

BUSI 330 Foundations of Real Estate Appraisal

PURPOSE AND SCOPE

The *Foundations of Real Estate Appraisal* course BUSI 330 provides a first exposure to the principles and techniques of real property valuation. It assumes no particular background for the reader, other than an interest in appraising and a desire to learn.

After reading the text and proceeding through this course workbook, the reader will not instantaneously become an appraiser, but will have a good basic knowledge about appraisal theory and practices. Upon completing this course, students should be prepared to *start* applying the principles and techniques they have learned to actual appraisal problems. They should also have begun to appreciate the fact that appraising is a dynamic, changing field and no single course or series of courses is sufficient in itself to prepare you to be an effective and successful practitioner. Current market knowledge is critical in appraisal practice, and this requires that appraisers continue learning well beyond their coursework, and keep up on current events in their province and city.

The textbook and course workbook provide the basic foundation necessary for further study in the field of real estate appraisal. Listed below are general objectives for what a student should learn from this course:

- Understand why real property appraisal is necessary and the purpose and use of appraisals.
- Understand the various definitions of "value" and the forces that create and affect value.
- Understand the nature of real property and its components.
- Understand the logical and orderly steps required in the appraisal process which lead to a conclusion of market value.
- Understand the importance of neighbourhood, site, and improvement attributes with respect to determining value and to the appraisal process.
- Understand the importance of a highest and best use analysis in an appraisal.
- Understand the different methods available for land valuation and when each is appropriate.
- Understand the underlying theory for the three approaches to value: direct comparison, cost, and income.
- Understand the strengths and weaknesses of the three approaches and when each is most appropriate for application.
- Be able to apply the techniques of the direct comparison and cost approaches to value in a practical situation.
- Understand the reconciliation process and be able to complete a reconciliation to indicate an opinion of final value, or value range.
- Understand how to report appraisal findings in an appropriate report format.

LESSON 1 – Real Property and the Nature of Value

1. Discuss the reasons why real property appraisal is necessary and why it is important to have appraisal recognized as a profession.
2. Explain the "concepts of land" and the various factors which affect land value.
3. Distinguish between the concepts of real estate, real property, and personal property.
4. Know the difference between fixtures and chattels.
5. Distinguish between the purpose and use of an appraisal.
6. Explain the difference between market value, market price, and cost of real estate.
7. Define market value and explain how it relates to other definitions of value that an appraiser might be asked to find.
8. Discuss the four factors that affect value.

LESSON 2 – Principles of Appraisal

1. Explain the various principles that affect real estate values.
2. Describe the valuation process as it applies to appraisals.
3. Define the appraisal problem.
4. List the main steps in the cost approach.
5. List the main steps in the direct comparison approach.
6. List the main steps in the income approach.
7. Explain real property ownership and its limitations.
8. Distinguish the types of interests in real property ownership.
9. Describe the data collection process and the sources of data.

LESSON 3 – Property Analysis

1. Define neighbourhood boundaries.
2. Describe the life cycles of markets and neighbourhoods.
3. Identify the characteristics of single and multiple family districts and what influences their growth and decline.
4. Explain how land is surveyed, subdivided, and recorded in Land Title or Registry Offices.
5. Describe the physical characteristics of land and how these may affect value.
6. Explain the procedure for inspecting a single-family residence.
7. Describe a building as required in an appraisal assignment.

LESSON 4 – Market Studies, Highest and Best Use Analysis, and Site Valuation – Part I

1. Describe how markets are defined.
2. Explain the demand, supply, and competitive forces of a market.
3. Apply the six step process for carrying out a market analysis assignment.
4. State the fundamentals of highest and best use.
5. Test the criteria for highest and best use.
6. Find the highest and best use of land as if vacant.

LESSON 5 – Market Studies, Highest and Best Use Analysis, and Site Valuation - Part II

1. Find the highest and best use of a property as improved.
2. Explain how highest and best use analysis applies to special situations, such as nonconforming uses, interim uses, and special purpose uses.
3. Report a highest and best use conclusion.
4. Explain the economic and appraisal principles important to land valuation.
5. Apply the direct comparison approach to estimate the value of a site.
6. Explain and apply the extraction and allocation methods for land valuation.
7. Discuss various surveying and mapping systems used to identify land.
8. Explain methods for measuring and comparing different parcels of land.
9. Explain which is the most appropriate method of valuing land for any given situation.
10. Adjust comparable sales to account for differences in depth, size, irregularities, corner lots, and locations.
11. Describe the methods used to value land where there are insufficient sales.

LESSON 6 – The Cost Approach and Depreciation Estimates – Part I

1. Describe the major principles underlying the cost approach.
2. Describe the different costing methods.
3. Explain the difference between replacement and reproduction cost.
4. Know the sources of building costs.
5. Explain why entrepreneurial profit and incentive are important.
6. Describe the different types of depreciation.
7. Explain the strengths and weaknesses of the cost approach to value.

LESSON 7 – The Cost Approach and Depreciation Estimates – Part II

1. Define depreciation and related terms.
2. Explain the methods which may be used to estimate accrued depreciation.
3. Distinguish between physical, functional, and external obsolescence as it applies to the breakdown (observed condition) method of estimating accrued depreciation.
4. Explain the difference between repair, short-lived, and long-lived physical deterioration.
5. Explain the difference between curable and incurable functional obsolescence.
6. Identify and explain the types of external obsolescence.
7. Estimate the accrued depreciation for a subject property, using the appropriate method.
8. Estimate the value of a subject property using the cost approach to value.

LESSON 8 – The Direct Comparison Approach – Part I

1. Explain the steps in the direct comparison approach.
2. Relate the direct comparison approach to its underlying economic principles.
3. Identify the data required to make a direct comparison analysis.
4. Explain and justify the sources of data used in the direct comparison approach.
5. Describe the various methods of making adjustments in the direct comparison approach.
6. Explain how the adjustment process is applied to valuation.
7. Identify the units of comparison which are applicable to residential properties.
8. Explain the term reconciliation as it applies to the direct comparison approach.
9. Explain the direct comparison approach's applicability and its limitations.

LESSON 9 – The Direct Comparison Approach – Part II

1. Describe the process for appraising residential real estate using the direct comparison approach.
2. Evaluate comparables for similarity to the subject property.
3. Explain the quantitative analysis basis for adjusting the value of comparables and know how to adjust for these differences.
4. Demonstrate how to apply qualitative analysis when comparing comparable sales with the subject property.
5. Reconcile the quantitative and qualitative estimates into a final value estimate.

LESSON 10 – The Income Approach

1. Explain the term capitalization as it applies to real estate appraisal theory.
2. Analyze and explain the underlying principles related to the income approach to value.
3. Identify and explain the future benefits which arise from the ownership of income-producing real estate.
4. Identify and explain the steps in the income approach to value.
5. Explain the terms market rent and contract rent.
6. Explain and be able to estimate the market rent for small residential income-producing real estate.
7. Explain and be able to calculate vacancy and collection losses.
8. Analyze the strengths and weaknesses of the income approach to value.
9. Explain how to analyze income and expense statements for small residential properties.
10. Reconstruct the income and expense statement of a small residential apartment property for appraisal purposes.
11. Explain the term operating expense ratio and be able to calculate this ratio from data provided.
12. Identify the sources of data required for use in estimating the income and expenses for an income-producing property.
13. Identify and explain the difference between the two basic methods of capitalization.
14. Identify and explain the symbols and acronyms that are used in the capitalization process.
15. Estimate gross income multipliers and make the appropriate application in the capitalization process.
16. Estimate overall capitalization rates and make the appropriate application in the appraisal process.
17. Estimate the market value of an income-producing property using the income approach to value.

LESSON 11 – Reconciling Value Indications and The Appraisal Report

1. Explain the concept of reconciliation as it applies to the three approaches to value.
2. Logically demonstrate the reconciliation process.
3. Explain the steps required for the final reconciliation process.
4. Demonstrate mechanical methods of reconciliation.
5. Analyze the strengths and weaknesses of alternative methods of reconciliation.
6. Analyze the strengths and weaknesses of a point value estimate versus a range of values.
7. Prepare a final reconciliation for a subject property given the required data.