

VALUATION APPROACHES/METHODS

(Salesman Lecture Notes: Eric Allen)

*The choice of approach/method will be dictated by the typical trading pattern of the asset. Is it bought and sold regularly (**market**), is it bought and sold "less" frequently, but typically for investment purposes (**income**). Is it infrequently traded, or not at all (**cost**).*

| NO | APPROACH | NO | METHOD | TYPICAL PROPERTIES USED TO VALUE |
|----|----------|----|-------------------------|--|
| 1 | MARKET | 1 | SALES COMPARISON | Residential property, agricultural land, vacant lots. Generally, any asset class where there are frequent sales, and, where there is a high degree of comparability between the units/property. |
| 2 | INCOME | 2 | INCOME CAPITALISATION | Commercial and Industrial property bought for investment purposes, where the property, or space within that property is leased (let). For example: Retail commercial (shops), professional offices, industrial (warehouses). Under international accounting standards, residential property bought for investment purposes would have to be valued using this method. |
| | | 3 | PROFITS/ACCOUNTS | Properties which are run and operated as a business, primarily where there is a degree of monopoly (legal, factual). For example, Gas stations, bars, hotels and casinos, leisure attractions (natural attractions, theme parks, golf courses etc.) |
| 3 | COST | 4 | DEPRECIATED REPLACEMENT | Properties which are infrequently traded, or not at all, where some substitution can be applied, for example the re-construction of a school on nearby lands. Public buildings, churches, institutional facilities. Not generally appropriate when the building/property is listed/protected, or has a strong heritage value. Method of Last Resort. |
| - | | 5 | RESIDUAL METHOD* | Development/redevelopment property where market activity for that type of property is infrequent or non-existent. For example, large tracts of vacant land in residential, commercial or resort areas. Involves a high degree of speculation. Some debate in the Courts as to its "legitimacy", as a method. |

**Generally the valuer will employ more than one approach/method (as a check and balance), but will rely on the most suitable method.*

*** The methods listed are not exhaustive, and there are also techniques (such as discounted cash flow, term and reversion) that can be used/applied.*

**** General (principles based) guidance is provided by the **International Valuation Standards (IVS 2017)**. More prescriptive guidance can be found in textbooks, peer reviewed journals, or established Valuation Practices.*