Unit 6 Outline

**Learning Objectives**

Study of this unit should enable the student to

* identify the steps in the appraisal process;
* explain the importance of determining the appraiser’s scope of work; and
* define retrospective value,
* describe situations in which a retrospective value appraisal is used, and
* discuss each of the three major approaches to appraising.

 **Unit Outline**

I. Overview

II. Steps in the Appraisal Process

 A. Initiated by a letter of engagement to the appraiser

**Figure 6.1**

1. Define the problem

2. Determine the scope of work

a. Identify and describe the real estate—property must be identified by a legal description as well as a street address

b. Identify property rights to be appraised

i. typically, fee simple ownership

ii. could be leasehold interest, easement, or other use

c. Define value to be estimated

d. State purpose and intended use of appraisal—what appraisal is to accomplish

e. Effective date of the opinion of value

f. Any special limiting conditions

3. Gather, record, verify, and analyze the necessary data

a. General data on the geographic and economic features of the nation, region, city, and neighborhood

b. Specific data on the subject property—including a detailed physical description

c. Depending on approach(es) used, sales data on comparable properties, cost data on construction of a like property, or income and expense data based on the property's history

 d. Analyze the data—determine highest and best use—most profitable use on which to base the final opinion of value

4. Form opinion of value by each of the three approaches

a. Sales comparison approach—adjust sales prices of recently sold comps to derive an estimate of value for the subject property

b. Cost approach—cost of property improvements, less depreciation on improvements, is added to site value

c. Income capitalization approach—value based on the present value of the income the property is capable of earning

5. Reconcile values for final opinion of value —appraiser correlates the information and decides what conclusions can be drawn from the collected facts

6. Report final opinion of value—conclusion of value is presented in the reporting form requested by the client

B. The sources of information used in a real estate appraisal are covered in Unit 8, “Data Collection”

III. Beginning the Appraisal Process—requires data collection at almost every stage

A. Purpose and Use of the Appraisal—market value is the most frequently sought appraised value

B. Interests to Be Appraised—the form of legal interest being appraised must always be specified—fee simple, life estate, leasehold estate, and so on

C. Date of the Opinion of Value—most often, current value is sought and the appraiser will select the date of inspection of the subject property as the effective date of the appraisal

D. Limiting Conditions—*USPAP* stresses that every written or oral real property appraisal report must "clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the appraisal and indicate its impact on value."

**Figure 6.2**

E. FHA Appraisals—require appraiser to be certified after passing an exam, and comply with reporting requirements regarding physical condition of the property

IV. Valuation Approaches

A. Sales Comparison Approach—also called market data approach

1. Formula: sales price of comparable property plus or minus adjustments is the indicated value of the subject property

2. Can also be applied to vacant land

B. Cost Approach

1. Formula: reproduction or replacement cost of improvements new less depreciation on improvements plus site value equals property value

2. Depreciation occurs through deterioration or obsolescence

C. Income Capitalization Approach

1. Formula: net operating income divided by rate of return (capitalization rate) equals property value

2. Net operating income is determined by subtracting all maintenance expenses, including upkeep and management, from potential gross income

**Exercise 6-1**

V. Relationship of Approaches

A. Requirements differ for each approach

B. One approach may be more suitable for a particular property than the other approaches

C. Reconciliation includes analysis of value indications from three approaches to arrive at best and most supportable opinion of value

# Exercise 6-2

# Summary

# Review Questions