The Difference Between a Value Estimate and an Appraisal

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The Common Practice of US Minerals Industry Practitioners

1. Estimate an NPV for the mineral property
2. Call the NPV *Market Value*
3. Wrap a property description around it
4. Label the report an *Appraisal*
5. Kick it out the door
The Issues

• The value estimate is not derived from the market
• Ignores the US national appraisal standards
  – Uniform Standards of Professional Appraisal Practice (USPAP)
The Issues

• Real property appraisers getting the work
  – Typical users prefer their reports
  – They generally win in court
WHY?

- They use Market Data!!!
- They abide by the prevailing appraisal standards
  - USPAP and UASFLA, and other ground rules
- Certified General Appraisers are licensed to appraise real property. We are not.
  - Minerals are real property until severed and removed
State Registration of Geologists and Appraisers

For minerals appraisal the combination results in two groups:

Competent but not Qualified

Qualified but not Competent
(Fair) Market Value

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date... (Federal Register, 1990)
The NPV
What Value is it?

• Market Value
  – Property
  – Business
  – Securities

• Investment Value

• Use Value

What does that discount rate represent???
Ingredients of a Market Value Estimate

- Date of Valuation
- Highest and Best Use
- Three Approaches to Value
  - Sales Comparison Approach
  - Cost Approach
  - The Income Approach
- For real property, abide by USPAP Standards 1 & 2
Ingredients of a Market Value Estimate

- Comparable Sales Approach
  - Principle of Substitution
- Cost Approach
  - Principle of Contribution to Value
- Income Approach
  - Principle of Anticipation
Ingredients of a Market Value Estimate

The three approaches:

• Each must be considered
• More than one method available for each
• Each can be based on sales analysis
• The value determination results from reconciling all three approaches
The Report

- Clear
- Accurate
- Not misleading
- Provide full disclosure