

DEAR REGISTRANT:

MAY I TAKE THIS MEANS OF WELCOMING YOUR PARTICIPATION AS A STUDENT IN THE WASHINGTON STATE ASSESSORS' ASSOCIATION, AND THE WASHINGTON STATE TAX COMMISSION'S APPRAISAL COURSE II; ADVANCED RESIDENTIAL.

TO ASSIST YOU IN PREPARING YOURSELF I SUGGEST THAT YOU OBTAIN A COPY, IF YOU DO NOT ALREADY HAVE ONE, OF "THE VALUATION OF RESIDENTIAL REAL ESTATE," 2ND EDITION BY ARTHUR A. MAY.

CAREFUL READING OF THIS BOOK WILL BE OF GREAT VALUE TO YOU SINCE A SUBSTANTIAL PART OF THE INSTRUCTION TO BE GIVEN IS BASED UPON ITS TEXT.

ENCLOSED YOU WILL FIND THE FOLLOWING MATERIAL:

1. APPRAISAL PRINCIPLES
2. APPRAISAL TERMINOLOGY
3. DEPRECIATION (REPRINT FROM THE APPRAISAL GUIDE-S.R.A.)
4. THE MARKET AS A YARDSTICK

I SUGGEST THAT ON ENCLOSURES 1 AND 2 YOU PAY PARTICULAR ATTENTION TO THOSE PRINCIPLES AND TERMS WHICH ARE ASTERISKED. ALL ARE IMPORTANT, BUT THOSE SO MARKED ARE BASIC TO COURSE II.

THE READING OF ENCLOSURE #3 WILL ASSIST YOU IN ESTABLISHING A BETTER UNDERSTANDING OF THIS MOST IMPORTANT SUBJECT.

IT IS ALSO IMPORTANT TO THE PRESENTATION OF THE COST APPROACH THAT YOU FAMILIARIZE YOURSELF WITH THE WASHINGTON STATE BUILDING APPRAISAL MANUAL (1964 REVISED). A COVER TO COVER READING IS DEFINITELY INDICATED.

YOU WILL NOTE THAT THE ENCLOSURES ARE PERFORATED. I WOULD ADVISE YOU TO SECURE A LARGE BACK RING BINDER TO KEEP THEM IN. THERE WILL BE MANY MORE PIECES OF INSTRUCTIONAL MATERIAL ISSUED DURING THE COURSE. AT ITS CONCLUSION YOU WILL HAVE AN INVALUABLE ACCUMULATION OF REFERENCE DATA FOR FUTURE NEEDS AND STUDY.

I HOPE ALL OF THE ABOVE WILL BE HELPFUL TO YOU, AND THE ENTIRE INSTRUCTORS' STAFF AND I LOOK FORWARD TO MAKING YOUR ACQUAINTANCE IN OCTOBER. REMEMBER PLATO SAID, "KNOWLEDGE OPENS ALL DOORS."

SINCERELY YOURS,

JOHN LIEPMAN

P.S. PLEASE BRING MANUALS, BINDERS, AND THE ENCLOSED MATERIAL WITH YOU TO THE 1966 SCHOOL.

JL/BJN

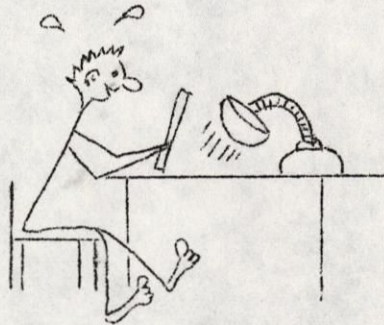
COUNTY APPRAISAL COURSE II
(ADVANCED RESIDENTIAL)

OFFERED BY

WASHINGTON STATE ASSESSORS' ASSOCIATION
AND
WASHINGTON STATE TAX COMMISSION

APPROVED BY INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS

****ADVANCE STUDY MATERIAL****



COUNTY APPRAISAL COURSE #2 (CONTINUED)

COUNTY APPRAISAL COURSE #2
(ADVANCED RESIDENTIAL)

WEDNESDAY

OFFERED BY

WASHINGTON STATE ASSESSORS' ASSOCIATION

AND

WASHINGTON STATE TAX COMMISSION

APPROVED BY INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS

OCTOBER 3-7, 1966

CHINOOK HOTEL - - - YAKIMA, WASHINGTON

TEXTBOOK:

"THE VALUATION OF RESIDENTIAL REAL ESTATE" - 2ND EDITION BY ARTHUR A. MAY

INSTRUCTORS:

JOHN T. LIEPMAN

FRED ANDERSON, S.R.A.

LESLIE ANDERSON, S.R.A.

OTTO L. CHANTLER, S.R.A.

RICHARD MADDEN

MONDAY

INSTRUCTOR

8:00 - 9:00	REGISTRATION	
9:00 - 9:30	INTRODUCTION AND COURSE OUTLINE	JOHN LIEPMAN
9:30 - 10:00	REVIEW OF BASIC APPRAISAL PRINCIPLES	FRED ANDERSON
10:00 - 10:15	COFFEE BREAK	
10:15 - 10:45	REVIEW OF APPRAISAL TERMINOLOGY	RICHARD MADDEN
10:45 - 11:00	SPOT QUIZ AND OPEN DISCUSSION	ALL
11:00 - 12:00	THE NARRATIVE REPORT - OUTLINE & PURPOSE	OTTO CHANTLER
12:00 - 1:00	NOON RECESS	
1:00 - 3:00	LAND VALUATION - ALL APPROACHES	RICHARD MADDEN
3:00 - 3:15	COFFEE BREAK	
3:15 - 4:15	LAND VALUATION - CASE STUDY	RICHARD MADDEN
4:15 - 5:00	SPOT QUIZ AND CLASS PROBLEM	RICHARD MADDEN

TUESDAY

8:00 - 10:00	THE COST APPROACH	LESLIE ANDERSON & OTTO CHANTLER
10:00 - 10:15	COFFEE BREAK	
10:15 - 12:00	THE COST APPROACH (CONTINUED)	" "
12:00 - 1:00	NOON RECESS	
1:00 - 3:00	THE COST APPROACH - APPLICATION	" "
3:00 - 3:15	COFFEE BREAK	
3:15 - 4:15	THE COST APPROACH - CASE STUDY	" "
4:15 - 5:00	SPOT QUIZ AND REVIEWS	" "

COUNTY APPRAISAL COURSE #2 (CONTINUED)

WEDNESDAY

INSTRUCTOR

8:00 - 9:00	DEPRECIATION - THEORY	JOHN LIEPMAN
9:00 - 10:00	"	FRED ANDERSON
10:00 - 10:15	COFFEE BREAK	" "
10:15 - 12:00	DEPRECIATION (CONTINUED)	" "
12:00 - 1:00	NOON RECESS	
1:00 - 3:00	DEPRECIATION (CLASS PROBLEMS)	
3:00 - 3:15	COFFEE BREAK	
3:15 - 3:30	SPOT QUIZ AND PROBLEM	
3:30 - 4:30	MARKET DATA APPROACH - THEORY	JOHN LIEPMAN
4:30 - 5:00	MARKET DATA PROBLEM	RICHARD MADDEN

THURSDAY

8:00 - 10:00	MARKET DATA APPROACH - CLASS PROBLEM	JOHN LIEPMAN
10:00 - 10:15	COFFEE BREAK	
10:15 - 10:45	MARKET DATA APPROACH - CORRELATION	RICHARD MADDEN
10:45 - 12:00	SPOT QUIZ AND OPEN DISCUSSION	JOHN LIEPMAN
12:00 - 1:00	NOON RECESS	
1:00 - 2:00	THE INCOME APPROACH - M.G.R.M. THEORY	FRED ANDERSON
2:00 - 2:30	M.G.R.M. (CLASS PROBLEMS)	" "
2:30 - 3:00	M.G.R.M. - SPOT QUIZ AND PROBLEM	" "
3:00 - 3:15	COFFEE BREAK	" "
3:15 - 3:45	CORRELATION OF ALL APPROACHES	" "
3:45 - 4:15	COURSE II REVIEW AND OPEN DISCUSSION	ALL
4:15 - 4:30	HOW TO TAKE AN EXAMINATION	RICHARD MADDEN
7:00 - 10:00	EXAMINATION (PART I)	

FRIDAY

9:00 - 10:00	EXAMINATION (PART II)
10:00 - 10:15	COFFEE BREAK (DO NOT LEAVE HALL OR DISCUSS EXAMINATION)
10:15 - 12:00	EXAMINATION AND CRITIQUE (CONTINUED)

EXCERPTS FROM - "HOW ADULTS CAN LEARN MORE FASTER"

BY

THE NATIONAL ASSOCIATION OF PUBLIC SCHOOL ADULT EDUCATORS

LISTEN FOR USE:

ADULT EDUCATION IS DIFFERENT:

LISTEN WITH PENCIL IN HAND TO JOT KEY POINTS.

THE DECISION TO LEARN IS MADE BY YOU.

LISTEN CRITICALLY - WHAT IS LEFT OUT OR ILLOGICAL?

IT IS A PART-TIME ACTIVITY.

KEEP NOTES IN ONE NOTEBOOK.

THE TEACHER HAS NO "AUTHORITY" OVER YOU.

MAKE NOTES SHORT AND TO THE POINT.

THE CLASS IS MORE INFORMAL.

LISTEN FOR CLUES TO THE SPEAKER'S IMPORTANT POINTS.

YOU WILL LEARN A LOT FROM YOUR CLASSMATES.

REWRITE AND ORGANIZE YOUR NOTES AS SOON AS POSSIBLE.

YOU ARE ON YOUR OWN!

CHECK YOUR NOTES WITH OTHER STUDENTS.

ADULTS CAN LEARN:

DEVELOP YOUR OWN SHORTHAND AND ABBREVIATIONS.

THE MIND DOES NOT DETERIORATE WITH AGE.

USE COLORED PENCILS FOR VISUAL AIDS.

ADULTS DO "FAST MEMORIZING" BETTER THAN CHILDREN.

ADULTS "LIVING EXPERIENCE" HELPS THEM LEARN BY RELATING NEW FACTS TO PREVIOUS EXPERIENCE.

TWELVE TIPS TO CONCENTRATE:

HOW ADULTS DO LEARN:

1. TRY TO STUDY IN A QUIET SPOT.

2. YOU MUST WANT TO LEARN - YOU CAN MAKE YOURSELF.

3. JERK YOUR MIND INTO LINE WHEN IT WANDERS.

4. YOU MUST SQUELCH YOUR DOUBTS AND FEARS.

5. SOMETIMES READ ALOUD.

6. YOU LEARN BY DOING. REPEATING IN YOUR OWN WORDS WHAT YOU HAVE JUST READ.

7. TRAIN YOUR FAMILY TO RESPECT YOUR PRIVACY.

8. YOU ARE SENSITIVE TO FAILURE BUT PERHAPS YOU ARE A MORE SUCCESSFUL LEARNER THAN YOU THINK.

9. DON'T LET YOUR MIND GO AWAY.

10. DON'T TRY TO CONCENTRATE IF UPSET EMOTIONALLY.

11. YOU LEARN WHAT HAS PERSONAL MEANING FOR YOU BUT YOU MUST OVERCOME YOUR RESISTANCE TO CHANGE IN THINKING AND OVERCOME ANY NEGATIVE FEELING ABOUT YOURSELF IN RELATION TO THE CLASS.

HOW TO LISTEN AND TAKE NOTES

WORK AT LISTENING!

LISTEN FOR USE.

LISTEN FOR BASIC THOUGHT.

LISTEN WITH PENCIL IN HAND TO JOT KEY POINTS.

LISTEN CRITICALLY - WHAT IS LEFT OUT OR ILLOGICAL?

KEEP NOTES IN ONE NOTEBOOK.

MAKE NOTES SHORT AND TO THE POINT.

LISTEN FOR CLUES TO THE SPEAKER'S IMPORTANT POINTS.

REWRITE AND ORGANIZE YOUR NOTES AS SOON AS POSSIBLE.

CHECK YOUR NOTES WITH OTHER STUDENTS.

DEVELOP YOUR OWN SHORTHAND AND ABBREVIATIONS.

USE COLORED PENCILS AS VISUAL AIDS.

HOW TO STUDY

TWELVE TIPS TO CONCENTRATE:

1. TRY TO STUDY IN A ROOM APART.
2. HAVE EVERYTHING THERE YOU WILL NEED.
3. JERK YOUR MIND INTO LINE WHEN IT WANDERS.
4. ASK YOURSELF QUESTIONS.
5. SOMETIMES READ ALOUD.
6. CONCENTRATE BY RESTATING IN YOUR OWN WORDS WHAT YOU HAVE JUST READ.
7. TRAIN YOUR FAMILY TO RESPECT YOUR PRIVACY.
8. REMIND YOURSELF YOU ARE STUDYING FOR YOUR OWN GOOD.
9. REWARD YOURSELF FOR GOOD BEHAVIOR.
10. DON'T TRY TO CONCENTRATE IF UPSET EMOTIONALLY.
11. DON'T OVERDO IT - TAKE SHORT BREAKS.
12. CONCENTRATE BY PUTTING THOUGHTS IN WRITING.

HOW TO LEARN FROM A BOOK

1. READ THE ENTIRE ASSIGNMENT QUICKLY - SKIM - GULP THE WORDS IN GROUPS FOR AN IDEA.
2. RE-READ SLOWLY - SEVERAL TIMES FOR HARD SENTENCES; UNDERLINE IMPORTANT POINTS.
3. LOOK UP WORDS YOU DON'T KNOW.
4. ASK YOURSELF QUESTIONS.
5. USE YOUR PENCIL FOR THOUGHTS OR QUESTIONS.
6. DON'T CRAM TOO STEADILY - USE BREAKS.
7. FIND A MEMORY TRICK THAT HELPS, TALK ALOUD, WRITE IT DOWN, VISUALIZE BY EYE, ETC.
8. FIGURE OUT HOW YOU WILL USE THE INFORMATION.
9. PUT THE INFORMATION TO USE AS SOON AS POSSIBLE.
10. STUDY AGAIN TOMORROW - MATERIAL STUDIED IN 4 ONE-HOUR SESSIONS IS REMEMBERED BETTER THAN FROM 1 FOUR-HOUR SESSION.
11. USE THE STUDY HELPS AT THE END OF BOOK CHAPTERS.
12. GET OTHER PEOPLE TO ASK YOU QUESTIONS.
13. USE "FLASH CARDS" - BRIEF NOTES OF IMPORTANT POINTS YOU CAN KEEP IN YOUR POCKET TO MEMORIZE AT ODD MOMENTS.

THE RIGHT WAY TO WRITE AN EXAM

1. READ THE ENTIRE EXAMINATION FIRST TO DECIDE HOW TO ATTACK IT.
2. FIRST, ANSWER THE QUESTIONS YOU ARE SURE OF - THESE ANSWERS MAY SUGGEST ANSWERS TO SOME YOU ARE NOT SURE OF.
3. REMEMBER "AROUND" FACTS YOU HAVE FORGOTTEN. THINKING OF ANOTHER TYPE OF DEPRECIATION MAY SUGGEST THE ANSWER TO YOUR QUESTION.
4. GUESS THE ANSWER - YOUR SUBCONSCIOUS KNOWLEDGE GIVES YOU A PERCENTAGE CHANCE OF BEING CORRECT.
5. CONCENTRATE LONGER ON THE QUESTIONS YOU KNOW WILL COUNT THE MOST.
6. MAKE AN OUTLINE OF THE CORRECT SEQUENCE TO WRITE AN ESSAY-TYPE ANSWER.
7. DOUBLE CHECK TO MAKE SURE YOU ARE ANSWERING WHAT THE QUESTION ASKS.
8. DON'T "PAD" ESSAY-TYPE ANSWERS.
9. WHEN YOU HAVE ANSWERED THE LAST QUESTION, RE-READ THE ENTIRE EXAM AND CHECK YOUR ANSWERS TO MAKE SURE THEY SAY WHAT YOU MEANT TO SAY.

APPRAISAL PRINCIPLES

AGENTS OF PRODUCTION

LABOR (WAGES AND SALARIES)

COORDINATION (OPERATING EXPENSES)

CAPITAL (INVESTMENT IN BUILDING, EQUIPMENT, ETC.)

LAND (NATURAL RESOURCES)

ANTICIPATION

VALUE IS DERIVED FROM ANTICIPATED BENEFITS TO BE REALIZED IN THE FUTURE.

VALUE IS EFFECTIVELY SET BY WHAT PROSPECTIVE OWNERS ANTICIPATE THAT THE PROPERTY WILL BRING IN THE FUTURE.

APPRAISAL PRINCIPLES

BALANCE

HOLDS THAT VALUE IS CREATED AND MAINTAINED IN PROPORTION TO THE EQUILIBRIUM ATTAINED IN THE AMOUNT AND LOCATION OF ESSENTIAL USES OF REAL ESTATE. THE DEGREE OF VALUE OF A PROPERTY IS GOVERNED BY THE BALANCE OR PROPORTIONING OF FOUR AGENTS IN PRODUCTION, WHICH ARE:

1. LABOR, THAT IS, WAGES
2. COORDINATION, THAT IS, MANAGEMENT (ENTREPRENEUR)
3. CAPITAL, THAT IS, THE INVESTMENT IN BUILDINGS AND EQUIPMENT
4. LAND

CHANGE

ALL EXISTENCE PROGRESSES AND REGRESSES. NOTHING REMAINS STATIC.

CONFORMITY

AFFIRMS THAT VALUES WILL BE STABILIZED AND OF MAXIMUM VALUE IN A NEIGHBORHOOD WHEN THERE IS A REASONABLE DEGREE OF HOMOGENEITY ALONG ALL LINES, INCLUDING LAND, SIMILARITY OF HOMES, PEOPLE OF SIMILAR RACE AND NATIONALITY, SOCIAL STATUS AND INCOME LEVEL.

APPRAISAL PRINCIPLES

AGENTS OF PRODUCTION

LABOR (WAGES AND SALARIES)

COORDINATION (OPERATING EXPENSES)

CAPITAL (INVESTMENT IN BUILDING, EQUIPMENT, ETC.)

LAND (NATURAL RESOURCES)

* ANTICIPATION

VALUE IS DERIVED FROM ANTICIPATED BENEFITS TO BE REALIZED IN THE FUTURE.

VALUE IS EFFECTIVELY SET BY WHAT PROSPECTIVE OWNERS ANTICIPATE THAT THE PROPERTY WILL BRING IN THE FUTURE.

BALANCE

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1. LABOR, THAT IS, WAGES
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3. CAPITAL, THAT IS, THE INVESTMENT IN BUILDINGS AND EQUIPMENT
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ALL EXISTENCE PROGRESSES AND REGRESSES. NOTHING REMAINS STATIC.

* CONFORMITY

AFFIRMS THAT VALUES WILL BE STABILIZED AND OF MAXIMUM VALUE IN A NEIGHBORHOOD WHEN THERE IS A REASONABLE DEGREE OF HOMOGENEITY ALONG ALL LINES, INCLUDING LAND, SIMILARITY OF HOMES, PEOPLE OF SIMILAR RACE AND NATIONALITY, SOCIAL STATUS AND INCOME LEVEL.

* CONTRIBUTION

THE VALUE OF ANY INDIVIDUAL AGENT IN PRODUCTION DEPENDS UPON HOW MUCH IT ADDS TO THE NET INCOME BECAUSE OF ITS PRESENCE OR DETRACTS FROM IT BY REASON OF ITS ABSENCE.

DIMINISHING RETURNS

HOLDS THAT AT SOME AMOUNT OF CAPITAL INVESTMENT THE MAXIMUM RETURN IS REACHED AND ADDITIONAL AMOUNTS OF CAPITAL WILL PRODUCE LESSER RETURNS.

* HIGHEST AND BEST USE

THAT REASONABLY PROXIMATE AND PROBABLE USE WHICH WILL SUPPORT MARKET VALUE AS OF DATE OF APPRAISAL.

INCREASING AND DECREASING RETURNS

AFFIRMS THAT LARGER AND LARGER AMOUNTS OF AGENTS IN PRODUCTION WILL PRODUCE LARGER AND LARGER NET INCOME UP TO A POINT, WHICH IS THE POINT OF MAXIMUM VALUE AND BEYOND THIS POINT ANY ADDITIONAL INVESTMENT WILL NOT PRODUCE A RETURN PROPORTIONATE TO THE ADDITIONAL INVESTMENT.

* INTEGRATION

DEVELOPMENT GENERATES RESISTANCE TO FURTHER DEVELOPMENT.

* REGRESSION

DEALS WITH THE INTERPLAY OF DISSIMILAR QUANTITIES. GOOD WILL NOT CURE THE DEFECT IN THE BAD; THE BAD WILL EVENTUALLY REDUCE THE VALUE OF THE GOOD.

SURPLUS PRODUCTIVITY

VALUE TENDS TO BE ESTABLISHED BY SURPLUS INCOME. MAXIMUM VALUE WILL BE FOUND WHEN THE AGENTS OF PRODUCTION ARE IN BALANCE AND WHEN EACH AGENT HAS ITS FAIR SHARE OF NET INCOME.

SUBSTITUTION

*"THE PRINCIPLES OF SUBSTITUTION" AFFIRMS THAT THE MAXIMUM VALUE OF A PROPERTY TENDS TO BE SET BY THE COST OR ACQUISITION OF AN EQUALLY DESIRABLE AND VALUABLE SUBSTITUTE PROPERTY, ASSUMING NO COSTLY DELAY IS ENCOUNTERED IN MAKING THE SUBSTITUTION.

* APPLIED TO THE MARKET APPROACH:

A PERSON IS NOT JUSTIFIED IN PAYING MORE FOR A PIECE OF PROPERTY THAN THE COST OR ACQUISITION OF AN EQUALLY DESIRABLE AND VALUABLE SUBSTITUTE PROPERTY, ASSUMING NO COSTLY DELAY IS ENCOUNTERED IN MAKING THE SUBSTITUTION.

* APPLIED TO THE COST APPROACH:

A PERSON IS NOT JUSTIFIED IN PAYING MORE FOR A PIECE OF PROPERTY THAN THE COST OF REPLACEMENT OF A REPLICA STRUCTURE HAVING THE SAME UTILITY, ASSUMING NO COSTLY DELAY IS ENCOUNTERED IN MAKING THE SUBSTITUTION.

APPLIED TO THE INCOME APPROACH:

VALUE TENDS TO BE SET BY THE INVESTMENT NECESSARY TO ACQUIRE, WITHOUT UNDUE DELAY, A COMPARABLE SUBSTITUTE INCOME PROPERTY OFFERING AN EQUALLY DESIRABLE NET INCOME RETURN.

APPRAISAL TERMINOLOGY

*ACCUMULATED DEPRECIATION -- THE PROVISION MADE FOR THE RETURN OF CAPITAL.

*AD VALOREM TAX -- TECHNICALLY, A TAX "TO" OR "AT THE VALUE." IN COMMON USAGE, A TAX LEVIED IN PROPORTION TO THE VALUE OF THE PROPERTY.

*AGE (ACTUAL) -- THE NUMBER OF YEARS ELAPSED SINCE THE ORIGINAL STRUCTURE WAS BUILT.

ALTERATIONS -- TEMPORARY CHANGES IN LAYOUT TO OBTAIN OR SATISFY TENANTS.

*AMENITIES -- THOSE PECULIAR AND INTANGIBLE BENEFITS ACCRUING TO AN OCCUPANT, SUCH AS THE SATISFACTION, SECURITY, JOY, PRIDE, PRESTIGE, FREEDOM OF USE, HIGHER CREDIT RATING, ETC., ARISING FROM THE RIGHT OF USE.

APPRAISAL TERMINOLOGY

*AMENITY VALUE -- THE INCREASE IN VALUE ABOVE THE UTILITY OR RENTAL VALUE; IT IS ATTRIBUTABLE TO THE AMENITIES OF HOME OWNERSHIP.

AMORTIZATION -- THE PROCESS OF RECOVERY OVER A STATED PERIOD OF TIME OF THE COST OF AN ASSET BY APPROPRIATE PERIODICAL CHARGES TO CURRENT OPERATIONS.

ANNUITY -- DEPENDABLE ANNUAL INCOME STREAM.

ANNUITY METHOD -- A METHOD IN WHICH THE VALUE OF A PROPERTY PRODUCING INCOME IS SAID TO BE THE PRESENT VALUE OF THE RIGHT TO RECEIVE SUCH INCOME OVER A STIPULATED PERIOD OF TIME. THE PROCESS INVOLVES THE DISCOUNTING OF FUTURE ANNUAL NET INCOMES (BEFORE DEPRECIATION) TO A PRESENT DAY VALUE.

*APPRAISAL -- AN ESTIMATE OF VALUE BASED UPON AN INDIVIDUAL'S BEST JUDGMENT AND REASONING AS A RESULT OF HIS EXPERIENCE AND HIS STUDY OF A PARTICULAR PROPERTY UPON WHICH THE ESTIMATE OF VALUE IS MADE.

APPRAISAL TERMINOLOGY

* ACCUAL FOR DEPRECIATION -- THE PROVISION MADE FOR THE RETURN OF CAPITAL.

* AD VALOREM TAX -- TECHNICALLY, A TAX "TO" OR "AT THE VALUE." IN COMMON USAGE, A TAX LEVIED IN PROPORTION TO THE VALUE OF THE PROPERTY.

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* APPRAISAL -- AN ESTIMATE OF VALUE BASED UPON AN INDIVIDUAL'S BEST JUDGMENT AND REASONING AS A RESULT OF HIS EXPERIENCE AND HIS STUDY OF A PARTICULAR PROPERTY UPON WHICH THE ESTIMATE OF VALUE IS MADE.

* APPRAISAL PROCESS -- AN ORDERLY PROGRAM FOR THE ACQUISITION, ANALYSIS AND INTERPRETATION OF DATA, THROUGH WHICH THREE INDICATIONS OF VALUE ARE DEVELOPED WHICH ARE CO-RELATED INTO A CONCLUSION OF VALUE FROM WHICH A REPORT IS WRITTEN.

* APPRECIATION -- INCREASE IN COST, PRICE, OR VALUE OVER THE COST, PRICE OBTAINABLE, OR VALUE AT SOME SPECIFIED PREVIOUS TIME OR PERIOD, WHICH INCREASE IS DUE TO IMPROVED ECONOMIC CONDITIONS, INCREASING PRICE LEVELS, REVERSAL OF DEPRECIATING ENVIRONMENTAL TRENDS, IMPROVED TRANSPORTATION FACILITIES, DIRECTION OF COMMUNITY OR AREA GROWTH, AND MANY OTHER FACTORS.

* APPROACHES TO VALUE -- THE BASIC METHODS OR TECHNIQUES BY WHICH MARKET DATA ARE PROCESSED INTO AN INDICATION OF VALUE, DESIGNATED AS:

1. COMPARATIVE SALES APPROACH, VARIOUSLY REFERRED TO AS COMPARISON APPROACH, SALES APPROACH, SALES COMPARISON APPROACH, MARKET DATA APPROACH
2. COST APPROACH, SOMETIMES STYLED SUMMATION APPROACH
3. NET INCOME CAPITALIZATION APPROACH, SOMETIMES LOOSELY REFERRED TO AS CAPITALIZATION APPROACH, AND INCOME CAPITALIZATION APPROACH.

* ASSESSMENT -- THE OFFICIAL VALUATION LEVEL OF PROPERTY FOR AD VALOREM TAX PURPOSES AND, IN THIS SENSE, SYNONYMOUS WITH ASSESSED VALUE.

* BALANCED IMPROVEMENT -- ONE WHERE TYPE, SIZE, AND INVESTMENT IN THE IMPROVEMENT IS IN RELATION TO SITE VALUE.

* BALANCED UTILITY -- DICTATES A RATIONAL SPACE BALANCE BETWEEN ROOM FUNCTIONS AND ROOM USES, BETWEEN WASTE SPACE AND FINISHED SPACE, AND BETWEEN ROOMS OF MINIMUM USE AND ROOMS OF MAXIMUM USE; WHERE THIS RATIONAL BALANCE DOES NOT EXIST THE FUNCTIONAL INADEQUACY WILL RESULT IN A LOSS IN VALUE.

BAND-OF-INVESTMENT THEORY -- THE DETERMINATION OF A WEIGHTED RATE DEVELOPED FROM THE PERCENTAGES OCCUPIED BY THE MORTGAGE AND EQUITY POSITIONS.

*BUNDLE OF RIGHTS -- REAL PROPERTY OWNERSHIP CONSISTS OF A "BUNDLE OF RIGHTS" AMONG WHICH ARE THE RIGHT TO USE THE PROPERTY, TO SELL IT, TO LEASE IT, TO ENTER IT, OR GIVE IT AWAY, THE RIGHT TO REFUSE OR TAKE ANY OF THESE ACTIONS.

LIMITATIONS: POWER OF TAXATION
POWER OF EMINENT DOMAIN
POWER OF POLICE FOR SAFETY, ETC.
TO HAVE PROPERTY ESCHEAT TO THE STATE

CAPITAL -- ACCUMULATED WEALTH USED TO FURTHER THE PRODUCTION PROCESS.

CAPITALIZATION -- THE PROCESS OF CONVERTING INTO A PRESENT VALUE, THAT IS, OBTAINING THE PRESENT WORTH OF, THE CURRENT NET INCOME, OR THE ANTICIPATED FUTURE NET INCOME.

1. APPRAISAL BY CAPITALIZATION -- A TECHNIQUE IN WHICH THE CURRENT AND/OR ANTICIPATED NET INCOME IS PROCESSED TO INDICATE THE CAPITAL AMOUNT OR VALUE OF THE INVESTMENT WHICH PRODUCES THE NET INCOME.

CAPITALIZATION RATE -- A FACTOR USED TO COMPUTE AN INCOME STREAM AND TO INDICATE THE PROBABLE CAPITAL VALUE.

1. OVER-ALL CAPITALIZATION RATE -- A CAPITALIZATION RATE USED IN THE PROCESSING (CAPITALIZING) OF THE INCOME TO THE PROPERTY, THAT IS, ONE RATE FOR THE TOTAL NET INCOME REGARDLESS OF THE AMOUNT ATTRIBUTABLE TO ANY FRACTIONAL PART OF THE PROPERTY.
2. OVER-ALL CAPITALIZATION RATE -- NET CAPITALIZATION RATE PLUS PROVISION FOR RECAPTURE OF TOTAL INVESTMENT, I.E., LAND AND IMPROVEMENTS.

CAPITALIZE -- TO CONVERT PRESENT OR FUTURE INCOME INTO CURRENT VALUE.

CAPITALIZED VALUE -- A VALUE INDICATION PRODUCED BY DISCOUNTING ANTICIPATED FUTURE NET INCOME AT THE GOING RATE; MORE PROPERLY, "AN INDICATION OF VALUE BY THE NET INCOME CAPITALIZATION APPROACH."

*CORRELATION -- THE PROCESS OF CO-RELATING THE FACTS AND FITTING THEM TOGETHER IN SUCH A WAY AS TO CONFORM TO CAUSE AND EFFECT RELATIONSHIPS; BRINGING OF THE ELEMENTS INTO BALANCE WITH EACH OTHER TO CONSTITUTE A UNIFIED AND COHERENT WHOLE.

*COST -- THE SUM OF EXPENDITURES NECESSARY TO CREATE A THING (SUCH AS GOODS, MONEY, SERVICES, ETC.); THE AMOUNT OF EXPENDITURE NECESSARY TO CREATE WEALTH.

* DEPRECIATION -- A LOSS FROM THE UPPER LIMIT OF VALUE. AN EFFECT CAUSED BY DETERIORATION, OR OBSOLESCENCE, OR BOTH. DETERIORATION IS EVIDENCED BY WEAR AND TEAR, DECAY, DRY ROT, CRACKS, ENCRUSTATIONS, OR STRUCTURAL DEFECTS. OBSOLESCENCE IS DIVISIBLE INTO TWO PARTS: FUNCTIONAL AND ECONOMIC. FUNCTIONAL OBSOLESCENCE MAY BE DUE TO: POOR PLAN, FUNCTIONAL INADEQUACY OR OVERADEQUACY DUE TO SIZE, STYLE, AGE, OR OTHERWISE. IT IS EVIDENCED BY CONDITIONS WITHIN THE PROPERTY. ECONOMIC OBSOLESCENCE IS CAUSED BY CHANGES EXTERNAL TO THE PROPERTY, SUCH AS NEIGHBORHOOD INFILTRATIONS OF INHARMONIOUS PEOPLE OR PROPERTY USES, LEGISLATION, AND THE LIKE.

1. * ACCRUED DEPRECIATION -- LOSS IN VALUE FROM ANY CAUSE UP TO THE DATE OF APPRAISAL.
2. * FUTURE DEPRECIATION -- A LOSS OF VALUE WHICH WILL PROBABLY OCCUR IN THE FUTURE.
3. * PHYSICAL DETERIORATION -- A LOSS IN VALUE ARISING FROM:
 - A. STRUCTURAL DECREPITUDE

- B. WEAR AND TEAR
- C. ACTION OF THE ELEMENTS
- D. DISINTEGRATION THROUGH USE

4. * FUNCTIONAL OBSOLESCENCE -- A LOSS IN VALUE ARISING FROM:

- A. SUPERADEQUACY AND INADEQUACY
- B. ANTIQUE DESIGN
- C. ECCENTRIC DESIGN
- D. OUTMODED EQUIPMENT
- E. LACK OF UTILITARIAN CONVENIENCE COMPARED TO AN UP-TO-DATE BUILDING

5. * ECONOMIC OBSOLESCENCE -- A LOSS IN VALUE ARISING FROM:

- A. LACK OF DEMAND
- B. OVERSUPPLY
- C. CHANGES IN THE CHARACTER OF USE
- D. LEGISLATIVE ENACTMENTS
- E. PROXIMITY TO NUISANCES
- F. INFILTRATION OF INHARMONIOUS PEOPLE
- G. UNDERIMPROVEMENT OR OVERIMPROVEMENT OF LAND

* DEPRECIATION RATE -- THE PERIODICAL AMOUNT AT WHICH THE USEFULNESS OF PROPERTY IS EXHAUSTED.

* ECONOMIC LIFE -- THE ESTIMATED PERIOD OVER WHICH IT IS ANTICIPATED THAT A PROPERTY MAY PROFITABLY BE UTILIZED.

* EFFECTIVE AGE -- THE NUMBER OF YEARS OF AGE THAT IS INDICATED BY THE CONDITION OF THE BUILDING USUALLY BEING LESS THAN THE ACTUAL AGE IF PROPER MAINTENANCE HAS BEEN GIVEN TO THE STRUCTURE.

*

ESTIMATE -- (IN APPRAISING) AN OPINION OF VALUE DEVELOPED FROM ANALYSIS OF AN ADEQUATE DATA PROGRAM BY ONE QUALIFIED TO DEVELOP SUCH AN OPINION; HENCE, THE OPINION OF AN INFORMED PERSON.

EXPENSES

1. EXPENSES (OPERATING) -- ALL EXPENSES OCCURRING PERIODICALLY WHICH ARE NECESSARY TO PRODUCE NET INCOME BEFORE DEPRECIATION.
2. EXPENSES (OPERATIONAL) -- THOSE COSTS IN THE OPERATION OF A PROPERTY WHICH ARE NECESSARY TO THE PRODUCTION OF GROSS INCOME, USUALLY ESTIMATED AND REPORTED ON A PERIODIC BASIS.

*

FEE SIMPLE -- AN ABSOLUTE FEE (OWNERSHIP); A FEE WITHOUT LIMITATION TO ANY PARTICULAR CLASS OF HEIRS OR RESTRICTIONS.

FEE SIMPLE ESTATE -- AN ESTATE OR OWNERSHIP OF REAL ESTATE VESTED IN THE OWNER, AND HIS HEIRS FOREVER, GENERALLY, ABSOLUTELY AND SIMPLY, WITHOUT MENTIONING WHAT HEIRS, BUT LEAVING THAT TO HIS OWN PLEASURE, OR TO THE DISPOSITION OF THE LAW.

FREEHOLD -- IN APPRAISING IT IS THE UNENCUMBERED PROPERTY, THAT IS, FREE OF MORTGAGE.

*

IMPROVEMENT

- *1. OVER-IMPROVEMENT -- AN IMPROVEMENT IS NOT THE MOST PROFITABLE FOR THIS SITE ON WHICH IT IS PLACED BECAUSE OF ITS EXCESSIVE SIZE OR COST, AND CONSEQUENT INABILITY TO DEVELOP THE MAXIMUM POSSIBLE LAND VALUE.
- *2. UNDER-IMPROVEMENT -- AN IMPROVEMENT WHICH IS NOT THE MOST PROFITABLE FOR THE SITE ON WHICH IT IS PLACED BECAUSE OF ITS DEFICIENCY IN SIZE OR COST, AND CONSEQUENT INABILITY TO DEVELOP THE MAXIMUM POSSIBLE LAND VALUE.

INCOME -- MONEY OR OTHER BENEFIT, GENERALLY ASSUMED TO BE RECEIVED PERIODICALLY.

1. EFFECTIVE GROSS INCOME -- INCOME LESS ALLOWANCES FOR VACANCIES AND RENT LOSSES.
2. EXCESS OR SURPLUS INCOME -- THAT PART OF THE ACTUAL RENT INCOME WHICH IS IN EXCESS OF THE FAIR RENTAL VALUE AT THE TIME.
3. EXTRANEIOUS INCOME -- AN INCOME OTHER THAN RENT DERIVED FROM THE GENERAL PROPERTY OPERATION, SUCH AS INCOME FROM A LAUNDRY SERVICE PROVIDED IN AN APARTMENT HOUSE, SIGN RIGHTS ON THE SIDE OF A BUILDING. THIS IS SOMETIMES CALLED "MISCELLANEOUS INCOME."
4. GROSS INCOME -- TOTAL RECEIPTS PLUS UNCOLLECTED ACCRUED REVENUE OVER A GIVEN PERIOD OF TIME.
5. NET INCOME -- THE DIFFERENCE BETWEEN THE EFFECTIVE GROSS INCOME AND THE EXPENSES BEFORE DEPRECIATION.
6. OPERATING INCOME -- INCOME DERIVED FROM THE GENERAL OPERATION OF A BUSINESS.

INTEREST (SEE RATE) -- A SUM PAID OR CALCULATED FOR THE USE OF CAPITAL.

LEASE -- A WRITTEN DOCUMENT BY WHICH THE POSSESSION OF LAND AND/OR BUILDING IS GIVEN BY THE OWNER TO ANOTHER PERSON FOR A SPECIFIED PERIOD OF TIME AND FOR THE RENT SPECIFIED.

LEASES BY TYPE

1. SHORT TERM AND LONG TERM
2. GRADED OR STEP-UP
3. REVALUATION
4. INDEX
5. PERCENTAGE

LEASES DESCRIBED

1. GROSS LEASE -- A LEASE UNDER WHICH THE LESSOR PAYS ALL EXPENSES OF OPERATION OF THE PROPERTY, AS WELL AS CAPITAL CHARGES.
2. GROUND LEASE -- A LEASE WHICH PROVIDES FOR OCCUPANCY AND USE OF A PARCEL OF UNIMPROVED LAND OFTEN, THOUGH OBVIOUSLY NOT ALWAYS, FOR THE CONSTRUCTION OF A BUILDING.
3. NET GROUND LEASE -- A LEASE OF UNIMPROVED LAND WHICH PROVIDES THAT THE LESSEE ASSUME ALL PROPERTY CHARGES, INCLUDING CHARGES AGAINST LAND AND IMPROVEMENTS TO BE CONSTRUCTED BY THE LESSEE.
4. NET LEASE -- A LEASE UNDER WHICH THE LESSEE ASSUMES COMPLETE RESPONSIBILITY FOR OPERATION OF A PROPERTY, INCLUDING THE OBLIGATION OF OPERATING EXPENSES AND FIXED CHARGES, REPLACEMENTS, AND SPECIAL ASSESSMENTS.
5. PERCENTAGE LEASE -- A LEASE WHICH PROVIDES THAT THE RENTAL SHALL BE BASED ON A PERCENTAGE OF THE VOLUME OF BUSINESS DONE ON THE PREMISES, USUALLY WITH A GUARANTEED MINIMUM AND OCCASIONALLY A MAXIMUM RENTAL REGARDLESS OF BUSINESS VOLUME.
6. SANDWICH LEASE -- A LEASE IN WHICH THE "SANDWICH" PARTY IS THE LESSEE OF ONE PARTY AND THE LESSOR TO ANOTHER.

LEASED FEE -- THE TITLE TO REAL ESTATE SUBJECT TO LEASE TO OTHERS FOR A CERTAIN PERIOD OF TIME.

LEASEHOLD ESTATE -- THE RIGHT OF A LESSEE TO USE AND ENJOY REAL ESTATE FOR A STATED TERM AND UPON CERTAIN CONDITIONS, SUCH AS THE PAYMENT OF RENT.

LESSEE -- ONE WHO ACQUIRES THE RIGHT OF USE OF PROPERTY OF ANOTHER.

LESSEE'S INTEREST -- THE MARKET VALUE OF THE PROPERTY LESS THE VALUE OF THE LESSOR'S INTEREST.

LESSOR -- ONE WHO CONVEYS THE RIGHT OF USE OF REAL ESTATE.

LESSOR'S INTEREST -- THE PRESENT VALUE OF THE CONTRACT RENTS IN ADDITION TO THE PRESENT VALUE OF THE REVERSION.

* MAINTENANCE DEFERRED -- ACCUMULATED MAINTENANCE.

* MAINTENANCE AND/OR REPAIRS -- THE PROPER UPKEEP OF PROPERTY AND EQUIPMENT.

MANAGEMENT -- THE ACT OF DIRECTING OR CONDUCTING AFFAIRS. AS AN ITEM OF EXPENSE; THE SUM PAID OR THE AMOUNT EQUIVALENT TO THE VALUE OF SUCH SERVICES.

* MARKET PRICE -- THE AMOUNT OF MONEY PAID OR ASKED, IRRESPECTIVE OF MOTIVE OR NECESSITY.

* MONEY -- MEDIUM OF EXCHANGE. THE EVIDENCE OF PURCHASING POWER.

* MULTIPLE

1. ANNUAL GROSS INCOME MULTIPLE -- A FACTOR USED ON THE GROSS INCOME OF INCOME-PRODUCING TYPE PROPERTY TO FURNISH AN INDICATION OF VALUE IN THE MARKET DATA OR COMPARISON APPROACH.

* 2. MONTHLY GROSS INCOME MULTIPLIER -- A FACTOR WHICH IS APPLIED TO THE MONTHLY GROSS INCOME OF A RESIDENTIAL TYPE PROPERTY TO DEVELOP AN INDICATION OF VALUE BY THE INCOME APPROACH.

*

NEIGHBORHOOD -- A HOMOGENEOUS GROUPING OF PEOPLE AND IMPROVEMENTS.

NET PROFIT -- THE TERM "NET PROFIT", WITHOUT QUALIFYING EXPRESSION, SHOULD BE USED TO DESCRIBE ONLY THE PROFITS REMAINING AFTER INCLUDING ALL EARNINGS AND OTHER INCOME OR PROFIT AND AFTER DEDUCTING ALL EXPENSES AND CHARGES OF EVERY CHARACTER, INCLUDING INTEREST, DEPRECIATION, AND TAXES. NET PROFIT SHOULD REPRESENT THE AMOUNT AVAILABLE FOR DIVIDENDS AND SURPLUS.

*

OBsolescence -- THE LOSS FROM COST NEW AS OF DATE OF APPRAISAL, DUE TO ALL CAUSES OTHER THAN DETERIORATION.

OPERATING STATEMENT -- AN ACCOUNTING IN WRITING OF THE INCOME, EXPENSE, AND PROFITS OF AN ENTERPRISE DURING A SPECIFIED PERIOD OF OPERATION.

OPERATING STATEMENT RECONSTRUCTED -- A STATEMENT SETTING FORTH CERTAIN FACTS CONCERNING A PROPERTY OR A BUSINESS WHEREIN CERTAIN ITEMS OR FIGURES APPEARING ON AN ACCOUNTING STATEMENT ARE ELIMINATED, TRANSPOSED, OR CHANGED FOR THE PURPOSE OF REFLECTING A MORE COMPLETE OR ACCURATE STATEMENT UNDER A VARIANCE OF CONDITIONS FOR PARTICULAR CONSIDERATION.

PERPETUITY -- THE STATE OF BEING CONTINUED FOREVER; FOR EXAMPLE, AN ANNUITY WHICH EXTENDS INTO THE FUTURE WITHOUT TERMINATION.

PRESENT WORTH OF ONE DOLLAR -- THE VALUE TODAY OF AN AMOUNT TO BE COLLECTED AT SOME FUTURE DATE.

*PRICE -- THE AMOUNT OF GOODS OR SERVICES, EXPRESSED IN DOLLARS, PAID OR ASKED FOR A THING; THE AMOUNT PAID TO ACQUIRE WEALTH.

PROFIT -- THAT PORTION OF NET INCOME PRODUCED BY REAL ESTATE IN EXCESS OF THE CAPITAL REQUIREMENTS.

*PROPERTY -- ALL RIGHTS TO THE FUTURE BENEFITS ARISING FROM OWNERSHIP.

RATE -- A RATIO OF INCOME TO CAPITAL.

RATE -- COMPONENT PARTS

1. BASE RATE (THE PURE OR SAFE RATE)
2. RATE FOR RISK (COMPENSATES FOR RISK ELEMENT OF CAPITAL)
3. RATE FOR MANAGEMENT (RISK IN MANIPULATION OF CAPITAL)
4. RATE FOR NON-LIQUIDITY (HARD-TO-DISPOSE-OF CAPITAL)

RATES:

- A. PROPER INTEREST RATE -- ONE THAT IS NECESSARY TO ATTRACT CAPITAL IN THE MARKET PLACE.

RATE -- COMPONENT PARTS (CONTINUED)

RATES:

- B. RISK RATE -- A RATE USED TO COMPENSATE FOR THE ELEMENT OF RISK IN AN INVESTMENT.
- C. SAFE RATE -- A RATE USED WHERE INVESTMENTS ARE OF MAXIMUM SECURITY, HIGHEST LIQUIDITY AND MINIMUM RISK.
- D. SPLIT RATE -- A RATE USED IN THE PROCESSING OF THE INCOME ATTRIBUTABLE TO A FRACTION OF A PROPERTY, SUCH AS THE LAND OR THE BUILDING.

*
REAL ESTATE -- THE OWNERSHIP OF LAND AND ALL OF THE BUILDINGS AND STRUCTURES ATTACHED THERETO.

*
REMODEL

- * 1. MODERNIZATION -- THE REPLACEMENT IN MODERN STYLE OF OUTMODDED ASPECTS OF THE STRUCTURE OR OF EQUIPMENT.
- * 2. REHABILITATION -- THE RESTORATION TO GOOD CONDITION WITHOUT CHANGING THE PLAN, FORM, OR STYLE.
- * 3. REMODELING -- THE CHANGING OF THE PLAN, FORM, OR STYLING TO CORRECT FUNCTIONAL OR ECONOMIC DEFICIENCIES.

*RENT -- THE PAYMENT FOR THE RIGHT OF USE AND/OR OCCUPANCY.

- 1. RENT (CONTRACT) -- THE PAYMENT FOR THE USE OF PROPERTY ESTABLISHED IN THE PROCESS OF BARGAINING.
- * 2. RENT (CONTRACT) -- THE ACTUAL RENT PAID EITHER BY LEASE OR BY AGREEMENT.
- * 3. RENT (ECONOMIC) -- THE REASONABLE RENTAL EXPECTANCY IF THE PROPERTY WERE AVAILABLE FOR LEASE.

*REPLACEMENT COST -- THE CONSTRUCTION COST NEW OF A BUILDING WITH THE SAME UTILITY VALUE BUT NOT WITH THE SAME MATERIALS.

*
REPRODUCTION COST -- THE CONSTRUCTION COST NEW OF AN EXACT REPLICA AS OF THE DATE
OF APPRAISAL.

RESIDUAL PROCESS -- A TERM APPLIED TO A METHOD OF ESTIMATING THE VALUE OF THE LAND
OR THE BUILDING, AS INDICATED BY THE CAPITALIZATION OF THE RESIDUAL NET INCOME
ATTRIBUTABLE TO IT.

RESIDUAL TECHNIQUES

1. BUILDING -- A TERM DESIGNATING A TECHNIQUE IN WHICH THE LAND IS VALUED
INDEPENDENTLY OF THE BUILDING AND THE FAIR ANNUAL NET RETURN ON THE LAND
VALUE (INTEREST) IS DEDUCTED FROM THE ESTIMATED NET ANNUAL INCOME TO THE
PROPERTY (LAND AND BUILDING). THE RESIDUAL AMOUNT IS SAID TO BE ATTRIBUT-
ABLE TO THE BUILDING, INCLUDING DEPRECIATION, AND IS CAPITALIZED TO INDICATE THE BUILDING VALUE.
2. LAND -- A TERM DESIGNATING A TECHNIQUE IN WHICH THE BUILDING IS VALUED
INDEPENDENTLY OF THE LAND AND THE FAIR ANNUAL NET RETURN ON THE BUILDING
VALUE (INTEREST AND PROVISION FOR DEPRECIATION) IS DEDUCTED FROM THE
ESTIMATED NET ANNUAL INCOME TO THE PROPERTY (LAND AND BUILDING). THE
RESIDUAL AMOUNT IS SAID TO BE ATTRIBUTABLE TO THE LAND, AND IS CAPITALIZED
TO INDICATE THE LAND VALUE.
3. PROPERTY -- A TERM DESIGNATING A TECHNIQUE IN WHICH LAND AND BUILDING ARE
NOT VALUED INDEPENDENTLY BUT THE PROPERTY IS VALUED AS A SINGLE UNIT. THE
APPRAISER CAPITALIZES THE PRESENT WORTH OF THE ANTICIPATED NET INCOME
STREAM FROM THE PROPERTY, BEFORE DEPRECIATION, FOR THE ESTIMATED USEFUL
LIFE OF THE IMPROVEMENT. AT THE ANTICIPATED TERMINATION OF THE INCOME
STREAM, THE LAND IS ASSUMED TO REVERT TO THE OWNER AS VACANT. THIS REVER-
SION IS VALUED BY DISCOUNTING ITS THEN ANTICIPATED VALUE TO ITS PRESENT DAY
WORTH. THE TOTAL VALUE IS THE SUM OF THE CAPITALIZED VALUE OF THE INCOME
PLUS THE PRESENT WORTH OF THE REVERSIONARY INTEREST IN THE LAND.

REVERSION -- THE RIGHT TO REPOSSESS AND RESUME THE FULL AND SOLE USE AND PROPRIETORSHIP OF REAL PROPERTY WHICH TEMPORARILY HAS BEEN ALIENATED BY LEASE, EASEMENT, OR OTHERWISE. ACCORDING TO THE TERMS OF THE CONTROLLING INSTRUMENT, THE REVERSIONARY RIGHT BECOMES EFFECTIVE AT A STATED TIME OR UNDER CERTAIN CONDITIONS SUCH AS THE TERMINATION OF A LEASEHOLD, ABANDONMENT OF A RIGHT OF WAY, OR AT THE END OF THE ESTIMATED ECONOMIC LIFE OF THE IMPROVEMENTS.

SURPLUS PRODUCTIVITY -- THE NET INCOME THAT REMAINS AFTER THE PROPER COSTS OF LABOR, ORGANIZATION, AND CAPITAL HAVE BEEN PAID, WHICH SURPLUS IS IMPUTABLE TO THE LAND AND TENDS TO FIX THE VALUE THEREOF.

THEORY -- A STATEMENT SETTING FORTH AN APPARENT RELATIONSHIP AMONG OBSERVED FACTS.

*
TREND -- A SERIES OF RELATED CHANGES BROUGHT ABOUT BY A CHAIN OF CAUSES AND EFFECTS.

VACANCY AND COLLECTION LOSS -- LOSS IN INCOME DUE FROM VACANCY OF RENTAL UNITS AND UNCOLLECTABLE RENTS DUE OVER A SPECIFIED PERIOD OF TIME.

*
VALUE -- THE RELATIONSHIP BETWEEN A THING DESIRED AND A POTENTIAL PURCHASER.

*
VALUE -- VALUE OF A THING IS MEASURED BY THE QUANTITY OF OTHER THINGS THAT CAN BE COMMANDED IN EXCHANGE.

VALUE (INCOME APPROACH) -- THE PRESENT WORTH OF ALL THE RIGHTS TO FUTURE BENEFITS ARISING FROM THE OWNERSHIP OF PROPERTY.

1. VALUE (DEPRECIATED) -- A COST, NOT A VALUE, CONCEPT PROPERLY IDENTIFIED AS "DEPRECIATED COST" OR "COST LESS DEPRECIATION" WHEN APPLIED TO STRUCTURES OR OTHER IMPROVEMENTS.
2. VALUE (ECONOMIC) -- SYNONYMOUS WITH CAPITALIZED VALUE AND MORE PROPERLY TERMED "AN INDICATION OF VALUE BY THE NET INCOME CAPITALIZATION APPROACH."

3. VALUE (FAIR RENTAL)-- A FAIR, PROPER, AND REASONABLE RENTAL WHICH WOULD RESULT FROM INFORMED, INTELLIGENT, AND PRUDENT BARGAINING IN THE USUAL COURSE OF BUSINESS.
4. INVESTMENT VALUE -- MARKET VALUE OF INVESTMENT PROPERTY CREATED BY INVESTORS.
- * 5. MARKET VALUE -- THE PRICE AT WHICH A WILLING SELLER WOULD SELL AND A WILLING BUYER WOULD BUY, NEITHER BEING UNDER ABNORMAL PRESSURE AND IF BOTH SELLER AND PROSPECTIVE BUYER ARE FULLY INFORMED.
- * 6. OBJECTIVE VALUE -- INHERENT IN THE OBJECT ITSELF RELATIVE TO THE COST OF THE OBJECT.
- * 7. SUBJECTIVE VALUE -- A VALUE CREATED IN THE MINDS OF PEOPLE RELATIVE TO MARKET VALUE.
- * 8. SUMMATION VALUE -- THE SUM TOTAL VALUE OF THE LAND AND THE DEPRECIATED VALUE OF THE BUILDING.

*
WEALTH -- ALL GOODS AND PROPERTY WHICH ARE CAPABLE OF BEING OWNED, AND WHICH MAY BE BOUGHT AND SOLD.

DEPRECIATION

(REPRINT FROM APPRAISAL GUIDE, SOCIETY OF RESIDENTIAL APPRAISERS)

DEDUCTIONS ARE MADE FROM REPRODUCTION COST FOR CONDITIONS THAT DECREASE UTILITY, COMFORT OR ATTRACTIVENESS.

DEPRECIATION, OR LOSS IN VALUE, CAN RESULT FROM MANY CAUSES. FOR EXAMPLE, INTERIOR WALLS BECOME SOILED IN USE AND THE HOUSE IS WORTH LESS THAN IT WAS WHEN THE INTERIOR WAS NEWLY FINISHED. IN THIS CASE, USE OF THE HOUSE CAUSES LOSS IN VALUE.

BECAUSE OF EXPOSURE TO WIND, SNOW AND RAIN, A ROOF WILL NEED TO BE REPLACED AFTER ABOUT 20 YEARS, DEPENDING ON ITS DURABILITY. A HOUSE WITH A ROOF THAT NEEDS REPLACING HAS SUFFERED A DECLINE IN VALUE ON THAT ACCOUNT. HERE, ACTION OF THE ELEMENTS CAUSES THE LOSS IN VALUE.

IF A HOUSE WITH ONE BEDROOM ON THE MAIN FLOOR AND THREE UPSTAIRS HAD ONLY ONE BATHROOM, THIS HOUSE WOULD NOT HAVE A VALUE SO GREAT AS IT MIGHT HAVE HAD IF THERE WERE AN ADDITIONAL BATHROOM OR LAVATORY ON THE FIRST FLOOR FOR THE CONVENIENCE OF THE OCCUPANTS OF THE DOWNSTAIRS BEDROOM AND EASY ACCESS FROM THE LIVING AREA. IN THIS EXAMPLE, THE LOSS IN VALUE IS CAUSED BY FUNCTIONAL WEAKNESS. SUCH A FAULT EXISTS FROM THE DAY WHEN THE HOUSE IS FINISHED BECAUSE IT IS POORLY PLANNED. WHEN BUYERS CONSIDER THIS PLAN OBSOLETE, FUNCTIONAL OBSOLESCENCE MUST BE CHARGED IMMEDIATELY.

IF A HOUSE IS LOCATED ON A HEAVILY TRAVELED HIGHWAY, NEXT TO A FILLING STATION, BUSY STORE OR SOME OTHER BUSINESS ESTABLISHMENT, IT DOES NOT HAVE A VALUE SO GREAT AS IT WOULD IF LOCATED ON A QUIET STREET, SURROUNDED BY SIMILAR RESIDENCES. THE LOSS IN VALUE IN THIS CASE WOULD BE DUE TO THE SURROUNDINGS. THE TYPE OF DEPRECIATION CAUSED BY UNFAVORABLE SURROUNDINGS IS CALLED ECONOMIC OBSOLESCENCE.

LOSS OF VALUE FROM ALL POSSIBLE CAUSES IS COVERED BY THE ESTIMATE OF DEPRECIATION. WHILE THERE IS NO SIMPLE FORMULA THAT CAN BE FOLLOWED IN ESTIMATING THE DOLLAR AMOUNT OF DEPRECIATION ARISING FROM SOME PARTICULAR CAUSE, IT IS CUSTOMARY TO DIVIDE THE DEPRECIATION ESTIMATE INTO THREE CATEGORIES ACCORDING TO THE BASIC CAUSES: PHYSICAL DETERIORATION CAUSED BY USE AND BY ACTION OF THE ELEMENTS; FUNCTIONAL OBSOLESCENCE CAUSED BY UNSERVICEABLE OR UNATTRACTIVE DESIGN (CAUSES WITHIN THE PROPERTY); AND ECONOMIC OBSOLESCENCE CAUSED BY UNATTRACTIVE OR NUISANCE CREATING SURROUNDINGS (CAUSES OUTSIDE THE PROPERTY).

SOME PHYSICAL DETERIORATION UNAVOIDABLE

PHYSICAL DETERIORATION ARISES FROM TWO SOURCES: (1) THE UNAVOIDABLE WEARING OF PARTS OF THE FRAMEWORK OF A HOUSE, CHIEFLY CAUSED BY THE ACTION OF THE ELEMENTS SUCH AS WIND, SNOW AND RAIN, AND (2) THE WEAR THROUGH USE WHICH IS INTENSIFIED BY NEGLECT OF REPAIRS AND GENERAL MAINTENANCE.

SOME OF THE DETERIORATION OF THE STRUCTURE WHICH IS CAUSED BY THE ELEMENTS CAN BE DELAYED OR ARRESTED. FOR EXAMPLE, THE EXTERIOR WOODWORK CAN BE PRESERVED BY REPAINTING IT EVERY FEW YEARS AND BRICK WORK CAN BE REPAINTED.

OTHER PARTS OF THE HOUSE SUCH AS THE WALLS, RAFTERS, SUB-FLOORING OR FOUNDATION CANNOT BE REPAIRED OR REPLACED EXCEPT IN A BASIC OVERHAULING OF THE

HOUSE WHICH WOULD BE QUITE COSTLY. STRUCTURAL PARTS THAT ARE NOT OPENLY EXPOSED TO TO THE WIND AND RAIN WOULD SEEM LIKELY TO LAST INDEFINITELY BUT AFTER SEVERAL YEARS OF USE THERE IS SOME DETERIORATION IN THE STRUCTURE, REGARDLESS OF THE CARE WITH WHICH THE EXPOSED PORTIONS OF THE HOUSE HAVE BEEN MAINTAINED. NO MATERIAL LASTS PERMANENTLY. EVEN GRANITE GRADUALLY WEARS AWAY.

THE DURABILITY OF THE STRUCTURE DEPENDS LARGELY ON THE QUALITY OF CONSTRUCTION AND ALSO PARTLY ON THE DEGREE OF MAINTENANCE. THE STRUCTURAL FRAMEWORK OF A HOUSE DETERIORATES IN THE EARLY YEARS BUT DETERIORATION BECOMES APPARENT TO A MORE RAPID RATE AFTER THE HOUSE IS 15 OR 20 YEARS OLD.

REMAINING USEFULNESS IS ESTIMATED

BECAUSE THE APPRAISER IS CONCERNED WITH THE FUTURE AND MORE INTERESTED IN WHAT THE PROPERTY HAS IN STORE FOR THE COMING YEARS RATHER THAN WHAT ITS PAST HISTORY HAS BEEN, IT IS BEST TO CONSIDER WHAT PORTION OF THE USEFUL LIFE OF THE JOISTS, RAFTERS, STUDDING AND OTHER STRUCTURAL PARTS REMAINS. THE MAXIMUM LIFE OF VARIOUS TYPES OF MATERIALS IS DIFFERENT EVEN THOUGH THEY MAY ALL RECEIVE THE SAME CARE. THE FOLLOWING ESTIMATES OF THE LIFE EXPECTANCY OF FAMILIAR BUILDING MATERIALS AND EQUIPMENT IN USE IN A DWELLING WAS MADE BY HOLC APPRAISERS IN ILLINOIS IN 1938:

<u>COMPARATIVE LIFE EXPECTANCY</u>	
	<u>YEARS</u>
HEATING, HOT-WATER BOILER	30
PIPES & RADIATORS	45
PLUMBING, STACKS, ETC.	200
WATER PIPES	40
FIXTURES	35
PAINTING, EXTERIOR	6
ELECTRICAL WIRING	75
FIXTURES	25
DECORATING, TRIM	29
WALLS & CEILING	4
FLOORS	12
SHADES	8
SCREENS	12
FOUNDATION	200
CEMENT WORK	50
MASONRY	200
FRAMING	200
EXTERIOR OF WINDOWS, CORNICE, ETC.	80
PORCHES	19
ROOF, ASPHALT SHINGLE	25
GALV. SHEET METAL	20
PLASTER	69
INTERIOR FINISH, HARDWOOD	125
FLOORS, HARDWOOD	55
TILE, BATHROOM FLOOR	30

THE APPRAISER IS NOT EXPECTED TO ESTIMATE SEPARATELY THE DETERIORATION OF EVERY PART OF THE HOUSE. AN OVER-ALL AMOUNT IS ESTIMATED ON THE BASIS OF THE PORTION OF THE TOTAL LIFE OF THE HOUSE THAT HAS BEEN USED. FOR EXAMPLE, CONSIDER THAT A HOUSE OF THE TYPE BEING APPRAISED WOULD BE EXPECTED TO STAND 100 YEARS. (IT MIGHT REMAIN STANDING AFTER THE 100 YEARS BUT ITS PHYSICAL CONDITION WOULD REQUIRE REPAIR WORK AND OVERHAULING THAT WOULD NOT BE WORTH THE COST.) IF, AT THE TIME OF THE APPRAISAL, THE HOUSE IS 30 YEARS OLD BUT HAS REACHED A CONDITION THAT SUGGESTS THAT IT MAY BE USED FURTHER FOR ONLY ANOTHER 60 YEARS, THEN 40% OF THE TOTAL LIFE HAS BEEN USED AND THE ESTIMATE OF INCURABLE PHYSICAL DEPRECIATION WOULD BE 40% OF THE ESTIMATED COST OF PRODUCTION.

SOME DETERIORATION CAN BE REMEDIED

THE RATHER MINOR ITEMS OF DETERIORATION WHICH ARISE FROM LACK OF PROPER MAINTENANCE ARE CLASSIFIED AS "CURABLE" DEPRECIATION BECAUSE THEY CAN BE REMEDIED. CRACKED PLASTER, SOILED WALLPAPER, BROKEN STEPS OR ANY PHYSICAL DEFECT THAT CAN BE REPAIRED OR REPLACED WITHOUT INVOLVING EXTENSIVE OVERHAULING ARE EXAMPLES OF THIS TYPE OF DETERIORATION. THE DOLLAR AMOUNT OF SUCH DETERIORATION IS EASILY COMPUTED AS IT IS ROUGHLY EQUIVALENT TO THE COST OF BRINGING THE DEFECTIVE ITEMS TO STANDARD CONDITION. THE OVER-ALL TOTAL OF THESE VARIOUS TYPES OF PENALTIES, EITHER CURABLE OR INCURABLE, IS CALLED DEPRECIATION. IF THE DISREPAIR IS SO ADVANCED THAT THE COST OF CURING IT IS EXCESSIVE OR IF IT WOULD BE IMPOSSIBLE TO CURE THE DEFERRED MAINTENANCE COMPLETELY BECAUSE OF THE CONDITION OF THE PROPERTY, AN ADDED PENALTY WOULD BE INDICATED. IF THE HOUSE BEING APPRAISED NEEDS ONLY AN EXTERIOR PAINT JOB, THEN THE AMOUNT OF CURABLE DETERIORATION IS THE COST OF PAINTING THE HOUSE.

THERE IS NO SIMILAR SPECIFIC WAY TO FIGURE THE AMOUNT OF DEPRECIATION THAT CANNOT BE REMEDIED. IT IS MORE DEPENDENT UPON THE CARE GIVEN THE HOUSE AND ITS ORIGINAL QUALITY THAN IT IS ON AGE. THERE IS NO WAY TO MEASURE THE QUALITY OF AND CARE GIVEN TO THE HOUSE EXCEPT BY AN INSPECTION OF THE PREMISES. APPLYING A "RULE OF THUMB" METHOD SUCH AS DEDUCTING 1% OR 2% A YEAR WITHOUT REGARD TO THE PROPERTY'S CONDITION OR STATE OF REPAIR IS LIKELY TO LEAD TO AN ENTIRELY UNREALISTIC PENALTY FOR DEPRECIATION. IF THE COMMONLY USED 2% OF DEPRECIATION RATE WERE ARBITRARILY APPLIED TO A 50 YEAR OLD HOUSE OF ANY TYPE, THAT HOUSE WOULD BE APPRAISED AT \$0. YET, IT IS WELL KNOWN THAT MANY 50 YEAR OLD HOUSES WHICH HAVE ENJOYED PROPER MAINTENANCE SHOW VERY LITTLE PHYSICAL DEPRECIATION AND WILL SERVE AS RESIDENCES FOR MANY YEARS TO COME. IT IS EQUALLY AS UNREALISTIC TO SAY THAT A \$15,000 HOUSE FINISHED TODAY WILL HAVE LOST \$300 WORTH OF SERVICEABILITY AND ATTRACTIVENESS AT THE END OF ONE YEAR. YET, THAT IS WHAT THE 2% DEPRECIATION RATE INDICATES.

NEW STANDARDS OUTMODE OLDER HOMES

FUNCTIONAL OBSOLESCENCE IS THE LOSS IN VALUE THAT ARISES FROM AN OBSOLETE, INADEQUATE OR ECCENTRIC DESIGN. IT INCLUDES BOTH DEFICIENCIES IN THE PLAN ARRANGEMENT AND THE EQUIPMENT. EXCESSIVE SIZE, HIGH CEILINGS, OBSOLETE PLUMBING OR HEATING EQUIPMENT, INSUFFICIENT CLOSET SPACE OR CABINET SPACE, POOR LOCATION OF THE BATHROOM IN RELATION TO THE HALLS AND BEDROOMS, POOR WINDOW ARRANGEMENTS, AND UNCONVENTIONAL ARCHITECTURE ARE UNPOPULAR AND THEREFORE REDUCE VALUE.

TO MEASURE THIS OBSOLESCENCE, THE FLOOR PLAN AND EQUIPMENT IN THE SUBJECT PROPERTY ARE COMPARED WITH THOSE IN THE STANDARD HOMES CURRENTLY POPULAR AMONG TYPICAL BUYERS. IF OTHER HOMES OF APPROXIMATELY THE SAME AGE, SIZE, QUALITY AND CONDITION BUT WITHOUT THE FUNCTIONAL FLAW IN THE SUBJECT PROPERTY CAN BE FOUND,

THE DIFFERENCE BETWEEN THE SELLING PRICES OF THOSE STANDARD PROPERTIES AND THE PRICE OF THE SUBJECT PROPERTY IS A MEASURE OF THE PENALTY THAT BUYERS ATTACH TO THOSE FUNCTIONAL FAULTS.

SOME FAULTS IN ARRANGEMENT OR EQUIPMENT CAN BE CORRECTED. THE AMOUNT OF FUNCTIONAL OBsolescence ARISING FROM RECTIFIABLE FAULTS IS ESTIMATED AT THE COST OF CORRECTION IF THE TOTAL COST IS REDEEMABLE IN THE MARKET. FOR EXAMPLE, IF A HOUSE HAD NO ENTRANCE TO THE BASEMENT OTHER THAN THROUGH THE MAIN LIVING QUARTERS, AND OWNERS OF OTHER HOMES OF THIS TYPE HAVE REQUIRED SEPARATE ENTRANCES, THE FUNCTIONAL PENALTY WOULD BE THE COST OF BUILDING THE SEPARATE ENTRANCE.

THE FUNCTIONAL OBsolescence MOST DIFFICULT TO MEASURE IS THAT ARISING FROM PUBLIC REACTIONS AGAINST ARCHITECTURAL STYLES THAT ARE TEMPORARILY IN VOGUE OR NEW TRENDS IN MATERIALS AND DESIGNS WHICH ARE GENERALLY TREATED WITH SKEPTICISM UNTIL THEY HAVE BEEN "TESTED BY TIME."

EXAMPLES OF FUNCTIONAL OBsolescence THAT IS INHERENT IN THE STRUCTURE AND ORDINARILY NOT SUBJECT TO CORRECTION ARE EXCESSIVELY THICK WALLS, HIGH CEILINGS, RADICAL ARCHITECTURE, AND THE "GOLD DOOR KNOB" TYPE OF CONSTRUCTION INVOLVING THE USE OF SUCH EXPENSIVE MATERIALS AS COPPER ROOFS, EXPENSIVE WOOD PANELING, MURALS AND OTHER INDIVIDUALIZED FEATURES IN A HOUSE WHICH THE AVERAGE USER OF A DWELLING DOES NOT WANT OR FOR WHICH HE IS NOT WILLING TO PAY THE FULL COST. AGAIN, THE MEASURE OF THE FUNCTIONAL OBsolescence WOULD BE THE DIFFERENCE BETWEEN THE PRICE THE TYPICAL BUYER WOULD PAY FOR THE FAULTY HOUSE, AND THE PRICE HE WOULD PAY FOR A SIMILAR HOUSE WITHOUT THAT FAULT.

USE STANDARDS OF PROBABLE OCCUPANTS

IN JUDGING FUNCTIONAL OBsolescence, TWO CAUTIONS SHOULD BE OBSERVED. FIRST, SUCH OBsolescence SHOULD ALWAYS BE STUDIED IN RELATION TO THE TASTES AND REQUIREMENTS OF THE PROBABLE OCCUPANTS. A CERTAIN TYPE OF FLOOR PLAN MIGHT BE CONSIDERED SATISFACTORY BY SOME PURCHASERS WHEREAS ANOTHER GROUP WOULD AVOID IT AS BEING INCONVENIENT. FOR EXAMPLE, IN SOME DISTRICTS THERE ARE MANY HOUSES IN WHICH THE BATH IS LOCATED OFF THE KITCHEN, WHERE IT CAN BE REACHED ONLY BY GOING THROUGH THE GENERAL SERVICE ROOMS. WHEN FAMILIES OF LOWER INCOMES HAVE BECOME ACCUSTOMED TO THIS ARRANGEMENT, EXPERIENCE SHOWS THAT THIS FUNCTIONAL WEAKNESS DOES NOT AFFECT THE RENTAL INCOME OR SALES PRICE OF HOUSES IN THIS AREA.

IT IS LIKELY, HOWEVER, THAT A NEW HOUSE BUILT IN ANOTHER NEIGHBORHOOD ON THIS FLOOR PLAN WOULD SUFFER A PENALTY WHEN IT IS OFFERED FOR SALE BECAUSE BUYERS IN NEW NEIGHBORHOODS HAVE BETTER ARRANGEMENTS TO CHOOSE FROM. IN THE OLDER NEIGHBORHOOD THE FACT THAT THE HOUSE DOES NOT FUNCTION ACCORDING TO THE BEST STANDARDS IS NOT SO IMPORTANT.

SECONDLY, IN PERIODS OF HOUSING SHORTAGES WHEN BUYERS HAVE LITTLE CHOICE OF VARIOUS TYPES OF HOUSES OR FLOOR PLANS, FUNCTIONAL WEAKNESSES DO NOT BRING THE USUAL PENALTY. AS A COMPETITIVE MARKET RETURNS, THE PRICE PENALTY WILL AGAIN BE EXACTED AND, THEREFORE, IT SHOULD BE RECOGNIZED BY THE APPRAISER AT ALL TIMES.

SURROUNDINGS ENHANCE OR LIMIT AMENITIES

ECONOMIC OBsolescence IS THE LOSS IN VALUE SHOWN BY A DECREASE IN THE DEMAND BY THE TYPE OF FAMILIES THAT WOULD NORMALLY BUY IN THAT PROPERTY CLASS. IT IS OCCASIONED BY VARIOUS CHANGES IN THE SURROUNDINGS WHICH DETRACT FROM THE COMFORT OR

ATTRACTIVENESS OF THE LOCATION. CHANGES IN THE CHARACTER OF THE RESIDENTS OF A NEIGHBORHOOD, ENTRANCE OF INHARMONICUS RACIAL GROUPS, NOISE, DIRT OR DANGER ARE SOME OF THE COMMON CAUSES OUTSIDE THE PROPERTY THAT DETRACTS FROM ITS VALUE AS A RESIDENCE. MISFIT PROPERTIES THAT ARE TOO GOOD OR TOO POOR OR TOO DIFFERENT FROM THE NEIGHBORHOOD ARE ALSO SUBJECT TO ECONOMIC OBSOLESCENCE BECAUSE THEY WOULD HAVE BEEN MORE ATTRACTIVE TO THE TYPICAL BUYER IF THEY HAD BEEN MORE WISELY LOCATED.

ECONOMIC OBSOLESCENCE MAY BE ILLUSTRATED BY THE DECLINE IN DESIRABILITY FOR RESIDENTIAL PURPOSES IF A FILLING STATION OR FACTORY WERE BUILT NEXT DOOR TO A CERTAIN HOUSE. THE DIFFERENCE BETWEEN THE SALES PRICE OF THIS PROPERTY ADJOINING A FILLING STATION AND A SIMILAR PROPERTY IN A COMPLETELY RESIDENTIAL NEIGHBORHOOD WOULD BE A MEASURE OF THE DOLLAR AMOUNT OF ECONOMIC OBSOLESCENCE.

ECONOMIC INFLUENCES AFFECTING THE VALUE OF A PROPERTY ARE REFLECTED BOTH IN THE VALUE OF THE LAND AND THE BUILDING. SUPPOSE A NEW \$18,000 HOUSE IS BUILT ON A \$2,000 LOT IN A NEIGHBORHOOD WHERE OLDER HOMES HAVE BEEN SELLING AT ABOUT \$15,000. THE VALUE OF THE NEW PROPERTY WOULD PROBABLY BE CLOSER TO \$15,000 THAN IT WOULD BE TO \$20,000. THE POOR LOCATION HAS ALREADY TAKEN ITS TOLL IN THE \$2,000 FIGURE USED FOR THE LOT. AN ADDITIONAL PENALTY OF ABOUT \$5,000 TO \$6,000 WOULD BE ATTACHED TO THE HOUSE BECAUSE IT IS A MISFIT IN THE NEIGHBORHOOD. IN A FAVORABLE NEIGHBORHOOD WHERE A TYPICAL FAMILY THAT CAN AFFORD A \$20,000 HOUSE WOULD LIVE, THE VALUE OF THIS HOUSE WOULD BE \$20,000 OR MORE (THE COST OF CONSTRUCTION PLUS A HIGHER LAND COST).

PROBABLE DECLINE MAY BE CHARGED

IF INADEQUATE ZONING OR LACK OF RESTRICTIONS FORESHADOW INHARMONIOUS USES, ECONOMIC OBSOLESCENCE MAY BE CHARGED IN ADVANCE OF ITS ACTUAL APPEARANCE. THE AMOUNT OF PROBABLE ECONOMIC OBSOLESCENCE, HOWEVER, WOULD NOT BE SO SEVERELY RATED AS WHEN THE THREAT HAS MATERIALIZED AND THERE IS NO QUESTION OF AVOIDING IT.

AMONG THE MORE COMMON FORMS OF ECONOMIC OBSOLESCENCE IS THAT RESULTING FROM OVER IMPROVEMENT OF THE LAND. A HOUSE WHICH COSTS \$30,000 IS BUILT IN A NEIGHBORHOOD OF \$15,000 TO \$16,000 PROPERTIES. THE TYPICAL RESIDENT IN THIS NEIGHBORHOOD IS EITHER UNWILLING TO OR DOES NOT HAVE THE FUNDS WITH WHICH TO BUY A \$30,000 HOUSE. ON THE OTHER HAND, THE TYPICAL FAMILY THAT CAN AFFORD A \$30,000 HOUSE WOULD PREFER TO LIVE IN A BETTER NEIGHBORHOOD AMONG PEOPLE OF THE SAME GENERAL INCOME LEVEL. AS A RESULT, THE HOUSE USUALLY COMMANDS A PRICE MORE IN KEEPING WITH THE NEIGHBORHOOD SCALE THAN ITS CONSTRUCTION COST. THIS WASTED COST IS KNOWN AS ECONOMIC OBSOLESCENCE. THE NEIGHBORHOOD RANGE OF PRICES IS HELPFUL IN MEASURING THIS TYPE OF PENALTY.

A METHOD OF ESTIMATING ECONOMIC OBSOLESCENCE HAS BEEN DEVELOPED BY ARTHUR A. MAY, WHO SUGGESTS THAT THE CALCULATIONS BE DIVIDED INTO THE FOLLOWING STEPS: (1) FIND THE RENTAL OF THE HOUSE (USE RENTAL IF TENANT-OCCUPIED OR ESTIMATED RENTAL IF OWNER-OCCUPIED), (2) FIND THE RENTAL OF THE SAME TYPE OF PROPERTY IN THE "IDEAL" NEIGHBORHOOD, AND (3) CAPITALIZE THE DOLLAR DIFFERENCE BETWEEN ITEMS ONE AND TWO AT THE RATE PREVALENT IN THE PREFERABLE NEIGHBORHOOD TO MEASURE THE AMOUNT OF CAPITAL DESTROYED BY THE RENTAL LOSS ATTRIBUTABLE TO THE BAD LOCATION.

AS A PRACTICAL MATTER, AN APPRAISER IS LIKELY TO RUN THROUGH THIS PROCEDURE MENTALLY IN COMPARING A MISFIT PROPERTY WITH OTHERS FAVORABLY LOCATED, BUT BECAUSE THERE ARE SEVERAL APPROXIMATIONS INVOLVED, HE RARELY COMPUTES IT IN DETAIL.

IF DEPRECIATION OF ALL KINDS COULD BE MEASURED PRECISELY AND DEDUCTED FROM REPRODUCTION COST, THE RESULT WOULD BE SOUND ESTIMATE OF THE VALUE OF THE PROPERTY. UNFORTUNATELY THAT IS DIFFICULT, PARTICULARLY FOR OLDER PROPERTIES, AND SO THE ESTIMATE MUST ALSO INCLUDE COMPARISON AND STUDY OF SALES AND INCOME.

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SALES PRICES MEASURE BUYER'S REACTION

WHAT THE TYPICAL BUYER IS WILLING TO PAY FOR A PROPERTY BASICALLY DETERMINES ITS VALUE. THE APPRAISER'S JOB IS TO ESTIMATE WHAT THE TYPICAL BUYER'S REACTION WILL BE. THE DIRECT WAY TO MEASURE THE OPINION OF THE TYPICAL BUYERS IS TO OBSERVE ACTUAL PRICES OF SIMILAR PROPERTIES SOLD UNDER THE SAME CONDITIONS.

IN JUDGING THE PROBABLE REACTIONS OF TYPICAL BUYERS TO A CERTAIN PROPERTY, SEVERAL RECENT SALES OF COMPARABLE PROPERTY SHOULD BE STUDIED. A TIME LAG MAY INVOLVE A CHANGE IN THE MARKET LEVEL FOR WHICH ADJUSTMENTS MUST BE MADE. THIS CHANGES THE FACTUAL NATURE OF THE DATA, MAKING IT AN OPINION. OBVIOUSLY, THE SALES PRICE OF A WELL CONSTRUCTED SEVEN-ROOM HOUSE IN A GOOD NEIGHBORHOOD GIVES NO INDICATION OF THE VALUE OF A FIVE-ROOM HOUSE IN A POOR NEIGHBORHOOD. SALES PRICES OF NUMEROUS PROPERTIES SELECTED AT RANDOM WOULD NOT GIVE A RELIABLE INDICATION OF THE VALUE OF THE SUBJECT PROPERTY. ONLY THE PRICES OF SIMILAR PROPERTIES WOULD MEASURE ITS VALUE.

VISIT COMPARABLE PROPERTIES

IT IS ESSENTIAL TO SEE THE PROPERTY FROM WHICH RECENT SALES INFORMATION IS TO BE USED IN ORDER TO JUDGE WHETHER IT IS SIMILAR TO THE PROPERTY BEING APPRAISED. A PICTURE AND VERIFIED FACTS ABOUT THE INTERIOR AND ABOUT THE GENERAL CHARACTER OF THE NEIGHBORHOOD ARE A FAIR SUBSTITUTE FOR A PERSONAL VISIT, BUT IF IT IS POSSIBLE TO GET THE ADDRESSES OF NEARBY PROPERTIES TOGETHER WITH SALES INFORMATION, IT IS FAR MORE RELIABLE TO CHECK THE PROPERTIES ON THE WAY TO OR FROM THE INSPECTION OF THE SUBJECT PROPERTY.

SINCE NO TWO HOUSES OR LOCATIONS ARE EXACTLY ALIKE, THERE WILL BE MINOR DIFFERENCES BETWEEN THE SIMILAR HOUSES BEING COMPARED. THESE MINOR DIFFERENCES DO NOT DESTROY THE USEFULNESS OF THE SALES DATA. IF IT IS NECESSARY TO COMPARE HOUSES THAT DIFFER IN SOME MAJOR RESPECT, HOWEVER, THAT POINT SHOULD BE CLEARLY NOTED IN THE REPORT; AN ANALYSIS AND APPROPRIATE ADJUSTMENT IN THE PRICE MUST BE MADE.

ONE OF THE ESSENTIAL ITEMS TO BE COMPARED IS THAT OF "TERMS OF SALE." A PROPERTY SOLD WITH A VERY SMALL DOWN-PAYMENT AND THE BALANCE SPREAD OVER A LONG PERIOD OF TIME MIGHT BRING MORE THAN IF SOLD FOR CASH OR TERMS APPROACHING A CASH SALE. CARE SHOULD BE TAKEN NOT TO USE FIGURES FROM FORCED SALES OR THOSE INVOLVING RELATIVES OR IN SOME OTHER WAY DEVIATING FROM THE WILLING-BUYER AND WILLING-SELLER BASIS.

ESSENTIAL POINTS OF COMPARABILITY

WHILE MANY DETAILS MAY BE OMITTED IN COMPARING SALES, CERTAIN GENERAL POINTS OF SIMILARITY IN ADDITION TO FINANCING ARE ESSENTIAL. FIVE ITEMS THAT SHOULD BE CAREFULLY CHECKED IN COMPARING SALES ARE: (1) LOCATION, (2) NUMBER AND SIZE OF ROOMS, (3) EXTERIOR FINISH, (4) EQUIPMENT, (5) ARCHITECTURAL APPEAL, AND (6) AGE AND DEGREE OF MAINTENANCE.

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IN GENERAL, RESIDENTIAL SITES IN THE SAME NEIGHBORHOOD AND PARTICULARLY IN THE SAME BLOCK ARE SIMILAR, SO IT IS BEST TO COMPARE SALES INFORMATION ON PROPERTIES IN THE SAME NEIGHBORHOOD. IT IS NOT NECESSARY, HOWEVER, TO RESTRICT THE SALES SURVEY OF SIMILAR PROPERTIES TO THE IMMEDIATE NEIGHBORHOOD BECAUSE, IN MANY INSTANCES, THE SAME CHARACTERISTICS ARE FOUND IN OTHER RESIDENTIAL NEIGHBORHOODS.

SOME OF THE FACTORS THAT DETERMINE WHETHER TWO LOCATIONS ARE SIMILAR ARE: (1) GENERAL PRICE RANGE, (2) INCOME RANGE OF THE RESIDENTS, (3) TYPE AND SIZE OF HOUSES, (4) AGE AND CONDITION OF HOUSES, (5) AMENITIES AND FACILITIES SUCH AS TRANSPORTATION, SCHOOLS, CHURCHES AND STORES, (6) PUBLIC UTILITIES, AND (7) SIZE AND TOPOGRAPHY OF THE LOT.

AS FOR THE HOUSE ITSELF, THE NUMBER OF ROOMS IT CONTAINS IS FUNDAMENTALLY MORE IMPORTANT IN COMPARING TWO PROPERTIES THAN IS THE ACTUAL SIZE OF THE HOUSE IN SQUARE OR CUBIC FEET. THE FAMILY OF PROSPECTIVE BUYERS USUALLY REQUIRES A CERTAIN NUMBER OF ROOMS AND CAN ADAPT ITSELF TO THE LARGER OR SMALLER SIZE OF THOSE ROOMS. TO BE CONSIDERED SIMILAR, HOWEVER, THE ROOMS SHOULD NOT BE EXCESSIVELY LARGE OR UNSERVICEABLY SMALL. THEY SHOULD BE USABLE FOR A TYPICAL FAMILY. ALSO, THE HOUSES COMPARED SHOULD HAVE FLOOR PLANS OF APPROXIMATELY THE SAME EFFICIENCY.

THE TYPE OF EXTERIOR FINISH ON THE HOUSE FREQUENTLY ACCOUNTS FOR AS MUCH AS 5% TO 10% DIFFERENCE IN THE ORIGINAL COST. THEREFORE, TO BE SIMILAR, THE HOUSES SHOULD HAVE EXTERIOR FINISHES OF THE SAME MATERIAL. (A FRAME HOUSE, FOR INSTANCE, IS NOT CONSIDERED SIMILAR TO A BRICK, STONE OR STUCCO HOUSE.)

A SIMILAR HOUSE SHOULD BE IN THE SAME STATE OF REPAIR. IN OTHER WORDS, THE SELLING PRICE OF A NEGLECTED HOUSE CANNOT BE USED IN THE APPRAISAL OF A HOUSE THAT HAS BEEN WELL MAINTAINED UNLESS ADJUSTMENTS ARE MADE IN THE COMPARISON.

RECENT SALES, FREE OF COMPULSION

AS AN ADDITIONAL PRECAUTION, IT IS IMPORTANT THAT THE MOST RECENT SALES DATA AVAILABLE BE USED. AS TIME ELAPSES, THE DATA ARE LESS REPRESENTATIVE OF CURRENT BUYERS' REACTIONS. IT IS HELPFUL IN SELECTING PROPERTIES FOR COMPARISON TO CHOOSE THOSE THAT HAVE SOLD AT PRICES WITHIN 15% OF THE VALUE RANGE OF THE SUBJECT PROPERTY.

IT IS IMPORTANT TO KNOW THE BASIC MOTIVES OF BOTH THE BUYER AND SELLER IN TRANSACTIONS USED IN SUPPORT OF THE VALUATION BECAUSE THE SALE MIGHT HAVE BEEN THE RESULT OF UNUSUAL CONDITIONS RESULTING IN EITHER A LOW PRICE BECAUSE OF A FORCED SALE OR A HIGH PRICE THROUGH A QUICK PURCHASE AT A FIGURE NOT REFLECTING THE GENERAL MARKET.

THE APPRAISER MUST BE FAMILIAR ENOUGH WITH THE MARKET TO KNOW WHICH SALES PRICES ARE CLEARLY OUT OF LINE WITH THE MAJORITY OF TRANSACTIONS SO HE CAN DISREGARD THEM WITHOUT WASTING ANY TIME EXAMINING THE NEIGHBORHOOD AND PROPERTY.

TO MAKE CERTAIN THAT THE REACTION OF TYPICAL BUYERS IS MEASURED, THE FACTS ABOUT THE SALES OF AT LEAST THREE SIMILAR PROPERTIES ARE REPORTED IN THE APPRAISAL.

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IF ACTUAL SALES PRICES OF SIMILAR PROPERTIES ARE NOT AVAILABLE, THE PRICES AT WHICH HOUSES ARE LISTED FOR SALE WILL INDICATE THE PEAK OF THE MARKET AND INDICATE THE UPPER LIMIT UNDER THE MARKET APPROACH. IF A MULTIPLE LISTING SYSTEM IS USED IN A PARTICULAR COMMUNITY, IT IS A VERY CONVENIENT SOURCE OF LISTING AND SALES DATA.

INFORMATION ON SALES IS REGULARLY PUBLISHED IN THE REAL ESTATE OR LEGAL SECTION OF MANY LOCAL PUBLICATIONS. IT IS HELPFUL TO MAINTAIN A FILE OF SALES INFORMATION COLLECTED FROM ALL AVAILABLE SOURCES. SINCE COMPILING AND VERIFYING SALES DATA TAKES A GREAT DEAL OF TIME, IN MANY CITIES APPRAISERS EXCHANGE SALES INFORMATION THROUGH CHAPTERS OF THE SOCIETY OF RESIDENTIAL APPRAISERS.