

# Building Condition Survey and Assessment Report: The Use and Benefits in Sub-Sale Housing Property Valuation

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**Abstract:** The levels of defects and deteriorations in a building are the great influence to indicate the building performance instead of the services systems provided. The interaction for both people and surroundings towards the life cycle of a building gives impact on the property values. Dealing with the sub-sale housing properties, it require for Valuers expertise, experience and knowledge in property valuation in which the fourteen procedures of conducting inspection and referencing of the property were highlighted in Malaysian Valuation Standard. It is understand that the scope of inspection is limited for the purpose of valuation only. Due to integration of skill and knowledge, the condition survey and assessment of building is foreseeable to help the Valuers in preparing an accurate valuation for sub-sale houses. Questionnaire survey forms were distributed among Valuers from various public and private sectors to discover the professional perspective on this approach. The paper is of value in assessing the use and benefits of Building Condition Survey and Assessment (BCSA) report in sub-sale housing property valuation and showing that it can be used to estimate the potential value of the respective property. The main finding shows that while the Valuers acknowledge the importance of having BCSA, it is not really put into practice in conducting the sub-sale housing property valuation.

**Keywords:** building assessment, building surveying, condition Survey, inspection, sub-sale housing.

## 1. INTRODUCTION

Building is one of the properties which has proven track record as a sound investment. Most of the property investment players agreed that, people who making business with the sub-sale housing property be able to achieve good return of money. This is where property valuation takes place whereby a realistic value of building need to be justified. Valuation of a property is of major concern and requires trusted people to deal with. The qualified Valuers should be ethically trained to get a precise value of the property.

As lands and buildings are attractive and rewarded for future investment, it might affect the decision on how to determine what a respective property is worth? Kerns (2009) revealed that by understanding the condition of a property, it allows a developer, property owner, business owner, tenant or landlord to make informed real estate/business decisions that should yield long term benefits. In short, the value of sub-sale housing properties becomes more expensive over the time depending on the current market value. Somehow the condition of a building may reflect this scenario.

Referring to the Malaysian Valuation Standard (MVS), Standard 8: Inspection and Referencing of Property, Valuers are expected to carry out an adequate inspection and referencing of the

property which is to be valued, collecting and collating all relevant data about the property to enable them to arrive at a reasoned valuation. Primarily, building inspections are undertaken for many purposes but commonly it is relation to valuation, buying, selling or letting the residential property. However the nature of carrying such inspection will differ to the purpose of inspection and document's reported. In this case, inspection behaviour is the core to competently undertaking surveys which explained the competency in understanding of defects analysis and the likelihood of defects occurred in a building.

Therefore, by using the Building Condition Survey and Assessment (BCSA) report it is expected to enhance the Valuers knowledge in providing reasonable estimation of value for sub-sale housing properties.

## 2. AN OVERVIEW OF PROPERTY MARKET IN MALAYSIA

The economic downturn has had clear impact to the Malaysian real estate market that will affect the business and consumers' confidence in which it gives great influence on the decisions and response of the players in the property market. Business confidence can be seen from the establishing of new business and expansion of existing businesses. Meanwhile, consumers' confidence is dependent on employment opportunities, job securities, increase in wages and salaries as well as disposable income (Rahah 2009).

Property market is one of the significant drivers of national economic growth and Malaysia indeed offers the highest return on investment of any South-east Asia country. It is shown by the risen of the ringgit by more than 7 percent against the dollar this year, making it the best performer among 10 Asian currencies outside Japan (BBW 2010). With a positive growth and sustainable development in industrial and urbanization, it is convince that Malaysia's property market is still a sellers' market. Investor-friendly approaches given by the government such as transparent legal and banking system in place, lower buying costs, higher rental yield, no capital tax policies and second home programs

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giving Malaysia an advantage to attract influx of property investors (Rahah 2009).

As the Director General of Valuation and Property Services Department, Ministry of Finance, Abdullah Thalith explained that, Malaysia is expected to steer towards a recovery path this year, driven primarily by domestic demand, with commodity price for rubber, crude oil and palm oil which also is improving. These, he said would increase the confidence level among consumers and provide a positive impact for the property sector. It creates opportunity in greater return for selling the sub-sale housing instead of the new properties. It is understand that, the most critical success factor in property investment always refers to the strategic location followed by the degree of liquidity in property transaction. It is in line with location factor whereby most liquidated properties are situated in a strategic location. The best degree of accuracy in the property valuation can be achieved, if we choose a Valuers with experience related to the type of property which needs to be valued. It is to ensure that the property is not over valued or under valued.

### 3. PROCEDURE OF INSPECTION AND REFERENCING OF THE PROPERTY AS IN MALAYSIAN VALUATION STANDARD

In the Malaysian Valuation Standard (MVS) stated that Valuers must carry out a proper inspection and referencing of the property to the extent necessary to produce a valuation which is professional, adequate and not misleading. In respect to the Valuers duty, fourteen procedures as stated in MVS, has been set in carrying out the inspection and referencing of the property. The procedures are:

(1) The Valuers or his Designated Assistant must inspect and identify the property by reference to Survey Sheets or to identifiable and located boundary marks or to other available physical identification. Details such as title number, lot number, Mukim, District, State and address must be noted.

(2) The Valuers or his Designated Assistant must identify and confirm inspection of the neighbourhood considered relevant to his valuation.

(3) While the Valuers is not expected to undertake a structural survey nor to ascertain the adequacy of plant and equipment servicing the building, he is required to draw attention to any visible major defects, which are obvious from visual inspection.

(4) He must also ensure, in the inspection of buildings, that an internal as well as external inspection is carried out and details as are visible from inspection, such as use, accommodation, building construction, installations, state of repair of buildings and such installations, amenities and services are accurately reported. In the event that an internal inspection of the building is not possible, the Valuers must state this clearly in the valuation report and that his valuation is subject to this limitation.

(5) Where the Valuers does not himself inspect the property, he must be familiar with the locality, the type of property and the relevant market condition to enable him to satisfactorily verify his Designated Assistants inspection report and findings. The person inspecting the property must sign and date his inspection report.

(6) The "Uniform Method of Measurement of Buildings" of the Institution of Surveyors, Malaysia shall be used for all measurements of buildings.

(7) Where the valuation includes plant, machinery, and equipment, details such as brand name, A model number, size, capacity, age and other identifying characteristics must be included in the report.

(8) The Valuers must ascertain the relevant title details of the property.

(9) All relevant title details must be checked at the appropriate Land Office or Registry Office.

(10) Where the title details of the property to be valued are not maintained, kept or are not available at the Land Offices or Registries of Title, the source of such details should be identified.

(11) The valuation report must contain the title details, including the last registered owner, rights of way and other restrictions or encumbrances that have a bearing on the valuation.

(12) The Valuers must state any registered transaction on the property to be valued within the last two years of the valuation.

(13) The valuation report must disclose any assumption(s) in relation to title details, where the title is not available. Where possible, a copy of the relevant document must be included in the report.

(14) Where a valuation is affected by condition(s) in the title, it must be clearly explained in the report, so as to enable the reader to understand the underlying reasons for the Valuer's findings, opinions and conclusion.

The first five procedures mentioned in the inspection areas that are procedures (1), (2), (3), (4) and (5) is specifically address the need for the building condition survey and assessment report. With reference to the procedures highlighted in (3) and (4), the Valuers who specialized in real estate management are required to do visual inspection in identifying defects. Valuers need to be exposed with the building pathology and yet the experience practicing it will be the valuable judgment. By having this information, estimation on the building depreciation will be measured in detail. This scope of work requires for technical know what, how and why. For example if crack is detect on the wall surface, he/she needs to know what is the type of crack, how its condition (length and width of crack) and why it is happened. Even though, those information is not necessary to be evaluated by the Valuers, but the result of getting the estimation cost of repair or future renovation cost can be technically predicted. Furthermore, if the building has come out with some repair work, it can be justified in the process of valuation. It is similar for those building which has been installed with air-conditioning system, plaster ceiling, built in kitchen cabinet and etc.

Kerns (2009) explained that the most common benefit derived as a result of a Condition Survey is the clarity brought to a property purchase and/or sale. Both parties have a document that clearly defines the property condition and can be used to increase or decrease the suggested market value of a property. By understanding of BCSA, it will help the Valuers to look into detail the relevant information which will be included in the process of valuation. A property Valuers combines all their knowledge and experience with their observations and research undertaken of the property and its surrounding area which later come up with a reasonable market value.

### 4. CONDITION SURVEY AND ASSESSMENT REPORT

The principle means of obtaining information about the construction and condition of a building comes from undertaking an inspection and survey (Watt 1999). Building Condition Survey and Assessment (BCSA) needs a detail building physical health check from top to bottom examination of the building who normally conducted by a qualified building surveyor. Referring to the basics inspection skills and medium, the baseline that makes us differ from the ordinary people is on how to look and how to see in conducting the inspection (Hollis and Gibson 2000, Che-Ani 2008b).

The inspection attempts to identify significant defects, previous maintenance, future maintenance issues, gradual deterioration, and other areas of concern to determine the progress of defect (Lee

1987, Hollis and Gibson 2000, Hoxley 2002). In the preparation of valuation, the building inspection will take into account that the inspection is carried out with the intention of buying the house, and the inspection focuses on details relevant to this decision. By identifying the building issues before committing to the purchase means that we can choose to proceed with the purchase or pull out depending on what is discovered. A building inspection may identify issues that even the vendor is unaware of. The purpose of the report is to bring together all relevant information derived from the preliminary site visit, background research, detailed on-site survey and communicate to the client the implication of the building's condition (Hollis 1998). The preparation of a written report summarized in Table 1.

Hollis and Gibson (2000) and Kerns (2009) explained that condition survey provides an assessment of physical property conditions, whereby the extent of a condition survey can vary depending upon the Client's need for information. Starting with a visual observation of existing condition to periodic monitoring and testing of building and site system, the condition survey can be summarized in a one page letter or prepared in a bound report complete with test results, calculations, detailed narrative and photographs (Pitt 1997, Alani et al. 2001, Hoxley 2002, Che-Ani 2008a). This document can prove to be beneficial in the decision making process with respect to purchase, sale, refinancing, and avoiding potential claims, renovation and/or maintenance of a property and building. Mustafa et al. (2009) and (2010) explained that focusing on the rate of deterioration and decay, identification of the existing condition of a building must be detail measured to overcome the actual problem and risk associated for the next construction activities.

As mentioned by Che-Ani (2008a, 2008b), the purpose of having building inspection data are outlined below.

- To get true picture of building physical condition especially the fabric and the structure.
- To determine how large the damages or defective area and planning preventive maintenance based on priority.
- To predict the strengthens of the old element or structure and provide basic data for repair or extend works in existing building.

**Table 1: Summary of Survey and Assessment Conducted for Building**

No.	Task	Description
1	Preliminary site visit	Provide information of building occupant, familiarization of building layout, nature and extent of services and ensure availability for safe access of work.
2	Background research	Provide information on the issues concerning location, site, construction, use and occupation of the building. It includes background and historical information of the building, documentation oral and anecdotal information.
3	Detailed on-site survey	Provide information on which to make an assessment of its condition and fitness for the purpose as prescribed by relevant documents or individual need. Identification of all defects and typically include commentary on specific items.
4	Preparation of a written report	Compilation of all relevant information derived from the preliminary site visit, background research, detailed on-site survey and communicate to the client on the implication of the building condition by assessing the defects and their significance from simple palliative measures to complex repair or replacement and also cost of remedial work.

- To provide estimate cost for the repair works and giving the value of the building after considered all the defects; and
- Providing basic and design information for the future.

## 5. ANALYSIS AND DISCUSSION

The survey was conducted to 34 Valuers from various local and private sectors to give some responses on the knowledge, use and benefits of BCSA report in the property valuation which explained below and ended with the perception of Valuers on the element of inspection reported in BCSA. Most of the data were nominal data and Likert scale data. Therefore, the results were analyzed through descriptive analysis such as frequency, percentage and cross tabulation method of assessment.

### 5.1 Knowledge of Building Condition Survey and Assessment (BCSA)

According to the Table 2, 55.9% respondents were involved in selling or buying sub-sale housing property and most of the respondents which 58.8% knew about what BCSA is but only 20.69% of them had referred to the BCSA report when conducting the sub-sale housing property. About 55.9% of the respondents agreed that the information gathered from the current building inspection is sufficient for the Valuers.

In general, Valuers knew that the BCSA is a report which explains a detail condition and performance of a building. It is only when the Valuers has been fully sensitized about the use of BCSA report for the sub-sale housing property, it will make thing easier to do valuation hence reduce time in conducting the building inspection.

### 5.2 The Information of BCSA for Sub-Sale Housing Properties

The information gathered from the BCSA report will indicate the use and benefits of the document in valuation of sub-sale housing properties. See Table 3.

In general, most of the Valuers were agreed with the use and benefits of BCSA in order to help them in handling the valuation of sub-sale housing property. The responses from Valuers can be seen in Table 4. The highest responses are 76.5% who agreed with the statement number 2 and 3. About 14.7% respondents disagreed with statement number 9. Based on the respondent's view, building value not only refers to the building alone but it reflects with the current market value and its location.

By looking at the statement number 4 and 5 with 73.5%, it will be value added to the Valuers to get to know the exact condition of the building and the possible buyer will gain more information on the respective property if they proceed with the purchase. The percentages of respondents who disagree with the statements as mentioned above were so small. These give a good sign for BCSA to improve its use in future.

**Table 2: The Valuers Responses about the Knowledge of BCSA**

No.	Knowledge on BCSA (%)	Yes	No
A	Are you involved in selling/buying sub-sale housing?	55.9	44.1
B	Do you know what BCSA is?	58.8	41.2
C	Do you refer to the BCSA report when conducting the sub-sale housing property?	20.6	79.4
D	Do you think that the information gathered from the current building inspection is sufficient for Valuers?	55.9	44.1

**Table 3: Statement on Information of BCSA for Sub-Sale Housing Properties**

No.	Statement
1	To obtain the accuracy in valuing the sub-sale housing properties
2	To identify the building physical condition, defects and state of repair?
3	As a guidance while conducting building inspection for sub-sale housing properties
4	The estimated cost for remedial works can be as a baseline to determine the sub-sale housing value
5	To determine the damages or defective area and plan for preventive maintenance based on priority
6	To get information on the record of previous renovation works and cost
7	To obtain information on the previous remedial works and cost
8	To advice client on a reasoned and informed decision on whether to proceed with buying the property
9	To advice client on what is the reasonable price to pay for the property

**Table 4: The Valuers Perception on Information of BSCA for Sub-Sale Housing Properties**

Statement	Responses (%)			
	Disagree	Moderate	Agree	Did not respond
1	5.9	17.6	67.6	8.8
2	2.9	11.8	76.5	8.8
3	8.8	8.8	76.5	5.9
4	11.8	8.8	73.5	5.9
5	11.8	8.8	73.5	5.9
6	2.9	23.5	67.6	5.9
7	5.9	23.5	64.7	5.9
8	5.9	14.7	73.5	5.9
9	14.7	11.8	67.6	5.9

### 5.3 The Perception of Valuers on the Elements of Inspection for Sub-Sale Housing Properties

The respondents' perceptions on the elements of building inspection for sub-sale housing properties were shown in Table 5. From the result, it was found that, the important element was demonstrated in building condition- building state of repair with 91.2% followed by the renovation and extension to the building which is 88.2%. In overall, no obvious changes shown between all elements. Only building services provided in the building gave least percentage with 64.7%. Based on the survey, there are some other opinions for the additional elements of conducting building inspection which stated in Table 6.

In summary, most of the respondents are acknowledged about the BCSA. But unfortunately, the BCSA is not referred to when conducting the sub-sale housing property, which indicates the non-compliance to the Malaysian Valuation Standard. This should not be happen since the respondents acknowledged the information provided by the BCSA. The most important element in the BCSA is to know the building state of repair i.e. existing building condition.

One of the main reason, perhaps, that reflect the findings is back to the Malaysian practice in the valuation process of the sub-sale housing property. Malaysian practice is very much concern on the location itself, which is normal in valuation practice throughout the world. Only little emphasize is given as to provide the client with the existing building condition. In some cases where building condition is not satisfactorily (that definitely gives negative effect

**Table 5: The Respondents' Perceptions on the Elements Considered in Conducting Building Inspection for Sub-Sale Housing Properties**

Elements		Responses			
		Not important	Moderate	Important	Did not respond
1. Building condition- building state of repair	No. %	0.0 0.0	3.0 8.8	31.0 91.2	0.0 0.0
2. Renovation and extension to the building	No. %	2.0 5.9	2.0 5.9	30.0 88.2	0.0 0.0
3. Finishes-floor and wall	No. %	1.0 2.9	5.0 14.7	28.0 82.4	0.0 0.0
4. Land and building area	No. %	0.0 0.0	5.0 14.7	29.0 85.3	0.0 0.0
5. Building services	No. %	1.0 2.9	8.0 23.5	22.0 64.7	3.0 8.8

**Table 6: The Respondents' Opinion on Elements Considered in Conducting Building Inspection for Sub-Sale Houses**

Proposed elements	No. of respondents	Responses
State of maintenance	1	Strongly important
Economic life	1	Important
Facilities	1	Important
Tenant/lease	1	Important
Surrounding area	1	Important

to the valuation price), the Valuers tend to hide it from the building is in good condition, and vice-versa, thus makes the BCSA sometime gives negative impact to the valuation transaction. This might hinder the BCSA application although it is needed under the Malaysian Valuation Standard.

## 6. CONCLUSIONS

BCSA report is a comprehensive building health check to be documented by a qualified building surveyor. Though it is an option for the client to determine the building performance which covers all aspect of observation through building structures and physical elements, it facilitate the Valuers to declare any hidden cost incurred especially related to the depreciation of a building.

As to materialize and providing value added purpose of the BCSA, the Valuers need to work hand-in-hand with Building Surveyors. Since building inspection is part of the Building Surveyors 'bread and butter', their input for BCSA is very much justify, particularly as to determine the building state of repair; that lead to give reasoned and informed decision to the client whether to proceed with buying the property or not.

It can be concluded that BCSA approach for sub-sale housing properties is important. But there is something that the Valuers or Building Surveyors should improve. Many of the Valuers who knew about BCSA do not refer the BCSA report when conducting the sub-sale housing business. By referring to the BCSA report it will enhance the accuracy in preparing a genuine property valuation particularly for sub-sale housing properties.

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