

Considering Concepts in Valuation Analysis

Dear Readers:

Welcome to the latest edition of *The Appraisal Journal*. This issue affords an opportunity to dig deeper into underlying concepts in valuation analysis.

In the current issue, you will find original articles discussing the valuation of leasehold surrender interests, the role of reasonable probability in highest and best use analysis, and qualitative and quantitative adjustments in the sales comparison approach.

The first article, “National Park Concessions: Valuation Concepts, Issues, and Controversies,” looks at the National Park Service’s concession program and its various attempts to compensate concessioners for the value of physical improvements put in place during the tenure of a concession contract. The article examines the latest compensation concept, “leasehold surrender interest value,” highlighting its elements and challenges as the park service tries to balance the interests of outgoing and incoming concessioners and the interests of park users.

The second feature, “Reasonably Probable? Possibly,” examines the role that the “reasonably probable” test plays in reaching a conclusion of highest and best use and how that ultimately affects the opinion of value. The article cautions appraisers not to substitute extraordinary assumptions or hypothetical conditions for a careful interpretation of the market. It advises the appraiser to first determine if the market recognizes a reasonable probability of a particular use and then quantify the premium the market is willing to pay for that reasonable probability.

The third feature, “A Sales Comparison Approach Adjustment Technique: Converting Qualitative Analysis to a Quantitative Basis,” introduces and describes an adjustment technique that can be employed in the appraisal of real property. The technique applies a qualitative adjustment based on an incremental scale, and then converts the qualitative adjustments to a quantitative basis. This process encourages the appraiser to consider the magnitude of incremental differences associated with the qualitative adjustment process and adds another tool for providing more reliable and credible appraisal assignment results.

Finally, we offer a peer-reviewed article of interest from *The Value Examiner*, “Valuation of Undivided Interests—The Elephant in the Room: How Much Emphasis on Partition Analysis?” This article examines key issues in valuing undivided interests in real estate. The reasons for placing less emphasis on partition analysis, which is favored by the Internal Revenue Service, are explained, and partition analysis is compared to alternative valuation techniques that take into account risk, control, and marketability discounts.

As always, we welcome your comments regarding any aspect of *The Appraisal Journal*, and we encourage you to consider becoming a contributor.

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The Appraisal Journal