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## **PROPOSAL FOR PUBLIC BUILDINGS REAL ESTATE EVALUATION**

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### **ABSTRACT**

In the present paper is made the real estate for public buildings, based on existing methodologies available in order to provide technical and economic data which enables the validation of contract rents. This type of study arise from the owners needs to have an asset evaluation property that will exempt from possible commercial interests, since it considers that the amount of the rent is not representative of market values.

**Keywords:** real estate, public building, rent value.

### **INTRODUCTION**

A market is a system where goods and services are transacted between stakeholders (buyers and sellers) through value mechanisms. This concept implies the ability of stakeholders to carry on their activities without restrictions (Xiaojun and Beibei 2011). The "supply and demand principle" establishes the value of a good or service into the market, through the balance between supply and demand. This value varies inversely with the supply, of the good or service, and directly with the demand (Couto, 201).

The present paper aims to obtain a real estate evaluation of a public building based on the existing methods available. It provides the owner with technical and financial information that allows the judgement on the asset value. This real estate evaluation is carried out using several calculation methodologies with the main objective of a versatile and consistent result.

### **RESULTS AND CONCLUSIONS**

Three evaluation methods are recognized in many countries in the process and are generally applied in the real estate evaluation: i) the comparison method (M1); ii) the income method (M2); and iii) the cost method (M3) (Graham and Heurkens, 2016; Hromada, 2015). Each of these three evaluation methods is based on the substitution principle, which postulates that when a number of similar goods or services are available, the lowest price attracts the highest demand (CMVM, 2011). So, a prudent person would not pay for a good or service more than the cost of acquiring another good or service that replaces it in an equally satisfactory manner (in the absence of complicating factors such as time, risk or other inconvenience).

The results from the real estate of the public building studied are shown in Table 1 and are obtained assuming that asset is free of any liens or charges, or any easements or restrictions of public utility. The appraiser do not maintain any subordinate employment relationship with the owner, nor does it hold, directly or indirectly, any participation in relation to the real estate investment fund in which the asset subject is integrated to do this evaluation.

Table 1 - Real estate values

Method	Description	Value (€)
<b>M1</b>	Simulation of the asset tax value (building and parking) based on the expression defined in article n.º 38 (CIMI, 2016)	19.299.750,00
<b>M2</b>	Asset value considering the rent raised by real estate developer	35.436.770,00
<b>M3</b>	Estimated asset value based on values of real estate developer	19.944.710,00

The M1 is calculated in order to validate the equity values calculated by the other methods. It is noted that the M3 value is similar and it is considered that it may be slightly lower than the equity value of the asset under evaluation. Taking into account article n.º 76 (CIMI, 2016) and the asset characteristics (the exceptional areas and architecture, as well as its privileged location that differentiate it from the standard), this asset may be considered to be up to 15% higher than the values obtained. The M2 value is significantly higher than M1 and M3, considering that it is also well above the real estate value of the asset under evaluation.

In this study it is considered an average market rate of return for services buildings which presupposes income through its main activity. This is not valid because the services installed in the building are public without generate an effective wealth. The asset under evaluation has a specific use and user as well as unique characteristics. Its real estate value is not directly related to the market values in the surrounding area. In this context, the concept of “utility” should be taken into consideration, which is particularly important in non-market based assets evaluations.

Further analysis to other building types, should be performed in order to help and support the owner. So, more detailed information about technical and financial characteristics are needed to allows the owner to obtain a more objectively judge of the asset value.

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