

REAL VALUATION FOR REAL ESTATE?

— A COMPARISON OF CONVENTIONAL AND REAL VALUE MODELS.

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Abstract

This paper takes an old idea and transforms it into a dynamic application for valuation of real estate in the 21st Century. It requires however, a paradigm shift in the minds of valuers and their methodology from that taught in and thus used in the 20th Century. It is applicable to all kinds of property interests, particularly income producing real estate, i.e. leased fees and leaseholds.

The theory is presented as a synthesis of a dynamic real valuation model conceived in but never recognised in the United States of America, and mixes it with contemporary real value and hybrid discounted cash flow models conceived but similarly abandoned in the United Kingdom — and gives these new zest. Remastered and simplified by the author, this real value valuation model re-expresses the "old" ideas in a "new" user-friendly way.

The paper confronts conventional thinking, compares conventional valuation and earlier real value models, with a new one presenting a *real* challenge from a *real value* model.

The model is presented in the context of a basic and simple sales analysis and valuation examples comparing the conventional and previous real value methodology out of which is developed the seminal concept of an *all-risks real yield* (ARRY) model. This is an advance on the conventional ARY (all risks yield) model used in the UK and the real value models promoted in the UK and USA in the 1970-80's as well as a refinement of the authors *generic real value* model of the 1990's.

The paper compares the differences in the models' application in analysing sales to derive market based required yields. It compares these yields with those defined by the real value theory and seeks to find an explanation for the differences and to reconcile those differences required to have confidence in the real value models and test the validity of their resulting valuations.

It concludes with indicating how the ARRY model is adaptable to a range of real world complications involving different lease tenures and terms, multi-tenanted properties and other real contemporary issues — including vacancies, variations in operating costs, capital expenditure, terminating and leasehold interests.

Keywords: *All-risks real yield, conventional and traditional valuation theory; discounted cash flow; dynamic capitalisation; investment real estate; real value income valuation models.*