

Impact of COVID-19 on valuation

Supplement to the RICS Practice Alert

Global information for RICS-regulated members

21 July 2021

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1 Introduction

COVID-19 was declared as a “Global Pandemic” by the World Health Organisation in March 2020. Since that time, the situation relating to COVID-19 has changed regularly, with new government, regulatory and market requirements appearing weekly or even daily, at an international, national, regional and sometimes local level. A substantial period of time has passed since the initial WHO announcement of the crisis, with a range of interventions applied in different jurisdictions, having varying degrees of impact. Valuers need to have regard to the current position in respect of the location and purpose to which their valuation advice applies.

This information will be updated regularly to reflect current advice and each version will be dated. You are advised to refer to the latest digital version to ensure you remain up to date. RICS has also produced additional guidance to address specific subjects and jurisdictions during the COVID-19 health crisis and its aftermath. These should be read and followed where appropriate in addition to this global overview.

In this document, ‘RICS-regulated members’ refers collectively to both individual registered members of the profession and firms that are registered with RICS for regulation.

RICS-regulated members have a professional duty to keep up to date with the latest government and regulatory requirements in their jurisdiction and locality. RICS cannot accept liability for the failure by a regulated member to comply with legal or other regulatory requirements that affect valuation practice.

Regulated members and other stakeholders should ensure that they are familiar with the RICS [Valuation Practice Alert – Coronavirus – 21 July 2021](#), which includes the following on inspections, investigations and valuation information:

‘Any restriction of information and/or the ability to inspect and investigate must be agreed in terms of engagement and made clear in reporting. These requirements also apply to any valuation assumptions. If the regulated member considers that it is not possible to provide a valuation on a restricted basis, the instruction should be declined.’

All RICS-regulated members and other relevant stakeholders are advised to take a responsible approach to valuation, inspections and investigations that prioritises the safety of the general public and those undertaking the work. A more detailed review of inspection and investigation for valuation, in light of COVID-19 and RICS standards is included in sections 2 and 3.

The advice of local and national government and public health authorities on all matters related directly or indirectly to valuation takes precedence over advice from RICS.

2 Inspections, general regulation and protocols

The latest government, regulatory and public health policy must be followed at all times.

Inspections and investigations may take various forms including, but not limited to:

- full internal inspection of all but inaccessible parts and without testing of services
- internal inspection with some level of restriction on access
- a site perimeter or 'drive-by' inspection
- an inspection otherwise external to the site or property
- a 'desktop' opinion formed using, for example, digital mapping, records, plans and other data.

Care may need to be taken where inspecting premises in any form, including considering transport to the property, who will be present at the site and any related health and safety issues of being onsite alone where this is the case. The valuer's approach to inspection during COVID-19 varies dependent on the location, market and specific circumstances. In some locations, a stage has been reached where government and other regulations have abated, and valuers are capable of full internal inspection where required. Valuers in markets and jurisdictions where restrictions remain are sometimes choosing not to internally inspect any property that is occupied or populated due to the risks posed to those undertaking the inspections and the public. Alternatively, some valuers operating in restricted markets are adapting their processes so that inspections can continue. Further details on inspection and investigation for valuation is included below and at section 3.

In the absence of an onsite inspection, the valuer may have access to enough information to proceed with the valuation assignment, subject to the adoption of one or more reasonable assumptions concerning relevant matters, for example, condition. Information from clients, third parties and previous internal records can assist where inspection and investigations are limited. This includes but is not limited to, floor plans, previous reports and measurements, photographic records, video footage, particulars, government planning and other records. These may be helpful in supporting any of the inspection examples outlined earlier, but judgement will need to be exercised in each situation. Where a valuation using restricted information is to be undertaken, this must be agreed with the client in the terms of engagement, with the details set out in the valuation report.

Reasonable due diligence should be undertaken to corroborate information provided and obtained, with professional scepticism appropriately applied. Members are encouraged to seek out, review and appropriately verify 'desktop' information and data that will support the accuracy of valuation, particularly where an onsite inspection is prohibited or restricted.

Limitations on the nature and extent of the valuer's work, including any restriction on inspection, should be specified and agreed in the terms of engagement (scope of work) and be set out clearly in the report.

Some valuers are choosing to produce valuations that are subject to a deferred inspection and measurement, if required. This approach is subject to the agreement of the client and a statement of reporting limitations. This is only appropriate for valuation purposes where such an approach is reasonable.

Dispensing with an inspection because of COVID-19 restrictions does not automatically lead to the need for a declaration of material uncertainty in relation to the valuation opinion (see section 5), which in individual cases is a decision for the valuer (Red Book Global Standards VPS 3. 2.2 (o)).

In some circumstances, valuers may conclude that they are unable to form an opinion of value from the information collected and provided – in which case they should decline the instruction following an appropriate discussion with their client. The final decision on this rests with the valuer, not the instructing party.

Valuers should carefully consider their liability under any instruction, including whether this is impacted by any limitations, restrictions or assumptions. Some valuers are choosing to limit their liability where they are providing a restricted service. See section 7 for information on professional indemnity insurance and liability capping.

3 Inspection, investigation and RICS Valuation Global Standards

3.1 Valuing without an inspection or with inspection limitations

Although **not** undertaking an inspection of a specified physical asset may be a divergence from normal valuation practice in relation to the particular class of asset and for the purpose for which the valuation is undertaken, in the current context it is not a departure in [RICS Valuation – Global Standards](#) (Red Book Global Standards) terms. What constitutes a departure is described in PS 1.6.

While ‘inspections and investigations must always be carried out to the extent necessary to produce a *valuation* that is professionally adequate for its purpose’ (VPS 2.1), RICS recognises that circumstances in individual cases vary widely and differing needs will arise. VPS 2.1 goes on to say:

‘Any limitations or restrictions on the *inspection*, inquiry and analysis for the purpose of the valuation assignment must be identified and recorded in the *terms of engagement* (VPS 1.3.2 (i)) and also in the report (VPS 3.2.2 (g)).’

Restrictions are therefore possible. Red Book Global Standards adds that:

‘Except in the circumstances described in the section “Revaluation without re-inspection” [at VPS 2.2] ... valuers are reminded that to dispense voluntarily with an *inspection* or examination of physical assets may introduce an unacceptable degree of risk in the valuation advice to be provided’ (VPS 2.1.3).’

The emphasis here is on **may** – it is not ruled out.

Dispensing with an inspection to reflect circumstances relating to COVID-19 (which may vary widely between local and national jurisdictions and localities according to the stage that the pandemic may have reached and the prevention or containment measures in place) is, usually, not voluntary. Inspecting property may be challenging through, for example, firms’ own internal procedures, government-imposed restrictions, or the unwillingness of occupants to grant access.

In the present context all guidance and restrictions issued by the relevant jurisdictional authority in relation to COVID-19 can be regarded as ‘authoritative requirements’ (PS 1.4), whether they are, or not yet, embodied in law or regulation. This reinforces the fact that a valuation undertaken in these circumstances without an inspection will still be fully compliant with the requirements of Red Book Global Standards.

3.2 Inspection information from third parties

Where an inspection cannot be undertaken or is otherwise limited, an increased focus may be placed on information or data obtained from third parties. Red Book Global Standards VPS 2.1.8 makes clear that:

‘...the valuer should consider whether the information is credible and may be relied on without adversely affecting the credibility of the valuation opinion. In that event, the assignment may proceed. Significant inputs provided to the valuer (for example, by management or owners) that materially affect the valuation outcome but about which the valuer considers some element of doubt arises will require assessment, investigation and/or corroboration, as the case may be. In cases where the credibility or reliability of information supplied cannot be supported, such information should not be used.’

Being alert to the position regarding data protection of that information is also important. The RICS guidance note *Comparable evidence in real estate valuation* states that in many cases:

‘...evidence will be provided by third parties such as the owners, tenants or occupiers of similar real estate, or their agents. Questions of commercial confidentiality or statutory data protection may arise, which might mean that sources and figures cannot be confirmed, but this should not invalidate the use of the data in arriving at an opinion of value, provided confidentiality issues can be respected. Valuers need to be aware of any local data protection or confidentiality legislation that may apply in their jurisdiction and act accordingly. For example, it may be necessary to obtain permission to use data on comparable transactions, especially if this is going to be published in a report or used in judicial proceedings.’

Reliance on third party information is referred to at section 7 below.

4 Ensuring compliance with RICS standards

If, for reasons relating to COVID-19, an inspection cannot be made in circumstances where it otherwise would be, the valuer or firm must do the following.

- Be satisfied that continuing with the instruction is proper, or that it can be accepted 'subject to certain conditions, for example that the *valuation* will not be published or disclosed to *third parties*' (VPS 1.3.2 (j)).
- Ensure that the nature of the restriction on service (i.e. dispensing with an inspection) is clearly specified in the terms of engagement (VPS 1.3.2 (j)) and in the report (VPS 3.2.2 (g)), and that any assumptions made in consequence of the restriction are also expressly specified (VPS 4.8 Assumptions and VPS 4.9 Special assumptions). Being clear about the scope of work is fundamental to the issues of risk, liability and insurance (as detailed in VPS 1.3 and VPS 3.2) and it is therefore particularly important that the terms of engagement are expressly agreed with the client. The RICS guidance note [Risk, liability and insurance \(1st edition April 2021\)](#), addresses these points in section 6.6 – although UK-specific, it may provide some assistance to those operating under non-UK jurisdictions.
- Retain a proper record of the rationale for dispensing with an inspection (VPS 2.1 and VPS 2.3) underpinned by an assessment of risk to the soundness of the valuation. The record will vary according to individual circumstance but should be appropriate and concise.

It is not possible to have a standard form of words in the terms of engagement to cover all situations, because markets, market sectors and individual asset classes may or will be impacted in different ways. An inspection may not be ruled out in every instance, unless government advice has stated that this is the position. However, in cases where all parties recognise and agree that an inspection is inappropriate or limited at the date concerned, including wording similar to 'as agreed, compliance with current [government/jurisdictional requirements and/or guidance] in relation to the COVID-19 pandemic preclude or limit an inspection' should suffice. What is important is that any consequential assumptions and, subject to the jurisdictional context, any recognised and agreed limitations on liability (e.g. in relation to matters that could only have been revealed on inspection) are specified.

Where the purpose of the valuation has greater implications around risk and liability, such as secured lending, greater caution may need to be exercised by the member or firm about accepting the instruction if inspection is not possible, particularly in relation to risk and liability.

5 Material valuation uncertainty, market conditions and the valuation approach

The more severe the current COVID-19 impact on individual markets, and the more unpredictable the consequences, the more likely that material valuation uncertainty may need to be declared. In all cases, the principles and guidance set out in Red Book Global Standards should continue to be followed. For this purpose, a pandemic can be regarded as, or as equivalent to, a ‘natural event’ (VPGA 10).

Individual markets may react differently to the COVID-19 outbreak, aftermath and further “waves”. RICS regulated members will consider the circumstances in which a material uncertainty declaration is appropriate. RICS regulated members should be fully aware of VPGA 10 and VPS 3 within the RICS Red Book Global Standards in the decision-making process. It’s worth noting that VPGA 10 refers to ‘relatively unique’ market factors and, for example, ‘an unprecedented set of circumstances on which to base a judgment’. This may be of particular note when considering the impact of later phases or “waves” of COVID-19, compared to the initial outbreak.

5.1 Uncertainty and the valuation approach

In considering the degree of uncertainty at a specified valuation date, and where valuing in accordance with the *market approach*, careful regard should be had to the level of activity in the relevant market and the existence, and degree of reliability, of recent or contemporary evidence. See the RICS guidance note [Comparable evidence in real estate valuation](#) for more information. Where valuing using the *income approach* or otherwise with reference to income, the RICS global Valuation Practice Alert of 21 July 2021 states that:

‘Where a valuation refers to rental or other income, a considered assessment of that income in light of COVID-19 and, its aftermath may be required. Valuers are advised to make sure they are acting upon the latest, accurate rental and other income details. The valuer may need to reflect upon structural and behavioural effects on markets, either caused or heightened by COVID-19.’

Further detailed information on valuation evidence and approaches during the COVID-19 health crisis and its aftermath can be found at: <https://www.rics.org/globalassets/rics-website/media/news/covid19/valuation-approaches.pdf>.

5.2 Wording to assist with reporting market conditions and material valuation uncertainty

In a fast-changing global situation, RICS-regulated members need to be alert to circumstances at the valuation date. The wording below is taken from the RICS practice alert of 21 July 2021. It can be used as an explanatory note to consider market conditions where COVID-19 is still a relevant issue but the property market is properly functioning:

'Market conditions explanatory note: Novel Coronavirus (COVID-19)

The COVID-19 pandemic and measures to tackle it continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning, with transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value. Accordingly - and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

This explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential 'for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.'

At the date of publication, though available valuation evidence in many markets globally has improved, current circumstances related to the global COVID-19 pandemic and its aftermath are still leading some RICS-regulated members to include 'material valuation uncertainty' declarations in some of their reporting and advice. This does not mean that those members are currently unable to value – valuation under these circumstances provides a key function to support markets and stakeholders.

Whether material uncertainty exists remains the decision of the RICS regulated member. They should include a sound rationale to explain the decision-making process and this should be recorded for future reference. Where material uncertainty is declared, the valuer is reminded that this should be explicitly stated. Valuers may wish to use the following wording to reflect material valuation uncertainty further to COVID-19:

'Material valuation uncertainty

In respect of (x sector(s)), as at the valuation date we continue to be faced with an unprecedented set of circumstances caused by COVID-19 and an absence of relevant/sufficient market evidence on which to base our judgements. Our valuation of (x property(ies)) is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of these valuations less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

This declaration, does not mean that the valuation(s) cannot be relied upon. It has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.'

The material valuation uncertainty declaration can also be used in combination with the market conditions explanatory note.

Red Book Global Standards define material uncertainty as ‘where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted’ (VPS 3.2.2 (o)). It also explains circumstances of material uncertainty to assist the valuation process (with additional guidance in VPGA 10), but the decision to declare it remains with the independent valuer.’

Though the ultimate decision around material uncertainty always remains with the valuer, to promote transparency and consistency RICS setup a UK Material Uncertainty Leaders Forum, the terms for which and output can be found [here](#). The forum output only relates to the UK but the context, criteria and terms of reference may be helpful in other jurisdictions.

6 Special valuation instructions, including special assumptions

6.1 Special valuation instructions

RICS was advised by stakeholders that some lenders, investors, institutions and other instructing parties were seeking special assumptions or some other change to valuation instructions to consider COVID-19. For example, RICS received a number of reports regarding valuers being approached to provide 'market update letters' or 'comfort letters' for valuations either undertaken before the outbreak of COVID-19 or during the COVID-19 pandemic and its aftermath. Valuers should be extremely cautious in providing any such letter. It is essential that formal instructions are obtained for work, including agreement on the extent, source and nature of the information to be relied upon in undertaking the update to the valuation in line with the Red Book Global Standards.

Valuers should not feel pressured to agree unrealistic assumptions or special assumptions or report any valuation advice that will be used for ignoring the effects of COVID-19 and its aftermath, where this would be unreasonable.

Engagement with stakeholders during the crisis has led to some anecdotal reports of a misunderstanding of the difference between the market value of a property (VPS 4.4) and the investment value or worth of it to a particular owner or occupier (VPS 4.6). A dialogue with the client may be particularly important when settling the terms of engagement in order to ensure that the purpose and basis of value (VPS 1.3.2 (f) and (g)) fully accord with the client's needs, and that only reasonable and relevant assumptions or special assumptions are made (VPS 1.3.2 (k)). Particularly where market value is requested and reported, valuers will necessarily be heavily reliant on their professional knowledge and expertise when setting out their approach and reasoning (VPS 3.2.2 (l)).

Examples of special instructions include valuation of the property at an agreed date prior to the crisis. The time period between the pandemic being declared by the WHO on 11 March 2020 and the current date should be reflected upon within the context of the valuation purpose when considering whether it is appropriate to use this assumption. Wherever such instructions and particular assumptions are required, these should be considered carefully in the light of the overall purpose and basis of the valuation, agreed and documented with the client and reported accordingly. It is critical that the integrity of the valuation, particularly where reporting market value, is not compromised by unreasonable or untenable assumptions.

Red Book Global Standards VPS 3. 2.2 (f) sub-paragraph 2 makes clear that:

'If there has been a material change in market conditions, or in the circumstances of a property, asset or portfolio, between the *valuation date* (where this is earlier than the date of the report) and the date of report, the valuer should draw attention to this. It may also be prudent in appropriate instances for the valuer to draw the client's attention to the fact that values change over time and a valuation given on a particular date may not be valid on an earlier or later date'.

All regulatory and other reporting requirements around valuation dates and circumstances must be followed.

6.2 Assumptions and special assumptions

References to valuation assumptions and special assumptions are made in VPS 4.8 and VPS 4.9 and they are also defined in the Red Book Global Glossary. The following is not intended to be an exhaustive replication and it is essential that Red Book Global Standards is followed where decisions on assumptions will be made.

VPS 1.3.2 (k) (to be read with VPS 4.8 and VPS 4.9) states that '*Assumptions* are matters that are reasonable to accept as fact in the context of the valuation assignment without specific investigation or verification' and '*A special assumption* is an *assumption* that either assumes facts that differ from the actual facts existing at the *valuation date* or that would not be made by a typical market participant in a transaction on the *valuation date*'. It goes on to add '*Only assumptions and special assumptions* that are reasonable and relevant having regard to the purpose for which the valuation assignment is required should be made'.

VPS 3.2.2 (i) states that:

'All *assumptions* and any *special assumptions* must be set out in the report in full, together with any reservations that may be required and a statement that they have been agreed with the client. Both the valuation conclusion and the executive summary (if provided) should explicitly set out all *special assumptions* that have been made to arrive at the reported figure.'

Detailed advice and requirements concerning special assumptions are included in VPS 4.9. It should be noted that where market value is the agreed basis:

'the adoption of some *special assumptions* may qualify [but not wholly compromise] the application of market value. ... They are often particularly appropriate where the client is a lender and *special assumptions* are used to illustrate the potential effect of changed circumstances on the value of a property as a security' (VPS 4.9.7).

VPS 4.10 refers to valuations reflecting an actual or anticipated market constraint. It states at VPS 4.10.3 that:

'If an inherent constraint exists at the *valuation date*, it is normally possible to assess its impact on value. The constraint should be identified in the *terms of engagement*, and it should be made clear that the *valuation* will be provided on this basis. It may also be appropriate to provide an alternative *valuation* on the *special assumption* that the constraint did not exist at the *valuation date* in order to demonstrate its impact.'

7 Professional indemnity insurance, liability capping and third-party reliance

Before undertaking any valuation work in the current COVID-19 pandemic or its aftermath, valuers are advised to make sure:

- they have appropriate levels of professional indemnity insurance cover
- they are covered for the specific work being undertaken
- they have agreed terms around liability – including liability capping where appropriate
- they have agreed terms around any third-party reliance that can be placed on the information included in the valuation report and the valuation itself
- they are aware of and communicated with their client limitations on any third-party data to be relied on to produce the valuation
- they have read, understood and followed all relevant government, public health authority and RICS advice related to the COVID-19 crisis and its aftermath, and other relevant regulation, standards and legislation, particularly those pertinent to their jurisdiction and in some cases locality.

RICS-regulated members should maintain a dialogue with their insurers and legal advisers where they are unsure of their cover or legal position. Further detail is included in the RICS [Risk, liability and insurance in valuation work](#) guidance note which, though UK-specific, may serve as a useful starting point for those engaging in valuation work in other jurisdictions.