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RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector.

RICS has a worldwide network. For further information simply contact the relevant RICS office or our Contact Centre.
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RICS would like to thank the following for their contributions to this guidance note:

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- Barry Hall, FRICS MCIarb
- Nicholas Swinburne (Nationwide Building Society)
- David House, FRICS (Head of Property Risk, Santander UK)
- David Dalby, FRICS (Residential Professional Group Director)
RICS Valuation – Professional Standards (the ‘Red Book’)

RICS (Royal Institution of Chartered Surveyors) is the leading organisation of its kind in the world for professionals in property, land, construction and related environmental issues. As part of our role we help to set, maintain and regulate standards – as well as providing impartial advice to governments and policymakers.

To ensure that our members are able to provide the quality of advice and level of integrity required by the market, RICS qualifications are only awarded to individuals who meet the most rigorous requirements for both education and experience, and who are prepared to maintain high standards in the public interest.

Members who qualify as valuers are entitled to use the designation ‘chartered valuation surveyor’ and, in addition to compliance with the general rules of conduct applicable to all members, must also comply with the RICS Valuation – Professional Standards, generally referred to as the ‘Red Book’.

RICS has in place a regulatory framework. Where a valuer undertakes work that has to comply with the Red Book that valuer is also required to register with RICS. Registration enables RICS to monitor compliance with the valuation standards and take appropriate action where breaches of those standards have been identified. For further details, please see www.rics.org/vrs.
This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent ‘best practice’, i.e. recommendations which in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member had acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each surveyor to decide on the appropriate procedure to follow in any professional task.

However, where members do not comply with the practice recommended in this note, they should do so only for a good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice. Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

It is the member’s responsibility to be aware of changes in case law and legislation since the date of publication.

**Document status defined**

RICS produces a range of standards products. These have been defined in the table below. This document is a guidance note.

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1 Introduction

1.1 The valuation standards

1.1.1 Valuers working in the UK are reminded of the mortgage valuation specification for residential property. The specification has been agreed with the Council of Mortgage Lenders (CML) and the Building Societies Association (BSA), and is set out in UKVS 3.1 and UK appendix 10 of the current edition of the RICS Valuation – Professional Standards (the ‘Red Book’).

1.2 Application of this guidance note

1.2.1 The aim of this guidance note is to assist the valuer in approaching the valuation of a new-build property in a logical and systematic way. It is written specifically for use within the UK, however, members operating in other countries may find the processes of valuation discussed helpful and capable of adaptation to their local circumstances.

1.2.2 This guidance note is intended for property that has yet to be occupied for the first time, or at least occupied for the first time in a new form. This may be because the property is a new construction, a conversion or a renovation from an earlier use.

1.2.3 The valuation of a new-build home may be required for many reasons. These may include:

- for owner-occupation, with or without a mortgage valuation for loan purposes for an intended owner-occupier
- as a private purchase valuation
- as a buy-to-let investment.

1.2.4 The guidance note is not intended to apply fully to the following circumstances. However, many of the concepts and considerations given may be applicable in the following 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) for local and 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).

1.2.5 This guidance note discusses the approach to the valuation of a new-build residential property. This property may be 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 for the valuer.

1.2.6 The area within which the new home is located may or may not have already been identified as suitable for the development of new homes of similar style. Equally, the local market may or may not have adjusted to the style and types of accommodation now being introduced.

1.2.7 Where the valuation is intended for commercial secured lending, the Red Book VS 4.2 and Appendix 5 will apply.
2 The new-build market

2.1 General

2.1.1 The valuation of individual new-build homes requires an understanding of issues that are unique to this sector of the residential market. Such issues range from an appreciation of the physical attributes of new property that may add value above similar property in the resale market, to an awareness of marketing techniques within the sector and the impact these might have on the selling price of a new-build home.

2.2 New-build attributes

2.2.1 Demand for new-build property will be driven by a range of factors. It is important for valuers 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, Building Regulation requirements, improved specifications, incentives, and what is often described as a ‘new-build premium’ (see section 2.5). 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.

2.2.2 Typically, the price of a new-build property may include elements attributable to:

- improved build specification
- the ‘brand new’ factor, in the form of a ‘new-build premium’
- incentives to purchase as detailed in the CML Disclosure of Incentives Form (DIF).

2.3 Assessing a new-build premium

2.3.1 The term ‘new-build premium’ is used to indicate any additional sum that a purchaser is prepared to pay for a residential property that has not previously been occupied. It is not universally found, though is relatively common in particular sectors or locations, and relates entirely to the first occupation of a property. Care should be exercised in the understanding and use of this term. While a component of market value, it does not relate to additional value arising from physical attributes that will remain after first occupation and which may add value on subsequent re-sale. Examples of attributes that are not part of a new-build premium are better build and design, the use of modern materials, lower maintenance costs, a superior layout and improved energy efficiency.

2.3.2 Approaches to the assessment of any new-build premium vary, and there is certainly no defined percentage of the selling price that can be ascribed with any confidence. It is for the valuer to approach the issue with care and judgment. Sales evidence of sold and ‘sold subject to contract’ properties can be collected from the development itself, from other new developments in the area with properties of similar style and from the resale market.

2.3.3 The existence of a new-build premium will be linked to supply and demand for new properties in the locality. The valuer should thus be aware of market conditions for that area. Where the supply of the type of property being valued substantially exceeds demand, it is conceivable that the value of any premium will be negligible or non-existent. In contrast, where the supply of the type of property being valued does not meet demand, then the new-build premium could be significantly higher, depending on the imbalance between supply and demand.

2.3.4 The valuation of new-build property in accordance with the definition of market value in the Red Book VS 3.2 includes any element of value attributable to a new-build premium. Mortgage lenders broadly understand the principle of this type of premium, and that such a premium ceases to exist upon first occupation and will not be realised on resale.

2.3.5 It should be noted that some lenders may wish to exclude value that is derived from a new-build premium by way of a special assumption. The special assumption will be stated in their terms of engagement (and included as a statement in the valuation report, where the reporting format permits when using standard proformas). It may extend to related matters, such as excluding new-build sales evidence because it could include a new-build premium.
Buyers of new homes may intuitively understand the existence of a new-build premium, but may not appreciate the implications for the value of the new home in the first months or years of ownership. It is for this reason that Red Book UK appendix 10 recommends a statement in the report that warns of the consequences of reselling shortly after purchase.

### 2.4 Incentives

**2.4.1** The price of a new-build property may typically include an element attributable to incentives to purchase, as detailed in the DIF (see section 7). Incentives do not add value to the property itself, but facilitate the transaction for the individual buyer.

**2.4.2** Adjustments should be made to reflect these incentives when analysing varying comparables. Comparable evidence of new-build transactions requires adjustment to assess any sale price element that is attributable exclusively to sales incentives.

**2.4.3** Incentives have become increasingly innovative and sophisticated. They may differ between development sites, the types of property being sold and the types of purchaser being attracted by the seller (see also paragraph 9.2.1).

**2.4.4** It is acknowledged that the detail of the incentives included in the sale of comparable new-build properties may not always be readily available to the valuer. However, it is the valuer’s responsibility to seek and establish any incentives. The valuer should differentiate between sales incentives that do not add value to the property and those tangible attributes of new-build properties that may enhance value.

**2.4.5** 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 new-build premium, if one exists.

### 2.5 Resale comparable evidence

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

**2.5.2** Having obtained evidence of resales and made adjustments for relative differences in size, accommodation and location, the valuer should then take into account the benefits of the tangible new-build attributes.

**2.5.3** The difference between the adjusted value derived from resales and the selling price of the subject property may also reflect any new-build premium and any sales incentives included in the transaction. The valuer will identify the new-build premium after accounting for the impact of any incentives in the price.
3 Client instructions

3.1 Determining your client

3.1.1 Where the property is being purchased without the benefit of a loan, the client is the purchaser.

3.1.2 Where a valuation is required for mortgage purposes, the client is a lender and the purchaser is a third party to the lender/valuer contractual relationship (see paragraph 3.3.1).

3.2 Third parties

3.2.1 Instructions can be sent to the valuer by a number of parties acting as agents for the end-user lender. Third parties include packagers, brokers and panel managers, and, in Scotland, professional advisers.

3.2.2 Third parties may pay the fee to the valuer. This does not give them the right to amend the terms of engagement between the valuer and client, or to influence the valuer's professional judgment. The valuer should at all times be aware of conflicts of interest, and of his or her obligations to the client.

3.2.3 Panel managers may be appointed by a lender to act on its behalf. Their actions may include maintaining and issuing guidance notes on the completion of the lender's reports.

3.2.4 Once the valuation has been reported, challenges from a third party to amend a valuation should be resisted, unless there is additional comparable evidence persuading the valuer that he or she is justified in making a change to the valuation. The submission of an amended valuation should only be made in accordance with the valuer/client contractual relationship.

3.3 The lender/borrower relationship

3.3.1 The valuation is prepared to assist the lender in making a lending decision, but commonly a copy of the report is also provided to the borrower. The borrower pays for the valuation, either directly as part of the arrangement fees for the loan, or indirectly as part of the overall costs of the loan through interest payments. The borrower is not the valuer’s client, but the valuer has a duty of care to the borrower, as defined in case law.

3.4 Estate agents

3.4.1 Estate agents and other third parties also play a role in the process, but generally they are acting on behalf of the seller. There is therefore no contractual obligation to such parties, even when the estate agents have arranged the borrower’s loan application.
4 Reviewing the instructions

4.1 Instructions where the client is a mortgage lender

4.1.1 Red Book UK appendix 10 is a specification agreed with the CML and BSA. It sets out the basis on which the valuer must carry out the valuation.

4.1.2 Lenders mostly provide their own valuation forms and guidance notes explaining their policy on how the valuer should carry out the valuation on their behalf.

4.1.3 The client may request the valuer to depart from the Red Book. In such cases, regard must be had to Red Book VS 1.2, where departures are defined.

4.2 Instructions where the client is the purchaser

4.2.1 In the case of instructions where the client is the purchaser and not the mortgage lender, Red Book UK appendix 10 will not apply, unless agreed otherwise. However, the valuer must comply with the other requirements of the Red Book.

4.2.2 Any departures from the Red Book must be agreed as part of the terms and conditions of instruction to act (see also section 6 of this guidance note).

4.3 Time constraints

4.3.1 The valuer should act professionally at all times and ensure that sufficient time is allocated to the research, inspection and preparation of the valuation. Sometimes the valuer must operate under time constraints, but these should not undermine his or her ability to provide an accurate and professional service. Shortage of time is not a defence against a charge of negligence.

4.4 Pre-site appraisals

4.4.1 Pre-site appraisals normally constitute marketing advice and, as such, are covered under the exception excluding valuations provided in connection to certain agency or brokerage work, as stated in the Red Book VS 1.1.
5.1 Health and safety on site

5.1.1 Sites where building work is in progress present a number of health and safety hazards derived, for example, from:

- construction traffic moving around the site
- the possibility of falling objects where builders are working at height
- issues related to incomplete buildings
- noise, fumes and dust from machinery and specialist equipment
- slip, trip and fall hazards caused by mud and debris.

5.1.2 Valuers therefore need to take particular care when visiting such sites and should be extremely mindful of their own health and safety. Reference should be made to the current edition of the RICS guidance note, Surveying safely, for further information.

5.1.3 It is essential that valuers liaise with the contractor or agent responsible for the site to ensure that their conduct does not breach the developer's own site health and safety rules. In many cases, this discussion may take place in the site office or show home.

5.1.4 Appropriate personal protective equipment should be worn at all times. This may include strengthened boots, a hard helmet and a high-visibility jacket, as well as gloves, a face mask, ear defenders and eye protection. In some cases, the developer may be able to provide such equipment, although valuers are recommended to carry their own.

5.2 Risk assessment

5.2.1 A developer will normally have completed a health and safety risk assessment on a particular site prior to works commencing, and should therefore be able to explain any hazards and risks to the valuer.

5.2.2 Risk assessment principles are based on common sense. An assessment involves the consideration of those matters that could cause harm to a person (the 'hazards'), the likelihood of harm being caused (the 'risk') and the preventative measures necessary to reduce the likelihood of harm occurring and its severity.

5.2.3 Using these basic principles and a general knowledge of construction sites, the valuer is expected to be able to undertake a dynamic risk assessment both before commencing the inspection and during it. At all times, however, the valuer should follow instructions from the contractor or agent responsible for the site, and comply with the site’s health and safety rules.

5.3 Access limitations

5.3.1 In some instances, a developer may prohibit access to all or part of a site for health and safety or other reasons, thus preventing an inspection of the subject property or the specific plot where the property is to be constructed. In other situations, a valuer may conclude that it would be inappropriate from a health and safety perspective to inspect the property.

5.3.2 In such cases, it is imperative to comply with Red Book VS 5 and VS 6.1. The restriction is to be clearly stated in the mortgage valuation report, where the reporting format allows this. The valuer must also outline the various assumptions as to accommodation, specification and other relevant matters, as well as the source of such assumptions (for example, the developer's literature and plans).

5.3.3 Where the valuer considers it appropriate to provide a valuation on the basis of a limited access inspection, reliance can be placed on reviewing the following:

- construction site plan (not the marketing material)
- specification or drawing of the subject unit
- show home of the unit
- similar partly or fully completed unit.

In the absence of access to the subject unit, and without access to all of the foregoing information,
the valuer may decide to decline to provide a valuation and refer the instruction back to the client.

5.3.4 Any site restrictions should be clearly recorded in the site notes and filed with other documentation as a record of events at the time of the inspection.

5.4 Plot characteristics, site plans and identification

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

5.4.2 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 the valuer.

5.4.3 It is recommended that a copy of the site plan showing the plot number and the site characteristics and features is inspected. This should be supplemented by enquiries made to the sales agent or developer, especially where access to the specific property or plot in question is not possible.

5.4.4 Red Book VS 6.1 requires the subject of the valuation to be identified. Every effort should be made to ensure that the unit inspected corresponds with the address of the unit within the terms of engagement. A site plan or sketch record should be kept with other documentation to show the location of the unit that has been valued.

5.4.5 Where there is reason to question whether the unit under inspection is the unit to be valued, the valuer should refer the matter to the client and should withhold a valuation until the former is satisfied regarding the identity of the unit.
6 Assumptions, special assumptions, planning and Building Regulations

6.1 General

6.1.1 Valuers should review the requirements in the Red Book to agree assumptions and special assumptions with the client before providing the valuation.

6.1.2 Assumptions that are deemed to be included in the terms of engagement with lenders, where there is an agreement to follow that specification, are set out in Red Book UK appendix 10.

6.1.3 Special assumptions may be used to illustrate the potential effect of changed circumstances on the value of the property as a security: for example, the potential loss of the new-build premium once a property is occupied or the possible non-completion of a key attribute (such as a leisure complex in a flat development; see paragraph 2.3.5).

6.2 Assumptions within Red Book UK appendix 10

6.2.1 It should be specifically noted in respect of new-build property that unless instructed otherwise, the valuer will act as follows.

- In the case of a building that has not yet been constructed, the valuer will, unless instructed otherwise, 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, the valuer 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 has been supervised by a professional consultant capable of fully completing the CML Professional Consultant Certificate acceptable to the lender.
- The valuer will assume that no hazardous materials have been used in construction.

However, if the limited inspection indicates that there are such materials, this must be reported and further investigations requested.

- The valuer will assume that the site is not contaminated and is free from other environmental hazards. No enquires regarding contamination or other environmental hazards are to be made, but if a problem is suspected, the valuer should recommend further investigation.
- The valuer will assume that the contents of the CML DIF provide full disclosure of the financial aspects of the sale (see section 7.5).

6.3 Special assumptions in addition to Red Book UK appendix 10

6.3.1 Special assumptions in respect of new-build valuations are in addition to those included in the Red Book UK appendix 10 and should be agreed and confirmed with the client prior to submission of the valuation. These special assumptions should be included in the valuation report where the client’s reporting format permits. There are a number of special assumptions that may have an impact on market value. These may include the following:

- that certain facilities (such as leisure complexes, swimming pools and communal provisions) are completed
- that certain planned transport links, infrastructure provisions and other constructions (such as retail units as part of a larger scheme) are completed
- on the valuation of a new-build property, that it has already been occupied. If a lender requests this, or a similar, special assumption to be adopted, guidance should be obtained from the lender specifying how this instruction is to be interpreted.

The valuer will assume that where the development is within a recognised flood plain, there are no unusual insurance requirements that may affect the marketability of the property.
6.4 Where the client is the purchaser and not a lender

6.4.1 Where the valuation is for a private purchaser and Red Book UK appendix 10 does not automatically apply, then such assumptions as noted are in that appendix. Any additional special assumptions should be clearly agreed and confirmed before submitting the valuation. Appropriate terms of engagement should also be agreed with the client.

6.4.2 The valuer should also advise the client to ensure that a number of checks are made, including, among others:

- confirming that all the planning, Building Regulation and warranty requirements are properly checked by the legal adviser, together with all other normal pre-contract enquiries prior to any legal commitment to purchase
- arranging for a final inspection prior to legal completion.

6.5 Planning and Building Regulations

6.5.1 Red Book UK appendix 10 advises the valuer regarding the approach to be taken to planning enquiries. In brief, it states that these are to be left to the legal adviser.

6.5.2 The valuer should be mindful of any possible impact on value relating to energy-efficient design, or to the sustainability of material and construction relating to the property or development.

6.5.3 Section 106 Agreements (Section 75 Agreements in Scotland) are individual to developments. They are likely to have an impact on the value of any property inspected that is subject to such agreements.
7. Assessing the property and the development

7.1 Incomplete construction

7.1.1 In the majority of cases, the assessment of a new-build property will be based on an uncompleted construction. At one extreme, the valuer may view an empty site, part of a garden or a pegged building site on a larger development, with a set of plans and drawings. At the other extreme, the property may be very near to, or may have reached, practical building completion.

7.1.2 Caution should be exercised in identifying the unit to be valued where construction is incomplete. Where the valuer is unable to identify and record the location of the unit, the instruction should be referred back to the lender and further information requested (see section 5.4).

7.1.3 The plans offered to the valuer may also vary, from a rough outline drawing and list of anticipated accommodation, to copies of formal submitted drawings with planning and building control approval date stamps, and detailed constructional specifications and measurements.

7.1.4 Some incomplete developments (for example, of flats) can be particularly difficult to inspect, as physical site access may be severely restricted. Ground works may not be any more than a set of piled foundations, or a concrete and steel frame sub-structure.

7.1.5 Redevelopment schemes may present particular challenges, as an existing building will often undergo partial demolition before renovation starts, leaving in many cases no more than a shell structure to view in the early stages of the project.

7.1.6 When a finished home is viewed, the quality and all the physical aspects of the property can be more fully appreciated and evaluated, even if the development site has not been completed, or road and infrastructure remain unfinished and unadopted.

7.2 Show houses

7.2.1 Show houses or apartments are an attempt by a builder or developer to provide an example of a finished home for prospective buyers. Sales offices often utilise show units, or parts of them, during the selling period. Some builders provide a parade of several homes, usually partly or fully furnished, to display the different types and styles offered on the development.

7.2.2 With flat developments, the builder or developer may be limited to providing a temporary ‘marketing suite’ attached to the sales office, giving an idea of the layout offered in the apartment block under construction. This requires the valuer to interpret the access arrangements and views available from the home by studying the sales details and plans available.

7.3 Completed developments

7.3.1 Valuers should exercise their judgment based on the details obtained during their inspection and reflect their interpretation of the final scheme or project. The quality of materials and standard of finish may be unknown, but the valuer is expected to make appropriate enquiries to the builder or developer. The valuer is obliged to make assumptions about the build quality of the subject property and the relative merits of the finished development.

7.3.2 Where the home is at, or near, physical completion, the inspecting valuer can check for any outstanding items against the specification and for any deviations from the planned build.

7.3.3 The majority of mortgage lenders do not require a ‘final inspection’ by the valuer when the home has been physically completed, but will rely on a local authority completion certificate being provided to the legal adviser.
7.4 Other considerations during the assessment

7.4.1 Parking, garaging and the use of any shared facilities are to be considered after enquiry on site and inspection of the layout of the development.

7.4.2 In the course of an inspection the valuer will need to be alert to the increasing use of sustainable technologies in the construction of new-build properties. The current edition of the RICS information paper, *Sustainability and residential property valuation*, provides further detail. The valuer should collect, record and retain with the site notes any information on the existence or use of any sustainable technologies.

7.4.3 The location of any affordable or social housing, retirement or sheltered housing, commercial and live/work properties on the site should be identified on any site layout plans presented. If none are identified, then a direct enquiry should be made as to whether there are any to be built on the development as part of a Section 106 Agreement with the local authority, and precisely where their construction is planned. Site notes should record details of this enquiry so that any future changes to the location of such units, which may have an impact on value, can be assessed.

7.4.4 Some lenders may require the ‘stage release’ of mortgage advances during the building period. This is normally associated with self-build projects (see section 10.8).

7.5 Disclosure of Incentives Form

7.5.1 In 2008 agreement was reached between the Home Builders Federation (HBF), Homes for Scotland and the CML to formalise the process of capturing information on sales incentives and the price agreed for a property being sold on a new development, or as a renovation or conversion. This was subsequently adopted by the BSA. The information document is known as the DIF, and it may be revised from time to time.

7.5.2 A copy of the CML DIF, along with a supporting document covering CML DIF frequently asked questions, can be found on the CML website at www.cml.org.uk/cml/handbook/form. A reproduction of the form is also supplied in Appendix 1.

7.5.3 The DIF is required to be completed by the seller, initially via the selling agent staff or site sales team, and is to be made available, on request, to the valuer attending to view a property.

7.5.4 The form provides details of the buyer, any purchase scheme utilised in the transaction, details of the seller and data relating to the site development. It also includes a note of any introductory or finder's fees agreed in the sale, as well as both the list/asking price and the agreed selling price.

7.5.5 The seller is required to include details of all incentives offered in the sale of the home, together with part-exchange information where this is being used in the sale.

7.5.6 The valuer should obtain a copy of this form and retain a copy for inclusion with the site notes. The information should be kept secure, in accordance with data protection requirements, and is for discussion with the contractual parties to the valuation only.

7.5.7 The lender’s legal adviser will receive a copy of the DIF with all the usual contractual paperwork. By this stage the form will have been signed by an authorised signatory for the seller that has legal responsibility for the accuracy of the form’s content.

7.5.8 Between the valuation date and the completion of the mortgage, there is the possibility that further incentives may be negotiated in addition to those initially disclosed at the time of the valuation inspection. The lender’s policies will define the circumstances when such changes should be referred back to the valuer.

7.5.9 The DIF is prepared for the solicitor or conveyancer and the valuer when acting on behalf of a lender. Where the DIF is not available because the valuer is not acting on behalf of a lender, the valuer should carry out sufficient investigation of all available information to ensure that he or she understands all financial aspects of the sale. This information should be recorded and retained within the site notes.

7.6 Marketing literature

7.6.1 The sales brochures produced by the builder, developer or selling agent can be a useful aid to the valuer. These documents may include
room measurements, room layout diagrams and some specification details. They often also contain a depiction of the home using an artist’s impression, a computerised image or a photograph from another development site.

7.6.2 In ideal circumstances, the valuer would be provided with a pack including a site plan, a floor plan, details of construction, unit specification, a sales brochure, a current price list, details of historic sales including incentives and extras, and a reservation form.

7.6.3 Trading standards and legislation have generally assisted in monitoring the information depicted in such publications throughout the home-building and estate agency industry. However, the information in the sales brochure should always be regarded as illustrative only and treated with caution.

7.6.4 Sales literature for larger developments may show only part of the site layout. It should be clarified on site as to whether the layout indicates a final site boundary, or only a phase in the proposed development. This may be particularly important in relation to the outlook from the property being valued, and for the location of any planned social housing, retirement or sheltered housing, commercial and live/work properties.

7.6.5 Valuers should be mindful that different specifications may apply to different plots. In such circumstances, details should be recorded and, if appropriate, reflected in the valuation.
8 Analysing the market

8.1 The economic cycle

8.1.1 All valuations are carried out in the context of the wider economic cycle. At any given time the economic climate might be characterised as booming, stable or depressed. The valuer is expected to have an awareness of the national economy and market trends, but it is important to ensure that the valuation reflects the market conditions only at the specific valuation date.

8.1.2 The valuation is a ‘snapshot in time’, and it is not appropriate to anticipate possible future movements in values, whether upwards or downwards, even when the national economy is particularly dynamic. When providing a valuation, the valuer does not create the market, but follows it.

8.2 Local demand and supply

8.2.1 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 resales as comparable evidence when assessing new-build values may require particular caution in such circumstances.

8.2.2 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, for example, may create market conditions which were not historically shared by properties in the surrounding areas. Hence, such conditions are not to be reflected in their values when these are used as comparables, but need to be considered.

8.3 Speculative market movement

8.3.1 Even when the ‘normal’ influences on the value of a property have been identified, the valuer is reminded that potential purchasers with a special interest may be present in the market and that their activities may not always be readily apparent. Depending on the circumstances, this might have the result of either genuinely increasing values or, conversely, giving an artificially inflated impression of true values.

8.3.2 Previously undesirable localities (for example, former dockland areas) can become fashionable and attract wealthy purchasers following speculative redevelopment, thus creating new markets and permanent increases in value. Over-development, however, can run the risk of rapid falls in values in the event of a market downturn.

8.3.3 Circumstances can arise where 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 of a property has even begun. This requires payment of only a deposit, with a view to reselling at a profit immediately after construction has been completed and before the balance of the purchase price to the builder is due. The original speculator purchaser’s intentions are unlikely to be declared, so mortgage valuations may be required at either end of this process.

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

8.3.5 It is important to consider the risks associated with the commoditisation of some parts of this market, for example, property typically associated with buy-to-let investments. Where the level of investment purchasing becomes disproportionate, this can lead to short-term substantial increases in value above the levels at which (mostly first-time) 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 values.

8.3.6 While the valuer is valuing at a specific point in time, the cycle of speculative investment purchases should be recognised. Caution is required in circumstances where investors’
opinions of the worth attached to a residential investment can unrealistically inflate value. In these circumstances, it might be necessary to make clear in the report that investors, rather than owner-occupiers, are the dominant purchasers.

8.3.7 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 that such purchases are not open-market transactions when valuers are requested to report on them for mortgage purposes, or when these transactions are later offered as comparable evidence for subsequent sales.

8.3.8 Enquiries at the time of valuation and information provided in the DIF (see section 7.5) will assist in identifying such circumstances. However, ultimately the valuer can only ensure that the valuation reflects the market conditions and comparable evidence at the relevant date. There should be a constant awareness that a significant proportion of speculative purchases may distort the genuine residential purchaser market and artificially raise prices.

8.4 Market turbulence

8.4.1 Periodically, the market will experience unusual turbulence, and the compilation of comparable evidence can become especially difficult. Not all sectors of the market are equally affected, and available evidence may be contradictory. The valuer is recommended to draw on all possible resources to understand the various influences on the market and, as far as possible should endeavour to identify consistent strands and patterns in the available information.

8.4.2 The supporting justification for valuations in rapidly changing conditions may need to be particularly detailed. More explanatory background information than usual may be required at such times and should be clearly recorded. The prevailing market sentiments may not otherwise be readily apparent if valuation decisions are later subjected to retrospective examination.
9 Weighing the evidence

9.1 Market value

9.1.1 Red Book UK appendix 10 states the following:

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 sales price must be treated with caution.

9.2 Assessing the impact of incentives

9.2.1 Developers may offer incentives to purchase new properties, and occasionally on non-new-build property, to achieve quicker sales and give the appearance of high sale prices. Incentives take many forms and may include:

- payment of legal and surveying fees
- reimbursement of the deposit on signing contracts
- guaranteed rents for a number of years
- discounts or reductions if more than one property is acquired
- purchase of the buyer’s existing property
- payment of the mortgage for a specified period
- high-level material gifts (for example, a new car)
- cashbacks after completion
- furnishings and electrical goods.

This list is not exhaustive. Any such information should have been included in the DIF (see section 7.5).

9.2.2 Cash incentives are probably the easiest for the valuer to consider, as they typically indicate a reduction in the selling price. More difficult to take into account are the non-cash incentives, such as buy-back guarantees.

9.2.3 Part-exchange involved in a sale is a particular example of a sales incentive. The valuer should carefully consider the impact of any such premium price paid for the part-exchange property, the details of which will be noted in the DIF. Comparables of sales involving part-exchange may have to be ignored if insufficient detail of the bought-in property transaction is known.

9.2.4 The valuer will need to distinguish between incentives that are property-related (such as higher specification permanent fixtures) but have little impact on value, and incentives that are non-property-related (such as subsidised rents or cash incentives), in the absence of which the price would be significantly lower.

9.2.5 The data collected in DIFs throughout the life of a development may help to indicate how market forces have operated over time through the level of discounts and incentives offered to purchasers.

9.2.6 The valuer should take full notice of all the information in the DIF, which should include the name of the representative and company and the date on which the information was provided. This disclosed information can be relied upon by the valuer during deliberation over value. A copy should be retained in the site note file for the valuation.

9.2.7 The valuer will have regard to incentives in arriving at the valuation on the defined basis, but will not reflect them purely as an arithmetical exercise starting with the notified sale price or a selected comparable. The valuer should exercise professional judgment in the light of all the information and evidence available.

9.2.8 Mortgage products 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. Valuers need to be aware of the availability of such schemes and should record their existence. They should make appropriate enquiries on their use within 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. Part of that analysis should be to consider whether or not such products positively...
discriminate in favour of the new-build market to the extent that they might lead to unsustainable market and price distortions.

9.3 Analysing the incentives

9.3.1 Comparable evidence of new-build transactions requires adjustment by assessing the impact of any incentives.

9.3.2 Comparables may be available from sales and resales on a development, but these may not be reliable if considered in isolation. They should be considered in the context of any incentives that were available and could have influenced the price paid. Other factors that should be taken into account are the market in the area, prices realised for similar new properties on other developments, the resale market and other information considered relevant by the valuer. Adjustments will be necessary to reflect any improvements in the design or layout of the subject property, the ease of maintenance during the early years and any other factors that may influence the decisions of purchasers.

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

9.3.4 When utilising comparable evidence, the valuer should firstly be aware of the source and integrity of the data. Secondly, the valuer should be alert to the fact that earlier valuations or sale price information recorded in comparable data may have been reflective of the specific circumstances of that transaction. Examples include taking into account Section 106 Agreements, shared ownership/equity schemes and special assumptions used for specific lenders).

9.3.5 It is possible for a site to be especially attractive to buy-to-let investors. The valuer should attempt to verify the proportion of sales to investors, as this can affect the market for the finished properties. The valuer should have regard to the nature of transactions on the site, which may perhaps include a small number of bulk purchases or a large number of individual transactions, and should weigh the comparable evidence accordingly.

9.3.6 A valuer should also have regard to the nature of any ‘discounting’ on a development and assure him or herself that the discounted price has not in fact become the norm.

9.3.7 Special mortgage products, though not in themselves builder’s 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, it could lead to market and price distortions. The valuer should be aware of the availability of such schemes, record their existence and consider their effect on market conditions within the analysis of comparable evidence and production of market value.

9.4 Analysing comparable evidence

9.4.1 The valuer should seek to rely on a range of comparable evidence when valuing a residential property that has not yet been occupied for the first time. This might typically include evidence from similar new-build developments within the vicinity of the subject site or property, as well as transactional evidence from properties that are not new but are a result of the resale market.

9.4.2 The ability to rank the evidence collected according to its applicability is an essential part of the valuation process for newly built property. A hierarchy of evidence should be applied when weighing the evidence. While not intended to be prescriptive, the following might typically be considered to represent an acceptable ranking when faced with a wide range of evidence:

- completed transactions of identical property for which full, accurate and verifiable information is available
- completed transactions of similar property for which full, accurate and verifiable information is available, including from the resale market
- completed transactions of 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
- verifiable information from public sources and the media
- information from incomplete (but agreed) or unverifiable transactions of similar property
- asking prices
- indices and other information derived from an automated valuation model (AVM).
The date of the sale transaction of any comparable will be an important consideration, as will the number of units that were released into the market and the prevailing market condition at that time in the area (see section 8).

It is acknowledged that the details regarding incentives for some comparables may not always be readily available to the valuer, unless the properties were valued on an earlier occasion, in which case the details will be part of that valuer’s knowledge of the development. If the valuer chooses to rely on comparable on-site sales evidence, he or she must apply considerable rigour in establishing the details of the sales of those comparables. In cases where this evidence is unobtainable, a lower weighting should be applied to the comparable.

There are two principal types of ‘off-site’ comparable that a valuer will search for and consider during the valuation process. The first is a similar type of property on a similar new-build site nearby, selling at the same time as the valuation. The second is a similar type of property selling in the resale market.

New-build comparables on different development sites will require a similar level of scrutiny as the subject property. Care should be taken to consider the different sales discounts and incentives that may be operating there.

The mix of property type, unit size, finish, accommodation and target market (older people or young professionals being two examples) should also be compared between the subject and comparable sites.

The size and location of the comparable developments should be considered, together with the immediate neighbourhood and factors such as school catchment areas. In addition, the valuer should include other locational and socio-economic factors, such as location in a conservation area, or relative proximity to transport and shopping.

The value of directly comparable resale properties can provide an insight into the market value of the subject property. Resale value is not usually regarded as the value of the new property, but it can underpin the valuation and provide a reference point for the additional value attributable to the ‘new-build premium’ (see section 2.3).

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:

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

The RICS Information paper, Sustainability and residential property valuation, provides further information on this matter. The valuer should collect, record and retain with site notes any information gained in this respect.

Care should also be taken if resale property being used as a comparable has aspects of added value, such as period or architectural merit associated with a listed building.

Having gained evidence of resales and made adjustments for relative differences in size, accommodation and location, the valuer can take into account the benefits of the more tangible ‘newly built’ advantages and any additional new-build premium.

The use of comparable evidence that simply substantiates the purchase price, but varies dramatically from the balance of evidence in the wider market, is to be avoided.

Equally, a simple valuation of the property in line with the lowest comparable evidence in the range of market evidence available is unsatisfactory.

The valuer’s justification should form part of the site notes. In addition, it should show the reasoning behind the valuation, demonstrating the relative merits of the subject property in relation to the comparables.
9.7.2 The justification should also include comment on the general tone of the market and on the context of the valuation in the market, to reflect a balance of the evidence.

9.7.3 The justification could record the opinions of other professionals whose views are trusted.

9.7.4 The justification is to be a reasoned argument that leads to the conclusion of the valuation itself.
10 The valuation

10.1 Reporting the value

10.1.1 In most cases, reports will be made on the lender’s standard report form. However, care should be taken to ensure that any unusual matters identified by the valuer are brought to the lender’s attention – either on the form or in an accompanying letter. All reports must comply with Red Book VS 6.1.

10.1.2 Where reports may be seen and relied upon by prospective purchasers, it is recommended that the valuer considers including 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.

10.1.3 Where a market value 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.

10.2 Reporting market rent

10.2.1 When carrying out a valuation for a lender, the valuer should refer to the requirements of Red Book UK appendix 11 on ‘buy to let’.

10.2.2 When reporting for a lender using the lender’s pro-forma, it will not be necessary to confirm the basis of value or any assumptions if the lender has previously supplied documented guidance as to its specific policy and reporting requirements, and if these form part of the terms of engagement.

10.2.3 Where the client is a purchaser and not a lender, the valuer should provide confirmation of the basis of value, and any assumptions made regarding the nature of the actual or implied tenancy, in the terms of engagement and the report.

10.3 Reporting incentives

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

10.3.2 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 valuer’s mortgage valuation report. This is for lenders, and not the valuer, to decide.

10.3.3 It is recommended that the valuer uses statements to the following effect where they can be accommodated in the lender’s reporting 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 CML Lenders’ 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 CML Lenders’ Handbook.

Information about the CML Lenders’ Handbook can be found on the CML website at www.cml.org.uk/cml/handbook/form.

10.3.4 When reporting for a client who is the purchaser and not the mortgage lender, the valuation report should include details of any incentives that are known to be included in the sale and their impact on value.
10.4 Unusual market activity

10.4.1 Market value of the subject property is assessed in relation to the related market. There may be aspects of that specific market leading the valuer to provide a market value that reasonably varies from a ‘normal’ tone of value for otherwise comparable locations. If this is the case, an explanation should be provided. Relevant activity might include the activities of special purchasers or elements of public policy.

10.4.2 New-build transactions, in common with other sectors of the housing market that are difficult to value, may be targeted by criminals. Valuers should always be vigilant for signs of potential criminal activity, such as fraud and money-laundering, and should understand their responsibilities for recognising and reporting suspicious activity. Familiarity with any guidance issued by mortgage lenders and by RICS to its members at www.rics.org/financialcrime is recommended.

10.5 Builders’ warranties and assurance schemes

10.5.1 When valuing for lenders, the assumptions regarding builders’ warranties and assurance schemes are laid out in section 6, subject to any specific lender instructions.

10.5.2 Where the client is a purchaser and not a lender, the valuer should report the existence of any known builders’ warranties or assurance schemes, and, if possible, give a summary of the cover provided.

10.5.3 If the valuer is unable to confirm the existence of such warranties or assurance schemes, the client, whether lender or purchaser, should be advised to make specific enquiries of the vendor.

10.5.4 The absence of warranties or assurance schemes, particularly for recently constructed dwellings, may limit mortgagability and consequently affect the assessment of value. In such cases, the valuer’s assumptions are to be stated.

10.6 Re-inspections

10.6.1 Re-inspections may be requested by lenders or intending purchasers. Where possible, the purpose of the re-inspection should be confirmed in the report.

10.6.2 Re-inspections may be simply to confirm the completion of construction. However, information gleaned by the valuer on re-inspection 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 client’s attention. Further information is given in the ‘Re-inspections’ section of Red Book UK appendix 11.

10.7 Defective workmanship

10.7.1 A valuation is not a survey and should not be considered as a detailed commentary on the quality of workmanship displayed by contractors. However, if any significant defects affecting value are recorded during the course of the valuation inspection, these should be commented on and reflected in the valuation.

10.8 Stage payments

10.8.1 Stage payments tend to be confined to small developments or self-build projects.

10.8.2 The purpose of such payments is usually to release payments to contractors, either from the client's own resources or by the drawing down of funds from lenders, often based on a pre-commencement assessment of market value on completion.

10.8.3 The number of stages may be defined in the contract between the client and builder, or the policies of individual lenders. In each case, the requirements of the client and lender are to be understood and reported accordingly.

10.8.4 Within the context of Red Book UK appendices 10 and 11, it is recognised that the valuer is not usually supervising construction and is not generally a quantity surveyor. The valuation provided at the stages specified is an estimate of the market value of the property at the specified date, not an assessment of cost.

10.8.5 The existence of the required statutory approvals for the construction work can generally be assumed to have been verified by the lender’s legal advisers. However, when undertaking the
stage inspection, it should be established whether the design of the property has changed from that originally approved. Any plans inspected should be the latest versions.

10.8.6 Where material changes which affect the assessment of value are identified, this information should be reported.
Appendix 1: CML Disclosure of Incentives Form

The CML Disclosure of Incentives Form is available as an accompanying PDF with this guidance note. This official version of the form allows users to fill out the fields electronically and print, however, it does not allow any doctoring of the form itself.

This version of the Disclosure of Incentives Form is current at the time of publication, but the form is subject to periodic revision. The latest applicable version is freely available from the website of the Council of Mortgage Lenders (www.cml.org.uk).
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