Basic Appraisal procedures 2ND EDITION

ANSWER KEY

CHAPTER 1

FILL IN THE BLANK (PAGE 5)

1. intended user
2. lender

ON THE STREET (PAGE 5)

1. Per guidance found in USPAP Advisory Opinion #26, once an appraisal has been performed for a particular client and intended user(s), the report cannot be altered to indicate a new client as a recipient or the intended users amended. However, following the guidance of Advisory Opinion #27, the request could be considered a new appraisal assignment. Non-confidential information from the first assignment could be used in the second assignment.

TEST YOUR KNOWLEDGE (PAGE 14)

1. Chart with answers is on page 3

ON THE STREET (PAGE 15)

1. Property owner
2. Property owner’s lawyer
3. Resolution of a legal matter
4. Market value
5. Retrospective, date of gift 1½ years ago
6. Single-family dwelling in a small rural village
7. Appraiser is not an expert of flood issues
8. Zoning is compliant and not in a flood plain
9. None

FILL IN THE BLANK (PAGE 27)

1. hypothetical
2. general
3. scope of work
4. reconciliation
5. extraordinary assumption
6. partial
7. retrospect

TRUE OF FALSE (PAGE 30)

1. False
2. False
3. False
4. False
5. True
CHAPTER QUIZ (PAGE 32)

1. d  
2. a  
3. b  
4. d  
5. b  
6. a  
7. b  
8. b  
9. a  
10. d

CHAPTER 2

ON THE STREET (PAGE 39)

1. This could demonstrate a transaction where the seller wasn’t acting in his own best interest. Or, possibly, the seller could be receiving a tax benefit by considering all or part of the conveyance amount that is less than market value as a charitable donation. In either case, the transaction would not represent one that is arm’s length.

2. The sellers are acting out of haste. Eager to move on to their dream home, the sellers are also taking advantage of the “good buy” they are getting on the new house, and willing to take less for their current home. The transaction of their present home would probably not be arm’s length.

3. This buyer is not knowledgeable of the market and is not being represented by an agent who is protecting the buyer’s best interest. In addition, because of the buyer’s relocation terms, the buyer is under a time constraint to make a purchase. The transaction would most likely not be considered arm’s length.

CHAPTER QUIZ (PAGE 88)

1. c  
2. a  
3. b  
4. b  
5. d  
6. a  
7. a  
8. d  
9. a  
10. b  
11. d  
12. c
CHAPTER 3

CHAPTER QUIZ (PAGE 124)

1. c  6. d
2. c  7. b
3. d  8. c
4. b  9. b
5. c  10. a

CHAPTER 4

CASE STUDY #4.1—PROPERTY SELLS FOR MORE THAN THE ASKING PRICE (PAGE 145)

Point Break: What data should be gathered for the appraiser’s workfile regarding the assignment and the property?

- Complete listing information and listing history
- Sales agreement for the subject

Point Break: What are the various market indications?

- Market activity in the subject’s market segment has been stable
- Property has been offered on the market for 1 year
- Property has been on the market with the current broker 6 months at $110,000 and with a previous broker for $114,900 and $112,500
- Market has had ample time to respond to the most recent offering price: $110,000
- Market could be interpreted as saying the property is not worth $110,000

Point Break: How would this information influence the opinion conclusion of the sales comparison analysis?

- Transaction is not arm’s length
- Buyer was influenced by the concessions as to what he paid
- Typical buyer not requiring such large concessions would not pay $115,000

The market indicates this buyer may not be a typical buyer. This single-family dwelling is selling for more than the asking price because the seller is paying concessions.
Case Study #4.2—Property Priced and Being Sold Below Market Value (Page 146)

Point Break: What question(s) should appraiser Weller ask the owner?
- Was there a relationship with this buyer?
- How was the listing price established?

Point Break: What should the appraiser investigate based on the information given by Mr. Cline?
- How long was the property exposed to the market?
- What marketing methods were used?

Point Break: What can appraiser Weller discuss with Mr. Cline about the transaction and the sale price?
- Nothing! (without the consent of the client)

Case Study #4.3—Property Sells for Less than Market Value (Page 148)

Point Break: From this information, does this sale appear to represent an arm’s length transaction?
- From the information given, the transaction would probably have the appearances of an arm’s length transaction

Point Break: What information is appraiser Swift looking for?
- Motivating conditions that caused the seller to sell for less than previously indicated

Point Break: Can this transaction be utilized as an arm’s length transaction?
- Can the influence of the concessions be quantified to a dollar amount?

How are the concessions quantified?
- If the appraiser can support this conclusion, the value of the prolonged possession by the seller after closing (5 months x $3,000) could be added to the cost of a second move by the seller ($5,000)
- To arrive at an upward adjustment to the comparable of $20,000

Important Note
- The appraiser should verify that the $3,000 represents market rent and that the $5,000 moving estimate is an accurate representation
Case Study #4.4—Three-Unit Apartment Building with Small Site Area (Page 150)

Point Break: How does this regulation impact the property and its value?

- The use would be considered to be a *grandfathered non-conforming use*
- Any effect on the value of the property should be analyzed by the appraiser

Write a sample disclosure including the extraordinary assumption(s) considered in the report.

- Use of an extraordinary assumption
  - An extraordinary assumption is *only* used when credible assignment results can be obtained
  - The appraiser should have supportable evidence that the use of the extraordinary assumption is reasonable, such as discussions with a zoning authority or citation of other similar uses that have continued for a number of years

**CHAPTER QUIZ (PAGE 153)**

1. b  
2. a  
3. a  
4. d  
5. c  
6. a  
7. c  
8. d  
9. b  
10. c

**CHAPTER 5**

Case Study #5.1 Mixed-use Property—(Page 174)

Instructor Guidelines—Challenges:

#1 Lease – Analysis of the cell tower lease. If, lease is considered in the final opinion of value, determine how assumptions would be stated in the appraisal report, regarding the continuation of the lease and the approval of the lease assumption by the lessee.

#2 Approaches to Value – From the information given, develop the value by the appropriate approaches to value. How is the contributory value of the lease considered in the final opinion of value? (*The cost approach and sales comparison approach can be developed using the income approach for the contributory value of the lease.*)
#3 Agreement of Sale – Is the transaction arm’s length?

Comments: The value of this exercise is that it allows the student to locate the information to process the approaches to value and to practice narrative language to explain the rationale and steps taken in developing the opinion of value. In addition, the exercise allows for the use and statement of the extraordinary assumptions contained in the report. Consider actual age to be equal to actual age.

Point Break: What relevant factors must be considered when valuing this property?

- Is the transaction arm’s length?
- Likelihood of the lease continuing
- Does the presence of the cell tower affect the value of the remainder of the property?

Point Break: How would you tackle this appraisal assignment?

- Given the data provided, the sales comparison and cost approaches may be used with contributory value of the cell tower developed by the income approach (given the assumption that the use will continue)

Income Approach for Cell Tower

- Capitalized value of lease:
  \[
  12 \times \$400 = \$4,800 \div 10\% \text{ cap rate} = \$48,000
  \]

Sales Comparison Approach

\[
\begin{align*}
\$100,000 \\
+ 48,000 \text{ (cell tower)} \\
\$148,000
\end{align*}
\]

Cost Approach

\[
\begin{align*}
\text{Site} & \quad \$60,000 \\
\text{Reproduction of Dwelling} & \quad 60 \times 900 \quad \$54,000 \\
\text{Reproduction of Garage} & \quad 20 \times 500 \quad \$10,000 \\
& \quad \$64,000 \\
\text{Depreciation} (6/66 = 9\%) & \quad - \$5,760 \\
\text{Depreciated value of improvements} & \quad \$58,240 \\
\text{Other site improvements as is} & \quad \$10,000 \\
\text{Total by cost} & \quad \$128,240 \\
(\text{plus contributory value of lease}) & \quad \\
\text{Indicated Value} & \quad \$176,240
\end{align*}
\]
Instructor Guidelines—Challenges:

#1 Zoning – What impact do current zoning and building regulations have on the highest and best use of the property? What are the current legal uses? *(The site is smaller than allowed by current standards for a potential building site.)*

#2 Approaches to Value – From the information given, the sales comparison approach and the income approach could be processed. In each case, cost of conversion would be considered.

**Comments:** This exercise allows practice in considering highest and best use as a vacant site and as improved, based on zoning. The sales comparison and income approaches can be processed from the information given. Cost of conversion, however, must be considered.

**Point Break: What relevant factors must be considered when valuing this property?**
- What impact do current zoning and building regulations have on the highest and best use decision?
- What are the current legal uses?
- The property is located in a historic area. Can the structure be razed?
- If so, what could the land be used for?

**Point Break: How would you tackle this appraisal assignment?**
- From the information given, the sales comparison approach and the income approach could be processed. In each case, cost of conversion would be considered.

**Sales Comparison Approach**
- Sales comparison  
  \[ 1,800 \times 82 = 147,600 \]
- Minus cost of conversion  
  \[ 1,800 \times 20 = 36,000 \]
- Value by sales comparison  
  \[ 111,600 \]

**Income Approach**
- Income  
  \[ 800 \times 165 \text{ GRM} = 132,000 \]
- Minus cost of conversion  
  - 36,000
- Value by income approach  
  \[ 96,000 \]
**Case Study #5.3 Income-Producing Properties & Lease Analysis—(Page 176)**

**Instructor Guidelines—Challenges:**

**# 1 Zoning Requirements** – Per zoning, the parking requirement, for this use, is greater than can be accommodated on this site. Therefore, can the additional site have sell-off potential? In addition, what impact does the lease have in considering the additional lot?

**#2 Approaches to Value** – From the information given, cost, sales comparison, and income approaches can be developed. *(Don’t forget the surplus parking spaces on the additional lot that are not required by the lease!)*

**Comments:** Without the additional parking lot, the medical building would be an illegal use per the zoning requirements. Therefore, the additional parking lot cannot be considered to have sell-off potential in the assignment, by zoning as well as the lease terms. The cost, sales comparison, and income approaches can be processed by the information given. This exercise is, additionally, a practice in narrative comment regarding the highest and best use of the additional site, the zoning requirements, and the lease requirements. Consider effective age to be equal to actual age.

**Point Break: What relevant factors must be considered when valuing this property?**

- The parking accommodation from the separate lot is required for both zoning compliance and the lease terms. Thus, the stand-alone value of the lot would *not* be considered under the present lease and with the present improvements and use of the primary parcel.
- Is there additional parking that could be rented from the parking lot that is not required by the lease or zoning?

**Point Break: How would you tackle this appraisal assignment?**

- The cost, sales comparison, and income approaches can be processed with the information given

**Cost Approach**

*Land*

\[0.33 \times 43,560 \times $5 = \$71,874\]
\[0.60 \times 43,560 \times $5 = \$130,680\]
\[\text{Total} = \$202,554\]

*Reproduction of Building*

\[4,200 \times $80 = \$336,000\]
\[-(0.03 \times 6,67) \times $10,880 = \$325,920\]

*Other site*

\[\text{Additional} = \$25,000\]

**Value by cost**

\[\text{Total} = \$553,474\]
### Basic Appraisal Procedures

#### Income Approach

- $4,000 \times 12 = \$48,000$
- Vacancy 5% = \(-\$2,400\)
- \(\text{Net} = \$45,600\)

Additional 15 parking spaces @ \$20 \times 12 = \$3,600

**Total** = \$49,200

\(49,200/11.25\% = \$437,333\)

#### Sales Comparison Approach

- \(4,200 \times \$100 = \$420,000\)
- Contribution of 15 parking spaces by income = \$3,600
- \((\$3,600/11.25\%) = \$32,000\)

**Total** = \$452,000

### CHAPTER QUIZ (PAGE 178)

1. c  
2. c  
3. c  
4. d  
5. b  
6. d  
7. c  
8. a  
9. b  
10. d
CHAPTER 6

BUILD YOUR KNOWLEDGE (PAGE 191)

a. 3  f. 9  
b. 4  g. 10  
c. 2  h. 7  
d. 1  i. 8  
e. 5  j. 6

CUSTOMER SATISFACTION (PAGE 192)

1. Sloped Joist  
2. Concrete Composition  
3. Post and Beam  
4. Piers and Beams

BUILD YOUR KNOWLEDGE (PAGE 195)

a. 3  e. 7  
b. 2  f. 6  
c. 1  g. 8  
d. 4  h. 5

CONSTRUCTION INSPECTION (PAGE 196)

1. Phase 2 – Site Foundation  
2. Phase 6 – Insulation  
3. Phase 3 – Underfloor  
4. Phase 1 – Preliminary Preparation  
5. Phase 8 – Final Inspection

CHAPTER QUIZ (PAGE 214)

1. c 6. d  
2. c 7. c  
3. d 8. b  
4. b 9. a  
5. d 10. b
EXTRA PROBLEMS (PAGE 220)

Given the following data set, determine the mean, median, mode, and range.

Sample set:

$45,000, $40,000, $40,000,
$44,000, $46,000, $41,000

Mean: $42,667

$40,000 + $40,000 + $41,000 + $44,000 + $45,000 + $46,000 = $256,000

$256,000 ÷ 6 = $42,666.67

Rounded to $42,667

Median: $42,500

$40,000, $40,000, $41,000,
$44,000, $45,000, $46,000

$41,000 + $44,000 = $85,000

$85,000 ÷ 2 = $42,500

Mode: $40,000

$40,000, $40,000, $41,000
$44,000, $45,000, $46,000

$40,000 occurs with the most frequency (2 times).

Range: $6,000

$40,000, $40,000, $41,000,
$44,000, $45,000, $46,000

$46,000 - $40,000 = $6,000

EXTRA PROBLEMS (PAGE 222)

1. A commercial lot is priced at $1,800 per front foot. If the lot measures 170’ x 550’, what is the price of the lot?

   $306,000

   (170’ x $1,800 = $306,000)
2. If the same lot is priced at $2.75 per square foot, calculate the price of the lot.

$257,125
(170’ x 550’ = 93,500 square feet
93,500 x 2.75 = $257,125)

3. What is the price of a parcel of land selling for $9,000 per acre and that is a quarter mile squared?

$360,000
(5,280’ ÷ 4 = 1,320
1,320’ x 1,320’ = 1,742,400 square feet
1,742,400 ÷ 43,560 = 40 acres
40 x $9,000 = $360,000)

EXTRA PROBLEMS (PAGE 224)

1. Calculate the cost of building a structure that is 120’ x 75’, if the cost is $11.25 per square foot.

$101,250
(120’ x 75’ = 9,000 square feet
9,000 x $11.25 = $101,250)

2. A warehouse that is 700’ x 300’ can be built for a cost of $8.00 per square foot, but part of that space is a 100’ x 100’ office area that will cost $12.75 per square foot. What is the total building cost?

$1,725,500
(700’ x 300’ = 210,000 sq. ft.
100’ x 100’ = 10,000 sq. ft.
210,000 – 10,000 = 200,000 sq. ft.
200,000 x $8.00 = $1,600,000
10,000 x $12.75 = $127,500
$1,600,000 + $127,500 = $1,725,500)

EXTRA PROBLEMS (PAGE 225)

1. What is the length of a building that has 15,000 cubic feet, if the height is 15’ and the width is 20’?

50 feet
(15’ x 20’ = 300
15,000 ÷ 300 = 50’
2. A building is being constructed for $4.80 per cubic foot. The building is 18’ tall and contains 1,250 square feet. What is the cost of the building?

$108,000

(1,250 sq. ft. x 18’ (height) = 22,500 cubic feet
22,500 x $4.80 = $108,000)

EXTRA PROBLEMS (PAGE 226)

1. Write a description for this diagram:

SW ¼ of the NW ¼
The upper left quarter is the northwest quarter of the section. The shaded area is the southwest quarter of the northwest quarter of the section.

2. Calculate the number of acres in the parcels described as the SW ¼, SW ¼ of Section 17 and the NW ¼, NW ¼, NW ¼ of Section 20.

50 Acres

Section 17 = 640 Acres
SW ¼ = 160 Acres
SW ¼ of SW ¼ = 40 Acres

Section 20 = 640 Acres
NW ¼ = 160 Acres
NW ¼ of NW ¼ = 40 Acres
NW ¼ of NW ¼ of NW ¼ = 10 Acres
40 + 10 = 50 Acres Total

EXTRA PROBLEMS (PAGE 229)

1. Using the breakdown method, what is the amount of depreciation of carpeting costing $6,000, with 75% of its life remaining?

$1,500

(100% - 75% = 25%
$6,000 x 25% = $1,500)
2. A house has an effective age of 15 years, if the remaining economic life is 45 years, what is the percent of depreciation?

\[
\frac{25\%}{15 + 45 = 60} \quad \frac{15}{60} = 25\%
\]

3. Using the age-life method, what is the dollar amount of depreciation if the cost new is $180,000, land value is $30,000, the effective age is five years, and the total economic life is 75 years?

\[
$12,000 \\
(5 \div 75 = 6.6667\%) \\
$180,000 \times 6.6667 = $12,000
\]

4. A house has no front door, with the only entry through the kitchen in the rear, but this is considered curable. A doorway can be installed leading into the living room in the front of the house for $1,200. If installed when the house was built, the doorway would have only added $200 to the cost. What is the functional depreciation?

\[
$1,000 \\
($1,200 - $200 = $1,000)
\]

**EXTRA PROBLEM (PAGE 231)**

Based on the previous paired data grid, complete the following sales comparison grid and derive the subject’s value.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Sale #1</th>
<th>Sale #2</th>
<th>Sale #3</th>
<th>Sale #4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale price</td>
<td>????????</td>
<td>$14,750</td>
<td>$13,750</td>
<td>$13,000</td>
</tr>
<tr>
<td>Depth</td>
<td>-0-</td>
<td>$1,000</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Easement</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Amenities</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td>Net adjustment</td>
<td>-0-</td>
<td>$1,000</td>
<td>-0-</td>
<td>$750</td>
</tr>
<tr>
<td>Adjusted sale price</td>
<td>$13,750</td>
<td>$13,750</td>
<td>$13,750</td>
<td>$13,750</td>
</tr>
</tbody>
</table>

Final value opinion for the subject: **$13,750**
EXTRA PROBLEMS (PAGE 235)

1. A property has annual income of $75,000 and monthly building expenses of $3,200. Annual debt service is $19,200 and depreciation is 5% of value. Using a capitalization rate of 9%, determine the value of the building.

   $406,667
   $75,000 - $38,400 (12 x $3,200) = $36,600
   $36,600 ÷ 0.09 (9%) = $406,667 (rounded)

2. An apartment building has four units, each rents for $550 per month. The building has an occupancy rate of 88% and monthly building expenses of $460. If the capitalization rate is 12%, determine the building’s value.

   $147,600
   $26,400 ($550 x 4 x 12) x 0.12 (100% - 88%) = $3,168
   $26,400 - $3,168 = $23,232
   $23,232 - $5,520 ($460 x 12) = $17,712
   $17,712 ÷ 0.12 (12%) = $147,600

EXTRA PROBLEMS (PAGE 236)

1. A property valued at $150,000 generates annual income of $30,000. Building expenses run $1,500 per month, leading to a net income of $12,000. Calculate the gross rent multiplier.

   60
   $150,000 ÷ $2,500 ($30,000 ÷ 12) = 60

2. Calculate the value of a property that has a gross monthly income of $5,000 if the GRM in the area is 160.

   $800,000
   $5,000 x 160 = $800,000

EXTRA PROBLEMS (PAGE 237)

1. How much would it cost to carpet two rooms if one room is 10’ x 16’, the other room is 8’ x 12’, and carpet costs $12 per square yard?

   $341.33
   10’ x 16’ = 160 sq. ft.
   8’ x 12’ = 96 sq. ft.
   160 + 96 = 256 sq. ft.
   256 ÷ 9 = 28.4444
   28.4444 x $12 = $341.33
2. How much will a driveway cost if it is 40’ x 8’ x 4”, and concrete costs $6 per cubic yard?

$23.70

40’ x 8’ x 0.3333 = 106.656 cubic feet

106.656 ÷ 3.9502

3.9502 x $6 = $23.70 (rounded)

EXTRA PROBLEMS (PAGE 238)

1. A buyer is buying a property for $100,000 and will make a $10,000 down payment. If charged two points, how much will the buyer owe in points?

$1,800

$100,000 - $10,000 = $90,000

$90,000 x 0.02 (2%) = $1,800

2. John is buying a property for $125,000 with a 20% down payment. He will be charged two points. How much will John owe in points?

$2,000

$125,000 x 0.20 (20%) = $25,000

$125,000 - $25,000 = $100,000

$100,000 x 0.02 (2%) = $2,000

EXTRA PROBLEMS (PAGE 239 - TOP)

1. A property is appraised at $150,000 and assessed for tax purposes at 35% of value. Calculate the annual taxes if the mills total is 80.

$4,200

$150,000 x 0.35 (35%) = 52,500

$52,500 ÷ 1,000 = 52.5

52.5 x 80 = $4,200

2. A home is valued at $100,000 and assessed for tax purposes at 35% of value. If mills are 47.5, calculate the annual taxes.

$1,662.50

$100,000 x 0.35 (35%) = $35,000

$35,000 ÷ 1,000 = 35

35 x 47.5 = $1,662.50
EXTRA PROBLEMS (PAGE 239 – BOTTOM)

1. A buyer purchases land for $50,000 and divides it into three lots that are sold for $20,000 each. What is the return on investment?

   \[ \text{Return on Investment} = \frac{\text{Profit}}{\text{Investment}} \]
   \[ \text{Profit} = 3 \times $20,000 = $60,000 \]
   \[ \text{Investment} = $60,000 - $50,000 = $10,000 \text{ profit} \]
   \[ \frac{$10,000}{\$50,000} = 0.20 \text{ (20%)} \]

2. You purchase an investment property for $125,000. You later sell it at a loss of $20,000. What is your percent of loss?

   \[ \text{Percent of Loss} = \frac{\text{Loss}}{\text{Original Value}} \]
   \[ \frac{-\$20,000}{\$125,000} = 0.16 \text{ (16%)} \]

CHAPTER QUIZ (PAGE 245)

1. c
2. b
3. c
4. c
5. c
6. a
7. c
8. c
9. c
10. c

APPENDIX MATERIAL

APPRAISAL QUIZ #1 (PAGE 255)

1. T
2. F
3. T
4. T
5. T
6. F
7. F
8. F
9. F
10. F
11. T
12. F
13. F
14. T
15. F
16. F
17. F
18. T
19. F
20. F
21. F
22. F
23. F
24. T
25. F
26. F
27. T
28. T
29. F
30. T
31. F
32. T
33. F
34. F
35. F
36. F
37. T
38. F
39. F
40. F
41. T
42. F
43. T
44. T
45. T
# Basic Appraisal Procedures

## Appraisal Quiz #2 (Page 258)

<p>| | | | | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>T</td>
<td>13.</td>
<td>T</td>
<td>25.</td>
</tr>
<tr>
<td>3.</td>
<td>T</td>
<td>15.</td>
<td>F</td>
<td>27.</td>
</tr>
<tr>
<td>5.</td>
<td>F</td>
<td>17.</td>
<td>F</td>
<td>29.</td>
</tr>
<tr>
<td>6.</td>
<td>T</td>
<td>18.</td>
<td>F</td>
<td>30.</td>
</tr>
<tr>
<td>8.</td>
<td>T</td>
<td>20.</td>
<td>T</td>
<td>32.</td>
</tr>
<tr>
<td>10.</td>
<td>T</td>
<td>22.</td>
<td>F</td>
<td>34.</td>
</tr>
<tr>
<td>11.</td>
<td>F</td>
<td>23.</td>
<td>T</td>
<td>35.</td>
</tr>
</tbody>
</table>

## Appraisal Math Quiz (Page 261)

<p>| | | | | |</p>
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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>b ($16,800)</td>
<td>6.</td>
<td>c (87.00)</td>
<td>11.</td>
</tr>
<tr>
<td>2.</td>
<td>c (6.9%)</td>
<td>7.</td>
<td>c (90,000)</td>
<td>12.</td>
</tr>
<tr>
<td>3.</td>
<td>b ($50)</td>
<td>8.</td>
<td>b (3,840)</td>
<td>13.</td>
</tr>
<tr>
<td>4.</td>
<td>b (0.46)</td>
<td>9.</td>
<td>c ($777,120)</td>
<td>14.</td>
</tr>
<tr>
<td>5.</td>
<td>b ($1,800)</td>
<td>10.</td>
<td>c ($128,800)</td>
<td>15.</td>
</tr>
<tr>
<td>16.</td>
<td>b ($31,002)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.</td>
<td>b ($364,729)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.</td>
<td>b ($39,950)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19.</td>
<td>b ($3,840)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.</td>
<td>a ($20)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Appraisal Topics for Discussion (Page 264)

1. What is/are the basic principle(s) on which the concept of valuation is based?

Briefly describe this principle and how it applies to real estate valuation.

The fundamental principles include D U S T and P E G S, as well as the principles of change, balance, substitution, conformity, and anticipation. Appraisers observe all of these elements in determining highest and best use and when developing value opinions.
2. Indicate which items are real property (RP) and which are personal property (PP).

<table>
<thead>
<tr>
<th>Item</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Window screens</td>
<td>RP</td>
</tr>
<tr>
<td>Furnace</td>
<td>RP</td>
</tr>
<tr>
<td>Water softener</td>
<td>RP*</td>
</tr>
<tr>
<td>Draperies</td>
<td>PP*</td>
</tr>
<tr>
<td>Kitchen cabinets</td>
<td>RP</td>
</tr>
<tr>
<td>Central air</td>
<td>RP</td>
</tr>
<tr>
<td>Satellite dish</td>
<td>PP*</td>
</tr>
<tr>
<td>Window air-conditioner</td>
<td>PP*</td>
</tr>
<tr>
<td>Venetian blinds</td>
<td>RP*</td>
</tr>
<tr>
<td>Rose bush</td>
<td>RP</td>
</tr>
<tr>
<td>Child’s playhouse</td>
<td>PP*</td>
</tr>
<tr>
<td>Propane tank</td>
<td>RP*</td>
</tr>
</tbody>
</table>

Which of the above items are most open to debate?

*The items with an asterisk* often could arguably result in debate.

Water softener: If the unit is leased, it would not be considered real property.

Satellite dish: This may vary by local custom, but usually satellite dishes are considered personal property. Even though the method of attachment might imply it is a fixture, the intent usually isn’t to make it a permanent part of the property.

Venetian blinds: Usually considered real property as they serve as the primary window covering, in some circumstances they might be considered personal property.

Child’s playhouse: Personal property unless attachment or intent would imply otherwise.

Draperies: Usually considered personal property unless from attachment or intent they would imply otherwise.

Window air-conditioners are usually always considered personal property, unless there is some element that would indicate them as a fixture.

Propane tank: If the tank is leased, it would not be considered real property.

Why must an appraiser be concerned with these issues?

The appraiser must know how to consider the contributory value of some of these items. If an item is typically conveyed with real property and is not included, adverse effects could result in the value conclusion.

3. Which would prevent an arm’s length transaction? Why?

a. Seller has been transferred to another city and must leave right away
b. New highway construction in the area
c. Property was purchased at a delinquent tax sale
d. House is located across from a school
e. Water leak in the basement, noted on the Property Disclosure Form
f. Water leak in basement, but seller unaware (thought it was fixed)
Any of these items could preclude a transaction from being considered arm’s length if one of the parties in the transaction was unduly motivated.
Examples: Choices a, b, & c may be related to haste and duress. With answer d, a buyer might be atypically motivated if the buyer has a child who attends that school and the locational relationship is imperative based on need.

4. The first step in the appraisal process is to **define the problem**.

5. The most important step in the appraisal process is to **determine the scope of work**.*

*This discussion could lead to several answer options such as: highest and best use, reconciliation, problem identification, etc., which could all be valid answers.

6. State the three appraisal approaches for the estimation of value, and give an example of a type of building that would ideally be suited for each type of appraisal approach.

**Appraisal Approach #1: Sales Comparison Approach**
Example Building Type: **Single-family residence (or other type for which there is relevant data)**

**Appraisal Approach #2: Cost Approach**
Example Building Type: **New Construction, unique construction**

**Appraisal Approach #3: Income Approach**
Example Building Type: **Income-producing property, such as a 2-family residence**

7. The three types of appraisal reports are:
   1. Self-contained
   2. Summary
   3. Restricted-use

8. Give two examples of functional obsolescence.
Examples: Tandem bedrooms, poor floor plan, outdated fixtures, garages too small for modern cars

Give two examples of external obsolescence.
Examples: Factory across the street, railroad tracks next to the property, high-end property in an economically depressed area.
9. Explain the difference between replacement cost and reproduction cost of a building, and give an example of when each would be used.

Replacement is a functional equivalent—similar.

Reproduction is a replica—identical.

Example: Replacement is used for the majority of residential properties where the market would readily accept a reasonable substitute, or for insurance.

Example: Reproduction is most often used for historical properties or properties that have elements that must be replicated to maintain their value and marketability.

10. Define depreciation; explain how it is used and why it is important.

A loss in value for any reason. The difference between cost and market value.

Depreciation must be considered to distinguish the current value of a property from its cost.

11. Define, through words or example, the valuation concept of highest and best use.

The most profitable, legally permitted, economically feasible, and physically possible use of a property.

12. Define, through words or example, the valuation concept of supply and demand.

A law of economics that implies, for all products, goods, and services, when supply exceeds demand, prices will fall and when demand exceeds supply, prices will rise.

13. Define, through words or example, the valuation concept of substitution.

An informed buyer will not pay more for a property or a feature in a property, than a comparable substitute—or more than the property's cost.

14. Define, through words or example, the valuation concept of contribution.

An item or feature of a property is only worth what it actually contributes in value to that property—or what a typical buyer recognizes the value to be.

15. Define, through words or example, the valuation concept of the law of increasing returns and the law of decreasing returns.

When the contribution of an item is greater, or less, than the cost of the item.