Unitary Valuation

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Background Questions

- What is “Unitary Valuation”?
- How does it differ from traditional valuation?
- Effect of assemblage and plottage
- Effect of locally assessed property
- Effect of leased assets
- Effect of intangible assets
- Reconciling the approaches to value

What is “Unitary Valuation”?

- Unitary valuation is the valuation of operating companies as a “whole” without concern for the individual values of the component assets which comprise the operating company.
- Operating companies subject to unitary valuation include telecommunication, railroad, pipeline, airline, electric, natural gas, and other “longitudinal real estate” companies (corridors).

How does it differ from traditional valuation?

- Traditional valuation requires the valuation of individual assets as separate assets.
- Once the individual assets are valued, we sum their values to obtain a total value of the assets.
- Unitary valuation values the whole company as a single asset—as a unit—irrespective of any individual asset's isolated value. There is no summation of value since the value of the unit may exceed (or may be less than) the sum of the individual assets.

Assemblage and Plottage

- Assemblage is the combination of two or more parcels of land (or assets) into a single parcel (or asset).
- Plottage is the valuation gain (or loss) created from the physical assemblage of parcels or assets to form a single new parcel or asset.
- Plottage value is not an intangible asset as it cannot be sold apart from the single, new parcel or asset.

Locally Assessed Property

- Property not subject to Unit valuation.
- Oftentimes “not in the rate base” of the regulated entity.
- Difficulty with removing full value of locally assessed property (value of a cherry picker to an electric utility following a natural disaster).
- Do locally assessed property assets influence the income or stock/debt value of the regulated entity (plottage value?)

Leased assets

- Leased assets contribute to the operating income of firms (and, hence, contribute to their value).
- Leased assets do not appear on a firm's balance sheet when they are operating leases.
- Leased assets do appear on a firm's income statement as an expense (and their contributing income).
- Leased assets allow flexibility in "financing" assets used by a firm.

Intangible Assets

- Assets that cannot be held-have no dimension.
- Cash, contracts, etc. (not the paper, the perceived value of the asset)
- Must be separable from other assets, marketable on their own, be privately owned, legally definable.
- Accounting treatment is different from real estate treatment.

Reconciliation

- Cost, Income (multiple types), and Market (stock and debt, or book indicator) approaches
- Each must be developed independently
- Cap rates and yield rates in the income approaches must be consistent with their associated income streams.
- Book indicators must not include non-taxable components (intangibles, local, exempt assets)