Hilltop Property

What is...

Below Market Value?

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What is ... Below Market Value?

Below Market Value (BMV) in property refers to a situation where a property is being sold for less than its current market value. This can happen for a variety of reasons, such as a seller needing to sell quickly, the property being in poor condition, or the seller not being aware of the true market value of the property. Buyers may be able to secure a good deal by purchasing a property below market value, as they can potentially make a profit when selling the property in the future.

Example

A) If the house is purchased at £185,000 with a below market value (BMV) of 30%, this means that the property is being bought at a discounted price of 30% below its true market value.

So, 30% of £185,000 is £55,500 (185,000 x 0.30 = 55,500).

Therefore, the below market value of the property will be £55,500 less than the purchase price, making the true market value of the property to be £240,500 (£185,000 + £55,500 = £240,500).

B) If the property is being purchased at a below market value of 18%, the purchase price would be 82% of the actual market value.
Market value of the house = £200,000
BMV percentage = 18%
BMV = 82% (100% - 18%)
Purchase price = Market value x Below market value percentage
Purchase price = £200,000 x 82%
Purchase price = £200,000 x 0.82
Purchase price = £164,000
So the property is being purchased at a BMV of £36,000 (£200,000 - £164,000).

Advantages

- Quick profit: Investing in BMV allows investors to purchase properties at a lower price than their actual market value, providing the opportunity for quick profit when selling or renting the property at a later date.

- Increased cash flow: Purchasing properties BMV can result in higher rental yields, increasing cash flow.

- Lower risk: Buying a property BMV can reduce the risk of investment as there is potential for appreciation over time.

Disadvantages

- Limited financing options: Lenders may be hesitant to provide financing for properties that are significantly BMV, making it difficult to secure a the property unless other purchase methods are considered.

- Potential for hidden issues: There may be hidden defects or issues that can cost additional money to repair, affecting the overall profitability of the investment.