



STANDARDS

Standards and Regulation Board decision in relation to Valuation of properties in multi-storey, multi-occupancy buildings with cladding, RICS guidance note

20 December 2021



The independently-led Standards and Regulation Board of RICS (the Board) was established by RICS in February 2020 to provide oversight of RICS' regulatory function and to ensure that the public interest is safeguarded in RICS guidance to the profession.

One of the issues on the Board's agenda has been consideration of its current guidance on [Valuation of properties in multi-storey, multi-occupancy buildings with cladding](#), which provides commonly-agreed criteria for the procurement of EWS1 forms – a process developed in 2019 to allow valuers and lenders to obtain an expert's opinion on the external walls. The Board's consideration followed the publication of an [Independent Expert Statement](#) (IES) by the government in July 2021. The Board was then asked by government to review its valuation guidance in the light of the expert statement, which it has done following consultation with:

- Mortgage Lenders ¹
- Valuation services providers²
- UK Finance
- The Building Societies' Association
- The Law Society of England and Wales
- The Council of Licensed Conveyancers
- The Conveyancing Association.

The Board carefully considered its obligation to act in the public interest, taking into account the interests of existing leaseholders, prospective buyers and lenders.

It noted that professional valuers are required by the [RICS Valuation – Global Standards](#) to report their opinion of value accurately and diligently, with assumptions being made only where the valuer is confident they are reasonable. It is the valuer's professional duty to do this in each and every instruction, so that lenders and purchasers can depend upon consistent and reliable valuations.

Valuers carrying out mortgage valuations on domestic residential blocks of flats undertake a limited and non-intrusive inspection and do not have expertise in the assessment of external walls. The EWS1 form was developed to allow valuers to get the expert help they needed in the lender client and purchaser's interest.

The EWS1 form is not a building safety certificate. The use of an EWS1 form is the way in which a valuer can seek expert opinion on whether a building will need remediation work that is likely to affect the value of the property (and the affordability of mortgage lending for the borrower).

The guidance note outlines the criteria that valuers refer to when making the decision about whether external wall cladding may give rise to concern, but allows flexibility to lenders and valuers in making that decision.

The Board considered the advice in the IES that there is no systemic risk of fire and loss of life in buildings under 18m and that EWS1 forms should not be needed in such buildings. This was not the view of the valuers and lenders consulted by the Board.

For the valuer, and therefore for the RICS guidance, the relevant consideration under internationally accepted standards is whether a knowledgeable purchaser in the open market would be likely to pay less for the property because of foreseeable remediation costs.

¹ Aldermore, Bank of Ireland, Barclays, Coventry Building Society, Halifax, HSBC, Lloyds, Nationwide, Natwest, Paragon Bank, Santander, TSB, Yorkshire Building Society

² Countrywide, esurv, Connells, JLL, Legal & General, Gerald Eve

While the government has announced the intention to withdraw the Consolidated Advice Note, which initially raised the concern of risks in buildings of all heights, the consultation found an absence of specific guidance to fire assessment professionals reflecting the intent of the IES.

The lenders and valuers reported that evidence from the EWS1 forms they see, and concerns about the approach of buildings' insurers, do not support a reasonable assumption that all buildings under 18m will not require costly remediation. They told the Board that they have little confidence in a general assumption that future work affecting value is not likely to be recommended in the fire risk assessments required under the Fire Safety Act. They therefore advised that, even if the RICS guidance and the Consolidated Advice Note were both withdrawn, they would be likely to continue to use the criteria in it to make decisions about buildings under 18m. A number also indicated that the withdrawal of the RICS guidance would be likely to increase the number of EWS1 requests due to a flight to risk adversity. The Board was of the view that such a step would risk removing the public benefits achieved by the existing guidance since its publication in April.

The Board noted that lenders and conveyancers report that the guidance note has provided consistency in approach to EWS1 requests, which benefits market participants. They believed that withdrawing the guidance would be a backward step, re-introducing confusion and inconsistency into the market.

The Board also noted that the number of EWS1 requests is reducing and that the form is only being asked for in a minority of cases. Information from one major firm of valuers shows that using the existing guidance has resulted in new EWS1 forms being requested by valuers in only 5.32% of mortgage valuations of flats between 22 March and 3 October 2021. Feedback suggests that this figure is dropping further as more EWS1s are completed and made available to lenders and valuers. The equivalent figure for the period 1 September 2020 to 21 March 2021 was 7.58%.

Based on all these considerations, the Board determined there was sufficient evidence to support the guidance remaining in its current form at this time. The guidance currently allows lenders and their valuers who believe a more risk tolerant approach is reasonable to apply different criteria, providing lenders ensure that borrowers are properly informed to allow them to understand the limited information upon which the valuation is based.

On that basis, the Board believes that the guidance remains fit for purpose. The criteria in the guidance continue to provide a proportionate approach, recommending checks to the small proportion of buildings that have known risks of remediation, based on the evidence lenders and valuers are seeing from EWS1 forms. It therefore supports accurate valuations, reflecting current market conditions.

The Board deeply sympathises with leaseholders who are trapped in properties by the current cladding crisis, but failing to carry out checks on these buildings risks passing the possibility of future remediation costs to unsuspecting purchasers, thereby creating a detrimental impact on a new group of individuals.

The Board will keep the guidance under careful review as RICS does with all of its guidance. It will continue to engage closely with all relevant stakeholders and government to understand the impact of any further developments that impact on valuation certainty. In particular, increased certainty around the funding of costs in buildings under 18m, and further fire safety guidance confirming the position expressed in the IES in formal guidance to fire risk assessors, reflected in their professional judgement.