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Theories and Opinions of value

The aim of this paper is to open again the discussion on the social function of Appraisal, as nowadays are quite noticeable the negative effects on the communities' wellbeing caused by a strong restriction of its task, up to deny the dignity of autonomous Science, which should play an important role for ensuring the economic justice. In order to explain this character of Appraisal, the first part of this contribution focuses on the description of some special and still relevant terms and concepts, that could be considered as different kind of value.

The second part of the paper deals with the problems that the Appraisal must be able to solve. At this level, it will be put in evidence the importance of its theory of value and its specific postulates with a special reference to the theory of ordinariness.

*Key words: Appraisal,
Economics, Value*

1. Introduction: Developing the traditional approach

The need for a development of the Appraisal theory and methodology according to the current socio-economic conditions introduces new issues to be discussed and at the same time makes the traditional doctrinal background more complex. New questions arise on the definition of the subject of the Discipline even more than on its scientific limits. In this context it is relevant to ask whether the Appraisal has reached that degree of development to accomplish a syncretic convergence of theoretical and methodological items even irreconcilable, with respect to emerging practical demands. Most of the interpretations and propositions of the focuses on the problem of founding the appraisal process according to the principles of Economics. The attempt to review, in light of the last social changes, particularly durable views, that may be considered valid in their own context, is likely to lead to a surreptitious crisis of the Discipline, rather than to contribute to its development. Actually the discussion is centered on the opportunity of including some economic issues in the field of Appraisal. Nevertheless such an effort not only doesn't address the Appraisal to further advancements – as progress adds something new to what is already known and it doesn't move the well-known from a field to another one (Famularo, 1974) – but also it could strongly limit the role that is broadly assigned to this Discipline. An effective and coherent development of the Discipline could be fulfilled by solving the dichotomy between Economics and Appraisal. On the one hand, the autonomy of Appraisal

is upheld in the belief that it concerns only the opinions of value in the field of private goods, as the opinion of value itself can be considered independent and widely valid only if it refers to the market and to the prices. Under this perspective the soundness of the theoretical system grounded on the thought of Serpieri is supported, even if it is acknowledged the instance of improving the methodology and the procedures.

On the other hand, both the limits of the traditional approach and the opportunity of new courses of action in the context of public goods, by bringing the theory of Appraisal back to logical and methodological framework of Economics, are pointed out. From this point of view, the scientific autonomy of Appraisal is denied and it is desirable a deep review of procedures with respect to the current attempts of Economics of overcoming the theory of value by the inclusion of exogenous variables. Assuming Science of Valuation as current name of the Discipline, as widely suggested, should highlight that beside opinions of value founded on price, Appraisal covers also economic opinions, quali-quantitative and technical.

2. The real character of Appraisal

The dichotomy between Appraisal and Economics can be solved if the discussion is brought to the initial issues: the role of Appraisal, its aim, its field of interest and its real character.

The problem of the autonomy of the Appraisal deals more about an inappropriate contrast between private and public evaluation processes than about the incapacity to answer to the new evaluation demands emerging from the enlargement of the group of goods, services and rights to be evaluated.

The attempt to delve into this kind of theoretical construction is legitimized by fifteen years of scientific debate, rich in studies and proposals to be summed up. Under this perspective, it is important to highlight that Appraisal is not Economics and, therefore, that it couldn't be considered as one of its operational branch. Denying any dependence of Appraisal from the principles and the goals of Economics has to become effective: the distinction between what is covered by Appraisal and what is covered by Economics, grounded on the binary and artful difference between individual and social value, must be abandoned as it assigns to Appraisal the task of interpreting the individual actions. At the same time the importance and the benefit of Economics are not put under discussion. Even if the relevance of its role in the foundation and evolution of Appraisal is broadly acknowledged, the Economics cannot be considered as crucial for the definition of our Discipline. Appraisal is not Economics as it arises from different reasons than the ones that support any economic investigation. The Appraisal has never dealt with the main features of human existence, with the way by which individuals, according to their desires and longings, have to optimize their choices (Malacarne, 1977). The need for Appraisal has come out from the society in order to verify by a pre-defined methodology the fairness from a social point of view both of individual and collective economic actions. This character of the Discipline hasn't be devel-

oped in order to address the problems of the individual economy to a definitive solution, but as a consequence of a clear social choice to control the acceptability of every economic behavior with respect to goals pointed out by the communities.

In this context, it is required to Appraisal to avoid subjectivity and to judge the single choices in a objective way. It is not the value assigned by each individual to different aspects to be interpreted, as the aim of Appraisal is to consider the same aspects with reference to that features of actions that are fully considered essential in order to ensure one only goal: the economic justice.

3. The autonomy of the theory of value

The Economics solves problems that are quite different from Appraisal, as its theory focuses on the conservation and development of individuals. Nevertheless it's widely acknowledged that both the disciplines need to know the reasons of human behavior and the relationship that each subject establishes with the means of action, they play their role at different level. It doesn't surprise therefore that the outcomes of the investigations on these issues – that belong to the economic analysis – can be considered the economic principles of Appraisal. But this is not enough for supporting the idea that Appraisal is strictly grounded on Economics or even that is one of its specific features. Taking this side is justified by the fact that the first treatise of Appraisal has been edited two centuries before the first one of Economics, as in every society has been noticed the instance of the economic justice and therefore of a kind of social control and restriction of individual economic freedom.

The character and the importance of Appraisal could be better pointed out by an overview of the core of the economic analysis: the theory of value. Inside the fundamental classification of value in its four main economic meanings (use value, esteem value, exchange value, cost value), it's possible to find the sub-variation of the exchange value and the different meanings of the other ones. In order to avoid misunderstandings these last concepts, logically independent, must be kept quite separate from each others.

Beside examining the main terms of economic theory and classifying the meanings in which they may be considered, this synthesis points out the strong relationship between Appraisal and Economics. In order to identify and assess value, Appraisal refers to Economics as this subject investigates the character of value and the process by which it could be determined. In this way the main theoretical issues are immediately solved.

The Appraisal for a long time has regarded only the exchange value. Until a certain step of the evolution of societies, the fairness of price in the exchange actions is the most important problem that the economic justice has to face with. Leaving the initial positions of the two free-traders out of consideration, the Appraisal doesn't concern either the relative and subjective esteem values assigned to the goods to be exchanged – the respective minimum willing to accept and maximum willing to pay – or the reasons why their behavior should be consid-

Table 1. Different concepts of value.

EXCHANGE VALUE	<p>(A) Central meaning: the exchange relation:</p> $\left\{ \begin{array}{l} \text{Relational: "rates (or ratios) of exchange";} \\ \text{Qualitative: "purchasing (or absorption) power";} \\ \text{Quantitative: "exchange equivalents"}. \end{array} \right.$ <p>(B) Subvariants: (1) "Collective" v. "distributive"; (2) "Continuous" v. "discrete"; (3) "Normal" v. "actual";</p>
ESTEEM VALUE	<p>(A) Absolute:</p> $\left\{ \begin{array}{l} \text{Subjective: "esteem";} \\ \text{Objective: "importance"}. \end{array} \right.$ <p>(B) Relative: i.e. the esteem relation:</p> $\left\{ \begin{array}{l} \text{Relational: "rates of indifference";} \\ \text{Qualitative: "preference power";} \\ \text{Quantitative: "indifference equivalents"}. \end{array} \right.$
USE VALUE	<p>(A) Absolute utility:</p> <ol style="list-style-type: none"> (1) $\left\{ \begin{array}{l} \text{Subjective: "desire";} \\ \text{Objective: "desiredness";} \end{array} \right.$ (2) $\left\{ \begin{array}{l} \text{Subjective: "satisfaction";} \\ \text{Objective: "satisfyingness"}. \end{array} \right.$ <p>(B) Relative utility ("vendibility", "payworthiness") = "power to induce to purchase". [Marginal relative utility = relative esteem value.]</p> <p>(C) Special cases: (1) "Subjective exchange value"; (2) "Prestige value"; (3) "Intrinsic" v. "sentimental value".</p>
COST VALUE	<p>(A) Embodied cost:</p> <p>(I) Pain cost or absolute disutility</p> <ol style="list-style-type: none"> (1) $\left\{ \begin{array}{l} \text{Subjective: "repulsion";} \\ \text{Objective: "undesiredness";} \end{array} \right.$ (2) $\left\{ \begin{array}{l} \text{Subjective: "dissatisfaction";} \\ \text{Objective: "dissatisfyingness"}. \end{array} \right.$ <p>(II) Absolute invested cost [(a) real, (b) money] = amount (or value) of productive resources embodied.</p> <p>(III) Special cases: [(a) real, (b) money]:</p> <ol style="list-style-type: none"> (1) What is required to enable producers to produce (2) What is required to induce producers to produce = "relative disutility". [Marginal relative disutility = negative relative esteem value.]

(Continued)

 (B) Displacement cost:

(I) General case=extended form of exchange relation from point of view of consumer:

$$\left\{ \begin{array}{l} \text{Relational: "rates (or ratios) of displacement";} \\ \text{Qualitative: "displacement power";} \\ \text{Quantitative: "cost (displacement) equivalents".} \end{array} \right.$$

 (II) Special case: where consumer is an entrepreneur, displacement costs = "expenses of production".

Source: Fraser, 1938.

ered a subjective choice, judged as necessary and convenient in that precise moment, place and market. The instance, generally unconnected with the buyers and sellers, is fulfilled by the use of the market value criterion. It establishes the ordinariness of price, of the current exchange value. To this value, defined exclusively by the theory of Appraisal and measured by its methodology, has been assigned a crucial role in order to verify the acceptability of price fixed by the two contracting parties. The Appraisal avoids subjectivity the price becomes observable and it can be considered a dialectic means of reasoning. As a consequence, the opinions of value is given on the fairness, from a social point of view, of a specific behavior, according to the only aim of this kind of analysis that is to get to a fair economic outcome of the action evaluated.

If the results of the appraisal procedures are accepted, the society avoids to apply different methods in order to achieve the same goal. On the contrary, when there isn't either theoretical background or in the absence of the commitment by a group of individuals or by some authorities of expressing such an opinion of value, it is the society itself that directly carry out the evaluation procedures, as in the case of the transaction of a land in the village of Macpela at the time of Genesis.

4. Further Developments

With reference to the increasing and more complex problems that the economic justice has to solve, it is clear that the Appraisal couldn't restrict its field of interest to the market value. It was not really possible to include all of them in the control of ordinariness of the exchange price by pointing out beside it the *justum pretium*. On this subject, it's essential to consider the development of the theory of value in our discipline and, as a consequence, its capability of acknowledging dynamic changes and new trends in the economic and social context notwithstanding the relevance of the fairness of the action considered in order to accept new values.

Firstly, according to the awareness about the physical scarcity of environmental resources, in the first half of eighties a new concept of economic value has emerged that includes new categories of value for goods and services beside those ones derived from exchange: the Total Economic Value (T.E.V.). Though the wide agreement around the meaning of T.E.V., there are some differences in the

taxonomy of its main components. The use values concern both a direct use and an indirect use. The willing to pay for the opportunity to have environmental resources in the future is called option value, whose placement among use or non-use aspects of value is very controversial. In a broader perspective than the narrower economic one about esteem value¹, T.E.V. captures also the existence values grounded on the importance of a resource apart from its direct or indirect use.

Secondly, despite the dependence of all the values from the price, it is possible to exceed those hypothesis that strongly affect the definition of new opinions of value, up to put under discussion if every demand requires a monetary answer. Starting from the idea that projects must be compatible not only with the market dynamics but also to the principles of sustainable development, the project proposals must be carried out according to a broader economic calculation, which forces to give the project the highest degree of sustainability, under the constraint of the achievement of the required profit rate for the capital investment. At this level, the use of Multi-criteria Decision Analysis methodologies (McdA) could address the evaluation processes to the principles of sustainable development and promote the integration between different and controversial visions, interests and values, increasing the degree of legitimacy of decisions, as: they are open and verifiable processes; goals and criteria are pointed out by different groups of decision-makers; weights are explicit and they are defined by specific techniques, which may refer to several sources of information about the values they represent; they constitute an important learning and communication tool both for decision-makers and for local communities.

Thirdly, new practical instances arise from the growing and multifaceted business of Real estate development, that encompasses different activities ranging from the renovation and the re-lease of existing buildings to the purchase of raw land and the sale of improved parcels to others (Peiser, 1991). Developers, that manage design, financing and marketing steps, needs to measure rewards² and risks³ of investments. Finding out the value of the investment is a process that

¹ Direct use value should be considered quite close to the concept of exchange value in its first and simpler meaning of a relationship between a valuable commodity and something else. The meaning of esteem value is broader than the one of exchange value. Unlike the exchange value, that entails a relationship between two or more goods, it is possible to have an esteem value without any kind of reference to other things. In this case the esteem value assumes an absolute character as it considers the importance of a good according to a relationship between it and an individual. Existence value is therefore similar to the absolute esteem value as it recognizes one thing's importance as a consequence of the act of valuating (Fraser, 1938).

² Among the profitability measures the most commonly used are the followings: the Income Return (IR_t), that is given by the ratio between the net income of investment during the t period (NI_t) and the amount of investment at the beginning of the period (CV_{t-1}); the Capital Return (CR_t), that is expressed by the ratio between the variation of invested capital in the t period ($CV_t - CV_{t-1}$) and the amount of investment at the beginning of the period (CV_{t-1}); the Total Return (TR_t), that is the sum between the Income Return and the Capital Return.

³ Projects/investments appraisal process necessarily covers the analysis of risks, traditionally assessed by the standard deviation that quantifies how much a series of past returns var-

shares with the Appraisal Discipline methods and techniques, but applying the postulates of ordinariness and of stability of conditions to the goods to be evaluated and to the inputs of the evaluation models is the most important difference between Appraisal and Real Estate Finance⁴. The aim of Appraisal is to address the judgement on single choice to objectivity. The opinion of value must be grounded on those features that are considered crucial by a community for achieving the economic justice.

In this context, the future perspective of research are wide: it could be desirable to get to a definition of complex values, grounded on the traditional deductive approach and on its principles and theorems or to explain may other facts by the inductive analysis according to a convenient use of the concepts of use value and esteem value. These are the new challenges that for evaluators concern the review of evaluation tools under the perspective of multidisciplinary: the enlargement of the discipline can be reached by turning to theories and techniques developed in other fields, whose power to positively affect the Appraisal is greater than the reinforcement of the traditional method by statistical analysis.

What since now deeply explained could be summed up in these following points:

- Appraisal is not Economics;
- Appraisal is an autonomous Science and it reveals its real character in the administration of economic justice;
- all the opinions of value, monetary or not, that are required by the society in order to have objective, broadly valid and fair criteria according to the principle of economic justice are included in the Appraisal;
- the traditional theory and methodology has a strong validity also for solving private matters. Nevertheless the empowerment of the method and procedures

ies around its mean, or average over a particular time frame. According to the classification made by the European Group of Valuers' Associations (TEGoVA) consistently with the Basel II accord, there are different typologies of risks in the real estate investments. First of all, it's possible to distinguish a general risk, concerning macroeconomic and market features, from a specific risk regarding the intrinsic features of the good being valued. The General risk can be divided in National and Local risks, both including these categories: Natural events, Socio-demographic development, Economic development, Political, legal, fiscal and administrative situation, Characters of real estate market. The Specific risk includes a great number of categories according to the Location (Sustainability of Location for different users, Quality of neighbourhood, Accessibility, Services and facilities, Environmental quality,...); Typology and degree of conservation of property (Technical features, Structural features, Technological aspects, Environmental loadings,...); Cash Flows (Tenant, Current use, Incomes, Expenses, Possible alternative uses,...). As a consequence, the total risk of an investment is given by the sum between the General and the Specific risks.

⁴ It must be clear that in the field of Appraisal all the steps of the evaluation process are carried out within those two postulates (Ordinariness and Stability of conditions): from the due diligence of the good to be valued, the measurement of variables, the choice of the parameters of the evaluation models (discount rate, demand data, investment costs,...), up to the sensitivity analysis of the results.

must be experimented within the postulates of the Discipline⁵;

- the autonomy must be protected by scientific and methodological rigour (Sorbi, 1977), furthermore in the context of its current enlargement to public interests. The acknowledgement and the definition of new concepts for public opinions of value must be consistent to the real character of the Discipline. Notwithstanding the principles of ordinariness and of the stability of conditions, a further research line could be the adjustment of methodology according both to an inductive and to an abductive (Ribeiro *et al.*, 1995) approach. Turning to this last one is justified by the need of improving the efficiency of decisions under uncertainty, that typically affects the selection of the sufficiently good alternative in multi-stakeholders contexts;
- the postulates of ordinariness and of stability of conditions to the goods to be evaluated and to the inputs of the evaluation models represent the most important difference between Appraisal and Real Estate Finance.
- a change of the name of the Discipline in Evaluation Science was suggested during the first half of the last century (Tommasina, 1940) and it might be accepted from a semantic point of view. Under this perspective the Evaluation must be considered as a constructive and exploring activity, co-extensive to the decisional making process, rather than being restricted to an ex-post control of the effects of interventions. According to the different meaning given to the term “economic”, grounded on a strong relationship between financial decisions and spread interests, this choice cannot be considered as a reason of covering the fields of interest of Economics.

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⁵ The Goal (the value depends on the goal of the appraisal); the Price (the opinion of value is based on price); the Forecast (forecasting is the immanent character of the appraisal); the Stability of conditions (the opinion of value depends on the conditions known at the time of appraisal and on their development due to stable forces acknowledged in that moment); the Comparison (the appraisal is based on a comparative methodology); the Ordinariness (the opinion of value should be objective and generally valid, statistically ordinary).

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