MALAYSIAN VALUATION STANDARDS

STANDARD 1

MARKET VALUE BASIS OF VALUATION

1.1.0 INTRODUCTION

1.1.1. Property is generally transacted at its market value. This is the amount a property would fetch if offered for sale in the open market at the date of valuation under circumstances that meet the requirements of the Market Value definition. To estimate Market Value, a Valuer must first estimate highest and best use, or most probable use (see Definitions, Valuation Concepts and Principles). That use may be for the continuation of a property's existing use or some other alternative. These determinations are made from market evidence.

1.1.2. This Standard applies to the Market Value of property, normally real estate and related assets. It requires that the property under consideration be viewed as if for sale on the open market, in contrast to being evaluated as part of a going concern or for some other purpose.

1.1.3. The definition of *Market Value* and some of the concepts of *Market Value* are extracted from the International Valuation Standards.

1.2.0 STATEMENTS OF STANDARD

1.2.1. The Valuer shall use the market value basis of valuation for all purposes unless specifically instructed to do otherwise, or for those purposes stated in MVS 2 and MVS 7.

1.3.0 EXPLANATIONS

1.3.1. *Market Value* is defined for the purpose of these Standards as follows:

Market Value is the estimated amount for which a 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.

1.3.2 The term *property* is used because the focus of these Standards is the valuation of property. ~~But because~~ However as these Standards also encompass financial reporting, the term *asset* may be substituted for general application of the definition. Each element of the definition has its own conceptual framework:

(a) "*The estimated amount*…" refers to a price expressed in terms of money, payable for the property in an arm's-length market transaction. *Market Value* is measured as the most probable price reasonably obtainable in the market on the date of valuation in keeping with the *Market Value* definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms of circumstances such as a typical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value (defined in MVS 2).

(b) "…a *property should exchange*…" refers to the fact that the value of a property is an estimated amount rather than a predetermined amount or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the *Market Value* definition should be completed on the date of valuation.

(c) *"…on the date of valuation…"* requires that the estimated Market Value is time-specific as of a given date. ~~Because~~ Since markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

(d) *"…between a willing buyer…"* refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than in relation to an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute "the market". ~~A Valuer must not make unrealistic assumptions about market conditions nor assume a level of market value above that which is reasonably obtainable.~~

(e) *"…a willing seller…"* is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the "willing seller" is a hypothetical owner.

(f) "…*in an arm's-length transaction…"* is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) that may make the price level uncharacteristic of the market or inflated because of an element of *Special Value* (define in MVS 2). The *Market Value* transaction is presumed to be between unrelated parties, each acting independently.

(g) *"…after proper marketing…"* means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the

Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

(h) *"…wherein the parties had each acted knowledgeably and prudently…"* presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses, and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge, and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price that is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

(i) *"…and without compulsion…"* establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

1.3.3 *Market Value* is understood as the value of a property estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

1.3.4 The *Market Value* concept and definition are fundamental to all valuation practice. A brief summary of essential economic and procedural foundations is presented in General Valuation Concepts and Principles upon which these Standards are predicated.

1.3.5 The concept of *Market Value* is not dependent on an actual transaction taking place on the date of valuation. Rather, *Market Value* is an estimate of the price that should be realized in a sale at the valuation date under conditions of the *Market Value* definition. *Market Value* is a representation of the price to which a buyer and seller would agree at that time under the *Market Value* definition, each previously having had time for investigation of other market opportunities and alternatives, and notwithstanding the fact that it may take some time to prepare formal contracts and related closing documentation.

1.3.6 The concept of *Market Value* presumes a price negotiated in an open and competitive market, a circumstance that occasionally gives rise to the use of the adjective *open* before the words *Market Value*. The words *open* and *competitive* have no absolute meaning. The market for one property could be an international market or a local market. The market could consist of numerous buyers and sellers, or could be one characterized by a limited number of participants. The market in which the property is exposed for sale is not a definitionally restrictive or constricted market. Stated conversely, the omission of the word *open* does not indicate that the transaction would be private or closed.

1.3.7 Market valuations are generally based on information regarding comparable properties. The Valuation Process requires a Valuer to conduct adequate and relevant research, to perform competent analyses, and to draw informed and supportable judgements. In this process, Valuers do not accept data without question but should consider all pertinent market evidence, trends, comparable transactions, and other information. Where market data are limited, or essentially non-existent (as for example with certain specialized properties), the Valuer must make proper disclosure of the situation and must state whether the estimate is in any way limited by the inadequacy of data. All Valuations require exercise of a Valuer's judgement, but reports should disclose whether the Valuer bases the *Market Value* estimate on market evidence, or whether the estimate is more heavily based upon the Valuer's judgement because of the nature of the property and lack of comparable market data. A Valuer must not make unrealistic assumptions about market conditions nor assume a level of market value above that which is reasonably obtainable.

1.3.8 ~~Because~~ Changing conditions are characteristic of markets and hence Valuers must consider whether available data reflect and meet the criteria for *Market Value*.

(a) Periods of rapid changes in market conditions are typified by rapidly changing prices, a condition commonly referred to as *disequilibrium*. A period of disequilibrium may continue over a period of years and can constitute the current and expected future market condition. In other circumstances, rapid economic change may give rise to erratic market data. If some sales are out of line with the market, the Valuer will generally give them less weight. It may still be possible for the Valuer to judge from available data ~~where~~ the realistic level of the market ~~is~~. Individual transaction prices may not be evidence of *Market Value*, but analysis of such market data should be taken into consideration in the Valuation Process.

(b) In poor or falling markets there may or may not be a large number of "willing sellers". Some, but not necessarily all, transactions may involve elements of financial (or other) duress or conditions that reduce or eliminate the practical willingness of certain owners to sell. Valuers must take into account all pertinent factors in such market conditions and attach such weight to individual transactions that they believe proper to reflect the market. Liquidators and receivers are normally under a duty to obtain the best price in asset disposals. Sales, however, may take place without proper marketing or a reasonable marketing period. The Valuer must judge such transactions to determine the degree to which they meet the requirements of the *Market Value* definition and the weight that such data should be given.

(c) During periods of market transition characterised by rapidly rising or falling prices, there is a risk of over- or under-valuation if undue weight is given to historic information or if unwarranted assumptions are made regarding future markets. In these circumstances Valuers must carefully analyse and reflect the actions and attitudes of the market and take care that they fully disclose the results of their investigations and findings in their report.

1.3.9 The concept of *Market Value* also presumes that in a market value transaction a property will be freely and adequately exposed on the (open) market for a reasonable period of time and with reasonable publicity. This exposure is presumed to occur prior to the effective date of value. Markets for fixed assets typically differ from those available for stocks/shares, bonds, and other current assets. Fixed assets tend to be unique. They are usually sold less frequently and in markets which are less formal and ~~more inefficient~~ less efficient than, for example, markets for listed securities. Further, fixed assets are less liquid. For these reasons, and because fixed assets do not commonly trade on a public exchange, the application of the concept of *Market Value* requires the use of assumptions such as adequate market exposure over a reasonable ~~time~~ period of time to allow for proper marketing, and completion of negotiations.

1.3.10 Revenue-producing properties held as long-term investments by a property company, pension fund, property trust, or similar type of owner are typically valued on the basis of individual asset disposal pursuant to an orderly plan. The aggregate value of such assets viewed or treated as a portfolio or as an assembled group of properties could exceed, or ~~could~~ be less than, the sum of the *Market Value* of each asset individually.

1.3.11 All valuations should refer to the purpose and intended use of the valuation. In addition to other reporting requirements, the Valuer should make it abundantly clear ~~into which class each asset has been placed~~ as to the classification of each asset if the function of the valuation is related to the preparation of financial statements.

1.3.12 In exceptional circumstances *Market Value* may be expressed as a negative amount. Situations include certain leasehold properties, some specialised properties, obsolete properties with demolition costs exceeding land value, some properties affected by environmental contamination, ~~and others~~ etc.

1.3.13 In particular circumstances the concept of *Market Value for the Existing Use* (or *Existing Use Value*) may be relevant. When such a circumstance prevails it must be understood that this concept is essentially the same as *Market Value* except that there is an added assumption that the existing use of the property (as defined in the Document of Title and/or as approved under the applicable Planning Laws) will continue in perpetuity or until expiry of the current land tenure of the property.