The 4 Laws of Valuing Property

Evaluating a property is probably the most time consuming and complex part of the process (professional valuers spend 4 years at uni), but it's also the most important. In fact, it's not something buyers do regularly as it causes high levels of anxiety. Most of which stems back to the fear of paying too much.

Did you know: most buyers spend more time researching a new car than they do researching a property they are thinking of purchasing.

In this overview, we take you through how a valuer assess's property in preparation for you to start your assessments.

1) The property itself

Dwelling – They will assess the size, age, quality of construction, use of space/layout, number of bedrooms, bathrooms, living, current condition, laundry/utilities, car accommodation and street appeal go the main building.

The property is then given a grade high, medium, low, to provide a baseline price per square meter for the dwelling alone.

Example. A 110m2 two-bedroom unit, which has been give a medium grade due to the age and build quality might be $1700 per square meter. Total $187,000.

Ancillary Improvements – Landscaping, alfresco, sheds, fire pits, driveways, pools, paths, and anything extra which is separate from the dwelling. They will then give these improvements a value which they add to the main building figure.

Example. Taking the 2 bedroom unit, it might have an additional alfresco and fire pit area, which is given a value of $35,000.
Main building $187,000 + $35,000 = $222,000.

Land – As the saying goes location, location, location will play a big role here, along with, orientation (north/south facing), street position, visual aspect, the size, and topography (sloping block), zoning, available services, alternate use, accessibility, and environmental factors eg. bushfire). Some factors will be a "Pro" which will increase the value, or a "Con" which will decrease its value.

Example. Now following the above property being a 2 bedroom unit, which is siting on top of a hill, with a view of the city, on a great street, with lots of higher value single dwellings. This property is going to have a higher land value than one which is on the next street, without the views or higher value single dwelling homes, even if the main building was exactly the same.

Imagine it like this, if you were building a new home, you go to the builder and select a house which is $250,000 and the land you are building it on it $400,000.
In simple math you have a $650,000 property. Now if you take that exact the same house and put in on a block which was $550,00 because it had a view of the ocean and in a more desirable location, you have a property worth $800,000.

2) Comparable sales/Sales evidence

These are recently sold properties in the area, with the focus to try and find properties that are similar to the property of interest, same room count, similar size and location.

If they can’t find exact matches, they will find properties that are as close as possible to the subject property. Eg. If looking at a 2 bedroom unit but they can’t find any close by, they will use a 3 bedroom unit, instead of a 5 bedroom house.

Valuers have access to data bases to find out the sold prices. You can find sold prices on sites such as realestate.com.au.au and domain.com.au after a few weeks of being sold. If the price isn’t listed, worst case is to call the agent.

3) Superior/Inferior (Pros/Cons)

Next is assessing if the comparable sales are inferior or superior to the subject property.

Let’s continue the example above with a two bedroom unit. Comparable property #1 (CP#1), is located 250m away, and shares a very similar floor plan to the subject property, and sold for $600,000. The street and location is comparable, but CP#1 had an extensive renovation completed, with a new bathroom, kitchen and outdoor area. The property we are evaluating is in original form, showing signs of ware and damage being built in the 70’s.

In this example the valuer would mark CP#1 as being a superior property, when compared to the subject property. They will then estimate the cost of the renovation which might be $50,000 and the desirability of that Reno. Eg. if someone painted the whole interior bright red, it would be less desirable than if it was painted white, so the reno estimate might drop to $40,000 instead of the $50,000.

Note. Because CP#1 was a superior property in a comparable location with a renovation, it we equate in the subject property being valued lower than the $600,000 sale price of CP#1. It might not be the full value given to the renovation, but it will most likely be lower.

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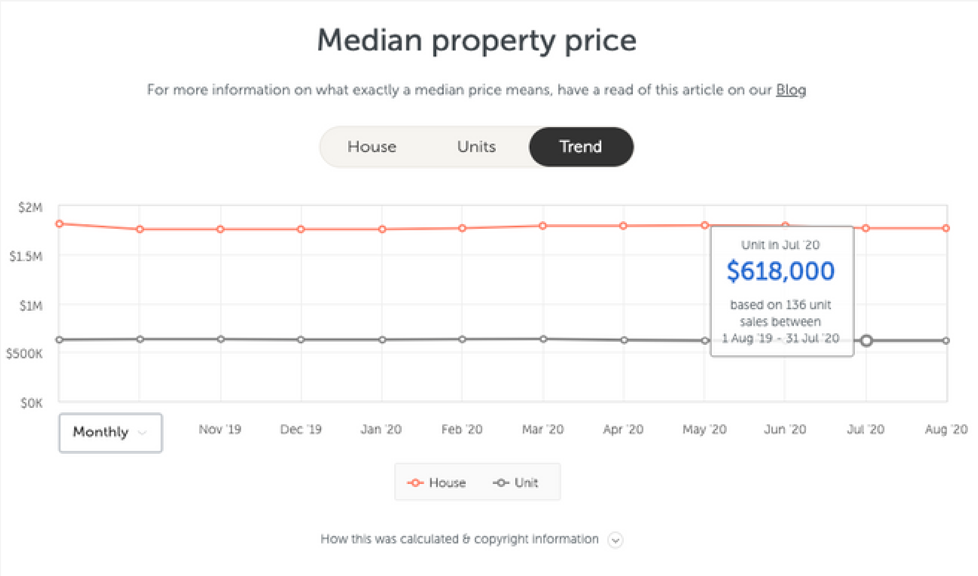
4) Market adjustments

If you look at the property cycle and prices as a whole you will see it generally has a sequence of, a rise (peak), a flattening, and a slight retraction (trough). The valuer will establish where we are in the market cycle, to make the necessary market adjustments.

Note. If the media is saying property prices are about to fall 30% we are probably in what's known as a "Buyers Market" and on the decline. If there is talk about affordability and record prices, we are most likely in a "Sellers Market" or rising market. (You can find more about this is the agent jargon download.)

Example. Comparable property #1 sold 4 months ago in a Sellers Market achieving $600,000. The subject property is being sold after a government announcement which is going to effect the housing industry. There are less properties for sale and people are holding off purchasing to see the outcome of the governments decision. The market has been re-phrased to being a Buyers Market, and there have been consistent discounts in the area.

Note: How to estimate the average discount/decrease in the area you are looking at. A high level way to see how the suburb is tracking is to go to this LINK. Just search for the suburb and click on the "trends" tab to see the market price graph and any fluctuations in recent months.



Example of how to find high level market changes on realestate.com.au

For instance is the change was 2% change in the market since this announcement.
$600,000 - 2% = $588,000

Note: This is a rough estimate, different sized homes and amount of bedrooms will have different numbers on the percentage change, again why we always the most comparable "sold" properties to confirm any data like this.

The valuer will then compile all of their findings and photos into a detailed report, to give the property a value and rating, along with any additional comments around the market and selling period.

See below example of an actual bank valuation completed by a licensed valuer.

API PropertyPRO Pro-forma Report | **Valuation Company** | **RESIDENTIAL VALUATION & SECURITY ASSESSMENT for Mortgage Purposes**

Organisation/Lender:		**ValEx Ref:**	
Fax/Email to:		**Contact:**	
Borrower:		**Valuer Ref:**	
Loan Ref. No.:			

1. PROPERTY SUMMARY - DWELLING

PROPERTY ADDRESS:			
TITLE DETAILS			
Encumbrances/Restr'ns:	Unknown		
Site Dimensions:	Shape: irregular shaped	**Site Area:**	588.00 m²
ZONING/INSTRUMENT:	General Residential Zone/Banyule Planning Scheme	**LGA:**	Banyule City Council
MAIN BUILDING:	Dwelling with 3 Bedrooms, and 1 Bathroom	**Current Use:**	Residential
Circa:	1972	**Addition(s):**	
CAR ACCOMMODATION:	2 car attached carport, 1 car garage	**No. of car spaces:**	3
		Car Areas:	63.00 m²
AREAS:	**Living Areas:** 124 m² **Outdoor Areas:** 61.00 m²		
MARKETABILITY:	Average	**Heritage Issues:**	Not known
ENVIRONMENTAL ISSUES:	Not known		
ESSENTIAL REPAIRS:	None		

2. RISK ANALYSIS

***MUST "comment" over page on any 3, 4 or 5 Risk Ratings**

Property Risk* Ratings	Rating (1–5)	**Market Risk* Ratings**	Rating (1–5)
Location & Neighbourhood:	2	Recent Market Direction:	2
Land (incl. planning, title):	2	Market Volatility:	2
Environmental Issues:	1	Local Economy Impact:	1
Improvements:	2	Market Segment Conditions:	2

***Risk Ratings:** 1 = Low, 2 = Low to Medium, 3* = Medium, 4* = Medium to High, 5* = High

3. VALUATION & ASSESSMENTS SUMMARY

Interest Valued: Fee Simple Vacant Possession

Value Component: Existing Property

Land: $ 425,000

Improvements (Added Value): $ 215,000

Other Assessments

Rental Value Unfurnished: $475 per week

Replacement Insurance: $350,000

Market Value: $ 640,000 (Six Hundred and Forty Thousand Dollars)

Documents to Sight: Documents to sight - Certificate of Title and Title Plan **Recommendation:** Yes

I hereby certify that I personally inspected this property on the date below and have carried out the assessments above as at that date. Neither I, nor to the best of my knowledge, any member of this firm, has any conflict of interest, or direct, indirect or financial interest in relation to this property that is not disclosed herein.

This Report is for the use only of the party/s to which it is addressed for first mortgage purposes only and is not to be used for any other purpose. No responsibility is accepted or undertaken to third parties in respect thereof. No responsibility is accepted or undertaken in the event that the party/s to which it is addressed use this Report for any other purpose apart from that expressly outlined above.

This report is made in accordance with the PropertyPRO Residential Valuation and Security Assessment Pro-forma Supporting Memorandum and must be interpreted with that Memorandum. The agreed parties are bound by the provisions of the Supporting Memorandum. The Supporting Memorandum is available at www.api.org.au.

Valuer:		**Firm:**	
Qualifications/Reg #:		**Address:**	
Inspection Date:	15th November 2019	**Phone:**	
Valuation Date:	15th November 2019	**Email:**	

Signature:

API PropertyPRO
Pro-forma Report

RESIDENTIAL VALUATION & SECURITY ASSESSMENT for Mortgage Purposes

PROPERTY ADDRESS:

4. THE LAND

Property Identification: Cadastral Map; Street Address; Site Inspection
Title Search Sighted: No
ZONING EFFECT: The existing use is permitted under the current zoning.
LOCATION: Bundoora is situated approximately 15 kilometres north-east of the Melbourne Central Business District. The area was the location of many geriatric and mental health facilities such as the Larundel and the Bundoora Repatriation Hospitals, some of which have recently been redeveloped for housing. Bundoora also features La Trobe University's main campus, the University Hill commercial precinct and the Bundoora campus of the RMIT University.
NEIGHBOURHOOD: This is an established residential area with varying quality property surrounding.
SITE DESCRIPTION & ACCESS: The subject is an irregular shaped, near level, inside lot, with a suitable building site which is naturally contoured and positioned slightly above road level. The lot is cleared and faces south with no significant views. Access to the property is easy and direct.
SERVICES: Electricity, mains sewerage, telephone, mains gas and town water are connected to the property. Kipling Court is a sealed court with concrete kerbing and channelling.

5. MAIN BUILDING

Style: Single level ; Detached
Street Appeal: Good
Main Walls & Roof: Rendered brick walls, Tile roof
Window Frames: Aluminium
Main Interior Linings: Plasterboard
Flooring: Timber
Internal Condition: Good
External Condition: Good
Accommodation: 3 bedrooms, 1 bathroom, kitchen, laundry, dining, entry, lounge room, hallway, porch and covered outdoor area.
Interior Layout: Good
PC Items: The residence generally has mixed age PC items of mixed quality in good condition. KITCHEN: modern kitchen with double bowl sink, pantry, laminated benchtops, glass splashback, dishwasher, rangehood, gas upright stove. BATHROOM: modern bathroom with bath, shower, single vanity unit, wall mirror, wall cabinet, toilet, heater light fan combination, full height wall tiling. LAUNDRY: laundry tub, automatic washing machine connections, toilet. HEATING/COOLING: wall mounted air-conditioning, evaporative cooling (ducted), ducted gas heating SECURITY: insect screens, smoke detectors, electrical safety switch FLOOR AND WALL COVERINGS: tiles, polished timber floors.
Fixtures & Features: Includes built-in robes, high ceilings, led down lighting, blinds - roman/holland/venetian and linen cupboard.

6. ANCILLARY IMPROVEMENTS

Concrete driveway, partially enclosed yard of mixed construction, concrete paths, timber decking, basic landscaping, clothes line and mail box.

7. SALES EVIDENCE & THE MARKET

Address	*Sale Date*	*Price*	*Brief Comments*	*In Comparison to Subject*
25 Wallara Crescent	31 May 2019	$570,000	A single level, circa 1975, brick veneer, 3 bedroom, 1 bathroom, dwelling, with concrete tiled roof and 1 car garage. Dwelling is located on a near level, slightly irregular shaped, inside lot. Ancillary improvements are of an average standard. The property has fair presentation. Land Area 587 sqm. (jt)	Slightly inferior location, similar land area, inferior overall improvements. Overall inferior.
45 Luton Way	1 Jun 2019	$645,500	A single level, circa 1980, brick veneer, 3 bedroom, 1 bathroom, dwelling, with concrete tiled roof and 1 car attached carport. Dwelling is located on a near level, rectangular shaped, inside lot. Ancillary improvements are of an above average standard and includes below ground pool and undercover entertaining area. The property has good external condition and good internal condition. Land Area 533 sqm. (jt)	Similar location, slightly inferior land area, similar features, slightly inferior condition, slightly superior site improvements. Overall slightly superior.
5 Verdi Court	25 May 2019	$667,000	A single level, circa 1970, partly renovated, rendered brick, 3 bedroom, 2 bathroom, dwelling, with tile roof and 1 car garage. Dwelling is located on a near level, slightly irregular shaped, inside lot. The property has good external condition and good internal condition. Land Area 560 sqm. (jt)	Similar location, slightly inferior land area, slightly superior features, similar condition. Overall slightly superior.

Valuer to sign:

ValEx Ref: 12666500

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40 Windsor Crescent	16 Jun 2019	$700,000	A part two level, circa 1970, renovated, brick veneer, lightweight composite clad, 4 bedroom, 2 bathroom, dwelling, with terracotta tile roof and 2 car tandem garage. Areas: living - 182 sqm. Dwelling is located on a near level, slightly irregular shaped, inside lot. The property has good external condition and good internal condition. Land Area 539 sqm. (jt)	Similar location, slightly inferior land area, superior overall improvements. Overall superior.

Current/Proposed Sale of Subject Property:

Prior Sale(s) of Subject Property (last 3 years):

Level of Market Activity:	Stable Sales Activity
Selling period greater than 6 months:	No
Sale in line with local market:	N/A
Copy of Contract Of Sale sighted:	No

8. ADDITIONAL COMMENTS

GENERAL SUBJECT PROPERTY COMMENT:
Property Summary - A circa 1972, single level, 3 bedroom, 1 bathroom, renovated, detached conventional dwelling, with rendered brick walls, tile roof and 2 car attached carport and 1 car garage. Areas: living - 124 sqm; outdoor - 61 sqm; car - 63 sqm. The dwelling is located on a near level, irregular shaped, inside lot situated slightly above road level. The property has no significant views. Ancillary improvements include a concrete driveway, partially enclosed yard of mixed construction, concrete paths, timber decking, basic landscaping, clothes line and mail box. The property has good external condition, good internal condition and good presentation, with mixed age PC items of mixed quality. Land Area 588 sqm.

Photographic Evidence - We can confirm that the photographs provided in this valuation report were taken at the date of inspection, as outlined on page 1 of our report. We confirm that we have fully inspected the property.

As per the Australian Banking & Finance Industry Residential Valuation Standing Instruction and API PropertyPro Supporting Memorandum the report should contain a full, clear colour photo of the rear elevation of the subject property however, due to limited access to be able to get the perspective to take a full rear elevation photo we have provided a part rear elevation photo as access would allow. I can confirm that I fully inspected the property on the date of the valuation.

SELLING PERIOD
Less than 6 months
We consider the property would sell at or near the assessed value assuming proper marketing within a selling period of up to 6 months.

MARKET COMMENT:
The Bundoora real estate market has experienced subdued buyer demand from owner occupiers and investors during 2019 as Bank lending tightened for, but not confined to, interest only and investor borrowing which has contributed to diminished market activity. This subdued market activity and a cautious lending environment has continued through 2019 however there are signs of this easing. Since the Federal Election in May 2019 followed by reductions in interest rates announced by the Reserve Bank of Australia auction clearance rates have firmed, albeit against relatively low overall numbers. Whilst auction numbers are slowly increasing they remain below average for the broad Melbourne metropolitan area with buyers possibly reacting to a supply shortage against a background of perception that the market may have reached the bottom of the current cycle.