V for Valuations

How do we value property? Well, first of all we value residential property, differently to how we value commercial property.

So, let's look at Residential Property first:

We would look at what similar properties have sold for in the last six months, in the area that you're looking at investing in. So, the sold prices of those properties that are similar (similar number of bedrooms, similar standard of property in the vicinity, let's say half a mile to a mile vicinity of that property) will give you a fairly good indication on what that property will value for, based on sold prices within the last six months.

On Commercial Property though, it's valued very, very differently and there's a couple of ways that they can look at it:

They can look at the bricks and mortar evaluation let's say for an HMO and therefore they would value that HMO based on what residential properties are selling for but, we would want a GDV valuation (a commercial valuation) in that scenario.

That's where they would look at the gross development value (the performance of that property) based on the revenue that it generates.

So, they'll look at other factors, not just the fact that they'll give you a multiplier of EBITDA which stands for 'earnings before interest tax depreciation and amortization', but they'll look at the yield that the bank (the commercial bank) will give you, based on that valuation.

It's a little more complex on the commercial side, it's not really a one formula one size fits all, it's a little more complex and advanced.

On the Residential side, it's relatively straightforward. Just looking at properties in the vicinity let's say a half mile a mile radius of your properties and if let's say a three-bedroom terrace house has sold for a hundred thousand pounds in the last six months, and another three-bedroom house is sold for 98 and then another three-bedroom has sold for say 95 and a half, you've got a fairly good indication on what your property is going to value at.

So that's all for now and I hope that you enjoyed that very brief description on how we value properties.