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## ***Davis & Company, CPA's, CVA's***

### **Willing Buyer and Willing Seller Part 1**

The standard of fair market value makes the critical assumption that property is changing hands between a hypothetical willing and able buyer and a hypothetical willing and able seller.

A business valuator is required to remain unbiased when analyzing a company to provide a conclusion of value. In the event that the valuator does not consider the perspective of both a willing buyer and willing seller, the valuation opinion could be biased.

Too often the valuator's assumptions weigh to what a seller would expect or demand in a sale and ignore the perspective of what a buyer would require to close a transaction.

Often valuator's take this position because of the belief that the seller is in the position to accept or reject any offer made by the buyer, therefore the seller is in control of the transaction. However, this thinking is somewhat flawed because if the underlying assumption of fair market value is that "property will change hands", the concept of "rejection" leads to the conclusion that the seller is "unwilling". Accordingly, the principle of fair market value breaks down.

Common sense suggests that in a live negotiation, the seller will want to achieve the highest price, and the buyer will want to achieve the lowest possible price. But is this always true?

In my experience in the business transaction world, sellers generally are concerned with the obtaining the highest price with the least amount of restrictions. Buyers are concerned with the price, but almost equally and maybe more concerned with the terms of deal.

Next month, we will explore the buyer's perspective to fair market value.