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Date: 24<sup>th</sup> November 2015

Dear Chair,

**PAC HEARINGS: REGENERATION INVESTMENT FUND FOR WALES (RIFW)**

- 1: I refer to your request for DVS to address the former RIFW Board members' view, expressed in their note of 12<sup>th</sup> October 2015, that the DVS report provided to the Wales Audit Office, and released (with redactions) as part of your committee's review, is "not RICS compliant".

Having read the former RIFW Board members' note of 12<sup>th</sup> October and consulted with my project team, I confirm that I am satisfied that the DVS report does comply with the provisions of the RICS (Royal Institution of Chartered Surveyors) Professional Standards (commonly referred to as the "Red Book").

- 2: Although the former RIFW Board do not specifically state how, in their opinion, the DVS report fails to be RICS compliant in terms of the professional standards, their letter does outline a number of areas in which they believe questions arise, as follows:

Paragraph 2: *"There are questions about special assumptions, statutory valuations and hope valuation which are not addressed in the body of the report."*

Paragraph 3: *"The report makes reference to Case Law but the references are on the basis of statutory valuations, which is a slightly different basis as they all revolve around a single payment (i.e. no overage). More significantly, the report does not refer to the latest case on the subject."*

Paragraph 4: Queries the extent and quality of the comparable land transaction information used.

Paragraph 5: In respect of the Lisvane site: *"...we would simply make the observation that the District Valuer himself led the work for the Auditor General but also appeared in person to put forward the Council's case in the Planning Inquiry."*

- 3: With regard to their paragraph 2, the former RIFW Board do not specify what their precise issue relates to in respect of the comment: *"there are questions about special assumptions.....which are not addressed in the body of the report"*.

In the RICS Red Book, VPS 4 at para 3 describes what special assumptions are, while VP3 at para 7i states that any special assumptions made in a valuation report shall be clearly stated. In the published DVS report, at section 2.8 on page 10, the valuer explicitly confirms that no special assumptions have been adopted in the DVS

review. This reflects the valuer's conclusion that no special assumptions exist. By clearly stating the position adopted on special assumptions, the report complies with RICS professional standards.

Further in their paragraph 2, the former RIFW Board state that they consider '*questions about .... hope valuation ..... are not addressed in the body of the report*'. The DVS report explicitly addresses the matter of hope value on pages 8 and 32, and in doing so complies with RICS professional standards.

- 4: Regarding the comments made by the former RIFW Board in their paragraph 3 about the case law referenced by the valuer being concerned with statutory valuations, the DVS report simply states that the valuer has had regard to the case law referenced within the report along with other relevant information.

The summary case law list provides useful information on principles and practices but was never intended to be regarded as exhaustive, nor purported to be.

The referenced case law addresses value at a specific date, which is most easily thought of as a single payment but which does not necessarily have to be configured as a single payment. The actual configuration of payment was not determined within the named case law and, as the Monmouth sale shows, in practice payment for larger development sites often takes place on a phased basis.

The unnamed 'latest case' which the former RIFW Board may be referring to is *David Strange Steel and Richard Strange Steel v Scottish Ministers*, which DVS assisted with. In this case the Lands Tribunal concluded that sites with development potential should typically be valued with reference to a "top down" approach (full development value less an appropriate discount) rather than a "bottom up" approach (i.e. a sale at existing use value, with a premium added), unless it is anticipated the purchaser would be most interested in a continuation of current use.

As further context, I note that other market valuations of the RIFW assets prepared by another party (which the former RIFW Board has not had sight of, but DVS has) considered the RIFW land values on the basis of a percentage of full development value. Our valuer team's investigations therefore also included consideration of this approach as a part of the review, and it was deemed helpful that our report provide summary case law as context to the review, together with the range of percentage development values which have been determined in other cases.

- 4.1: Commenting on the use of the residual method of valuation, the former RIFW Board state in their paragraph 3 that: "*Case Law demonstrates that the residual method of valuation is fraught with risks and is the "method of last resort". The District Valuer states he has primarily used comparative method, which is true in respect of a number of valuations he undertook. However, in the relegation to (valuation of) Lisvane and Monmouth, the two most valuable sites in the portfolio, he has adopted the residual method.*"

The residual method of valuation is commonly used by both valuers and developers for the valuation of development land. In its Valuation Information Paper (VIP) 12, the RICS accepts the residual method of valuation as being an appropriate way to value land which has development potential, and this is specifically confirmed at paragraph 4.4 of the DVS report.

Additionally, it is understood that the Colliers valuation of the RIFW portfolio which was commissioned by the former RIFW Board itself also adopted the residual method of valuation.

I can confirm however, for the avoidance of doubt, that the comparative method of valuation was also considered when undertaking the valuations of the Lisvane and Monmouth sites and helped inform them - albeit direct singular comparable sales are

less common for the larger sites since the market typically adopts a phased sale approach to these (as occurred in SWLD's subsequent resale of the Monmouth site).

- 4.2: The former RIFW Board also make the following general comment in their paragraph 3 in respect of the Lisvane and Monmouth sites: *"Given the significant assumptions he has had to make, we would have expected, and reasonably expected, as a minimum, a qualified valuation rather than a specific figure."*

The DVS valuations are qualified opinions, drawing upon the combined use of the comparative and residual methods, and valuation commentary has been included within the summaries appended to the main report.

- 5: The former RIFW Board makes the following comments at their paragraph 4 regarding the Monmouth site: *"In relation to Monmouth (Ref: 15), we note in advice to the Board, Lambert Smith Hampton valued the site at £13.8 million and it sold this year for £12 million on a phased basis. The District Valuer's opinion is almost 50 per cent above the sale price achieved. The report also suggested the value could be even higher, which would represent nearly double the price achieved. It should also be noted the sale price actually achieved was in markedly better market conditions, which means the percentage variance is in fact much greater. Surprisingly, his report is silent on the transaction, which was completed before his report was finalised on 10th July 2015."*

The DVS valuation was based on good comparable land transaction evidence available around the time of the sale (March 2012). A residual valuation approach was also applied. The team are content that the valuation arrived at was reasonable on the basis of the evidence available at the time.

It is understood that LSH began formal marketing of the Monmouth site for South Wales Land Developments on 30<sup>th</sup> May 2012 (just under three months after SWLD's site purchase from RIFW) and that the subsequent Monmouth sale exchanged on October 2013 but on a delayed completion basis with phased payments over a 2 year period after completion. At present, the valuer still has not been advised of a final sale completion date and to have included this subsequent sale would have been to value at a certain date with the benefit of hindsight.

Additionally, the DVS valuation includes the employment land which is excluded from the subsequent land sale that the former RIFW board make reference to.

- 6: In their paragraph 5, the former RIFW Board make the following observation in respect of the Lisvane site: *"...we would simply make the observation that the District Valuer himself led the work for the Auditor General but also appeared in person to put forward the Council's case in the Planning Inquiry."*

In compliance with RICS guidance, both Cardiff Council and the Wales Audit Office were notified prior to DVS accepting the latter instructions for the separate case and approval was sought from both bodies. Only once their explicit approval to proceed was received was the second instruction accepted. This was fully in compliance with RICS professional standards on ethics, objectivity and disclosures as captured in the RICS Red Book at PS 2.

This matter has as you know been raised previously by the former RIFW Board and we understood they accepted the position that there was no conflict of interest and that DVS had acted appropriately. However for the avoidance of doubt, DVS can reaffirm that apart from seeking and receiving the prior approval of both parties to proceed, the two exercises were markedly different, one being a viability assessment for planning purposes while the other was a land valuation review, and each was undertaken at different valuation assessment dates; the planning inquiry was in mid-2015, while the RIFW sale which is the subject of the valuation review had a completion date of March 2012. It would also be incorrect to infer that both cases

were simply undertaken by the same individual as the RIFW exercise involved input from a team of valuers.

As the valuer has already confirmed to you, the DVS report was produced by a project team with the assistance and overview of other DVS technical specialists. It may also be helpful to note that DVS operates a Quality Assurance process which is regularly reviewed with the RICS.

Having regard to all of the above, I am satisfied that the DVS report does comply with RICS professional standards.

Yours sincerely

  
**Director of VOA Property Services**  
**DVS – Valuation Office Agency**