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How To Value A Property
(A Short Story)

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how much is a property worth?

Goldie, a young lady in her late 20s, was looking to buy a home. It was to be her first, and she had started looking at a couple of houses in Puchong.

Being rather budget conscious, Goldie was especially concerned about the property's price.

Buying property seemed really complicated for the first-timer, and Goldie could not help but feeling rather confused. There seemed to be a lot of information out there about valuing a property, and she simply didn't know where to start.



So she turned to her Uncle Patrick for help.

Uncle Patrick was a retiree who built himself a handsome portfolio of real estate investments which made him a millionaire... many times over. Charming and intelligent, he was a wealth of knowledge when it came to making astute choices in property investment.

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So Goldie drove over to Uncle Patrick's newly refurbished 70s bungalow on Bukit Tunku for tea on a sunny Saturday afternoon, hoping to get a pointer or two about how to figure out the "fair value" of a property.

#understanding the fair market value of a property

"Uncle, I am currently on a house hunt," remarked Goldie rather excitedly.



Uncle Patrick leaned forward with interest. "Really? That's good to hear. Where?"

"Puchong. I'm renting a place there right now, and I really like the area a lot. It's near to work, and plenty of *makan* places in Bandar Puteri. Also, there's Setiawalk which is where I meet up with my best friends every weekend."

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“Good. I like Puchong. With LRT stations getting built in Kinrara, Puchong Jaya and Bandar Puteri, property prices in that area should get a boost. Like what master mapmaker Ho Chin Soon likes to say, follow the infrastructure.”

“That, too. I’m pretty much set on Puchong for now. But there’s something that I need to ask you, Uncle.”

“Sure. How can I help?” Uncle Patrick offered.

“When I look at the price of a piece of property, how do I know that it is fair?” Certainly I won’t want to overpay for anything, not least so for my first property. What should I do?”

Uncle Patrick smiled as he wiped his glasses. “Well, Goldie,” he began slowly. “Assessing the value of the house or apartment is perhaps one of the most important things that you will need to do.”

Goldie sat down attentively with her notebook and pen, ready to learn.

Uncle Patrick continued. “You will need to decide whether the price of a property is the *“fair market value, or the FMV.”*

“What’s Fair Market Value?”

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“Pardon me for the jargon!” he laughed apologetically. “To put it simply, **Fair Market Value** is the price that the seller offers to a buyer in what I would call an ideal scenario[†].”

Uncle Patrick knew what Goldie wanted to ask next.

“An ideal scenario is when both the buyer and the seller would willingly conduct the transaction without any time pressure. Also, both parties are well informed about the property.”

Goldie scribbled on her notebook.

She then gathered her thoughts for a few seconds, and replied.

“OK. So, the FMV really is the price that a buyer would be willing to pay and the seller would be willing to accept...

assuming that both parties are not pressured to perform the transaction, and they are knowledgeable about the deal.”

“The Fair Market Value (FMV) is the price that the seller offers the buyer in an ideal scenario.”

† For a more technical definition of the term, go to <http://www.investopedia.com/terms/f/fairmarketvalue.asp>

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Uncle Patrick approved Goldie's definition of the FMV. "Very good." I should have made money on that deal. It was a costly

#a costly mistake

"But I guess real life situations are hardly *ideal*," added Goldie.

"Of course. **And that's why it's common for a buyer to pay either above or below the Fair Market Value.** That happens majority of the time, even. Don't be surprised."

"When I was a rookie real estate investor back in the 80s, I became overtly emotional over this terrace house in Section 14, and I didn't do much homework about the place. It was near the high school that I went to as a kid, and I became emotionally-attached to the area. As a result, I made an offer without even doing much thinking, letting my heart overrule my head." Uncle Patrick narrated, in between fits of laughter.

"What happened next?" Goldie asked.

"Later on I found out that I paid about 30% above the market price. The prices increased just marginally a few years after that, and I finally unloaded the property with a tiny loss after ten years.

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I should have made money on that deal. It was a costly mistake indeed.” Uncle Patrick smiled.

“But you did really well with your portfolio. I mean, look at this place!” Goldie turned around to admire the spacious living hall, filled with teak furniture, a grand piano and all the nice trimmings.

“**...it's common for a buyer to pay either above or below the Fair Market Value.**”

“Yeah, I did OK, but I won't bore you with my tales of triumph and tragedy today. Let's get back to topic.”

He continued. “Before anything, you must remember that strictly speaking, valuing a property is a professional valuer's job. I do recommend that you engage a licensed valuer if you want a professional's opinion.”

“Of course,” answered Goldie. “But it doesn't harm knowing the basics of determining fair market value surely... I mean, it should help tremendously when I look at the listings and figuring out if the properties are good or bad buys hypothetically.”

“You're right. Now let's discuss a couple of methods I regularly use to see if a sale price is too high, too low, or just about right.”

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#apples to apples...?

Uncle Patrick took a sip of his Earl Grey.

“The first method is probably the easiest, and is something I’d like to call the ‘Apples To Apples’ method.”

Goldie smiled. “Apples?” she mused.

“Yes. Using this method, what you first need to do is find a suitable property to make a *meaningful* comparison. You’ll need to compare apples to apples.”

“Sounds simple enough. But what’s a *suitable* property?”

“Well, tell me what you think is.” Uncle Patrick challenged Goldie subtly.

Goldie tried to get her creative juices flowing.

“Well, I guess the suitable property should ideally be in the same neighbourhood. I mean, if I am evaluating a price of a condominium unit in KLCC... the Hampshire Place, for example, I should look at another unit in the same apartment. Or if not,

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then 2 Hampshire, or Hampshire Residences, maybe. They are all pretty near to each other.”

“Very good. What else?” asked Uncle Patrick.

“Date of sale. This one’s pretty obvious.”

“How so?”

“**...pick properties to compare to which were sold within three months.**”

“Since property prices tend to fluctuate over time, we should look at *recent* sales only, I suppose.”

“That’s right, Goldie. **The rule of thumb is that we usually pick properties to compare to which were sold within three months.**”

Goldie noted this down in her notebook.

“Three months sound generous, Uncle. I mean, I browse sites like iProperty and PropertyGuru a lot, and they have got hundreds of listings posted daily even.”

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#a rookie's error!

“**No, no, no,**” Uncle Patrick exclaimed, while waving his finger. “That’s a typical rookie mistake.”

“How so, uncle?”

“When identifying a comparable[†] property, you should never choose one which is listed to sell but not sold.”

Goldie understood this immediately. “**This is because listed prices are almost never identical to the fair market value.** It’s merely the ASKING price of the buyer.”

“Exactly right! Transacted prices are, in theory, closer to the fair market value, and therefore should be the benchmark that you should use.”

“Got it,” replied Goldie. “Anything else I should watch out for?”

“**The physical attributes of the property.**” Uncle Patrick took out his own pen and scribbled the following list inside Goldie’s notebook .

† A stricter, more technical definition of the “comp” can be found at - <http://matrix.millersamuel.com/?p=13064>

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Patrick's SABBAC!

- * Size
- * Age
- * Bedrooms
- * Bathrooms
- * Amenities
- * Condition



“These are the physical attributes that I usually look at when I pick a comparative property.”

“Size... that’s pretty obvious. Age, too. Number of bedrooms and bathrooms. Amenities such as swimming pools, sauna rooms, extra parking. Condition of the unit – who previously lived there, if possible to find out.”

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“Size, Age, Bedrooms, Bathrooms, Amenities, Condition. Conveniently abbreviated to *SABBAC*.” Uncle Patrick said, with a satisfied look on his face.

Goldie took more notes, adding to what Uncle Patrick had written.

“Also, don’t forget locale specific attributes. For example, some condominiums in the KLCC enclave command a premium for the view of the Twin Towers.”

“Understand.”

#making adjustments

“So, ideally, you should have a similar property to make a good price comparison. Find the Apple which looks and feels just like the Apple that you’ve got,” Uncle Patrick said.

Goldie nodded. “I guess this will be simple to do in a hot market where transactions of similar properties are frequently done.”

“You’re exactly right, Goldie. *But what would you do if you couldn’t find anything which fits into our criteria?*” asked Uncle Patrick.

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Goldie took a wild guess. *“Find the closest I could, and then make adjustments?”*

Uncle Patrick rubbed his hands in agreement. “Yes. One may need to adjust for differences across all the SABBAC attributes. And that’s why I recommend engaging valuers especially to real estate professionals.”

“ In addition to SABBAC, don’t forget locale specific attributes.”

“What do valuers do, exactly?” asked Goldie.

“Valuers look at properties and try to gauge the fair value using a method which is very similar to the one I shared with you, if not the same.

“They have lots of experience making adjustments to the price based on the differences in the attributes and other features that may be relevant.”

Goldie nodded. “OK, got it.”

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#common mistakes!

Uncle Patrick leaned back. “This reminds me of an investment that I made when I bought a condominium unit in Mont Kiara back in 2002.”

“I paid some RM475,000 for it,” he continued. “With the influx of expatriates into that area, I saw an opportunity for earning a nice rental income.

“The agent quoted me RM485,000, but since the unit came with only one car park slot instead of the standard two, the agent quickly subtracted RM10,000.”

Goldie raised her hand. “Why only one car park slot? Do the units usually come with one or two as standard?”

“One unit comes with two car park slots as standard. The owner owned two units, but she had three cars. And so, she was keeping the other unit, and wanted an extra car park slot for herself”, explained Uncle Patrick.

“I see. So I take it that you took up the offer?”

“Yes, I did. I thought the RM10,000 discount was fabulous!” exclaimed Uncle Patrick.

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“And there were problems?”

“Yes. I had difficulties renting out the place even at a discount.”

“So, renters preferred units with two car parks?”

“Or more.” Uncle Patrick replied. “Which makes lots of sense, really. Even for a small family two cars are a minimum for very practical reasons.”

“I would have assumed,” Goldie stated, “that expatriates in Mont Kiara would probably not commute that much. That community is pretty much self-contained, with international schools, retail outlets and eateries.”

“Well, that was what I assumed as well, Goldie, but I was wrong.”

“So what did you do?”

“I managed to buy a spare car park unit from the developer for RM12,000. So that was RM2,000 more than necessary. But it was worth it as I managed to rent it out a month later.”

Goldie smiled.

“So what’s the lesson here, Goldie?” asked Uncle Patrick.

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“Hmm. That adjustments should only be done by professionals, maybe?”

“If finding a comparable property is hard, engage a professional valuer.”

Uncle Patrick shook his head. “No. You can, and should do it yourself first, but you should be aware that it’s tricky business, and be more of an art than a science.”

“Also be aware that even a trained valuer may commit mistakes. This is why it’s

useful to do the valuation yourself first.

Always challenge the seller’s agent to prove to you why the property is worth the asking price. Don’t be afraid to ask for justification.”

“And one more thing,” Uncle Patrick added. “If there are just too many variables and you find it hard to find a comparable property, then engage a professional valuer.

“If you do this, be sure that the valuer has got a stellar track record as the service is not cheap.”

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#how to find comparable properties

“Sure. I’d be more than happy to do this on my first and not rely solely on an valuer’s opinion. But how to I start?” asked Goldie.

“First of all, you’ll need to know where to search for a comparable property,” replied Uncle Patrick.

“Where?”

“Start with your agent! She will be your best resource to find recent sales which you can use to compare with the property you are eyeing. However, there’s a pitfall which you must avoid when you engage property agents.”

“And that is...?” asked Goldie inquisitively.

“Being too trusty.”

“Too...trusty?”

“Yeah! The agent may try to influence your decision by telling you other offers at a particular price.

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Well, most agents will tell the truth, and from my experience, a large majority of them are good people.”

“But ... you have got to watch out for the bad apples. So, always only rely on actual transacted sales and ignore other offers or asking prices,” explained Uncle Patrick.

“This brings me to my next question. Where do I find transaction data? Where can I search online?”

“**Watch out for the bad apples!**”

“That’s a good question. Unfortunately, as far as I know, it’s very difficult to find reliable transaction data for Malaysia properties online.” Uncle Patrick frowned. “There are some sites which have ad-hoc records of what gets transacted and at what price, but these are pretty irregular.”

“So... for now you’ll need to go directly to the source ; the Valuation and Property Services Department, or **JPPH (Jabatan Penilaian dan Perkhidmatan Harta).**”

“OK. So I’ll need to make a trip to the JPPH to perform a search, I see.”

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“Well, you’ll need to go to the particular JPPH office where the property is located. You can find the list of branches at the JPPH web page at <http://jpph.gov.my> .”

Goldie scribbled down the URL in her notebook.

“ To get the official transaction data, go to JPPH.”

“When you’re at the branch, fill up Form A. Everything’s pretty self-explanatory. I usually download this form at the JPPH website and fill it beforehand to save time. Then, submit the form, and the transaction information will be made available to you in three working days.”

“Sounds simple enough. Do I have to pay for this service?”

“Yes, there is. It’s RM1 per transaction for an ad-hoc search. There is also a subscription package which is cheaper per transaction, but as I hardly do this regularly now as I usually just do ad-hoc searches.”

“I see. OK, so to summarize what we have so far, in order to value a property, first, look for a comparable property based on recent transactions.”

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Goldie looked at her notebook and continued. “This data can be obtained from an agent, or from JPPH. Then, make adjustments based on the SABBAC attributes list.”

Uncle Patrick smiled. “Very good. You’re a fast learner.”

#tweaking for market movements

OK. So now let’s say I have got the list of transacted prices and also made some adjustments on my own. What do I do next then, Uncle?” asked Goldie.

“Well, once you have come to a ballpark figure after making adjustments, then you will need to tweak further to compensate for pricing movements in the market.”

“And how do I do that exactly?”

“Remember that price is a function of supply and demand. You can easily check supply levels by looking at property listings. I usually just do a search online and also look at the local newspapers’ classified sections. Pretty easy.

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Evaluating demand is trickier, and often you'll need to rely on your agent. Also, your transaction data should give you an indication of the demand levels, especially if you do your research regularly."

"Understand."

“To get the official transaction data, go to JPPH.”

"Now this may not be relevant to you now as a homebuyer, but if you want to grow as a property investor, you might want to compile your own database," suggested Uncle Patrick.

"My own database?"

"Yes. Once you do enough transaction searches at JPPH, you will have a slew of data you can use to look at historical trends. You can then do meaningful *extrapolations* and see where the market is heading," Uncle Patrick explained patiently.

"I like this."

Uncle Patrick smiled. "Sometimes it's sufficient to know whether the trend is *upward* or *downward*."

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“My rule of thumb is pretty simple. Trends usually last for five to seven years. **Whenever there’s a turning point in the curve after a period of upward trend I would stop buying.**”

“Noted,” said Goldie.

“Also, *never be an armchair investor*. Crunching the numbers is very important, but you will need to actually get *out* there and look at as many properties as you can. Every piece of property that you look at will be different.

And don’t let anyone pressure you into making a decision. Take your time.”

#don’t believe the hype

Uncle Patrick stood up to get refills for his Earl Grey, while Goldie examined everything she had written. Uncle Patrick returned with two cups, gave one to Goldie, and slowly sat down and continued.

“Finally, *don’t believe the hype*. We all like to look at glossy ads of new launches in the newspapers and read about property developments in the media.”

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He paused to take a sip before adding, “But nothing beats a good set of data, and your own observations. So, go out there and view as many properties as you can. Get a good agent’s help.

Also, make your own judgment calls, and don’t rely exclusively on third party opinion.

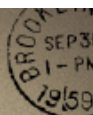
Write this down: **‘Use the information you obtain from the media as an additional validation point, but never as the primary basis of your decision.’**

“ Use external information as an additional validation point.”

Goldie glanced at her notes.

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Summary!



A. Getting FMV

- Average transacted price
- 3 months the most
- Adjustments based on Pete's SABBAC
- Locale specific attributes (Petronas Twin Towers!)
- Consider professional appraiser
- Ask agent for comparable property
- Get data from JPPH

B. Tweaking for market movement

- Estimate supply vs demand
- Research online + offline
- Ask the agent
- Develop own database
- Trending 5-7 years
- Watch out for turning points!

C. Other stuff

- Don't believe the hype!
- Don't rely 100% on the media
- View as many properties as I can
- Validate, validate, validate

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She looked up. “All that should get me started. Very helpful, Uncle, thanks so much!”

#... and the search for the ideal property starts

“**You’re welcome, Goldie.** But that’s just the *start*,” Uncle Patrick smiled. “Now that you have got a ballpark figure of the price that you’d pay for a property, what do you do next?”

“**There are motivated sellers who will sell for less than fair market value.**”

“I’m gonna look for properties within my ballpark range,” Goldie answered confidently.

“Well, I’ll give you partial credit for that,” laughed Uncle Patrick.

He continued, “Here’s the one thing that people who are good at the real estate game knows. **There are lots of motivated sellers who will sell for less than the fair market value.**”

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Goldie was bewildered. “Why? And maybe more importantly, **how to find these uber-motivated sellers?**”

Uncle Patrick rocked back on his chair and laughed heartily. “*I thought you’d never ask.*”

In the Part II of this series of reports, Uncle Patrick shares his secrets of finding super-motivated sellers who would sell at rock bottom prices for their properties.

To receive Part II of this report (**How To Find Undervalued Properties**), click [here](#) to leave a comment to tell us what you think of this free report.

Part II of this report will be emailed to you when ready.

credits

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And remember, GoodPlace ♥ you

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For more information, contact us using the details below -

GoodPlace.my

@HackerHub, B-8-6-13A, Setiawalk,

Persiaran Wawasan,

Pusat Bandar Puchong

47160 Puchong, Selangor,

Malaysia

TEL: +603-58910882

EMAIL: social@goodplace.my