Titularizadora COLOMBIANA

Descriptions of Valuation Methodologies

Market Method:

The Market Method is based on the premise that a buyer would not pay more for a given property than the cost of obtaining a property with the same quality, utility and perceived benefits of ownership. It is based on the principles of supply and demand, balance, substitution and externalities. The following steps describe the Market Comparison Method process as applied:

1. The market in which the property competes is investigated. Comparable sales, sales and purchase agreements and current listings are reviewed.
2. The value indication of each comparable sale is analyzed and, where appropriate, adjustments are made based on the property's characteristics such as location, area, quality of the property, etc.
3. Once the data have been gathered and the most appropriate value unit for the property is determined, a final indication of the property final value is calculated.

Direct Capitalization Method:

This method is based on the current value of the rights of future income. This type of analysis considers the property from the point of view of an investor; the basic premise is that the amount and quality of the revenue flow are the basis for the value of the property. The steps involved in a capitalization of the property's net operating revenue are as follows:

1. Calculate the property's Potential Gross Income (PGI) through an analysis of the subject's past actual income and an analysis of the competitive income rates of the current market.
2. Estimate and subtract vacancy and collection losses to calculate Effective Gross Income (EGI).
3. Calculate and subtract operating expenses to define Net Operating Income (NOI).
4. Calculate the correct capitalization rate (Ro).
5. Divide the net operating income by the capitalization rate to estimate the value using the income method.

Discounted Cash Flow Methods:

This technique uses specific assumptions of income and expenses to calculate periodic cash flow.

It also considers a reversal of ownership. The resulting cash flows are discounted up to the current value using an appropriate performance rate. The process is as follows:

1. Analyze expected past and private expenses and income for the property.
2. Project growth of income and growth of expenses for each category of tenants and expenses.

3. Estimate a going-in capitalization rate that will be applied to the net income of the last valuation period to obtain the property's starting value.

4. Estimate and apply a discount rate to net ingoing cash flows and the residual sales value.
5. Calculate the Net Present Value for the property.

Costs Method:

The Costs Method is based on the principle of substitution, which indicates that a prudent and rational person would not pay more for a property than the cost of building a similar, competitive property.

The Costs Method tends to set the upper value limit before considering depreciation. The process is applied as follows:

1. Estimate the value of the land based on its highest and best use. Comparable sales, sales agreements and current listings are researched and documented.
2. Each comparable property is analyzed and adjusted so it will be similar to the subject property.
3. The value indication of each comparable property is analyzed and the data are reconciled in order to calculate an indication of the value of the land.
4. Estimate the construction replacement cost, considering the value of the direct and indirect cost per square meter of construction and any improvements carried out.
5. Estimate the accumulated physical, functional and/or external depreciation of the improvements.
6. Add the depreciated construction value to the value of the land for an indication of value.

Definitive Valuation:

The definitive valuation of a productive property is ultimately a balance between the methods described above whereby the valuator, depending on their experience and own criteria, determines the weight of each of the methods for the final valuation. However, based on the assumption that a property's value corresponds to the flow capacity it can produce, more weight is generally given to the income method than the market or replacement methods.