QUALITY VALUATION REPORT IN MALAYSIA

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ABSTRACT

The issue of professional valuation practice standards has recently been the focus of attention in many parts of the world. In particular, the issue of the quality of valuation reports has also been the focus of considerable international attention in recent years; particularly in Australia and the UK. This research seeks to assess whether external valuation client needs and expectations are being met concerning the quality of commercial valuation reports in Malaysia. This will be achieved by using a survey of external users of valuation reports to assess client needs of the quality of commercial property valuation reports in Malaysia. Specific issues to be addressed in the study include quality and reliability of valuation reports, information content of valuation reports, client satisfaction with valuation reports, perceived weaknesses in valuation reports, and suggested solutions to these perceived weaknesses. A property industry survey of major external users of commercial valuation reports in Malaysia was conducted in September 2008 to May 2009 to assess client perceptions of the quality of commercial property valuation reports in Malaysia; this being the first such survey in a developing property market. This survey highlighted the stature and integrity of the valuation reports in Malaysia and the high levels of client satisfaction in valuations for all commercial property types. Concerns were raised in a number of key areas, with proposed solutions to these weaknesses identified. Ongoing issues for ISM and BOVEA regarding the continued enhanced stature of the valuation process, valuation practice standards, valuation reports and public confidence in valuers in Malaysia are identified.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

The issue of professional valuation practice standards has recently been the focus of attention in many parts of the world. In particular, the issue of the quality of valuation reports has also been the focus of considerable international attention in recent years; particularly in Australia and the UK. This research seeks to assess whether external valuation client needs and expectations are being met with regard to the quality of commercial valuation reports in Malaysia. This will be achieved by using a survey of external users of valuation reports to assess client needs and also the quality of valuation reports in Malaysia. The findings obtained from the survey will be used as a guideline to develop a framework for quality valuation report. Specific issues to be addressed in the survey include quality and reliability of valuation reports, information content of valuation reports, client satisfaction with valuation reports, perceived weaknesses in valuation reports, and suggested solutions to these perceived weaknesses.

1.1 Objectives

The objectives of this research are as follows:

i. To assess the quality of commercial valuation reports from the perspectives of users of commercial valuation reports in Malaysia

ii. To assess the level of clients' satisfaction with the quality of valuation reports in Malaysia

ii. To develop a framework to improve the quality of valuation reports for commercial property in Malaysia

1.2 Scope of Study

The scope of this research is mainly focussed on commercial property in Malaysia, comprising of property developers, banks, REITs and financial institutions, insurance companies and companies related to commercial properties.

1.3 Expected Outcomes

The expected outcomes from this research are as follows:

i. An enhanced understanding of clients' needs with regard to the quality of commercial valuation reports in Malaysia, which could be used as a potential guideline to improve the quality of commercial property valuation report;

ii. Identification of benchmarks for client needs on the quality of valuation reports to facilitate future changes

iii. Identification of perceived weaknesses in commercial property valuation reports

iv. Identification of potential solutions to these perceived weaknesses in commercial property valuation reports

v. An enhanced integrity in the quality of commercial property valuation reports in Malaysia

vi. Increased awareness and understanding from both users and valuers, regarding the expectations and requirements of commercial property valuation report content and standards

vii. To compare with established international benchmarks the quality of commercial property valuation reports in Malaysia.

1.4 Research Problem

General issues of professional valuation standards and the quality of valuation reports have been examined in many countries. In the UK, in addition to the Royal Institution of Chartered Surveyors (RICS) valuation standards and procedures (RICS, 2003), various industry reports have addressed a range of key issues regarding the quality of the valuation process and valuation reports. These include ensuring credibility, reliability and clarity in commercial property valuations (Mallinson Report, 1994), assessing valuers' compliance with the reporting standards of the RICS Red Book (Waters Report, 2000) and ensuring public confidence in the valuation process (Carsberg Report, 2002). Crosby et al (1997) surveyed users of valuation reports in the UK to assess the quality of commercial valuation reports in the UK, with implications for improvements to UK commercial valuation reports identified. The quality of valuation reports has also previously received considerable attention in the US (eg: Colwell and Trefzger, 1992; Dotzour and Le Compte, 1993; Knitter, 1995).

In Australia, the Australian Property Institute (API) has been active in developing valuation practice standards. As such, the issue of the quality of valuation reports has been actively debated by leading valuation practitioners, as well as regular property industry surveys conducted over 1989-2004 (Newell and Barrett, 1990; Newell, 1995, 1999, 2004; Newell and Fibbens, 1991). The overall conclusion from these property industry surveys is that the valuation process and the quality of valuation reports have improved considerably over this period (Newell, 1999, 2004). Key factors evident in these quality of valuation report surveys have been the increased use of DCF analysis, increased levels of analytical detail in valuation reports, positive impact of the implementation of the API's valuation standards and the decreased perception of weaknesses in valuation reports, resulting in improved and better-researched valuations (Newell, 1999, 2004).

Importantly, this research into the quality of valuation reports in the UK and Australia has been very positively received and actively supported by the RICS and API, and has seen enhanced integrity and support for the quality of valuation reports in the UK and Australia. In particular, these studies showed the high and improving level of the quality of these valuation reports, as well as making positive suggestions as to how these valuation reports could be improved. These suggestions were seen as positive input by both the API and RICS.

In Malaysia, valuation reports must follow guidelines from the Malaysian Valuation Standards (MVS) developed by ISM and BOVEA and the Security Commission (SC). Given the significant development and professional standards in the Malaysian property industry, it is particularly important that the quality of valuation reports is assessed and benchmarked; particularly from a valuation report user's perspectives. As such, the purpose of this research is to examine the client perception of the quality of commercial property valuation reports in Malaysia. Implications for improvements to Malaysian commercial property valuation reports will also be critically assessed. Therefore, findings obtained from the survey, will be incorporated into a best practice framework which can be used as a guideline for enhanced understanding of the quality of the valuation reports of commercial properties in Malaysia.

1.5 Research Methodology

In order to ensure this project is conducted in a rigorous manner, research methodology is very important as it will be used as a guideline to carry out activities for this project. The research methodology is divided into 2 phases.

Programme timeline

This research will be carried out in accordance with the following project timeline:

• June to August 2008	: Complete literature review
• September - December	: Develop and test draft survey Identify survey participants Distribute survey
• January – April 2009	: Analysis of survey results Writing full report
• May – June	: Prepare final report

1st Phase

A mail survey designed to obtain information concerning client's needs of the quality of commercial valuation reports in Malaysia will be developed and distributed. The questionnaire used in this study will be similar to that used in the previous research studies by Newell in UK and Australia. However, appropriate changes will be made to the survey to accommodate local Malaysian issues likely to have an influence on valuation practice and commercial valuation reports. Key aspects to be covered in the questionnaire include the purpose of valuation, quality and reliability of valuation reports, client satisfaction with valuation reports, information content of valuation reports, perceived weaknesses in valuation reports and suggested solutions to these perceived weaknesses. It is expected that this survey will comprise of up to 25 detailed questions regarding aspects of quality valuation reports, including multiple choice and open-ended questions.

The survey will be sent to leading organisations who are users of external commercial property valuation reports in Malaysia. This will include insurance companies, banks, pension funds, listed property companies, REITs, unlisted property companies, unit trusts, syndicates, private companies and private individuals. Contact details will be obtained from various sources such as Security Commission, Ministry of Finance, Ministry of Domestic Trade and Consumer Affairs, ISM and BOVEA.

It is expected that this survey will be distributed to over 100 prospective users of commercial property valuation reports in Malaysia. Previous surveys concerning the quality of valuation reports in Australia and UK conducted by Newell have seen response rates of 36-76%, as well as these surveys being actively supported by the RICS and API in terms of enhancing their understanding on the quality of valuation reports. Careful selection of survey participants will be done by having discussions with ISM to obtain a suitable selection of respondents, which leads to a sufficient level of survey responses to ensure reliable results. A survey response rate of approximately 50% based on previous surveys would be expected. One particular member of the research team (Newell) has extensive experience in using surveys in property research, as well as having conducted surveys previously regarding the quality of valuation reports in both Australia and UK. Similarly, respondent confidentiality will be assured, with only aggregate level results presented in the research final report.

NOTE: This research project involves assessing client/user perceptions of the quality of valuation reports in Malaysia; this will be achieved by using a survey of industry respondents. **Importantly, at no stage in this research project do the researchers require access to any valuation reports**; this reflects the confidential nature of valuation reports between clients and valuers. As such, the focus of this research is on client perceptions of the quality of valuation reports and **not** the physical inspection of actual valuation reports. This strategy will ensure no confidentiality issues is being breached and hence, an adequate survey response rate is expected from respondents.

2nd Phase

For the purpose of analysis, percentage responses will be presented for all questions for the survey participants, as well as percentage responses for specific groups of respondents to assess significant sub- group differences. Analysis will also be conducted for open-ended questions in this survey. Comparisons will be made with the equivalent results from the UK and Australian survey results for the purpose of international valuation report quality benchmarking. Only aggregate level results will be presented to ensure survey respondent confidentiality, with names/organizations of respondents not mentioned in the final report. Based on the findings from the survey and the literature review, a framework for quality commercial property valuation report will be developed and it will then be used as a proposed guideline by commercial property valuers in Malaysia.

The fuller detail on research methodology is given in Chapter 3.

2.0 Project Activities

1. Literature review – collecting relevant and up-to-date literature published locally and abroad to inform the study.

2. Designing questionnaire – developing survey questionnaire.

3. Piloting of questionnaire – testing the survey instrument for improving validity and reliability by testing survey on selected respondents that will not be included in the study.

4. Redesigning the questionnaire - correcting and redeveloping questionnaire based on insights from pilot testing.

5. Data collection – surveys distributed and returned.

6. Data analysis – for quantitative data, Excel will be used.

7. Writing draft report - writing first draft of report.

8. Submission of final report – findings will also be disseminated to property industry via ISM and selected organisations.

9. Seminars - the final recommendations of the research will be disseminated to relevant policy makers, ISM members and the property industry in Malaysia.

10. Publications- findings will be reported locally and internationally through publications in journal and conference proceedings, as well as being disseminated locally via ISM website and journal.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

The market for real estate in Malaysia experienced tremendous growth from 1990 to 1997 before the recession took place in 1998 until 1999. But since 2000, property growth in Malaysia has been significant. However, a new challenge has emerged where globalisation in property has become an important factor in property investment. As real estate business expanded, the industry has become global which has also reflected upon the valuation profession. The real estate profession in Malaysia particularly involving the valuers, has become very significant to this dramatic changes in the property industry, creating structural changes within the real estate market recently. According to Assano (2002), structural changes denote mainly changes such as the following:

i. Emergence of real estate risks
Real estate offers many advantages as assets for investment purposes and risks could suddenly emerge for various real estate investment.

ii. Profitability-oriented price valuation
Various investors including foreign investors enter the real estate market scene. Thus, valuation procedures with an emphasis on profit analysis will become increasingly important. As a result, properties that generate significant cash flow become more attractive. They also focus on using internationally accepted valuation procedures used by international investors.

iii. Reform of fundraising methods due to financial uncertainty
With financial uncertainty, corporations switch their procurement method of operating funds and investment funds from indirect finance by bank loans to direct finance using the securitisation of real estate.

iv. Mass disposal of real estate
The rapid disposal of bad debts becomes the most urgent requirement for financial organisations, thus the bulk sale disposal method of disposing en masse of large amount of bad debts dispersed nationwide becomes generally accepted.

Hence, the above will create awareness within the valuation profession of the need for improved valuation standards. As reported by Mackmin (1999), the globalisation of business and the globalisation of real estate means that business is moving towards common accounting standards which in turn requires standardisation of practice relating to the valuation of commercial property. Such involvement of the real estate market would thus give rise to significant influences to valuation standards and reports. For any valuation to have validity it must produce an accurate estimate of the market price (Elli Pagourtzi et. al, 2003). Valuations are required and often carried out by a number of different players in the marketplace. These may include:

i. real estate agents
ii. appraisers
iii. assessors
iv. mortgage lenders
v. brokers
vi. property developers
vii. investors and fund managers
viii. lenders
ix. market researchers and analysts
x. shopping centre owners and operators and
xi. other specialist and consultants.

The basic purpose of valuation is to give what a defined interest in an asset is likely to realise if sold on the open market or its value to the occupying business (Gilbertson and Preston, 2005). Moreover, clients need to know all the information regarding their assets and services offered. Producing valuation reports is closely related to valuation standards. Valuers need some standards and guidelines in order to validate their valuation. The creation of valuation standards normally comes from the regulatory sector whether governmental or private. The RICS Red Book concerns the application of valuation standards which are closely related with the UK Accounting Standards in the formulation of valuation requirements. In Malaysia, the Board of Valuers, Appraisers and

Estate Agents has produced its own Malaysian Valuation Standards consisting of seventeen standards and two introductory chapters. At the international level, the International Valuation Standards (IVS) were developed by the International Valuation Standards Committee (IVSC) in 2005. Generally, these standards recognise the complexity of professional valuation procedures, the diversity of property situations, the difficulty other professional disciplines may have in interpreting valuation activities, problems in the usage and translation of terminology, and the paramount need of the public for well-funded professional valuations developed in accordance with generally accepted standards (IVSC, 2005). IVS is widely recognised as representing best practice in the profession and also known as generally accepted valuation principles (Mills, 2007). However, as Mills added, the standards only focus on the standards of what valuers do rather than how they should do it.

Valuation reports are normally produced for the purpose of clients' needs and requirements. Valuers will therefore attempt to produce valuation reports according to the requirement and purpose of valuation. It is normally produced on the instruction of a single client who intends to use the product for some purpose singular to the client. Because of the one-to-one relationship, the valuer should have fewer difficulties in both identifying the needs of the client and conveying to the client all the information needed to understand and benefit from the valuation (Carsberg Report, 2002). Thus, valuers must be constantly aware of current changes in the real estate business brought about by structural changes in the real estate market. Valuers must be able to provide diverse services and skills to respond to diverse needs (Asano, 2002).

2.1 Definitions of Valuation

According to Mills (2007), the dominant perspective of the valuation profession, particularly in developed western economies, is that the definition of value should be segregated into two main classifications, market value or non-market value. The most widely quoted definition of market value is:

> *The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all condition requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self- interest and assuming that neither is under duress.*
> (Fischer, 2002)

According to the Australia Property Institute (2002), the accepted Australian definition of market value is:

> *The estimated amount for which a property should exchange on the date of valuation between a willing buyer and seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*

According to Malaysian Valuation Standards (MVS), definition of valuation is as follows:

> *The written opinion as to capital or rental value on any given basis in respect of an interest in property, with or without any assumptions or qualifications.*

Value concepts are always theoretical in nature while price is usually factual in nature. There can be specific asking price and selling price, about which there should be no dispute or range of opinion. But, value is by nature an opinion in the absence of perfectly competitive market, there can be no certainty that value sought is resolutely true or unchallengeable (Miller and Geltner, 2005).

The Mallinson Report (1994) definition of market values is as follows:

> *"an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of a valuation assuming*

a. *willing seller*
b. *that prior to the date of the valuation, there had been a reasonable period for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale*
c. *that the state of the market, level of values and other circumstance were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation*
d. *that no account is taken of any additional bid by purchaser with a special interest and*
e. *that both parties to the transaction acted knowledgeably, prudently and without compulsion.*

Malaysian Valuation Standards has defined market value as:

> *The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's- length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*

The important principles in determining market value have also been dwelt with extensively in numerous decisions in Malaysian court cases.

Theoretically, property values are a function of quality and quantity. Quantity is the physical dimension of real estate, i.e., space, while quality is a subjective scaled dimension. Both are explicitly considered in the market and cost approaches to valuation and indirectly in the income approach since both dimensions should affect net rental flows. Table 2.1 shows traditional approach to solving market value.

Table 2.1: Traditional Approaches to Solving Market Value (Miller and Geltner, 2002)

Approach	**Method in Brief**
Market or sales comparison approach	Compare the subject property being appraised to similar comparable that have sold recently or near the date of the appraisal.
Cost approach	Compare the subject to the cost to build new; less accrued depreciation for wear and tear obsolescence plus the value of the site at highest and best use.
Income approach	Discount future benefits to own the subject property using stabilised Net Operating Income (NOI), and Capitalised rate.

Beside traditional approach as to valuation, there are some new approaches that have been used in valuation profession. These methods used the computer as an assisted tool in the valuation process. The terminology Automated Valuation Model comprises methods such as:

i. artificial neural networks (ANNs)
ii. Hedonic pricing methods
iii. Spatial analysis methods

iv. Fuzzy logic
v. Autoregressive integrated moving average

An AVM is a statistic-based valuation model that assists in calculating values of property based on a vast amount of data. Resulting from a valuation conference held in November 2005, the RICS has presented in detail about AVMs and their development. According to the conference it is observed that AVMs usually operate using various types of models; for instance, index model, comparison model and regression model. They are actually used for mass valuation and not for the valuation of individual commercial properties.

Features of AVMs

The following are the features of AVMs and sources that support the existence of the features.

Table 2.2: Features of AVMs and the sources

Features of AVMs	**Source**
More accurate and reasonable	Muhammad Faisal Ibrahim, el al (2001), Rossini, P (1999), Appraisal Institute of Canada (2002), Abdul Ghani Sarip (2003), O'Neill, J. W (2004), Pagourtzi, E. el at (2003), RICS Valuation Conference (2005)
Saves time and cost	Muhammad Faisal Ibrahim, el al (2001), Appraisal Institute of Canada (2002), Abdul Ghani Sarip (2003), O'Neill, J. W (2004), Mortgage Bankers Association (2006), RICS Valuation Conference (2005)
Uses various types of techniques/models	Muhammad Faisal Ibrahim, el al (2001), Rossini, P (1999), Abdul Ghani Sarip (2003), Pagourtzi, E. el at (2003), Johnstone, V (2004), RICS Valuation Conference (2005)
Requires large amount of data and homogenous	Muhammad Faisal Ibrahim, el al (2001), Appraisal Institute of Canada (2002), Abdul Ghani Sarip (2003), Johnstone, V (2004), RICS Valuation Conference
Internal physical site visit is ignored	Muhammad Faisal Ibrahim, el al (2001), Mortgage Bankers Association (2006), Johnstone, V (2004), RICS Valuation Conference (2005)
No certain standard to control it	Appraisal Institute of Canada (2002), Mortgage Bankers Association (2006)
Functions as valuation assistant	Muhammad Faisal Ibrahim, el al (2001), Rossini, P (1999), Appraisal Institute of Canada (2002), Abdul Ghani Sarip (2003),

	O'Neill, J. W (2004), RICS Valuation Conference (2005), Pagourtzi, E. el at (2003), Mortgage Bankers Association (2006), Johnstone, V (2004)

2.2 The Valuation Process

Valuation Process

Fischer (2002) emphasises on 3 main questions that need to be answered in the valuation process. It is straightforward exercise which three questions must be answered; a What?, a How? And finally a How Much? Question. In order for valuers to produce valuation reports, there are some steps that need to be followed which are illustrated in Figure 2.1

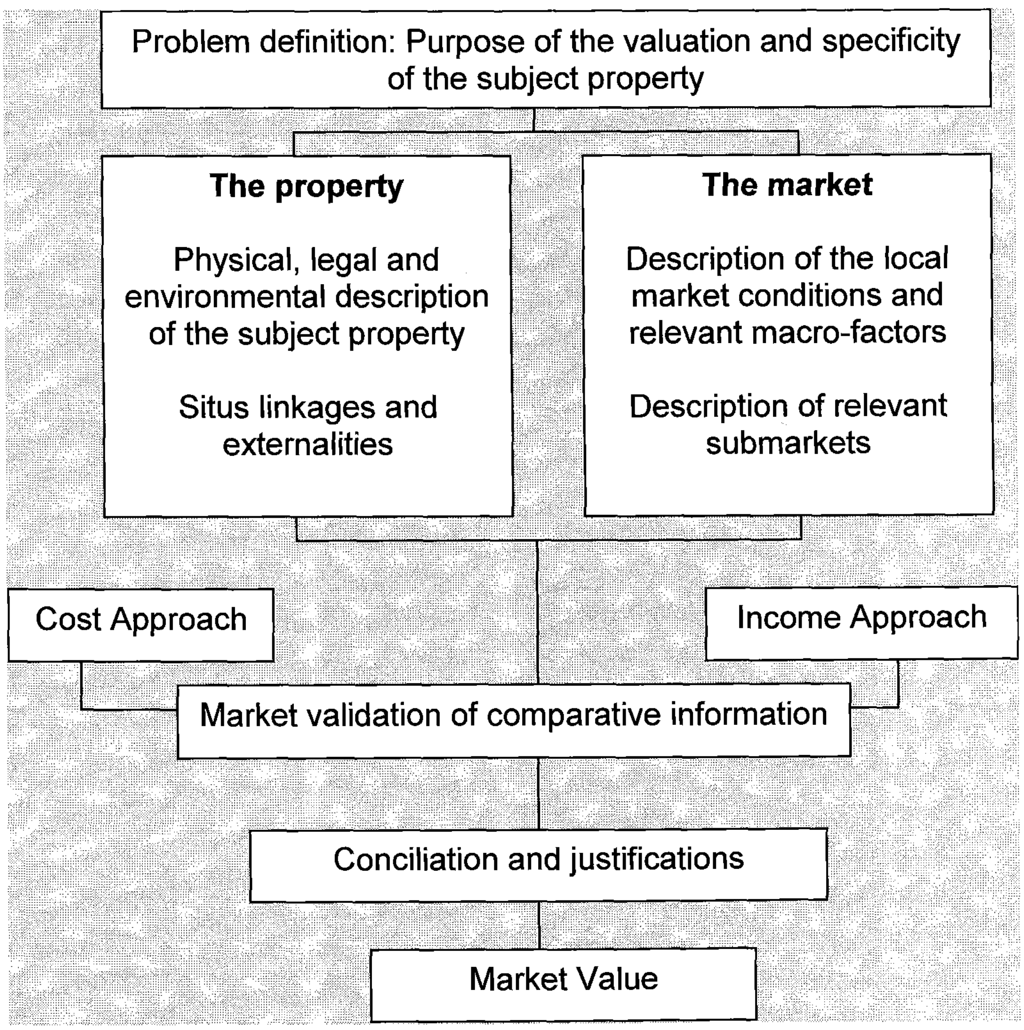

Figure 2.1: The Valuation Process (Fischer,2002)

Havard study (1996) examined the relationship between process, character and behaviour of valuation variance comes out with a valuation process framework as outlined in figure 2.2. In this study, there are many factors which might influence the valuer in preparing the final valuation and which might lead to variance where their effect is differential. The client might give inappropriate instructions or ask for a valuation to an inappropriate valuation base. This is just some of the influences which exist at the very top of the valuation process; in fact, the possibility for variance exists throughout, from the measurement of the building to the final calculation of value. Even within the mechanics of the valuation there is scope for variance. It is well known that different techniques exist to deal with the same circumstances and also that some variance on outcome can be ascribed to this factor. The degree of variation in techniques actually occurring in practice is not known however, and thus the effect of this factor cannot be assessed. This applies to both the calculation of the final valuation parameters, such as rental devaluations where lease incentives are involved, where earlier research has suggested that this may be an important factor (Havard, 1996).

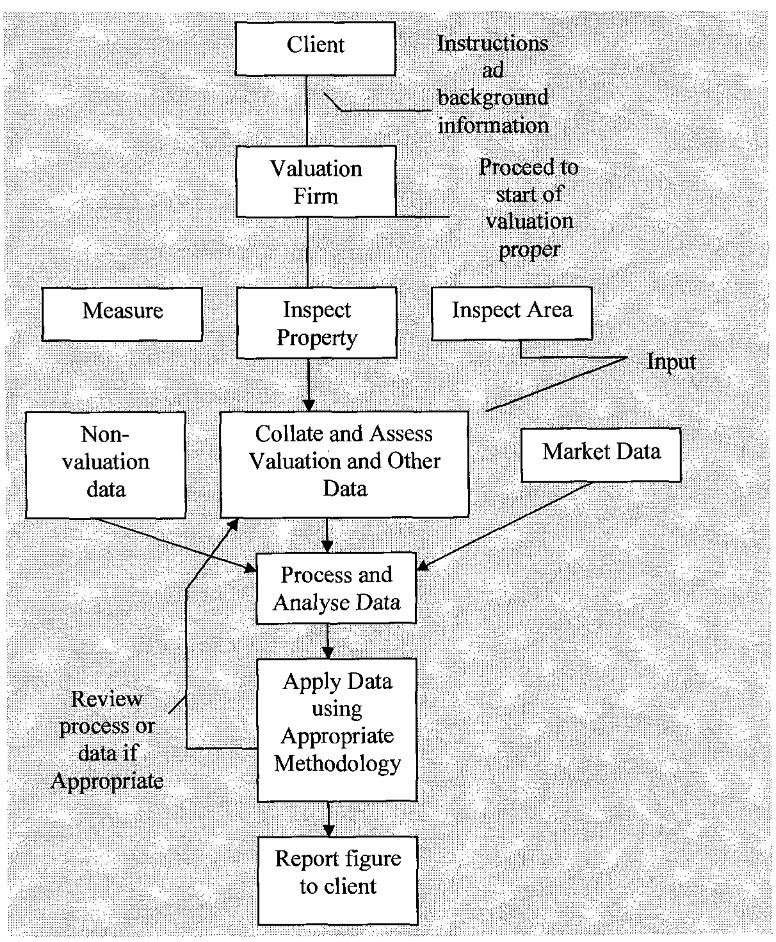

Figure 2.2: Diagrammatic Representation of the Valuation Process (Havard, 1996)

The whole process of the valuation concept is illustrated in Figure 2.3 designed by Mills (2007). The dominant perspective of the valuation profession particularly in developed western economies is that definition of value should be segregated into two main classifications, Market Value and Non-Market Value. This is not the view of all interest parties, but as this diagram proposed is considered an appropriate place to start. Market value is undoubtedly the most common used definition because of its relationship to the most common application. This definition has been widely discussed over a lengthy period and presented in details within the IVS. In contrast, non- market value category is designed to cover everything else. While this simplistic distinction at the outset is useful for those who rely predominantly on the market value definition, arguably being the majority of practitioners, it does little to assist in identifying or explaining the complexities inherent in the many non-market definitions. It also does little to promote the development of the skills necessary in solving some of the more complex property-related problems, an area of opportunity for the property profession to demonstrate its complete and often expected skills base.

Valuation Concepts	Property	Personal Property	Property rights	Land	Real Estate	[illegible]	[illegible]	[illegible]
	Value	Market	Cost	Price	Depreciation	Improvements	Disequilibrium	Highest and bestu use
	A valuation	A valuation report	Comparable data	Elements of comparison	Units of comparison	Instruction/ definition of assignment	Specialised property	Valuers and appraisers

Valuation Principles	Substitution	Anticipation	Supply and demand		Progression and regression	Increasing and decreasing returns
	Conformity	Change	Contribution	Competition	Expectation	Proportionally

Definitions or basis of value and Whipple's (1995) abstract approaches	Market Value	Non market value- normative definitions apply- derived from normative models reflecting expected outcomes, or in accordance with rules governing market practice, or price determinations processes applied in the market place	Value in use	Marriage value	Others
	Inference from past transactions'- a positive definition		investment value or worth	Liquidation/ forced sale	
			Insurable value	Special value	
			Going-concern value	Water rights	
			Assessed rateable or taxable value	Indigenous rights	
			Salvage value	Apportionment	
IVS Approaches	Sales comparison	Income capitalisation	Cost		

Methodology- linking the definition or basis of value, derived from various valuation principles, to the approach or approaches to be applied, in the process valuing real property in accordance with the various applications, utilizing the method or combination of methods and data types available.

Primary methods	Direct sales comparison	Income adjusted comparison	Overall/direct all yield risk	DCFa	Land plus improvements profit/loss	Land residual- income capitalisation improvement cost (DCFb)	Allocation	Others
	Cost adjusted comparison	Other sales adjusted comparisons	Ellwood yield	Ground rent	Depreciated replacement cost	Land residual- subdivision cost	Extraction	

Applications	Financial reporting	Property sale	Property purchase	Sale of water entitlement	Partnership dissolution	Investment analysis	Feasibility study	Others
	Taxation	Native title	Lending	Going concern	Mining	Compensation	Insurance	
Valuation Process	Definition of Assignment	Data analyses and collection	Highest and best use	Land value estimate	Definition of the assignment	Reconciliation and fine value estimate	Report/ certificate of defined value	

Figure 2.3: Generally Accepted Valuation Methodology (Mills, 2007)

2.3 The Valuation Report: General

According to Malaysian Valuation Standards (2006), valuation report can be acted upon by the client or certain third parties without any reference to the valuer (unless a specific reservation has been made) it must therefore be clear and not misleading. The valuation report must convey to the reader a clear understanding of the opinion expressed by the valuer, the basis of the valuation used and the assumption and information on which it is based. In Malaysia, the minimum contents of a valuation report are stipulated in Standard 9 of the MVS. Nevertheless, there will be some differences in the contents of a valuation report depending on the type of property valued and the purpose of valuation. For example, a valuation for the Securities Commission would usually have more stringent requirements than the MVS.

With changes in the real estate business brought about by structural changes in the real estate market, valuations would undeniably be subjected to closer scrutiny, a process which would underline the sometimes apparent lack of attention currently given to the valuation framework of the appraisal process. Mathematical finesse will not absolve a valuer from ignoring comparable market data or failing to make thorough planning enquiries. Many present-day valuations, although they may have been based on a sound framework, do not show that such factors as comparables and planning constraints have been adequately taken into account. They will describe the property and assigned a statement of value often supported by the scantiest assumptions and market data even if the valuation had been painstakingly researched. It is almost certain that in future valuers will have to be able to demonstrate more of their supporting work. Valuation reports would be able to play a big role by if back-up materials are included. This would have a two-fold effect, firstly of which clients would receive a clear and more informative service and secondly, if there was any contention over the valuation, nearly all the evidence would be readily available. This would obviously require valuers to be painstakingly thorough but as is normally expected from a professional report, there should be no objections to such an approach.

In Malaysia, according to MVS (2006), the valuation report should consist:

i. Instruction to value
ii. Interest to be valued
iii. Purpose of valuation
iv. Data of valuation
v. Inspection
vi. Title particulars
vii. Description of the property

viii. Tenancy/lease details
ix. Planning details
x. Assumption
xi. Method of valuation
xii. Evidenced of value
xiii. Opinion of value
xiv. Plans
xv. Name and signature of valuers

While guidelines drafted by Securities Commission; a valuation report shall contain but not limited to the following items:

i. Client and instructions
ii. Purpose of valuation
iii. Material date of valuation
iv. Identification of the property
v. Inspection and referencing
vi. Interest to be valued
vii. Title details
viii. Description of property
ix. Experts' reports
x. Neighbourhood
xi. Planning provisions
xii. Assumptions
xiii. Acquisition details
xiv. Basis of valuation
xv. Method of valuation
xvi. Evidence of values
xvii. Property market condition/ industry outlook
xviii. Opinion of value
xix. Certification and authentication
xx. Appendices

The details of each items can be referred in "Guidelines on Asset Valuations" published by Securities Commission (2003).

In common, the preparation of a valuation report should follow the valuation process. This process will be as a guideline for valuers in order to generate quality valuation report. The summary of the main contents in valuation reports are as follows:

i. Executive Summary

This one page summary provides a general description of the property, the method used to value it and valuation results. The description is short and simple, but gives the meaning of and content of the valuation results.

ii. Table of contents

Table of contents must be very detailed with exact page numbers. If the valuation reports have annexes and exhibits, the page of these items must be put in detail. This to ensure clients will have all relevant information as part of the valuation process.

III. Letter of transmittal

It must contain:

a. Definition of the valuation problem and date of the valuation
b. Restate the nature of contractual position with the client
c. Emphasise the specificity of the problem
d. Describe the main restrictions that should be applied in the report.

iii. The subject property

This item is one of the main components in the valuation report. Valuers must put the following detail to describe thr subject property;

a. Land and title
b. Complete physical, cadastral and legal description of the property
c. Exact measurement of the site
d. Name of the title holder
e. Legal constraint, environment and restriction to the title, details of easement, rights of way, encumbrance, restriction and encroachments.

iv. Location

To describe the location, valuers must provide one or more maps to locate the property at the local and urban level. In addition, valuers also must put locational information such as accessibility maps and analysis, proximity of other urban functions (situs scanning). Furthermore, items such as view, other developments, and general appearances of the adjoining properties which related to the subject property must be included in the valuation report.

v. Site description and planning constraint

In terms of site description and planning constraint, valuers must take into account these matters:

a. Nature and characteristics of the site and the services attached to the site.
b. Potential site vulnerability: for example, flooding, noise level, odour and other potential site problems (or advantages)
c. Planning present conditions: details of zoning, development codes, construction codes, conformity and non-conformity.
d. Information relevant on anticipated planning modifications and projects.
e. Environmental, heritage or cultural issues that may affect the property or its immediate situs.

vi. Statutory valuation and charges

It contains documentation on valuation and assessment for past and present. It also provides all the rates and the local charges. If possible, valuers should put some comments on the Council planning and taxing policy.

vii. The property : physical conditions

To describe the physical conditions of the subject property, the valuation report must have:

a. Complete physical, cadastral and legal description of the property.
b. Building materials and general style.
c. Property components that are valued (fixture, chattels, other elements)
d. Exact measurements: buildings, lettable areas, etc.
e. Age of the building and date of the various alterations, refurbishment and other modifications.
f. Precise description of possible functional or economic obsolescence: adverse structural elements, poor design, deterioration, design specificities, etc.

g. Comment on the specialised nature of the property and potential alternative usage.
h. Identify any construction and security non-compliance. Eventually it may have to evaluate the compliance feasibility and costs.

viii. The Property: Economic Conditions

In terms of economic conditions, valuation reports must have the following fundamentals:

i. All the elements required to value the income generating potential should be described in this section.
ii. Tenancy details and accurate rent rolls: rent levels, remaining terms of the leases, renewable conditions, letting-up allowances and incentives, periodicity and historic of the rental reviews, rental history (arrears, non payments, leasing conflicts)
iii. Comparison with standard market conditions and evaluation of the feasibility and sustainability of rental conditions.
iv. Detailed operating expenditure analysis: shares of the expenditure assumed by the tenants (sharing formulas should be described). A comparison with market conditions and realism of the declared expenses would be required.

ix. Market Conditions

In valuation reports, it is essential to put the current market conditions. The market conditions should emphasise the following aspects:

a. Basic data on the urban area such as size, nature, economic base, employment structure, demography and other pertinent information.
b. Basic analysis of the neighbourhood market conditions of the particular sub-market. For example office building, shopping centres, residential, rental.
c. Description of the major market actors for this specific type of property such as small investors, owners, property trusts, institutions etc.
d. Choice of appropriate comparable properties and explanation of the selection.
e. Analysis of comparable properties and required adjustment to the subject property

f. Adjustment grid when required
g. Capital rates derivation when appropriate

xii. The choice of valuation method

Valuers must have their own justification and very brief explanation on valuation method methodology such as comments on the method limitation and relevance. Furthermore, in the valuation report, it must contain validation of results if accessory methods are used. Finally, it ends with some conclusion on the derived market value or range of values.

xiii. Conclusion and comment

As for conclusion and comments, a good valuation report normally puts some conclusion on the value, property and its optimal usage. In this section, it the report puts qualification and disclaimers statements. Qualification is for the intended use and time validity of the conclusions while disclaimers one required by the valuer's professional insurer.
Jacobus (2006) pointed out the valuation report format in US. In US, there are three formats for written reports. The choice depends on the amount of detail required by the client, the intended use of the report, and the appraisal standards to be met. The format to be used also depends on the reporting option. The three formats of valuation reports are as follows:

i. The letter report
The least formal format is the letter report, which is usually one to five pages long. It contains the conditions of the assignment, a summary of the nature and scope of the appraiser's investigation, and an opinion of value. While brief, the letter report must describe the extent of the appraisal process performed and must clearly state its detail. Whether reporting a complete or limited appraisal, the letter format is most suited to the restricted appraisal report. It is used most often when the client is familiar with the property and when appraisal details are not needed.

ii. The form report
The form report is an appraisal made on a preprinted form. A checklist is often used for describing and rating property characteristics. This makes the appraisal form a logical choice for

the summary report option. Institutions and government agencies use forms designed to suit their special needs. Standard forms are usually available for single family residential, multi-family residential, commercial and industrial properties. This is the most common type of report used for real estate loan appraisal.

iii. The narrative report
The narrative appraisal is the longest and most formal of the appraisal reports. It is a step-by-step presentation of the facts by the appraiser to arrive at a value. This report also contains a detailed discussion of the methods used to interpret the data presented. Narrative appraisal reports are used when the client needs to review each logical step taken by the appraiser. They are the preferred format for self-contained appraisal reports.

2.3.1 Asset Valuation Guidelines by Securities Commission 2009

Securities Commision (SC) has just introduced the new guidelines that replace and supersede the previous Guidelines on Asset Valuation issued on 1 May 2003. This guideline is issued under section 337 on the Capital Markets and Services Act 2007 (CMSA). Beside this guideline, all valuers must also comply with other related guidelines such as Guidelines on Due Diligence Conduct for Corporate Proposals and other relevant guidelines issues by the SC, valuation standards issued by the Board of Valuers, Appraisers and Estate Agents and other valuation standards issued by recognised bodies.

According to Chapter 5, Asset Valuation Guidelines by Securities Commission issued on 8 May 2009, there several principles need to be followed by all valuers in order to produce a quality valuation report. The main principles of valuation reports drafted by SC are as follows:

i. Client and instructions
The report must be addressed to the applicant/issuer undertaking a corporate proposal. Details of the instructions including any special conditions and/or assumptions must be clearly stated in the report.

ii. Purpose of valuation
The purpose of the valuation report must be clearly stated and it is prepared in compliance with these guidelines.

iii. Identification of the property

This must be stated in a clear manner by reference to the lot number, title number and address.

iv. Material date of valuation

This may be the same date as the date of the report, or an earlier date but not more than six month from the date of receipt of the submission of the valuation report.

v. Inspection and referencing

The date of inspection together with the name(s) of the person(s) involved and the extent of the inspection must be stated.

vi. Interest to be valued

The legal interest/ownership in the property asset must be properly ascertained and clearly stated. In the case of joint venture interest in development properties, the valuers is required to give a brief description of the equity and profit-sharing arrangements of the parties to the agreement as well as the salient terms and obligations in the joint venture agreements.

vii. Title details

The date and place where the title search is conducted must be stated in the report. Where title details of the property are not maintained, kept or are not available at the land offices, the source of such details must be disclosed. Where title has yet to be issued, such as in the case of strata properties or where interests involve licences, permits or leases, the relevant certified documents ascertaining the respective legal interest must be provided and the relevant details disclosed. Furthermore, any legal interpretations matters in the title may have a direct or indirect influence on the value of the property must be provided.

viii. Description of property

Description of property asset must include, but not limited to the following:

a. Location and accessibility;
b. Age, description, use, accommodation, construction details of buildings, amenities and services;
c. Dimensions and areas of land and buildings, together with copies of the approved building plans and certificate of fitness for occupations.

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