



APPLIED VALUATION

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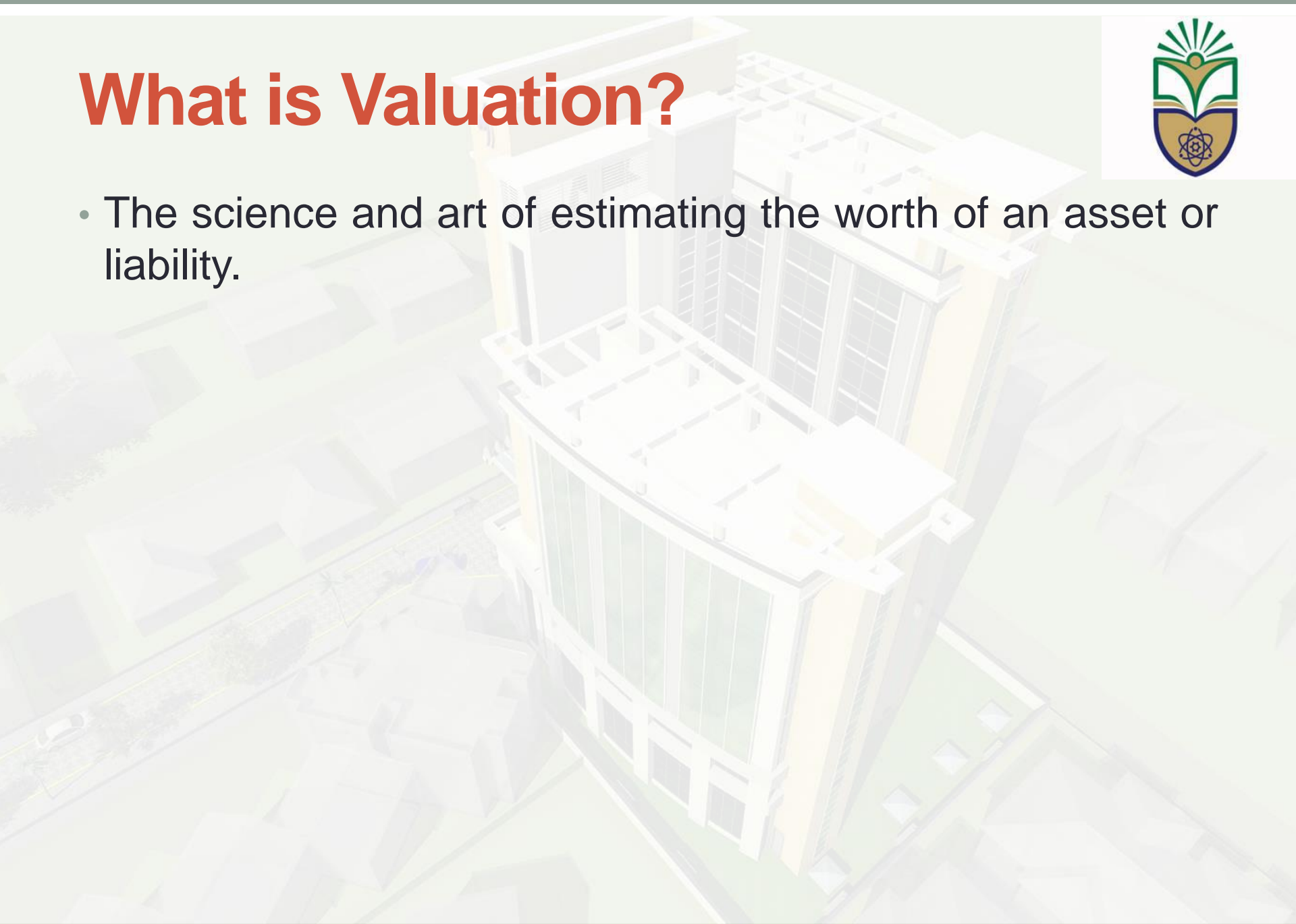


THE VALUATION PROCESS

EAEQ 3209: LESSON ONE

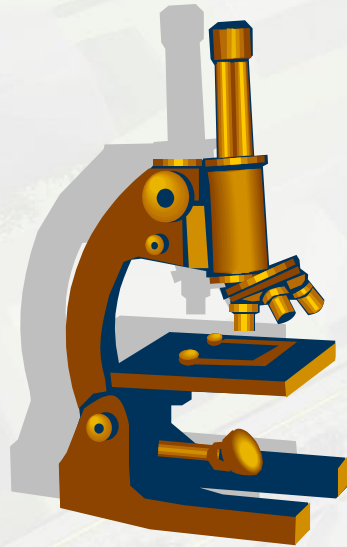
What is Valuation?

- The science and art of estimating the worth of an asset or liability.





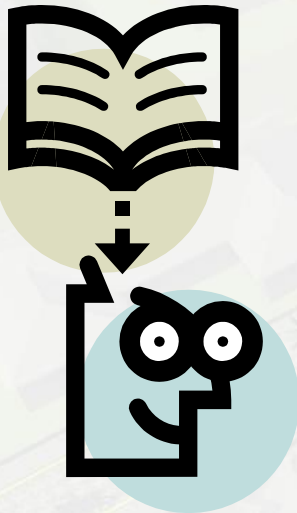
Valuation as Science



- It involve collection of raw data through a defined process. Raw data include costs of construction, sale prices, rental incomes.
- The data is analysed and processed through mathematical, statistical and other quantitative and qualitative methods.
- The processed data is applied to the property whose value is being assessed to arrive at vale



Valuation as Art



- It is an opinion of the valuer making the assessment of value.
- The valuer uses his experience and makes a judgement.
- The valuer analyses the thought process of the participants in the market and how they contribute to value
- This includes evaluation of social and political issues surrounding a particular property that affect its worth



Valuation Process





1. Terms of Reference

- Identification of the Client and the intended users of the valuation
- Intended use of the valuation
- Purpose of the valuation
- Date of the valuation (and definition of the value)
- Characteristics of the property – Lr. No, title, location etc.
- Limiting conditions, Assumptions and Special Assumptions
- ***TOR will help the valuer to determine the scope of the valuation assignment and the methodology to adopt***



2. Inspection

- Collecting data on the asset or liability to be valued
- Location of the property
- Construction details; roof, walls, floors, etc
- Built up areas
- Physical condition of the property; level of maintenance
- Occupancy, tenancies
- Legal details of the property (e.g. title, leasehold, freehold)
- User
- Incomes and expenses



3. Data Collection

- Data about the market - a market is the environment in which goods and services trade between buyers and sellers through a price mechanism.
- Comparable properties – sales, letting, construction costs,
- Trends in the social, economic, governmental, and environmental forces that affect property value in the defined market area
- Planning parameters eg plot ratio, minimum subdivisions
- Data must be meaningful and relevant to the valuation assignment



4. Data Analysis

Market Analysis

- *Cost Approach*: Construction cost, depreciation rates
- *Income Approach*: Income levels, voids, capitalization rates
- *Market Approach*: Prices (sold & asking) for different property types

Highest and Best Use

- The maximum potential
- Physically possible,
- Legally permissible and
- Financially feasible



5. Valuation Approaches

Market Approach

- Provides value by comparing the subject asset with identical or similar assets for which price information is available (IVS-2013)

Income Approach

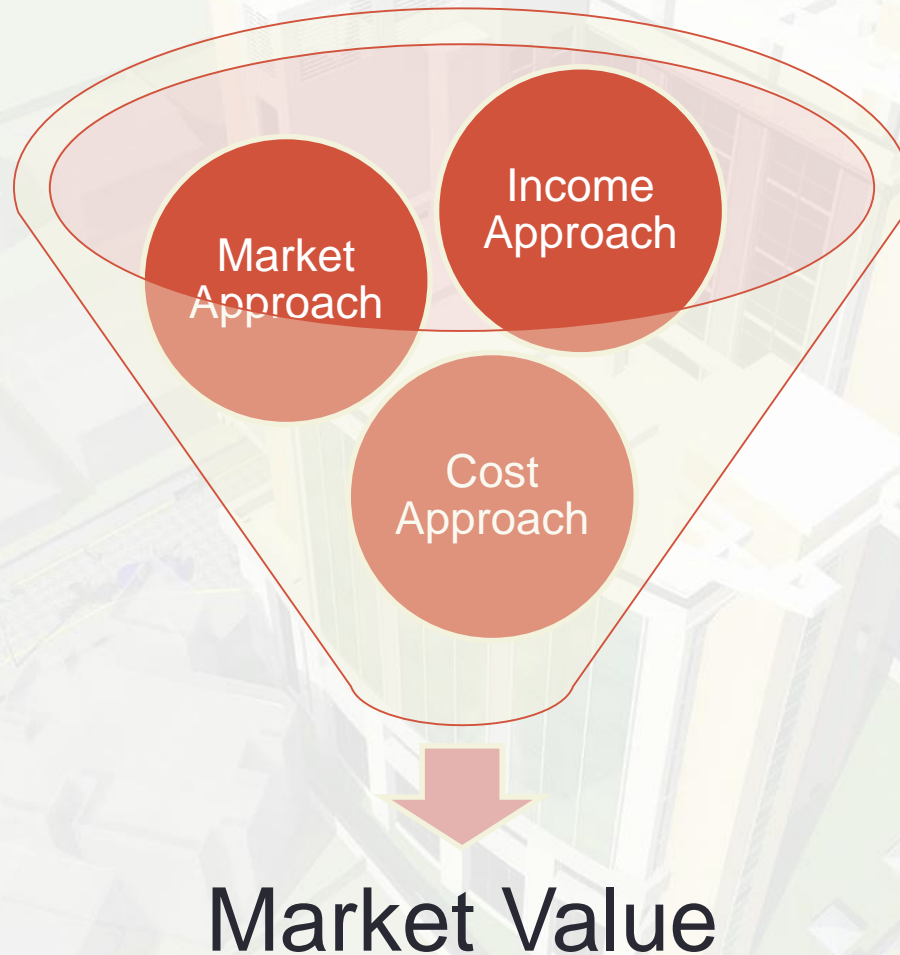
- Provides an indication of value by converting future cash flows to a single current capital value- (IVS-2013).

Cost Approach

- Provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility whether by purchase or by construction (IVS-2013) and



6. Value Judgement





Questions

Explain the process you would undertake in the valuation of the following:

1. A three bedroom house in buruburu, Nairobi.
2. A five bedroom house on half acre plot in Runda, Nairobi.
3. A tea factory located in Kericho comprising factory premises, plant and machinery, workers quarters and large tracts of land with tea bushes.