

Finance 673
Real Property Valuation I

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Value Concepts and Definitions

Real Estate and Real Property

- Real estate
 - ▶ physical land and appurtenances affixed thereto
 - ▶ immobile and tangible
 - ▶ natural part of land
 - ▶ buildings and site improvements
 - ▶ all permanent building attachments (fixtures)
 - ▶ attachments above and below ground

Real Estate and Real Property
(continued)

- Real property
 - ▶ interests, benefits and rights inherent in the ownership of real estate
 - ▶ bundle of rights
 - ▶ fee simple
 - ▶ leased fee
 - ▶ leasehold
 - ▶ equity
 - ▶ mortgage

Personal Property, Fixtures and Trade Fixtures

- Personal property
 - ▶ Movable items of property not permanently affixed to the real estate
 - ▶ Furniture, fixtures and equipment (FF&E)
 - ▶ Make notation if personal property to be valued with real property

Personal Property, Fixtures and Trade Fixtures (continued)

- Fixtures
 - ▶ Becomes part of the real estate
 - ▶ Criteria
 - Manner in which it is affixed (can it be removed without damaging property?)
 - Character of the item
 - Intention of party who attached them (real the lease)

Personal Property, Fixtures and Trade Fixtures (continued)

- Trade fixtures
 - ▶ Personal property
 - ▶ To be removed by tenant when lease expires
 - ▶ Chattel

Price, Cost and Value

- Price
 - ▶ Amount a particular purchaser agrees to pay and a particular seller agrees to accept under circumstances surrounding the transaction
- Real estate market
 - ▶ created by interaction of individuals who exchange property rights for other assets (money)

Price, Cost and Value (*continued*)

- Cost
 - ▶ Production costs
 - ▶ Construction cost
 - ▶ Development cost
 - Acquisition costs (land)
 - Horizontal construction
 - Vertical construction
 - Entrepreneurial incentive (compensation for time and risk involved with development)

Price, Cost and Value (*continued*)

- Value
 - ▶ Anticipation of benefits to be received in the future
 - ▶ Value at a particular point in time
 - ▶ Types of value
 - Market value
 - Investment value
 - Use value
 - Assessed value

Price, Cost and Value (continued)

- Market value
 - ▶ Definition should be determined by intended use (i.e. for IRS, for mortgage loan)
 - ▶ Definitions
 - Buyer and seller typically motivated
 - Knowledgeable, acting in their best interest
 - Reasonable exposure time
 - Payment in cash or equivalent terms
 - Unaffected by special financing or sales concessions

Price, Cost and Value (continued)

- Use Value
 - ▶ Value a specific property has for a specific use
 - ▶ Value the use creates for the enterprise of which it is a part
 - ▶ Example - manufacturing plant designed around a particular assembly process
 - ▶ Limited-market/special purpose properties
 - Unique designs, layouts
 - Market may be so limited that cannot estimate market value, then estimate use value

Price, Cost and Value (continued)

- Investment value
 - ▶ Value of a property to a particular investor based on their investment requirements
 - ▶ Value to individual, not necessarily value in marketplace
 - ▶ Specific investment criteria must be known
 - ▶ If investor's requirements are typical of market then investment value and market value will be the same

Price, Cost and Value (continued)

- Going-concern value
 - ▶ Includes the incremental value associated with a business concern that is distinct from value of real property
 - ▶ Sometime cannot separate real property value from business enterprise value
 - ▶ Going concern value = business enterprise value (intangible) + real property value (tangible)
 - ▶ Examples: convenience stores, gas stations

Price, Cost and Value (continued)

- Assessed value
 - ▶ Value of property according to tax rolls
 - ▶ Ad valorem taxation
 - ▶ Relationship to market value
 - Assessment ratios
