

CHAPTER VII

THE PURPOSE OF THE APPRAISAL

General Statement

Various Purposes of Appraisal. — The owner of an operating property is interested more in knowing what it has cost him than he is in the value of the property, until the time comes when a transfer of ownership is to be made or the business is to be capitalized. Generally, however, when any enterprise of considerable magnitude is involved the owner should, at all times, have a clear conception of its value. This can only be obtained by making the analysis of the investment and of operating expenses in relation to revenue, and involves much more than a study of financial records. The condition and adaptability of a plant to the uses to which it is being put are involved and must be considered by the appraiser. Valuation, therefore, may be required:

- a.* As a basis for a purchase and sale transaction.
- b.* When the property is to be pledged as a security for a loan or as the basis for a bond issue.
- c.* When the rates of a public utility are to be fixed or regulated, because the earnings resulting from the rates should be adequate to bring a suitable return on the investment and because the charge for the service should be reasonable.
- d.* As a basis for taxation.

The taxation value bears or is intended to bear some definite relation to market value. This is not only true in the case of ordinary taxation, for the purpose of carrying on government, but also in the innumerable cases in which it becomes necessary to apportion to the property which is benefitted, the cost of some improvement in proportion to the benefits which it confers.