Chapter A2

What is Value?

GENERAL INTRODUCTION

The concept of value is at the same time universally well known and elusive of definition.

Economists deal extensively with personal and social behaviour patterns surrounding value. For them value is the target point at which individual choices are aimed.

Accountants deal with the tracking and presentation of value concepts. For them value is (almost) universally identical to a historical transaction price expressed in currency.

The long time spans of forestry and the nature of the asset place strain on any value system. For example, a cost = value concept for accounting for trading stock that turns over four times a year (and should neither increase or decrease) is entirely adequate, but for most forestry purposes, including valuation, it is naive in the extreme.

"What is Value?" is a question that cannot be answered in fundamental terms. Value in terms of these guidelines is "market value" and is distinguished from other concepts as follows.

MARKET VALUE CONCEPTS

Most (but not all) goods and services in a free society are priced by markets and the interactions of supply and demand for a good set a "Market price" which is evidenced by transactions between individuals. "Market price" is typically the subject of the valuation provided by the forest valuer.

PERSONAL VALUE CONCEPT

The ultimate concept of value is a psychological phenomenon particular to one person and his/her perceptions of desirability, want and need surrounding his/her right to a given quantity of good or a service. It is not easily expressible in money terms although an individual may conceptualise the phenomenon in terms of money and bid in a market at a price not higher than it.

"Right" may mean any one of legal title, lease, unsecured use, enjoyment (view scenery etc), option, etc.

"Desirability, want and need" are essentially the same phenomenon in ascending order of intensity.

PERSONAL VALUE SURPLUS

It is axiomatic that no good will trade unless both the buyer and the seller enjoy a surplus between their personal values and the transaction price at the time of trade.

These surpluses may or may not be expressible in monetary terms and are not amenable to independent valuation.

MARKET SURPLUS

Society as a whole experiences a surplus on trade when goods trade in valid markets because the trading individuals are members of that society.

The surpluses are largely immeasurable.

SOCIAL COST

A Social cost is a (negative) value as imputed by society to the exercise of an individual's right in use to a good. Because the cost is imputed by society its existence and scale can only be defined politically. By the standards of a different society the value (cost) of an identical individual's right is different.

Social cost is difficult to calculate and is seldom the subject of a valuer's work.

THE PROCESS OF VALUATION

Valuation is the process of establishing, by conventional calculation, a single number expressed in currency that is a surrogate for the market price expected on sale of the subject asset.

The process should contain any procedure that increases the realism of the valuation as a surrogate for the market price.