

**Finance 673**  
**Real Property Valuation I**

Department of Finance  
Mays Business School  
Texas A&M University

Value Concepts and Definitions

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**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

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**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

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**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

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**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)

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**Personal Property, Fixtures and Trade Fixtures (continued)**

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

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## 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)

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## 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)

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## 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

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**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

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**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

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**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

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**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
  - ▶ Sometimes cannot separate real property value from business enterprise value
  - ▶ Going concern value = business enterprise value (intangible) + real property value (tangible) + personal property value (tangible)
  - ▶ Examples: convenience stores, gas stations

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**Price, Cost and Value (continued)**

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

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