



Workshop 257 – Fundamentals of Industrial Valuation

Course Description

The Fundamentals of Industrial Valuation is a lecture-type class designed to teach the basics of appraising industry for ad valorem purposes. It is intended to be taught with the IAAO textbook of the same name. Although the course teaches fundamentals for industrial valuation, it does not teach general appraisal fundamentals, and is recommended only for students who have a basic knowledge of appraisal theory. Although it includes specific appraisal instruction, the course is also meant to teach an overview of industrial appraising, which should be valuable to appraisal supervisors and assessors, as well as appraisers.

Chapter one gives a brief history of industry, and teaches the processes and methods necessary to prepare for an industrial appraisal. This includes understanding legal definitions under which the appraisal operates, determining the correct contacts for the company, researching the industry under valuation and the specific company under valuation, and performing the site visit.

Chapter two teaches methods of valuing industrial buildings. It discusses the three approaches to value and explains different classifications of buildings, such as special and general use. It briefly touches on highest and best use, explains direct and indirect costs, and lists the elements of comparison that are normally used in the sales comparison approach.

Chapter three is a short chapter on the valuation of industrial land. It explains the meaning of prime land, teaches the correct methods for valuing land, and briefly explains what wetlands are and how wetlands and other environmental issues can affect the value of land.

Chapter four is concerned with the valuation of machinery and equipment. It begins by explaining assets lists and equipment classifications. It shows spreadsheets as examples of how the asset list can be used for sorting and categorizing assets and explains how trending works. It defines the different types of depreciation, how they apply to machinery and equipment, and the order in which they should be applied. The different approaches to value are discussed and examples of their application are given.

Chapter five is another short chapter that teaches about intangible property and whole plant sales. These have been combined because intangible assets are generally not taxable for assessment purposes, and yet they are normally part of whole plant sales. Examples are given of mistakes appraisers make regarding the analysis of whole plant sales.

Objectives

On completion of Chapter 1, the student should be able to:

- Give a brief history of U.S. industry.
- Identify the different types of production.
- Understand the importance of researching the industry of the company under valuation.
- Understand how energy dependence relates to industry.
- Explain the purpose of legal definitions related to appraisal.
- Understand how to research information on the specific company under valuation.
- Plan your appraisal team.
- Plan procedures for the site visit.

On completion of Chapter 2, the student should be able to:

- Understand the difference between a special-use and general-use building.
- Understand how to determine the highest and best use for industrial property.
- Describe the methods of the cost approach.
- Identify direct versus indirect costs.
- Analyze expenses for the income approach.
- Understand how to research and apply data for all approaches to determine value.
- Determine elements of comparison for the sales comparison approach.
- Determine how to weight approaches according to significance.

On completion of Chapter 3, the student should be able to:

- Understand the main valuation method for appraising industrial land.
- List the elements of comparison that should be considered.
- Explain the difference between prime and non-prime land.
- Understand rudimentary aspects of wetlands.

On completion of Chapter 4, the student should be able to:

- Understand how to use an asset list and classifications for equipment.
- Understand how basic accounting principles relate to the asset list.
- Collect data from the machines and other sources.
- Define depreciation and understand how it relates to appraising.
- Explain the basics of the cost approach.
- Understand the difference between reproduction cost and replacement cost in relation to machinery and equipment.
- Describe trending and how it is applied to derive a value.
- Find and compare comparable equipment in order to value the subject property utilizing the sales comparison approach.

On completion of Chapter 5, the student should be able to:

- Define intangible property and explain how it relates to whole plant sales.
- Define goodwill and understand the issues it presents in the valuation of an industrial property.
- Identify the sale circumstances that should be investigated and considered for whole plant sales.
- Explain what an allocated sale is.
- Understand how mistakes can be made in using whole plant sales in an appraisal.

Timetable

Topic	Time Requirement	Day Covered
Chapter 1		
History of US Industry/Types of Production	5 Minutes	Day One AM
Understanding the Industry	10 Minutes	Day One AM
Contacts and Requests for Information	10 Minutes	Day One AM
Researching of the Specific Company	10 Minutes	Day One AM
Performing the Appraisal – The Site Visit	25 Minutes	Day One AM
Chapter 2		
Valuation Methods	30 Minutes	Day One AM
Highest and Best Use Analysis	10 Minutes	Day One AM
Cost Approach	45 Minutes	Day One AM
Income Approach	45 Minutes	Day One AM
Sales Approach	45 Minutes	Day One PM
Chapter 3		
Valuation Methods	30 Minutes	Day One PM
Excess Land	15 Minutes	Day One PM
Wetlands	45 Minutes	Day One PM
Chapter 4		
Asset List and Classifications	60 Minutes	Day One PM
Collecting and Analyzing Data	60 Minutes	Day One PM
Depreciation	60 Minutes	Day Two AM
Cost Approach	60 Minutes	Day Two AM
Sales Comparison Approach	60 Minutes	Day Two AM
Chapter 5		
Intangible Property	15 Minutes	Day Two AM
Whole Plant Sale Characteristics	30 Minutes	Day Two AM
Circumstances of Whole Plant Sales	15 Minutes	Day Two PM
Examples of Valuation Errors	30 Minutes	Day Two PM