Real Estate Valuation - Murray Bosley - Nov 30/50 -

1. History of R.E. Valuation
2. Purposes & which put
3. Definition of Value
4. Theory - mechanical process put through & determine value of R.E.
   (a) reproduction cost depreciated (summation)
   (b) Capitalization of net income
   (c) comparative approach

(1) History of R.E. Valuation
Professional society - american college - in Canada only began stretches

(2) Purposes -
(a) for selling & buying - many people determine their own price, others hire appraisers
(b) Inheritance tax on estate of deceased person - appraisers are called in to determine value of estate.
(c) Municipal tax, based on assessed value - in Prov of Ont. grants are based on assessment.
(d) in matters of expropriation - by govtal bodies in the public interest valuation must be equitable - testimony in court -
(e) other matters - family litigation - financing - mortgages

(3) Definition of Value
(a) Value in use
(b) Value in exchange

Owner is about only person who can place "value in use", real estate valuators are usually concerned with Value in exchange

definition by courts - market value = price which a willing seller with full knowledge of property & also potentiality of property - same purchaser - both under no pressure
Mr J. Thomson - what man will pay rather than appraisers differ -

Source: Nikkei National Museum, 2001-1-2-4-7-9-1
www.nikkeimuseum.org

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Value must also be of property developed to highest & best use.
Woodbine Race track appeal - highest & best use was residential
housing use - City used same approach for land, and ½ million
for stand - defense said - wreck the building - reduce assessment

4. Theory of Valuation

(a) Cost of Reproduction Approach

(i) Begin with land - Make search of land sales in area & make valuation, favorable & unfavorable factors

(ii) Then measure building - get sq. ft. area - then decide in unit cost per sq. ft. - use building services which are up to date - Then get cost of reproducing building.

(iii) Calculate physical & economic depreciation - This is a contentious issue in most cases.
In houses this is usually settled on ½% yr or 66⅔ yr. life - but depending on opinion of valuator.
Commercial & industrial - much shorter because they are usually remodeled, demolished, rebuilt - firms may change all its buildings during lifetime

(iv) add cost of land

(b) Capitalization of net income

(i) measure building - in houses estimate what house will rent for - calculate net rentable area especially for Commercial buildings - 80% or better of gross area is good.

(ii) make study of all leases current in area & reduce to a unit - so much per sq. ft. per yr. - look at space and try to compare the rentable space. Get the gross [illegible] income for the building - advertising

Source: Nikkei National Museum, 2001-1-2-4-7-9-2
www.nikkeimuseum.org

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signs on building, processed steam revenue, other income like compressed air -

(iii) Also charge vacancy allowance - this is done to protect the future income stream, also time lost by changing tenants - This is added -

(iv) Get operating expenses - taxes, utilities, sundry supplies - insurance, costs from operating experience

(v) get net income before depreciation

(vi) Capitalization of income - must calculate remaining economic life of building - commercial life is usually 50 yrs. Allow for calculated risk -

Calculate rate of return - retail locations are higher risk

To calculate present value at a given rate of interest of that stream of income - (present value factor) from tables -

Then get capital sum.

(C) Comparative Approach

(i) search at registry offices for sales - same type in area allow for change in market conditions (ii) industrial buildings try to reduce the sale to a unit - $ per sq. ft. - calculate on a area basis.

Houses - mostly on reproduction & Comparative

Industrial & Commercial Buildings - net income approach

Source: Nikkei National Museum, 2001-1-2-4-7-9-3
www.nikkeimuseum.org