

VALUATION OF PRESTIGE RESIDENTIAL PROPERTIES

JASON FIELD FAPI, Managing Director National Property Valuers (NSW) Pty Ltd, has specialised in the valuation of prestige residential properties, including some of the most expensive homes in Sydney, for more than 20 years. Here he offers an opinion piece on the 10 'P's of valuing prestige residential real estate.

Due to the shortage of directly comparable sales, broad variance in achieved prices, and non-reported confidential details, valuations of prestige residential properties can be challenging. There is also little in the way of published material on this subject to assist valuers wishing to participate and value this specialised and unique class of asset.

THE 10 'P'S OF PRESTIGE REAL ESTATE

1. POSITION

There is an old adage: 'location, location, location'. This is also described as position. This issue is central to the valuation of a luxury property. A buyer may be attracted to, or deterred by, the exact position.

It must be appreciated that a property located on the wrong side of a street, or at the wrong end of a street, can cause a diminution in value. It is important when collating and analysing sales to ensure the previous

sales are situated in close proximity to the property to be valued, and the valuer has an appreciation for which streets are desirable or suffer a stigma.

2. PANORAMIC VIEW

Buying a luxury property may be akin to buying into a lifestyle. The view can be an integral component of the value of a luxury property. If a property enjoys a premium aspect and outlook, e.g. a panoramic iconic view of Sydney Harbour, including the Sydney Opera House, Sydney Harbour Bridge and the city skyline, buyers will pay a significant premium. Conversely, a property that lacks the same view may be regarded as being significantly inferior.

The conundrum a valuer may face is to establish the appropriate

discount factor because, for example, a tree may be blocking part of the view. Another aspect to consider is the likelihood of retaining or losing a panoramic view by virtue of a proposed development in the locality.

Consider two views of Bondi Beach. Although both views might be panoramic and uninterrupted, the angles can be from opposite sides of the beach, and this can have an impact upon desirability, overall appeal, and the price achieved.

3. PLAN

The floor plan is an important criterion, although it is sometimes



overlooked. Buyers at the upper echelon are generally seeking a residence with four or five bedrooms situated on the same upper level, and with a fluid seamless relationship between indoor and outdoor living.

An ideal floor plan may have the lounge room with bi-fold doors leading off to a level alfresco terrace or manicured garden, with the kitchen overlooking the pool. This functionality is important as a non-traditional floor plan may potentially deter buyers seeking a child-friendly family home.

Buyers will often pay a premium for a luxury home with panoramic views from the main living area.

NEGATIVE ASPECTS THAT DETER BUYERS AND CONSTRAIN DEMAND GENERALLY CAUSE A DIMINUTION IN THE VALUE

However, in order to achieve this, some homes are designed with the main living areas upstairs and the bedrooms downstairs. From experience, such upside designs, whilst perhaps logical in theory, do not necessarily appeal to the broad market. This configuration is not obvious when externally inspecting the sales and it is therefore important to obtain the floor plans wherever possible.

4. PRIVACY

Buyers at the upper echelon attribute significant importance and value

to privacy and security. Homes with gated security, and which are not easily seen into, are favourable attributes. It is for this reason some of the most expensive homes are, in fact, non-waterfront.

Conversely, luxury properties that lack privacy should be discounted in value, as buyers may be deterred and this would constrain the demand.

As an example, many luxury homes have been built from glass and are situated on busy local roads. Whilst this design maximises and enhances the view, such homes may be regarded as ostentatious and the lack of privacy akin to a 'fishbowl', which may deter buyers. Negative aspects that

deter buyers and constrain demand generally cause a diminution in value.

5. PARKING

Parking is an important attribute for a luxury home. Ideally, buyers would seek a home with a double garage with internal access. Some luxury homes may, in fact, have garage parking for 10 or more cars, which may be a highly desirable attribute.

Homes with an open car space, or tandem style parking, are deemed to be less favourable. Thus, even though a home may still have parking for two cars, tandem style or stacked parking is less attractive and less practical than a home with a traditional double garage.

Practicality and convenience are important aspects when valuing a

luxury property, and parking is an important consideration. At the upper echelon in Point Piper and Darling Point, some garages even enjoy a panoramic view.

6. PRESENTATION

The presentation of a luxury property is important. Whilst it is appreciated the chattels (e.g. furnishings, paintings, rugs etc), do not form part of the real estate, they nevertheless can complement or detract from the overall appeal of the property.

7. PERCEPTION

A valuer should consider whether it is likely the market would perceive a property to be desirable. In other words, would the demand be strong, or alternatively, by virtue of any number of issues, would demand be constrained? Will a property be highly sought after or appeal to a limited niche market? If a property remains for sale after a prolonged campaign, even years, could this create a stigma and affect the value?

In regard to the attributes, a stunning property in a buoyant market could potentially achieve a new record for an area. If a valuer feels a property is likely to warrant setting a new benchmark, then this should be discussed with the appropriate commentary and reasoning. It is not sufficient to simply provide a description, a sample of sales and a conclusion. Additional commentary in what is described as the Valuation Basis or Rationale would be appropriate.

For example, suppose there have been three sales in an area at the upper echelon at \$5 million, and the valuer believes a property is worth \$10

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million, then it would be appropriate to elaborate and discuss this aspect, including if there is a perceived upper ceiling, and how readily the sale might be achieved. Alternatively, if the previous sales required extensive selling campaigns, and could appeal to a one-off buyer, then this is also relevant in the discussion.

The concept of perception relates to both the property, as well as the general market. Commentary on the perception of whether a property will most likely appeal or not appeal, and the strength of the demand in the market, needs to be addressed.

8. PRIME

Prime is intended as a synonym for quality. This encompasses the quality of the improvements. A high quality architect-designed home with bespoke finishes can cost between

\$5,000 and \$10,000 per square metre to build. The difference may lie in the fixtures and finishes which may not necessarily be apparent from a cursory external inspection. It is for this reason that a valuer must have a solid appreciation of the comparable sales.

9. PROPORTION

Proportion is size. The area of both the improvements and the land size is an important criterion. However, the area of the sales for the comparable properties may not always be apparent.

It is for this reason that a valuer should obtain floor plans and/or strata plans wherever possible for the comparable sales evidence. In regard to luxury apartments, reported areas can include balconies and even parking, and it is important

to determine, as best as possible, the internal living areas for each of the previous sales. In regard to land size, as a caution, it is important to be cognisant that the reported areas for waterfront homes can in some instances include the wet land areas or MSB leases, which can be misleading.

10. PIZZAZZ

Does the subject property have pizzazz or achieve a 'wow' factor? Is the property stunning? Will the market be prepared to pay a premium for this property?

When a luxury property encompasses all of the aforementioned 10 'P's, then it is likely the property will achieve the final 'P' – Premium. Conversely, a property failing to achieve one or more 'P's may result in a diminution in the value.



ADDITIONAL ASPECTS FOR THE VALUER TO CONSIDER

PURPOSE

Apart from a compliance requirement, I encourage and recommend the valuer consider and be mindful of the purpose of the valuation. A valuation for mortgage purposes may reflect a higher degree of risk than otherwise.

One should bear in mind that, due to the level of subjectivity, there may be a difference between what a property could achieve, and what figure could be justified or supported, as opposed to what figure would be realistically and readily achieved in order to protect a lender's security.

COMPARABLE SALES EVIDENCE

API valuation standards indicate "a number of comparable sales should be included." (Refer ANZVGN 1).

It is accepted practise to include at least three settled sales. However, for this class of asset, in my opinion, this would probably not be considered a sufficient sample.

It is necessary to demonstrate a broad range of sales, in order to provide a comprehensive overview of the local market. To consider only three sales, which are not directly comparable, may not demonstrate sufficient detail and could result in a broad variance in values.

Properties should also be as similar in nature as possible, and should naturally include the most comparable sales evidence. In some streets, the range in values can be as broad as \$4 million to \$60 million. It is for this reason the valuer must demonstrate a broader depth of research in order to reduce the variance and subjectivity.

The sales should include, and the valuation be based upon, settled sales, which are known as primary evidence. Primary evidence refers to properties which have both exchanged and settled.

The valuer should also consider secondary evidence. Hypothetically, in the event similar properties may have recently transacted, exchanged, and albeit not yet settled, these properties, if relevant, should also be considered and the weight attributed discussed.

For instance, if an identical property, which is situated adjacent to the subject property, has just sold at auction, then surely this is relevant, even if the property has not yet settled. This sale may not have settled, and thus may not technically be regarded as primary evidence, albeit is nevertheless noteworthy and relevant.



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In some instances the results may not be published and are not for disclosure due to confidentiality, and thus, local knowledge is important when valuing in this market. However, a valuer may be able to obtain a copy of the dealing (transfer document) which may reveal the sale price.

ANALYSIS OF COMPARABLE SALES

It is accepted practise the comparable sales should be analysed. However, there has been little in the way of published literature on how the sales of prestige properties should be analysed.

Firstly, the valuer should externally inspect the sales, obtain the marketing brochures, and ideally wherever possible internally inspect the sales. This comes from having local knowledge, attending home opens, and, at times, even inspecting waterfront sales from the water in order to fully appreciate the attributes of the sales.

For luxury residential units, it is common and best practise to value these properties on a rate per square metre of internal living space. This may require estimating the approximate internal areas from the strata plans and by deducting the balconies. Valuers should be cautious about adopting a rate per square metre including the balcony, or a rate per square metre of total strata area. If the external areas differ vastly, then this could lead to erroneous conclusions. Consistency in the analysis is paramount for accuracy.

For luxury residential dwellings it may be appropriate to analyse the sales on a rate per square metre of improved site area. This can provide a yardstick or bench mark.

However, valuers should attribute cautious reliance upon such analysis,

as this can lead to a wide variance, especially if there is a difference in the size of the land areas. It can also be argued such analysis may not take into consideration the emotional aspect. It should be appreciated by both valuers and lenders there is a difference from what value can be supported and justified, to what is the correct value.

There have been instances where valuers may have analysed properties on a rate per square metre of building area or living space. I would recommend against this methodology for the following reason: the majority of the value generally lies in the land content, and it is for this reason the analysis should be rather on a rate per square metre of improved land area. It would be rare for the improvements of a luxury home to be worth more than the land. In such cases, there is a potential risk of over capitalisation.

Photographs of the comparable sales are an excellent way to help illustrate the similarities or differences between the subject property and the comparable sales.

VALUATION RATIONALE

The valuation rationale should tell a story. It is not sufficient for a valuer to simply state they have adopted the Direct Comparison Approach, and then supply a conclusion and bypass the reasoning for the conclusion.

A quality, well written report should explain what has been considered, what is the best evidence, and the reasoning for the valuation. The report allows the reader to get inside the valuer's head and understand his/her thoughts and reasoning, and this includes why each sale is inferior or superior.

From experience, it is particularly difficult at times to identify recent

relevant directly comparable sales that are identical and provide conclusive evidence of value. However, a valuer should determine which sales are most relevant, including whether they settled within the last six months or otherwise, and provide a detailed description of each of the sales. The valuer should also comment upon which sales are inferior, superior or comparable, and furthermore, provide appropriate reasoning and commentary on this.

Finally, it needs to be reiterated there is an element of subjectivity when valuing this class of asset. This should be commented on and discussed in the valuation report. The subjectivity may be influenced by the quality of the sales evidence. In the event there a few recent relevant sales, then there may be a high degree of subjectivity.

It has often been said valuation is as much an art as it is a science. This is particularly relevant to this class of asset. Buying a luxury home can be an emotional lifestyle choice, and as such, there is an emotional element to quantify when valuing. Such properties are not generally bought on a yield, or on a rate per square metre, but for the appeal of the lifestyle the property affords. ■

The author would like to express appreciation and gratitude in particular to Stephen Berry FAPI who assisted in this article and over many years in valuing these properties.