

# ANZVTIP 1

## RETROSPECTIVE VALUATIONS



[Please view the video for this Technical Information Paper on YouTube](#)

## Technical Information Papers

The principal objective of a valuation Technical Information Paper (TIP) is to reduce diversity of practice by identifying commonly accepted processes and procedures and discussing their use. A TIP is designed to be of assistance to professional valuers and informed users of valuations alike.

A TIP will do one or more of the following:

- provide information on the characteristics of different types of asset that are relevant to their value,
- provide information on appropriate valuation methods and their application,
- assist the consistent application of an International Valuation Standard (IVS) by dealing with matters identified in the Standard in greater detail,
- provide information that is helpful to valuation professionals in exercising the judgements they are required to make during the valuation process in specific situations.

A TIP does not:

- provide valuation training or instruction,
- direct that a particular approach or method should or should not be used in any specific situation.

The contents of a TIP are not intended to be mandatory. Responsibility for choosing the most appropriate valuation approach is the responsibility of the valuer based on the facts of each task.

Whilst TIPs are not mandatory, it is likely they will serve as a comparative measure of the level of performance of a Member. They are an integral part of "Professional Practice".

The reader should understand that legislation may change and whilst this TIP is accurate and relevant at the time it was completed, relevant referred reading and legislation should be investigated at the time of relying on this TIP.

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## Retrospective Valuations

### 1.0 Introduction

#### 1.1. Objective

The objective of this TIP is to address circumstances whereby API members are instructed by lenders to prepare a 'retrospective valuation' and / or assess the competency of a previously obtained valuation (valuation review).

#### 1.2. Scope of TIP

Whilst this TIP primarily applies to Members advising banks and lending institutions for mortgage related purposes it can also apply to other forms of advice. It should be used in conjunction with other TIPs and/or practice standards which are either over-arching or directly applicable to the type of asset, purpose or issues involved.

#### 1.3. International Valuation Standards

This TIP recognises the International Valuation Standards prepared by the International Valuation Standards Council. The guidance in this paper presumes that the reader is familiar with the International Valuation Standards and Technical Information Papers.

This TIP is also intended to be consistent with the concepts and definitions contained in those Standards; however, there may be departures from IVSC Standards to reflect Australian and New Zealand law and practice.

## 2.0 Definitions

The following defined words and terms have particular relevance to this TIP. Other words and terms that are also defined in the IVS Glossary and / or the joint API / PCA / REIA 2007 Glossary of Property Terms may be used but are not listed below in the interests of brevity.

Please note any IVSC definition included in the 2007 Glossary of Property Terms will be superseded by the current IVS Glossary.

Expert Valuer	A person who is a Certified Practising Valuer of not less than 5 years' standing, of the Australian Property Institute and was active in the relevant market at the time of the original valuation.
Market Value	The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Retrospective Valuation	A valuation taking effect from a date in the past.
Valuation Review	Impartial judgment in considering the work of another Valuer.

## 3.0 Key Principles When Instructing Valuers

### 3.1. Instructions

In the context of the dispute resolution process, it is common for lenders to instruct a Valuer to prepare a 'retrospective valuation' to assess the competency of a previously obtained valuation (**the Original Valuation**).

The role of such expert evidence may be used to assist a court in reaching a decision as to whether or not a Valuer has used reasonable care and skill in preparing the Original Valuation. As such, an expert Valuer is not to use hindsight and is to endeavour, as far as possible, to put themselves in the position of the Valuer performing the Original Valuation.

To do justice to the lender and the Valuer that prepared the Original Valuation, it is recommended that such an opinion be obtained in two stages where possible. The first is the expert providing a retrospective opinion as to market value. The second is the expert Valuer preparing a critique that assesses whether or not the Original Valuation, in the opinion of the expert, lacked reasonable care and if so, why.

An expert Valuer taking on this work should ideally be prepared to perform both stages.

### 3.2. Selection of appropriate expert

Wherever possible, the expert should have experience in valuing properties in the same or similar location as at the time of the Original Valuation. Expert Valuers should decline to accept instructions to prepare a retrospective valuation, if they were not valuing in that market at that time.

### 3.3. Nature of instructions

Once the expert Valuer is selected, they should receive the following material as part of their instructions:

- A copy of the same instructions provided to the original Valuer, if they are available, that are de-identified so that the expert Valuer does not know the name or firm of the Valuer that prepared the Original Valuation.
- A copy of any other documents provided to the Valuer at the time.
- A copy of the expert witness guidelines applicable in the relevant Court of the jurisdiction where the Original Valuation was performed.

The expert Valuer should conduct the valuation in accordance with the standard expected of the Valuer at the time the valuation was conducted. The overriding principle is that the expert Valuer should give an opinion of value in accordance with an opinion they would have given at the time had they been so instructed.

In doing so, it is acknowledged that it will take some time for the expert Valuer to re-acquaint themselves with the market conditions that existed at the time of the Original Valuation. Wherever possible, the expert Valuer should have regard to any prior valuations they performed of the subject property or comparable properties at the time of the Original Valuation.

Should the expert Valuer be unable to gain access to the property for a retrospective valuation, a valuation range rather than a single point figure is to be adopted. Unless otherwise advised, the property is to be assumed to have been in an average condition for its property type.

Members undertaking retrospective valuations need to be cognisant of API/PINZ TIP ***Acting as an Expert Witness***.

#### **4.0 Critique of Original Valuation (Valuation Review)**

The purpose of the second stage is to critically review the Original Valuation. This should only be instructed if the retrospective opinion of the Valuer differs significantly from the Original Valuation.

At this point the expert Valuer should be provided with the Original Valuation and asked to comment on whether:

- the Original Valuation departed from the standard of care expected of a reasonable and competent Valuer at the time.
- the Original Valuation departed from the Lender's stated requirements for the Original Valuation.
- the methodology applied was appropriate.
- there were any errors made.
- there were any particular risks or assumptions that should have been considered in the original valuation that were not.

All conclusions should be fully explained and disclosed. Where the review Valuer is not in possession of all the facts and information on which the Valuer relied, the review Valuer must disclose the limitations of his or her conclusions.

#### **5.0 Change in market conditions**

If the subject property has been sold, the lender should ask the expert Valuer to comment on changes in market conditions since the date of the Original Valuation and the date of sale of the subject property.

The expert should explain how those changes in the market have, if at all, impacted on the sale price of the subject property.

#### **6.0 Summary**

These principles for retrospective valuations are a guide only. At all times, the expert Valuer has an overriding obligation to the court, to provide their expert view independently and in a way that will assist the court in resolving any dispute between the lender and Valuer.

#### **7.0 Additional Resources**

A short video has been prepared by an industry expert to introduce and support the TIP. [View the video for this TIP on YouTube.](#)

## **8.0 Effective Date**

This TIP is effective from 1 July 2015.