

RICS residential mortgage valuation specification

September 2008 edition



The text of this leaflet is from the *RICS Valuation Standards* September 2008, UK appendix 3.2.

Please note: References to the masculine include, where appropriate, the feminine.

Published by the Royal Institution of Chartered Surveyors (RICS)

Surveyor Court

Westwood Business Park

Coventry CV4 8JE

UK

www.ricsbooks.com

No responsibility for loss or damage caused to any person acting or refraining from action as a result of the material included in this publication can be accepted by the authors or RICS.

First published May 1990

May 2003 version first appeared in *RICS Appraisal and Valuation Standards*, November 2003

Revised 2006

Revised April 2008

© Royal Institution of Chartered Surveyors (RICS) September 2008. Copyright in all or part of this publication rests with RICS, and save by prior consent of RICS, no part or parts shall be reproduced by any means electronic, mechanical, photocopying or otherwise, now known or to be devised.

Typeset in Great Britain by Columns Design Ltd, Reading, Berks

RICS residential mortgage valuation specification

1 Introduction

- 1.1 The specification, which has been jointly prepared by RICS and the Council of Mortgage Lenders, will apply to the valuation of residential property for mortgage purposes on behalf of building societies, banks and other lenders, unless varied by the lender's standard terms of engagement and standard report form.
- 1.2 The specification is arranged under the following headings:
- the valuer's role
 - the terms of engagement
 - the valuer's inspection
 - the valuation
 - the report
 - re-inspections
 - further advances
 - buy to let
 - external appraisals

2 The valuer's role

- 2.1 The Financial Services Authority's (FSA) guidance to building societies states that 'valuers should have sufficient experience and expertise and should be free from conflicts of interest.'
- 2.2 The role of the valuer, who must have knowledge of and experience in the valuation of the residential property in the particular locality, is:
- to advise the lender of the Market Value, usually excluding development value at the date of inspection;
 - to advise the lender as to the nature of the property and any factors likely to affect its value; and
 - if required by the lender, to provide an assessment of the property's estimated current reinstatement cost in its present form (unless otherwise stated) for insurance purposes.
- 2.3 As the valuer's job is limited to assessing the adequacy of the security, valuers must neither accept instructions to make, nor volunteer recommendations, as to the length of the term, or the amount to be advanced, nor give advice as to whether the property is suitable for 'second mortgage purposes'. These decisions are solely the responsibility of the lender.

3 Terms of engagement

- 3.1** Building societies and banks will usually have standard terms of engagement which will incorporate this specification, and make reference to the practice statements in these standards.
- 3.2** Where there have been no written, or previously-established instructions the valuer should confirm that the intention is to provide a service in accordance with this specification. A copy of this specification may be supplied to the client.
- 3.3** Any variation to the specification should be agreed in writing before the inspection is made.

4 The valuer's inspection

- 4.1** In order to fulfil the instructions the valuer must inspect the property to be valued.
- 4.2** The valuer must undertake a visual inspection of as much of the exterior and interior of the property as is accessible without undue difficulty. Although the valuer must use personal judgement, this inspection should include all of the property that is visible when standing at ground level within the boundaries of the site, and adjacent public/communal areas, and when standing at the various floor levels.
- 4.3** The inspection should deal with any of the following matters that are relevant to the subject property.

4.3.1 Main building

External

- Roof coverings, chimneys, parapets, gutters, walls, windows, doors, pipes, wood, metalwork, plastics and composites, paintwork, damp proof courses, air bricks and ground levels.

Internal

- Any parts that are not readily accessible or visible are not inspected and furniture and effects are not moved or floor coverings lifted.
- Subject to reasonable accessibility, roof spaces are inspected only to the extent that they are visible from the access hatches, without entering them.
- Ceilings, walls, load bearers and floor surfaces are inspected, except where covered or obscured. Moisture meter readings should be taken to identify potential damp problems.
- Cellars are inspected if they are reasonably accessible, but under-floor voids are not inspected.

4.3.2 Services

The valuer identifies whether or not there are gas, electricity, central heating, plumbing and drainage services. These services are not tested.

4.3.3 Outbuildings

- Garages and other buildings of substantial permanent construction, and any structure(s) attached to the dwelling, are inspected.
- The valuer is not expected to comment on the size, condition or efficiency of any leisure installation in the grounds of the property. However, comment may be expected where:
 - there is obvious evidence of serious disrepair;
 - the siting of the installation (for example, of a swimming pool) is a potential hazard to the dwelling, or poses a threat in other terms;
 - the installation covers an unacceptably large area in relation to the confines imposed by site boundaries.

4.3.4 Site

The inspection includes the general state of boundaries, structures, drives, paths, retaining walls and the proximity of trees only if they are likely to materially affect the property's value.

4.3.5 Neighbouring properties

The nature, use and apparent state of repair of neighbouring properties in the immediate vicinity are considered only to the extent that they may materially affect the value of the subject property.

4.3.6 Hazardous materials, contamination and environmental matters

- No enquiries regarding contamination or other environmental hazards are made but, if a problem is suspected, the valuer should recommend further investigation.
- The valuer may assume that no deleterious or hazardous materials have been used in the construction and is under no obligation to verify such an assumption. However, if the limited inspection indicates that there are such materials, this must be reported and further instructions requested.
- The valuer will not carry out an asbestos inspection, and will not be acting as an asbestos inspector in completing a mortgage valuation inspection of properties that may fall within the *Control of Asbestos Regulations 2006* (SI 2005 No. 2739).
- Where the valuer becomes aware of:
 - the close proximity of a high voltage electricity supply;
 - the possibility of the presence of Radon gas;
 - the use of 'Mundic' in concrete building materials in Cornwall and parts of Devon;
 - the presence of old mine workings,reference should be made to the guidance in UKGN 1.
- Certain problems, such as mining settlement, subsidence, woodworm etc. are particularly prevalent in certain districts. If appropriate, the valuer should make some reference to these defects, even if the subject property does not appear to be affected at the time of the inspection. Where appropriate, the valuer should advise that a mining report should be obtained.

4.4 Flats, maisonettes or similar units forming part of a larger building or group of related buildings

4.4.1 The above provisions apply, but here ‘main building’ means the building containing the proposed security, but not including other main buildings physically attached to it.

4.4.2 Main building

External

- The valuer inspects the exterior of the proposed security, and enough of the remainder of the main building to ascertain its general state of repair.

Internal

- The interior of the proposed security is inspected, as well as the communal entrance areas within the main building from which the proposed security takes access, and the communal area on the floor(s) of the proposed security.
- The roof space is only inspected (as defined in para. 4.4.1) where access is directly available from within the proposed security.

4.4.3 Services

In the case of flats, where services such as lifts, boilers and other plant are shared, the valuer may assume that the right to use these, and have them maintained, passes with the property, subject to an appropriate and reasonable service charge.

4.4.4 Outbuildings

The valuer also inspects garaging, car parking, other buildings (excluding sports complexes) of permanent construction and any other structures attached to the main building, or which serve either the main building or the proposed security.

4.4.5 Management and maintenance

- The valuer is expected to identify, in the course of the inspection, any apparent deficiencies in the management and maintenance arrangements that materially affect the value.
- No enquiry of the dutyholder (as defined in the *Control of Asbestos Regulations 2006* (SI 2005 No. 2739), of the existence of an Asbestos Register, or of any plan for the management of asbestos will be made.

5 The valuation

5.1 The basis of valuation

5.1.1 The basis of valuation is Market Value. This is defined as:

‘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.’

5.1.2 This definition should be applied in accordance with the conceptual framework set out in the RICS Valuation Standards, PS 3.2.

5.1.3 Unless otherwise instructed, any value for development that either has, or requires, planning permission should be excluded from Market Value.

5.2 Relevant factors

5.2.1 Among the relevant factors that should be taken into account in the valuation are:

- the tenure of the interest offered as security and, if known, the terms of any tenancies to which that interest is subject;
- the age, type, accommodation, siting, amenities, fixtures and features of the property and other significant environmental factors within the locality; and
- the apparent general state of and liability for repair, the construction and apparent major defects, liability to subsidence, flooding, and/or other risks. Particular care must be taken with non-traditional construction.

5.3 The nature of the interest

5.3.1 Account should be taken of any known or apparent easements, servitudes and burdensome or restrictive covenants.

5.3.2 Any restrictions, covenants, and other obligations associated with tenure, can influence value and marketability, but valuers are expected only to advise on the effect of a particular covenant if it is specifically brought to their notice by the prospective lender or its professional advisers.

5.3.3 If the valuer's inspection reveals anything which gives reason to suspect an encumbrance, this should be reported – whether or not the form makes provision for such items. Easements and other rights pertaining to way, light and drainage can have a material influence on the value. Furthermore, if the inspection reveals the possibility that third parties have the right of occupation, this also should be reported.

5.3.4 When valuing leases and reversions particular care should be exercised in ascertaining what needs to be valued. As valuers are rarely shown the lease they can only be expected to take account of onerous provisions when they are aware of these from personal previous experience, or when these are brought to light by the lender. In the absence of such information, valuers may assume that there are no unusually onerous covenants unless the inspection of the property causes them to suspect otherwise.

5.4 Assumptions to be made

5.4.1 Unless it is made apparent by an express statement in the report, the valuer can make the following assumptions, but is under no duty to have verified these assumptions:

- (a) that vacant possession is provided;
- (b) that all required, valid planning permissions and statutory approvals for the buildings and for their use, including any extensions or alterations, have been obtained and complied with;

- (c) that no deleterious or hazardous materials or techniques have been used, that there is no contamination in or from the ground, and that it is not landfilled ground;
- (d) that the property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown;
- (e) that the property and its value are unaffected by any matters which would be revealed by a local search (or their equivalent in Scotland and Northern Ireland), replies to the usual pre-contract enquiries, or by any statutory notice which may indicate that neither the property, nor its condition, its use, or its intended use, is or will be unlawful;
- (f) that an inspection of those parts which have not been inspected, or a survey inspection, would not reveal material defects or cause the valuer to alter the valuation materially;
- (g) that the property is connected to, and there is the right to use, the reported main services on normal terms;
- (h) that sewers, main services and the roads giving access to the property have been adopted, and that any lease provides rights of access and egress over all communal estate roadways, pathways, corridors, stairways and use of communal grounds, parking areas and other facilities;
- (i) that, in the case of a new property, the construction of which has not been completed, the construction will be satisfactorily completed;
- (j) that, in the case of a newly constructed property, it has been built under the NHBC Buildmark Scheme, Zurich Municipal Newbuild and Rebuild Schemes, Housing Association Property Mutual Scheme, Premier Guarantee for Private and Completed Housing or equivalent, or by a professional consultant acceptable to the lender.

5.4.2 In addition, where the proposed security is part of a building comprising flats or maisonettes, the following assumptions will also be made, unless instructed to the contrary:

- (a) the costs of repairs and maintenance to the building and grounds are shared equitably between the flats and maisonettes;
- (b) there are suitable, enforceable covenants between all leaseholds, or through the landlord or the freeholder/any feuholder;
- (c) there are no onerous liabilities outstanding;
- (d) there are no substantial defects, or other matters requiring expenditure (in excess of the current amount or assumed amount of service charge payable on an annual basis), expected to result in charges to the leaseholder, or feuholder, of the subject property, during the next five years, equivalent to 10% or more of the reported Market Value;
- (e) that, where the dwelling is leasehold, and because the valuer has no further and better knowledge or information:
 - the unexpired term of the lease is 70 years, and no action is being taken by any eligible party with a view to acquiring the freehold or to extending the lease term;
 - there are no exceptionally onerous covenants upon the leaseholder;
 - the lease cannot be determined, except on the grounds of a serious breach of covenant in the existing lease agreement;

- if there are separate freeholders, head and/or other sub-head leaseholders, the terms and conditions of all the leases are in the same form and contain the same terms and conditions;
- the lease terms are mutually enforceable against all parties concerned;
- there are no breaches of covenant or disputes between the various interests concerned;
- the leases of all the properties in the building/development are materially the same;
- the ground rent stated or assumed is not subject to review and is payable throughout the unexpired lease term;
- in the case of blocks of flats or maisonettes of over six dwellings, the freeholder manages the property directly or there is an appropriate management structure in place;
- that there is a dutyholder, as defined in the *Control of Asbestos in the Workplace Regulations 2002*, and that an Asbestos Register and effective management plan is in place, which does not require any immediate expenditure, or pose a significant risk to health, or breach the HSE Regulations.
- where the subject property forms part of a mixed residential or commercially used block or development, there will be no significant changes in the existing pattern of use;
- where the property forms part of a development containing separate blocks of dwellings, the lease terms of the subject property apply only to the subject block, and there will be no requirement to contribute towards costs relating to other parts of the development, other than in respect of common roads, paths, communal grounds and services;
- where the property forms part of a larger development, the ownership of which has since been divided, all necessary rights and reservations have been reserved;
- there are no unusual restrictions on assignment or subletting of the subject property for residential purposes;
- there are no outstanding claims or litigation concerning the lease of the subject property or any others within the same development;
- where the subject property benefits from additional facilities within the development, the lease makes adequate provision for the lessee to continue to enjoy them without exceptional restriction, for the facilities to be maintained adequately, and that there are no charges over and above the service charge for such use and maintenance;
- in respect of insurance, that:
 - (i) the property can be insured under all risks cover, which includes subsidence, landslip and heave, for the current reinstatement cost;
 - (ii) the cover assumed is available on normal terms;
 - (iii) there are no outstanding claims or disputes;
 - (iv) where individuals in a block make separate insurance arrangements, the leases make provision for mutual enforceability of insurance and repairing obligations; and

- (v) any landlord responsible for insurance is required to rebuild the property with such alterations as may be necessary to comply with current building regulations and planning requirements.

5.5 Treatment of incentives

5.5.1 The valuation of new build property should be approached in the same way as any other valuation. The notified sale price (or estimated value in the case of a re-mortgage) must be treated with caution. The lender may advise, or the valuer may become aware during the normal on-site enquiries, that some form of incentive is available to the prospective purchaser. Regard must be given to the effect of any incentives in the context of the overall consideration for the property. Valuers should remember that valuations for secured lending on residential property are provided to lenders to assist in the assessment of loans secured on property and that incentives may not be repeated in a resale. Therefore, care must be given to the assessment of the weight that should be attached to a notified sale price as evidence of Market Value. The valuer should also have regard to any lender specific instructions that may vary from the approach outlined in the following paragraphs.

5.5.2 Valuers should ask the seller/builder/developer on site, or their selling agent, for copy of any 'disclosure of incentives' for the property under consideration, prepared in accordance with the CML guidelines. The availability, or otherwise, of this document and copy of the details should be recorded on the file notes with the name and date of the signatory. If the lenders form allows, the report should state whether there are any disclosed incentives in the sale, and what they are.

The valuer can rely upon the contents of a Disclosure of Incentives Form when considering the valuation but, as changes may occur to these prior to legal completion of the sale, it is recommended that the valuer uses statements to the following effect where they can be accommodated in the lenders reporting format:

'Sales incentives of (list the incentives disclosed by the seller/builder/developer in the sale) have been disclosed on this sale and should be confirmed by the lender's legal adviser in accordance with the CML Handbook. The effect of these on the selling price has been taken into account in the valuation.'

or

'No information regarding disclosed sales incentives was available at the time of inspection, and the valuation is based on the understanding that no sales incentives are offered on this property. This should be confirmed by the lenders legal adviser in accordance with the CML Handbook.'

A copy of the CML Disclosure of Incentives Form can be found on the CML website: www.cml.org.uk/handbook

5.5.3 Developers may offer incentives on new properties, and occasionally on non-new-build property, in order to achieve quicker sales and give the appearance of high sale prices. Incentives may take many forms and may include: payment of legal and surveying fees; reimbursement of the deposit on signing contracts; guaranteed rents for a number of years; discounts/reductions if more than one property is acquired; purchase of the buyer's

existing property; payment of the mortgage for a specified period; high level material gifts, for example, a new car, cash backs after completion, furnishings and electrical goods and so on. This list is not exhaustive.

- 5.5.4** The valuer will need to distinguish between incentives that are property related, but have little impact on value, and incentives that have a greater impact, to the extent that the price would be significantly lower if they were not available.
- 5.5.5** The valuer will have regard to incentives in arriving at the valuation on the defined basis but will not reflect them purely as an arithmetical exercise starting with the notified sale price or a selected comparable. The valuer must exercise professional judgement in the light of all the information and evidence that is available.
- 5.5.6** Comparables may be available from sales and re-sales on the development, but these may not be reliable if considered in isolation. They should be considered in the context of any incentives which were available and could have influenced the price paid, the market in the area, prices realised for similar new property on other developments, the second-hand market and other information considered relevant by the valuer. Adjustments will be necessary to reflect any improvements in the design or layout of the subject property, the ease of maintenance during the early years and any other factors that may influence the decisions of purchasers.
- 5.5.7** Valuers should have regard to the nature of transactions on the site that may include a small number of bulk purchases and/or a larger number of individual transactions, and they should weigh the comparable evidence accordingly. Valuers should also have regard to the nature of any 'discounting' on a development and assure themselves that the discounted price has not in fact become the norm.
- 5.5.8** Where reports may be seen and relied upon by prospective purchasers, it is recommended that the valuer considers including a statement to the following effect:

'It should be appreciated that the valuation provided is for the property as new. It may not be possible to obtain the valuation figure if the property is resold as second-hand, especially if comparable new property is on offer at the same time.'

5.6 Town planning and other regulatory matters

- 5.6.1** It is not necessary for the valuer to make enquiries into town planning and other matters. These should be left to the lender's or borrower's legal advisers. Any obvious breach of planning control, however, should be reported.
- 5.6.2** Likewise, the valuer is not obliged to search for statutory notices, although the lender's legal advisers should ask if any such matters that come to light during searches materially affect value.
- 5.6.3** With fully-developed property, consideration may have to be given to known, or suspected, planning restrictions or conditions. The valuer is under no duty to search, but may be called upon for advice as to any effect on value, if they are disclosed.

- 5.6.4** The valuer should inform the lender of any obvious recent significant alterations and extensions so that the lender's legal adviser is alerted to the possible need to make enquiries.
- 5.6.5** Where the security comprises a building that has not yet been constructed, the valuer will, unless instructed otherwise, give a figure which assumes that the development had been completed, as at the date of the inspection, in accordance with planning permission and other statutory requirements.

5.7 Reinstatement cost assessment and exceptional risks

- 5.7.1** The figure required for reinstatement cost (often incorrectly called 'fire insurance valuation') is the current cost of reinstatement of the buildings in their present form (unless otherwise stated) including demolition, site clearance and fees, but excluding VAT (except on fees). Regard should be had to the ABI/BCIS House Rebuilding Cost Index.
- 5.7.2** Where the subject property is a flat or maisonette, the valuer should assess the reinstatement cost of that part of the total structure comprising the proposed security. It is the lender's responsibility to enquire whether a management committee or the landlord arranges insurance for the building as a whole, and whether that cover is adequate.
- 5.7.3** The valuer should also report on any exceptional risks likely to affect the premiums for insurance purposes. There is, however, no obligation for the valuer to seek out such factors. The duty is limited to factors which come to notice during the ordinary course of inspection.

6 Reports

6.1 The form of the valuation report

- 6.1.1** The lender will often provide a general form of valuation report or, if this is not the case, the valuer may wish to adopt the *Valuation of Residential Property for Mortgage Purposes Model Report Form* available from RICS Books. If these formats are not used the information provided in the report should be sufficient to enable the prospective lender to become aware of the nature of the security being offered, although unnecessary detail should be avoided.
- 6.1.2** The valuer's duty is to prepare a report on the basis of the information, or questions, contained in the instructions received, unless there are obvious errors or inconsistencies.
- 6.1.3** In addition to the assumptions described in para. 5.4, the valuer should make any other reasonable assumptions and state these explicitly in the report.

6.2 Defects and disrepair

- 6.2.1** If it is suspected that hidden defects exist which could have a material effect on the value of the property, the valuer should advise of this and recommend more extensive investigation by the intending borrower before entering into a legal commitment to purchase or, in the case of a re-mortgage, as a

pre-condition of the mortgage advance. It may be appropriate, in exceptional circumstances, to defer making a valuation until the results of the further investigations are known.

6.2.2 If it is not reasonably possible to carry out any substantial part of the inspection this should be stated.

6.2.3 The report should include reference to:

- any obvious evidence of serious disrepair to the property or obvious potential hazard to it, and any other matters likely to materially affect the value. Minor items of disrepair, poor design or lack of decoration, which do not materially affect the value of the security, do not need to be reported;
- items which are not serious at the date of inspection but could become so if left unattended. The lender may wish to impose a stipulation that they be repaired before a stated date;
- other items of disrepair, poor design or lack of external decoration which will adversely affect the structure and lead to a significant diminution in the value of the security. Such items may be the subject of a retention and, in any event, should be drawn to the attention of the prospective purchaser with a recommendation that they should be investigated before the purchaser enters into a legally-binding commitment to purchase.

6.2.4 In more serious cases of disrepair the valuer should recommend that there be no advance until certain works are carried out, but that when such works have been completed the property will be a suitable security. These items should also be brought to the attention of the prospective purchaser, with a note that they should be investigated before the purchaser enters into a legally-binding commitment to purchase.

6.2.5 Where the valuer reports that works must be carried out to a property as a condition of any advance, and has also identified the property as being:

- of architectural or historic interest, or listed as such;
- in a conservation area; or
- of unusual construction,

then the report must state that a person with appropriate specialist knowledge be asked to give advice on the appropriate works. In such cases valuers should only offer advice themselves if they are sure they are competent to give advice which, if adopted, would not be detrimental to the property's architectural or historic integrity, its future structural condition, or the conservation of the building fabric.

6.2.6 Where there is a basic structural defect, so that renovation ceases to be possible or economic, the property should not be recommended as security for a mortgage advance.

6.3 Information provided

6.3.1 In England and Wales, the valuer is not required to read the documents within a Home Information Pack or the Energy Performance Certificate, or comment on the energy or environmental ratings, unless specifically instructed to do so

by the lender. However, this reservation does not affect the duty of the valuer to comply with general requirements of paragraphs 4, 5 and 6 of this specification.

6.3.2 Where the valuer relies on information that has been provided, this should be indicated in the report, together with the source of that information. This may include:

- informing the lender of the existence of any obvious recent significant alterations and extensions, thus alerting the lender's legal adviser to any enquiries that should be made;
- where the proposed security is part of a building comprising flats or maisonettes, identifying any apparent deficiencies in the management and/or maintenance arrangements observed during the inspection which materially affect the value;
- the current amount of the annual service charges payable, if available;
- informing the lender of any situation where the apparent sharing of drives, paths, or other areas might affect the value of the subject property;
- reporting the form of construction and, where non-traditional, the valuer should advise accordingly, stating the type of construction and the source of this information, if it is not apparent from the inspection.

7 Re-inspections

7.1 A 're-inspection' is a further visit to a property which has already been accepted in principle by the lender as suitable security for an advance of a specified amount.

7.2 The valuer may be asked to advise whether the previous valuation report (which must always be available to the valuer) is still sufficiently accurate for the lender to assess the adequacy of the security when deciding whether or not to release a retention or stage payment. In this case the valuer's duty is to inspect only those parts of the property with which the lender is concerned. It is not the task of the valuer to inspect the whole property.

7.3 The cases that may arise include:

- consideration of the release of money by way of stage payments applicable to the stage of construction reached;
- whether the (new, or newly-converted or improved) property has been completed to the state assumed in the initial mortgage valuation report (where a mortgage offer has been made on this basis but no advance actually made);
- in circumstances where part of the advance has been retained until specified works have been undertaken, whether those works have apparently been completed as assumed in the initial valuation report, or as otherwise specified by the lender, to a standard satisfactory to justify lending on them and without significant adverse effects on the value of the property.

7.4 If, during the re-inspection, the valuer:

- becomes aware of any material changes or factors, additional to those in the previous report, which would affect the valuation of the proposed, completed security;

- is aware of any other factor which might materially affect the *valuation*;
- is of the opinion that the valuation of the proposed completed security would be materially different from that previously reported,

then the valuer must report accordingly.

7.5 If, however, in the course of the inspection:

- it is considered that the property may have been affected adversely by the works carried out;
- new defects and/or repair requirements and/or unsatisfactory workmanship are observed;
- it is apparent that the problem which gave rise to the need to carry out the remedial works is now affecting another part of the structure, or that part of the structure which is the subject of the required inspection is suffering from a further defect,

then the valuer must advise the lender.

7.6 Unless asked to do so, the valuer has no duty to provide a new figure for reinstatement insurance purposes.

8 Valuations for further advances

8.1 Where a property is already in mortgage to a lending institution that organisation may sometimes wish to consider whether a further advance, usually of a specified sum, can be made on the security of the property, or the repayment of a loan rescheduled. The valuation may be of the property as it stands and/or with works proposed to it. The lender must provide the valuer with the original report, or a copy, wherever possible.

8.2 The valuer's remit is to provide a report on all of the following:

- the current Market Value of the property;
- the current Market Value, where defined works are contemplated, on the assumption that they have been satisfactorily completed, and a revised estimate obtained for insurance purposes;
- any factors likely to affect its value materially;
- changes in the accommodation or its amenities since the previous inspection report.

9 Buy to let

9.1 Individual residential properties are sometimes purchased with a view to the owner letting them as investments. Many lenders have specific loans designed for this 'buy to let' market. As the security offered is essentially a property that would be in the residential owner-occupier market, it is appropriate that the valuation is in accordance with this specification.

9.2 Where the lender advises the valuer that the borrower intends to let a vacant property for residential purposes, the lender should also advise whether the valuer is to value the property:

- (a) with vacant possession; or

- (b) subject to an assured shorthold tenancy (AST) on market terms; or
- (c) subject to such other terms as the lender advises.

Valuers should be aware of the impact of incentives in respect of properties suitable for buy to let investment. Guaranteed rents that are above market rent and cash backs in lieu of rental income for a number of years may have an effect on price. Valuers should consider these impacts and report accordingly. In some cases the lender may specifically request the valuer to give an opinion of the market rent on an assured shorthold tenancy under item (b).

9.3 In the case of (a), the valuer must include in the report a sentence to the effect that the lender has advised that the property is to be let and that this may adversely affect the valuation reported (if the valuer believes this to be the case). In the case of (b) or (c), the valuer must state in the report that a special assumption has been made that the property has been let on an AST on market terms, or such other stated terms as were advised by the lender.

9.4 Many lenders use a standard pro-forma report for 'buy to let' valuations. Where this is the case, the valuer need not comment on:

- the letting assumptions made and/or;
- the possible adverse effect on the capital value of letting;

where either the pro-forma, lender's terms of engagement or lender's guidance manuals or equivalent already state the assumptions that the lender wishes the valuer to make in the preparation of the report.

9.5 In the event that the property is already let and is to be conveyed subject to the letting, this letting must be reflected in the valuation, unless an appropriate special assumption (for example, at the lender's request, that vacant possession is to be assumed) is made and stated in the report.

10 External appraisals

10.1 A valuer may be asked for a valuation without the benefit of an internal inspection, and with or without the benefit of an earlier report. This may be called an 'external appraisal'. When a valuer does provide an opinion on this basis, it must be confirmed in writing and the manner of valuation and the restrictions under which it is given clearly stated (see PS 2.4 – *Restricted information*). The lender must be informed that the value stated in such a fashion must not be disclosed to the borrower or any other party unless required to do so by the FSA rules in *Mortgages: Conduct of Business*.

10.2 Many lenders use a standard pro-forma report for valuations without an internal inspection. Where this is the case, the valuer need not comment on:

- the manner of valuation;
- the restrictions under which it is given;
- the non-disclosure to the borrower and/or other third parties;

where either the pro-forma, lender's terms of engagement, lender's guidance manuals or equivalent already state the assumptions, restrictions and terms under which the valuer should prepare the report.