

VALUATION GUIDELINES 5

Valuation Guidelines for Collective Sales

[Under Land Titles (Strata) Amendment Act 1999]

5.1 INTRODUCTION

- 5.1.1 The purpose of this note is to provide guidance for the valuation of collective sales and the method of distribution of sale proceeds among the sellers or unit owners arising from such sales.

5.2 SALE PROCEDURE

- 5.2.1 In a collective sale, both the buyer and seller would agree on the selling price. The buyer is likely to be a developer and the sellers, the unit owners of the apartments or condominium. One or both parties may be represented by a marketing agent or Valuer. The selling price may be based on various methods of sale including negotiation although the common method is by way of tender. The basis of agreement for the sale price may be supported by a valuation report. One or both parties may engage a Valuer for this purpose.

5.3 METHODS OF VALUATION

- 5.3.1 In arriving at a value to support the selling price, the Valuer may resort to a number of methods of valuation including market comparison method, residual method and income method. Whatever method is used, the basis of valuation including evidence of comparables, should be described in detail in the valuation report. The valuation is based on the open market value concept.

5.4 METHODS OF DISTRIBUTION

- 5.4.1 Under the Land Titles (Strata) (Amendment) Act 1999 a separate report is required to be prepared by a Valuer describing the method of distribution of the sale proceeds among the sellers or unit owners. This Valuer or the marketing agent is likely to be employed by the majority of the unit owners who agree to sell their units collectively. In order to ensure that the minority unit owners are not disadvantaged, a fair method of distribution should be adopted.
- 5.4.2 In past collective sales, a number of methods of distribution have been used. These include the following:
- (i) Based purely on share value. However, this is likely to be used when the units are of the same or similar strata areas with same or similar share values.
 - (ii) Based on 50% share value and 50% strata area. This average price would even out the differences in strata areas and share values where there are big discrepancies in both among the various units.
 - (iii) Based purely on valuation. In this method, a valuation is made of a typical unit of each type or category disregarding renovations, facing, floor level etc. The general value of each type would then be multiplied by the number of units of that particular type to arrive at a total general value. The apportionment for each unit would then be arrived at by dividing the general value of the relevant unit by the total general value for the entire development and multiplying this by the land price.

- (iv) Based on a combination of valuation and share value. This is done by valuing the various typical units according to broad types or categories. The total values of these units are deducted from the actual sale price. The balance is then distributed in accordance to the share value of each unit.
- 5.4.3 Besides these methods, there may be other variations or a combination of the above methods. These methods will apply equally to those non-strata titled properties. In cases where a different approach of sale proceeds distribution from the usual methods is adopted, the Valuer should justify the basis in his report. A common example of the variation is to carry out a valuation of each of the units in the collective sale. Factors affecting values such as height, sea view etc will be taken into account. The balance is then distributed in accordance to the floor area, share value or valuation or a combination of the above whichever is appropriate. Alternatively, the valuation figure of each unit may be used as the basis of apportionment of the total sale proceeds. As the valuation of individual units requires much more work, the valuation fee will have to be agreed with the Valuer before the assignment is made.
- 5.4.4 It is reasonable to expect that the method of distribution proposed for the majority and minority unit owners may differ. Under such circumstances, the difference may be resolved by both Valuers (for both the majority and minority owners) or the majority and minority owners themselves meeting to discuss their basis for the proposed method of distribution and to reconcile the difference. In the event that the difference cannot be reconciled, the matter will be adjudicated by the Strata Titles Board based on the evidence tendered. It is essential to note that the final test of the proposed method is that the opposing minority must not be disadvantaged by the method of distribution which the majority have agreed to.