

SCSI Professional Guidance

Valuation of Rural Property

Guidance note

1st edition



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RICS Valuation – Professional Standards (RedBook)

The RICS Valuation – Professional Standards is a Practice Statement and therefore is mandatory for all members carrying out valuations to follow.

To ensure that our members are able to provide the quality of advice and level of integrity required by the market, SCSI/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 provide valuation services are also required to register for the Valuer Registration (VR) scheme. VR is a regulatory framework and ensures that where valuers undertake work that it is in compliance with the Red Book.

The Registered Valuer is entitled to use the designation 'Registered Valuer' / 'Assoc. RICS Registered Valuer', where appropriate, on their business stationery and marketing material. Registration enables RICS to monitor compliance with the valuation standards and take appropriate action where breaches of those standards have been identified.

Valuers, especially those that are carrying out more specialised valuations, should always work within their area of competence.

This guidance note describes the standard of work that is expected of a reasonable, competent valuer experienced in the subject to which this note relates.

SCSI/RICS Guidance notes

This is a guidance note. It provides advice to SCSI/RICS members on aspects of their work. Where procedures are recommended for specific professional tasks, these are intended to represent 'best practice', i.e. procedures which in the opinion of SCSI/RICS meet a high standard of professional competence.

Members are not required to follow the advice and recommendations contained in the note. They should, however, note the following points.

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

In the opinion of SCSI/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.

Alternatively, it does not follow that members will be found negligent if they have not followed the practices recommended in this note. 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 a SCSI/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 surveyor should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

Document status defined

SCSI/RICS produces a range of professional guidance and standards documents. These have been defined in the table below. This document is a guidance note.

Document status defined		
Type of document	Definition	Status
Standard		
International standard	An international high-level principle-based standard developed in collaboration with other relevant bodies.	Mandatory
Professional statement		
SCSI/RICS professional statement	A document that provides members with mandatory requirements or a rule that a member or firm is expected to adhere to. This term encompasses practice statements, Red Book professional standards, global valuation practice Statements, regulatory rules, SCSI/RICS Rules of Conduct and government codes of practice.	Mandatory
Guidance		
SCSI/RICS code of practice	Document approved by SCSI/RICS, and endorsed by another professional body/stakeholder, that provides users with recommendations for accepted good practice as followed by conscientious practitioners.	Mandatory or recommended good practice (will be confirmed in the document itself).
SCSI/RICS guidance note (GN)	Document that provides users with recommendations or approach for accepted good practice as followed by competent and conscientious practitioners.	Recommended best practice. Usual principles apply in cases of negligence if best practice is not followed.
SCSI/RICS information paper (IP)	Practice-based document that provides users with the latest technical information, knowledge or common findings from regulatory reviews.	Information and/or recommended good practice. Usual principles apply in cases of negligence if technical information is known in the market.

1. Introduction

1.1

Members providing valuations of rural property must comply with the *RICS Valuation Standards* (the 'Red Book'), (2014). All references within this guidance note are to this edition of the Red Book.

1.2

This guidance note is intended to act as a signpost to relevant elements within the structure of the Red Book and to prompt valuers to consider all relevant matters. It is not intended to be fully comprehensive, or to provide a template, as valuers and their firms will have their own approach and styles. It has been written in the context of Irish law and practice.

2. Classification

2.1

When settling terms of engagement for valuation it is a Red Book requirement to ascertain the type of property involved and how it is used or classified by the client (see VPS 1, Minimum terms of engagement).

2.2

A brief overview of the asset(s) being valued is required such as:

- the number of interests involved,
- whether freehold
- leases in existence,
- type (e.g. retail, industrial, leisure),
- location, and
- whether held as investment(s), for development or for owner occupation.

2.3

For the purpose of identifying the broad classifications of rural property, it can be divided into four primary types: agricultural; leisure/amenity; commercial; and residential. Annex 1 of this guidance note provides a list of the specific uses within each of these types.

2.4

Rural property is extremely diverse in nature. There is a wide differential in the activity and structure of some markets, and members are reminded that in order to comply with PS 2, they must have appropriate knowledge and understanding of the type of property that is being valued.

2.5

Due to the diverse nature and geographical spread of rural property, members will need to give careful consideration to the type and classification of the subject property. Members may find the information in VPGA 8, Valuation of portfolios, collections and groups of properties, of assistance in deciding how to approach the valuation of an interest that contains a number of properties.

3. Assumptions and special assumptions

3.1

It is important that assumptions and special assumptions (see VPS 4, Bases of value, assumptions and special assumptions) are agreed with the client when settling the terms of engagement.

3.2

Some examples of assumptions and special assumptions relevant to rural property are listed in Annex 2 of this guidance note.

4. Basis of value

4.1

Market value will be the normal basis of value for rural property (see IVS Framework paragraphs 32–34 and VPS 4 for definitions of market value).

4.2

Other bases that may be applicable are fair value (VPS 4), and investment value will need to be considered in specific circumstances.

4.3

For taxation purposes, the statutory basis of valuation needs to be adopted such as valuations for capital gains tax, inheritance tax and stamp duty land tax).

4.4

Where the property to be valued includes specialised buildings, depreciated replacement cost (DRC) methodology may be employed (see GN 6, Depreciated replacement cost method of valuation for financial reporting). Where the valuation is for inclusion in a financial statement it should comply with International Financial Reporting Standards (IFRS).

4.5

Valuation of assets held as trading stock lie outside this guidance note, but reference should be made to UKVS 1.14 in the RedBook.

5. Inspections and considerations

5.1

The purpose of an inspection is to identify factors that affect value (see VPS 2 Inspections and investigations). In the case of rural property many factors are established during the inspection that may affect value.

5.2

Annex 3 contains a list of those factors that may be considered. Annex 4 provides examples of matters that may be considered in the valuation of rural property. Annex 5 specifically deals with the basic payment scheme.

5.3

Attention is specifically drawn to the need to take reasonable steps to verify information relied upon by the valuer (see VPS 1 paragraph 9(h), Nature and source of information to be relied on). If there is doubt as to the reliability of information, then an appropriate assumption, or special assumption, will have to be made and details set out in the valuation report.

6. Valuation reports and published references

The Red Book does not set out any particular format for reports or published references to them. Although members will devise their own style and format for reports, they are reminded that the minimum contents, and other matters to be included in any valuation report, are set out in VPS 3. Refer to Report content of Red Book – 7 IVS 103 Reporting.

Annex 1: Uses of rural property

This annex lists the various uses of rural property into five main categories. The lists are not intended to be exhaustive or exclusive.

1. Primary agricultural production

- Arable
- Grass
- Horticultural
- Dairy
- Livestock
- General buildings
- Equine facilities
- Perennial crops
 - Woodland/biomass
 - Fruit production (e.g orchards/vineyards)
- Fish farms

2. Leisure/amenity

- Field sports
- Other sporting
- Equestrian
- Golf
- Lakes/river
- Woodland
- Landscape
- Habitat
- Caravan and campsites

3. Commercial

- Buildings for processing/distribution
- Buildings for storage/warehousing
- Buildings for retailing
- Buildings for office use
- Buildings for light industrial use
- Buildings for holiday accommodation
- Buildings for catering use
- Energy generation (e.g. wind farm)
- Telecom sites
- Minerals and waste disposal

4. Dwellings

- Period residences
- Farmhouse
- Cottages
- Apartments

5. Leisure

- Holiday cottages or chalets.

Annex 2: Assumptions and special assumptions

This annex sets out assumptions and special assumptions that may apply to the valuation of rural property. They are not intended to be exhaustive or exclusive (see VPS 1 (i) and appendices 3 and 4)

Assumptions

A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, needs not be verified by the member as part of the valuation process. Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true (Red Book Glossary).

Examples of categories of assumptions that may be agreed with clients, dependent upon a particular instruction, are:

- title;
- occupancy;
- condition of buildings;
- services;
- planning, where not a special assumption;
- contamination and hazardous substances;
- disease and soil infestation;
- soil structure;
- condition of land drainage;
- ownership or title of plant and equipment; and
- reliability of records provided.

Special assumptions

An assumption that assumes facts that differ from the actual facts existing at the valuation date (Red Book Glossary). Refer to VPS 4 Bases of value, assumptions and special assumptions.

It should be remembered that special assumptions may only be made if they can be regarded as realistic, relevant and valid, in connection with the particular circumstances of the valuation (see VPS 1 (i)).

The following are examples of categories of special assumptions, which may be agreed with clients dependent upon a particular instruction:

- Future productivity or yield
- Anticipation of a physical change (for example, new construction or refurbishment)
- Additional value where there is a possibility of special value, or marriage value, will be realised tenancy will be a purchaser, thereby crystallizing the vacant possession premium not available to the wider market.)
- Future change in status occupancy
- Tax credits or incentives
- Projection of future income received from any specific agricultural entitlement schemes
- Future income or trading performance

Annex 3: Inspections

This annex sets out various factors that may be revealed by an inspection of, and research into, rural property and may affect the value of that property. It is not intended to be exhaustive or exclusive.

- Location - within the context of the region
- Situation - within the context of surroundings
- Extent - plan and schedule of enclosures
- Topography and aspect
- Field sizes
- Soil
- Flooding and erosion
- Infestations
- Boundaries
- Dwellings
- Buildings - agricultural/commercial/leisure
- Occupation by parties other than the client/borrower
- Deleterious materials
- Plant and machinery
- Health and safety - structures/compliance
- Disability access
- Land use - existing/restrictions/opportunities
- Drainage
- Irrigation
- Services
- Woodland
- Water
- Landscape
- Access
- Amenity
- Contamination (on subject property or nearby)
- Pollution - incidents and control
- Fly-tipping/trespassing
- Tenants' fixtures and improvements
- Dilapidations
- Third party rights/easements - legal or illegal
- Telecoms
- Wayleaves - gas, electricity, telecom and other.

Annex 4: Material considerations

This annex sets out the matters that may be material to the valuation of rural property and that will usually be established by enquiry rather than inspection. It is not intended to be exhaustive or exclusive.

General

- Title
- Tenure and possession
- Leases, tenancies and occupational licences and any other agreements
- Restrictions and encumbrances
- Mines and minerals
- Wayleaves/easements
- Access – extent of public highway
- Public rights of access (e.g. footpaths)
- Designations
- Planning
- Environmental
- Economic
- Sites of historic importance
- A nitrate vulnerable zone
- Planning – consents, restrictions and opportunities
- Community and social (e.g. views of local population)
- Outgoings - rates/drainage/access/chancel repair liability
- Flooding and erosion
- Contractual obligations attached to land (for example, woodland grant schemes)
- Agri-environmental schemes
- Genetically modified crops - on the subject property or nearby
- Transfer of Undertakings (Protection of Employment) Regulations
- Support payments
- Disability access
- Water abstraction/licences
- Certification (for example, reservoirs/crop assurance)
- Statutory notices - potential enforcement actions
- Sporting rights
- Disputes.

Investment property

- Type of tenancy/licence agreement
- Terms of tenancy
- Rent - current and review
- Lease and memoranda
- Tenants' improvements and fixtures
- Actionable breaches of covenant
- Notices
- Quality of covenant
- Claims and counter claims.

Trade related property (see GN 2)

- Income
- Costs
- Occupancy
- Market demand and trend
- Achievable profit.

Plant and equipment (see GN 5)

- Age and condition
- Fit for the purpose
- Obsolescence
- Lien/ownership.

Annex 5: The single farm payment scheme (SFP)

The single farm payment scheme (SFP) was adopted by the EU in 2003 which was intended to change the way the EU supported its farm sector by removing the link between subsidies and production of specific crops. The Single Farm Payment scheme was recently superseded by the Basic Payment Scheme (BPS)

The BPS entitlement is an asset separate from the land. The entitlement is administered through the Department of Agriculture, Food and the Marine to farming businesses, which may or may not be the freehold owner of the land/property to be valued.

The entitlement may be traded and sold separately to land. It requires occupation of land in order to activate a claim for payment.

When formulating terms of engagement, it is essential the valuer clearly states and agrees with the client that any BPS entitlement is to be valued will be identified and valued separately. In practice it may be the case that there will be an agreement to purchase land inclusive of BPS entitlements. The valuer should properly analyse comparable data to separate out the value of land and BPS entitlements.

Annex 6: Other relevant guidance notes and information papers

This annex lists currently published SCSi/RICS guidance notes and information papers that may be of particular relevance to rural property. The list is not exhaustive and members should appreciate that other guidance notes and information papers may be published by the SCIS/RICS after the publication of this guidance note.

For a full list on current guidance notes and information papers, members should visit the practice standards and guidance section of the SCSi website (www.scsi.ie).

Guidance notes

- A guide to taxation for the Rural Surveyor, Information Paper
- Farm Stocktaking valuations, Information Paper
- Long and short term lease / licence agreement templates
- Private Rented Sector Code of Practice, Guidance Note
- Real Estate Agency Practice Manual
- Valuation of Residential Property in Ireland, Practice Statement
- Valuation of renewable energy installations, Information Paper

Consumer / Client Guides

A guide to the rural surveyor
A guide to CPO & compensation
A tenants guide to renting
A clear and impartial guide to letting
A clear guide to selling a home
Property and land boundaries, a checklist for purchasers
A clear impartial guide to boundary disputes

Dating back to 1895, the Society of Chartered Surveyors www.scsi.ie Ireland is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in partnership with RICS, the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the world's leading qualification when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is the recognised mark of property professionalism.

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.

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, land and property industry.

All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and RICS, in the public interest.

This valuable partnership with RICS enables access to a worldwide network of research, experience and advice.

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