Chapter 11: Real Estate Appraisal

Understanding the Appraisal Profession
- FIRREA of 1989
- State requirements
- Licensed appraisers
- Certified residential appraisers
- Certified general appraisers

What is Value?
- Market value (from Uniform Standards of Professional Appraisal Practice, page 225)
  o Typically motivated parties
  o Well informed parties
  o Market exposure
  o Payment in cash
  o No special circumstances
- Investment value – worth to a particular investor based on that investor’s personal standards of investment acceptability
- Price versus market value
  o Price is a historical fact and may be less than, equal to, or greater than market value.
- Market value versus cost of production
- Other types of value
  o Assessed value
  o Insurable value

Key Appraisal Principles
- Anticipation – current value depends on the anticipated utility or income that will accrue to the property owner in the future
- Change – property values are affected by changing economic, social, political, and environmental forces
- Substitution – a prudent buyer will pay no more for a property than the cost of acquiring an equally desirable substitute in the open market
- Contribution – the value of a component part of a property depends on the amount it contributes to the value of the whole property

The Traditional Appraisal Process
- Definition of the problem
  o Type of value-purpose
  o Description of property
  o Specific property rights
  o Effective date
- Data selection and collection
  o General market analysis
  o Specific property analysis
- Highest and best use analysis
  o As though vacant
  o As improved
- Application of the three approaches to valuation
  o Sales comparison approach
  o Cost approach
  o Income approach
- Reconciliation of value indications
- Report of defined value

Sales Comparison Approach
- Comparable sales data selection
- Adjustment of sales data
- Elements of comparison
  o Property rights conveyed
  o Conditions of sale
  o Financing terms
  o Market conditions
  o Locational characteristics
  o Physical characteristics
- Applying the sales comparison approach – See Table 11.1, page 237.

Cost Approach
- Estimating site value
- Estimating production cost
  o Reproduction cost
  o Replacement cost
- Estimating accrued depreciation
  o Physical deterioration
  o Functional obsolescence
  o Economic obsolescence
- Applying the cost approach – See Table 11.2, page 241.

Income Approach
- Gross income multiplier
  o GIM = Value/Gross Income
- Net income capitalization
  o Capitalization Rate = Net Income/Value
- Discounted cash flow – see Table 11.3, page 244