Valuation of Assets Guidelines

STAR Project
Asset Valuation (Tirana Example)
Content

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1. Introduction to Valuation

As the processes of decentralization, urbanization and economic development continue in developing economies, there is growing need to provide better living and working conditions for rapidly growing urban populations through better service provision and improved access to amenities. A review of successful cases of municipal management indicates that effective use of the asset base is an important factor contributing to increases in municipal revenues and successful performance.

There is a strong incentive for local governments to develop their fixed asset base as a productive resource to help in the attainment of public goals.

The Concept of Municipal Asset Management

Municipal assets are property owned, controlled or used by the local governments. They can be managed directly or indirectly for the benefit of their constituents in the attainment of local service delivery goals. Municipal asset management is the process of inventory, valuation, use, strategic portfolio reviews, reporting and auditing of municipal assets and in some cases, state properties as part of the decision making process of local governments.

The main benefits of an effective asset management system are to help local governments:

a) Provide local residents with improved services based on municipal asset use (such as infrastructure, water systems, parking, etc.);

b) Increase revenues;

c) Improve the overall rating for the Municipal Government;

d) Attract more domestic and foreign investors;

e) Improve land valuation (for example, through relocation of public properties, sale and leases, and improvements in infrastructure such as better roads) that make land assets attractive for productive and real estate purposes;

f) Enhance the environment and improve quality of life (for example through public parks and greenways).

An effective asset management system can provide useful information about the actual and potential net worth and asset base of the municipality. In order to enhance the Municipal Asset Management, in addition to safe and efficient registration of municipal property, the asset valuation has to be incorporated in the reporting at individual asset level.

2. Classification of Municipal Assets

Municipal assets could be considered a part of one of the following categories:

- *Government service assets* – assets required to fulfill the mandates of the government, such as: government administrative buildings, police buildings, health provision centers, water provision, parks, roads, public parking areas, right of way, river margins, transport terminals etc.

- *Commercial assets* (even if they only have the potential use for these types of activities) - referring to office buildings, market properties, land for different commercial services, sports facilities, parking properties, commercial services, sports facilities, parking properties, commercial spaces in transport terminal in buildings if applicable.
3. Valuation Approaches

The purpose of the valuation should be to give both the local government as well as citizens of the jurisdiction, access to valuable information for the purposes of planning, approval, negotiation, execution and monitoring of performance for municipal governments of the use of assets. The valuation methods should link services provided with net revenues or costs associated with the management of particular public assets.

The valuation of the municipal assets should be performed in accordance with internationally accepted methodologies that are in common use.

3.1. Market value concept

Market based valuations normally employ one or more of the valuation approaches by applying the economic principle of substitution, using market-derived data. The principle holds that a prudent person would not pay more for a good or service than the cost of acquiring an equally satisfactory substitute good or service, in the absence of the complicating factors of time, greater risk, or inconvenience. The lowest cost of the best alternative, whether a substitute or the original, tends to establish Market Value.

Market based valuations approaches include:

- **Sales Comparison Approach**
  Considers the sales of similar or substitute assets and related market data, and establishes a value estimate by processes involving comparison. In general, an asset being valued (a subject asset) is compared with sales of similar assets that have been transacted in the market. Listings and offerings may also be considered.

- **Income Capitalization Approach**
  Considers income and expense data relating to the asset being valued and estimates value through capitalization process. Capitalization relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationship (known as capitalization rates), yield or discount rate (reflecting measures of return of investment), or both.

  In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.

- **Cost Approach**
  The cost approach involves estimating the value of the assets based on adjusted replacement cost. Considers the possibility that, as an alternative to the purchase of a given asset, one could acquire a modern equivalent asset that would provide equal utility. In a real estate concept, this would involve the
cost of acquiring equivalent land and constructing an equivalent new structure. Unless undue time, inconvenience, and risk are involved, the price that a buyer would pay for the asset being valued would not be more than the cost of the modern equivalent.

Often the asset being valued will be less attractive than the cost of the modern equivalent because of age or obsolescence. A depreciation adjustment is required to the replacement cost to reflect this.

3.2. Depreciated Replacement Cost Method

This methodology is based on the concept of replacement cost as an indication of the value, taking into account the current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization (functional or technical obsolescence, economic or external obsolescence) in order to arrive at our estimate of market value.

3.3. Highest and Best Use concept

The concept of highest and best use is a fundamental and integral part of Market Value estimates.

Highest and Best Use concept presents the most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of property being valued.
4. General valuation procedure

The valuation steps for estimation of value of property are presented below.

4.1. Steps of a Property Valuation

Prior to Visiting the Property:
1. Pull subject data detail. The subject in this case is the property to be valued;
2. Research active, pending, and closed sales for the neighbourhood (defined market area) for the last six months;
3. Select comparable active, pending, and closed sales for the last six months. Comparable sales are properties that have characteristics that are similar to the subject property.

At the Property:
4. Take interior and exterior photos of subject, including a street scene that shows the general character and condition of the neighbourhood;
5. If data is not available measure the total built area of the building;
6. Drive neighbourhood (market area) and take exterior photos of comparable sales.

After Visiting the Property:
7. Research general data for neighbourhood;
8. Confirm the Legal description of the property – using title or possession deed;
9. Write a description of Improvements;
10. Use the appropriate Valuation method.

Sales comparison approach:
11. Pull specific market data for comparable sales;
12. Begin reporting process;
13. Make adjustments to the comparable properties to account for location, building condition, offer or time of concluded deals;
14. Analyze previous sales/transfer of the subject property;
15. Record a thorough explanation of adjustments in the report.
Cost approach:

16. Develop a land value opinion. Land is valued as if vacant and available for its highest and best use, regardless of its present use. Land value is based upon comparable sales with a similar highest and best use;

17. Estimate the reproduction or replacement cost of the investments. The cost is estimated as of the effective date of the valuation and should include all direct and indirect cost;

18. Estimate the amount of depreciation;

19. Deduct the depreciation from the cost estimate. Depreciation from all causes is deducted from the new cost of each structure to calculate the depreciated value of each building;

20. Total the land and building components.

Income approach:

21. Determine the property’s potential gross income – the income that the property would earn at full occupancy and current market rents;

22. Determine the property’s net operating income – the potential gross income, minus an allowance for typical vacancy and collection losses minus the operating expenses necessary for the property to earn its potential gross income;

23. Determine an appropriate overall capitalization rate using sales of comparable properties with similar physical and locational characteristics. (The capitalization rate is a conversion factor that is applied to the income stream to convert it into an indication of the market value of the property).

24. Calculate the property’s value using the formula:

   \[ \text{Market Value} = \frac{\text{Net Operating Income}}{\text{Overall Capitalization Rate}} \]

Reconciliation process

25. Perform the process of Reconciliation which means the appraiser weighs the results of the three different approaches to value and arrive at an opinion of value.

Reporting

26. Valuation report should contain:
   a) Subject of the valuation;
   b) Purpose of the valuation;
   c) Date of the valuation;
   d) Description of the asset;
   e) Drawings of the asset;
   f) Photos of the asset from inside and outside;
   g) Applied methodology;
   h) Conclusion.
5. Asset valuation summary - Tirana Example

The following section consist the overview of the process of valuation of sample assets of Tirana Municipality. Also, this section consist the presentation of model for valuation procedures used for valuation of the assets of Tirana Municipality.

For the purpose of this project, the scope of work was limited only to developing framework valuation models of the following assets of Tirana Municipality:

1. **Construction land** - at the end of the “5 Maj” street, planned for "Organizing and Housing for Romë community" project, “5 Maj” street, situated within the territory administered by the LGU No. 4, Tirana, cadastral zone. 8120, with an index map TR-G, H – 11, 12;

2. **Agricultural land** - “Planted Olives”, property no. 353/12, vol. 25, pg. 222, cadastral zone 2392;

3. **Green Market** - administered by the LGU No.6, Tirana, is identified on the property index map, with a new property no. 2/904 (old property no. 2/85), cadastral zone 8230, with index map TR-T – 2;

4. **Building** - “Ismail Qemali” High-School, is identified on the property index map, with a new property no. 5/192, cadastral zone 8150, with a index map TR-O – 13;

5. **Street** - "Kont Leopold Bertold" with its sidewalk, and the installation within – electricity system and waste water system.

As requested by the project authorities, the variation of the cost valuation method was applied. As confirmed with the project authorities, the valuation method applied does not provide fair or market value of the assets.

The basic information was provided by the authorities of the Tirana Municipality. After the collection of the basic data, the team performed a site visit of the assets. Then, the team performed market research and developed the models for valuation.

The project authorities instructed to apply and rely on the following documents (price reference lists):

1. CMD 514,
2. CMD 407
3. CMD 629
4. CMD 704 and the
5. Price Reference List by the INSTRUCTION No.2.
The model content is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Valuation Introduction</th>
<th>(A) User Manual</th>
<th>Explains the excel sheets and how to perform valuation of assets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Valuation General Information</td>
<td>(B) Valuation Information</td>
<td>Input or find general information regarding the valuation of assets, regarding the person who prepared and the person who approved.</td>
</tr>
<tr>
<td>C</td>
<td>Valuation Land</td>
<td>(C) Price Reference List</td>
<td>Table of land price reference lists VKM 514.</td>
</tr>
<tr>
<td></td>
<td>Land</td>
<td>Tool for valuation of land for the municipality.</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>Valuation Buildings</td>
<td>(D) Price Reference List</td>
<td>Table of building price reference lists the INSTRUCTION No.2.</td>
</tr>
<tr>
<td></td>
<td>Buildings</td>
<td>Tool for valuation of buildings for the municipality.</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Other Valuation</td>
<td>(E) Price Reference List</td>
<td>Table of land price reference lists VKM 407.</td>
</tr>
<tr>
<td></td>
<td>Other Assets</td>
<td>Tool for valuation of other assets for the municipality.</td>
<td></td>
</tr>
</tbody>
</table>

### 5.1. Valuation of land

For the valuation of a land of the Tirana Municipality, the scope of work included valuation of a construction land and agriculture land.

**Construction land valuation model**

Construction land is a land plot located on the suburban area of Tirana city. At the moment of valuation the land plot is mix used by different subjects. In near future Tirana Municipality plans to construct housing project for Roma community.

In this model the calculation is based on the area of the land plot and the referent price by VKM 514. The cost model shows no depreciation calculation because by the valuation standards land cannot be depreciated. Here was used only land plot attractiveness adjustment based on the location on the land plot as a corrective value.

**Agricultural land valuation model**

Agricultural land is assumed that is located near Tirana and that there is plan for using this land plot as a land for growing “Planted Olives”.

In this model the calculation is based on the area of the land plot and the referent price by VKM 514. Here was used only land plot attractiveness adjustment based on the location on the land plot as a corrective value.

### 5.2. Valuation of Green Market

Land of Green Market is a land plot located in the LGU No.6 of Tirana city. In this present moment the land plot is used as green market by the tenants.
In this model the calculation is based on the area of the land plot and the referent price by VKM 514. The land plot or the green market consists of few units that were analysed and valued separately including surface area, flooring, sealing, toilets and fence surface length.

The cost model includes depreciation calculation. Then, here also was used adjustment on the depreciation regarding the quality and condition of the asset in the present time, so the useful life depreciation can be corrected. So, finally, also was used and the land plot attractiveness calculation depending on the location on the land plot (green market) as a corrective value.

Other costs elements of the Market have been calculated based on CMD 629. Reference price is adjusted with general expenses and profit rate. General expenses include the costs of planning, projection, supervision and technical inspection.

5.3. Valuation of Building

In the valuation of a building as asset of the Tirana Municipality scope of work included valuation of a high school building.

Model on Building valuation

“Ismail Qemali” High-School is located in the central district of Tirana. In this present moment the school serves as a building with classrooms and offices, and also includes small gym inside the building. The land plot outside is used as yard and as sport playgrounds for the children.

In this model the calculation is based on the area of the asset and the Price Reference List by INSTRUCTION No. 2, (dated 8.6.2014). The asset consists of few units that were observed and valued separately including, area of the land, the building and yard with sport playgrounds area, as well as fence length.

The cost model includes depreciation calculation. Then, here also was used adjustment on the depreciation regarding the quality and condition of the asset in the present time, so the useful life depreciation can be corrected. So, finally, also was used and the land plot attractiveness calculation depending on the location on the land plot (school building) as a corrective value.

5.4. Valuation of other assets

The valuation of other assets the scope of work included valuation of street and all the installation on the street, up or below the street.

Model on Other Asset valuation

Street "Kont Leopold Bertold" with its sidewalk and the installation within – electricity system and waste water system is located in the central district of Tirana. At this present moment, the street serves as a traffic connection in the central area with residential area, and also includes installation for electricity system and waste water system.

In this model the calculation is based on the unit of the asset and the referent price by VKM 407. The asset consist few units that were observed and valued separately.
For some of the asset units that represent surface area measures were taken, for some of the units length measures were taken and last for some units volume measures were taken into the calculation with the reference prices.

The cost model includes depreciation calculation. Then, here also was used adjustment on the depreciation regarding the quality and condition of the asset in the present time, so the useful life depreciation can be corrected. So, finally, also was used and the land plot attractiveness calculation depending on the location on the land plot (street) as a corrective value.

Costs elements of the other assets have been calculated based on CMD 629. Reference price is adjusted with general expenses and profit rate. General expenses include the costs of planning, projection, supervision and technical inspection.
6. Asset Valuation Model - excel for Tirana

Example

This Model contains information and guidelines for proper and most effective use of the proposed excel model for valuation of assets in the municipalities in Albania. The Model contains 3 sections in which in detail are explained all steps that should be undertaken by the authorized personnel – valuator for proper valuation report.

This excel model should be used by valuators. The usage of the tables in the sheets in the excel model is applicable only to the functions for asset valuation.

The excel model starts with three information sheets where are located the content of the excel model, all personal information of the municipality and the person who will make the valuation.

- Content Sheet

- (A) User Manual Sheet – this sheet contains information on usage of the other sheets in the model.

- (B) Valuation Information Sheet - this sheet consists general information about the municipality including: name, address, postal code, city, telephone number, fax, web page and e-mail address. This sheet contains as well dates for the period of valuation, and part that should be signed by the persons in charged for the asset valuation process and asset valuation approving, respectively. All colored fields must be filled out.

1.1. Valuation Land Section

(C) Price Reference List Sheet - contains reference price table according to VKM 514

Construction Land Sheet: The user must fill in the coloured cells.

- Asset Number (code) – Valuator should fill in the code from municipal asset register.

- Cadastral Zone – Valuator should fill cadastral zone number.

- Index map – Valuator should fill index map number.

- Description – Valuator should fill in narrative description of the asset of the basic info data, the inside and outside conditions of the asset.
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- Type of land – Valuator should fill in the type of land as used in the moment of valuation.
- Area – Valuator should fill in the surface area in m².
- Price as per decision – Valuator should find the reference price per cadastral zone in VKM 514 and fill in respectively.
- Value as per decision – It is formula based predefined calculation.
- Correction for attractiveness in % – Valuator can make correction to the asset regarding the attractiveness of the location where the asset is. Percent plus means that location is very attractive. (Exp. 20% for the asset located in the Center of the city; -20% for the asset located in vary suburban area of the city.)
- Corrected Value – It is formula based predefined calculation. This column gives the final value.
- Ownership documentation – Valuator narrative describes the ownership status and documents of the asset.
- Comments – Valuator can give statement of his comments for the asset, comments regarding valuation process, comments on his decisions, etc.

Agricultural Land Sheet: The user must fill in the coloured cells.

- Asset Number (code) – Valuator should fill in the code from municipal asset register.
- Cadastral Zone – Valuator should fill cadastral zone number.
- Index map – Valuator should fill index map number.
- Description – Valuator should fill in narrative description of the asset of the basic info data, the inside and outside conditions of the asset.
- Type of land – Valuator should fill in the type of land as used in the moment of valuation.
- Area – Valuator should fill in the surface area in m².
- Price as per decision – Valuator should find the reference price per cadastral zone in VKM 514 and fill in respectively.
- Value as per decision – It is formula based predefined calculation.
- Correction for attractiveness in % – Valuator can make correction to the asset regarding the attractiveness of the location where the asset is. Percent plus means that location is very attractive. (Exp. 20% for the asset located in the Center of the city; -20% for the asset located in vary suburban area of the city.)
- Corrected Value – It is formula based predefined calculation. This column gives the final value.
• Ownership documentation – Valuator narrative describes the ownership status and documents of the asset.

• Comments – Valuator can give statement of his comments for the asset, comments regarding valuation process, comments on his decisions, etc.

Green Market Sheet: The user must fill in the coloured cells.

• Asset Number (code) – Valuator should fill in the code from municipal asset register.

• Cadastral Zone – Valuator should fill cadastral zone number.

• Index map – Valuator should fill index map number.

• Description – Valuator should fill in narrative description of the asset of the basic info data, the inside and outside conditions of the asset.

• Type of land – Valuator should fill in the type of land as used in the moment of valuation.

• Area – Valuator should fill in the surface area in m². If needed other surface measures can be used also (length in m, volume in m³).

• Price as per decision – Valuator should find the reference price per cadastral zone in VKM 514 and fill in respectively. The Unit Price also can be material prices in the bill of materials from the construction project can be used.

• Replacement cost – It is formula based predefined calculation.

• Year of construction/reconstruction – Valuator fill in the year.

• Useful life – Valuator fill in the years of useful life of the asset.

• Effective age – It is formula based predefined calculation that represents the past years of usage of the asset.

• Annual depreciation – It is formula based predefined calculation.

• Adjustment (in the depreciation) – Valuator can make correction on the depreciation percentage in accordance to the condition in which the asset is in the present moment.

• Adjusted depreciation rate – It is formula based predefined calculation.

• Depreciation – It is formula based predefined calculation.

• Net asset value (depreciated) – It is formula based predefined calculation and it summarize all calculation on depreciation. It is value for final calculation.
• Correction for attractiveness in % – Valuator can make correction to the asset regarding the attractiveness of the location where the asset is. Percent plus means that location is very attractive. (Exp. 20% for the asset located in the Center of the city; -20% for the asset located in very suburban area of the city.)

• Corrected Value – It is formula based predefined calculation. This column gives the final value.

• Ownership documentation – Valuator narrative describes the ownership status and documents of the asset.

• Comments – Valuator can give statement of his comments for the asset, comments regarding valuation process, comments on his decisions, etc.

1.2. Valuation Building Section

(D) Price Reference List Sheet - contains reference price table according to INSTRUCTION No.2

Building Sheet: The user must fill in the coloured cells.

• Asset Number (code) – Valuator should fill in the code from municipal asset register.

• Cadastral Zone – Valuator should fill cadastral zone number.

• Index map – Valuator should fill index map number.

• Description – Valuator should fill in narrative description of the asset of the basic info data, the inside and outside conditions of the asset.

• Type of land – Valuator should fill in the type of land as used in the moment of valuation.

• Area – Valuator should fill in the surface area in m². If needed other surface measures can be used also (length in m, volume in m³).

• Price as per decision – Valuator should find the reference price per cadastral zone in VKM 514 and INSTRUCTION No.2 and fill in respectively. The Unit Price also can be material prices in the bill of materials from the construction project can be used.

• Replacement cost – It is formula based predefined calculation.

• Year of construction/reconstruction – Valuator fill in the year.

• Useful life – Valuator fill in the years of useful life of the asset.

• Effective age – It is formula based predefined calculation that represents the past years of usage of the asset.

• Annual depreciation – It is formula based predefined calculation.
• Adjustment (in the depreciation) – Valuator can make correction on the depreciation percentage in accordance to the condition in which the asset is in the present moment.

• Adjusted depreciation rate – It is formula based predefined calculation.

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• Net asset value (depreciated) – It is formula based predefined calculation and it summarize all calculation on depreciation. It is value for final calculation.

• Correction for attractiveness in % – Valuator can make correction to the asset regarding the attractiveness of the location where the asset is. Percent plus means that location is very attractive. (Exp. 20% for the asset located in the Center of the city; -20% for the asset located in vary suburban area of the city.)

• Corrected Value – It is formula based predefined calculation. This column gives the final value.

• Ownership documentation – Valuator narrative describes the ownership status and documents of the asset.

• Comments – Valuator can give statement of his comments for the asset, comments regarding valuation process, comments on his decisions, etc.

1.3. Valuation Other Assets Section

(E) Price Reference List Sheet - contains reference price table according to VKM 407

Other Assets Sheet: The user must fill in the coloured cells.

• Asset Number (code) – Valuator should fill in the code from municipal asset register.

• Cadastral Zone – Valuator should fill cadastral zone number.

• Index map – Valuator should fill index map number.

• Description – Valuator should fill in narrative description of the asset of the basic info data, the inside and outside conditions of the asset.

• Type of land – Valuator should fill in the type of land as used in the moment of valuation.

• Area – Valuator should fill in the surface area in m². If needed other surface measures can be used also (length in m, volume in m³).

• Price as per decision – Valuator should find the reference price per cadastral zone in VKM 407 and fill in respectively. The Unit Price also can be material prices in the bill of materials from the construction project can be used.

• Replacement cost – It is formula based predefined calculation.
• Year of construction/reconstruction – Valuator fill in the year.

• Useful life – Valuator fill in the years of useful life of the asset.

• Effective age – It is formula based predefined calculation that represents the past years of usage of the asset.

• Annual depreciation – It is formula based predefined calculation.

• Adjustment (in the depreciation) – Valuator can make correction on the depreciation percentage in accordance to the condition in which the asset is in the present moment.

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