

# RICS Standards and Regulation Board's response to the Review of Real Estate Investment Valuations

13 January 2022

## Background

In September 2020, as part of its consideration of the future of the profession and maintaining public trust, RICS' independently-led Standards and Regulation Board (SRB) commissioned a review of real estate investment valuation. Peter Pereira Gray, Chief Executive of the Wellcome Trust's Investment Division, was appointed as Chair of the Review. The Review was supported by an Expert Advisory Group (EAG) established by Mr Pereira Gray, which reflected a diverse range of expertise from different sectors, and by a dedicated staff team that provided project coordination and secretariat support for the Review.

The Review's aim was to ensure that services provided by RICS-regulated professionals and firms operating in the valuation of real estate assets for investment purposes, predominantly for financial reporting, remain relevant and trusted in this important and sensitive professional field. The Review Chair, supported by the EAG, implemented a call for evidence and undertook extensive soundings from a broad range of stakeholders, both those involved in the production of investment valuations and those who rely upon them.

The SRB would like to thank Peter Pereira Gray for the insightful findings and his constructive contribution to recommendations that will play an important role in shaping the future of RICS' approach to the regulation of valuation services.

## Reasons for the Valuation Review

The valuation of real estate investment assets plays a critical role in supporting confident markets and economic stability. The valuations provided by RICS-regulated members and firms underpin financial reporting and decision-making for trillions of pounds' worth of

land and real estate assets in the United Kingdom and globally – a significant amount of which is ultimately funded by consumers through pensions, savings and investments.

RICS is the principal professional body and regulator of real estate valuation services in the UK, while also leading the development of international valuation standards and upholding their application by its members globally. In doing so, RICS provides oversight of activities carried out by its members in this important area, which is one of the major investment asset classes underpinning both the UK and global economies. Given this importance, the SRB regularly reviews its standards and regulatory processes to ensure that they remain fit for purpose, continue to provide a foundation for confident markets and underpin public trust in this fast-changing environment.

The SRB commissioned the Valuation Review to respond to increasing market-based commentary and feedback centred on the ability of valuers to keep pace with market dynamics that are evolving rapidly. Criticism of performance was combined in some quarters with concerns over the independence of valuers when reporting on investment performance. These questions, and others, have been posed in the wider context of changing public expectations about the independence of professionals.

## **Findings and recommendations**

The nature of commentary and feedback naturally focused on concerns about practice and performance within the market. The Review has taken care to ensure proportionate analysis of all the evidence collected, and the SRB believes that it provides a balanced view, acknowledging some excellent examples of best practice. The SRB's focus going forward will be aimed at ensuring these areas of best practice are replicated wherever possible across the sector – while also applying measures, where necessary, to deter poor practice by valuers and their clients, many of whom are also members of the surveying profession. It is of note that the Review found no systemic issues that lead to questions regarding the overall credibility or accuracy of valuations.

The Review recognises the substantial progress RICS has made over the past 10 years in creating a coherent professional framework for valuation through RICS' independently-led regulation. Notably, these include the creation of the Valuer Registration scheme and its related compliance monitoring regime, the bolstering of regulatory enforcement processes and the continued pre-eminence of the RICS Red Book (RICS Valuation – Global Standards) worldwide. However, the Review's findings point towards significant additional work to ensure the progress of the last decade is maintained and built upon.

The Review has distilled the complex behavioural and technical issues identified through the evidence gathering process, and presented 13 clear and evidence-backed

recommendations. The SRB recognises the interconnectivity of these recommendations and the Board's intention is to consider these holistically, as indicated in the report.

While outside of the terms of reference of this review, the SRB thanks Peter Pereira Gray for highlighting other issues identified during the evidence gathering process. These included challenges associated with the current availability of professional indemnity insurance, the composition of performance indices, and the environmental, social and governance (ESG) agenda. While these challenges could not be given appropriate attention within the scope and timeline of the Review, they have a clear role in supporting confidence in valuation. As such, the Review's conclusions will inform and contribute to the significant work currently ongoing in these three areas.

## Next steps

The public call for evidence, round tables, research and stakeholder discussions produced an enormous amount of evidence, which was complex, not only in volume but also in spanning the breadth of stakeholder expectations. Through this engagement, the Review findings give a unique insight into the profession's performance, and the SRB is of the view that delivering the outcomes recommended in the Review is of vital importance to the profession's credibility and future standing. They will serve as a guide in scoping RICS' standards and regulatory strategy. Furthermore, the SRB will now plan and, when it has secured appropriate resources to do so, implement the necessary programmes of work to achieve lasting change as quickly as possible, with input from the profession and its stakeholders.

Overall, the review findings indicate that the framework of valuation standards (the Red Book) and the approach to regulatory assurance (principally delivered through the Valuer Registration scheme) are effective for the majority of valuation work. However, in the most complex valuation activity and those valuations upon which the public and economy have the greatest reliance, assurance can be enhanced and strengthened to drive the highest possible quality of outcome.

While recognising that the recommendations are presented as a package, the SRB has initially identified two broad groups: recommendations capable of being developed within its existing model, and those that require substantial investment within the SRB's own governance and operational regime.

In all cases, the SRB will ensure progress is informed by stakeholder consultation on changes to RICS' standards and regulation framework. Any changes will be implemented as soon as resources are allocated and over an appropriate timeframe, with regular communications to stakeholders on progress. Ensuring it continues to act in the public interest, the SRB will pay particular attention to the Review's three overarching

recommendations. The Board unequivocally accepted all 13 recommendations of the Review, on 5 January 2022. The three overarching recommendations are:

1. The creation of an independently-led dedicated panel, under the jurisdiction of the SRB, to bolster RICS' regulatory approach in valuation.
2. The creation of a formal Valuation Compliance Officer role within regulated valuation providers.
3. The need for further specific guidance to clarify RICS' expectations around culture and the behaviours expected of RICS professionals undertaking valuations.

The steps needed to respond to the recommendations will progress at different speeds, depending on the complexity of planning, strategic and operational mobilisation, and the resources required. The SRB is resolved to act with energy and purpose in delivering the necessary changes to support confidence in the high-profile valuations considered in the Review. The SRB will be cognisant of ensuring the impact on the profession in the UK and in other parts of the world is appropriately balanced and, where necessary, reflective of the different challenges facing the profession in different jurisdictions and markets. Importantly, the SRB will also take a proportionate approach to ensure that SMEs undertaking valuation work are not subject to inappropriate regulatory burden, adopting a right-touch approach commensurate with risk.

While the focus of this Review has been specific, there are insights identified that may be relevant to wider valuation activities, and indeed to other surveying services undertaken by RICS members and regulated firms. The SRB will consider carefully whether any of the recommendations and insight contained in the Review's final report have broader application.

The SRB hopes that members, regulated firms and stakeholders alike will welcome the findings of Peter Pereira Gray's Review, and work constructively to plan and implement the future professional framework. The SRB sees addressing these recommendations as a huge opportunity to work together to ensure a robust and credible future for those in the profession undertaking investment valuations, while maintaining public confidence.