

## CATEGORY: COST APPROACH

## TOPIC: SITE VALUE (MARKET CONDITIONS)

*Problem – What is the current impact (range of value) for sites that have a view of the ocean?*

Sale One: Sold 8 months ago for \$800,000 and does not have an ocean view

Sale Two: Sold 11 months ago for \$950,000 and has a view of the ocean

Sale Three: Sold 3 months ago for \$1,100,000 and has a view of the ocean

In this market, land prices have been increasing at a rate of 24% per year on a straight-line basis for the last several years.

*Problem Solution – NEXT PAGE*

### NOTES:

When completing this problem, be mindful that you need to first adjust **all three** comparable sales to **current date** based on the provided rate-of-change in property value (2% per month in this case). Doing so will provide you the opportunity to extract the impact of the ocean view based on today's (date of value) market prices.

Some students might be inclined when comparing Sale One (non-ocean view) to Sale Two (ocean view) to only adjust Sale Two forward by three months (because Sale Two occurred three months prior to the date of Sale One). *That is not the proper method.* All sales **must** be adjusted to current date in order to analyze the current impact of the ocean view.

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### Problem Solution

The market conditions adjustment is 2% per month (24% per year ÷ 12 months)

Sale One

$$\$800,000 \times 1 + (8 \times .02) = \$928,000$$

Ocean View: NO

Sale Two

$$\$950,000 \times 1 + (11 \times .02) = \$1,159,000$$

Ocean View: YES

Sale Three

$$\$1,100,000 \times 1 + (3 \times .02) = \$1,166,000$$

Ocean View: YES

### RANGE OF PREMIUMS FOR OCEAN VIEW

$$\$1,159,000 \text{ (ocean view)} - \$928,000 \text{ (no ocean view)} = \$231,000$$

$$\$1,166,000 \text{ (ocean view)} - \$928,000 \text{ (no ocean view)} = \$238,000$$

Ocean view properties sell for a premium of approximately \$231,000 to \$238,000

