New House & Land Valuations

Overview

After many years in the housing market buying properties for our clients we ***find that valuations are a common source of frustration to the investor*** and therefore important to understand. We regularly see valuations on the same property, conducted at the same time, varying by as much as 10%, which is an extrodinary amount. ***These flucuations undermine the investor's confidence and delay the purhase process, which is why we've prepared this document***. We are grateful to Urbane Homes & Seek Wealth for their large contribution to the information contained here.

Residential property valuations are typically based on sales data of properties that are similar in nature (lot size, house size, age & condition, location, surrounding development, aspect & presentation) which have sold in the previous 6 months. However, along with regular shortfalls on the purchase price and fluctuations between valuations we also observe a difference in result between home-owners vs investors, and between local vs interstate buyers. The latter in both cases will generally receive a higher valuation.

Valuation Types & Market Appraisals

1 General Market Valuation
cost associated

The valuer's opinion of what the property should sell for when listed and advertised on the free market. There are limited legal reprocussions against a valuer for negligence in this scenario.

2 Mortgage Security Valuation
cost associated

The valuer's opinion of what the property should sell for the event of a default by the borrower. Usually takes into account the Forced Sales Value which comes into effect when a lender needs to sell the property in a reasonable timeframe to recover their loan, i.e. a Mortgage in Possession Sale. There are significant personal legal repercussions for a valuer for neglicence in this scenario.

3 Desktop Valuation
normally no charge

A desktop valuation is a less formal valuation based on readily available and easily accessible information. They are also generally understood to be based on limited information and without an actual inspection of the property in question.

4 Market Appraisal
no charge

An assessment of how much the property will likely fetch on the free market, usually issued by a Real Estate agent looking for a new listing, which is not actually considered a formal valuation.

What's the DIFFERENCE?

The biggest difference between the two paid valuations is that a Mortgage Secuirty Vlauation takes into account a forced sale scenario. Lenders specifically seek Mortgage Security Valuations in order to more accurately determine their risks when issuing a loan for any particular property. This can significantly affect the result of a valuation as shown on the NAB website:

> We use it (Mortgage Security Valuation) to determine the value of your property that will act as security against your home loan. It means that if you have difficulties with the loan and you're no longer able to make repayments, we may have to sell the property to pay back the loan. If we have to sell your home ***quickly***, it may be for a ***lower amount*** thank what you'd ask for.
>
> *https://www.nab.com.au/personal/learn/buying-your-first-home/understanding-bank-valuations-on-your-property*

RESIDENTIAL PROPERTY VALUATIONS EXPLAINED

7 reasons why valuations can differ

1 Quick market changes skew results

When a particular area is experiencing significant and rapid growth the data used by a valuer from earlier months may not adequately recognize the extent of the current growth. This is especially true when properties are purchased in a new estate, as early release properties are generally valued at less then older neighbouring estates. Also, sales data for a new estate is not generally available until 12months after release.

2 Investors & interstate buyers considered more risky

Valuations can be affected by the buyer profile. A perception exists that investors and interstate buyers are more likely to default on their loan and therefore carry a higher risk level. Many sellers also assume they have no understanding of local property prices, and therefore can draw low valuations from valuers.

3 Low LVR loans draw less scrutiny

When the client has an LVR of 80% or more they will require mortgage insurance which can influence the valuation process. LVR simply stands for Loan to Value Ratio and it measures the amount of the loan to the value of the property as a percentage. Less scrutiny is generally placed upon low LVR borrowers, valuations on properties purchased with high LVR loans can come with special instructions from the lender.

4 Not an exact science

Valuations are not an exact science and always carry a degree of subjectivity. Data can be interpreted differently and the Australian courts have even accepted variations between 10–20% as reasonable. Between industry professionals 10% is deemed acceptable for residential valuations wherethe valuer has demonstrated professional due diligence.

5 Lenders favour low valuations

Each lender will only accept valuations from certain valuers who they interview & pre-determine. Some of the lenders choose more conservative valuers to reduce their risk profile. Therefore bank valuations tend to come in low, especially when a lender is over - exposure in a particular area.

6 Valuers are underpaid & overworked

Due to changing industry conditions; decreasing valuation fees (c. $250 per valuation) & a shift from full time to subcontractor employment structures, valuers are required to work more to make the same money from previous years. As a result valuers spend less time understanding the subtle differences between each property and generally don't have enough time to inspect all competing properties & produce more conservative valuations. Compounding this further are potential oversights from junior staff who typically perpare research for valuers.

7 Not using the Right Sales Evidence

When it comes to a new house and land being valued, we regularly see that the valuers do not even follow the rules issued by their own industry body and instead use sales evidence that will reduce the opinion of the value. If you undertake a detailed review of the valuation for a new house & land package, it is common to see a valuation with any of the following problematic comparisons being made:

- Comparisons made to second hand property from 3 to 40 years old, often in inferior locations.
- Comparisons made to properties in inferior locations.
- Comparisons to properties in older estates with inferior street appeal – no render, no feature architecture & poor landscaping.
- Comparisons made to smaller homes.
- Comparisons to properties with markedly inferior level of fixtures and fittings - bathrooms and kitchens.
- Comparisons to properties not located i the same estate as the subject property being valued .

When some valuers utilise sales evidence that doesn't compare apples with apples as they should the valuation is skewed towards a conservative result in order to protectet themselves in the event of a default. This makes it much clearer why bank valuations in many cases can be 5% under the purchase price, and in some cases even more. This is one of the major reasons why we see such discrepancy between valuations, or the need for a purchaser to obtain more than one valuation.

i4 property

Phone. 1300 883 920 | **Email.** info@i4property.com.au | **Privacy Policy.** www.i4property.com.au/privacy-policy
Address. 4/517 Pittwater Road, Brookvale, NSW, 2100, *entry via Old Pittwater Road*

RESIDENTIAL PROPERTY VALUATIONS EXPLAINED

Valuers Personally Liable

Valuers in many cases are contractors & hold their own professional indemnity insurance that makes them personally liable for the advice they provide. Since 2007 several Valuers in QLD have been sued for damages by the banks over valuations that didn't protect the banks during the GFC property downturn. With the risk of being sued personally for damages for incorrect valuation advice it's no wonder many residential Valuers are conservative.

Example of Valuation Discrepancies

The table below shows the discrepancies between different Valuers at different firms valuing the same house and land package with eactly the same evidence available to them. This illustrates the earlier comments that there can be considerable discrepancies in valuations of the same property and the borrower has no recourse. The values below range from at purchase price to a shortfall of $26,900 or 7.3%.

Valuer	Date	Amount	Package Price	Comment	Percentage Variation
WBP PROPERTY GROUP	21/12/16	$366,900	$366,900	On the dollar	0%
HERRON TODD WHITE	23/12/16	$340,000	$366,900	Shortfall of $26,900	7.3%
CBRE	19/01/17	$355,000	$366,900	Shortfall of $11.900	3.2%