MARKET VALUE

TAX CODE DEFINITION OF MARKET VALUE IS AS FOLLOWS:

"Market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if;

(a) exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
(b) both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
(c) both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

TWO DEFINITIONS OF MARKET VALUE IMPLIED BY SUPREME COURT RULINGS MAY BE STATED AS FOLLOWS:

Personal property Market value is the price that dealers in the goods are willing to receive and purchasers are willing to pay when goods are bought and sold in the ordinary course of trade.

Real property Market value is the amount of money that probably would be arrived at through fair negotiations between a willing seller and a willing buyer, taking into consideration the uses to which the property may be put.

THE APPRAISAL INSTITUTE'S DEFINITION OF MARKET VALUE, DISPOSITION VALUE AND LIQUIDATION VALUE ARE AS FOLLOWS:

Market Value

Market value is based on the concept of an open and competitive market in which transactions are free of duress or forced liquidation. The report clarifies and rearranges the conditions set forth in the definition, as follows.

Market value is the most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale as of a specified date.
2. Open and competitive market for the property interest appraised.
3. Buyer and seller each acting prudently and knowledgeably.
4. Price not affected by undue stimulus.
5. Buyer and Seller typically motivated.
6. Both parties acting in what they consider their best interests.

7. Adequate marketing efforts made and a reasonable time allowed for exposure in the open market.
8. Payment made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. 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.

Disposition Value

Disposition value is the most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale within a limited future marketing period specified by the client.
2. Current actual market conditions for the property interest appraised.
3. Buyer and seller each acting prudently and knowledgeably.
4. Seller under compulsion to sell.
5. Buyer typically motivated.
6. Both parties acting in what they consider their best interests.
7. Adequate marketing effort made for the limited time allowed for completion of a sale.
8. Payment made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. 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.

Liquidation Value

Liquidation value is the most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale within a severely limited future marketing period specified by the client.
2. Current actual market conditions for the property interest appraised.
3. Buyer acting prudently and knowledgeably.
4. Seller under extreme compulsion to sell.
5. Buyer typically motivated.
6. Buyer acting in what he/she considers his/her best interests.
7. Limited marketing effort made and limited time allowed for completion of sale.
8. Payment made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. 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.

THE FOLLOWING TYPES OF SALES ARE GENERALLY <u>NOT</u> CONSIDERED ARM'S-LENGTH TRANSACTION:

1. Sales involving courts, or in which government agencies or public utilities are principals.
2. Sales in which charitable, religious or educational institutions are principals.
3. Sales in which a financial institution is the buyer and a lienholder or the seller of property taken through foreclosure.
4. Sales between relatives.
5. Sales between corporate affiliates.
6. Sales of convenience.
7. Sales settling an estate.
8. Forced sales.
9. Sales of doubtful title.
10. Auctions
11. Foreclosure sales, condemnation sales or other sales which the price was not representative of market.

ALTHOUGH THE FOLLOWING ARE CONSIDERED ARM'S-LENGTH, OPEN-MARKET SALES, BECAUSE THEY INVOLVE SPECIAL CIRCUMSTANCES, THEY SHOULD BE EITHER EXCLUDED FROM ANALYSIS OR USED WITH CAUTION:

1. Trades
2. Transactions involving partial interests.
3. Land contracts, contracts-for-deed and other installment purchase agreements.
4. Incomplete or un-built property.

THREE APPROACHES TO VALUE

The Sales Comparison Approach

The Sales Comparison Approach derives a value indication by comparing the subject being appraised to similar properties that have sold recently. It is based upon the theories of supply and demand, balance, and substitution. This approach provides one of the best methods for estimating value **if,** an ample supply of recent sales of properties with similar characteristics are available.

The Income Capitalization Approach

Income Capitalization is a valuation method appraisers and real estate investors use to estimate the value of income producing real estate. It is based upon the premise of anticipation i.e., the expectation of future benefits. This method of valuation relates value to two things:

1. the "market rent" that a property can be expected to earn and,
2. the "reversion" (resale) when a property is sold.

The Cost Approach to Valuation

The Cost Approach is based on the principle of *substitution* which asserts that no prudent buyer or investor will pay more for a property than that amount for which the site could be acquired and which improvements that have equal desirability and utility can be constructed without undue delay. It is a method of appraising property based on the depreciated reproduction or replacement cost (new) of improvements, plus the market value of the site.

MARKET PRICE VS MARKET VALUE

Market price, or value in exchange, is represented by the equilibrium price determined by supply and demand in a market. Market price is the amount actually paid in a particular transaction. The type of competition prevailing in the market is ignored in this definition. For example, no allowance is made for knowledge or prudent conduct on the part of buyer or seller, degree and type of stimulus motivating either or both, financing terms, the use for which the property is best suited or is to be put, or length of time the property is exposed to the market. Market price can, and often does, result from caprice, carelessness, desperation, egotism, ignorance, pressure, sentiment, social ambition, whim, and many other factors.

Market value, is a hypothetical, or estimated, sale price, such as would result from the careful consideration by the buyer and seller of all data, with primary reliance on those data that reflect the actions of responsible, prudent buyers and sellers under conditions of a fair sale. The definition of market value is concerned with the type of competition prevailing in the market. Although the definition does not require adherence to all the features of pure competition, it incorporates many of them. It principally leaves out the requirement that goods be exact substitutes for each other. Market value, as defined here, is what the appraiser is trying to estimate in the appraisal process.

Market price approximates market value and value in exchange under the following assumptions:

1. No coercion or undue influence over the buyer or seller in an attempt to force the purchase or sale.
2. Well-informed buyers and sellers acting in their own best interests.
3. A reasonable time for the transaction to take place.
4. Payment in cash or its equivalent.