The aim of this work is to analyse the importance of Cyclical Capitalization models, a family of income-oriented valuation methodologies recently proposed to consider market cycle in the property valuation process. In the valuation *"…Valuation uncertainty should be distinguished from uncertainty risk. The possibility that the estimated value may differ from the price in an actual transaction deemed to be taking place simultaneously means that the value may be higher or lower than that price. An owner of the asset is exposed to a risk of loss (uncertainty risk) but also the benefit of a gain if the price is higher than the valuation…"* (IVSC, Technical Information Paper, Valuation Uncertainty, para. 7). This is particularly relevant in the valuation of income producing properties that may often be affected by cyclical behaviour of property market. Consequently, the integration between opinion of value and real estate market cycle in real estate modelling may be an opportunity to reduce valuation uncertainty.

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Foreword

BY MASSIMO MARIANI

The real estate market plays a fundamental role in the economic system. As will be described below, the presence of the market cycle emphasizes the need for using quantitative tools which allow for monitoring and analyzing trends.

The results of these alternations may cause problems in economic system stability, because by purchasing an overestimated property, investors reduce their ability to buy other properties.

The aim of this work is to provide an integrated model of analysis and study about a particular asset class of real estate assets named *"Cyclical Assets"* according International Valuation Standards Council and their valuations. In particular the author aims to create an integrated perspective of work between the market cycle and its determinants from one side and the traditional methods of valuation of this kind of assets, based mainly on an income approach, on the other side. This work of systematization of existing literature carried-out by the author is particularly appreciated in this specific market period, given the rapid mutability of the market scenarios determined by exogenous factors.

In literature, the study of the real estate market cycle and its variations, has led to the introduction of innovative evaluation models, that interpret market fluctuations; these models belong to the general category of *Cyclical Capitalization*.

In chronological order, the first model which considered a non-constant trend was introduced in the 50's and was referred to as the *Dividend Discount Model* (Gordon & Shapiro, 1956);

new cyclical models such as the Cyclical Dividend Discount models (M. d'Amato, 2003) were subsequently introduced.

This study provides a detailed investigation of cyclical capitalization methodologies, with a focus on their integration with traditional estimation criteria, starting from the analysis of the past to forecast a future trend market, thereby obtaining conservative property evaluations that do not cause "traumas" in the economic system.