

# **Standard Instructions for Valuation Reports of Office, Industrial and Retail Investment Property for First Mortgage Security Purposes**



**Version 1.0**

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## Scope and Purpose

These Standard Instructions provide the basis upon which suitably qualified members of the API will provide valuations of office, industrial and retail investment property for first mortgage security purposes but do not include valuations of development sites or any valuation prepared for construction finance purposes.

These instructions form part of the retainer agreement between the Lender Client and the Valuer, unless expressly stated at the time of appointment to the contrary. The intention of these Standard Instructions is to provide clarity for Valuers and Lenders alike, in a very high risk area of valuation practice.

Each report prepared by a Valuer, should expressly state that it has been carried out pursuant to these Standard Instructions. If a Valuer cannot include the content requested in these Standard Instructions, or does not consider any part of these instructions to be relevant to the valuation they are performing, this should be clarified with the instructing party in writing. Otherwise, the report structure and form is entirely a matter for the professional judgment of the valuer carrying out the valuation.

There is nothing in this document, which prevents a valuer providing additional information in their report if they consider it relevant to do so.

The report content should include the following information:

### 1.0 Valuation Executive Summary

An Executive Summary should always be read in conjunction with the whole report. The intention is to provide a brief outline of the following information:

- Property Address
- Real Property Description/Title Details (e.g. Lot and Plan Number etc.)
- Registered Owner(s)
- Encumbrances (limited to those that affect the use or value of the subject property)
- Purpose to which the report is to be used (e.g. First mortgage security purposes)
- Last Sale (Report any transaction(s) within the last three years - include date of sale, consideration and other relevant details. Facts relating to a current contract of sale of the property must be included.)
- Town Planning (Describe the applicable town planning designation but leave the explanation of those designations to the body of the report.
- Brief Description of the Property "As Is"
- Brief Description of Proposed Improvements (if any).
- State and comment on the Highest & Best Use
- Interest Valued (e.g. Freehold subject to existing tenancies)
- Date of Inspection / date of Valuation
- Financial summary – identify the passing lease rental and compare it to the market income. (Clarify whether the income is net (exclusive of all outgoings) or gross and indicate if the lease income may include recovery of outgoings)
- Valuation metrics – yield summary, rate per square metre and value

- Market Value (Use of the term “Current” preceding the term “Market Value” may only be used in Western Australia where the State legislation specifically requires such terminology)
- Valuer (name, signature, valuer’s licence number (in those jurisdictions which have valuer licensing))

All data provided in the executive summary is wholly reliant on and must be read in conjunction with the information provided in the report. It is a synopsis only designed to provide a brief overview and must not be acted on in isolation.

## 2.0 Introduction

Provide the following information:

- Bank’s customer (if known)
- Valuation instructions – the report should identify the property and detail the date of instructions, the name of the party who issued the instructions and recite all assumptions that are to be made in accordance with the instructions
- A statement that the report may only be used for “First Mortgage Security Purposes” and a limitation that can only be used for that purpose and no other purpose without written permission
- A definition of market value, and other terms used in the report, as per the IVSC definition/s
- Interest valued (e.g. freehold subject to existing leases) NB Owner occupied or related entity leased properties to be valued on a vacant possession basis
- Date of inspection / valuation
- Reliant Party - The entity who relies on a valuation report is the Reliant Party and in first mortgage security valuations this entity is the Lender or Mortgagee. The Reliant Party may be different to the entity who instructed the valuation (the Instructing Party) and/or the party that is paying for the valuation. State the valuation report is for reliance of the Reliant Party for first mortgage security purposes only. The report should qualify that the report can only be used by the Reliant Party and cannot be used for any other purpose.
- Property Street Address
- Compliance statements (e.g. compliance with API/PINZ, IVSC and/or specific bank instructions)
- Detail information that has been provided by the Mortgagee on which the Valuer may rely. For example this may include a Contract for Sale (not just front page); Tenancy/Lease details; Outgoings; “As if Complete” plans
- Where an Instructing Party other than the mortgagee provides information, the valuer should make reasonable enquiries on the veracity of the information provided. The report should identify any information that has been obtained from other sources on which reliance has been placed. (Reliance should not be placed on such information unless reasonable enquiries have been made to satisfy the valuer on the veracity of the information)
- An outline of “Verifiable Assumptions” made about aspects of the property that can be established as fact by further action or investigation. For example a detailed Title Search which may reveal matters including easements not noted on title, written Town Planning Certificate; written Flood Search; Resuming Authority Searches; Inspection of the

Improvements by the Local Authority Building Department or Health Department; searches of the Contaminated Land Register/Environmental Management Register as the case may be; Licensing Commission Search

- An outline of “Assumptions Requiring Further Consultancy” being those assumptions that can be confirmed by engaging another consultant. The Report should detail the potential reports that minimise risk and, from that list detail those reports that should be obtained from other consultants to minimise risk. Where there are reports that should be obtained the valuation should be conditioned to those reports being obtained. Examples of those reports may include: Licensed Surveyor - Identification Survey; Survey of the building / lettable areas; Building Engineers – Surveys on Structural, Mechanical, Hydraulic and other improvements; Geotechnical Engineer - Soil Survey.; Town Planner – maximum development potential permissible under the Town Plan.; Environmental Engineer - Environmental Audit, Asbestos Management.; Accountant - Audit of the books of account.; Pest Inspector – Pest Control Certificate; Quantity Surveyor and / or Architect – Insurance Assessment

### **3.0 Property and Locality**

Provide:

- Property Identification
  - A statement that the property has been positively identified by reference to the title plan, survey or cadastral plan as appropriate. A disclaimer should indicate that a surveyor as an expert, not a valuer, would confirm the property identification.
- Land Description and Services
  - Site dimensions and area
  - Comment on any positive or negative features such as views, drainage,
  - Environmental considerations such as landslip, flooding or coastal erosion
  - Identify the services connected and available to the property
  - Site access
  - Locality
  - A brief description of the locality, surrounding land uses, and proximity to features/services important to the property, e.g., parking, public transport, major highway etc.

### **4.0 Title Details**

Provide the following information:

- Title reference of the property and the Real Property description.
- Unless the Lender Client provides the Valuer with a title search and all registered easements and relevant encumbrances, the Valuer should undertake a title search for all valuation instructions. If the instruction is not to complete a title search including all easements, encroachments and encumbrances the valuation report must include a qualification that these searches must be obtained by the mortgagee and where those documents do not reflect the considerations in the report then the matter together with appropriate documentation must be referred back to the valuer for consideration.
- If the tenure is leasehold, provide summary of the key terms and conditions of the lease

- The name of the registered owner(s)
- Identity any existing mortgagee from title
- Identify and detail all title encumbrances such as easements, covenants, caveats, rights of carriageway, listing on heritage registers etc. Appropriate comments are to be made on the impact or effect of any such encumbrances on the value of the property
- Reconcile current leases on title with the tenancy schedule and comment on differences  
**Regional and Sub-regional Shopping Centres** – where specifically instructed by the bank and, where possible, reconcile leases on title

## 5.0 Statutory Assessment

Detail the current Statutory Assessment(s) and the relevant and effective dates of the assessments.

## 6.0 Town Planning

Provide:

- Current zoning/Town planning designation
- If the property constitutes a non-conforming or use inconsistent with the current town planning guidelines, where possible, identify whether the property has the benefit of existing use rights
- Detail any conservation zones, development codes, floor space ratios, site coverage, height limitations or other constraints in the town plan that are relevant considerations to the value of the property.
- Detail the current Planning Scheme/Town Plan and any draft Planning Scheme Town Plan that may vary the constraints that would have a significant impact on the value of the property.
- Detail any current development consent or planning approval affecting the property and any conditions to that consent / approval affecting the valuation or the proposal
- Review any document or other consents, approvals and conditions where appropriate affecting the subject property.

## 7.0 Improvements

Provide:

A description of the improvements detailing all the relevant aspects that have an impact on value including but not limited to:

- The construction
- Design characteristics and appeal, including unique or specialised features that may impact upon the viability, marketability and value of the property.
- The state of repair of the improvements including outstanding work to be completed and any modification or maintenance work required which includes an estimate of costs and timing involved.
- Building areas are crucial to a valuation and hence the measurement tool (laser, tape, measuring wheel) should be stated where no areas have been provided to the Valuer. Where areas are provided, the Valuer should verify the areas in accordance with the Guidance Note '*ANZRPNG 4 Methods of Measurement*' located in section 11.4 of the

Australia and New Zealand Valuation and Practice Standards manual. At the time of writing this Standard Instruction, the API is developing a Technical Information Paper (TIP) on measurements which will include the International Property Measurement Standards. Until the TIP is issued, measurements must be quoted to reflect the market in which the premises are situated. It is noted that most markets currently adopt the Property Council of Australia Method of Measurement Commercial 1997 for the measurement of areas of office, industrial and retail property for transactional purposes.

- Economic and functional obsolescence and the need or capability to upgrade improvements.
- Within the valuer's experience and expertise, comment on occupational health and safety issues e.g. whether the Asbestos Management Register has been sighted and whether it is possible that the building may contain asbestos.
- Copies of approvals, Building Certificate and / or Certificate of Classification and Occupation should be reviewed, subject to them being available and any impact on value fully explained.
- Estimated age of building and estimate of the year when last refurbished.

## **8.0 Environmental Issues**

- Valuers are not expected to be experts in environmental matters. However, the Lender is seeking from the Valuer inspecting the property, identification of any environmental issue which needs investigating by an environmental expert.
- Provide preliminary information on the "real estate contamination" risks that might exist at a property. A useful tool (non-mandatory) is attached as Appendix 1 "Site Contamination Questionnaire".
- Report on any possible contamination which may be indicated by signs of disturbed or discoloured soils, filling/dumping, dead or stressed vegetation, chemical odours, underground tanks etc.
- Where required, comment on any National Australian Built Environment Rating System (NABERS) rating and Building Energy Efficiency Certificate (BEEC) if applicable.

## **9.0 Tenancy Details**

- Where there are less than 20 leases pertaining to a property, review all leases. If there are more than 20 leases, a minimum of 20 leases plus a further representative sample collectively representing a minimum 80% of gross income should be reviewed. Where the representative sample differs from the Tenancy Schedule provided, all leases should be reviewed. In relation to Regional and Sub-Regional Shopping Centres, the number of leases to review is to be determined in consultation with the instructing party. Where specifically instructed by the Lender, and where possible, reconcile leases on title.
- Provide a specific summary of each major lease where a tenant occupies 20% or more of lettable area, or contributes 20% or more of gross income, or is a supermarket or department/discount department store.
- Provide an overview of the leases that have not been specifically referred to by detailed lease synopsis.
- Detail all vacant areas within the building and comment on vacancy level and duration of vacancy

- State lease assumptions, e.g., it is inappropriate to assume leases will be executed. Valuation should be “As Is” based on the details available. However, it may be appropriate to provide commentary on the impact to the value of the property should particular leases be executed. Any assumptions on the terms and conditions of those particular leases, where inconsistent with the existing leases must be detailed.
- Summarise tenancy information in a schedule form to include but not necessarily be limited to:
  - Tenant name (and details of any tenant parent guarantee arrangements for the tenant’s lease obligations)
  - Lease commencement and expiry dates
  - Lease term and actual length of occupancy of the tenant under previous occupancy arrangements.
  - Option/renewal periods
  - Tenancy Area and the method of measurement on which the area is based e.g. NLA / GLA / GLAR
  - Current lease/base rent (total and \$/sqm) together with commentary on the Effective Lease rent together with other rental provisions such as turnover rent.
  - Recovered outgoings – brief outline of the type of outgoings that are recovered (eg municipal rates, land tax, insurance, repairs & maintenance, common area cleaning and power, management etc) and quantify (total and \$/sqm)
  - Rent review provisions (frequency and type)
  - Other terms and conditions of each lease where those terms and conditions are an appropriate consideration in the assessment of value.
  - Lease status (i.e. executed-signed / unsigned, stamped / registered)
  - Car parking (number of bays, rent/licence fee and review method), where relevant
  - Side agreements (i.e. incentives, rent abatements to the extent the effective rent is identified)
  - Whether the rent includes or excludes GST
  - Make good provisions on lease expiry
- Comment on any other relevant provisions such as mid-term break clauses, options to purchase, first rights of refusal etc.
- Provide a Weighted Average Lease Expiry (WALE) profile based on both lettable area and gross income where there are multiple tenants

## 10.0 Income Analysis

- Provide a detailed analysis of the cash flow.
- Calculations used should be completely self-explanatory, e.g., when calculating rent reversions it is not acceptable to simply note the value of the reversion. Show details and discuss the discount rate, time period, market rent, passing rent etc.
- Comment upon the perceived quality of lease covenants in the context of the current market expectations
- Compare the current/passing rent with market rent and comment on the rationale for any adjustments to reflect rent reversions / profit rents.
- Itemise all outgoings in schedule form including a comparison with previous year actuals where available and YTD actuals versus budget, commenting on any major variances.
- Where possible, comment upon anticipated changes to outgoings, particularly significant items (eg. major contract renewals, rating changes).
- Confirm source and veracity of outgoings information.

- Identify and explain recoverable and non-recoverable outgoings components including differentiation of operating expenditure and capital expenditure.
- Provide lease expiry profile by income and by area where there are multiple tenants
- Comment on letting prospects for vacant space / imminent expiries including likely rent, lease up period, incentives etc.
- Comment on arrears (if any)
- Shopping Centre Valuations (Regional & sub-regional)
  - provide an analysis of MAT and gross occupancy cost ratios for each tenant and tenant category where that information is available. Compare with industry benchmarks.
  - Comment on whether the leases are consistent with the retail tenancy legislation applicable to the State in which the property is located.
  - In addition, comment on trading history of centre and show calculations for percentage rents (if applicable).
  - Comment on trading performance and mix of tenants relative to similar centres and / or industry averages.
  - Comment on the property's catchment areas with emphasis on competing centres, known future competition and demographic data including population growth patterns, household income, unemployment, etc.

#### **11.0 Valuation Rationale or Approach**

- Indicate the basis upon which the Valuation has been assessed. Selection of the method of Valuation is the responsibility of the valuer, however typically it would be envisaged that at least two (2) methods would need to be adopted which may include Capitalisation, Direct Comparison and Summation. Consider using a DCF method as appropriate.
- Fully disclose all valuation calculations (i.e. actual and / or estimated rentals, itemised property expenses, capitalisation rate, rent reversions and letting up / rent incentives) resulting in the assessed value.

*Note: In undertaking the capitalisation approach, it is expected that the assessed current net market income would be capitalised at a current market (equivalent) cap rate, with adjustments made for factors such as letting up of vacant space, capex, and under/over renting during the period until the lease(s) revert to a market rent i.e. reversionary interests*

- Where appropriate, provide a sensitivity analysis of the value based on the major variables.
- Include any qualifications and / or disclaimers in the body of the report and any disclaimer required by the valuer's professional indemnity insurer must also be included along with any other disclaimers.
- **Explain and justify all assumptions.**

#### **12.0 Goods and Services Tax (GST)**

- Express all assessed values exclusive of GST

### 13.0 Sales and Rental Evidence

- Provide detailed analysis and commentary of sales and rental evidence utilised to support the valuation. Analysis of sales and leasing transactions should be consistent with the methodology adopted for the valuation and broken down into appropriate units of comparison. All relevant details of the analysis should be disclosed such as the market rents and capital adjustments used to analyse market (equivalent) yields. A definitive statement must be made in relation to factors of each comparable sale that are superior, inferior or similar to the subject property. As appropriate, quantify the variance in the factors as it may relate to the capitalisation rate, rental value or total value. Brief reasons for the comparative statements should be provided.
- If the property has been marketed for sale or lease, comment on that marketing and its impact on value and saleability / lettability, where possible include comment on how, how long and if the property was professionally marketed.
- If the property is being purchased, sight a copy of the contract for sale (the Lender should be able to provide a copy of the contract as part of the instructions) and comment on the acceptability of the contract price to ascertain if it conforms to market value as laid out in the 'Spencer' case. Where a contract price differs from market value, the reason why the price either exceeds or falls below market value must be explained within the valuation report.

### 14.0 Marketability

- Include a market value that is realisable within a six month selling period. If the market evidence does not support a six month selling period, then identify a reasonable selling period and provide the explanation for this selling period.
- Provide an opinion as to likely purchaser profile
- Comment on the market forces that impact the value of the subject property.

### 15.0 Market Commentary

- Comment on the source (including if overseas) and strength of market demand in the locality now, competition (existing and proposed) and the general trends, which are apparent at the time. Also comment on the likely ease or difficulty of sale / leasing.
- To the extent possible and within the capacity of a valuer, the valuer is to identify reasonably foreseeable circumstances at the date of valuation, which may affect the future value or marketability of the property (e.g. pending major lease expiries, proposed planning amendments, compulsory acquisition, adjoining development or negative or positive rental reversions) and comment on the impact. Where possible, the valuer is to highlight the quantum of the value impacted, with appropriate disclaimers.
- Generic macro comments are not required. However, please also note, any matters impacting on the value as at the valuation date must be taken into account in the assessed value with specific comments made. There should be some identification of the kind of demand, that is, owner occupier, investor or other and the general trends in the market which are apparent at the time.
- Provide a brief overview of market conditions for the property being considered.
- Unless specifically requested by a lender, a recommendation should not be made as to the suitability of the asset as 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. 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

## 16.0 Risk Assessment

- Comment on known cash flow, market and asset risks and any other risks that need to be identified for the next three to five years
- Examples of risk to include things like obsolescence, purpose built etc.

## 17.0 Attachments / Inclusions

As a minimum, provide: where not contained in the body of the report:

- Letter of instruction
- Certificate of title
- Title plan (e.g. deposited plan; strata plan)
- Photographs
- Tenancy schedule
- Valuation calculations

### Appendix 1: Site Contamination Questionnaire

The questionnaire on page 12 is designed to provide preliminary information on the 'Real Estate Contamination' risks that might exist at a Property.

Answers to the questions posed should be factual and sourced through independent investigation of the subject property. The Valuer should not solely rely on information provided by the owner or occupant.

Where a positive response to any question is appropriate or the question cannot be readily answered "yes" or "no", further comment on the implication is then required in the body of the report. If the Valuer is in doubt about the response, they should refer to the guidance note contained within the **ANZ Valuation and Property Standards manual, section 12.1.1 'ARPGN 1 Land Contamination Issues'**.

Where no positive responses are identified, the Valuer is to include a statement in the report confirming that the Real Estate Contamination Questionnaire has been completed and no positive responses identified.

Brief discussion may be held with the property owner, occupant or their representative, to gather information required to complete the questionnaire. To the extent possible and within the capacity of a valuer, any information made available should be independently considered by the Valuer.

Follow up questions such as statutory compliance, or notices of breach or warning may also be requested of the customer.

The Lender recognises that the Valuer is not an expert in identification of contamination or asbestos. The Lender requires the Valuer to base their advice on an independent investigation of the following:

- Visual site inspection;
- Review of existing and historical site use (so far as it is reasonably identifiable);
- Where the Valuer discovers or suspects the site may be contaminated, a review of the register of 'contaminated sites', or equivalent (as appropriate in each jurisdiction);
- To the extent possible, a visual inspection of the immediately surrounding environment;
- In regard to asbestos, a review of the asbestos register (or similar document as it applies in each state) or a statement that a request was made, but that the owner did not make the register available for review if applicable; and
- Consideration and review of any information provided by the owner, occupant or their representative, to the Valuer.

The Lender accepts that a Valuer is not an expert in contamination matters. The Lender accepts that a checklist with all negative responses, based on the above sources, does not guarantee that the subject land is free of contamination or asbestos. This checklist is relied upon by the bank in conjunction with the advice contained within the valuation report and subject to the Valuer's disclaimer, or notice in this regard. This document is not to be relied on as a 'stand-alone' document by the Lender, or any other third party.

**Questionnaire**

Property Address  
Current Use

Date

Topic	Question	Yes	No	Unknown
Historical Use	1. Is there any indication that there has been previous noxious or potentially contaminating use of the property?			
Planning Controls	2. Is the property subject to an environmental planning overlay that could constrain land use and development, or an overlay that indicates the need for an environmental audit as part of any development approval process?			
Adjoining Planning Controls	3. Is land adjoining the property the subject of an overlay that indicates adjoining land could be contaminated?			
Neighbouring Land Use	4. Based on a visual inspection to the extent that it is reasonably possible to do so, are there adjoining sites that appear to or are known to have or have had noxious or potentially contaminating uses?			
Current Operations at the Property	5. Have your investigations identified industrial processes onsite that involve the use of chemicals or hazardous materials?  6. Have your investigations identified there having been, past or present, the underground storage of fuels, chemicals or hazardous materials at the Property?			
Registers, Notices and Orders	7. Is the property included in the current register of contaminated sites, or the subject of a contaminated land audit as indicated on that public register?			
Environmental Licensing	8. Are the operations at the premises subject to an environmental license, resource consent or equivalent?			
Asbestos	9. Could any buildings or improvements at the property predate 1990? Is asbestos containing material known to be present at the Property?  10. Were there any observed non-compliances with statutory requirements pertaining to asbestos or hazardous materials (e.g. failure to maintain current asbestos register / record)?  11. Did the asbestos register / record indicate the presence of asbestos?  12. Is an Asbestos Management Plan in place for the Property?			