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NOTE: This is the Third in a series of White Papers aimed at moving us from the current appraisal industry to a much different valuation industry of the future. Prior White Papers can be found at [www.GeorgeRMann.com](http://www.GeorgeRMann.com)

# **DEFINITIONS SPECIFIC TO ACTUARIAL** **VALUATION**

By George R. Mann, CRE

Every profession has a set of definitions it is built upon. This paper addresses definitions we believe will be the foundation of the Valuist© profession. Of course, Valuists© will use many other definitions that currently exist in the real property industry.

**Actuary** – An **actuary** is a business professional who deals with the financial impact of risk and uncertainty. Actuaries provide assessments of financial security systems, with a focus on their complexity, their mathematics, and their mechanisms (Trowbridge, Charles L. (1989). "Fundamental Concepts of Actuarial Science" (PDF) (p. 7). Actuarial Education and Research Fund. Retrieved June 28, 2006.) The name of the corresponding profession is actuarial science. (www.Wikipedia.com)

**Definitive Comparable** – The sale of a property that is nearly identical to the property being appraised (i.e. subject property). All of the following conditions must be met:

- 1) Within one mile of the subject property;
- 2) All improvements are equal to or less than 15 years old (i.e. actual age, not effective age);
- 3) The sale's improvements were constructed within one actual year of the subject improvements;
- 4) Identical property type (occupancy can differ – i.e. owner-occupied versus leased is permitted, within reason);
- 5) The sale's improvements have a gross building area (GBA) within 10% of the subject improvements.

Adjustments are permitted for market conditions and physical characteristics (these should obviously be minimal to nil). (Mann)

**Market Conditions – Date of Sale** --- The relationship between supply and demand at the time of a market transaction (i.e. a comparable sale). (Mann)

**Market Conditions – Date of Value** --- The relationship between supply and demand as of the date of a real property valuation (i.e. valuation of a subject property). (Mann)

**Market Conditions – Equilibrium** --- A situation in which the supply of an item is exactly equal to its demand. Since there is neither surplus nor shortage in the market, price tends to remain stable in this situation. (Market Equilibrium definition from [www.BusinessDictionary.com](http://www.BusinessDictionary.com)).

**Market Price** – 1) The prices which properties actually do bring in the real estate market (Babcock, Frederick M. (1932). *"The Valuation of Real Estate."*); 2) Full detail of current definition of Market Value used in the USA; 3) Unique price at which buyers and sellers agree to trade in an open market at a particular time ([www.BusinessDictionary.com](http://www.BusinessDictionary.com)).

**(Market) Value** – 1) Designate the concept in which the thoroughly informed buyer is present (Babcock, Frederick M. (1932). *"The Valuation of Real Estate."* Indiana University: McGraw-Hill); 2) Value does not exist unless future benefits are in prospect. Its measure is the present worth of expected benefits which may be realized only upon the occurrence of future events (FHA Underwriting Manual 1938); 3) The worth of all the benefits and rights arising from ownership. Two types of economic value are (1) the utility of a good or service, and (2) power of a good or service to command other goods, services, or money, in voluntary exchange (actually the definition of Value - [www.BusinessDictionary.com](http://www.BusinessDictionary.com)); 4) Present worth of a real property's estimated future utility (Henry A. Babcock). 5) The expression in dollars of the meeting of the minds of a buyer willing but not compelled to buy, and a seller willing but not compelled to sell (Bernard, Alfred D. (1913). *"Some Principles and Problems of Real Estate Valuation"* (p. 11.) United States Fidelity and Guaranty Company). 6) The monetary relationship between properties and those who buy, sell, or use those properties. Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value (Appraisal Institute Standards of Valuation Practice).

**Statistical Price Indicator (SPI)** – A statistically valid technique that requires the use of 30 or more data points (i.e. prices from market transactions); No Market Conditions – Date of Sale to Market Conditions - Equilibrium adjustment is needed; The adjustment for Market Conditions – Date of Sale to Market Conditions – Date of Value can be applied to each individual sale or reflected as independent variable in the statistical analysis. (Mann)

**Statistical Value Indicator (SVI)** - A statistically valid technique that requires the use of 30 or more data points (i.e. prices from market transactions); Each transaction MUST be adjusted for the difference in MC – Date of Sale to MC - Equilibrium. (Mann)

**Sustainable Value** – (1) The value of the property which based on experience may throughout the life of the lending be expected to be generated in the event of sale, unattached by temporary, e.g. economically induced, fluctuations in value on the relevant property market and excluding speculative elements.

(2) To determine the mortgage lending value, the future marketability of the property is to be taken as a basis within the scope of a prudent valuation, by taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. (Mortgage Lending Definition from PfandBrief Act)

**Transaction Price** – A reflection of the relative optimism or pessimism of the market's thinking on a future sale's price being higher than today's price. (Mann)

**Valuation Analyst** – A Valuation Analyst is competent in techniques and methods of extracting useful information from large and small amounts of numeric data relating to real or personal property. A Valuation Analyst would not necessarily be a Valuist®, as a Valuist® must exhibit competency in market theory, valuation analysis, and standards of practice when performing a service. (Braun)

**Valuist®** – **Noun [val-u-ist]** A real or personal property valuation professional that excels in the use of quantitative methodology and/or econometrics to prove a property's defined value; a person who estimates value, especially one skilled in real or personal property valuation. (Braun, Cumming, Mann, Moskau)

**Valuistics©** – The application of statistics to the realm of valuation analysis methodology. (Braun)

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