

Valuation Quality – A Pillar of financial stability in Europe and beyond. Quality Valuations – A must today

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Importance of Education & Training

REV
TRV



What is quality Valuation

Two elements that set the good ones apart

Risk Measurement
Certainty/Uncertainty



Real life example of how complex a valuer's life can get.

Regular client came to us with a redundant village garage with flat above that he has just bought for £595,000 GBP.

Instructions

Valuation for bank lending purpose to support 80% of purchase price, £476,000 loan requirement.

Planning consent for demolition and construction of 6 terraced houses had been refused.

Instructions from the bank:

1. Valuation in existing use.
2. Cost of reinstatement.
3. Rental valuation as garage & flat.
4. Value as a development site.



Problems

1. Existing use redundant – Value?
 - Why redundant-No demand?
 - Lack of suitable tenants?
2. Condition to reinstate
 - Substantial repair
 - Financially feasible?
3. Rental valuation for garage and flat, as is and as repaired?
4. Value for what?
 - Planning refused

1. Comparables

Most have sold for redevelopment

Purchase price – is that a relevant figure?

- Not without other evidence.
- Considered and based on capitalised rental value based on other properties valuation in existing use £375,000.

2/3. To achieve £375,000 would need to spend minimum of £75,000 so net value £300,000.

4. Planning has been refused.
Detailed consideration of the reasons for refusal.

6 properties would be over development.
Consider the case for 4 or 5 discussion with the planning authority.

Valuations for bank

Existing use	£300,000
Repaired	£375,000
Development appraisal /Site for 5 house	£620,000

(Purchase price £595,000 – Loan required £476,000)

Bank prepared to lend £350,000 now

Revision on grant of planning consent.

Planning Valuations

In order to achieve a change of use from employment land to residential in a rural location need to prove.

Commercial use is unsustainable with no realistic demand supported by viability valuations.

In order to support the application we needed to agree planning gain to LPA.

A. S106 – Off site contributions

B. Affordable housing

C. Community Infrastructure Levy (CIL)

LPA wanted

A. £30,000

B. £60,000 in Lieu of affordable times 5 x
12k.

C. £50,000
£140,000

Proposed additional valuations –Risk weighted

Existing use £350,000 with £150,000 repairs net value
£200,000 – No demand
– Risk of dereliction

Proposed use for 5 houses taking known purchase price and
15% profit margin with cautious GDV gives max LPA
contribution of £30,000
– Negotiated settlement.

Valuation issues

1. Lack of evidence for existing use.
 - Relatively Uncertain
 - Risk
 - Moderate confidence
2. Repair cost and effect of impairment
 - Costed repairs
 - High confidence

3. Residential

- No planning consent and a refusal
- Uncertain outcome

Valuation inputs – Relatively Certain

Good confidence in development value

Uncertainty and risk on outcome.

4. Planning

Need to dissect LPA AVM for development sites and re align with actual site.

Generic Risks

- Property – Potential contamination
 - Uncertain planning
 - Lack of demand for existing use
- Macro – Housing market
 - Development funding
 - Development process delays

Information & Evidence

Gives lower risk, greater certainty and greater confidence.

From the banks perspective the most reliable and certain valuation was for residential redevelopment assuming a consent.

But

They were lending on existing use to avoid hope value but based on uncertain figures with poor evidence.



Valuer – No shortcuts and need for lots of advice in the process.

- Not a £100 fee job!!

New uncertainty – Brexit
- Nothing to report.....?

No substitute for quality – Everything known is considered

- Really is no other choice for the professional valuer able to justify the thought process.

Report content, file content, client discussion.

Might get it wrong – but if based on all this info much
harder to prove negligence
– Just opinion - And we are all entitled to those!

Thank You

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