VALUE 12

Value

Appraisal

Real Estate licensees will prepare a:

- Comparative Market Analysis (CMA)
- Broker Price Opinion (BPO)

History of the Appraisal Profession

Appraisal

I (WE) ESTIMATE THE MARKET VALUE, AS DEFINED, OF THE REAL PROPERTY THAT IS THE SUBJECT OF THIS REPORT, AS OF **2/28/2005**
(WHICH IS THE DATE OF INSPECTION AND THE EFFECTIVE DATE OF THIS REPORT) TO BE $ **210,000**

APPRAISER:		SUPERVISORY APPRAISER (ONLY IF REQUIRED):	
Signature		Signature	X Did ☐ Did Not Inspect Property
Name	Stanley J. Szkoda	Name	John F. Maggi, SRA,CRP
Date Report Signed	3/14/2005	Date Report Signed	3/14/2005
State Certification #	Certified Residential-239373 State GA	State Certification #	CG# 178 State GA
Or State License #	State	Or State License #	State

Estimate or opinion of value based on analysis of relevant data made by a qualified person.

History of the Appraisal Profession

USPAP

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Uniform Standard of Professional Appraisal Practice (USPAP)

History of the Appraisal Profession

USPAP

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Georgia recognizes 4 levels of appraiser registration, licensure, and certification. Annual continuing education is required.

The Appraisal Profession

Designations

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MAI: Member of the Appraisal Institute

The Appraisal Profession

Designations

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SRA: Senior Residential Appraiser

The Appraisal Profession

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Fee is never based on the estimate of value.

Need for Appraisals

PURCHASE AND SALE AGREEMENT

Georgia Association of REALTORS®

Offer Date: _____

2011 Printing

1. **Purchase and Sale.** The undersigned buyer ("Buyer") agrees to buy and the undersigned seller ("Seller") agrees to sell the Property with the following address: _____,
City _____, County _____, Georgia, Zip Code _____
TAXID/PIN # _____ together with all fixtures, landscaping, improvements, and appurtenances (except

Purchase and Sale Agreements

Need for Appraisals

Property Description — **UNIFORM RESIDENTIAL APPRAISAL REPORT** — File No. [illegible] Case No. JMA-3/10/2005

SUBJECT

Property Address	**2256 Sutters Mill Road**	City	**Marietta**	State	**GA**	Zip Code	**30064**
Legal Description	District 19, Land lot 882, Lot 56, Block B, Unit 3of			County		Cobb	
Assessor's Parcel No.	19-882-003-056-D	Tax Year	2004	R.E. Taxes $	2,398.00	Special Assessments $	None
Borrower	**Thomas J. Carville**	Current Owner	**Borrower**	Occupant	X Owner	Tenant	Vacant
Property rights appraised	X Fee Simple	Leasehold	Project Type	PUD	Condominium (HUD/VA only)	HOA$	N/A /Mo.
Neighborhood or Project Name	Rolling Meadows Subdivision	Map Reference	Aero: 814-L9	Census Tract	12060 3023.00		
Sale Price $	Refinance	Date of Sale	N/A	Description and $ amount of loan charges/concessions to be paid by seller		N/A	
Lender/Client	Ivory Hall Mortgage Corp.	Address	2379 East Paces Road, Atlanta, GA 30305				
Appraiser	Stanley J. Szkoda	Address	137 Powers Ferry Road, Marietta, GA 30067-7557				

Lenders require an appraisal before making a loan.

Need for Appraisals

Property Description — **UNIFORM RESIDENTIAL APPRAISAL REPORT** — File No. [illegible] Case No. JMA-3/10/2005

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Insurance agents need to know the value before insuring a property.

Need for Appraisals

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Lawyers need to know the value for property settlements, estate settlements or lawsuits.

Need for Appraisals

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Investors often buy or sell based on professional advice as to value.

Need for Appraisals

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Properties condemned for public use under eminent domain must be appraised.

Value Defined

An appraisal is an estimate or opinion of value.

Your house as seen by:

The purpose of the appraisal determines the type of value

Assessed Value:
to determine ad valorum property tax

The purpose of the appraisal determines the type of value

Condemnation Value: "just" compensation

The purpose of the appraisal determines the type of value

Going Concern Value: worth of an ongoing business

The purpose of the appraisal determines the type of value

Insured Value: replacement cost under and an insurance policy

The purpose of the appraisal determines the type of value

Investment Value:
worth of a property to a particular investor

The purpose of the appraisal determines the type of value

Liquidation Value: sale with limited market exposure

The purpose of the appraisal determines the type of value

Salvage Value:
worth of property dismantled and moved

Market Value

The most probable selling price in an Arm's Length **Transaction**

Payment in cash or the equivalent of cash

Market Value

The most probable selling price in an Arm's Length **Transaction**

Open market exposure for a reasonable period of time

Market Value

The most probable selling price in an Arm's Length **Transaction**

Buyer and Seller have typical motivation

Market Value

The most probable selling price in an Arm's Length **Transaction**

Buyer and Seller have typical knowledge

Market Price

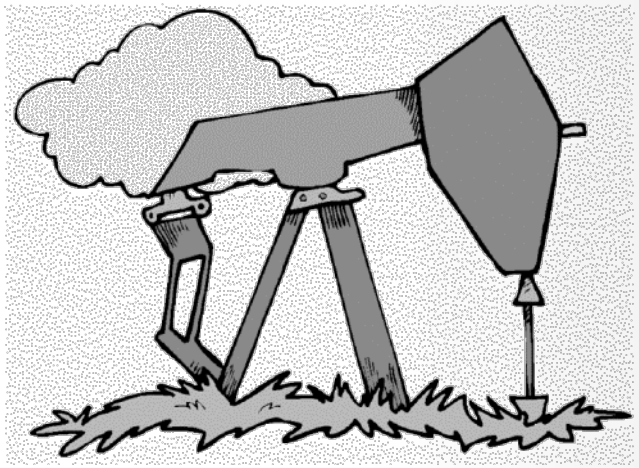
Is the actual selling price.

Cost

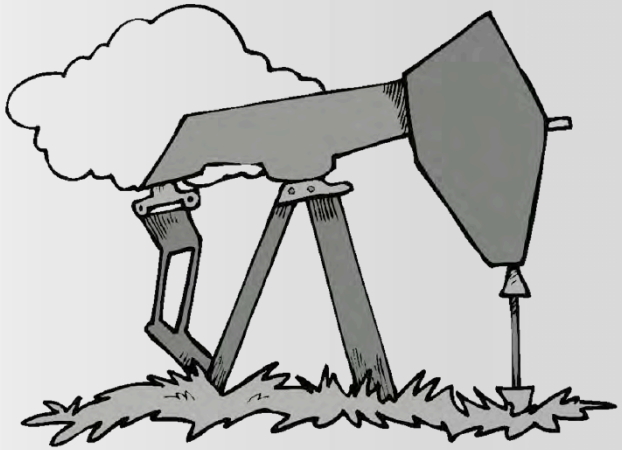
Is the sum of all past expenses that have gone into bringing a property into being.

Cost

Cost $100,000



Cost $100,000



Prerequisites To Value

D.U.S.T.

Demand

Utility

Scarcity

Transferability

Economic Principles of Value

Principle of Supply and Demand

Value results from the interaction of the supply available and the extent of the demand.

Economic Principles of Value

Principle of Highest and Best Use

Is that use which is likely to produce the greatest net return over a given period of time.

Economic Principles of Value

Principle of Substitution

The value of one property tends to be set by the price of an equally desirable substitute.

Economic Principles of Value

Principle of Conformity

When a property has a reasonable similarity to the social, economic and architectural makeup of the neighborhood.

Economic Principles of Value

Principle of Change

The **development** phase is a period of growth, expansion and rising property values.

Economic Principles of Value

Principle of Change

The phase of **stability or equilibrium** is where growth ends and values level off.

Economic Principles of Value

Principle of Change

The phase of decline **or** disintegration.

Economic Principles of Value

Principle of Change

Where deterioration sets in and values fall.

Economic Principles of Value

Principle of Progression

The least expensive property gains value because it is located near property of greater value.

Economic Principles of Value

Principle of Progression

The most expensive property loses value because of its association with less valuable properties.

Economic Principles of Value

Principle of Competition

When demand exceeds supply, new producers jump into the market.

Principle of Regression is the opposite.

Economic Principles of Value

Principle of Competition

If too many come into the market, supply will soon exceed demand and profits will drop.

Economic Principles of Value

Principle of Increasing Returns

$1 spent adds a $1 to cost and adds at least a $1 to value.

Economic Principles of Value

Principle of Decreasing Returns

1 spent adds a $1 to cost but does not add at least $1 to value.

Economic Principles of Value

Principle of Decreasing Returns

This is called the point of diminishing returns.

Economic Principles of Value

Principle of Decreasing Returns

It is considered an over-improvement when the cost of the improvement exceeds the value it adds.

Economic Principles of Value

Principle of Contribution

Is based on what an addition adds to the property as a whole, or what it detracts from the property by being absent.

Economic Principles of Value

Principle of Anticipation

Is the basis of the income approach to value.

Economic Principles of Value

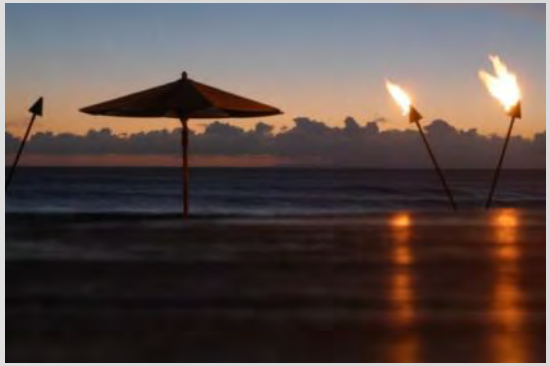
Principle of Anticipation

States that a property's value is based on expectations of present and future income and benefits.

Factors Influencing Value

Location

Similar parcels of land may have extremely different values because of different locations.



Factors Influencing Value

Location

The sum of all factors which help to determine a property's value is called situs.

Factors Influencing Value

Size and Shape

Lots that have similar square footage and comparable locations may vary in value if one is irregularly shaped.

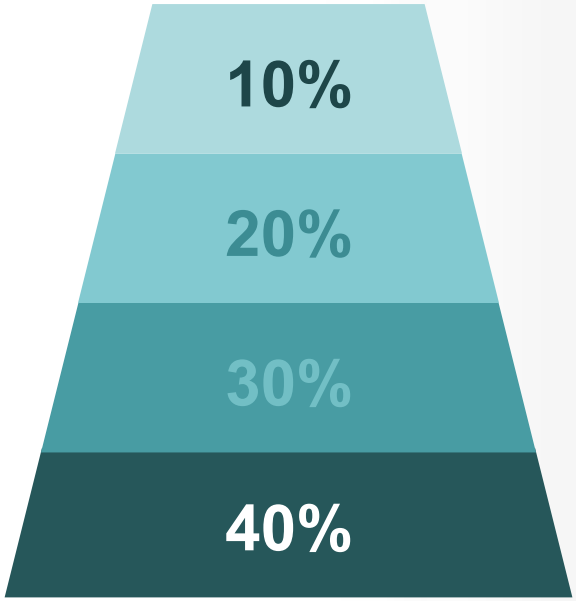
Factors Influencing Value

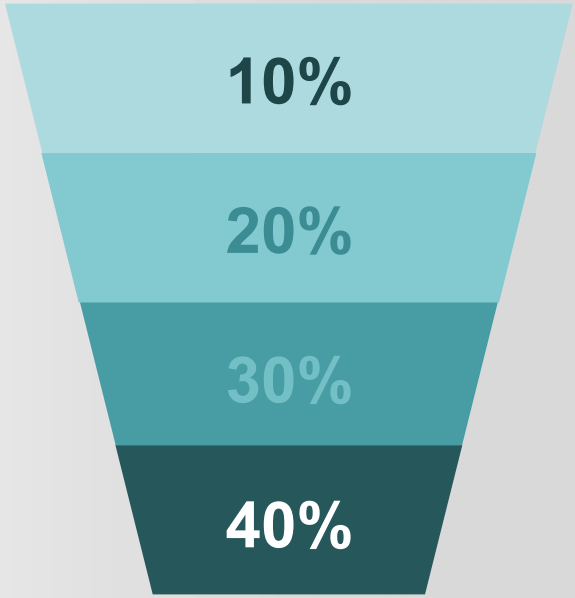
Depth Tables

Are used by appraisers to estimate value when the front portion of a lot is more valuable than added depth at the rear.

4-3-2-1 Rule

Which property on High Rise Street is more valuable?



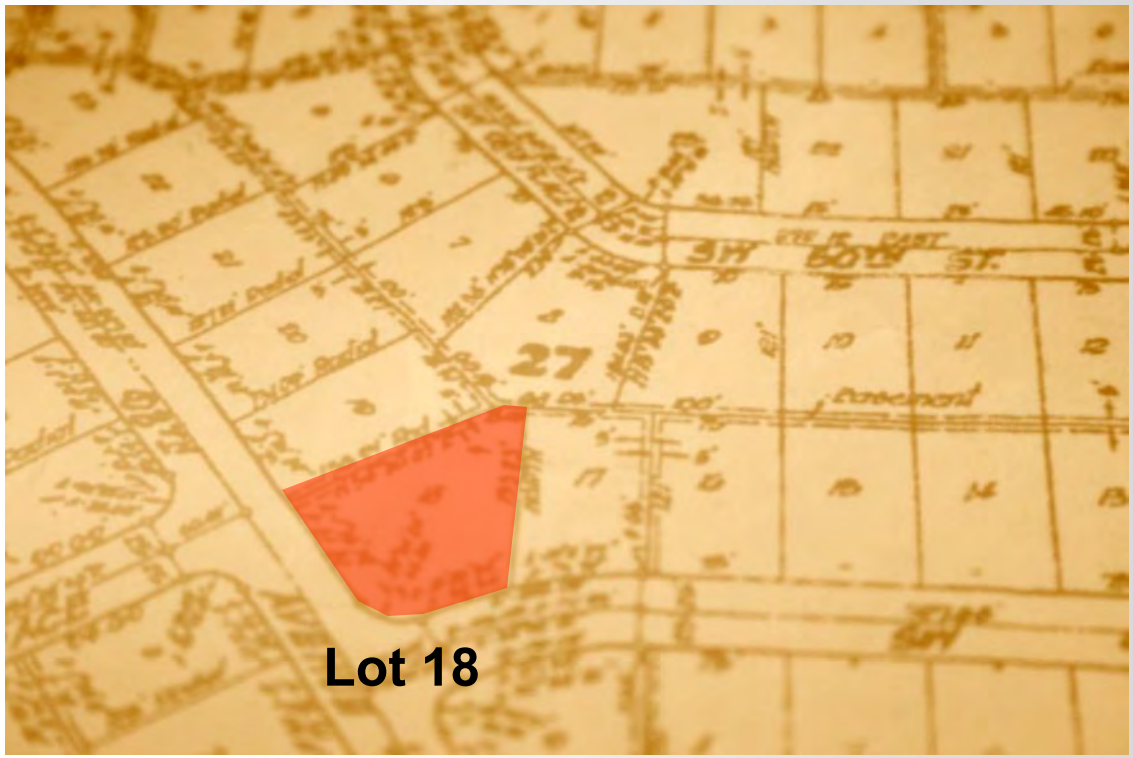


Factors Influencing Value

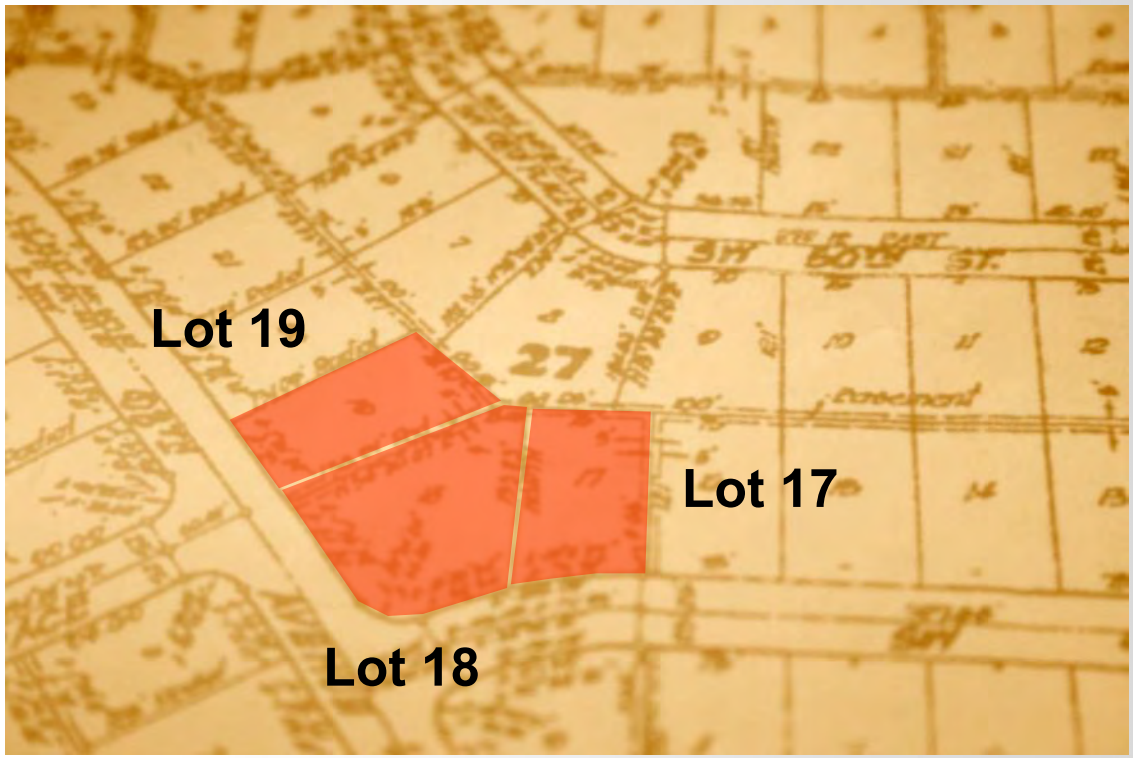
Soil Characteristics

- Drainage
- Rock Content
- Compaction

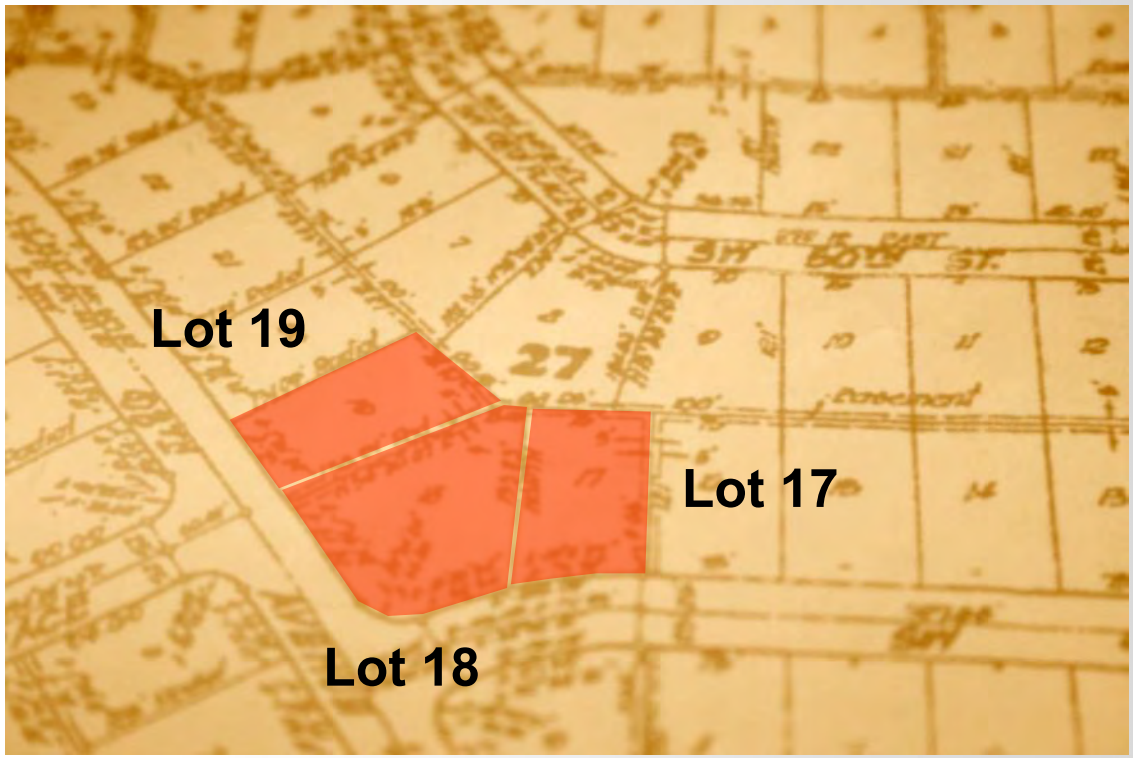
Key Lot



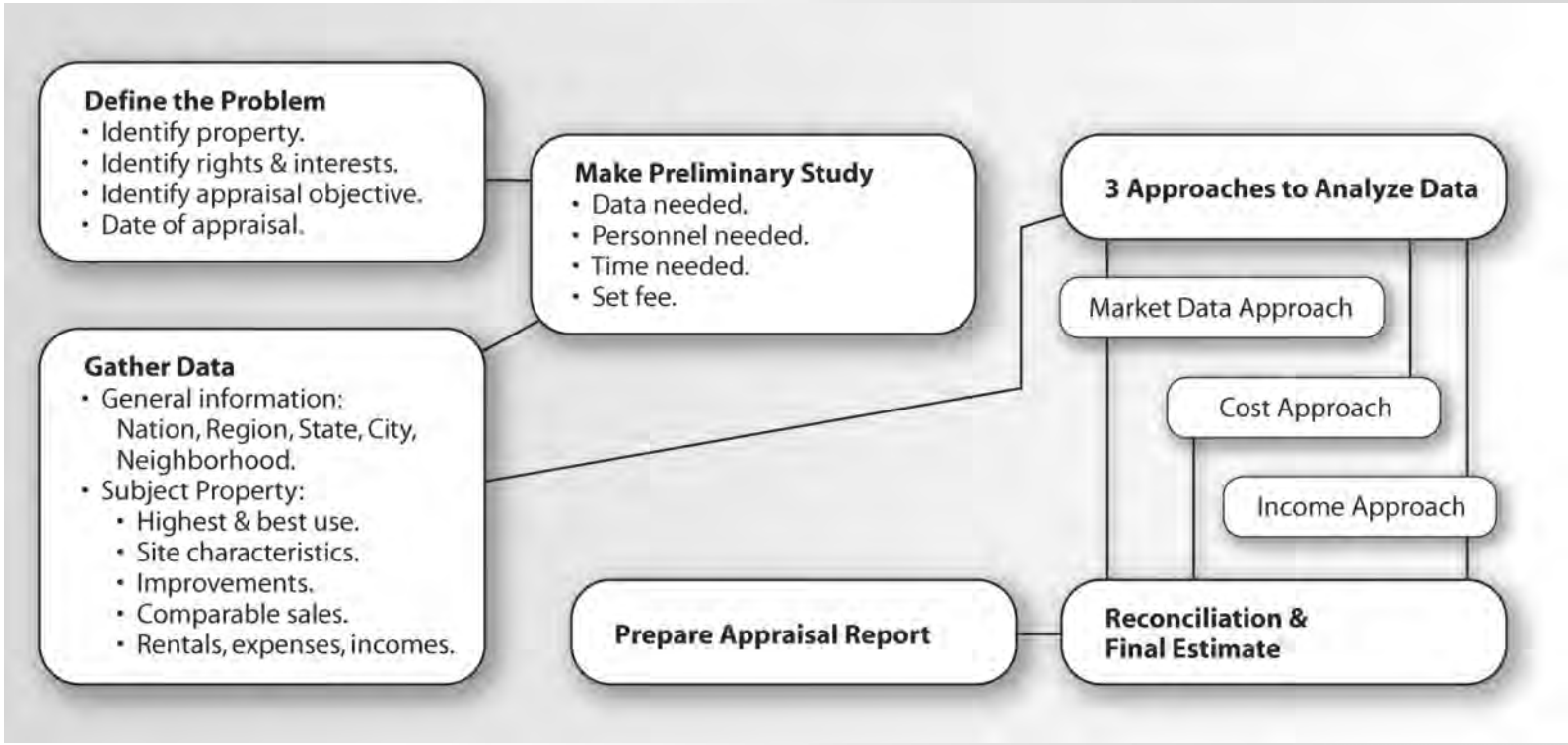
Assemblage is the process



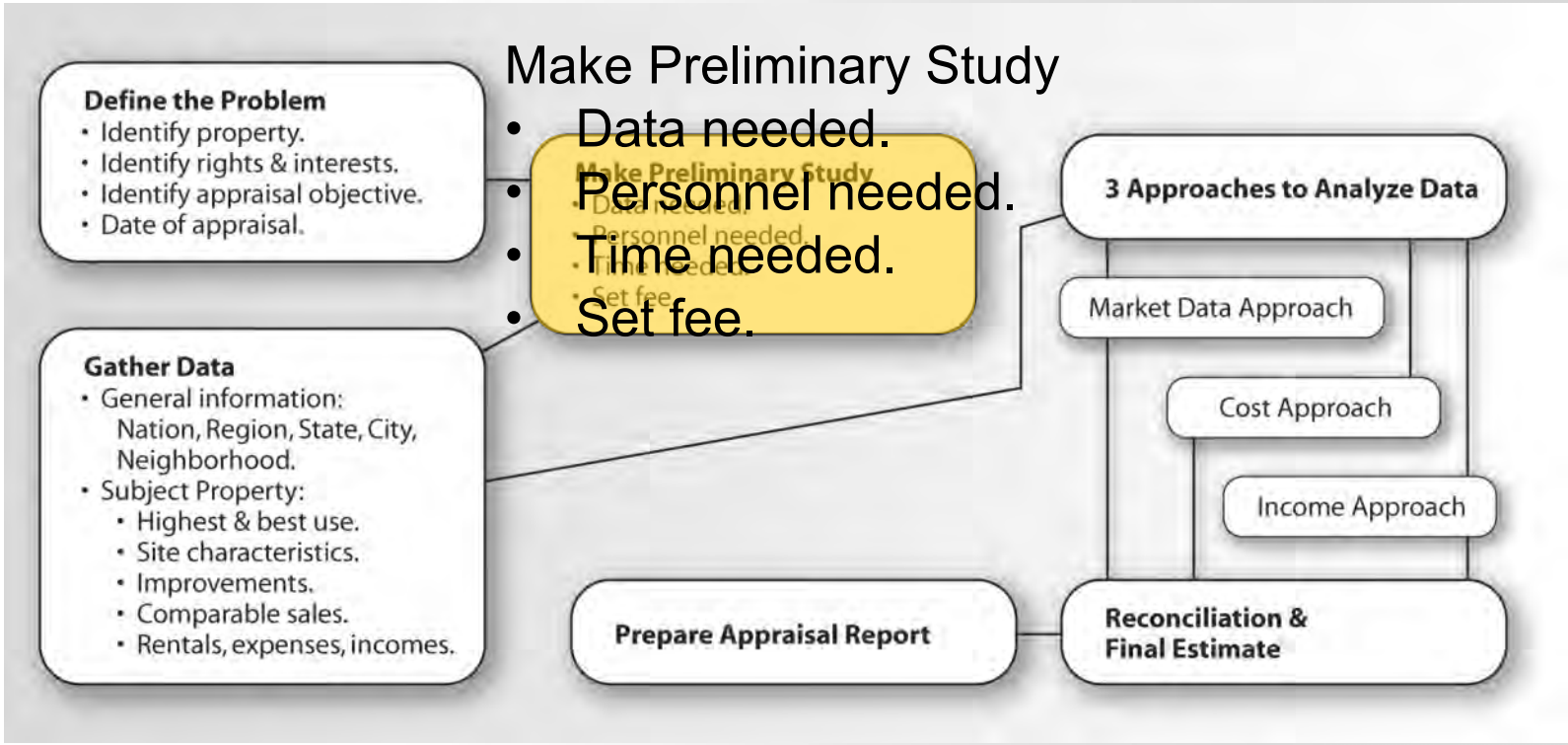
The increase in value is called plottage.



The Appraisal Process



The Appraisal Process



Make Preliminary Study

- Data needed.
- Personnel needed.
- Time needed.
- Set fee.

The Appraisal Process

Th

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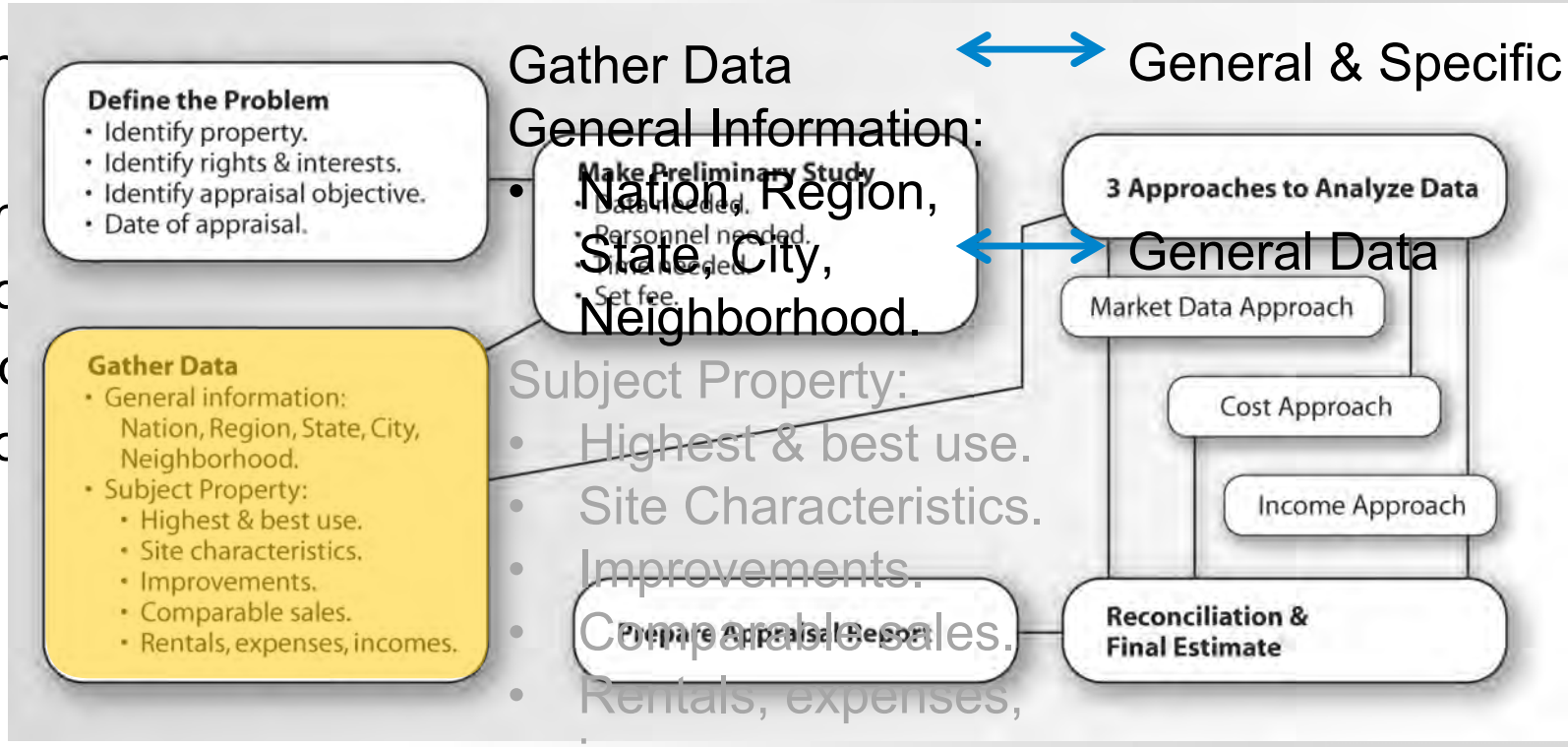


Gather Data ⟷ General & Specific

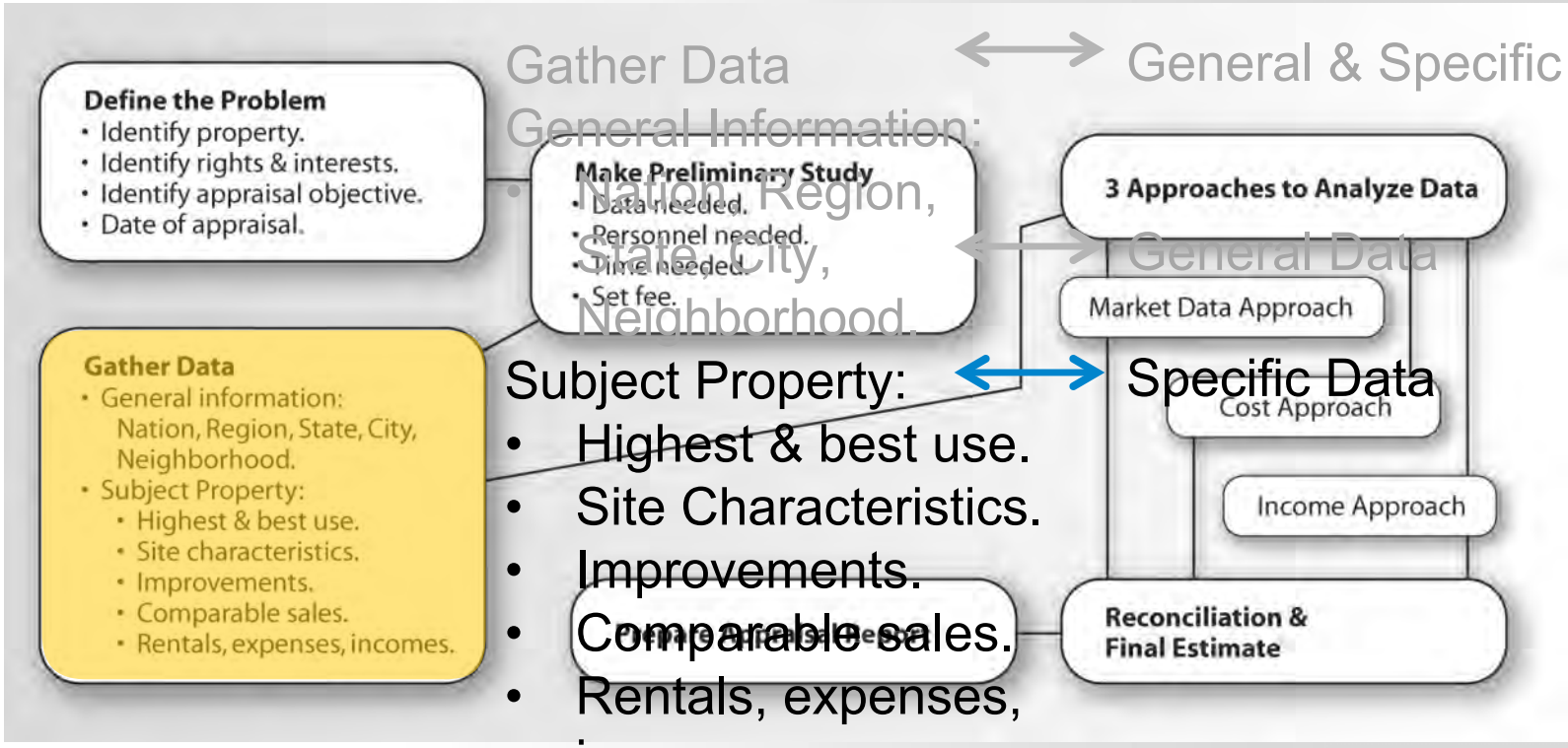
General Information:

- Nation, Region, State, City, Neighborhood. ⟷ General Data

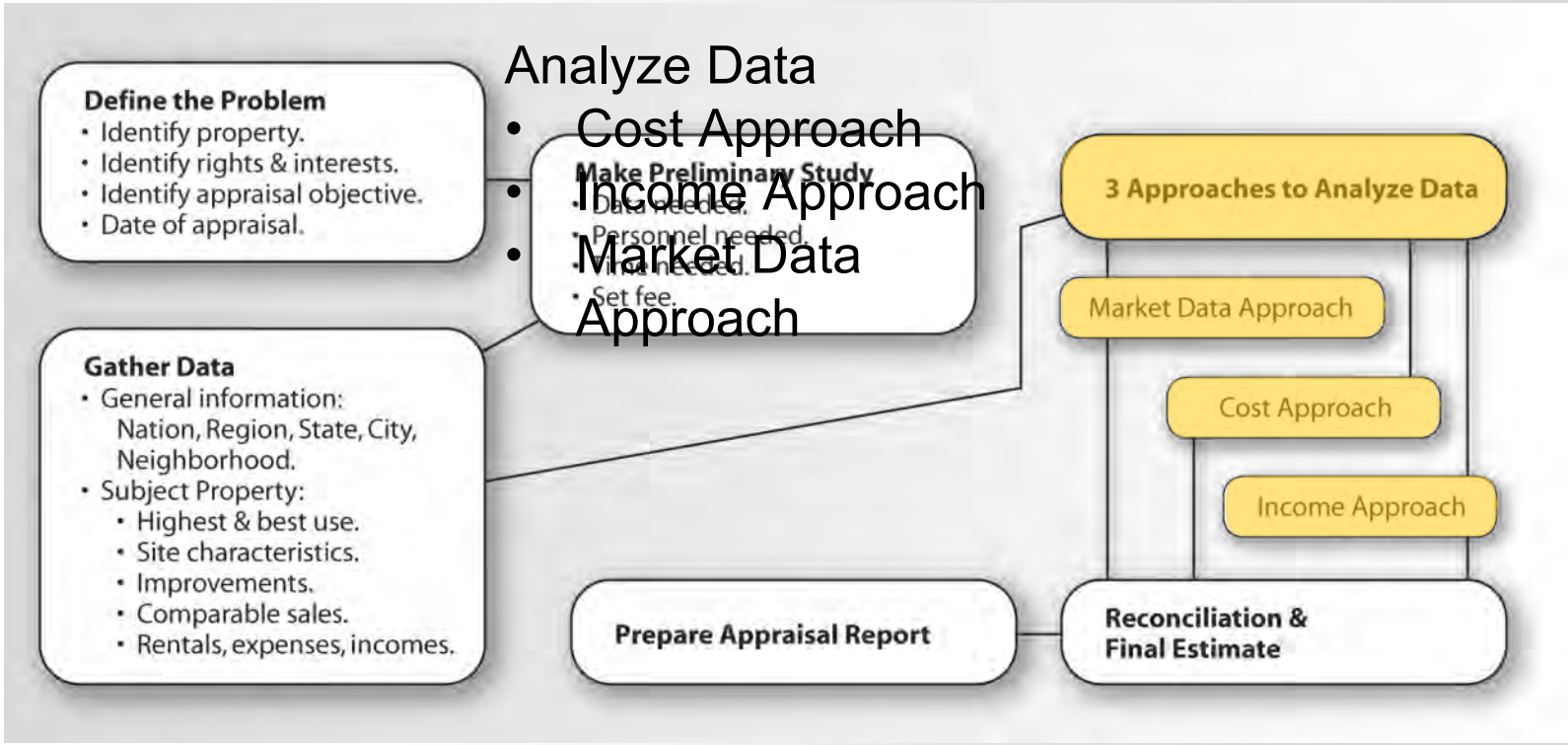
Subject Property:

- Highest & best use.
- Site Characteristics.
- Improvements.
- Comparable sales.
- Rentals, expenses, incomes.

The Appraisal Process



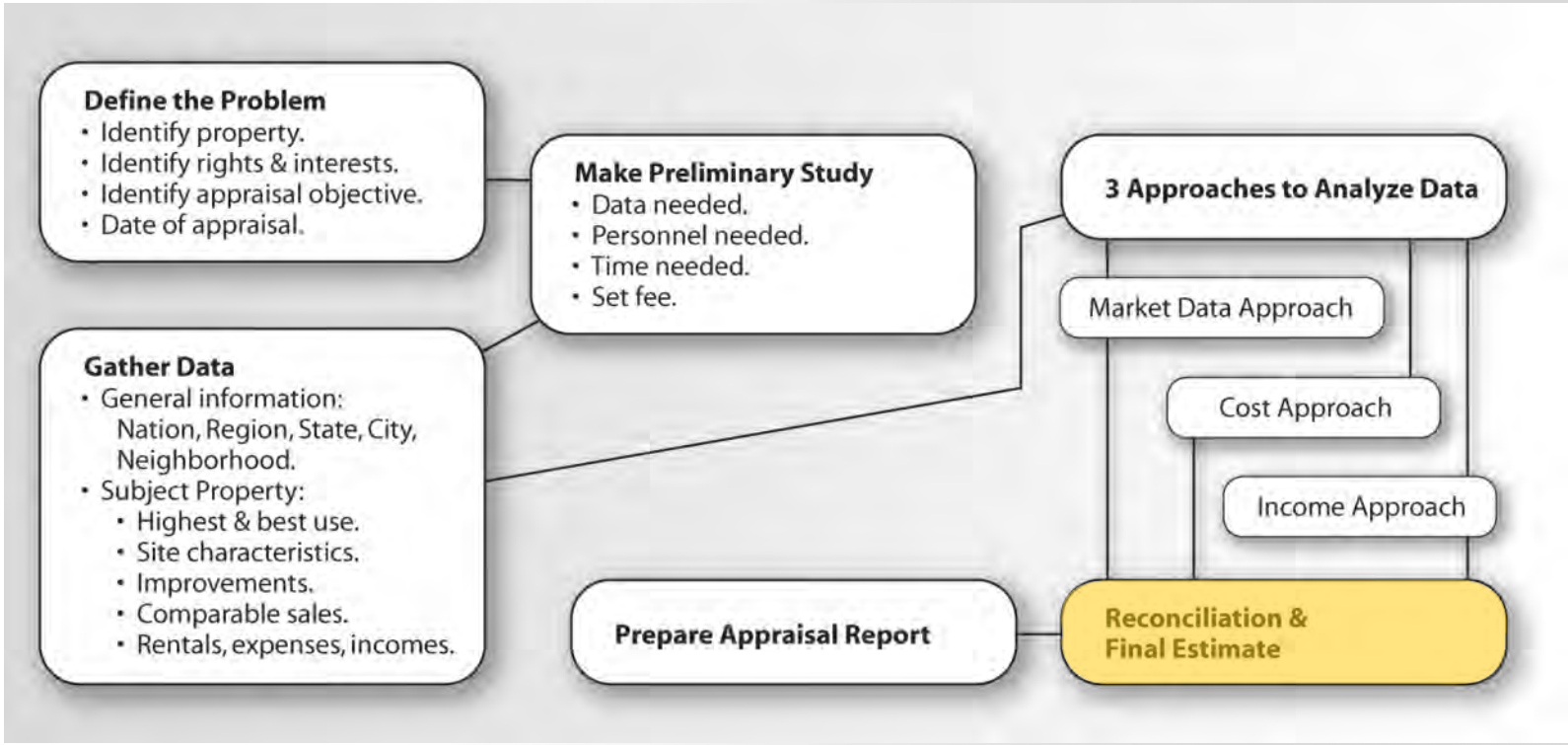
The Appraisal Process



Analyze Data

- Cost Approach
- Income Approach
- Market Data Approach

The Appraisal Process



The Appraisal Process

Define the Problem
- Identify property.
- Identify rights & interests.
- Identify appraisal objective.
- Date of appraisal.

Make Preliminary Study
- Data needed.
- Personnel needed.
- Time needed.
- Set fee.

Gather Data
- General information: Nation, Region, State, City, Neighborhood.
- Subject Property:
  - Highest & best use.
  - Site characteristics.
  - Improvements.
  - Comparable sales.
  - Rentals, expenses, incomes.

3 Approaches to Analyze Data
- Market Data Approach
- Cost Approach
- Income Approach

Reconciliation & Final Estimate

Prepare Appraisal Report

Types of Appraisal Reports

Letter of Opinion

- Also Called a certificate of appraisal.
- It is in the form of a business letter and states the values as of a certain date.

Types of Appraisal Reports

Short Form Report

- Generally used by lending institutions and government agencies.
- Consists of preprinted check sheets on which the appraiser records pertinent data.

Types of Appraisal Reports

Narrative Report - Usually required for appraising:

- Commercial property
- Condemnation under eminent domain

Types of Appraisal Reports

Narrative Report - Usually required for appraising:

- Settling estates of deceased persons.
- Certain tax cases and similar court actions.

Sales Comparison or Market Data Approach

Sold for $250,000

Compares the subject property with similar properties that have sold recently under normal market conditions.

Market Value $250,000

Sales Comparison or Market Data Approach

Sold for
$250,000

Is based on the principle of substitution.

Market Value
$250,000

Sales Comparison or Market Data Approach

Sold for $250,000

Adjustments made for difference in:

- Rights
- Conditions of sale
- Financing
- Market conditions
- Location
- Physical factors
- Income characteristics

Market Value $250,000

Sales Comparison or Market Data Approach

Sold for $250,000

Data Sources for Market Analysis:

- Multiple Listing Service
- Professional reporting services

Market Value $250,000

Sales Comparison or Market Data Approach

Sold for $250,000

Data Sources for Market Analysis:

- Lending Institutions
- Brokers
- Attorneys

Market Value $250,000

Sales Comparison or Market Data Approach

Sold for $250,000

Data Sources for Market Analysis:

- Public Records
- Other Appraisers
- Appraiser's own files

Market Value $250,000

Sales Comparison or Market Data Approach

Selecting Comparables

Recent :

The sale of the comparable property may have taken place up to six months ago but no more than one year ago.

Sales Comparison or Market Data Approach

Selecting Comparables

Similar :

The comparable should be near the subject property.

Sales Comparison or Market Data Approach

Selecting Comparables

Similar :

The comparable should be in a similar social and economic environment.

Sales Comparison or Market Data Approach

Selecting Comparables

Similar :

There should be a high degree of similarity in physical characteristics and amenities.

Sales Comparison or Market Data Approach

Selecting Comparables

Sold under similar market conditions :

The comparables should represent sales that occurred in free and competitive trading.

Sales Comparison or Market Data Approach

Selecting Comparables

Making Adjustments :

Never make any adjustments to the subject property !

Sales Comparison or Market Data Approach

Making Adjustments

COMP INFERIOR ADD

Sales Comparison or Market Data Approach

Making Adjustments

COMP BETTER SUBTRACT

Market Analysis Adjustment - Completed

No. of Rooms	7	7	7	7	
No. of Bedrooms	3	3	3	3	
No. of Baths	2	2.5 -3500	2.5 -3500	2/Similar	
Functional Utility	Good	Similar	Similar	Similar	
Air Conditioning	Central	Similar	Similar	Similar	
Garage/Carport	2 Car Garage	Similar	Similar	2 Carport +4000	
Porches, Patio, Pool	Screen Porch	Deck +3000	Deck +3000	Similar	
Basement/Finished	Slab	Slab	Slab	Slab	
Fireplace	Masonry	Similar	Similar	Similar	
Energy Efficient Items	Avg.	Avg.	Avg.	Avg.	
Landscaping	Good	Similar	Similar	Similar	
Other	Privacy Fence	None +2500	Similar	None +2500	
Total NET Adjustments		-8500	-500	+12,800	
Sales Price		$286,400	$282,300	$270,900	
Less Adjustments		-8500	-500	+12,800	
Adjusted Sales Price		$277,900	$281,800	$283,700	

Correlation:	***Indicated Value***		***% Weight***		
	Comparable - $277,900	x	.30	= $	83,370
	Comparable - $281,800	x	.60	= $	169,080
	Comparable - $283,700	x	.10	= $	28,370

Estimate Value by Market Data Approach:	***$***	***280,820***
Rounded to:	***$***	***280,800***

Cost or Summation Approach

Is based on the principle of substitution.

Cost or Summation Approach

A property is worth no more than the cost to replace it

Cost or Summation Approach

Most appropriate for special purpose and newer properties.

Cost Approach Procedure

Estimate cost
to build new.

Reproduction
is the cost to build
an exact replica.

Reproduction

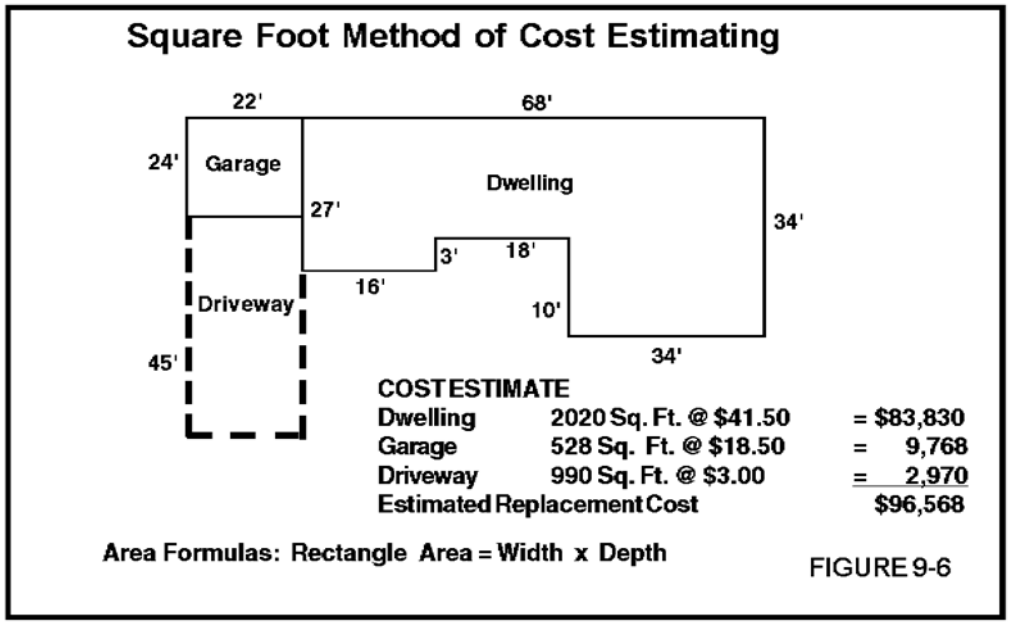
Cost Approach Procedure

Estimate cost to build new.

Replacement is the cost of replacing it with an equally satisfactory substitute.

Replacement

Cost Approach Procedure



Estimate cost to build new.

↓

Comparative Unit Method

↓

Square Foot Method

←

Cost Approach Procedure

Estimate cost to build new.

↓

Comparative Unit Method

↓

The cubic foot method is used when height and volume for storage is important.

→

Cost Approach Procedure

Estimate cost to build new → Unit in Place Method

In the unit in place method the appraiser estimates the installed cost of each component of the building.

Cost Approach Procedure

Estimate cost to build new.

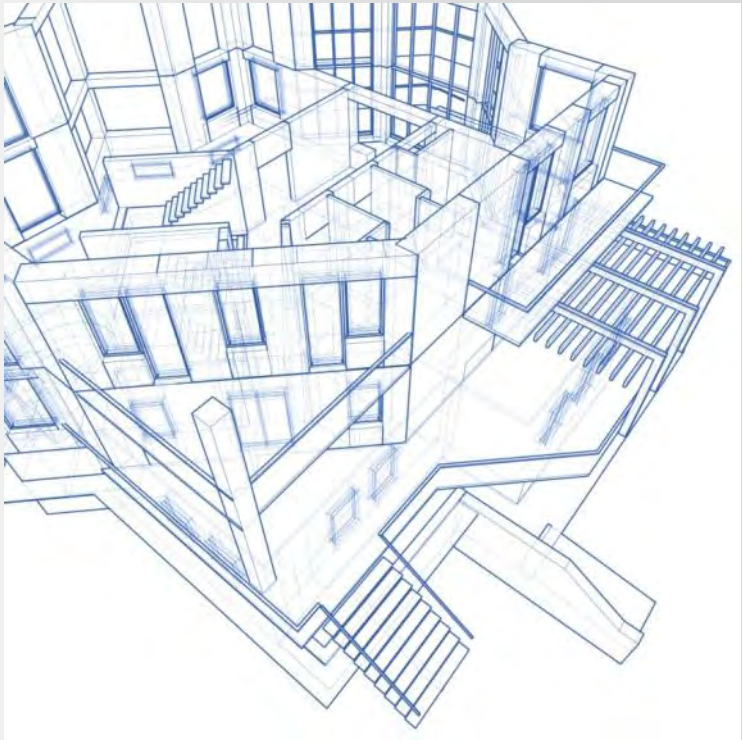
↓

Quantity Survey Method

↓

This method involves a detailed breakdown of everything that goes into a building.

→



Cost Approach Procedure

Estimate cost to build new.

↓

Quantity Survey Method

↓

It is the most accurate and reliable method.

→

Cost Approach Procedure

Depreciation

Land does not depreciate.

Improvements do suffer a loss in value.

Cost Approach Procedure

Depreciation

Curable:

makes economic sense to fix.

Incurable:

does not make economic sense to fix.

Cost Approach Procedure

Minus Depreciation → Physical Deterioration

Physical deterioration occurs because of normal wear and tear, exposure to the elements, or lack of maintenance.

Cost Approach Procedure

Minus Depreciation → Physical Deterioration

May be curable or incurable but is more likely curable.

Cost Approach Procedure

Minus Depreciation → Functional Obsolescence

Functional obsolescence is loss of value due to inadequate, over-adequate or out-of-date improvements.

Cost Approach Procedure

Minus Depreciation → Functional Obsolescence

May be curable or incurable.

Cost Approach Procedure

Minus Depreciation → Economic Obsolescence

Economic obsolescence arises from forces outside the property.

Cost Approach Procedure

Minus Depreciation → Economic Obsolescence

Also called environmental, external, locational or social obsolescence.

Cost Approach Procedure

Minus Depreciation → Economic Obsolescence

It is most always incurable.

Cost Approach Procedure

Minus Depreciation → Age-Life or Straight Line

Accrued Depreciation

Lump sum total of depreciation from time built to current date.

Actual Age

Historical age.

Effective Age

How old it appears.

Cost Approach Procedure

Minus Depreciation → Age-Life or Straight Line

Physical Life

How long a structure remains physically sound.

Economic Life

How long the structure remains productive.

Effective Age + Remaining Economic Life = Total Economic Life

Cost Approach Procedure

Minus Depreciation → Age-Life or Straight Line

Effective Age ÷ Total Economic Life = % Depreciation

Replacement Cost x % Depreciation = Total Depreciation

Cost Approach Procedure

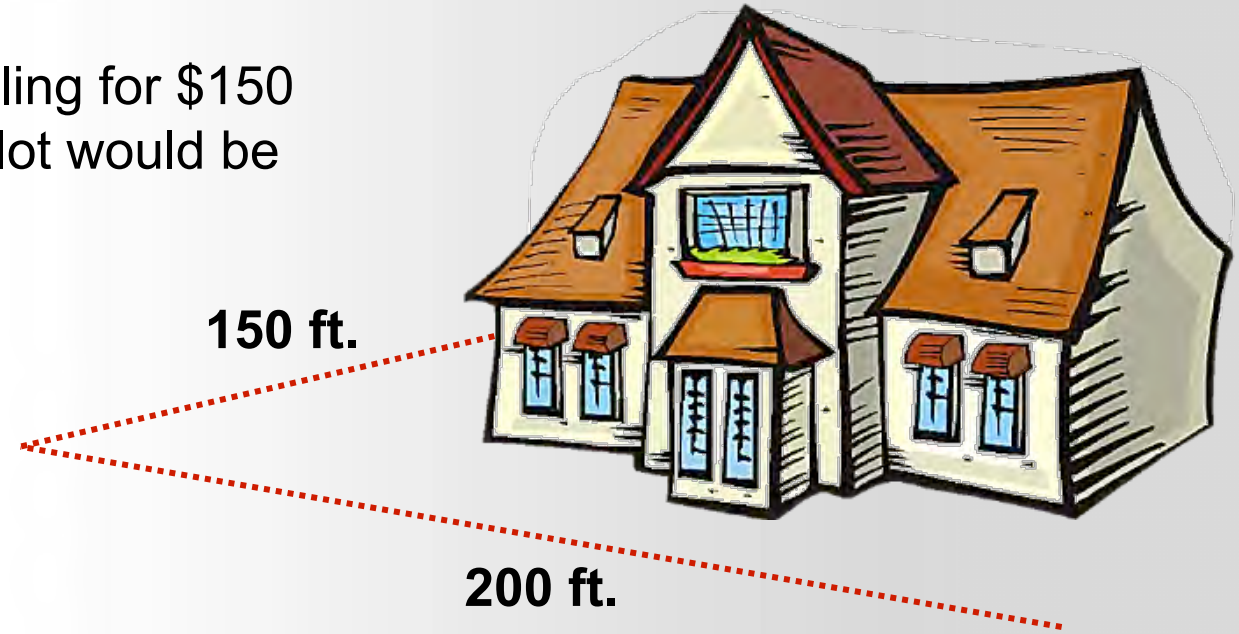
Minus Depreciation → Age-Life or Straight Line

Replacement cost new	$96,568
Effective Age	10
Remaining Economic Life	30
Total Economic Life	40
Total Percent of Depreciation (10/40)	25%
Total Accrued Depreciation ($96,568 x 25%)	$24,142

Cost Approach Procedure

Plus Land Value

Similar lots are selling for $150 per front foot, this lot would be valued at $30,000 (200 x $150).



Cost Approach Procedure

600 ft.

1,200 ft.

Plus Land Value

This tract contains:

720,000 sq. ft. (1200’ x 600’) or 16.529 acres (720,000 sq. ft. ÷ 43,560 sq. ft.) if similar tracts are selling for $2,000 per acre, this tract would be valued at $33,058 ($2,000 x 16.529 acres).

Cost Approach Procedure

Estimate cost to build new → Reproduction or Replacement

Square Foot • Cubic Foot
Unit in Place • Quantity Survey

Minus Depreciation → Functional Physical Economic

Plus Land Value

Equals Value of Subject Property

Cost Approach Procedure

Minus Depreciation → Age-Life or Straight Line

Replacement cost new	$96,568
Effective Age	10
Remaining Economic Life	30
Total Economic Life	40
Total Percent of Depreciation (10/40)	25%
Total Accrued Depreciation ($96,568 x 25%)	$24,142

Cost Approach Procedure

Plus Land Value

- Land is valued separately
- Estimate as if vacant

Sales Comparison Methods:

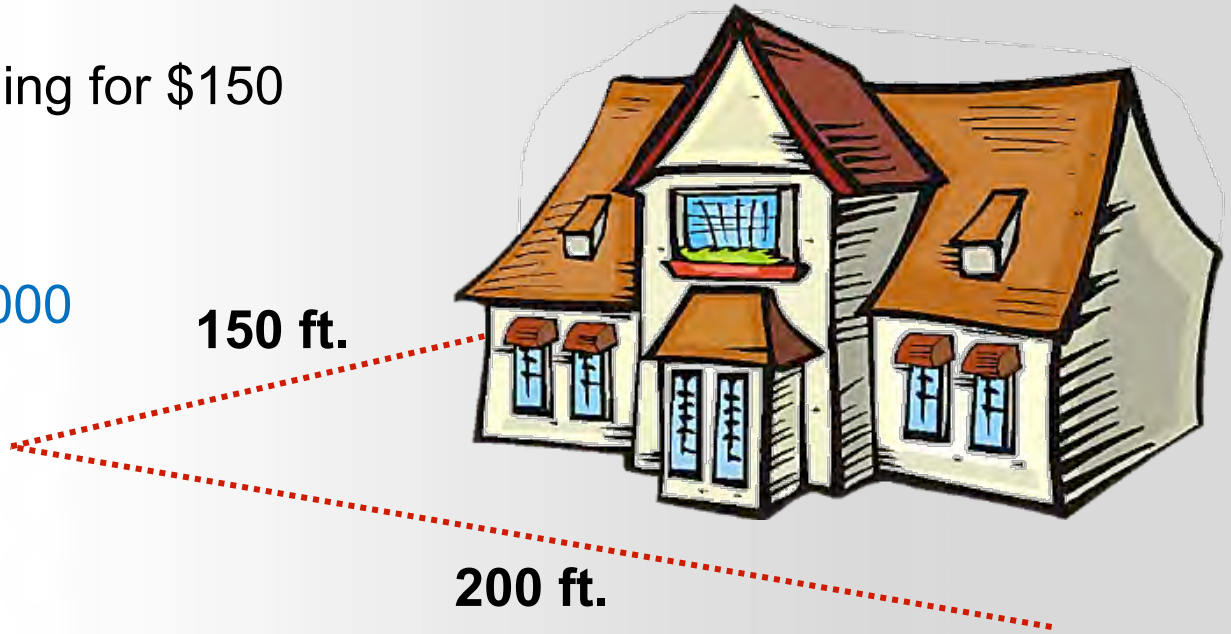
- Square Footage
- Front Footage
- Acreage

Cost Approach Procedure

Plus Land Value

Similar lots are selling for $150 per front foot.

200 x $150 = $30,000



Cost Approach Procedure

600 ft.

1,200 ft.

Plus Land Value

Similar tracts are selling for $2,000 per acre.

1200’ x 600’ = 720,000 sq. ft.

16.529 acres x $2,000 per acre = $33,058

Cost Approach Procedure

Estimate cost to build new → Reproduction or Replacement

Square Foot • Cubic Foot
Unit in Place • Quantity Survey

Minus Depreciation → Functional Physical Economic

Plus Land Value

Equals Value of Subject Property

Cost Approach Procedure

A. Replacement Cost New			$	96,568
B. Dwelling 2020 sq. ft.	@ $41.50	=	$	83,830
C. Garage 528 sq. ft.	@ $18.50	=	$	9,768
D. Driveway 990 sq. ft.	@ $ 3.00	=	$	2,970
E. Less: Depreciation			$	24,142
F. Depreciated Value of Improvements			$	72,426
G. Plus: Estimated Land Value			$	17,500
H. Estimated value by cost approach			$	89,926

Income Approach

Is based on the principle of anticipation.

Considerations

- Quantity
- Quality
- Durability

Income Approach

Capitalization Approach

Uses net operating income to determine value.

Step 1: Projecting Net Operating Income

Potential Gross Income: PGI

- Vacancy & Collection losses: V&C

= Effective Gross Income: EGI

PGI – V&C = EGI

Step 1: Projecting Net Operating Income

Operating Expenses or OE

Fixed Permanent

Variable: Vary

Reserve for Replacements: Fund for items which wear out.

Step 1: Projecting Net Operating Income

Depreciation on the building, loan payments and income taxes are not operating expenses.

Step 1: Projecting Net Operating Income

Potential Gross Annual Income		
	Scheduled Gross Income	$72,000
+	Other Income	+ 1,200
Total Potential Gross Income		$73,200
-	Vacancy and Collection Losses	- 3,600
Effective Gross Income		$69,600
Operating Expenses		
	Fixed	
	Taxes	7,500
	Insurance	2,800
	Variable	
	Management	4,320
	Utilities	3,900
	Repairs & Maintenance	6,800
	Legal & Accounting	700
	Other	
	Reserve For Replacements	
	Furniture	1,200
	Appliances	500
	Roof	600
	Furnace / Air Conditioning	750
-	**Total Expenses**	-29,070
Net Operating Income		$40,530

Step 1: Projecting Net Operating Income

Operating Expense Ratio

Operating Expenses ÷ EGI = Expense Ratio

Step 2: Select an appropriate Cap Rate

Capitalization Rate

Rate of return an investor would demand.

Return ON Investment

Return OF Investment

Risk

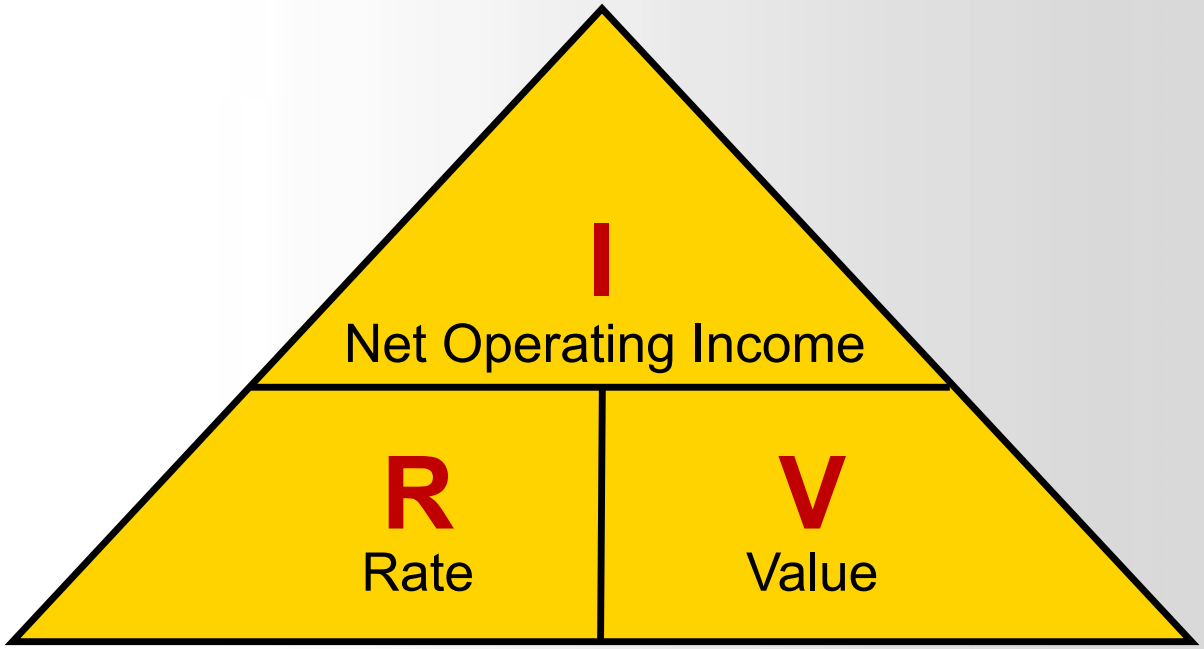
Capitalization Approach

The higher the rate, ↑ the lower the value ↓

OR

The lower the rate, ↓ the higher the value. ↑

Capitalization Approach



Capitalization Approach

Compares the relationship

between comparables

NOI

and the sales price

VALUE

Capitalization Approach

Subject's NOI

÷

Selected Cap Rate

=

Value

Capitalization Approach

Comparable	NOI		Sales Price		CAP Rate
1.	$19,500	÷	$185,000	=	10.5%
2.	$15,900	÷	$162,500	=	9.8%
3.	$23,100	÷	$210,000	=	11.0%

After cap rates for the comparable properties have been determined, they must be reconciled (weighted) on the basis of their similarity to the subject property.

The appraiser selects the rate of return (the capitalization rate) after measuring the degree of risk in this income property and comparing this property with other income properties that have recently sold with similar degrees of risk for the investors.

Capitalization Approach

An office building had an NOI of $24,000:

What is the value at a 10% cap rate?

$24,000 ÷ .10 = $240,000

What is the value at a 12% cap rate?

$24,000 ÷ .12 = $200,000

What is the value at an 8% cap rate?

$24,000 ÷ .08 = $300,000

Gross Rent/Gross Income Multiplier

Compares rent or incomes of similar properties to arrive at a value for a subject.

Gross Rent / Gross Income Multiplier

To find the GRM:

Divide the omparable's sales price by the monthly rent.

Gross Rent / Gross Income Multiplier

To find the value of the subject:

Multiply the subject's rent by the GRM.

Gross Rent / Gross Income Multiplier

A comparable property recently sold for $158,100.

The monthly rent was $1,275.

What is the GRM?

$158,100 SP ÷ $1,275 Rent = 124 GRM

Gross Rent / Gross Income Multiplier

If the subject property's monthly market rent is $1,300.

What is the value of the subject property?

$1,300 Rent x 124 GRM = $161,200 Value of the Subject Property

Gross Rent / Gross Income Multiplier

To find the GIM:

Divide the comparable's sales price by the gross annual income.

Gross Rent / Gross Income Multiplier

To find the value of the subject:

Multiply the subject's annual income by the GIM.

Gross Rent / Gross Income Multiplier

An office building recently sold for $2,000,000.

The gross annual income was $400,000.

What is the GIM?

$2,000,000 SP ÷ 400,000 Rent = 5 GIM

Gross Rent / Gross Income Multiplier

If the subject property's annual income is $395,000.

What is the value of the subject property?

$395,000 Rent x 5 GIM = $1,975,000 Value of the Subject Property