

E-Notes

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THE REQUIREMENT OF PHYSICAL INSPECTION

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IVS 2025, applicable from 31.01.25 does not possess investigation and inspection as a general standard. But, it is one of the most important parts in the process of valuation.

What is the current IVS 2025 says on inspection?

IVS states the following in relation to inspection within the General Standards, IVS 101 Scope of Work:

“20. Valuation Requirements

20.01 The scope of work must specify the following:

...

(i) the nature and extent of the valuer’s work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry and/ or analysis in the value must be identified. If relevant information is not available because the conditions of the valuation restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 102 Bases of Value, paras 50.01-50.04) made as a result of the restriction must be identified.

Again this is in IVS 300 Plant, Equipment and Infrastructure, IVS 400 Real Property Interests, and IVS 410 Development Property a few lines on considering investigations and evidence:

40.03 of IVS 400 says “Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation, or analysis to ensure that the valuation is properly supported. When determining the extent of investigations and evidence necessary, professional judgement is required to ensure it is fit for the purpose of the valuation.” ...

40.10 of IVS 300 says “If, during the course of a assignment, it becomes clear that the investigations or limitations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations such as inspection are so substantial that it will not result in a valuation outcome that is adequate for the purpose of the valuation, the valuation must explicitly state that the valuation is not in compliance with IVS (see IVS 100 Valuation Framework, section 40 and IVS 101 Scope of Work, para 20.03)”

This paper tries to and assess the advantages and disadvantages of physical inspection of tangible asset.

Here IVS says about *sufficient investigations and evidence* / inspection but it is not clear whether that is physical inspection. Where it is commonly accepted that physical inspection is a major part of investigation for collecting evidence related to valuation of property.

Why this comes in to the picture?

According to 400 of IVS 2025 says that 'sufficient investigations and evidence must be assembled by means such as inspection'.

Our question is - Inspection physical or desktop?

IVS treats this as 'professional judgement' (unless instructed in the scope of work) of the valuer', that means this depends on the valuer. Physical inspection is not mandatory.

This may create a frustrating confusion between the valuer and its client. A confusion - at the time of determining different scope of works, while the scope covers different forms of inspection, rationale with the fee estimate. Since, it is not mandatory, if the contract does not clearly say on whether physical inspection is covered under the scope of work, and valuer doesn't undertake physical inspection of asset, a confusion, that may lead to client a scope of misunderstanding and frustration.

In COVID-19 pandemic, to stay afloat, professional service providers not limited only to valuation service, had to continue providing services. The tangible asset valuers faced huge problem in terms of inspection. Sometimes only virtual meetings were there to fill the gap. Some technologies were adopted to fill the gap.

Desktop inspection:

The valuer uses street view applications (i.e. Apple Look Around, Google Street view, etc.) or google map, photographs which have date of capturing from the desk. This also may be associated with relevant documents.

Virtual inspection with the help of technology:

Using drone, same-day photography feed, live stream video, or satellite. This type of inspection may be suitable for overall idea about the property site, plan etc. This can shorten the time taken for valuation.

There may be certain technology to allow valuers to ask questions about the detailed information and insights associated with a property.

A passer-by view : A valuer may drive beside the property with a glance and arrive at the opinion.

AI is being used in valuation as new technology.

This pertinent to mention here that 'Desktop valuation' usually conducted for review. Not to confuse between desktop inspection and Desk top valuation.

Generally, these above inspection type can procure data as overall onlooker, which cannot identify the minor details(which are very important) to help a valuer to judge properly on the asset. These types of inspection is possible, where

- Repeated valuation in short period
- Review
- The subject asset is too large
- When the valuer has previously made a physical inspection
- For inaccessible assets.
- For huge number of assets spread in different geographical locations
- For portfolio size where homogeneous assets are available, sample inspections may be conducted.
- Sometime, this types of inspections are required for the financial statement.
- Requirement of reducing the cost of physical inspection

The pertinent question is: should the same way providing service be allowed in this post covid era?

We try to identify the advantages of Physical inspection

PHYSICAL INSPECTION OF TANGIBLE PROPERTY MAKES ONE OF THE MOST IMPORTANT PILLARS OF VALUATION AND IT MINIMISES THE VALUATION RISK

What standards say

IVS 2022 - IVS 101 Scope of Work , general requirement 20.03(i) says The nature and extent of the *valuer's* work and any limitations thereon: Any limitations or restrictions **on the inspection, enquiry** and/or analysis in the valuation assignment *must* be identified. If relevant information is not available because the conditions of the assignment restrict the investigation, these restrictions and any necessary assumptions or special assumptions made as a result of the restriction *must* be identified.

IVS 2022 - 102 Investigations and Compliance also says

“Investigations

20.1. Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value. References to a valuation or valuation assignment in this standard include a valuation review.

20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation. Sometimes, this problem was covered by using technology finding no other way. These technology may supplemented the then problem. Presently, it is seen that worldwide valuation profession continues to use AI platforms for different valuation services.”

IVS 2020 102 Investigations and Compliance also says in 20.2 “Sufficient evidence *must* be assembled by means such as **inspection**, inquiry, computation and analysis to ensure that the *valuation* is properly supported.”

RICS 2022 says on Inspection: “A visit to a property or *inspection* of an asset, to examine it and obtain relevant information, in order to express a professional opinion of its value.”

RICS also says on the physical inspection process

Adequate Inspections and investigations must always be carried out according to the purpose.

At the time of physical inspection, in each case the valuer can judge the extent to reliability of information and evidence.

The valuer becomes mindful at the time of physical inspection to recognise and not to exceed the limitations of their qualification and expertise when making this judgment.

Physical inspection can assess so many parameters, including those matters that fall within the general heading of ‘*sustainability and ESG matters*’. Such factors are commonly important in terms of market and societal perception and influence.

IVS 2022 says “20.2. Sufficient evidence *must* be assembled by means such as inspection, inquiry, computation and analysis to ensure that the *valuation* is properly supported.”

EVS 2020 6. Supporting the valuation says “6.2. Property inspection — As part of obtaining personal knowledge of the property, the report-signing valuer or a named and qualified person mandated by the re- port-signing valuer must make her/his own visual inspection of it. This will include the interior of the buildings, the locality and the environment to record all matters which appear relevant to the value of the property.”

EVS 2020 6. Supporting the valuation says “6.2.2. The nature of the on-site inspection will depend upon the property and national legislation, custom and practice, but the valuer should record the main characteristics of the property and the location that affect the value.

Most importantly

IBC says in “Valuation of assets intended to be sold” in 7.4-4 in Liquidation of Corporate “The registered valuer will independently value on basis of internationally accepted valuation standard after **physical verification of inventory and fixed assets** of corporate data”

Advantages of physical inspection of tangible assets. A physical inspection helps a valuer

- To have a better look at the assets condition, potential and/or limitations.
- To take better Assumption of the property.
- To check the physical existence of an asset.
- To cross examine with the documents produced.
- To assess present and future expenditure of the asset
- To understand the risk of doing valuation

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- To understand the valuation risk.
- To understand about present use of the asset including past and future
- To assess the scope of HABU
- To assess the development potential
- To assess the micro and macro study of the market, locality, surrounds.
- Physical inspection of the asset increases valuer's ability and confidence on opining value.
- To check local jurisdiction, law, regulations.
- To understand the obsolescence of the asset.
- Sometimes lack of information on the asset leads valuer to assemble optimum information at the time of physical inspection.
- Can help a valuer to asses any prosperity or associated improvement.
- Without a physical inspection of an asset, critical inspection is not possible, where any inbuilt or inherent defects structural defect, any environmental issue any data from a specialist is revealed.
- Due diligence process has to be adopted in physical inspection. That is gaining an understanding of the technical condition and design of the property through a thorough physical examination of asset, all available construction documents, including identifying defects, poor performance and opportunities for improvement.
- Quantifying future costs and other liabilities.
- Establishing the suitability of the property for its intended use or users
- Try to provide a good foundation for price negotiations and
- Try to provide a level of protection for institutional investors. As, it is seen that the majority of large property owners are institutional investors who manage a portfolio of property assets on behalf of their beneficial owners.
- Both valuers and their clients have to understand the technical due diligence process in physical inspection, which may be considered in reports and client/ intended users should have confidence in the due diligence process adopted by a Valuer in inspection process .

The world is changing, 2020 brought new challenges to many businesses and communities, and it will not be the last time we face global adversity. In the changed scenario new technology or advanced machine may help desktop inspection for valuation to some certain extent. Some jurisdictions may allow virtual inspection of the property while opine on value.

To avoid the misconceptions and/or misunderstandings of virtual inspection what happened in the covid-19 situation, to keep Public Trust as foremost objective for the valuation profession, where *trust* means “faith in,” “confidence in,” “the ability to rely upon”, **physical inspection** if not otherwise limited (as it was in Covid 19 era), should be one of the must factors.

Physical Inspection of tangible asset is one of the most sufficient and necessary conditions of valuation process.

Our view, a valuer’s/inspector’s eye should be the final evaluating instrument, which can understand the obsolescence. A human brain should be the ultimate instrument which finally opine the value.



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