

# **SUBJECTIVE NATURE OF ASSET VALUATION YIELD METHOD**

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**Abstract:** : This paper aims subjective nature of the valuation method by return on assets at an enterprise level. Starting from the evaluation principles and techniques used to determine the value of assets of an enterprise, we come upon the method the yield (revenue) by putting it into practice on an enterprise with agro-industrial activity. Value approached in this valuation technique is market value, being followed in the specific market region South-West region in which the undertaking operates. By addressing different market value starting from the comparables used have revealed how the value resulting from the efficiency of the method varies depending on how the evaluator expects and appreciates the value of comparables against the subject being assessed. All these techniques are highlighted through a case study of the agro-industrial companies in the county of Dolj.

**JEL classification: G1,G12**

**Key words: evaluation, market value, yield, capitalization, assets**

## **1. INTRODUCTION**

Evaluation method increasingly used in estimating the value of a credible companies to develop and grow continuously with the interests and the changing economic environment. Based on a series of methods and techniques, and endpoint assessment is estimating a value. So we can say that the purpose of an evaluation consists in estimating a value as fair and objective as possible.

Objectivity value obtained after an assessment is just the starting point of this research work. How real and objective is the value obtained after the evaluation depends on the thoroughness and accuracy of assessment methods and techniques have been implemented.

Given the type of value but also the method of choice to determine this value, we can say, also demonstrating the real case study, the evaluation has a certain degree of subjectivity. The issue is how big or how small must be this level so its value does not have to suffer to be a value as real and as accurately determined for the subject being assessed.

Given the purpose of the evaluation report, the degree of subjectivity can be a decisive factor in terms of the level of trust that this report provides information on users. In most cases, evaluation reports aimed transmitting information on the degree of

marketability of a good market, especially by the amount by which the best would trade.

If we look to secure a loan to the value of the subject or subjects assessed, we can say that the evaluation report is an important factor of the decision granting or refusing the loan.

We can not say, however, that an appraiser can afford exaggeration or estimate an unjust, regardless of beneficiary assessment report, especially when its activity is regulated by laws and regulations, embodied in the Code of ethics of the profession of authorized evaluator and GO no. 24/2011, which make him liable for the metion in the evaluation report, going to the facts of criminal nature.

However practice shows a flexibility that is as narrower, in determining the value of a subject, this is demonstrated in our research work starting from a real case study on an agro-industrial company.

## **2. CONCEPT AND TERMS USED**

Before proceeding to the presentation of the case study used in research work, we considered the need for establishing some specific terms valuation, terms such as assessment, market value, yield method.

Evaluation is defined as "a profession characterized by the fact that experience and knowledge are acquired and transmitted from generation to generation, that meet professional standards, a code of ethics specific to wide recognition of public utility." The final result of the evaluation is sent through an evaluation report, obtained through a complex process based on a particular type of value attributed to various real estate, personal property, financial assets.

Value is thus the goal of any evaluation process, regardless of methods and techniques used by the evaluator. Erich A. Helfert our attention on the existence of multiple value types such as economic value, market value, book value, liquidation value, value division, replacement value, collateral, estimated the value determined by experts the value of a business in the event of continuing business, shareholder value, value of bonds, etc..

Of all the values that I worked with in this report is market value, Erich A. Helfert defined as "the value of any asset or group of assets of any business, by trading on an organized market or negotiated between the parties , in a deal balanced ".

Determination of a complex composed of various evaluation methods and techniques and methods you need to fold the best objective course evaluation report according to the subject or subjects being valued.

IVS GN 6 - Evaluation enterprise approach based on income is defined as: "the general path of extimare the value of a company, shares or share using one or more methods by which value is estimated by converting anticipated benefits, the value capital (through technical update / capitalization) ". Of the two methods included in this approach, namely: method cash flow and net present income capitalization method, the one I applied it in the last case study, the income capitalization method.

## **3. METHODOLOGY**

To emphasize the subjectivity level yield method were present in a number of necessary market analysis, analysis by course in the agro-industrial firms in the South West region.

It is presently a lack of storage space in the most specific agricultural undertakings in Romania which is why 70% of cereal production is sold immediately after harvest at very low prices.

A first step was to collect information about rents charged for the type of buildings and warehouses typical of various agro-industrial businesses in the area.

Depending on the storage capacity built area and halls and warehouses were collected specific subject property market information have been structured as follows: the halls with area between 100-400 sqm 700-1000 sqm and older 1000 mp. In the extraction of market comparables took into account both utilities subject property, location, access road, and construction issues: state masonry, finishes, roof, etc.

	Surface	Rent /luna euro	Rent / mp euro
100 - 400 mp	300	1200	4,00
Comparable A	200	400	2,00
Comparable B	200	200	1,00
Comparable C	280	1100	3,93
Comaprabila D	370	740	2,00
Comparable E	240	1200	5,00
Comparable F	140	200	1,43
<b>Min Value</b>			<b>1,00</b>
<b>Max value</b>			<b>5,00</b>
<b>Average</b>			<b>2,67</b>
700 - 1000 mp	1000	1500	1,50
Comparable A	700	2100	3,00
Comparable B	750	2300	3,07
Comparable C	800	2500	3,13
Comparable D	800	2600	3,25
Comparable E	920	2400	2,61
Comparable F	980	1600	1,63
<b>Min Value</b>			<b>1,50</b>
<b>Max value</b>			<b>3,25</b>
<b>Average</b>			<b>2,69</b>
1000 - 2500 mp			
Comparable A	1200	4000	3,33
Comparable B	1400	2800	2,00
Comparable C	1400	3220	2,30
Comparable D	1100	4400	4,00
Comparable E	1200	1000	0,83
<b>Min Value</b>			<b>0,83</b>
<b>Max value</b>			<b>4,00</b>
<b>Average</b>			<b>2,54</b>

Starting from the media on the market depending on surface halls patrimony society taken as a case study example, we used a monthly rent expressed both in euros and in lei, taking into account the exchange rate at the date of market study, namely January 25, 2014, 1 euro = 4.5280 lei. Thus the halls of 800 square meters up to 1300 was considered 2euro/tona rent and for other smaller halls rent considered is 1.5 euro / ton.

Occupation in months / year considered for our company is 50%, ie only half of the year the company would use these warehouses for grain storage, monthly occupancy is set at around 75% per year. By multiplying the two resulting total employment has been fixed at around 38%.

To estimate the capitalization rate were taken into account transaction prices per unit surface area of the property with the highest degree of comparability and rents charged for properties in the same area or similar areas. Based on these considerations, the capitalization rate related to agro-industrial real estate is between 12% and 14%.

In the present work, taking into account specific local conditions and the market value of comparable rents from real property and the risks associated with such an activity, we selected a capitalization rate of 12.5%.

#### 4. CASE STUDY

To argue the foregoing we conducted a case study starting from agro-industrial company based in Craiova, considering halls which it owns. Initial evaluation report was conducted in order to request a bank loan, property owned by this company in heritage planning to constitution on part of the loan guarantee.

The values obtained for these companies by yield method were:

**Table no.1 – Application of the method yields the agro-industrial society**

Denumire	Acd	Capacit. depozitare (tone)	Chiria euro/to	Chiria Eur/an	Chiria Lei/an	Grad de ocupare (luni/an)	Grad de incarcare lunar	Grad ocupare total	Venit efectiv (euro)	Rata cap.	Valoare EUR	Valoare LEI
HALA PRELUCRARE - DEPOZITARE	1.291	1.936	2	46.464	210.389	50%	75%	38%	17.424	12,5%	139.392	631.167
MAGAZIE	368	474	1,5	8.532	38.633	50%	75%	38%	3.200	12,5%	25.596	115.899
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MAGAZIE	368	474	1,5	8.532	38.633	50%	75%	38%	3.200	12,5%	25.596	115.899
MAGAZIE DEPOZIT	848	1.456	2	34.944	158.226	50%	75%	38%	13.104	12,5%	104.832	474.679
<b>TOTAL</b>	<b>4.345</b>	<b>6.236</b>		<b>132.600</b>	<b>600.413</b>				<b>49.725</b>		<b>398.000</b>	<b>1.801.000</b>

*Source: own processing*

So a 2euro/tona rent for storage areas and 1,400 to. respectively in 1900 to 1.5 euro to rent space with storage capacity of 470 tons the company would get behind capitalizarii 398,000 total annual income equivalent to 1,801,000 lei.

Degree of subjectivity of the method consists basically in the evaluator can select depending on the spread obtained by studying the market rent so that the value resulting report to be more favorable, without taking into account the maximum and minimum limits offered by the market.

So if you are considering to rent large spaces of 1.6 euro and small 2 euro / ton, however below the market value, the value obtained by applying the yield would be 400,000 euros, respectively capitalized value 1.812 million lei, difereanta not very high compared to the value obtained in real report.

A situation clearly value it provides growth above the average market rent for both spaces with small storage capacity and the other older. For rent 3 euros / tonne for small spaces, since the maximum of 5euro/tona and a rent of 2.7 euro / ton for large spaces, with a maximum limit of 3.25 4euro/tona that the company would get a capitalized income of 637,000 euros respectively 2.884 million lei. The resulting grid is as follows:

**Table no.2 – The date the interest method over the average market rents**

Denumire	Acid	Capacit. depozitare (tone)	Chiria euro/to	Chiria Eur/an	Chiria Lei/an	Grad de ocupare (luni/an)	Grad de incarcare lunar	Grad ocupare total	Venit efectiv (euro)	Rata cap.	Valoare EUR	Valoare LEI
HALA PRELUCRARE - DEPOZITARE	1.291	1.936	2,7	62.726	284.025	50%	75%	38%	23.522	12,5%	188.179	852.075
MAGAZIE	368	474	3	17.064	77.266	50%	75%	38%	6.399	12,5%	51.192	231.797
MAGAZIE	368	474	3	17.064	77.266	50%	75%	38%	6.399	12,5%	51.192	231.797
MAGAZIE	368	474	3	17.064	77.266	50%	75%	38%	6.399	12,5%	51.192	231.797
MAGAZIE	368	474	3	17.064	77.266	50%	75%	38%	6.399	12,5%	51.192	231.797
MAGAZIE	368	474	3	17.064	77.266	50%	75%	38%	6.399	12,5%	51.192	231.797
MAGAZIE	368	474	3	17.064	77.266	50%	75%	38%	6.399	12,5%	51.192	231.797
MAGAZIE DEPOZIT	848	1.456	2,7	47.174	213.606	50%	75%	38%	17.690	12,5%	141.523	640.817
<b>TOTAL</b>	<b>4.345</b>	<b>6.236</b>		<b>212.285</b>	<b>961.226</b>				<b>79.607</b>		<b>637.000</b>	<b>2.884.000</b>

*Source: own processing*

Given these assumptions, we can say that an important role is played here evaluator. He must always be as well informed, to behave ethically, to prove very professional and be realistic so that the value obtained is correct one as Relating to the values of market data.

The assessor must lie with the subject as fair market comprativ used as comparable elements. Must take into account all aspects of defining the subject and comparable.

An estimation of the value automatically attract a great responsibility on the shoulders of the assessor, the risk of occurrence caul honoring the payment obligations arising from the customer's credit, recovery of the following to make the bank by capitalizing on its assets. Or if the goods have not been estimated fair value as the effects are felt automatically and evaluator. An underestimation of the report is often at the expense of the customer.

If your company would like activity exclusively rent these warehouses and hangars, the accounted for as the bank guarantee of return method, but if this company was more eloquent method was cost method.

Valuation require the application of at least two methods for determining fair value, but the difference between the two should not be more than 10 more than 15%.

## 5. CONCLUSIONS

Given the purpose of evaluation, namely to determine the fair value of goods no matter what form of dress, we can say that the choice of valuation method and logical reasoning, rational evaluator are the main keys to success.

Regardless of the method chosen assessor must be fair, realistic values used in the evaluation report.

Even if the market for similar products we offer diverse prices evaluator must be so well prepared so that you find, even if it is often hard this all the Elements that make the difference between compressed and evaluated subject.

In this example we have shown how the same company with the same assets, may determine, starting from the method yield different values, far above the permissible practice of evaluation of 10-15%.

From this point of view we can say that the method has a high yield of bias, this is very hard to prove in a market where competition is unfair.

The value obtained at above average market rent, but well below the maximum, provides value ratio up to 60% higher than the actual value page of the report.

As a final conclusion we can say that there is a problem yield method in evaluation but how it is applied. If an appraiser compare deliberately, but also wrong, though apparently two goods that appear to be identical, they are different in terms of characteristics, then surely yield method in terms of bias assessor will suffer, can offer a value that does not correspond to reality.

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