

CHAPTER 12 - VALUE

I. PRINCIPLES OF VALUATION AND APPRAISAL

A. APPRAISALS

B. HISTORY OF THE APPRAISAL PROFESSION.

B. NEED FOR APPRAISALS.

C. VALUE DEFINED.

D. MARKET VALUE.

1. MARKET PRICE.

2. COST.

E. PREREQUISITES TO VALUE.

1. DEMAND.

2. UTILITY.

3. SCARCITY.

4. TRANSFERABILITY.

F. ECONOMIC PRINCIPLES OF VALUE.

1. PRINCIPLE OF SUPPLY AND DEMAND.

2. PRINCIPLE OF HIGHEST AND BEST USE.

3. PRINCIPLE OF SUBSTITUTION.

4. PRINCIPLE OF CONFORMITY.

5. PRINCIPLE OF CHANGE.

6. PRINCIPLE OF PROGRESSION AND REGRESSION.

7. PRINCIPLE OF COMPETITION.

8. PRINCIPLE OF INCREASING AND DECREASING RETURNS.

9. PRINCIPLE OF CONTRIBUTION.

10. PRINCIPLE OF ANTICIPATION.

G. FACTORS INFLUENCING VALUE.

1. LOCATION.

2. SIZE AND SHAPE.

3. DEPTH TABLES.

4. SOIL CHARACTERISTICS.

5. KEY LOTS.

6. ASSEMBLAGE.

II. THE APPRAISAL PROCESS

A. DEFINE THE PROBLEM.

1. IDENTIFY THE PROPERTY.

2. IDENTIFY THE RIGHTS AND INTERESTS TO BE EVALUATED.

3. IDENTIFY THE APPRAISAL OBJECTIVE AND THE VALUE SOUGHT.

4. DATE OF VALUE ESTIMATE.

B. MAKE A PRELIMINARY STUDY.

1. DATA NEEDED AND SOURCES OF DATA.

2. PERSONNEL NEEDED.

3. TIME NEEDED.

4. DECIDE ON THE FEE.

C. GATHER DATA.

1. GENERAL DATA.

a. Physical.

b. Economic.

c. Governmental.

d. Social.

2. SPECIFIC DATA.

D. ANALYZE DATA.

1. THE SALES COMPARISON OR MARKET DATA APPROACH.

2. THE COST OR REPLACEMENT APPROACH.

3. THE INCOME OR CAPITALIZATION APPROACH.

E. RECONCILIATION AND FINAL ESTIMATE.

F. PREPARE APPRAISAL REPORT.

1. LETTER OF OPINION.

2. SHORT FORM REPORT.

3. NARRATIVE REPORT.

III. THE THREE APPRAISAL APPROACHES

A. SALES COMPARISON OR MARKET DATA APPROACH.

1. DATA SOURCES FOR MARKET ANALYSIS.

2. SELECTING COMPARABLES.

a. Recent.

b. Similar.

c. Sold under similar market conditions.

3. MAKING ADJUSTMENTS.

4. RECONCILIATION.

MARKET ANALYSIS ADJUSTMENT • COMPLETED

B. THE COST OR SUMMATION APPROACH.

1. ESTIMATE REPLACEMENT COST NEW.

a. Comparative unit method

i. Square foot method.

ii. Cubic foot method.

b. Unit in place method.

c. Quantity survey method.

2. ESTIMATING ACCRUED DEPRECIATION.

a. Types of Depreciation

i. Physical deterioration.

ii. Functional obsolescence.

iii. Economic obsolescence.

b. Calculating Depreciation

- i. Age-life or straight line method.**

3. ESTIMATED LAND VALUE.

4. ADDING THE VALUE OF THE LAND TO THE DEPRECIATED VALUE OF THE IMPROVEMENT.

C. THE INCOME APPROACH.

1. CAPITALIZATION APPROACH.

$$V = \frac{\text{NOI}}{\text{CAP}}$$

- a. Step #1 Projecting Net Operating Income (NOI).**

- i. Potential Gross Income (annual).**

ii. Vacancy and Collection losses.

iii. Effective Gross Income.

iv. Operating Expenses.

v. Reserve for Replacements.

vi. Net Operating Income.

b. Step #2 Select an appropriate capitalization rate.

c. Step #3 Convert the net operating income and the cap rate into an estimate of value.

d. Conclusion:

2. THE GROSS RENT MULTIPLIER / GROSS INCOME MULTIPLIER.