1.0 Introduction

1.1 Purpose
The purpose of this Guidance Note is to address the issue of providing a ‘forced sale value’ of property and its relation to the assessment of Market Value for mortgage purposes.

1.2 Status of Guidance Notes
Guidance notes are intended to embody recognised ‘good practice’ and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

1.3 Scope
This Guidance Note applies to Members valuing and providing various forms of reports over property for mortgage finance purposes. It should be used in conjunction with other guidance notes and practice standards which are either over-arching or directly applicable to the type of property, purpose or issues involved.

1.4 Market Value Policy [Def. Market Value]
It is the policy of this Institute that mortgage valuations must be provided by Members on a Market Value basis. A professional market valuation of a property will be consistent with the Market Value definition adopted by the Institute.

2.0 Forced Sale

2.1 Forced Sale Value inconsistent with Market Value
The expressions ‘forced sale value’ and ‘distress sale value’ are considered to be inconsistent with the concept of ‘Market Value’ and represent expressions of property prices achieved under different selling conditions.

2.2 May be Provided
Valuers may, when requested, provide an estimate of a realisable price when forced or distress sale circumstances exist. The reporting of a range of value can be appropriate in these circumstances.

2.3 Distress Sale
‘Forced sale’ and ‘distress sale’ are taken to have a similar meaning for the purposes of this statement. The term ‘fire sale’ has even less certainty of meaning than these terms and in relation to property its use should be avoided.

2.4 Essential Element(s) Missing
A sale of property under forced sale conditions does not meet all the criteria of a normal market transaction in that there is some element of undue compulsion or influence affecting the seller. One of the essential elements of a market valuation is therefore missing.

2.5 Circumstances
The circumstances surrounding a forced sale usually involve:
- An owner under some form of duress or pressure, financial or otherwise, to sell the property, or,
- A third party such as a receiver or mortgagee in possession of the property.
2.6 Marketing Conditions
A forced sale of property may involve:
- An inadequate exposure to the market.
- An unreasonably short period in which to achieve a sale.
- An inappropriate selling method.
- A vendor with a primary objective of recouping a loan or secured amount rather than obtaining the market price.
- Potential buyers being aware of the circumstances of sale and the seller’s weakened bargaining position.
- Other unusual factors.
Any one or all of the above can have a negative impact on the realisable price.

2.7 Effect of Varying and Various Markets
In some market conditions and in certain selling situations there may be little or no difference between a forced sale price and the market value of a property. The state of the market, the supply factors and the strength of the demand will influence each result.

3.0 VALUATION ADVICE

3.1 Lender Requirements
The provision of a forced or distress sale ‘value’ in addition to a market value for a proposed mortgage is considered by this Institute to be a generally undesirable practice. However it is recognised that some lenders require valuers to provide forced or distress sale assessments.

3.2 Use of Term and Endorsement
In these circumstances it is considered prudent for the valuer to use the term current forced sale price and to include an endorsement along the following lines:
‘This current forced sale assessment is based on a sale by the mortgagee (or receiver, etc, as appropriate) at public auction or within a reasonable period after such auction having regard to the nature of the subject property, after full and proper marketing and it reflects the valuer’s view of the market conditions prevailing at the date of this report.’

3.3 Forced Sale Imminent
In circumstances when a forced sale is imminent such as when a mortgagee is in possession of a property, a valuer may provide an opinion of a forced sale expressed as a realisable price range and/or a most probable price based on the market conditions and the specified selling circumstances at the time.

3.4 Realisable Forced Sale Price Range
The realisable forced sale price range and/or most probable forced sale price is likely to vary in relation to actual selling circumstances at the time of sale.

3.5 Not Generally Indicative
Any forced realisation of a property will usually reflect the particular and special selling circumstances of that transaction and a sale price achieved in these circumstances is therefore not generally indicative of realisable prices for other similar properties under normal marketing conditions unless it can be viewed as consistent with most other transactions in the market.

3.6 GST Caution
Specific legal and/or accounting advice will need to be sought regarding the GST implications for this Guidance Note.