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Title	Lectures (20 hours) to international students in 2023 for Ecole Supérieure des Professions Immobilières, Paris Campus.
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Type	Conference or Workshop Item
Publication title	
Publisher	
ISSN/ISBN	
Date	6 November 2023
Version	
DOI	
Repository link	https://ube.repository.guildhe.ac.uk/id/eprint/198/
Link to publication	
Notes	This publication version may differ from the final version

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PROPERTY VALUATION

(BG3 ALT S6)

Section 6 –

The Valuation Process

Real Estate Business Management Program

Year 3 – Work study program

Présenter: David Hourihan MSc Prop Inv FRICS

7 November 2023

Property Valuation (BG3 ALT S6)

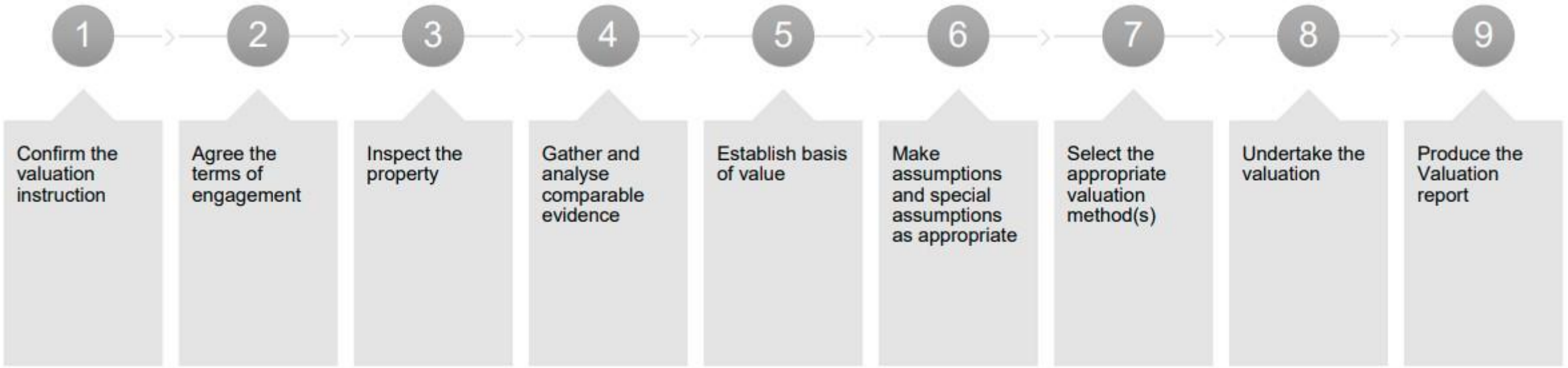
Agenda

Introduction to the valuation process:

1. Confirm the instruction & agree the ‘Terms of Engagement’.
2. Inspect the property.
3. Collect data on and analyse comparable properties.
4. Establish Basis of Value.
5. State your assumptions and special assumptions.
6. Select the appropriate valuation methods & valuation calculations.
7. Prepare the client report.
8. Summary.

Property Valuation (BG3 ALT S6)

Introduction to the valuation process



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1. Confirm the instruction & agree the ‘Terms of Engagement’

- Assuming a professional practice is requested to do a valuation then first step is to check with the client the purpose of the valuation and the date at which value is to be assessed.
- Agree and send client ‘Terms of Engagement’.
- They become the first element in the documentation and must be on file.
- Ensure valuer / firm has appropriate knowledge and is free of conflict.
- Agree appropriate basis / bases of value and valuation assumptions.

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1. Confirm the instruction & agree the ‘Terms of Engagement’

- The client
- The subject of the valuation, nature and extent of tenure rights, and type of asset to be valued
- Purpose, basis, date and currency of valuation, including details of any anticipated or actual marketing constraint
- Affiliation, experience and qualifications of the valuer
- Status of valuer (internal, external, independent), any managed conflicts of interest
- Source and nature of information relied upon, scope of information supplied by client, extent of inspections, investigations, assumptions and reservations
- Any consent to or restrictions on publication of the valuation report
- Any limits or exclusions of liability to parties other than client
- Confirmation that the valuation will be undertaken in accordance with standards
- Fee basis
- Availability of complaints handling procedure

Source: Wyatt (2022)

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2. Inspect the Property

Inspections and investigations must always be carried out to the extent necessary to produce a valuation which is professionally adequate for its purpose:

- An essential part of the valuation process.
- Must be carried out in a logical and methodical manner.
- Must be properly documented.
- Floor areas are calculated in accordance with the International Property Measurement Standards (IPMS) or nationally adopted measurement standards.

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3. Collect data on and analyse property comparables

The documentation must include evidence of the comparables used and how they were analysed.

Handwritten notes, notes of telephone calls, copies of particulars etc.

n.b. These don’t get sent to the client.

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4. Establish the ‘Basis of value’

The precise definition of value on which a valuation is based is referred to as the basis of value.

It is usually accompanied by a set of assumptions that refine the definition.

The International valuation standards (IVS) provide a conceptual framework and explain the meaning of valuation bases in precise terms.

The standards ensure that consistent bases of value and valuation assumptions are applied.

IVS define several bases of value, and the main ones are:

- **Market Value.**
- **Market Rent.**
- **Investment Value**.

Be aware of the definitions of each of the bases of value.

5. State your assumptions and special assumptions

- Assumptions set the valuation in the appropriate context.
- Assumptions are suppositions taken to be true without the need for verification.
- Some typical valuation assumptions are that the property is in good condition, services are operational, there are no deleterious materials, structural defects or hazardous materials present.
- It is normally assumed that the current use has planning consent.
- Special assumptions are presumptions that differ from those that exist at the valuation date or would not normally be made by a purchaser in the market.

Some examples are:

- A development or refurbishment is finished when in fact it is still under way, that a property has been.
- The property is let on specified terms when it is actually vacant (and vice versa).

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6. Select the appropriate valuation methods

Valuation calculations: this is what it is all about.

- These calculations are likely to be handwritten and these ‘working notes’ must be retained on file.

  or

- could be done on a spreadsheet in which case a printout should be kept on file.
- If valuation software is used, then a printout should be put on file.
- Do not send to the client.

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7. Prepare the client report

The report could take many forms depending on the client.

The nature and extent of these elements of a valuation report should be agreed before the valuation is undertaken.

- Form reports – mortgages.
- Memos – internal.
- Narrative - private clients.

Must have regard to the RICS Global Standards (Red Book) which sets standards for reports.

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8. Summary

- Valuers carry out valuations for a client.
- The outcome will usually be a written report.
- Before the report can be written a series of tasks will be undertaken - valuation process.
- The tasks will be carried out to a high standard in accordance with agreed standards and guidelines.
- All stages will be fully documented and held on file.
- Failure to meet the standards could lead to a negligence claim and professional indemnity insurance is essential.

Next Lecture

Section 7 - Measurement