

Terms of Reference – RICS Review of Investment Valuation

Overall aim of review:

To make recommendations to RICS (and other relevant bodies) in respect of real estate investment valuations which will ensure services remain relevant and trusted.

Context, issue and drivers

RICS is the leading global professional body for property valuation services providers, with 16,000 registered, regulated professional valuers. Valuations produced by RICS regulated members underpin financial reporting and decision making for trillions of pounds worth of land and real estate assets in the United Kingdom and globally.

In the UK RICS is the only substantial professional body and regulator of this professional service, although this position is not established in statute.

An estimated 70% of global wealth is held in land and property assets. Ultimately, much of global bank lending is secured upon these land and property assets and their use in business scenarios. For this reason, valuation plays a critical role in supporting overall market confidence and economic stability. As the leading professional body in this area, operating under a public interest charter, it is essential that trust is maintained in RICS standards and protocols.

RICS applies valuation standards through the Red Book, which provides the core mandatory and advisory guidance for regulated individuals and firms providing valuation services. The Red Book incorporates the high-level principles and definitions of the International Valuation Standards (IVS), and also applies additional RICS requirements and guidance, acting as a one-stop regulatory framework for professional valuers.

Over the last year RICS has received extensive market feedback (principally, but not solely, from the UK) that valuations of investment portfolios for financial performance reporting purposes risk being considered not fit for purpose. Criticism has centred on the valuers' ability to keep pace with market realities for example:

- Rapidly evolving investor and occupier demand
- Changing occupational trends and their impact on investment in real estate (e.g. online retail, lease lengths)
- Institutional real estate investment becoming more widely understood to be an actively managed business activity, where the management ability has a material impact on worth/value
- The suspension of UK property funds at perceived market turning points

This criticism has been combined in some quarters with concerns over the independence of valuers from their clients when reporting on investment performance.

These questions and others are being asked in the context of changing public expectations about the independence of professionals (especially statutory audit), so there is a need to ensure that RICS standards and protocols are robust enough to withstand public scrutiny.

For this reason, the independent Standards and Regulatory Board of RICS has agreed that an external review is necessary at this time to provide evidence backed recommendations on these issues. RICS considers this review to be of critical importance to the profession's future, and its findings will shape our future regulatory strategy.

Parameters of review

- This review will focus on all aspects of valuations of property assets for investment purposes including sustainability
- Evidence gathering sessions will be held in all key RICS markets involved in valuations of property assets for investment purposes..
- The review does not extend to the RICS monitoring and enforcement model; however, recommendations may need to be transposed into the model in due course.

Specific areas for consideration in phase one

Valuation Methodology

- Should RICS be more prescriptive in the requirements it places on members to employ certain valuation approaches, methodologies and techniques in particular circumstances?
- Would any increase in prescription on methodology lead to a reduced obligation on the professional valuer to reflect a particular market characteristic?
- Do the current applications of valuation methodologies meet market requirements – i.e. do valuations provide sufficient information to clients and others who rely on them about the factors that have influenced the valuation opinion?
- Do the requirements of the Red Book / IVS create an adequate global/national framework for provision of high-quality valuation advice?
- Is there a need for additional guidance, training and data to RICS valuers to support the provision of high-quality valuation advice?
- Can professional valuers make better use of technology to deliver high quality valuations?

Property risk analysis (the “forward look”)

- Is there a potential conflict of interest for the valuer in providing a valuation figure for regulatory purposes and advice on future market changes?
- Are valuations appropriately instructed?
- Are valuations provided in a manner which gives clients sufficient, forward-looking quantitative analysis on risks and their impact on investment worth, in addition to the objective opinion of current value?
- Can more be done to ensure clients understand how to instruct additional supporting, bespoke risk analysis?
- Do valuers have the tools to deliver this sort of analysis?

Independence and objectivity

- Are current RICS requirements in respect of valuer independence sufficient? This will focus on valuations for financial reporting (including investment portfolio performance measurement).
- Are there any other material threats to objectivity in valuation that RICS should consider?
- Should valuation firms be required to provide details of their valuation governance structure within their terms of engagement?

Measuring confidence

- How can RICS measure market confidence in RICS valuer performance on an ongoing basis?
- Should insights such as the Valuation and Sale Price Report be undertaken more frequently?