

Real Estate

Appraisal



and Valuation

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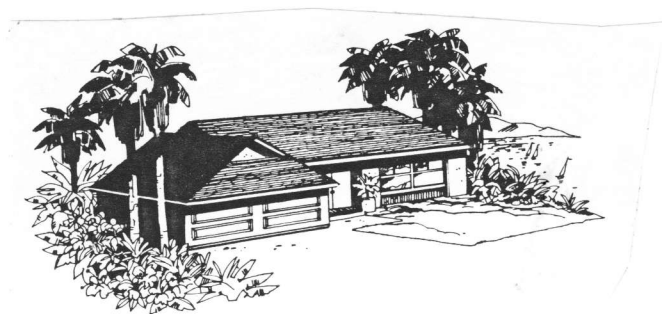
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Real Estate Appraisal and Valuation

The information presented in this course should not be used as a substitute for competent legal advice.

Part I

Overview: this "getting started" section informs the learner of fundamental guidelines which should be understood those persons wanting to become knowledgeable regarding appraisals.

After studying this section, the student should:

- ✓ know the difference between the theory upon which appraisals are accomplished and the mechanical aspect of simply placing numbers on a form.
- ✓ understand the different types of value and have had an opportunity to study various definitions of value.
- ✓ understand differences between value, cost and price.



APPRAISAL AND VALUATION

Property valuation may be considered the heart of all real estate activity. Only a practical understanding of real estate values will enable real estate brokers, salespersons and insurance agents to carry out their functions in a useful and dependable manner in serving their clients and in meeting their obligations to the general public.

All agents, whether real estate or insurance, should have a good understanding of: (a) the theoretical concepts of value, (b) the forces which influence value, and (c) the methods by which such value may be estimated most accurately.

It is a daily occurrence for the agent to have clients make inquiry about the worth, fair price, fair rental, fair basis for trade, or a proper insurance coverage for property. A broker needs to know how to answer such questions correctly. To be successful in business, an agent must determine whether time can profitably be spent in trying to sell a property at a listing price set by the owner. The agent must keep in mind that in accepting a listing the agent is obligated to put forth best efforts to find a buyer for the property at that price.

A seller's unrealistic asking price is a roadblock that can be remedied by a knowledgeable salesperson capable of making a market analysis and using the three approaches to value. Such ability assists the seller to set the most appropriate listing price.

THEORETICAL CONCEPTS OF VALUE AND DEFINITIONS

Definition of Appraisal

To appraise means to arrive at an estimate and opinion of the value of a property. An appraisal report is usually a written statement of the appraiser's opinion of value of an adequately described parcel of property as of a specified date. It is a conclusion which results from the analysis of factual and relevant data.

Real estate appraising is being standardized by virtue of the experience and practice of qualified people in all parts of the country who encounter the same types of valuation problems, and who by various methods and processes succeed in solving them in an equitable manner. It is natural that differences of opinion may exist as to the value of specific parcels of real estate and the means of estimating their value.

Real estate as a tangible thing can be measured. It includes both land and improvements and exists independent of any desire for its possession. In order to distinguish between its physical aspects and rights in and to real property, the latter are called property interests in real estate. These interests--ownership in fee simple and other lesser interests--have been discussed in other courses.

Property rights in real estate are normally appraised at Fair Market Value. There are many definitions of Fair Market Value, but a good working definition is the price the property would bring if freely offered on the open market with both a willing buyer and a willing seller.

Rights in real property are referred to as "Bundle of Rights," which infer: right to occupy and use; to sell in whole or in part; to bequeath (give away); and, to transfer by contract for a specific period of time (lease). It also implies the right not to take any of these actions.

These rights are limited by the government's power of taxation; eminent domain; police power (for safety, health and general welfare of the public, such as zoning, building codes); and, right of property to escheat (revert) to the state in the event the owner does not pay taxes, or dies and leaves no heirs.

The rights in a property must be known by the appraiser before making a proper valuation, and the appraiser must also be able to distinguish between personal and real property.

The widespread need for appraisals is apparent when you consider that everyone uses real estate in one way or another and must pay for its use--which involves a decision about value. Practical decisions concerning value must be based upon some kind of an appraisal.

Although an appraisal may be transmitted orally it is usually a written statement of an estimate of value and is referred to as an appraisal report.

TRADITIONAL APPROACHES TO VALUE

Basically, there are three approaches to property valuation used by appraisers. Each gives a separate indication of value, yet the approaches are all interrelated and all use market comparison techniques. Depending upon the appraisal assignment, more than one approach is often used.

The approaches are (1) Sales Comparison (or Market Data) Approach (2) Cost Approach and (3) Income Capitalization Approach.

THE APPRAISER'S ROLE IN THE REAL ESTATE PROFESSION

The appraiser, by reason of professional training, experience, and ethics is responsible for furnishing clients with an objective third party opinion of value, arrived at without pressures or prejudices from the parties involved with the property, such as an owner or lender.

There is a heavy personal and professional responsibility on the appraiser to be correct and accurate in opinions of value.

Otherwise the appraiser's clients may easily suffer loss and the appraiser's professional reputation may also suffer.

There has been considerable controversy in recent years concerning the appraiser's possible contribution to declining neighborhoods and discrimination in housing. The main thrust of the controversy charges that appraisers have tended to view declining neighborhoods as reducing in value without regard for individual home upgrading and homogeneous neighborhoods as being more stable in value than mixed neighborhoods. It has been unduly pessimistic and conservative because of these purported appraiser attitudes. This supposed conservatism, it has been declared, leads to further decline because favorable loans are not made.

Appraisers respond that the professional appraiser will only consider the factors actually affecting value, and lenders' policies for granting loans are beyond the appraiser's control. Lenders reply that

the appraiser's opinion of value is the main basis for the loan and prudent lending practices must be followed.

In the making of thousands of daily appraisal decisions, there is probably some truth on all sides.

A proper appraisal does not contribute to either problem mentioned above. An accurate appraisal, resulting from capabilities of a skilled appraiser, will reflect only the forces affecting value.

TRUE FORCES AFFECTING VALUE.

It is necessary that appraisers be exceptionally sensitive to their roles in accurately assessing the true forces affecting value. In accomplishing this, the appraiser cannot professionally allow the general neighborhood composite of ethnic, religious, or minority populations or the general condition of neighborhood improvement to detract from a clear and objective evaluation of the property appraised on its own merits.

It is also the appraiser's responsibility to keep the appraisals timely in a changing market.

It is no longer prudent to rely solely on past sales of comparable property. The appraiser must use all pertinent data and appraisal methods to insure the appraised value is, in fact, the closest estimate of the price the property would bring if freely offered on the open market.

World events of the past several years resulted in interest rate and property appreciation spirals to historic highs, dramatic decline in construction, creative financing approaches to generate sales, and extraordinary levels of foreclosure and bankruptcy. Such times require exceptional appraiser sensitivity to the true market forces.

Occasionally appraisers have contributed to individual property problems by failing to understand or recognize contrary market trends.

The professional appraisal associations have responded with increased emphasis on education in current appraisal and financial techniques. The dynamics of such a volatile market require the appraiser to keep abreast of new techniques and market forces.

APPRAISAL REPORT

An appraisal report sets forth the views, experiences, and conclusions of the writer. When put in writing it protects both appraiser and client. Reports vary in scope and length. The following information should be included:

1. A final value conclusion is expressed in terms of dollars for the property which is being appraised.
2. The value conclusion can be made for any date in the past, but not for any date in the future. The time of inspection of the physical improvements is generally taken as the date of value unless otherwise informed by either the property owner, owner's attorney, or a court of law. The date of the final writing and delivery of the report is the date of the appraisal not the date of value.
3. Adequate description of the property. The street address, including city and state, as well as a complete legal description as set forth by the deed in the county recorder's office should be shown, and the physical structures should be clearly described. The length of this description will depend upon the length and extent of the report.
4. The latitude of the reasonings in determining the value conclusion will depend upon the type of report and the complexity of the appraisal problem.
5. Market data, and other factual data. This includes information on the city and neighborhood which affects the value conclusion; information gathered on the site, improvements and the environment of the neighborhood which should be processed by means of one or more of the approaches to value; and, the preliminary estimate of value should be reconciled by means of logic and reasoning in order to arrive at one value conclusion for the property. Lengthy details are usually omitted in letter form reports, but appraiser retains the information as backup.

6. Signature and certification. Appraisal reports must be signed by the writer, and in most instances are preceded by a statement to the effect that the writer has no present or contemplated interest in the property.

TYPES OF APPRAISAL REPORTS

1. Letter form report. This type of report is generally used when the client is familiar with the area, and supporting data are not necessary. It consists of a brief description of the property, the type of value sought, the purpose served by the appraisal, the date of value, the value conclusion and the signature of the appraiser.
2. Short form report. This type of report is normally used by lending institutions, such as banks, insurance companies, saving and loan associations, and governmental agencies. Generally it consists of simple check sheets or spaces to be filled in by the appraiser; varies from one to four pages in length and includes the pertinent data about the property; and, is seldom used for a client who is unfamiliar with the city or neighborhood.
3. Narrative report. This type of report is a complete document including all pertinent information about the area and the subject property as well as the reasons and computations for the value conclusion. It includes: maps, photographs, charts and plot plans. It is written for court cases and out-of-town clients who need all of the factual data. It gives the complete reasoning of the appraiser as well as the value conclusions.

PURPOSES AND USES OF APPRAISALS

The basic purpose of an appraisal is to estimate a particular value, i.e., market value, sales price, loan value, etc. Some of the uses for requiring the estimate of value are:

1. Transfer of ownership of property.
 - a. An appraisal assists buyers and sellers in arriving at a fair and equitable sales price. An appraisal of physical property may also include an opinion of its age, remaining life, quality or authenticity.
 - b. The listing agent needs an estimate of value of the property before accepting a listing from the owner. If the agent can show by means of an appraisal the appraised fair market value of the property, and obtain a listing at that figure, a sale more likely will result. The real estate practitioner should be prepared to demonstrate a knowledge of both comparative and economic values.
 - c. Where a trade is involved, appraisals tend to assist in clarifying the opinions of value formed by both parties to the trade.
 - d. Valuations are necessary for the distribution of estate properties among heirs.
2. Financing and credit.
 - a. The lender has an appraisal made of the value of the property to be pledged as security for a mortgage loan.
 - b. Measuring economic soundness of real estate projects involves feasibility studies in relation to financing and credit.
3. Appraisal for taxation purposes.
 - a. Appraisals are needed by governmental bodies to establish the proper relationship between land and improvements for real estate taxes (ad valorem taxation).
 - b. Properties subject to inheritance taxes must be evaluated for the purpose of levying federal and state inheritance taxes.

c. Appraisals of income-producing properties are necessary to property owners for the basis of depreciation. Normally only improvements can be depreciated, not the land. An allocation of the market value between land and improvements is a requisite for accounting and taxation purposes.

4. Condemnation actions.

a. With the right of eminent domain being vested in governmental agencies, it is important that properties under condemnation be evaluated at fair market value to properly estimate purchase price, benefits, and damages to the property being affected.

5. Insurance Purposes.

a. Appraisals are based principally upon the cost of replacement--important for the purpose of insuring properties for fire insurance.

b. Appraisals are useful in settling claims arising from insurance contracts after a property has been destroyed.

6. Miscellaneous reasons for appraisals.

a. Catastrophic damage. Establishing fair market value of property before and immediately after the damage.

b. Fair rental value for negotiation of leases.

c. Appraisals for inheritance and gift tax purposes.

d. Fraud cases.

e. Damage cases.

f. Division-of-estate cases. A distribution of property under the terms of a will, in divorce proceedings, or between rival claimants, frequently requires that the value of the property involved be determined by appraisal.

PRINCIPLES OF VALUATION

A knowledge of basic assumptions, postulates or premises that underlie appraisal methods is essential to an understanding of the purpose, methods and procedures of valuation. The following principles of value influences are the more important for a general understanding of the appraisal process.

Principle of conformity. Holds that maximum value is realized when land uses are compatible and a reasonable degree of architectural harmony is present. Zoning ordinances help set conformity standards.

Principle of change. Real property is in a constant state of flux and change, affecting individual properties, neighborhoods and cities.

The appraiser follows trends and influences and is sensitive to changes in conditions that affect the value of real estate. Economic, environmental, government, and social forces in constant change, affect all markets, especially real estate.

Principle of substitution. This principle is the basis of the appraisal process. Simply stated, value will tend to be set by the cost of acquiring an equally desirable substitute. The value of a property to its owner cannot ordinarily exceed the value in the market to persons generally, when it can be substituted without undue expense or serious delay. In a free market the buyer can be expected to pay no more and a seller can expect to receive no less than the price of an equivalent substitute.

A property owner states that owner's house is worth \$95,000. Buyers in the market can obtain a substitute property with the same features and utility for only \$90,000. The seller's house, therefore, has a value of approximately \$90,000, not \$95,000.

Principle of supply and demand. Holds that price varies directly, but not necessarily proportionately, with demand, and inversely, but not necessarily proportionately, with supply. Increasing supply or decreasing demand tends to reduce price in the market. The opposite is also true.

Principle of highest and best use. The best use of a parcel of land, known as its highest, best and most profitable use, is that which will most likely produce the greatest net return to the land over a given period of time. This net return is realized in terms of money or other amenities.

The application of this principle is flexible. It reflects the appraiser's opinion of the best use for the property as of the date of his appraisal. At one period of time, the highest and best use of a parcel of land in a downtown business district might be for the development of an office building, at another time, a parking lot may be the highest and best use.

A single-family house on a commercial lot may not be the highest and best use for the site. A four-unit apartment on multiple zoned land suitable for 30 units is probably not the long term highest and best use of the land.

It is also useful to understand highest and best use may no longer be only economic or profit making in character. Environmental, aesthetic, and historical considerations are increasingly important in governmental views of highest and best use.

Dealings with land that is already improved, the highest and best use is the most reasonable and probable use that gives the highest value at the time of the appraisal.

Dealings with unimproved land, the highest and best use is the use chosen from the most probable and legal alternatives to be the most suitable use that results in the highest present land value.

Determining highest and best use includes assessing buyers' motives, the existing use of the property, potential benefits of ownership, the market's behavior, community or environmental factors, and special conditions or situations which come to bear on appraisal conclusions of value.

Principle of progression. The worth of a lesser valued object tends to be enhanced by association with many similar objects of greater value.

Principle of regression. The worth of a greater valued object is reduced by association with many lesser valued objects of the same type.

Principle of contribution. A component part of a property is valued in proportion to its contribution to the value of the whole property or by how much that part's absence detracts from the value of the whole. Maximum values are achieved when the improvements on a site produce the highest (net) return, commensurate with the investment.

Principle of anticipation. Value is created by anticipated future benefits to be derived from the property. In the Fair Market Value Analysis appraisers estimate the present worth of future benefits. This is the basis for the income approach to value. Simply stated, the income approach is the analysis of the present worth of: (1) projected future net income, and (2) future resale value anticipation. Historical data are relevant as they aid in the interpretation of future benefits.

Principle of competition. Competition is created where substantial profits are being made. If there is a profitable demand for residential construction, competition among builders will become very apparent. This could lead to an increase in supply in relation to the demand, resulting in lower selling prices and unprofitable competition, leading to renewed decline in supply.

Principle of balance. Value is created and sustained when contrasting, opposing, or interacting elements are in equilibrium, or balance. Proper mix of varying land uses creates value.

Imbalance is created by an over improvement or an under improvement. Balance is created by developing the site to its highest and best use.

Principle of three stage life cycle. In due course all material things go through the process of wearing or wasting away and eventually disintegrating. All property is characterized by three distinct stages described as development, maturity, and old age (or growth, stability, and decline).

Single properties, districts, neighborhoods, etc., tend generally to follow this pattern of growth and decline. It is also evident this process can be reversed as neighborhoods and individual properties in older residential areas are renewed and restored.

Revitalization and modernization in inner-city older neighborhoods may result from organized government programs or as a result of changing preferences of individual buyers. Most neighborhoods remain in the mature or stable stage for many years with decline being hardly noticeable.

BASIC VALUATIONS DEFINITIONS

VALUE DESIGNATIONS

There are many different designations or definitions of value. They may be divided into the following two main classifications: (1) Utility value--or value in use, which is value directed toward a particular use. This frequently is termed subjective value, and it includes a valuation of amenities which attach to a property or a determination of value of property for a specified purpose or for a specific person; (2) Market value--or value in exchange--represents the amount in money (cash or the equivalent) for which a property can be sold or exchanged in prevailing market conditions at a given time or place as a result of market balancing. It may be based on a "willing buyer" and "willing seller" concept. This is frequently termed the objective value, since it is not subject to restrictions of a given project.

Appraisers carefully define the value being sought. Types of values are: Liquidation Value, Insurable Value, Investment Value and, of course, Assessed Value, found on tax rolls' uniform schedules and used for ad valorem tax purposes. Today's market places great importance on real estate financing terms. Market Value might be estimated for specific financing arrangements: e.g., seller carry-back, balloon payments, renegotiable mortgages or other "creative" financing techniques.

FAIR MARKET VALUE DEFINED

In appraisal practice, the term Fair Market Value, or simply "market value," may be defined as:

"The most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress."

Fundamental assumptions and conditions presumed in this definition are:

1. Buyer and seller are motivated by self-interest.
2. Buyer and seller are well informed and are acting prudently.
3. The property is exposed for a reasonable time on the open market.
4. Payment is made in cash, its equivalent, or in specified financing terms.
5. Specified financing, if any, may be the financing actually in place or on terms generally available for the property type in its locale on the effective appraisal date.
6. The effect, if any, on the amount of market value of a typical financing, services, or fees shall be clearly and precisely revealed in the appraisal report."

LEGAL DEFINITION

The fair market value of the property is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.

VALUE VS. PRICE

When reference is made of the value of a property, generally fair market value is meant. Market price is what one might get from the sale of the property in terms of money. Sometimes value and price are the same, most particularly when there is no compulsion to buy or sell. Under other circumstances there might be a wide difference between the market value of a property and the actual sale price. The appraiser must be careful to consider normal buyers and sellers attitudes for the type of property appraised. The appraiser is estimating actual market value not theoretical value.

The immobility of real estate makes it unique. Theoretically there are no two parcels exactly alike and, therefore, there are no means of making a positive comparison between properties. Circumstances of one buyer and one seller affect the sale price of a specific property, whereas the actions of many buyers and sellers of similar type properties determine the going rate for the sale or exchange of property on the open market.

Among the various types of value that have been designated from time to time are book value, tax value, market value, cash value, sentimental value, capital value, speculative value, par value, true value, exchange value, reproduction value, physical value, replacement value, insurance value, investment value, rental value, appraisal value, face value, depreciated value, leasehold value, sound value, sales value and cost value.

The real estate broker should be concerned mostly with the concept of Fair Market Value, or simply market value, for this is the basis upon which most property is generally bought and sold.

VALUE VS. COST

Value can be distinguished from "cost" as well as from "price," for neither is necessarily synonymous with value. The principal differences may be explained as follows:

(a) Value has to do with the combined factors of present and future anticipated enjoyment, or profit. The value sought in the appraisal of property may be said to be the discounted worth of all desirable things (benefits) which may accrue from a skillful use of it. A conclusion in regard to these things will clearly be a matter of opinion--an intelligent estimate based on a thorough analysis of all available influencing factors and on reasonable and more or less warranted assumptions.

(b) Cost represents a measure of past (or prospective) expenditures in money, labor, material or sacrifices of some nature in acquiring or producing the commodity. While cost may be, and frequently is, a factor upon which value is partially based, it need not be, as it does not control present and future value. An example of this fact is the value of an apartment property as compared with an oil well (assuming that the building and drilling costs were the same). The oil well may prove to be a big producer and of great value, or it may prove to be a dry hole and of no value. An apartment building might be costly to build but have little value because of its bad location and high vacancy factor.

(c) Price is what one pays for a commodity, regardless of pressure, motive or intelligence of the seller or buyer. Usually it is considered to be the amount of money involved in a transaction. Whether we receive in value more or less than what we pay for will depend on the soundness of judgment in the analysis or appraisal of value. Under an efficient market structure, price will usually tend to equal value, varying only as buyers and sellers have unequal knowledge, negotiating skills, or economic

strength. Some factors influencing market price (as distinguished from value) are favorable financing, distress sale, forced purchase, uninformed purchaser or seller, misrepresentation of facts by the seller and high pressure salesmanship.

Appraisers carefully distinguish between market value, cost and price in refining their appraisal conclusions.

Part II

Overview: Value is constantly changing. Having determined fairly accurate definitions for value, it is now important to study the forces and factors which influence value. Part II finishes by studying the appraisal process and the methods used in this appraisal process.

After studying this section, the student should:

- ✓ better understand the forces influencing value
- ✓ better understand the factors influencing value
- ✓ have a better perspective of the appraisal process.



PURPOSES AND CHARACTERISTICS OF VALUE

The purpose of valuation or an appraisal is usually indicated in the value concept employed, for example: market value, assessed value, condemnation value, liquidation value, cash value, mortgage loan value, fire insurance value, etc. The purpose of an appraisal frequently dictates the valuation method employed and influences the resulting estimate of value. Four Elements of Value. There are only four elements of value, all of which are essential. These are utility, scarcity, demand (together with financial ability to purchase), and transferability. None alone will create value.

For example, a thing may be scarce, but, if it has no utility, there is no demand for it. Other things, like air, may have utility and may be in great demand, but are so abundant as to have no commercial value. Utility is the capacity of a commodity to satisfy a need or desire. To have utility value, real estate should have the ability to provide shelter, income, amenities or whatever use is being sought. Functional utility is an important test for determining value. Likewise, the commodity must be transferable as to use or title to be marketable.

Generally speaking, a commodity will have commercial or marketable value in proportion to its utility and relative scarcity. Scarcity is the present or anticipated supply of a product in relation to the demand for it. Utility creates demand, but demand, to be effective, must be implemented by purchasing power, otherwise a person desiring a product cannot acquire it.

Fundamental to the concept of value is the "highest and best use" principle, discussed earlier in this chapter. Location is a most important factor in determining highest and best use. Any analysis to reach a decision as to the "highest and best use" must include consideration as to the future supply and demand for such use within the area and possible oversupply or under supply with attendant effect on market demand and value.

FORCES INFLUENCING VALUE

The value of real estate is created, maintained, modified and destroyed by the interplay of the following four great forces:

(a) Environmental and physical characteristics. Examples of physical characteristics include: quality of conveniences, availability of schools, shopping, public transportation, churches, similarity of land used, types of physical hazards, etc. Environmental considerations include climate, soil and topography, barriers to future development (oceans, mountains, etc.), transportation systems, and access to other areas/regions.

(b) Social ideals and standards. Examples of social forces include: population growth and decline, age, marriage, birth, divorce and death rates, attitudes toward education, recreation, and other instincts and yearnings of mankind.

(c) Economic influences. Examples of economic forces are: natural resources, industrial and commercial trends, employment trends, wage levels, availability of money and credit, interest rates, price levels, tax loads, regional and community present economic base, new development trends, and rental and price patterns.

(d) Political or government regulations. Examples of political forces include: building codes, zoning laws, public health measures, fire regulations, rent controls, environmental legislation controlling types of new development, fiscal policies, monetary policies, government guaranteed loans, government housing, credit controls, etc.

Each and every one of these many physical, social, economic and political factors affect cost, price, and value to some degree. The four forces interweave and each one is in a constant state of change.

FACTORS INFLUENCING VALUE

Directional Growth. In any estimate of value, attention should be given to "the city directional growth " as well as to "Urban Renewal Plans." The city directional growth refers to the manner and direction in which the city tends to expand.

Properties in the direction of growth or renewal in different sections of the city tend to increase in value, especially if the growth or renewal is steady and rapid.

Location. Location is an exceptionally important value factor because location influences the demand for the property. Location must not be described too generally, and is an effective value factor only when it is specifically related to highest and best use. Brokers often claim, "The three most important characteristics for any property are "location, location and location."

Utility. Utility includes the capacity to produce. This important factor involves judgment as to the best use to which a given property may be put.

Building restrictions and zoning ordinances affect utility.

Size. The width and depth of a parcel of land will often determine the possibilities and character of its use.

Corner Influence. Corner sites sometimes have higher unit value than a site fronting on one street only. Disadvantages include loss of privacy, cost is higher as off-site improvements cost more and lot maintenance is more expensive, and setbacks may require a smaller size house. Commercial properties benefit from corner sites because of easy access and added exposure.

Shape. Parcels of land of irregular shape generally cannot be developed as advantageously as rectangular lots.

Thoroughfare Conditions. The width of streets, traffic congestion, condition of pavement have an effect upon the value of those properties fronting on a given street and to a lesser degree other properties in the neighborhood.

Exposure. The south and west sides of business streets are usually preferred by merchants, because the pedestrian traffic seeks the shady side of the street in warm afternoon weather, and merchandise displayed in the windows is not damaged by the sun. This traditional view in older commercial districts is somewhat offset by (1) new architectural concepts such as shopping malls, and (2) parking and convenience.

Character of Business Climate. The larger cities develop multiple residential, commercial shopping areas, offices, medical suites as well as financial, wholesale, industrial and commission-house districts.

Plottage or Assemblage. An added increment of value of several parcels of land under one ownership as opposed to the same number of parcels under separate ownerships.

In highly urbanized multiple residential and commercial areas plottage, or assemblage, makes it possible to gain a higher utility than could be found for the parcels considered separately. This principle may also apply to light industrial areas.

Topography and character of soil. The bearing qualities of the soil may affect construction costs. Extensive foundations are usually necessary in soft earth. The type and condition of the top soil affect the growth of grass, plants, shrubs and trees. Value may also be influenced by land contour and grades, drainage and view points.

Obsolescence. Cause by external or economic changes and decreasing functional utility of a property or deterioration.

Changes in types and methods of construction, style of architecture, interior arrangements for specific purposes may render a particular building out of date. Changes in the uses of neighboring property may also contribute to the obsolescence of a building. Careful appraisal will consider the potential for remodeling, refurbishing or other possible reasons for resurgence in value.

Building Restrictions and Zones. These sometimes operate to depress values and at other times to increase value.

For example, there may be a vacant lot on a residential street which will sell for only \$150 a front foot for single family residential use, but would sell for \$600 per front foot as an apartment site. Or a vacant lot in a zoned area may sell for more per front foot as a business site because of the supply of business sites being restricted by zoning.

ADDITIONAL FACTORS IMPORTANT FOR SPECIFIC TYPES OF PROPERTY

Residential Property

When appraising residential property it is customary for the appraiser to make a direct comparison between the property being appraised (subject property) and comparable properties in the area which have sold recently. This is the market data or "sales comparison approach" method based upon the economic principle of substitution, which principle states that the value of any particular property will not generally exceed the cost to purchase a similar or substitute property which is equally desirable and available.

Gross Rent Multiplier. The appraiser may also use a technique known as Gross Rent Multiplier (GRM) by comparing actual rentals and sales prices of properties comparable to the subject, to get another indication of value by multiplying the monthly rent by an appropriate GRM. If a comparable property rents for \$700 a month and sells for \$84,000, which is 120 times the gross monthly rental (\$84,000 divided by \$700 = 120), then the indicated GRM applicable to the subject property is 120, plus or minus adjustments for deficiencies in or greater benefits from the subject property. GRM is the ratio between rental income of a property and its sale price.

GRM applies only to rental income. When part of a property's income comes from non-rental sources, a gross income multiplier (GIM) is similarly used, but is not discussed in this course.

Square Foot Method. In making a preliminary estimate of the value of residential property, it is usual to evaluate the lot and the present value of the building. The square foot method requires measuring the building and dividing it into rectangles. Multiplying the length by the width of each rectangle will produce the square foot area of that segment. The total square foot area of the residence is obtained by adding together the square foot area of all of the rectangular segments. The sum obtained thereby is multiplied by an appropriate construction cost per square foot, depending upon the type of construction involved. The result is known as the replacement cost of the residence. Depreciation is then taken from the replacement cost to give the present value of the improvements. The present value added to the land value represents an indication of the value of the subject property. In analyzing depreciation, special attention should be paid to the condition of the building, the exterior decoration, plumbing, heating, and electric fixtures, etc. Particular attention should be given to the inspection of the foundation and the underpinnings of the house in connection with possible termite infestation.

Multi-family dwellings. Trends and standards for residential dwelling vary in the markets, especially for multi-family structures. Appraisers must consider carefully such things as the layout; adequacy of size; conveniences; safety features and comfort; adaptability for intended specific uses; and cost and ease of maintenance.

Commercial Property.

Commercial property is real property acquired for investment. Commercial structures are of many types, sheltering such businesses as shopping centers, banks, service establishments, restaurants, parking lots, retail stores and office buildings. A downtown, regional, or community commercial district is usually clearly defined and located on major streets or transportation arteries. Store rentals and business leases are generally based on square foot of rentable area and in many localities the tenant pays, in addition to the rental, all property expenses/charges; such as taxes, insurance, maintenance, and assessments. Such a lease is a net lease (still expressed in some communities as a "net, net, net" lease.)

Front foot valuations are still applicable in many downtown areas or locations where street-front measurements are desirable or customary. In appraising such property, care must be used to properly evaluate such things as floor plans, utility, relationship of site area to improvements, obsolescence, parking accommodations, ratios of net rentable areas to gross area. Efficiency, safety, structural and design features are also very important value considerations, as are the energy standards and efficiencies.

Industrial Property.

Industrial lands are usually valued in terms of gross building area, either by the square foot, or by the acre. Frequently this is expressed as so much an acre, such as \$13,000 an acre, which is approximately 30 cents a square foot. One of the reasons for valuing industrial land in terms of area is that the parcel is generally all usable. Indeed, optimum efficiency of site, buildings and equipment are vital to the successful operation of industrial properties.

Industrial buildings are generally constructed of concrete or steel, including prefabrications. Industrial parks (groups of industrial buildings having similar uses) are growing in importance. They require plenty of parking space, storage facilities, excellent operating layouts, management services, and probably room to expand. These properties are frequently designed and equipped to meet needs of a specific occupant.

Topography. The topography of undeveloped land is of importance, and consideration should be given to the cost of grading, if required. Subsoil. The character of the subsoil is frequently overlooked, and yet may be vital. Quicksand, rock, or other characteristics may make a certain site impossible for a given industry. Drainage also may be an important factor. Plottage or assemblage value. There is an added increment of value known as plottage which is gained from assembling land parcels in an urban area into a reasonably sized industrial site. Tract layouts. In the study and valuation of unimproved but potentially valuable industrial lands, it is often necessary to have the assistance of a competent engineer, familiar with plant and tract layouts.

Agricultural or Farm Lands.

Present trends show larger and fewer farms, fewer farm buildings per acre, and fewer family-style operations for most of the United States. The type of buildings an appraiser generally finds on agricultural lands include residences, machine sheds, poultry sheds, multifunctional barns, silos, and various animal shelters. According to some experts in the field, farm buildings contribute less than 20% of the total property value.

One important determining factor in estimating the value of agricultural land is the nature and long-term trend of prices for the crop which is grown or intended to be grown. For example, if the property is to be used for a dairy farm, then certain factors should be considered such as the character of the soil, whether suitable for hay and grain, water supply for the cattle and crops, proximity to markets, climatic conditions, labor conditions in the district, etc.

If the land is to be used for fruit growing, then it is essential to ascertain if the water supply is ample, if the land is suitable for the type of crops to be grown, if the cost of water is not excessive, and a full knowledge of climatic conditions, with special reference to frosts and protection against frost. Also to be considered are the age and condition of the trees, their past production, market conditions, labor conditions, and the price of produce in past years.

If the land is to be used for vineyard or root crops such as truck gardens, then considerations must be given to suitability of the soil, water supply, the cost of water, proximity to markets, labor supply and climatic conditions.

In agricultural land evaluation, it is also well to remember that all fruit and nut trees under four years of age from the time of planting in orchard form, and all grape vines under three years old from time of planting in orchard form, and all growing crops are exempt from taxation.

Farm land valuation is highly specialized and often requires the assistance of soil and crop experts and appraisal specialists to evaluate irrigation systems, milking pipelines, and other special-function equipment and machinery.

THE APPRAISAL PROCESS AND METHODS

Over a period of time well defined ground rules have been developed by professional appraisers to arrive at an estimate of value. This orderly, systematic procedure known as the Appraisal Process should be used to make a proper appraisal. Not every step is used every time or necessarily in the same order. However, this comprehensive check list for the appraisal process should serve to give a better understanding of the importance of properly evaluating the various elements that influence market value and market price.

The Appraisal Process

The orderly steps and considerations of the appraisal process are outlined below. The appraisal process is designed to answer two questions:

- (1) what is the highest and best use?
- (2) what is the use worth?

A. Define the problem.

1. Identification of the property to be evaluated.
 - a. Complete mailing address (including city and state).
 - b. Complete legal description (by lot, block and tract number, including county where recorded; by metes and bounds descriptions; or by the government survey system.)
2. Description of use of property to be appraised.
 - a. Vacant lot.
 - b. Single-family residential.
 - c. Multiple-family residential.
 - d. Special purpose, commercial, etc.
3. Interest to be appraised.
 - a. Which of the Bundle of Rights are to be evaluated? Rights affect value because they set the limits within which the property may be used.
 - b. An appraisal estimates the value of the rights of ownership not merely the physical land and its improvements.
 - c. The extent of the research and the valuation opinion will vary depending upon the rights which are involved:
 1. Fee Simple (complete ownership).
 2. Easement across property.
 3. Lessor's or lessee's interest.
 4. Mineral Rights.
 5. Miscellaneous interests.
4. Purpose and function of the valuation determine the types of information to be gathered and processed, such as:
 - a. Fair value for sale of a home.
 - b. Value for mortgage loan purposes.
 - c. Value for insurance purposes.
 - d. Value for condemnation proceedings.
 - e. Miscellaneous purposes and functions.
5. Date of value is generally the date of inspection of the property, although it may be for any time in the past. A date of value may not be for any time in the future.

B. Make a preliminary survey of neighborhood, site and data required for appraisal.

1. Make a preliminary estimate of the highest and best use of the subject property.
 - a. Analysis of the site and improvements. Is it a proper improvement? Does the improvement meet the test? Take inventory of important site utilities and building construction features.
 - b. Analysis of the neighborhood. What are the boundaries and what services are available?
2. The type of property determines the variety of specific data needed.
 - a. Single-family home--stress will be placed on data concerning similar lots and improvements.
 - b. Four-plex--stress will be placed in data concerning small multiple-family units.
3. A definite plan facilitates the gathering of necessary data as indicated from the preliminary survey.

C. Collect other general and specific data.

The value of a property is affected by demand and by purchasing power available. Data should be obtained on population trends, income levels, and employment opportunities. A number of sources should be investigated.

1. General data are obtained from governmental publications, newspapers and magazines.
2. Regional data (metropolitan area) are obtained from monthly bank summaries, regional planning commissions, and governmental agencies.
3. Community data(city) are obtained from the Chamber of Commerce, City Planning Commission, City Governmental Agencies, Banks and Savings and Loan Associations, and Real Estate Boards.
4. Neighborhood data are obtained from personal inspections, real estate practitioners, builders active in the area in regard to:
 - a. Age and appearance of the neighborhood.
 - b. Hazards and adverse influences.
 - c. Percentage build-up.
 - d. Contemplated development.
 - e. Proximity to schools, business, recreation, etc.
5. Comparable market data, such as sales and listing prices, on properties are obtained from:
 - a. Assessors' records and county recorder's office.
 - b. Abstractors and title insurance companies.
 - c. Real estate boards and local real estate offices.
 - d. Property owners in the neighborhood.
6. Improvement data regarding subject property should be collected and analyzed.
 - a. Sources are:
 1. Assessor's office for age and other nonconfidential information.
 2. City building department
 3. Contractors in area.
 4. Personal inspection of improvements.

D. Analyze the data to arrive at two conclusions: (1) the highest and best use, and (2) the estimated worth of this use.

The data previously gathered are analyzed in order to arrive at a value conclusion for the property being appraised by application of the three approaches to value. The application of these approaches is discussed in greater detail later in this course.

1. Sales Comparison Approach or Market Data Approach (comparative). Study of value as indicated by the prices of recent sales and reliable listings of properties similar to the appraised property.
2. Cost Approach (summation). Study of value by adding the value of land, if vacant, to the new cost of improvements less accrued depreciation.
3. Income Approach. Study of value of the property as an income stream as it would be sold in the open market.

E. Make final estimate of defined value and write the report. After a final value opinion has been obtained the data and the reasonings are recorded. The form and extent of the report will depend upon the purpose, type of property, and request of the client.

Part III

Overview: the student will now consider the influence on value which numerous outside influences may have. Part III will give a brief description of these additional factors, such factors being not only national in scope but local factors as well.

After studying this section, the student should:

- ✓ better understand numerous factors on a neighborhood, national and global scale which influence property values.
- ✓ better understand population trends as it affects property values.
- ✓ have furthered their knowledge of site analysis.

ECONOMIC TRENDS AFFECTING REAL ESTATE VALUE



Factors Affecting Regional, National and Global Economics

Property values increase, decrease, or remain stable, based on the interaction of the four forces influencing value. Appraisers must examine and evaluate these forces.

Economic trends and forces at higher levels--regional, national and international--affect property values at the local level. The real estate appraiser must recognize that the general pattern of statistical analysis that guides in interpreting value influences on a national level should be used in the general analysis of state and regional forces which in turn influence local property values.

The appraiser should therefore follow national and regional economic trends, changes in national income levels, international developments and government financing policies because the greater the severity and duration of any economic swing, the wider and deeper is its influence. Conditions to be observed include: gross national product, balance of payments to other countries, national income levels, employment, price level indexes, interest rates, fiscal and monetary policies, building starts, and credit availability. The appraiser is, of course, constantly concerned with the conditions and prospects of the local economy as the value of local real estate is largely determined by the health of the community, measured overall by household purchasing power, population changes, employment diversification and stability, wage and price levels, and area growth potential, including environmental conditions.

Factors Influencing City Growth and Development

Cities are classified generally by the functions that stimulate and determine their potential and growth. These classifications are:

Commercial. Primary source of revenue stems from commercial enterprises. These are usually farming cities, cities located at railroad terminals or on ocean ports.

Industrial. Their primary source of revenue is derived from manufacturing and processing of commodities and industrial cities are located near power sources. Examples of these types of cities are automobile or aircraft centers.

Extractive Industry. Primary source of revenue comes from natural resources, eg., mining, fishing or lumber.

Political. Primary source of revenue is obtained from governmental employment.

Recreational and Health. Primary source of revenue comes from tourist trade, vacation and health resorts.

Educational. The anchor point of these cities is centered around a college or university.

Population Trends

Because of the direct relationship existing between the value of real property and population growth, the appraiser should be concerned with population trends and other demographic factors affecting local population, such as: opportunities for employment; quality of local government; civic and social conditions; demand for goods and services; transportation and living conditions; and, opportunities for education and personal improvement.

Neighborhood Analysis

A neighborhood may be defined as a group of similar land uses which are similarly affected by the operation of the four forces influencing value--utility, scarcity, demand and transferability. A common definition for a neighborhood is a grouping together of individuals within the community area for similar purposes and interest, whether the reasons be commercial, industrial, residential, cultural or civic. The life cycle of a neighborhood begins with growth in desirability; attains peak of desirability; remains stable for a period of time; and then deteriorates. The cycle then tends to turn again as the neighborhood becomes more desirable due to changes in use or renewal.

The neighborhood analysis is most important for the appraisal because the neighborhood is the setting for the property to be appraised, which property has value, in great measure, as it contributes to or detracts from the neighborhood.

The neighborhood tends to be a somewhat self-contained community, frequently defined by physical boundaries such as hills, freeways, or major streets and usually with some sense of community name or identity. In urban areas, the neighborhood tends to become somewhat blurred as a result of modern transportation and metropolitan area-wide cultural, educational, recreational, and commercial services. In analyzing the "neighborhood" of the parcel to be appraised, a good starting point is to ascertain this community identity and boundaries.

After defining, even in vague terms, this community identity, the appraiser will look to common area services and features, such as local shopping, street patterns, zoning boundaries, cultural, religious, educational and recreational services. In short, the appraiser searches the local area by observation, and through governmental and public utility investigation to find the factors most affecting use and value patterns in the area.

The neighborhood analysis is most important because the neighborhood delineation will tend to define the best search area for comparable market data. As the appraisal progresses, the appraiser may widen or contract this search area beyond or within the neighborhood boundaries. However, the neighborhood delineation will be a most helpful step in progressing to the appraisal of the individual parcel.

Some sources of neighborhood data:

1. U.S. Census tract maps and data (local library).
2. City and County Population Demographics (planning Departments).
3. City, County, and State street and highway systems (City, County and State Road/Engineering/Highway Departments).
4. Local zoning and general planning, including community plans (planning departments).
5. School locations, capacities, policies (Local School Districts).
6. Public Utility services of water, sewer, natural gas, electric power, telephone, (local public utility companies and governmental agencies).
7. City and county economic statistics (local chambers of commerce).
8. Local tax information (County Tax Assessor).
9. If pertinent, Private wells and septic laws (Local health departments); National Forest and Park Laws (Local Forestry and Park Dept.), etc.

SITE ANALYSIS AND VALUATION

Throughout this Course the terms "data," "comparable market data," and "comparable sales data" are used to emphasize that appraisers rely on useful market information such as reliable listings, offers, leases, etc., as well as sales, although sales are still the foundation of appraising methodology.

Although the location of the neighborhood and city must be weighed in the analysis and valuation of a particular site, the location of the site, itself, in relation to the neighborhood is the most important factor to be considered.

Since most sites in a neighborhood are not usually uniform due to size, shape and other physical or economic characteristics, some are superior to others. Thus it is important that the site be analyzed separately and evaluated in conformity with the principle of highest and best use.

Other reasons why it is necessary to separate the land from the value of the entire property and important factors to be considered in determining site values are discussed on the following pages.

Legal Data of Site Analysis

A. Legal description.

1. A legal property description as set forth by a deed or official record must be obtained.
2. A proper legal description is needed to locate the property physically within the neighborhood.

B. Taxes.

1. A comparison is made between the subject and similar properties to ascertain if the property being appraised has been fairly assessed (assessed values, tax rates and tax totals).
2. The extent of the tax burden will have a bearing upon the desirability of the property, particularly when taxes are out of proportion to income.

C. Zoning and General Plan.

1. Copies of the latest zoning ordinances and general plan should be studied to inform the appraiser as to the present usages to which the land may be developed. Sometimes the highest and best use of land is limited by zoning restrictions.
2. Proposed or contemplated changes in the existing ordinances should be determined, since this could have a bearing upon the valuation of the property. However, zoning by itself does not create value unless there is a demand for the land so zoned.

D. Restrictions and easements.

1. Public and private restrictions and easements, affecting the land, must be known.
2. The restrictions and the types of easements on the property have a direct bearing upon the use and value of the site being appraised.

E. Determination of existence of other interests in property.

1. Life estates
2. Leases.
3. Create "split" interests that divide property values among the parties involved.

Physical Factors Involving the Site

A. The site being appraised should be compared with typical lots in the neighborhood as to physical features.

B. Generally lot values will tend to cluster around a "site value" or the price generally accorded a single, usable, typically sized parcel of land as used in the area. Lots larger, or smaller, will tend to increase or decrease when compared to this usual "site value." This value will tend to increase with

good views. The effect of topography (drainage, low spots, rock, etc.) can frequently be measured by the "cost to cure" the problem to make the site usable.

C. Shape of a lot.

1. The utility of the lot is the governing factor in irregular or odd-shaped lots.
2. The total area of the lot is not the important factor determining its value. A 50' x 150' lot containing 7,500 square feet is more valuable than a 25' x 300' lot (7,500 sq. ft.) because of utility.
3. Irregular-shaped lots are frequently valued in terms of total site value expressed in dollars rather than in terms of unit values of price per square foot or front foot.

D. Topography and soil conditions.

1. The topography and the type of soil can have an adverse effect upon the site value if it makes building costs higher.

E. Corner influence.

1. In today's market, it has generally been found that corner single-family sites do not bring appreciably more than inside lots.
2. Corner lots provide better light and more convenient access.
3. Conversely, corner lots result in more traffic noise and trespassing, and greater special assessments for streets and lighting.

F. Relation of site to surroundings.

1. The site must be studied in its relationship to streets, alleys, transportation, and stores.
2. Does the homesite abut commercial or multiple residential uses?
3. Is it a key lot looking upon other back yards?
4. If a corner lot, does a bus line stop at the corner?

G. Availability of public utilities.

H. Title encumbrances and encroachments.

I. Landscaping and subsurface land improvements.

Methods of Site valuation

A. Sales or market data comparison.

1. Sales and listings (data) of vacant sites are obtained and compared with the property being valued.
2. The data should be of comparable properties--having the same zoning and in the same or similar neighborhood. Since people make value, the data gathered should be from areas where the purchasing power or income levels are the same as the subject property.
3. The sales prices should be investigated to determine whether the price paid was a true open market transaction reflecting Fair Market Value for the sale property. Listings might be considered for their validity of indicating a fair offering for Fair Market Value.
4. Some sources of comparable market data are:
 - a. Title insurance company records and abstracts or Title plants
 - b. Tax assessor's record files.
 - c. Recorder's office.
 - d. Multiple listing files.
 - e. Financial news.
 - f. Appraiser's personal files.
5. The verified market transactions should be compared with the subject parcel as to:
 - a. Time.
 - (1) Determine if prices have gone up, down, or remained stable from the time of each sale to the date of value.

(2) A percentage factor or a dollar amount may be applied to the comparative sales in order to arrive at an adjusted price due to the time factors.

b. Location.

(1) Determine if the location of the comparable data is in a superior, equal or inferior location than the subject property.

(2) A percentage factor or dollar amount may be applied to the data in order to adjust their price towards the subject, due to the differences in location.

c. Characteristics of the lots.

(1) The size, depth, land pattern, topography of the other properties are compared with the property being appraised.

(2) A percentage factor or dollar amount is determined for these characteristics and applied to the comparative data to adjust their prices towards the property being appraised.

d. The adjusted prices of all the comparable data are then compared and analyzed in order to arrive at an estimate of value for the property under study.

EXAMPLE:(Using only 2 lot sales as a demonstration).

Sale No.	Price	Date	Size	Square Feet
1.	\$5,000	Oct., year ago	50'x120'	6,000
2.	4,750	March, this year	40'x130'	5,200
Subject	??????	August, this year	50'x150'	7,500

Through investigation it was found that prices have been increasing approximately 1% a month during the past year. Sale no.1 is believed to be located in an area inferior to the subject. This lot would sell for about \$500 more if located in subject's block. Sale no. 2 is located in an area believed to be about \$250 better than the subject. The shape and topography of sales no. 1 and no. 2 are better than the subject by an amount estimated to be \$500 and \$100 respectively.

ADJUSTMENTS

Sale No.	Time	Location	Characteristics	Adjusted Price	Adjusted price per square ft.
1.	+\$500	+\$500	-\$500	\$5,500	\$.92
2.	+\$200	-\$250	-\$100	\$4,600	\$.89

The subject property has an indicated value as follows:

7,500 square feet x \$.90 per square foot = \$6,750.

In actual practice more data (sales) would probably be used in order to arrive at an adjusted price per square foot to be applied to the subject property.

e. If all pertinent factors are considered, the adjusted prices will probably be in a fairly close range. If there is still a wide discrepancy, the appraiser will: (1) re-analyze work to find undisclosed pertinent factors, (2) re-examine data as being true examples of fair market transactions, (3) recompute adjustments to insure accuracy, and (4) finally, discard the data or explain the apparent contradictions.

B. Abstractive.

1. The abstractive method is used to obtain land value where there are no vacant land sales.
 - a. Sales of houses in the same neighborhood on lots with similar characteristics are obtained.
 - b. An estimate of the cost new of the improvements is made.
 - c. An amount is deducted from cost new for depreciation.
 - d. The depreciated cost of the improvements is deducted from the selling price of the property.
 - e. The difference represents an approximation of land value.

2. EXAMPLE

Appraised lot size is 65'x100' =6,500 sq. ft. Sale property is 6,000 sq. ft. lot with a single family residence and sold for \$83,000. The sale building has an estimated cost new of \$61,000 and an accrued depreciation estimated at \$20,000.

Land Value by Abstraction:

Price of Sale Property	\$83,000
Less Depreciated Value of Improvements	
Cost new	\$61,000
Less Accrued Depreciation	\$20,000
Depreciated Value	-\$41,000
Indicated Land Value	\$42,000
Divide by Sale Lot size	divided-by 6,000 sq. ft.
Indicated Lot Value/sq./ft	\$7.00/sq.ft.
Multiply by subject lot size	
65' x 100' =6,500 sq.ft	x 6,500
Indicated Subject Lot Value	\$45,500



C. Plot Plan

For Better Appraisal reporting, a plot plan should be prepared with lot dimensions and improvements drawn to scale. It should show walks, driveways and other lot improvements and roof plans of the various structures on the site. The plot, together with pictures of the site, neighboring street and lot improvements are essential for an effective site analysis.

ARCHITECTURAL STYLES AND FUNCTIONAL UTILITY

It is essential for an appraiser to have a working knowledge of building design and construction. Good basic design of both interior and exterior has a decided effect on the marketability of real estate. There is no substitute for appropriate materials and proper proportions and scale. The appraiser should be aware of imitation and new plastic replacements.

To achieve maximum value, architectural style and design should be related to the site. A typical stable neighborhood should be improved with homes of approximately the same size, age and style. A

house that has an architectural style extremely foreign to its surroundings tends to encounter difficulty when offered for sale.

Or a home meets resistance in the market because of its style, which places it within a definite age group. Thus, if a certain style of architecture has lost its appeal because public taste has changed, this trend will have an adverse effect on value. Both real estate brokers and appraisers must be familiar with home styles and know the effect on value of misplaced styles. The appraiser must also be alert to resurgence of older properties in public acceptance.

This section contains brief descriptions of various architectural styles in single family homes; explains how to determine quality of construction; defines functional utility and its effect on marketability; and, shows the FHA procedures for rating the physical security of a house. These descriptions apply, somewhat modified, to condominium, townhouse and similar types of clustered residential developments.

Architectural Styles

Colonial. Cape Cod and Cape Ann styles are: generally quite small in size--minimum with good taste; symmetrical--windows balanced on both sides of front door; either one or one and one-half stories with little head room upstairs; fairly steep gable or gambrel roof covered with wood shingles; and exterior of wood siding.

New England Colonial. A square or rectangular, box-like structure having: maximum of usable space; symmetrical--windows balanced on both sides of front door; either two or two and one-half stories; gable roof covered with wood shingles; exterior of wood generally painted white; and impressive front entrance usually with transom fan of glass above the door.

Dutch Colonial. A moderate-sized home generally not more than 50 feet wide, with a symmetrical front having: an entrance at the center, balanced by the windows; low-sweeping gambrel roof; exterior generally of stone; and either one and one-half story with dormer windows, or two and one-half stories with dormer windows.

Georgian and Southern Colonial. These styles have elaborate front entrances with plain or fluted columns; are generally of brick or wood; have prominent gabled roofs--often hipped; are very symmetrical; require large plots of land; large scale--not suitable for a minimum-sized house; and either two, two and one-half or three stories.

English Elizabethan. This style has Gothic refined lines with moulded stone around windows and doors; generally of brick, stucco, or stone; steep pitched roof, covered with slate or shingle; usually **lead**ed metal casement windows; and, **requires a large building site.**

English half-Timber. This style has protruding timber faces with stucco between the faces; lower story of heavy masonry; steep pitched roof; generally two stories; and, requires a large lot area.

Regency. A generally symmetrical style with front entrance in center; exterior of brick or stone; shutters on each side of windows; low hipped roof; two stories in height; and octagonal window on second floor over front door.

French Provincial. Usually a large house on a sizeable plot; masonry exterior walls with very high roofs; large high windows with long shutters; and one and one-half or two and one-half stories.

French Normandy. Generally has turrets at entry; walls of brick or stone; unsymmetrical; and, steep pitched shingle roof. **True Spanish.** Enclosed patios; red mission tiled roof; wrought iron decorations; and, stucco walls (usually white).

Small California Spanish. Stucco exterior; flat composition roof with mission tile trim in the front; suitable for small lots; no patio; and, one story only.

Monterey Spanish. Two stories; stucco (generally white); red mission tiled roof; second story balconies; and, decorative iron railings.

Modern and Contemporary. Generally one story; usually flat or low pitched roof; often on concrete slab; large amount of glass; and, indoor-outdoor living.

BUILDING QUALITY

One of the most important reasons for inspecting a property is to determine its quality of construction and condition. The appraiser must be knowledgeable as to structural details of buildings. All exposed portions of a building should be closely inspected to ascertain the materials used, the present condition, and the type and quality of construction which may be classified, as follows:

A. Low quality.

1. Competitive low cost house which does not exceed the minimum building codes.

B. Fair quality.

1. Plain and inexpensive finishes on both interior and exterior.
2. Cheap quality finish hardware, lighting fixtures, and heating.
3. Generally erected in areas of low purchasing power.
4. Typically--stucco exterior; concrete slab floor; composition roof.

C. Average quality

1. Meets VA and FHA standards.
2. Usually purchased by persons of moderate income.
3. Medium standard of construction with some low cost refinements.
4. Usually of stucco exterior, hardwood flooring, composition roof or shingle.
5. Finish hardware, lighting fixtures and heating of average quality.
6. House found in large tract developments.

D. Good quality.

1. Good architectural design, workmanship and materials.
2. Stucco walls with wood and masonry trim, hardwood floors, shingle roofs.
3. Usually contains two bathrooms, forced air furnace or equal heating, good quality lighting fixtures and finish hardware.
4. Usually has extra built-in equipment in kitchen.

E. Very good quality.

1. Generally, custom designed by architect.
2. Home contains many extra features.
3. Stucco walls with extensive wood or masonry trim, hardwood flooring, shake roofs.
4. Two or more bathrooms, forced air heating, very good quality finish hardware and lighting fixtures.
5. Custom fireplaces.



Functional Utility

Good architecture is concerned with room layout and functional utility as well as exterior style. A functional analysis of a property measures the conveniences and economy in the use of the property. The combined factors of usefulness and desirability have an effect on a property's marketability. The degree of its functional utility is important in any consideration of its marketability. Thus, marketability is the ultimate test of functional utility.

Functional Utility Checklist

A. Building

1. Living room.

- a. Adequacy of floor and wall space for proper placement of furniture.
 - b. Circulation--should not have to pass through long living room to reach other parts of the house.
 - c. Fireplace should be away from the traffic flow.
 - d. Wall spaces--adequate for furniture arrangements.
- 2. Dining room or area.
 - a. Ease of access to kitchen.
 - b. Size of room or area governed by overall size of house.
 - c. Best if room is nearly square.
- 3. Bedrooms.
 - a. Master bedroom should be of adequate size (minimum 10' x 12').
 - b. Other bedrooms (minimum 9' x 10').
 - c. Cross ventilation should be provided.
 - d. Located away from family areas and kitchen for privacy.
 - e. Should not have to go through one bedroom to enter another.
 - f. Closet space should be adequate (minimum depth 2 feet--6 square feet).
- 4. Kitchen.
 - a. Workspace should be ample and efficient in plan.
 - b. Equipment should be centrally located to eliminate unnecessary foot travel.
 - c. Walls, ceilings and floors should be of easily maintained materials.
 - d. Adequate provision should be made for proper lighting and ventilation.
 - e. Kitchen should be conveniently located in relation to dining areas and family room.
 - f. Kitchen should have an exterior entrance.
 - g. Laundry facilities should be adjacent to the kitchen.
- 5. Bathrooms.
 - a. Proper location with respect to other rooms.
 - b. If only one bathroom exists, it should be located off the central hall.
 - c. Bathroom should not open directly into kitchen or living room.
 - d. Adequate ventilation--exterior window or automatic exhaust fan is necessary.
 - e. Floors, walls, and ceilings easily cleaned and maintained.
- 6. Closets and storage.
 - a. At least one clothes closet per bedroom.
 - b. Adequate linen closet space.
 - c. Storage closets should be centrally located.
 - d. A storage area should be provided near the laundry equipment.
 - e. Exterior storage necessary if there is only a carport.

B. Site

- 1. Construction should be related to the size of the building site.
- 2. The house should be so located on the land that it relates to the building site or "belongs."
- 3. Adequate front, rear and side yards are necessary for light and privacy. Yards may be clustered in planned unit developments.
- 4. A private service yard for drying clothes and storage of refuse should be convenient to the kitchen.
- 5. Entrance to the garage should be convenient and readily accessible.
- 6. Proper landscaping.
- 7. Recreational garden facilities.

8. Adequate yard improvements.

BROKER'S GUIDELINES FOR CONSIDERING PHYSICAL CHARACTERISTICS OF REAL PROPERTY FOR FHA INSURANCE PURPOSES.

A. Visual appeal of property. How well will the property as a whole retain its market appeal?

1. Exterior design of structures.
 - a. Visual appeal based upon the probability of continuing market acceptance.
 - b. Certain architectural styles are short-lived in their acceptance and become obsolete.
2. Setting.
 - a. Measures the property's appeal in the market because of terrain, accessory buildings, walks, landscaping.
 - b. The dwelling and surroundings should present a pleasing and unified composition.
3. Interior design of dwelling.
 - a. The interior design should exhibit simplicity of treatment, harmony in proportions and refinement in design.
 - b. Interior permanent features should be up-to-date and of adequate constructions.

B. Livability of property. The degree of usefulness, convenience and comfort which the property affords is determined by:

1. Site utilization.
 - a. Considers all aspects of the site and its arrangements as these affect the livability of the entire property.
 - b. The lot characteristics including size, shape, topography, orientation and natural advantages are considered.

2. Dwelling space utilization.

Consideration is given to the size and efficient distribution of space within the structure.

3. Room characteristics. Consideration is given to the size and proportion of the rooms in relationship to the overall area of the dwelling. The following factors are considered:

- a. Room orientation.
- b. Circulation.
- c. Privacy
- d. Closet and storage space.
- e. Kitchen efficiency.
- f. Service facilities.
- g. Insulation.

C. Natural light and ventilation. The effect of natural light and natural ventilation of the desirability, livability and healthfulness is considered.

1. The proper amount or ratio of natural light to room area should be maintained.
2. Ventilation of all rooms is studied to measure its effect on desirability of the dwelling.
3. Cross ventilation desirable in all bedrooms.

D. Structural quality. The quality of structural design, materials, and workmanship is determined for the dwelling. The component elements to be considered are as follows:

1. Foundations.
2. Wall construction.
3. Partitions.
4. Floor construction
5. Ceiling construction.
6. Roof construction.

E. Resistance to elements and usage. A determination is made as to the resistance of the dwelling to the effects of weather, decay, corrosion, fire, and deterioration. Consideration is given to three categories:

1. Lot improvements.
 - a. How is the soil protected from erosion?
 - b. Is the land properly graded so that the structure is not damaged by water?
 - c. The yard improvements such as walks and walls should be of adequate materials.
2. The building exterior. Analysis is made with reference to the resistance of the exterior of the building to the effects of the elements.
3. Building interior. Consideration is given to the resistance of interior surfaces and materials to determine wear and tear and deterioration.

F. Suitability of mechanical equipment. Measures the extent that the equipment contributes to the desirability and appeal of the dwelling through convenience, economy, and comfort. Consideration is given to:

1. Plumbing system.
2. Heating system.
3. Electric system.
4. Supplementary equipment.



Part IV

METHODS OF APPRAISING PROPERTIES-- Sales Comparison/Market Data Approach

Overview: this chapter gives the particulars for using the market data approach. Not only is the approach discussed in detail, but strong advantages and disadvantages are presented regarding this approach.

After studying this section, the student should:

- ✓ have a more thorough knowledge of the sales comparison/market data approach to appraising.
- ✓ know two (2) advantages of the sales comparison/market data approach to appraising.
- ✓ know five (5) disadvantages of the sales comparison/market data approach to appraising.

Introduction

It is generally conceded there are three approaches to consider in making a market value estimate. These approaches are:

- (1) **Sales Comparison Approach or Market Comparison Approach.** (Both terms are used interchangeably.) Recent sales and listings of similar type properties in the area are analyzed to form an opinion of value by this approach.
- (2) **Cost Approach.** This approach considers the value of the land, assumed vacant, added to the depreciated cost new of the improvements.
- (3) **Income Capitalization Approach.** The estimated potential net income of real property is capitalized into value by this approach.