

Glossary of Terms for International Valuation Standards



International Valuation Standards Committee

Glossary of Terms for International Valuation Standards

The sixth edition of the International Valuation Standards comprises

- Introduction
- General Valuation Concepts and Principles
- Code of Conduct
- Property Types
- International Valuation Standards:
 - Introduction to International Valuation Standards
 - IVS 1: Market Value Basis of Valuation
 - IVS 2: Valuation Bases other than Market Value
 - IVS 3: Valuation Reporting
- International Valuation Applications:
 - IVA 1: Valuations for Financial Reporting
 - IVA 2: Valuations for Lending Purposes
- Guidance Notes, of which there are eleven
 - GN 1: Real Property Valuation
 - GN 2: Valuation of Lease Interests
 - GN 3: Valuation of Plant and Equipment
 - GN 4: Valuation of Intangible Assets
 - GN 5: Valuation of Personal Property
 - GN 6: Business Valuation
 - GN 7: Consideration of Hazardous and Toxic Substances in Valuation
 - GN 8: Depreciated Replacement Cost
 - GN 9: Discounted Cash Flow Analysis for Market and Non-Market Valuations
 - GN 10: Valuation of Agricultural Properties
 - GN 11: Reviewing Valuations
- White Paper
 - Valuation in Emerging Markets
- Glossary

International Valuation Standards, Sixth Edition

International Accounting Standards referred to in the Glossary are

- Framework for the Preparation and Presentation of Financial Statements
- IAS 1, Presentation of Financial Statements
- IAS 16, Property, Plant and Equipment
- IAS 17, Leases
- IAS 22, Business Combinations
- IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- IAS 28, Accounting for Investments in Associates
- IAS 31, Financial Reporting of Interests in Joint Ventures
- IAS 32, Financial Instruments: Disclosure and Presentation
- IAS 36, Impairment of Assets
- IAS 38, Intangible Assets
- IAS 39, Financial Instruments: Recognition and Measurement
- IAS 40, Investment Property
- IAS 41, Agriculture

International Public Sector Accounting Standards referred to in the Glossary include

- IPSAS 16, Investment Property
- IPSAS 17, Property, Plant and Equipment

Accruals for Depreciation	<p>Allowances made by accountants as offsets to the original cost of assets under the historical cost convention of some States, regardless of the basis for such allowances. Accruals for depreciation are a function of an accounting convention and do not necessarily reflect the market.</p> <p>See also Accrued Depreciation.</p>	General Valuation Concepts and Principles, 3.7
Accrued Depreciation	<p>Any loss in value from the estimate of total cost new. To Valuers, accrued depreciation is a function of the market.</p> <p>At a given time, the accumulated amount of depreciation which has been entered in the account for a particular asset. Accrued depreciation is calculated as the difference between the value of a new asset and the current appraised value of the subject asset.</p> <p>Also referred to as “depreciation”. See Accruals for Depreciation, Depreciation.</p>	General Valuation Concepts and Principles, 3.7
Adequate Profitability	<p>When an asset has been valued by reference to DRC, adequate profitability is the test that the directors/managers of the entity should apply to ensure that the entity is able to support the DRC estimate. Where the directors/managers of the entity find the DRC estimate fails to meet the test of adequate</p>	GN 8, 3.6

profitability, the written down estimate represents the asset's value in use.

Administrative (Compliance) Review	A valuation review performed by a client or user of valuation services as an exercise in due diligence when the valuation is to be used for purposes of decision-making such as underwriting, purchasing, or selling the property. A Valuer may, on occasion, perform an administrative review to assist a client with these functions. An administrative review is also undertaken to ensure that a valuation meets or exceeds the compliance requirements or guidelines of the specific market and, at a minimum, conforms to Generally Accepted Valuation Principles (GAVP).	GN 11, 3.2
Adjusted Book Value	The book value that results when one or more asset or liability amounts are added, deleted, or changed from the reported book amounts.	GN 6, 3.1
Age-life Method	A method of estimating accrued depreciation by applying to the cost new of the property the ratio of the asset's effective age to its economic useful life.	

Agricultural Activity	Management of an enterprise for the biological transformation of living animals or plants (biological assets) for sale, into agricultural produce, or into additional biological assets.	IAS 41,5
All Risks Yield (ARY)	See Capitalisation Rate.	
Allowed Alternative Treatment	One of two options allowed under IAS 16,29 for measurement subsequent to initial recognition of an asset. Also called revalued amount basis (“an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses”). See also Benchmark Treatment.	
Appraiser	See Professional Property Valuer.	
Annuity	A series of payments made or received at intervals either for life or for a fixed number of periods.	
Anticipation	See Principle of Anticipation.	
Assemblage Value	See Component Value, Marriage Value.	

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Assessed, Rateable, or Taxable Value	<p>A value which is based upon definitions contained within applicable laws relating to the assessment, rating, and/or taxation of property.</p> <p>Although some jurisdictions may cite Market Value as the assessment basis, required valuation methodology may produce results which differ from Market Value as defined herein.</p> <p>The term, assessed value, is North American usage; rateable value is Commonwealth usage.</p>	IVS 2, 3.7
Asset	<p>i) A resource owned or controlled by an enterprise as a result of past events and from which some future economic benefit(s) can be expected to flow to the enterprise. Ownership of an asset is itself an intangible. However, the asset owned may be either tangible or intangible.</p> <p>ii) A resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.</p> <p>iii) An item of property, plant and equipment should be recognised as an asset when:</p> <p>a) it is probable that future economic benefits associated with the asset will flow to the enterprise; and</p>	General Valuation Concepts and Principles, 3.4 IAS Framework, 49(a); IAS 16,7

b) the cost of the asset to the enterprise can be measured reliably.

The term is used to denote real and personal property, both tangible and intangible. Ownership of an asset is itself an intangible.

See also Current Assets, Fixed or Long-term Assets, Investment Asset, Operational Asset, Specialised Asset, Surplus Asset.

Asset-Based Approach

An approach to value that examines the balance sheet of the business that reports all assets, tangible and intangible, and all liabilities at Market Value, or an appropriate carrying amount. When an asset-based approach is used in assignments involving operating businesses valued as going concerns, the value estimate obtained should be considered together with the value estimates from (an)other approach(es).

GN 6, 3.2, 6.7

Asset Valuation

In the real estate market, this expression is applied to the valuation of land, buildings, and/or plant and machinery generally for incorporation into company accounts.

In such cases, the ownership of the asset is not necessarily transferred, but the valuation is of interest to shareholders or is required for company takeovers, public listings, or mortgages.

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In other markets, besides the real estate market, this term generally refers to the valuation of an asset for sale, purchase, or other purposes.

Asset Valuer See Professional Asset Valuer.

Assumptions Suppositions taken to be true. Assumptions involve facts, conditions, or situations affecting the subject of, or approach to, a valuation but which may not be capable or worthy of verification. They are matters that, once declared, are to be accepted in understanding the valuation. All assumptions underlying a valuation should be reasonable. Code of Conduct, 3.1

See also Special, Unusual, or Extraordinary Assumptions.

Auction A sale usually in public, in which property is sold to the highest bidder, provided the amount offered equals or exceeds any reserve price set.

Auction Price The price that is the final accepted bid at a public auction; may or may not include any fees or commissions. GN 5, 3.1

See also Hammer Price, Private Treaty Sale.

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Auction Realisable Value The estimated amount that one would expect to achieve at an auction. GN 3, 3.5.4

It normally assumes that the sale is held on site and substantially all of the assets in the inventory listing are offered for sale at one time.

Benchmark Treatment One of two options allowed under IAS 16,28 for measurement subsequent to initial recognition of an asset. Also known as the cost basis or cost model (“an item of property, plant and equipment should be carried at cost less accumulated depreciation and any accumulated impairment losses”).

See also Allowed Alternative Treatment.

Biological Assets Living animals or plants (within the context of agricultural activity). IAS 41,5

Bona Vacantia Goods and land without any apparent owner. Where a person dies intestate with no designated relatives to succeed, all the person’s property passes to the government.

See also Escheat.

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- Book Value** With respect to assets, the capitalised cost of an asset less accumulated depreciation, depletion, or amortisation as it appears on the books of account of the business. GN 4, 3.11, 3.12; GN 6, 3.3.1, 3.3.2
- With respect to assets, the capitalised cost of an asset less accumulated depreciation, depletion, or amortisation as it appears on the books of account of the business.
- With respect to a business enterprise, the difference between total assets (net of depreciation, depletion, and amortisation) and total liabilities of a business as they appear on the balance sheet. It is synonymous with net book value, net worth, and shareholder's equity.
- See also Adjusted Book Value.
- Brown Field** A developed site, generally located in an urban area.
- The term, brown field, is Commonwealth usage.
- See also Green Field.
- Bundle of Rights** The combination of rights associated with the ownership of real property. The bundle-of-rights concept likens property ownership to a bundle of sticks with each stick representing a distinct and separate right of the property owner, e.g., the right to use, to sell, to lease, to give away, or to choose to exercise all or none of these rights. General Valuation Concepts and Principles, 2.3; Property Types, 2.2

Business	See Business Enterprise/Entity.	
Business Enterprise/Entity	<p>A commercial, industrial, service, or investment entity pursuing an economic activity; generally, a profit-making enterprise. A business enterprise may be unincorporated (sole proprietorships, partnerships) or incorporated (closely-held or publicly held), or take the form of trust arrangements or multiple entities. The ownership interest in a business may be undivided, divided among shareholders, and/or involve a majority interest and minority interest.</p> <p>Businesses may be valued by an asset-based approach, the income capitalisation approach, or the sales comparison approach.</p> <p>See also Going Concern, Holding Company (Investment Business), Operating Company, Property with Trading Potential.</p>	<p>Property Types, 4.1, 4.2, 4.7, 4.8; GN 6, 3.5</p>
Business Valuation	<p>The act or process of arriving at an opinion or estimation of the value of a business or enterprise or an interest therein.</p>	GN 6, 3.6
Business Valuer	<p>A person, who by education, training, and experience is qualified to perform a valuation of a business, business ownership interest, security, and/or intangible assets.</p>	GN 6, 3.4

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Capitalisation i) At a given date the conversion into the equivalent capital value of net income or a series of net receipts, actual or estimated, over a period.

ii) In business valuation, the term refers to the capital structure of a business enterprise/entity.

iii) In business valuation, this term also refers to the recognition of an expenditure as a capital asset rather than a period expense.

Method of arriving at the value of a property by reference to net returns and an expected percentage yield or return. In some States, capitalisation refers to the conversion of a stream of income into capital value using a single conversion factor.

Capitalisation Factor	Any multiple or divisor used to convert income into value.	GN 4, 3.4; GN 6, 3.8
	See also Capitalisation Rate, Income Multiplier, Valuation Ratio.	

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Capitalisation Rate (All Risks Yield)	<p>Any divisor (usually expressed as a percentage) that is used to convert income into value.</p> <p>The interest rate or yield at which the annual net income from an investment is capitalised to ascertain its capital value at a given date.</p> <p>The term, overall capitalisation rate, is North American usage; all risks yield is Commonwealth usage.</p> <p>See also Going-in Capitalisation Rate, Terminal Capitalisation Rate.</p>	<p>GN 4, 3.5; GN 6, 3.9</p>
Capital Structure	<p>The composition of invested capital.</p>	<p>GN 6, 3.10</p>
Carrying Amount	<p>The amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.</p> <p>The amount at which an asset is recognized in the statement of financial position.</p> <p>See also Net Carrying Amount.</p>	<p>IAS 16,6; IAS 36,5; IAS 38,7</p> <p>IPSAS 16,6</p>

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- Cash Flow** The actual or estimated, periodic net income produced by the revenues and expenditures/outgoings in the operation and ultimate resale of an income-producing property.
- Gross Cash Flow:* Net income after taxes plus non-cash items such as depreciation and amortisation equals gross cash flow. GN 4, 3.6
- Equity Net Cash Flow:* Gross cash flow less additions to working capital (decreases are added), less capital expenditures, less decreases in invested capital debt principal, plus increases in invested capital debt principal equals equity net cash flow. GN 4, 3.6; GN 6, 3.34.1
- Invested Capital Net Cash Flow:* Equity net cash flow plus interest payments net of tax adjustment less net increases in debt principal equals invested capital net cash flow. GN 4, 3.6; GN 6, 3.34.2
- See also Net Cash Flow.
- Certificate of Value** See Certification of Value.
- Certification of Value** Required by some States in a prescribed format for inclusion in the valuation report. In a certification of value, the Valuer declares that the statements of fact presented in the report are correct to the best of the Valuer's knowledge; the analyses and conclusions are limited only by the reported assumptions and conditions;

the Valuer has no (or if so, a specified) interest in the subject property; the Valuer's compensation is or is not contingent upon any aspect of the report; the valuation was performed in accordance with an ethical code and performance standards; the Valuer has completed a programme of professional learning; the Valuer has (or has not) made a personal inspection of the property; and no one, except those specified, has provided assistance in preparing the report.

The term certificate of value or statement of value as used in some States has no relationship to valuation reports but rather designates two other documents prepared for statutory purposes. One is the form signed by the purchaser of a property, attesting to the price paid for sale tax or stamp duty, probate duty, or estate planning purposes. The other is the document certifying the value of property sold to an authority that exercises the power of compulsory acquisition. Since an understanding of the analytical processes underlying a valuation is not required by government administrative offices, the certificate of value or statement of value only provides the stated Market Value of the property endorsed by the statutory office holder, the date of valuation, and the barest information about the property and the valuation.

See also Compliance Statement, Valuation Report.

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- Collectibles** Broad descriptive term for objects collected because of the interest they arouse owing to their rarity, novelty, or uniqueness. In some States, the term may be applied to fine art, antiques, gems and jewelry, musical instruments, numismatic and philatelic collections, rare books, and archival materials, among others. Elsewhere the term is normally used for these and a wide variety of other items not found in any other category. GN 5, 3.2
- Comparable Data** Data generally used in the valuation analysis to develop value estimates; comparable data relate to properties that have characteristics similar to the property being valued. Such data include sale prices, rents, and expenses. GN 1, 3.0
- Comparable Sales Method (Market or Direct Market Comparison Method)** A valuation procedure using sales prices or rentals of assets similar to the subject asset as a basis for estimating its Market Value for sale or rent. The underlying assumption is that an investor will pay no more for a property than he or she would have to pay for a similar property of comparable utility. Also called sales comparison approach.

Compliance Review	See Administrative Review	
Compliance Statement	An affirmative statement attesting to the fact that the Valuer has followed the ethical and professional requirements of the IVS Code of Conduct in performing the assignment. In some States, a Compliance Statement is known as Certification of Value. IVS 3, 5.1.11.1 deals with the contents of a compliance statement.	IVS 3, 3.5
Component Value	The value of those components created by the separation of property interests. See also Marriage Value.	Property Types, 2.6.1
Compulsory Acquisition/Purchase	In accordance with statutory procedures and practices, the government's taking of private property for public use upon the payment of compensation as provided for by statute. The term, compulsory acquisition/purchase, is Commonwealth usage. The terms, condemnation and damages, are used in North America. See also Condemnation, Eminent Domain.	

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- Condemnation** The act or process of enforcing the right of eminent domain. In condemnation, the loss in value to the remainder, resulting from a partial taking, is known as damages.
- The terms, condemnation and damages, are North American usage.
- See also Compulsory Acquisition/Purchase, Eminent Domain.
- Conservation Asset** See Heritage and Conservation Asset.
- Consistent Use** See Principle of Consistent Use.
- Contract Rent (Passing Rent)** The rent specified by a given lease arrangement; although a given contract rent may equate to the market rent, in practice they may differ substantially, particularly for older leases with fixed rental terms.
- GN 2, 3.1.9.2
- The term, contract rent, is North American usage; passing rent is Commonwealth usage.
- Contractor's Method** See Cost Approach.
- Control** The power to direct the management and policies of a business.
- GN 6, 3.12

Control Premium	<p>The additional value inherent in the control interest that reflects its power of control, as contrasted to a minority interest. See also Discount for Lack of Control.</p>	<p>GN 6, 3.13</p>
Cost	<p>i) The price paid for goods or services becomes its cost to the buyer.</p> <p>ii) The amount required to create or produce the good or service.</p> <p>Cost is a production-related concept, distinct from exchange. Once the good is completed or the service is rendered, its cost becomes an historic fact.</p> <p>The total cost of a property includes all direct and indirect costs of its production.</p> <p>See also Direct Costs, Indirect Costs, Price, Value</p>	<p>General Valuation Concepts and Principles, 4.3, 4.10; Introduction to IVS 1, 2 and 3, 3.2</p>
Cost Approach (Method)	<p>A comparative approach to the value of property or another asset, that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. The Valuer's estimate is based on the reproduction or replacement cost of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an esti-</p>	<p>General Valuation Concepts and Principles, 9.3.1; Property Types, 2.7.1; GN 1, 5.11; GN 5, 3.3</p>

mate of entrepreneurial incentive or developer's profit/loss is commonly added.

See also Depreciated Replacement Cost, Depreciation, Replacement Cost, Reproduction Cost.

**Cost
Approach
for Valuing
Fine Art**

A comparative approach to the value of fine art that considers as a substitute for the purchase of a given work of fine art the possibility of creating another work of fine art that replaces the original. The Valuer's estimate is based on the reproduction or replacement cost of the subject work of fine art, and the nature of the replacement, i.e., whether it be new for old, indemnity basis, a replica, or a facsimile.

GN 5, 3.4

"New for old" refers to the cost of purchasing the same item or, if unavailable, an item similar in nature and condition in the retail market for new works of fine art.

"Indemnity basis" refers to the cost of replacing an item with a similar item in similar condition in the second-hand retail market for art and antiques.

A "replica" is a copy of the original item, as near as possible to the original in terms of nature, quality, and age of materials but created by means of modern construction methods.

A “facsimile” is an exact copy of the original item, created with materials of a closely similar nature, quality, and age and using construction methods of the original period.

Crop(ping) Farms	Agricultural properties used for growing commodities that are typically planted and harvested within a twelve-month cycle. Properties used for annual crop production may grow more than one type of annual crop over the same period and may or may not make use of irrigation to produce the crops. Some commodities are <i>annual crops</i> that may be left in the ground beyond a twelve-month cycle, per contract provisions or in circumstances where market conditions are unfavorable. These crops will last for more than one year after harvest but are considered less than permanent. See also Irrigated Land, Perennial Plantings.	GN 10, 3.1
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Curable Depreciation	Those items of physical deterioration and functional obsolescence which are economically feasible to cure.
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Current Assets

i) Assets not intended for use on a continuing basis in the activities of the enterprise such as stocks, obligations owed to the enterprise, short-term investments, and cash in bank and in hand. In certain circumstances real estate, normally treated as a fixed asset, may be treated as a current asset. Examples include improved real estate held in inventory for sale.

General Valuation Concepts and Principles, 3.5.1

ii) An asset that:

IAS 1,57

a) Is expected to be realised in, or is held for sale or consumption in, the normal course of the entity's operating cycle; or

b) Is held primarily for trading purposes or for the short-term and is expected to be realised within twelve months of the balance sheet date; or

c) Is cash or a cash equivalent asset which is not restricted in its use.

All other assets should be classified as non-current assets.

See also Non-Current Assets.

Current Cost Convention (Accounting)

A method of preparing a company's accounts in which the fixed assets are stated at their value to the business based on current rather than historic costs.

This refers to the present cost of acquiring a replacement asset that will provide the same service.

See also Historic Cost Convention.

Dairy Farms	Agricultural properties used for the production of milk from cows or for other dairy products. These properties usually have extensive structural improvements (barns, milking parlours, silos) and equipment (feed bins, milking machines). Feed may be produced on the property, imported, or supplied by both sources.	GN 10, 3.6
Damages	See Condemnation.	
Debenture	Written acknowledgement or evidence of a debt, especially stock issued as security by a company for borrowed money.	
Deed Restrictions and Restrictive Covenants	Lawful limitations, usually on use or intensity of use, that run with the land regardless of the owner.	Property Types, 2.2.4
Definition of the Valuation Assignment	See Specifications for the Valuation Assignment.	
Demand (in a Property Market)	The number of possible buyers or renters seeking specific types of property interests at various prices in a given market within a given period of time, assuming other factors such as population, future	Introduction to IVS 1, 2 and 3, 2.3

prices, and consumer preferences remain constant.

See also Market, Principle of Supply and Demand, Supply.

Depreciable Amount	<p>i) The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.</p> <p>ii) That element of an asset that depreciates over its useful life. The depreciable amount represents the wasting element of the asset, the balance being the residual amount. Typically, buildings or improvements are treated as the depreciable amount while land is the residual amount. However, leasehold land would also be depreciable.</p>	IAS 16,6; IAS 36,5; IAS 38,7; IPSAS 17,12
Depreciated Replacement Cost (DRC)	<p>DRC is an acceptable method used in financial reporting to arrive at a surrogate for the Market Value of specialised or limited market properties, for which market evidence is unavailable. DRC is based on an estimate of the Market Value for the Existing Use (MVEU) of the land plus the current gross replacement (reproduction) costs of the improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. DRC may be either described as a valuation methodology or as a basis of valuation/defined value.</p>	IVS 2, 3.8; GN 8, 3.1

Note: In order to remain consistent with IAS 16, modification of this definition is required. An exposure draft of the new proposed definition will be released as soon as possible.

The result, which includes a non-market value component, is referred to as the Depreciated Replacement Cost estimate. This result is subject to the adequate potential profitability or service potential of the entity from the use of the assets as a whole. Such an assumption can be accepted or rebutted.

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| Depreciation | i) Loss in value from the cost new and caused by physical deterioration, functional (technical) obsolescence, and/or economic (external) obsolescence. Also called accrued depreciation or accumulated depreciation. | General Valuation Concepts and Principles, 3.7 |
| | ii) The systematic allocation of the depreciable amount of an asset over its useful life. | IAS 16,6; IAS 36,5; IPSAS 17,12 |

In accounting, depreciation refers to one or more deductions made for accounting (taxation) purposes to allow for the actual or assumed reduction in the capital value (cost) of an asset over an assumed or prescribed period.

See also Accruals for Depreciation.

Deprival Value

i) In a market context, the cost to an owner-occupier of going into the market to purchase a replacement asset; also called net current replacement cost.

ii) In a non-market context, the value of an asset to the present owner, equaling the higher of its utility value to that owner or the asset's exit or disposal value.

In the second context, deprival value is an example of a valuation basis that reflects the non-market concept of value in use of assets as part of a going concern and is sometimes referred to as optimal deprival value.

See also Going Concern Value, Impairment Loss, Service Potential.

Desk Review

A valuation review that is limited to the data presented in the report, which may or may not be independently confirmed. Generally performed using a checklist of items. The reviewer checks for the accuracy of calculations, the reasonableness of data, the appropriateness of methodology, and compliance with client guidelines, regulatory requirements, and professional standards. See also Field Review.

GN 11, 3.4

Develop	To carry out any building, engineering, mining, or other operations in, on, over, or under the land or the making of any material change in the use of any building or land.	
Direct Costs	Costs associated directly with the physical production of an asset, such as material and labour.	
Discount for Lack of Control	An amount or percentage deducted from a pro-rata share of the value of 100 percent of an equity interest in a business, to reflect the absence of some or all of the powers of control. See also Control Premium.	GN 6, 3.14
Discount Rate	A rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, i.e., the rate of return the capital can earn if put to other uses having similar risk. Also called yield rate.	GN 9, 3.4
Discounted Cash Flow (DCF) Analysis	A financial modelling technique based on explicit assumptions regarding the prospective cash flow to a property or business. As an accepted methodology within the income approach to valuation, DCF analysis involves the projec-	GN 9, 3.1

tion of a series of periodic cash flows either to an operating property, a development property, or a business. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property or business. In the case of operating real properties, periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. The series of periodic net operating incomes, along with an estimate of the reversion/terminal value, anticipated at the end of the projection period, is then discounted. In the case of development properties, estimates of capital outlays, development costs, and anticipated sales income are estimated to arrive at a series of net cash flows that are then discounted over the projected development and marketing periods. In the case of a business, estimates of periodic cash flows and the value of the business at the end of the projection period are discounted.

The most widely used applications of DCF analysis are the internal rate of return (IRR) and net present value (NPV). The techniques may be used for the valuation of land and investments and the ranking of projects.

Dividends Method	See Discounted Cash Flow Analysis.	
Easement	Nonpossessory (incorporeal) interest in landed property conveying use, but not ownership, of a portion of that property. See also Right of Way.	Property Types, 2.2.4.2
Economic Life	i) The number of years over which assets are expected to render services of economic value, i.e., the time remaining for the asset to earn profits. ii) The period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.	IAS 17,3
Economic Obsolescence	A loss in value due to factors outside the subject asset. Economic obsolescence is also called external, environmental, or locational obsolescence. Examples of economic obsolescence are changes in competition or in surrounding land uses like an industrial plant near a residential area. It is deemed incurable as the expense to cure the problem is impractical.	
Economic Rent	See Market Rent.	

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Effective Age	<p>The age of an item, such as a building, as indicated by its physical condition and utility compared to its useful life, in contrast to its chronological age.</p> <p>The amount of maintenance and care given to the building will help determine its effective age. A 5-year-old building may have an effective age of 10 years due to poor maintenance of the building.</p>	
Effective Date	<p>The date as of which the Valuer's opinion applies. Also referred to as valuation date and/or as of date.</p>	
Elements of Comparison	<p>Specific characteristics of properties and transactions that cause the prices paid for real estate to vary. Elements of comparison include property rights conveyed, financing terms, conditions of sale, market conditions, location, and physical and economic characteristics.</p>	GN 1, 3.3
Emerging Market	<p>A market growing in size and sophistication and found in a national economy, which is in transition to becoming more developed and market-based. An emerging market may be a financial market with a short operating history and/or low level of capitalisation. Characteristics common to emerging markets may include significant structural changes in the</p>	Valuation in Emerging Markets White Paper, 2.1

national economy; rapid development of political, legal, and institutional frameworks; and transitioning from a planned or command economy to a market-based economy. As a result, emerging markets are becoming increasingly globalised.

Eminent Domain

The right of government to take private property for public use upon payment of just compensation.

The term, eminent domain, is North American usage.

See also Compulsory Acquisition, Condemnation.

Encumbrance

An interest or right in real property that may increase or decrease the value of the property but does not prevent its conveyance by the owner. Examples include easements and restrictive covenants.

Enterprise/Entity

See Business Enterprise/Entity.

Environmental Factors

Influences external to the property being valued which may have positive effect, negative effect, or no effect at all on the property's value. Hazardous or toxic substances may be found either on or off the site of the property valued.

GN 7, 3.1.1

International Valuation Standards, Sixth Edition

Equipment	This includes ancillary assets that are used to assist the function of the enterprise.	GN 3, 3.1.3
Equitable or Equity Interest	<p>The interest of a beneficiary under a trust as opposed to the legal interest of the trustee(s).</p> <p>A beneficiary is said to hold equitable title while legal title is held by the trustee(s).</p>	Property Types, 2.2.5.2
Escheat	<p>The right of the government to take titular ownership of a property when its owner dies without a will or ascertainable heirs.</p> <p>See also Bona Vacantia.</p>	
Excess Rent	A rental that is more than market rent; such rental, if considered at all, is commonly capitalised at a higher discount rate because of the higher risk and potential uncertainties associated with the consequences of the lessee's disadvantage. From a lessee viewpoint, it is from the payment of excess rent that a negative market rent to the lessee interest may arise. In some States any value which is ascribed to excess rent is considered personal property because its basis arises from the contract, not the real estate.	GN 2, 3.1.10
Existing Use Value (EUV)	See Market Value for the Existing Use.	

Expense Pass-throughs (Recoverable Costs)	<p>A form of rent escalation in which the tenant pays a direct share of the operating expenses.</p> <p>The term, expense pass-throughs, is North American usage; recoverable costs is Commonwealth usage.</p> <p>See also Rent Escalations.</p>	
Expenses	<p>See Operating Expenses.</p>	
External Obsolescence	<p>See Economic Obsolescence.</p>	
External Valuer	<p>A Valuer who, together with any associates, has no material links with the client company or the subject of the assignment.</p> <p>See also Independent Valuer, Internal Valuer.</p>	<p>Code of Conduct, 3.4</p>
Fair Value	<p>i) The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.</p> <p>In accounting, fair value anticipates a sale which may occur in differing circumstances and in conditions other than those prevailing in the (open) market for the normal, orderly disposition of assets. These include the possibility of a sale under short-term distress situations or other circumstances not contemplated in the Market Value definition.</p>	<p>General Valuation Concepts and Principles, 8.1; IAS 16,6; IAS 17,3 etc.; IPSAS 16,6; IVA 1, 3.1, A6.4 et seq.</p>

International Valuation Standards, Sixth Edition

ii) The term fair value is also used in legal actions to derive a settlement in disputes between parties, the circumstances of which may not meet the definition of Market Value. Hence fair value is not synonymous with Market Value.

iii) Fair value may represent the service potential of an asset, i.e., the future economic benefits embodied in the asset in terms of its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. IVA 1, A6.4

Fee Simple (Estate) Absolute ownership subject only to limitations imposed by the State; also called freehold. Property Types, 2.2.2

Field Review A valuation review that includes inspection of the exterior and sometimes the interior of the subject property and possibly inspection of the comparable properties to confirm the data provided in the report. Generally performed using a checklist that covers the items examined in a desk review and may also include confirmation of market data, research to gather additional data, and verification of the software used in preparing the report. See also Desk Review. GN 11, 3.5

International Valuation Standards, Sixth Edition

Finance Lease	<p>A lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.</p> <p>See also Operating Lease.</p>	IAS 17,3
Financial Asset	<p>Any asset that is a) cash; b) a contractual right to receive cash or another financial asset from another enterprise; c) a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favorable; or d) an equity instrument of another enterprise.</p>	IAS 32,5; IAS 39,8
Financial Instrument	<p>Any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.</p>	IAS 32,5; IAS 39,8
Financial Interests	<p>The interests i) created by mortgage pledges where the property is used as collateral to secure finance or a charge is taken over the property; or ii) representing the owner's equity interest in the property.</p> <p>Financial interests also result from the legal division of ownership interests in businesses and real property (e.g., partnerships, syndications, corporations, cotenancies, joint ventures), from the contractual grant of an option to buy or sell property at a stated price within a specified period, or from the cre-</p>	<p>Property Types, 2.2.5.3</p> <p>Property Types, 5.1</p>

ation of investment instruments secured by pooled real estate assets (securitised investment instruments).

Financial Liability

Any liability that is a contractual obligation a) to deliver cash or another financial asset to another enterprise; or b) to exchange financial instruments with another enterprise under conditions that are potentially unfavorable.

IAS 32,5; IAS 39,8

Financial Modelling

The projection of a business's or property's periodic income or cash flow pattern from which measures of financial return can be calculated. Income or cash flow projections are generated through the use of a financial model that takes into account historical relationships between income, expense, and capital amounts as well as projections of those variables. Financial modelling may also be used as a management tool to test expectations for property performance, to gauge the integrity and stability of the DCF model or as a method to replicate the steps taken by investors in making decisions involving the purchase, sale, or holding of a property or business.

See also Discounted Cash Flow Analysis.

GN 9, 3.2

**Financial
Statements**

i) In accounting, these comprise the balance sheet and income and expenditure statement (Profit and Loss Account). They are written statements of the financial position of a person or company.

ii) A complete set of financial statements, including the following components: IAS 1,7

- a) Balance sheet;
- b) Income statement;
- c) Statement showing either:
 - 1) all changes in equity; or
 - 2) changes in equity other than those arising from capital transactions with owners and distributions to owners.
- d) Cash flow statement; and
- e) Accounting policies and explanatory notes.

iii) Financial records of prescribed content and form for publication in the interests of common information needs of a wide range of third-party users who are not necessarily identifiable. There is a measure of public accountability associated with financial statements that are developed within a regulatory framework of accounting standards and the law. Financial statements are used to report the financial position and performance of an enterprise. IVA 1, A1.1

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Fixed or Long-term Assets	See Non-Current Assets.	
Fixtures and Fittings	The totality of improvements integral to a property, valued collectively. See Trade Fixtures or Tenant's Fixtures.	GN 5, 3.5
Forced Sale (Liquidation) Value	i) Market Value, with a proviso that the vendor has imposed a time limit for completion of the sale which cannot be regarded as a reasonable time period, taking into account the nature of the asset, its location, and the state of the market. ii) The amount which may reasonably be received from the sale of a property within a time frame too short to meet the marketing time frame of the Market Value definition. In some States forced sale value in particular may also involve an unwilling seller and a buyer or buyers who buy with knowledge of the disadvantage of the seller.	IVS 2, 3.10
Forestry/ Timberland	Agricultural property used for the growing of non-orchard trees that are periodically harvested over extended growing periods (10 to 20 or more years). Considered to be agricultural properties because they produce a crop, i.e., wood, even though that crop requires a long-term growing period. See also Perennial Plantings.	GN 10, 3.7

Fractional Interests	See Partial Interests.	
Freehold	Absolute ownership subject to limitations imposed by the state; also an estate held for perpetuity. In certain States, it is known as a fee simple estate.	Property Types, 2.2.2
Freehold Interest	A fee simple estate representing the perpetual ownership in land.	GN 2, 3.1.1
Freehold Investment	Also called freehold subject to lease interests; has the same meaning as leased fee interest and represents the ownership interest of a lessor owning real property that is subject to (a) lease(s) to others.	GN 2, 3.1.5
Freehold or Leased Fee Value	Generally considered to be the sum of the present value of anticipated net incomes to be received under the lease plus the present value of the anticipated value of the property when use and possession are regained by the lessor. In practice, the type of value (i.e., Market Value) must be identified, defined, and appropriate to the situation.	GN 2, 3.1.11.1
Functional Obsolescence	A loss in value within a structure due to changes in tastes, preferences, technical innovations, or market standards. Functional obsolescence includes excess capital costs and excess	

International Valuation Standards, Sixth Edition

operating costs. It may be curable or incurable.

Also called technical obsolescence.

Furniture, Fixtures, and Equipment (FF&E)

A term used in North America to refer to tangible personal property plus trade fixtures and leasehold improvements.

Property Types, 3.2.2.2; GN 5, 3.6

See also Personal Property.

GAVP

Generally Accepted Valuation Principles; best practice in the Valuation profession.

Introduction/IVS Objectives and Scope

Going Concern

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

IAS Framework, 23; IVA 1, A5.4

An operating business.

GN 4, 3.11; GN 6, 3.19.1

Going concern also serves as a premise under which Valuers and accountants consider a business as an established enterprise that will continue in operation indefinitely. Adoption of a going concern prem-

GN 6, 3.19.2, 5.7.1

ise allows the business to be valued above liquidation value and is essential to the development of the Market Value of the business.

**Going
Concern
Value**

The value of a business as a whole, subject to adequate potential profitability or service potential of the enterprise, with all its assets and liabilities, goodwill and potentialities. IVS 2, 3.5, 6.4

If the premises used are owned by the business, they form part of the going concern value on the basis of their value to the business. The concept involves valuation of a continuing enterprise from which allocations or apportionments of overall going concern value may be made to constituent parts as they contribute to the whole, but none of the components of themselves constitute Market Value.

See also Deprival Value

The value of a business, or an interest therein, as an operating business. GN 4, 3.12.1, 3.12.2; GN 6, 3.20.1

Intangible elements of value in a business enterprise resulting from factors such as having a trained workforce, an operational plant, and the necessary licences, systems, and procedures in place. GN 6, 3.20.2

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Going-in Capitalisation Rate (Initial Yield)	<p>The initial net income at the date of transaction or valuation expressed as a percentage of the sale price or valuation.</p> <p>The term, going-in capitalisation rate, is North American usage; initial yield is Commonwealth usage.</p>	
Goods and Chattels Personal	<p>In certain States, the term used for identifiable, portable, and tangible objects considered by the public to be personal property.</p> <p>See also Personal Property.</p>	Property Types, 3.2.1; GN 5, 3.7
Goodwill	<p>i) This is an intangible but marketable asset based on the probability that customers will continue to resort to the same premises where the business is carried on under a particular name, or where goods are sold or services provided under a trade name, with the result that there is likely to be continuing prospect of earning an acceptable profit.</p> <p>Goodwill may be property-specific or inherent within the property. Or goodwill may be largely or wholly personal. In such case, the goodwill element will be extinguished upon sale of the property.</p> <p>That intangible asset that arises as a result of name, reputation, customer patronage, location, products, and similar factors, which generate economic benefits.</p>	Property Types, 4.4.2.1 GN 4, 3.13; GN 6, 3.21

ii) Any excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction. IAS 22,41

Green Field An undeveloped site for which development is proposed; green fields are usually located on the periphery, or outside, of an urban area.

The term, green field, is Commonwealth usage.

See also Brown Field.

Ground Lease Usually a long-term lease of land with the lessee permitted to improve or build on the land and to enjoy those benefits for the term of the lease. GN 2, 3.1.8.1

Hammer Price The accepted and announced bid, exclusive of any fees or commissions and, therefore, not necessarily the purchase price. See also Auction Price, Private Treaty Sale. GN 5, 3.8

Hazardous Substance In the context of valuation, any material within, around, or near the property being valued that has sufficient form, quantity, and bio-availability to create a negative impact on the property's Market Value. GN 7, 3.2

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Headlease or Master Lease	<p>A lease to a single entity, which is intended to be the holder of subsequent leases to sublessees that will be the tenants in possession of the leased premises.</p> <p>The term, headlease, is Commonwealth usage; master lease is North American usage.</p>	GN 2, 3.1.6
Headleasehold Interest (Sandwich Lessor Interest)	<p>The intermediate interest between a superior interest, such as the freehold, and sub- or under-leasehold interest(s), such as tenants in possession. The owner of the headleasehold interest is therefore both a lessee, to the superior interest, and a lessor, to the subordinate interest(s).</p> <p>The term, headleasehold interest, is Commonwealth usage; sandwich lessor interest is North American usage.</p>	GN 2, 3.1.7
Heritage and Conservation Asset	<p>An asset having some cultural, environmental, or historical significance. Heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Heritage assets often display the following characteristics (although these characteristics are not necessarily limited to heritage assets):</p> <p>a) their economic benefit in cultural, educational, and historic terms</p>	This definition is consistent with the definition of heritage assets in IPSAS 17.8.

is unlikely to be fully reflected in a financial value based purely on market price;

b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

c) they are often irreplaceable and their economic benefit may increase over time even if their physical condition deteriorates; and

d) it may be difficult to estimate their useful lives, which in some cases could be hundreds of years.

It should also be noted that the criteria set by government to designate what a heritage asset is may not correspond to the criteria used in the private sector.

Highest and Best Use

The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

General Valuation Concepts and Principles, 6.3

See also Market Value.

Historic (Historical) Cost Convention (Accounting)

i) The traditional accounting convention for the compilation of financial statements on the basis of costs actually incurred by the current owner. The use of such accounting convention may not reflect the underlying value of the assets at the date of the annual accounts.

General Valuation Concepts and Principles, 8.7

International Valuation Standards, Sixth Edition

	<p>ii) Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.</p> <p>See also Current Cost Convention.</p>	IAS Framework, 100(a)
Holding Company (Investment Business)	An enterprise which maintains the controlling interest in subsidiary companies by virtue of ownership of stock in those companies; a business which receives returns on its assets.	Property Types 4.3.1; GN 6, 3.22
Impairment	<p>When recoverable amount declines below carrying amount.</p> <p>See Carrying Amount, Impairment Loss, Recoverable Amount.</p>	IAS 36,5
Impairment Loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.	IAS 16,6; IAS 36,5; IAS 38,7

Improvements	Buildings, structures, or modifications to the land, of a permanent nature, involving expenditures of labour and capital, and intended to enhance the value or utility of the property. Improvements have differing patterns of use and economic lives. See also Land, Value of Improvements.	IVA 1, 3.3; GN 8, 3.5
Income	See Net Income.	
Income (Capitalisation) Approach	A comparative approach to value that considers income and expense data relating to the property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually net income) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (whereby an overall capitalisation rate or all risks yield is applied to a single year's income), yield or discount rates (reflecting measures of return on investment) applied to a series of incomes over a projected period, or both. The income approach reflects the principle of anticipation.	General Valuation Concepts and Principles, 9.3.3; Property Types, 2.7.3; GN 1, 5.13; GN 5, 3.9

International Valuation Standards, Sixth Edition

Income Multiplier (Years' Purchase)	<p>The ratio between the sale price or value of a property and the average annual income or income expectancy; may be based on gross or net income. It is applied to income to arrive at capital value.</p> <p>The term, income multiplier, is North American usage; years' purchase is Commonwealth usage.</p> <p>See also Capitalisation Factor, Investment Method, Valuation Ratio.</p>	
Incurable Depreciation	<p>Those items of physical deterioration and functional obsolescence which are not economically feasible to cure</p>	
Indemnity Value	<p>It is the cost necessary to replace, repair, or rebuild the property insured to a condition substantially the same as, but not better or more extensive than, its condition at the time that the damage occurred taking into consideration age, condition, and remaining useful life.</p>	GN 3, 3.5.6
Independent Valuer	<p>A Valuer who meets the specific requirements of independence, which may attach to many assignments and are applied by regulation or by law with some clients and in certain States.</p> <p>See also External Valuer.</p>	Code of Conduct, 3.6; IVA 2, 6.8.3

Indirect Costs	<p>Costs associated with construction or manufacture that cannot be actually identified in the asset.</p> <p>Examples include insurance, financing cost and taxes during construction, architect's fees, management costs, and legal expenses.</p>	
Infrastructure	<p>Assets which usually display some or all of the following general characteristics:</p> <ul style="list-style-type: none">a) they are part of a system or network;b) they are specialised in nature and do not have alternative uses;c) they are immovable; andd) they may be subject to constraints at time of disposal.	<p>This definition is consistent with the definition of infrastructure assets in IPSAS 17,21.</p>
Initial Yield	<p>See Going-in Capitalisation Rate.</p>	
Injurious Affection	<p>The diminution in the value of a property interest resulting from the use of statutory powers.</p> <p>The term, injurious affection, is Commonwealth usage.</p> <p>See also Damages.</p>	
Insurable Value (or Insurance Replacement Cost)	<p>It is the depreciated replacement cost new as defined in the insurance policy, less the depreciated replacement cost new of the items specifically excluded in the policy, if any.</p>	<p>GN 3, 3.5.3</p>

**Internal
Rate of
Return
(IRR)**

The discount rate that equates the present value of the net cash flows of a project with the present value of the capital investment. It is the rate at which the Net Present Value (NPV) equals zero. The IRR reflects both the return on the invested capital and the return of the original investment, which are basic considerations of potential investors. Therefore, deriving the IRR from analysis of market transactions of similar properties having comparable income patterns is a proper method for developing market discount rates for use in valuations to arrive at Market Value.

GN 9, 3.5

Used in discounted cash flow analysis to find the implied or expected rate of return of the project, the IRR is the rate of return which gives a zero net present value (NPV).

**Internal
Valuer**

A Valuer who is in the employ of either the enterprise that owns the assets or the accounting firm responsible for preparing the enterprise's financial records and/or reports. An Internal Valuer is generally capable of meeting all the requirements of independence and professional objectivity required under the Code of Conduct, but for reasons of public presentation and regulation may not always be acceptable to fill the role of Independent Valuer in certain types of assignments.

Code of Conduct,
3.4

See also External Valuer.

International Valuation Standards, Sixth Edition

Intrinsic Value	In some States, the amount considered, on the basis of an evaluation of available facts, to be the “true” or “real” worth of an item. A long-term, Non-Market Value concept that smoothes short-term price fluctuations.	GN 5, 3.10
Invested Capital	The sum of the debt and equity in a business on a long-term basis.	GN 6, 3.24
Investment	<p>i) Using a capital sum to acquire an asset which is expected to produce an acceptable flow of income and/or appreciate in capital value.</p> <p>ii) The term is also used to refer to an asset acquired for the purpose of investment.</p> <p>See also Investment Property.</p>	
Investment Analysis	A study undertaken for the purposes of development and investment, the evaluation of investment performance, or the analysis of a transaction involving investment properties. Investment analyses are variously called (economic) feasibility studies, market or marketability analyses, or financial projection studies.	GN 9, 3.3
Investment Asset	Land and/or buildings held to earn a present or future rental income and/or for the preservation or gain of capital value or both. It is not	General Valuation Concepts and Principles, 3.5.3

held for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

See also Operational Asset, Surplus Asset.

Investment Method

A valuation procedure that capitalises expected future income or utility as a basis for estimating the Market Value of the subject asset.

The underlying assumption is that the investor will pay no more for the subject asset than would have to be paid for another asset with an income stream of comparable amount, duration, and certainty.

See also Income Approach.

Investment Property

i) In real estate, property owned for the purpose of leasing to a third party, for possible future occupation by the owner, or for future development to earn rental income or profit on resale.

ii) Property (land or a building, or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

IAS 40,4; IPSAS 16,6; IVA 1, 6.2.5.5, 6.3 et seq., A6.2.4.2

a) use in the production or supply of goods or services or for administrative purposes, or

b) sale in the ordinary course of business/sale in the ordinary course of operations.

Note: In its Exposure Draft of Proposed Improvements to International Accounting Standards (issued May 2002) the IASB proposed an amendment to this definition. The words “(by the owner or by the lessee under a finance lease)” will be deleted altogether. Additional wording will be introduced to enable property held under an operating lease to be classified as investment property and accounted for as if it were a finance lease subject to meeting strict criteria. The revised IAS 40 will be effective for annual financial statements covering periods beginning on or after 1 January 2005. Earlier application (after publication of the revised Standard programmed for second quarter 2003) is encouraged.

Investment Value (Worth)

The worth or value of a property to a particular investor, or a class of investors, for identified investment objectives. IVS 2, 3.4

This subjective concept relates specific property to a specific investor or group of investors with identifiable investment objectives and/or criteria. The term investment value should not be confused with the Market Value of an investment property.

The term, investment value, is North American usage; worth is Commonwealth usage.

Irrigated Land

Lands used to produce crops or forage for livestock and which require the application of water other than that from natural rainfall are called irrigated crop(ping) farms or irrigated grazing land. Properties that lack a water source other than natural rainfall are referred to as dry land agricultural properties.

GN 10, 3.2

Joint Venture

A combination of two or more entities that join to undertake a specific project; differs from a partnership in that it is limited in duration and project-specific.

Property Types, 5.1.2.2

A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

IAS 31.2

Land

The earth's surface, the space beneath which extends to the centre of the earth, and the space above which extends to the skies.

General Valuation Concepts and Principles, 2.1, 2.2

The ownership of land and the rights attached to the ownership are, however, subject to the laws of a particular State.

Valuation of land as if vacant, and of land and improvements to or on the land, is an economic concept.

International Valuation Standards, Sixth Edition

Whether vacant or improved, land is also referred to as real estate.

See also Improvements, Property, Real Estate, Real Property.

Land Use Planning

The proposed programme set forth by a local authority for the future development of an area in accordance with a particular land use or land uses. Land use planning, which represents a form of police power exercised by government, provides the basis for zoning.

Valuation in Emerging Markets White Paper, 2.3

Lease

i) A contract arrangement in which rights of use and possession are conveyed from a property's title owner (called the landlord or lessor) in return for a promise by another (called a tenant or lessee) to pay rents as prescribed by the lease contract. In practice the rights and the duties of the parties can be complex, and are dependent upon the specified terms of their contract.

GN 2, 3.1.1

ii) An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

IAS 17.3

Lease Interest	Also known as lessee interest, tenant's interest, or leasehold interest; the ownership interest created by the terms of a lease contract rather than the underlying rights of real estate ownership. The lease interest is subject to the terms of a specific lease arrangement, expires within a specified time, and may be capable of subdivision or subleasing to other parties.	GN 2, 3.1.4
Leased Fee Estate	The ownership interest that the landlord or lessor maintains in a property subject to a lease whereby the rights of use and occupancy are conveyed to a tenant or lessee; the ownership interest in a leased property. Compare leasehold.	Property Types, 2.2.3
Leasehold	The interest of a lessee or tenant in a leased property including rights of use and occupancy for a specified period of time in return for the payment of a premium and/or rent. Leaseholds may be of various duration such as 25 years, 60 years, and 99 years, etc.	Property Types, 2.2.3

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Leasehold Improvements or Tenant's Improvements	Fixed improvements or additions to land or buildings, installed by, and paid for by the tenant to meet the tenant's needs; typically removable by the tenant upon expiration of the lease; removal causes no material damage to the real estate. See also Personal Property, Trade Fixtures or Tenant's Fixtures.	Property Types, 3.2.2; GN 5, 3.11
Leasehold Interest	See Lease Interest.	
Leasehold Value	The value of the lease interest; although property rights conveyed to a lessee include the rights of use and possession, they are generally offset by the obligation to pay a continuing rental amount for those rights. Hence, a leasehold value arises only where there is a positive difference between a property's market rent and the contract rent. Where a contract rent exceeds the market rent, a negative leasehold value may occur. In practice, the type of value (i.e., Market Value) must be identified, defined, and appropriate to the situation.	GN 2, 3.1.11.2
Legal Estate	A right or interest in real property; legal estates are defined by the laws of a State and are usually subject to outside limitations imposed by the State, e.g., taxation, compulsory acquisition, regulation, or appropriation in cases of intestacy.	Property Types, 2.2.1

International Valuation Standards, Sixth Edition

Legal Framework	A comprehensive body of enforceable laws prescribing the rights and interests associated with the ownership of property as well as the powers exercised by the government over property.	Valuation in Emerging Markets White Paper, 2.2
Legal Life	The period of legal or contractual protection of the intangible asset allowed by law.	GN 4, 3.17
Lessee	A person to whom property is rented under a lease. The lessee is commonly called a tenant.	
Lessee Interest	See Lease Interest.	
Lessor	One who owns the rights to use an asset, which is transferred to another (lessee) under a lease agreement. The lessor is usually referred to as the landlord.	
Lessor Interest	The interest held by the lessor.	GN 2, 3.1.3
Limited Market Property	Property that because of market conditions, unique features, or other factors attracts relatively few potential buyers.	IVS 2, 3.2; GN 8, 3.3
Limiting Conditions	Constraints which are imposed on valuations by clients, the Valuer, or local statutory law.	Code of Conduct, 3.2

International Valuation Standards, Sixth Edition

Liquidation Value See Forced Sale Value.

Liquidator A person appointed by the court, or by the creditors of a company, or by the members of the company for the purpose of effecting the liquidation.

**Livestock Ranches/
Stations** Agricultural properties used to raise and feed animals such as cattle, sheep, pigs, goats, horses, or combinations thereof. The actual use of these properties can take many forms. The animals may be bred, raised, and sold within the operation of the property. Young animals may be acquired from outside the property and then raised within the property. The animals may be raised for consumptive use or for breeding stock. Feed for the animals may be produced on the property, imported, or supplied by both sources. Properties used for the production and feeding of livestock have significant capital investment in the structural improvements (pens, livestock shelters, sheds, division fencing) and the livestock, which may or may not be depreciable depending on the laws and regulations of the local jurisdiction. GN 10, 3.5

International Valuation Standards, Sixth Edition

Loan Security	An asset which is legally nominated to be available to a lender for realisation and recovery of money owed following default by the borrower.	
Machinery	<p>A machine is an apparatus using or applying mechanical power, having several parts each with a definite function, and together performing certain kinds of work.</p> <p>For valuation purpose, this includes individual machines or collection of machines.</p>	GN 3, 3.1.2
Majority Control	The degree of control provided by a majority position.	GN 6, 3.26
Majority Interest	Ownership position greater than 50% of the voting interest in a business.	GN 6, 3.25
Management Accounts or Internal Accounts	Accounts used by those who manage enterprises to monitor and guide them in day-to-day activities. Presented to aid decision making within the enterprise, they are not for publication or subject to external regulation.	IVA 1, A2.1.1
Market	It is the environment in which goods and services trade between buyers and sellers through the price mechanism.	General Valuation Concepts and Principles, 4.4; Introduction to IVS 1, 2 and 3, 2.0

The concept of a market implies an ability of goods and/or services to trade among buyers and sellers without undue restriction on their activities. A market can be local, national, or international.

See also Demand, Principle of Supply and Demand, Supply.

Market Approach

Any approach to value based upon the use of data that reflect market transactions and reasoning that corresponds to the thinking of market participants.

A general way of estimating a value indication for an asset using one or more methods that compare the subject to similar assets that have been sold.

GN 4, 3.18; GN 6, 3.27

Market Rent

The estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate terms in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. If the terms of the lease vary from those that the market would deem to be appropriate, i.e., the market norm, then the market rent applicable to that lease would also vary as a reflection of those terms.

GN 2, 3.1.9.1

Also called economic rent.

Market Value The estimated amount for which a 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 compulsion. IVS 1, 3.1

The concept of Market Value reflects the collective perceptions and actions of a market and is the basis for valuing most resources in market-based economies. The professionally derived Market Value is an objective valuation of identified ownership rights to specific property as of a given date.

See also Highest and Best Use, Non-Market Bases of Value

Market Value for the Existing Use (MVEU) (or Existing Use Value) The estimated amount for which the land should exchange, with vacant possession, based on continuation of its existing use, between a willing buyer and willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently, and without compulsion. In the context of DRC methodology, the existing use value of the land may be applied in developing one part of the DRC model. The reported DRC estimate should nonetheless reflect the Market Value of the land component based on its highest and best use. GN 8, 3.4

It should be noted that the International Accounting Standards no longer recognise MVEU and that the MVEU basis of valuation has been taken under advisement by the IVSC.

The term, existing use value, is Commonwealth usage.

In 1998 the IASB and IVSC abandoned the concept of Market Value for Existing Use and removed it from their standards (IAS 16 and IAS 22). The reasoning behind this decision was that existing use is inconsistent with the definition of fair value, which refers to a transaction price. In efficient markets, transaction prices cannot necessarily be said to reflect purely existing use or purely an alternative use because different market participants may well take different views.

It should, however, be noted that the concept has not been universally abandoned by national accounting standard setters and remains in use in some jurisdictions. In addition, the MVEU concept is considered an integral component of DRC methodology and the basis of land valuation when DRC estimates are used in financial reporting to arrive at a surrogate for Market Value of limited market and specialised properties.

Marketability Discount	An amount or percentage deducted from an equity interest to reflect lack of marketability.	GN 6, 3.29
Marriage Value (Assemblage Value)	<p>The value increment that would be realised by the merger of interests in property. For example, the value of two adjoining parcels of land may be greater as one property than the aggregate of their separate values.</p> <p>The term, marriage value, is Commonwealth usage; in North America, the terms, assemblage value and plottage value, are used.</p>	IVS 2, 3.11
	<p>The excess value, if any, produced by a merging of two or more (lease) interests in a property, over-and-above the sum of values of those individual interests.</p>	GN 2, 3.1.11.3
Master Lease	See Headlease.	
Minimum Contents of a Valuation Report	All valuation reports must clearly and accurately set forth the conclusions of the valuation in a manner that is not misleading. Ten elements have to be included in all valuation reports: 1) the identity of the Valuer and the date of the report; 2) the identity of the client; 3) the instructions, date of the value estimate, purpose and intended use of the valuation; 4) the basis of the valuation, including type and definition of	Code of Conduct, 7.1; IVS 3, 5.1

International Valuation Standards, Sixth Edition

value; 5) the identity, tenure, and location(s) of the property interest(s) or right(s) to be valued; 6) the date and extent of inspections; 7) the scope and extent of the work used to develop the valuation; 8) any assumptions and limiting conditions; and any special, unusual, or extraordinary assumptions; 9) a compliance statement that the valuation has been performed in accordance with these Standards and any required disclosures; and 10) the professional qualification and signature of the Valuer. As required in some States, specific certification by the Valuer in the prescribed form.

Valuation reports may often describe the information and data examined, the market analysis performed, the valuation approaches and procedures followed, and the reasoning that supports the analyses, opinions, and conclusions.

Minority Discount	A discount for lack of control applicable to a minority interest.	GN 6, 3.31
Minority Interest	Ownership position of less than 50% of the voting interest in a business. That part of the net results of operation and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.	GN 6, 3.30 IAS 22.8

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Modern Equivalent Asset (MEA)	<p>A term used in some States in reference to a structure similar to an existing structure and having an equivalent productive capacity that could be built using modern materials, techniques, and design. Replacement cost is the basis used to estimate the cost of constructing a modern equivalent asset.</p> <p>The term, modern equivalent asset, is Commonwealth usage.</p>	GN 8, 3.8
Mortgage Lending Value (MLV)	<p>The value of the property as determined by the Valuer making a prudent assessment of the future marketability of the property by taking into account long-term sustainable aspects of the property, the normal and local market conditions, and the current use and alternative appropriate uses of the property. Speculative elements may not be taken into account in the assessment of mortgage lending value. The mortgage lending value shall be documented in a transparent and clear manner.</p>	IVS 2, 3.12 (from Directive 98/32/EC of the European Parliament and of the Council of 22 June 1998)
Net Assets	Total assets less total liabilities.	GN 6, 3.32

International Valuation Standards, Sixth Edition

Net Carrying Amount	<p>Under the historical cost convention, net carrying amount represents the gross carrying amount less accumulated depreciation. It is also referred to as the net revalued amount found through an indexation of historical costs, or valuation or periodic revaluation of the assets.</p> <p>See also Carrying Amount.</p>	IVA 1, A6.3
Net Cash Flow	<p>During an operating period, that amount of cash that remains after all cash needs of the business have been satisfied. Net cash flow is typically defined as being cash available to equity or invested capital.</p> <p>See also Cash Flow.</p>	GN 6, 3.34
Net Current Replacement Cost	<p>i) Cost that would be incurred in the marketplace in acquiring an equally satisfactory substitute asset.</p> <p>ii) It is the cost of purchasing, at the least cost, the remaining service potential of the asset at the balance sheet date; it is an entry value.</p> <p>iii) Simply put, it is the replacement cost less depreciation.</p>	
Net (Operating) Income	<p>Revenue less expenses, including taxes.</p> <p>See also Operating Expenses.</p>	GN 6, 3.33

Net Present Value (NPV)	The measure of the difference between the discounted revenues, or inflows, and the costs, or outflows, in a DCF analysis. In a valuation that is done to arrive at Market Value, where discounted inflows and outflows and the discount rate are market derived, the resulting NPV should be indicative of the Market Value by the income approach.	GN 9, 3.6
Net Realisable Value	<p>i) The estimated selling price of an asset in the ordinary course of business, less selling costs and costs of completion.</p> <p>ii) It is the estimated proceeds of sale of an asset, less the selling costs; it is an exit value.</p> <p>iii) The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.</p>	IAS 2,4
	<p>Net realisable value is used only within the context of IAS 2, Inventories, for properties held for disposal. In those circumstances, that figure would equate to Market Value less selling costs where all requirements of the Market Value definition are met. In particular, this includes sufficient time for the Market Value transaction to occur. Market Value is ordinarily a gross figure or, more appropriately, a “face value” prior to deduction of disposition costs.</p>	IVA 1, A6.5

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Net Selling Price	The amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal.	IAS 36,5
Non-Current Assets	Tangible and intangible assets, which fall into two broad categories, namely property, plant and equipment, and other long-term assets. Also called fixed, or long-term, assets.	General Valuation Concepts and Principles, 3.5.2
Non-Market Bases of Value	Valuations of property may be based on considerations of the economic utility or functions of a property other than its ability to be bought and sold by market participants, or the effects of unusual or atypical market conditions. See also Assessed, Rateable, or Taxable Value; Going Concern Value; Insurable Value; Investment Value or Worth; Liquidation or Forced Sale Value; Marriage Value; Salvage Value; Special Value; Value in Use.	Introduction to IVS 1, 2 and 3, 4.2.1

Non-Operational Asset	<p>In the public sector, a surplus asset or one, which is not considered necessary to the production of the goods or services the entity produces, but which is held for investment, development or disposal, or is used for some other commercial purpose unrelated to the operation of the entity or the statutory obligations, which the entity was established to meet.</p> <p>See Investment Asset, Surplus Asset. See also Operational Asset.</p>	
Obsolescence	<p>A loss in value due to a decrease in the usefulness of property caused by decay, changes in technology, people's behavioural patterns and tastes, or environmental changes. Obsolescence is sometimes classified according to items of outmoded design and functionality, over design/over engineering (e.g., an asset designed to produce at a capacity which current demand no longer warrants), items with structural design unable to meet current code requirements, and factors arising outside the asset (external or economic obsolescence), such as changes in user demand.</p>	
Operating Company	<p>A business that performs an economic activity by making, selling, or trading a product or service.</p>	GN 6, 3.35

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Operating Expenses (Outgoings)

The expenses incurred in generating income.

In real estate, these expenses include but are not necessarily limited to property tax, insurance, repairs and maintenance, and management fees.

Operating expenses when subtracted from gross income equal net operating income.

The term, operating expenses, is North American usage; outgoings is Commonwealth usage.

Operating Lease

A lease other than a finance lease. IAS 17,3

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership. IAS 17,6
Classification of Leases

See also Finance Lease.

Operational Asset

An asset considered requisite to the operations of an entity (a going concern or corporation). In the public sector, operational assets comprise three categories: infrastructure, specialised properties such as heritage assets, and non-specialised properties such as municipal office buildings. General Valuation Concepts and Principles, 3.5.3

See also Investment Asset, Non-Operational Asset, Surplus Asset.

- Optimisation** The upgrading or remediation of a property to optimise its productivity.
- The process of considering physical deterioration and functional/technical obsolescence in a property asset, and determining the most economic means to replicate the asset's service potential. The costs of upgrading and remediation are contingent liabilities to be estimated and disclosed in conjunction with the optimisation process.
- The term, optimisation, is used in some parts of the Commonwealth.
- GN 8, 3.11
- Option** An agreement to keep open an offer to buy, sell, or lease real property for a specified period at a stated price. An option creates a contractual right, the exercise of which is generally contingent upon the fulfillment of specified conditions.
- Property Types, 5.1.3
- Oral Report** The results of a valuation verbally communicated to a client or presented before a court either as expert testimony or by means of deposition. A report communicated orally to a client should be supported by a work file and at a minimum followed up by a written summary of the valuation.
- IVS 3, 3.2
- See also Written Report.

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Outgoings	See Operating Expenses.	
Owner-Occupied Property	Property held by the owner or by the lessee under a finance lease for use in the production or supply of goods or services or for administrative purposes.	IAS 40,4; IPSAS 16,6
Partial or Fractional Interest	Rights in real property created by legal divisions of the ownership interest. For example, real property is not only owned in sole proprietorships, but may also be held by corporations (shareholders), partnerships, joint tenancies, and tenancies in common.	Property Types, 2.2.5
Participation Rent	See Turnover Rent.	
Partnership	An ownership interest in which two or more persons jointly own a business or property and share its profits and losses. Partnerships may be general or limited.	Property Types, 5.1.1.1, 5.1.2.1
Passing Rent	See Contract Rent.	
Percentage Lease	See Turnover Lease.	

Perennial Plantings	<p>Crops grown from plantings that have a life extending beyond one year or one crop cycle. Examples are vineyards and orchards. These types of properties can have significant capital investment in the plantings, which represent a depreciable asset. See also Forestry/Timberland.</p>	GN 10, 3.3
Personal Property	<p>A legal concept referring to all rights, interests, and benefits related to ownership of items other than real estate. In certain States, items of personal property are legally designated as personalty in distinction to realty, which may either refer to real property or real estate.</p> <p>Items of personal property can be tangible, such as a chattel, or intangible, such as a debt or patent. Items of tangible personal property typically are not permanently affixed to real estate and are generally characterized by their moveability.</p> <p>Personal property may be valued according to its Market Value, salvage value, or liquidation value. The techniques used in the three valuation approaches may be applied to the valuation of personal property.</p> <p>See also Collectibles; Fixtures and Fittings; Furniture, Fixtures, and Equipment (FF&E); Goods and Chattels Personal; Leasehold Improvements or Tenant's Improvements; Plant and Equipment; Trade Fixtures or Tenant's Fixtures.</p>	General Valuation Concepts and Principles, 2.4, 3.3; Property Types, 2.1.1, 3.1, 3.2, 3.3, 3.5; GN 5, 3.14

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Personalty	<p>A legal term used in certain States to designate items of personal property in distinction to realty, which may either refer to real property or real estate. Personalty includes tangible and intangible items, which are not real estate.</p> <p>See also Personal Property, Realty.</p>	<p>General Valuation Concepts and Principles, 3.3; Property Types, 3.1; GN 5, 3.15</p>
Physical Deterioration	<p>A loss in value due to impairment of physical condition; may be curable or incurable.</p>	
Physical Life	<p>The period during which an asset is capable of use taking into account factors such as its condition and whether it meets or is capable of meeting accepted standards and statutory requirements.</p>	
Plant	<p>An assemblage of assets that may include specialised non-permanent buildings, machinery, and equipment.</p>	<p>GN 3, 1.1</p>
Plant and Equipment	<p>Assets intended for use on a continuing basis in the activities of an enterprise/entity including specialised, non-permanent buildings; machinery (individual machines or collections of machines, trade fixtures, and leasehold improvements); and other categories of assets, suitably identified.</p>	<p>Property Types, 3.2.2</p>

Tangible assets that: GN 3, 3.1; GN 5, 3.16

(a) are held by an enterprise/entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used over a period of time.

See also Personal Property.

Plant and Machinery See Plant and Equipment.

Plottage Value See Marriage Value.

Portfolio An assemblage of the various properties held or managed by a single entity.

Powers of Government Powers exercised by the state, that impose certain limitations upon property rights. Powers of government include taxation, compulsory acquisition/purchase, regulation, and appropriation in cases of intestacy.

See also Assessed, Rateable, or Taxable Value; Bona Vacantia; Compulsory Acquisition/Purchase; Condemnation; Eminent Domain; Escheat; Land Use Planning.

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Premium (Lease Premium)	The price paid by an actual or prospective lessee to a lessor, usually in consideration of the rent or for the rent being reduced to below what would otherwise be payable.	
Present Value	The current monetary value of future cash flows.	
Present Value of \$1 per Period	The present day worth or capital sum of the right to receive \$1 per period for a given number of future periods, when each periodic receipt has been discounted at a selected rate of interest and the individual present values aggregated. It is synonymous with years' purchase.	
Price	<p>An amount asked, offered, or paid for a good or service. The concept of price relates to the exchange of a commodity, good, or service. Once the exchange has been transacted, the price, whether publicly disclosed or kept confidential, becomes an historic fact. The price paid represents the intersection of supply and demand.</p> <p>See also Cost, Value.</p>	General Valuation Concepts and Principles, 4.2; Introduction to IVS 1, 2 and 3, 3.1
Principle of Anticipation	Value is created by the expectation of future benefits.	Property Types, 2.7.3

Principle of Consistent Use	The principle that land cannot be valued on the basis of one use while improvements are valued on the basis of another. The principle of consistent use must be addressed where land use is changing and when properties are devoted to temporary interim uses. Improvements that do not represent the land's highest and best use, but have substantial remaining physical lives, may have an interim use of temporary value, no value at all, or even negative value if substantial costs must be incurred for their removal.	
Principle of Substitution	A prudent person will not pay more for a good or service than the cost of acquiring an equally satisfactory substitute good or service, in the absence of the complicating factors of time, greater risk, or inconvenience. The lowest cost of the best alternative, whether a substitute or the original, tends to establish Market Value. This principle is fundamental to the three approaches to Market Value.	General Valuation Concepts and Principles, 9.2
Principle of Supply and Demand	The price of a good, service, or commodity varies inversely with the supply of the item and directly with the demand for the item. See also Demand, Market, Supply.	Introduction to IVS 1, 2 and 3, 2.1

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Private Treaty Sale	A sale negotiated and transacted between persons rather than by public auction or another method. The sale price paid in a private treaty sale is generally not known except by the parties to the transaction. See also Auction Price, Hammer Price.	GN 5, 3.17
Privatisation	The process of transferring property from state ownership to private ownership; privatisation is generally carried out through the distribution to citizens of shares in formerly state-owned industries, the outright transfer of residential units to occupants, the restoration of property to the owners or their descendants before the advent of nationalisation, or by sale of the property to local or foreign investors.	
Professional Asset Valuer	A person with the necessary qualifications, ability, and experience to execute valuations of land, buildings, and/or plant and machinery, generally for incorporation into company financial statements. See also Professional Property Valuer.	Introduction/IVS Objectives and Scope
Professional Property Valuer	A person who possesses necessary qualifications, ability, and experience to estimate property value – generally the value of real property – for a diversity of purposes	Introduction/IVS Objectives and Scope; GN 5, 3.18

including transactions involving transfers of property ownership, property considered as collateral to secure loans and mortgages, property subject to litigation or pending settlement on taxes, and property treated as fixed assets in financial reporting. A Professional Property Valuer may also possess the specific expertise to perform valuations of other categories of property, i.e., personal property, businesses, and financial interests.

See also External Valuer, Independent Valuer, Internal Valuer, Professional Asset Valuer, Valuer.

Property

A legal concept, encompassing all the interests, rights, and benefits related to ownership. Property consists of the private rights of ownership which entitle the owner to a specific interest or interests in what is owned. To distinguish between real estate, a physical entity, and its ownership, a legal concept, the ownership of real estate is called real property. Ownership of an interest in an item other than real estate is referred to as personal property.

The International Valuation Standards Committee recognises the following four property types: real property, personal property, businesses, and financial interests.

See also Bundle of Rights, Personal Property, Real Property.

General Valuation Concepts and Principles, 2.3, 2.4

International Valuation Standards, Sixth Edition

Property Company	A holding company in real property.	
Property, Plant and Equipment (PP&E)	<p>i) Assets intended for use on a continuing basis in the activities of an enterprise including land and buildings, plant and equipment, accumulated depreciation, and other categories of assets, suitably identified.</p> <p>ii) Tangible assets that: a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and b) are expected to be used during more than one period.</p>	<p>General Valuation Concepts and Principles, 3.5.2.1</p> <p>IAS 16,6; IPSAS 17,12</p>
Property Rights	<p>The rights associated with the ownership of the real estate. These include the right to use the property, to sell it, to lease it, to give it away, to develop it, to farm it, to mine it, to alter its topography, to subdivide it, to assemble it, to use it for waste disposal, or to choose to exercise none of these rights. The combination of property rights is sometimes referred to as the bundle of rights. Property rights are typically subject to public and private restrictions such as easements, rights of way, zoning, specified development density, and other restrictions that may encumber property.</p>	GN 1, 3.0

- Property Valuer** See Professional Property Valuer.
- Property with Trading Potential** See Specialised Trading Property.
- Public Building** A building that serves some community or social function and is held in public ownership. Examples include courthouses, municipal centres, schools, prisons, police stations, military facilities, libraries, hospitals, clinics, and social or public housing.
- Public Sector Asset** A property, owned or leased by governmental or statutory authority and managed by a governmental or quasi-governmental agency, for the provision of some essential public service or good. Public sector properties comprise different asset types, including conventional properties as well as heritage and conservation assets, infrastructure, public utility plants, recreational assets, and public buildings (e.g., military facilities), each category of which constitutes property, plant, and equipment. Public sector properties may also be classified as operational and non-operational or surplus assets.
- See also Heritage and Conservation Asset, Infrastructure, Non-Operational Asset, Operational Asset, Public Building, Public Utility Plant, Recreational Asset.

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Public Utility Plant	<p>A property that</p> <ul style="list-style-type: none">a) produces a service or good for general public consumption; andb) is usually a monopoly or quasi-monopoly provider subject to some form of governmental control.	
Rate of Return	<p>An amount of income (loss) and/or change in value realised or anticipated on an investment, expressed as a percentage of that investment.</p>	<p>GN 4, 3.20; GN 6, 3.36</p>
Rateable Value	<p>See Assessed Value.</p>	
Real Estate	<p>Physical land and all things that are a natural part of the land as well as those items which are attached to the land by people.</p> <p>See also Improvements, Land, Real Property.</p>	<p>General Valuation Concepts and Principles, 3.1; Property Types, 2.0</p>
Real Property	<p>A legal concept referring to all the rights, interests, and benefits related to the ownership of real estate. An interest in real estate is normally recorded in a formal document, such as a title deed or lease.</p> <p>See also Property, Real Estate.</p>	<p>General Valuation Concepts and Principles, 3.2; Property Types, 2.1</p>
Realty	<p>A legal term used in the US to designate real estate or real property in distinction to items of personalty.</p> <p>See also Personalty.</p>	<p>Property Types, 2.1.1</p>

Recognition	<p>The process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the following criteria:</p> <ul style="list-style-type: none">a) it is probable that any future economic benefit associated with the item will flow to or from the enterprise; andb) the item has a cost or value that can be measured with reliability. <p>Recognition involves the depiction of the item in words and by a monetary amount and the inclusion of that amount in the balance sheet or income statement totals. Items that satisfy the recognition criteria should be recognised in the balance sheet or income statement. The failure to recognise such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.</p>	IAS Framework, 82, 83
Recoverable Amount	<p>The higher of an asset's net selling price (net realisable value) and its value in use.</p>	IAS 36,5; IVA 1, 6.4.4
Recoverable Costs	<p>See Expense Pass-throughs.</p>	

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- Recreational Asset** A property held in public ownership that
- a) is managed by or on behalf of national, municipal, or local government authorities; and
 - b) provides for recreational use by the general public.
- Examples include parks; playgrounds; green belts; walks and trails; swimming pools; playing courts, fields, and courses; and other properties equipped with recreational and athletic facilities.
- Reinstatement Value** This is the cost necessary to replace, repair, or rebuild the property insured to a condition substantially the same as, but not better or more extensive than, its condition when new. GN 3, 3.5.5
- Rent(al)** See Contract Rent, Market Rent, Turnover Rent.
- Rent Escalations (Stepped Rents)** Upward rental adjustments based on some external change or indexing, and specified in a lease clause. (The term, rent escalations, is North American usage; stepped rents is Commonwealth usage.)
- See also Expense Pass-throughs.

Replacement Cost (New)	<p>i) The cost of replacing an asset with an equally satisfactory substitute asset.</p> <p>ii) Normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential.</p> <p>Replacement cost assumes the use of modern materials, techniques, and designs.</p> <p>See also Reproduction Cost.</p>	<p>General Valuation Concepts and Principles, 4.11; GN 4, 3.21; GN 6, 3.37</p>
Report Date	<p>The date of the valuation report. May be the same or different from the valuation date.</p>	<p>GN 4, 3.22; GN 6, 3.38</p>
Reproduction Cost (New)	<p>The current cost of an identical new item.</p> <p>The current cost of constructing a replica of the existing structures, employing the same design and similar building materials.</p> <p>In the market for fine art, reproduction cost is equivalent to the cost of creating a facsimile of the original item.</p> <p>See also Cost Approach for Valuing Fine Art, Replacement Cost.</p>	<p>General Valuation Concepts and Principles, 4.11; GN 4, 3.23; GN 6, 3.39</p>
Reserve Price	<p>The lowest acceptable price fixed by the vendor.</p>	

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Residual Value	<p>The net amount which an entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.</p> <p>The remaining value of an asset at the end of a prescribed period of time (in this definition residual value is similar to scrap value).</p>	IAS 16,6; IAS 38,7; IPSAS 17,12
Restrictive Covenants	See Deed Restrictions.	
Revalued Amount	<p>i) The value of property, plant and equipment as established by appraisal or valuation normally undertaken by professionally qualified Valuers.</p> <p>ii) The fair value of an asset at the date of as revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.</p> <p>See also Allowed Alternative Treatment.</p>	IAS 16,29
Reversion Yield	See Terminal Capitalisation Rate.	
Right of Way	<p>Right or privilege, acquired through use or contract, to pass over a portion or strip of landed property owned by another.</p> <p>See also Easement.</p>	Property Types, 2.2.4.2

Sale and Leaseback	<p>A simultaneous sale of real estate and lease of the property to the seller. The buyer becomes the lessor or landlord and the seller becomes the lessee or tenant. Because there may be unique circumstances or relationships between the parties, sale and lease-back transactions may or may not involve typical market terms.</p>	GN 2, 3.1.12
Sales Comparison Approach	<p>A comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. In general, an appraised property is compared with sales of similar properties that have been transacted in the open market. Listing and offerings may also be considered.</p> <p>A general way of estimating a value indication for personal property or an ownership interest in personal property, using one or more methods that compare the subject to similar properties or to ownership interests in similar properties. This approach to the valuation of personal property is dependent upon the Valuer's market knowledge and experience as well as recorded data on comparable items.</p> <p>Also called comparable sales method.</p>	General Valuation Concepts and Principles, 9.3.2 GN 5, 3.12

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Salvage Value	<p>The value of a property, excluding land, as if disposed of for the materials it contains, rather than for continued use without special repairs or adaptation.</p> <p>It may be given as gross or net of disposal costs and, in the latter case, may equate to net realisable value. It is the expected value of the asset at the end of its economic life. The concept of salvage value is that the asset is valued for salvage disposal rather than for its originally intended purpose.</p>	IVS 2, 3.9
Sandwich Lessor Interest	See Headleasehold Interest.	
Scrap Value	The value a wasting asset will have at the end of its predictable life, as known or ascertainable at the time when the asset was acquired or provided by the person making the disposal.	
Securitised Investment Instruments	Instruments securing debt and equity positions that are bought and sold in a private or institutional market sector and a public market sector; examples include real estate investment trusts (REITs), collateralised mortgage obligations (CMOs), commercial mortgage-backed securities (CMBSs), real estate operating companies (REOCs), and separate and commingled funds.	Property Types, 5.1.4

**Service
Potential**

The capacity to provide goods and services in accordance with the entity's objectives, whether those objectives are the generation of net cash inflows or the provision of goods and services of a particular volume, quantity, and quality to beneficiaries or stakeholders. In the public sector, the concept of service potential takes the place of free market cash flows and the test of adequate profitability applied in the private sector. The test of adequate service potential, which determines whether the asset meets the requirements set for its productive capacity, is generally undertaken by the directors/managers of the entity. GN 8, 3.7

The future economic benefits embodied in the asset in terms of its potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. Service potential is measured as the level of productive capacity that would have to be replaced if the entity were deprived of the asset. In quantifiable terms, continued service potential is expressed as remaining useful life or remaining productive capacity.

The term, service potential, is Commonwealth usage.

International Valuation Standards, Sixth Edition

Special, Unusual, or Extraordinary Assumptions	Before completing the acquisition of a property, a prudent purchaser in the market typically exercises due diligence by making customary enquiries about the property. It is normal for a Valuer to make assumptions as to the most likely outcome of this due diligence process and to rely on actual information regarding such matters as provided by the client. Special, unusual, or extraordinary assumptions may be any additional assumptions relating to matters covered in the due diligence process, or may relate to other issues, such as the identity of the purchaser, the physical state of the property, the presence of environmental pollutants (e.g., ground water contamination), or the ability to redevelop the property. See also Assumptions.	IVS 3, 3.6
Specially Designed (Assets) Properties	See Specialised Properties.	
Specialised Livestock Facilities	See Dairy Farms, Livestock Ranches/Stations.	
Specialised Properties	Properties that are rarely if ever sold on the (open) market, except by way of a sale of the business or entity of which they are a part (called the business in occupation),	General Valuation Concepts and Principles, 8.2; IVA 1, 3.5; GN 8, 3.2

due to their uniqueness, arising from the specialised nature and design of the buildings, their configuration, size, location, or otherwise.

Examples of specialised properties include refineries, power stations, docks, specialised manufacturing facilities, public facilities, churches, museums, and properties located in particular geographical locations for operational or business reasons. Such properties or assets may also be referred to as limited or non-market assets. The Depreciated Replacement Cost (DRC) method is commonly used in the valuation of specialised properties for financial reporting purposes with proper disclosure.

Also called special purpose, or special use, properties.

**Specialised,
or Special
Purpose,
Agricultural
Properties**

Agricultural properties that do not typically produce a crop but are used for the handling, processing, or storage of crops following harvest. These properties frequently have a small land base that is extensively developed with structural improvements (grain elevators) and equipment (lifting machinery). Properties may also be classified as special purpose by the nature of the commodity produced. Examples are truck farms, poultry farms, farms that produce certified crop seeds or fresh cut flowers, and racehorse breeding or training stables.

GN 10, 3.8

International Valuation Standards, Sixth Edition

Special Purpose Properties	See Specialised Properties.	
Specialised Trading Property (STP)	<p>Property with trading potential, such as hotels; gas, or petrol, stations; restaurants; and the like, the Market Value of which may include assets other than land and buildings alone. These properties are commonly sold in the market as an operating package that may make separate identification of the value of the land, building, personal property, intangible assets, and business itself difficult or impossible.</p> <p>Also called property with trading potential.</p> <p>The terms, specialised trading property and property with trading potential, are Commonwealth usage.</p>	Property Types, 4.3.2; IVA 1, 3.4
Special Purchaser Value	<p>Value reflecting the premium an owner of land may pay for adjacent property in excess of Market Value.</p> <p>See also Special Value.</p>	General Valuation Concepts and Principles, 9.4.2
Special Use Properties	See Specialised Properties.	
Special Value	A term relating to an extraordinary element of value over and above Market Value. Special value could arise, for example, by the physical, functional, or economic association	IVS 2, 3.11

of a property with some other property such as the adjoining property. It is an increment of value, which could be applicable to a particular owner or user, or prospective owner or user of the property, rather than to the market at large; that is, to a purchaser with a special interest. Special value could be associated with elements of going concern value. The Valuer must ensure that such criteria are distinguished from Market Value, making clear any special assumptions made.

Specifications for the Valuation Assignment

The first step in the Valuation Process, which establishes the context and scope/extent of the assignment and resolves any ambiguity involving the valuation issue or problem. The term is similar to valuation brief as used in some States. A Valuer ensures that the analyses, information and conclusions presented in the report fit the specifications for the assignment. The specifications for the value assignment include the following seven elements:

IVS 3, 3.4

1. An identification of the real, personal (plant and machinery; furniture, fixtures, and equipment [FF&E]), business, or other property subject to the valuation and other classes of property included in the valuation besides the primary property category;

2. An identification of the property rights (sole proprietorship, partnership, or partial interest) to be valued;
3. The intended use of the valuation and any related limitation; and the identification of any subcontractors or agents and their contribution;
4. A definition of the basis or type of value sought;
5. The date as of which the value estimate applies and the date of the intended report;
6. An identification of the scope/extent of the valuation and of the report; and
7. An identification of any contingent and limiting conditions upon which the valuation is based.

Stepped Rents

See Rent Escalations.

Subleasehold

A leasehold position created when a tenant or lessee in a prior lease conveys to a third party, a sublessee, the interest that the tenant, or lessee, enjoys.

Property Types,
2.2.3.1

See also Headlease or Master Lease, Headleasehold Interest.

Subsequent Expenditure	Subsequent expenditure relating to an item of property, plant, and equipment that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.	IAS 16,23
Substitution	See Principle of Substitution.	
Summation Approach	See Cost Approach.	
Supply (in a Property Market)	The quantity of property interests that are available for sale or lease at various prices in a given market within a given period of time, assuming labor and production costs remain constant. See also Demand, Market, Principle of Supply and Demand.	Introduction to IVS 1, 2 and 3, 2.2
Surplus Asset	An asset that is owned by an entity such as a corporation but considered superfluous to the operations of that entity. A surplus asset is not considered necessary to the production of the good or service the entity produces. It is held for investment, development, or dis-	

posals, or used as security for a loan or some other commercial purpose unrelated to the operation of the entity. The Market Value of a surplus asset is determined by its highest and best use. Also called non-operational asset.

See also Investment Asset,
Operational Asset.

Syndication Legal entity related to a partnership; often organised by a general partner with investors as limited partners, whereby funds are pooled for the acquisition and development of real estate projects or business ventures. Property Types, 5.1.2.1

Tangible Assets Assets with a physical manifestation.

Examples include land and buildings, plant and machinery, fixtures and fittings, tools and equipment, and assets in the course of construction and development.

Taxable Value See Assessed Value.

Technical Obsolescence Term used by PP&E Valuers for Functional Obsolescence.

Technical Review	A valuation review performed by a Valuer to form an opinion as to whether the analyses, opinions, and conclusions in the report under review are appropriate, reasonable, and supportable.	GN 11, 3.3
Tenant's Interest	See Lease Interest.	
Terminal Capitalisation Rate (Reversion Yield)	<p>The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period or property resale value.</p> <p>In North America, the terminal capitalisation rate is also called a residual capitalisation rate or a coming-out capitalisation rate. In the Commonwealth, it is known as a reversion yield.</p>	
Timberland	See Forestry/Timberland.	
Toxic	<p>The status of a material, whether gas, liquid, or solid, that in its form, quantity, and location at the date of valuation has capacity to cause harm to life-forms.</p> <p>Toxicity refers to the degree or extent of such capacity.</p>	GN 7, 3.3

International Valuation Standards, Sixth Edition

Trade Fixtures or Tenant's Fixtures	<p>Non-realty fixtures attached to property by the tenant and used in conducting the trade or business.</p> <p>See also Leasehold Improvements or Tenant's Improvements, Personal Property.</p>	Property Types, 3.2.2; GN 5, 3.19
Trading Entity	See Specialised Trading Property.	
Trading Potential	<p>Future profits to be derived from the sale of goods and products, e.g., petrol, food, and drink, or the provision of specialised facilities for lodging, parking, gaming, or entertainment. Trading potential is associated with a category of properties (petrol stations, restaurants, hotels, casinos, cinemas, and theatres), the Market Value of which includes not only land, buildings, and personal property but also intangibles, such as goodwill, and the business itself.</p> <p>The term, trading potential, is Commonwealth usage.</p>	
Trust	See Equitable or Equity Interest.	
Turnover Lease	Also called a percentage lease; a lease provision in which some or all of the rental amounts to be paid is based upon a percentage of the revenues derived from that leased unit by the lessee. It is common for	GN 2, 3.1.8.2

such arrangements to include a guaranteed minimum or base rent, which is not dependent upon the lessee's operations for its amount, as well as a percentage or participation rent in operating revenues over a stated amount.

Turnover Rent	Also called participation rent; any form of lease rental arrangement in which the lessor receives a form of rental that is based upon the earnings of the lessee. A percentage rent is an example of a turnover rent.	GN 2, 3.1.9.3
Useful Life	Either a) the period over which a depreciable asset is expected to be used by an entity; or b) the number of production or similar units expected to be obtained from the asset by the entity.	IAS 16,6; IAS 17,3; IAS 36,5; IPSAS 17,12
Unit(s) of Comparison	Typically a factor produced by two components, which reflects precise differences between properties and facilitates analysis, e.g., price per square metre or square foot, or the ratio of a property's sale price to its net income (Net Income Multiplier/ Years' Purchase).	GN 1, 3.0

International Valuation Standards, Sixth Edition

Utility	<p>A relative or comparative term rather than an absolute condition that refers to the degree of usefulness of a good or service.</p> <p>The utility of agricultural land is measured by its productive capacity. If the land has development potential, its productivity is measured by how well it will support a residential, commercial, industrial, or mixed use.</p> <p>Optimum utility is achieved for some property if operated on an individual basis. Other property has greater utility if operated as part of a group of properties, or held and managed within an aggregate or portfolio of properties.</p> <p>Utility is generally measured from a long-term perspective, ordinarily over the useful life of a property or group of properties. When a property may not have a readily discernible degree of utility at the date of valuation, full disclosure of the value definition, supporting data, and extent of special assumptions or limiting conditions is required.</p>	General Valuation Concepts and Principles, 7.2, 7.3, 7.6, 7.7
Vacant Possession	<p>In real estate this refers to a right to possession of land or built-up property in respect of which there is no current occupant.</p> <p>The term, vacant possession, is Commonwealth usage.</p>	

Valuation	The process of estimating value.	
Valuation Approach	<p>In general, a way of estimating value that employs one or more specific valuation methods. Depending on the nature and purpose of the property, three valuation approaches may be applied. These are the sales comparison, cost, and income capitalisation approaches. Their application will enable the Valuer to determine Market Value or a value other than Market Value.</p> <p>See Asset-Based Approach, Comparable Sales Method, Cost Approach, Income (Capitalisation) Approach, Market Approach, Principle of Substitution, Sales Comparison Approach.</p>	<p>General Valuation Concepts and Principles, 9.1; GN 4, 3.25; GN 5, 3.20; GN 6, 3.40</p>
Valuation Assignment	See Definition of the Valuation Assignment.	
Valuation Brief	See Specifications for the Valuation Assignment.	
Valuation Certificate	See Valuation Report, Minimum Contents of a Valuation Report.	
Valuation Date	The date as of which the Valuer's opinion of value applies. Also referred to as effective date and/or as of date.	

International Valuation Standards, Sixth Edition

Valuation Method	Within the valuation approaches, a specific way to estimate a value.	GN 4, 3.25; GN 5, 3.21; GN 6, 3.41
Valuation Procedure	The act, manner, and technique of performing the steps of a valuation method.	GN 4, 3.27; GN 5, 3.22; GN 6, 3.42
Valuation Ratio	<p>A factor wherein a value or price serves as the numerator and financial, operating, or physical data serve as the denominator.</p> <p>See also Capitalisation Factor, Income Multiplier.</p>	GN 4, 3.27; GN 6, 3.43
Valuation Report	<p>A document that records the instructions for the assignment, the basis and purpose of the valuation, and the results of the analysis that led to the opinion of value. A Valuation Report may also explain the analytical processes undertaken in carrying out the valuation, and present meaningful information used in the analysis. Valuation Reports can be either oral or written. The type, content, and length of a report vary according to the intended user, legal requirements, the property type, and the nature and complexity of the assignment.</p> <p>The terms, valuation certificate and valuation report, are sometimes used interchangeably. As used in some States (the UK), the term, valuation certificate, designates a document in which the Valuer cer-</p>	IVS 3, 3.1

tifies the amount of the valuation of the property. The valuation certificate is usually a short letter, though it may also take the form of a detailed report. It includes the valuation date; purpose of the assignment; date of the certificate; assumptions upon which the valuation is based; and the name, address, and qualification of the Valuer. Certification of value as used in other States (the US) is a statement in which the Valuer affirms that the facts presented are correct, the analyses are limited only by the reported assumptions, the Valuer's fee is not contingent upon any aspect of the report, and the Valuer has performed the valuation in compliance with ethical and professional standards.

See also Minimum Contents of a Valuation Report.

**Valuation
Review**

A valuation assignment that covers a range of types and purposes. The principal characteristic all valuation reviews have in common is that one Valuer exercises impartial judgement in considering the work of another Valuer. A valuation review may support the same value conclusion in the valuation under review or it may result in disagreement with that value conclusion. Valuation reviews provide a credibility check on the valuation as

GN 11, 3.1

well as a check on the strength of the work of the Valuer who developed it, as regards the Valuer's knowledge, experience, and independence.

In some States a valuation review may also be an update done by a Valuer of the same valuation firm that carried out the original valuation.

Valuation organisations around the world distinguish between various types of reviews, e.g., administrative (compliance) reviews, technical reviews, desk reviews, field reviews, reviews to ensure that a valuation has been carried out in accordance with professional standards (where the bases of valuation used in the valuation under review are accepted), reviews that muster general market information to support or contest the value conclusion, and reviews that examine the specific data in the valuation under review with comparable data from a sample group.

Valuation Standards

The International Valuation Standards (IVS), unless otherwise specified.

Value	<p>The price most likely to be concluded by the buyers and sellers of a good or service that is available for purchase. Value establishes the hypothetical or notional price that buyers and sellers are most likely to conclude for the good or service. Value is not a fact, but an estimate of the likely price to be paid for a good or service at a given time in accordance with a particular definition of value.</p> <p>See also Cost, Price.</p>	<p>General Valuation Concepts and Principles, 4.5; Introduction to IVS 1, 2 and 3, 3.3</p>
Value in Exchange	<p>i) It is the value as recognised by a marketplace in which exchange of asset ownership notionally takes place. The IVSC definition of Market Value for appropriate financial reporting is based upon the principle of value in exchange.</p> <p>ii) The value, in terms of cash, of a property which is bartered for another asset or assets. Cash being the yardstick by which the comparative value of each can be assessed.</p>	<p>IVS 2, 6.1, 6.2</p>
Value in Use	<p>i) The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.</p> <p>It should be noted that the above definition, which applies to financial reporting, considers the value of an asset at the end of its useful</p>	<p>IAS 36,5; IVA 1, A6.3.4.1; GN 8, 3.10</p>

life. This meaning differs from the way the term is commonly used in valuation practice (see below).

ii) The value a specific property has for a specific use to a specific user and therefore non-market related. This value type focuses on the value that specific property contributes to the enterprise of which it is a part, without regard to the property's highest and best use or the monetary amount that might be realised upon its sale. IVS 2, 3.1

Value of Improvements

The value added to the land by improvements such as buildings, structures, or modifications to the land, of a permanent nature, involving expenditures of labour and capital, and intended to enhance the value or utility of the property. Improvements have differing patterns of use and economic lives.

See also Improvements.

Valuer

One who possesses the necessary qualifications, ability, and experience to execute a valuation. In some States, licensing is required before one can act as a Valuer.

Code of Conduct,
3.3

See also Professional Property Valuer.

International Valuation Standards, Sixth Edition

Wasting Asset	<p>An asset which in real terms will generally depreciate in value over time.</p> <p>Examples include leaseholds and extractive interests.</p>	
Working Capital	<p>The amount by which current assets exceed current liabilities.</p>	GN 6, 3.44
Worth	<p>See Investment Value.</p>	
Written Report	<p>The results of a valuation communicated to a client in writing, which includes electronic communication. Written reports may be detailed narrative documents containing all pertinent materials examined and analyses performed to arrive at a value conclusion, or abbreviated narrative documents, including periodic updates of value, forms used by governmental and other agencies, or letters to clients.</p> <p>See also Oral Report.</p>	IVS 3, 3.3
Years' Purchase (YP)	<p>See Present Value of \$1 per Period, Income Multiplier.</p>	

