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Theoretical and Practical Aspects of Estimation of Forced Sale Value**

Abstract: This paper deals with the key categories used in the procedure of estimating the forced sale value of an object. We consider the different criteria and provide methodological recommendations on the classification of various objects of civil rights as objects of valuation. Materials of expert assessments and empirical observations are presented. A practice-oriented model for estimating liquidation value is proposed.

Keywords: valuation classification, liquidity, marketing period, implementation period of valuation aims

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1. Forced Sale (Liquidation) Value as Definition in Theory of Property Valuation

In the theory of estimating the value of objects of civil rights, the forced sale (liquidation) value usually means a kind of market value. It is used to implement some of the valuation aims that imply the reduction of the necessary and reasonably long marketing period required for the implementation of the 'classical' valuation aim – the purchase and sale of property at market value [1–3]. Based on this definition, the marketing period characteristic for the formation of the forced sale value is shorter than necessary to reach the market value, and the conditions for marketing activities are worse. Accordingly, the forced sale value in absolute terms should be less than the market value. Thus, the essence of most of the developed methods for estimating the forced sale value is limited to the determination of the downward adjustment on the basis of different techniques and approaches (depending on the characteristics of the object of valuation itself) as well as the diverse micro- and macro-economic factors affecting the forced sale value [4–7].

2. Practical Aspects of Estimating Forced Sale Value

In terms of the practice of valuation across Belarus, for example, the national valuation standard provides for 23 basic *valuation aims* applicable to permanent structures [8]. The following three of them require the determination of the forced sale value:

- 1) public sale (at auction and by tender), including in a bankruptcy procedure (the forced sale value as the initial price at the auction can be considered as a kind of valuation base, but by the creditor's decision);
- 2) a pledge/mortgage may be considered in the case of sale when it comes to the failure to fulfill the loan recipient's obligations;
- 3) the sale of property seized, arrested, or forfeited to the state under the law on enforcement proceedings.

The result of the independent valuation (valuation report) is valid for a 6-month period with respect to the second one and for a 12-month period as regards the first and third of these three valuation aims. There are some other valuation aims and subject property; with regard to these, such a period lasts 12 months. In the previous versions of the standards, there were 6-, 9-, and 12-month periods. It was assumed that these values should be considered as the time frame for achieving or implementing a valuation aim; however, obvious is the fact that this contradicts both theory and practice. After all, the marketing period necessary for completing a purchase and sale transaction for quite a large number of valuation objects may actually be shorter. In this case, there is no point in adjusting for liquidity.

Meanwhile, in practice, users of independent valuation such as 1) bank collateral services, 2) bailiff services, 3) auction companies, and 4) auction departments within the valuation organizations may have their own 'internal' standards applicable to the periods of selling objects of valuation (the time frame for the implementation of the valuation aim by the user of an independent valuation service). Interactions with them have shown that, in most cases, such users are guided by a one-month marketing period necessary for achieving their valuation aims, and in some exceptional situations by a period of up to three months. Furthermore, in the event of an auction, the Belarusian legislation even outlines the minimum one-month marketing period applicable to the object of valuation in the form of an open offer. Thus, in practice, there may be disagreements between the regulatory norms in the sphere of independent valuation and the legal field in the areas of the activities of the user of valuation.

The aforementioned contradictions may be resolved through indicating the estimated period of the client's valuation aim in the valuation assignment with respect to a particular object of valuation as well as introducing such a term as *valuation aim implementation time (or period)* into theory and practice.

3. Liquidity of Real Estate: Criteria and Parameters of Classification

In a number of cases, it was initially intended to use the forced sale value as the basis for valuation in implementing the above-mentioned valuation aims. However, it should be understood that there will be a small group of valuation objects to which the adjustment will not apply, because their normal marketing period will be shorter or comparable to the period of implementing the valuation aim. Therefore, to our mind, it is possible to distinguish the following levels of the liquidity of objects in terms of the appropriateness of making adjustments and their probable values (Fig. 1):

- 1.1. Extra high liquidity objects (the marketing period for a transaction at market value will roughly range from two weeks to one month).
- 1.2. High liquidity objects of valuation (the marketing period is approximately from one to six months).
- 1.3. Liquid objects (the marketing period is approximately from 6 to 18 months).
2. Medium liquidity objects (the marketing period is approximately from 18 to 36 months).
3. Low liquidity objects (the marketing period is approximately 36 months or more).
4. Non-liquid objects (in accordance with the original functional purpose, sale is unlikely for various reasons).

Note: approximate ranges of marketing periods are given for a balanced market under the conditions of the Republic of Belarus.

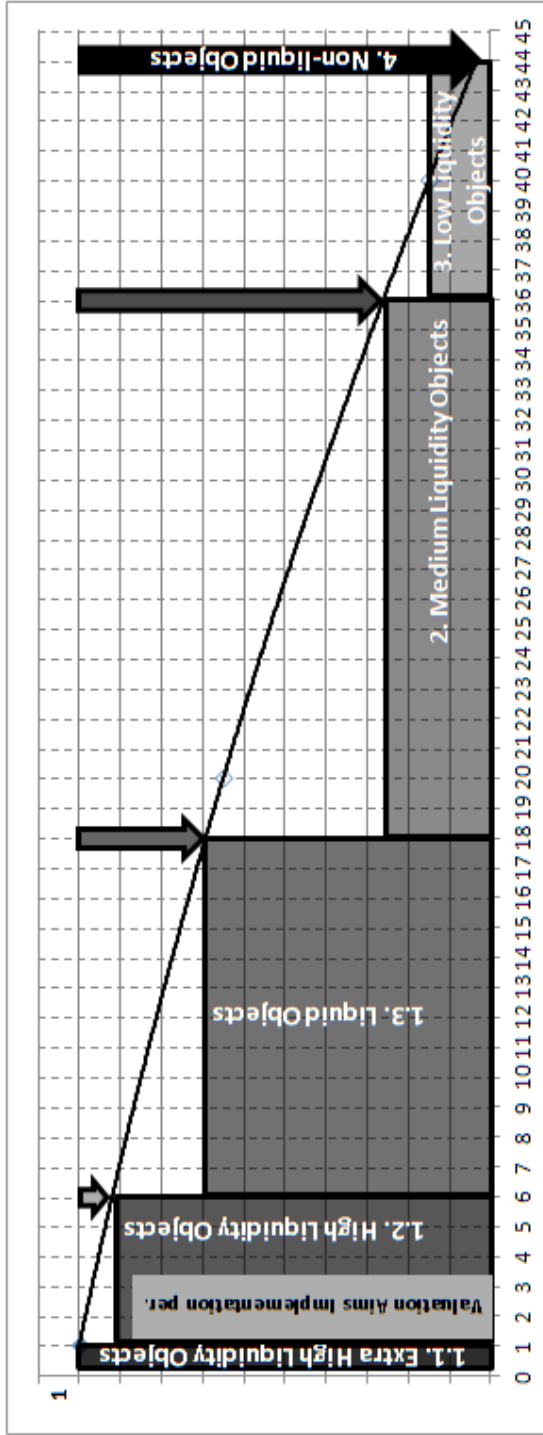


Fig. 1. Consolidated classification of immovable objects of valuation by liquidity level (1 – market value, 0–45 – approximate marketing periods in months for purchase and sale transaction at market value)

For the allocation of specific real estate objects with different functional purposes and parameters to the above groups, the classification shown in Table 1 can be used.

Table 1. The consolidated classification of real estate objects by liquidity levels; approximate typical marketing periods (intervals) for making purchase and sale transactions at market value, minimum liquidity adjustments for forced sale within a period of one to three months (for the economic conditions of the Republic of Belarus as of Q1–Q2 2018)

Group number	Sub-group number	Classification criteria			
		Qualitative characteristic: functional purpose	Quantitative characteristic: size of operational parameters		
1	2	3	4	5	6
1	Level (class) 1. Liquid 'universal' real estate objects				
	Residential urban and suburban, non-residential urban real estate				
	Sublevel 1.1. Extra high liquidity objects (consolidated for sublevel: 2 weeks – 1 month or more)				
1.1.	1.1.1	One-room flat: from 2 weeks to 2 months; 2–5–7%	small	medium	high
	1.1.2	Two-room flat: 1–4 months; 5–7–10%	small	medium	high
	1.1.3	Three-room flat: 3–6 months; 10–15%	small	medium	high
	Sublevel 1.2. High liquidity objects (consolidated for sublevel: 1–6 months or more)				
	1.2.1	Four-room flat: 1–6 months; 15–20–30%	small	medium	high
	1.2.2	Five-room flat: 6–24 months; 20–30%	small	medium	high
	1.2.3	VIP real estate: multi-room/multi-level flat: 6–12 months; 20–40%	–	medium	high (very high)
1.2.	Residential suburban real estate				
	1.2.4	Cottage: 6–24 months; 20–40%	small	medium	high
	1.2.5	Townhouse: 6–12 months; 10–15%	small	medium	high
	1.2.6	House: 3–9 months; 10–15–20%	small	medium	high
	1.2.7	Holiday house: 3–12 months; 15–30–40%	small	medium	high
	1.2.8	Land parcel: 6–12 months; 5–20%	small	medium	high

Table 1. cont.

Group number	Sub-group number	Classification criteria			
		Qualitative characteristic: functional purpose	Quantitative characteristic: size of operational parameters		
1	2	3	4	5	6
1.3.	Sub-level 1.3. Liquid objects (consolidated for sublevel: 6–18 months or more)				
	Residential urban – real estate				
	1.3.1	Room in a flat: 12–18 months; 30–80%	small	medium	high
	Non-residential urban real estate				
	1.3.2	Garage: 6–18 months; 15–30–40%	small	medium	high
1.3.3	Parking space: 6–24 months; 25–55%	outdoor	indoor		
2	Level (class) 2. ‘Special’ objects of medium liquidity (approximately 18–36 months or more)				
2.1.	Commercial real estate for administrative purposes				
	2.1.1	Office premises (with regard to the level of equipment and location): 6–24 months; 2–40%	small	medium	high
	2.1.2	Non-residential premises for administrative purposes (storeroom, utility or process pre- mises, small warehouse, etc.): 6–24 months; 20–30%	small	medium	high
	2.1.3	Parking space and parking lots (outdoor and indoor): 18–36 months; 25–35–50%	small	medium	high
2.2.	Commercial property for sale				
	2.2.1	Shop: 6–12 months; 15–25%	small	medium	high
	2.2.2	Kiosk: 6–36 months; 15–25%	small	medium	high
	2.2.3	Small trading premises, space: 6–12 months; 20–30%	small	medium	high
	2.2.4	Shopping and entertainment center, trade gallery: 12–18 months; 20–30%	small	medium	high

Table 1. cont.

1	2	3	4	5	6
2.3.	Commercial warehouse property				
	2.3.1	Universal warehouse (not equipped): 12–24 months; 45–55%	small	medium	high
	2.3.2	Warehouse equipped: 6–18 months; 25–35%	small	medium	high
	2.3.3	Warehouse – logistics center: 6–12 months; 35–45%	small	medium	high
2.4.	Manufacturing (industrial) real estate (without technological machines and equipment)				
	2.4.1	Objects of agricultural purpose (livestock, poultry production, etc.): 18–36 months; 60–70–80%	small	medium	high
	2.4.2.	Mechanical engineering objects: 18–36 months; 50–60–70%	small	medium	high
	2.4.3	Objects of the motor industry: 18–36 months; 50–60–70%	small	medium	high
	2.4.4	Objects of the food industry: 18–36 months; 50–60%	small	medium	high
	2.4.5	Objects of the construction industry: 18–36 months; 50–60–70%	small	medium	high
	2.4.6	Objects of other spheres of industry: 9–36 months; 30–70%	small	medium	high
	2.4.7	Land parcels of agricultural purpose: no data currently available	small	medium	high
	2.4.8	Forest land plots: no data currently available	small	medium	high
	2.4.9	Fruit-and-berry gardens: no data available now	small	medium	high
2.4.10	Open-cast mines, boreholes, mines: no data are currently available	small	medium	high	
2.5.	Real estate in services sector, small and medium enterprises (without technological machines and equipment)				
	2.5.1	Objects (stations) of car service, car wash: 9–18 months; 35–45–55%	small	medium	high
	2.5.2	Hair studios, salons: 9–24 months; 20–50%	small	medium	high
	2.5.3	Repair shops: 6–12 months; 20–30%	small	medium	high

Table 1. cont.

Group number	Sub-group number	Classification criteria			
		Qualitative characteristic: functional purpose	Quantitative characteristic: size of operational parameters		
1	2	3	4	5	6
2.5. cont.	2.5.4	Agricultural estates: 12–36 months; 30–70%	small	medium	high
	2.5.5	Parks: no data are currently available	small	medium	high
	2.5.6	Aqua zones: no data are currently available	small	medium	high
	2.5.7	Cafes (including roadside cafes), restaurants: 9–36 months; 20–30%	small	medium	high
	2.5.8	Hotels (with regard to the level of equipment and location), hostels, motels: 24–36 months; 50–60%	small	medium	high
	2.5.8	Sports facilities (halls, stadiums, race tracks, etc.): no data are currently available	small	medium	high
	2.5.9	Exhibition complexes, museums: no data are currently available	small	medium	high
	2.5.10	Healthcare Objects: 6–12 months; 30–60%	small	medium	high
	2.5.11	Other service facilities (cinemas, casinos, etc.): 6–36 months; 20–80%	small	medium	high
3.	Level (class) 3. Special-purpose real estate objects of low liquidity (approximately 18–36 months or more)				
3.1.	Objects of valuation of historical and cultural value				
	3.1	Objects of religious cults, castles, fortresses, bridges, homesteads, etc.: no data are currently available	small	medium	high
3.2.	Special-purpose real estate, not specified in the general classification				
	3.2.1	Not completed construction objects of the group 1.1.1–2.5.11 and others: 18–36 months; 50–70%	small	medium	high
	3.2.2	Other special-purpose objects: 18–36 months and more; 20–70%	small	medium	high

Table 1. cont.

1	2	3	4	5	6
4.	Level (class) 4. Non-liquid objects (in accordance with original functional purpose, sale is unlikely for various reasons, 18–36 months or more)				
4.1	4.1	Objects of levels 1–3 in critical condition: 18–36 months and more; 20–80%	small	medium	high
4.2	4.2	Real estate objects of unspecified functional purpose: 18–36 months and more; 20–80%	small	medium	high

Source: author's material, source [8]; with the author's revision, sources [6, 7]

4. Conclusions

The classification of the real estate objects developed and presented in Table 1 allows an appraiser to fill the unknown intermediate positions by interpolating or extrapolating values to objects of different levels and liquidity sub-levels on the basis of the information on liquidity adjustments for specific positions.

The correlation between the marketing period intervals given in the table and the customer-specified timing of the valuation aim implementation is also a condition that will help increase the reliability of the calculation of the final forced sale value.

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Teoretyczne i praktyczne aspekty określania wartości na potrzeby wymuszonej sprzedaży

Streszczenie: Artykuł dotyczy kluczowych zagadnień związanych z szacowaniem wartości nieruchomości dla wymuszonej sprzedaży. Autor przedstawia zalecenia metodyczne dotyczące klasyfikacji różnych praw do nieruchomości jako przedmiotu wyceny. Przedstawiono materiały z ocen ekspertów i obserwacji empirycznych. Zaproponowano praktyczny model szacowania wartości na potrzeby wymuszonej sprzedaży.

Słowa

kluczowe: klasyfikacja wyceny, płynność, okres ekspozycji, okres realizacji celów wyceny