CRITICISM OF THE 'PROFITS METHOD OF VALUATION' WHICH IS USED TO EVALUATE LICENSED PROPERTIES (BUSINESSES)

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ABSTRACT

The purpose of this study is to examine the effectiveness of the profits method of evaluation when is used to evaluate licensed properties. At the beginning of the study there is a review of the current literature on the evaluation methods that are used internationally and in Cyprus using the key words profits method evaluation, licensed properties, real estate, market value. Subsequently the profits method is widely elaborated and analyzed. Furthermore, the research includes a case study in which a Cyprus listed company is evaluated using three different approaches.

The major findings indicate that the results of every approach significantly differ. In particular, the profits method findings approximate the income approach with the discounted cash flow analysis, while, on the other hand, the cost approach findings is significantly different.

In conclusion, the difficulty of the profits involves not only the correct estimate of the data used but also the correct estimate of the capitalization rate.

It is recommended that the valuer should possess great experience on the local property market, along with specific knowledge and skills in order to be able to choose the proper data for each valuation.

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