

A hand is holding a magnifying glass over a classical building facade. The magnifying glass is positioned in the center of the frame, and the building's facade is visible through the lens. The background is a blurred cityscape at sunset or sunrise.

SALES ASSOCIATE COURSE

CHAPTER 16

Appraisal

- **Specific amount**
- Impartial (non biased)
- Defendable
- Estimate (Opinion) of value
- Fee based on time and difficulty
- **Must follow Uniform Standards of Professional Appraisal Practice (USPAP)**

Appraiser





Types of Appraisers

Registered Trainee

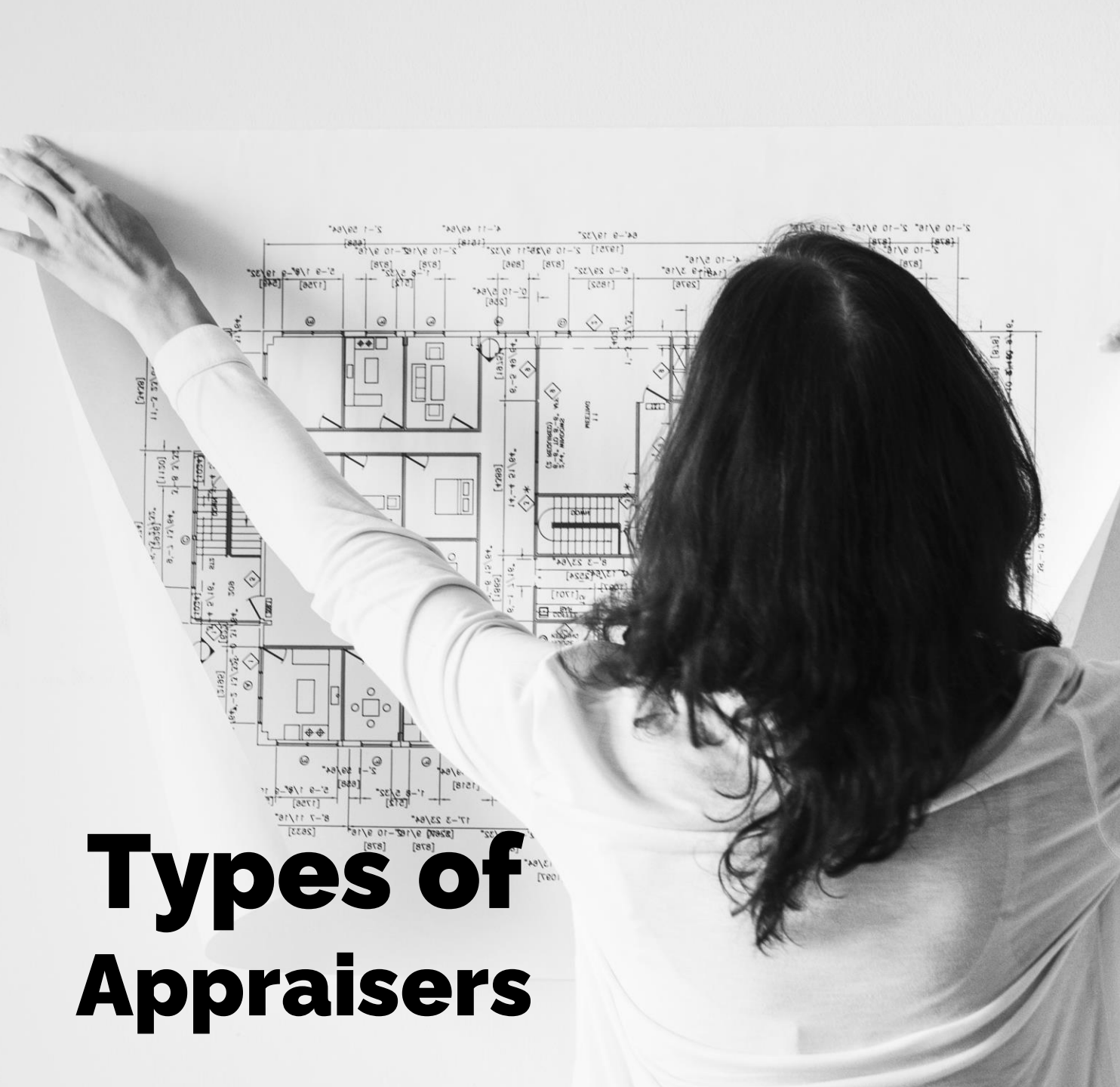
- 18 years old, high school diploma or equivalent
- 100 hours of education
- Work under supervision of certified appraiser
- Bachelors degree or higher
- Appraises 1-4 unit residential

Types of Appraisers

Certified Residential Real Estate Appraiser

- 200 hours of education
- 2,500 hours of experience in 24 months
- Bachelors degree or higher
- Appraises 1-4 unit residential





Types of Appraisers

Certified General Real Estate Appraiser

- 300 hours of education
- Bachelors degree or 3,000 hours of experience within 30 months
- Pass State exam
- Appraise any type of property

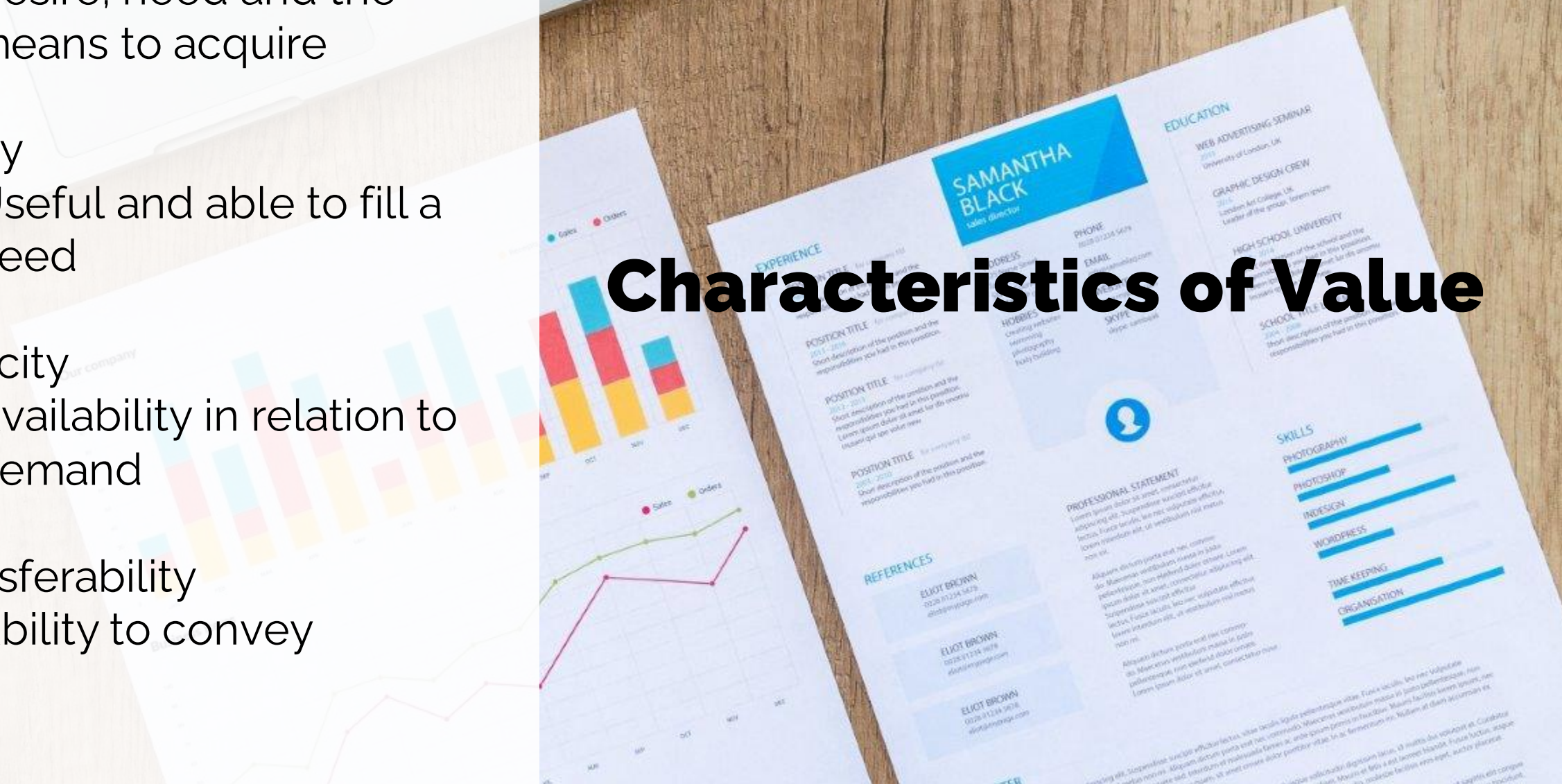


Cost, Price, Value

- **Cost**
 - Expenditure necessary to bring into existence
- **Price**
 - Actual amount paid. May or may not be market value
- **Value**
 - Ability to command other goods in exchange
 - Usually market value
- Value, Price and Cost may or may not be the same number

- **Demand**
 - Desire, need and the means to acquire
- **Utility**
 - Useful and able to fill a need
- **Scarcity**
 - Availability in relation to demand
- **Transferability**
 - Ability to convey

Characteristics of Value



Types of Value

- **Assessed Value**
 - Value assigned by the county property appraiser,
 - Also called ad valorem value
- **Insurable Value**
 - Value placed by insurance company
 - Replacement cost
 - Reproduction cost
 - Value is less than market value – land not included in insurable value





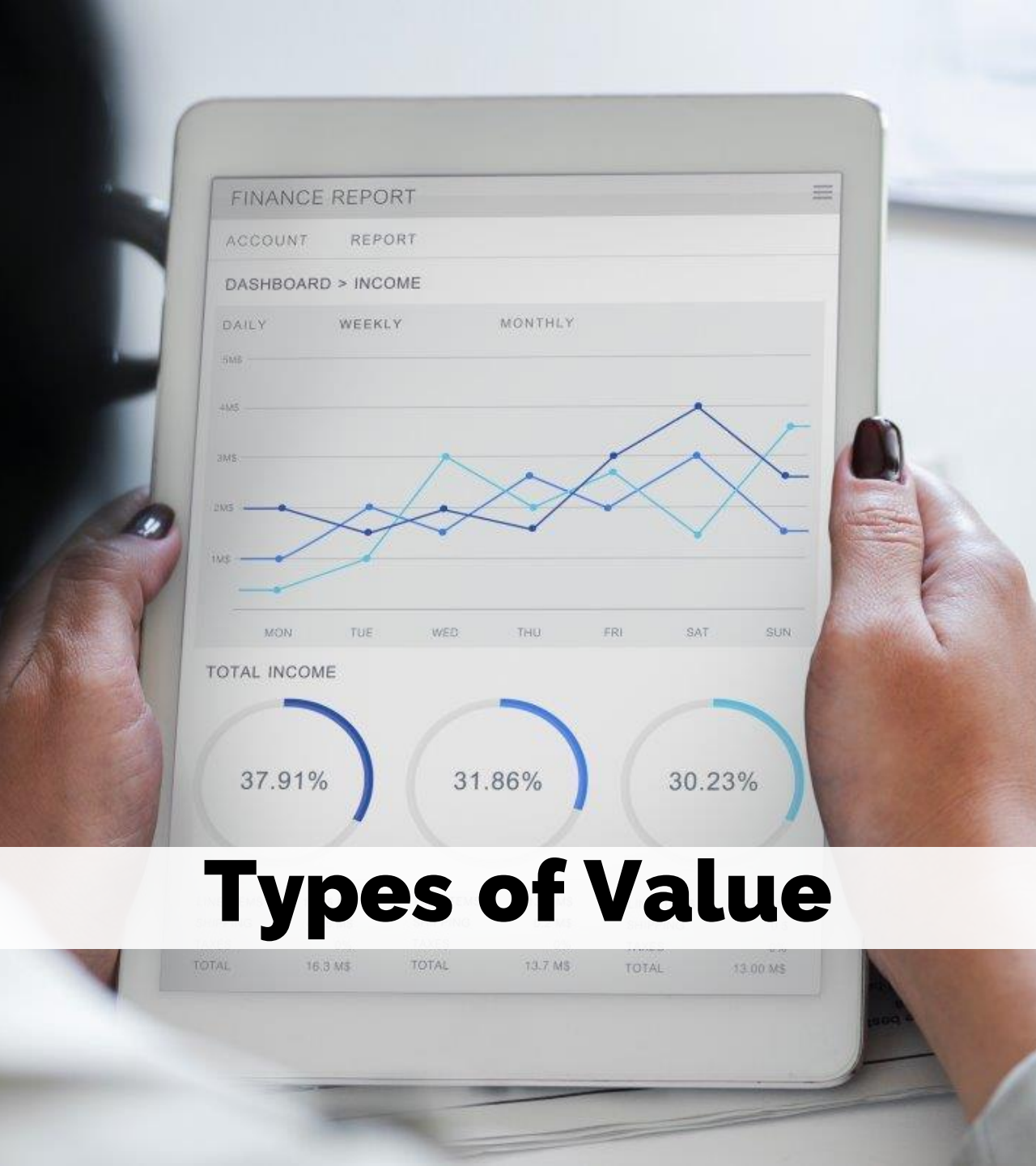
Types of Value

- **Investment Value**
 - Value to an individual investor
- **Liquidation Value**
 - Amount after all assets have been sold
 - Liabilities have been paid

- **Market Value** (Exchange Value)
 - Most probable price the property should bring in a competitive and open market under all conditions requisite to a fair sale
 - The buyer and seller each acting prudently and knowledgeably
 - Assuming the price is not affected by undue stimulus

Types of Value





Types of Value

- **Assumptions for market value**
 - Reasonable time on market
 - Informed buyer & seller
 - Own best interest
 - No Compulsion (duress)
 - Marketable title
 - Cash or Equivalent
 - No unusual financing or conditions

- **Salvage Value**
 - Amount that can be received from the sale of the parts from the demolished structure
- **Plottage Value**
 - Increase in value due to assemblage
- **Value-in-use**
 - Value based on current use
 - Another use may yield higher value
 - May be prohibited from another use – government zoning, etc.

Types of Value





Principles of Value

- Anticipation
- Change
- Competition
- Conformity
- Contribution
- Highest and best use
- Progression
- Regression
- Substitution



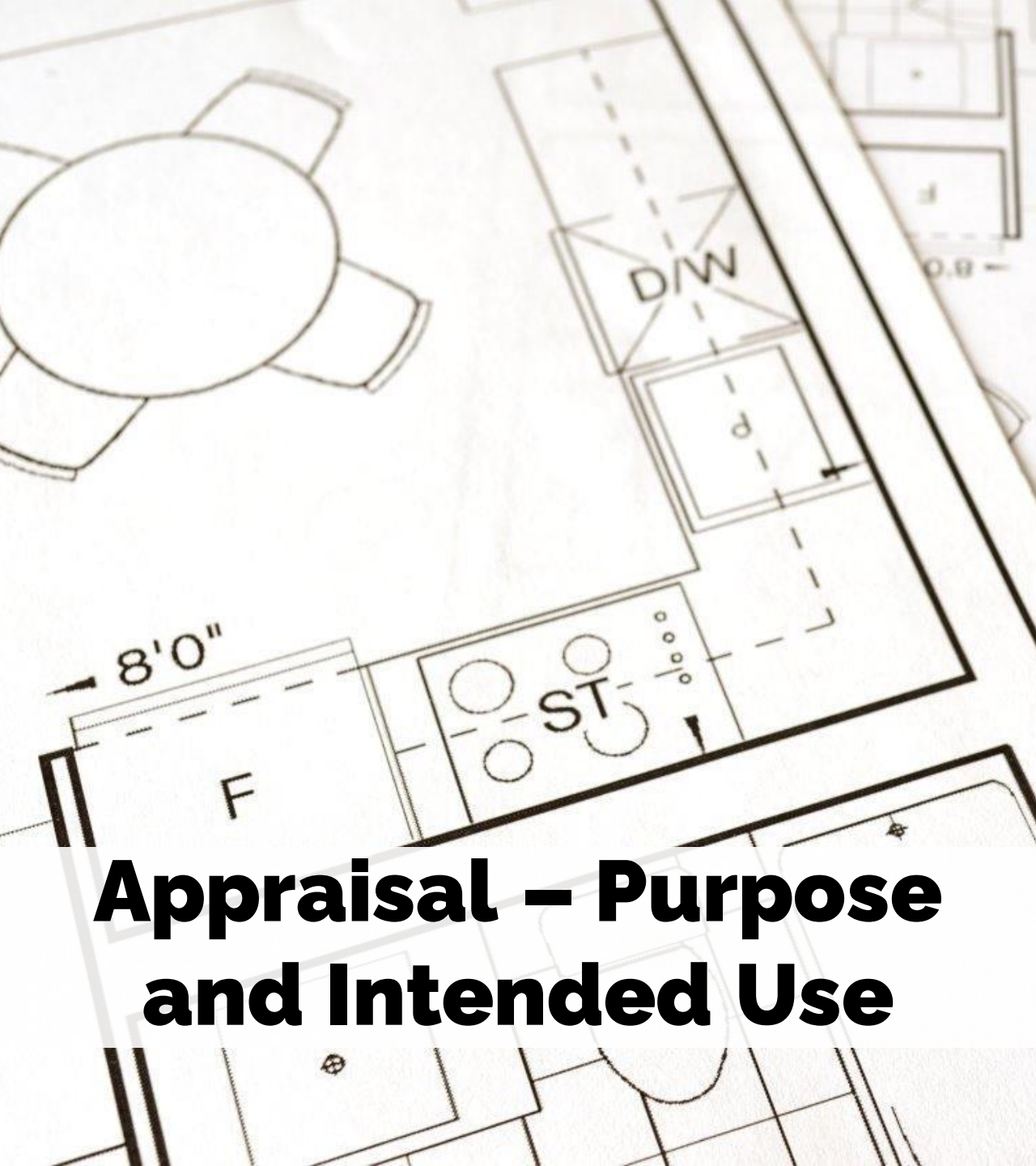
Principles of Value

- **The Principle of Highest and Best Use**
 - Most profitable use
 - Produces the greatest net return

Principles of Value

- **The Principle of Substitution**
 - A prudent buyer will pay no more for a property than for an equally desirable alternative property
 - **Basis for all value methods**





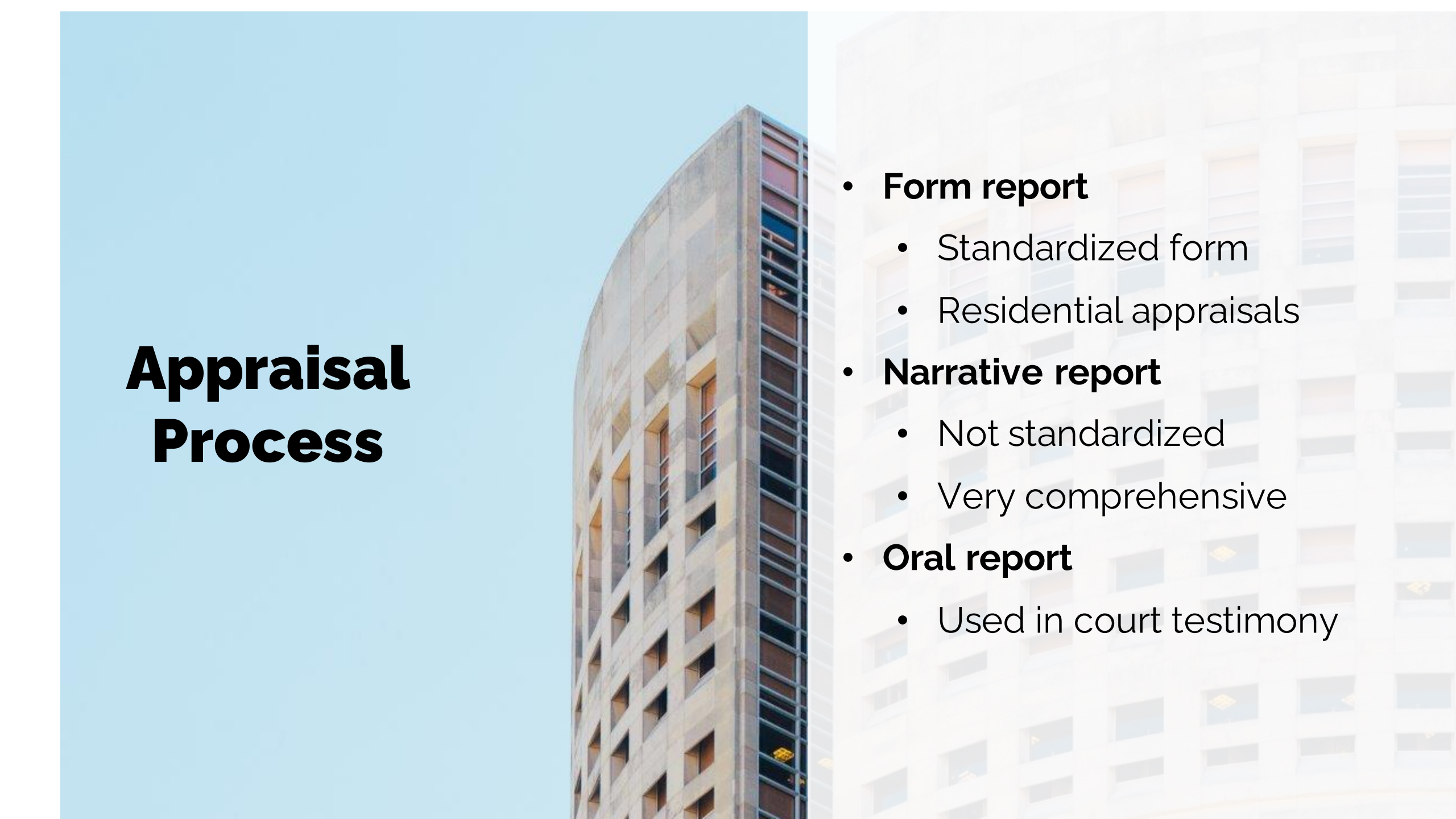
Appraisal – Purpose and Intended Use

- **Purpose**
 - Estimate value
 - Market value
 - Investment value
 - Liquidation value
 - Assessed value
- **Intended Use**
 - How the appraisal is used

1. Define the problem
2. Determine the scope of work
3. Perform data collection and analysis
4. Apply the three approaches to value
5. Reconcile the value indications and estimate a final opinion of value
6. Prepare a report of defined value opinions



Appraisal Process



Appraisal Process

- **Form report**
 - Standardized form
 - Residential appraisals
- **Narrative report**
 - Not standardized
 - Very comprehensive
- **Oral report**
 - Used in court testimony



Three Approaches to Value

- 1. Sales comparison**
 - 2. Cost-Depreciation**
 - 3. Income**
- All 3 methods are attempted then given a weight (priority)
 - Process called Reconciliation



Sales Comparison Approach

- Locate comparable properties
- Adjust the comparable sales prices
- Financing
- Conditions of sale
- Market conditions
- Location
- Physical characteristics
- Reconcile the adjusted sales prices

- Value may be estimated by comparing
 - **Subject property** - property being appraised
 - **Comparables (Comps)** - similar properties
 - Recently Sold
 - Same Market
 - Similar to Subject Property


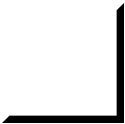
An aerial photograph of a coastal city, likely Miami, showing a sandy beach, turquoise water, and several high-rise buildings. The text 'Sales Comparison Approach' is overlaid in white on the right side of the image.

Sales Comparison Approach

Physical Characteristic Adjustments



- Always made to the Comparable
- Never to the Subject property.
 - If comparable is inferior - add
 - If comparable is better - subtract
- Appraiser adjusts several Comparables
 - **Reconciliation** - process
 - Appraiser assigns a weight (weighted average)

- 
- **Replacement cost**
 - Cost at current prices
 - Equal utility
 - **Reproduction cost**
 - Cost for exact duplicate
 - Same materials
- 



Cost-Depreciation Approach



Cost-Depreciation Approach

• **Best Uses**

- Newer properties
- Renovation
- Insurance purposes
- Infrequently exchanged or sold
- Special purposes
 - School buildings
 - Government buildings
 - Churches

Six Steps

1. Estimate the value of the site as if vacant
2. Estimate the current reproduction (or replacement) cost of the improvements
3. Estimate accrued depreciation - improvements
4. Subtract accrued depreciation from today's cost (#2) = depreciated value of improvements
5. Estimate cost of non-structural site improvements (driveways, landscaping)
6. **Add #1 + #4 + #5 = property value**

Cost-Depreciation Approach





Cost-Depreciation Approach

Step One - Estimate the Value of the Site Value of the land

- Determined by Comparable Sales approach – only approach
- Land does not depreciate



Cost-Depreciation Approach

Step Two – Estimate the Cost

- **Three methods**
- **Quantity Survey** - detailed inventory of everything required to reproduce a building
- **Unit-In-Place** - cost is calculated for each individual component
- **Comparative Square-foot** (Unit Comparison) - cost per square or cubic foot
 - Benchmark properties - basis for comparison

Step Three – Estimate accrued depreciation

- Depreciation - The loss of value due to any cause
- Accrued Depreciation - The total loss in value from all types
- Cost minus Accrued Depreciation = Depreciated Cost of structure
- **Land does not depreciate**



Cost-Depreciation Approach





Cost - Depreciation

Effective age

- An estimated age determined by the appraiser taking into consideration the condition of the structure

Actual age

- Chronological age of the building (actual)

Note: If both are given use effective age

Three types of depreciation

- 1. Physical Deterioration** -
Wear and tear, poor condition
- 2. Functional Obsolescence** -
Does not meet current standards, poor floor plan or an over improvement
- 3. External (Economic) Obsolescence** - influence outside property boundaries



**Cost-Depreciation
Approach**



Cost-Depreciation Approach

- Depreciation can be
 - **Curable** – The cost to correct is less than the added value
 - **Incurable** – The cost to correct is greater than the added value

Accrued Depreciation

- **Percentage method:**

$$\frac{\text{Effective age}}{\text{Economic life}} \times \text{Reproduction Cost}$$

- **Straight Line method:**

$$\frac{\text{Reproduction Cost}}{\text{Economic life}} \times \text{Effective age}$$



A woman with dark curly hair, wearing a blue polka-dot blazer over a white t-shirt and blue jeans, is standing in a hallway and writing on a whiteboard. She is holding a red marker in her right hand and looking up at the board. The whiteboard has some handwritten notes in red ink, including "model()", "items >> arr", "return arr", and "end".

Cost-Depreciation Approach

Step Four

Subtract accrued depreciation from **today's** reproduction cost

=

Depreciated value of the improvements

A spiral-bound notebook with a white cover and a wooden stand is the central focus. It is flanked by two identical potted snake plants in white ceramic pots. The background is a plain, light-colored wall.

Cost-Depreciation Approach

Step Five
Estimate the Site
Improvements

Cost-Depreciation Approach

Step Six

$$\text{Depreciated Cost (from step 4)} + \text{Value of the Site and Site Improvements} = \text{Value of Property}$$

(The cost-depreciation approach is not recommended for properties more than 15 years old)



Income Approach

- Value - **Present** worth of **Future** income of the subject property
- Anticipation

Direct Capitalization Technique

Potential G ross I ncome		PGI	(or GI)
V acancy and C ollection loss allowance		- V&C	(% or \$)
O ther I ncome		+ OI	
E ffective G ross I ncome		<hr/>	
O perating E xpenses		EGI	
Fixed			
Variable		- OE	
Reserves		<hr/>	
N et O perating I ncome		NOI	
		<hr/> <hr/>	

Net Operating Income (the "I" in IRV)

Three categories

1. **Fixed Expenses (FE)** - e.g. taxes and hazard insurance
2. **Variable Expenses (VE)** - e.g. utilities, maintenance, mgt.
3. **Reserve for Replacements (R)** - e.g. roof covering, air-conditioning

Operating expenses do not include

- Mortgage Payments (Debt Service)
- Income Taxes
- Depreciation





Income Approach

- **Overall Capitalization Rate (OAR)** - average rate of return received on similar properties
- Net Operating Income (NOI) ÷ Rate = Value (Sale Price)

$$\frac{I}{R \times V}$$

Income Approach

- **Estimated Value “IRV Formula”**

$$\frac{I}{R \times V}$$

Net Income divided by Rate = Value

Net Income divided by Value = Rate

Rate times Value = Net Income

$$I \div R = V$$

$$I \div V = R$$

$$R \times V = I$$

Note: When the rate goes up, the value goes down. When the value goes up, the rate goes down. Rate and Value have an inverse relationship. (see math supplement)

Final Reconciliation (Weighted Average)

Comparable Sales	$\$200,000 \times 70\% =$	140,000
Cost-Depreciation	$\$210,000 \times 20\% =$	42,000
Income Capitalization	$\$180,000 \times \frac{10\%}{100\%} =$	<u>18,000</u>
		\$200,000

- Weighted Average - \$200,000
- Simple Average - \$196,667
- $\$200,000 + 210,000 + 180,000 \div 3 = \$196,667$

Alternative Income Approach

- Gross Rent Multiplier (GRM)

$$\frac{\text{Sales Price}}{\text{Gross Rent}} = \text{Gross rent multiplier (GRM)}$$

- Multiply the subject property rent by the GRM to estimate value
- Gross Income Multiplier (GIM)
$$\frac{\text{Sales Price}}{\text{Gross Income}} = \text{Gross income multiplier (GIM)}$$
 - Multiply the subject property income by the GIM to estimate value
 - Estimates value from all sources including rental income plus any other income source
- Derive GRM & GIM using several properties



Real Estate Licensees Performing Appraisals

Real estate licensees:


- Usually prepare a Comparative Market Analysis (CMA)
- Purpose of pricing listings
 - Recent sales
 - Other properties currently listed
 - Expired (failed to sell)
- Sales no older than 12 months
- Similar - adjustments

Regulation of Appraising



- **Appraisal Foundation**
 - Establish & promote professionalism and to ensure public trust in the valuation profession
 - **Appraisal Qualifications Board**
 - Establishes the minimum education, experience and examination requirements for real property appraisers to obtain and renew a State license
- 

Regulation of Appraising



- **Appraisal Standards Board**
 - Sets forth the rules for developing an appraisal and reporting the results and promotes the use, understanding and enforcement of Uniform Standards of Professional Appraisal Practice (USPAP)
 - **Appraisal Subcommittee**
 - Provides federal oversight of all State appraiser and appraisal management company regulatory programs
- 



Comparative Market Analysis

Compare recent market sales of:

- Solds (previous 12 months)
- Currently for sale
- Expired listings

Information Needed for a CMA/BPO



- Owner's address & name
- Property description
- Lot size
- # of rooms/square footage
- Age & construction quality
- School system|Taxes
- Current market financing
- Outstanding mortgage
- Utilities
- Appliances included
- Zoning
- Personal property in sale
- Environmental concerns


An aerial photograph of a residential neighborhood. The houses are multi-story, with dark brown tiled roofs and walls in various colors including yellow, light blue, and white. The houses are densely packed, and there are some green trees and small courtyards visible between them. The lighting suggests it's daytime, with shadows cast across the roofs.

Sources:

- Multiple Listing Service (MLS)
- Property tax records
- Listing agent
- Buyers agents
- Internet
- Property owners

Obtaining Comparables

- Location
- Size/shape of lot
- Landscaping
- Construction quality
- Style
- Design
- Age
- # of rooms, bathrooms
- Gross living area
- Kitchen
- Other space
- Exterior/interior condition
- Garage
- Other improvements

A photograph showing a person's hands holding a newspaper. The newspaper has a headline that reads "Afghanistan's contradictions" and another headline below it that says "AN UNEXPECTED RENDEZ-VOUS". The background is blurred, showing what appears to be an office or meeting environment.

Common Elements of Comparison

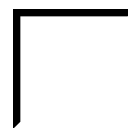
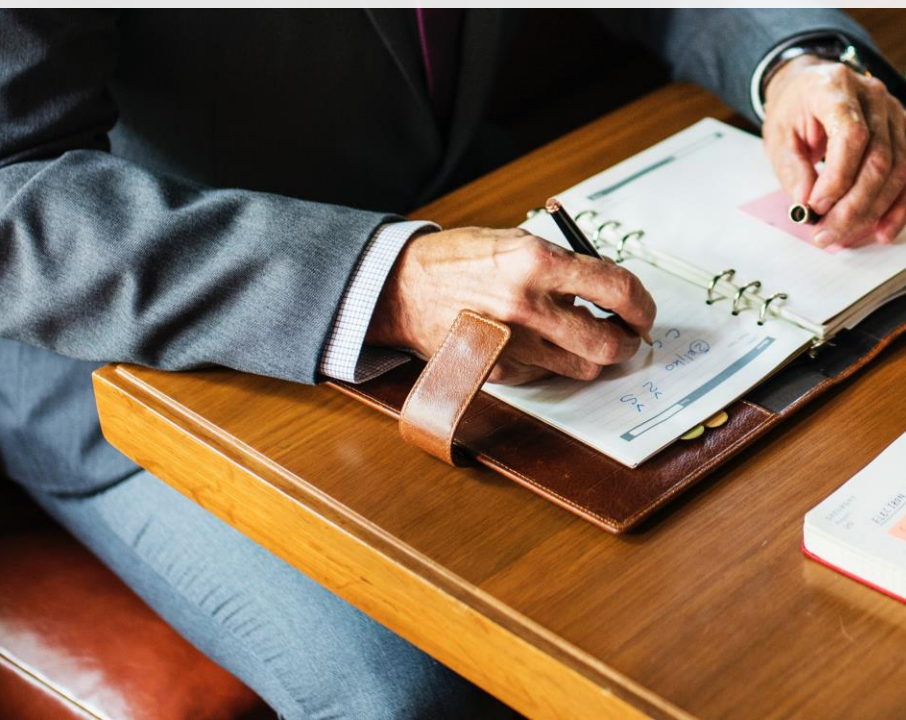


Comparison Process

- Use 3 – 5 properties for comparison
- Adjust the sales price of the comparables



Basis for Adjustments



Making the Comparable Adjustments

Memory Aid

Comparable

Better

Subtract

CBS

Comparable

Inferior

Add

CIA



Attachments to CMA/BPO

- Photos of subject property
- Photos of comparables
- Zoning information
- Environmental information
- Square footage measurements
- Survey





Broker's Price Opinion

- Estimate of value
- Requested by lenders
- Licensees may prepare
- May receive compensation



Coffee Break

15 Minutes