RICS Independent review of real estate valuations – call for evidence

30 March 2021
To: valuation_review_2020@rics.org

Introduction and background

The British Property Federation (BPF) represents the real estate sector – we promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK's economic success; provide essential infrastructure and create great places where people can live, work and relax.

The valuation profession is fundamental to a well-functioning real estate sector – which ensures market confidence, and has implications for the financial sector more broadly. We therefore welcome this review, and in particular, acknowledge the importance of ensuring that the profession is independent and objective and our approach to commercial real estate valuations can evolve and stay relevant as the way we use real estate changes.

We have provided comments in relation to each aspect of the review within the appendix – and look forward to engaging further as the review progresses. In the meantime, please do not hesitate to get in touch if you require further information.

Kind regards,

Rachel Kelly
Assistant Director (Finance)
020 7802 0115
rkelly@bpf.org.uk

RICS Independent review of real estate valuations – call for evidence

Appendix 1: Comments on each area of the review

1. While we have not responded to every question in the call for evidence, we have provided some overarching comments in relation to each chapter of the review in turn.

2. **Valuation methodology**

3. We acknowledge the difficulty in balancing the need for consistency in valuation approaches with the need for a valuer to have sufficient flexibility to take into account appropriate factors for different properties. We believe the current approach of providing guidance on different valuation methodology options, without being too prescriptive, is the right approach. Given the process of valuation is, by its nature, heavily reliant on the judgement and expertise of the valuer – the skills and training of the profession is of upmost importance to this aspect of the review.

4. Finally, we would note that it is important for the valuer to disclose and justify why they consider the method used and factors considered to be the most appropriate in each case.

5. **Property risk analysis (the ”forward look”)**

6. The structural changes we have seen over the last decade, especially in retail, have been profound – and significant change across many asset classes has been accelerated by the pandemic. It is clear that there has been a shift towards more operational real estate assets, and the approach to valuations must be able to accommodate this shift.

7. It is right for valuations to strike a balance between historical transactional data and more forward looking factors. We recognise that historical transactional data is the least subjective, and therefore, in many ways, very reliable and comparable. However, in a fast evolving sector, these historical data sets quickly become out of date – and an approach which takes into consideration more forward looking factors may be more relevant. As asset classes become more operational, it could be that the valuations should consider more forward looking factors – and indeed, we will hopefully begin to see more relevant transactional evidence for these types of assets in time as well. In addition, another trend which will need to be factored into valuations going forward is the impact of climate change on property values, including the impact of increased regulations to improve the energy efficiency of buildings.

8. One area for improvement which has been identified, is the need for valuers to be more explicit about which assumptions have had the greatest impact on a final valuation – in particular, it would be helpful if valuers could quantify in more granular detail the impact of their assumptions on a valuation.

9. **Independence and objectivity**

10. Independence and objectivity are paramount to achieving market confidence in valuations, and as such, a critical element of this review.

11. One of the challenges noted in the review is that a valuer could be perceived to have less independence because they also carry out other services for the investor (such as leasing, advisory services etc) – and the comparison is noted with the audit profession, where there are rules governing the circumstances in which audit firms can provide audit and other services to

the same client. However, valuers will often leverage significant market insight and data from other parts of their firm and there is a risk that the same kind of approach to segregation of services could significantly undermine the quality of valuations. As such, we would recommend caution in going down this route..

12. However, consideration should be given to mitigating the risks that one firm providing a number of services to one client could create. Furthermore, there may be other useful comparisons with the audit profession which could be drawn on, if appropriate, to limit over familiarity between investors and valuers, such as rotation of valuers after a certain number of years (either within a firm or between firms). There may also be scope for the audit profession to play a stronger role in calling out any bad practice.

13. **Measuring confidence**

14. It has been suggested that RICS's existing approach to auditing and reviewing valuation work could be strengthened, both through carrying out more audits, and through targeting any audit work on 'higher risk' valuations. For example, the MSCI index could be a useful tool to identify anomalous movements in valuations which could be targeted for a formal review. Work would need to be done to ensure that assets are categorised in comparable 'buckets' (asset class, geography, lot size etc), and controls would need to be introduced to ensure that a single firm doesn't have undue influence over the index used.

15. Where bad practice or a breach of practice is identified, some consideration should be given to what the appropriate repercussions for such a breach should be.