Table of Contents

Overview .................................................................................................................. ix
Course Schedule ..................................................................................................... xiii

SECTION 1

Part 1. Introduction to the Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets

Preview .................................................................................................................. 1
Course Directions and Goals ............................................................................... 3
Relationship of the Value of a Business to the Value of Its Assets ....................... 4
Importance of Being Able to Allocate Value among Tangible and Intangible Components ...................................................................................... 6
Aspects of Intangible Asset Valuation That Have Become Controversial .......... 10
Review ................................................................................................................. 11

Part 2. Theory of the Firm

Preview ................................................................................................................. 13
Production Process .............................................................................................. 15
Derived Demand .................................................................................................. 17
Reasons for Changes in Demand and Supply ..................................................... 18
Economic Profit ................................................................................................. 19
Perfect Competition ............................................................................................ 23
Examples of Imperfect Competition .................................................................... 23
Imperfect Competition and Real World Markets .............................................. 24
Role of Competition ............................................................................................ 26
Review .................................................................................................................. 27


Preview .................................................................................................................. 29
What Is a Going Concern? .................................................................................. 31
Various Tangible, Intangible, and Financial Assets That Can Be Assembled into a Going Concern ................................................................. 35
Components of a Going Concern or Business .................................................. 40
Review .................................................................................................................. 41
Part 4. Theory of Profit, the Entrepreneur, and Capitalized Economic Profit (CEP)

Preview................................................................................................................. 43
Economic Profit ..................................................................................................... 45
Clarification of Terms ......................................................................................... 49
Opportunity Cost Payments ............................................................................... 49
Function of the Entrepreneur .......................................................................... 50
Economic Profit Is Related to Market Disequilibria .............................................. 52
Capitalized Economic Profit (CEP) .................................................................. 52
What Are the Characteristics of Entrepreneurship, Hence CEP? ....................... 53
What Economic Profits (Entrepreneurship Payments) Are Not ........................... 55
CEP Formula ....................................................................................................... 55
Review.................................................................................................................. 57

SECTION 2

Part 5. Theory of the Firm and Real Estate: How Do Intangible Assets Emerge in the Production Process?

Preview............................................................................................................... 59
Reasons for Economic Profit in Real Estate Enterprises ....................................... 61
Innovation May Reap Excess Profits .................................................................. 62
Characteristic of Value Attributed to Innovation ................................................ 64
How Intangible Assets Emerge in a Goods-Producing Company .......................... 64
How Intangible Assets Emerge in the Real Estate Development Process ............... 65
Case Study 1: Senior Apartments with Assisted Living ...................................... 66
Case Study 2: Hotel Properties .......................................................................... 77
Review.................................................................................................................. 95

Part 6. Definitions, Characteristics, and Candidate Properties

Preview................................................................................................................. 97
Clarifying Definitions .......................................................................................... 99
Intangible Asset Vocabulary .............................................................................. 104
Real Estate-Intensive Businesses ...................................................................... 105
Review.................................................................................................................. 109
Part 7. Valuing the Total Assets of the Business (TAB)

Preview.......................................................................................................................... 111
Review of Business Valuation Premises ...................................................................... 113
Numerous Methods of Valuing a Going Concern ....................................................... 114
Case Study 3: A Going-Concern Business Appraisal .............................................. 125
Review.......................................................................................................................... 131

SECTION 3

Part 8. Indicators of the Possibility of Intangible Asset Values, Including CEP

Preview.......................................................................................................................... 133
Possibility of a Business Enterprise Owning Valuable Intangible Assets ............... 136
Example Assignment ................................................................................................. 136
Review.......................................................................................................................... 141


Preview.......................................................................................................................... 143
Estimating the Aggregate Value of a Going Concern’s Total Intangible Assets, \( V_{ipp} \) ......................................................................................................................... 145
Case Study 3: A Going-Concern Business Appraisal, cont. .................................... 146
Sometimes Intangible Assets Can Be Valued Separately ......................................... 148
Estimation of a Separate Value for CEP ................................................................... 149
Case Study 4: Convenience Stores and Retail Fuel Properties. .............................. 150
Review.......................................................................................................................... 153

Part 10. Allocation of the Value of the Total Assets of the Business—Methodologies

Preview.......................................................................................................................... 155
Potential Applicability of the Three Traditional Methods ......................................... 157
Illustration of Concepts Involved in Allocating Income ........................................... 162
Summary....................................................................................................................... 167
Review.......................................................................................................................... 169
Part 11. Iterative Procedure for Property Tax Valuations—Case Study 5: CaveWorld Tourist Destination

Preview........................................................................................................... 171
Case Study 5: Introduction and Exercise 1 ................................................... 173
Case Study 5: Exercise 2............................................................................... 178
Review............................................................................................................ 183

SECTION 4


Preview........................................................................................................... 185
Case Study 5: Exercise 3............................................................................... 187
Case Study 5: Exercise 4............................................................................... 192
Case Study 5: Exercise 5............................................................................... 193
Case Study 5: Exercise 6............................................................................... 195
Handling Circular References in Excel ......................................................... 201
Review............................................................................................................ 205

Part 13. Intangibles at Properties Primarily Engaged in Real Estate Rental

Preview........................................................................................................... 207
Bases of Arguments Concerning Intangible Asset Values............................ 209
13.2 In-Class Exercise: Specific Arguments and Assessment of Their Validity.. 211
Conclusion...................................................................................................... 215
Review............................................................................................................ 217

Part 14. Course Review

Preview........................................................................................................... 219
Preparing for the Exam.................................................................................. 221
Guidance on Taking the Final Exam.............................................................. 222
Test-Taking Strategies ................................................................................... 222
Study Outline ................................................................................................ 222
Summary of Key Points................................................................................... 229
Review............................................................................................................ 231
ADDENDA

List of Symbols Used Throughout the Course................................. 235
Additional Valuation Methods and Techniques.............................. 237

Part 1. A-1–A.4 Annotated Example Statutes and Eminent Domain Case

Two Example Statutes. Exempting Intangible Assets from
  Ad Valorem Taxes........................................................................... 241
Example Statute. Goodwill and Property Taken.............................. 244
Eminent Domain Case with Compensable Intangible Property........... 245

Part 4. A.5 Annotated Bibliography of Readings in Economics

“The Theory of Profit,” Economic Theory in Retrospect .................. 247
“Business Enterprise Value Debate: Still a Long Way to Reconciliation”........ 249
“In Defense of the Land Residual Theory and the Absence of a Business
  Value Component for Retail Property” ........................................ 249

Part 6. A.6 Annotated Bibliography of BEV and CEP Arguments

“The Business Enterprise Value Component of Operating Properties” ....... 251
“The Intangible Business Component of Commercial Real Estate
  Investments” ............................................................................. 252
“Business vs. Real Estate Value in Shopping Mall Valuation:
  A Critical Examination” ............................................................... 253
“Internalizing Externalities: The Pricing of Space in Shopping Malls” .......... 254
“Value Allocation in Regional Shopping Centers” ................................ 254
“Intangible Assets in the Shopping Center: Identification and Valuation” .... 255

Part 13. A.7 Reading Assignment

Intangible Asset Value Cases ............................................................ 257
Overview

Course Description

Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets provides the theoretical and analytical framework for separating the tangible and intangible assets of real estate-centric businesses. Through discussion, lecture, readings, and case studies, participants will apply the theory of the firm and the concept of economic profit to the solution of problems and case studies related to ad valorem taxation, eminent domain, loan underwriting, and transaction price allocation.

An overview of business valuation procedures and clarification of real estate and business valuation terminology will be provided so participants become familiar with the terminology relevant to separating asset values. The class will review the legal foundations for property rights, be introduced to the methodologies, and become aware of the controversial and unresolved issues in this field. Finally, participants will learn about allocating real estate, personal property, and intangible asset values.

Note. Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets contains diverse opinions regarding appraisal theory and applications. Neither this course nor the Appraisal Institute advocates a particular theory or method. Rather, each appraiser must come to his or her own conclusion based on the property type, local market customs, and scope of work.

Learning Enhancements

The course was designed with a variety of elements to enhance your learning experience.

- **Preview.** To give you a taste of what is to come, you will find a Preview page that begins each Part. Included on the Preview page is a brief overview of the content and learning objectives to consider as you move through the content that will assist you in understanding the information you’re about to learn.

- **Learning Objectives.** Each learning objective covers essential information you need to know to fully understand the concepts in the course. Look them over before the Part begins so that you have a frame of reference as you move through the material. At the end of each Part, reread the objectives. Are you able to do what is stated? If not, this is the time to ask your instructor for help. Or, review the concepts that you do not understand.

- **Examples, Problems, and Discussion Questions.** Supplementing the lectures, we’ve included examples, problems, and discussion questions to help you visualize and practice what you are learning.

- **Review.** Each Part concludes with a review. Included in the review are the learning objectives and key terms and concepts that have been covered. Also,
we’ve provided recommended readings from textbooks that will reinforce what you have learned in class.

- **Digging Deeper.** Throughout the course, you will find content labeled Digging Deeper. Generally, the instructor will not cover this material in class. More advanced participants or those looking for an extra challenge can refer to the Digging Deeper sections while the rest of the class is finishing up work on individual or small group activities. Content identified as Digging Deeper will not appear on the exam. However, appraisers preparing for the Comprehensive Exam should be familiar with it, as well as all other material contained in the Course Handbook, whether or not it is presented in class.

- **Case Studies.** The case studies in the course contain real-world exercises that provide practice in applying the methodologies presented in the course.

### Classroom Guidelines

To make the classroom environment a positive experience for everyone attending, we have some guidelines for your consideration:

- 100% attendance is required. No exceptions.
- Limit use of computers and wireless devices to classroom projects.
- Communicate with business associates during break time instead of class time.
- Put away reading materials such as newspapers and books that are not used in class.
- Silence cell phones.
- Please do not record the lectures. Recordings are not permitted.
- Refrain from ongoing conversations with those seated near you and other distracting behavior.

### General Information

- **Calculators.** A four-function calculator is required. If you have a financial calculator, it may also be used. Some devices such as the Apple iPhone have an HP-12C emulator application. However, because such devices may not be used during the final exam, you will need to bring an acceptable calculator to class.

  **Important Note.** Laptops, cellular phones, tablets, iPads, wearable technology (smart watch, Apple Watch, Google Glass, etc.), and other devices that can store data or connect to the Internet are NOT permitted during the exam. In addition, all watches, wallets, bags, and purses must be removed and stored out of reach prior to taking the exam.
• **Breaks.** There will be two 10-minute breaks during the morning session and two 10-minute breaks during the afternoon session unless noted otherwise by the course sponsor. The lunch break is one hour.

• **Attendance sheets** will be distributed during class to verify your attendance during the morning and afternoon sessions.

• **Certificates of completion** will be emailed after completion of the course, and attendance during the entire course is required.

**Required Text**

• *A Business Enterprise Value Anthology, 2nd ed.* (2011)

**Recommended Texts**


• *A Business Enterprise Value Anthology, 2001 ed.*

**Exam**

• 26 multiple choice questions

**USPAP References in This Course**