MALAYSIAN VALUATION STANDARDS

STANDARD 2

VALUATION BASES OTHER THAN MARKET VALUE

2.1.0 INTRODUCTION

2.1.1 ~~Although~~ The majority of professional valuations, particularly valuations referred to in MVS 7, involve Market Value. There are however circumstances that call for bases other than Market Value. It is therefore essential that both the Valuer and the users of these valuations ~~users~~ clearly understand the distinction between Market Value and non-Market Value based valuations, and the effects (if any) which the differences ~~between~~ these concepts may have upon the applicability of the valuation.

2.1.2 This Standard is directed to bases of valuation other than Market Value.

2.2.0 STATEMENTS OF STANDARD

2.2.1 For certain stated specific purposes of valuation the Valuer may use a basis of valuation other than the market value.

2.2.2 For those purposes the Valuer shall state the purpose and the basis of valuation clearly in his valuation report.

2.2.3 The Valuer shall clearly distinguish that the valuation is not a Market Value estimate if the assignment is on a basis other than a Market Value.

2.2.4 For financial reporting purposes, specialised properties by virtue of the fact that they are rarely, if ever, sold in the open market may be valued on the Depreciated Replacement Cost (DRC) basis, subject to adequate profit potentiality or service potential.

2.3.0 EXPLANATIONS

2.3.1 Properties may be valued on bases other than Market Value, or may exchange hands at prices, which do not reflect Market Value as defined. Such alternative bases may either be reflections of a non-market perspective of utility, or of unusual and non-market conditions. Examples include Going Concern Value, Special Value, Forced Sale Value, etc.

2.3.2 ~~Other~~ Bases of value other than *market value* commonly used in valuations include the following:-

2.3.2.1 *Value in Use*, which is the value a specific property has for a specific use to a specific user and therefore non-market related. This value type focuses on the value that specific property contributes to the entity of which it is a part, without regard to the property's *highest and best use* or the monetary amount that might be realized upon its sale. The accounting definition of *Value in Use* is *the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life (FRS).*

2.3.2.2 *Investment Value, or Worth*, which is the value of property to a particular investor, or a class of investors, for identified investment objectives. This subjective concept relates specific property to a specific investor, group of investors, or entity with identifiable investment objectives and/or criteria. The *Investment Value*, or *Worth*, of a property asset may be higher or lower than the *Market Value* of the property asset. The term *Investment Value*, or *Worth*, should not be confused with the *Market Value* of an investment property. However, *Market Value* may reflect a number of individual assessments of the *Investment Value,* or *Worth,* of the particular property asset. *Investment Value,* or *Worth* is associated with *Special Value.* (see below).

2.3.2.3 *Going Concern Value*, which is the value of a business as a whole. The concept involves valuation of a continuing business entity from which allocations, or apportionments, of overall *Going Concern Value* may be made to constituent parts as they contribute to the whole, but none of the components in themselves constitute~~s~~ a basis for *Market Value*. Therefore, the concept of *Going Concern Value* can apply only to a property that is a constituent part of a business or entity.

2.3.2.4 *Insurable Value*, which is the value of property provided by definitions contained in an insurance contract or policy.

2.3.2.5 *Assessed, Rateable*, or *Taxable Value*, which is a value based on definitions contained within applicable laws relating to the assessment, rating and/or taxation of property. Although some jurisdictions may cite *Market Value* as the assessment basis, methods used to estimate the value may produce results that differ from *Market Value* as defined in MVS 1. Therefore, *Assessed, Rateable,* or *Taxable Value* cannot be considered to comply with *Market Value* as defined in MVS 1 unless explicitly indicated to the contrary.

2.3.2.6 *Depreciated Replacement Cost (DRC),* which is an acceptable method of valuation used in financial reporting to arrive at a market related value for *Specialised* and *Limited Market* properties. DRC is based on an estimate of the current *Market Value* of land, plus the current gross replacement (or reproduction costs) of improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The result combines market and non market elements. This result is subject to the adequate potential profitability or service potential of the enterprise from the use of the assets as a whole, an assumption that can be accepted or rebutted. If, for example, the directors of the enterprise believe that the potential profitability of the business is insufficient to carry the DRC estimate, they may adopt a lower figure in their accounts, effectively converting the DRC estimate into a *Value in Use* estimate. It is incumbent on the

Valuer, however, to state whether the valuation arrived at by DRC was subject to the directors' test of potential profitability.

Depreciated Replacement Cost is one specific application of the *cost approach.* The *cost approach* may be applied in *Market Value* estimates, provided all elements of the method are derived from (open) market evidence. These different cost applications must not be confused or misconstrued in making, presenting, or applying *Market Value* estimates.

The Valuer should qualify every valuation on the DRC basis as being subject to adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation. It is for the Directors or owners of the property to decide on the adequacy of the profit potentiality or service potential.

2.3.2.7 *Salvage Value* which is the value of a property, excluding land, as if disposed of for the materials it contains, rather than for continued use without special repairs and adaptation. It may be given as gross or net of disposal costs and, in the latter case, may equate to net realisable value. In any event, components included or excluded should be identified.

2.3.2.8 *Special Value* which is a term relating to an extraordinary element of value over and above *Market Value.* *Special Value* could arise, for example, by the physical, functional or economic association of a property with some other property such as the adjoining property. It is an increment of value that could be applicable to a particular owner or user, or prospective owner or user, of the property rather than to the market at large, that is, *Special Value* is applicable only to a purchaser with a special interest. *Marriage Value,* the value increment resulting from the merger of two or more interests in a property, represents a specific example of *Special Value.* *Special Value* could be associated with elements of *Going Concern Value* and with *Investment Value or Worth.* The Valuer must ensure that the criteria used to value such properties are distinguished from those used to estimate *Market Value*, making clear any special assumptions made.

2.3.2.9 *Forced Sale Value is* the amount which may reasonably be received from the sale of a property under forced sale conditions which do not meet all the criteria of a normal market transaction.

Forced sale involves a price which arises from disposition under extraordinary or atypical circumstances, usually reflecting an inadequate marketing period without reasonable publicity, an inappropriate mode of sale and sometimes reflecting an unwilling seller ~~condition~~ situation, and/or disposal under compulsion or duress. For these reasons, the price associated with a forced or distressed sale, called Forced Sale Value, is not a representation of Market Value. The price paid in a forced or distressed sale is a matter of fact. It is generally not easily predictable by a Valuer because of the nature and extent of subjective and conjectural assumptions that must be made in formulating such an opinion. Therefore, Valuers shall not provide a Forced Sale Value unless specifically requested. In all such instances the Valuer shall provide the terms, conditions and assumptions on which such value is based.