

VALUATIONS ON HISTORIC BUILDINGS

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Please note: This article was written and published some time ago and is now in part out-of-date. In particular the 1st edition of the RICS Appraisal and Valuation Manual (the Red Book) referred to extensively in the article has been superseded. However the principles remain the same and the article sheds light on the development of practice in this area. The article also shows Richard Oxley's long term interest and involvement in pushing for improvements in professional practice regarding the survey of traditional buildings.

Richard Oxley describes an opportunity for historic buildings to be protected from the worst aspects of the mortgage valuation, and thereby reduce the level of conflict with conservation.

Introduction

The impact of mortgage valuations on historic buildings is an ongoing conflict within building conservation which needs to be positively addressed. This article highlights recent changes introduced by the Royal Institution of Chartered Surveyors (RICS).

The Mortgage Valuation

In relation to its limited nature, a brief inspection for a concise report, the mortgage valuation can have a significant physical impact on our historic housing stock. It needs to be fully appreciated that a mortgage valuation is not a building/structural survey; it is only intended as a report to the lender on matters which materially affect the value of the proposed security. However, the manner in which buildings are reported on and mortgage valuations are presented has been largely influenced by legal case law which has determined that the valuer owes a duty of care to the applicant (the borrower). This has, to a large extent, resulted in defensive reporting by valuers. This is not always in the best interests of the lender, the borrower or the building. One of the consequences is that works which are inappropriate to historic buildings can be made a condition of mortgage. Common examples of inappropriate works include unnecessary remedial damp and timber treatment, repointing of rendering, and the loss of historic windows.

The Red Book

The RICS Appraisal and Valuation Manual (the *Red Book*) is the principal guidance document which sets out how surveyors should approach and carry out their work. The *Red Book* is an amalgamation and revision of two previous guidance documents and came into effect from the 1 January 1996. The *Red Book* is divided into Practice Statements; that relevant to the subject matter in question is: "*Practice Statement 9; Guidance notes for valuers on the valuation and inspection of residential property for mortgage purposes on behalf of building societies, banks and other lenders.*" Historic buildings are specifically referred to at paragraph 3.10 of Annex A to Practice Statement 9. This is one of the most important official documents relating to historic buildings as it puts them on the agenda of an everyday event, the mortgage valuation. Paragraph 3.10 of Annex A to Practice Statement 9 states: "*Where the valuer decides to report a necessity for works to be carried out to a property as a condition of any advance and the valuer identifies the property as being: 3.10.1 of architectural or historic interest, or listed as such; or 3.10.2 in a conservation area; or 3.10.3 of unusual construction, the valuer should advise that a person with appropriate specialist knowledge be asked to give advice as to the appropriate works unless,*

exceptionally, the valuer believes he/she is competent to give advice which if adopted would not be detrimental to the property's architectural or historic integrity, its future structural condition or conservation of the building fabric"

This paragraph is also reiterated within the more concise pamphlet the *RICS Specification of Residential Mortgage Valuation*.

The wide definition of an 'historic building' within paragraph 3.10 should ensure that the vast majority of historic buildings have the opportunity to be included within the remit of this guidance.

It is important to appreciate that the recommendations of this paragraph only apply where repairs are made a condition of the mortgage advance, that is where repairs have to be carried out as part of the mortgage agreement, such as where funds are retained until the repairs are carried out.

The *Red Book* and its Guidance Notes apply to inspections carried out on or after 1 January 1996. It is mandatory for the valuer to comply with the requirements of the Practice Statements (including paragraph 3.10 of Annex A to Practice Statement 9); otherwise the valuer can open him/herself to disciplinary measures from the RICS or even to claims of negligence. The mandatory nature of the *Red Book*, and the consequences of valuers not following its recommendations, should make valuers more aware of the situation regarding historic buildings. This will hopefully reduce the physical impact of the mortgage valuation upon historic buildings.

Paragraph 3.10 has been in existence as official RICS guidance since 1992, even though it only became mandatory from the start of 1996. In theory this means that all valuers who carry out mortgage valuations on a regular basis should be aware of the existence of paragraph 3.10, together with its intentions and implications. It is therefore difficult for valuers to plead ignorance on this matter, especially as the *Red Book* within its Guidance Notes sets out in a relatively detailed manner the *Recommendation for works in respect of buildings of architectural or historical interest, in conservation areas, or of unusual construction* (at Guidance Notes, Appendix 2). These Guidance Notes list the "many opportunities for wrong decisions to be made" at GNA 2.1.1. These include: (a) a defect must be noticed by the surveyor; (b) the cause of the defect may be diagnosed correctly, or incorrectly, by the valuer; (c) the remedial treatment may be specified correctly, or incorrectly, by the valuer; (d) the lending institution may interpret the valuer's recommendations correctly, or incorrectly, when imposing conditions on a mortgage offer; (e) the building owner, his professional adviser or builder may interpret those conditions correctly, or incorrectly; or (f) the work finally undertaken may or may not be executed properly.

The *opportunities for wrong decisions* listed above clearly illustrate the complex chain of events that can lead to the implementation of inappropriate works to an historic building as a result of the mortgage process.

The *Red Book* succinctly states at GNA 2.1.2 that "*Damage can be done inadvertently to buildings of architectural or historic interest as a result of inappropriate advice, and/or as a result of borrowers, keen to fulfil obligations imposed by lenders, usually on the advice of their valuers, acting without independent specialist advice.*"

This reiterates the general thread of the Guidance Notes, ie damage can be suffered as a result of the mortgage process and that the best manner in which to reduce the damage and possible adverse physical impact is for the involvement of specialist advice.

The Guidance Notes state at 2.1.3: "*...Many of the standard treatments used to overcome defects in relatively modern buildings can, when applied to historic buildings, cause considerable damage physically and/or to the integrity of the building as a structure of historic and/or architectural interest.*"

The common problems suffered by historic buildings as a result of the mortgage are defined as: (a) treatment for rising dampness; (b) treatment for penetrating dampness; (c) repointing or re-rendering; (d) structural movement; (e) timber treatment; and (f) windows. There is some additional guidance and a brief introduction to basic conservation principals provided for each of the common problems identified, including emphasising the need for old buildings to 'breathe'.

It can be seen from the above that the *Red Book* provides official guidance on good valuation practice together with the special needs and requirements of historic buildings. This makes the Red Book an important and useful document which can greatly assist in the conservation of our historic housing stock.

The Role of Existing Legislation

The existing protection which listed buildings, and to a lesser extent those in conservation areas, already have should not be overlooked. For this reason it is worth bearing in mind that, where any works which affect the character of a listed building have actually been caused by the mortgage process, there may be a case of criminal action to answer to under sections 7 and 9 of The Planning (Listed Buildings and Conservation Areas) Act 1990. Interestingly, within the recently published list of prosecutions under this legislation (compiled by Bob Kindred) there are no prosecutions which are directly the result of the mortgage process. This is obviously not a result of a lack of awareness on the part of Conservation Officers; however, this fact does highlight that there is scope to use, or threaten to use, existing legislation in this context. The full use of existing controls, combined with the recent changes made by the RICS, would significantly reduce the levels of unnecessary work which are inflicted on historic buildings as a result of the mortgage process.

The Role of the RICS

The RICS has identified the need for the involvement for persons with the appropriate specialist knowledge. So where can you find such a person? The first port of call could actually be the RICS itself, as there are a number of surveyors who are recognised as having proven experience and knowledge of building conservation. These can be found on the list of Accredited Surveyors in Building Conservation maintained by the RICS. In addition to this there are also a number of surveyors who hold a formal qualification, in the form of the RICS Diploma in Building Conservation. This means that within the RICS itself there is a good source of surveyors available to provide the appropriate specialist knowledge to supplement the mortgage valuation where the valuer does not have the appropriate knowledge.

Within the RICS there is a Practice Panel dedicated to building conservation. The Building Conservation Practice Panel actually initiated the introduction and inclusion of paragraph 3.10 into the official guidance of the RICS. The principal aim of the Practice Panel is for the development of professional standards and skills in the conservation of historic and listed buildings.

The Practice panel currently has a Working Party examining the relationship between mortgage valuations and historic buildings. The involvement and input of the ACO to this Working Party was considered essential and for this reason Marion Brinton of the ACO Technical Panel sits on the Working Party. One of the principal aims of the Working Party is to provide a clear and simple argument which shows that a sympathetic approach to historic buildings within the mortgage process is both beneficial and viable to all the parties involved.

The Need for Examples

To justify the continued inclusion of paragraph 3.10 and the Guidance Notes within the *Red Book* it is essential that the Working Party obtains examples of where inappropriate repairs/works have been made a condition of mortgage which would be detrimental to the historic building concerned. It is also equally important for examples to be obtained where the involvement of appropriate specialist knowledge has been to the benefit of the historic building, and also the borrower and/or the lender, as this would show that paragraph 3.10 is effective and is achieving its desired aims.

Summary

The mandatory nature of the Practice Statements of the *Red Book* imposes a greater responsibility on the valuer to follow the recommendations and requirements of the Red Book. This has raised the profile and importance of the *Red Book* and its recommendations to the surveying profession. The general intention of this, when valuing historic buildings for mortgage purposes, is succinctly summarised at GNA 2.1.5 of the Guidance Notes; this states that “...*paragraph 3.10 of the Guidance Notes limits the advice which the valuer should generally seek to provide in his mortgage inspection report*”.

If the recommendations and requirements of the *Red Book* are followed and the involvement of persons with appropriate specialist knowledge is increased, then this will significantly reduce the detrimental impact of mortgage valuations upon our historic housing stock. This would be in the best interests of all the parties involved: the purchase, the lender, the surveyor, and last but not least, the building itself.

There is a great need for the RICS Working Party to receive examples which will illustrate that the inclusion of paragraph 3.10 and its associated guidance within the Red Book is justified and essential for the protection of our historic housing stock. The assistance and input of the ACO and its members is required to provide examples, and also some credence, to the findings of the Working Party. This means that the members of the ACO have to be proactive if they wish to see historic buildings benefit from the protection offered; otherwise the ammunition which is currently available will be lost or under utilised. This would be an inexcusable loss of a rare opportunity which exists for our historic housing stock to be provided with assistance in their battle against inappropriate and unsympathetic repair, which is actually causing the accelerated deterioration and more damage to these buildings than all the previous centuries of weathering and decay.