Unitary Valuation: Notes for PowerPoint

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(These notes start with the third slide, "What is 'Unitary Valuation'?")

"What is Unitary Valuation"

When talking about the operating company, the "whole" includes (rights as well as physical) real estate; personal property; assembled workforce; contracts; agreements; etc. As such, it is much more than just the 'bricks and sticks' that are situated on land.

The 'whole' is a portfolio of contributory assets, working together and producing a unique entity that has an income-generating capacity that is affected by not only the individual assets but how those assets are interrelated with each other and the marketplace in which they operate.

". . . Differ from Traditional Valuation"

The summation of individual assets does not equal the unit's value.

Traditional valuation is myopic—focuses on how that asset behaves in the marketplace; has its own supply/demand balance; much less dependent on interrelations with complementing assets.

A house could be valued as a 'unit'. Each room in the house, each component of the structure (wiring, plumbing, layout and design, etc.), and the physical layout of the structure on the land could be valued separately and then combined to achieve its market value. This is the cost approach when properly applied—which means it includes internal and external recognition of value enhancing/detracting influences (usually in the 'depreciation' estimate which can be a net positive number). The concept of external influence in traditional valuation is "internalized" in unit valuation and is similar to an intangible effect on value. It is not an intangible asset in and of itself.

"Assemblage and Plottage"

Unitary valuation is very similar to the summation of assets' individual values plus the plottage effect on overall value from assemblage. Plottage value effect comes from the portfolio enhancement on value—much like an intangible effect on value (but not a true intangible).

The intangible effect on value exists only when all assets in the portfolio are together (as a single unit). This is not a true intangible asset because the value effect disappears when the assets are separated, and the intangible effect cannot be sold or marketed on its own.

“Locally Assessed Property”

Removing locally assessed property from the unit (or removing the individual value of individual locally assessed assets) does not remove the plottage value contribution to the unit.

In many instances, less than 100% of the locally assessed assets total contribution to the unit is removed when the individual value of locally assessed assets are subtracted from the overall unit value. This is because the individual asset is worth one value by itself, but when combined with the balance of the unit, its marginal contribution to the unit is greater than just the asset’s stand-alone value.

Just as we don’t simply “add up” individual assets to generate a unit value, we cannot “subtract out” a component from the unit. If we do, we will oftentimes overstate the unit value less the overall contribution of locally assessed assets.

“Leased Assets”

Leased assets have similar issues as locally assessed assets since they are oftentimes viewed as “separate” from the unit.

Leased assets contribute to the unit as both individual assets as well as to the portfolio effect evident in the unit’s total value.

“Intangible Assets”

The key issue to understand is that an “intangible asset” must be able to ‘stand on its own’ in the marketplace.

A better real estate term for what we often think of as an intangible value contribution is “plottage value”. Plottage value is the resulting enhancement from assemblage—the underlying concept of value when conducting a unit valuation assignment.

Other, proper intangible assets can exist in a unit: assembled workforce; favorable contract terms; etc. It is also possible to have intangible liabilities (e.g., unfavorable contract terms).

Reconciliation

The “best” indicator of value in the valuation assignment should be given the greatest weight in the reconciliation process. The “best” indicator is that indicator which has the most consistent information and data and which best reflects how market participants are pricing the asset (or direct comparables).

If intangible assets are not exempt, then they must be included in the individual approaches to value; however, assemblage is not an intangible asset (can't be separated and sold) and it should be part of the unit's overall value.

In developing the cost approach, the appraiser must properly incorporate a method to include the value enhancement from assemblage—just like the marketplace does when it prices the unit in terms of the value of the unit's stock and debt. If there is positive enhancement due to assemblage, the cost approach will more clearly reflect the marketplace and greater weight can be applied to this approach because it more readily reflects the marketplace.