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BUSI 442 Case Studies in Appraisal I

PURPOSE AND SCOPE

The *Case Studies in Appraisal I* course (BUSI 442) is intended to introduce practical applications of different appraisal theories in terms of how they are applied in the valuation of several property types.

The course is based on the fundamental belief that it is the marketplace, not the appraiser, which establishes market value. The role of the appraiser is to analyze the property, gather and analyze market data and, with a thorough understanding of the factors which influence value in the marketplace, estimate the most probable price a property will sell for.

After completing this course, students should be able to:

- Discuss the characteristics relevant to an appraisal of multi-family residential properties, retail uses, industrial properties, office buildings, land, and agricultural properties.
- Explain the procedures and important considerations in expropriation appraisals and review appraisal.
- Demonstrate practical applications in the valuation of the various property types, including the direct comparison approach using two or more units of comparison, rationalizing the approach using logic appropriate to the property type.
- Reconstruct property net operating income, considering variances for reserves for replacement, leasing costs and taxes and operating cost recoveries. Determine when it is appropriate to consider these variances, and understand the principles necessary to ensure the resulting appraisal is not misleading.
- Apply the income approach using three or more direct capitalization methods, rationalizing the approach using logic appropriate to the property type.
- Complete a simple cost approach analysis that includes land valuation with appropriate units of comparison, replacement cost estimates based on supplied costs, and depreciation utilizing simple straight line techniques.
- Complete a final reconciliation and conclusion, with appropriate reasoning and logic.
- Discuss the principles of appraisal review and conduct a simple review according to the requirements of Canadian Uniform Standards of Professional Appraisal Practice.

LESSON 1 – Appraising Multi-Family Residential Properties

1. Evaluate appraisal methods and techniques for their usefulness in appraising multi-family residential properties;
2. Apply the direct comparison approach using two units of comparison;
3. Construct a stabilized income and expense statement for a multi-family income property;
4. Extract capitalization and equity dividend rates from market data;
5. Extract and adjust effective gross income multipliers (EGIMs) from market data;
6. Develop a capitalization rate using the band of investment formula;
7. Apply the income approach using an overall capitalization rate and a gross income multiplier; and
8. Reconcile the value indicators and develop a final estimate of value for a subject property.

LESSON 2 – Multi-Family Residential Appraisal Case Study

1.   Prepare a direct comparison approach using two units of comparison;
2.   Construct a stabilized income and expense statement for a multi-family income property;
3.   Extract capitalization rates from market data;
4.   Develop a capitalization rate using the band of investment formula;
5.   Prepare the income approach using an overall capitalization rate and a capitalization rate developed from the band of investment formula;
6.   Discuss the pitfalls to avoid in preparing an appraisal of multi-family units; and
7.   Reconcile the value indicators and develop a final estimate of value for the subject property.

LESSON 3 – Industrial Property Valuation

1.   Describe the characteristics of industrial properties and their market.
2.   Prepare the cost approach, based on the land and cost data provided.
3.   Calculate the stabilized net operating income for an industrial property.
4.   Extract capitalization rates from market data.
5.   Prepare the income approach using an overall capitalization rate.
6.   Prepare a direct comparison approach using a price per square foot comparison.
7.   Provide a reconciliation and final estimate of value for an industrial property.

LESSON 4 – Appraising Office Buildings

1.   Briefly illustrate the main characteristics of office buildings.
2.   Prepare a schedule of prospective cash flow for a 10-year holding period based on standard information provided.
3.   Prepare a present value matrix.
4.   Conclude a value estimate by using the discounted cash flow method.
5.   Calculate the stabilized net operating income for an office building.
6.   Conclude a value estimate by using the direct capitalization method, applying an overall rate.
7.   Provide a reconciliation and final estimate of value.

LESSON 5 – Appraising Retail Properties

1.   Describe the most common types of retail real estate projects.
2.   Identify the key physical and locational aspects required for a successful retail project.
3.   Determine the value of any excess land or density.
4.   Identify sources of information useful in the appraisal of retail properties.
5.   Identify the critical details required in the analysis of a retail lease document.
6.   Identify the key elements required in each of the valuation methods in order to determine an estimation of market value.

LESSON 6 –Retail Property Valuation

1. Construct a stabilized income and expense statement for a retail property.
2. Extract capitalization rates from market data.
3. Prepare the income approach using an overall capitalization rate.
4. Prepare a direct comparison approach using a price per square foot comparison.
5. Prepare the cost approach, based on the land and cost data provided.

LESSON 7 – Comparison-Based Methods of Land Valuation

1. Explain the economic and appraisal principles important to land valuation;
2. Demonstrate the practical application of direct comparison, extraction, and allocation land valuation techniques;
3. Explain the theory applicable to these three comparison-based techniques;
4. Recognize situations requiring selection of one or more of the three techniques in the real world;
5. Analyze market data to extract adjustments to be applied to the comparables;
6. Explain methods for measuring and comparing different parcels of land;
7. Explain the most appropriate method of valuing land for any given situation;
8. Adjust comparable sales to account for differences in depth, size, irregularities, corner lots, and locations; and
9. Describe the methods used to value land where there are insufficient sales of comparable sites.

LESSON 8 – Income-Based Methods of Land Valuation

1. demonstrate the practical application of:
    - direct capitalization: ground rent capitalization technique;
    - direct capitalization: land residual technique;
    - cost of development technique;
    - yield capitalization: subdivision development analysis technique;
2. explain the theory applicable to these three income-based techniques; and
3. recognize situations requiring selection of one or more of the three techniques.

LESSON 9 – Appraising Agricultural Properties

1. Outline a systematic procedure for collecting and analyzing agricultural comparable sales data for use in the three traditional approaches to value.
2. Explain the application of the cost approach to value agricultural properties, evaluating its strengths, its weaknesses, and situations where it would apply.
3. Explain the application of the direct comparison approach to value agricultural properties, evaluating its strengths, its weaknesses, and situations where it would apply.
4. Explain the application of the income approach to value agricultural properties, evaluating its strengths, its weaknesses, and situations where it would apply.
5. Apply the reconciliation process to find the final opinion of value, selecting the most representative approach to value the subject agricultural property.

LESSON 10 – Agricultural Appraisal Case Study

1. Outline a systematic procedure for collecting and analyzing agricultural comparable sales data for use in the three traditional approaches to value.
2. Explain the application of the cost approach to value agricultural properties, evaluating its strengths, its weaknesses, and situations where it would apply.
3. Explain the application of the direct comparison approach to value agricultural properties, evaluating its strengths, its weaknesses, and situations where it would apply.
4. Explain the application of the income approach to value agricultural properties, evaluating its strengths, its weaknesses, and situations where it would apply.
5. Apply the reconciliation process to find the final opinion of value, selecting the most representative approach to value the subject agricultural property.

LESSON 11 – Expropriation and Appraisal Review

1. Define expropriation.
2. Identify the various components that can go to make up compensation.
3. Explain those valuation concepts not normally found in routine appraisals.
4. Distinguish the valuation considerations in a whole taking and a partial taking.
5. Describe the steps leading up to appearing as an expert witness at a hearing.
6. Distinguish between appraisal and appraisal review.
7. Identify the purpose of an appraisal review.
8. Appreciate the review requirements of various classes of clients.
9. Develop an appraisal review process.
10. Outline the key elements to watch for in an appraisal review assignment.
11. Distinguish between technical and administrative reviews.
12. Comprehend the role of the appraiser and the role of the reviewer.
13. Recognize the training and experience required of review appraisers.