

REPORT



# Discounted cash flow valuations

Basis for conclusion

November 2023

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This document has been prepared to accompany publication of RICS' *Discounted cash flow valuations* practice information, but crucially also to set out wider workstreams around the use and application of DCFs by valuers globally.

This document summarises the responses to and refinements made to the practice information and wider DCF strategy as a result of the public consultation that closed 12 April 2023.

It is emphasised that this document has been produced purely to assist the reader and does not form part of any RICS practice information or standards.

**RICS Professional Practice and Development**

**November 2023**

# Overview

To progress the [Valuation Review](#) and implement those recommendations specific to discounted cash flows (DCFs), RICS consulted on a series of proposed outputs focused on supporting a better understanding and appropriate application of DCF models.

Given the breadth and diversity of RICS Registered Valuers in the UK and around the world, RICS recognises the importance of bringing about lasting change through proportionate and supportive measures over an appropriate timeframe, rather than through any one single regulatory intervention.

The key workstreams to deliver change in respect of recommendations 8(i) and (ii) of the Valuation Review were summarised in the consultation, along with a questionnaire for each section. The key areas for consultation were as follows.

- Section (A): current RICS Valuation – Global Standards (Red Book Global Standards) covering valuation methods and models and feedback on possible changes.
- Section (B): a new draft RICS Valuation – Global Standards: UK national supplement UK VPS 4 standard for the valuation of investment property covering the consideration of the use of DCF. **Note it has been concluded that this will not be taken forward at this time for the reasons set out below.**
- Section (C): examples of supporting tools to help valuers' professional development that RICS may include on a web-based 'DCF transition hub'. This could support stakeholders operating in markets where DCF is less used or only used for some sectors and purposes.
- Section (D): a questionnaire covering the best ways of 'upskilling the valuation profession' to expand the capacity for offering DCF and other analytical approaches and risk analysis referred to in the Valuation Review.
- Section (E): a draft of a new global practice information Discounted cash flow valuations.

Not only is DCF important for valuers, but it also has application across many areas where analytics are key to providing strategic investment advice. It is increasingly important for surveyors, clients, regulators and other stakeholders to be conversant with DCF and explicit valuation techniques more widely.

There were 57 individual responses received to the online consultation. Responses were mainly from valuers and client interests instructing valuers, as well as professional services providers, specialist analytics and technology firms, government agencies and local government. Though some respondents were anonymous, those who stated their firm were from a range of company sizes and business purposes, the majority being valuers. Valuers who responded were active in residential, commercial and public sector markets and worked for a range of firm sizes from SMEs to multidisciplinary international firms. Responses were mainly from the UK but with a number of responses from outside.

Respondents provided both overarching principles-based commentary and specific technical comments on each section. Each response has been considered and weighted on its own merits and in line with RICS values.

Conclusions and commentary are set out below. Further changes agreed from the draft proposals to reflect responses have been detailed in the conclusions for each section below.

The practice information has been considered by the RICS Global Valuation Standards Expert Working Group and Valuation Review Implementation Expert Working Group and the final practice information has been approved by the RICS Knowledge and Practice Committee.

RICS thanks all contributors to the consultation.

## Executive summary of conclusions and RICS response

### General

- A consistent theme throughout the consultation was a focus by valuer respondents on the autonomy of the valuer. This includes valuer decisions around methods and models appropriate for the asset being valued and the valuation purpose. There was a perceived RICS bias towards DCF referred to by a number of respondents. RICS remains of the view that the judgement and decision of the valuer in selecting the appropriate valuation method and model is paramount. The DCF workstreams proposed support its consideration and application in appropriate circumstances but do not dictate this. The overall goal of the [Valuation Review](#) findings and the RICS valuation workstreams is to improve valuation transparency, quality and understanding for users of valuations.

### Red Book Global Standards

- Views differed on the exact approach but there was general support for Red Book Global Standards as the flagship valuation standard being the appropriate place for global, principles-based standards covering valuation methods and, to some degree, models. Many saw the advantage of standalone guidance, including for specific markets that supported Red Book Global Standards.

- RICS will look to update the valuation approaches, methods and models content contained at VPS 5 and VPS 3 in 2024. In addition to incorporating updated International Valuation Standards, this will also look at ways that valuation can be made more transparent and appropriately explicit – including the use of explicit methods such as DCF in appropriate circumstances.

## UK VPS 4

- The proposed UK VPS 4 draft set out in the consultation that mandated the consideration (but not use) of DCF for the valuation of investment property **has not been taken forward at this time** and was not included in the recently published [RICS Valuation – Global Standards: UK national supplement](#) 2023 update.
- Although the balance of respondents thought that a standard encouraging greater use of DCF in appropriate circumstances could work, there were numerous practical and technical issues raised with the proposed wording and a general sense that a standard should not focus on any one method in isolation.
- There was also a strong view that valuation methods and models used globally should be reflected in Red Book Global Standards and any jurisdictional content appropriate to a specific market would need to align with this.

## DCF hub

- There was broad and substantial support for a [DCF hub](#) and suggestions around the content that could be included. RICS will continue to develop the hub, taking on feedback from this consultation.
- The role of RICS as a data provider and facilitator formed part of the responses. RICS cannot provide ‘standard’ inputs or assumptions for DCF models as this would contradict the premise of principles-based standards and unduly interfere with the work of valuers and potentially the market. There are opportunities for RICS to better facilitate awareness of data issues through appropriate links, collaborations and the work of our economics team. These considerations will be taken forward into the development of the hub.
- There was some criticism of the suggested inclusion of ‘transition’ in the title as to some this suggested RICS moving towards mandating DCF. RICS will consider an appropriate title for the hub in line with feedback.

## Upskilling

- Many respondents thought RICS had a key role to play in upskilling the profession. This includes the university stage as well as later career retraining. Respondents generally suggested a multi-faceted approach, from CPD and training sessions to more in-depth courses. A number of respondents suggested that at least part of the DCF upskilling programme should be included in the membership fee.

- There were numerous references to worked examples, templates and working models. RICS continues to investigate the best way of delivering these while mitigating the risk of templates/examples being seen as RICS prescribed models – and unduly influencing valuation practice.
- Hub and upskilling comments also referenced integration of software and valuation modelling packages – specifically naming a number of industry leading products. RICS has to balance the need for any training and support to be relevant and contemporary without then endorsing specific external commercial products.

## DCF practice information

- A number of respondents were under the impression that the role of the proposed practice information was to directly implement a requirement for DCF in certain relevant circumstances, which they thought the Review recommendations were intending. There were also numerous suggestions for the practice information to more directly prescribe requirements and even the model itself. There was significant disagreement in responses to this section, particularly around the level (if any) of prescription and whether the paper should suggest requirements.

Practice information is described in the RICS standards framework as:

‘Information to support the practice, knowledge and performance of RICS members and regulated firms, and the demand for professional services...

Practice information includes definitions, processes, toolkits, checklists, insights, research and technical information or advice. It also includes documents that aim to provide common benchmarks or approaches across a sector to help build efficient and consistent practice. **This information is not mandatory and does not set requirements for RICS members or make explicit recommendations.**’

The intention of the document is not to bring in recommendations or requirements related to DCF but instead to support and complement the wider DCF workstream set out above. The document has been substantially amended to provide clarity on this point. References to requirements will only include pre-existing Red Book Global Standards (VPS 5 and VPS 3).

Respondents provided extensive technical commentary, with feedback appropriately considered and amendments made.

The need for worked examples was also a theme, but RICS believes these are better placed in training material to avoid them being referred to literally, with inputs and assumptions incorrectly interpreted as prescribed. The practice information does contain abstracted examples that allow a valuer to understand the component elements of a DCF and underlying theory.

This is only a short summary of conclusions and RICS responses to each workstream. A more detailed summary of responses is contained in the sections that follow this executive summary.



# Section (A) Current RICS Valuation – Global Standards (Red Book Global Standards) covering valuation methods and models and feedback on possible changes

Q1. Is there a need for the Global Red Book to have more detail on how a valuer uses valuation approaches, methods, and models or alternatively, is such content better suited to standalone guidance, e.g. the proposed DCF practice information?

## Responses

- Content covering valuation approaches, methods and models is best suited in the Global Red Book (18)
- Content covering valuation approaches, methods and models is best suited in a standalone document (33)
- I'm not sure (4)

## Summary of responses

### Existing content

Some valuer and client respondents were of the view that the existing Red Book Global Standards language on valuation approaches methods and models was sufficient, and some even warned against expanding the content to the extent it becomes too prescriptive. It was noted that Red Book Global Standards needs to be kept at a manageable size.

### Principles-based

A number of respondents were supportive of Red Book Global Standards remaining principles-based as opposed to 'the inflexibility of mandatory standards'. This was emphasised most in the wanting to avoid RICS prescribing specific valuation methods or models. Historic prescribed valuation method standards were referenced – noting that these have moved to guidance over time due to the needs of valuers and clients and need for valuation to be adaptable to circumstances.

A challenge with principles-based standards was that there were also frequent references to consistency (of approach, method and models).

#### One self-contained standard or standalone guidance

Some respondents were of the view that all guidance on valuation approaches, methods and models should be kept in Red Book Global Standards. However, the majority of respondents preferred the mandatory and best practice elements to be clearly set out in Red Book Global Standards and relevant accompanying guidance and supporting content be separate. Views were expressed that this standalone guidance should be concise and practical.

A minority thought this guidance should be, if not prescriptive, at least able to convey specific examples. Some also thought market- and geography-specific guidance was necessary in some cases.

### Q1 Conclusions and RICS response

- From the summary of responses above it is clear that there are differing views on this question. The balance of views is towards principles-based content on valuation approaches being contained in Red Book Global Standards, with methods and models covered in standalone guidance.
- RICS is currently working on developing a new edition of Red Book Global Standards to incorporate the 2023 IVSs, relevant Valuation Review recommendations, and developments in valuation process and practice more widely. Actions in relation to standalone guidance are further detailed at section E below.

### Q2. Should the Global Red Book specifically advise on situations where explicit DCF modelling should be considered?

#### Responses

- Yes (26)
- No (23)
- I'm not sure (6)
- No response (2)

### Summary of responses

#### Market specific

Respondents made the point that the method adopted should be dictated by the market and not RICS. Lower-value properties were specifically referenced as not always being suitable to be valued with a DCF and others referenced the market-determined DCF as the correct method for appropriate prime property and central city locations.

There were a few respondents who suggested these circumstances should be defined in Red Book Global Standards.

#### Mandatory/advisory/valuer judgement

Many respondents were firmly against mandatory requirements around DCF application and even consideration and some asked how these would work at a global/universal level in any case. In summary, these stated that it was up to the valuer to adopt the best method for the valuation based on the asset being valued, market and evidence available to them. However, some respondents thought RICS could advise (not necessarily mandate) the consideration (not application) of DCF. Reference was made by some to examples and scenarios, which don't typically form part of Red Book Global Standards as it is principles based.

#### Valuer autonomy

A significant number of respondents, including providers and users of valuation, strongly advocated for the importance of valuer autonomy. Reference was made to the changing nature of markets and the need for valuers to be able to make choices to adapt to this. Terms like guidance, signposting and advice were frequently used by respondents as alternatives to formal requirements.

#### Technical and geographic challenges

Respondents noted the variety of valuation circumstances globally and the specific vagaries and quirks of real estate markets – including in specific locations and sectors. This was used as evidence against universal global standards around choice of method. Some accepted that principles and signposting could operate at a global level where properly drafted.

There were numerous comments not just about the consideration of DCF but how a valuer goes about selecting and appropriately justifying their choice and method(s) of valuation generally and how they cover that process in communication with a client.

## Q2 Conclusions and RICS response

- There was disagreement within the responses on this question. The suggested direction appears to be towards greater coverage around the choice and justification of a valuation, some coverage of methods such as DCF but no preference or obligation around any one method.
- To address the points raised in the consultation we will review Red Book Global Standards on valuation methods and also look at how we incorporate the revised IVS coverage of DCF.
- It is not the intention of RICS to only implement the Valuation Review recommendations through mandatory and best practice standards. In terms of DCF, the consultation and this basis for conclusions sets out the holistic approach conceived to deliver the Review recommendations, incorporating all aspects of a professional body's role.

Q3. Does the current VPS 3 requirement for the valuer to refer to 'key inputs used and the principal reasons for the conclusions reached' go far enough in making valuation as transparent and explicit as necessary?

Responses

- Yes (37)
- No (10)
- I'm not sure (9)
- No response (1)

## Summary of responses

### Suitability of VPS 3

Views were split on whether the requirements contained in VPS 3 were adequate. A significant majority of respondents were of the view that the principles-based nature of the commentary was sufficient and allowed appropriate levels of valuer judgement and decision. However, there were respondents who thought it should include more detail, including a valuer respondent who thought it should refer to preferred methods. A number of respondents pointed to the fact that VPS 3 is open to interpretation – given the commentary is a principle rather than being prescriptive on methodology. Some thought commentary on 'key inputs' required expansion given this could be an area of discussion around, particularly explicit, methods.

### Application and education

Although many respondents agreed that the requirements in VPS 3 were clear, some suggested that the requirements were not always met and therefore there was a need to educate the profession. This theme of education of requirements was raised by a number of other respondents.

Some respondents referred to the need for the VPS 3 requirements to include a test as to whether the method(s) adopted fitted the valuation circumstances and market they were valuing in.

### Common approach (prescription)

A number of respondents (particularly from valuation end users) thought the requirements could be more prescriptive – encouraging valuers to use more explicit and (in their view) comprehensive valuation methods/models and explanations. Some respondents went as far as to suggest RICS should provide examples or even prescribe what the key inputs (headings) are.

### Q3 Conclusions and RICS response

- The balance of views supported the current Red Book Global Standards reporting standard, it was the consistent application of this standard that some called into question.
- To action the issues raised, RICS has included specific coverage of reporting requirements in the published practice information and supporting material. RICS will also review Red Book Global Standards in 2024.

# Section (B) A new draft RICS Valuation – Global Standards: UK national supplement UK VPS 4 standard for the valuation of investment property covering the consideration of the use of DCF

## Q4. Do you agree with the proposed draft UK VPS 4?

### Responses

- Yes (19)
- No (12)
- Somewhat/Partially (25)
- No response (1)

### Summary of responses

#### Preference/bias towards DCF

Numerous respondents commented that they did not think DCF should be singled out above all valuation methods. Some respondents were against what they thought was an implied – and in the case of their perception of the Valuation Review explicit – preference for using DCF in valuing investment property. Some felt this would lead to clients asking for a specific method or model, which is against (arguably contradictory of) the Red Book Global Standards.

Some valuation service providers, including an SME provider, noted that DCF was almost never used currently in the markets they operated in.

### Valuer autonomy

Ultimately a number of respondents referred back to valuer autonomy. Many did not think it was the place of RICS or the end user of valuations to dictate the approach method(s) or model(s) used by the valuer – who was engaged as an objective expert to provide valuation advice.

### Support for the proposals

Some respondents welcomed that the proposed wording was careful to identify that it applied to investment property only and could help provide clarity around why DCF was or wasn't used – this being of key interest to some stakeholders.

### Other technical considerations

Some thought the wording could still have more detail around the use of multiple method(s) and model(s). Some respondents thought that stating why DCF was not used was too much of a requirement. Some respondents felt there to be confusion as to whether this distorted or overruled the Red Book Global Standards obligations.

There were also concerns that although the draft proposal was not mandating DCF directly, this could be implied from it. A number of respondents thought the scope of such a standard should be considered beyond the UK. Some thought the proposed drafting did not take account of secondary markets and specialist sectors.

Multiple respondents asked what the purpose of such a requirement was ultimately intended to be.

## Q4 Conclusions and RICS response

- Although the questionnaire responses suggested some support for a standard that requires the consideration (not use) of DCF when valuing UK investment property, the detail of the responses suggested that the wording and scope of the proposed UK VPS 4 standard would not work at this time.
- There was broader support for a UK market specific standard that covered valuation methods and related investment valuation purposes more generally.
- RICS has not included the proposed UK VPS 4 in the Red Book UK national supplement published October 2023, effective from 1 May 2024. RICS will further consider the need for standards related specifically to the valuation of investment property at a jurisdictional and global level.

## Q5. Is there an alternative way of using the Red Book UK Supplement to help support DCF transition?

### Responses

- Yes (11)
- No (21)
- I'm not sure (22)

### Summary of responses

The majority of respondents did not suggest an alternative way via the UK supplement, but numerous respondents did refer to guidance, support tools and even prescribed frameworks for setting out DCF expectations and parameters. Some respondents thought RICS should actually manage expectations on use and be more clear about what they saw as the method's limitations – particularly in some UK markets.

Some queried the perceived objective altogether, with a number implying that a suggested direction or steer around methodology – even if only in the context of consideration – was against the principles-based nature of the Red Book Global Standards and its UK supplement, including the principle of valuer autonomy in choice of method.

### Q5 Conclusions and RICS response

- There was disagreement among a core majority of responses, with the perceived objective stated in the question of a transition to DCF. Responses focused on valuer autonomy to choose an appropriate method.
- There was support for wider coverage of DCF through guidance, support and other actions.
- RICS will focus on supporting the wider use of DCF in appropriate circumstances through the proposed practice information, DCF hub and other supporting content.



## Q6. Should the valuer be required to report, as well as record, their justification for not using DCF for a UK property investment valuation?

### Responses

- Yes (23)
- No (31)
- I'm not sure (2)
- No response (1)

### Summary of responses

A valuer respondent summed up the views of many respondents by noting that it was for the valuer to choose the appropriate method(s) of valuation applicable to the task – and not for them to justify why they had not used a method. Some thought there could be more informal communication around the choice of method(s) used or rejected.

Even within the investment property classification, some felt the assumption that there should be justification of why DCF had not been used went too far. Respondents frequently noted the huge range of investment property in value, scope and type.

A number of respondents thought it wasn't clear what 'recording' meant and 'reporting' would be a more appropriate term.

### Q6 Conclusions and RICS response

- The majority of respondents were against DCF-specific commentary (where this was not the method chosen by the valuer) either as a file note or in reporting.
- RICS will not be taking forward the proposed UK VPS 4 at this stage.

## Q7. Should Global Red Book contain a similar requirement for valuers to have at least considered DCF (as proposed in this consultation for the UK National Supplement)?

### Responses

- Yes (28)
- No (23)
- I'm not sure (5)
- No response (1)

### Summary of responses

The majority of respondents agreed with a global approach, albeit with requisite changes to the wording. Some thought it should go further than just 'considering' the DCF method. Others suggested mitigating the consideration to, for example, 'where relevant'.

### Q7 Conclusions and RICS response

- The balance of respondents were in favour of valuation methods standards being mainly Global rather than UK, though some UK market specific practice information might be appropriate. There was again a majority against DCF-specific standards.
- RICS will take forward appropriate suggestions for valuation standards development.

# Section (C) Examples of supporting tools to help valuers' professional development that RICS may include on a DCF transition hub

This could support stakeholders operating in markets where DCF is less used or only used for some sectors and purposes.

Q8. Does the proposed DCF transition hub contain the relevant themes and content?

Responses

- Yes (23)
- No (3)
- Somewhat/Partially (18)
- I'm not sure (11)
- No response (2)

## Summary of responses

There was widespread support for a **DCF hub**. Some respondents focused on what they saw as a need for direct training and education beyond hub content.

Respondents thought the hub should contain knowledge sources, training details, data and practical support for delivering DCF valuation.

In common with responses to other questions, some respondents thought RICS had more of a role to play in determining the parameters and even the inputs related to DCF.

## Q9. What else would be useful to have/include on the hub (web page)?

A number of respondents suggested the proposed information was sufficient. Some thought it should be clearer that the use of the method is optional and 'transition' in the title was not helpful for this.

Some respondents suggested more research content, forecasting and benchmark data and an FAQ. Numerous respondents referred to working models, templates and practical examples as well as key input and assumption data being suggested or linked to.

Some thought the hub should be about valuation methods more generally.

## Q8 and Q9 Conclusions and RICS response

- There was broad and substantial support for a DCF hub.
- The role of RICS as a data provider and facilitator formed part of the responses. RICS cannot provide 'standard' inputs or assumptions, commented upon in the executive summary above.
- There was some criticism of the suggested inclusion of 'transition' in the title as to some this suggested RICS moving towards mandating DCF. RICS will consider an appropriate title for the hub in line with feedback.
- Where possible we will appropriately amend and add to the hub in line with suggestions contained in the consultation.
- There are challenges with RICS specifically endorsing commercial products given our public interest role. We note the popularity of certain data and software providers but we are also mindful of providing a balanced view.
- We note the substantial requests for examples, case studies, templates and input data. Again, RICS needs to get the balance right between the autonomy and judgement that should be left to valuers, while at the same time being supportive of members and regulated firms in the use of DCF. RICS cannot prescribe specific valuation inputs, models or assumptions, these are for the judgement of the valuer. RICS will look further at providing case study examples that are not prescriptive.

# Section (D) A questionnaire covering the best ways of 'upskilling the valuation profession' to expand the capacity for offering DCF and other analytical approaches and risk analysis referred to in the Valuation Review

Q10. What role should RICS play in upskilling the valuation profession in the use of DCF?

## Summary of responses

Respondents thought RICS should be proactive in 'demystifying' DCF, making it clear when it is appropriate and what it might entail and include.

Numerous respondents thought RICS should lead upskilling and training as well as appropriately collaborating with partners. Some preferred formal courses and training, others suggested greater availability of CPD.

In common with responses to other questions some warned against a perceived bias towards DCF.

Some suggested the possibility of additional RICS qualifications.

## Q10 Conclusions and RICS response

- RICS has developed a programme of webinars and web classes to support the practice information and DCF hub. There will be free content available as an overview but also detailed packages going into more depth around application.

- Similar to comments in relation to the hub, in terms of templates, examples and commentary on inputs, RICS needs to get the balance right between supporting the profession while allowing valuers to make their own appropriate judgements and assumptions.

## Q11. Who should RICS look to collaborate with externally on upskilling the profession?

A range of suggested collaborators were given in responses summarised as follows:

Suggested collaboration	Number of respondents who suggested them
Valuers/RICS members & firms	15
Universities/academia	14
Software providers	9
Owners/Investors/finance/funds	8
Auditors/accountants (general)	7
Other standard setters/professional bodies/international bodies	5
Research/economists/forecasters/data providers	5
Investment/brokerage agents	3
Lenders/panels	3
Trainers	3
Analysts/Chartered Financial Analysts Institute	2
Clients (general)	1
Experts (general)	1
Government agencies	1
No-one	1

## Q11 Conclusions and RICS response

- RICS has put in place forums for engaging further with valuers and valuation firms, universities, software users and providers and client interests. We will also look to develop further engagement with suggested collaborators where appropriate.
- RICS recognises that the greater use and application of explicit valuation methods such as DCF will come about through a range of delivery mechanisms and only through successful engagement and partnering with relevant organisations, individuals and firms.

## Q12. What content should a DCF upskilling training product include?

### Summary of responses

Respondents made wide-ranging suggestions for what should be included, summarised as follows.

- How to perform a DCF.
- Reasonable assumptions for DCF.
- Documentation of a DCF.
- Market data and how to access it.
- Total understanding of reason to use DCF.
- Setting up DCF valuation instructions.
- Devaluation of market comparable evidence for DCF.
- Valuation process – practical ways of working out the appropriate discount rate and growth assumptions.
- Sense checking and cross-checking outputs.
- How to use valuation software for DCF.
- Customising software and other reporting outputs into easily understandable deliverables for clients.
- Valuation theory.
- How to create, check and analyse DCF valuation Excel models.
- DCF modelling, assumptions and inputs.
- Scenarios and working models.
- Downloadable ready-made Excel templates for valuers to use.
- Draft reports.
- Downloadable recordings of the training sessions.
- Suitable disclaimers.
- Case studies and market based worked examples.
- Links to other valuation methods/cross checking.
- Grounding DCF in comparables and market data.

### Q12 Conclusions and RICS response

- Further to the responses received, RICS has developed a series of webinars and web classes that will, where possible, incorporate the above suggestions.
- There are some challenges with training related to specific software products as RICS cannot be seen to endorse any one particular commercial product.
- Templates can also cause issues noting the variance of investment property being valued.

# Section (E) A draft of a new global practice information

## Discounted cash flow valuations

Q13. Is it clear that the practice information places no mandatory or best practice obligations on the valuer?

Responses

- Yes (20)
- No (17)
- Somewhat/Partially (12)
- I'm not sure (6)
- No response (2)

### Summary of responses

The majority agreed it was clear no mandatory or best practice obligations were included but some felt the wording could be clearer.

Some thought the reference to the Valuation Review recommendations (which they saw as mandatory) caused confusion in terms of the application of the guidance.

Some respondents were against a presumption towards transition or even greater use.

Numerous respondents emphasised the need for clarity around applying a market value basis as opposed to calculating worth.

A number of respondents thought the practice information could be shortened and simplified.



## Q14. To what extent does the practice information support your role in the valuation process?

### Responses

- It is very supportive (8)
- It offers moderate support (26)
- A little (12)
- Not at all (3)
- It doesn't apply to me (5)
- No response (3)

### Summary of responses

Noting that the practice information was not placing obligations on valuers, some felt there was still a 'grey area' around the extent to which DCF should be applied.

Numerous respondents thought the document was a useful base/start but would only really support them in conjunction with other measures.

Some felt the document to be too theoretical and lacking practical examples.

Other respondents thought the document should be more obviously aimed at both valuation end-users and valuers.

## Q15. Is the global practice information useful to your geographic region?

### Responses

- Yes (27)
- No (6)
- Somewhat/Partially (16)
- I'm not sure (2)
- Not applicable (1)
- No response (2)

## Summary of responses

Respondents were supportive in response to this question overall.

A number of respondents thought the practice information was useful for valuers in the UK but in some cases doubted its applicability to other regions. Others noted that it was not possible in their view to have a truly global document on DCF given the range of circumstances.

Respondents welcomed the direct links and alignment with Red Book Global Standards and IVS.

Some thought the UK, which they considered to be one of the main audiences, was substantially different to most other markets.

## Q16. What changes, amendments and/or additions would you make to the practice information?

### Summary of responses

Respondents provided numerous helpful suggestions, not only on technical elements but also style, formatting, structure and supporting content.

Common to the main consultation themes, a number of respondents wanted it emphasised that it is ultimately up to the valuer as to what method is used. Similarly, some respondents sought emphasis on what they saw as a need for the valuer to be able to adapt the method(s) used to reflect those most commonly used in an individual sector or geographical market.

A number of respondents queried how RICS coverage would be specifically tailored to the UK and EU (within the practice information or through another source).

Some felt that at least parts of the guidance should be best practice or even mandatory.

Numerous respondents reflected on the applicability of the DCF method to calculations of worth, with some suggesting this was its primary use. Others sought clarity as to the basis of value the practice information was targeting (it covers both, this is reflected further in the conclusions below).

Some respondents were for using multiple methods and using the inputs and outcomes of one method to test the assumptions of another. Some respondents were against simple conversions of implicit models to provide DCF inputs.

A few respondents thought the draft practice information was academic in tone and should be changed to what was seen as a more applied/practical style.

# Section (F) Practice information conclusions and RICS response (all questions)

Responses to this section were received via the questionnaire, direct comments on the document and in correspondence.

The numerous suggestions have, where appropriate, been incorporated into post-consultation revisions. The practice information has been substantially amended to reflect feedback.

## Global or UK?

There were a number of comments about geographical scope, which have been addressed post-consultation by the lead author and working group. This includes being more explicit about the global scope of the practice information in the introduction, supporting material and in respect of where markets may differ.

Concerns were raised by some UK stakeholders around RICS steering the direction of travel towards DCF and away from the income capitalisation rate models traditional to some markets. The role of the practice information is to support the use of DCF in appropriate circumstances, the ultimate judgement around valuation method remains with the valuer.

## Queries about what is mandatory

Nothing in the practice information is mandatory except where it refers to other mandatory standards. The subject practice information includes a standards framework that states: 'This information is not mandatory and does not set requirements for RICS members or make explicit recommendations'. Given continued confusion around this subject, RICS has looked to clarify this in the practice information and supporting material.

A number of respondents understood that the practice information wasn't mandatory but asked how that equated with the Valuation Review recommendations, which they felt suggested a move to mandatory application of DCF in some circumstances. It is RICS' view that the Valuation Review recommendations will not be successfully brought about by mandating in a single standard. RICS is of the view that the Valuation Review recommendations will be better implemented through a holistic set of measures, such as the wider DCF picture considered within this consultation.

## Valuation reporting – justification of the appropriate method

It is the case that DCF can contain a number of moving parts, inputs and assumptions – which need to be justified along with the use of the method itself. This is already a Red Book Global Standard (VPS 3, 2.2(e)). Responses suggested that this universal need to justify the choice of valuation method, assumptions and key inputs needs to be emphasised and the practice information has been updated accordingly.

## The relationship between implicit valuation methods and explicit DCF

Some respondents thought that while this distinction was important it could be presented in a more succinct and direct way. The practice information has been consolidated to address this point.

## The style and basic purpose of the practice information

Some respondents saw the practice information as a way of delivering key principles around DCF, others thought it should instead be a ‘how-to guide’ for DCF covering inputs, assumptions and construction of a DCF model at a basic level. The autonomy of a valuer in choosing a valuation method runs alongside the need for them to make professional judgements about the modelling and application of DCF.

Some respondents suggested that RICS be explicit about DCF parameters, inputs and assumptions. RICS cannot prescribe inputs and assumptions as these need to reflect individual market circumstances. This is the case across all valuation methods and models.

Notwithstanding this, RICS does have a role in providing practical information to support and the practice information is designed to help with this.

## Comparative benchmarks to judge DCF valuations and a discussion of data issues more generally

Benchmarks contained in a practice information would quickly become out of date and not be reflective of individual circumstances. RICS will continue to work with relevant stakeholders on improved valuation data and benchmarking, and with our economics team in terms of their potential support.

## Reference valuations already typically valued based on operational income and cash flows

We recognise this point and have included an additional reference in the practice information. However, it is our view that the guidance should be as general as possible and not focus on operational or other alternative markets. We note the increased prevalence of such markets however and the need in some cases to develop specialist content covering this (see Red Book Global Standards VPGA 4).

## Valuation accuracy in the context of DCF

It has been suggested in some responses that cash flow valuations with more assumptions and a forward look can lead to greater variability and inconsistency in reported outcomes. The published practice information includes the specific coverage of the need to use market evidence to support market valuations.

## Suggestion that DCF is a tool for the investor and their specific needs therefore more suitable for worth than it is for market value

The practice information recognises that DCF has principally been used for investment value (worth) calculations in some markets, but also notes a transition in some cases to explicit DCF being used in a market context. The practice information has been updated post consultation to clarify and emphasise its scope as a tool for market valuation (in appropriate circumstances).

## Suggested use of 'real world examples', and perhaps interactive training pages where a member can run examples adhering to best practice

The global scope of the practice information and its coverage of all sectors means that it is problematic to include real world examples that might then lead to incorrect assumptions and application. RICS recognises that real world examples can play a really useful role in the training, articles and other material referred to in sections A-C.

## Delivering confidence

We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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