

Prepared by Dr. Weam Nasan Agha

REA625
Real Estate Valuation

Lecture 3



Real Estate Management

Lecture 3

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Recap - Lecture 2

Market Value

Market Context of Market Value:

Highest and Best Use:

Summary of Market Value Conditions and Assumptions

Market Rent

The Definition of the Market Rent:

Conceptual Relationship with Market Value:

Main Areas of Application:

Relationship Between Contract Rent and Market Rent

Key Elements in Determining Market Rent:

Methodology for Assessing Market Rent:

Professional Requirements in a Market Rent Valuation Report

Summary Presentation Format /Market Rent Assessment/

Recap - Lecture 2

Why Are Bases of Value Other Than Market Value Required?:

Fair Value

The Concept of Fair Value:

Fair Value in transactions (Equitable Value)

Fair Value for financial reporting purposes under IFRS 13

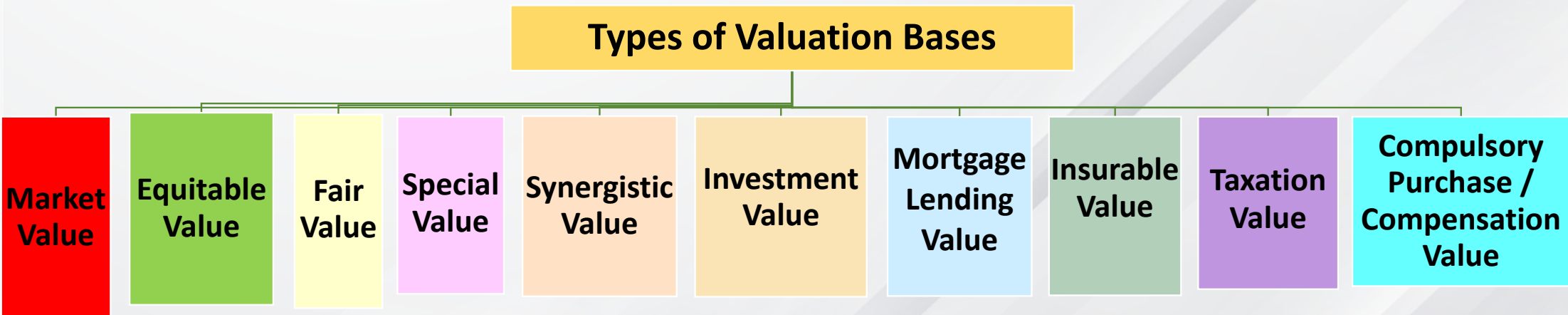
**Comparative Analysis of Value Bases:
(Market Value, Fair Value, and Equitable Value)**

Contents

- **Special Value**
- **Synergistic / Marriage Value**
- **Investment Value / Worth**

Overview of Valuation Bases

➤ Types of Valuation Bases :



Special Value

➤ The Definition of the Special Value:

A **value** that exceeds **Market Value** and arises from **specific characteristics or benefits** inherent in the asset that are of interest or importance only to a **particular purchaser (Special Purchaser)**.

These **characteristics** provide **additional utility or significance** to that **purchaser**, which is **not** recognized or reflected by other **participants in the market**, such as a property holding unique historical, emotional, or strategic importance to a specific party.

Special Value = Market Value + Additional Value to the Special Purchaser

Special Purchaser:

A party that has:

- A strategic interest,
- An operational advantage or benefit,
- A historical value
- An emotional value
- A geographic or legal necessity.

Special Value

➤ Detailed Practical Examples:

Example	Reason for Special Value	Difference from Market Value
Telecommunications tower site	Final site required to complete the network	30–50% higher
Land adjacent to an existing development	Exclusive expansion potential	20–40% higher
Heritage property owned by a family	Emotional and historical value	10–25% higher
Strategic location for a retail chain	Monopoly over a commercial area	15–35% higher

Special Value

➤ Practical Example:

Scenario

- A standalone plot of land offered on the open market.
- No special advantage exists for most purchasers.
- There is only one purchaser who derives an additional benefit due to a specific circumstance.

Numerical Data

- Market Value = SAR 1,000,000
- Special benefit to the Special Purchaser (expansion of an adjacent factory) = SAR 300,000

Special Value = Market Value + Additional Value to the Special Purchaser

Special Value = 1,000,000 + 300,000 = 1,300,000

Special Value

➤ Practical Example:

Outcome

- **The market as a whole** would not pay more than SAR 1,000,000.
- **Only the Special Purchaser** is willing to pay SAR 1,300,000.
- **The difference (SAR 300,000)** does not reflect general market behavior.

In accordance with IVS / RICS, this additional amount is not included within Market Value and must be explicitly disclosed as **Special Value.**

Special Value

Reporting Requirements

✓ Clear identification of the basis of value adopted.

✓ Explicit disclosure of:

- the existence of Special Value
- any special assumptions

✓ Mandatory disclosure of Market Value for comparison purposes

Market Value/Special Value

Comparison Table: Market Value vs Special Value

<i>Item</i>	<i>Market Value</i>	<i>Special Value</i>
Basis of Assessment	Reflects the behavior of the market as a whole and the interaction of supply and demand.	Reflects a specific benefit to one particular purchaser only.
Number of Beneficiaries	All potential purchasers in the market.	One specific purchaser only.
Availability of Benefit	Available to the general market.	Not available to the wider market.
Relationship	Represents the primary benchmark for valuation.	Equal to or greater than Market Value.
Possibility of Being Lower	May increase or decrease in response to market conditions.	Cannot be lower than Market Value.
Valuation Treatment	Presented as the primary valuation opinion in the report.	Disclosed separately and not combined with Market Value.
Reflection in Market Price	Yes, it reflects the expected price in an open market.	No, it does not reflect the expected price in the general market.
General Example	A residential plot that any developer can acquire and develop under the same conditions.	Land adjacent to an existing factory that is of interest only to the factory owner for expansion.
Simple Numerical Example	Market Value = SAR 1,000,000	Market Value = SAR 1,000,000 Special benefit = SAR 300,000 Special Value = SAR 1,300,000
Report Requirements	Mandatory disclosure as the basis of valuation.	Mandatory disclosure of its existence, with Market Value stated for comparison.

Synergistic / Marriage Value

➤ The Definition of the Synergistic / Marriage Value:

The **value** arising from the **combination of two or more assets** (or multiple interests), where the **combined value** exceeds the sum of the individual values.”

Synergistic Value = **Value of Assets Combined** – (Value of Asset A + Value of Asset B + ...)

Classification Based on Availability of Benefit

General Synergy

Special Synergy

Synergistic / Marriage Value

➤ Classification Based on Availability of Benefit:

Classification	Availability of Benefit	Valuation Treatment	Example Title	Detailed Explanation
General Synergy	Available to multiple potential purchasers in the market	Treated as part of Market Value	Merging land parcels within a development area	Combining adjacent parcels improves urban planning efficiency, increases design flexibility, and optimizes the use of development regulations, thereby enhancing project feasibility and overall value. As these benefits are available to multiple developers in the market, the resulting value is reflected as part of Market Value.
Special Synergy	Available to only one specific purchaser	Treated as Special Value	Combining ownership with exclusive usufruct rights	This combination generates unique operational or legal benefits, such as exclusive control over use, improved returns, or the removal of existing constraints. These benefits are not available to other market participants; therefore, the resulting value is classified as Special Value.

Synergistic / Marriage Value

➤ Practical Example/General Synergy/:

We have two adjacent plots of land located within a development zone:

- Same permitted use (residential / commercial).
- Same planning and building regulations.
- No legal or regulatory restrictions preventing any party from acquiring both plots together.

Scenario

Any developer in the market can:

- Purchase both plots.
- Combine them into a single development.
- Realize the benefits resulting from the combination.

The benefit is available to the market at large and is not exclusive to a specific purchaser.

Synergistic / Marriage Value

➤ Practical Example/General Synergy/:

Values Before Combination (Normal Market Situation)

Asset	Individual Market Value
Land (A)	1,200,000
Land (B)	800,000
Total of Separate Values	2,000,000

What Happens After
Combination – and
Why Does Value
Increase?

- ✓ Planning efficiency improves (fewer internal roads and parking areas).
- ✓ Design allows for larger and more regular floor plates.
- ✓ Maximum height, density, or plot utilization can be achieved.

Result:
The unified
development
becomes **more**
economically
viable and
profitable.

Synergistic / Marriage Value

➤ Practical Example/General Synergy/:

Market Value After Combination

Based on market analysis:

- Multiple developers are willing to pay 2,400,000 for the combined plots.

Value after combination = 2,400,000

$$\text{Synergistic Value} = 2,400,000 - 2,000,000 = 400,000$$

Because any developer can realize this increase:

- The market recognizes it.
- Competition reflects it in the transaction price.

Valuation Treatment

Therefore:

- ☒ The 400,000 is considered part of Market Value
- ☒ It is not disclosed as Special Value

Synergistic / Marriage Value

➤ Practical Example/Special Synergy/:

We have two adjacent plots:

- **Land (A): Owned by an existing investor.**
- **Land (B): Offered for sale on the open market.**

Scenario

However, combination is possible only for the owner of Land (A), due to:

- **An exclusive right of use.**
- **A regulatory approval linked specifically to ownership of Land (A).**
- **An operational necessity that does not apply to other purchasers.**

The benefit is not available to the market.

Synergistic / Marriage Value

➤ Practical Example/Special Synergy/:

Normal Market Values (Without Special Assumptions)

Asset	Market Value
Land (A)	2,000,000
Land (B)	1,000,000
Total Market Values	3,000,000

Why Does Value Increase for This Purchaser Only?

When Land (B) is combined with Land (A):

✓ An existing operational constraint is removed.

✓ Buildable area increases.

✓ The operating return of the existing project improves.

However:
Any other purchaser cannot achieve these benefits.
Therefore, **no other buyer would pay more than Market Value.**

Synergistic / Marriage Value

➤ Practical Example/Special Synergy/:

Combined Value to the Special Purchaser Only

Based on the analysis:

- This purchaser is willing to pay 3,700,000 for both plots together.

Value to the Special Purchaser = 3,700,000

Special Synergistic Value = 3,700,000 – 3,000,000 = 700,000

The additional 700,000:

- Is not recognized by the market.
- Does not reflect open-market competition.

Valuation Treatment

Therefore:

- ✗ It is **not** included in Market Value
- ✓ It must be disclosed as **Special Value (Special Synergy)**

Synergistic / Marriage Value

Key Difference (Conceptual Summary)

Key Question	General Synergy	Special Synergy
Who can realize the increase?	The market	One specific purchaser
Does it reflect market behavior?	Yes	No
Is it included in Market Value?	Yes	No
Does it require special disclosure?	No	Yes

Synergistic / Marriage Value

Reporting Requirements

General Synergy

✓ It is not disclosed as a **separate value**.

✓ It is treated as **part of the Market Value of the asset or the combined assets**.

The valuer must demonstrate that:

- ✓ The benefits of the combination are available to more than one potential purchaser;
- ✓ The market reflects these benefits through competitive behavior.

Special Synergy

✓ Explicit disclosure of the existence of **Special Synergy is mandatory**.

✓ **Market Value is assessed** without assuming the Special Synergy.

✓ **The synergistic value is presented separately** from Market Value.

✓ **Disclosure is required of** any special assumptions.

✓ **The separate Market Values** of the individual assets must be stated as the basis for comparison.

Market Value/ General Synergy

Comparison Table: Market Value vs General Synergy

Item	Market Value	General Synergistic Value (General Synergy)
Definition	The estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, without the influence of special motivations.	The increase in value arising from the combination of two or more assets, where the benefits of the combination are available to multiple potential purchasers in the market.
Source of Value	The individual characteristics of the asset as recognized by the market.	Improvements resulting from combination, such as planning efficiency, increased utilization, or enhanced economic feasibility.
Number of Assets	A single asset (or assets valued individually).	Two or more assets combined into a single economic unit.
Availability of Benefit	Available to all market participants.	Available to all developers or potential purchasers capable of achieving the combination.
Nature of Value Increase	Does not assume any special or exceptional additional benefits.	An increase arising from combination benefits that are competitively recognized by the market.
Relationship to Market Value	Represents the primary valuation basis.	Forms part of the Market Value of the combined asset.

Market Value/ General Synergy

Comparison Table: Market Value vs General Synergy

Item	Market Value	General Synergistic Value (General Synergy)
Valuation Treatment	Reported as Market Value in accordance with valuation standards.	Not reported separately; incorporated within the Market Value of the combined asset.
Market Recognition	Reflects general market behavior.	Reflects market behavior because multiple purchasers are willing to pay for the synergistic benefit.
General Example	Valuation of a standalone plot based on its current permitted use.	Combining adjacent plots in a development area to increase density and improve design efficiency.
Simplified Numerical Example	Land (A) = 1,200,000 Land (B) = 800,000 Total = 2,000,000	Value of the combined plots = 2,400,000 Synergistic Value = 400,000 (included within Market Value)
Reporting Requirements	Disclosure of Market Value in accordance with applicable standards.	No separate disclosure as Special Value, provided the synergy is available to the market.

Special Value/ Special Synergy

Comparison Table: Special Value vs Special Synergy

Item	Special Value	Special Synergistic Value
Definition	An additional value arising from characteristics or benefits inherent in a single asset that are of importance or utility to a specific purchaser only and do not reflect general market behavior.	An additional value arising from the combination of two or more assets (or multiple interests), where the resulting increase in value is available only to a specific purchaser and cannot be achieved by the wider market.
Source of Value Increase	Unique characteristics of the asset itself (location, operational linkage, strategic or emotional importance).	The effect of combining or integrating assets or rights, resulting in an exclusive benefit.
Number of Assets Involved	A single asset.	Two or more assets, or a combination of different rights or interests.
Availability of the Benefit	Available to one specific purchaser only.	Available to one specific purchaser only.
Relationship to Market Value	Exceeds Market Value and is not integrated into it.	Exceeds the aggregate Market Values of the separate assets and is not integrated into Market Value.
Valuation Treatment	Disclosed separately as Special Value , distinct from Market Value.	Disclosed as Special Value arising from synergy (Special Synergy) .
Reflection in the Market	Does not reflect general market behavior.	Does not reflect general market behavior.

Special Value/ Special Synergy

Comparison Table: Special Value vs Special Synergy

Item	Special Value	Special Synergistic Value
General Example	Land adjacent to an existing factory, of interest only to the factory owner for expansion purposes.	Combining a parcel of land with an existing ownership that can only be exploited by a specific owner due to an exclusive right of use.
Simplified Numerical Example	Market Value = 1,000,000 Special benefit = 250,000 Special Value = 1,250,000	Value of Asset (A) = 2,000,000 Value of Asset (B) = 1,000,000 Combined value to the Special Purchaser = 3,500,000 Special Synergy = 500,000
Reporting Requirements	Explicit disclosure of the existence of Special Value and disclosure of Market Value for comparison purposes.	Explicit disclosure of the existence of Special Synergy and disclosure of the separate Market Values as the basis for comparison.

Investment Value / Worth

➤ The Definition of the Investment Value / Worth:

"The **value** of an asset to a **particular owner** or to a **prospective purchaser** for **individual investment** or **operational objectives**"

Investment Value = Present Value of Expected Benefits to the Identified Investor



- ✓ Expected cash flows
- ✓ The investor-specific discount rate
- ✓ The planned holding period
- ✓ Special operational advantages
- ✓ Synergies with other assets owned by the investor

Investment Value / Worth

➤ The Characteristics of Investment Value:

A subjective value.

Reflects the worth of the asset to the specific investor, rather than the price of exchange in the market

Based on the investor's own assumptions, such as:

- Target rate of return
- Tax position
- Synergies with other owned assets
- Operational capability

Used to assess:

- Investment performance
- Purchase decisions (determining the price ceiling / maximum bid price), or disposal decisions

Investment Value / Worth

Investment Value may be:

Higher than

Lower than

Equal to

Market Value

If **Investment Value** exceeds **Market Value**, the investor has an incentive to acquire the asset.

Investment Value / Worth

➤ Illustrative Examples:

Case One:

Investment Value Higher than Market Value

Applied Example:

A leased commercial building.

Market Data:

- Annual NOI (market level) = 1,000,000 SAR
- Market Yield = 10%

**Net Operating
Income (NOI)**

The annual income after
deducting operating
expenses, but before
financing costs and taxes.

**Market Yield (Capitalisation Rate
/ Cap Rate)**

The rate of return accepted by investors in the market
for a comparable property.

Investment Value / Worth

➤ Illustrative Examples:

Case One:

Investment Value Higher than Market Value

Calculation of Market Value

$$\begin{aligned} \text{Market Value} &= \frac{\text{NOI}}{\text{Market Yield}} \\ &= \frac{1,000,000}{0.10} \\ &= 10,000,000 \text{ SAR} \end{aligned}$$

Thus, the market values the property at 10 million SAR.

Investment Value / Worth

➤ Illustrative Examples:

Case One:

Investment Value Higher than Market Value

◆ Investor (A)

This investor:

- Owns a strong property management company
- Can increase rents and reduce operating costs
- Expects NOI to increase to 1,200,000 SAR
- Has a lower cost of capital and accepts an 8% return

Calculation of Investment Value

$$\begin{aligned} \text{Investment Value} &= \frac{1,200,000}{0.08} \\ &= 15,000,000 \text{ SAR} \end{aligned}$$

Investment Value / Worth

➤ Illustrative Examples:

Case One:

Investment Value Higher than Market Value

Analysis

Item	Value
Market Value	10,000,000
Investment Value	15,000,000

Difference = 5,000,000 SAR

Why did the
value
increase?

1 Higher expected cash flows

2 Lower required return

❖ If the market price is 10 million SAR:

- The investor believes the property is worth 15 million SAR to him.
- Therefore, he has a strong incentive to purchase.

Investment Value / Worth

➤ Illustrative Examples:

Case Two:

Investment Value Lower than Market Value

Applied Example:

A leased commercial building./ ♦ Same Property/

Market Data:

- Annual NOI (market level) = 1,000,000 SAR
- Market Yield = 10%

$$\begin{aligned} \text{Market Value} &= \frac{\text{NOI}}{\text{Market Yield}} \\ &= \frac{1,000,000}{0.10} \\ &= 10,000,000 \text{ SAR} \end{aligned}$$

Thus, the market values the property at 10 million SAR.

Investment Value / Worth

➤ Illustrative Examples:

Case Two:

Investment Value Lower than Market Value

◆ Investor (B)

This investor:

- Has no operational advantages
- Has a higher cost of capital
- Requires a 12% return

Calculation of Investment Value

$$\begin{aligned} \text{Investment Value} &= \frac{1,000,000}{0.12} \\ &= 8,333,333 \text{ SAR} \end{aligned}$$

Investment Value / Worth

➤ Illustrative Examples:

Case Two:

Investment Value Lower than Market Value

Analysis

Item	Value
Market Value	10,000,000
Investment Value	8,333,333

Difference = -1,666,667 SAR

❖ If the market price is 10 million SAR:

- The investor believes the property does not meet his required return.
- He will not purchase.

Investment Value / Worth

Why is the relationship
between value and
return inverse?

$$\text{Value} = \frac{\text{Income}}{\text{Return}}$$

✓ If Return increases → Value decreases

✓ If Return decreases → Value increases

Because the investor adjusts the price downward to achieve the required return.

Investment Value / Worth

➤ Key Conceptual Differences

Concept	Market Value	Investment Value
Type of Value	Exchange value	Worth (use value)
Return Used	Market Yield	Investor's Required Return
Nature	Relatively objective	Subjective
Used For	Formal valuation reports	Purchase decisions

Market Value answers: How much will the market pay?

Investment Value answers: How much is this asset worth to me?

Investment Value / Worth

Reporting Requirements

- ✓ The report must clearly state that the basis of value is Investment Value.
- ✓ It must clarify that Market Value may differ.
- ✓ The report is valid only for the identified client.

Investment Value / Worth

➤ Comparison Table: Market Value vs Investment Value vs Special Value

Comparison Element	Market Value	Investment Value	Special Value
Definition	The estimated price at which an asset would exchange in an open market between a willing buyer and willing seller, both knowledgeable and acting without compulsion	The value of an asset to a specific investor based on that investor's individual objectives and assumptions	An additional value arising from a particular advantage not available to the wider market
Nature of Value	Relatively objective	Subjective	Highly subjective and specific
Analytical Basis	Market-derived inputs (market yield, comparable transactions)	Investor-specific expected cash flows and required return	Special benefits such as synergies or adjoining ownership
Return Used	Market Yield / Capitalization Rate	Investor's Required Return	May not rely on market yield but on specific benefits
Reflects	Exchange value in the marketplace	Economic worth to a specific investor	Incremental value above market due to a special advantage

Investment Value / Worth

➤ Comparison Table: Market Value vs Investment Value vs Special Value

Comparison Element	Market Value	Investment Value	Special Value
Applicable To	All typical market participants	A specific identified investor	A particular party with a unique benefit
Relationship to Market	Represents market consensus	May be higher or lower than Market Value	Usually exceeds Market Value
Primary Use	Formal valuation reports, lending, financial reporting	Investment decision-making	Negotiations, mergers, expansion cases
Example	Leased property valued at a 10% prevailing cap rate	Investor accepting 8% or requiring 12% return	Adjacent owner paying a premium to expand

Lecture Summary: Quick Review

Special Value

The Definition of the Special Value:

Detailed Practical Examples:

Reporting Requirements

Comparison Table: Market Value vs Special Value

Synergistic / Marriage Value

The Definition of the Synergistic / Marriage Value:

Classification Based on Availability of Benefit:

Practical Example/General Synergy/:

Practical Example/Special Synergy/:

Reporting Requirements

Comparison Table: Market Value vs Synergy Value

Lecture Summary: Quick Review

Investment Value / Worth

The Definition of the Investment Value / Worth:

The Characteristics of Investment Value:

Illustrative Examples:

Reporting Requirements

Comparison Table: Market Value vs Investment Value vs
Special Value



Thank You