



Valuation of individual new-build homes

UK

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Contents

| | |
|---|-----------|
| Acknowledgements | ii |
| RICS standards framework | 1 |
| Document definitions | 2 |
| 1 Introduction | 3 |
| 1.1 The valuation standards | 3 |
| 1.2 Aim and scope | 3 |
| 1.3 Effective date | 4 |
| 2 The new-build market | 5 |
| 2.1 New-build benefits | 5 |
| 3 Reviewing the instructions | 8 |
| 3.1 Mortgage lender clients | 8 |
| 3.2 Private clients | 8 |
| 3.3 Time constraints | 8 |
| 3.4 Suspicious market activity | 8 |
| 3.5 New-build assumptions and special assumptions | 9 |
| 4 Inspection: assessing the property and the development | 10 |
| 4.1 Access limitations | 10 |
| 4.2 Health and safety on site | 10 |
| 4.3 Plot characteristics, site plans and identification | 11 |
| 4.4 Information collection | 11 |
| 4.5 Office, commercial and agricultural conversions | 13 |
| 4.6 UK Finance disclosure form (version one) | 14 |
| 4.7 Builders' warranties and assurance schemes | 14 |
| 4.8 Defective workmanship | 15 |
| 5 Analysing the market and other considerations | 16 |
| 5.1 The economic cycle | 16 |
| 5.2 Local supply and demand | 16 |
| 5.3 Speculative market movement | 16 |
| 5.4 Market turbulence | 18 |
| 5.5 Site mix | 18 |
| 5.6 Ongoing costs and restrictions | 19 |
| 5.7 Government schemes | 19 |

| | | |
|----------|---|-----------|
| 6 | Modern methods of construction (MMC) | 21 |
| 6.1 | Pre-manufactured property assurance schemes | 21 |
| 6.2 | Valuation of pre-manufactured properties | 21 |
| 7 | Comparable evidence | 22 |
| 7.1 | On-site comparables | 22 |
| 7.2 | Off-site comparables | 23 |
| 7.3 | Analysing comparable evidence | 24 |
| 7.4 | Reflecting the comparables in the valuation | 25 |
| 8 | Assessing the market value | 26 |
| 8.1 | Underlying value | 26 |
| 8.2 | Added value of better specification/design | 27 |
| 8.3 | Incentives | 27 |
| 8.4 | First-owner benefits | 28 |
| 8.5 | Affordability premium | 29 |
| 8.6 | Justifying the valuation | 30 |
| 9 | Reporting the valuation | 31 |
| 9.1 | Reporting incentives | 31 |
| 9.2 | Reinspections | 32 |

RICS standards framework

RICS' standards setting is governed and overseen by the Standards and Regulation Board (SRB). The SRB's aims are to operate in the public interest, and to develop the technical and ethical competence of the profession and its ability to deliver ethical practice to high standards globally.

The [RICS Rules of Conduct](#) set high-level professional requirements for the global chartered surveying profession. These are supported by more detailed standards and information relating to professional conduct and technical competency.

The SRB focuses on the conduct and competence of RICS members, to set standards that are proportionate, in the public interest and based on risk. Its approach is to foster a supportive atmosphere that encourages a strong, diverse, inclusive, effective and sustainable surveying profession.

As well as developing its own standards, RICS works collaboratively with other bodies at a national and international level to develop documents relevant to professional practice, such as cross-sector guidance, codes and standards. The application of these collaborative documents by RICS members will be defined either within the document itself or in associated RICS-published documents.

Document definitions

| Document type | Definition |
|-----------------------------|--|
| RICS professional standards | <p>Set requirements or expectations for RICS members and regulated firms about how they provide services or the outcomes of their actions.</p> <p>RICS professional standards are principles-based and focused on outcomes and good practice. Any requirements included set a baseline expectation for competent delivery or ethical behaviour.</p> <p>They include practices and behaviours intended to protect clients and other stakeholders, as well as ensuring their reasonable expectations of ethics, integrity, technical competence and diligence are met. Members must comply with an RICS professional standard. They may include:</p> <ul style="list-style-type: none"> • mandatory requirements, which use the word 'must' and must be complied with, and/or • recommended best practice, which uses the word 'should'. It is recognised that there may be acceptable alternatives to best practice that achieve the same or a better outcome. <p>In regulatory or disciplinary proceedings, RICS will take into account relevant professional standards when deciding whether an RICS member or regulated firm acted appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards into account.</p> |
| RICS practice information | <p>Information to support the practice, knowledge and performance of RICS members and regulated firms, and the demand for professional services.</p> <p>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.</p> <p>This information is not mandatory and does not set requirements for RICS members or make explicit recommendations.</p> |

1 Introduction

1.1 The valuation standards

Where *RICS Valuation – Global Standards: UK National Supplement 2018* is referenced in this professional standard, members must also be aware of the relevant content of *RICS Valuation – Professional Standards January 2014 UK* (revised April 2015) if this is still in use. Where updates to *RICS Valuation – Global Standards: UK National Supplement* take effect after the publication of this professional standard, these take precedence and valuers must ensure that they are fully aware of any changes.

RICS members working in the UK are reminded of the RICS residential mortgage valuation specification for domestic property, referred to in *RICS Valuation – Global Standards: UK national supplement 2018*.

1.2 Aim and scope

The aim of this professional standard is to assist RICS members in achieving a consistent approach to the valuation of new-build property. It is specifically for use in the UK, however, RICS members and RICS regulated firms in other countries may find the processes of valuation discussed helpful and adaptable to their local circumstances.

This document applies to all property that falls under the definition of 'new-build'. This includes both property that has yet to be owned for the first time, and properties to be owned for the first time in a new form. It therefore covers property that is a new construction, a conversion or that results from a comprehensive renovation. The property may take the form of one unit on a large, part-developed site, a one-off new home or a conversion of a former building. For all these types of property, the approach to the valuation will be broadly similar.

The document does not apply to the following circumstances. However, many of the concepts and considerations given may be applicable in these valuation exercises:

- purchase reports for corporate and business clients purchasing residential portfolios for investment purposes
- valuations of housing stock, e.g. for registered social landlords, local or central government or for inclusion in financial statements
- valuations where the current or intended use means that the property will qualify as a household in multiple occupation (HMO)
- purchase reports for individual new-build purchasers
- valuation reports for custom-build, self-build or 'stage release' projects

- valuation reports for brokers or other third parties and
- valuation for market rent.

1.3 Effective date

This RICS professional standard is effective immediately upon publication.

2 The new-build market

The valuation of residential property for mortgage purposes is well understood, but the new-build sector is constantly evolving and becoming increasingly complex. This means that the market has a number of features that require additional understanding. Such issues include:

- physical attributes of a new property that may add value above similar properties in the resale market
- marketing techniques in the sector and the impact these might have on the selling price of a new-build property
- specific market products and policies from lenders
- purchaser aspirations: people want to buy new homes
- the strength of the builder in transactions and their control of supply
- restricted transparency in pricing
- regenerative effects of some new-build schemes
- conversions under permitted development: office, industrial and agricultural buildings
- direct government intervention in the market, e.g. Help to Buy or Starter Home schemes
- planning conditions, e.g. section 106 agreements, resale restrictions or social housing mix requirements
- tenure types, e.g. leasehold, shared ownership or discounted market value (DMV)
- the likelihood that the property cannot be inspected at the time of the valuation
- innovative construction types and eco-features and
- the emergence of custom-build homes.

Where instructions are received for custom-build or self-build homes, and where stage payments are involved, RICS members should refer to the individual lender's guidance with regard to the valuation approach.

Notwithstanding the additional complications in the transaction, the duty of RICS members remains to report their opinion of market value in the same way as they would for any other property.

2.1 New-build benefits

Demand for new-build property is driven by a range of factors. It is important for RICS members to be alert to changing attitudes to issues such as:

- the environmental impact of buildings

- efforts to reduce carbon emissions
- the use of innovative forms of construction
- evolving Building Regulations requirements
- improved specifications
- incentives and
- what are described as 'first-owner benefits'.

Where public perception on these matters is reflected in market demand, the new-build property may, and often will, attract added value in comparison with the second-hand market.

There are two distinct categories of benefits when buying a new property:

- 1 first owner benefits (benefits that are only available to the first owner), i.e. transient benefits that fall away after occupation and
- 2 resale benefits (benefits that can be sold on to the next owner), i.e. permanent features.

First-owner benefits can include:

- newness of the property and initial occupier prestige
- access to new-build finance and special rates
- access to government initiatives such as Help to Buy
- incentives being offered by the developer/builder
- certainty of completion date and price
- avoidance of competitive bidding
- avoidance of stress associated with forming part of a chain of second-hand buyers
- possibility of off-plan purchase being cheaper at an early stage of the construction process
- full ten-year warranty and
- possibility of making the property bespoke if engaged with the builder at an early stage of construction.

Resale benefits can include:

- latest specifications and domestic gadgets
- comfort and reduced running costs associated with modern building standards and the use of energy-efficient materials
- high energy-efficiency rating, i.e. Energy Performance Certificate (EPC)
- new home perks, e.g. access to swimming pools, gyms and concierge services (particularly associated with flat developments)

- new homes being designed for today's style of living, e.g. open-plan living areas
- new local infrastructure built with homes, such as schools, shops and leisure facilities and
- reduced maintenance liability in the short/medium term.

The term 'new-build premium' is often used in this context, but not always consistently. It has been used to describe any additional sum that a purchaser is prepared to pay for a residential property that has not previously been occupied, i.e. reflecting both categories of benefit. However, the term has also become widely used to indicate the difference between the value of a new property compared to that of an identical or similar resale or second-hand stock, i.e. reflecting only the first-owner category of benefits.

For the purposes of clarity in this document, the term 'first-owner benefits' relates entirely to the 'newness package'. It does not therefore relate to the element of value arising from physical attributes that will remain after the first occupation and that may add value on subsequent resale.

3 Reviewing the instructions

3.1 Mortgage lender clients

The RICS residential mortgage valuation specification, where adopted, and the guidance in UK VPGAs 11, 12 and 13 of *RICS Valuation – Global Standards: UK national supplement 2018* set out the basis on which RICS members should undertake the valuation.

In most cases, lenders provide their own valuation forms and documents, explaining their policy on how RICS members should carry out the valuation on their behalf.

Clients may request RICS members to depart from *RICS Valuation – Global Standards*. In such cases, RICS members must comply with PS 1 section 6 of *RICS Valuation – Global Standards*.

Any departures must be agreed as part of the terms of engagement specified in PS 1 paragraph 6.2 of *RICS Valuation – Global Standards*. In these cases, RICS members should refer to the specific guidelines of the lender.

3.2 Private clients

In the case of instructions where the client is the purchaser and not the mortgage lender, the guidance in UK VPGA 11 of *RICS Valuation – Global Standards: UK national supplement 2018* will not apply, unless agreed otherwise.

3.3 Time constraints

RICS members must act professionally at all times and should allocate sufficient time to the research, inspection and preparation of the valuation. Often, RICS members have to operate under time constraints, but these should not undermine their ability to provide an accurate and professional service. Shortage of time is not a defence against a charge of negligence or failing to discharge the responsibilities of RICS members to their clients.

3.4 Suspicious market activity

New-build transactions, in common with other sectors of the housing market that are difficult to value, may be targeted by criminals. RICS members should be vigilant for signs of potential criminal activity, such as fraud and money-laundering, and should understand their responsibilities to recognise and report suspicious activity. RICS members must refer to the current edition of RICS' [Countering bribery and corruption, money laundering and terrorist financing](#).

3.5 New-build assumptions and special assumptions

UK VPGA 11 in *RICS Valuation – Global Standards: UK national supplement 2018* and the RICS residential mortgage specification set out a number of agreed standard assumptions and special assumptions that are included in the terms of engagement with UK lenders (where a lender has agreed to follow the mortgage specification).

In addition, it should be specifically noted in respect of new-build property that, unless instructed otherwise, RICS members will make the following assumptions and special assumptions:

- In the case of a building that has not yet been constructed, RICS members will provide a valuation on a special assumption that the development of that building has been satisfactorily completed, as at the date of the inspection, in accordance with planning permission and other statutory requirements.
- In the case of a newly constructed property, RICS members will provide a valuation on the assumption that it has been built under a recognised builders' warranty or insurance scheme approved by the lender, or that it has been supervised by a professional consultant capable of fully completing the professional consultant's certificate to meet lender requirements.
- RICS members will assume that the contents of the UK Finance disclosure form provide full disclosure of the financial aspects of the sale (see section 4.6).
- RICS members will assume that certain facilities that are to form part of the completed development scheme, such as leisure complexes, swimming pools and communal provisions, are completed.
- RICS members will assume that certain planned transport links, infrastructure provisions and other constructions, such as retail units as part of a larger scheme, are completed.
- In some cases, lenders will require RICS members to assume that the new-build property is already occupied. (If a lender requests that this or a similar special assumption be adopted, guidance should be obtained from the lender specifying how their instruction is to be interpreted; for example, a lender may require second-hand or resale value.)

UK VPGA 11 also permits assumptions to be made regarding lease term, service charge, repairs and ground rents. There are specific new-build market features, such as the possibility of onerous ground rents, where RICS members should consider whether assumptions are appropriate or whether further information is required prior to submitting a report. Lender guidance should be referred to and lender opinion sought as necessary.

Where a development is on a recognised flood plain, RICS members should refer to UK VPGA 11 in *RICS Valuation – Global Standards: UK national supplement 2018*.

4 Inspection: assessing the property and the development

4.1 Access limitations

In some instances, developers may be unable to provide access to all or part of a site for health and safety or other reasons. This will prevent an inspection of the subject property or the specific plot where the property is to be constructed. In other situations, RICS members may conclude that it would be inappropriate to inspect the property.

In such cases, RICS members must comply with VPS 2 and 3 from *RICS Valuation – Global Standards*. RICS members must make it clear in the mortgage valuation report, where the format allows, that the inspection was restricted. If this is not possible, RICS members should record this clearly in their case notes. RICS members must also outline any assumptions or special assumptions they have made, in line with VPS 4 sections 8 and 9 from *RICS Valuation – Global Standards*. These may relate to accommodation, specification or other relevant matters. The source of any assumptions or special assumptions must also be identified, for example:

- construction site plans (not just the marketing material)
- developers' specifications or drawings of the subject unit
- show home of the unit (if available)
- a similar, partly or fully completed unit and
- lender policy, requirement or request.

In the absence of access to the subject unit, and without access to all the foregoing information, RICS members may choose to decline to provide a valuation and refer the instruction back to the lender.

In line with VPS 1 section 3, any site restrictions must be clearly recorded in the site notes and filed with other documentation as a record of events at the time of the inspection.

Caution should be exercised in identifying the unit to be valued where construction is incomplete. Where an RICS member is unable to identify and record the location of the unit, the instruction should be referred back to the lender and further information requested.

4.2 Health and safety on site

RICS members should take particular care when visiting building sites and be mindful of their own health and safety. For further information, reference should be made to the current edition of RICS' [Surveying safely: health and safety principles for property professionals](#).

4.3 Plot characteristics, site plans and identification

Across a particular site, there may be a variety of different plot characteristics that could affect the value of a property, such as the proximity of a railway line, road or overhead electricity wires or pylons, aspects, views, etc.

A site may also contain a variety of styles and types of property, which may include a mixture of private- and public-sector housing, retirement or sheltered housing, commercial and live/work properties. These might be concentrated in one area of the site, or 'pepper-potted' throughout the development. Such characteristics could affect the value of the subject property and should be taken into account by RICS members.

It is recommended that RICS members inspect and record/retain a copy of the site plan showing the plot number and the site characteristics and features. This should be supplemented by appropriate detailed enquiries made of the sales agent or developer, especially where access to the specific property or plot in question is not possible.

VPS 3 of *RICS Valuation – Global Standards* requires the subject asset to be clearly identified. RICS members must ensure that the unit inspected corresponds with the stated address of the unit in the instruction. RICS members should keep a site plan or sketch record with other documentation to show the location of the unit that has been valued, particularly in the case of flats. Postcodes, plot numbers and postal addresses can change during construction.

Where there is reason to question whether the unit under inspection is the unit to be valued, RICS members must refer to the client and withhold a valuation until they are satisfied about the identity of the unit.

4.4 Information collection

RICS members should make appropriate enquiries to the builder or developer. If no inspection of the subject is possible, the RICS member should inspect the show home and/or other finished units on site to understand the quality of finish. If this is not possible, RICS members should make and document assumptions about the build quality of the subject property and the relative merits of the finished development.

Collation of data at the time of inspection is critical to properly assess value. RICS members should therefore request certain information while on site. The recording of this information can be within an electronic site note format or a separate specific new-build site note, but recording should be comprehensive.

It is acknowledged that all of this information is not always available. If this is the case, any limitations should be explained. A number of these matters are contained within the UK Finance disclosure form (see section 4.6). RICS members should collect this form wherever possible and encourage developers or their agents to complete it fully.

The details that should be collected include the following.

Initial information

- details of vendor and purchaser and
- verification of address, plot number and postcode of the subject property.

The property

- type and style of the subject property
- floor plans and site plan of the subject property
- location of plot in the development, including positive and negative aspects; particularly relevant for flats are views/outlooks that may be enjoyed by the subject property, floor level, plot size, outdoor space, etc.
- surrounding properties, including style and type
- parking availability and/or any restrictions, e.g. on site, size, security, etc.
- development services and amenities (concierge, security, gym, etc.) or other local amenities
- other new development sites nearby, or proposed sites, and the types of property being constructed
- presence and nature of any commercial units within the block or nearby
- previous use of the site and possible contamination issues associated with that previous use
- presence of Japanese knotweed or other invasive plants
- any relevant environmental issues, e.g. flood risk and
- planning or other constraints on occupation and use, e.g. designation as social/affordable housing.

Construction

- type of construction; whether it is traditional or an off-site/non-conventional form of construction, also known as modern methods of construction (MMC)
- stage of construction
- completion date
- sustainable additions to the specification, for example energy efficiency measures
- special features of the subject property
- materials used, including external wall systems and
- whether the subject property was inspected or not; if not, RICS members should note why.

Legal

- tenure: freehold, leasehold or commonhold
- if leasehold, the lease term
- ground rent provisions: initial rent and subsequent review pattern
- service charges
- whether the subject property is being sold under the Help to Buy or any other purchase scheme, such as Shared Ownership
- section 106 agreements or resale restraints/costs
- warranties or road bonds and
- any other estate charges or 'event charges'.

Pricing

- agreed purchase price and date agreed
- incentives offered
- phasing/stage release and
- purchaser demand profile: whether the owners are occupiers/investors, first-time buyers, downsizers, etc.

Comparables

- type of property
- date of sale agreed
- location on development
- special features/specification of comparable property
- any incentives included
- tenure
- schemes such as Help to Buy or part-exchange and
- lender activity: it may be important to note which lenders are active on site to ensure that your lender client does not become overexposed.

Some site agents may not be able to provide all this information; in which case, the exceptions should be noted. RICS members should do their best to obtain this information, which may involve visits or calls to other sites to check details.

4.5 Office, commercial and agricultural conversions

Permitted development rights were extended for commercial/agricultural uses to residential conversion in an effort to increase the housing stock. Some of these developments require additional consideration and understanding of the market.

Locational factors are important and, in accordance with VPS 2 of RICS Valuation – Global Standards, RICS members must be aware of the nature of surrounding properties, the proximity to other residential properties, transport and other amenities.

Commercial premises were self-evidently not designed for residential use, and RICS members should be alert to the possibility of:

- poor-quality conversions
- propensity for overheating
- low ceiling heights
- lack of light
- relatively compact size
- short life span of certain building elements
- deleterious materials
- likelihood of future maintenance costs and
- warranty restrictions.

Some lenders require structural reports to determine the construction type. Lender guidance should be consulted about whether the conversion of a commercial premises to a residential property may affect demand or future saleability.

Some conversions retain the appearance of commercial buildings, and RICS members should consider whether this may affect demand and future saleability. Some developments may have attracted investor activity, and RICS members should be alert to the impact on comparable evidence. RICS members should also be aware of potentially onerous lease provisions and the effect on value.

4.6 UK Finance disclosure form (version one)

A copy of the fully completed and signed and dated UK Finance disclosure form relating to the subject property should, wherever possible, be obtained prior to submitting a valuation. This should be made available to RICS members while on site.

The UK Finance disclosure form should include details of the property and site, the vendor, construction, warranty, tenure, all incentives offered in the sale of the home, together with part-exchange information where this is used in the sale.

RICS members should be aware of lenders' guidelines and whether particular lenders preclude the signing off of the mortgage valuation if the disclosure form is not available.

4.7 Builders' warranties and assurance schemes

When valuing for lenders, the assumptions regarding builders' warranties and assurance schemes are laid out in section 3.5, subject to any specific lender instructions.

If RICS members are unable to confirm the existence of such warranties or assurance schemes, the lender should be advised to make specific enquiries of the vendor.

The absence of warranties or assurance schemes, particularly for recently constructed dwellings, may limit mortgageability and consequently affect the assessment of value. In such cases, RICS members must state their assumptions in accordance with VPS 3 of *RICS Valuation – Global Standards* or refer to lender guidance.

4.8 Defective workmanship

A valuation is not a survey and should not be considered as a detailed commentary on the quality of contractors' work. However, if any material defects that have an impact on value are recorded during the valuation inspection, these should be commented on in the valuation. Where necessary, a request for further investigation may be made prior to providing a valuation.

5 Analysing the market and other considerations

This is not intended to be a definitive or comprehensive list and RICS members should analyse the information they have collected in the context of local market conditions at the point of valuation.

5.1 The economic cycle

RICS members are expected to have an awareness of the national and local economy and market trends, but it is important to ensure that the valuation reflects the market conditions only at the specific valuation date.

A valuation for residential secured lending is a snapshot in time, and it is not appropriate to anticipate possible future movements in values. When providing such a valuation, RICS members do not create the market, but follow it.

5.2 Local supply and demand

Valuations typically reflect the market in the immediate locality of the subject property. However, the long-established pattern of a stable local market may experience some adjustment while it absorbs a significant stock of new-build properties. The use of pre-development sales or resales as comparable evidence when assessing new-build values may require particular caution.

The establishment of a large residential development in a relatively small market town, or the designation by a local authority of a particular locality for residential expansion or regeneration for example, may create market conditions that were not historically shared by properties in the surrounding areas.

RICS members should also be aware of the potential impact of employment opportunities, limitations in the locality or any proposed infrastructure changes on property values.

In understanding the balance between supply and demand, RICS members should be aware of the number of units available in a location and understand that builders/developers may release stock in phases, which will affect supply and could affect demand, and thus value.

5.3 Speculative market movement

Even when the usual influences on the value of a property have been identified, RICS members should remember that there may be potential purchasers with a special interest in the market and that their activities may not always be readily apparent. Depending on the

circumstances, this might either genuinely increase values or, conversely, give an artificially inflated impression of true values. Care should be taken that when asked for the market value of a property, any premium that may be paid by a 'special purchaser' is disregarded – see VPS 4 paragraph 4.2 in *RICS Valuation – Global Standards*.

Previously undesirable localities, such as brownfield sites or former commercial/industrial areas, e.g. docklands, can become fashionable and attract wealthy purchasers following speculative redevelopment. This can create new markets and permanent increases in value. Overdevelopment, however, can lead to falls in value in the event of a market downturn.

Sometimes, purchasers identify opportunities for profit by purchasing new-build properties. In times of rapid house-price growth, for example, speculators may commit themselves to purchases at an early stage of construction, typically buying 'off-plan' before construction has begun. This only requires a deposit, with a view to reselling at a later date for a profit. The original speculator purchaser's intentions are unlikely to be declared. RICS members should be alert to this possibility and either request or research full details where they believe transactions of this type are occurring (sometimes described as assignments, flipping, churning back-to-back, etc.).

Bulk purchases of multiple units on a site may enable an investment purchaser to negotiate a significant discount on the unit price. This discounted price may not fairly reflect the value of individually sold units.

It is important to consider the risks associated with the commoditisation in some parts of the new-build market, for example with property typically associated with buy-to-let investments. In these scenarios, the level of investment purchasing becomes disproportionate and can lead to short-term substantial increases in value above the levels at which owner-occupier buyers can afford to enter the market. This in turn can change the social mix of a development, lead to empty properties if rental demand is not sustained and ultimately result in a fall in value. Similarly, where foreign investors are active in a market, the values can be falsely inflated and, depending on the investors' motivation, the property may not be occupied. RICS members should, where appropriate, consider the knowledge of certain purchaser types. It may be that an investor has not visited the site and is unfamiliar with the area/market.

While RICS members are valuing at a specific point in time, the cycle of speculative investment purchases should be recognised. Caution is required where investors' opinions of the worth attached to a residential investment may have unrealistically inflated values. In these circumstances, it should be made clear in the report that investors, rather than owner-occupiers, are the dominant purchasers. Some lenders may decline to lend in these circumstances.

Builders/developers may purchase, often using third parties or separate companies, the first units of a development themselves to establish a 'level' of prices on a development. Rigorous enquiry may be necessary to identify whether such purchases are not open-market transactions when RICS members are requested to report on them for mortgage purposes, or when these transactions are later offered as comparable evidence for subsequent sales.

Enquiries at the time of valuation and information provided in the UK Finance disclosure form (see section 4.6) will assist in identifying such circumstances. However, RICS members can ultimately only ensure that the valuation reflects the market conditions and comparable evidence at the relevant date. RICS members should be aware that a significant proportion of speculative purchases may distort the genuine residential purchaser market and artificially raise prices. Where such market distortions give rise to an uncertainty in the valuation outcome, RICS members should have regard to the guidance in VPGA 10 of *RICS Valuation – Global Standards*, 'Matters that may give rise to material valuation uncertainty'.

5.4 Market turbulence

Periodically, the market will experience unusual turbulence, which can make the compilation of comparable evidence especially difficult. Not all sectors of the market are necessarily equally affected, and available evidence may be contradictory. RICS members are recommended to draw on all possible resources to understand the various influences on the market and, where possible, identify consistent strands and patterns in the available information.

In rapidly changing conditions, the supporting justification for valuations should be particularly detailed. More explanatory background information than usual should be clearly recorded. The prevailing market sentiments may not otherwise be readily apparent if valuation decisions are subjected to retrospective examination.

The market value of the subject property is assessed in relation to the market in which the transaction – actual or notional – is deemed to take place, reflecting the bids anticipated from market participants. There may be aspects of that specific market that lead RICS members to provide a market value that reasonably varies from a 'normal' tone of value for otherwise geographically comparable locations. If this is the case, an explanation should be provided. Relevant activity might include factors such as the application of government/local authority policy in the locality.

Where such market distortions give rise to an uncertainty in the valuation outcome, RICS members should have regard to VPGA 10 of *RICS Valuation – Global Standards*.

5.5 Site mix

Local planning requirements and government intervention/initiatives can create sites with mixed occupation types, shared ownership, private and social housing, discounted value properties and social and private rental. RICS members should take into account the effect of the site mix and the position of the various occupation types in relation to the subject property. Care should be taken when different tenures are 'pepper-potted' through a development or block of flats and RICS members should also be aware of the possibility of separate entrances in blocks of flats, sometimes referred to as 'poor doors'. Some sites are a mix of houses and flats and there may be differing demand for each in certain locations.

5.6 Ongoing costs and restrictions

This relates to leasehold developments and other developments with, for example, on-site facilities, communal grounds and gated communities, where service charges or ground rents are applied. RICS members should be aware of the potential effect of future cost increases, which, when they escalate, may affect mortgageability and value in the longer term. RICS members should take this into account in relation to other comparable properties.

Flats, but also more recently houses, have been sold with a leasehold tenure. In some cases, the ground rent provisions can be viewed as onerous, particularly where:

- the initial ground rent is high compared to the capital value of the property
- the ground rent review pattern provides for reviews at regular intervals
- the ground rent at review is doubling (or more) or
- there is a long lease with uncapped ground rent liability.

The negative impact on saleability and value can increase as the term proceeds. RICS members should be aware of these factors and be rigorous in their enquiries of site/sales agents. Onerous ground rents can be found in certain locations and types of developments, e.g. office conversions, and in these situations, reliance on assumptions should be avoided. Government intervention, following consultation, may change some builders' practices, but in the meantime, RICS members should be aware of the impact on value and saleability of onerous terms.

Event fees, payable for permissions to alter the property for example, may also be onerous. In addition, RICS members should ask whether there are any restrictions on occupation, e.g. no parking, no pets, no subletting clauses, change of ownership, etc., which can affect value.

Estate charges, which relate to the liability to maintain communal facilities/areas within the estate, are increasingly common and can affect both freehold and leasehold property. RICS members should make appropriate enquiries as to the costs of maintaining communal areas and facilities and verify precise details where possible. RICS members should also consider the impact of estate charges on value and saleability.

5.7 Government schemes

Over the years, the government has introduced a number of schemes to help first-time buyers and people on lower incomes to purchase a property. Schemes such as Shared Ownership and Help to Buy are now well-established in the market and the general presumption with such schemes is that, for secured lending purposes, the property should be valued at full market value, with the lender adjusting to reflect their lending policies and risk appetite.

The development of new policies to encourage home ownership is likely to continue and RICS members should consider if the details of these present any additional valuation challenges, in particular the potential for such schemes to distort values in the vicinity or similar schemes not being available in the resale/second-hand market.

6 Modern methods of construction (MMC)

As the UK government continues to address the shortfall in housing supply, it is keen to encourage the development of innovation in the construction industry, including the use of new materials and techniques. This section focuses on some of the practical issues for RICS members in relation to this.

Pre-manufactured construction covers a number of different construction types, but generally involves an element of off-site construction or assembly. Volumetric construction, modular/panelised systems, off-site construction and pods are all covered under this category.

6.1 Pre-manufactured property assurance schemes

There are currently several assurance organisations in the build off-site market, which aim to assure lenders that innovatively constructed properties, against which they will be lending, will meet durability requirements of over 60 years.

These schemes carry out an accreditation process to establish that processes are robust, assess the structure for durability and maintenance and, in the case of the Buildoffsite Property Assurance Scheme (BOPAS), the NHBC MMC Hub and other similar schemes, log the details of the property on a database that RICS members can access.

The provision of these assurances is backed up by an online register of approved schemes. This assists RICS members in identifying the construction type, confirms that the structures are likely to have been approved for lending purposes, subject to individual lender guidance, and confirms the existence of the required latent defects cover.

6.2 Valuation of pre-manufactured properties

Where RICS members are instructed to value a property that falls into this category, it is important to first check the lender policy. Where the accreditation offered with the property is accepted, RICS members should establish the registration and construction type by reference to the BOPAS or equivalent database on their website. Valuation of a property that is acceptable to the lender should be completed with reference to comparable evidence of sales in the relevant market to the property.

If an acceptable accreditation is not confirmed, RICS members should refer back to the lender policy, but they should bear in mind that the absence of such an assurance may limit mortgageability and consequently seriously affect the assessment of value.

7 Comparable evidence

UK VPGA 11.4 in *RICS Valuation – Global Standards: UK national supplement 2018* states that:

‘The *valuation* of a new-build property should be approached in the same way as any other *valuation*. There are, however, specific aspects of the new-build residential market that have led certain mortgage lenders to require an alternative approach to *valuation*. In all instances, the notified sale price must be treated with caution.’

While the approach may be the same as other valuations, the new-build market has become increasingly complex. RICS members should be aware of the sophisticated marketing and complexity prevalent in the new-build arena and analyse comparable information rigorously.

Comparables may be available from sales and resales on a development, but these may not be reliable if considered in isolation.

As in any valuation, the best comparable is the one that most directly matches the subject property at (or close to) the valuation date, with all adjustments made for any incentives, discounts or other financial inducements.

When using comparable evidence, RICS members should firstly be aware of the source and integrity of the data. Secondly, RICS members should be alert to the fact that earlier valuations or sale price information recorded in comparable data may have reflected specific circumstances of that transaction. Examples include taking into account section 106 agreements, shared ownership/equity schemes and special assumptions used for specific lenders.

When valuing new-build property, there are three categories of evidence that RICS members should consider:

- on-site comparables
- off-site comparables, from other new-build sites and
- resale/second-hand evidence.

Ideally, comparables will be sourced and analysed from all three categories. If this is not possible, a reasoned explanation should be provided, e.g. where an RICS member is the first on site and no comparable sales on site have been arranged or where there are no comparable sales on other new-build sites in the area.

7.1 On-site comparables

The date of the sale transaction of any comparable will be an important consideration, as will the number of units released into the market, the level of demand and the prevailing market condition at that time in the area.

The details regarding incentives or tenure for some comparables may not always be readily available to RICS members, unless the properties were valued earlier, in which case the details of the development will be known. If RICS members choose to rely on comparable on-site sales evidence, they should be rigorous in establishing the details and integrity of the sales of those comparables. Where this evidence is unobtainable, RICS members should apply a lower weighting to the comparable.

Some sites can be especially attractive to buy-to-let investors. RICS members should attempt to verify the proportion of sales made to investors, as this can affect the market for the finished properties. RICS members should have regard to the nature of transactions on the site, which may include a few bulk purchases or many individual transactions, and should then weigh the comparable evidence accordingly. Similarly, the incidence of sales related to government or developer schemes should be recorded.

RICS members should also have regard to any discounts on a development, especially around 'quarter days' and year end, and ensure that the discounted price has not become the norm.

7.2 Off-site comparables

There are two principal types of off-site comparable that RICS members should search for and consider during the valuation process:

- similar type of property on a similar new-build site nearby, selling at the same time as the valuation and
- a similar type of property selling in the resale/second-hand market.

New-build comparables on different development sites require a similar level of scrutiny as comparables on the same site, including careful consideration of the different sales discounts, tenures and incentives that may be operating there.

RICS members should also consider the mix of:

- property type
- unit size
- finish
- accommodation and
- target market (for example, families, older people or young professionals).

RICS members should also take into account the size and location of comparable developments, together with the immediate neighbourhood and factors such as school catchment areas. In addition, RICS members should include other locational and socioeconomic factors, such as location in a conservation area, or relative proximity to transport and shopping. New-build sites that are comparable by virtue of pricing, amenities, property types available, etc. may not necessarily be in the immediate vicinity of the subject development.

The value of directly comparable resale properties can provide an insight into the market value of the subject property. A resale value is not usually regarded as the prime indicator of the value of the new property, but it can underpin the valuation and provide a reference point for the additional value attributable to the first-owner benefit (see section 2.1) and other factors of price.

In using any resale comparable, RICS members should consider the relevant positive and negative attributes of the resale property against the subject property.

7.3 Analysing comparable evidence

The ability to rank the evidence according to its applicability is an important part of the valuation process for a newly built property. While not intended to be prescriptive, the following represents an acceptable hierarchy when faced with a wide range of evidence:

- 1 recently completed transactions of identical property for which full, accurate and verifiable information is available
- 2 recently completed transactions of a similar property for which full, accurate and verifiable information is available, including from the resale market
- 3 recently completed transactions of a similar property for which full data may not be available, but from which some reasonably reliable data may be obtained, including from the resale market
- 4 verifiable information of property not directly similar from public sources and the media: the weighting of this will depend on the extent and authority or verifiability of the information
- 5 asking prices (though the weighting would be higher where markets are active and transparent) and
- 6 other indirect evidence, e.g. indices.

Consideration may also be given to information from incomplete (but agreed) or unverifiable transactions of similar properties, but this information should be accompanied with a full justification, including details of its source and the weighting applied to it. It is often the case that sites have 'exchanged' and 'reserved' sales rather than 'completed' sales, and these may form part of an assessment of market value, especially where they show evidence of recent market demand and activity.

7.4 Reflecting the comparables in the valuation

Similar-style properties selling in the resale market should be compared against the advantages of a newly built home. Apart from the 'newness' of unblemished fittings and surfaces, these value-added advantages may include:

- better-quality building materials
- improved design and layout
- reduced early maintenance requirements and
- sustainable housing elements or improved energy efficiency and comfort.

Care should also be taken if resale property has aspects of architectural merit not shared by the property to be valued. Similarly, care is required if using a comparable of ex-public sector stock, which may be predominant in the area.

In certain areas or for certain property types, RICS members may wish to analyse the value on the basis of a rate per square metre/foot. RICS members should also be aware and understand that the builders' or developers' pricing is often carried out on a rate per square metre/foot.

RICS members should avoid relying on comparable evidence that simply substantiates the purchase price, but that varies dramatically from the balance of evidence in the wider market. Equally, a simple valuation of the property in line with the lowest comparable evidence in the range of market evidence available is unlikely to be satisfactory.

Special mortgage products, though not in themselves builders' incentives, may be offered from time to time by lenders and/or builders. It may be that such products positively discriminate in favour of the new-build market and that, in some market conditions, they could lead to market and price distortions. RICS members should be aware of the availability of such schemes, record their existence and consider their effect on market conditions in the analysis of comparable evidence and production of market value.

Having gained evidence of resales and made adjustments for relative differences in size, accommodation and location, RICS members can take into account the benefits of the more tangible 'newly built' advantages and any additional first-owner benefits.

8 Assessing the market value

In establishing market value for new-build properties, comparable evidence gathered should be analysed to identify any value attributable to the following five elements of price:

- underlying value in the area for similar properties in the resale market
- added value of better specification/design of the new property compared to previously occupied and possibly older stock
- incentives offered to facilitate the sale
- first-owner benefit: newness and new-build purchase package and
- affordability premium.

The comparable data collected should also be analysed with reference to the other background information gathered on site and market conditions. To reach a conclusion, it will be necessary, and indeed it is generally preferable, to use several comparables. However, RICS members should avoid a rigid approach to a set number of comparables and/or the type of comparables used. The number and type of comparables should adequately support the valuation and methodology.

It is not appropriate to start with a new-build sales price and then deduct or adjust that price based on the elements previously mentioned. RICS members should establish an underlying value and work upwards from that. The apportionment of exact value percentages to each element is not necessary and may be very misleading. The value of each element will differ between individual properties and some elements may have no value.

RICS members should understand that these five elements form part of the builders' or developers' process in arriving at their market price and then decide, based upon comparable evidence and a methodical analysis, which of these elements combine to form the new-build market value.

Attributing value to each element, if any, is not a mechanical exercise, although any value that is attributed to the various elements taken together should be added to the underlying value. When taken together, the elements will enable RICS members to provide a valuation figure for the property. It is important to be alert to the fact that the assessment of market value may not necessarily equate to the agreed new-build purchase price.

8.1 Underlying value

Evidence of directly comparable resale property can provide an insight into the market value of a new-build property, when suitably adjusted to reflect the attributes of the new property that add value.

Using resale evidence from similar-style properties in the area establishes the underlying value. RICS members should be aware that the best resale evidence is that of similar-style modern properties that could be on the same development, on a similar development or in the vicinity. However, resale evidence will depend on local market circumstances. It will be necessary to use multiple comparables to establish the underlying value.

8.2 Added value of better specification/design

These are attributes that continue to be available on subsequent sale, though it is not guaranteed that they will necessarily add value in the longer term as design and specification continue to evolve.

New-build properties often have a better specification than resale properties, though this may not be the case if the locality is dominated by recently built properties. RICS members should use their skill to identify which attributes of the subject property add value when compared to the underlying resale value and new-build comparables from both on- and off-site. These attributes might include:

- energy efficiency
- better layout/design
- additional bathrooms
- better kerb appeal and
- builders' brand/reputation.

8.3 Incentives

The price of a new-build property may typically include an element attributable to incentives to purchase, as detailed in the UK Finance disclosure form (see section 4.6). Incentives may not add value to the property itself, but they may facilitate the transaction for the individual buyer.

Where they exist, there are two types of incentives:

- enhancements specific to the property, e.g. bespoke kitchen fittings, tiling, wooden floors that are part of the property and will remain; in other words, they are permanent benefits and
- monetary contributions, e.g. legal fees, stamp duty, cashbacks, guaranteed rents, etc.; they are not tangible and are not related to the property.

Monetary incentives do not add value in themselves, but may form part of the overall new-build package that prospective purchasers would take into account when framing their bid. Thus, cash incentives should be understood as appropriate, but mechanical pound-for-pound deduction is inappropriate. RICS members should exercise professional judgement in the light of all available information and evidence.

Cash incentives are probably the easiest incentives for RICS members to consider. More difficult to take into account are non-cash incentives, such as buy-back guarantees, rental guarantees or part exchange.

Comparable evidence of new-build transactions requires adjustment to assess any sale price element that is attributable exclusively to sales incentives.

Incentives have become increasingly innovative and sophisticated. Adjustments should be made to reflect these incentives when analysing varying comparables. They may differ between development sites, the types of property being sold and the types of purchaser being attracted by the seller.

Part-exchange is a particular example of a sales incentive. RICS members should carefully consider the impact of any such premium price paid for a part-exchange property, the details of which will be noted in the UK Finance disclosure form (see section 4.6). Comparables from sales involving part-exchange may have to be ignored if there is insufficient detail about the bought-in property transaction.

The detail of the incentives included in the sale of comparable new-build properties may not always be readily available to RICS members. However, it is the responsibility of RICS members to seek and establish the details of any incentives if they propose to use the transaction as a part of their evidence base. If they cannot do so satisfactorily, they should avoid using the comparable concerned. RICS members should differentiate between sales incentives that do not add value to the property and those attributes of new-build properties that may enhance value.

A valuation entirely derived from new-build comparable evidence that has been adjusted to exclude the value of incentives may still include an element of value attributable to a first-owner benefit, if one exists.

8.4 First-owner benefits

The existence of a first-owner benefit will be linked to the supply and demand for new properties in the locality. RICS members should be aware of the market conditions of the area. Where the supply of the type of property being valued substantially exceeds demand, it is conceivable that the value of any benefit will be negligible or non-existent. In contrast, where the supply of the type of property being valued does not meet demand, then the first-owner benefit could be higher.

Approaches to the assessment of any first-owner benefits vary, and certainly no percentage of the selling price can be defined with any confidence. RICS members should use their judgement and approach the issue with care.

The valuation of new-build property, in accordance with the definition of market value in VPS 4 section 4 of *RICS Valuation – Global Standards*, will include any element of value attributable to a first-owner benefit that is generally recognised by market participants. Mortgage lenders

broadly understand the principle of this type of benefit, and that such a benefit ceases to exist on first occupation and may not be realised on resale.

It should be noted that some lenders may wish to exclude value that is derived from a first-owner benefit by way of a special assumption. The special assumption will be stated in their terms of engagement and may be included as a statement in the valuation report, where the reporting format permits, when using standard pro formas. It may extend to related matters, such as excluding new-build sales evidence because it could include a first-owner benefit.

Buyers of new homes may intuitively understand the existence of a first-owner benefit, but may not appreciate the implications for the value of the new home in the first months or years of ownership. UK VPGA 11.7 of *RICS Valuation – Global Standards: UK national supplement 2018* recommends including a statement in the report, where possible, that warns of the consequences of reselling shortly after purchase:

‘It should be appreciated that the *valuation* provided is for the property as new. It may not be possible to obtain the *valuation* figure if the property is resold as second-hand, especially if comparable new property is on offer at the same time.’

8.5 Affordability premium

Sales and mortgage products, such as those supported by indemnities or financial guarantees, which are not in themselves builders’ incentives, might from time to time be offered through lenders and/or builders. This may lead to prices increasing in response to strong demand created by those very products, i.e. demand fuelled by a new-found affordability. RICS members should consider whether or not such products positively discriminate in favour of the new-build market to the extent that they might lead to an unsustainable market and price distortions. RICS members should be aware of the availability of such schemes and record their existence. They should make appropriate enquiries in respect of their use in a particular development as part of their analysis of comparable data, and consider any effect they may have on market conditions and on market value.

This affordability premium can relate to government-backed schemes, including Help to Buy as well as other affordable schemes, where some prospective purchasers see a property as now being obtainable when otherwise it would not have been. It should be appreciated that some schemes relate to the new-build market only and similar schemes may not be available to purchasers in the resale market.

Additionally, where a purchaser is buying a percentage share in the case of, for example, shared ownership or DMV, they may be prepared to pay a higher figure for the share than is sustainable when the value is calculated based on the 100 per cent ownership and then discounted.

Where identified, it should be considered whether this element of price is transferable on resale. It should also be considered whether it is appropriate to reflect this in a valuation for

secured lending, where a figure that reflects longer-term factors and the impact on value of any affordability premium in the context of the local market conditions is key.

Within this element, RICS members should also consider the influence of demand. There is a point at which any additional premium attributable to affordability schemes becomes part of the value when knowledgeable, ready, willing and able purchasers (i.e. market participants) are happy to continue to buy. For example, in an area of regeneration, a new development would improve the values of the local area in general, thereby reducing or negating the effect of the 'affordability premium'.

There are circumstances where a new-build purchase price is substantially different to the underlying value of similar properties in the locality. The difference may be due to the five elements detailed in this chapter, but there may sometimes be inexplicable differences. In these circumstances, if there is a level of demonstrable demand and there is sales evidence on the same site, RICS members should consider whether the demand has created a sustainable higher market value. This may occur, for example, in areas of regeneration.

8.6 Justifying the valuation

It is essential that the rationale of RICS members forms part of their records (their site notes/comparable matrix). In addition, they must show the reasoning behind the valuation, demonstrating the relative merits of the subject property in relation to the comparables selected. RICS members must refer to VPS 3, VPS 4 and VPS 5 in *RICS Valuation – Global Standards* for more information.

The rationale should be a reasoned argument that leads to the conclusion of the valuation itself. RICS members should refer to the elements of price that have been considered and how they have been weighed and combined to form an opinion of value. The justification should also include a comment on the general tone of the market and on the context of the valuation in the market.

To evidence the valuation, RICS members should record a ranking of the comparable evidence used. RICS members should consider where the greatest weight should be applied, be it to the resale comparables or the new-build evidence, and then rank them accordingly, depending on the market. It is appropriate to use comparables of either new-build or resale sales, as long as RICS members provide a clear explanation of their reasoning for the conclusion. For a small infill plot, established local resale/second-hand comparables may receive the greatest weight, whereas on a large greenfield site, on-site new and resale comparables may be most appropriate.

RICS members should approach the valuation by beginning with the underlying value and building up any additional value attributable to the identified elements of price described in this chapter. Valuations should lie within the range indicated by the comparables. Where this is not the case, RICS members should provide a full explanation of the difference between their opinion of market value and the actual sale price, demonstrating a clear methodology and reasoning.

9 Reporting the valuation

In most cases, reports will be made on the lender's standard report form. However, any unusual matters material to the valuation identified by RICS members should be brought to the lender's attention by appropriate means.

Where reports may be seen and relied upon by prospective purchasers, it is recommended that RICS members include a statement to the following effect:

'It should be appreciated that the *valuation* provided is for the property as new. It may not be possible to obtain the *valuation* figure if the property is resold as second-hand, especially if comparable new property is on offer at the same time.'

Where a market value with a special assumption that the property is completed is being produced prior to or during construction, the valuation supplied should reflect the evidence and market condition prevailing at the valuation date, not at an assumed date of completion. The exception to this is where a projected market value is specifically required by the instructing lender (see VPS 4 of *RICS Valuation – Global Standards* and UK VPGA 11 of *RICS Valuation – Global Standards: UK national supplement 2018*).

9.1 Reporting incentives

Where a lender advises an RICS member of changes to any incentives and the RICS member considers that variations from the incentives originally disclosed have a material effect on the original valuation, they should submit a revised valuation to reflect the new information.

Lenders have different approaches to dealing with builders' incentives. Their own underwriting teams may have a view of the risk they are taking in the loan, which depends on the overall value of the disclosed incentives in relation to the selling price or the market value provided in the RICS member's mortgage valuation report. This question of appetite for risk is for lenders, and not RICS members, to decide.

Where possible, RICS members should use statements in the following format:

'Sales incentives of [list the incentives disclosed by the seller/builder/developer in the sale] have been disclosed on this sale and should be confirmed by the lender's legal adviser in accordance with the UK Finance/website handbook. The effect of these on the selling price has been taken into account in the valuation.'

Or:

'No information regarding disclosed sales incentives was available at the time of inspection, and the valuation is based on the understanding that no sales incentives are offered on this property. This should be confirmed by the lender's legal adviser in accordance with the UK Finance/CML Lenders' Handbook.'

Information about the UK Finance/CML Lenders' Handbook can be found on the [CML website](#).

9.2 Reinspections

The majority of mortgage lenders do not require a final inspection by RICS members when the home has been physically completed, but rely on a local authority completion certificate being provided to the legal adviser.

Where lenders request a reinspection, the exact purpose of the reinspection should be confirmed in the report.

Reinspections may be simply to confirm the completion of construction. However, information gleaned by RICS members on reinspection may affect a previous valuation where the physical evidence varies from previously supplied information or assumptions. Any material impact on value should be brought to the lender's attention. Further information is given in UK VPGA 13.1 of *RICS Valuation – Global Standards: UK national supplement 2018*.

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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