

INTRODUCING PRICE, VALUE & WORTH

- **Use of Recognised bases of Valuation as statutory requirements in respect of financial statements**

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Price/value are market driven

Worth (part of groundbreaking Mallison report 1995) based on client's circumstances (value in use).

- **Price** is the actual observable exchange price in the open market
- **Value** is an estimate of the price that would be achieved if the property were to be sold in the market
- **Worth** is a specific investor's perception of the capital sum which he would be prepared to pay (or accept) for the stream of benefits which he expects to be produced by the investment.

Worth is the underlying investment value, as opposed to valuation being an estimate of the most likely selling price termed the open market value. Individual worth is the maximum bid price of an individual purchaser who takes account of all available information in an efficient manner. Market worth is the price at which an investment would trade on a market where buyers and sellers were using all available information in an efficient manner.

Different definition of market derived and non market-derived bases of valuation

- I. Market Value**
- II. Fair Value**
 - A) Retrospective Valuation**
 - B) Forecasts**
- III. Value in Use;**
- IV. Alternative Use Value**
- V. Negative Values**
- VI. Depreciated Replacement Cost**
- VII. Social Cost Benefit Analysis**

MARKET VALUE

Market value shall mean the price at which land and buildings could be sold under private contract between a willing seller and arm's-length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period having regard to the nature of the property, is available for the negotiation of the sale.

MORTGAGE LENDING VALUE

This means the value of the property by making a prudent assessment of the future marketability by taking into account long term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses. Speculative elements may not be taken into account. Mortgage lending value is thus close to Market value, but introduces a smoothing of market trends, rents and yields.

FORCED SALE & LIQUIDATION VALUE

The forced sale value is identical to Market Value, with the exception that the time allowed for marketing is unduly short, and publicity and market exposure is inadequate. The seller may also be under duress or compulsion.

FAIR VALUE

Synonymous to Existing Use of an Asset should be adopted in relation to valuations to market of fixed assets for the purpose of financial statements. For most purposes regarded as synonymous with the Market Value

IAS 16.6 defines it as

“the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.”

Article 30 of IAS 16 (Revised 1998) deals with revaluations of assets and states as follows:

“The fair value of land and buildings is usually its Market value. This value is determined by appraisal normally undertaken by qualified value.”

FAIR VALUE is also professionally used to provide a legal definition for attributing an equitable settlement between the parties to an action which is before the courts or is in contemplation of proceedings.

VALUE IN USE

(THE CONCEPT OF WORTH) – INVESTMENT VALUE

In real estate valuation reporting, it is good practice, in order to avoid misleading the recipient, to use the word “value” only when expressing an objectively established value in exchange at a given date, to use the word “worth” only in the context of value in use.

Value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal. Value in use is calculated as the present value of estimated future cash flows. The discount rate should be a pre-tax rate that reflects current market assessments to the time value of money and the risks specific to the asset.

Refer to IAS 16, 25 and 36

ALTERNATIVE USE VALUE

Often required in the case of valuation and appraisal for security purposes or as part of a highest best use analysis.

Alternative Use Values, which cannot be realized except on liquidation, closure or removal of the business to other premises, are not suitable for inclusion in the accounts except where an intention is adduced, on the part of the directors, to dispose of the asset, when it may form part of the assessment of Market Value, and be separately classified in valuation certificate.

Where Alternative use Value differs materially from existing use value it must be reported to the client by the valuer.

NEGATIVE VALUES

Negative values arise where real estate assets are subject to physical, legal, financial or contractual obligations which are attached to the legal interest and which generate a negative real or hypothetical cash flow or which require substantial remedial works. The assets convert into a liability, or negative value.

If positive values are shown in accounts, then logic and principles of transparency require that negative values must also be reported. To report the value of a legal interest, which is actually a liability at a 'nil' valuation will fail to present a true and fair view of the company's overall position.

If a negative value is reported, the directors' attention must be drawn to the matter in notes to the valuation certificate.

DEPRECIATED REPLACEMENT COSTS

(using replacement or rebuilding cost suitably adjusted)

Fire stations, power stations, chemical works fall into this category

Depreciated Replacement Cost (DRC) is a valuation procedure which is employed to arrive at existing use value, or value in use, of specialized properties which are rarely if ever sold or let in the market other than as a part of a business. This is not considered to be a market-derived method, except for the land element of the valuation.

In the absence of any market data, DRC is often adopted as a substitute for market generated analysis. It is, therefore, unsuitable for use in respect of properties that are held for the purpose of investment, or are surplus to the operational requirements of the company that owns them.

SOCIAL COST BENEFIT ANALYSIS

Previous research into public sector leisure properties revealed that extant valuation methods (e.g. DRC and trading-related valuations for capital accounting purposes produced unhelpful figures where those assets were owned and operated primarily for social purposes (i.e. value to the community) as opposed to investment (i.e. value to the owner)

This leads to a search for a social value methodology into the realms of social Cost Benefit Analysis (SCBA). This essentially measures direct and indirect gains and losses to the impacted individuals and aggregates them as an expression of net economic value.

RETROSPECTIVE VALUATIONS

Retrospective valuations are required for a number of purposes including property tax, capital gains and wealth taxation, inheritance tax, and in connection with negligence and compensation. They may also be required for the purpose of reviewing existing valuations.

Whilst all this evidence may be relevant, it is important not to give too much weight to data that would not have been available to a valuer at the date of valuation, except, possibly to confirm or reject trends that would have been apparent at the time of the valuation.

Particular attention needs to be paid to valuations that require a review of other valuers' reports or could involve possible negligence claims. Available market reports, data bases, and valuation reports prepared at the time provide useful indicators of real market sentiment. This emphasizes the importance of keeping proper market and business records.

FORECASTS

The assessment of future value will include:

- **An analysis of market trends in respect of overall income, expenditure, rates of void occupation, capitalization and discount rates, as at the effective date of valuation;**
- **An analysis of economic trends which entails a review of the evolution of demographic and socio-economic patterns, employment co-efficients, and future competition;**
- **A study of business cycles, and macro and micro-economic climatic indicators.**

All limiting factors, agreed basis of forecasts and the exclusion of liability to the client and third parties for unforeseeable events must be pre-agreed when accepting instructions and in subsequent reporting.