“The Valuation of a particular interest in land is normally made by reference to its tenure, its use and its income producing capacity” (Scarrett 2008)

Information holds the key to better decision-making via more reliable analysis. Reliable information is the foundation for good decision-making, but does not come easily. Information is based on an assimilation of data - things known or granted as a basis for inference. Therefore, accurate data provide both the foundations and the building blocks for good property advice.
THE MEANING OF VALUE

- Value is derived from the benefit or use obtained from an interest held in a property.
- It is not intrinsic but is obtained from the subjective estimates made by able and willing purchasers of the benefit which they will receive from the ownership of the interest.
- While it may be viewed that the value of a property is created by the land and its buildings, it is actually the ownership of an interest in those land and buildings that create the value.
- The value of a product is affected by supply and demand factors and the value of similar available products which determines the actual price; however imperfect knowledge of the property market can lead to anomalies in values.
What is a valuation

- The determination of the economic value of an asset or liability.
- A valuation is estimation or subjective assessment of the value of an interest in a property to the holder of the interest.
- Based on the valuer’s knowledge of market conditions and transactions.
- Requires knowledge of market data and the context in which market transactions were made and the basis of calculations used in the market to assess the value.
What is a valuation

It is said that the property market is an imperfect market or inefficient for the following reasons:

- data on transactions is often difficult to obtain;
- property is a heterogeneous product;
- Illiquid product

Valuation and price are different. A valuation can be inaccurately calculated whereas price is determined in the market by supply and demand.

- A valuation is a prediction of price before it is achieved.
- Market price is the recorded consideration paid for an interest in a property.
What is valuation

Valuation can be defined as:

“The art, or science, of estimating the value for a specific purpose of a particular interest in a property at a particular moment in time, taking into account all the features of the property and also considering all the underlying economic factors of the market including the range of alternative investments”

Or

“The art of expressing opinions in a mathematical form in order to arrive at the value of a particular interest in a particular piece of property at a given moment of time”

(Millington 2000).
Valuation is concerned with the value of an interest held in property. There can be several interests in one property at the same time and each of these is capable of being valued. The interest being valued should always be stated clearly in a valuation report.

- Mortgage
- Sale
- Purchase
- Rent
- Company reports
- Probate
- Calculation of rates obligations or other public levies
- Calculation of tax liabilities, e.g. inheritance
Why do properties need to be valued

- The reason for the valuation will determine the method to be applied to carry it out. A valuation does not necessarily lead to a transaction (sale or purchase) that can support or contradict the valuation, thus the value of the property is not exact and is often adjusted according to the purpose for which it is used.

- **Legal interests held in a property**
  - Freehold
  - Leasehold
  - Charge against the property in the form of a mortgage
  - Easements
  - Covenants
The Role of the Valuer

A valuer must be able to assess the probable estimate of benefit of the property interest to a potential purchaser, which gives legal rights of use or enjoyment of the lands or buildings.
Factors to be taken into account when carrying out a valuation

- What are people currently spending their money on
- What are the current trends
- What changes in investment policy are taking place
- What is being done with money
- Why are these things happening
Valuation Bases

“The valuer must determine the basis of value that is appropriate for every valuation to be reported”.

The RICS Valuation Standards 7th Edition (The Red book), effective from 2nd May 2011 defines a basis of valuation as a definition of a value of an interest in property within a given set of parameters.

4 bases recognised in the global standards:

- Market value
- Market Rent
- Worth (investment value)
- Fair Value
Valuation Bases

- The terms “Market Value” and “Market Rent” are the bases of valuation frequently used in professional practice.

- Market Value – “The estimated amount for which property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”

- Market rent – “The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm’s-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion”.

- The conceptual framework for these bases as set by the IVSC can be found in the RICS Valuations Standards 7th Edition.
Valuation Bases

- **Worth and Investment Value**
  The value of property to a particular owner, investor, or class of investors for identified investment or operational objectives.

- **Fair Value**
  The amount for which an asset could be exchanged, between knowledgeable, willing parties in an arms length transaction.
## Methods of Valuation

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<td>Investment</td>
<td>Capitalisation of income flow to find capital value.</td>
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<td>Re-instatement</td>
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Factors affecting value of property

- Macro economic environment
- Demographics
- Planning control
- Government policies
- Infrastructure availability
- Building costs
- Location
- Microeconomic factors
- Development potential
- Supply and demand factors
Recommended Reading

- An Introduction to Property Valuation

- Property Valuation: the five methods,
References