

MALAYSIAN VALUATION STANDARDS

STANDARD 12 11

APPROACHES/USE OF METHODS OF VALUATION

11.1.0 INTRODUCTION

11.1.1 The **approaches to or methods** of valuation used by a Valuer in any valuation ~~is~~ **are** the means by which the Valuer arrives at an opinion of value after having ascertained **and weighed** all relevant facts pertaining to the property.

11.1.2 ~~The common methods of valuation are the Comparison Method, the Investment Method, the Residual Method (Depreciated Replacement Cost), the Discounted Cash Flow Method and the Profits Method of Valuation. The International Valuation Standards Council as well as most major valuation standard setters in the world refer to just the three approaches to valuation, namely the Comparison Approach, the Income Approach and the Cost Approach. The Investment Method, the Residual Method, the Discounted Cash Flow Method and the Profits Method of Valuation will now be regarded as Income Approaches.~~

11.1.3 There is a distinct difference when valuations are carried out with the objective of arriving at the Market Value of a property and at bases other than Market Value. For Market Value assessments, all inputs, notwithstanding the approach(es), must be market derived or acceptable proxies.

11.2.0 STATEMENTS OF STANDARD

11.2.1 The Valuer should use appropriate **approach(es) or method(s)** of valuation in carrying out his valuation. ~~For valuations of properties of more than RM200,000 in capital value or RM2,000 per month in rental value, evidence of comparables relied upon by the Valuer in arriving at his valuation must be provided. Where possible more than one approach or method should be used.~~

In using the appropriate **approach or** method(s) of valuation the following **are need** to be considered:

(i) Comparison Approach

- (a) Comparables used in arriving at the value of the subject property must be stated in the valuation report.
- (b) **Market sales** of comparable properties selected must be for similar properties.
- (c) For each of the stated comparables, the minimum information required to be disclosed are the identification of the comparable (usually by way of Lot number and or Title Number), the date of the transaction, the consideration for the transaction, a brief description of the property and the land area.
- (d) Other information regarding the comparable property that may be provided are analyses in terms of value for the various differences between the comparable property and the subject property.
- (e) The Valuer may consider relevant sale and purchase agreements, options, offers and bids for the subject property being valued where such information is available to the Valuer in the normal course of his professional work. Statement of such evidence should be included in the report.
- (f) The Valuer shall have regard to **and disclose** any prior registered transaction of the subject property, within two years of the valuation.

(ii) Income Approach

The Income Approach includes the following:-

A. Investment Method

- (a) The estimated gross income for the property must be established by reference to prevailing rental values of similar properties. Such evidences must be shown in the report. The Valuer is also required to indicate the sustainability or otherwise of the rentals used in the valuation of the subject property.
- (b) Where the Valuer does not take into account the current rent passing he must indicate his reasoning for not doing so.
- (c) Outgoings and other operating expenses used in arriving at the net income for the property must be supported by evidences of such outgoings and expenses for comparable properties or by data compiled, verified, analysed and kept by the Valuer.
- (d) The rate(s) of capitalisation used in valuing the property should be supported by such rates for comparable properties or by data compiled, verified, analysed and kept by the Valuer.
- (e) The method must be shown in the report.

B. Residual Method

- (a) The estimated gross development value for the property must be established by reference to prevailing sale values for similar properties. Such evidences must be shown in the report.
- (b) Costs of development used in arriving at the net development value of the property must be supported by evidences of such costs that are available for comparable properties or by data compiled, verified, analysed and kept by the Valuer.
- (c) The timing of the development, including the phasing of the development must be supported by data compiled, verified, analysed and kept by the Valuer.
- (d) Discount rates used in the valuation must be market derived and supported by adequate reasoning.

(e) The method must be shown in the report.

C. The Discounted Cash Flow Method

(a) Discounted cash flow valuations may be used to value property interests under the market value basis of valuation or for bases other than market value.

(b) Where the Valuer uses the discounted cash flow valuation in order to arrive at the market value of a property interest (usually an investment property) the cash inflows, the cash outflows and the discount rate must be market derived.

(c) Where the discounted cash flow valuation is used to value properties for bases other than market value the Valuer must state the assumptions on which his valuation is done. For such valuation they must also comply with MVS 2.

(d) The cash inflows and cash outflows for market value estimates are usually based on current prices or costs. Where the current prices or and/or costs are unusually high or low compared to the long term sustainable price or cost for a particular item of cash inflow or cash outflow, the Valuer should adjust future prices and costs in the cash flow analysis to levels that are long term sustainable prices and costs.

(e) Generally, the discount rate used must be consistent with the cash flow analysis. However where the discounted cash flow valuations is for determining the market value of a property interest the discount rate should be market derived.

(f) Values arrived at by the discounted cash flow method of valuation must not be inconsistent with values arrived at by other methods of valuation.

(g) The Valuer must ensure the integrity of the valuation model used.

D. Profits Method

- (a) The estimated gross receivables from the property must be established by reference to past records of such receivables obtained for the subject property, and/or comparable properties. The projected rates must be reasonable and supportable.
- (b) The costs of operating the property as a trading entity must be established by reference to current and projected rates as can reasonably be supported and cross-checked with past records of such costs for the subject property itself or similar properties.
- (c) The allowance used in the valuation for the operator's capital, risk and entrepreneurship must be supported by adequate reasoning.
- (d) The method must be shown in the report.

(iii) Cost Method

(a) Buildings, structures and Improvements

Comparable cost data as are available to estimate the cost new of all buildings, structures and improvements to the site must be compiled, verified, analysed and kept by the Valuer.

(b) Depreciation/Obsolescence allowance

The Valuer shall state the amount of depreciation or obsolescence deducted.

(c) Land

Same requirements as stated in the requirement of Comparative Method.

(d) The method must be shown in the report.

(iv) Other Methods of Valuation

(a) When other approaches or variations of and to the above stated methods are applied these must be fully explained and the data used in the valuation must be substantiated by evidences of sales of comparable properties compiled, analysed and kept by the Valuer.

(b) Valuations referred to in item (a) above shall be shown in full.

11.3.0 EXPLANATIONS

11.3.1 The Statement of Standards is meant to provide Valuers to use appropriate **approaches or** methods of valuation with the minimum requirements for each **approach or** method being spelt out. Departure from these accepted methods would entail the Valuer to explain his rationale and basis in the Valuation Report.

11.3.2 The Valuer is encouraged to use, apart from the main method of valuation, additional method(s) of valuation as cross-checks to the main method of valuation.

11.3.3 Where the circumstances require expert opinion other than that of a Valuer, the Valuer shall obtain such opinion from an expert and include it in his report. This is in accordance with Rule 75(4) of the Valuers, Appraisers and Estate Agents Rules 1986 (as amended).