatory, who has read and signed this report, verifies that the report is genuine and is endorsed by [firm name]. The opinion of value expressed has been arrived at by the person who conducted the valuation.

5.0 Inspection and Enquiry Guidelines

5.1 Identification

A Member should obtain sufficient information and carry out sufficient on-site observations to allow the property to be adequately identified. The source of the information should be noted. A member should exercise due caution and confirm where necessary before relying on information provided by other parties.

5.2 Confirm Street Address by Plan Reference

While identification of the subject property by street number and street name should be confirmed where the property has such, the street address is not the legal description of the property. A Member, where possible, should also sight a cadastral plan, deposited plan or other document enabling the actual identification of the property by lot and plan/section number and reference to physical features such as cross streets, public reserves, or other local features. These details may be found on a Certificate of Title. The availability

and use of digital mapping cadastres also provides for Geographic Positioning Systems (GPS) which can be a suitable aid in confirming the location of the property in an ‘on site’ situation.

5.3 Sight Contract of Sale and Certificates

It is desirable where possible for the Member to sight a contract of sale for the property and, where possible, obtain and/or sight any certificates attached to the contract of sale such as a survey certificate, sewer diagram, title plan, zoning and/or any other local government certificates. (NZ-Land Information Memorandum, Resource Consent)

5.4 Within Fenced Boundaries

When carrying out a valuation without the benefit of a current survey (cadastral) report or an accurate Geographic Positioning System (GPS) a Member is not qualified to advise lenders as to whether buildings or other improvements are within the title boundaries. A Member may indicate after observation that the buildings are within the fenced boundaries but should not generally comment in relation to the title boundaries without the benefit of a survey report (other than to indicate the need for a survey report). Any check measurement carried out to assist in this process should be appropriately qualified.

5.5 Inspection of Buildings and Other Improvements

Buildings and other significant improvements should be measured and inspected internally and notes taken recording the fixtures, fittings and the general state of repair and condition of the building (or buildings) and improvements at the time of inspection. A Member should also take appropriate photographs and comment upon the services available to the property at the time. Those notes and/or dictation recording should be clearly and accurately recorded in writing in the form of the Member’s ‘field notes’. Members should not discard their ‘field notes’ or any other documents relied upon in undertaking their valuation. A dictated recording made at the time of inspection is acceptable provided it is then converted to either hard copy format, or an electronic format enabling hard copy production upon request.

5.6 Preferred Method of Inspection

Subject to any specific instructions from the Client and as relevant to the property type, the preferred

method of inspection and notation of that inspection is as follows:

Sketch Plan of Main Building

Sketch the external walls and record dimensions of the main building (preferably to scale) and record details of the internal layout (unless a copy of a building plan is obtained, checked and retained). While not imperative, noting on the plan positions of doors and windows, cupboards, special fixtures and services and prime cost (PC) items, could prove beneficial for subsequent reflection and reporting. Note also adjacent improvements and buildings. The Member may use suitable alternative methods of recording this information.

Items to Note

During the course of inspection all relevant items should (as practical and as applicable to the type of property) be described and commented upon including:

- Services connected or available to the site;
- Flooring;
- Wall and Roof Framing;
- External wall coverings;
- Ventilation;
- Roof drainage;
- Internal linings to walls and floors;
- Ceilings;
- Ceiling heights;
- Roof coverings;
- Special design or architectural features;
- Building services, eg. sprinklers, hydrants, hose reels, ventilation/air conditioning, security systems, auxiliary power and lighting, escalators and elevators;
- Natural and artificial lighting;
- Prime Cost Items;
- Amenity and storage areas;
- Car parking facilities;
- Loading and unloading facilities;
- Courier access;
- Excavations;
- Landscaping;
- Vehicular access points and manoeuvring areas;

- Design features – spacing of columns or clear spans, internal height, minimum clearances to roof frame, door clearances (height and width);
- Ancillary structures and ground improvements;
- Hard-stand and storage areas; and
- Fencing.

The Member should also note:

- Any obvious significant external and/or internal defects, or items of non-compliance with Building and Fire Regulations which fall within the Member's area of expertise (noting any recommendations for obtaining advice from other professionals/experts in relation to those defects or items);
- Overall general condition, maintenance and/or state of repair of the building(s), building services and improvements as far as can be ascertained by ready visual inspection.
- Any current certificates on the land such as white ant certificates, Health orders, Council orders, Non-conforming uses

External Features

Note any views, lines of sight and the nature of surrounding development.

Strata/Community Title Plan

In the case of strata, unit and community title properties, obtain a copy of the relevant plan and any relevant documents.

Photographic Records

A Member should take appropriate photographs as a record of the improvements and the other features of the property.

6.0 Market Evidence and Market Analysis

6.1 Research

Relevant market transactions should be researched and analysed along with other market indicators. The extent of the research and analysis should be appropriate to the type of property and the report.

Sales Evidence

Details of a number of comparable sales should be included in any valuation report, (though a much wider range of data may be considered and analysed).

Local Transactions

Sales researched should, as far as possible, be recent transactions. Where more than six months has elapsed since a sale (or if the market is changing rapidly, some lesser period), appropriate comments may need to be made about any change in the market since the sale occurred.

Adjustment of Sales Evidence

Where sales are not directly comparable as to date of sale or other factor, but in the same locality, the Member should provide an explanation.

Company Title

For company title units obtain details from the Company Secretary of any share transfers and review the articles and memorandum of association and any other relevant documents.

6.2 Outside Evidence

Where the property to be valued is within a new subdivision or development and is being purchased from the developer, re-sales or sales from other comparable developments should also be provided and considered where available as a cross reference.

6.3 Consideration of Sale Price of Subject

The selling price of the subject property should be researched and considered by the Member in relation to other sales evidence, the overall state of the market and the requirements set out in the definition of Market Value. If it appears inconsistent with the market, it may be appropriate to check with the agent or solicitor for any unusual circumstances surrounding the sale or special conditions in the contract. If it is confirmed as an inconsistent sale, this, and the reasons, should be specifically noted in the report.

6.4 Written Down Values Of Plant

The Written Down Value of plant and equipment for taxation purposes, when included with a property valued, should be commented upon in relation to any substantial departure from Market Value.

7.0 Valuation

7.1 Methodologies

Valuations should be based on the available market evidence and using one or more of the following methods as appropriate:

- Sales Comparison Approach, which includes direct comparison on a unit basis or the summation approach
- Income Capitalisation Approach; and
- Cost Approach (Depreciated Replacement Cost or DRC)

noting the relevance or limitations of any approach adopted and reconciling the various approaches.

7.2 Owner-Occupied Property

For owner-occupied properties the valuer should consider the purpose of the valuation (eg for financial reporting or mortgage and loan security purposes) to determine the correct valuation basis.

7.3 Specialised Properties

Where a property includes significant specialised improvements for which there could be limited demand, comment should be provided on alternative uses and how this might impact on value and marketability. It should also include comment on the strength of the market for the design use.

7.4 Calculations

Valuation calculations should be summarised in the report.

7.5 Valuation

A single amount should be recorded for the value in line with traditional valuation practice. A report may however address the value range or tolerance within which the valuation falls. The valuation will normally be arrived at after consideration of several valuation methodologies. The value assessed by the Member should relate to the market conditions existing at the date of valuation (which will normally be the date of inspection) and should reflect the appropriate definition of value.

7.6 Marketing Period

The assessment of Market Value does not envisage an indefinite marketing period, nor does it state a time period. It should reflect a typical marketing period for the class of property in the then current market conditions. Conceptually, this period is envisaged as having preceded the date of valuation. A Member should, if requested, provide an estimate of the likely marketing period necessary to achieve the assessed 'Market Value'. In such circumstances the Member should also

provide a statement of the dynamics of that market.

7.7 Specified Marketing Period

If a client requests a valuation reflecting a specified marketing period, careful consideration should be given as to whether it should be called 'market value'.

7.8 Forced Sale

Market Value does not reflect mortgagee-in-possession or other forced sale conditions, where the realisable price under certain market conditions is likely to be less than Market Value. Refer ANZVGN 3 Valuations for Mortgage and Loan Security Purposes (Forced Sale).

8.0 Value as If Complete

8.1 Valuation of Proposed Improvements

A Member may provide a valuation of a proposed building or project assuming completion at the date of valuation. This is a 'Value As If Complete' valuation. Members should refer to Guidance Note ANZVGN 2.

8.2 Proposed Lease(s)

Where a lease(s) is proposed over a property the valuation should be expressed as "Value As If Complete" and treated in a similar manner to a valuation of proposed improvements.

9.0 Valuation of Going Concerns

9.1 Basis

Valuations in relation to Going Concern properties should identify the interests valued as one of the following:

- Going Concern, walk-in, walk-out (plus Stock at Valuation (SAV))
- lessors interest (sometimes known as the freehold)
- lessees interest (sometimes known as the leasehold).

9.2 Trading Figures for Going Concerns

Trading figures for Going Concerns should be obtained, analysed and commented upon. Where possible audited or verified figures should be

used. Where figures are not sufficiently detailed or reliable or do not cover a sufficient period, comment should be made as to the impact this could have on the value and/or marketability of the property. If a Member is specifically instructed to carry out a valuation without adequate figures, the report should be appropriately qualified.

9.3 Chattels, Plant and Equipment

Where chattels, plant and equipment are part of the 'going concern', they should be noted in the report.

9.4 Management

The impact of management on the trading figures should be addressed.

9.5 Unusual Operations

Where the subject of the report is an property used for an unusual operation, the dynamics of the market for its product should be explained.

10.0 Licences, Rights and Permits

10.1 Preservation of Rights

Where a property has a licence, right or permit the Member should examine its terms and provide an epitome in the report. The Member should note any measures required to keep the element current or to preserve the licence, right, or permit in the event of the mortgagee having to enter into possession.

10.2 If Personal Property

Care should be exercised to ensure that the licence, right or permit attaches to the land (and/or improvements) and is not personal property, as a mortgage would not normally encompass personal property. A special charge may need to be taken over the element involved.

11.0 Transmission of Reports

Where a member proposes to provide a document to a client in an electronic format, the Member should:

- (a) obtain the client's prior consent to send the document electronically (as opposed to sending a traditional paper-based document) and
- (b) agree with the client on acceptable types of electronic signature to be used to sign the document.

Where Practice Standards require certain documents to be counter-signed, and where such documents are to be sent electronically, the Institute recommends that the member should obtain the clients consent in accordance with the section outlined above.

The Member should include a prominent disclaimer in the electronic transmission of the document (see *ANZ Real Property Guidance Note 1* for further information on Disclaimer Clauses and Qualification Statements). An example of such a disclaimer is as follows (*note: the Member should use their own skill and judgement when determining whether this example is appropriate for its circumstances*):

"[COMPANY NAME] NOTICE

The information in this electronic transmission (including any attached files) is intended only for the person or entity to which it is addressed and may contain confidential and/or sensitive material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please notify us immediately by reply e-mail [*or insert other contact details*] and delete the information from any computer."

12.0 Special Issues

12.1 Adverse Impact

A Member should be particularly alert to special issues which may impact adversely on the value and/or marketability of particular properties rather than properties in general. These could include but are not limited to:

- the potential for or the existence of a Native Title claim, a land claim or in New Zealand, Treaty of Waitangi claim
- actual or potential site contamination
- other environmental issues such as urban or rural salinity

13.0 Post Valuation Consultancy

Where a Member has provided a valuation report and matters are raised with the Member by the instructing party, it is the Member's professional responsibility to respond to any such reasonable queries, even though no additional fee is offered. However, the Institute recognises that in the case of a variation from the original instructions, it may be appropriate for the Member to seek an additional fee.

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ANZVGN 2 VALUATIONS FOR MORTGAGE AND LOAN SECURITY PURPOSES

1.0 INTRODUCTION

1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members undertaking valuations of property, plant and equipment for mortgage and loan security purposes.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This Guidance Note applies to members producing valuation reports for mortgage and loan security purposes. As there are many types of assets and various levels of reporting, the member should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This Guidance Note is not intended to outline methods of valuation of any particular type of asset but may comment on matters that should be addressed in reports in respect of certain property types or uses. Where appropriate, methods of valuation are covered in other guidance notes.

1.4 International Valuation Standards

This Guidance Note is intended to be consistent with the publication *International Valuation Standards 2007* as issued by the International Valuation Standards Committee. However, there may be departures from IVSC Standards to reflect Australian and New Zealand law and practice.

1.5 The Role

In addition to the responsibilities covered in IVS 3, IVA 2 and ANZVGN 1 the Member's role is to advise:

- the market value of the assets for mortgage and loan security purposes at the date of inspection. Market trends may also be advised.
- factors that can or could impact adversely on the property as a security. The Member may attempt to quantify the adverse impact or risk or draw the client's attention to the need for re-assessment should these risks eventuate.

2.0 INSTRUCTIONS

2.1 Instructions from Lender

It is desirable that all instructions to Members to undertake market valuations for mortgage and loan security purposes should be received from the lender and not from the borrower. It is important that the contract should be between the party relying on the valuation (the lender) and the member. Lenders should issue instructions direct to the firm/member.

2.2 Other Instructions

It is recognised that intending mortgagors (borrowers) may instruct members to provide a valuation for borrowing purposes. This is considered an undesirable practice because of the potential impact particularly of insurance cover, in some cases.

3.0 REPORT CONTENT

3.1 Recommendation

In Australia, unless specifically requested by a lender, a recommendation should not be made as to the suitability of the asset as a security

as this is a commercial decision of the lender, which may involve other factors. It is however appropriate to comment on asset-specific and market factors impacting adversely on the asset (see Risk Analysis), as well as positive aspects. Unless required by State or Federal legislation it is not generally appropriate for the Member to recommend a maximum or minimum loan percentage or amount or recommend a loan period.

3.2 Risk Analysis

A Member should advise the lender of factors that could impact adversely on the property as a security. This may include those factors which, assessed on information that is common knowledge, readily ascertainable in the market and/or reasonably foreseeable, may have an adverse impact on the property's value and marketability.

3.3 Risk Rating

In the case of real property a rating method can be used as part of the risk analysis. The rating adopted for each aspect of any risk analysis needs a balanced overview. A property may have many counter balancing features.

3.4 Future Value

While forward-looking advice may be provided to the client the market value assessed should not attempt to predict future value levels. .

3.5 Pro-Forma Reports

To assist its Members to serve residential mortgage clients, the API has developed the PropertyPRO 'Residential Valuation and Security Assessment' pro-forma report and supporting memorandum for mortgage purposes.

3.6 Alternative Use Value

When the value of a property on a vacant possession basis is, or is likely to be, significantly different from the value of the property subject to an existing lease or, when the value of a property purpose-designed for the occupier has an alternative use value which is significantly different, then both values should be reported to ensure that a mortgagee/lender is fully informed. If leased, the valuer should draw attention to the potential for different values to be applied.

4.0 VALUATIONS ON AN 'AS IF COMPLETE' BASIS

4.1 Valuation of Proposed Improvements

A 'Value As If Complete' valuation assumes the proposed work is already complete at the date of inspection and reflects the market at that date. The Member assesses the value from plans and specifications having regard to the market at the date of inspection. In the original valuation, the member should reserve the right to review the valuation, and if necessary, vary the valuation if there are changes in the property itself or in property market conditions and prices.

4.2 Instructions

Instructions from clients to value proposed improvements to be erected should include:

- A copy of the builder's quotation, contract or tender or in the case of an owner-builder a schedule of costs on a trade by trade basis and including as relevant, the builder's licence number or the owner-builder's licence number
- A copy of plans and specifications, however council approved and stamped copies should be sighted prior to completion if not available at the time of instruction (in which case the valuation should be appropriately qualified);
- Engineer's details of the proposed building for concrete slab floors and other structural elements as applicable
- A copy of any accepted tender or builders quote
- Full Prime Cost and/or provisional cost allowance item list noting any works not being carried out by the builder
- A copy of any agreement to lease or other form of pre-commitment if applicable.

4.3 Information Not Available

If the above information is not made available to the Member, this should be drawn to the attention of the lender and further information requested.

4.4 Member's Building Qualifications

In undertaking a valuation of a property on which the dwelling or project is to be erected, a Member should not hold themselves out as having qualifications in a building/structural discipline unless they have such qualifications.

4.5 Cost Estimates and Inspections by Others

In the event that Members are not qualified in a building/structural discipline, they should recommend and advise the client that an assessment of costs or a report on any departures from acceptable standards of construction and/or relevant Australian and New Zealand Construction Standards, be provided by another suitably qualified person, e.g. Engineer, Architect or Quantity Surveyor.

4.6 Advise Significant Difference Between Costing and Tender

If a Member has appropriate costing expertise a check costing can be made and discrepancies noted.

4.7 'Value As If Complete' Qualifications

A Member in assessing the Market Value of a property based on plans and specifications and/or a proposed lease(s) on an "As If Complete" basis should be subject to qualifications such as:

- Satisfactory completion of the improvements in accordance with the plans, specifications and details as provided
- An inspection by the Member following practical completion of construction
- Confirmation or variation of the original valuation figure relevant to the original valuation date, following an inspection of the project and any leases after practical completion
- Issue of all relevant approvals including a satisfactory building completion certificate under the appropriate legislation
- Sighting of any reports from other experts who have provided advice in aspects of the construction of the buildings
- Such other matters/issues that the Member is of the opinion should be drawn to the attention of the client
- The right to review and, if necessary, vary the valuation if there are changes in the project itself or leasing

4.8 Confirmation at Original Valuation Date

Any confirmed or varied valuation will relate to the market conditions existing at the date of the original valuation. An updated figure may be provided at the specific request of the client and additional fees may be chargeable for this review.

4.9 Value under Construction

If construction is in progress and an 'as is' value is also required, consideration should be given as to whether or not the cost of the work to date is fully reflected in value. It should not be assumed that the added value of the work to date equals the cost of the work. Comment could also be made about the marketability of a partly completed project.

4.10 Significant Repairs and/or Renovations

Where significant repairs and/or renovations are involved, a valuation on an 'as if complete' basis may also be required. A Member should ensure that the current condition of the property is appropriately described in any description of improvements, and the existing and proposed improvements should be addressed separately.

5.0 CHATELS

5.1 State if Included

Chattels are not normally included in a valuation of real property if such items are included, this must be clear to the reader of the report. Chattels are regarded at law as personal property and are not included in a mortgage. In Australia the API supports the inclusion of the following items in residential mortgage valuations:

- fixed floor coverings,
- window coverings, and
- light fittings.

In New Zealand, the PINZ supports the exclusion of the above items in residential mortgage valuations.

Chattels not included are items such as furniture that is not built in, loose floor coverings, lamps and items not fixed with the intent that they should not remain in place and pass with a sale of the property.

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ANZVGN 3 VALUATIONS FOR MORTGAGE AND LOAN SECURITY PURPOSES (FORCED SALE)

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to address the issue of providing a 'forced sale value' of property and its relation to the assessment of Market Value for mortgage purposes.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This Guidance Note applies to Members valuing and providing various forms of reports over property for mortgage finance purposes. It should be used in conjunction with other guidance notes and practice standards which are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 Market Value Policy [Def. Market Value]

It is the policy of this Institute that mortgage valuations must be provided by Members on a Market Value basis. A professional market valuation of a property will be consistent with the Market Value definition adopted by the Institute.

2.0 Forced Sale

2.1 Forced Sale Value inconsistent with Market Value

The expressions 'forced sale value' and 'distress sale value' are considered to be inconsistent with the concept of 'Market Value' and represent expressions of property prices achieved under different selling conditions.

2.2 May be Provided

Valuers may, when requested, provide an estimate of a realisable price when forced or distress sale circumstances exist. The reporting of a range of value can be appropriate in these circumstances.

2.3 Distress Sale

'Forced sale' and 'distress sale' are taken to have a similar meaning for the purposes of this statement. The term 'fire sale' has even less certainty of meaning than these terms and in relation to property its use should be avoided.

2.4 Essential Element(s) Missing

A sale of property under forced sale conditions does not meet all the criteria of a normal market transaction in that there is some element of undue compulsion or influence affecting the seller. One of the essential elements of a market valuation is therefore missing.

2.5 Circumstances

The circumstances surrounding a forced sale usually involve:

- An owner under some form of duress or pressure, financial or otherwise, to sell the property, or,
- A third party such as a receiver or mortgagee in possession of the property.

2.6 Marketing Conditions

A forced sale of property may involve:

- An inadequate exposure to the market.
- An unreasonably short period in which to achieve a sale.
- An inappropriate selling method.
- A vendor with a primary objective of recouping a loan or secured amount rather than obtaining the market price.
- Potential buyers being aware of the circumstances of sale and the seller's weakened bargaining position.
- Other unusual factors.

Any one or all of the above can have a negative impact on the realisable price.

2.7 Effect of Varying and Various Markets

In some market conditions and in certain selling situations there may be little or no difference between a forced sale price and the market value of a property. The state of the market, the supply factors and the strength of the demand will influence each result.

3.0 VALUATION ADVICE

3.1 Lender Requirements

The provision of a forced or distress sale 'value' in addition to a market value for a proposed mortgage is considered by this Institute to be a generally undesirable practice. However it is recognised that some lenders require valuers to provide forced or distress sale assessments.

3.2 Use of Term and Endorsement

In these circumstances it is considered prudent for the valuer to use the term current forced sale price and to include an endorsement along the following lines:

'This current forced sale assessment is based on a sale by the mortgagee (or receiver, etc, as appropriate) at public auction or within a reasonable period after such auction having regard to the nature of the subject property, after full and proper marketing and it reflects the valuer's view of the market conditions prevailing at the date of this report.'

3.3 Forced Sale Imminent

In circumstances when a forced sale is imminent such as when a mortgagee is in possession of a property, a valuer may provide an opinion of a forced sale expressed as a realisable price range and/or a most probable price based on the market conditions and the specified selling circumstances at the time.

3.4 Realisable Forced Sale Price Range

The realisable forced sale price range and/or most probable forced sale price is likely to vary in relation to actual selling circumstances at the time of sale.

3.5 Not Generally Indicative

Any forced realisation of a property will usually reflect the particular and special selling circumstances of that transaction and a sale price achieved in these circumstances is therefore not generally indicative of realisable prices for other similar properties under normal marketing conditions unless it can be viewed as consistent with most other transactions in the market.

3.6 GST Caution

Specific legal and/or accounting advice will need to be sought regarding the GST implications for this Guidance Note.

ANZVGN 4 VALUATION FOR RATING AND TAXING

1.0 INTRODUCTION

1.1 Purpose

The purpose of this Guidance Note is to provide information to valuers employed or engaged by government or statutory authorities to assess valuations for use in the determination of Rates, Taxes and other statutory charges over land.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note does not cover the administration of valuation lists or determine their use. That process is achieved by complementary legislation that prescribes the categories of properties to be valued and any exemptions or omissions from the valuation rolls of property in public ownership.

1.4 Compliance

Valuers engaged to assess valuations for rating and taxing, purposes should comply with statutes and precedents relevant to the type of valuations being made.

1.5 Statutory Responsibility

The professional responsibilities of valuers engaged to make rating and taxing valuations, are prescribed by regulatory jurisdiction in each State or Territory of Australia and New Zealand. Under the relevant legislative authority, the Valuer-General is responsible for maintenance of valuation standards.

1.6 Authorities

For the purpose of this Guidance Note, Rating and Taxing Authorities Include:

- The States and Territories of Australia,
- New Zealand,
- Local authorities,

Any statutory authority which is financed by revenue from a Rate or Tax.

2.0 BASES OF VALUATION

2.1 Form of Rating or Taxing Bases.

Each State and Territory of Australia and New Zealand has its own legislation defining the various bases of rating valuations. Practitioners should ensure that they are familiar with the legislative definitions and supporting case law in the jurisdiction in which they are practising. The bases comprise the types of valuation used to form the valuation roll, such as Improved Values, Unimproved Values, Site Values, Land Values, Gross Rental Values, Estimated Annual Value or Assessed Annual Values as defined in the various statutes. Such valuations shall be in accordance with market evidence at a common date, generally referred to as the *Date of Valuation*. Other information may be required to be included in the valuation lists such as the date of inspection of the relevant property and the prescribed date for effective use of the valuation for rating or taxing purposes. A qualification or reference to the legislation making such direction must be noted on the return of valuations.

2.2 Determining the Value of Land

In determining the value of land, including stratum, members may, amongst other valuation criteria, be required to take into account:

- The highest and best use to which the land might reasonably be expected to be put at the relevant date,

ANZ VALUATION GUIDANCE NOTE 4

- The detrimental effect on value of any lease, mortgage, covenant or other charge over land,
- The actual use to which the land is being put at the relevant date and any potential use,
- The effect of any legislation, regulation, local law, planning scheme, including heritage provisions or any other such instrument which affects or may affect the use or development of such land,
- The shape, size, topography, soil quality, situation and aspect of the land,
- The situation of the land in respect to natural resources and to transport and other amenities, facilities and services,
- The extent, condition, and suitability of any improvements on or to the land,
- The actual and potential capacity of the land to yield a monetary return.

CAUTION: WHERE THE REQUIREMENTS OF A STATUTE AND GENERALLY ACCEPTED VALUATION PRINCIPLES ARE IN CONFLICT, THE STATUTE IS THE OVERRIDING AUTHORITY.

2.3 Land Values

Land Values are a widely used bases for the taxation of land. They are also provided to the Federal Government for the equitable distribution of Financial Grants to the States.

2.4 Determination

Land Values can be determined under 2.3 for most areas of the continent, islands and Territories of Australia and New Zealand. Measures of land value are usually readily available by reference to sales of comparable land or analysis of improved land transactions.

2.5 Vacant Land

Rating and taxing legislation generally refers to vacant land in two ways:

- Land in its raw undeveloped state is referred to as Unimproved Value. API members engaged to provide this type of valuation, must be familiar with the legislation applicable in the State within which they are operating, in order to know the type of land value to be applied.

- Land having merged improvements is referred to as Site Value, which is usually applied within urban areas or townsites where merged improvements may add value beyond the undeveloped land value and where the form of the land in its original state can no longer be determined. The categories and extent of the merged improvements are prescribed in the applicable legislation.

2.6 Continuing Land Use

In all instances, unless otherwise directed by local legislation, the valuer is to ignore the “existing use” in favour of the potential “highest and best use”, unless the former gives rise to a greater valuation than as a result of considering the latter. This includes land that is reserved for public purpose. The provisions of heritage or valuation legislation may bring about an exception to the highest and best use principle by prescription of existing use values for affected properties.

2.7 Rental Values.

Rental values are used in many States and Territories of Australia and in parts of New Zealand, generally for the assessment of Municipal and Water rating of improved properties. In some States, rental values are used by State Governments for the distribution of grants to Local Governments. Evidence of lettings is generally available for most classes of buildings. However, most legislation provides rules for the determination of rentals to be applied to properties of a type not normally rented. Rating and taxing legislation refers to rental value in Australia in several forms:

2.8 Gross Rental Value

The Gross Rental Value is the annual rent passing between landlord and tenant for the use of land or land and buildings on the assumption that the landlord is liable for all outgoings necessary to maintain the value of the land. Where a rent cannot be determined, legislation may provide a statutory formula for the calculation of the Gross Rental Value.

2.9 Assessed Annual Value

Assessed Annual Value. In some legislation, gross rental value or a percentage of gross rental value may be used to create what is known as “annual value”. This is usually accompanied by associated restrictions within the legislation as to its

application or modification. Annual Value should not be confused with “annual valuation” which refers to a periodic valuation on an annual basis.

2.10 Net Annual Value or Estimated Annual Value

Net Annual Value or Estimated Annual Value.

The net annual rental of a property is generally the amount that a property is likely to rent from year to year less an amount equal to the charges and costs required to maintain the property in a lettable state. These costs may vary with legislation and regulation, but usually include Rates, Taxes, insurance, and other expenses necessary to preserve the level of rent commanded.

2.11 Capital Values/ Improved Value

Capital Value is also referred to in rating and taxing legislation as Improved Value and applies to all parcels of land including vacant, improved or held in stratum. Such a value, unless specifically stated by the legislation, would not normally include any plant, machinery, tools, or other appliances, that are not fixed to the premises in a way that would justify inclusion in the real estate under the law of fixtures. In the case of a stratum the valuer will typically assume that if the stratum is wholly or partly in an excavation, that the excavation of the stratum had been made; has access, that access may be used or continue to be used; is capable of use, that it is used, may be used, or may continue to be used or could have been used at the date of valuation.

3.0 VALUATION ACCURACY AND UNIFORMITY

3.1 Accuracy and Uniformity

In accordance with the statutory responsibility of Valuers-General and other regulatory authorities, valuations for rating and taxing purposes must conform with standards of valuation accuracy and uniformity.

The terms of valuation contracts where they apply will specify the required standards.

3.2 Measurement of Accuracy and Uniformity

The parameters of valuation accuracy and uniformity expected of valuation contractors and professional practitioners will be dictated

by regulatory policy. These parameters are often expressed in the terms of valuation contracts by reference to statistical tests and other means of comparing subsequent sales with the valuation data presented in the valuation roll. Appendix 1 sets out accepted processes of statistical comparison to enable determination of valuation accuracy and uniformity.

4.0 PROVISION OF REPORT

4.1 Revaluation Reports

The regulations that form part of the respective State and Territorial Acts may contain the requirements for the provision of a Report with which practitioners should be familiar.

4.2 Report Contents when Creating a Valuation List

In the case of creating a roll for the Valuation Authority, the report must contain:

- Purpose of the roll including any other likely use of the valuations.
- Definitions of the type of valuation to be recorded in the roll and the enabling legislation under which it is created.
- The date of valuation (note use of multiple dates if required in some States).
- The date at which the valuations are to come into force.
- A schedule of evidence used to support the roll including market evidence and comments.
- A schedule of any evidence excluded and the associated qualification why this was necessary.
- A current cost schedule at the date of valuation should the type of roll require calculation or be supported by costs.

4.3 Report Contents when Amending a Roll

In the case of creating a supplementary valuation or amending a valuation list the report must contain:

- Type of valuation to be recorded in the roll and the enabling legislation under which it is created.
- The reason for amending the roll (eg. Addition or deletion of improvements, amended area etc.).

- The date the original valuation came into force.
- The date of valuation.
- The date at which the amended valuation is to come into force

5.0 CONFORMITY AND PROFESSIONAL RESPONSIBILITY

5.1 Valuation Principles and Statutory Requirements

The valuer engaged or employed by a rating or taxing Authority should be cautious in carrying out valuations if the direction given by the Authority is contrary to established valuation principles or statutory requirements. If such a direction is given a qualification should be provided with the valuation.

5.2 Professional Responsibility and Confidentiality

In the valuer's relationship to the Authority, there should be a declaration of any pecuniary or other interest that may arise in meeting the Authority's requirements. In many instances there will also be established a position of confidentiality, either by contract or by statute. It is the responsibility of the practitioner to honour any requirements contained in the vehicle of engagement or employment subject to 5.1 above.

5.3 Conformity and Professional Responsibility

Additional information on this topic may be obtained from the Institute's *Valuation Principles and Practice: Second Edition*, Chapter 20: *Rating and Taxing*.

The performance of all valuation assignments should conform with generally accepted valuation principles and standards promulgated by the Australian Property Institute and the Property Institute of New Zealand.

6.0 SUPPLEMENTARY VALUATIONS

6.1 Requirement

Supplementary or Interim valuations are required in most valuation rolls as a result of changes that are

advised or occur after the adoption of the general valuation roll.

6.2 Occurrence

Supplementary valuations are new entries to the roll or substitute for land in the original roll. Changes may result from;

- zoning amendments.
- addition or removal of merged improvements.
- construction of, addition to, or removal of buildings.
- acquisition or resumption.
- physical changes to the land.
- errors and omissions.
- changes in value levels in relation to the balance of the properties recorded on the roll.
- movement of rating or authority boundaries by statute or prescription.

6.3 Calculation

Supplementary values are calculated under definitions and in accordance with the methods described for general values listed on the roll. In nearly all instances the supplementary values are to be calculated at the valuation date of the original roll, taking into account all of the factors affecting value listed at 2.2 and provided to the Authority as shown in 4.0 above.

7.0 VALUATION CONTRACTS

7.1 Outsourcing

There is an increasing trend in Australian municipal valuation practice towards valuation authorities engaging the services of professionally accredited contractors for the provision of municipal valuation services. The trend towards outsourcing has been driven by national competition policy and implemented in many cases by Government directive.

7.2 Valuation Contracts

Typical valuation contracts will contain the following provisions:

- Description of municipal area.
- Requirements for inclusion in the valuation roll of property types and any exclusions.

Confidentiality Agreement

Valuation definitions to be provided eg. Land Value, Site Value, Unimproved Value, Improved Value, Capital Value, Assessed Annual Value.

Required valuation methodologies eg. summation, residual valuation, capitalisation, deprival value for public sector entities and how these methodologies are to apply to various property types.

The names of nominated staff to undertake the duties of supervision, field inspections and any sub-contractors to be employed.

The level of inspection required for various property types.

Time frame for progressive and final submission of revaluation data.

Penalty provisions for non-compliance.

Termination provisions for non-compliance.

Standardised data sets for the return of data in digital format.

Requirements for ongoing maintenance of the valuation roll.

Submission of subsequent sales information and statistical tests required for standards of accuracy and uniformity.

Contract price and progressive or lump sum payment arrangements on submission of completed data for revaluation and maintenance of the valuation roll.

Appendix 1

Valuation Accuracy and Uniformity

It is important that valuations in a valuation roll are both accurate and uniform, in order to display equity and to be supportable before tribunals or courts of law. The following describes methods of measuring accuracy and uniformity. The methods shown here use evidence of sales and rentals to compare and make judgements about the accuracy and uniformity of entries included in the valuation roll. Differing methods may be adopted in each jurisdiction and the practitioner must ensure that the relevant requirement is met.

Accuracy

Measurement of accuracy must be subject to established standards of accuracy and be capable of independent audit.

Accuracy is measured against current market evidence to the date of valuation. Current practice in some States and Territories is to test the value against evidence two months before and two months after the date of valuation, as within this relatively short period, factors affecting the value of land are unlikely to change. However should API members be valuing in times of rapidly rising or falling markets, the period for the selecting of evidence should be adjusted accordingly. The degree of acceptable variation will reflect the volume and comparability of the market evidence.

Accuracy is easily understood as percentage error. For example it might be said that a *valuation* is within 10% of the *actual price* where *actual price* is the evidenced price in the base period (sale or rental, analysed and adjusted). Where the valuation is less than the actual price, the percentage error is computed from the formula $100(\text{actual price} - \text{valuation})/(\text{actual price})$. If the valuation is greater than the actual price the percentage error is computed as $(\text{valuation} - \text{actual price})/(\text{actual price})$.

While the ideal is to produce a percentage error of zero, a value within 15% is generally regarded as acceptable.

The ratio $100(\text{valuation} / \text{actual price})$ is an equivalent measure of accuracy which is equal to 100 minus the percentage error if the valuation is less than the actual price or 100 + percentage error if the valuation is greater than the actual price. Thus a percentage error of 10% is equal to a ratio of 90% if the valuation is less than the actual price or is 110% if the valuation is greater than the actual price.

Any measure of accuracy should be subject to the following considerations:

ANZ VALUATION GUIDANCE NOTE 4

- The sales or rentals must be investigated and shown to be at arms-length. Sales or rentals discarded following investigation, should still be listed as part of the evidence, together with a qualification statement clearly indicating why they were excluded.
- The values must reflect the general level of sales or rentals occurring within the base period and for the sub-market of which they are typical or indicative.

Measures of Accuracy and Uniformity

There is a need to combine the values for accuracy of individual valuations in aggregate samples to produce a combined measure of accuracy and uniformity. The term *accuracy* relates to the closeness of valuations to actual prices. The term *uniformity* is a measure of the consistency of the percentage errors or ratios. Thus a valuer who values three properties each at 80% of actual price is *uniform* in the valuation process but is not accurate.

Some useful measures of accuracy and uniformity are listed below together with conditions for their use and guidelines on interpretation of their values.

Any valuation methodology used for the roll must be subject to standards of consistency and be capable of audit.

Uniformity must be measured with reference to evidence, usually against the median percentage error or median ratio from all parcels in the aggregate sample. Accuracy is measured against the ideal percentage error of 0 or ideal ratio of 1.

The evidence for *accuracy* and *uniformity* should be based on an aggregate sample of current market evidence relevant to the date of valuation. Each jurisdiction should determine the appropriate base period for supporting the valuation roll. If no such determination is made by a jurisdiction, the practitioner should qualify the roll by stating the period within which the evidence sample supports the valuation. Present practice indicates that the use of evidence occurring two months before and two months after the date of valuation should be used to test the values in the roll effectively.

Listed below are some useful measures of valuation accuracy and uniformity. Each measure is described in words and interpretation of its values and conditions for its application are discussed. Mathematical formulae used to calculate the statistics are provided in the subsequent 'Formulae' section.

1. Coefficient Of Dispersion (COD)

This is a widely used and accepted measure that is based on the differences between individual ratios of

valuations to actual prices and the median of all ratios in the aggregate sample. It is formed as the average of such differences (ignoring the signs of the differences) divided by the median ratio and expressed as a percentage. Values of COD less than 15% are expected.

The COD is firstly a measure of uniformity since it is formed from differences between individual ratios and the median ratio. Thus a collection of identical individual ratios of say 90% would yield a COD of 0 even though the valuations are not accurate. However, in practice, where not all ratios are identical, the use of the median ratio as a divisor does provide a form of adjustment for inaccuracy. Thus the COD is a combined measure of uniformity and accuracy.

The COD can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of accuracy across diverse collections.

2. Median Percentage Error (MPE)

This is a simple and robust measure of accuracy. It is formed as the median percentage error. It will have a value of 0 when all valuations are identical with corresponding actual prices and increasing values of MPE imply decreasing accuracy. Values of MPE less than 10% are expected.

The MPE can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of accuracy across diverse collections

3. Median Difference (MD)

Where there is interest in expressing the likely size of the difference (in \$ terms) between valuations and actual prices a simple calculation using the median percentage error is available. Multiply any chosen actual price by the MPE and divide by 100 to obtain the MD. For example, if the MPE is 5% and the chosen actual price is \$100,000 then MD is \$5,000.

Interpretation is simple: Based on a valuation system that produces an MPE of 5%, one half of the valuations on \$100,000 properties will lie within \$5,000 of the actual price.

Note that because the likely size of the difference is proportional to the actual price the size of the MD will double if the actual price doubles. Thus with an MPE of 5% for properties with an actual price of \$200,000 one half of the valuations will lie within \$10,000 of the actual price.

4. Percentage of High Valuations (PHV)

Interest in accuracy not only centres on how close valuations are to actual prices but also on possible bias in valuations. Valuers need to be aware if they are consistently undervaluing or overvaluing properties. Ideally the valuations should centre on the actual prices so that approximately equal numbers of valuations are on either side of the actual prices. A simple measure of bias is provided by counting the number of valuations in an aggregate sample that are above the corresponding actual prices, dividing this number by the total number of valuations that are either below or above the corresponding actual prices and multiplying by 100 to give the percentage of high valuations (PHV).

Valuations in the aggregate sample are without bias if the PHV is 50%. The further the PHV goes above 50% the more evidence that consistent overvaluation is occurring. The further the PHV goes below 50% the more evidence that consistent undervaluation is occurring. Values of PHV outside the range 35% to 65% are cause for concern, although these guidelines only apply if the sample size is at least 40. The use of PHV is not recommended for sample sizes that are less than 40.

The PHV can be applied when there is a broad range of actual prices in the aggregate sample and provides a meaningful basis for comparison of bias across diverse collections.

An additional role for the PHV is to check for internal consistency in an aggregate sample. If the actual prices are sorted by size, the PHV can be computed for two or more price subgroups and the values obtained provide a means of checking on consistency across subgroups.

Formulae

Valuations and actual prices are presumed to be available from n properties. The calculation of the measures defined below are based on the following table:

Property	1	2	...	n
Valuation	v_1	v_2	...	v_n
Actual price	a_1	a_2	...	a_n
Ratio	$r_1 = v_1/a_1$	$r_2 = v_2/a_2$...	$r_n = v_n/a_n$
Percentage error	$p_1 = (a_1 - v_1)/a_1 $	$p_2 = (a_2 - v_2)/a_2 $...	$p_n = (a_n - v_n)/a_n $

Note that enclosing an expression between two bars, e.g., $|(a_1 - v_1)|$, implies that the expression should be treated as a positive number. In mathematical terms it is called 'taking the absolute value' of the expression.

1. COEFFICIENT OF DISPERSION (COD)

Compute the median of the ratios, \tilde{r} . Then

$$COD = 100 [|(r_1 - \tilde{r})| + |(r_2 - \tilde{r})| + \dots + |(r_n - \tilde{r})|] / [n\tilde{r}]$$

2. MEDIAN PERCENTAGE ERROR (MPE)

$$MPE = \text{median of } \{p_1, p_2, \dots, p_n\}$$

3. MEDIAN DIFFERENCE (MD)

For an actual price of \$a,

$$MD = axMPE/100$$

4. PERCENTAGE OF HIGH VALUATIONS (PHV)

Let n_+ be the number of valuations above the corresponding actual prices and n_- be the number of valuations below the corresponding actual prices, then

$$PHV = 100n_+ / (n_- + n_+)$$

Note that $n_- + n_+$ is equal to the total number of properties minus the number of properties in which the valuation is equal to the actual price.

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ANZVGN 5 VALUATIONS FOR COMPULSORY ACQUISITIONS

This Guidance Note should be read in conjunction with and is subject to the provisions of ANZ Practice Standard 1

1.0 INTRODUCTION

1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary, opinion, advice and recommendations to Members involved in preparing valuations for compensation purposes including pre-acquisition advising and any subsequent discussions, negotiation or representation as part of a Public Authority acquisition process. This Guidance Note applies equally to valuers providing valuations to claimants (owners) and a Public Authority.

1.2 Status

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope

This Guidance Note applies to Members involved in preparing valuations for compulsory acquisition* of interests of land. It should be used in conjunction with other guidance notes and practice standards as applicable to the type of property or issues involved.

** Whilst "resumption" is historically referred to in the context of compulsory acquisition proceedings, most recent statutes have adopted the word "acquisition" as standard terminology. For the purpose of this Guidance Note and its accompanying Standard these words are taken as referring to the same process. Acquisitions can be either by compulsory process or by negotiation.*

Note: Whilst this Guidance Note and ANZPS 1 relate to acquisition by Public Authorities, The current trend of privatisation may result in acquisitions being undertaken by private enterprise organisations under statutory provisions. This Guidance Note and the Practice Standard apply equally to those acquisitions.

1.4 Members Client

A Member may be involved in the process acting for either the Public Authority, or the claimant of an interest in land affected by the proposed or actual acquisition. In many cases when acting for a claimant, the Member's reasonable fees will be reimbursed by the Public Authority. This may be subject to certain conditions such as production of a copy of the report or production of a report meeting certain criteria. Where disputed claims are referred to a Court for determination, the Court will make an award as to costs. In such cases, both the claimant and the Public Authority are at risk in the recovery of costs. Where disputed claims are determined by agreement, the Public Authority will generally reimburse reasonable fees in respect to a valuation report carried out by the Member acting for the claimant. The party for whom the Member acts is the client regardless of who pays the fee.

1.5 Instructions

Members should accept instructions in writing in accordance with Rule 1.20 of the Rules of Conduct. As some dispossessed claimants may not fully understand the compulsory acquisition and related valuation processes, it may be appropriate for valuers to recommend that such claimants obtain expert advice from other appropriate specialists such as a suitably experienced solicitor or accountant (where there may be taxation issues). This process should ensure that the claimant is properly advised, that the Member is correctly instructed and is provided with a source of expert interpretation on points of law and taxation related aspects. It also assists in placing the Member at "arm's length" from the

dispossessed claimant to ensure that the Member's opinion is expressed as an independent expert. An acquiring authority may accept liability for a claimants reasonable professional expenses but confirmation of this should be obtained by the client in writing from the acquiring authority.

1.6 Valuers Entry into the Process

The Member's entry into the process may be at any time between notification from a Public Authority of an intention to acquire through to litigation. Early involvement by the Member will result in that member being in a better position to provide appropriate and timely advice. This Guidance Note applies equally in pre-acquisition stages.

1.7 Agreeing the Fee Basis and Payment

It is important that agreement is reached prior to commencement of the task on the basis of the Member's fees. This agreement should recognise that the Public Authority may offer to pay part or all of these fees. However, the agreement should also recognise that the client may be liable for additional fees.

1.8 Post Consultancy Report

Post Consultancy should be provided if required. As there is a reasonable probability of consultancy being required beyond the report phase, it is prudent to establish this position with the client at the time of taking instructions. In addition to agreeing the initial fee, it is recommended that from the outset Members agree in writing the following:

- basis of continuing consultancy fee
- basis of fee for any additional work or preparation required as a result of work by other experts on the team or as required by legal representative
- basis of fee for representation at any meetings, mediation or court hearing.

As the process can be protracted, it is recommended that agreement be made for rendering periodic accounts.

1.9 Other Professionals

In some matters, the Member may be the only professional engaged, in others the Member could be part of a team which includes various legal representatives, accountants, town planners, engineers, surveyors, etc.. Whilst strategic direction

may be provided by legal representation, the Member is responsible for ensuring their own professional integrity when acting as an expert. It is appropriate to include a note in a valuation report which identifies any outside professional advice relied upon.

2.0 BASIS of COMPENSATION ASSESSMENT

2.1 Legislation

Acquisitions and resumptions are effected under various legislation which affects many different types of property and many different interests in property (refer to "Property" in the Glossary of Property Terms).

2.1.1 Enabling Legislation

Acquisitions and resumptions are effected under enabling legislation. This will normally contain provisions for compensation assessment or invoke the provisions of other over-arching legislation. An understanding of such legislation is fundamental to assessing compensation.

2.1.2 Interest to be Assessed

The subject of the assessment is not simply the property but rather the claim of the claimant for compensation which could include the value to the claimant of the interest being acquired, plus claims under various other heads such as injurious affection, betterment, severance, disturbance and reinstatement. As an expert, the Member has a responsibility to consider all heads of claim identified in the relevant legislation.

2.1.3 Market Value of Claimants Interest

The value of the owner's interest is usually required to be assessed in accordance with the provisions of the relevant act. The claimants interest will include the market value of the property together with other heads of compensation.

2.1.4 Court Decisions

Many of the principles of compensation assessment have been laid down in Court decisions. A sound knowledge of the application of these legal precedents is fundamental to assessing compensation. Some decisions may be from other states or countries or have been given in terms of prior legislation and therefore their relevance may need to be considered.

2.1.5 Examination of Issues

Both the assessment of the claimants interest in the property, which includes various heads of claim are likely to involve the examination of a range of issues. Where these are complex and outside the valuers area of expertise, it may be prudent to instruct (with the client's written consent and appropriate understanding on fees) other experts. They should be briefed in writing and advised that they may be called to give evidence.

2.1.6 Legal Representation

Where a legal representative, experienced in compensation matters, is engaged as part of the team, it would be appropriate for that person to examine both the letter of instruction to the valuer and the report, or other specialist advice before it is issued. In such cases it may be preferable for the legal representative to issue instructions to other experts.

2.1.7 Date of Assessment

Any pre-acquisition assessment should relate to the current market. It is prudent, to advise the client that if the matter proceeds to formal acquisition, then the date at which compensation is assessed may change depending on the statutory requirements.

2.1.8 Guidance on Methodology

This Guidance Note is not intended to provide detailed assistance with methodology, and the valuer should refer to publications specialising in both the subject and court decisions. Most valuation publications will contain chapters dealing with the subject and the Institute's own professional journal has over many years reported court decisions and articles on compensation matters.

3.0 INSPECTION & INQUIRY GUIDELINES**3.1 Other Standards & Guidance Notes**

Other standards and guidance notes provide direction and guidance for most elements of the property inspection, inquiry, research and analysis and these should be referred to. However due to the task requiring the assessment of the owner's interest and claims under other heads, special comment is warranted on certain aspects which the Member should address.

3.1.1 Improvements Demolished before Settlement

Members should be aware that instances may arise where they will be required to discuss or defend their assessment long after the improvements on the property have been demolished. It is important therefore that full and accurate inspection notes are maintained, and that these are supported by sketches and colour photographs (or video where appropriate). The property inspection must be completely objective and must record both the positive and negative aspects of the property. Significant features of surrounding properties which might also be acquired and which impact on the subject property should also be recorded.

3.1.2 Interview the Owner

It is important for the Member, whether acting for the claimant or the Public Authority, to discuss with the claimant(s), the details of the property being acquired and the acquisition process to ensure that all relevant particulars of the property and the owner's legal past and future use (if part only or an easement taken), but also so that the claimant feels that their position is well understood and that they will be adequately compensated. Note that this is likely to be a significant and unfamiliar event for the owner and occurring in an environment over which the owner has limited control. It is an opportunity to demonstrate professionalism and appropriate sensitivity, no matter which party is represented by the Member. An interview with the claimant should also be used to confirm other interests in the property, and how those interests affect those of the claimant for whom the report is prepared.

3.1.3 Interviews and Discovery

There could be unusual aspects requiring investigation and research both for the property and other heads of claim. These should be well documented and obtained where possible in writing from the source of the information. It is appropriate to explain circumstances sufficiently to your information source so they properly understand the nature of the information required (this could save embarrassment and damage to your case under cross examination for you or your information supplier). In particularly important or difficult cases it may be necessary to obtain copies of contracts of sale as appropriate confirmation if litigation is involved (you will also need to establish that the contracts contain no special clauses which would impact on their use to determine value). In order to obtain copies of contracts it

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may be necessary to utilise the discovery powers of the court however valuers should explore other methods before turning to the court for assistance.

3.1.4 Public Authority

Where part of a property is required (including an easement), it is particularly important to interview staff from the Public Authority involved. While the acquisition notification will usually indicate the purpose of the acquisition, details of proposed works are important for establishing injurious affection, severance, betterment and reinstatement where applicable. The extent of works could impact significantly on the assessment. It is likely that the authority will have carried out studies of any impact. Members should obtain copies of plans and studies, examine and discuss them with the Authority and claimant who will possibly be able to indicate how these will impact on the use of the property.

3.1.5 Report Notes

Members should ensure that they keep full and accurate field notes of all inspections, meetings, sources of information, calculations and basis of their valuations. Photographs should also be obtained.

4.0 REPORT CONTENT

4.1 Other Standards & Guidance Notes

Other standards and guidance notes provide direction and guidance on contents of reports. In addition to considering those headings, the points to address and the annexures to provide in the report, the particular requirements of your client should be considered. Members should check if a preliminary report is required. The following should also be considered for inclusion.

4.1.1 Acquisition or Resumption Date

Details of the acquisition or resumption should be noted and a copy of any notification annexed to the report. Most important are:

- date of the acquisition (if gazetted),
- date of Notice to Treat/Notice of intention to acquire/Notice of Acquisition,
- stated public purpose and scheme description,
- interest acquired,
- legal description of land resumed,
- name of the Public Authority.

- Legislation under which the interests have been acquired.

4.1.2 Effect of the Acquisition or Resumption

Where part only of the property has been acquired, it is particularly important to note in some detail the impact of the acquisition on the residue of the property. Such issues as injurious affection, betterment, severance, disturbance and reinstatement may have to be considered and commented upon, as appropriate.

4.1.3 Town Planning / Resource Management

Town planning or Resource Management details should always be included in a report, however additional detail is warranted where the current or proposed zoning may have been or is a step in the acquisition process (and as such may have to be ignored in the assessment of compensation). In such a case comment on the most likely alternative zoning should be included (supported if necessary by a planning consultants report).

4.1.4 Reference Material

At appropriate points in the report, reference should be made to reports by other experts and publications or documents relied upon. Where appropriate, copies of these or extracts there-from should be annexed to the report.

4.1.5 Heads of Claim

Heads of claim should be explained and their qualification/quantification adequately detailed.

4.1.6 Summary of Claim

At some point in the report provide a summary of the amounts claimed for the value of the interest in the property taken and amounts under the heads of claim. This should be set out in such a way as to comply with any particular requirements of the relevant legislation and to enable any prescribed claim form to be completed. A total of the assessments or values of the claims should also be shown.

4.1.7 Separate Valuation Statements

If the Member has prepared a number of valuations reflecting different interpretations of the law, planning or other matters, it is appropriate that separate valuation statements be made, **clearly setting out the basis of each valuation.**

4.1.8 Degree of Detail

Members may be directed by the claimant's legal representatives as to the degree of detail to be

provided in their report. Where relevant, reports should be consistent with the Institutes practice standards.

market evidence, facts and reasoned argument in accordance with the relevant legislation and court procedures.

4.1.9 Suitable for Exchange

The Member should produce a report suitable for exchange prior to any discussions of value or negotiations (subject to direction from any legal representative). This will enable the parties to better understand the points of difference between them and will ultimately assist the Court. Exchange will normally be at the direction of the client or the team leader who may be a Property Professional, or legal representative.

4.1.10 Expert Witness

Members should be aware of any relevant court rules of practice directions or regulations relating to expert witnesses and should be conversant with and comply with their requirements.

5.0 POST ASSESSMENT CONSULTANCY

5.1 After the Assessment

A significant part of a Member's work can occur after the assessment has been carried out. This can take the form of discussions and negotiation, preparation and proof of evidence for appeal hearing, giving evidence and being cross-examined. If not prepared to carry through to these stages the Member acting as a valuer should notify the client and, if necessary, decline the instructions. It is desirable for the member's brief to extend beyond the assessment to include the negotiation of a settlement of the compensation claim. It is generally unacceptable for a Member acting as a valuer who has carried out an assessment to subsequently refuse to participate in the resolution process. The provisions of this clause apply equally to Members acting for acquiring authorities and claimants. Instances may occur where negotiations are undertaken by another professional who instructs a Member. In these cases this clause applies to the Member.

5.2 Negotiation with other Professionals

Professionals assessing compensation claims following acquisition by a Public authority will often be called upon to negotiate with other property professionals. In any negotiation it is essential that both Members be prepared to substantiate their opinions by reference to

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ANZVGN 6 VALUATIONS OF ACCOMMODATION HOTELS

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to set out matters to be addressed in addition to those required by IVA 2 Valuation for Secured Lending Purposes and ANZVGN 2 Mortgage Security Reports on Real Property.

1.2 Status of Guidance Notes

Guidance Notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note should be applied to properties that are valued with regard to their trading potential, including Accommodation Hotels, Motels and Serviced Apartment complexes of 3 star standard and higher. This Guidance Note is not specifically intended to cover licensed hotels (pubs), whether free standing or part of, Accommodation Hotels.

1.4 International Valuation Standards

This Guidance Note recognises the International Valuation Standards 1 and 2, and International Valuation Application 2 by the International Valuation Standards Committee and it is intended to be consistent with the concepts and definitions contained in those standards, however, there may be departures from IVSC Standards to reflect Australian & New Zealand law and practice.

1.5 Role of the Valuer

The valuer needs to demonstrate in a report an understanding of the operation of the subject property, the operator and/or lessee, the Hotel's

market place, competition and any unique features it possesses.

1.6 Basis of Valuation

The valuation should clearly state whether it reflects the terms of an Operating or Management Agreement, or an occupational lease or whether the valuation is on a vacant possession basis. It should also state whether it has been undertaken as a 'going concern' on a 'Walk In Walk Out' basis inclusive of all plant, equipment, furniture and fittings but excluding stock.

1.7 Interests

The valuer should be aware of the different interests in a property, and should apply the same valuation principles to all interests based on the term of the management agreement or lease.

2.0 Compliance

2.1 Statement

A valuation of a property defined in 1.3: Scope of this Guidance Note should state that it complies with this Guidance Note.

2.2 Accepting an Instruction

Prior to accepting an instruction, a valuer must be confident of having the necessary expertise and sufficient information to undertake the valuation. For example, if the valuer does not have complete or appropriate access to comparable sales and trading data, then the valuation instruction should be declined, or undertaken in conjunction with a valuer who has the expertise and access to such information.

3.0 Review of Improvements

3.1 Key Factors

The improvements need to be considered in the context of their specialist use, with the following being examples of relevant factors:

- summary of room numbers by size/type/aspect
- location and adequacy of kitchen(s)
- appropriateness of food and beverage outlets
- size, location and appearance of entrance lobby and front desk
- layout and capacity of meeting rooms
- back of house facilities
- other facilities (eg Health Club, pool, etc)
- on-site car parking (numbers/adequacy)
- technological facilities (e.g. visual display units, communication/media access facilities)

3.2 Specialised Features

The valuer should consider the design characteristics and appeal of the property, including unique or specialised features that may impact upon the viability of operation, value and marketability. Factors to be considered include the efficiency of the layout in relation to guest servicing and labour costs, back of house servicing and adequacy of storage space (wet/dry/cold rooms).

4.0 Repair and Condition

4.1 State of Repair

Comment on the state of repair of the improvements of the property, including any outstanding works to be completed, and any modification or maintenance work required. Make comment upon the condition of Fixtures Fittings & Equipment, back of house equipment (e.g. kitchens), in the context of the Fixtures Fittings & Equipment Reserve.

4.2 Refurbishment

Comment on the feasibility and extent of possible refurbishment likely to be necessary over a normal investment period. Comment upon economic and functional obsolescence and the need or capability to upgrade improvements.

4.3 Capital Expenditure

The valuer should provide an estimate of likely required Capital expenditure, in respect to building works/services, refurbishment and Fixtures Fittings & Equipment Replacements.

4.4 Balance in FF&E Reserve

The valuer should establish whether there is an existing balance in the FF&E Reserve, and comment on its adequacy and appropriateness in relation to current and future Capital Expenditure requirements. Whether such balance has been reflected in the valuation figure should be clearly stated.

5.0 Approvals and Authorities

5.1 Building and Planning

Where necessary, issues relating to building compliance, heritage, environmental and planning classification should be reviewed and any consequent impact on value fully explained.

5.2 Non-Compliance

Whilst it is acknowledged that the valuer may not be qualified in these areas, based upon the inspection (noting limitations of such), comment should be made on any possible occupational health and safety requirements or requisitions recommending further inspection by qualified experts where appropriate.

In addition, the valuer should seek from the instructing party details of any notices of non-compliance of which the instructing party is aware.

5.3 Licences

The valuer should sight and comment on all licences required for the property's operation and note that these are included in the valuation.

5.4 Legislation

Comments are required as to whether the building is compliant with any current and pending legislation. Whilst it is recognised that the valuer is not an expert in this area, the report should highlight any potential risks in this regard through inspection and inquiry.

6.0 Trading Performance

6.1 Accounts

Where possible, accounts should be presented and analysed in accordance with the Uniform System of Accounts for Hotels. State whether the figures that have been relied upon have been audited.

The valuer should make a specific notation where relying upon information provided without being

able to verify it, and clearly state any consequent limitations to the advice as a result.

6.2 Summary of Detailed Figures

The valuer should provide a summary of detailed figures for the hotel, showing trading performance for the last 3 years on a departmentalised basis, together with year to date trading figures.

Appropriate periodic occupancy and average room rate statistics should be considered and commented upon.

6.3 Expenses/Outgoings

The valuer should itemise all expenses/outgoings in schedule form including management, all fixed costs, capital expenditure, and FF&E allowances, where possible in accordance with the Uniform System of Accounts for Hotels. Compare and contrast the current trading with the previous year's actuals, YTD figures versus budget, and comment upon any major variances. These figures should also be compared with appropriate industry benchmarks.

6.4 Trading Levels

The valuer should comment in detail on the current level of trading being achieved, the stability of the income and the projected maintainable trading performance of the property compared to the operator's projections.

6.5 Business Mix

The valuer should comment upon the business mix, typically analysed where available by geographical source, market segment and by guest type.

6.6 Operational Review

The valuer is not expected to carry out a detailed Operational Review, but would be expected to make appropriate comment upon:

- the marketing plan
- budget vs actual performances
- effectiveness of referrals within the operating group
- a fair market share analysis
- profile of operator

7.0 Trading Environment

7.1 Benchmarking

Benchmark the performance of the hotel in comparison to the Following:

- accepted market and industry indices,
- comparable and competing properties, to the extent that such data is available as well as identifying any items of revenue/expense which are outside acceptable market parameters.

7.2 Competition

The valuer should provide full details of current and proposed competition within the catchment area, incorporating demand and supply criteria.

7.3 Current State of Industry

The valuer should analyse the current state of the hotel and tourism industry and in particular the subject property's target market, and detail any changes (current or anticipated) which may impact on the long term income sustainability and growth potential of the asset. Statistics and research data should be used to highlight trends and as a basis for projections.

8.0 Management Agreement / Tenancy Details

8.1 Commentary

The valuer should:

- Sight a copy of the Management Agreement / Operating Lease. A summary of the Agreement / Lease should be incorporated together with commentary on the general market acceptability of its terms and conditions. If these terms are outside typical market practice this should be stated and some commentary on what is considered acceptable should be provided.
- Read and understand all factors in the agreement or lease which could affect value, such as quality and certainty of income, income guarantees and associated clawbacks, break clauses, owners involvement. The valuer should also comment on remedies of default, assignability, termination clauses, non-disturbance clauses and the quality of the lease covenants.

- Provide a brief profile on the hotel operator including details of its brands, number of hotels/rooms and geographical spread.
- Investigate and comment upon the existence of any agreements between the owner and manager/operator which may affect value. Similarly, comment upon any agreements between the operator and other properties in the vicinity that may affect the operation of the property, for example, non-compete clauses, shared costs and expenses.
- Where the hotel forms part of a mixed-use project, all leases relating to the property should be reviewed by the valuer. Tenancy information should be summarised in schedule form. Comment upon the relationship of the hotel with the other components of the property.

9.0 Earnings Potential

9.1 Sustainable Net Return

Calculate the sustainable net return to the owner after reflecting appropriate outgoings. The treatment of Management Fees and FF&E Reserve varies, but as a general guide valuers should apply as they analyse and reflect the manner in which the market is capitalising. Although net return is typically expressed after Management Fees and FF&E Reserve, an owner operated property may be considered on a 'before fees' basis.

9.2 Existing Agreement

Fees and FF&E provision should reflect any existing Management Agreement, or prevailing market rates. The net return should also be expressed before depreciation, amortisation, interest, tax and Capital Expenditure.

9.3 Projections

Any projections should be in accordance with the 'Uniform System of accounts for Hotels', and preferably undertaken for a period of five years or beyond, reflecting the method adopted to analyse sales.

9.4 Upgrades/Capital Expenditure

Have regard to any upgrading or capital expenditure which would impact on the trading performance of the hotel or its marketability.

9.5 Cashflow

A detailed analysis of the cashflow is an essential requirement. The calculations should be completely self explanatory. Details of the discount rate, time period, etc, should be shown.

9.6 Changes

Comment upon the anticipated changes to outgoings, timing of capital expenditure, particularly significant items (eg major contract renewals, rating changes, etc).

9.7 Variation

Comment on variations between the operator's projections and those assumed by the valuer, with rationale supporting any variations.

9.8 Analysis

A sensitivity analysis for key variables may be appropriate.

10.0 Market Commentary

10.1 Purpose

This should address the following sectors, as relevant to the specific hotel – global, local (regional), comparison of design features with market demand and competitive supply.

10.2 Market Conditions

This requires both a current and forward looking view (typically 3-5 years) rather than an historic view of market conditions. Typically this commentary should include:

- Investment activity including depth of market and identification of key 'players';
- Building activity including competition and likely additions to supply;
- A discussion of the major drivers of supply/ user demand over the period under review;
- A valuer should consider a model of future supply and demand to project average occupancies and room rates within the market and to form the basis of a fair market share assessment.

11.0 Sales Evidence

11.1 Sales Analysis

It is not always possible to obtain sufficient information to fully analyse every sale; however, the valuer still needs an appropriate level of sales that have been adequately analysed in order to arrive at an opinion of value. To simply quote a yield or a room rate from a sale, without first seeking the information to analyse the sale is unsatisfactory.

11.2 Trading Performance

The future trading performance of the adopted sale or sales being analysed should be explored for each sale, in combination with the sale's historic performance. This is required, in order to allow the formation of an acceptable level of consistency between the sale being analysed and the subject property, to allow informed comparison.

11.3 Relativity of Sale

The relativity of each sale should be commented on and explained.

11.4 Recent Sales History

The valuer should indicate recent sales history of the subject property. Where the property is being transacted, the contract for sale should be sighted and commented upon.

12.0 General Issues

12.1 Vacant Possession

Where owner occupied properties are valued on a vacant possession basis in existing condition, an indication of net income after management expenses and replacement reserve should also be provided for comparison purposes.

12.2 Leases, Plant and Equipment

The valuer should comment on leases of plant and equipment where the lease payments for plant and equipment are substantial so as to have a material effect on value if the costs are deducted from income. In such an instance the costs may be ignored if instead a payout figure can be ascertained and deducted from the value assessed.

12.3 Leasehold Title

In cases of hotels held upon leasehold title, the impact of the ground rent on returns/incomes

should be fully considered and reflected in the valuation. As with any other leasehold the valuer may need to consider the value of the hypothetical unencumbered freehold and then consider the value of the Lessors Interest, the Lessee's Interest, and potential Marriage Value of the interests concerned. See separate guidance note on Partial Interests.

12.4 Impact of Valuation

The impact on valuation of the separation of the various title components, related options, obligations and impediments, potential loss of tenure, etc should be identified and fully explored in relation to both sales and the subject property.

12.5 GST Caution

The Valuer should consider the manner in which similar properties are bought and sold from a GST perspective and adopt the most appropriate treatment of GST accordingly.

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ANZVGN 7 THE VALUATION OF PARTIAL INTERESTS IN PROPERTY HELD WITHIN CO-OWNERSHIP STRUCTURES

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide members with an awareness of some of the principal issues to be considered in the valuation of a partial interest in a property held within a co-ownership structure.

Status of Guidance Notes

Guidance Notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.2 Scope

This Guidance Note applies to partial (fractional) interests in property held (jointly) in co-ownership structures.

This Guidance Note does not apply to strata title, community title or other similar divisible title property or a part share in the common property thereof.

This Guidance Note does not apply to interests that are not partial interests in property held in co-ownership structures.

Accordingly, this Guidance Note does not apply to such interests as that of a single lessor and a single lessee under a lease. (Refer IVGN 2 Valuation of Lease Interests).

1.3 Definition

A partial interest may be described as a divided or undivided ownership right in property that represents less than the whole.

1.4 Freehold or Leasehold

There are many forms of co-ownership structure. Partial interests may be in a freehold or leasehold co-ownership structure

Leasehold co-ownership may be comprised under a ground lease, development lease or similar leasehold interest usually subjugating the interests of the freeholder for an extended period of time.

1.5 Sector

Partial interests may occur in a wide range of property sectors, including residential, small and large commercial and retail, leisure, rural and others.

Plant and Machinery Assets are also sometimes held in joint ownership.

1.6 Entity

The valuation of partial interests is becoming increasingly common, particularly amongst members who undertake valuations for listed property trusts, wholesale funds, family law and estate matters.

2.0 Instruction

2.1 Clarity of Instruction

In accordance with Rule of Conduct 1.20, members should ensure clarity of instructions concerning the interest that is to be valued.

2.2 Subject of Instruction

The subject of the potential instruction to value may comprise:

- all or part of the physical underlying asset unencumbered by the co-ownership structure;
- all or part of the physical underlying asset encumbered by the co-ownership structure;

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- the form of entity comprising the co-ownership structure; or
- a partial interest in the form of entity comprising the co-ownership structure.

2.3 Competence

In accordance with Rule of Conduct 1.6, members should not accept instructions beyond their competence.

2.4 ASIC Licence

In Australia, Members should not value securities unless they are licensed to do so by the relevant licensing authority (ASIC).

2.5 Exclusion

Unless holding a relevant licence (being an Australian Financial Services Licence in Australia), members should assure themselves that the partial interest in a property held in co-ownership to be valued does not comprise an interest for which such a license is required.

3.0 General

3.1 Distinction

For the purposes of valuation, the property (3.2, below) is distinguishable from the co-ownership structure (3.3 and 3.4, below), which are each distinguishable from the property held in a co-ownership structure.

3.2 Property

The property comprises the physical underlying asset, which may be valued subject to relevant Practice Standards and Guidance Notes (4.0, below)

3.3 Co – Ownership

The co-ownership structure comprises the form of entity in which the property is held. This may include a joint tenancy, tenancy in common (divided or undivided), companies, trusts, unincorporated joint ventures, partnerships or other form of entity (5.0, below).

3.4 Rights and Obligations Created

The co-ownership structure may create rights and obligations for consideration that impact upon the value of the co-ownership interest (6.0, below).

3.5 Property in Co–Ownership

The valuation of a partial interest in a property held in a co-ownership structure represents a combination of consideration of the issues impacting upon the value of the physical underlying asset and the issues impacting upon the value of the interest in the co-ownership structure.

3.6 Proportional Share

It is possible that the value of a partial interest in a co-ownership entity may be greater or less than the value of the proportional share of the physical asset held by the co-ownership entity (5.0 and 6.0 below).

3.7 Sum of Parts

It is possible that the sum of the partial interests in a co-ownership entity may be greater or less than the value of the physical asset held by the co-ownership entity (5.0 and 6.0 below).

3.8 Value and Worth

IVS 1 defines market value as:

Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

with IVS 2 explaining worth (or investment value) to be the value of a property to a particular investor, or class of investors, for identified investment objectives.

3.9 Value vs Worth

Having regard to 3.8 (above), in the valuation of a partial interest in a physical underlying asset held in a co-ownership structure, the value of an interest may be distinguishable from the worth of an interest.

In determining the worth of an interest and depending upon the nature of instruction received, debt finance taxation issues may require consideration.

4.0 Valuation of Physical Underlying Asset

4.1 Property Valuation Approach

In accordance with ANZVGN 1, the comparability of the property comprising the physical underlying asset (3.2, above) to sales evidence should be measured against established criteria of quality relative to a property's peer stock and the overall property market.

4.2 Suitability For Co-Ownership

The quality of the physical underlying asset should also be considered in the context of the form of co-ownership structure and the appropriateness of the assets ownership to such division.

4.3 Cash Flow

For investment property, the nature, quality, divisibility, liquidity and security of the underlying cash flow should be considered.

4.4 Value of Part

Whilst a valuation of a partial interest may include an assessment of the value of the physical asset underlying the partial interest, it should only address the value of the relevant partial interest in a property held in a co-ownership structure which may not, necessarily, be its pro-rata value (5.0 and 6.0 below).

4.5 Market Value

Where the value of the partial interest is more or less than the proportional ownership share, the valuation should note such variance and comment on any potential marriage value, which may be realised in the event of conversion to a single interest.

5.0 Co – Ownership Principles

5.1 Influences on Value

The form of entity comprising the co-ownership structure (3.3 above) may influence the value of a partial interest in a property held in such co-ownership structure through such aspects as:

- the ongoing conduct of the co-ownership relationship;
- the process for resolution of disputes amongst co-owners;

- the ongoing costs of supporting the co-ownership structure;
- the treatment of asset and property management costs;
- the mechanism and basis for treating commitments to capital expenditure;
- the ability to use an interest as security for debt;
- the timetable for unit pricing calculation, where relevant;
- the basis upon and timing of a termination of the co-ownership relationship;
- the ease (or otherwise) of disposing of the interest on the open market;
- the cost of disposing of an interest in the co-ownership structure;
- the cost of terminating the co-ownership structure and disposing of the underlying asset;
- the basis of and terms applying to any disposal of the underlying asset;
- the constraints and other terms of any disposal of the relevant interest including:
 - first and subsequent right of refusal provisions or other priorities of the co-owner;
 - any absolute restrictions on disposal;
- the implications of ongoing liabilities of a co-owner after disposal of the relevant interest; and
- taxation implications.

6.0 Co – Ownership Issues

6.1 Influences On Value

The principal rights and obligations for consideration (3.4 above) which impact upon the value of the co-ownership interest may include:

- control of the interest (being the extent to which the co-ownership interest confers the right to direct); and
- liquidity of the interest (being the ease with which the interest can be converted into cash).

6.2 Level of Control

Control relates to the right to direct the interests of the investment at the owner's absolute discretion. Where an ability to direct is diminished through co-ownership structure, the impact of that inability to direct should be considered and reflected in the valuation.

6.3 Control Issues

Control issues for consideration may include:

- number of parties in the co-ownership structure;
- voting rights where disproportional to the pro-rated interest;
- cost allocation where disproportional to the pro-rated interest;
- revenue allocation where disproportional to the pro-rated interest;
- complexity of process and time taken to direct;
- protection at law for minority rights;
- use of dispute resolution levels and mechanisms;
- pre-emptive rights; and
- existence of a controlling interest.

6.4 Liquidity Issues

Liquidity issues for consideration may include:

- the proportionality of the interest - where the interest being valued is considered in the context of the overall holding and the number of other co-owners;
- the right to divide an interest, unfettered, and deal with that interest - this includes the rights of co-owners and the obligations the co-owner of an interest to its fellow co-owners;
- effect of pre-emptive rights – where a co-owner has a right to acquisition of other co-owners interests on a basis that may be prescribed;
- non-structural impediments to liquidity - these may include disengagement from a co-owner or co-owners with incompatible investment philosophies and complexity of process and timing in connection with disposal of the interest and disposal of the underlying asset; and

- the reasonable selling period for the interest - both in the context of the ownership structure and any co-ownership agreement selling constraints.

7.0 Comparable Evidence

7.1 Comparability

Comparability of evidence of sales transactions should be considered in the valuation of both the physical underlying asset (3.2 above) and the co-ownership interest (3.4 above).

In both the valuation of the physical underlying asset and the co-ownership structure, the precise extent of comparability of evidence of sales transactions should be carefully considered.

7.2 Available Evidence

Some forms of co-ownership structure may be traded on the open market and directly comparable evidence is therefore available to the member for consideration.

In such cases of directly comparable evidence, the level of adjustment of that evidence for application to the subject interest to reflect the differences between each may be limited.

7.3 Relevance of Comparable Evidence

Members should assure themselves that such evidence is directly comparable in respect of control, liquidity and other relevant issues.

In the event of differences in respect of control, liquidity or other relevant issues, members should ensure that adjustment is made to appropriately reflect such differences.

7.4 No Available Evidence

Some forms of co-ownership structure may not be traded on the open market and directly comparable evidence is therefore not available to the member for consideration.

In the absence of directly comparable evidence, the level of adjustment of available evidence for application to the subject interest may be significant.

7.5 Appropriate Adjustment

In the absence of directly comparable evidence, the member should consider available, relevant comparable evidence from whole or other partial interests.

In the event of differences in respect of structure, control, liquidity and other relevant issues, members should ensure that adjustment is made to appropriately reflect such differences.

7.6 Relevant Information

In completing the valuation of a partial interest, a member should obtain relevant information from the instructing party concerning control, liquidity and other issues, for review.

7.7 Checklist

Such information may include:

- relevant documents supporting the ownership structure, including amendments to those documents, such as:
 - shareholders/unit holders agreement;
 - trust deed and trustee structural arrangements;
 - joint venture agreement;
 - articles of association;
 - partnership agreement; or
 - any other similar arrangement document;
- co-ownership agreement regulating the relationship between the co-owners; including fee or other co-owners remuneration arrangements;
- notice of any agreements between the co-owners which vary any of the terms of the agreements including board or management meeting minutes;
- any financing agreements relevant to the entity;
- financial statements, statements of compliance with accounting standards, auditors reports and tax returns;
- any option or other right of sale, acquisition agreements, first right of refusal or pre-emption agreements between the co-owners and pertinent to the relevant interest;
- details of any other agreement, arrangement or obligation likely to impact on the value of the relevant interest; and
- an extract of the valuation component of the compliance plan of the single responsible entity if the relevant interest is owned by a managed investment scheme.

7.8 Vigilance

The above list is not intended to be exhaustive and members should be vigilant to seek any documents relevant to a particular ownership structure being valued.

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ANZVGN 8 VALUATIONS FOR USE IN OFFER DOCUMENTS

1.0 INTRODUCTION

1.1 Purpose

The purpose of this Guidance Note is to provide advice to Members providing valuations for inclusion in offer documents. This Guidance Note does not purport to be a comprehensive description of the law and members should obtain independent legal advice.

1.2 Status of Guidance Notes

Guidance Notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note applies to Members providing valuations of real property and related assets that are to be included in an offer document.

This Guidance Note addresses general concepts and principles to be followed by Members when preparing valuations for inclusion in offer documents.

Offer documents may include, but not be limited to, regulated offer documents (including prospectuses and product disclosure statements), unregulated offer documents (including information memorandums) and bidder's and target's statements.

1.4 Structure of This Guidance Note

The advice for Members provided in this Guidance Note includes:

- advice on process including:
 - responsibility of Member;
 - instructions;
 - obligations;

- style;
- statement of valuation;
- advice on transparency including:
 - conflicts of interest;
 - assumptions and qualifications;
 - forecasts;
 - value statement;
 - risk statement;
 - development properties; and
 - advice on regulatory observance.

1.5 International Valuation Standards

This Guidance Note is intended to be consistent with Standards and Guidance Notes published by the International Valuation Standards Committee, except as otherwise stated.

2.0 PROCESS

The following comprises advice to Members concerning issues of process in the provision of valuations for inclusion in offer documents

2.1 Responsibility of Member

2.1.1 Requirement for Valuation

A Member may be instructed to provide a valuation for inclusion in an offer document at the request of a party such as the promoter, manager or trustee but for the benefit of potential or existing investors.

Such a valuation is likely to be an important consideration within a range of matters considered by a potential investor in determining whether or not to make an investment.

A Member should be aware that the valuation may be considered by other parties involved in the offer including lenders, accountants, auditors and lawyers.

A Member may be required to provide both a full report and a summary report for inclusion in the offer document.

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2.1.2 Role of Member

A Member is fulfilling the role of an informed professional in providing an objective and impartial view and drawing the attention of a reader to key issues impacting on value.

A Member should, therefore, provide disclosure of relevant information (including assumptions and qualifications) to assist a reader understand the basis of the valuation (when included).

A Member should aim for maximum rather than minimum disclosure, seeking to exceed technical compliance in order to exceed public expectations, in their full report. A summary report should, therefore, seek to mirror the spirit of this approach within the confines of brevity and cross-referencing to other parts of the offer document where relevant.

The level of information provided should be such as potential investors and their advisers would reasonably require and reasonably expect to find in an offer document in relation to property value for the purpose of making an effective, fully informed decision.

A Member should not provide comment on the merit of the offer.

2.1.3 Relevant Skills and Expertise

In accordance with Rule of Conduct 1.6, a Member should not accept an instruction beyond their competence.

If a Member does not have the relevant skills and expertise to undertake the provision of a valuation, the Member should decline the instruction or retain an appropriate specialist to provide advice.

2.2 Instructions to Member

2.2.1 Written Instructions

In accordance with Rule of Conduct 1.20, a Member should accept instructions in writing.

Written instructions should be obtained prior to the valuation being undertaken.

2.2.2 Clarity of Instructions

In accordance with Rule of Conduct 1.20, a Member should ensure clarity of instructions concerning the interest that is to be valued.

2.2.3 Contents of Instructions

Such instructions should be clear and include all relevant details, which may be provided in a letter

of instruction, contract between the parties or other form of appointment.

A Member should note that the form of appointment may be regarded as a public document.

A Member should consider attaching a copy of the instructions to the valuation report.

2.2.4 Incomplete Instructions

In the event that any of the following are omitted from the instructions:

- a) identification of the instructing party;
- b) acknowledgment of respect for the Member's independence;
- c) provision to meet the cost of independent legal or other expert professional advice for the Member, if required;
- d) exact scope of the valuation, disclaiming responsibility for matters outside such scope;
- e) basis of valuation;
- f) date of valuation;
- g) purpose/reasons for valuation including a statement that it is for use in an offer document;
- h) the manner of distribution and likely recipients of the valuation including, if the valuation is to be used in an offer document;
- i) any requirements for a summary report for inclusion in an offer document;
- j) confirmation that, if a summary report is required, potential investors can have access to the full report;
- k) unfettered rights to inspect the property;
- l) the facts of the proposal;
- m) any data relevant to the proposal;
- n) any partial ownership arrangements or other restrictions on marketability;
- o) if the subject property is subject to current or previous acquisition, relevant details such as contract of sale, survey, due diligence reports and related documents;
- p) details of any consultants with whom the Member should liaise regarding the offer document, with costs arising there from to be borne by the instructing party;

- q) reference to statutory requirements and any additional requirements contained within the documents constituting the offer or entity;
- r) requirement for the instructing party to review and confirm the factual accuracy of the draft valuation report;
- s) whether any assumptions or qualifications have been prescribed by the instructing party, the reasonableness or achievability of such prescribed assumptions or qualifications and the sensitivity of the valuation to variations or non-compliance with such prescribed assumptions or qualifications;
- t) requirement for the Member to provide their consent to being named in the offer document and a description of any consents the Member may be required to sign in connection with the inclusion of their valuation in an offer document;
- u) specific requirements of the instructing party for the scope of continuous disclosure; or
- v) provision of draft offer documents together with adequate time for review and the right to control edited versions of the valuation contained therein a Member should consider requesting same from the instructing party.

2.3 Obligations of Members

2.3.1 Duty to Prospective Investors

A Member should consider their responsibility to potential investors to whom the report is directed for their information and decision making.

If a Member is uncertain concerning their responsibility, they should seek independent legal or professional advice.

2.3.2 Nature of Information to be Included

A Member should, if not provided by the instructing party with all information required for consideration or appropriate access to records, premises, etc as required, decline to provide a valuation.

2.3.3 Significant Change in Information

A Member should be aware of the obligation on the issuer of any offer document to issue a supplementary offer document if a significant change occurs.

A Member should promptly inform the issuer of any offer document in which a Member's valuation

report is contained of any matter that could have a material impact on the valuation.

In the event that the valuation becomes impacted by a significant change during the offer period and the instructing party does not amend or withdraw the offer document accordingly, the Member should consider withdrawing their consent to being named in the offer document.

2.4 Style

2.4.1 Goal

A Member should consider the test of a valuation to be measured as much by its clarity and utility to users as by the sophistication of its analysis and its information content.

2.4.2 Written Style

A valuation should be worded and presented in a clear, concise and effective style using plain and direct language.

2.4.3 Terminology

A Member should use terminology consistent with widely accepted industry guidelines, but without unnecessary technical jargon.

Where unavoidable, technical jargon should be used consistently and with an explanatory glossary provided in the full report, especially where, the definition or interpretation of specific or technical terms is central to the valuation.

2.5 Statement of Valuation

2.5.1 Member's Consent

It is recommended that a Member's valuation not be published in part or full in an offer document without the Member consenting to the form and context in which it will appear.

Before consenting, a Member should confirm by sighting that the valuation has been accurately reproduced in the offer document and is being used for the purpose for which it is produced.

A Member should be vigilant to ensure misrepresentation or omission of factors, assumptions or qualifications that may be relevant to a party likely to rely on the offer document does not occur.

A Member should limit their responsibility for an offer document to solely their contribution to the offer document.

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A Member may withdraw consent for the inclusion of a valuation in an offer document at any time.

A Member should withdraw consent for the inclusion of a valuation in an offer document if:

- the Member becomes aware of something occurring after the issue of the valuation which would cause the valuation, or a statement in the offer document to which a Member has consented, to be misleading or deceptive;
- the Member has informed the issuer of the occurrence; and
- the issuer has refused to issue a supplementary offer document or otherwise inform potential investors of the nature of the occurrence and its impact on the valuation.

2.5.2 Summary Valuation

If a Member provides a valuation and then also provides a summary valuation, it is recommended that each refer to the other.

The valuation, when read in full, should not contain any unexpected material issues for a reader who has previously read the summary valuation.

2.5.3 Currency of Valuation

A Member should make it clear that the valuation is applicable at the valuation date and that any change in circumstances or market condition after that date would require the valuation to be reviewed.

2.5.4 Assumptions and Qualifications

A Member should detail all assumptions and qualifications affecting the valuation (section 3.2 below).

The use of sensitivity analysis is encouraged to highlight those assumptions and qualifications that significantly impact the valuation.

2.5.5 Risk Statement

A Member should include a risk statement (section 3.5, below).

3.0 Transparency

The following comprises advice to Members concerning issues of transparency in the provision of a valuation for inclusion in offer documents.

3.1 Conflicts of Interest

3.1.1 Independence

It is of paramount importance that a Member

is and is seen to be independent of the parties making the offer.

3.1.2 Declaration of Interests

A Member should be independent of the parties making the offer, their advisers and associates for the duration of that period from first approach to publication of final report for its required purpose.

A Member should disclose any conflicts of interest (real, perceived or potential) including any interest by a Member's employer, family or associate or related parties.

A Member should disclose, clearly and prominently, any interest in the subject matter of the valuation even if it is considered that no conflict exists.

3.1.3 Business Relationship

A Member should consider whether any previous, existing or intended future business relationship (within last two years or longer if sufficiently significant), with any relevant parties has the potential to affect or to be perceived to affect the independence of the Member.

3.1.4 Performance Fees

In accordance with Rule of Conduct 1.7, a Member should not negotiate a fee contingent on the success of the offer.

3.1.5 Client Interaction

A Member should not discuss the merits of an asset or the approach that may be adopted in the valuation until after the party making the offer has provided written instructions.

A Member must assess the merits of the asset independent of the party making the offer or anybody associated with that party.

A Member may supply the instructing party with a draft copy of a report for review and confirmation of factual accuracy only.

The party making the offer may seek to provide further information to, or clarification of matters for a Member, which a Member may then verify and consider.

Having regard to the correction of factual errors or following verification and consideration of further information or clarification, a Member may review their valuation.

Otherwise, it is inadvisable for a Member to change judgemental assessments in a draft report

(such as rental, growth, capitalisation or discount rates or opinion of value) following comment by the party making the offer.

A Member should keep accurate written records of such interaction with the party making the offer and of any changes that may be made by the Member to the draft in order to substantiate independence in the event of a claim otherwise.

3.2 Assumptions and Qualifications

3.2.1 Statement of Assumptions and Qualifications

It is recommended that a Member's valuation clearly discloses any assumptions or qualifications made or relied upon.

A valuation concerning a development property is often subject to assumptions and/or qualifications (section 3.6.2 below).

Accordingly, a Member should take as much care with the formation and publication of assumptions and qualifications as with the valuation itself.

The use of sensitivity analysis is encouraged to identify those assumptions and qualifications that significantly impact the valuation.

3.2.2 Prescribed Assumptions and Qualifications

Where the instructing party has prescribed assumptions or qualifications, to be included in a valuation, the Member should restate these in the report and write explanatory comments where necessary.

A Member should critically evaluate information provided by an instructing party, taking note of any grounds for questioning the veracity, accuracy or completeness of such information and undertake whatever checks, inquiries, analyses and verification procedures as are considered necessary.

If assumptions or qualifications provided by an instructing party result in advice that differs from Market Value, a Member should report such difference and/or effect and the reasons why.

3.2.3 Reliance on Advice or Reports by Others

If a Member relies on advice or a report by another expert, the material should preferably be reproduced in full or, if in part, the member should be aware of the risk of material omissions and, include a statement of the material on which a Member has relied and (if applicable) how this has impacted upon the valuation.

If a Member has relied on advice or a report by another party without conducting any independent investigation into the matters contained therein, the Member should clearly state this in the valuation.

3.3 Forecasts

3.3.1 Basis of Forecasts

A Member may be required to undertake forecasts in the preparation of a valuation.

Advice concerning development properties is often reliant on forecasts (section 3.6.3 below).

Members should have regard to International Valuation Guidance Note 9, concerning the use and basis of forecasts.

Forecasts should be supported by reasoned assumptions, recognising that past trends may not be a guide to future trends.

A Member should make sufficient inquiries to establish that forecasts are prepared on a reasonable basis. Appropriate documentation should be retained to prove such reasonable grounds.

A statement of assumptions relevant to the forecasts' is essential for the proper assessment of information contained in the forecast. A Member should clearly disclose any such assumptions in the valuation.

A Member should seek professional advice concerning the need for accreditation or licensing for the provision of information in an offer document and should ensure that the reliant party does not adopt any such forecasts as the basis for their own forecasts in the offer document without the Member's prior written consent.

3.3.2 Sensitivity Analysis

Members are encouraged to include a sensitivity analysis within the valuation to ensure that readers are aware of the degree of uncertainty which such forecasts entail. Such analysis should address key risks which may impact upon the valuation outcome.

Members should, avoid potential confusion by clearly indicating which is their opinion of value.

3.4 Reporting The Value

3.4.1 Value

After considering all the issues affecting the property, including various approaches to

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valuations and any sensitivity analysis, Members are encouraged to provide a single point value.

3.4.2 Market Volatility

Members are encouraged to discuss the implications of market volatility in relation to the value ascribed.

3.5 Risk Statement

3.5.1 Risk Statement

It is recommended that a Member's valuation include a risk statement comprising a balanced view of the negative and positive risks associated with the subject of the valuation.

3.5.2 Unusual Attributes

A Member's advice should draw the readers' attention to any atypical features or influences associated with the subject of the valuation.

Advice concerning development properties may be expected to include extensive analysis of risk (section 3.6.4 below).

3.5.3 Marketability

A Member should comment upon the marketability of the property.

3.6 Development Properties

3.6.1 Value As if Complete

If a Member provides a valuation of a property or asset to be subject to a material change of state, the Member is encouraged to report the value of the asset "as is" and the value of the asset in the "as if complete" state.

(For example, an offer document may contemplate the acquisition of a block of land upon which will be built an income producing multi-storey office property.)

3.6.2 Assumptions and Qualifications

If the "as if complete" value is dependent upon stated assumptions and qualifications, these should be fully addressed together with the implications should any fail to materialise.

(For example, an offer document may be based on development approval, a building contract and certain tenants to change a block of land into an occupied, income producing multi-storey office property.)

3.6.3 Forecasts

If the "as if complete" value is dependent upon forecasts, these should be fully addressed and

the Member should include a discussion of the reasonableness of such forecasts.

(For example, an offer document may contemplate certain time frames for the achievement of development approval, a building contract at a certain price and tenants at certain rentals to change a block of land into an occupied, income producing multi-storey office property.)

3.6.4 Risk Analysis

Advice concerning a material change of state may include extensive risk analysis.

A Member should comment on the risks involved and upon the vulnerability to multiple risks, both related and unrelated.

(For example, a valuation may include a detailed statement of the various risks involved in contemplating the acquisition of a block of land on which an income producing multi-storey office building will be built)

4.0 Regulatory Observance

4.1 Financial Services Licence

In Australia, the inclusion of a valuation report in an offer document may constitute the provision of financial product advice. Members that do not hold, or are not covered by an Australian Financial Services Licence, are advised to seek independent legal advice before providing a valuation report for inclusion in an offer document.

If it does constitute financial product advice, there may be an exemption from the requirement to hold a licence available if the following conditions are met:

- a) the valuation is included in a document issued in connection with an offer of a financial product;
- b) the advice is an opinion on matters other than financial products and does not include advice on a financial product;
- c) the document includes a statement that the person is not operating under an Australian Financial Services Licence when giving advice; and
- d) the person discloses in the document information about any remuneration or other benefits received or any interests, associations or relationships that might reasonably be

expected to be or to have been capable of influencing the person in providing the advice.

This exemption is narrow in operation and will not apply to the following documents where they do not possess a 'connection' with the 'offer of a financial product':

- a) an explanatory booklet for a scheme of arrangement;
- b) a compulsory acquisition notice under Chapter 6A of the Corporations Act; or
- c) an offer made in the circumstances where the shares to be acquired are held by shareholders dissenting from a scheme or contract approved by the majority.

4.2 Relevant Law

In Australia, relevant law may include but not be limited to:

- a) Common Law – including potential liability to a third party for loss suffered as a consequence of reliance upon negligent information or advice where it was not unreasonable for the third party to rely on the information or advice;
- b) Statute – including but not limited to:
 - Corporations Act – in particular;
 - s9 concerning the definition of an expert (being distinguished from a professional and/or an adviser);
 - s1041E relating to an offence of making false or misleading statements in relation to a financial product or service;
 - s1041H relating to a civil offence to engage in misleading or deceptive conduct in relation to a financial product or a financial service, and
 - ss 710 and 1013C(3) concerning information that should be included within prospectuses and product disclosure statements respectively;
 - Trade Practices Act – in particular, s52 concerning misleading or deceptive conduct or conduct that is likely to mislead or deceive;
 - ASIC Act – in particular s12DA concerning the prohibition against misleading or deceptive conduct in relation to financial services; and

- Fair Trading Acts, consumer protection legislation, trustee legislation, valuers registration legislation.

In New Zealand, relevant law may include but not be limited to:

- Common Law – including the potential liability to a third party for loss suffered as a consequence of reliance upon negligent information or advice where it was not unreasonable for the third party to rely on the information or advice;
- Statute – including but not limited to:
 - a) Securities Act 1978 and Amendments;
 - b) Securities Act (Real Property Proportionate Ownership Schemes) Exemption Notice 1996 – in particular the Second Schedule which outlines mandatory matters to be specified in Independent Registered Valuer's reports;
 - c) Securities Act (Contributory Mortgage) Regulations 1988 – in particular Schedule 3 (*Information and Other Matters to be Contained in Valuation Reports*). The inclusion of these specified details is mandatory; and
 - d) Fair Trading Acts, consumer protection legislation, trustee legislation, valuers registration legislation.

4.3 Relevant Guidance

In Australia, relevant guidance may include but not be limited to:

- ASIC
- Practice Note 42 – Independence of Expert's Reports;
- Practice Note 43 – Valuation Reports and Profit Forecasts;
- Practice Note 55 – Disclosure Documents and PDS: consent to quote;
- Policy Statement 56 – Prospectuses;
- Policy Statement 74 – Acquisitions Agreed to by Shareholders;
- Policy Statement 75 – Independent Expert Reports to Shareholders;
- Policy Statement 77 – Property Trusts and Property Syndicates;
- Policy Statement 146 – Licensing: Training of Financial Product Advisers;

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- Policy Statement 170 – Prospective Financial Information;
- Policy Statement 175 – Licensing: Financial Product Advisers – Conduct and Disclosure; and
- Policy Statement 181 – Licensing: Managing Conflicts of Interest.

In New Zealand, relevant guidance may include but not be limited to:

- Securities Commission
- Inquiry into the 1 Parliament Street Car Park Limited Contributory Mortgage – 3rd May 2002
- Offers of Unlisted Interests in Commercial Properties – A Review – 30th March 2000

4.4 Texts

In Australia, relevant texts may include but not be limited to *The Legal Liability of Valuers* by Lindsay Joyce and Keith Norris (Southwood Press, Second Edition), particularly pages 48 to 53 and Chapter 2.

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ASSESSING RENTAL VALUE

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide information, commentary and advice to Members assessing rental value.

1.2 Status of Guidance Note

Guidance Notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This Guidance Note applies to Members assessing the market rent of premises held under an actual or hypothetical lease and preparing a report thereon. Rental Value is a generic term including the term "rent".

1.4 International Valuation Standards

This Guidance Note is intended to be consistent with the publication "International Valuation Standards 2007" as issued by the International Valuation Standards Committee. However, there may be departures from "International Valuation Standards 2007" to reflect Australian and New Zealand law and practice.

This Guidance Note should be read in association with the Practice Standards, Guidance Notes and related documents in Professional Practice, in particular IVGN 2 'Valuation of Lease Interests'

2.0 Instructions

2.1 Prior Written Instructions

In accordance with the relevant Rules of Conduct (API or PINZ), a Member should confirm

acceptance of instructions in writing prior to the valuation being undertaken.

2.2 Content of Instructions

Members should have regard to relevant provisions within Professional Practice concerning the content of instructions.

2.3 Supporting Documentation

In assessing rental value, the following documentation should be considered:

- original lease documentation (including collateral agreements and executed documents) to be sighted where possible, otherwise the copy relied on should be executed;
- confirmation of current rent and other matters as may be appropriate;
- documents relating to financial implications such as outgoings;
- details of the floor areas, preferably surveyed in accordance with an industry accepted method such as ANZRPGN4 Methods of Measurement, PCNZ/PINZ Guide for the Measurement of Rentable Areas or the Property Council of Australia's 'Method of Measurement for Lettable Area';
- if applicable, a statement from the lessor and lessee as to the extent that information obtained from the parties may be detailed in the report;
- details of the fit-out or other incentives provided by the lessor, if applicable; and
- details of the lessor's and/or lessee's improvements.

2.4 Relevant Skills and Expertise

In accordance with the relevant Rules of Conduct (API or PINZ), a Member should not accept an instruction beyond their competence.

If a Member does not have the relevant skills and expertise to assess rental value, the Member should decline the instruction or retain an appropriate specialist to provide advice.

2.5 Full Disclosure

Full disclosure of all relevant information by the parties is critical to the assessment of rental value. Where a Member suspects that information provided by a party, or the parties to a dispute is false, incomplete or misleading, the Member should advise the parties and, if not resolved, the Member may decide to decline the instructions.

2.6 Further Advice

It may be necessary for a Member to address legal or other issues where these are in dispute. The Member should obtain legal or other appropriate interpretation to ensure the correct course of action is taken. Where a Member is uncertain on the issues, the Member may:

- advise the parties to the dispute of the necessity to obtain such advice;
- provide to the parties a quote relating to obtaining such advice;
- obtain confirmation in writing from the appropriate party/parties accepting liability for the cost of that advice; and
- obtain confirmation from the parties that any time limitation that is imposed on the Member for completing the determination is appropriately extended.

3.0 Definitions

3.1 Primacy of Lease Definitions

In assessing or independently determining the rental value of premises held under the terms of an actual lease, the definition of terms contained within that lease have primacy, unless contrary to any legislation.

3.2 Common Terms

The following terms are in common use and are defined in the joint API, PCA & REIA publication, Glossary of Property Terms (2007):

- rent (including gross, net, face, effective, passing/contract and market);
- rent review;
- lease;
- leasing incentives;
- tenant;
- landlord;

- lessor;
- lessee;
- profit rent;
- rental shortfall; and
- permitted use.

The definitions adopted in the Glossary of Property Terms (2007) are provided in Appendix 1.

4.0 Assessing Rental Value

4.1 Impartiality

In assessing rental value the Member should maintain an independent, unbiased and balanced state of mind.

4.2 Purpose of Assessing Rental Value

Assessing rental value may comprise:

- assessing the rental value of premises held under the terms of an actual lease; or
- assessing the rental value of vacant or owner occupied premises, assumed to be held under the terms of a hypothetical lease; or
- independently determining the rental value of premises held under the terms of an actual lease.

4.3 Market Rent Reviews

Market rent reviews in a lease enable the rental to be varied to reflect changes in the market between the date on which the lease commenced or the rent was last reviewed and the relevant review date subject to the terms and conditions of that lease.

The fundamental starting point to any assessment of market rent, at rent review, is therefore the lease. A full understanding of the lease is required before the market rent can be assessed.

The agreed rental on review will reflect not only the market influences but also the terms and conditions in the actual lease document.

4.4 Issues for Consideration

When assessing rental value, a Member should have regard to:

- relevant legislation operating in Australia and New Zealand, including any retail and commercial tenancy legislation;

- directions to the valuer pursuant to the Lease; and
- Court decisions.

4.5 Lease Directions

When assessing the rental value of premises held under the terms of an actual lease or the independent determination thereof, members should follow the directions, if any, provided under the lease.

A Member should comply with any specific provisions contained in a lease unless:

- the parties have further agreed to vary that provision and have advised the member in writing of any agreed variations; or
- the provision is contrary to law.

4.6 Unspecified or Assumed Lease Terms

When undertaking an assessment of rental value under the terms of a lease and also when notional lease terms are to be assumed, the Member should address (where appropriate) the following elements:

- the name of the lessor (where applicable);
- the name of the lessee (where applicable);
- description of the premises;
- permitted use under the lease;
- date of commencement;
- term of lease;
- date of assessment;
- option(s) for renewal;
- commencing rental;
- current passing rent (if applicable);
- method and frequency of rent reviews;
- period to which the rental being assessed is applicable which may be:
 - a period equivalent to the term of the lease; or
 - a period equivalent to the unexpired term of the lease; or
 - a period equivalent to the interval between rent review; or

- another period;
- lessor's and lessee's liability for outgoings;
- assignment clause;
- sub-leasing rights;
- fitout and fitout costs;
- treatment of incentives; and
- make-good provisions.

4.7 Sources of Comparable Evidence

In assessing market rent the Member should consider the most appropriate evidence in the market place.

The best evidence is generally rentals which have been agreed in comparable tenancies, at the relevant date with vacant possession (i.e. new lettings between arms-length parties), and in particular, where the use is the same or a substantially similar use as the permitted use under the lease.

In the absence of new lettings evidence, the member may have to consider the following:

- rentals agreed between arms-length parties at lease renewal or at the exercise of an option to renew an existing lease;
- rentals agreed at market rent reviews; and
- the outcome of mediations or determinations.

4.8 Application of Comparable Evidence

The terms and conditions of a subject lease may vary from the terms and conditions for leases of comparable premises. These variations should be taken into account in the assessment of the market rent under the subject lease.

When a Member is required to assess a rental under an existing lease which relates to market rent or similar terminology, a distinction may need to be made between an assessment of market rent under the usual terms and conditions of similar leases/tenancies and the terms and conditions of the actual lease, with adjustments for differences.

5.0 Independent Determination

5.1 Purpose

In the event of a dispute between a lessor and the lessee, a Member may be instructed or appointed to undertake

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an independent determination of the rental value of the premises held under the terms of an actual lease.

5.2 Basis of Appointment

Depending on the requirements of the lease, a Member may be appointed to undertake an independent determination by acting as an Expert or as an Arbitrator.

The terms Expert and Arbitrator are defined in the Glossary of Property Terms (2007) and are provided in Appendix 1.

5.3 Conflict of Interest

When acting as an expert and the potential for a conflict of interest arises, Members are referred to ANZRPNG 2 'Acting as an Expert Witness, Advocate or Arbitrator' and the Institute's Rule of Conduct 1.3.

6.0 GST

Members should explicitly state the treatment of GST in their report.

7.0 References

Relevant texts may include, but are not limited to:

Hyam, A The Law Affecting Rent Review Determinations, The Federation Press, November 2005

Duncan, WD Commercial Leases in Australia, The Lawbook Company, 2005.

8.0 Appendix

Terms as defined in the Glossary of Property Terms (2007):

Arbitrator

An independent person who is contracted by the parties to conduct an arbitration. It is usually a person with experience and/or qualification in a particular field and may be nominated by the parties.

Advocate

A person who represents the cause or interest of another, even if that cause or interest does not necessarily coincide with one's own beliefs, opinions, conclusions, or recommendations.

Expert

A person who is recognised as having special knowledge or skills.

Rent

A payment made periodically by a lessee to a lessor for the use of premises.

The term "Rent" is often associated with a variety of other terms outlined below:

Base: The minimum acceptable rental provided in a lease. In retail leases the base rent generally refers to the commencing rent which is supplemented with a 'percentage rent' based on the tenants turnover.

Break-Even: The point at which a tenant's base rent is equal to an agreed level of sales above which percentage rent takes effect.

Concessionary: A discounted rent, usually during the initial lease term.

Effective: The actual liability for rent and outgoings after adjustments for any incentives to the face rent are taken into account.

Equivalent: Equivalent refers to the rent being adjusted for the effects of any market rent reviews that will occur in the period of consideration.

Face: The rent shown on a lease document which may or may not include incentives and may or may not include outgoings.

Gross: In a gross lease, all operating costs of the property (excluding direct tenancy expenses) are included in the rental.

Market: The estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor

and a willing lessee on appropriate terms in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Whenever Market Rent is provided, the “appropriate lease terms” which it reflects should also be stated.

Net: In a net lease the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

Passing (or contract): The rent specified by a given lease agreement; although a given contract rent may equate to the Market Rent, in practice they may differ substantially, particularly for older leases with fixed rental terms. The term, contract rent is North American usage; passing rent is Commonwealth usage. (IVSC)

Peppercorn: A term used where it is desired to reserve only a nominal rent for any period. A minimal rent which is below market value.

Turnover / Percentage / Participation Rent: Any form of lease rental arrangement in which the lessor receives a form of rental that is based upon the sales of the lessee. Percentage rent is an example of a turnover rent. (IVSC).

Rent Review

A periodic review of rental under a lease using a predetermined method.

For example, increase in line with Consumer Price Index (CPI), or in accordance with a market valuation.

Lease

(a) A contract arrangement in which rights of use and possession are conveyed from a property’s title owner (called the landlord, or lessor) in return for a promise by another (called a tenant or lessee) to pay rents as prescribed by the lease. In practice the rights and the duties of the parties can be complex, and are dependent upon the specified terms of their contract;

(b) An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Leasing Incentives

Inducements offered by landlords to attract tenants to lease space. Typically occurs when supply exceeds demand, but in order to maintain value by not lowering face rent or contract rent, tenants are given incentives such as rent free periods, cars and other gifts. Often such inducements are secret. The discount or contribution offered to a lessee at the commencement of a lease which

may be applied at the start, during, or at the end of the lease term and is outside the lease terms.

Outgoings

The expenses incurred in generating income. In real estate, these expenses include but are not necessarily limited to property rates, repairs, insurance, repairs and maintenance and management fees. Operating expenses when subtracted from gross income equal net operating income.

Profit Rent

The difference between the market rent and the current rent or ground rent resulting in a leasehold interest.

Rental Shortfall

The amount by which rent is less than the market rental.

Tenant

A person or entity paying rent in exchange for the occupancy of a building or dwelling. See also Lessee.

Landlord

The owner of leased property. The lessor.

Lessor

The owner of a property who transfers the right to occupy and use property to another by way of a lease agreement.

Lessee

A person / legal entity who receives the right to occupy and use a property under the terms of a lease.

Permitted Use

The allowable use within the premises specified in the lease contract (not to be confused with ‘permissible use’).

Vacant Possession

In real estate this refers to a right to possession of land or built-up property in respect of which there is no current occupant.

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ANZVGN 10 VALUATION OF AGRICULTURAL PROPERTIES

1.0 Introduction

1.1 Purpose

The purpose of this Guidance Note is to provide advice to Members undertaking valuations of any agricultural property for any purpose.

1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope of this Guidance Note

This guidance note applies to Members providing valuations in respect of any agricultural property for any purpose. It should be used, as far as applicable, in conjunction with other guidance notes and practice standards that are either overarching or directly applicable to the type of real property, purpose or issues involved.

This guidance note is not intended to outline methods of valuation of any particular type of property but may comment on matters that should be addressed in reports in respect of certain properties types or uses. Methods of valuation are covered in other guidance notes and authoritative texts.

1.4 International Valuation Standards

This Guidance Note is intended to be consistent with Standards and Guidance Notes published by the International Valuation Standards Committee, except where otherwise stated.

Members are specifically directed to read IVS Guidance Note 10 – Valuation of Agricultural Properties and ANZVGN 1 – Valuation Procedures – Real Property.

In addition to the above, this guidance note specifies any departures from IVS Standards or other particular circumstances which reflect Australian and New Zealand law and practice.

2.0 Valuation Considerations

In addition to the requirements of other relevant standards, members completing valuations of agricultural properties should consider the following factors, as applicable:

2.1 Land Tenure and Native Title Rights

Unlike most urban land, other forms of land tenure are common in relation to agricultural land. Valuations should have regard to the nature of tenure and interest held which can usually be established by title or lease search or other enquiries with the land holder.

Valuations of agricultural land which is not held by freehold title should be appropriately qualified eg Valuation of Leasehold Interest, Valuation of Crown Leasehold etc.

It should also be noted that some Crown tenures convey only a right of occupation to the land and infer no ownership or transferable right. An example of this is a license, which may be terminated at will by the relevant minister and is not transferable, and therefore may have no market value (albeit could have a value to the sitting licensee).

Agricultural land in many parts of Australia and New Zealand may be subject to Native Title or Treaty of Waitangi (NZ). Members should consider the possible impact of any known or potential claims for Native Title or the Treaty of Waitangi (NZ) and provide a statement within the valuation report as to how such issues have been treated.

2.2 Additional Rights

In addition to typical land rights, other rights can be conveyed to agricultural land which may have a material impact on the value of that land. Examples include water or irrigation rights, excavation or mineral rights etc.

Normally the value of any mineral rights are ignored in valuations, or are at least implicit within sales evidence, unless the existence of minerals is known or probable.

Additional rights may be separately transferable to the sale of land and accordingly valuations should make qualifying statements as to what rights are excluded or included with the valuation of the land.

2.3 Planning or Legal Constraints

Particular planning (resource management in NZ) or legal constraints may impact on the valuation of agricultural land. These may include (but not be limited to):

- prohibitions on subdivision
- prohibitions on construction of dwellings
- coastal and landscape protection policies
- forest or conservation reserves
- emissions
- water use
- effluent disposal and leeching
- possible need for planning approval of change in agricultural useage in some jurisdictions.

2.4 Land Use

The existing use of land may not necessarily represent the highest and best use of the land and the land could have a higher value for alternative agricultural uses. Examples may include:

- grazing land which has a higher value for forestry;
- dry grazing land which has access to water rights for irrigation purposes for cropping land;
- conversion of grazing land to intensive agriculture eg orchards

The highest and best use of land may change over time. In such cases members should consider changes in market cycles or trends and the potential costs incurred in changing the use of the land.

2.5 Accessibility and Locational Attributes

Accessibility to services including community facilities (eg schools, shops, medical services etc) and transport infrastructure (eg major roadways, ports, railway etc) could have an impact on the

value of agricultural land from the perspective of its appeal as a place to live, and farming operations and profitability. The locational attributes of agricultural land should therefore be considered by members and specific comments provided in valuation reports.

2.6 Climate

Australia and New Zealand are subject to varying climatic conditions, in particular rainfall, which can have a significant impact on the productivity and hence value of agricultural land.

In relation to extreme weather conditions the regularity of such conditions and the long term impact of such occurrences could be factors which prospective purchasers consider in assessing the value of agricultural land.

2.7 Topography

Australia and New Zealand have varying topographies ranging from exposed coastal lands, river flats, plains, arid dry lands, to mountainous highlands. These topographic features can have a significant impact on the productivity and hence value of agricultural land. Factors which have such an impact include (but are not be limited to):

- latitude
- altitude
- aspect
- access to natural or man-made water resources
- susceptibility to flooding
- landslip
- coastal or inland

Flooding can have an impact on productivity from the perspective of the potential for topsoil removal or erosion; or lost production, equipment or livestock. The impact of flooding may vary depending on the nature of the agricultural use of the land. For example a flood could cause significant damage to cropping land however the impact on grazing land may be less severe.

2.8 Soils, Salinity & Erosion

Australia and New Zealand have varying soil profiles ranging from rich alluvial soils, basalt soils, to more sandy soils. Soils can have a significant impact on the productivity and hence value of agricultural land. Accordingly members should consider the soil profile in assessing the value of agricultural land.

Soil salinity or the proneness to rising water tables and ground salts, as a consequence of land clearing or prolonged heavy irrigation, and soil erosion (including underground tunnel erosion) can have a dramatic detrimental impact on productivity and hence value of agricultural land. Accordingly members should consider the susceptibility of soil salinity or soil erosion in assessing the value of agricultural land, and make specific comment on any farming management practices which the farmer may have taken to minimise the risks of such issues.

2.9 Classification

The classification of the land is a primary consideration in the valuation of agricultural land.

Common land classes based on use include horticultural land, arable land, intensive grazing land, extensive grazing land, open run grazing, native bushland, conservation areas etc. Factors such as zoning, availability of water and easements are taken into account when determining the potential highest and best use of the land.

The classification land is obtained from various sources including title plans, past cropping areas, irrigated land by reference to available water resource agreements, topographical maps, aerial photos and geographical information systems.

Members should apply the land classification consistently to both the analysis of sales evidence and the valuation.

2.10 Site Contamination

Some agricultural uses may cause site contamination which could require either implementation of appropriate management practices or remediation. Examples of site contamination on agricultural properties include:

- sheep or cattle dips
- sources of effluent disposal (especially intensive livestock operations)
- chemicals used in fertilisers or sprays
- fuel storage tanks
- waste dump sites
- crop or livestock diseases

Members should consider the impact of any possible or known causes of site contamination on the value of the property, and report any assumptions and qualifications where required.

2.11 Weeds and Pests

Pests and weeds may impact on the productivity and hence value of agricultural land. In particular rabbits, foxes, blackberries, gorse bush or other introduced flora or fauna have had a devastating impact. Native fauna (for example possums, locust, or game) can also cause significant damage to pasture or crops, particularly when at plague proportions.

Farming management practices which have been implemented or which are required on an ongoing basis to control weeds or pests should be considered and detailed within valuation reports.

2.12 Pasture or Crop Management

Farming practices in terms of pasture or crop management can have an impact on the productivity of agricultural land. Issues such as pasture improvement, crop rotation or fertilising programs (and the sustainability of such practices) may need to be considered in the valuation of agricultural land.

2.13 Water Resources

Water and drainage (domestic/livestock/irrigation/effluent disposal) is becoming increasingly critical to agricultural or pastoral property. Water is a valued and scarce resource that is shared between potentially competing users eg rural industry, communities, and the environment.

The water resource which is held by a farming enterprise may be personal property. This should be considered in the valuation. It can comprise a significant element of value of an agricultural property. In some areas, if the water component is removed, the property may not be of a viable size for dry land production.

Licenses and/or consents are normally required to pump and/or store water from a river, stream or ground aquifer whilst alternative systems provide for the purchase of water (usually measured on a volumetric basis e.g. mega litres per annum) from either public or privately owned water reserves.

Water is an over allocated resource in many catchments and may be subject to reduced allocations during dry periods which can impact on productivity.

Members should have consideration of any legislation/regulation affecting water.

2.14 Improvements

The added value of improvements is an important consideration in the valuation of agricultural land. Generally the value of the main homestead is a critical consideration however the value of other improvements can also be significant. The value of farm improvements is limited by the degree of economic and functional obsolescence.

Members should carefully consider the treatment of integral farming improvements in the comparison of sales evidence and treatment in valuation calculations.

2.15 Past Carrying Capacity or Production History

The past carrying capacity or production history of agricultural land may be an important consideration in the valuation of agricultural land.

Whilst carrying capacity or production can vary significantly due to seasonal variations or farming management, such data may assist members in undertaking a valuation. Examples include:

- comparison of long term averages to recent productivity may indicate a decline or improvement in soil quality or farm management practices
- long term averages may be useful as a form of direct comparison with sales evidence on a productivity basis (eg rates per dry sheep equivalent)
- the life cycle of trees and yields from orchards or other intensive agricultural operations
- the sustainability of the current use of the property and potential to be used for alternative uses

2.16 Trading Performance

Generally most agricultural property is valued based on comparison with sales evidence however in some cases the past and/or current trading performance may be relevant in determining the market value of specialised agricultural enterprises. Examples include poultry and aquaculture farming operations.

Where the net profit is used to determine the market value, the valuation will represent the value of the enterprise as a going concern. In such cases members should acknowledge and report that the valuation includes the value of land, improvements, and the business including

fixed and non-fixed plant and equipment, business licenses and goodwill (as applicable).

Members are cautioned that some inclusions may be wasting assets and in such cases valuations for mortgage security purposes should advise the intending mortgagee to treat such assets differently from a mortgage lending perspective.

In order to adequately consider risk, valuations for mortgage security purposes which have been assessed on a going concern basis should also report the value of land and improvements on an alternative use basis if significantly different.

2.17 Inclusions

Other assets may be valued with agricultural properties. Examples include:

- Biological assets (including crops, timber, stock)
- Integral plant and equipment eg irrigation pipes, sprayers or pivot irrigators, dairy plant etc
- Non integral plant and equipment eg tractors or other farm equipment, portable fencing or stockyards etc
- Resource Consents (NZ). Resource consents are a right (asset) that is generally provided for a fixed term and often go through a renewal regime with the issuing authority having the ability to amend as it sees fit at renewal or during the consent process. These are not necessarily a wasting asset, but a right to the land that can have significant impact on value if discontinued or altered.

Typically such items are excluded from valuations unless a property is valued on a "walk in walk out" basis, in which case appropriate adjustments for the respective inclusions with comparable sales evidence may be required.

In order to prevent confusion as to the extent of inclusions, when providing valuations on a "walk in walk out" basis members should separately itemise valuations into the following categories:

- Land
- Improvements (including integral plant and equipment and other rights)
- Biological assets (including crops, timber, stock)
- Non-integral plant and equipment

Members may need to obtain separate expert advice in relation to the value of biological assets and non-integral plant and equipment.

2.18 Consideration of Sales Evidence

The existence of specific factors which may impact on the value of agricultural land as discussed within this guidance note, may or may not be reflected by the prices paid for comparable properties.

Sales of properties in proximity to a subject property may have a significantly different value due to particular characteristics. Examples include:

- different climatic conditions (eg susceptibility to frosts)
- different topographical features (eg northerly aspects in higher latitudes, rainfall shadows etc)
- different water or irrigation rights,
- different plant and equipment or stock,
- soil classification

Typically analysis of sales evidence for agricultural properties includes an analysis of land values per hectare, the added value of improvements, values on a rate per carrying capacity or production basis.

In the absence of sales of directly comparable properties, differences that exist between the sales evidence and the subject property may warrant appropriate adjustments to be made.

3.0 Terminology

Different terminology is adopted from country to country. This is particularly evident in the agricultural or rural sector. Members utilising the relevant standards and guidance notes should attempt to adopt relevant and accepted terminology appropriate in the specific location in which they are involved.

Common terms used within the valuation industry for agricultural land include:

- broad acre - a term used to describe large land holdings generally used for grazing purposes
- dry sheep equivalents (dse) - a measure of carrying capacity with reference to the potential number of wethers (dry sheep) that can be sustainably carried on the land;
- stock units - a measure of carrying capacity with reference to the potential number of stock that can be sustainably carried on the land;

4.0 Goods and Services Tax (GSTt)

Members should explicitly state the treatment of GST in their report.

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