Valuation challenges: adapting to new practices

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How has the valuation process changed since the outbreak?

Whilst there have been some changes to inspection protocols as a result of government and RICS advice and guidance, it is still very much 'business as usual' although it is fair to say that lenders and valuers have tended to adopt different approaches. The more pragmatic mainstream and challenger banks are now requesting a combination of desktops, drive-bys, external-only and virtual inspections, with property visits often but not always being required later on, once the current crisis is over and certainly pre-loan drawdown. We are also in a period of material uncertainty, where valuations may well be subject to wider than normal tolerance levels.

How are valuers adapting to the social restrictions?

Generally, this varies; however, safeguarding and distancing are key factors. Valuers will also usually wish to ensure that a property is vacant at inspection (this is often very difficult to achieve in respect of multi-let units/HMOs); in addition, some types of trading business premises, such as healthcare and childcare (at least internally), are currently pretty much off-limits, whilst other sectors such as convenience stores and pharmacies are generally booming, with owners not permitting internal access for health reasons. The leisure/hospitality sector is, however, more amenable as such businesses are often closed at the present time.

How is the valuation community working with lenders and brokers to overcome challenges?

Regular and ongoing communication, together with swift action and keeping clients informed about access and reporting delays are key factors. Deals are still being done but many proposals are at least temporarily on hold. All involved parties wish to see the market return to a degree of normality as soon as possible; as professional advisers, however, we are adaptable and able to be proactive in terms of responding to our clients' specific requirements.

What are the limitations of AVMs?

AVMs tend to predominate in the homogenous residential market but do not really work for commercial and business valuations as each property or enterprise tends to be unique, with the analysis of comparable evidence much more complicated. There could also be issues concerning the condition of a property and any special circumstances surrounding a sale or refinance proposal. In addition, with specific regard to trade-related properties, there are too many variables and factors that might affect value, and which are unlikely to be covered by a mode. For example, the accounting information for virtually all trading businesses will be relatively worthless for most of 2020 and a valuer's opinion of the potential 'Fair Maintainable Trade' will be vital for lenders in considering such loan applications.

What will the 'new normal' look like for valuers?

Whilst current workload levels and those in the short-term are likely to be relatively limited, prospects for later in the year appear much more positive, not least once lenders return to 'new business'; there is also perceived to be a build-up of latent demand which is not as yet being satisfied. The market could well bounce-back relatively quickly. One of the main issues for valuers and lenders moving forward will be a lack of meaningful comparable evidence of transactions, which, until the post-COVID market starts to transact, will leave all parties considering whether pre-crisis sale prices and values are still realistic. All valuation reports will, however, continue to incorporate material uncertainty clauses for the foreseeable future. We may not, however, see a return to a 'normal' market for perhaps at least 12 months, subject to a potential second wave. Sadly, during that period and perhaps even in the short-term, the pool of available valuers is likely to be reduced, not least due to greatly increasing PII premium costs which will likely put some out of business, with some lending panels also likely to be reviewed.