

## Market Value

Market value is the price at which an asset would trade in a competitive Walrasian auction setting. Market value is often used interchangeably with open market value, fair value or fair market value, although these terms have distinct definitions in different standards, and may differ in some circumstances.

### Definition

International and Australian Valuation Standards define market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion." [1]

### Distinctions

Market value is a concept distinct from market price, which is "the price at which one can transact", while market value is "the true underlying value". The concept is most commonly invoked in inefficient markets or disequilibrium situations where prevailing market prices are not reflective of true underlying market value. For market price to equal market value, the market must be informationally efficient and rational expectations must prevail.

Market value is also distinct from fair value in that fair value depends on the parties involved, while market value does not. For example, IVS (International Valuation Standards) currently notes market value "requires the assessment of the price that is fair between two specific parties taking into account the respective advantages or disadvantages that each will gain from the transaction. Although market value may meet these criteria, this is not necessarily always the case. Fair value is frequently used when undertaking due diligence in corporate transactions, where particular synergies between the two parties may mean that the price that is fair between them is higher than the price that might be obtainable in the wider market. In other words "special value" may be generated. Market value requires this element of "special value" to be disregarded, but it forms part of the assessment of fair value. [2]

### Real estate

The term is commonly used in real estate appraisal, since real estate markets are generally considered both informationally and transactionally inefficient. Also, real estate markets are subject to prolonged periods of disequilibrium, such as in contamination situations or other market disruptions.

Appraisals are usually performed under some set of assumptions about transactional markets, and those assumptions are captured in the definition of value used for the appraisal. Commonly, the definition set forth for U.S. federally regulated lending institutions is used, although other definitions may also be used under some circumstances: [3]

"The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: the buyer and seller are typically motivated; both parties are well informed or well advised, and acting in what they consider their best interests; a reasonable time is allowed for exposure in the open market; payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

The Uniform Standards of Professional Appraisal Practice requires that when market value is the applicable definition, the appraisal must also contain an analysis of the highest and best use as well as an estimation of exposure time.

It is important to note that USPAP does not require that all real estate appraisals be performed at market value. Indeed, there are frequent situations when appraisers are called upon to appraise other values. If a value other than market value is appropriate, USPAP only requires that the appraiser provide both the definition of value being used and the citation for that definition.

## Other definitions

Market value is the most commonly used definition of value in real estate appraisal in the United States because it is required for all federally regulated mortgage transactions and because the International Association of Assessing Officials has accepted it for use in property taxation. However, real estate appraisers use many other definitions of value in other situations[4].

## Liquidation value

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

Consummation of a sale will occur within a severely limited future marketing period specified by the client.

- The actual market conditions currently prevailing are those to which the appraise property interest is subject.
- The buyer is acting prudently and knowledgeably.
- The seller is under extreme compulsion to sell.
- The buyer is typically motivated.
- The buyer is acting in what he or she considered his or her best interest.
- A limited marketing effort and time will be allowed for the completion of the sale.
- Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

## Orderly liquidation value

This value definition differs from the previous one in that it assumes an orderly transition, and not extreme compulsion.[5]

## Federal land acquisition

For land acquisitions by or funded by U.S. federal agencies, a slightly different definition applies:[6]

"Fair market value is defined as the amount in cash or terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desired but is not obligated to buy. In ascertaining that figure, consideration should be given to all matters that might be brought forward and reasonably be given substantial weight in bargaining by persons of ordinary prudence, but no consideration whatever should be given to matters not affecting market value."

## Going concern value

When an appraiser values the combination of a business and the real estate used for that business, the specific market value is called "going concern value". It recognizes that the combined market value may be different from the sum of the separate values: "The market value of all the tangible and intangible assets of an established operating business with an indefinite life, as if sold in aggregate." [7]

## Use value

Use value takes into account a specific use for the subject property and does not attempt to ascertain the highest and best use of the real estate. For example, the appraisal may focus on the contributory value of the real estate to a business enterprise.

Some property tax jurisdictions allow agricultural use appraisals for farmland. Also, current IRS estate tax regulations allow land under an interim agricultural use to be valued according to its current use regardless of development potential. [8]

## References

- [1] IVS 1 - Market Value Basis of Valuation, Seventh Edition
- [2] Exposure Draft of Proposed Revised International Valuation Standard 2 - Bases Other than Market Value, June, 2006
- [3] Federal Register Vol. 55, No. 163, August 22, 1990. This definition has also been adopted by the International Association of Assessing Officials for tax assessment purposes.
- [4] Dictionary of Real Estate Appraisal, 4th ed. (Chicago: Appraisal Institute, 2002)
- [5] Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets, 2nd ed., (American Society of Appraisers, 2005)
- [6] Uniform Standards for Federal Land Acquisition
- [7] The Appraisal of Real Estate, 12th ed., (Chicago: The Appraisal Institute, 2001)
- [8] Timberland Appraisal

(Source: [Wikipedia](#))