



121 S. Cool Spring Street
Fayetteville, NC 28301
(910) 323-3222
Fax (910) 323-1180
www.keithvaluation.com
email: info@keithvaluation.com

Tom J. Keith, MAI, CBA, ASA

Anne B. Keith, Office Manager
Yolanda D. Wells
Thomas W. Bell, MBA
Jim C. Bullard
R. Cecil Carlyle
Aaron C. Locklear
David W. Duke, DMA
Brandon T. Wills
C. McBryde Grannis
W. Ben Keith

Fred R. Keith, LLD 1900 – 1988

What Kind of Value do You Order from Your Appraiser

By

Tom J. Keith, MAI, CBA, ASA*

1. **Fair Market Value:** Used by IRS and Business Valuation discipline – the *“price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts.”* Does not address the issue of marketing time, condition of sale, cash equivalency, etc.
2. **Market Value:** Used by the Real Estate profession and specifies reasonable marketing time, conditions of sale, cash equivalency, etc.

“Market value means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is

consummation of a sale as of a specified date and passing of title from seller to buyer under conditions whereby:

Buyer and seller are typically motivated;

Both parties are well informed or well advised, and each is acting in what they consider their own best interest;

A reasonable time is allowed for exposure in the open market;

Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”

Source: Office of the Comptroller of the Currency, 12CFR, part 34

Some types of real estate may take 10 years to market. How do we equate the first two definitions?

3. **“Fair Value” in Real Estate:** Specifies 12 months marketing time in real estate using the discounted cash flow (DCF-calculation of the present worth of future benefits) analysis and consideration of marketing time. Issued by the Treasury Department – Comptroller of Currency. Some accounting disciplines have adopted a similar definition.
4. **“Fair Value” in Business Valuation:** Applies to dissenting shareholders in most states

specifying that there is to be no discount to be applied in valuing a minority interest. North Carolina adopted this position.

5. **Value in Use:** Specifies value for the use to which the property is being put to. May not be market value.
6. **VA Value:** A term which applies to the value arrived at by an appraiser performing work for the Veterans Administration. Sometimes discount points and other closing cost may be added to the market value to cover loan servicing fees and mortgage insurance over the life of the loan in order to increase the yield to the investor.
7. **Cash Value:** The value assuming the buyer pays the seller cash without a third-party lender.
8. **Present Use Value:** A value typically used by the county tax assessor to indicate a value-in-use as a farm. In North Carolina, this value is established by a state committee taking into consideration soil types, federal loan rate, etc.
9. **Conservation Easement Value:** The value of a conservation easement encumbering a property.

10. **Before Value:** Generally a term applied to the value of a parcel before a taking by eminent domain.
11. **After Value:** Generally a term applied to the value of a parcel after a taking by eminent domain proceedings. The difference between the before and after value is the amount of “just compensation” the property owner is entitled to.
12. **Public Use Value:** A non-economic term that may be applied to a parcel of land that may have environmental benefits to the public.
13. **Investment Value:** Value to a particular investor. May not be market value.
14. **Going Concern Value:** Generally used by real estate appraisers to specify the value if the property continues to be used for a particular purpose. I.e. The real estate occupied by a Fast Food Restaurant business may have one value as a restaurant and one value for alternate use.
15. **Alternate Use Value:** Generally the value of an asset that was built for one purpose and is now valued based on another use.
16. **Leased Fee Value:** Generally means the market value of a property subject or encumbered by a lease. May be more or less than market value.

17. **Fractional Interest Value:** Generally applies to real estate as the value of a partial or undivided interest in real estate where the owner has the right to petition the courts to have their part separated from the other owners or sold and the cash divided. Cost of the petition to partition may be deducted from the 100% value to arrive at the fractional interest value.
18. **Undivided Interest Value:** Same as Fractional interest value.
19. **Minority Interest Value:** Generally a less than 50% ownership interest in a business entity reflecting loss of rights of control of the entity. Controlling owner may not make distributions. Some states have provision to protect minority interest owners.
20. **Control Value:** Generally the value of a shareholder who owns over 50% ownership interest in a corporation and can control the operation and distributions to minority shareholders.
21. **Book Value:** Generally the cost of assets less accumulated depreciation.
22. **Insurance Value:** Generally divided into two parts – ACV and Replacement Cost.

23. **ACV Value:** Generally the cost new less market depreciation. May deduct footings and foundation value.
24. **Replacement Cost Value:** Generally the replacement cost new without deduction for depreciation but subject to any co-insurance clauses. Applies more to newer buildings.
25. **Intangible Value:** The value of non-tangible assets.
26. **Intrinsic Value:** Generally applies to valuation of stock by a stock broker using fundamental ratios commonly applied in the securities discipline.
27. **Tax Value:** Value established by your tax assessor using a mass appraisal techniques. Goal is to create equality among properties and not necessarily market value. "Feed everybody out of the same spoon" by applying the same model or formula to everybody's property in the valuation of their property.
28. **Orderly Liquidation Value:** A process to sell of the assets of a business over a period of time, generally less than a year, to maximize the total value.
29. **Forced Liquidation Value:** A process of selling the assets at the court house door, generally within 90 days. Usually applies to

machinery and equipment but can apply to any asset. Lenders may refer to it as “fire sale’ or “quick sale” or “90 day sale.”

30. **Value in Place:** Term generally used by M & E appraiser to specify that the machinery is mounted, wired, plumbed, and ready to be turned on and operated.
31. **Value in Place and Use:** Same as “value in place” but its value as part of a going concern.
32. **Value removed:** Value used by M&E appraiser to indicate the machinery is removed, disconnected, stored and ready to market to other users.
33. **Wholesale Value:** Generally a large quantity of items valued in “bulk.”
34. **Retail Value:** Generally the value of one item priced to sell to one individual in the retail market.
35. **Timber Value:** Generally the value of standing timber attached to the land and considered part of the real estate. Sometimes the forester’s commission if deducted. The market may indicate that standing timber may not have the same value when combined with the land.
36. **True Value:** ???

- Q. Do different disciplines use different value definitions, concepts, and assumptions?**
- R. What kind of value determination to order from the real estate, machinery and equipment appraiser, and business appraiser?**
- S. Does you real estate appraiser know how to value a fractional or undivided interest?**
- Q. Is the practice in the industry the same as what's in the textbooks?**
- Q. Does marketing or exposure time have a bearing on the value?**
- Q. Do you want a value subject to lease or free and clear of lease?**
- Q. Is the sum of the parts equal to the whole?**
- Q. Is the business worth more dead than alive?**
- Q. Does your valuation team need to be able to communicate with each other?**
- Q. Who coordinates the ordering of the various values from the real estate, machinery and**

equipment, and business valuation discipline?

Q. Can you sum up assets with different marketing times?

- a. i.e. Cash with marketing time of -0-
- b. Accounts with marketing time of 90 days,
- c. Inventory with marketing time of 6 months,
- d. M&E, FF&E with marketing time of 9 months, and
- e. Real Estate with marketing time of 5 years.

Q. What is the value of 50 \$30,000 lots in a subdivision?

R. What is the value of 50 prints of 500 when each print will sell for \$200 each?

Q. Is an estate or gift to be valued in bulk or by summing up the individual assets?

Q. Which value definition is used when valuing an ESOP (employee stock option plan)?

- *MAI = Member Appraisal Institute of the Appraisal Institute
- CBA = Certified Business Appraiser by the Institute of Business Appraisers
- ASA = Accredited Senior Appraiser in Business Valuation by the American Society of Appraisers