



# **Basic Vessel Valuation**

## **Issue No 1**

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Hi,

This is the first of our regular articles, on Basic Vessel Valuations that we will be sending you for your information.

If you have any questions regarding the contents, please do not hesitate to contact me.

### **VALUATION INTRODUCTION**

Firstly, it is in my opinion that any person, if it be a Surveyor, Boat Broker etc., undertakes a Valuation of any vessel or asset, is basically called a Valuer.

With Valuations now days having more legal and financial implications, it is very important that a Valuer provides expert and well researched Valuations for their client. Valuations are often used in many legal issues and often need to have backed up proof as to how the value was arrived at and why. We are now seeing an increase in legal proceedings and for that reason, any person undertaking Valuations must have their P.I Insurance up to date.

Also, if you fail to maintain the working papers and how the value was established this may affect the credibility of the Valuation.

Valuers could possibly incur liability from third parties, that is a person who is affected by a Valuation, but who are nevertheless, not the Client who engaged the Valuer.

If a client uses a Valuation to assist in selling a vessel and the purchaser (the third party) relies on the Valuation in determining the purchase of the vessel, then later finds that the Report overvalued and was in excess of the true valuation, the third party could have grounds for legal action against the Valuer who indicated a Valuation figure in their Survey Report.

The party undertaking the Valuation, whether it is on behalf of a Bank, Financier, Owner, Lawyer or Insurance Company, or any other person, is liable for the opinion he gives. Numerous third parties can also, often depend on the integrity of the Valuation. This should never be forgotten.

So, it is important that if you are doing a Pre- Purchase Survey, which includes a Valuation, it is of the up most importance that your Valuation is worded correctly.

That is why every Valuation should state something along the lines of; "In accordance with our standard practice, this Valuation is solely for the use of the party to whom it is addressed. Reliance on it by a third party cannot be relied on and no responsibility to any third party is or will not be accepted for the whole or any part of its contents.

While such disclaimers do not relieve a Valuer etc., of duty of care, Courts are likely to hold the person undertaking the Valuation liable if they can be shown to have been negligent and if required to do so, are hard pressed to explain and justify the Valuation.

Valuations and/or Appraisals are regularly provided by Valuers, Surveyors and Brokers etc., in various formats, including a letter, a formal Valuation Certificate, part of a Survey Report and in some cases by email. Whatever format is given, the document is basically a Valuation.

Whatever document is given, it is a professional opinion and would be treated as such by the Courts and any person undertaking a Valuation would be advisable to include the wording, "**it is an opinion only**". However, keep in mind if the Valuation was ever challenged and the Courts found that the Valuation was inaccurate in anyway, the party undertaking the Valuation could be liable. Any Surveyor undertaking a Pre- Purchase Survey, or an Insurance Survey that indicates a value, must keep a copy of the Valuation on file, including all documentation, comparable sales and also how they established the Valuation figure. Now, more than ever before, more accountability and supporting documentation is required by any person undertaking a Valuation. Whoever undertakes the Valuation, whether it is a Valuer, Surveyor or Broker, must show how the Valuation figure was arrived at and must be able to justify how you came up with the figure.

It is absolutely imperative to keep detailed notes on how the Valuation figure was obtained, in case the Valuation figure is ever disputed.

Even if you know the Valuation value of a vessel, you must be able to justify that figure.

I recently was instructed to undertake a Valuation of a vessel and the Owner had a recent Survey undertaken which indicated a value of the vessel of well over \$2m. The Valuation section of the Survey Report did not indicate the, **Valuation Methodology, Valuation Approach, and Valuation Definitions**. I will go into further details of these meaning in a later issue.

The valuation I undertook of the vessel had an Estimated **Fair Market Value** of around \$1.5m. It looks like one of us got it wrong as the difference between the two Valuations was well over \$800,000, I have all my working notes and also how I justified the value.

If a free Certificate of Valuation is issued to a Client, the person undertaking the Valuation is **not exempt from any liability** and that person supplying the Appraisal or Valuation, could be held liable!

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