

Practice Problems

CATEGORY: COST APPROACH

TOPIC: DEPRECIATION BY MARKET EXTRACTION

*Problem – What is the indicated annual depreciation by market extraction?
What is the implied economic life of the building?*

Comparable property sale price = \$640,000

Site value = \$50,000

Cost of improvements = \$750,000

Age of comparable sale property = 12 years

Problem Solution – NEXT PAGE

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Problem Solution

Sale price	\$640,000
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Less site value	-\$ 50,000
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Depreciated value of improvements	\$590,000
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Cost of improvements	\$750,000
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Amount of depreciation

Cost of improvement less depreciated value of improvement

$\$750,000 - \$590,000 =$ \$160,000

Depreciation as a % of current cost

Depreciation \div Current Cost

$\$160,000 \div \$750,000 =$ 21%

Annual rate of depreciation

Total depreciation (%) \div building age

$21\% \div 12 \text{ years} =$ 1.8% per year

Implied economic life

$100\% (\text{full life}) \div 1.8\% (\text{annual depreciation}) =$ 55.6 years