# PROPERTY DEVELOPMENT SYSTEM

## Valuations

- **IMPORTANT**
  - Get written advice from your accountant on Margin Scheme before purchasing the site.
  - Keep that advice handy, as you will need to send it to the valuer.
- **Why getting a favourable Valuation is important?**
  - If Valuation < Purchase Price / Contract Price = More Equity Injection from you.

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|---|---|
| LVR | 80% |
| Contract Price | $1,250,000 |
| Equity Required 20% | **$312,500** |
| | |
| Lenders will lend 80% of Valuation | |
| Not Contract Price | |
| Valuation | $1,000,000 |
| Equity Required on 80% LVR | $200,000.00 |
| Plus Shortfall | $250,000.00 |
| Total Equity Injection Required | **$450,000.0** |
| | |
| Extra Equity Required | **$137,500.0** |

  - In most cases - Valuations are paid for by the developer.
- **Types of Valuations**
  - Retail
    - Acquisition of residential property / development site.
  - Commercial
    - Used to obtain development finance / construction loan.
    - Takes into Account on completion value
    - Project costs
    - Arrive at Residual value of land.
- **How to get favourable Valuations?**
  - Get your own valuations
  - Get a list of approved valuers on the lenders panel.
  - Engage them directly and then have the valuation assigned to your lender.
    - Discuss their valuation methodology and feasibility assumptions with them first.
    - Discuss - Addresses of key comparable sites that you have considered.
    - Prepare your project report to present to the valuer.
      - Financial Feasibility
      - Rental Appraisals
      - Comparable Sales
      - Supporting documents that back your feasibility assumptions.
  - Questions to assess your valuer
    - Have they valued similar projects recently? Which ones? In the same area?
    - How do they perceive the supply and demand in that area?
    - What are their views on the market in general?
    - Ask them about their perception of rental rates?
    - What sort of feedback are they getting from lenders?
    - Assess where the valuer is at in terms of the suburb of your project, similar projects and their general perception of the project.
- **Understanding Valuation Methods**
  - Comparable Sales
  - Income Capitalisation
    - Used for Commercial, Industrial, investment Property
    - Based on the income generated by the property.
  - Depreciated Replacement Cost
    - (Land Value + Improvement Costs (Renovation/Development Costs)) - Depreciation
  - Discounted Cash Flow
    - Forecasts the value of the property into future (say 10 years) & determines the value of the property at the end of the term & then discounts the value into it's current or Net Present Value (NPV).
    - NPV = Discounted Revenues - Discounted Costs
    - A positive NPV implies that present values of income > present value of costs and therefore the project is feasible.
    - IRR = Internal Rate of Return (Discount Rate)
      - Discount Rate where NPV = 0
      - Maximum Interest rate that can be charged to a fully funded project before the project would show a net loss.
  - Residual Value of Land (RLV)
    - Calculated on Target Development Margin (DM)
      - Based on the maximum price of the land that the developer would pay to make the calculated development margin = target hurdle rate. Target Hurdle Rate = Developers Required return for the project.
    - Calculated on Target IRR
      - Based on the maximum price of the land that the developer would pay to make the calculated IRR = target hurdle rate or their NPV = 0.
      - IRR takes into account dimension of time into account & uses it to differentiate projects of different cashflow exposures.
    - RLV Based on Development Margin
      - Projects < 2 years
    - RLV Based on IRR/NPV
      - Project > 2 Years
- **What does the valuer look at?**
  - To assess a property's value, a valuer will measure the property, record details on the number and type of rooms, along with fixtures, fittings and any improvements.
    - Location
    - Building structure and its condition
    - Building/structural faults
    - Standard of presentation and fit-out
    - Access, for example: good vehicle access and a garage
    - Planning restrictions and local council zoning
  - The valuer combines these attributes together with recent comparable sales in the surrounding area and prevailing market conditions to produce a valuation report.
  - Valuations should not be confused with appraisals carried out by real estate agents. A licensed valuer must base their opinion on hard evidence and take legal responsibility for any information they provide. Estate agents are acting for the vendor and are rewarded for getting the highest price for a property.
- **Web Resources**
  - http://www.onthehouse.com.au/
  - http://www.realestateinvestar.com.au/
  - http://www.myrp.com.au/