

**SUBMISSION
TO THE
MINISTER FOR FINANCE**

ON THE

**DRAFT NATIONAL ASSET MANAGEMENT
AGENCY BILL 2009**

AUGUST 2009

OVERVIEW OF THE SOCIETY OF CHARTERED SURVEYORS

Dating back to 1895, the Society of Chartered Surveyors is the largest professional body in Ireland representing Chartered Surveyors in both the construction and property industries. The Society has strong links with the RICS which represents over 110,000 members across 120 countries worldwide and is one of the most internationally respected and high profile global standards and membership organisations for professionals involved in land, valuation, property, construction and environmental issues.

With over 2,200 qualified chartered surveyors and a further 1,000 probationers who are undergoing their assessment of professional competence in order to achieve the gold standard of chartered status, members of the Society are typically professionals employed in the land, property and construction markets through private practice, in central, regional and local government, in public agencies, in academic institutions, in business organisations and in non-governmental organisations.

Their broad areas of expertise include:

- Quantity Surveying
- Valuation Surveying
- Building Surveying
- Planning & Development
- Geomatics & Land surveying

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction and property industry.

Accountable to members as well as a public interest mandate, the Society of Chartered Surveyors has six primary roles:

- Developing and promoting the diverse knowledge of the profession
- Maintaining the highest educational and professional standards
- Protecting consumers through strict codes of practice
- Providing expert advice on property and built environment issues
- Appointing arbitrators and independent experts in commercial rent review disputes
- To act as the State Registration Body for the title of Quantity and Building Surveyor under the Building Control Act, 2007

INTRODUCTION

This submission will be confined to commentary on the areas in which members of the Society of Chartered Surveyors have expertise. The submission will address the following areas:

- Role of Chartered Surveyors in Valuations
- Observations on Part 5, Valuation Methodology
- Observations on Part 7, Valuation Panel & Review of Valuations
- Observations on Part 8, Chapter 4, Compulsory Acquisition of Land

ROLE OF CHARTERED SURVEYORS IN VALUATIONS

The Red Book (RICS Appraisal and Valuation Standards) contains mandatory rules, best practice guidance and related commentary for all Chartered Surveyors undertaking asset valuations.

It was first published in 1980, and has been updated many times since then. Changes to the standards are approved by the RICS Valuation Faculty Board, and the Red Book is updated accordingly on a regular basis. Members of the Society of Chartered Surveyors are obliged to adhere to the Red Book and the Society amends the appropriate sections of the Red Book in order to reflect the legislative and best practice context in Ireland.

All valuations undertaken by Chartered Surveyors have to be undertaken in accordance with the Red Book, which is part of the strict regulatory regime under the Rules of Conduct for Chartered Surveyors. It sets out the rules that Chartered Surveyors have to follow to deliver a valuation that is not only compliant with the International Valuation Standards (IVS) but also in a manner that accords with the highest standards of professionalism and integrity.

Major international investors, financial institutions and regulators the world over regard the Red Book as the gold standard of valuation practice.

The Society notes that another important part of the valuation process will be the categorisation of property assets including undeveloped unzoned land, undeveloped zoned land (Greenfield, brownfield, prime urban), undeveloped property with planning refusal, undeveloped property with planning permission, partially completed buildings, completed unoccupied buildings, completed partially occupied buildings.

When considering property assets which include any of the aforementioned categories, Chartered Quantity Surveyors have a role to fulfill when dealing with some or all. Chartered Quantity Surveyors can provide critical information in regard to project costs and timescales for developments including considering what could be developed on undeveloped land i.e. optimal development strategies, overcoming physical impediments to realizing the potential of the land e.g. flood defences/civil engineering enabling works, completing partly built projects and assessing the costs of work done to date - collectively referred to as 'work in progress' projects.

Chartered Surveyors are the professionals most skilled to develop an overall strategy and action plan for the macro management of distressed loans assets to achieve exit and maximum recovery. Retaining the services of an SCS member will ensure that a regulated professional is being employed operating to the highest internationally accepted technical and professional standards.

OBSERVATIONS ON PART 5, VALUATION METHODOLOGY

Mark to market or mark to model? Much commentary has focussed to date on the merit of long term economic value measures as an alternative or an addition to market value. This issue is of particular interest to Chartered Valuation Surveyors.

There are many concepts of value, all have their positives and negatives, are suitable for particular purposes and can greatly assist decision making. No matter what model is used, all valuations will exhibit a degree of uncertainty.

Conventionally, Chartered Valuation Surveyors mark to market using the well tried definition set out in the Red Book. The Society notes the reference in the draft legislation to uphold the basis of market value as defined in the Red Book and supports this position. However, we note that there is a slight variation in the wording. For consistency, the Society recommends that the same wording should be incorporated into the definition.

Market value uses assumptions about markets, sellers and buyers to allow a rational approach to valuation. In normal conditions adequate transactional evidence is available to allow a sufficient degree of confidence in a valuation using this definition. In a time of rapid transition or in market hiatus such evidence may be limited or become dated rapidly, or indeed be absent for some time as we are currently experiencing, leaving valuers to rely on their own experience and feel for the market. In this scenario, the uncertainty of valuation is increased with a resultant reduction in confidence. Nevertheless resultant valuation is likely to be the best indication of market value in such circumstances.

What lies behind the proposition that alternatives to mark to market valuation would be more appropriate is the view that the uncertainty in valuation arises from inadequate knowledge of accessible facts which could be incorporated into a well designed model to arrive at a more certain valuation. Simply put, if more information can be obtained for a well designed model, the valuation will be more certain or fit for purpose. In this regard, we note the intention to adjust market value *'to reflect a longer term economic value which the underlying asset could reasonably be expected to attain'*. In this scenario value is not being benchmarked to the market at a particular point in time but rather to a value that smoothes out changes in market prices from period to period.

Section 59 (2) sets out what these regulations may have regard to in relation to the determination of the long term economic value of a property and bank assets.

We also note that the Minister intends to draw up and publish *'detailed regulations on how the long term economic value is to be calculated'* in September.

Certainly, the proposed 'long term economic value' valuation model using demographic, economic and financial forecasts as set out has its place but only as some of the inputs to forming an opinion and for an identified purpose, which in this context is to be used as a formula to extract non performing loans backed by property collateral from the banks.

Given present circumstances there are great risks in all this when valuing property. Every property is unique with its own problems requiring individual attention, property markets are local and market conditions are sensitively dependent on many variables with a consequence that property valuation is by its nature an uncertain exercise. The legislation as drafted seems to acknowledge these risks.

OBSERVATIONS ON PART 7, VALUATION PANEL & REVIEW OF VALUATIONS

Section 96 provides for the appointment of a valuation panel whose primary role will be to adjudicate on disputes regarding the price paid by NAMA to institutions.

The Society notes that the panel shall consist of persons who have relevant expertise or specialist knowledge. In this regard, the Society would advocate for the inclusion of Chartered Surveyors on this panel given their expertise and specialist knowledge in valuations and in acting as arbitrators and independent experts in commercial property disputes.

OBSERVATIONS ON PART 8, CHAPTER 4, COMPULSORY ACQUISITION OF LAND

Section 141 (1) states that the price to be paid by NAMA for any land acquired under a Compulsory Purchase Order, shall, in default of agreement, be fixed in accordance with the Acquisition of Land (Assessment of Compensation) Act, 1919.

The Society notes that the 1919 Act deals with the method of valuation of land being acquired under a CPO but does not entitle the owner to compensation per se. The Society believes that this could be dealt with by incorporating the relevant provisions of the Land Clauses Consolidation Act, 1845 into this part of the legislation.

CONCLUSION

The SCS as a body has specialist expertise which is directly relevant to NAMA when considering valuation of assets and loans in respect of construction and property matters within the industry.

The primary area of concern to Chartered Surveyors in this draft legislation relates to the merit of long term economic value measures as an alternative or an addition to market value.

The Society awaits the publication of more detailed regulations in this regard in September, and will make further submissions as appropriate.