

Residential Valuation Standing Instructions

These instructions are designed to outline requirements for Residential Valuation reports prepared for Mortgage Security purposes.

Version 1.2

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Section 1: General Matters

1.1 Introduction

- 1.1.1 These Valuation Standing Instructions (Standing Instructions) are intended to outline requirements for Residential Valuations prepared for the benefit of the entities in 1.1.3.
- 1.1.2 This document has been designed to be used by valuers whether the valuation has been instructed directly by a borrower, a lender, or via a mortgage broker or a valuation ordering service.
- 1.1.3 These instructions have been prepared in consultation with the New Zealand Institute of Valuers and are endorsed by the following lenders:
- ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of New Zealand Limited
 - HSBC
 - Kiwibank Limited
 - Mortgage Holding Trust Company Limited (Sovereign)
 - Southland Building Society
 - The Co-Operative Bank Limited
 - TSB Bank Limited
 - Westpac New Zealand Limited
- 1.1.4 The Valuation Report must be addressed to the lender entity associated with the instruction, with the valuation ordering service reference number clearly noted (if applicable).
- 1.1.5 You must provide a statement within the Valuation Report noting it complies with these Standing Instructions.

1.2 Types of property covered by these Instructions

- 1.2.1 The Standing Instructions are to be used for the valuation of Residential Property, as defined below:

Type of Property Included ('in scope')

- a single dwelling (house, townhouse, unit or apartment)
- a house or unit under construction or to be built
- a vacant section on which building two or less dwellings is permitted
- a unit title apartment (or stratum in freehold) occupied for residential use
- a serviced apartment where permanent occupation is a permissible alternate use
- a rural residential property where residential use is the predominant use
- a leasehold (or ground lease) residential property
- a dual occupancy property, with no more than two dwellings on one certificate of title
- a Company Title home unit

Type of Property Excluded ('out of scope')

- a property for which permanent residential use is not permitted
- a property with three or more dwellings on one title (e.g. block of units or house split into flats)
- a boarding house, or properties with three or more tenancies
- a bed and breakfast property, unless valued on a standard residential basis
- a rural property that is not suitable for residential use, or where a residential use is not the main use (the main use may be farming or horticulture).
- a commercial property (such as an office, retail building or industrial property)
- a mixed-use property where residential use is not the main use (note does not include properties with a mixed use zoning)
- a development site (as described in section 3.3)
- a retirement village, hostel or aged care unit
- Maori Freehold Land
- Life Tenancies

1.3 Best Practice

1.3.1 The Valuation Report must also comply with industry standards and best practice as supported by the New Zealand Institute of Valuers, including;

- International Valuation Standards
- Australia and New Zealand Valuation and Property Standards, Guidance Notes and Technical Information Papers.

Where this document is in conflict with, or is a deviation from the provisions of the above documents, the approach taken by the valuer needs to be clearly noted within the Valuation Report as a 'Special Assumption' (as defined within International Valuation Standards).

1.3.2 A Valuation Report is required by a lender to provide an assessment of Market Value (as defined by the New Zealand Institute of Valuers), however also as part of making an informed lending decision. Lenders expect valuers to highlight any risk aspects relating to the Property and to recommend further specialist advice where required.

1.4 Required qualifications and experience of Registered Valuers

1.4.1 Registered Valuers must physically inspect the Property internally and externally in a way that is sufficient for them to competently assess the value of the Property.

1.4.2 All parties involved in preparing the valuation must sign the Valuation Report. Each signatory to the Valuation Report must disclose, where the Report is signed off, their role in producing the valuation assessment and the Valuation Report. This includes identifying that the Registered Valuer undertook an internal inspection of the subject Property on the Date of Valuation.

1.4.3 All signatories to the Report must have sufficient knowledge of the comparable evidence to support the value conclusion. Registered Valuers are not required to have physically inspected each comparable sale, however they must be aware of both the Property identified and the transaction details.

1.5 Valuation Report Requirements

1.5.1 The Valuation Report must address all of the items included in Section 2 of these Standing Instructions.

1.6 Professional Expectations

1.6.1 The valuer must be independent and at arm's length from all parties including the borrower, vendor, developer, purchaser, Real Estate Agent, introducer or other professional adviser.

1.6.2 If the valuer is aware of or discovers a potential conflict of interest, the instructing party, reliant lender and (if applicable) valuation ordering service must be informed and these parties must provide consent to the conflict before the valuer proceeds with the Valuation Report.

1.6.3 The Valuation Report is expected to discuss all factors that could impact on the value of the Property, and in some cases may include commentary that could fall more appropriately into the domain of other specialist professions such as building inspectors, architects, quantity surveyors, lawyers, and planning consultants.

Comments provided by valuers on areas of specialised knowledge are to be limited to (and accepted as) the valuers view of how prospective purchasers would approach that aspect of the Property, with the valuer recommending specialist advice where this is considered necessary.

1.7 Valuation Date

1.7.1 The effective date of your valuation ('Date of Valuation') must be the date of inspection unless otherwise instructed.

1.8 Amended Reports

- 1.8.1 An Amended Report is a Valuation Report that has been changed by the valuer after the original Valuation Report has been issued.
- 1.8.2 Amended Reports must include a version number, date the report was amended and an additional section entitled 'Report Amendments'. This section is to include a summary of the changes made to the original Valuation Report and justifications for those changes.
- 1.8.3 Amended Reports should be peer reviewed if deemed necessary.

1.9 Recommended Documents to Sight

- 1.9.1 As part of the valuation the valuer should obtain any public or reasonably available documentation that may impact on marketability or value. The valuer must identify any information that was sought by the valuer as part of the valuation but was not made available. The valuer is not required to search the council file for the subject property unless required as part of the specific instruction.
- 1.9.2 Where a property has been recently constructed or subject to recent building work, the valuer must enquire whether a Code Compliance Certificate is required or has been issued. If a Code Compliance Certificate is required and has not been issued, or the valuer has been unable to ascertain whether the work has a Code Compliance Certificate, this must be specifically noted within the Valuation Report.
- 1.9.3 If a Sale and Purchase Agreement, Land Information Memorandum (LIM), Property Information Memorandum (PIM) or other property related document is provided as part of instruction, the valuer must read and comment on the information provided.

1.10 Inspection

- 1.10.1 The valuer is to inspect all areas of the improvement. If this is not possible, and lack of inspection may impact on the valuers confidence in the value assessment, the extent of inspection must be noted as a Special Assumption within the Valuation Report.

1.11 Report Disclaimers and Disclosures

- 1.11.1 The Valuation Report must not contain disclaimers or statements that are similar to the following;
- require the lender to comply with internal lending guidelines, prudent lending practices, or to lend conservatively
 - require the lender to undertake specific actions, unless detailed in the Special Assumptions, as part of accepting the valuation report (other than recommendations such as the recommendation for a professional report to be completed)
 - make comment on the valuers opinion of an applicable or conservative Loan to Value Ratio, lending amount or a numerical Mortgage Recommendation
 - make the valuation 'conditional' on an aspect unrelated to the value of the property, unless detailed in the Special Assumptions
 - unreasonably restrict the valuer's liability to the lender, and/or limit the valuers liability in regards to aspects of the property that could be reasonably researched and commented on by the valuer
 - unreasonably restrict the time period for which the valuation can be relied upon
- 1.11.2 The Valuation Report is to include a statement that the firm holds current Professional Indemnity Insurance and that the Registered Valuer signing the report is covered by the policy.

Section 2: Valuation Report Format

The following comprise the minimum reporting requirements expected as part of a Residential Valuation Report.

2.1 Valuation Summary

2.1.1 Provide a Valuation or Executive Summary section at the start of the Valuation Report, which includes:

- address of the property being valued
- date the Valuation Report is issued
- effective date of the valuation and date of inspection (if these are different)
- version number of the Valuation Report (if an Amended Report)
- name of the instructing party
- lending institution the Valuation Report is addressed to
- borrowers name
- type of property (as outlined in section 1.2.1)
- valuation ordering service reference number (if applicable)
- purpose of valuation
- brief property description including the estimated age and design of the improvements, the number of bedrooms and bathrooms, the floor area, and the condition of the improvements. Also to be identified is the land area (if appropriate) and the locality of the property.
- any Special Assumptions applying to the valuation
- any significant risks with the property
- Market Value as assessed plus any other value levels required or requested such as Market Value 'As is' and Market Value 'As if Complete'
- the names of all parties involved in the preparation of the Valuation Report and identification if a Registered Valuer or not

2.2 Risk Analysis

2.2.1 Identification and an assessment of the risks that may impact property value is required.

2.2.2 The risk assessment matrix will include:

- property specific risk ratings – location and neighbourhood, land, resource consent issues, and improvements
- market risk ratings – market volatility, local market impact and market segment conditions
- any other risk deemed appropriate to be identified by the valuer

2.2.3 Elevated risks should be clearly discussed within the Valuation Report and how they apply to the subject Property, including issues such as:

- Building Consent or Resource Consent or areas of non-compliance
- flood, erosion, subsidence or slip risks
- earthquake impacted areas or land identified as having a high risk of liquefaction
- Requirement or Designations for proposed public works
- sites or areas of significance to Tangata Whenua
- heritage features
- essential repairs
- building defects including weather tightness or other deterioration
- proximity to infrastructure such as a mobile phone tower or transmission lines/pylons
- restrictions on access to the property
- proximity to railway lines, main roads or airport/flight path
- any form of contamination

2.3 Photographs

- 2.3.1 The Report should include a minimum of five colour photos of the Property. These must be taken at the Date of Valuation (date the property was inspected).
- 2.3.2 As a minimum photographs should include, as appropriate, the:
- roadside/front of property
 - kitchen
 - main bathroom
 - main living area
 - main yard area/section
 - rear of house
 - any adverse features or areas of deferred maintenance (with description)
- 2.3.3 Photographs taken by third parties should only be used in special circumstances, such as aerial or elevated photos, with the source of the photograph identified.

2.4 Title

- 2.4.1 A Historic copy of the Computer Interest Register (Certificate of Title) must be searched as well as any relevant registrations and encumbrances that may impact on value or saleability of the property. Attach a copy of the title and plan to the Valuation Report. A Historic copy is required to ensure section 2.13.1 is complied with.
- Note: the Historic Search shows all interest registered when the title was created and since.
- 2.4.2 The Title attached to the Valuation Report should be searched on the Date of Valuation, however this must not be older than 10 working days from the Date of Valuation.
- 2.4.3 The value implications of any relevant registrations on the Computer Interest Register must be explained.
- 2.4.4 For properties that do not have Freehold tenure, the Valuation Report should include the following:

<i>Tenure</i>	<i>Requirements</i>
Leasehold	<p>Review the Ground Lease document, and comment on:</p> <ul style="list-style-type: none">• key terms of the lease including any renewal or expiry dates• date of next rental review• rental review mechanism• current contract and market ground rental (if applicable)• impact of tenure on saleability
Unit Title	<ul style="list-style-type: none">• obtain copies of the Pre-Contract Disclosure Statement (if applicable), plus recent Body Corporate and any Special or Emergency Meeting Minutes, plus Body Corporate Budget• comment on issues that may affect value or future saleability (if known). Such issues may include outstanding maintenance, any maintenance plans, weather tightness, and any remedial issues• attach copies of relevant documentation to the Valuation Report, as appropriate
Cross-lease	<ul style="list-style-type: none">• confirm the Title Deposited Plan (flats plan) reflects the situation on site.• comment on any variance and the impact this may have on saleability
Company Title	<ul style="list-style-type: none">• sight a copy of the Company's Constitution (memorandum and articles of association) and Share Certificate• note any adverse restrictions, such as the rights to lease, restrictions on disposal

- confirm the Shares provide for exclusive occupation of the subject unit.
- ensure the valuation is clearly described as ‘Shares in a Company Title Building’
- include sales evidence that are company share transactions (where possible)

2.5 Rating Value

2.5.1 Provide a summary of the Property’s current Rating Value, date of assessment, and apportionment between Improvements and Land components.

2.6 Location & Services

2.6.1 Include a locality map showing the Property’s location in relation to landmarks such as schools, shops and town/city centres.

2.6.2 Comment on the location, nature of the surrounding development and land use, proximity to urban centre and special features of the locality.

2.6.3 Identify whether the Property has access to key services:

- water, mains, bore supply or on-site collection
- electricity
- gas, mains or bottled
- sewerage, mains or on site system
- sealed all weather road access

2.7 Zoning/Resource Management

2.7.1 Comment on:

- the Territorial Authority, the current and/or any proposed zoning (if applicable)
- key feature of the Property’s zoning
- a long narrative of the permitted activities in the zone is not required unless highest and best use is not the current use
- any provisions within the zoning that may impact on the Property’s value such as heritage protection, protected trees, overland flows paths or non-complying use
- if the Property is designated for a future public work or in close proximity to a designated work comment on the status of the project and likely impacts
- a statement about how the zoning impacts the potential use and saleability of the subject Property

2.7.2 You must note any areas of apparent or potential non-compliance if known or in question.

2.7.3 You can add a statement that the Property appears to comply with the zoning provisions, if you think this appropriate.

2.8 Site Description

2.8.1 Identify key features of the site:

- land area
- shape
- contour
- outlook
- aspect
- current use
- position of the improvements on the site (if applicable)

- any special features

2.8.2 Include an Aerial Photo showing the improvements and site boundaries if available.

2.9 Improvements

2.9.1 The valuer should describe the Property's improvements including:

- age of the improvements
- style of construction
- gross building areas as measured or confirmed by the valuer
- description of materials used in construction
- description of the layout
- description of amenities provided
- other site improvements
- chattels included

2.9.2 Describe the presentation of the improvements including:

- condition
- any essential repairs required
- any recent additions/refurbishments/renovations

2.9.3 Appropriate consideration should be given by the valuer to:

- weather tightness of the improvements
- any building materials utilised in construction that may impact on value such as asbestos or weatherside
- flood prone areas or other natural risks apparent in the locality
- potential seismic performance of the improvements, (if applicable)

2.10 Occupational agreements

2.10.1 If the Property is subject to a commercial-style lease or would primarily appeal to the investor market, commentary is required on:

- current rental income
- cash flow sustainability and comments on over or under rented
- property outgoings

2.10.2 A more detailed discussion should be provided for tenancies that are not standard Residential Tenancies, such as Housing New Zealand leases.

2.11 Market Commentary

2.11.1 The valuer is to provide a brief overview of what effect the macro economy at national and regional level has on the neighbourhood in terms of sales trends, demand and future saleability.

2.11.2 Commentary should extend to the detail of the local market, including types of dwelling and factors important to the local market (such as school zones or land zones)

2.12 Sales Evidence

2.12.1 The sales evidence set out in the valuation shall:

- include a minimum of five confirmed* sales, with a brief description, photograph (if possible) and reasons why the sale is 'inferior', 'comparable' or 'superior' to the subject Property
- be within six months of the date of valuation

- be of a similar type, location, age condition, size etc
- be within 20% (plus or minus) of the assessed market value
- (for new/to be built house and apartments) include sales evidence within and external to the subject development including newly built dwellings and houses that have previously been occupied

* confirmed sales include transactions whereby the valuer has obtained achieved prices from Real Estate Industry Body or third party sales databases, has witnessed the sale at Auction, or has been advised of the sale by a solicitor.

- 2.12.2 If the sales evidence does not meet these minimum requirements, identify why this is the case.
- 2.12.3 Use a table or narrative as applicable to reconcile the sales evidence. The sales evidence must be clear enough for the reader to reasonably reach the same value conclusion.
- 2.12.4 To help the reader understand the valuation, insert the sales in ascending order of value.

2.13 Current and Prior Sales

- 2.13.1 The valuer is to note the previous sale price and sale date for the Property if sold within the last three years. Comment on any changes to the Property or property market since the last sale occurred.
- 2.13.2 If the valuer is aware that the property is subject to a proposed purchase, the valuer must note this and the proposed purchase price, if known, in the valuation report. Ideally the valuer should request a complete copy of the Sale and Purchase Agreement, with the valuer noting any special conditions of sale and commenting on any difference between sale price and Market Value.
- 2.13.3 The valuer must comment if the Property is currently being formally marketed and any recent marketing history.

2.14 Agent advised/Unsettled sales

- 2.14.1 Unsettled sales and sales advised to the valuer by third parties can be included within the valuation report, however the report must note the source of the information, and comply with the requirement to provide a minimum of five confirmed sales.

2.15 Value Assessment/Conclusion

- 2.15.1 The valuer is to include details of the valuation rationale or approach used as well as explanations, calculations and the methodology used.
- 2.15.2 Any value assessment (unless it is one of a number of titles, one upon the other, in a unit title development) is to be apportioned between:
- Land Value
 - Improvements Value
 - Chattels Value

2.16 Mortgage Recommendation

- 2.16.1 Do not make a numerical Mortgage Recommendation. The Mortgage Recommendation should focus on the Property's suitability for mortgage lending and any specific or macro risk aspects that should be considered by the lender.
- 2.16.2 The Valuation Report must include a note that the reliant lender (as applicable) can rely on its contents for mortgage lending purposes.

Section 3: Different Types of Valuations

This section sets out the requirements for valuation reports of the following property types:

- Construction Valuations
- Progress Payment Assessment
- Development Site
- Two Dwellings on One Title
- Market Constrained Valuation

3.1 Construction Valuations

3.1.1 Refer to Appendix 1 for guidance over the type of valuation reporting that is required where a new house is being constructed or an existing house altered.

3.1.2 Recommended documents to sight as part of a construction valuation include:

- Council approved plans with dimensions and measurements
- an executed building contract, and any variations
- A schedule of proposed finishes and specifications
- where a title has not been issued, either a Draft Survey Plan with pre-allocated lot identifiers or a copy of the scheme plan that was lodged as part of the Resource Consent application
- proposed Body Corporate or Residents Society documents (if applicable)
- if any of the above is not available, an explanation or Special Assumption outlining the limitations of the assessment is to be made

3.1.3 If the Construction Contract will provide for a dwelling that is not complete, or requires owner supplied components or labour, this must be identified within the Valuation Report, with a likely cost to complete noted.

3.1.4 Photos/images to be included within the Valuation Report for construction valuations are:

- a photo of the land or site
- photos that clearly show the state of building completion when you inspected the Property.
- an architectural perspective of the proposed improvements (if available)
- floor plans, site plan and elevations of the proposed improvements

3.1.5 Valuations undertaken on houses to be erected or under construction should also include sales of vacant sections, even if the valuation is limited to provision of an 'As if Complete' assessment.

3.2 Progress Payment Assessments

3.2.1 A Progress Payment assessment should comprise two components:

- percentage of the proposed improvements complete
- the Estimated Cost to Complete

An updated Market Valuation taking into account the partially complete nature of the improvements is not required unless specifically requested.

3.2.2 The valuer must:

- inspect the Property internally and externally
- confirm the construction progress is in line with the building plans used to undertake the original valuation. Check measurements of the building should be undertaken by the valuer.
- include photos showing the stage of completion

3.2.3 The valuer should not issue the first Progress Valuation Report before having received and reviewed:

- the executed Building Contract
- the agreed Schedule of Finishes and Specifications
- Council approved plans with dimensions and measurements, including Site Plan, Floor Plans and elevations

If any of the above documentation subsequently varies from that provided at your first valuation or progress valuation, a new assessment of the Market Value 'As if Complete' may be required.

3.2.4 When issuing a Final Progress Valuation Report, the valuer must:

- Confirm whether the valuer has sighted the Code Compliance Certificate
- Note any unfinished works and likely cost to complete

3.3 Development Sites

3.3.1 A property with development potential for two or more lots should only be considered under these Standing Instructions if it:

- does not have a Resource Consent for development into two or more lots/dwellings
- is readily saleable at the assessed Market Value to the broader market, appealing to owner occupiers, investors and developers equally and at similar prices
- can be valued by the Direct Comparison method and supported by sales evidence of standard residential dwellings (not development sites)

3.3.2 A development site with potential for two or more lots should not be valued on a residential basis when the Property:

- appeals only to the developer market and not to the end-owner market; or
- has an approved Resource Consent in place; or
- the highest and best use of the property is imminent development; or
- has development potential based on speculation of future zone change; or
- cannot be valued using the Direct Comparison approach using sales evidence of standard residential properties (instead requires, for example, a Hypothetical Development exercise)

3.4 Two Dwellings on One Title

3.4.1 When valuing two dwellings on one title, you must:

- value the Property as one holding and not assume individual titles
- describe the details of each dwelling separately (including accommodation, floor areas and car accommodation for each dwelling)
- provide a separate rental estimate for each dwelling (if required)

3.4.2 If you have been specifically instructed to provide an individual assessment, you should:

- ensure that each value component is assessed 'As if Complete'
- obtain a copy of a proposed plan of the subdivision of the parent title to clearly identify the proposed lots
- also provide a market value 'As is'

3.5 Market Constrained Valuations

3.5.1 In some instances, the Lender may require an assessment of value under the Special Assumption that the sale of the Property is likely to be forced, a mortgagee sale or similar. In this case the valuer must identify the likely constraints on the sales process, and the effect these constraints may have on realisable value. These factors may include:

- inadequate exposure to the market, an unreasonably short period in which to achieve a sale

- inappropriate sale method or marketing
- a vendor with a primary objective of recovering a loan rather than obtaining the market price
- purchasers being aware of the circumstances of the sale and the vendors weakened bargaining position
- lack of warranties about the condition of the Property or the condition of the chattels at settlement date
- the ability to obtain vacant possession at settlement date
- outstanding Body Corporate levies and fees
- Charging Orders, Caveats and any other registrations of relevance

3.5.2 The Market Constrained Valuation should be provided in addition to Market Value within the Valuation Report.

3.5.3 If sales evidence is available of comparable properties sold under forced or constrained circumstances, these should be provided in support of the Market Constrained Value.

Section 4: Exclusions and Disclaimer

4.1 Disclaimer

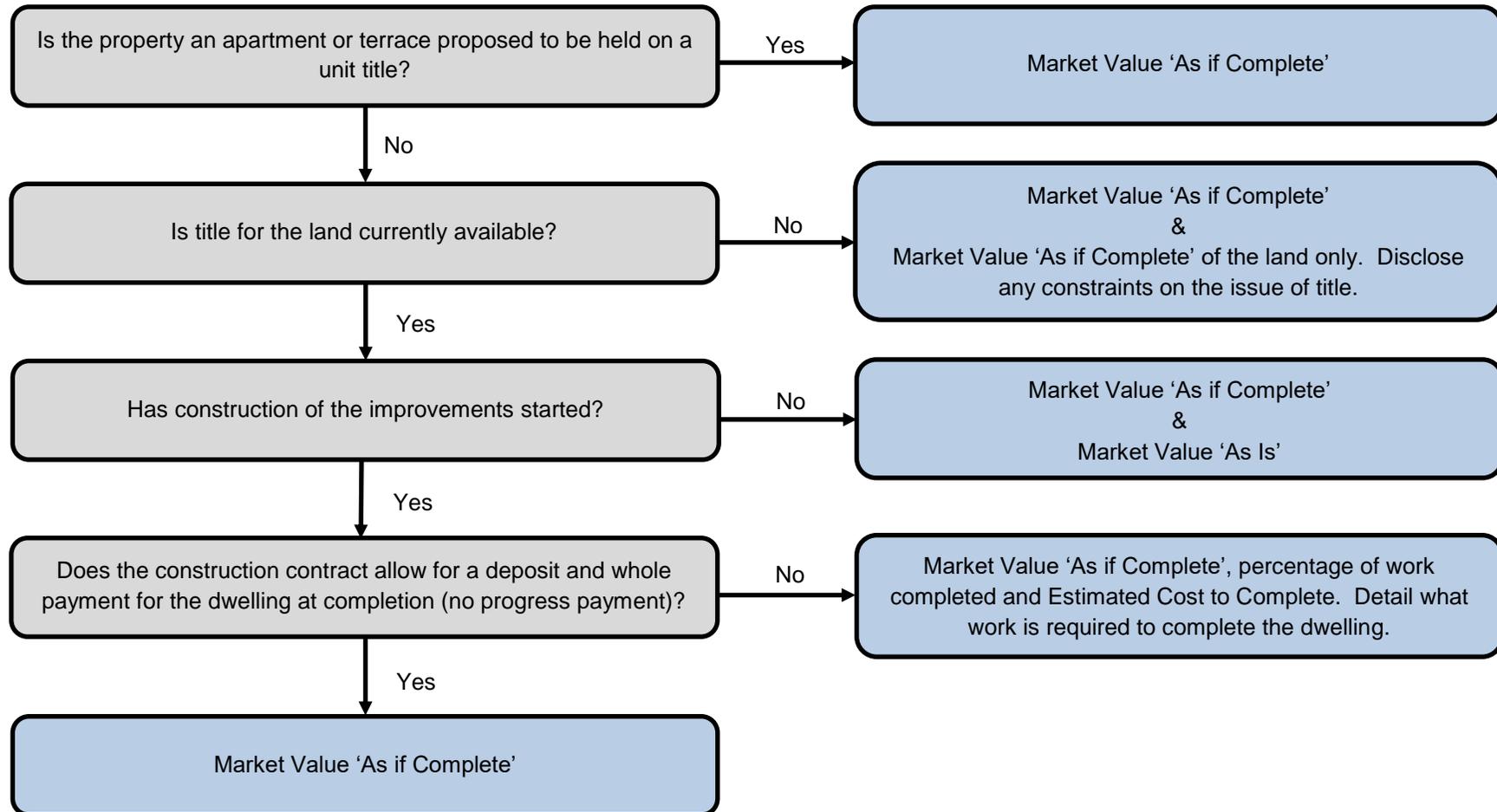
4.1.1 The Standing Instructions relate to standard residential properties only, as discussed within section 1.2. Other types of property may have further valuation requirements and enquiries with the lender should be made prior to commencing valuations on these forms of property.

4.1.2 The content of the Valuation Report remains the responsibility of the individual Registered Valuer.

4.1.3 The Standing Instructions represent the endorsing lenders requirements for Residential Valuation Reports prepared on their behalf. The valuer should always use industry best practice, sound judgement and common sense when preparing a Valuation Report.

Appendix

Valuation Process for construction of a new dwelling



Valuation Process for an existing dwelling that is to be altered

