



Consultation

Consultation on proposals to introduce a professional standard for the Valuation approach for properties in multi-storey, multi-occupancy residential buildings with cladding, 1st edition





# Consultation

1. The Building Safety Act 2022 and its supporting secondary legislation has paved the way to a step change for the housing market, by bringing protections, enshrined in law for qualifying leaseholders, against uncapped remediation costs. Against this backdrop, mortgage lenders have indicated their commitment to recommence lending on property in buildings requiring remediation that are captured by a scheme or protections.
2. Following extensive engagement with valuers, insurers and lenders, RICS has developed an approach that can be used by a competent valuer during a secured lending valuation process to value properties in multi-storey, multi-occupancy residential buildings with cladding.
3. This consultation, on proposals to introduce RICS-approved technical guidance, is an important part of RICS' standards development process, set by the RICS Standards and Regulation Board. It helps to ensure that the impact of any professional policy changes have been properly assessed and stakeholders have been consulted.
4. RICS recognises that this is a subject that will have important impacts for numerous stakeholders, particularly those who are selling, remortgaging or looking to buy properties in buildings affected by the issue of combustible cladding. It is in the public interest that the homebuying market works effectively and this guidance aims to help provide consistency in the valuation approach following the introduction of the leaseholder protections outlined within the Building Safety Act 2022. Its purpose is to support the valuer in their assessment of value and the appropriate use of assumptions and special assumptions of properties in buildings where remediation works are required (but are not yet completed or even started).
5. In developing this draft guidance, we have engaged with the fire safety industry, valuers, insurers, conveyancers and lenders. We have used these views to formulate the proposed valuation approach. Our aim is that this approach reasonably balances the relevant risks and uncertainties in the valuation process of properties of this type, particularly in relation to a likely lack of market evidence in the short term. We are now seeking feedback and

evidence from stakeholders on whether the guidance set out in the consultation draft achieves this.

## How to respond

6. You can respond to this consultation online via RICS iConsult <https://consultations.rics.org/claddingvaluationapproaches/> or by responding to the questions below and emailing the project manager, Helvi Cranfield ([hcranfield@rics.org](mailto:hcranfield@rics.org))
7. Although this is technical valuation guidance, we are also keen to hear from leaseholders and prospective buyers, as well as relevant professionals and industry bodies in order to inform our final guidance.
8. Please ensure that responses to this consultation are sent no later than 17:00 BST on 31 October 2022.

## Background

9. This document is intended to help valuers undertaking valuations for secured lending purposes on domestic residential flats, within residential blocks of 5 or more storeys or 11 metres or more tall, to take into account the effect of government remediation schemes and qualifying lease protections (applicable to England only), and their effect on the value of properties. Please note, it is intended this approach will be updated to reflect remediation arrangements and schemes in Scotland and Wales once published.
10. This is different to the [2021 cladding guidance](#), (which related to preliminary investigations by a valuer to establish if there is a need to remediate – by instructing an EWS1 assessment). Following consultation we will consider whether any minor amendments are needed to ensure clarity about the effect of new guidance on the 2021 document.
11. The [Building Safety Act](#) ('the Act') received Royal Assent on 28 April 2022, enshrining in law improvements in building safety, including measures to [protect leaseholders](#) from bills to make their homes safe. [Qualifying leaseholders](#) will be legally protected from the costs associated with the remediation of historical building safety defects. A number of developers have signed a [pledge](#) confirming that they will remediate buildings with safety defects they

played a role in developing. The Act also enshrines in law that the cost of removing cladding on buildings of 5 or more storeys or 11 metres or more will be met in full, whether by government or the industry. The Act provides much needed assurance to leaseholders that they will have no liabilities in this regard and clarity to wider stakeholders about where responsibilities lie in terms of funding and remediation.

12. Secondary legislation provides clarity on how leaseholders will prove they are qualifying and how landlords will prove they are entitled to pass on remediation costs to leaseholders. This marks a step change in the landscape from the uncertainty which has been present for a number of years. It is now unlawful to pass remediation costs on to leaseholders – save for [capped costs for non-cladding works in specific, limited scenarios](#).
13. Against this backdrop, subject to their [lender clients' willingness to lend on properties 5 or more storeys or 11 metres or more](#) that are captured by a scheme or protections, this standard supports valuers in providing valuation advice on properties in a risk-based and proportionate way.
14. This guidance sets out an approach that can be used by a competent valuer during a secured lending valuation process to value properties in multi-storey residential buildings where remediation work to cladding for fire safety purposes has been identified, a route to funding remediation is clear, and lenders have indicated their willingness to lend.
15. Throughout this consultation we are seeking views and evidence about whether the proposed guidance would provide clarity and consistency in valuation approach for valuers and in turn, assurance to their lender clients.
16. This standard will remain under constant review to ensure that a proportionate approach continues to be taken to help ease the impacts on leaseholders from combustible cladding, while ensuring that lenders and valuers meet their legal requirements to accurately report property values.

## Scope

17. It is important to note that the scope of the proposals is only in respect to valuations for secured lending purposes on domestic residential flats, within residential blocks of 5 or more storeys or 11 metres or more tall, in line with the remediation schemes and qualifying lease protections applicable to England only, as set out by government.

# Proposals for consultation

## Developing the valuation approach

18. In developing the indicative scenarios set out in the document under Section 4 Valuation approach, we have had significant engagement with government, fire safety experts, valuers, lenders, conveyancers, lawyers, and insurers.
19. Valuation of residential properties often involves a valuer and their lender client agreeing reasonable assumptions about information that is not known at the time of the valuation. The proposed approach set out in the consultation draft is intended to guide valuers through assumptions to reflect the likelihood that, for many flats now coming to market, leaseholders will be protected from the cost of remediation work on cladding. This means that any work needed is less likely to have a significant impact on the value of a qualifying leasehold flat, and the leaseholder is more likely to be able to afford any mortgage secured upon it.
20. There will also be a period during which the information available about when a building will be remediated, and which developer or government scheme will be responsible for paying the costs of remediation will vary between properties. The proposed guidance therefore sets out the anticipated most common scenarios valuers are likely to experience in the near term and a proposed valuation approach. The list of indicative scenarios is not exhaustive and does not intend to cover every circumstance. Valuers should apply the principles set out in the document alongside their professional judgement with regard to the facts and circumstances of individual assignments when forming valuation judgements. As the market evolves, RICS will continue to review these scenarios to ensure they remain fit for purpose.

21. The guidance also includes supporting information for Valuers as to their existing obligations within the [RICS Valuation – Global Standards \(Red Book Global Standards\)](#) and [RICS Valuation – Global Standards: UK national supplement](#), along with a reminder of the supporting material set out in [RICS’ Comparable evidence in real estate valuation, 1st edition](#).

## Impact assessment

22. We are mindful this guidance will be pivotal in shaping the approach taken by valuer and their clients and in turn, on home buyers and sellers in affected properties. When developing this guidance, we have considered how, within a robust valuation process, a valuer should take a reasonable approach to emerging information on the new leaseholder protections.

23. We are seeking a proportionate balance between a forward looking approach reflecting the likely effect of the protections based, where necessary on agreed reasonable assumption, in line with the requirements of established international valuation standards.

24. We have also been mindful of the need to ensure the proposed valuation approach supports valuers to exercise their professional judgement with confidence in line with their lender client’s policy requirements.

25. Overall, we believe the proposed valuation approach will have a positive impact, but we are keen to hear from lenders during consultation whether this guidance will result in the facilitation of lending, in line with the [lender statement in July 2022](#).

## Consultation questions

About you

Are you responding as a:

Leaseholder

Building owner or property manager

Prospective homebuyer

Solicitor/conveyancer

Fire safety professional

Registered Valuer

Insurer

Insurance broker

Estate Agent

Professional body

Other

### **Consultation questions**

#### **Impact of guidance (for all respondents)**

1. What impact would the proposed guidance have on you?

#### **For lenders**

2. Does this guidance provide an appropriate approach to support lending on all properties envisaged under the [lender pledge](#)?
3. Would a valuation based on these assumptions provide sufficient protection for leaseholders, and sufficient certainty for lenders in making buying and lending decisions?

#### **For all respondents**

4. Are the scenarios set out in the document clear and easy to understand?
5. In your view do the assumptions proposed in each scenario appropriately reflect the likely impact of the new leaseholder protections?

#### **For valuers**

6. Please confirm you have tested the guidance and that you will be able to value (subject to client instructions) if this guidance is in place, as proposed.  
If you are unable to value, please state what the challenges are and your proposed solution(s).

## Other

### For valuers

7. What support do you need from RICS (training / examples / other tools) to help apply this guidance?

### For all respondents

8. Do you have any other comments on the proposed guidance?