

DEAR REGISTRANT:

IT IS A PLEASURE TO WELCOME YOU AS A REGISTRANT TO THE 1966 APPRAISAL SCHOOL COURSE I, OFFERED BY THE WASHINGTON STATE ASSESSORS' ASSOCIATION AND THE WASHINGTON STATE TAX COMMISSION.

THE ENCLOSED SCHEDULE AND STUDY GUIDE MATERIALS ARE FURNISHED TO FAMILIARIZE YOU WITH THE COURSE. THE PRINCIPALS AND TECHNIQUES FOLLOWED IN THIS COURSE, ARE BASED ON THE TEXT OF THE FOLLOWING BOOKS:

"THE VALUATION OF RESIDENTIAL REAL ESTATE", 2ND EDITION

BY ARTHUR MAY

"A GUIDE TO APPRAISING RESIDENCES"

BY SOCIETY OF REAL ESTATE APPRAISERS

"BUILDING APPRAISAL MANUAL" (REVISED 1964)
(PAGES 1 THRU 125)

BY WASHINGTON STATE TAX COMMISSION

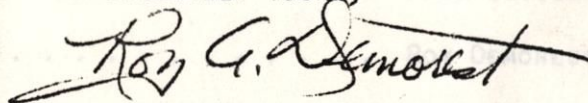
THE COURSE CONSISTS OF FOUR (4) DAYS, WITH ONLY THIRTY-TWO (32) HOURS OF CLASS INSTRUCTION, WITH THE EXAMINATION FRIDAY MORNING. STUDY TIME DURING THE SCHOOL IS VERY LIMITED, AND YOU ARE ENCOURAGED TO OBTAIN COPIES OF THE TEXT BOOKS, AND CAREFULLY READ THEM ALONG WITH THE DATA IN THE ENCLOSED PACKET PRIOR TO COMING TO SCHOOL.

PLEASE BRING YOUR TEXT BOOKS, BUILDING MANUAL, AND THIS STUDY PACKET WITH YOU TO THE SCHOOL. A THREE-RING NOTEBOOK BINDER WILL BE USEFUL FOR KEEPING THIS PACKET, AND OTHER MATERIALS ISSUED DURING THE COURSE.

IT IS HOPED THAT THIS ADVANCE MATERIAL WILL BE HELPFUL TO YOU, AND THAT THE TRAINING WILL OPEN NEW AVENUES IN THE FIELD OF APPRAISING.

THE STAFF AND I LOOK FORWARD TO MAKING YOUR ACQUAINTANCE.

SINCERELY YOURS,



ROY A. DEMOREST
INSTRUCTOR COURSE I

RAD:JM
ENCLOSURES

COUNTY APPRAISAL COURSE #1
(RESIDENTIAL)

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

<u>MONDAY</u>		<u>INSTRUCTOR</u>
8:00 - 9:00	REGISTRATION	EDITH HINCKLEY
9:00 - 10:00	PURPOSES AND FUNCTIONS OF APPRAISALS	ROY DEMOREST
10:00 - 10:15	INTERMISSION	
10:15 - 11:15	BASIC PRINCIPLES OF REAL ESTATE VALUES	PAUL SLUSSER
11:15 - 12:00	APPRAISAL PROCESS AND DATA PROGRAM	KEN WYNNE
12:00 - 1:15	LUNCH	
1:15 - 2:00	CITY ANALYSIS.	ROY DEMOREST
2:00 - 3:00	NEIGHBORHOOD AND PROPERTY ANALYSIS	KEN WYNNE
3:00 - 3:15	INTERMISSION	
3:15 - 4:00	LEGAL DESCRIPTIONS	PAUL SLUSSER
4:00 - 4:30	STATUTES FOR FIELD PERSONNEL	ROY DEMOREST
4:30 - 5:00	STUDY TEST AND REVIEW.	ALL
<u>TUESDAY</u>		
8:00 - 9:00	SITE VALUATION	ROY DEMOREST
9:00 - 10:00	THEORY OF COST	PAUL SLUSSER
10:00 - 10:15	INTERMISSION	
10:15 - 12:00	THEORY AND APPLICATION OF DEPRECIATION	PAUL SLUSSER
12:00 - 1:15	LUNCH	
1:15 - 3:00	INCOME APPROACH.	ROY DEMOREST
3:00 - 3:15	INTERMISSION	
3:15 - 4:30	MARKET DATA APPROACH	KEN WYNNE
4:30 - 5:00	STUDY TEST AND REVIEW.	ALL
<u>WEDNESDAY</u>		
8:00 - 8:30	PUBLIC RELATIONS	PAUL SLUSSER AND ROY DEMOREST
8:30 - 10:00	COST APPROACH - BASIC APPLICATION OF STATE RESIDENTIAL MANUAL.	LES ANDERSON AND OTTO CHANTLER
10:00 - 10:15	INTERMISSION	
10:15 - 12:00	COST APPROACH (CONTINUED).	" "
12:00 - 1:15	LUNCH	
1:15 - 3:00	COST APPROACH (CONTINUED).	" "
3:00 - 3:15	INTERMISSION	
3:15 - 5:00	COST APPROACH (CONTINUED)-CASE STUDY & REVIEW	" "

RESIDENTIAL APPRAISAL COURSE #1 (CONTINUED)

		<u>INSTRUCTOR</u>
<u>THURSDAY</u>		
8:00 - 10:00	CASE STUDY APPLICATION OF THE THREE APPROACHES	ALL
10:00 - 10:15	INTERMISSION	
10:15 - 12:00	CASE STUDY (CONTINUED)	ALL
12:00 - 1:15	LUNCH	
1:15 - 3:00	STUDY TEST AND REVIEW.	ALL
3:00 - 3:15	INTERMISSION	
3:15 - 4:30	REVIEW (CONTINUED)	ALL
<u>FRIDAY</u>		
9:00 - 9:30	REVIEW	ALL
9:30 - 9:45	INTERMISSION	
9:45 - 12:00	EXAMINATION.	ALL

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EXCERPTS FROM - "HOW ADULTS CAN LEARN MORE FASTER"

BY

THE NATIONAL ASSOCIATION OF PUBLIC SCHOOL ADULT EDUCATORS

LISTEN FOR USE.

LISTEN FOR BASIC THOUGHT.

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 AND 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 CONCENTRATION:

HOW ADULTS DO LEARN:

1. TRY TO STUDY IN A ROOM APART.

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

3. JUMP YOUR MIND INTO LINE WHEN IT WANDERS.

4. YOU MUST SQUELCH YOUR DOUBTS AND FEARS.

5. SOMETIMES READ ALOUD.

6. YOU LEARN BY DOING. RESTATING 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. GOOD BEHAVIOR.

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

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 PERCENT-AGE 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.

COUNTY APPRAISAL COURSE #1
(RESIDENTIAL)

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

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COURSE #1

STUDY GUIDE

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GOVERNING ECONOMIC LAWS AND PRINCIPLES

PRINCIPLE OF SUBSTITUTION - VALUE DETERMINED BY COST OF EQUALLY DESIRABLE SUBSTITUTE. NO ONE IS JUSTIFIED IN PAYING MORE FOR A PIECE OF PROPERTY THAN IT WOULD COST TO REPRODUCE IT.

PRINCIPLE OF CONFORMITY - MAXIMUM VALUE IS FOUND WHEN THERE IS A REASONABLE DEGREE OF HOMOGENEITY ALONG ALL LINES, SOCIOLOGICAL AS WELL AS ECONOMIC; STRUCTURES - AS TO SIZE, STYLE, AGE, CONDITION; PEOPLE - AS TO RACE, INCOME LEVEL, SOCIAL STATUS.

PRINCIPLE OF CHANGE - ALL EXISTENCE PROGRESSES AND REGRESSES. NOTHING REMAINS STATIC.

PRINCIPLE OF CONTRIBUTION - THE VALUE OF EACH PRODUCTIVE AGENT IS MEASURED BY ADDITION TO NET INCOME.

PRINCIPLE OF SURPLUS PRODUCTIVITY - VALUE TENDS TO BE ESTABLISHED BY SURPLUS INCOME. NET SURPLUS AFTER ALL EXPENSES.

PRINCIPLE OF INCREASING AND DECREASING RETURNS - AFFIRMS THAT LARGER AND LARGER AMOUNTS OF AGENTS IN PRODUCTION WILL PRODUCE LARGER AND LARGER NET INCOME TO A POINT, WHICH IS THE POINT OF MAXIMUM VALUE AND BEYOND THIS POINT ANY ADDITIONAL INVESTMENT WILL NOT PRODUCE A RETURN COMPARABLE WITH THE ADDITIONAL INVESTMENT.

PRINCIPLE OF SUPPLY AND DEMAND - LAND HAS VALUE IN PROPORTION TO ITS YIELD TO MANKIND, AND RELATIONSHIP TO THE AMOUNT OF LAND AVAILABLE. THE HIGHER DEGREE OF SCARCITY THE MORE VALUABLE IS THE LAND.

PRINCIPLE OF BALANCED UTILITY - THERE IS GREATER VALUE WHEN THERE IS THE PROPER RATIO OF LAND TO BUILDINGS, PROPER LOCATION OF BUILDING ON THE SITE, PROPER LOCATION OF WALKS AND DRIVES, PROPER LOCATION OF BATH TO BEDROOMS, DINING ROOM TO KITCHEN, ETC.

PRINCIPLE OF 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.

PRINCIPLE OF INTEGRATION - DEVELOPMENT GENERATES RESISTANCE TO FURTHER DEVELOPMENT.

PRINCIPLE OF REGRESSION - DISSIMILAR QUANTITIES ADJUST TO THE LEAST VALUABLE.

THE APPRAISAL PROCESS

DEFINITION OF THE PROBLEM

1. THE PROPERTY TO BE APPRAISED
 - A. LOCATION, LEGAL DESCRIPTION, TITLE DATA
 - B. PROPERTY RIGHTS INVOLVED
2. PURPOSE OF THE APPRAISAL
3. DATE AS OF WHICH THE APPRAISAL ESTIMATE IS DESIRED

PRELIMINARY SURVEY

1. HIGHEST AND BEST USE ESTIMATE
2. RULE OF THUMB CHECKS
3. CHARACTER OF WORK TO BE DONE
4. PLAN OF PROCEDURE

APPROACHES TO THE VALUE ESTIMATE

MARKET-DATA APPROACH

1. DATA
 - A. GENERAL
 - B. SPECIFIC
2. PROCEDURE
 - A. ASSEMBLY
 - B. CLASSIFICATION
 - C. ANALYSIS
 - D. INTERPRETATION
 - E. PROCESSING
 - F. ESTIMATE

COST APPROACH

1. DATA
 - A. GENERAL
 - B. SPECIFIC
2. PROCEDURE
 - A. ASSEMBLY
 - B. CLASSIFICATION
 - C. ANALYSIS
 - D. INTERPRETATION
 - E. PROCESSING
 - F. ESTIMATE

INCOME APPROACH

1. DATA
 - A. GENERAL
 - B. SPECIFIC
2. PROCEDURE
 - A. ASSEMBLY
 - B. CLASSIFICATION
 - C. ANALYSIS
 - D. INTERPRETATION
 - E. PROCESSING
 - F. ESTIMATE

CORRELATION

FINAL ESTIMATE OF VALUE

THE APPRAISAL REPORT

CLASSIFICATION OF BUILDINGS

CHEAP: POOR ARCHITECTURE, JOISTS AND RAFTERS UNDERSIZED OR OVERSPACED, LITTLE SERVICE EQUIPMENT, OR OF POOR QUALITY - STOVES OR HOT AIR HEAT.

AVERAGE: MOST SMALL DWELLINGS, LOW RENTAL APARTMENTS AND STORES AND PLAIN DESIGN COMMERCIAL AND PLAIN INDUSTRIAL BUILDINGS. ORDINARY MILLWORK AND INTERIOR FINISH.

GOOD: BETTER HOMES AND APARTMENTS, BUILDINGS WHICH ARE TERMED CUSTOM BUILT. MANY MODERN COMMERCIAL AND INDUSTRIAL PROPERTIES. HARDWOOD TRIM AND MILLWORK -- WELL FINISHED. GOOD QUALITY HEATING AND PLUMBING, GENERALLY FOUND IN BETTER LOCALITIES (ZONED).

EXPENSIVE: PALATIAL STRUCTURES, BEST MATERIALS THROUGHOUT -- SOMETIMES ELABORATE. MANSION TYPE RESIDENCE, MODERN HOTELS. OFFICE BUILDINGS AND DEPARTMENT STORES.

CLASSIFICATION STEP No. 1
CLASSIFICATION FOR QUALITY

<u>CHEAP</u> <u>CONSTRUCTION</u>	<u>AVERAGE</u> <u>CONSTRUCTION</u>	<u>GOOD</u> <u>CONSTRUCTION</u>	<u>EXPENSIVE</u> <u>CONSTRUCTION</u>
PLANS - SKETCHES ONLY	STOCK PLANS	ARCHITECT'S PLANS	ARCHITECT'S PLANS & SUPERVISION
CONTRACTOR OF POOR GRADE	SMALL CONTRACTOR OR PROMOTER	GENERAL CONTRACTOR	GENERAL CONTRACTOR
CHEAP MATERIAL	ORDINARY MATERIAL	GOOD MATERIAL	BEST MATERIAL
POOR PLANNING	NO INDIVIDUALITY	INDIVIDUALITY	EXCELLENT WORKMAN- SHIP

CLASSIFICATION STEP No. 2
CLASSIFICATION WITHIN SPECIFIC TYPE OF BUILDING

EXTERIOR

MEASUREMENTS

TYPE OF MATERIALS

GRADE OF MATERIALS

QUALITY OF WORKMANSHIP

INTERIOR

TYPE OF MATERIALS

TYPE OF SERVICE
EQPT.

GRADE OF MATERIALS

GRADE OF SERVICE
EQPT.

QUALITY OF WORKMAN-
SHIP

THENCE

CONDITION OF BUILDING
DEPRECIATION AND OBSOLESCENCE

COST THEORIES

THE ADVOCATES OF THE COST APPROACH TO REAL ESTATE VALUATION CLAIM THAT THE COST OF THE GOODS DETERMINES ITS VALUE; THAT IS, THE AMOUNT WHICH ONE WOULD PAY FOR THE PRIVILEGE OF RECEIVING THE SERVICES OF THE GOODS. REMINISCENT OF THE THEORIES OF VALUE ORIGINALLY ADVOCATED BY ADAM SMITH, DAVID RICARDO, AND JOHN STUART MILL IN THE EIGHTEENTH AND NINETEENTH CENTURIES, IT HAS BEEN HELD THAT THE VALUE OF ANY GOODS IS GOVERNED BY ITS COSTS OF PRODUCTION, WHICH ARE COMPOSED CHIEFLY OF THE LABOR ELEMENT. ANY CAPITAL GOODS IS REGARDED AS CRYSTALLIZED LABOR, AND THE WAGES PAID TO LABOR IN THE PRODUCTIVE PROCESS SUPPOSEDLY INDEX THE VALUE OF THE GOODS.

THE COST THEORISTS GAINED MANY ADHERENTS, PARTICULARLY IN THE EARLY DAYS OF VALUATION. IT BECAME THE VOGUE TO DISCUSS VALUE IN TERMS OF ORIGINAL COST AND DEPRECIATED REPRODUCTION COST. THE ACCEPTED TECHNIQUE WAS TO APPRAISE THE PHYSICAL REALTY, THE BRICK, MORTAR, WOOD, AND STEEL OF WHICH THE STRUCTURE WAS COMPOSED. IT WAS ARGUED THAT HIGH PRICES, THAT IS, A LARGE DIFFERENTIAL OF SURPLUS OVER PRODUCTION COSTS, WOULD ATTRACT ADDITIONAL PRODUCERS INTO THE FIELD BECAUSE OF THE LURE OF HIGH PROFITS AND THAT THE RESULTANT ADDITIONAL PRODUCTION WOULD CAUSE A LESSENING IN DEMAND WHICH WOULD BRING VALUE AND COST INTO EQUILIBRIUM. CONVERSELY, IT WAS HELD THAT LOW PRICES WOULD DRIVE THE MARGINAL (HIGHEST COST) PRODUCERS FROM THE FIELD, THUS SHORTENING THE AVAILABLE SUPPLY, RAISING PRICES, AND TENDING TO RESTORE AN EQUILIBRIUM BETWEEN SUPPLY AND DEMAND AND, HENCE, COST AND VALUE.

REMODELING, MODERNIZATION, AND REHABILITATION

REHABILITATION IS RESTORATION TO GOOD CONDITION WITHOUT CHANGING PLAN, FORM, OR STYLE.

REMODELING IS CHANGING THE PLAN, FORM, OR STYLE TO CORRECT FUNCTIONAL OR ECONOMIC DEFICIENCIES.

MODERNIZATION IS THE REPLACEMENT IN MODERN STYLE OF OUTMODED ASPECTS OF THE STRUCTURE AND/OR EQUIPMENT.

IDENTITY OF COST AND VALUE

THERE ARE TIMES WHEN ORIGINAL COST AND VALUE HAVE A PRACTICAL IDENTITY, BUT THE STRINGENT ECONOMIC CONDITIONS NECESSARY TO EFFECT THIS IDENTITY ARE RARE. THREE CHARACTERISTICS MUST BE PRESENT BEFORE COST AND VALUE BECOME SYNONYMOUS.

1. EQUILIBRIUM IN SUPPLY AND DEMAND.
2. HIGHEST SITE UTILIZATION.
3. IMPROVEMENT MUST BE NEW.

ARCHITECTURAL TERMS

BAY - (1) ONE OF THE INTERVALS OF SPACE BETWEEN COLUMNS, PIERS, OR DIVISION WALLS.
(2) AN INTERNAL RECESS FORMED BY CAUSING A WALL TO PROJECT BEYOND ITS GENERAL LINE.

BEAM - A LONG, STRUCTURAL, LOAD-BEARING MEMBER WHICH IS PLACED HORIZONTALLY OR NEARLY SO, AND WHICH IS SUPPORTED AT BOTH ENDS OR AT INFREQUENT INTERVALS ALONG ITS LENGTH.

BUILDING, LOFT - A BUILDING WITH FEW OR NO INTERIOR BEARING WALLS AND DESIGNED FOR STORAGE, WHOLESALING, OR LIGHT INDUSTRIAL PURPOSES, USUALLY HAVING THREE OR MORE STORIES.

BUNGALOW - A ONE OR ONE AND ONE-HALF STORY DWELLING UNIT WHICH IS SOMEWHAT MORE PRETENTIOUS THAN A COTTAGE.

COLUMN - A STRUCTURALLY ISOLATED VERTICAL MEMBER WHICH IS AT LEAST EIGHT OR TEN TIMES AS LONG AS ITS LEAST LATERAL DIMENSION AND WHICH IS DESIGNED TO CARRY LOADS. COMPARE "PIER."

CONSTRUCTION, MILL - A TYPE OF CONSTRUCTION CHARACTERIZED BY SUBSTANTIAL MASONRY BEARING WALLS, HEAVY TIMBER STRUCTURAL MEMBERS, AN OPEN DESIGN, AND OTHER SAFEGUARDS AGAINST FIRE HAZARDS. SOMETIMES CALLED "SLOW-BURNING CONSTRUCTION."

COPING - A SPECIAL CAPPING AT THE TOP OF A WALL, SERVING PRINCIPALLY AS A WATERSHED.

CORNICE - A PROJECTING ELEMENT AT THE TOP OF A WALL, SERVING PRINCIPALLY AS A DECORATION OR AS A PART OF THE COPING.

FLASHING - SMALL METAL STRIPS USED TO PREVENT LEAKING OF ROOFS AROUND CHIMNEYS, DORMERS, HIPS, AND VALLEYS.

FOOTING - A SPREADING BASE TO A WALL, COLUMN, OR OTHER SUPPORTING MEMBER, DESIGNED TO WIDEN THE GROUND AREA TO WHICH STRUCTURAL LOADS ARE TRANSMITTED.

GIRDER - A LARGE OR PRINCIPAL BEAM USED TO SUPPORT CONCENTRATED LOADS AT ISOLATED POINTS ALONG ITS LENGTH.

HEADER - (1) A STRUCTURAL MEMBER WHICH IS LAID PERPENDICULARLY TO A PARALLEL SERIES OF SIMILAR MEMBERS AND AGAINST WHICH THE LATTER MEMBERS ABUT.
(2) A BRICK OR OTHER PIECE OF MASONRY WHICH IS LAID IN A WALL IN SUCH A MANNER THAT ITS LONGEST DIMENSION EXTENDS ALONG THE THICKNESS OF THE WALL. CONTRAST "STRETCHER."

JOIST - ONE OF A SERIES OF SMALL PARALLEL BEAMS LAID ON EDGE, USED TO SUPPORT FLOOR OR CEILING LOADS, AND SUPPORTED IN TURN BY LARGER BEAMS, GIRDERS, OR BEARING WALLS.

(ARCHITECTURAL TERMS CONTINUED)

LINTEL - A BEAM OVER A WALL OPENING, SUCH AS A DOOR OR WINDOW, DESIGNED TO CARRY THE LOAD OF THE WALL OVER SUCH OPENING.

LOUVER (OR LOUVRE) - A VENTILATOR CONTAINING SLATS WHICH ARE PLACED LENGTHWISE ACROSS THE VENTILATOR OPENING, EACH SLAT BEING SLANTED IN SUCH A MANNER AS TO OVERLAP THE NEXT LOWER SLAT AND TO PERMIT VENTILATION BUT EXCLUDE RAIN.

MARQUISE - A FLAT ROOF-LIKE STRUCTURE WHICH SHELTERS A DOORWAY, WHICH HAS NO FLOOR BENEATH IT, AND WHICH IS USUALLY SUPPORTED WHOLLY FROM THE WALLS OF THE BUILDING.

MEZZANINE - AN INTERMEDIATE FLOOR BETWEEN THE FLOOR AND CEILING OF A HIGH STORY, HAVING AN AREA SUBSTANTIALLY LESS THAN THAT OF THE CEILING.

MILLWORK - ALL OF THE WOODEN PORTIONS OF A BUILDING, WHETHER FRAME CONSTRUCTION OR OTHERWISE, WHICH ARE CUSTOMARILY PURCHASED IN FINISHED FORM FROM A PLANING MILL; DOORS, WINDOWS, TRIM, BALUSTERS, CABINTES.

PIER - (1) A THICK, SOLID MASS OF MASONRY WHICH IS FULLY OR PARTIALLY ISOLATED FROM A STRUCTURAL STANDPOINT AND WHICH IS DESIGNED TO TRANSMIT VERTICAL LOADS TO THE EARTH.
(2) A STRUCTURE PROJECTING FROM LAND INTO WATER FOR USE IN LOADING AND UNLOADING VESSELS.

PILASTER - A FLAT-FACED PILLAR PROJECTING SOMEWHAT FROM, BUT ENGAGED IN, THE WALL OF OF A BUILDING AND USED FOR DECORATIVE PURPOSES OR TO HELP SUPPORT TRUSS AND GIRDER LOADS.

PILE - A HEAVY TIMBER, OR METALLIC OR MASONRY PILLAR, FORCED INTO THE EARTH TO FORM A FOUNDATION MEMBER.

PURLIN - A BEAM RUNNING HORIZONTALLY ALONG THE UNDER SIDE OF A SLOPING ROOF SURFACE AT RIGHT ANGLES TO THE RAFTERS, USED TO SUPPORT THE COMMON RAFTERS, AND USUALLY SUPPORTED IN TURN BY LARGER STRUCTURAL MEMBERS, SUCH AS TRUSSES OR GIRDERS.

RAFTER - A STRUCTURAL MEMBER PLACED, AS A RULE, IN A SLOPING POSITION AND USED AS THE SUPPORTING ELEMENT FOR THE STRUCTURAL MATERIAL FORMING THE PLANE OF THE ROOF.

RIDGE - A HORIZONTAL LINE ALONG WHICH THE UPPER EDGES OF TWO ROOF SURFACES MEET TO FORM AN EXTERNAL ANGLE OF MORE THAN 180 DEGREES.

RISE - (1) IN GENERAL, ANY VERTICAL DISTANCE, (2) SPECIFICALLY, THE RISE OF A ROOF BEING THE DISTANCE BETWEEN THE TOP OF AN EXTERIOR WALL AND THE PEAK OF THE ROOF; THE RISE OF A STAIR, BEING THE DISTANCE FROM TREAD TO TREAD.

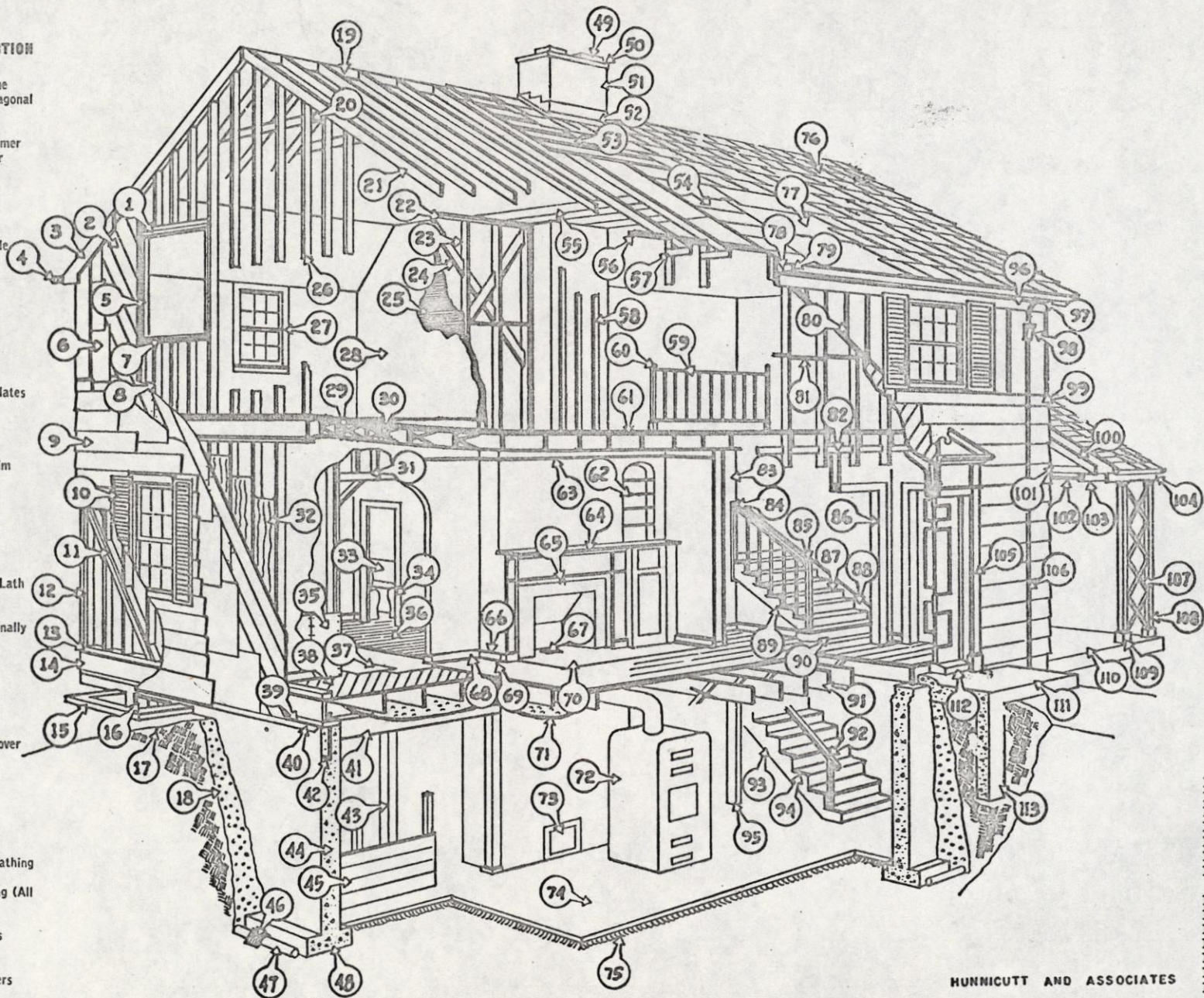
ROOF, CURB (OR CURBED) - A ROOF IN WHICH THE PITCH OF THE UPPER PART OF A SLOPING SIDE IS LESS THAN THE PITCH OF THE LOWER PART.

ROOF, FLAT - A ROOF WHICH IS FLAT OR SLOPED ONLY ENOUGH TO PROVIDE FOR PROPER DRAINAGE.

THE COMPONENT PARTS OF A HOME

KEY TO CONSTRUCTION DETAILS

1. Window Head Frame
2. Wall Sheathing, Diagonal
3. Verge Board
4. Gutter
5. Window Jamb Trimmer
6. Wall Building Paper
7. Window Sill Frame
8. Cripple Stud
9. Wall Siding
10. Window Shutters
11. Corner Bracing 45°
12. Corner Studs, Double
13. Sole Plate
14. Box Sill
15. Basement Acreway
16. Basement Sash
17. Grade Line
18. Gravel Fill
19. Ridge Board
20. Collar Beam
21. Roof Rafters
22. Interior Partition Plates
23. Interior Studs
24. Cross Bracing
25. Plaster Base, Lath
26. Gable Studs
27. Interior Window Trim
28. Plaster Walls
29. Cross Bridging
30. Second Floor Joists
31. Arch Framing
32. Insulation, Batts
33. Dining Nook
34. Interior Door Trim
35. Plaster Base, Rock Lath
36. Finish Floor
37. Floor Lining Felt
38. Sub-Flooring, Diagonally
39. Sill Plate
40. Termite Shield
41. Girder
42. Plate Anchor Bolt
43. Post
44. Foundation Wall
45. Frame Partition
46. Tarred Felt Joint Cover
47. Drain Tile
48. Footing
49. Flue Liner Tops
50. Chimney Cap
51. Brick Chimney
52. Flashing & Counter Flashing
53. Spaced 1" x 4" Sheathing (Wood Shingles)
54. Tight Roof Sheathing (All Other Coverings)
55. Ceiling Joists
56. Exterior Wall Plates
57. Lookouts
58. Furring Strips
59. Stair Rail & Balusters



KEY TO CONSTRUCTION DETAILS

60. Stair Landing Newel
61. Finish Flooring Over Felt Over Sub-flooring on Wood Joists
62. Book Shelves
63. Picture Mould
64. Mantel and Trim
65. Damper Control
66. Base Top Mould
67. Ash Dump
68. Baseboards
69. Shoe Mould
70. Hearth
71. Plaster Ceiling
72. Boiler or Furnace
73. Cleanout Door
74. Basement Concrete Floor
75. Cinder Fill
76. Roof Cover (Shingles)
77. Roofing Felt
78. Soffit of Cornice
79. Facia of Cornice
80. Vert. Board & Batten Siding
81. Fire Stops
82. Ribbon Plate
83. Stair Wall Partition
84. Stair Rail or Easing
85. Starting Newel
86. Cased Opening Trim
87. Main Stair Treads & Risers
88. Wall Stair Stringer
89. Face Stringer & Moulds
90. Starting Riser & Tread
91. First Floor Joists
92. Basement Stair Rail & Post
93. Basement Stair Horses
94. Basement Stair Treads & Risers
95. Basement Post
96. Facia Board
97. Cornice Bed Mould
98. Leader Head or Conductor Head
99. Belt Course
100. Porch Rafter
101. Porch Ceiling Joists
102. Porch Ceiling Soffit
103. Porch Roof Beam
104. Porch Beam Facia
105. Entrance Door Trim
106. Leader, Downspout or Conductor
107. Porch Trellise
108. Porch Column
109. Porch Column Base
110. Concrete Porch Floor
111. Concrete Stoop
112. Entrance Door Sill
113. Stoop Foundation

HUNNICUTT AND ASSOCIATES

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 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 AT 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:

COMPARATIVE LIFE EXPECTANCY

	<u>YEARS</u>
HEATING, HOT-WATER BOILER	30
PIPES AND RADIATORS	45
PLUMBING, STACKS, ETC.	200
WATER PIPES	40
FIXTURES	35
PAINTING, EXTERIOR	6
ELECTRICAL WIRING	75
FIXTURES	25
DECORATING, TRIM	29
WALLS AND 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 OVERALL 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 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 REPRODUCTION.

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 OVERALL 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 \$0.00. 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 INHARMONIOUS 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.

ACCRUED DEPRECIATION

LOSS OF CAPITAL TO DATE OF APPRAISAL

OR

CAPITAL ALREADY RECAPTURED

IT IS A LUMP SUM

IT IS A DEDUCTION FROM THE COST OF REPRODUCTION NEW AT THE DATE OF APPRAISAL, I.E., THE DIFFERENCE BETWEEN THE REPRODUCTION COST OF THE IMPROVEMENTS AT THE DATE OF APPRAISAL AND THE VALUE OF THE IMPROVEMENTS AS OF THAT DATE.

CAUSED BY

PHYSICAL
DETERIORATION

INHERENT
CURABLE
INCURABLE

FUNCTIONAL
OBsolescence

INHERENT
CURABLE
INCURABLE
MEASURED BY

ECONOMIC
OBsolescence

EXTRINSIC
RARELY CURABLE

PHYSICAL CURABLE

- COST TO CURE

PHYSICAL INCURABLE

- PERCENTAGE OF REPRODUCTION COST REPRESENTED BY RATIO OF EFFECTIVE AGE TO NORMAL LIFE EXPECTANCY IF NEW. BEST MEASURED ITEM BY ITEM OF CONSTRUCTION.

FUNCTIONAL CURABLE
DEFICIENCY

- COST TO CURE

SUPER ADEQUACY

- REPRODUCTION COST OF EXCESS LESS PHYSICAL ALREADY CHARGED.

FUNCTIONAL INCURABLE
DEFICIENCY

- CAPITALIZED VALUE OF RENTAL LOSS DUE TO THE CAUSE.

SUPER ADEQUACY

- REPRODUCTION COST OF SUPER ADEQUACY LESS PHYSICAL INCURABLE ALREADY CHARGED PLUS PRESENT WORTH OF ADDED COST OF OWNERSHIP DUE TO THE CONDITION.

ECONOMIC

- CAPITALIZED VALUE OF RENTAL LOSS DUE TO THE CAUSE.

IF CONDITION ADVERSELY AFFECTS BOTH LAND AND BUILDING, TOTAL ECONOMIC OBsolescence MUST BE ALLOCATED TO EACH ON BASIS OF RATIO OF LAND TO BUILDING AND ONLY PORTION ATTRIBUTABLE TO BUILDING DEDUCTED FROM REPRODUCTION COST.

IF CONDITION ADVERSELY AFFECTS BUILDING ONLY, TOTAL ECONOMIC OBsolescence MUST BE DEDUCTED FROM REPRODUCTION COST.

USED IN COST APPROACH ONLY

FUNCTIONAL CURABLE

SUPER ADEQUACY - ADD (PLUS COST TO CURE)
SHOULD READ - "REPRODUCTION COST LESS
PHYSICAL ALREADY CHARGED PLUS COST TO CURE".

PHYSICAL INCURABLE

BASED ON OBSERVED CONDITION AND PHYSICAL LIFE
EXPECTANCY OF BARE PHYSICAL STRUCTURE EXCLUSIVE
OF FINISH, PLUMBING, HEATING, ELECTRICAL, ETC.

CHRONOLOGICAL AGE -	20 YRS.
EFFECTIVE ECONOMIC AGE	
(AFTER RELIABILITATION OF CURABLE PHYSICAL, FUNCTIONAL)	10 YRS.
ESTIMATED REMAINING ECONOMIC LIFE	
(AFTER RELIABILITATION)	40 YRS.
ESTIMATED LIFE EXPECTANCY	
SIMILAR NEW BUILDING	50 YRS.
BUILDING PRESENT COST NEW	\$30,000
BARE PHYSICAL STRUCTURE 25% OF COST	7,500
$\frac{10}{50} = 20\%$ PHYSICAL DETERIORATION	1,500

SCHEDULE I

ESTIMATE OF PHYSICAL DETERIORATION

A. PHYSICAL, CURABLE:

1. NEW ROOF	\$350
2. NEW LINOLEUM, KITCHEN AND BATH	100
3. RENAILING OF LOOSE SIDING	50
4. NEW PORCH RAILS	50
5. POINT UP FRONT PORCH MASONRY	50
6. FLOOR REFINISHING	150
7. DECORATING	<u>250</u>
	\$1,000

B. PHYSICAL, INCURABLE:

BASED ON RATIO OF EFFECTIVE AGE OF THE VARIOUS ITEMS
OF CONSTRUCTION TO NORMAL LIFE EXPECTANCY IF NEW. \$1,500 \$2,500

SEE ATTACHED SCHEDULE
TOTAL PHYSICAL DETERIORATION

SCHEDULE II

ESTIMATE OF FUNCTIONAL OBSOLESCENCE

A. FUNCTIONAL, CURABLE:

1. MODERNIZATION OF KITCHEN, TO INCLUDE NEW TWO-COMPARTMENT SINK; NEW COUNTERS WITH LINOLEUM SURFACES AND SPLASH; NEW CHROMIUM FITTINGS; NEW CUPBOARDS AND HARDWARE; NEW RELOCATION OF PARTITIONS AND DOORS TO PROVIDE NECESSARY WALL SPACE.	\$ 600
2. MODERNIZATION OF BATHROOM TO INCLUDE: NEW CHROMIUM FITTINGS; NEW MEDICINE CABINET; NEW TOILET TANK AND SEAT.	200
3. MODERNIZATION OF ELECTRICAL EQUIPMENT TO INCLUDE: NEW FIXTURES THROUGHOUT.	<u>250</u>
	\$1,050

B. FUNCTIONAL, INCURABLE:

1. DEFICIENCY BASED ON ESTIMATE OF RENTAL LOSS ARISING FROM SMALL BEDROOMS BECAUSE OF WASTE HALL SPACE; SMALL BEDROOM CLOSETS; REMOTE LOCATION OF BATHROOM, \$10 PER MONTH TIMES PROPER GROSS MONTHLY MULTIPLIER OF 110.	\$1,100
2. EXCESS CONSTRUCTION COST OVER NORMAL REQUIREMENTS; INORDINATELY HEAVY FOOTINGS, FOUNDATION AND FLOOR FRAMING \$370 x 95.78%, I.E., LESS 4.22% BEING WEIGHTED RATE OF PHYSICAL INCURABLE ALREADY CHARGED AGAINST THESE ITEMS OF CONSTRUCTION.	<u>355</u>
	\$1,455

TOTAL FUNCTIONAL OBSOLESCENCE

\$2,505

SCHEDULE 111

ESTIMATE OF ECONOMIC OBSOLESCENCE

A. ESTIMATED MONTHLY RENTAL VALUE OF SUBJECT PROPERTY IF NOT SUBJECT TO THE EXTRANEIOUS DEPRECIATING INFLUENCES AFTER CURING PHYSICAL AND FUNCTIONAL DEFICIENCIES AS PER SCHEDULES 1A AND 11A.	\$ 175	
B. PRESENT MONTHLY RENTAL VALUE (AFTER CURING PHYSICAL AND FUNCTIONAL DEFICIENCIES AS PER SCHEDULES 1A AND 11A.)	• 150	
C. ESTIMATED MONTHLY RENTAL LOSS (A MINUS B) DUE TO THE DEPRECIATING INFLUENCES	25	
D. MONTHLY MULTIPLIER APPLICABLE TO PROPERTIES IN THE TYPICAL NEIGHBORHOOD IS 110.		
E. CAPITALIZED RENTAL LOSS (110 x \$25)	2,750	
F. RATIO OF LAND TO BUILDING VALUE IN THE TYPICAL NEIGHBORHOOD IS 4 TO 1, OR BUILDING 80%, LAND 20%.		
G. LOSS IMPUTABLE TO SUBJECT BUILDING IN THE PRESENT NEIGHBORHOOD, 80% OF \$2,750 DUE TO LAND HAVING BEEN VALUED BY COMPARISON WITH LAND SUBJECT TO THE SAME INFLUENCE.	2,200	
TOTAL ECONOMIC OBSOLESCENCE		\$2,200
TOTAL ACCRUED DEPRECIATION		\$7,205
ROUNDED TO		\$7,200

JOB _____ PHYSICAL DETERIORATION INCURABLE _____

IMPROVEMENT NUMBER _____ NAME _____

CONSTRUCTION DATE _____

ITEM	1953 COST NEW	NORMAL LIFE EXPECTANCY	EFFECTIVE AGE	DEPRECIATION	
				%	\$
EXCAVATION & BACKFILL	\$ 175	INDEFINITE	0	0	0
FOUNDATION	850	350 YRS	10 YRS	3	25
BASEMENT FLOOR	350	250 YRS	10 YRS	4	14
EXTERIOR WALLS	2,800	200 YRS	10 YRS	5	140
SASH AND DOORS	1,200	125 YRS	8 YRS	6	72
ROOF FRAMING	1,400	200 YRS	10 YRS	5	70
FINISH FLOOR	550	150 YRS	8 YRS	5	27
PAINTING	800	5 YRS	2 YRS	40	320
PARTITIONS	2,850	150 YRS	8 YRS	5	142
INTERIOR DOOR & TRIM	400	150 YRS	10 YRS	7	28
CABINET WORK	900	100 YRS	1 YR	1	9
BASEMENT STAIRS	200	100 YRS	10 YRS	10	20
SHEET METAL	300	40 YRS	1 YR	2	6
PLUMBING	1,450	75 YRS	5 YRS	7	102
LIGHTING & WIRING	500	75 YRS	5 YRS	7	35
HEATING	850	40 YRS	10 YRS	25	212
FLOOR COVERING	100	20 YRS	0	0	0
	\$17,425			7.4	1,292
INDIRECT COSTS, OVERHEAD AND PROFIT 15%	2,613			7.4	193
TOTAL	\$20,038			7.4	1,485
ROUNDED TO	\$20,000			7.5	1,500

HOW TO USE MARKET DATA

BY

HARRY R. FENTON, M.A.I.

REPRINT FROM REAL ESTATE APPRAISAL PRACTICE

TO USE MARKET DATA PROPERLY ONE MUST (A) UNDERSTAND WHAT IT IS, (B) KNOW WHAT IS PERTINENT, (C) KNOW WHERE TO FIND IT, (D) KNOW HOW TO USE IT, AND (E) KNOW HOW AND WHEN TO PUT IT IN THE REPORT.

MARKET DATA IS THE EVIDENCE LEFT BY THE ACTION OF THE MARKET. IT IS ALWAYS A RELIC OF THE PAST; IT MUST ALWAYS BE TREATED AS HISTORICAL. ITS USE IS A BASIC APPRAISAL PROBLEM. ONE HAS TO ESTIMATE THE PRESENT BY THE EVIDENCE OF THE PAST. IT WOULD NOT BE SO DIFFICULT WERE THE MARKET STABLE BUT IN TIMES OF RAPID CHANGE, SUCH AS WE HAVE BEEN EXPERIENCING OVER THE PAST 27 YEARS SINCE THE GREAT DEPRESSION, ITS PROPER USE BECOMES A PRIMARY PROBLEM. THE APPRAISER MUST HAVE THE COURAGE OF HIS OWN CONVICTIONS TO PROJECT THE TREND WHICH IS INDICATED BY PAST DATA INTO THE PRESENT AND ON INTO THE FUTURE. IN SO DOING HE MUST RELY UPON HIS OWN GOOD JUDGMENT AND BE PREPARED FOR CRITICISM. HE IS SURE TO BE CURSED AND REVILED BY THOSE WHO WILL DISAGREE WITH HIM. HE WILL BE TAKEN TO TASK BY THE CONSERVATIVES WHO LOOK ONLY AT PAST PRICES AND WHO SO CLEARLY "REMEMBER WHEN," AND WHO WILL POINT TO THE PAST AS A CATEGORICAL REFUTATION OF HIS OPINION OF THE FUTURE. SECONDLY, HE WILL BE IN TROUBLE WITH THE LIBERALS WHO ANTICIPATE A GREATER AND GREATER CONTINUING INFLATION, AND WHO WILL SURELY HAVE THEIR SIGHTS SET UPON MORE RAPIDLY RISING MARKETS AND HIGHER PRICES.

UNDER THESE CIRCUMSTANCES, IT TAKES A BRAVE APPRAISER TO REALLY "CALL 'EM AS HE SEES 'EM". IF HE DOES, HE CAN ONLY PRAY THAT THE FUTURE WILL VINDICATE HIM. IN FACT, IT IS AN INTIMATE FAMILIARITY WITH PAST MARKET PRICES THAT HAS BLINDED SO MANY PEOPLE TO THE CURRENT REALITIES IN A CHANGING WORLD AND WHICH HAS INDUCED THEM TO CHOOSE A "BIRD-IN-HAND" ATTITUDE TAKING A COMMISSION ON THE SALE OF REAL ESTATE BARGAINS THEY FIND RATHER THAN GAMBLING BY TAKING AN EQUITY. THOSE RARE INDIVIDUALS WHO WERE ABLE TO SEE THROUGH THIS SO-CALLED CONSERVATISM VISUALIZING THE CHANGES THAT WOULD BE CAUSED BY THE INFLATION KNEW THAT VALUES WERE GOING UP IN DOLLARS. THE APPRAISER WHO FOLLOWED HIS OWN ADVICE 20 YEARS AGO IS RICH TODAY.

THE DAY WILL COME WHEN THE REVERSE SITUATION WILL BE TRUE AND PRICES AND VALUES WILL BE DECLINING. THE APPRAISER WHO CAN KEEP CURRENT WITH THIS DECLINING MARKET WILL ALSO NEED A CLEAR HEAD AND AN ABILITY TO BELIEVE THE FACTS AS THEY PRESENT THEMSELVES. THAT THIS IS TRUE IS FUNDAMENTAL BECAUSE WE TEND TO RELY UPON A CONCEPT OF INTRINSIC VALUE BELIEVING THAT THINGS WILL ALWAYS BE WORTH WHAT WE FEEL TO BE A NORMAL OR PROPER PRICE. AND WE FIND IT DIFFICULT TO BELIEVE OUR OWN SENSES WHEN THE EVIDENCE POINTS UPWARD OR DOWNWARD INTO VALUE AREAS WHICH HAVE NOT YET BEEN GENERALLY ACCEPTED. AS WINSTON CHURCHILL HAS REMARKED, "ANY SCHOOLBOY'S HINDSIGHT IS BETTER THAN ANY SAGE'S FORESIGHT."

PERTINENT DATA

PHYSICAL ADJUSTMENTS

MARKET DATA MUST BE CAREFULLY SCREENED AND EVALUATED WITHOUT PREJUDICE OR EMOTION, IF A TRUE PICTURE OF CURRENT CONDITIONS IS TO BE SHOWN. WHAT WOULD BE THE PICTURE IF ALL DATA WERE IMMEDIATELY CURRENT? IN A COMPLETELY STABLE MARKET, FOR INSTANCE, THIS SHOULD CLEARLY INDICATE PRESENT VALUES. IN A CHANGING MARKET, HOWEVER, THIS HISTORICAL DATA MAY OR MAY NOT BE CLEAR EVIDENCE OF CURRENT VALUE. IT HAS TO BE ADJUSTED FOR THE DIFFERENCES IN VALUE BETWEEN THEN AND NOW.

TO MAKE THE DATA USABLE FOR COMPARATIVE PURPOSES, IT IS HELPFUL--INDEED OFTEN ESSENTIAL--TO REDUCE THE INFORMATION TO A COMMON DENOMINATOR SO THAT APPLES ARE COMPARED WITH APPLES AND NOT WITH ORANGES. THESE COMMON DENOMINATORS TAKE MANY FORMS. FOR INSTANCE, IN APPRAISING A COTTAGE, WE MAY COMPARE IT WITH OTHER SALES OF COTTAGES ON A PRICE-PER-ROOM BASIS TO FIND, LET US SAY, THAT COTTAGES ARE SELLING FOR \$1,500 TO \$1,800 PER ROOM, AND THE MOST COMPARABLE SALES WERE MADE AT \$1,750 PER ROOM.

OTHER EVEN MORE COMMON UNITS OF COMPARISON ARE PRICE PER SQUARE FOOT OR CUBIC FOOT OR FRONT FOOT. THE USE OF THESE COMMON DENOMINATORS HELPS TO UNDERSTAND A MULTITUDE OF DIVERSE DATA. THEATRES ARE OFTEN COMPARED ON A PER SEAT BASIS, FARMS BY ACREAGE, SUBDIVISIONS BY THE NUMBER OF BUILDING SITES OR LOTS, AND APARTMENT HOUSES BY THE NUMBER OF UNITS. THE LIST OF COMMON DENOMINATORS CAN BE EXTENDED INDEFINITELY. HOWEVER, IT IS ESSENTIAL THAT WHATEVER COMMON DENOMINATOR IS USED, IT BE REALISTICALLY INFORMATIVE AND THAT IT REALLY SERVES TO MAKE A COMPARISON EASIER AND MORE COMPREHENSIBLE.

THE PRINCIPLE OF SUBSTITUTION

THE FUNDAMENTAL PREMISE ON WHICH THE USE OF MARKET DATA RESTS IS THE PRINCIPLE OF SUBSTITUTION. OBVIOUSLY, NO WELL-INFORMED PERSON IS GOING TO PAY MORE FOR ANY PROPERTY THAN HE HAS TO PAY TO BUY ANOTHER EQUALLY DESIRABLE PIECE. LIKEWISE, IT IS OBVIOUS THAT NO WELL-INFORMED PERSON, NOT IN DISTRESS, IS GOING TO SELL HIS PROPERTY FOR ANY LESS THAN OTHERS ARE CURRENTLY GETTING FOR EQUALLY DESIRABLE PROPERTIES. THEREFORE, IT BEHOVES THE REALISTIC APPRAISER TO PLACE HIMSELF IN THE SHOES OF BOTH THE TYPICAL BUYER AND THE TYPICAL SELLER SAYING TO HIMSELF IN EFFECT-- IF I WERE BUYING A PROPERTY LIKE THIS, WHAT OTHER CHOICES WOULD I HAVE, AND, IF I WERE SELLING A PROPERTY LIKE THIS, WHAT OTHER PROPERTIES ARE FOR SALE WHICH ARE SIMILAR TO MINE? IN OTHER WORDS, THE APPRAISER MUST LOOK TO THE TRUE MARKET COMPARABILITY OF OTHER SALES TO THE SUBJECT PROPERTY. COMPARABILITY DOES NOT NECESSARILY REQUIRE A FACE-TO-FACE SIMILARITY. IT IS ESSENTIALLY A QUESTION OF WHAT SUBSTITUTE PROPERTY WOULD THE POTENTIAL BUYER TAKE IF HE WERE NOT ABLE TO ACQUIRE THAT WHICH IS BEING APPRAISED. TO THE EXTENT THAT THE APPRAISER CAN SEE THE TRUE COMPARABILITY OF THESE OTHER PROPERTIES WITH HIS SUBJECT, HE IS ABLE TO MAKE LUCID, CONVINCING, AND REALISTIC APPRAISALS BY THE MARKET DATA APPROACH.

THUS, IT MAY BE THAT A POTENTIAL BUYER, YEARNING FOR A GEORGIAN COLONIAL, WOULD HAVE BUT LITTLE CHOICE IN GEORGIAN COLONIALS. WERE NO GEORGIAN COLONIALS AVAILABLE, THEN WHAT WOULD HE BUY INSTEAD? PERHAPS A DUTCH COLONIAL? AN ENGLISH BRICK? A ONE-STORY RAMBLER? OR WHAT? OF COURSE, THE MORE SIMILAR THE COMPARABLE IS, THE MORE LIKELY WOULD THE BUYER BE TO ACCEPT IT AS A SUBSTITUTE. BUT, IN ANY EVENT, IF HE NEEDS A HOUSE HE WILL BUY SOMETHING; AND THE COMPARABILITY IS IN THE DEGREE OF PROBABILITY OF BEING THE ALTERNATE CHOICE.

IN INCOME PROPERTY, THE COMPARABLE RANGE MAY BE WIDE. AN INVESTOR WHO WISHES TO PURCHASE A STORE BUILDING IS INTERESTED IN THE MOST PROFITABLE PIECE HE CAN FIND RATHER THAN IN A SPECIFIC LOCATION. HE WILL CONSIDER ALL OTHER BUILDINGS WHICH ARE FOR SALE, PERHAPS ANYWHERE IN THE CITY, PERHAPS ANYWHERE IN THE COUNTRY. HE IS ALSO FREE TO CHOOSE SOME OTHER TYPE OF REAL ESTATE, SUCH AS INDUSTRIAL PROPERTY OR MULTI-FAMILY PROPERTY, IF IT PAYS BETTER. HE MAY DECIDE THAT STOCKS OR BONDS ARE MORE DESIRABLE, OR HE MAY CHOOSE ANY OF THE MYRIAD OTHER INVESTMENTS. MONEY FLOWS FREELY LIKE A LIQUID INTO WHATEVER USE IS MOST PROFITABLE AND SECURE.

IN MAKING OUR COMPARISONS, WE MUST REMAIN COGNIZANT OF THE FACT THAT THE MORE DISSIMILAR THE SUBSTITUTE INVESTMENT IS TO THE SUBJECT PROPERTY, THE MORE DIFFICULT IT IS TO MAKE A SOUND COMPARISON, BECAUSE IT MIGHT NOT BE CONSIDERED A SUBSTITUTE BY THE MARKET ITSELF. IT SIMPLIFIES THE PROBLEM GREATLY IF ARMS-LENGTH RECENT SALES BETWEEN WELL-INFORMED PARTIES OF PHYSICALLY AND ECONOMICALLY COMPARABLE PROPERTIES CAN BE FOUND. THE BEST COMPARABLE SALE FOR AN INSIDE LOT IS THE INSIDE LOT NEXT TO IT WHICH HAS BEEN BOUGHT BY ONE PROFESSIONAL REAL ESTATE INVESTOR FROM ANOTHER, EACH OF WHOM WAS PREVIOUSLY UNACQUAINTED WITH THE OTHER AND NEITHER OF WHOM IS UNDER ANY COMPULSION TO ACT.

TIME ADJUSTMENTS

NEXT, THE TIME ELEMENT MENTIONED ABOVE HAS TO BE COMPENSATED. BY PROJECTING A SERIES OF SIMILAR SALES OVER A PERIOD OF YEARS, A TREND CAN OFTEN BE VISUALIZED. THUS, IN THE PERIOD, SAY FROM 1945 TO 1950, SALES MADE IN EACH YEAR MIGHT INDICATE AN INCREASE OF 10% A YEAR--TOTAL OF 50% FOR THE FIVE YEARS. IF THAT WERE TRUE, THEN A SALE MADE IN 1945 AT \$100 A FRONT FOOT WAS WORTH \$150 A FRONT FOOT IN 1950. LIKEWISE, AN INCREASE MAY HAVE OCCURRED FROM 1950 TO 1955 OF SAY 5% A YEAR, AND THUS AN ADDITIONAL 25% WOULD BE INDICATED, INCREASING THE \$150 PRICE PER FRONT FOOT TO \$187.50 PER FRONT FOOT. SALES SINCE 1955 MAY SHOW THAT THE MARKET HAS FLATTENED OUT, SO NO ADJUSTMENT FOR THE TIME FACTOR FROM 1955 THROUGH 1957 IS INDICATED. THEREFORE, IF PRICES IN 1945 WERE \$100 PER FRONT FOOT, THE FAIR MARKET VALUE IN 1957 MIGHT BE INDICATED TO BE \$187.50 PER FRONT FOOT.

ADJUSTMENT FOR THIS TIME ELEMENT CANNOT BE AVOIDED, NOT EVEN BY THE MOST SLAP-DASH APPRAISER, FOR HE MUST ASSUME ONE OF THREE THINGS: THAT PRICES HAVE GONE UP, GONE DOWN, OR STAYED LEVEL. COMPILING THE DATA FOR THE MARKET PERIOD IN A STATISTICAL MANNER, HOWEVER, PROVES THE TREND, INDICATES THE AMOUNT OF CHANGE AND MAKES IT POSSIBLE TO PROJECT THE TREND FORWARD WITH SOME DEGREE OF ACCURACY.

DATA SOURCES

THERE ARE MANY SOURCES. ONE OF THE BEST IS THE PUBLIC RECORDS, BECAUSE NEARLY ALL SALES ARE RECORDED AND BECAUSE THE CONSIDERATION HAS TO BE AT LEAST APPROXIMATED OR EXCEEDED BY THE FEDERAL AND STATE STAMPS AFFIXED TO THE DEED. LIKEWISE, DEEDS MAY RECITE THE TRUE CONSIDERATION AND PARTICULARLY IS THIS INFORMATION REVEALED IN A CONTRACT. SOME STATES NOW LEVY A TRANSFER TAX ON REAL ESTATE TITLES REQUIRING AN AFFIDAVIT IN WHICH THE ACTUAL CONSIDERATION MUST BE SWORN TO, AND THIS INFORMATION IS MADE A MATTER OF PUBLIC RECORD. TITLE COMPANIES TOO, CAN ALSO FURNISH EVIDENCE OF THE CONSIDERATION AND CAN FURNISH DATES OF TRANSFER, THE PARTIES INVOLVED, AND A DESCRIPTION OF THE PROPERTY TRANSFERRED.

CHECKING THE DATA

ONE OF THE PROBLEMS WHICH MUST BE CAREFULLY WATCHED IN THE USE OF MARKET DATA IS TO CHECK TO SEE THAT IT IS FACTUAL. IT IS A COMMON HUMAN FAILING AMONG BUYERS AND SELLERS, LANDLORDS AND TENANTS, TO ATTEMPT TO GILD-THE-LILY, TO GLORIFY THEIR ACTIONS; TO INDICATE MORE SAGACITY THAN THEY TRULY POSSESS; TO INDICATE THAT THEY HAVE THE BEST OF A BARGAIN. THUS, SELLERS TEND TO BOAST ABOUT THE PRICE THEY RECEIVED; BUYERS TO SUGGEST THAT THEY HAVE BOUGHT MORE FAVORABLY THAN THEY DID; TENANTS LIKE TO BOAST ABOUT THEIR LOW RENT; OWNERS LIKE TO BOAST ABOUT HOW MUCH THEY ARE GETTING. THEREFORE, IT IS IMPERATIVE THAT THE CAREFUL APPRAISER VERIFY HIS DATA TO THE GREATEST EXTENT REASONABLE. THE VALIDITY OF HIS CONCLUSIONS WILL DEPEND ON THE VALIDITY OF HIS INFORMATION.

IN EVERY CASE, REGARDLESS OF ALL OTHER DATA OBTAINED, IT BEHOVES THE APPRAISER TO CONTACT AT LEAST ONE AND, IF POSSIBLE, ALL OF THE PARTIES INVOLVED IN ANY TRANSACTION. ALTHOUGH, IT IS A CURIOUS FACT THAT IT USUALLY SEEMS THAT ANYONE WHO BUYS OR SELLS A PIECE OF REAL ESTATE DOES SO EITHER UNDER AN ASSUMED NAME OR IMMEDIATELY LEAVES THE CITY, STILL A SEARCH WILL USUALLY DISCLOSE THE WHEREABOUTS OF AT LEAST ONE PARTY TO THE TRANSACTION.

BROKERS ARE, OF COURSE, AN EXCELLENT SOURCE OF MATERIAL, BUT THE APPRAISER HAS TO BEWARE OF THE "BROKERAGE MENTALITY." A BROKER'S EXISTENCE DEPENDS UPON AN OPTIMISTIC OUTLOOK. HIS JOB IS TO SELL HIS LISTING AT THE OWNER'S PRICE IF POSSIBLE, AND HE IS NECESSARILY TRAINED TO JUSTIFY HIS PRICE. HIS JOB IS TO EFFECT A MEETING OF THE MINDS, NOT TO ARRIVE AT HIS IDEA OF A FAIR PRICE. A PESSIMISTIC BROKER IS USUALLY "BROKER THAN ANYBODY"; A SUCCESSFUL BROKER HAS TO BE AN OPTIMIST. HOWEVER, BEWARE! IF THE LISTING IS TOO HIGH THE BROKER MUST THEN REVERSE HIS FIELD AND TRY TO CONVINCE THE OWNER THAT HE SHOULD CUT HIS PRICE SO THAT WHEN AN OFFER ARISES, THE BROKER CAN MAKE A SALE. HE IS A NEGOTIATOR TRAINED IN THE ART OF COMPROMISE, OF EFFECTING A MEETING OF THE MINDS WITHOUT ANY SPECIFIC OVERRIDING OBLIGATION TO GET A FAIR PRICE. HE IS MORE THAN LIKELY TO BE CONTINUING HIS NEGOTIATING, EVEN WHILE HE THINKS HE IS MAKING AN IMPARTIAL APPRAISAL.

LENDING INSTITUTIONS ARE AN EXCELLENT SOURCE OF MARKET DATA, BUT HERE AGAIN THE PRUDENT APPRAISER MUST BE WARY OF ACCEPTING THEIR OPINIONS AT FACE VALUE. THE BANKER IS INSTINCTIVELY AWARE OF THE FACT THAT HE IS FAIR GAME FOR EVERY PROMOTER AND HE TENDS TO VIEW EACH INVESTMENT WITH A JAUNDICED EYE, WATCHFUL FOR THE PITFALLS INTO WHICH HE MAY BE LURED.

AS A PRACTICAL MATTER, EXPERIENCE TEACHES THAT ONE OF THE BEST WAYS TO GET THE NECESSARY MARKET DATA IS TO GET OUT IN THE FIELD AND START RINGING DOORBELLS AND ASKING QUESTIONS. IT IS ALWAYS A SURPRISE AND SOMETIMES DOWNRIGHT AMAZING TO SEE HOW MUCH INFORMATION CAN BE ELICITED BY A QUESTION, PARTICULARLY IF THE QUESTIONER IS POLITE AND FRIENDLY AND OFFHAND ABOUT IT. MANY PEOPLE WILL REVEAL THEIR SECRETS TO A STRANGER WHO WOULD HESITATE TO TELL THEM TO A FRIEND OR RELATIVE. BUT HERE AGAIN, BEWARE! ONE NEVER KNOWS EXACTLY WHAT AX THE QUESTIONEE IS GRINDING, AND ONE NEVER KNOWS JUST WHAT PREJUDICES HE MAY HARBOR.

NEIGHBORHOOD AND ECONOMIC DATA CAN BE COMPILED FROM MANY OBVIOUS SOURCES. CHAMBERS OF COMMERCE, WHILE ALWAYS TENDING TO EMBELLISH THEIR OWN COMMUNITY, DO COMPILE A GREAT DEAL OF ACTUAL, FACTUAL DATA ABOUT THEIR CITY. LIBRARIES CONTAIN MANY REFERENCE WORKS FROM WHICH MUCH GENERAL INFORMATION CAN BE GLEANED. COMMERCIAL BANKS CAN FURNISH MUCH INFORMATION AND ARE USUALLY HAPPY TO BE OF ASSISTANCE. THE VETERANS' ADMINISTRATION AND THE FEDERAL HOUSING ADMINISTRATION BOTH HAVE TREMENDOUS STORES OF KNOWLEDGE WITH REGARD TO RESIDENTIAL TRENDS AND THE EVALUATION OF SPECIFIC RESIDENTIAL NEIGHBORHOODS.

WHEN SPECIAL PROPERTIES ARE BEING APPRAISED, SUCH AS TIMBERLANDS, IT IS INTERESTING TO SEE HOW MUCH DATA CAN BE FOUND IN THE ARCHIVES OF VARIOUS GOVERNMENTAL AGENCIES; IN THE EXPERIENCE OF TIMBER COMPANIES WHICH THEY ARE USUALLY GLAD TO SHARE, AS WELL AS CRUISERS AND OTHERS IN THE BUSINESS. THE CITY ENGINEER CAN PRODUCE INFORMATION ON GRADES, SOILS, IMPROVEMENTS, UTILITIES, TRAFFIC, FUTURE PLANNING, AND MUCH OTHER DETAIL. THE PLANNING COMMISSION CAN FURNISH LAND USE DATA, ESTIMATES OF GROWTH AND CHANGE, ZONING INFORMATION, AND SIMILAR ITEMS. THE ASSESSOR HAS VALUATION AND TAX DATA, DESCRIPTIONS OF THE LAND AND OF THE IMPROVEMENTS, AND OFTEN DETAILS ON RECENT SALES. THE U. S. DEPARTMENT OF AGRICULTURE HAS DATA ON SOIL CLASSIFICATIONS, CROP CHARACTERISTICS, EROSION PROBLEMS, AND SUCH.

How Data Is Processed And Used

ONCE THIS JUMBLE OF DATA HAS BEEN COMPILED, IT MUST BE CATALOGUED AND ASSEMBLED IN AN ORDERLY PROGRESSION, SO THAT BOTH THE APPRAISER AND THE READER OF THE APPRAISAL REPORT WILL ACQUIRE A CLEAR FLOWING PICTURE OF THE APPRAISAL PROBLEM AS HE GOES THROUGH IT. IT HAS ALWAYS BEEN CONSIDERED GOOD APPRAISAL TECHNIQUE TO FOLLOW THE PATTERN OF THE WILD HORSE WRANGLER WHO STARTS WITH A WIDE AREA, DRIVES HIS QUARRY INTO A MORE AND MORE RESTRICTED LOCATION, FINALLY INTO A WIDE-MOUTHED CHUTE, AND THEN THROUGH THE NARROW END OF IT INTO THE CORRAL.

THUS MAKING AN APPRAISAL, ONE SHOULD START WITH THE WIDEST AREA PERTINENT TO THE PROBLEM, NARROW THE ATTENTION DOWN TO THE IMMEDIATE NEIGHBORHOOD, THEN BRING IT DOWN TO THE SITE ITSELF. NEXT, ONE COMES TO THE THREE APPROACHES TO THE VALUATION THROUGH COMPARABILITY, COST LESS DEPRECIATION, AND INCOME. FINALLY, THESE INDIVIDUAL CONCLUSIONS ARE DRIVEN THROUGH THE CORRELATION INTO THE FINAL APPRAISAL. BY SO ORGANIZING THE DATA AND INFORMATION ONE IS ABLE TO PROCEED FROM THE GENERAL TO THE SPECIFIC WITH A CONSIDERABLE DEGREE OF ACCURACY, TO A BETTER COMPREHENSION OF THE PROBLEM, AND SO TO A VALID SOLUTION. THE APPRAISAL PROCESS IS PREDICTED UPON THIS LOGICAL ARRANGEMENT OF DATA. THE CONCLUSION REACHED IS BASED ON FACTS AND NOT ON GUESSES. IT IS BASED ON FACTS INSTEAD OF ON IMPRESSIONS, AND ON ACTUAL CONCRETE EVIDENCE INSTEAD OF ON THINGS REMEMBERED.

KEEP IN MIND THAT THERE IS ALWAYS A PRACTICAL POINT BEYOND WHICH IT DOES NOT PAY TO DOCUMENT CONCLUSIONS. IT WOULD BE POSSIBLE TO SPEND LITERALLY WEEKS, PERHAPS MONTHS, IN THE APPRAISAL OF A SINGLE FAMILY DWELLING, IF ONE WENT INTO EVERY MINUTE DETAIL OF CONSTRUCTION AND INTO EVERY COMPARABLE SALE. ONE COULD MAKE ECONOMIC STUDIES OF THE REGION, FORECASTS OF INCOME LEVELS, CURRENT TRENDS, AND SO ON. SO, ONE OF THE PROBLEMS IS DECIDING WHICH DATA IS RELEVANT AND WHICH IRRELEVANT, HOW MUCH IS SUFFICIENT AND HOW MUCH IS TOO MUCH. A FEW GOOD, ARM'S-LENGTH, COMPARABLE TRANSACTIONS BETWEEN INFORMED PARTIES CAN BE MORE CLEARLY COMPREHENDED THAN CAN A TREMENDOUS VOLUME OF STATISTICAL MATERIAL, AND TO THE AVERAGE MIND, THE EXCESS DATA ADDS NOTHING TO THE CLARITY OF THOUGHT.

THE MARKET AS A YARDSTICK

REPRINT FROM APPRAISAL GUIDE
SOCIETY OF RESIDENTIAL APPRAISERS

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.

REPRINT FROM APPRAISAL GUIDE
SOCIETY OF RESIDENTIAL APPRAISERS

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 COMPELSION

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 CONVENTIENT 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.