

Lecture 2

The natures of Property Market & Roles of A Valuer

Introduction

The valuer is primarily concerned with the valuation of land and/or buildings. Valuation may be defined as the estimation of the capital or rental value of land and/or buildings at a certain time. He will need to know the purpose for which the valuation is required and intentions and circumstances of the client or employer on whose behalf it is being prepared.

Valuation is a matter of opinion; it is an individual's subjective assessment of different factors. Different weights can be given to various opinions, and a valuer who has studied the different methods of valuation and who gets his/her valuations to accord with market evidence will be listened to and inform others. Computers can assist with the assembling of market evidence and comparable transactions, and they can be used for complex mathematical calculations, but in the end, however, it is the art of valuation that counts. A valuer is required to value property, which is to find a market value when the market transaction for the property has yet to take place. This is a responsible decision and expensive if things go wrong; if you put a property up for sale at too low a valuation you are likely to lose money, at too high a valuation the property will stick on the market and take a long time to sell if at all.

The traditional methods used in valuations are called the five methods. These are:

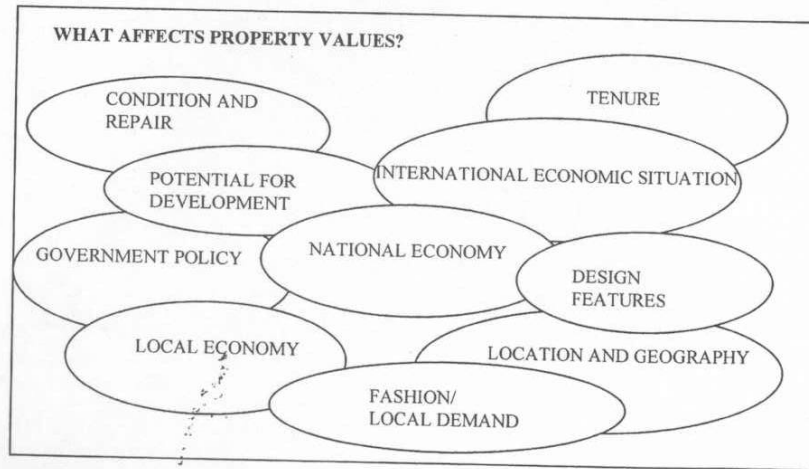
- The Investment (Income) method;
- The Comparison method;
- The Contractor's (Cost) method (a cost-based method);
- The Profits (Accounts) method;
- The Residual (Development) method.

The Residual method is used in development situations but may also rely heavily on the other methods. It may use the investment methods, for instance, to determine the gross development value of the proposed development, or it may use the comparative method to compare capital values or site values calculated with examples from the market. The costs calculated for building works are a form of the contractor's method. Depending on the type of the property, the profits method may also be used to determine the gross development value.

Factors affecting Property Values

- The international situation can affect levels of confidence in the market but probably not as badly as in the stock market. Interest rates will affect borrowing and therefore activity in the new and second-hand markets for property, that is the development of new property as well as investment in existing property.
- The mood of the national economy affects the confidence of investors. The levels of disposable income available affect house prices and the amount available affect house prices and the amount available for investment.
- Government policies affect property values. Property is taxed both in terms of capital gains (e.g. in the United Kingdom) and the income derived from rents. Changes in the tax situation can affect the investor's interest. Also government legislation can encourage or discourage investment directly or through its fiscal (tax) and monetary (adjustment of interest rates) policy.
- The local economy can affect land prices. Land prices and rents will tend to be higher in areas where the local economy is thriving.
- Geography and location are also important for value. Geography is important in terms of value, and the geography, topography and climate give rise to the most fertile and thus the most expensive agricultural land (not a significant factor in Hong Kong). Location is important, and office blocks may need to be close to a business area, have transport links and have reasonable surroundings.
- Fashion and local demand can affect price. Trendy areas and locations can increase price levels, and can the gentrification of traditional working-class areas. Favoured locations may be the spin-off of successful regeneration opportunities, such as Ma Wan.
- The individual design features of properties can affect value. These may include architectural details, the space and design, the scale and nature of the garden, and the age and style of the property. This factor, however, does not have significant effect in Hong Kong.
- Tenure may affect the property price; a property may be freehold or leasehold (in the UK but not Hong Kong).
- Condition and state of repair will affect value, as will the availability of services. The services include the provision of central heating in a house and the installation of air conditioning or computer wiring/trunking in an office building.
- The potential for extension, renovation, reuse and redevelopment will affect the value.
- The ease of purchase and sale, that is the ease of transferability, will also affect the property price. Prices will be depressed if the transaction takes a long time to complete. Property investors are often paying interest on monies used for

purchase. Lack of information can also affect property prices. Because of the nature of the investment, people will not generally buy a property investment unless they have full details of the investment. You would not buy a property, for instance, unless you had carried out the necessary searches of the title and investigated any future developments that may affect the property.



What affects property value?

Impacts on property values can be psychological and social rather than economic. The owner of a large historic house may view the ownership to be very prestige or else may be concerned about the social responsibility of its upkeep and maintenance. Similar local example can be purchaser of a duplex apartment on the top of a building.

Odd things can affect property values: one example, for instance, is *feng sui*. This is an oriental art concerned with the orientation of buildings and space that includes the juxtaposition of rooms within buildings and objects within the internal space, as well as the external orientation.

Other major factors

Any *increases or decreases in population* will obviously affect property values. If there is an increase, all other things being equal, demand will increase. A larger population will require more housing in which to live, more buildings in which to work, and more buildings for leisure-time activities and all the other ancillary activities associated with modern life.

Changes in the age distribution of the population may affect property values. For

example, in one period a large proportion of the population may be over 40. Such a change in age distribution will affect the demand, as, whereas older people probably demand more houses, younger people may be quite happy living in flats. It may be that the adaptation of the existing stock is insufficient to cater such changes in demand, but it may equally well be that the wholesome building is required.

Any change in the proportion of married people to single people will also be reflected in the demand for different types of properties, and hence in property values. Single people are more likely to be satisfied with one-bedroom flat than married couples.

Changes in the age distribution of the population and changes in the proportion of married to single people may also affect the size of average disposable income, which in turn is likely to affect the amount of money which individuals have available for house purchase. Population trends are therefore important indicators of possible future changes in demand which might result from variations of this type. The size of disposable income will also be very much dependent on employment levels, the prevailing industries and professions in any particular area.

Changes in technology may also affect property values. In colder climate a house with central heating is invariably more valuable than a similar house which does not have central heating, but the difference in values has been decreased by the advent of improved installation techniques which enable complete central heating systems to be installed rapidly with a minimum of fuss and at relatively low cost.

Where factories are concerned, changes in technology may have far-reaching effects on values. It may be that new machines are designed and manufactured which carry out industrial process more efficiently and more cheaply than existing machinery. If the new machinery is, however, taller than existing factory buildings, workshops with greater headroom will be required, and existing workshops may consequently become obsolete and less valuable.

Planning control probably has a greater effect on property values than any other single factor, possibly even greater than all other factors combined. The power of the planner in today's world is great indeed, and the decision of a planning committee can result in huge increases in value arising, or alternatively in such increases being denied.

Proximity to local amenities can be a positive benefit unless a property is so close that

it suffers disadvantages, for example from excessive traffic loads generated by a nearby shopping centre or from the periodic noise emanating from the occasional traffic congestion caused by a local school.

The overall *shape of a site* and the relationship between its width and depth may affect both site value and the value of any property placed on it. Awkwardly-shaped sites can result in the use of parts of them being severely restricted, while where sites are either too narrow or too wide in relation to their overall area there may be serious design constraints which reduce total value below that which would apply to a more appropriately-shaped site of the same area.

The possible *exposure* of any type of property to such things as flooding, subsidence or problems from soil erosion is likely to have a considerable effect on value.

On the supply side of property, although it is relatively fixed, however, can be increased through:

1. Land sale
2. Reclamation and excavation
3. Change of use
4. Relaxation of development control
5. Improvement of transportation (i.e. make development of rural land feasible)
6. Re-development
7. Conversion of property size
8. Change in building method

Types of Valuation

The two main types of valuation are statutory and non-statutory valuations. Statutory valuations are for purposes for which there are rules laid down by law. The main types of statutory valuation are:

Valuation for rating: Valuer or valuation officers are employed to assess the Gross Value (GV) of properties. The GV is an assessment of the rental value of the premises at the time the rating list was drawn up.

Valuation for compulsory purchase: this is based on the compensation payable under relevant government laws and regulations.

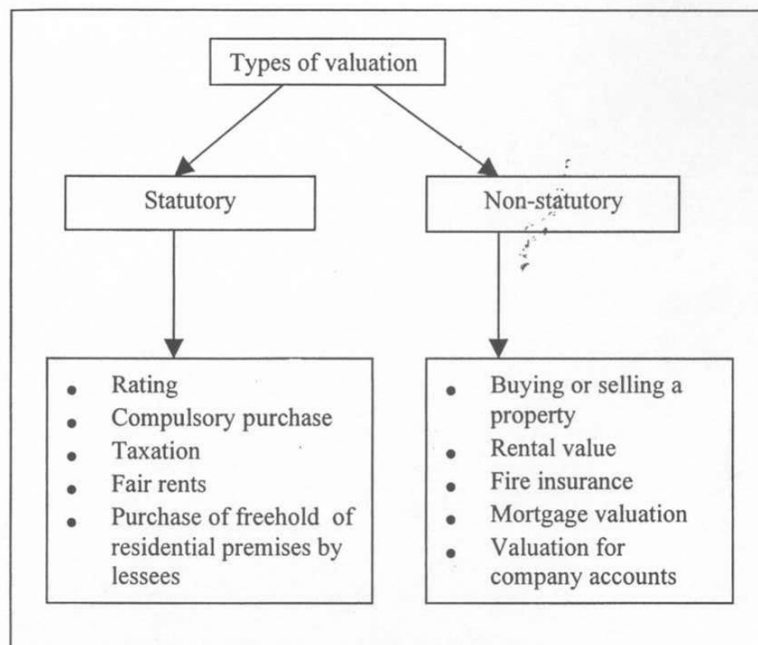
Valuation for tax: For instance, capital gain tax on property gains.

Assessment for fair rent: For rented dwellings.

Statutory valuations are based on market valuations but there are assumptions that are frequently made in the valuation. Compensation for compulsory purchase, for instance, ignores the scheme of development for which the purchase is made.

Examples of non-statutory valuations are:

- Valuations for buying and selling property: Here the valuation can be shown to be correct by the actual price achieved in the market.
- Valuations for rental: On letting a property or taking a lease or tenancy.
- Valuations for fire insurance: Based on the cost of reinstatement, that is the cost of rebuilding the property.
- Mortgage valuation: Where a loan or mortgage is being granted to buy the property or where the property is being used as security for another transactions.
- Valuation for company accounts.



Types of valuation

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graph TD;
    EU[Economic upturn] <--> CE[Credit expansion];
    EU --> IPD[Increased property demand];
    CE --> IPD;
    IPD --> SS[Supply shortages];
    SS --> RRF[Rising rents/falling yields];
    RRF --> BB[Building boom];
    EU --> EB[Economic boom];
    CE --> CB[Credit boom];
    EB --> BB;
    CB --> BB;
    BB --> ISD[Increased supply/slackening demand];
    ISD --> FRF[Falling rates/rising yields];
    FRF --> PS[Property slump];
    EB --> ED[Economic downturn];
    CB --> RIR[Rising interest rates];
    ED --> ISD;
    RIR --> ISD;
    ED --> R[Recession];
    RIR --> CS[Credit squeeze];
    R <--> PS;
    PS <--> CS;
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