COMMERCIAL PROPERTY VALUATIONS

WHAT YOU NEED TO KNOW

COMMERCIAL PROPERTY VALUATIONS

WHAT YOU NEED TO KNOW

Commercial property is a common form of security for a loan. Many banks will require a property valuation to be conducted first, to minimise risk and to find the right value of the property. Here is some information to help you with a commercial property valuation.

Starting with commercial property type, there are two major categories in the market:

1. **Standard Commercial Property:** property which is used for business activities (shops, offices, warehouses, etc.). These can be owner-occupied or tenanted.
2. **Non-standard commercial property:** property with a particular purpose such as bed and breakfast accommodation, backpackers, motels, hotels, pubs and theme parks.

Secondly, a lender needs to consider the associated risk, complexity and/or exposure of the property, as those things can affect the property's value. Some of the essential areas to consider:

- ✓ **Property type:** standard versus non-standard commercial property
- ✓ **Property complexity:** unique features not visible from the street
- ✓ **Property location:** metropolitan versus regional areas
- ✓ **Market stability:** volatility of local market conditions including rapid changes in property prices
- ✓ **Valuation history:** new versus existing security held, and the age of the most recent valuation held
- ✓ **Loan purpose and conditions:** construction loans, first-occupancy properties, and Loan Value Ratio (LVR).

Thirdly, there are **multiple valuation types and methods** available depending on the property type, valuation thresholds, security position, zoning and the purpose of the loan. For example, you can explore the following valuation options depending on the bank's criteria. However, the valuation requirements are normally determined by the bank.

1. For **standard commercial property**
   - Contract of Sale: If the contract of sale is dated less than six months ago, the purchase price may be treated as being the value of the property. It's generally suitable for owner-occupied standard commercial property only.
   - Panel full valuation: With this type of valuation, the bank will determine their selected valuers from a panel the bank has and engage them directly, then provide the selected valuers for clients to choose. Depending on the panel valuers' turnaround times, some can take more than 40 days to complete the full valuation. Typically, the panel valuers send out the quotes to the bank for the costs of the valuation, and the client will choose which valuer to proceed with (and the client then has to pay the valuer's fees, not the bank).
   - Rates Notice: If your client's land value meets the bank's criteria, the land value in the rates notice may be treated as being the value of the property.
2. For **non-standard commercial property**, usually, the bank will require a full valuation from a panel valuer. The maximum age of this valuation is between 12 to 24 months depending on the property criteria such as security position, zoning etc.

And lastly, what you would typically receive with panel full valuations may include a complete risk analysis, market commentary, description of improvements, the basis of valuation, frequency of valuations once existed, and environmental matters. This risk analysis information is important for the bank and your client to understand. For example, if the valuation refers to risks relating to a property that your client wants to use as security for the loan, your client will need to be able to propose ways of addressing or mitigating those risks.