Comparison Method - Challenges and Implementation

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Abstract
The inability of valuers to forecast future changes in the market and the lack of consistency in valuation has been strongly criticized by clients of valuers in Malaysian valuation profession. Many had discussed the topic but the solution has yet to be discovered on how to mitigate the inconsistency. The question that arises is whether the valuers are merely the scapegoats for poor decision-making by investors and developers or whether their methodology is inappropriate for the current market. RICS (RICS, 1986) reports the continuation of widespread belief among practitioners that existing methods are sacrosanct. It is argued that changes are not made in practice despite this theoretical justification. This presupposes that valuers are accurately interpreting and reflecting market behaviour, a questionable assumption. Although several methods of valuation are available, the most popular one used by practicing valuers is a comparison method. Due to globalization factor, valuers may require to become more adaptable to various methods of valuation. If comparison method still needs to be used, it could be improved by using statistical tools. Unless the valuation profession is prepared to respond positively to such innovation, the consequences are likely to be far-reaching and unfavourable.

Introduction

Theoretically, valuers are exposed to six methods of valuation namely the comparison, cost, investment, profit or income, residual and discounted cash flow methods of valuation. Unfortunately, in practice, the main method popularly used by valuers is no other than comparison method. The practice began ever since the valuation unit under the Malaysian Treasury was founded in 1949. The comparison method played an important role in valuation exercises to arrive at the market value of the property. Other methods of valuation would normally be used to cross-check the value derived by comparison method. Research by Yu, S.M. et al (1991) shows that 94.1% of valuers in Singapore used comparison method to determine market value of properties. Millington (1982) mentioned that comparison method is the most popular method among valuers to value properties.

Why do valuers ignore the other methods of valuation in valuing properties even though the property to be valued is an investment property? This could be due to the influences of many court decisions in land reference cases, where the judge was inclined in favour of the comparison method and at the same time criticized and challenged the credibility of other methods. With reference to Nanyang Manufacturing Co. Ltd v CLR Johore Bahru (1954) 20 MLJ 69, Buhlar J, says, 'I consider that the safest guide to determine the fair market value is evidence of sales of the same land or similar in neighbourhood after making due allowances for all circumstances'.

The Concept of Market Value

Value theory addresses the question of why an asset has value. In order to have value, landed property must possess five main characteristics: utility; scarcity; demand; transferability and location (Khong M.K., 1986). The behavioural process of buyers and sellers begins in the value theory, progresses through it, and then, through the valuation theory. While value theory focuses on the characteristics that give an asset value, valuation theory is concerned with techniques, approaches or methods for determining value in an asset.

Value is an economic concept. It is the monetary relationship between goods and services available for sale and those who buy and sell them. Value is not a fact, but an estimate of the worth of goods and services at a given date according to a particular definition of value. Khong M.K (1996) reveals that the economic concept of value reflects a market's view of the