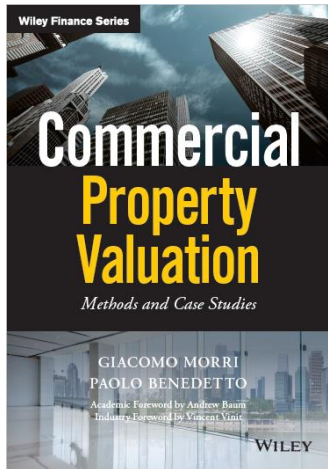


Commercial Property Valuation

Giacomo Morri & Paolo Benedetto

WILEY, 2019



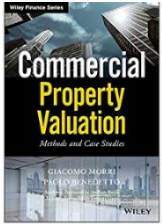
Introduction to Property Valuation

Chapter 1



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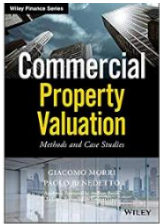
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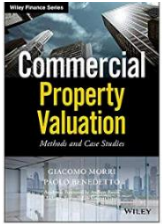
Determining the Valuation Requirement

The valuation process consists of a sequence of activities which can be defined as follows:

- **Preliminary phase:** the aim is to determine the valuation requirement and gathering/analysing the documentation required
- **Operational phase:** it includes the inspection of the property, identification of the applicable method, the gathering of market parameters, the calculation of the value using the chosen method and the writing of the valuation report
- **Conclusion:** checking the results

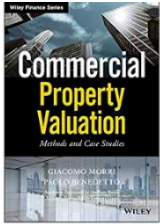


Determining the Valuation Requirement



The valuer has the task to answer the following questions:

- **What is the subject of the valuation?** (full and exclusive right of ownership over a property or a security/limited use right)
- **What is the purpose of the valuation?** (i.e. transfer purposes, strategic purposes, economic feasibility, balance sheet etc.)
- **What is the value definition to be estimated?** (i.e. market, investment or insurable value etc.)
- **What is the valuation date?** (in the past, in the present or in the future)



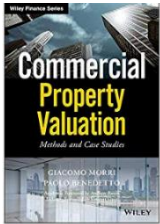
Purpose of the Valuation

- The most common purposes include, for example:
 - **Transfer purposes:** M&A, inheritance transfers, court proceedings, sale and purchase of companies, transfer of companies and business branches, IPOs, and expropriation procedures
 - **Strategic purposes:** financing transactions, valuations for insurance purposes, tax compliance, statutory compliance, and compensation disputes
 - **Economic feasibility:** feasibility analysis, purchase or leasing decisions, and investment decisions
- **For determining the Market Value, the purpose of the valuation has no impact on the value itself, which has to be unequivocal regardless of the client/Owner and his/her specific reasons**

Definitions of Market Value

There is currently no unequivocal definition of **Market Value**

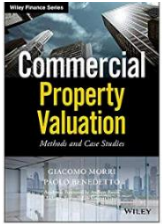
- **Appraisal Institute** (2002): *'The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress'*.
- **RICS** (2017): *'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'*.
- **TEGoVA**: *'The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion'*.

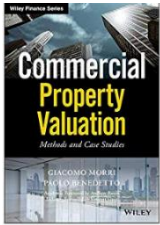


Definitions of Market Value

All the definitions include the same basic concepts

1. A certain amount of **money** has to be estimated by a competent person as being the consideration payable for the sale of the property
2. The **date** as of which this consideration must be estimated is the valuation date
3. There must be two distinct and **independent players**: a seller willing to sell at the best price achievable on the market and a buyer willing to buy, but without paying a higher price than he/she could pay for a similar asset
4. The transaction must only take place following adequate **marketing**
5. Both the seller and the buyer must act with full knowledge of all the **information** concerning the property, and both must be willing, and not obliged or forced, to complete the transaction

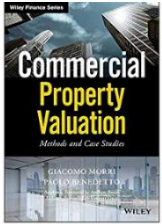




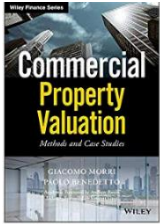
Definitions of Market Value

- The Market Value implicitly considers in its definition the **Highest and Best Use** (HBU), namely any use of the property that is physically possible (i.e. technically achievable), financially sustainable, legally permitted, economically convenient (which offers the best profitability) and which therefore allows the value itself to be maximised
- **The Market Value is, therefore, unique for each property**, and it is the best reasonable use attributed to the property by a typical player on the market

Definitions of Market Value

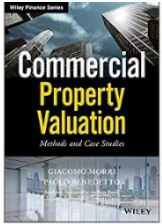


*'the estimated amount of **money**, or equivalent means, for which a property should be sold or purchased, as of the **valuation date**, by a seller and a buyer with **no particular ties** and **both interested in the transaction**, on a competitive basis, following an appropriate **marketing activity** in which both have **acted in an informed**, conscious and unrestricted way. This amount, subject to certain limits, must reflect the **Highest and Best Use** of the asset which is physically possible, financially sustainable, legally permitted and economically convenient for **ordinary players**'*



Definitions of Investment Value

- **Appraisal Institute (2002):** *'The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from Market Value, which is impersonal and detached'*
- **RICS (2017):** *'The value of an asset to the owner or a prospective owner for individual investment or operational objectives (may also be known as worth)'*
- **TEGoVA (2016):** *'Value of a property to a particular identified party for investment, owner-occupation or operational purposes'*



Definitions of Investment Value

- In seeking a **Market Value**, the valuer takes an **objective approach**
 - consequently, the data used to determine a Market Value must be the most probable data you can get from the market, without referring to a specific person or entity
- when determining an **Investment Value**, one identify **a specific person** or entity and look at the asset from his point of view, given that the Investment Value is the highest price a specific buyer may offer considering his investment requirements, his knowledge and his strategy

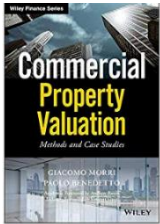
Valuation Date

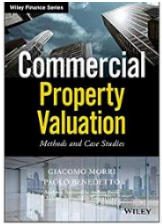
It is possible to distinguish between:

- **Report date:** ‘the date on which the valuer signs the report’

- **Valuation date** (or ‘date of valuation’): ‘the date on which the opinion of value applies’. It can be:
 - In the past: typical for tax, administrative or judicial litigations
 - In the present: typical for M&A or strategic decisions
 - In the future: typical for Development Projects

- **Date on which the investigations were carried out or were completed**





Valuation Associations, Codes and Standards

- Consistency, **objectivity and transparency** are fundamental to building and sustaining public confidence and trust in valuation
- There are numerous associations which have been created and have developed with the primary objective of providing the real estate sector with ethical and professional standards (rules of professional conduct and skills) to increase market transparency and objectivity
- The most important are:
 - **Appraisal Institute**
 - **Royal Institution of Chartered Surveyors (RICS)** -> red book
 - **TEGoVA** -> blue book



Property Finance

Real estate books, resources and links

<http://www.propertyfinance.it/it/home-english/>

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