

WHAT IS Value AND HOW TO MEASURE IT

2 HOURS - CEU # SUBMISSION

- I. WHAT DO WE MEAN BY VALUE? (20 MINUTES)
 - A. VALUE IS CREATED IN THE MINDS OF THE INDIVIDUALS IN A MARKET PLACE
 - B. BUT TO BE VALUEABLE THE ITEM MUST DEMONSTRATE "THE FACTORS OF VALUE" - THAT WHICH CREATES VALUE. THOSE FACTORS ARE:
 1. UTILITY (A SUPPLY FACTOR)
 2. SCARCITY (A SUPPLY FACTOR)
 3. DESIRE (A DEMAND FACTOR)
 4. TRANSFERABILITY
 - a. CALLED EFFECTIVE PURCHASING POWER IN THE LATEST APPRAISAL INSTITUTE TEXTS
 - b. A DEMAND FACTOR
 - B. WHAT IS MEANT BY SUPPLY AND DEMAND?
 - C. HOW DO WE DISTINGUISH BETWEEN PRICE, COST, AND VALUE?
 1. GIVE AN EXAMPLE OF PRICE
 2. GIVE AN EXAMPLE OF COST
 3. GIVE AN EXAMPLE OF VALUE
 - D. THE APPRAISER'S DILEMMA, HOW DO WE MEASURE VALUE?
- II. DEFINING VALUE FOR APPRAISAL PURPOSES (50 MINUTES TOTAL)
 - A. MARKET VALUE
 1. WHAT ARE THE CRITICAL COMPONENTS?
 2. WHAT ARE THE CRITERIA TO MEASURE IF A \$ AMOUNT IS MARKET VALUE?
 - B. FAIR MARKET VALUE (AKA "FAIR VALUE")
 1. WHO USES THIS TERM?
 2. WHY IS IT USED RATHER THAN "MARKET VALUE"?

3. ***"THE PRICE THAT WOULD BE RECEIVED TO SELL AN ASSET OR PAID TO TRANSFER A LIABILITY IN AN ORDERLY TRANSACTION BETWEEN MARKET PARTICIPANTS AT THE MEASUREMENT DATE"****

** DEFINITION FROM THE FASB (FINANCIAL ACCOUNTING STANDARDS BOARD)*

C. VALUE IN USE (AKA "USE VALUE")

1. **WHO USES THIS TERM?**
2. **WHY IS IT USED RATHER THAN MARKET VALUE?**
3. ***"THE PRESENT VALUE OF ESTIMATED FUTURE CASH FLOWS EXPECTED TO ARISE FROM THE CONTINUING USE OF AN ASSET AND FROM ITS DISPOSAL AT THE END OF ITS USEFUL LIFE"****

** DEFINITION FROM THE FASB (FINANCIAL ACCOUNTING STANDARDS BOARD)*

D. BUSINESS VALUE (AKA GOING-CONCERN VALUE)

1. **WHO USES THIS TERM?**
2. **WHY IS IT USED RATHER THAN MARKET VALUE**
3. **"THE VALUE OF A PROVEN PROPERTY OPERATION" WHICH MAY INCLUDE REAL AND PERSONAL PROPERTY AS WELL AS INTANGIBLE ASSETS.**

E. LIQUIDATION VALUE

F. INSURABLE VALUE

G.. PUBLIC INTEREST VALUE

1. **GENERAL TERM THAT RELATES HIGHEST AND BEST USE TO NON-ECONOMIC USE**
2. **CAN INCLUDE:**
 - a. **INTRINSIC VALUE**
 - b. **SCENIC VALUE**
 - c. **AESTHETIC VALUE**
 - d. **PRESERVATION VALUE**

H. ASSESSED VALUE

1. **MAY OR MAY NOT BE MARKET VALUE**
2. **USED TO DETERMINE AD VALOREUM TAXES**

III. HOW DO WE MEASURE VALUE? (50 MINUTES TOTAL)

- A. APPRAISING IS THE PROCESS OF DETERMINING A PARTICULAR VALUE (THE STANDARD OF VALUE) FOR A PARTICULAR COMMODITY USING STANDARD TECHNIQUES THAT ALLOW THE APPRAISER TO MEASURE...**
- B. THIS IS THE BASIC APPRAISAL MATRIX THAT WE SEE OUTLINED IN THE USPAP**
- C. WE MUST IDENTIFY THE PROBLEM AND DETERMINE THE SCOPE OF WORK NECESSARY TO MEET THE CLIENT'S STATE OBJECTIVE BUT *ONLY IF THAT OBJECTIVE PERMITS THE APPRAISER TO PRODUCE A "CREDIBLE" REPORT***
 - 1. WHAT IS THE CLIENT'S STATED OBJECTIVE?**
 - a. LOAN SECURITY?**
 - b. LITIGATION?**
 - C. ESTATE PLANNING**
 - d. SALE OF THE PROPERTY OR ASSET?**
 - 2. WHAT COMPONENTS MUST BE INCLUDED? - WHAT DRIVES THIS?**
 - a. IDENTIFY YOUR CLIENT**
 - b. IDENTIFY THE EFFECTIVE DATE**
 - c. IDENTIFY THE PROPERTY**
 - d. AND???**
 - 3. WHAT COMPONENTS MIGHT BE INCLUDED? - WHAT DRIVES THIS?**
 - a. MARKET STATISTICS**
 - b. GENERAL REGIONAL DATA**
 - c. SPECIFIC LOCAL DATA**
 - d. AND???**
 - 4. WHO MAKES THE FINAL DECISION AS TO WHAT IS AN ADEQUATE SCOPE OF WORK?**
- D. RESEARCH THE DATA**

E. ANALYSE THE DATA

- 1. IS THERE SUFFICIENT QUALITY AND QUANTITY OF DATA?**
- 2. WHAT IS THE DATA TELLING YOU?**
- 3. HOW CAN YOU VERIFY CONTRADICTIONARY DATA?**
- 4. ARTICULATE TO YOURSELF WHY YOU HAVE RELIED ON PARTICULAR DATA**

F. RECONCILE THE DATA

- 1. WHAT DO YOU DO WHEN ONE OR MORE INDICATORS ARE INCONSISTANT WITH THE REST OF THE DATA?**
- 4. UNDERSTANDING THE UNCERTAINTIES AND EXPLAINING THE UNCERTAINTIES**

G. DETERMINE YOUR VALUE CONCLUSION