

# 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