When using the parsing income method, it is critical to ensure that any allocation of the income and expenses correctly identifies the contribution of the income to the total assets from tangible and intangible personalty. If the allocation is not done properly, it is unlikely that the residual value of the value for any asset class will be correct. Ideally, the estimate of real estate rent in this method is based on an analysis of direct rent comparables. However, for some property types, data of that type is scarce or nonexistent. In those cases, the rent must be estimated in some other way, such as

- multiplying or dividing the depreciated cost from the cost approach by a lease constant (capitalization rate or multiplier as appropriate)
- analyzing comparable rents for similar property types (e.g., apartment rents for assisted-living facilities, big-box retail rents for a fitness club or bowling center) and making appropriate adjustments
- applying an appropriate rent-to-revenue ratio based on data from an industry association study, interviews with market participants, or other sources

Each of the alternative methods of estimating real estate rent has potential weaknesses. By using more than one method, appraisers can make reasonably supported conclusions.

Critics state that this methodology is flawed because the identification of an appropriate capitalization rate to convert the residual income to different asset classes can be difficult. This method has also been criticized for using a percentage deduction from income to quantify the value of both the franchise and residual intangibles. Further criticism is leveled at the deductions for a return on the various components of the going concern, which create an opportunity for double-counting unless caution is exercised by the appraiser.

Communicating Value Opinions

When talking about properties operated as going concerns, market participants sometimes use imprecise terms or use terms inconsistently. This can cause confusion for both the appraiser and the reader of the valuation report unless the appraiser clearly identifies what is included in their valuation and what is not. For example, market participants might refer to the value of intangible property as *business value, business enterprise value, goodwill,* or *blue sky,* or sometimes even as the *going-concern value.* The total value of all asset classes might be referred to as *going-concern value,* the *value of the total assets of the business,* or sometimes *business value* or *business enterprise value.* Lenders sometimes request an opinion of what they call *dark value* or *value as if dark,* meaning the value as if the business is closed. *Going-concern value, business enterprise value,* and *dark value* are problematic terms in an appraisal setting because they may be confused with *types* of value, i.e., alternatives to market value, investment value, use value, or disposition value.

An appraisal report should include precise language that communicates four things:

1. The type of value being reported (e.g., market value, investment value, use value, disposition value)
2. The assets or asset classes included in the valuation
3. The valuation premise (i.e., the going-concern premise or the liquidation premise)
4. Property rights appraised

The following are examples of language that adequately communicates the information outlined above:

- market value of a going concern, including real property, personal property, and intangible property
- market value of the total assets of the business as a going concern, including real property, personal property, intangible property, and financial assets
- use value of the real property only, as part of the going concern

Each of the individual terms may also need to be defined in the report.

A market value opinion should be based on the going-concern premise or the liquidation premise, whichever is the highest and best use of the assets considered as a whole (i.e., all categories of assets rather than just real property). A lender or other client may request a value opinion for real property as if it were not occupied by the business, which is commensurate with the liquidation premise, although the highest and best use is continued operation as a going concern. In those cases, the value of the real property as if it were not occupied by the business should be treated as a hypothetical condition to avoid misleading the user of the report.