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**Response to RICS consultation on the Red Book - UK National Supplement - Update 2022-2023**

We, the Association of Real Estate Funds[1] (AREF), welcome the opportunity to respond to the public consultation on the RICS Red Book UK Supplement. We outline below our thoughts on the proposals for a time-limited, mandatory rotation cycle for regulated purpose valuations. We have liaised with our Fund Members and the Investment Property Forum (IPF) while drafting this response.

UK VPS 3.3 Rotation

We note that it is proposed that new valuer and firm rotation arrangements, set out in UK VPS, would come into effect from 1 October 2023. There would be a maximum five-year continual contractual relationship period for valuation services for a Regulated Purpose, with the option of up to a three-year extension period, subject to a successful service review. This is followed by a mandatory break of five consecutive years until the next permitted instruction of that valuer and/or firm.

We agree with the feedback to the initial proposals for UK VPS 3 that a rigid mandatory five-year rotation is too limited and will cause market disruption. We believe that the rotation arrangements for valuers should be along the same lines as the rotation of auditors. The rules for rotation of an audit firm were set out in section 491 of the Companies Act and are now found in section 494ZA. This provides that, in the case of Public Interest Entities, the audit is required to go out to tender after 10 years and there is mandatory rotation of the audit firm after 20 years. The requirement for rotation at five years is for the audit partner, not the firm, as stated in the Financial Reporting Council (FRC) ethical guidance. For the rotation of valuers, the senior valuer could rotate after five years.

Our reasoning for UK VPS 3.3 to mirror the existing rules on auditor rotation are:

a. This would give consistency between the audit and valuers rotation rules and minimise client confusion as to contractual relationship periods.

b. There would be reduction in the disruption of the set-up period for valuers undertaking frequent (often monthly) valuations of portfolios.

c. There would be a reduction in the friction costs for clients and valuers associated with the changeover of valuation firms.

[1] The Association of Real Estate Funds represents the UK real estate funds industry and has around 60 member funds with a collective net asset value of more than £64 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

d. It would provide a longer period of certainty for valuers in order to build and maintain the large valuation teams required to undertake frequent valuations. This is important where valuers are required to undertake detailed DCF valuations and analyse comparable evidence using the same methodology.

We believe that the adoption of the RICS' proposal to limit the valuation term to a maximum of five years, with the option of up to a three-year extension period, is likely to embed still further the existing situation where two firms value 65% of the unlisted real estate funds by number and 68% by net asset value.[2]

A mandatory five-year rotation would be particularly problematic for many closed-ended funds that have a seven-to ten-year fixed life, with the possibility of a one- or two-year extension to complete the disposal of assets. It would be more appropriate for these types of funds to conduct tenders at the outset and appoint valuers to provide valuations for the duration of the fund. Having a mandatory rotation as the fund disposes of its investments in the wind-down phase is unlikely to be popular with investors or in their best interest. If a fund's duration was longer than 10 years and the rotation timescales were similar to the ones used for auditors, the valuation appointment would be subject to tender after 10 years. This would give the fund the option to reappoint the same firm it was felt it would the best option for the fund.

If you have any questions regarding our response please contact either myself (prichards@aref.org.uk) or Jacqui Bungay, Policy Secretariat, AREF (jbungay@aref.org.uk)

Yours sincerely

**Paul Richards**

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[2] Taken from data provided by 50 funds in AREF's Property Fund Vision at the end of Q2 2022